

**SEVENTEENTH CONGRESS OF THE REPUBLIC** )  
**OF THE PHILIPPINES** )  
*Third Regular Session* )



'19 FEB -4 P7:49

**SENATE**

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**COMMITTEE REPORT NO. 653**

Submitted by the Committees on Government Corporations and Public Enterprises;  
**FEB - 4 2019**  
and Ways and Means on \_\_\_\_\_.

Re: Senate Bill No. 2207

Recommending its approval in substitution of **Senate Bill No. 660** taking into  
consideration **House Bill No. 8720**.

Sponsor: Senator Gordon

**MR. PRESIDENT:**

The Committees on Government Corporations and Public Enterprises; and  
Ways and Means to which was referred **Senate Bill No. 660**, introduced by  
Senator Paulo Benigno "Bam" A. Aquino IV, entitled:

**"AN ACT  
AMENDING REPUBLIC ACT NO. 7227, AS AMENDED BY REPUBLIC  
ACT NO. 9400, OTHERWISE KNOWN AS THE BASES CONVERSION  
AND DEVELOPMENT ACT OF 1992.**

taking into consideration **House Bill No. 8720**, introduced by Representatives Geraldine B. Roman, Gloria Macapagal-Arroyo, Emi G. Calixto-Rubiano. Federico Sandoval, Emi A. De Jesus, Vicente "Ching" S.E. Veloso, Maria Vida E. Bravo, Magnolia C. Antonino, John Marvin "Yul Servo" C. Nieto, Gus S. Tambunting, Amihilda J. Sangcopan, Ciriaco S. Calalang, Eric L. Olivarez, Jose T. Panganiban, Jr., Linabelle Ruth R. Villarica, Mark O. Go, Pablo C. Ortega, and Maria Lourdes R. Aggabao. entitled:

**"AN ACT  
REVITALIZING THE BASES CONVERSION DEVELOPMENT,  
AMENDING FOR THE PURPOSE REPUBLIC ACT NO. 7227,  
OTHERWISE KNOWN AS THE "BASES CONVERSION AND  
DEVELOPMENT ACT OF 1992", AS AMENDED"**

have considered the same and have the honor to report it back to the Senate with the recommendation that the attached **Senate Bill No. 2207** prepared by the Committees, entitled:

**"AN ACT  
REVITALIZING THE BASES CONVERSION DEVELOPMENT,  
AMENDING FOR THE PURPOSE REPUBLIC ACT NO. 7227,  
OTHERWISE KNOWN AS THE "BASES CONVERSION AND  
DEVELOPMENT ACT OF 1992", AS AMENDED"**

be approved in substitution of **Senate Bill No. 660**, taking into consideration **House Bill No. 8720**, with Senators Aquino, Gordon and Angara as authors thereof.

Respectfully submitted:

**Chairpersons**



**SONNY ANGARA**  
*Committee on Ways and Means*



**RICHARD J. GORDON**  
*Committee on Government Corporations and  
Public Enterprises; and  
Member, Committee on Ways and Means*

**Vice Chairmen**



**LOREN LEGARDA**  
*Committee on Ways and Means*

**FRANCIS "KIKO" PANGILINAN**  
*Committee on Government Corporations  
and Public Enterprises;  
Member, Committee on Ways and Means*



**JOEL VILLANUEVA**  
*Committee on Ways and Means  
Member, Committee on Government  
Corporations and Public Enterprises*

**PAOLO BENIGNO "BAM" AQUINO IV**  
*Committee on Ways and Means*

**Members**

**CYNTHIA A. VILLAR**  
*Committee on Government Corporations  
And Public Enterprises*



**FRANCIS "CHIZ" G. ESCUDERO**  
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**PANFILO M. LACSON**  
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**JOSEPH VICTOR G. EJERCITO**  
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*Risa Hontiveros - Gacquel*  
**RISA HONTIVEROS**  
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*Grace Poe*  
**GRACE POE**  
*Committee on Ways and Means*

**PANFILO M. LACSON**  
*Committee on Ways and Means*

*Win Gatchalian*  
**WIN GATCHALIAN**  
*Committee on Ways and Means*

*Maria Lourdes "Nancy" Binay*  
**MARIA LOURDES "NANCY" BINAY**  
*Committees on Government Corporations and Public Enterprises; and Ways and Means*

**EMMANUEL "MANNY" D. PACQUIAO**  
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*A. Pimentel III*  
**AQUILINO "KOKO" PIMENTEL III**  
*Committees on Government Corporations and Public Enterprises; and Ways and Means*

**ANTONIO "SONNY" F. TRILLANES IV**  
*Committee on Ways and Means*

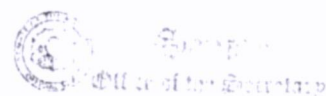
**Ex Officio Members**

**RALPH G. RECTO**  
*President Pro Tempore*

*Juan Miguel "Migz" F. Zubiri*  
**JUAN MIGUEL "MIGZ" F. ZUBIRI**  
*Majority Leader*

**FRANKLIN M. DRILON**  
*Minority Leader*

**SENATOR VICENTE C. SOTTO III**  
*Senate President*



SENATE

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SENATE BILL NO. 2207

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*Prepared jointly by the Committees on Government Corporations and Public Enterprises, and Ways and Means, with Senators Aquino, Gordon and Angara as authors thereof.*

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**AN ACT**  
**REVITALIZING THE BASES CONVERSION DEVELOPMENT, AMENDING**  
**FOR THE PURPOSE REPUBLIC ACT NO. 7227, OTHERWISE KNOWN AS**  
**THE "BASES CONVERSION AND DEVELOPMENT ACT OF 1992", AS**  
**AMENDED**

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

1 SECTION 1. Section 12 of Republic Act No. 7227, as amended, is hereby further  
2 amended to read as follows:

3 "SEC. 12. *Subic Special Economic Zone.* – Subject to the concurrence by  
4 resolution of the *sangguniang panlungsod* of the City of Olongapo and the  
5 *Sangguniang Bayan* of the Municipalities of Subic, Morong and Hermosa, there  
6 is hereby created a Special Economic and Free-port Zone consisting of the City  
7 of Olongapo and the Municipality of Subic, Province of Zambales, the lands  
8 occupied by the Subic Naval Base and its contiguous extensions as embraced,  
9 covered, and defined by the 1947 Military Bases Agreement between the  
10 Philippines and the United States of America as amended, and within the  
11 territorial jurisdiction of the Municipalities of Morong and Hermosa, Province  
12 of Bataan, hereinafter referred to as the Subic Special Economic Zone whose  
13 metes and bounds shall be delineated in a proclamation to be issued by the  
14 President of the Philippines. Within thirty (30) days after the approval of this

1 Act, each local government unit shall submit its resolution of concurrence to  
2 join the Subic Special Economic Zone to the Office of the President.  
3 Thereafter, the President of the Philippines shall issue a proclamation defining  
4 the metes and bounds of the zone as provided herein.

5 **“THE MUNICIPALITY OF SAN ANTONIO OF THE PROVINCE OF**  
6 **ZAMBALES AND THE MUNICIPALITIES OF MORONG, HERMOSA AND**  
7 **DINALUPIHAN OF THE PROVINCE OF BATAAN MAY, BY**  
8 **RESOLUTION OF THEIR RESPECTIVE *SANGGUNIANG BAYAN*,**  
9 **CHOOSE TO HAVE THEIR WHOLE MUNICIPAL TERRITORY OR A**  
10 **PORTION THEREOF BE A PART OF THE EXTENDED TERRITORY OF**  
11 **THE SUBIC SPECIAL ECONOMIC ZONE, FOR A PERIOD OF NOT LESS**  
12 **THAN FIFTY (50) YEARS.**

13 **THE SBMA BOARD OF DIRECTORS SHALL PROVIDE A**  
14 **MASTERPLAN FOR THE PHASED EXPANSION OF THE FREE-PORT**  
15 **ZONE EVERY TWO YEARS TO AREAS IN THE CITY OF OLONGAPO,**  
16 **MUNICIPALITY OF SUBIC IN THE PROVINCE OF ZAMBALES, AND IN**  
17 **THE MUNICIPALITIES OF DINALUPIHAN, HERMOSA AND MORONG**  
18 **IN THE PROVINCE OF BATAAN, AS MAY BE DETERMINED BY THE**  
19 **SBMA BOARD OF DIRECTORS.**

20 “[The abovementioned] **SUBIC SPECIAL ECONOMIC** zone shall be  
21 subject to the following policies:

22 “(a) Within the framework and subject to the mandate and limitations of  
23 the Constitution and the pertinent provisions of the Local Government Code,  
24 the Subic Special Economic Zone shall be developed into a self-sustaining,

1 industrial, commercial, financial and investment center to generate  
2 employment opportunities in and around the zone and to attract and promote  
3 productive foreign **AND DOMESTIC** investments;

4 **"(B) THE SUBIC BAY METROPOLITAN AUTHORITY (SBMA)**  
5 **REFERRED TO IN SECTION 13 OF THIS ACT SHALL BE SUBJECT TO**  
6 **TAX UNDER THE NATIONAL INTERNAL REVENUE CODE AS A**  
7 **REGULAR CORPORATE ENTITY BUT SHALL BE EXEMPT FROM**  
8 **REMITTING DIVIDENDS TO THE NATIONAL GOVERNMENT.**

9 **"[(b)] (C) THE PROVISION OF EXISTING LAWS, RULES AND**  
10 **REGULATIONS TO THE CONTRARY NOTWITHSTANDING, [T]the Subic**  
11 **Special Economic Zone shall be operated and managed as a separate customs**  
12 **territory ensuring free flow or movement of goods and capital within, into and**  
13 **exported out of the Subic Special Economic Zone, as well as provide incentives**  
14 **such as tax and duty-free importations of raw materials, capital and equipment.**  
15 **However, exportation or removal of goods from the territory of the Subic**  
16 **Special Economic Zone to the other parts of the Philippine territory shall be**  
17 **subject to customs duties and taxes under [the Tariff and Customs Code of**  
18 **the Philippines, as amended,] **REPUBLIC ACT NO. 10863, OTHERWISE****  
19 **KNOWN AS THE 'CUSTOMS MODERNIZATION AND TARIFF ACT', the**  
20 **National Internal Revenue Code of 1997, as amended, and other relevant tax**  
21 **laws of the Philippines;**

22 **"(D) [(c) The provision of existing laws, rules and regulations to the**  
23 **contrary notwithstanding, no national and local taxes shall be imposed within**  
24 **the Subic Special Economic Zone. In lieu of said taxes, a five percent (5%) tax**

1 on gross income earned shall be paid by [all business enterprises within the  
2 Subic Special Economic Zone and shall be remitted as follows: three percent  
3 (3%) to the National Government, and two percent (2%) to the Subic Bay  
4 Metropolitan Authority (SBMA) for distribution to the local government units  
5 affected by the declaration of and contiguous to the zone, namely: the City of  
6 Olongapo and the municipalities of Subic, San Antonio, San Marcelino and  
7 Castillejos of the Province of Zambales; and the municipalities of Morong,  
8 Hermosa and Dinalupihan of the Province of Bataan, on the basis of population  
9 (50%), land area (25%), and equal sharing (25%).] **SUBIC SPECIAL**  
10 **ECONOMIC ZONE SHALL BE TAXED IN THE FOLLOWING MANNER,**  
11 **PROVISIONS OF EXISTING LAWS, RULES AND REGULATIONS TO THE**  
12 **CONTRARY NOTWITHSTANDING:**

- 13 **1. NO NATIONAL AND LOCAL TAXES SHALL BE IMPOSED IN THE**  
14 **SECURED AND FENCED AREAS OF THE SUBIC SPECIAL**  
15 **ECONOMIC ZONE CLASSIFIED AS A FREE-PORT ZONE,**  
16 **COMPOSED MAINLY OF THE LANDS OCCUPIED BY THE**  
17 **FORMER SUBIC NAVAL BASE AND SUCH AREAS AS MAY**  
18 **THEREAFTER BE DECLARED A FREE-PORT ZONE BY THE SBMA.**  
19 **IN LIEU OF SAID TAXES, A FIVE PERCENT (5%) TAX ON**  
20 **GROSS INCOME SHALL BE PAID ON GROSS INCOME EARNED**  
21 **BY ALL BUSINESS ENTERPRISES WITHIN THE FREE-PORT**  
22 **ZONE AND SHALL BE REMITTED AS FOLLOWS: TWO PERCENT**  
23 **(2%) TO THE NATIONAL GOVERNMENT; ONE PERCENT (1%)**  
24 **TO THE SUBIC BAY METROPOLITAN AUTHORITY (SBMA)**



1 REFERRED TO IN SECTION 13 OF THIS ACT; TWO PERCENT  
2 (2%) TO THE SBMA FOR DISTRIBUTION TO THE LOCAL  
3 GOVERNMENT UNITS COVERED BY THE FREE-PORT ZONE,  
4 NAMELY: THE CITY OF OLONGAPO AND THE MUNICIPALITIES  
5 OF SUBIC AND SAN ANTONIO OF THE PROVINCE OF  
6 ZAMBALES; AND THE MUNICIPALITIES OF MORONG,  
7 HERMOSA AND DINALUPIHAN OF THE PROVINCE OF BATAAN,  
8 ON THE BASIS OF POPULATION SEVENTY PERCENT (70%),  
9 LAND AREA FIFTEEN PERCENT (15%), AND EQUAL SHARING  
10 FIFTEEN PERCENT (15%);

11 2. NO NATIONAL TAXES SHALL BE IMPOSED IN OTHER AREAS  
12 OF THE SUBIC SPECIAL ECONOMIC ZONE THAT ARE NOT  
13 CLASSIFIED AS A FREE-PORT ZONE. IN LIEU OF SAID TAXES,  
14 A FIVE PERCENT (5%) TAX ON GROSS INCOME EARNED  
15 SHALL BE PAID ON GROSS INCOME EARNED BY ALL  
16 BUSINESS ENTERPRISES WITHIN THE SPECIAL ECONOMIC  
17 ZONE AND SHALL BE REMITTED AS FOLLOWS: TWO PERCENT  
18 (2%) TO THE NATIONAL GOVERNMENT; ONE PERCENT (1%)  
19 TO THE SUBIC BAY METROPOLITAN AUTHORITY (SBMA)  
20 REFERRED TO IN SECTION 13 OF THIS ACT; TWO PERCENT  
21 (2%) TO THE SBMA FOR DISTRIBUTION TO THE LOCAL  
22 GOVERNMENT WHERE THE BUSINESS ENTERPRISE IS  
23 LOCATED. ALL REGISTERED BUSINESS ENTERPRISES  
24 THEREIN SHALL CONTINUE TO PAY ONLY THE REAL

1           **PROPERTY TAX AND LOCAL TAXES IMPOSED BY THE LOCAL**  
2           **GOVERNMENT UNIT IN WHICH THEY ARE SITUATED;**

3           **"FOR PURPOSES OF THIS ACT, GROSS INCOME EARNED**  
4           **REFERS TO GROSS SALES OR GROSS REVENUES DERIVED FROM ANY**  
5           **BUSINESS ACTIVITY, NET OF RETURNS, DISCOUNTS AND**  
6           **ALLOWANCES, LESS COSTS OF SALES, COST OF PRODUCTION OR**  
7           **DIRECT COSTS OF SERVICES (DEPENDING ON THE NATURE OF**  
8           **BUSINESS).**

9           **"IN ARRIVING AT THE BASE FOR WHICH THE FIVE (5%)**  
10          **PERCENT FINAL TAX STATED IN THIS SECTION SHALL BE APPLIED,**  
11          **THE           FOLLOWING           DEDUCTIONS           SHALL           BE**  
12          **ALLOWABLE/UNALLOWABLE:**

13           **1. FOR MANUFACTURING, TRADING AND INFRASTRUCTURE**  
14          **DEVELOPMENT ENTERPRISES:**

15           **ALLOWABLE DEDUCTIONS**

- 16           a)   **DIRECT SALARIES, WAGES OR LABOR EXPENSE**  
17           b)   **TRAINING EXPENSE RELATING TO PRODUCTION AND**  
18                **PRODUCTION SUPERVISION**  
19           c)   **PRODUCTION SUPERVISION SALARIES**  
20           d)   **RESEARCH AND DEVELOPMENT**  
21           e)   **RAW MATERIALS**  
22           f)   **INTERMEDIATE GOODS**  
23           g)   **FINISHED GOODS**  
24           h)   **SUPPLIES AND FUELS USED IN PRODUCTION**

- 1           i) DEPRECIATION, LEASE PAYMENTS OR OTHER  
2           EXPENDITURES ON BUILDINGS AND EQUIPMENT
- 3           j) FINANCING CHARGES ASSOCIATED WITH FIXED  
4           ASSETS
- 5           k) RENT AND UTILITY CHARGES ASSOCIATED WITH  
6           BUILDINGS AND EQUIPMENT, WAREHOUSING OR  
7           HANDLING OF GOODS
- 8           l) DIRECT EXPENSE ON THE DELIVERY, DISTRIBUTION,  
9           STORAGE AND HANDLING OF MATERIALS,  
10          INTERMEDIATE GOODS AND FINISHED GOODS
- 11          m) INSURANCE CHARGES ASSOCIATED WITH ASSETS  
12          USED IN THE CONDUCT OF BUSINESS
- 13          n) REPAIRS AND MAINTENANCE OF MACHINERIES AND  
14          EQUIPMENT USED IN PRODUCTION, DISTRIBUTION,  
15          STORAGE AND HANDLING, INCLUDING BUILDING AND  
16          OTHER LAND IMPROVEMENTS
- 17          o) MARKETING AND ADVERTISING COSTS
- 18          p) BAD DEBTS EXPENSE FROM ACCOUNTS RECEIVABLE  
19          EMANATING FROM THE CONDUCT OF REGISTERED  
20          BUSINESS ACTIVITIES
- 21          q) SALES RETURNS AND DISCOUNTS
- 22          UNALLOWABLE DEDUCTIONS
- 23          a) ADMINISTRATIVE SALARIES
- 24          b) CORPORATE MANAGEMENT

- 1           c)    **MARKETING AND SALES SALARIES**
- 2           d)    **INTEREST AND FINANCIAL CHARGES ON WORKING**
- 3                 **CAPITAL**
- 4           e)    **LOSS/GAIN ON FOREIGN EXCHANGE TRANSLATION**
- 5           f)    **LOSS/GAIN ON DISPOSAL OF ASSETS**
- 6           g)    **ADVERTISING**
- 7           h)    **OTHER INSURANCE EXPENSES**
- 8           i)         **MISCELLANEOUS SUPPLIES AND EXPENSES**
- 9           j)         **ENTERTAINMENT EXPENSE**

10           **2. FOR SERVICES ENTERPRISES**

11                 **ALLOWABLE DEDUCTIONS**

- 12           a)    **DIRECT SALARIES, WAGES OR LABOR EXPENSE**
- 13           b)    **SERVICES SUPERVISION SALARIES**
- 14           c)    **TRAINING EXPENSE**
- 15           d)    **RAW MATERIALS, GOODS IN PROCESS OR FINISHED**
- 16                 **GOODS USED OR RESOLD**
- 17           e)    **SUPPLIES AND FUELS USED IN RENDERING SERVICES**
- 18           f)    **DEPRECIATION, LEASE PAYMENTS OR OTHER**
- 19                 **EXPENDITURES ON BUILDINGS AND EQUIPMENT**
- 20           g)    **FINANCING CHARGES ASSOCIATED WITH FIXED**
- 21                 **ASSETS**
- 22           h)    **RENT AND UTILITY CHARGES ASSOCIATED WITH**
- 23                 **BUILDINGS AND EQUIPMENT**

1           i) **INSURANCE CHARGES ASSOCIATED WITH ASSETS**  
2                   **USED IN THE CONDUCT OF BUSINESS**

3           j) **REPAIRS AND MAINTENANCE OF MACHINERIES AND**  
4                   **EQUIPMENT, BUILDING AND OTHER LAND**  
5                   **IMPROVEMENTS**

6           k) **MARKETING AND ADVERTISING COSTS**

7           l) **BAD DEBTS FROM ACCOUNTS RECEIVABLE EMANATING**  
8                   **FROM THE CONDUCT OF REGISTERED BUSINESS**  
9                   **ACTIVITIES**

10          m) **RESEARCH AND DEVELOPMENT**

11          n) **SALES DISCOUNTS**

12          **UNALLOWABLE DEDUCTIONS**

13          a) **ADMINISTRATIVE SALARIES**

14          b) **CORPORATE MANAGEMENT SALARIES**

15          c) **MARKETING AND SALES SALARIES**

16          d) **INTEREST AND FINANCIAL CHARGES ON WORKING**  
17                   **CAPITAL**

18          e) **LOSS/GAIN ON FOREIGN EXCHANGE TRANSLATION**

19          f) **LOSS/GAIN ON DISPOSAL OF ASSETS**

20          g) **OTHER INSURANCE EXPENSES**

21          h) **ADVERTISING**

22          i) **MISCELLANEOUS SUPPLIES AND EXPENSES**

23          j) **ENTERTAINMENT EXPENSE**

24          **3. FOR FINANCIAL ENTERPRISES**

1                   **ALLOWABLE DEDUCTIONS**

2                   **a) DEPRECIATION, LEASE PAYMENTS OR OTHER**  
3                   **EXPENDITURES ON BUILDINGS AND EQUIPMENT**

4                   **b) FINANCING CHARGES ASSOCIATED WITH FIXED**  
5                   **ASSETS**

6                   **c) RENT AND UTILITY CHARGES**

7                   **d) MARKETING AND ADVERTISING COSTS**

8                   **e) BAD DEBTS FROM ACCOUNTS RECEIVABLE EMANATING**  
9                   **FROM REGISTERED BUSINESS ACTIVITIES**

10                  **f) LOAN LOSSES**

11                  **g) INTERESTS AND FINANCIAL CHARGES**

12                  **UNALLOWABLE DEDUCTIONS**

13                  **a) DIRECT SALARIES**

14                  **b) MATERIALS AND SUPPLIES USED**

15                  **c) DEPRECIATION**

16                  **d) EQUIPMENT LEASE PAYMENTS**

17                  **e) RENT AND UTILITIES**

18                  **f) ADVERTISING**

19                  **g) INTEREST PAID**

20                  **h) COST OF SECURITIES**

21                  **i) LOAN LOSSES**

22                  **j) MARKETING AND SALES SALARIES**

23                  **k) EQUIPMENT LEASE PAYMENTS**

24                  **l) INTEREST AND FINANCIAL CHARGES**

- 1           m) **LOSS/GAIN ON FOREIGN EXCHANGE TRANSLATION**
- 2           n) **CORPORATE MANAGEMENT SALARIES**
- 3           o) **LOSS/GAIN ON DISPOSAL OF ASSETS**
- 4           p) **INSURANCE**
- 5           q) **MISCELLANEOUS SUPPLIES AND EXPENSES**
- 6           r) **ENTERTAINMENT EXPENSE**

7           **"REGISTERED BUSINESS ENTERPRISES OF THE SUBIC SPECIAL**  
8           **ECONOMIC ZONE MAY GENERATE INCOME FROM SOURCES WITHIN**  
9           **THE CUSTOMS TERRITORY OF UP TO ONE HUNDRED PERCENT OF**  
10           **THEIR TOTAL INCOME.**

11           **"THE PROVISIONS OF THE ABOVE NOTWITHSTANDING, THE**  
12           **PRESIDENT OF THE PHILIPPINES MAY, IN AN EXECUTIVE ORDER,**  
13           **IMPOSE EXCISE TAXES ON ALCOHOL AND TOBACCO ENTERING THE**  
14           **SUBIC SPECIAL ECONOMIC ZONE**

15           **"UPON THE DETERMINATION AND APPROVAL BY THE SBMA**  
16           **BOARD OF DIRECTORS, NEWLY REGISTERED BUSINESS ENTERPRISES**  
17           **MAY AVAIL OF AN EXEMPTION FROM THE FIVE PERCENT (5%) TAX ON**  
18           **GROSS INCOME EARNED FOR A PERIOD NOT EXCEEDING FOUR (4)**  
19           **YEARS FOR NON-PIONEER PROJECTS AND SIX (6) YEARS FOR**  
20           **PIONEER PROJECTS.**

21            In case of conflict between national and local laws with respect to  
22           tax exemption privileges in the Subic Special Economic Zone, the same shall be  
23           resolved in favor of the latter;

1 (d)No exchange control policy shall be applied and free markets for  
2 foreign exchange, gold, securities and futures shall be allowed and maintained  
3 in the Subic Special Economic Zone;

4 (e)The Central Bank, through the Monetary Board, shall supervise and  
5 regulate the operations of banks and other financial institutions within the  
6 Subic Special Economic Zone;

7 (f) Banking and finance shall be liberalized with the establishment of  
8 foreign currency depository units of local commercial banks and offshore  
9 banking units of foreign banks with minimum Central Bank regulation;

10 (g)Any investor within the Subic Special Economic Zone whose  
11 continuing investment shall not be less than Two hundred fifty thousand  
12 dollars (\$250,000), [his/her] **THE INVESTOR'S** spouse and dependent  
13 children under twenty-one (21) years of age, shall be granted permanent  
14 resident status within the Subic Special Economic Zone. They shall have  
15 freedom of ingress and egress to and from the Subic Special Economic Zone  
16 without any need of special authorization from the Bureau of Immigration  
17 [and Deportation]. The [Subic Bay Metropolitan Authority referred to in  
18 Section 13 of this Act] **SBMA** may also issue working visas renewable every  
19 **THREE (3)** [two (2)] years to foreign executives and other aliens possessing  
20 highly-technical skills which no Filipino within the Subic Special Economic Zone  
21 possesses, as certified by the Department of Labor and Employment. The  
22 names of aliens granted permanent residence status and working visas by the  
23 [Subic Bay Metropolitan Authority] **SBMA** shall be reported to the Bureau of  
24 Immigration [and Deportation] within thirty (30) days after issuance thereof;



1           “(h)The defense of the zone and the security of its perimeters shall be  
2 the responsibility of the National Government in coordination with the [Subic  
3 Bay Metropolitan Authority] **SBMA**. [The Subic Bay Metropolitan Authority  
4 shall provide and establish its own internal security and firefighting forces;  
5 and] **IN THE EVENT THAT AN ASSISTANCE OF THE MILITARY IS**  
6 **NECESSARY, THE EXPENSES SHALL BE BORNE BY THE NATIONAL**  
7 **GOVERNMENT. THE MILITARY SHALL NOT INTERFERE IN THE**  
8 **INTERNAL AFFAIRS OF SBMA EXCEPT TO PROVIDE THE NECESSARY**  
9 **SECURITY AND DEFENSE.**

10           **“THE SBMA SHALL PROVIDE AND ESTABLISH ITS OWN LAW**  
11 **ENFORCEMENT DEPARTMENT WHICH SHALL EXERCISE THE**  
12 **FOLLOWING POLICE AUTHORITY WITHIN THE SUBIC BAY**  
13 **FREEPORT ZONE:**

14           **“(1) MAINTAIN PEACE AND ORDER, ENSURE PUBLIC SAFETY**  
15 **AND IMPLEMENT ALL LAWS, AND RULES AND REGULATIONS OF THE**  
16 **SBMA;**

17           **“(2) REGULATE THE INGRESS AND EGRESS TO, FROM AND**  
18 **WITHIN THE SUBIC BAY FREEPORT ZONE;**

19           **“(3)EXERCISE THE GENERAL POWERS TO CONDUCT SEARCH**  
20 **AND SEIZURE WITHIN THE SUBIC BAY FREEPORT ZONE IN**  
21 **ACCORDANCE WITH THE CONSTITUTION AND PERTINENT LAWS;**  
22 **AND**

23           **“(4) EFFECT THE ARREST OF CRIMINAL OFFENDERS,**  
24 **INVESTIGATE AND PREVENT CRIMES OCCURRING WITHIN THE**

1       **SUBIC BAY FREEPORT ZONE AND ASSIST IN THE PROSECUTION**  
2       **THEREOF.**

3               **"THE SBMA SHALL ALSO PROVIDE AND ESTABLISH ITS OWN**  
4       **FIREFIGHTING FORCE WHICH SHALL HAVE THE SAME FUNCTIONS**  
5       **AS THE BUREAU OF FIRE PROTECTION WITHIN THE SUBIC BAY**  
6       **FREEPORT ZONE;**

7               "(i) Except as herein provided, the local government units comprising the  
8       Subic Special Economic Zone shall retain their basic autonomy and identity.  
9       The cities shall be governed by their respective charters and the municipalities  
10      shall operate and function in accordance with Republic Act No. 7160,  
11      otherwise known as the Local Government Code of 1991."

12      SEC. 2. Section 13 of Republic Act No. 7227, as amended, is hereby further  
13      amended to read as follows:

14              "SEC. 13. *The Subic Bay Metropolitan Authority.* –

15              "(a) *Creation of the Subic Bay Metropolitan Authority.* – A body corporate  
16      to be known as the Subic Bay Metropolitan Authority (**SBMA**) is hereby  
17      created as an operating and implementing arm of the Conversion Authority.

18              "(b) *Powers and Functions of the [Subic Bay Metropolitan Authority]*  
19      **SBMA.** – [The Subic Bay Metropolitan Authority, otherwise known as the  
20      Subic Authority, shall have the following powers and functions:] **EXCEPT AS**  
21      **OTHERWISE PROVIDED HEREIN, THE SBMA SHALL HAVE**  
22      **AUTHORITY AND JURISDICTION OVER ALL ECONOMIC ACTIVITIES**  
23      **WITHIN THE SUBIC SPECIAL ECONOMIC ZONE. IT SHALL EXERCISE**  
24      **THE FOLLOWING POWERS AND FUNCTIONS:**

1           “(1) To operate, administer, manage and develop the ship repair and ship  
2 building facility, container port, oil storage and refueling facility and Cubi Air  
3 Base within the Subic Special Economic and Free-port Zone as a free market in  
4 accordance with the policies set forth in Section 12 of this Act;

5           **“(2) TO INSPECT AND REGISTER, UNDER THE FLAG OF THE  
6 REPUBLIC OF THE PHILIPPINES, LEISURE SHIPS AND PLEASURE  
7 YACHTS OF ANY SHIP OWNER, WHETHER A NATURAL OR JURIDICAL  
8 PERSON, AND IRRESPECTIVE OF NATIONALITY OR DOMICILE. FOR  
9 THIS PURPOSE, THE SBMA SHALL ADMINISTER AND MAINTAIN AN  
10 OPEN REGISTER OF LEISURE SHIPS AND PLEASURE YACHTS  
11 SUBJECT ONLY TO SUCH RULES AND REGULATIONS TO BE  
12 PROMULGATED BY THE SBMA IN CONSULTATION WITH THE  
13 DEPARTMENT OF TRANSPORTATION WITHOUT PREJUDICE TO THE  
14 REQUIREMENTS OF THE CONSTITUTION;**

15           **“[(2)](3)** To accept any local or foreign investment, business or  
16 enterprise **AND ADMINISTER AND IMPLEMENT INCENTIVES GRANTED  
17 TO ITS REGISTERED BUSINESS ENTERPRISES**, subject only to such  
18 rules and regulations to be promulgated by the [Subic Authority] **SBMA** [in  
19 conformity with the policies of the Conversion Authority] without prejudice to  
20 the nationalization requirements provided for in the Constitution;

21           **“[(3)](4)** To undertake and regulate the establishment, operation and  
22 maintenance of utilities, [other services, other services and infrastructure in  
23 the Subic Special Economic Zone including shipping and related business,  
24 stevedoring and port terminal services or concessions, incidental thereto and

1 airport operations in coordination with the Civil Aeronautics Board] **SUCH AS**  
2 **ELECTRICITY, WATER SUPPLY AND DISTRIBUTION AND**  
3 **SEWERAGE, RADIO, TELEVISION, TELECOMMUNICATIONS,**  
4 **ELECTRONIC, WEB AND CLOUD DATA OPERATIONS, *PROVIDED,***  
5 **THAT THE NATIONAL TELECOMMUNICATIONS COMMISSION SHALL**  
6 **CONTINUE TO EXERCISE ITS POWER TO REGULATE AND**  
7 **SUPERVISE THE QUALITY, SAFETY, RELIABILITY, SECURITY,**  
8 **COMPATIBILITY AND INTER-OPERABILITY OF PUBLIC**  
9 **TELECOMMUNICATIONS, RADIO STATIONS FOR BOTH PRIVATE**  
10 **AND PUBLIC USE, RADIO SPECTRUM, RADIO AND TELEVISION**  
11 **BROADCAST STATIONS, CABLE TELEVISIONS AND PAY**  
12 **TELEVISIONS WITHIN THE SUBIC SPECIAL ECONOMIC ZONE, and to**  
13 fix just and reasonable rates, fares, charges and other prices therefor;

14 **"[(3)](5) TO UNDERTAKE AND REGULATE THE**  
15 **ESTABLISHMENT, OPERATION AND MAINTENANCE OF ALL OTHER**  
16 **FACILITIES, INFRASTRUCTURE, SERVICES, BUSINESSES,**  
17 **ACTIVITIES AND CONCESSIONS INSIDE THE SUBIC SPECIAL**  
18 **ECONOMIC ZONE INCLUDING LAND TRANSPORTATION, TOLL**  
19 **ROADS AND BRIDGES, SHIPPING AND RELATED BUSINESS,**  
20 **STEVEDORING AND PORT TERMINAL SERVICES OR CONCESSIONS,**  
21 **INCIDENTAL THERETO: *PROVIDED,* THAT THE MARITIME INDUSTRY**  
22 **AUTHORITY SHALL CONTINUE TO EXERCISE ITS POWER TO**  
23 **REGULATE AND SUPERVISE THE SHIPBUILDING AND SHIP REPAIR**  
24 **OF ANY MERCHANT MARINE VESSEL OPERATED OR TO BE**

1 OPERATED IN THE DOMESTIC TRADE AND THE DOMESTIC  
2 SHIPPING INDUSTRY WITHIN THE SUBIC SPECIAL ECONOMIC  
3 ZONE; AND AIRPORT OPERATIONS: *PROVIDED*, THAT THE CIVIL  
4 AVIATION AUTHORITY OF THE PHILIPPINES SHALL CONTINUE TO  
5 EXERCISE ITS POWER TO REGULATE AND SUPERVISE THE SAFETY,  
6 QUALITY, RELIABILITY AND AFFORDABILITY OF AIR TRANSPORT  
7 SERVICES FOR THE RIDING PUBLIC WITHIN THE SUBIC SPECIAL  
8 ECONOMIC ZONE, AND TO FIX JUST AND REASONABLE RATES,  
9 FARES, CHARGES AND OTHER PRICES THEREFOR;

10 "[~~(4)~~] (6) To construct, acquire, own, lease, operate and maintain on  
11 its own or through contract, franchise, license permits bulk purchase from the  
12 private sector and build-operate-transfer scheme or joint-venture the required  
13 utilities and infrastructure in coordination with local government units and  
14 appropriate government agencies concerned and in conformity with existing  
15 applicable laws therefor;

16 "[~~(5)~~] (7) To adopt, alter and use a corporate seal; to contract, lease,  
17 sell, dispose, acquire and own properties; to sue and be sued in order to  
18 carry out its duties and functions as provided for in this Act and to exercise  
19 the power of eminent domain for public use and public purpose;

20 "[~~(6)~~] (8) Within the limitation provided by law, to raise and/or borrow  
21 the necessary funds from local and international financial institutions and to  
22 issue bonds, promissory notes and other securities for that purpose and to  
23 secure the same guarantee, pledge, mortgage, deed of trust, or assignment  
24 of its properties held by the [Subic Authority] **SBMA** for the purpose of

1 financing its projects and programs within the framework and limitations of  
2 this Act.

3 “~~[(7)]~~ **(9)**To operate directly or indirectly or **ISSUE licenses TO**  
4 **OPERATE** tourism-related **INFRASTRUCTURE AND** activities, [subject to  
5 priorities and standards set by the Subic Authority] including games, [and]  
6 amusements, [except] **RECREATIONAL AND SPORTS FACILITIES SUCH**  
7 **AS** horse racing, dog racing, [and] casino [gambling which shall continue to  
8 be licensed by the Philippine Amusement and Gaming Corporation (PAGCOR)  
9 upon recommendation of the Conversion Authority;] **AND ONLINE**  
10 **GAMING, GOLF COURSES, DUTY FREE STORES, AND OTHERS,**  
11 **WITHIN THE SUBIC SPECIAL ECONOMIC ZONE AND UNDER**  
12 **PRIORITIES AND STANDARDS SET BY THE SBMA** [to maintain and  
13 preserve the forested areas as a national park];

14 “~~[(8)]~~ **(10)**To [authorize the establishment of appropriate educational  
15 and medical institutions] **UNDERTAKE AND REGULATE THROUGH**  
16 **[FRANCHISE,] LICENSE OR PERMIT, AND SET OR FIX JUST,**  
17 **REASONABLE AND COMPETITIVE RATES, FARES, AND CHARGES FOR**  
18 **THE ESTABLISHMENT, OPERATION AND MAINTENANCE OF OTHER**  
19 **SERVICES, INCLUDING EDUCATIONAL AND MEDICAL**  
20 **INSTITUTIONS SUBJECT TO COMPLIANCE WITH THE**  
21 **REQUIREMENTS OF THE DEPARTMENT OF EDUCATION,**  
22 **COMMISSION ON HIGHER EDUCATION AND THE DEPARTMENT OF**  
23 **HEALTH; AND TO ESTABLISH AND CONDUCT FORMAL AND**  
24 **INFORMAL TRAINING OR EDUCATIONAL COURSES: PROVIDED,**

1       **THAT FORMAL COURSES SHALL BE SUBJECT TO ACCREDITATION OR**  
2       **APPROVAL BY THE APPROPRIATE GOVERNMENT AGENCY FOR**  
3       **RECOGNITION OF CREDITS[.];**

4        "[(9)] **(11)** To protect, **PRESERVE**, maintain and develop the virgin  
5       forests within the baselands which will be proclaimed **AND MAINTAINED** as  
6       a national park and subject to a permanent total log ban, and for this  
7       purpose, the rules and regulations of the Department of Environment and  
8       Natural Resources and other government agencies directly involved in the  
9       above functions shall be implemented by the [Subic Authority] **SBMA**;

10       "[(10)] **(12)** To adopt and implement measures and standards for  
11       environmental pollution control of all areas within its territory, including, [but  
12       not limited] to all bodies of water and to enforce the same. For which  
13       purpose the [Subic Authority] **SBMA** shall create an Ecology Center [, and]

14       **THAT SHALL ISSUE THE ENVIRONMENTAL COMPLIANCE**  
15       **CERTIFICATE FOR ALL NON-ENVIRONMENTALLY CRITICAL**  
16       **ACTIVITIES AND PROJECTS, TREE CUTTING PERMIT, DISCHARGE**  
17       **PERMIT AND PERMIT TO OPERATE AIR POLLUTION SOURCE AND**  
18       **INSTALLATION IN THE SUBIC SPECIAL ECONOMIC ZONE;**

19        "**(13)TO RECLAIM LANDS IN THE SUBIC SPECIAL ECONOMIC**  
20       **ZONE, NOT LIMITED TO FORESHORE AND SUBMERGED AREAS, BY**  
21       **DREDGING, FILLING OR OTHER MEANS, WITHOUT NEED OF THE**  
22       **NATIONAL ECONOMIC AND DEVELOPMENT AUTHORITY (NEDA)**  
23       **APPROVAL, IN COMPLIANCE WITH ALL ENVIRONMENTAL LAWS**  
24       **AND GUIDELINES, AND TO ACQUIRE, DEVELOP, IMPROVE,**

1       **ADMINISTER, DEAL-IN, SUBDIVIDE AND LEASE RECLAIMED LANDS**  
2       **INSIDE THE SUBIC SPECIAL ECONOMIC ZONE;**

3       **“(14)TO PROVIDE FOR, OPERATE, OR ADMINISTER SUCH**  
4       **SERVICES, AS MAY BE NECESSARY FOR THE EFFICIENT,**  
5       **ECONOMICAL AND BENEFICIAL UTILIZATION OF THE RECLAIMED**  
6       **AREAS IN THE SUBIC SPECIAL ECONOMIC ZONE;**

7       **“(15)UNLESS OTHERWISE PROVIDED IN THIS ACT, TO BE THE**  
8       **SINGLE AUTHORITY RESPONSIBLE FOR THE IMPLEMENTATION**  
9       **AND ENFORCEMENT OF THIS ACT, ITS IMPLEMENTING RULES AND**  
10       **REGULATIONS (IRR) AND OTHER ISSUANCES PROMULGATED BY**  
11       **THE SBMA BOARD OF DIRECTORS; THE NATIONAL BUILDING CODE**  
12       **OF THE PHILIPPINES AND ITS IRR; AND THE FIRE CODE OF THE**  
13       **PHILIPPINES AND ITS IRR; INsofar AS THESE LAWS, RULES AND**  
14       **REGULATIONS ARE APPLICABLE TO THE SBMA, THE SUBIC SPECIAL**  
15       **ECONOMIC ZONE AND SUBIC BAY FREEPORT BUSINESS**  
16       **ENTERPRISES, LOCATORS, RESIDENTS AND STAKEHOLDERS;**

17       **“(16) TO ESTABLISH AND MAINTAIN A HUB FOR LOCAL AND**  
18       **INTERNATIONAL DISASTER RELIEF OPERATIONS TO BE MANAGED**  
19       **AND OPERATED BY THE PHILIPPINE RED CROSS; AND**

20       **“[(11)] (17)To exercise such powers as may be essential, necessary or**  
21       **incidental to the powers granted to it hereunder as well as to carry out the**  
22       **policies and objectives of this Act.”**

23       **“(c) *Board of Directors.* – The powers of the [Subic Authority] **SBMA****  
24       **shall be vested in and exercised by a Board of Directors[, hereinafter referred**



1 to as the Board, which shall be] composed of fifteen (15) **REGULAR AND**  
2 **TWO (2) EX OFFICIO** members, [to wit] **AS FOLLOWS:**

3 "(1) Representatives of the local government units that concur to join  
4 the Subic Special Economic Zone

5 **"(2) A PROFESSIONAL MANAGER AS FULL-TIME CHAIRPERSON**  
6 **WHO SHALL ALSO BE THE ADMINISTRATOR AND CHIEF EXECUTIVE**  
7 **OFFICER OF THE SBMA. THE COMPENSATION OF THE**  
8 **ADMINISTRATOR AND CHIEF EXECUTIVE SHALL BE DETERMINED**  
9 **BY THE SBMA BOARD OF DIRECTORS SUBJECT TO THE APPROVAL**  
10 **OF THE SECRETARY OF BUDGET AND MANAGEMENT;**

11 "[~~(2)~~] **(3)**Two (2) representatives from the National Government **WHO**  
12 **SHALL SERVE AS EX OFFICIO MEMBERS;**

13 "[~~(3)~~] **(4)** Five (5) representatives from the private sector [coming from  
14 the present naval stations, public works center, ship repair facility, naval  
15 supply depot and naval air station]; [and]

16 **"(5) ONE (1) REPRESENTATIVE FROM THE ORIGINAL**  
17 **VOLUNTEERS WHO ASSISTED IN THE ESTABLISHMENT OF SUBIC**  
18 **BAY ECONOMIC ZONE AS IDENTIFIED IN THE ROSTER OF**  
19 **VOLUNTEERS IN THE SUBIC MEMORIAL;**

20 "[~~(4)~~] **(6)** The remaining balance to complete the Board shall be  
21 composed of representatives from the business and investment sectors.

22 "The [chairman and the] members of the Board **OF DIRECTORS** shall  
23 be appointed by the President to serve for a **FIXED** term of six (6) years,  
24 unless sooner removed for cause except for the representatives of the local

1 government units who shall serve for a **FIXED** term of three (3) years. In  
2 case of removal for cause, the replacement shall serve only the unexpired  
3 portion of the term. **IN THE EXIGENCY OF THE SERVICE, THE**  
4 **MEMBERS OF THE BOARD OF DIRECTORS SHALL CONTINUE TO**  
5 **SERVE IN A HOLD-OVER CAPACITY UPON THE EXPIRATION OF**  
6 **THEIR RESPECTIVE TERMS UNTIL THEIR REPLACEMENTS SHALL**  
7 **HAVE BEEN APPOINTED AND QUALIFIED.**

8 "No person shall be appointed as a member of the Board **OF**  
9 **DIRECTORS** unless [he] **THE MEMBER** is a Filipino citizen, of good moral  
10 character, **AT LEAST A COLLEGE GRADUATE**, and of recognized  
11 competence in relevant fields including, but not limited to, economics,  
12 **FINANCE**, management, international relations, law, [or] engineering[.],  
13 **ENVIRONMENT AND ECOLOGY CONCERNS.** Preference in the  
14 appointment of the members of the Board shall be given to residents within  
15 the Subic Special Economic Zone.

16 "[Members of the Board shall receive a *per diem* of not more than Five  
17 thousand pesos (P5,000) for every board meeting: *Provided, however,* That  
18 the *per diem* collected per month does not exceed the equivalent of four (4)  
19 meetings: *Provided, further,* That the amount of *per diem* for every board  
20 meeting may be increased by the President: *Provided, finally,* That the  
21 amount of *per diem* shall not be increased within two (2) years after its last  
22 increase.] **EXCEPT THE CHAIRPERSON, THE MEMBERS OF THE BOARD**  
23 **OF DIRECTORS SHALL BE ENTITLED TO *PER DIEMS*, ALLOWANCES**  
24 **AND OTHER BENEFITS IN ACCORDANCE WITH EXISTING**

1       **POLICIES, PRINCIPLES AND RULES GOVERNING THE**  
2       **COMPENSATION OF MEMBERS OF THE BOARD OF**  
3       **DIRECTORS IN GOVERNMENT-OWNED AND -CONTROLLED**  
4       **CORPORATIONS AS MAY BE FORMULATED BY THE GOVERNANCE**  
5       **COMMISSION FOR GOVERNMENT-OWNED OR-CONTROLLED**  
6       **CORPORATIONS."**

7       "[(d) *Chairman/Administrator.* – The President shall appoint a  
8       professional manager as administrator of the Subic Authority with a  
9       compensation to be determined by the Board subject to the approval of the  
10      Secretary of Budget, who shall be the *ex officio* chairman of the Board and  
11      who shall serve as the chief executive officer of the Subic Authority: *Provided,*  
12      *however,* That for the first year of its operations from the effectivity of this  
13      Act, the mayor of the City of Olongapo shall be appointed as the chairman  
14      and chief executive officer of the Subic Authority.]

15      "[(e)] **(D) Capitalization.** – The [Subic Authority] **SBMA** shall have an  
16      authorized capital stock of Twenty billion pesos (P20,000,000,000.00) divided  
17      into twenty thousand (20,000) no-par shares fully subscribed and paid up by  
18      the Republic of the Philippines with:

19           "x x x

20           "(2) All other assets which the President may transfer to the [Subic  
21      Authority] **SBMA** as part of the equity contribution of the Government; and

22           "x x x."

23      SEC. 3. Section 14 of Republic Act No. 7227, as amended, is hereby further  
24      amended to read as follows:

1           "SEC. 14. *Relationship with the Conversion Authority and the Local*  
2           *Government Units.* –

3           “(a) The provisions of existing laws, rules and regulations to the  
4           contrary notwithstanding, the [Subic Authority] **SBMA** shall exercise  
5           administrative powers, rule-making and disbursement of funds over the  
6           Subic Special Economic Zone in conformity with the oversight function of the  
7           Conversion Authority.

8           “(b) In case of conflict between the [Subic Authority] **SBMA** and the  
9           local government units concerned on matters affecting the Subic Special  
10          Economic Zone other than defense and security, the decision of the [Subic  
11          Authority] **SBMA** shall prevail.”

12          SEC. 4.    A new Section 15 of Republic Act No. 7227, as amended, is hereby  
13          inserted to read as follows:

14                 **“SEC. 15. THE SUPREME COURT SHALL DESIGNATE A**  
15                 **BRANCH OF THE REGIONAL TRIAL COURT AND/OR MUNICIPAL**  
16                 **TRIAL COURT IN EACH OF THE LOCAL GOVERNMENT UNITS**  
17                 **COMPRISING THE SUBIC SPECIAL ECONOMIC ZONE TO**  
18                 **HANDLE CASES FILED BY OR INVOLVING THE SBMA OR ITS**  
19                 **RESIDENTS OR REGISTERED BUSINESS ENTERPRISES ON ANY**  
20                 **MATTER OR INCIDENT OCCURRING WITHIN THE SUBIC**  
21                 **SPECIAL ECONOMIC ZONE.”**

22          SEC. 5. Section 15 of Republic Act No. 7227, as amended, is hereby further amended  
23          and renumbered as Section 16, to read as follows:

1           "SEC. [15] **16.** *Clark and Other Special Economic Zones (CSEZ) [and*  
2           *Clark Freeport Zone (CFZ)]*. Subject to the concurrence by resolution of the  
3           local government units directly affected, the President is hereby authorized  
4           to create by executive proclamation a Special Economic Zone covering the  
5           lands occupied by the Clark military reservations and its contiguous  
6           extensions as embraced, covered and defined by the 1947 Military Bases  
7           Agreement between the Philippines and the United States of America, as  
8           amended, located within the territorial jurisdiction of Angeles City,  
9           municipalities of Mabalacat and Porac, Province of Pampanga, and the  
10          municipalities of Capas and Bamban, Province of Tarlac, in accordance with  
11          the provision as herein provided insofar as applied to the Clark military  
12          reservations. [The Clark Air Base proper with an area of not more than four  
13          thousand four hundred hectares (4,400 has.), with the exception of the  
14          twenty-two-hectare commercial area situated near the main gate and the  
15          Bayanihan Park consisting of seven and a half hectares (7.5 has.) located  
16          outside the main gate of the Clark Special Economic Zone, is hereby declared  
17          a freeport zone]. **THE CSEZ WITH AN AREA OF APPROXIMATELY**  
18          **THIRTY-FIVE THOUSAND FOUR HUNDRED HECTARES (35,400**  
19          **HAS.), ARE HEREBY DECLARED FREEPORT ZONES.**

20                 "The [CFZ] **CSEZ** shall be operated and managed as a separate  
21                 customs territory ensuring free flow or movement of goods and capital  
22                 equipment within, into and exported out of the [CFZ] **CSEZ**, as well as  
23                 provide incentives such as tax and duty-free importation of raw materials  
24                 and capital equipment. However, exportation or removal of goods from

1 the CSEZ to the other parts of the Philippine territory shall be subject to  
2 customs duties and taxes under the Customs Modernization and Tariff Act,  
3 the National Internal Revenue Code of 1997, as amended, and other  
4 relevant tax laws of the Philippines.

5 "The provisions of existing laws, rules and regulations to the  
6 contrary notwithstanding, no [national] **TAXES**, [and] local [taxes] **AND**  
7 **NATIONAL, INCLUDING BUT NOT LIMITED TO BUSINESS**  
8 **PERMITS AND REAL PROPERTY TAX** shall be imposed [on registered  
9 business enterprises within CFZ] **WITHIN THE CLARK SPECIAL**  
10 **ECONOMIC ZONE (CSEZ)**. In lieu of [said taxes] **ALL OTHER**  
11 **NATIONAL AND LOCAL TAXES**, a five percent (5%) tax on gross  
12 income earned shall be paid by all registered business enterprises within  
13 the [CFZ] **CSEZ** and shall be directly remitted as follows: [three percent  
14 (3%)] **ONE PERCENT (1%) PERCENT SHALL BE REMITTED** to the  
15 National Government, **ONE PERCENT (1%) TO THE PROVINCIAL**  
16 **GOVERNMENT, ONE PERCENT (1%) TO THE LOCAL GOVERNMENT**  
17 **UNITS (LGUS) [to] THROUGH** the treasurer's office of the municipality  
18 or city where [they are] **THE FREEPORT ENTERPRISE IS** located **AND**  
19 **TWO PERCENT (2%) TO THE GOVERNING BODY OF THE CSEZ.**

20 "GROSS INCOME EARNED" FOR PURPOSES OF THIS ACT  
21 REFERS TO GROSS SALES OR GROSS REVENUES DERIVED FROM  
22 ANY BUSINESS ACTIVITY, NET OF RETURNS, DISCOUNTS AND  
23 ALLOWANCES, LESS COSTS OF SALES, COST OF PRODUCTION OR  
24 DIRECT COSTS OF SERVICES (DEPENDING ON THE NATURE OF

1           **BUSINESS) BUT BEFORE ANY DEDUCTION FOR ADMINISTRATIVE**  
2           **EXPENSES AND INCIDENTAL LOSSES DURING A GIVEN TAXABLE**  
3           **PERIOD. IN ARRIVING AT THE BASE FOR WHICH THE FIVE (5%)**  
4           **PERCENT FINAL TAX STATED IN THIS SECTION SHALL BE**  
5           **APPLIED, THE FOLLOWING DEDUCTIONS SHALL BE**  
6           **ALLOWABLE/UNALLOWABLE:**

7           **1. FOR MANUFACTURING, TRADING AND INFRASTRUCTURE**  
8           **DEVELOPMENT ENTERPRISES:**

9                   **ALLOWABLE DEDUCTIONS**

- 10                   a)   **DIRECT SALARIES, WAGES OR LABOR EXPENSE**  
11                   b)   **TRAINING EXPENSE RELATING TO PRODUCTION AND**  
12                            **PRODUCTION SUPERVISION**  
13                   c)   **PRODUCTION SUPERVISION SALARIES**  
14                   d)   **RESEARCH AND DEVELOPMENT**  
15                   e)   **RAW MATERIALS**  
16                   f)   **INTERMEDIATE GOODS**  
17                   g)   **FINISHED GOODS**  
18                   h)   **SUPPLIES AND FUELS USED IN PRODUCTION**  
19                   i)   **DEPRECIATION, LEASE PAYMENTS OR OTHER**  
20                            **EXPENDITURES ON BUILDINGS AND EQUIPMENT**  
21                   j)   **FINANCING CHARGES ASSOCIATED WITH FIXED**  
22                            **ASSETS**

1 k) RENT AND UTILITY CHARGES ASSOCIATED WITH  
2 BUILDINGS AND EQUIPMENT, WAREHOUSING OR  
3 HANDLING OF GOODS

4 l) DIRECT EXPENSE ON THE DELIVERY, DISTRIBUTION,  
5 STORAGE AND HANDLING OF MATERIALS,  
6 INTERMEDIATE GOODS AND FINISHED GOODS

7 m) INSURANCE CHARGES ASSOCIATED WITH ASSETS  
8 USED IN THE CONDUCT OF BUSINESS

9 n) REPAIRS AND MAINTENANCE OF MACHINERIES AND  
10 EQUIPMENT USED IN PRODUCTION, DISTRIBUTION,  
11 STORAGE AND HANDLING, INCLUDING BUILDING AND  
12 OTHER LAND IMPROVEMENTS

13 o) MARKETING AND ADVERTISING COSTS

14 p) BAD DEBTS EXPENSE FROM ACCOUNTS RECEIVABLE  
15 EMANATING FROM THE CONDUCT OF REGISTERED  
16 BUSINESS ACTIVITIES

17 q) SALES RETURNS AND DISCOUNTS

18 **UNALLOWABLE DEDUCTIONS**

19 a) ADMINISTRATIVE SALARIES

20 b) CORPORATE MANAGEMENT

21 c) MARKETING AND SALES SALARIES

22 d) INTEREST AND FINANCIAL CHARGES ON WORKING  
23 CAPITAL

24 e) LOSS/GAIN ON FOREIGN EXCHANGE TRANSLATION



- 1           f)   **LOSS/GAIN ON DISPOSAL OF ASSETS**
- 2           g)   **ADVERTISING**
- 3           h)   **OTHER INSURANCE EXPENSES**
- 4           i)   **MISCELLANEOUS SUPPLIES AND EXPENSES**
- 5           j)   **ENTERTAINMENT EXPENSE**

6           **2. FOR SERVICES ENTERPRISES**

7           **ALLOWABLE DEDUCTIONS**

- 8           a)   **DIRECT SALARIES, WAGES OR LABOR EXPENSE**
- 9           b)   **SERVICES SUPERVISION SALARIES**
- 10          c)   **TRAINING EXPENSE**
- 11          d)   **RAW MATERIALS, GOODS IN PROCESS OR FINISHED**  
12                **GOODS USED OR RESOLD**
- 13          e)   **SUPPLIES AND FUELS USED IN RENDERING SERVICES**
- 14          f)   **DEPRECIATION, LEASE PAYMENTS OR OTHER**  
15                **EXPENDITURES ON BUILDINGS AND EQUIPMENT**
- 16          g)   **FINANCING CHARGES ASSOCIATED WITH FIXED**  
17                **ASSETS**
- 18          h)   **RENT AND UTILITY CHARGES ASSOCIATED WITH**  
19                **BUILDINGS AND EQUIPMENT**
- 20          i)   **INSURANCE CHARGES ASSOCIATED WITH ASSETS**  
21                **USED IN THE CONDUCT OF BUSINESS**
- 22          j)   **REPAIRS AND MAINTENANCE OF MACHINERIES AND**  
23                **EQUIPMENT, BUILDING AND OTHER LAND**  
24                **IMPROVEMENTS**

1 k) **MARKETING AND ADVERTISING COSTS**

2 l) **BAD DEBTS FROM ACCOUNTS RECEIVABLE EMANATING**  
3 **FROM THE CONDUCT OF REGISTERED BUSINESS**  
4 **ACTIVITIES**

5 m) **RESEARCH AND DEVELOPMENT**

6 n) **SALES DISCOUNTS**

7 **UNALLOWABLE DEDUCTIONS**

8 a) **ADMINISTRATIVE SALARIES**

9 b) **CORPORATE MANAGEMENT SALARIES**

10 c) **MARKETING AND SALES SALARIES**

11 d) **INTEREST AND FINANCIAL CHARGES ON WORKING**  
12 **CAPITAL**

13 e) **LOSS/GAIN ON FOREIGN EXCHANGE TRANSLATION**

14 f) **LOSS/GAIN ON DISPOSAL OF ASSETS**

15 g) **OTHER INSURANCE EXPENSES**

16 h) **ADVERTISING**

17 i) **MISCELLANEOUS SUPPLIES AND EXPENSES**

18 j) **ENTERTAINMENT EXPENSE**

19 **3. FOR FINANCIAL ENTERPRISES**

20 **ALLOWABLE DEDUCTIONS**

21 a) **DEPRECIATION, LEASE PAYMENTS OR OTHER**  
22 **EXPENDITURES ON BUILDINGS AND EQUIPMENT**

23 b) **FINANCING CHARGES ASSOCIATED WITH FIXED**  
24 **ASSETS**

- 1                   c)   **RENT AND UTILITY CHARGES**
- 2                   d)   **MARKETING AND ADVERTISING COSTS**
- 3                   e)   **BAD DEBTS FROM ACCOUNTS RECEIVABLE EMANATING**  
4                         **FROM REGISTERED BUSINESS ACTIVITIES**
- 5                   f)   **LOAN LOSSES**
- 6                   g)   **INTERESTS AND FINANCIAL CHARGES**
- 7                   **UNALLOWABLE DEDUCTIONS**
- 8                   a)   **DIRECT SALARIES**
- 9                   b)   **MATERIALS AND SUPPLIES USED**
- 10                  c)   **DEPRECIATION**
- 11                  d)   **EQUIPMENT LEASE PAYMENTS**
- 12                  e)   **RENT AND UTILITIES**
- 13                  f)   **ADVERTISING**
- 14                  g)   **INTEREST PAID**
- 15                  h)   **COST OF SECURITIES**
- 16                  i)   **LOAN LOSSES**
- 17                  j)   **MARKETING AND SALES SALARIES**
- 18                  k)   **EQUIPMENT LEASE PAYMENTS**
- 19                  l)   **INTEREST AND FINANCIAL CHARGES**
- 20                  m)   **LOSS/GAIN ON FOREIGN EXCHANGE TRANSLATION**
- 21                  n)   **CORPORATE MANAGEMENT SALARIES**
- 22                  o)   **LOSS/GAIN ON DISPOSAL OF ASSETS**
- 23                  p)   **INSURANCE**
- 24                  q)   **MISCELLANEOUS SUPPLIES AND EXPENSES**

1                    **r) ENTERTAINMENT EXPENSE**

2                    "The governing body of the [Clark Special Economic Zone]  
3                    **IS BCDA AND ITS IMPLEMENTING ARM IS CLARK**  
4                    **DEVELOPMENT CORPORATION (CDC)** [shall likewise be] **AS**  
5                    established by [Executive proclamation with such powers and  
6                    functions exercised by the Export Processing Zone Authority  
7                    pursuant to Presidential Decree No. 66, as amended]  
8                    **PRESIDENTIAL PROCLAMATION NO. 163 SERIES OF 1993**  
9                    **AND EXECUTIVE ORDER NO. 80, SERIES OF 1993:** Provided,  
10                    That, **THEY** [it shall] have no regulatory authority over public  
11                    utilities, which authority pertains to the regulatory agencies created  
12                    by law for the purpose, such as the Energy Regulatory Commission  
13                    created under Republic Act No. 9136 and the National  
14                    Telecommunications Commission created under Republic Act No.  
15                    7925.

16                    "x x x

17                    "Subject to the concurrence by resolution of the local  
18                    government units directly affected and upon recommendation of the  
19                    Philippine Economic Zone Authority (PEZA), the President is hereby  
20                    authorized to create by executive proclamation Special Economic  
21                    Zones covering the city of Balanga and the municipalities of Limay,  
22                    Mariveles, Morong, Hermosa, and Dinalupihan, Province of Bataan.

23                    "Subject to the concurrence by resolution of the local  
24                    government units directly affected and upon recommendation of the

1 PEZA, the President is hereby authorized to create by Executive  
2 Proclamation Special Economic Zones covering the municipalities of  
3 Castillejos, San Marcelino, and San Antonio, Province of Zambales.

4 "x x x

5 SEC. 6. Section 17 of RA 7227, is hereby amended and renumbered as Section 18, to  
6 read as follows;

7 "Section [17] **(18)**. *Supervision*. –The [Conversion Authority] **BCDA**  
8 **AND ITS SUBSIDIARIES** shall be under the direct control and supervision  
9 of the Office of the President for purposes of policy direction, coordination  
10 **AND COVERAGE OF THE COMPENSATION AND POSITION**  
11 **CLASSIFICATION SYSTEM. IN ADDITION, THE POWERS AND**  
12 **FUNCTIONS OF THE GOVERNANCE COMMISSION FOR**  
13 **GOVERNMENT-OWNED OR -CONTROLLED CORPORATIONS (GCG)**  
14 **AS PROVIDED FOR IN SECTIONS 5 AND 8 OF REPUBLIC ACT NO.**  
15 **10149 SHALL NOW BE EXERCISED BY THE OFFICE OF THE**  
16 **PRESIDENT IN THE SUPERVISION OF BCDA AND ITS**  
17 **SUBSIDIARIES."**

18 SEC. 7. Sections 18, 19 and 20 of R.A. 7227, is hereby are hereby renumbered  
19 accordingly.

20 "xxx"

21 **SEC. 8. PURSUANT TO THE COMPREHENSIVE MASTER DEVELOPMENT**  
22 **PLAN BY BCDA AS APPROVED BY THE PRESIDENT OF THE PHILIPPINES,**  
23 **RESIDENTIAL LAND WITHIN THE CSEZ SHALL BE DECLARED AS ALIENABLE**  
24 **AND DISPOSABLE LAND SUBJECT TO COMPLIANCE WITH THE NATIONALITY**

1 REQUIREMENTS UNDER THE PHILIPPINE CONSTITUTION AND EXISTING  
2 LAWS.

3 SEC. 9. EXPORT ENTERPRISES SHALL BE DEFINED AS THOSE WHICH ARE  
4 INVOLVED IN MANUFACTURING, ASSEMBLY OR PROCESSING ACTIVITY  
5 RESULTING IN THE EXPORTATION OF AT LEAST 50% OF PRODUCTION.  
6 ("MANUFACTURING / PROCESSING" SHALL MEAN THE PROCESS BY WHICH  
7 RAW MATERIALS OR SEMI-FINISHED MATERIALS ARE CONVERTED INTO A  
8 NEW PRODUCT THROUGH A CHANGE IN THEIR PHYSICAL, MECHANICAL OR  
9 ELECTRO-MAGNETIC CHARACTERISTICS AND/OR CHEMICAL PROPERTIES.  
10 "ASSEMBLY" SHALL MEAN THE PROCESS BY WHICH SEMI-FINISHED PARTS OR  
11 MATERIALS ARE PUT TOGETHER OR COMBINED TO FORM A DISTINCT  
12 PRODUCT WITHOUT SUBSTANTIALLY CHANGING ITS PHYSICAL OR  
13 MECHANICAL CHARACTERISTICS OR ELECTRO-MAGNETIC AND/OR CHEMICAL  
14 PROPERTIES.)

15 SEC. 10. *IMPLEMENTING RULES AND REGULATIONS.* -WITHIN NINETY  
16 (90) DAYS FROM THE EFFECTIVITY OF THIS ACT, THE FOLLOWING SHALL  
17 PROMULGATE THE NECESSARY RULES AND REGULATIONS FOR THE  
18 IMPLEMENTATION OF THE SPECIFIC PROVISIONS OF THIS ACT:

19 (a) THE DEPARTMENT OF FINANCE, IN COORDINATION WITH THE  
20 BUREAU OF INTERNAL REVENUE, AND IN CONSULTATION WITH THE SBMA  
21 AND CDC, FOR THE NECESSARY RULES AND REGULATIONS IMPLEMENTING  
22 SECTIONS 1 AND 4 OF THIS ACT BUT ONLY INSOFAR AS IT AMENDS SECTION  
23 12(C) AND SECTION 15 OF REPUBLIC ACT NO. 7227, AS AMENDED;

1           **(b) THE NATIONAL COMMISSION ON INDIGENOUS PEOPLES, IN**  
2 **COORDINATION AND CONSULTATION WITH THE SBMA, FOR THE NECESSARY**  
3 **RULES AND REGULATIONS IMPLEMENTING SECTION 3 OF THIS ACT BUT ONLY**  
4 **INSOFAR AS IT PROVIDES FOR THE DESIGNATION OF ONE (1) SEAT IN THE**  
5 **SBMA BOARD OF DIRECTORS TO REPRESENT THE INDIGENOUS PEOPLES**  
6 **RESIDING WITHIN THE SUBIC BAY FREEPORT ZONE; AND**

7           **(c) THE SBMA FOR THE NECESSARY RULES AND REGULATIONS**  
8 **IMPLEMENTING ALL OTHER PROVISIONS OF THIS ACT.**

9           SEC. 11. *Separability Clause.* if any provision of this act is subsequently declared  
10 unconstitutional, the validity of the remaining provisions hereof shall remain in full force  
11 and effect.

12           SEC. 12. *Repealing Clause.* All laws, decrees, orders, proclamations, rules and  
13 regulations or other issuances or parts thereof inconsistent with the provisions of this act  
14 are hereby repealed or modified accordingly.

15           SEC. 13. This Act shall take effect fifteen (15) days after its publication in the *Official*  
16 *Gazette* or in a newspaper of general circulation.

17           Approved,