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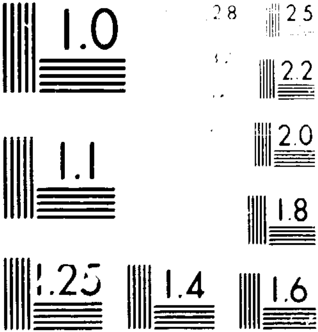
Vienna International Centre, P.O. Box 300, 1400 Vienna, Austria
Tel: (+43-1) 26026-0 · www.unido.org · unido@unido.org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INCENTIVES TO THE MECHANICAL WOOD PROCESSING INDUSTRY IN THE PHILIPPINES *

by

Emilio Jaranilla **

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** Assistant Director, Board of Investments, Manila

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A registered enterprise under the Omnibus Investment Code (PD 1789) is entitled to incentives provided under this law. However, as a pre-requisite to registration, the activity must first be listed in the Investment Priorities Plan (IPP) and the applicant-enterprise must satisfy the nationality requirements of the project.

Under the 1981 Investment Priorities Plan which is still in effect up to the approval by the President of the 1982 Investment Priorities Plan, the following areas of mechanical wood processing are listed below:

1. Builder's Woodwork, including prefabricated and sectional buildings and other components of wood (Non-Pioneer)

   Note: Sawmilling and kiln drying operations may be included only if integrated with wood manufacturing operations.

2. Plywood (Non-Pioneer)

   Note: Limited to expansion/modernization of existing plywood plants except when part of a processing center or for processing of timber from plantations.

3. Veneer (Non-Pioneer)

   Note: Limited to sliced veneer and/or expansion only of existing rotary-cut veneer plants except when part of a processing center or for processing of plantation grown species.

4. Blockboard (Non-Pioneer)

5. Particleboard (Non-Pioneer)

6. Fiberboard from indigenous raw materials (Non-Pioneer)

7. Other wood products for export, including combinations of wood and other wood materials (Non-Pioneer). This include furniture, toys, etc.

Being non-pioneer in status, an applicant-enterprise to any of the above projects shall be a Philippine national. Joint-venture arrangements are encouraged in 60/40 equity-sharing basis; however, when the joint venture involves logging operations, foreign ownership is limited to 30% instead of 40%.

All of the above-mentioned activities have export potential. However, PD 1789 defines a registered export producer as (1) engaged or proposing to engage in an industrial or agricultural activity for the production, manufacture or processing of export products; (2) directly exporting its export products or selling them to an export trader or to other export producer who utilize said products as direct inputs in products subsequently manufactured and thereafter exported. By "export products" is meant manufactured or processed products the total FOB Philippine port value of the exports of which did not exceed five million dollars in United States currency in the calendar year of 1968 and which meet with the local content requirement, if any, set by the Board, and standards of quality set by the Products Standard Agency. Thus, among the activities listed above, plywood and veneer would not qualify for registration as an export producer. Applicants in plywood and veneer would qualify, however, as producer enterprises.

After registration, the incentives available to a registered enterprise under PD 1789 are divided into two (2) categories. The first consists of incentives that are granted during the pre-operating period for new projects; the second, during the operation period. These are as follows:

A. Incentives During the Pre-Operating Period

1. Tax exemption on imported capital equipment

1.1 Seven (7) years from the date of registration.

1.2 Reasonably needed machinery and equipment and spare parts to implement a new project or expansion. An expansion may be achieved by debottlenecking. The cost of spare parts shall not exceed 10% of the cost of the machinery where they will be used.

1.3 Machinery and equipment are not available locally. LOI 950 provides that for equipment costs of ₱20 million or more, the local content shall be 25 per cent in 1982 increasing to 50 per cent in 1985.

1.4 Partial utilization. The use of an equipment for other purposes if the registered activity does not utilize the equipment fully and its use for other purposes does not become the principal mode of utilization on a continuing basis.

1.5 The extent of incentives are:

- 100 per cent tax and duty free importation for export producers.
- 50 per cent to non-pioneer producers.
- exemption from the 5 per cent duty and 5 per cent tax as provided by PD 1395.

2. Tax Credit on the Purchase of Domestic Capital Equipment

2.1 Sale made within seven (7) years from date of registration.

2.2 100 per cent of the value of compensating tax and duties that would have been paid had these items been imported to the registered enterprise and 50 per cent to the domestic manufacturer.

2.3 Value added for the equipment shall be at least 20 per cent of manufacturing cost; local content shall be higher than tariff duty but not lower than 20 per cent.

2.4 This incentive is allowed to both producer and export producer enterprises.

B. Incentives During the Operating Period (For both producer and export producer enterprises)

1. Deduction of organizational and pre-operating expenses

1.1 All capitalized organizational and pre-operating expenses attributable to the establishment of a registered enterprise such as pre-investment studies, start-up costs, costs of initial recruitments and training, and similar expenses.

1.2 Deductible from taxable income for a period of not more than ten (10) years beginning with the month the enterprise begins operating.

2. Accelerated depreciation

2.1 Optional on the part of the taxpayer.

2.2 Deductible from taxable income provided the taxpayer notifies the BIR at the beginning of the depreciation period which depreciation rate will be used by it.

3. Net operating loss carryover

3.1 Losses incurred after registration in any of the first ten (10) years may be carried over.

3.2 The entire loss is deductible from taxable income for the six (6) years immediately following the year of such loss.

4. Tax credit on withholding tax on interest

4.1 Tax credit for taxes withheld or interest payments of foreign loans when no such credit is available to lender-remittee.

4.2 Recommend to the Ministry of Finance the issuance of the corresponding tax credit.

5. Incentives for necessary and major infrastructure and public facilities

   5.1 Establishment in an area designated as necessary for the proper dispersal of industry or in an area which is deficient in infrastructure, public utilities and other facilities.

   5.2 Payment of taxes due the government of an amount equivalent to 100 per cent of the cost.

   5.3 Maintenance cost on such infrastructure are allowed also as deduction from taxable income.

6. Employment of foreign nationals

   6.1 Within five (5) years from date of registration.

   6.2 Employment in supervisory, technical and advisory positions.

   6.3 Enterprise shall provide a training program for Filipinos to be conducted by the foreign national in his own specialized line.

7. Expansion reinvestment allowance

   7.1 Expansion includes procurement of machinery or expansion of existing production equipment or construction of buildings and other civil works.

   7.2 Expansion must result in an increase in production capacity or any forward or backward integration. Mere modernization shall not be deemed expansion for purposes of reinvestment allowance.

   7.3 Deductible from taxable income to the extent of 25 per cent, 37-1/2 per cent and 50 per cent of the amount so reinvested for non-pioneer enterprises.

   7.4 Capital stock represented by the reinvestment shall not be reduced within seven (7) years from date of reinvestment.

8. Anti-dumping protection

   8.1 Ban for a limited period the importation of goods or commodities which unfairly or unnecessarily compete with those produced by registered enterprises.

   8.2 Satisfactory quality of the goods.

8.3 No increase in price during the period.

9. Protection from government competition

9.1 Government shall not import nor allow tax-free importation of products that are being produced by registered enterprises.

9.2 International commitments require international competitive bidding.

10. Deduction of labor training expenses

10.1 Prior approval of training program.

10.2 Deduction from taxable income equivalent to one half (1/2) of value of labor training expenses for upgrading the productivity and efficiency of unskilled labor and or apprentices.

10.3 Not to exceed 10 per cent of direct labor wage.

10.4 Apprentices are paid the minimum wage.

11. Protection of patents and other proprietary rights

11.1 Protection from infringements.

11.2 Registered with appropriate agencies of the Philippine government.

Additional incentives to export producers, whether pioneer or non-pioneer are as follows:

12. Tax credit

12.1 Equivalent to sales, compensating and specific taxes and duties on the supplies, raw materials and semi-manufactured products used in the manufacture of export products and forming part thereof.

12.2 Cost of certain supplies or raw materials constitute at least 40 per cent of the cost of production even if they do not form part.

12.3 Indefinite period of availment provided application is filed within one (1) year from actual exportation thereof.

12.4 Tax credit certificates may be transferred to another registered enterprise or may be used as collateral.

13. <u>Reduced income tax</u>

    13.1 Within five years from registration or commercial operation.

    13.2 Deductible from taxable income derived from sales of registered products locally and abroad.

    13.3 Equivalent to 24 per cent of export revenue or sum of local raw materials and direct labor cost whichever is lower.

    13.4 Not granted to a non-Philippine nationals.

14. <u>Exemption from export tax, import and fees</u>

    14.1 Includes exemption from wharfage fees.

    14.2 Indefinite period of availment.

15. <u>Exemption from sales tax</u>

    15.1 Exemption for articles sold to another export producer or export trader.

    15.2 Products are exported within one (1) year from date of purchase.

16. <u>New brand name</u>

    16.1 Use of a new brand name for an export produce.

    16.2 The direct exporter is granted deduction from taxable income equivalent to one per cent of the increment of its export sales during the year in which the incentive is claimed.

The period of availment of incentives may be extended for a period not exceeding five (5) years and/or increase the rate of tax exemption enjoyed prior to the increase subject to the criteria provided in the Omnibus Investment Code.