

SIXTEENTH CONGRESS OF THE)
REPUBLIC OF THE PHILIPPINES)
Third Regular Session)



Senate
Office of the Secretary

15 SEP -2 AIO :18

SENATE
S. No. 2926

RECEIVED BY: 

Introduced by Senator **SONNY M. ANGARA**

**AN ACT
ESTABLISHING THE SPECIAL ECONOMIC ZONE AND FREEPORT IN THE
PROVINCE OF ILOCOS SUR, CREATING FOR THIS PURPOSE THE
ILOCOS SUR SPECIAL ECONOMIC ZONE AND FREEPORT AUTHORITY,
APPROPRIATING FUNDS THEREFOR AND FOR OTHER PURPOSE**

EXPLANATORY NOTE

This bill is a counterpart version of House Bill No. 15 filed by Ilocos Sur Rep. Ronald Singson which seeks to establish the Special Economic Zone and Freeport in the Municipalities of San Juan and Cabugao in the province of Ilocos Sur.

The proposed area for the special ecozone and freeport in Ilocos Sur will cover the entire Salomague Cove and area embraced by the barangays of Dardarat, Solotsolot, Surgit and Refaro in the municipality of San Juan as well as Dardarat, Pila, Sagadayen, Salomague, Sabang, Namruangan, Salapasap, Daclapan, Pug-os, Turod and Bacilig in the municipality of Cabugao, all in the province of Ilocos Sur. With its ideal physical geographic and natural attributes, the Salomague Cove is a natural harbor and haven for international ships, and is deemed to be the only port closest to Hongkong, Japan and Taiwan large enough to accommodate a number of vessels. It is also near an international airport in Laoag City, Ilocos Norte, and a local airport in Vigan, Ilocos Sur.

The proposed creation of the Ilocos Sur ecozone is in response to the need to take advantage of the potential to open a new industrial, commercial and investment hub in North-Western Luzon. Despite Ilocos region's decelerated growth as measured by its gross regional domestic product from 6.8 percent in 2013 to 5.7 percent in 2014, the National Economic and Development Authority (NEDA) maintains positive prospects for the economic growth in Region I. NEDA said the region is very optimistic in terms of its tourism industry as there are more frequent flights going to the north along with the opening of the Tarlac-Pangasinan-La Union Expressway. Furthermore, while Ilocos region's economy is highly agricultural, it also would like to bank on manufacturing industry and service sector in light of the upcoming ASEAN integration.

Thus, in line with the government's thrust to make the Philippines more competitive in the global economy, the Ilocos Sur Ecozone and Freeport aims to attract productive local and foreign investments, generate linkage industries and employment opportunities for the people of the Province of Ilocos Sur and its neighboring towns and cities. Under the bill, the Ilocos Sur Ecozone would be managed and operated as a separate customs territory to ensure the free flow or movement of goods and capital within, into and out of the ecozone. It would likewise grant incentives such as tax- and duty-free importations of raw materials and capital equipment to registered enterprises located in the ecozone.



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Be it enacted by the Senate and House of Representatives of the Philippines in Congress assembled:

1 CHAPTER I

2 GENERAL PROVISIONS

3 SECTION 1. *Short Title.* – This Act shall be known as the “Ilocos Sur Special
4 Economic Zone and Freeport Act of 2013”.

5 SEC. 2. *Declaration of Policy.* – It is hereby declared the policy of the State to
6 actively encourage, promote, induce and accelerate the sound and balanced industrial,
7 economic and social development of the country in order to provide jobs to the people
8 especially those in the rural areas, increase productivity and individual and family income,
9 and thereby improve the level and quality of living conditions through the establishment,
10 among others, of special economic zones and freeports in suitable and strategic locations in
11 the country and through measures that will attract legitimate and productive foreign
12 investments.

13 CHAPTER II

14 CREATION OF THE ECOZONE

15 SEC. 3. *Creation of the Ilocos Sur Special Economic Zone and Freeport.* – In
16 pursuit of the foregoing declared policy and subject to the concurrence of the concerned
17 local government units (LGUs) of Ilocos Sur affected by the zone, there is hereby
18 established a special economic zone and freeport in the Province of Ilocos Sur to be known
19 as the Ilocos Sur Special Economic Zone and Freeport, hereinafter referred to as the Ilocos
20 Sur Ecozone. The Ilocos Sur Ecozone shall cover the entire Salomague Cove and the area
21 embraced by the barangays of Dardarat, Solotsolot, Surngit and Refaro in the Municipality

1 of San Juan as well as Dardarat, Pila, Sagayaden, Salomague, Sabang, Namruangan,
2 Salapasap, Daclapan, Pug-os, Turod and Baclig in the Municipality of Cabugao. The
3 specific metes and bounds of the Ilocos Sur Ecozone shall be more particularly defined in a
4 presidential proclamation that shall be issued for this purpose.

5 **SEC. 4. *Governing Principles.*** – The Ilocos Sur Ecozone shall be managed and
6 operated by the Ilocos Sur Special Economic Zone and Freeport Authority, hereinafter
7 referred to as the ISSEZFA, created under Section 5 of this Act, under the following
8 principles:

9 (a) Within the framework and limitations of the Constitution and applicable
10 provisions of the Local Government Code, the Ilocos Sur Ecozone shall be
11 developed into and operated as a decentralized, self-reliant and self-sustaining
12 industrial, commercial/trading, agro-industrial, tourist, banking, financial and
13 investment center with suitable residential areas;

14 (b) The Ilocos Sur Ecozone shall be provided with transportation,
15 telecommunications and other facilities needed to attract legitimate and
16 productive investments, generate linkage industries and employment
17 opportunities for the people of the Province of Ilocos Sur and its neighboring
18 towns and cities;

19 (c) The Ilocos Sur Ecozone may establish mutually beneficial economic relations
20 with other entities or enterprises within the country or, subject to the
21 administrative guidance of the Department of Foreign Affairs (DFA), the
22 Philippine Economic Zone Authority (PEZA) and/or the Department of Trade
23 and Industry (DTI), with foreign entities or enterprises;

24 (d) Foreign citizens and companies owned by non-Filipinos in whatever proportion
25 may set up enterprises in the Ilocos Sur Ecozone, either by themselves or in
26 joint venture with Filipinos in any sector of industry, international trade and
27 commerce within the Ilocos Sur Ecozone;

28 (e) The Ilocos Sur Ecozone shall be managed and operated as a separate customs
29 territory, thereby ensuring the free flow or movement of goods and capital
30 within, into and out of the Ilocos Sur Ecozone, and shall likewise provide
31 incentives such as tax- and duty-free importations of raw materials and capital
32 equipment to registered enterprises located therein. However, exportation or
33 removal of goods from the territory of the Ilocos Sur Ecozone to the other parts
34 of the Philippine territory shall be subject to customs duties and taxes under the
35 Tariff and Customs Code of the Philippines, as amended, and the National

1 Internal Revenue Code (NIRC) of 1997, as amended;

2 (f) (f) The areas comprising the Ilocos Sur Ecozone may be expanded or reduced
3 when necessary. For this purpose, the ISSEZFA, in consultation with the LGUs,
4 shall have the power to acquire either by purchase, negotiation or condemnation
5 proceedings, any private land within or adjacent to the Ilocos Sur Ecozone for
6 the following purposes: (1) consolidation of lands for Ilocos Sur Ecozone
7 development; (2) acquisition of right-of-way to the Ilocos Sur Ecozone; and
8 (3) the protection of watershed areas and natural assets valuable to the
9 prosperity of the Ilocos Sur Ecozone;

10 (g) Goods manufactured by an Ilocos Sur Ecozone enterprise shall be made
11 available for immediate retail sale in the domestic market, subject to the
12 payment of corresponding taxes on raw materials and other regulations that
13 may be formulated by the ISSEZFA, together with the PEZA, the Bureau of
14 Customs (BoC) and the DTI in accordance with the NIRC of 1997, as amended,
15 and the Tariff and Customs Code of the Philippines, as amended. However, in
16 order to protect domestic industries, a Negative List of industries shall be drawn
17 up and regularly updated by the PEZA. Enterprises engaged in industries
18 included in such Negative List shall not be allowed to sell their products
19 locally; and

20 (h) The defense of the Ilocos Sur Ecozone and the security of its perimeter fence
21 shall be the responsibility of the national government in coordination with the
22 Ilocos Sur Ecozone and the LGUs. For this purpose, a special defense team
23 shall be organized to define its power, duties and responsibilities.

24 CHAPTER III

25 GOVERNING STRUCTURES

26 **SEC. 5. *Creation of the Ilocos Sur Special Economic Zone and Freeport***
27 ***Authority.*** – There is hereby created a body corporate to be known as the Ilocos Sur
28 Special Economic Zone and Freeport Authority, hereinafter referred to as the ISSEZFA,
29 which shall manage and operate the Ilocos Sur Ecozone in accordance with the provisions
30 of this Act. This corporate franchise shall expire in fifty (50) years counted from the first
31 year after the effectivity of this Act, unless otherwise extended by Congress. It shall be
32 organized within one hundred eighty (180) days after the effectivity of this Act.

33 **SEC. 6. *Capitalization.*** – The ISSEZFA shall have an authorized capital stock of
34 two billion (2,000,000,000) no-par shares with a minimum issue of Ten pesos (P10.00)

1 each, the majority shares of which shall be subscribed and paid for by the national
2 government and the LGUs embracing the Ilocos Sur Ecozone. The Board of Directors of
3 the ISSEZFA may, with the written concurrence of the Secretary of Finance, sell shares,
4 representing not more than forty per centum (40%) of the capital stock of the ISSEZFA to
5 the general public under such policy as the Board and the Secretary of Finance may
6 determine. The national government and the LGUs shall, in no case, own less than sixty
7 per centum (60%) of the total issued and outstanding capital of the ISSEZFA.

8 The amount necessary to subscribe and pay for the shares of the national
9 government to the capital stock of the ISSEZFA shall be included in the annual General
10 Appropriations Act. For LGUs, the funds shall be taken from their internal revenue
11 allotment and other local funds.

12 **SEC. 7. Principal Office of the ISSEZFA.** – The ISSEZFA shall maintain its
13 principal office in the Municipality of Cabugao, Province of Ilocos Sur, but it may
14 establish branches within the Philippines as may be necessary for the proper conduct of its
15 business.

16 **SEC. 8. Powers and Functions of the ISSEZFA.** – The ISSEZFA shall have the
17 following functions:

- 18 (a) Operate, administer, manage and develop the Ilocos Sur Ecozone according to
19 the principles and provisions set forth in this Act;
- 20 (b) Recommend to the President of the Philippines the issuance of a proclamation
21 to fix and delimit the site of the Ilocos Sur Ecozone;
- 22 (c) Register, regulate and supervise the enterprises in the Ilocos Sur Ecozone in an
23 efficient and decentralized manner, subject to existing laws;
- 24 (d) Coordinate with LGUs and exercise general supervision over the development
25 plans, activities and operations of the Ilocos Sur Ecozone;
- 26 (e) Authorize or undertake, on its own or through others, and regulate the
27 establishment, operation and maintenance of public utilities, services and
28 infrastructure in the Ilocos Sur Ecozone such as shipping, barging, stevedoring,
29 cargo handling, hauling, warehousing, storage of cargo, port services or
30 concessions, piers, wharves, bulkheads, bulk terminals, mooring areas, storage
31 areas, roads, bridges, terminals, conveyors, water supply and storage, sewerage,
32 drainage, airport operations in coordination with the Civil Aeronautics Board,
33 and such other services or concessions or infrastructure necessary or incidental

1 to the accomplishment of the objectives of this Act: *Provided, however,* That
2 the private investors in the Ilocos Sur Ecozone shall be given priority in the
3 awarding of contracts, franchises, licenses, permits for the establishment,
4 operation and maintenance of utilities, services and infrastructure in the Ilocos
5 Sur Ecozone;

6 (f) Regulate and undertake the establishment, operation and maintenance of
7 utilities, other services and infrastructure in the Ilocos Sur Ecozone such as, but
8 not limited to, heat, light and power, water supply, telecommunications,
9 transport, toll roads and bridges, port services, etc. and to fix just, reasonable
10 and competitive rates, fares, charges and prices thereof;

11 (g) Construct, acquire, own, lease, operate and maintain, on its own or through
12 contracts, franchises, licenses, bulk purchases from the private sector or permits
13 under any of the schemes allowed in Republic Act No. 6957 (the Build-
14 Operate-Transfer Law, as amended), or joint ventures, adequate facilities and
15 infrastructure required or needed for the operation and development of the
16 Ilocos Sur Ecozone, in coordination with appropriate national and local
17 government authorities and in conformity with applicable laws thereon;

18 (h) Operate on its own, either directly or accredit/license other entities, recreational
19 and sports facilities, other tourism-related activities and, subject to a grant of
20 franchise by Congress, gaming activities such as horse racing, dog racing,
21 gambling casinos, internet and inter-active gaming and other games of chance:
22 *Provided,* That registered locator enterprises shall not operate gaming activities
23 unless granted a franchise by Congress;

24 (i) Subject to the approval of the President of the Philippines and the Monetary
25 Board of the Bangko Sentral ng Pilipinas (BSP), upon the recommendation of
26 the DOF, to raise or borrow adequate and necessary funds from local or foreign
27 sources to finance its projects and programs under this Act and, for that
28 purpose, to issue bonds, promissory notes and other forms of securities, and to
29 secure the same by a guarantee, pledge, mortgage, deed of trust or an
30 assignment of all or part of its property or assets;

31 (j) Provide security for the Ilocos Sur Ecozone in coordination with the national
32 and local governments. Military forces sent by the national government for the
33 purpose of defense shall not interfere in the internal affairs of the Ilocos Sur
34 Ecozone and expenditures for these military forces shall be borne by the
35 national government. For this purpose, the ISSEZFA may establish and

- 1 maintain its security forces and firefighting capability or hire others to provide
2 the same;
- 3 (k) Protect, preserve, maintain and develop the virgin forests, beaches, coral and
4 coral reefs, and maintain ecological balance within the Ilocos Sur Ecozone;
- 5 (l) Create, operate and/or contract to operate such functional units or offices of the
6 ISSEZFA as it may deem necessary;
- 7 (m) Adopt, alter and use a corporate seal; contract, lease, buy, acquire, own or
8 otherwise dispose of personal and/or real property of whatever nature; sue and
9 be sued; and otherwise carry out its functions and duties as provided for in this
10 Act;
- 11 (n) Issue certificates of origin for products manufactured or processed in the Ilocos
12 Sur Ecozone in accordance with prevailing rules of origin, and the pertinent
13 regulations of the PEZA, the DTI and/or the DOF;
- 14 (o) Issue working visas renewable every three (3) years to foreign executives and
15 foreign technicians with highly specialized skills which no Filipino possesses,
16 as certified by the Department of Labor and Employment (DOLE);
- 17 (p) Report to the Bureau of Immigration (BI) the names of the foreigners who have
18 been granted permanent resident status and working visas within thirty (30)
19 days after the issuance of such grant;
- 20 (q) Exercise such powers as may be essential, necessary or incidental to the powers
21 granted to it hereunder, as well as those that shall enable it to carry out,
22 implement and accomplish the purposes, objectives and policies of this Act;
23 and
- 24 (r) Issue rules and regulations consistent with the provision of this Act as may be
25 necessary to accomplish and implement the purposes, objectives and policies
26 provided herein.

27 **SEC. 9. *Applicability Clause.*** – The provisions of Sections 30 to 41 of Republic
28 Act No. 7916, (The Special Economic Zone Act of 1995) as amended, on leases of lands
29 and buildings, land conversion, shipping and shipping register, protection of environment,
30 termination of business, registration of business enterprises, one-stop shop center and on
31 industrial harmony in the ecozones shall apply to the ISSEZFA.

32

1 **SEC. 10. Tax Exemptions.** – The ISSEZFA is hereby declared exempt from the
2 payment of all taxes, duties, fees, imports, charges, costs and service fees in any court or
3 administrative proceedings in which it may be a party.

4 The foregoing exemptions may, however, be entirely or partially lifted by the
5 President of the Philippines upon the recommendation of the Secretary of Finance, not
6 earlier than five (5) years from the effectivity of this Act, if the President shall find the
7 ISSEZFA to be self-sustaining and financially capable by then to pay such taxes, customs
8 duties, fees and other charges after providing for debt service requirements of the
9 ISSEZFA and of its projected capital and operating expenditures.

10 Furthermore, all donations made by any person or entity in favor of the ISSEZFA
11 shall be exempt from the payment of the donor's tax and the same shall be considered as
12 deductible from the gross income of the donor, pursuant to the NIRC of 1997, as amended.

13 **SEC. 11. Administration, Implementation and Monitoring of Incentives.** – The
14 ISSEZFA shall be responsible for the administration and implementation of the incentives
15 granted to its respective registered enterprises: *Provided*, That any incentive administration
16 policy adopted by the BOI for incentives common to all registered enterprises shall be
17 uniformly applied by the ISSEZFA.

18 The following are the duties and responsibilities of the ISSEZFA in the
19 administration of incentives:

20 (a) Adopt consistent procedures of administering incentives in accordance with the
21 guidelines established by the BOI and to amend the same when necessary;

22 (b) Adopt and implement systems and procedures affecting trade and customs
23 policies in accordance with the requirements established by the DOF and the
24 BOI and to amend the same when necessary;

25 (c) Submit data and information to the DOF and the BOI as required by any of
26 these agencies to ascertain consistency of investment policies and incentives,
27 including their implementation as provided in (a) and to ensure proper
28 implementation of systems and procedures affecting trade and customs policies
29 as provided in (b); and

30 (d) Perform all other duties and responsibilities as may be required by the President
31 of the Philippines.

32 For proper monitoring, the BOI shall create a single database of all incentives
33 provided by all incentives-granting agencies, including the ISSEZFA and all information

1 thereto. Double-entry accounting shall be done by the BOI in recording all incentives
2 granted by the government for transparency purposes.

3 **SEC. 12. Board of Directors of the ISSEZFA.** – The powers of the ISSEZFA shall
4 be vested in and exercised by a board of directors, hereinafter referred to as the Board,
5 which shall be composed of the following:

6 (a) The chairperson who shall, at the same time, be the administrator of the
7 ISSEZFA;

8 (b) A vice chairperson who shall come from among the members of the Board;

9 (c) The Members consisting of:

10 1) The governor of the Province of Ilocos Sur;

11 2) The congressional representative of the district covering the site of the
12 Ilocos Sur Ecozone;

13 3) The mayors of the municipalities of Cabugao and San Juan;

14 4) One (1) representative from the domestic investors;

15 5) One (1) representative from the foreign investors; and

16 6) Two (2) representatives from labor from among the workers in the
17 Ilocos Sur Ecozone.

18 The governor, the congressional representative and the mayors of the
19 municipalities of Cabugao and San Juan shall serve as *ex officio* members of the Board,
20 whose terms in the Board correspond to their term as elected officials. The chairperson and
21 the members of the Board, except the *ex officio* members, shall be appointed by the
22 President of the Philippines to serve for a term of six (6) years unless sooner removed for
23 cause or dies or resigns voluntarily. In case of death, resignation or removal for cause, the
24 replacement shall serve only the unexpired portion of the term.

25 Except for the representatives of the business and labor sectors, no person shall be
26 appointed by the President of the Philippines as a member of the Board unless he is a
27 Filipino citizen, of good moral character, of proven probity and integrity, and a degree
28 holder in any of the following fields: economics, business, public administration, law,
29 management or their equivalent, and with at least ten (10) years relevant working
30 experience preferably in the field of management or public administration.

31 The members of the Board shall each receive *per diem* at rates to be determined by

1 the Department of Budget and Management (DBM) in accordance with existing rules and
2 regulations: *Provided, however,* That the total per diem collected each month shall not
3 exceed the equivalent *per diem* for four (4) meetings. Unless and until the President of the
4 Philippines has fixed a higher *per diem* for the members of the Board, such *per diem* shall
5 not be more than Ten thousand pesos (P10,000.00) for every Board meeting.

6 **SEC. 13. Powers and Duties of the Chairperson-Administrator.** – The
7 chairperson-administrator shall have the following powers and duties:

8 (a) Direct and manage the affairs of the ISSEZFA in accordance with the policies
9 of the Board;

10 (b) Establish the internal organization of the ISSEZFA under such conditions that
11 the Board may prescribe;

12 (c) Submit an annual budget and necessary supplemental budget to the Board for
13 its approval;

14 (d) Submit within thirty (30) days after the close of each fiscal year an annual
15 report to the Board and such other reports as may be required;

16 (e) Submit to the Board for its approval policies, systems, procedures, rules and
17 regulations that are essential to the operation of the Ilocos Sur Ecozone;

18 (f) Create a mechanism in coordination with relevant agencies for the promotion of
19 industrial peace, the protection of the environment and the advancement of the
20 quality of life; and

21 (g) Perform such other duties as may be assigned to him/her by the Board or which
22 are necessary or incidental to his/her office.

23 **SEC. 14. Organization and Personnel.** – The Board of Directors of the ISSEZFA
24 shall provide for an organization and staff of its officers and employees. Upon
25 recommendation of the chairperson-administrator, the Board shall appoint and fix the
26 remuneration and other emoluments of its officers and employees in accordance with
27 existing laws on compensation and position classification: *Provided,* That the Board shall
28 have exclusive and final authority to promote, transfer, assign or reassign officers of the
29 ISSEZFA, any provision of existing law to the contrary notwithstanding: *Provided,*
30 *further,* That the chairperson-administrator may carry out removal of such officers and
31 employees.

32 The officers and employees of the ISSEZFA, including all members of the Board,

1 shall not engage, directly or indirectly, in partisan activities nor take part in any election,
2 except to vote.

3 No officer or employee of the ISSEZFA, subject to civil service laws and
4 regulations, shall be removed or suspended except for cause, as provided by law.

5 **SEC. 15. General Manager.** – The Board of Directors of the ISSEZFA shall
6 appoint a full-time professional and competent administrator and chief executive officer
7 for the ISSEZFA whose compensation shall be determined by its Board of Directors and
8 shall be in accordance with the revised compensation and position classification system.
9 The administrator as chief executive officer of the ISSEZFA shall be responsible to the
10 Board and to the President of the Philippines for the efficient management and operation of
11 the ISSEZFA.

12 **SEC. 16. Legal Counsel.** – The ISSEZFA shall have its own internal legal counsel
13 under the supervision of the Office of the Government Corporate Counsel (OGCC). When
14 the exigencies of its businesses and operations demand it, the ISSEZFA may engage the
15 services of an outside counsel, either on a case to case or on a fixed retainer basis.

16 CHAPTER IV

17 INCENTIVES TO ECOZONE ENTERPRISES/INVESTORS

18 **SEC. 17. Incentives to Registered Enterprises.** – The ISSEZFA shall provide the
19 following incentives to the registered enterprises located therein to the extent of the
20 activity/project:

21 (a) *Income Tax Holiday (ITH)* – Registered enterprises shall be entitled to an ITH
22 from the start of their commercial operations to the extent of their activity under
23 the following categories:

24 1) *Category A* – Registered domestic enterprises producing/rendering new
25 products/services or having strong backward or forward linkages shall
26 be entitled to a six (6)-year ITH.

27 2) *Category B* – Registered export enterprises shall be entitled to a six (6)-
28 year ITH: Provided, That the export enterprise shall be entitled to an
29 eight (8)-year ITH if it complies with the following:

30 i. Large capital investments or sizeable employment generation; or

31 ii. Use of high level of technology.

1 Registered enterprises embarking on new investments that are listed in the current
2 Investment Priorities Plan (IPP) shall be entitled to incentives provided herein pertaining to
3 the new investments and subject to such terms and conditions as the Board of Investments
4 (BOI) may determine.

5 Additional investments in the project shall be entitled to the ITH corresponding to
6 such investments as may be determined by the BOI.

7 Additional ITH may be granted for as long as the investment is made on the same
8 project: *Provided*, That the project is listed in the IPP at the same time the additional
9 investment in the project is made: *Provided, further*, That the entitlement period for
10 additional investments shall not exceed three (3) times the period provided under this
11 subsection: *Provided, however*, That the total ITH period for an export enterprise availing
12 of an eight (8)-year ITH shall not exceed twenty (20) years. Any unused incentives shall
13 therefore be deemed forfeited if not used during the incentive period.

14 Enterprises registered with the ISSEZFA are required to share in the special
15 development fund of the BOI for investment promotion projects of the government
16 equivalent to one percent (1%) of the ITH granted for every application.

17 The Bureau of Internal Revenue (BIR) shall require a registered enterprise availing
18 of the ITH or the net operating loss carryover (NOLCO) to secure a certificate of eligibility
19 from the ISSEZFA before submitting its income tax return (ITR) with the ISSEZFA for
20 validation.

21 Failure to secure certification and/or to file the ITH or the NOLCO availment for
22 validation by the ISSEZFA within forty-five (45) days from the last day of statutory filing
23 date for ITR shall cause the forfeiture of the availment for the taxable period.

24 (b) Net Operating Loss Carryover (NOLCO) – The net operating loss of the
25 business or enterprise during the first three (3) years from the start of
26 commercial operations which have not been previously offset as a deduction
27 from the gross income shall be carried over as a deduction from the gross
28 income for the next five (5) consecutive years immediately following the year
29 of such loss: *Provided, however*, That operating loss resulting from availment
30 of incentives provided in this Code shall not be entitled to the NOLCO.

31 Registered enterprises availing of the ITH as herein provided shall not be
32 entitled to avail of the NOLCO.

33

1 (c) Imposition of a Tax Rate of Five Percent (5%) on Gross Income Earned (GIE)
2 – Except for real property tax on land, no local and national taxes, as prescribed
3 under Republic Act No. 8424, also known as “the National Internal Revenue
4 Code of 1997, As Amended”, such as the income tax, the excise tax and the
5 franchise taxes shall be imposed on business establishments operating within
6 the Ilocos Sur Ecozone. In lieu thereof, there shall be imposed a tax of five
7 percent (5%) of the gross income earned by all the business enterprises within
8 the ISSEZFA and remitted as follows:

- 9 1) Two per centum (2%) to the national government;
- 10 2) Two per centum (2%) to the Province of Ilocos Sur;
- 11 3) One-half per centum (1/2%) to be shared by the municipalities
12 affected by the declaration of the ISSEZFA in proportion to their
13 income from business activities of the zone; and
- 14 4) One-half per centum (1/2%) to the ISSEZFA.

15 All persons and service establishments in the Ilocos Sur Ecozone that are not
16 covered by Section 17 hereof shall be subject to national and local taxes under the NIRC of
17 1997, as amended, and the Local Government Code.

18 (d) Accelerated Depreciation – Accelerated depreciation of plant, machinery and
19 equipment that are reasonably needed and actually used for the production and
20 transport of goods and services may be allowed using a rate not exceeding
21 twice the rate which would have been used had the annual allowance been
22 computed in accordance with the rules and regulations prescribed by the
23 Secretary of Finance and the provisions of the NIRC of 1997, as amended.

24 (e) Capital Equipment Incentives – Importations of capital equipment, spare parts,
25 tools and dye, or those required for pollution abatement and control, cleaner
26 production and waste reduction including consignment thereof by registered
27 enterprises upon the effectivity of this Act shall be exempted to the extent of
28 one hundred percent (100%) of the taxes and customs duties: *Provided*, That
29 the importation thereof shall be used exclusively by the registered enterprise in
30 its registered activity within the Ilocos Sur Ecozone: *Provided, further*, That the
31 importation of machinery and equipment and accompanying parts shall comply
32 with the following conditions:

- 33 1) These are not manufactured domestically in sufficient quantity, of

1 comparable quality and at reasonable prices;

2 2) These are reasonably needed and will be used exclusively by the
3 registered enterprise in the manufacture of its products, unless prior
4 approval of the ISSEZFA is secured for the part-time utilization of said
5 equipment in a non-registered activity to maximize usage thereof or the
6 proportionate taxes and duties are paid on a specific equipment and
7 machinery being permanently used for non-registered activities; and

8 3) Approval of the ISSEZFA was obtained by the registered enterprise for
9 the importation of such machinery, equipment and spare parts.

10 Approval of the ISSEZFA must be secured before any sale, transfer or disposition
11 of the imported capital equipment, machinery or spare parts is made: *Provided*, That if
12 such sale, transfer or disposition is made within the first five (5) years from the date of
13 importation, any of the following conditions must be present:

14 i. If made to another enterprise enjoying tax and duty exemption on
15 imported capital equipment;

16 ii. If made to another enterprise not covered by part (i) hereof, upon
17 payment of the taxes and duties on the net book value of the capital
18 equipment to be sold;

19 iii. Exportation of the capital equipment, machinery, spare parts or source
20 documents or those required for pollution abatement and control; and

21 iv. For reasons of proven technical obsolescence.

22 When the aforementioned sale, transfer or disposition is made under any of the
23 conditions provided for in the foregoing paragraphs other than paragraph (ii), the registered
24 firm shall not pay the taxes and duties waived on such items: *Provided, further*, That if the
25 registered enterprise sells, transfers or disposes the aforementioned imported items without
26 prior approval within five (5) years from the date of importation, the registered enterprise
27 and the vendee, transferee or assignee shall be solidarily liable to pay twice the amount of
28 the tax and duty exemption given it: *Provided, finally*, That even if the sale, transfer or
29 disposition of the capital equipment, machinery or spare parts is approved after five (5)
30 years from the date of importation, the registered enterprise is still liable to pay the taxes
31 and duties based on the net book value of the capital equipment, machinery or spare parts
32 if it has violated any of its registration terms and conditions. Otherwise, it shall no longer
33 be subject to the payment of the taxes and duties waived thereon.

1 The purchase of machinery, capital equipment, raw materials, supplies, parts and
2 semi-finished products used in the fabrication of machinery and capital equipment by a
3 registered export-oriented enterprise from a domestic manufacturer shall be subject to zero
4 percent (0%) value-added tax.

5 The registered export-oriented enterprise shall be granted a tax credit equivalent to
6 the amount of duties that would have been waived on the machinery, capital equipment,
7 raw materials, supplies, parts and semi-finished products used in the fabrication of
8 machinery and capital equipment, had these items been imported, upon its submission to
9 the Department of Finance (DOF) of the bill of materials evidencing the transaction value
10 of such and other pertinent documents, for verification and proper endorsement.

11 The registered export enterprise availing of the incentive provided under the
12 immediately preceding two (2) paragraphs shall be subject to the following: (i) that said
13 capital equipment, machinery and spare parts will be used exclusively by the registered
14 enterprise in its registered activity; (ii) that the capital equipment or machinery where the
15 raw materials, supplies, parts and semi-finished products were used would have qualified
16 for tax- and duty-free importation; and (iii) that the approval of the ISSEZFA is obtained
17 by the registered enterprise. If the registered enterprise sells, transfers or disposes of these
18 machineries, capital equipment and spare parts, the provision in the preceding paragraphs
19 for such disposition shall apply.

20 This incentive shall be deemed waived if application for tax credit under this
21 subsection was not filed within one (1) year from the date of delivery.

22 (f) Tax-and-Duty Free Importation-The importation of source documents by
23 information technology registered enterprises shall be eligible for tax- and
24 duty-free importation.

25 (g) Raw Materials Incentives – Every registered export-oriented enterprise shall
26 enjoy a tax credit equivalent to the internal revenue taxes and customs duties
27 paid on the supplies, raw materials and semi-manufactured products: *Provided*,
28 That the same are not sufficient in quantity, quality or are not competitively
29 priced which are used in the manufacture, processing or production of its
30 export products forming part thereof, exported directly and indirectly by the
31 registered export-oriented enterprise based on the actual taxes and duties paid
32 for such materials/supplies/semi-manufactured products by the registered
33 enterprise.

34 This incentive shall be deemed waived if application for tax credit under this
35 subsection was not filed within one (1) year from the date of exportation of the

1 final product.

- 2 (h) Incentives on Breeding Stocks and Genetic Materials – Importation of
3 breeding stocks and genetic materials within ten (10) years from the date of
4 registration of commercial operations of the enterprise shall be exempt from
5 all taxes and duties: *Provided*, That such breeding stocks and genetic materials
6 are reasonably needed in the registered activity and approved by the ISSEZFA.

7 The availment of the incentives by a registered enterprise shall be subject to
8 the following: (1) that said breeding stocks and genetic materials would have
9 been qualified for tax- and duty-free importation under the preceding
10 paragraph; (2) that the breeding stocks and genetic materials are reasonably
11 needed in the registered activity; (3) that approval of the ISSEZFA has been
12 obtained by the registered enterprise; and (4) that the purchase is made within
13 ten (10) years from the date of registration of commercial operations of the
14 registered enterprise.

15 This incentive shall be deemed waived if application for tax credit under this
16 subsection is not filed within one (1) year from the date of delivery.

- 17 (i) Exemption from Wharfage Dues- the provision of law to the contrary
18 notwithstanding, exports by a registered enterprise shall be exempted from
19 wharfage dues.

- 20 (j) Deferred Imposition of the Minimum Corporate Income Tax – The minimum
21 corporate income tax (MCIT) of two percent (2%) of the gross income as of
22 the end of the taxable year shall be imposed when the MCIT is greater than the
23 income tax computed under the NIRC of 1997, as amended, for the taxable
24 year: *Provided, however*, That said MCIT shall be imposed only after the
25 enterprise's entitlement period to the income tax-based incentives.

- 26 (k) Tax Treatment of Goods and Services in the Ilocos Sur Ecozone

27 1) Tax Treatment of Merchandise in the Ilocos Sur Ecozone – The free
28 trade/freeport zone shall be operated and managed as a separate customs
29 territory ensuring free flow or movement of goods within, into and
30 exported out of the free trade/freeport zone. Importations of raw
31 materials and capital equipment are tax- and duty-free. However,
32 exportations or removal of goods from the free trade/freeport zones to
33 the other parts of the Philippine territory shall be subject to customs and
34 internal revenue regulations.

- 1 i. Except as otherwise provided in this Act, foreign and domestic
2 merchandise, raw materials, supplies, articles, equipment,
3 machineries, spare parts and wares of every description, except
4 those prohibited by law, brought into the zone to be sold, stored,
5 broken up, repacked, assembled, installed, sorted, cleaned, graded
6 or otherwise processed, manufactured, mixed with foreign or
7 domestic merchandise, whether directly or indirectly related in
8 such activity, shall not be subject to customs and internal revenue
9 laws and regulations nor to local tax ordinances, any provision of
10 law to the contrary notwithstanding.
- 11 ii. Merchandise purchased by a registered Ilocos Sur Ecozone
12 enterprise, from the customs territory and subsequently brought
13 into the export processing zone, shall be considered as export sales
14 and exportation thereof shall be entitled to the benefits allowed by
15 law for such transaction.
- 16 iii. Domestic merchandise sent from the Ilocos Sur Ecozone to the
17 customs territory shall, whether or not combined with or made part
18 of other articles likewise of local origin or manufactured in the
19 Philippines while in the export processing zone, be subject to
20 internal revenue laws of the Philippines as domestic goods sold,
21 transferred or disposed of for local consumption.
- 22 iv. Merchandise sent from the Ilocos Sur Ecozone to the customs
23 territory shall, whether or not combined with or made part of other
24 articles while in the zone, be subject to rules and regulations
25 governing imported merchandise. The duties and taxes shall be
26 based on the value of said imported materials (except when the
27 final product is exempt).
- 28 v. Domestic merchandise on which all internal revenue taxes have
29 been paid, if subject thereto, and foreign merchandise previously
30 imported on which taxes have been paid, or which have been
31 admitted free of duty and tax, may be taken into the Ilocos Sur
32 Ecozone from the customs territory of the Philippines and be
33 brought back thereto free of quotas, duty or tax.
- 34 vi. Subject to such regulations respecting identity and safeguarding of
35 revenue as the ISSEZFA may deem necessary, when the identity

1 of an article entered into the export processing zone under the
2 immediately preceding paragraph has been lost, such article when
3 removed from the zone and taken to the customs territory shall be
4 treated as foreign merchandise entering the country for the first
5 time, under the provisions of the Tariff and Customs Code of the
6 Philippines, as amended.

7 vii. Articles produced or manufactured in the Ilocos Sur Ecozone and
8 exported therefrom shall, on subsequent importation into the
9 customs territory, be subject to the import laws applicable to like
10 articles manufactured in a foreign country.

11 viii. Unless the contrary is shown, merchandise taken out of the export
12 processing zone shall be considered for tax purposes to have been
13 sent to customs territory.

14 2) Tax Treatment of Services -- (i) Sale of service by an entity from the
15 customs territory to a registered ecozone or free trade enterprise, or by a
16 registered ecozone or freeport enterprise to another ecozone or freeport
17 enterprise shall be treated as indirect export and hence, entitled to the
18 benefits allowed by law for such transaction; and (ii) Sale or service by a
19 registered ecozone or freeport enterprise to the customs territory shall be
20 subject to applicable internal revenue laws and regulations.

21 (l) Bonded Warehousing System- Registered export-oriented enterprise shall have
22 access to the utilization of the bonded warehousing system in accordance with
23 the rules and regulations of the BoC.

24 (m) Employment of Foreign Nationals – Subject to the provisions of Section 29 of
25 Commonwealth Act No. 613, otherwise known as “The Philippine
26 Immigration Act of 1940”, as amended, a registered enterprise may employ
27 foreign nationals in supervisory or technical positions for a period not
28 exceeding ten (10) years from its registration: *Provided*, That when the
29 majority of the capital stock of a registered enterprise is owned by foreign
30 investors, the positions of the president, treasurer and general manager or their
31 equivalents may be retained by foreign nationals beyond the period set forth
32 herein and such officer is the owner or a stockholder owning at least ten
33 percent (10%) of the outstanding capital stock of the registered enterprise and
34 he/she remains the owner or maintains his/her stockholdings therein.

35 Foreign nationals under employment contract within the purview of this

1 incentive, their spouses and unmarried children under twenty-one (21) years of
2 age, who are not excluded by Section 29 of Commonwealth Act No. 613, as
3 amended, shall be permitted to enter and reside in the Philippines during the
4 period of employment of such foreign nationals. They shall be issued multiple-
5 entry visas, renewable every two (2) years, and shall be allowed to enter and
6 leave the Philippines without further documentary requirements other than
7 valid passports or other travel documents in the nature of passports.

8 The foreign nationals admitted herein, as well as their respective spouses and
9 dependents, shall be exempt from: (1) obtaining alien certificates of
10 registration and emigration clearance certificates; and (2) securing alien
11 employment permits (AEP) and all types of clearances, permits, licenses or
12 their equivalents required by any government department or agency.

13 **SEC. 18. *Extension of Period of Availment.*** – The availment period of the
14 incentives provided herein may be extended by the ISSEZFA in the event that the
15 registered enterprise suffers operational *force majeure* or any event equivalent thereto,
16 impairing its viability.

17 **SEC. 19. *Duration of Incentives.*** – Enterprises registered with the ISSEZFA may
18 enjoy ITH or NOLCO granted by the latter prior to the availment of the five percent (5%)
19 Gross Income Earned (GIE).

20 Fiscal incentives under this Act shall be terminated after a cumulative period of
21 twenty (20) years from the date of registration or the start of commercial operations,
22 whichever is applicable, except that it could be extended with regard to industries deemed
23 indispensable to national development as determined by the ISSEZFA.

24 The industries exempted from this provision shall be recommended by the BOI,
25 with the concurrence of the secretaries of the DOF and the DTI.

26 **SEC. 20. *Incentive to Investors.*** – Any foreign national covered under subsection
27 (m) of Section 17 of this Act, who invests an amount of One hundred fifty thousand US
28 Dollars (US\$150,000.00), either in cash and/or equipment, in a registered enterprise shall
29 be entitled to an investor's visa: *Provided, That,*

30 (a) He is at least eighteen (18) years of age;

31 (b) He has not been convicted of a crime involving moral turpitude;

32 (c) He is not afflicted with any loathsome, dangerous or contagious disease; and

1 (d) He has not been institutionalized for any mental disorder or disability:

2 *Provided, further,* That in securing the investor's visa, the alien applicant shall be entitled
3 to the same privileges provided for under Section 17, last paragraph.

4 As a holder of an investor's visa, an alien shall be entitled to reside in the
5 Philippines while his investment subsists. For this purpose, he shall submit an annual
6 report, in the form duly prescribed for the purpose, to prove that he has maintained his
7 investment in the country. Should said alien withdraw his investments from the
8 Philippines, then the investor's visa issued to him shall automatically expire.

9 **SEC. 21. *Banking Rules and Regulations.*** – Existing banking laws and
10 rules/regulations of the BSP shall apply to banks and financial institutions to be established
11 in the Ilocos Sur Ecozone, such as those governing foreign exchange and other current
12 account transactions (trade and nontrade), local and foreign borrowings, foreign
13 investments, establishment and operation of local and foreign banks, foreign currency
14 deposit units, offshore banking units and other financial institutions under the supervision
15 of the BSP.

16 **SEC. 22. *Remittance of Earnings.*** – In the case of foreign investments, a
17 registered enterprise in the ISSEZFA shall have the right to remit earnings from the
18 investment in the currency in which the investment was originally made and at the
19 exchange rate prevailing at the time of remittance, subject to the provisions of Section 74
20 of Republic Act No. 265, (The New Central Bank Act), as amended.

21 CHAPTER V

22 NATIONAL GOVERNMENT AND OTHER ENTITIES

23 **SEC. 23. *Interpretation/Construction.*** – The powers, authorities and functions that
24 are vested in the ISSEZFA are intended to decentralize governmental functions and
25 authority and promote an efficient and effective working relationship among the Ilocos Sur
26 Ecozone, the national government and the LGUs.

27 **SEC. 24. *Supervision and Coordination of Development Plans.*** – For purposes of
28 policy direction and coordination, the Ilocos Sur Ecozone shall be under the direct control
29 and supervision of the Office of the President.

30 **SEC. 25. *Authority of the Bureau of Customs (BoC) to Examine the Entry and***
31 ***Exit of Imported Articles in the ISSEZFA.*** – The BoC, in coordination with the
32 appropriate government agencies such as, but not limited to, the Departments of Trade and
33 Industry, Agriculture, Transportation and Communications, and Health shall have the

1 authority to examine the entry and exit of imported articles in the ISSEZFA for the purpose
2 of determining: (a) the quantity and description of subject imported articles; and (b)
3 compliance with the sanitary and agricultural requirements.

4 **SEC. 26. *Relationship with the Regional Development Council.*** – The ISSEZFA
5 shall determine the development goals for the Ilocos Sur Ecozone within the framework of
6 national development plans, policies and goals. The administrator shall, upon approval by
7 the Board, submit the Ilocos Sur Ecozone plans, programs and projects to the Regional
8 Development Council for inclusion and inputs to the overall regional development plan.

9 **SEC. 27. *Relationship with LGUs.*** – Except as herein provided, the LGUs
10 comprising the Ilocos Sur Ecozone shall retain their basic autonomy and identity. The
11 municipalities of Cabugao and San Juan, Province of Ilocos Sur shall operate and function
12 in accordance with the Local Government Code of 1991. In case of any conflict among the
13 ISSEZFA and the municipalities of Cabugao and San Juan, Province of Ilocos Sur on
14 matters affecting the Ilocos Sur Ecozone other than defense and security matters, the
15 decision of the ISSEZFA shall prevail.

16 **SEC. 28. *Auditing.*** – The Commission on Audit shall appoint a representative who
17 shall be a full-time auditor of the ISSEZFA and assign such number of personnel as may
18 be necessary to assist said representative in the performance of his/her duties. The salaries
19 and emoluments of the assigned auditor and personnel shall be in accordance with
20 pertinent laws, rules and regulations.

21 CHAPTER VI

22 MISCELLANEOUS

23 **SEC. 29. *Separability Clause.*** – If any provision of this Act shall be held
24 unconstitutional or invalid, the other provisions not otherwise affected shall remain in full
25 force and effect.

26 **SEC. 30. *Repealing Clause.*** – All laws, executive orders or issuances or any part
27 thereof which are inconsistent herewith are hereby repealed or amended accordingly.

28 **SEC. 31. *Effectivity Clause.*** – This Act shall take effect fifteen (15) days after its
29 publication in at least two (2) national newspapers of general circulation.

30 Approved,