

## GLOSSARY OF TERMS

1. *"Accelerated Depreciation"* shall mean the depreciation method whereby an asset loses book value at a faster rate than the traditional straight-line method.
2. *"Amount of duty free exemption on imported capital equipment"* shall mean the amount of duties and national internal revenue tax exemption on imported capital equipment and accompanying spare parts
3. *"Amount of duty free exemption on imported spare parts"* shall mean the amount of exempt from customs duties and national internal revenue taxes payable thereon for the importation of required supplies and spare parts for consigned equipment or those imported tax and duty free by a registered enterprise with a bonded manufacturing warehouse, Provided, However, That at least seventy percent (70%) of production is exported; Provided, further, that such spare parts and supplies are not locally available at reasonable prices, sufficient quantity and comparable quality; Provided, finally, That all such spare parts and supplies shall be used only in the bonded manufacturing warehouse of the registered enterprise under such requirements as the Bureau of Customs may impose.
4. *"Amount of duty free exemption on raw materials"* shall mean tax credit equivalent to the National Internal Revenue taxes and Customs duties paid on the supplies, raw materials and semi-manufactured products used in the manufacture, processing or production of its export products and forming parts thereof; Provided, however, that the taxes on the supplies, raw materials and semi-manufactured products domestically purchased are indicated as a separate item in the sales invoice.
5. *"Amount of ITH Incentives Availled"* shall mean the enterprise's claims for income tax exemption covering a particular taxable year
6. *"Certificate of Non-Coverage"* shall mean a document issued by the EMB (Environmental Management Bureau) certifying that, based on the submitted project description, the project is not covered by the EIS (Philippine Environmental Impact Statement) system and is not required to secure an ECC. This covers projects which are not critical to the environment.
7. *"Certification based on internationally-recognized standards"* shall mean applicable certifications based on internationally-recognized standards such as Hazard Analysis and Critical Control Points (HACCP), ISO certification, quality standards (e.g. ICC, CE) or other similar certifications.
8. *"Corporate Social Responsibility"* shall mean the business practices involving initiatives that benefit society.
9. Cost of Goods Sold/Cost of Services (with breakdown)

*"Cost of goods sold"* shall include all business expenses directly incurred to produce the merchandise to bring them to their present location and use.

For a trading or merchandising concern, *"cost of goods sold"* shall include the invoice cost of the goods sold, plus import duties, freight in transporting the goods to the

place where the goods are actually sold including insurance while the goods are in transit.

For a manufacturing concern, cost of *"goods manufactured and sold"* shall include all costs of production of finished goods, such as raw materials used, direct labor and manufacturing overhead, freight cost, insurance premiums and other costs incurred to bring the raw materials to the factory or warehouse.

*"Cost of services"* shall mean all direct costs and expenses necessarily incurred to provide the services required by the customers and clients including (A) salaries and employee benefits of personnel, consultants and specialists directly rendering the service and (B) cost of facilities directly utilized in providing the service such as depreciation or rental of equipment used and cost of supplies: *Provided, however,* That in the case of banks, *"cost of services"* shall include interest expense.

10. *"Cost of raw materials or products sourced from micro and small enterprises directly producing such materials or products"* shall mean the total cost of raw materials used in the production of the registered product sourced from micro and small enterprises directly producing such materials or products.

	Total Assets
Micro Enterprises	up to P3,000,000
Small Enterprises	P3,000,001 to P15,000,000

*(Section 27 (E)(4) of the Tax Reform Act of 1997, otherwise known as RA 8424)*

11. *"Non-Current assets"* shall mean the enterprise's long term-investments where the full value will not be realized within the accounting year.
12. *"Debt-to-Equity ratio"* shall mean the measure of the firm's financial leverage. It is derived by dividing the enterprise's total liabilities by its stockholder's equity.
13. *"Foreign Exchange Earnings"* shall mean to the monetary gain made by selling goods and services or by exchanging currencies in global markets.
14. *"Employment generated"* shall mean the actual employment for a particular year. This is broken down as follows:
- Direct labor*—labor directly engaged in the actual production of goods or services. For a manufacturing company, direct labor would include labor costs or wages paid to personnel in the production or manufacturing line, quality control, engineers or machine operators, and product development. For a service business, such as a contact center, direct labor would be the wages of the customer service representative.
  - Indirect labor*—consists of personnel who have no direct relation in producing the goods or completing the services or those who provide support or supplementary functions to the business. This includes security guards, janitors, helpers and maintenance.

- c. *Sales/Administrative*—are those who are responsible for the selling of the product or service, and provide direct administrative support to the employees of the company, e.g., salespersons, clerks, receptionists, secretaries.
  - d. *Management* – employees devoted to organizational and directional functions. Their roles can be emphasized as forming and executing organizational plans in conformance with the company's policies and the objectives. These are general managers, department managers, up to the top executive positions.
15. *“Environmental Compliance Certificate”* shall mean a document issued by DENR/EMB certifying that based on the representations of the enterprise, the proposed project or undertaking will not cause significant negative environmental impact. It contains specific measures and conditions that the project proponent has to undertake before and during the operation of the project, and in some cases, during the project’s abandonment phase to mitigate identified environmental impacts. It also certifies that the enterprise has complied with all the requirements of the Environmental Impact Statement (EIS) System and has committed to implement its approved Environmental Management Plan.
- New and Expansion projects shall be required to secure an ECC (Environmental Compliance Certificate) pursuant to PD No. 1586 (Philippine Environmental Impact Statement System) and other clearances under relevant environmental laws.
16. *“Expenses for infrastructure development”* shall mean the infrastructure works/cost incurred by the enterprise to build infrastructure directly or in relation to its registered project
17. *“Export Sales”* shall mean the Philippine port F.O.B. value, determined from invoices, bills of lading, inward letters of credit, landing certificates, and other commercial documents, of exports products exported directly by a registered export producer or the net selling price of export products sold by a registered export producer to another export producer, or to an export trader that subsequently exports the same: Provided, That the sales of export products to another producer or to an export trader shall only be deemed export sales when actually exported by the latter, as evidenced by landing certificates or similar commercial documents: Provided, further, That without actual exportation the following shall be considered constructively exported for purposes of this provision:

- (1) Sales to bonded manufacturing warehouses of export-oriented manufacturers;
- (2) Sales to export processing zones;
- (3) Sales to registered export traders operating bonded trading warehouses supplying raw materials used in the manufacture of export products under guidelines to be set by the Board in consultation with the Bureau of Internal Revenue and the Bureau of Customs;
- (4) Sales to foreign military bases, diplomatic missions, and other agencies and/or instrumentalities granted tax immunities of locally manufactured, assembled, or repacked products whether paid for in foreign currency or not: Provided, further, That export sales of registered export trader may include commission income: and Provided, finally, That exportation of

goods on consignment shall not be deemed export sales until the export products consigned are in fact sold by the consignee.

(Art. 23 of EO 226)

18. “*Foreign Loans*” shall refer to liabilities to foreign/non-resident entities (individual/corporation/enterprise group). Example of transactions, among others are 1) loans, 2) trade related payables, 3) advances, and 4) other accounts payables.

A non-resident is any individual, enterprise, or other organizations domiciled overseas. Foreign branches and subsidiaries of Filipino companies that are located abroad are classified as non-residents.

19. “*Gross Income (all operations, including non-registered)*” shall mean gross sales less sales returns, discounts and allowances and cost of goods sold.

For sale of service, 'gross income' means gross receipts less sales returns, allowances, discounts and cost of services.

(Section 27 (E)(4) of the Tax Reform Act of 1997, otherwise known as RA 8424)

20. “*Investment cost*” shall mean the actual investment costs/expenses incurred per project which may include, but not limited to, cost relating to obtaining licenses, land and land improvements, acquisition and installation of machinery, equipment, furniture and fixtures. This excludes cash and working capital. (This is consistent with the terms and conditions of registration)

21. “*Logistics expense (Transportation expense)*” shall mean the cost incurred by the enterprise in the movement of goods across places, country or across the globe.

22. “*Net Operating Loss Carry-Over (NOLCO)*” The net operating loss of the business or enterprise for any taxable year immediately preceding the current taxable year, which had not been previously offset as deduction from gross income shall be carried over as a deduction from gross income for the next three (3) consecutive taxable years immediately following the year of such loss: *Provided, however*, That any net loss incurred in a taxable year during which the taxpayer was exempt from income tax shall not be allowed as a deduction under this Subsection: *Provided, further*, That a net operating loss carry-over shall be allowed only if there has been no substantial change in the ownership of the business or enterprise in that - (i) Not less than seventy-five percent (75%) in nominal value of outstanding issued shares, if the business is in the name of a corporation, is held by or on behalf of the same persons; or (ii) Not less than seventy-five percent (75%) of the paid up capital of the corporation, if the business is in the name of a corporation, is held by or on behalf of the same persons.

For purposes of this subsection, the term “*not operating loss*” shall mean the excess of allowable deduction over gross income of the business in a taxable year. *Provided*, That for mines other than oil and gas wells, a net operating loss without the benefit of incentives provided for under Executive Order No. 226, as amended, otherwise known as the Omnibus Investments Code of 1987, incurred in any of the first ten (10) years of operation may be carried over as a deduction from

taxable income for the next five (5) years immediately following the year of such loss.

The entire amount of the loss shall be carried over to the first of the five (5) taxable years following the loss, and any portion of such loss which exceeds, the taxable income of such first year shall be deducted in like manner from the taxable income of the next remaining four (4) years.

23. *"Net profit from registered project"* shall mean the total amount earned by the enterprise from the registered project; gross income less allowable deductions
24. *"Net Value Added"* shall mean the value of final product/service less the value of inputs. The project's net value added should be at least 25% except for projects dependent on imported raw materials/supplies.

*For Manufacturing Projects:*

$$\frac{\text{Manufacturing Cost} - \text{Imported Raw Materials}}{\text{Manufacturing Cost}} \times 100$$

*For Energy Projects (Conventional):*

$$\frac{\text{Generation Cost} - \text{Imported Inputs}}{\text{Generation Cost}} \times 100$$

*For Mass Housing Projects:*

$$\frac{\text{Construction Cost} - \text{Cost of Raw Materials}}{\text{Construction Cost}} \times 100$$

*For BPO/IT/Service Projects:*

$$\frac{\text{Cost of Service} - \text{Cost of Purchases}}{\text{Cost of Service}} \times 100$$

25. *"Number of projects registered per year"* shall mean to number of registered projects per enterprise/sector on a particular year
26. *"Property, plant and equipment"* shall mean the enterprise's tangible fixed assets, representing the non-current, physical, illiquid assets that are expected to generate long-term economic benefits for a firm including land, buildings, and machinery.
27. *"Production volume (as applicable)"* shall mean the actual production volume/units for the particular year
28. *"Production cost (as applicable)"* shall mean the total of the cost of direct labor, raw materials, and manufacturing overhead, determined in accordance with generally accepted accounting principles, which are incurred in manufacturing or processing the products of a registered enterprise (Art. 24, EO 226)

29. *“Rental expense under Capital Expenditure”* shall mean the cost incurred for the right to use a property such as an office space, a storeroom, building, machinery and equipment, etc.
30. *“Retained earnings allocated for reinvestment”* shall mean the portion of retained earnings intended for reinvestment
31. *“Research and development expenses”* shall mean the costs incurred by the enterprise in the process of finding, creating, or improving products or services.
32. *“Taxable Income”* shall mean the enterprise’s gross sales, less permissible deductions for its various ordinary and necessary business expenses, and less additional exemptions.
33. *“Taxes paid other than income tax during ITH period (excise tax, etc.)”* shall mean the taxes paid by the enterprise, which includes but not limited to documentary stamps, withholding taxes on employees’ salaries and wages, annual registration, real estate taxes, business taxes/permits, occupation taxes, taxes on importation. This excludes VAT.
34. *“Total assets”* shall mean the total current and noncurrent assets of the enterprise.
35. *“Total Expense”* shall mean the total costs incurred by the enterprise in conducting business.
36. *“Total labor expense”* shall mean the annual payroll for the registered project.
37. *“Total Operating Expense”* shall mean all expenditures that the enterprise incurred to engage in the registered activity not directly associated with the production of goods or services. These expenditures are the same as selling, general and administrative expenses.
38. *“Total Sales”* shall mean the total amount earned by the enterprise from the registered project.
39. *“Total taxes paid by the company during the ITH period”* refers to the total amount of taxes paid by the enterprise during the ITH entitlement period
40. *“Total VAT incentive availed”* shall mean the total amount of VAT exemption on the on the consumption levied on the sale, barter, exchange or lease of goods or properties and services and on importation of goods
41. *“Total VAT Paid”* shall mean the total amount of tax paid on consumption levied on the sale, barter, exchange or lease of goods or properties and services and on importation of goods
42. *“Training expenses (training and development)”* shall mean the costs incurred by the enterprises for the enhancement of employee skills

43. *“Tree Planting”* shall mean a tree planting program of the BOI requiring a minimum of one hundred (100) forest trees to be planted pursuant to Memorandum Circular No. 01, not later than one year from date of registration.