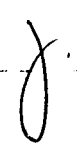


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**SENATE**  
S.B. No. 442

RECEIVED BY: 

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**Introduced by SENATOR LOREN LEGARDA**

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**AN ACT TO STRENGTHEN THE SUSTAINABILITY AND COMPETITIVENESS  
OF THE PHILIPPINE MOTOR VEHICLE MANUFACTURING INDUSTRY**

Explanatory Note

With poverty incidence among Filipinos reaching 26.3% in the first semester of 2015 and unemployment and underemployment rates hitting 5.8% and 18.9%, respectively as of January 2016, the quality of growth recorded recently by the economy leaves much to be desired. Policymakers have partly attributed this lack of inclusive growth to the declining share of the industry sector in the overall economy which together with the agricultural sector is expected to generate jobs suitable for low-skilled workers. In its March 2014 report entitled Philippine Economic Update: Pursuing Inclusive Growth Through Sustainable Reconstruction and Job Creation, the World Bank recommends that government enact industrial policies to lend support to the sector.

One sub-sector offering tremendous potential for the industry's rebound is the manufacture of motor vehicle parts. As noted by former National Economic and Development Authority Director-General Cielito Habito, it has "strong backward linkages with local industries, indicating strong multiplier effects for the economy". Further citing a 2010 paper, he explained that every P100 worth of production in industry leads to a rise in total economic output by P367. Apart from its spillover effects to other industries, it provides for technology transfer to local firms thus increasing overall potential of the local economy.

Though the Department of Trade and Industry (DTI) has started crafting its motor vehicle industry roadmap, there is a need to enact a specific law to ensure consistency of policy. Apart from the crafting of a National Motor Vehicle Manufacturing Development Plan (NMVMDP), this bill seeks to provide the following fiscal incentives:

- Tax and duty-free importation of capital equipment
- Deduction on training expenses
- Double deduction on research and development
- Option to deduct from taxable income the net operating loss incurred during the first three years of operations for the seven consecutive taxable years

In view of the foregoing, the immediate passage of this bill is sought.

  
**LOREN LEGARDA**  
Senator

16 JUL 19 AIO:35

SENATE

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**AN ACT TO STRENGTHEN THE SUSTAINABILITY AND COMPETITIVENESS OF THE PHILIPPINE MOTOR VEHICLE MANUFACTURING INDUSTRY**

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

1 **SECTION 1. Title.** – This Act shall be known as “The Philippine Motor Vehicle  
2 Manufacturing Industry Competitiveness Act.”  
3

4 **SECTION 2. Declaration of Policy.** – The national economy shall be geared  
5 towards sustainable inclusive economic growth by promoting industrialization  
6 through competitive industries and by encouraging enterprise. In recognition of  
7 the significant role in economic development and nation building of the  
8 Philippine Motor Vehicle Manufacturing Industry, as well as its central  
9 function in the country’s industrial and manufacturing sectors, the following  
10 are the declared policies of the State:  
11

12 a) The State shall develop a comprehensive policy that will fast-track the  
13 sustainable development and competitiveness of the Philippine Motor  
14 Vehicle Manufacturing Industry, thereby effectively contributing to  
15 industrial capital formation and employment generation;  
16

17 b) The State shall ensure a balanced transition phase to free trade at a  
18 minimized risk to the Philippine Motor Vehicle Manufacturing Industry by  
19 efficiently developing its capacities for competitiveness and promoting  
20 greater participation in a further globalized economy through increased  
21 export;  
22

23 c) The State shall promote the maximum scale integration of vehicle  
24 manufacturing and the assembly of its respective parts and components;  
25

26 d) The State shall encourage the effective and sustainable implementation of  
27 research and development activities, including, but not limited to,  
28 technology transfer, testing facilities and activities, and the promotion of  
29 automotive skills training and development as a means to enhance the  
30 competitiveness of the Philippine Motor Vehicle Manufacturing Industry;  
31 and  
32

33 e) The State shall integrate motor vehicle manufacturing into the overall  
34 transport policies and programs of the national government to optimize the  
35 sustained growth and competitiveness of the Philippine Motor Vehicle

1 Manufacturing Industry and to ensure the development of sustainable  
2 transportation systems in the country.

3  
4 **SECTION 3. Definition of Terms.** – For purposes of this Act, the following  
5 terms are defined as follows:

6  
7 a) “Board of Investments (BOI)” refers to the attached agency of the  
8 Department of Trade and Industry created under Republic Act No. 5186.

9  
10 b) “Department of Trade and Industry (DTI)” refers to the government agency  
11 created pursuant to Executive Order No. 133, series of 1987.

12  
13 c) “Investment Priorities Plan (IPP)” refers to the overall plan prepared by the  
14 BOI in accordance with the provisions of Executive Order No. 226, otherwise  
15 known as the Omnibus Investment Code of 1987, as amended.

16  
17 d) “Motor Vehicle Manufacturing Industry” encompasses enterprises that are  
18 engaged in the manufacture of motor vehicles and its parts and accessories  
19 or components.

20  
21 e) “Manufacture of Motor Vehicles” refers to the activities classified under  
22 Section D, Division 34, Group 341 of the United Nations (UN) International  
23 Standard Industrial Classification of All Economic Activities (ISIC) Revision  
24 (Rev.) 3, which includes the manufacture of passenger cars, commercial  
25 vehicles, buses, trolley-buses and coaches, motor vehicle engines, chassis  
26 fitted with engines and other motor vehicles.

27  
28 This also refers to the activities classified under Section D, Division 35,  
29 Group 359, Class 3591 of UN ISIC Rev. 3, which includes the manufacture  
30 of motorcycles (including mopeds) and cycles fitted with an auxiliary engine,  
31 whether or not with attached side-car, and “delivery” or “sporting”  
32 motorcycles.

33  
34 f) “Manufacture of Parts and Accessories of Motor Vehicles” refers to the  
35 activities classified under Section D, Division 34, Group 343 of the UN ISIC  
36 Rev. 3, which includes the manufacture of parts and accessories for motor  
37 vehicles, including their bodies and engines: brakes, gear boxes, axles, road  
38 wheels, suspension shock absorbers, radiators, silencers, exhaust pipes,  
39 clutches, steering wheels, steering columns and steering boxes and other  
40 parts and accessories not elsewhere classified.

41  
42 This also refers to the manufacture of bodies (coachwork) for motor vehicles,  
43 engines for motorcycles, side-cars, and parts and accessories of  
44 motorcycles.

45  
46 g) “Medium Term Philippine Development Plan (MTPDP)” refers to the master  
47 plan for economic development implemented by the National Economic  
48 Development Authority (NEDA), which identifies growth sectors for the next  
49 six (6) years and defines the programs, policies, strategies and action plans  
50 to the economic development goals of the government.

51  
52 h) “Philippine Export Development Plan (PEDP)” refers to the three (3) year  
53 export development plan prepared by the DTI, which defines the country’s  
54 annual and medium-term export thrusts, strategies, programs and projects  
55 jointly implemented by the government, export sector and other concerned  
56 stakeholders.

1 **SECTION 4. National Motor Vehicle Manufacturing Development Plan**  
2 **(NMVMDP).** – The DTI, through the BOI, in consultation with the  
3 representatives from the private sector, the academe and other pertinent  
4 stakeholders, shall prepare and implement a rolling three (3) year National  
5 Motor Vehicle Manufacturing Development Plan, hereinafter referred to as the  
6 “Plan”. This Plan shall be validated and updated annually by the BOI.  
7

8 The Plan, which shall be integrated into the PEDP and the MTPDP, will define  
9 the Philippine Motor Vehicle Manufacturing Industry’s annual and medium-  
10 term manufacturing and export targets, as well as its programs and strategies  
11 to support the country’s manufacturing and export thrusts. The Plan shall also  
12 identify priority development products, which shall be characterized by high  
13 manufacturing value-added and with high potential for economic efficiency, as  
14 primary focus of incentives.  
15

16 **SECTION 5. Fiscal Incentives for Manufacturers of Motor Vehicles, Parts**  
17 **and Accessories.** – Enterprises engaged in the manufacture of motor vehicles,  
18 parts and accessories duly registered with the BOI as participant under the  
19 National Motor Vehicle Manufacturing Development Plan (NMVMDP), shall be  
20 entitled to the following incentives:  
21

22 a) **Income tax-based** - A manufacturer may choose any of the following options  
23 as its income tax-based incentive, subject to the condition that its choice  
24 shall be final and cannot be changed:  
25

26 i. **7% Gross Income Earned** – A manufacturer may avail of the seven  
27 percent (7%) tax on GIE in lieu of all national and local taxes, except  
28 Value Added Tax (VAT) and Real Property Tax on land owned by private  
29 developers; or  
30

31 ii. **15% Reduced Income Tax** - A manufacturer may be entitled to a reduced  
32 income tax rate of fifteen percent (15%) instead of the regular income tax  
33 rate provided for in the National Income Revenue Code, as amended.  
34

35 b) **Net Operating Loss Carry-Over (NOLCO).** – A net operating loss incurred  
36 during the first three (3) years of operations shall be carried over as a  
37 deduction from taxable income for the seven (7) consecutive taxable years  
38 immediately following the year of such loss. Provided, however, That the net  
39 operating loss shall be computed in accordance with the provisions of the  
40 National Internal Revenue Code and its Implementing Revenue Regulations,  
41 any provision of this Act to the contrary notwithstanding, except that income  
42 not taxable either in whole or in part under thus or other laws shall be  
43 included in gross income.  
44

45 c) **Accelerated Depreciation.** – At the option of the taxpayer and in accordance  
46 with the procedure established by the Bureau of Internal Revenue (BIR),  
47 fixed assets may be (1) depreciated to the extent of not more than twice as  
48 fast as normal rate of depreciation or depreciated at normal rate of  
49 depreciation if expected life is ten (10) years or less; or (2) depreciated over  
50 any number of years between five (5) years and expected life if the latter is  
51 more than ten (10) years; and the depreciation thereon allowed as a  
52 deduction from taxable income Provided, That the taxpayer notifies the BIR  
53 at the beginning of the depreciation period which depreciation rate allowed  
54 by thus section will be used by it.  
55

1 d) Deduction on Training Expenses. – In addition to the allowable ordinary and  
2 necessary expenses on training which are fully deductible under the  
3 provisions of the National Internal Revenue Code, expenses incurred in  
4 training schemes approved by the appropriate agency shall be eligible for  
5 deduction during the financial year the expenses were incurred:  
6

- 7 i. Expenses incurred in providing employees training shall be eligible for  
8 single deduction; and
- 9 ii. Expenses incurred in providing training to Small and Medium  
10 Enterprise (SME) parts manufacturers shall be eligible for double  
11 deduction;  
12

13 e) Double Deduction on Research and Development. – Expenses incurred for  
14 research and development activities shall be eligible for double deduction  
15 from taxable income.  
16

17 f) Tax and Duty Free Importation of Capital Equipment. – The importation of  
18 machinery, equipment and its accompanying spare parts imported in the  
19 name of the manufacturer as consignee shall be exempt to the extent of one  
20 hundred percent (100%) of the duties and taxes payable thereon, Provided,  
21 That the importation complies with the following conditions:  
22

- 23 i. These are not manufactured domestically in sufficient quantity, of  
24 comparable quality and at reasonable prices;
- 25 ii. These are reasonably needed and will be used exclusively in the  
26 manufacture of motor vehicles; and
- 27 iii. Prior approval of the BOI was obtained for the importation of such  
28 machinery, equipment and its accompanying spare parts.  
29

30 Provided further, That such machinery, equipment and accompanying spare  
31 parts shall not be sold, transferred or disposed without the prior approval of  
32 the BOI within five (5) years from date of acquisition, in which case the  
33 manufacturer as consignee and the vendee, transferee, or assignee shall be  
34 solely liable to pay twice the amount of the duty and tax exemption given it.  
35

36 g) Tax and Duty Free Importation of Training Equipment. – The importation of  
37 equipment, tools and implements for in-house training projects and imported  
38 in the name of the manufacturer as consignee shall be exempt to the extent  
39 of one hundred percent (100%) of the duties and taxes payable thereon,  
40 Provided, That the importation complies with the following conditions:  
41

- 42 i. These are not manufactured domestically in sufficient quantity, of  
43 comparable quality and at reasonable prices;
- 44 ii. These are reasonably needed and will be used exclusively for training  
45 projects; and
- 46 iii. Prior approval of the BOI was obtained for the importation of such  
47 equipment, tools and implements.  
48

49 Provided further, That such equipment, tools and implements shall not be  
50 sold, transferred or disposed without the prior approval of the BOI within five  
51 (5) years from date of acquisition, in which case the manufacturer as  
52 consignee and the vendee, transferee, or assignee shall be solely liable to pay  
53 twice the amount of the duty and tax exemption given it.  
54

1 h) Qualified enterprises availing of incentives provided under this Act and its  
2 Implementing Rules and Regulations shall be eligible to incentives and  
3 privileges provided for by other special laws:  
4

- 5 i. Executive Order No. 226, otherwise known as the Omnibus Investment  
6 Code of 1987, Provided, That the manufacture of motor vehicles shall  
7 regularly form part of the IPP as a preferred area for investments,  
8 unless otherwise declared by law;
- 9 ii. Republic Act No. 7844, otherwise known as the Export Development  
10 Act of 1994;
- 11 iii. Republic Act No. 7916, otherwise known as the Special Economic Zone  
12 Act of 1995, as amended; and
- 13 iv. Issuances related to the implementation of the NMVMDP.  
14

15 Provided, That the enterprise shall register under the aforementioned laws  
16 and that there is no double availment of the same incentives.  
17

18 **SECTION 6. Period of Availment of Incentives.** – The total period of  
19 availment of all tax incentives enjoyed by a manufacturer provided herein shall  
20 in no case exceed twenty (20) years.  
21

22 **SECTION 7. Rationalization Measures.** – In general, the Government shall  
23 formulate and implement rationalization measures in specific areas in need of  
24 adjustment, or where existing policies are challenged, rendered inefficient or  
25 obsolete by varying business climate with the end view of promoting economies  
26 of scale, efficiency, productivity and competitiveness.  
27

28 **SECTION 8. Harmonization with Non-Fiscal Support Measures.** – The  
29 Government shall formulate and implement industry-wide non-fiscal support  
30 measures that will harmonize the goals of the Philippine Motor Vehicle  
31 Manufacturing Industry towards effective and consistent regulation,  
32 transparency in its rules, and sustaining efficiency, productivity, cost-  
33 reduction and competitiveness. These aforementioned measures should  
34 address the strengthening of supporting and complementing industries such  
35 as, but not limited to, steel, plastic and electrical in order to establish a strong  
36 and sustained foundation for the aforementioned industry.  
37

38 **SECTION 9. Implementing Rules and Regulations (IRR).** – The Secretary of  
39 the DTI, within ninety (90) working days after the effectivity of this Act, in  
40 consultation with the Department of Finance (DOF), the National Economic  
41 and Development Authority (NEDA) and other agencies concerned, the private  
42 sector and other concerned stakeholders, and in coordination with the Joint  
43 Congressional Oversight Committee on the Competitiveness of the Motor  
44 Vehicle Manufacturing Industry, shall promulgate the rules and regulations for  
45 the effective implementation of this Act. The Secretary of the DTI shall submit  
46 to the Committee on Trade of both Houses of Congress copies of the IRR within  
47 thirty (30) days after their promulgation.  
48

49 Any violation of this section shall render the official/s concerned liable under  
50 Republic Act No. 6713 otherwise known as the "Code of Conduct and Ethical  
51 Standards for Public Officials and Employees" and other existing administrative  
52 and/or criminal laws.  
53

54 **SECTION 10. Repealing Clause.** – All laws, decrees, executive issuance, rules  
55 and regulations inconsistent with this Act are hereby repealed or modified  
56 accordingly.

1 **SECTION 11. Separability Clause.** – The provisions of this Act are hereby  
2 declared to be separable, and in the event one or more of such provisions are  
3 held unconstitutional, the validity of the other provisions shall not be affected  
4 thereby.

5  
6 **SECTION 12. Effectivity.** – This Act shall take effect fifteen (15) days from the  
7 date of its publication in the Official Gazette or in at least two (2) newspapers of  
8 general circulation.

9  
10 Approved,