

ADVISORY ON VAT ZERO-RATING INCENTIVE ON LOCAL PURCHASES

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**BIR REVENUE MEMORANDUM CIRCULAR
NO. 24-2023** **2**

Further clarifies the qualifications of Ecozone Logistics Service Enterprise (ELSE) to the incentives of VAT Zero-Rate on local purchases of goods and services exclusively and directly used in the registered project or activity

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Clarification on Qualifications of Ecozone Logistics Service Enterprise (ELSE) to VAT-Zero Rate on Local Purchases of Goods and Services Exclusively and Directly Used in the Registered Project or Activity

Q1: What are Ecozone Logistics Service Enterprise (ELSE)?

A1: ELSEs are registered business enterprises (RBE) supplying production-related raw materials and equipment that cater exclusively to requirements of registered export manufacturing enterprises. It provides critical support to export manufacturing companies with their requirements for logistics support to facilitate their import and export shipments, sourcing of raw materials, inventory management, just-in-time deliveries, localization, and process customization.

Q2: Can ELSE be considered an “export enterprise” as defined under the CREATE Act?

A2: **Yes.** ELSEs that render at least 70% of their output or services to another registered export enterprise are covered by the definition of “export enterprise.”

Q3: If the enterprise only engages in trucking and delivery services, will it qualify to be registered as ELSE?

A3: **No.** RBEs do not include those engaged in trucking or forwarding services. The only type of logistic service that will qualify to be registered as ELSE must undertake BOTH of the following requirements:

1. Establishment of a warehouse storage facility; **AND**
2. Importation or procurement from local sources and/or from other registered enterprises of goods for resale, packing/covering, cutting or altering to customer’s specification, mounting and/or packaging into kits or marketable lots for subsequent sale, transfer, or disposition for export.

Q4: Since ELSEs are considered export enterprises under Section 293 (M) of the NIRC of 1997, as amended, and clarified by BOI MC No. 2023-01, will their purchases from the customs territory be considered as VAT zero-rated?

A4: **Yes.** Purchases from VAT-registered suppliers are subject to VAT at zero-rate (0%), **provided that** the goods and/or services are directly and exclusively used in the registered project or activity of the ELSE (See RMC No. 24-2022 for avilment of VAT zero-rate incentives on local purchases)

Q5: In order for ELSEs to avail of VAT zero-rating on their local purchases that are directly and exclusively used in the registered project or activities, will there be procedures and requirements to be followed before availing such?

A5: **Yes.** Q&A Nos. 32 to 37 of RMC No. 24-2022 provided the guidelines and documentary requirements for the availment of VAT zero-rating on local purchases directly and exclusively used in the registered project or activities. The following must be included in the attachments to the application for VAT zero-rating:

1. Certificate of Registration and VAT Certification issued by concerned IPA as submitted to it by its registered export enterprise buyers;
2. Sworn affidavit executed by the registered export enterprise-buyer stating the following:
 - a. The goods and/or services bought are directly and exclusively used for the production of goods and/or completion of services to be exported, or for utilities and other similar costs;
 - b. Percentage of allocation directly and exclusively used for the production of goods and/or completion of services to be exported.
3. Other documents to corroborate entitlement to VAT zero-rating; such as but not limited to duly certified copies of:
 - a. Valid purchase order;
 - b. Job order or service agreement;
 - c. Sales invoices and/or official receipts;
 - d. Delivery receipts; or
 - e. Similar documents to prove the existence and legitimacy of the transaction.

TRANSITORY PROVISION

All revenue issuances and BIR Rulings inconsistent with this Circular are considered amended, modified, or revoked accordingly. This Circular takes effect immediately.

Source:

Revenue Memorandum Circular No. 24-2023