



# CREATE Act: A tool for post-pandemic recovery

## December 13, 2021

## KEY MESSAGES

**1**

CREATE provides **much-needed relief for MSMEs, ends investor uncertainty**, and strongly projects that **the Philippines is “back in the game.”**

**2**

With CREATE, the **economy will adapt and grow** as **more quality jobs** will be preserved or created, while having **little to no inflationary effect.**

**3**

CREATE will help **mitigate the effects of the COVID-19 pandemic** and **improve the quality of lives of millions of Filipinos.**

## KEY MESSAGES

4

CREATE is the **largest fiscal stimulus** for firms in our recent history by providing **1 trillion pesos worth of tax relief** over the next 10 years.

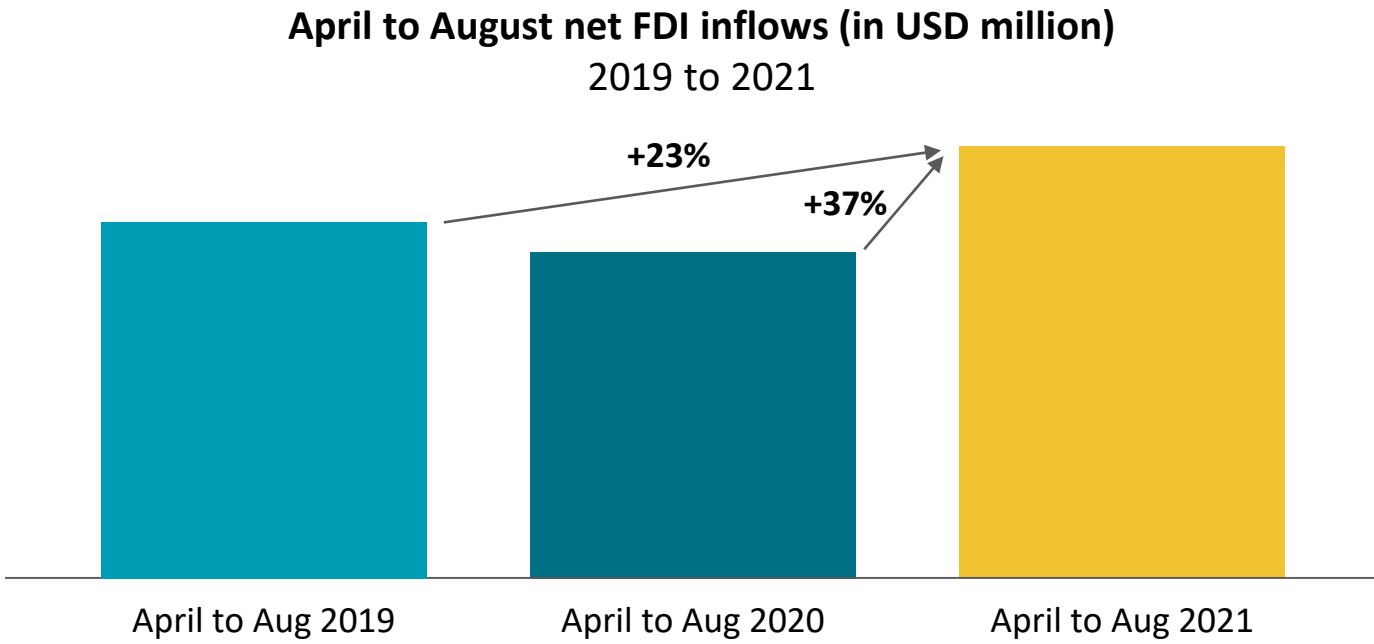
5

CREATE introduces an **enhanced incentives package** that is **performance-based, time-bound, targeted, and transparent.**

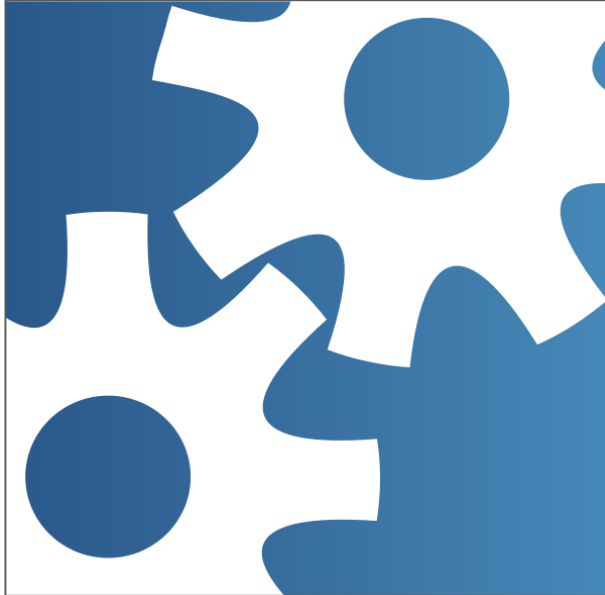
6

CREATE expands the role of the **Fiscal Incentives Review Board (FIRB)**, an existing government body, **to improve the governance** of incentives.

**Net FDI inflows for April to August 2021 grew by 36.9 percent over the same period last year and 22.8 percent over the same period in 2019**



Data source: BSP



## Key Features of the CREATE Act

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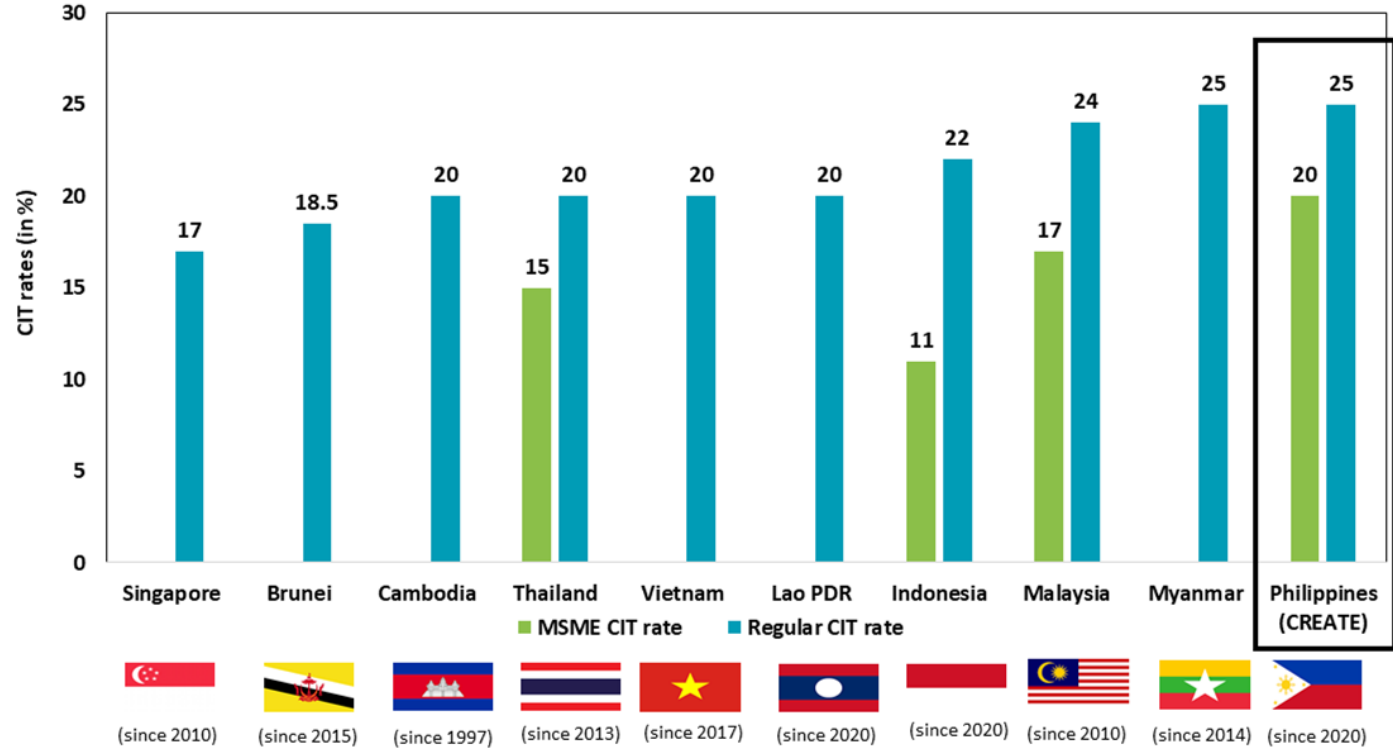


## **CIT rate reduction and other tax relief measures**

## CREATE allows firms to reinvest more with income tax cuts.

Type of business	Pre-CREATE	CREATE
Domestic corporations with a taxable income of P5M and below, and with total assets of not more than P100M, exclusive of the land	30%	20%
Domestic corporations which earn a taxable income above P5M	30%	25%
Foreign corporations subject to the regular rate (for nonresident foreign corporations: effective on January 1, 2021)	30%	25%

# CREATE vs CIT rates in the ASEAN (2021)



Source: OECD tax database, PWC Corporate tax summaries, Trading Economics





"Despite the challenges this year, we have been able to post a healthy bottomline, giving us room to **reinvest in innovations and capacity expansion, which will, in turn, generate quality manufacturing jobs.**"

**Chad Manapat**  
 Century Pacific Food Inc. (CNPF)  
 Chief Financial Officer



Photo: Century Tuna processing plant, Inquirer.net



## CREATE allows firms to reinvest more with income tax cuts.

Type of business	Pre-CREATE	CREATE
Minimum corporate income tax (reduction applicable from July 1, 2020 to June 30, 2023)	2%	1%
Non-profit and proprietary educational institutions and hospitals (reduction applicable from July 1, 2020 to June 30, 2023)	10%	1%
Regional operating headquarters	10%	10%; regular CIT effective January 1, 2022
Foreign-sourced dividends received by domestic corporations	15%	Exempt, subject to reinvestment of earnings in the Philippines

## CREATE allows firms to reinvest more with income tax cuts

Type of passive income	Pre-CREATE	CREATE
Improperly accumulated earnings tax (IAET)	10%	Repealed
Percentage tax for non-VAT taxpayers (reduction applicable from July 1, 2020 to June 30, 2023)	3%	1%
Additional allowable deduction of $\frac{1}{2}$ of the value of labor training expense	100%	150%

## Various tax relief measures are provided under CREATE to stimulate the economy.

Provision	Pre-CREATE	CREATE	Condition
VAT on the sale and importation of capital equipment and raw materials for PPE production	12%	Exempt	Starting January 1, 2021 until December 31, 2023
VAT on the sale and importation of all prescription drugs, medical supplies, devices, and equipment for COVID-19	12%	Exempt	Starting January 1, 2021 until December 31, 2023
VAT on the sale or importation of vaccines for COVID-19	12%	Exempt	Starting January 1, 2021 until December 31, 2023

## Various tax relief measures are provided under CREATE to stimulate the economy.

Provision	Pre-CREATE	CREATE	Condition
VAT on e-books	12%	Exempt	Starting January 1, 2021
VAT on the sale and importation of prescription drugs on cancer, mental illness, tuberculosis, and kidney-related diseases	12%	Exempt	Starting January 1, 2021



# Fiscal incentives rationalization

# Fiscal incentives rationalization summary

Particulars	Pre-CREATE		CREATE	
	Exporters	Domestic market enterprises	Exporters	Domestic market enterprises
<b>Approval of incentives</b>	IPA	IPA	IPA or FIRB	
<b>FIRB oversight</b>	None	None	All	
<b>Industries covered</b>	IPA charter	Defined in the IPP	Activities defined in the SIPP	
<b>ITH (non-income national and local taxes are excluded)</b>	4-6 years	4-6 years	4-7 years	
<b>Expansion of activities</b>	2 more years, and 3 years for expanding firms	2 more years, and 3 years for expanding firms	3-year ITH, followed by ED or SCIT, as applicable	
<b>Additional incentives for relocation outside of NCR and in disaster/conflict areas</b>	None	None	Relocation outside of NCR: additional ITH of 3 years Locating in areas recovering from disaster/conflict: additional ITH of 2 years	

# Fiscal incentives rationalization summary

Particulars	Pre-CREATE		CREATE	
	Exporters	Domestic market enterprises	Exporters	Domestic market enterprises
ITH duration	4-6 years	4-6 years	4-7 years	4-7 years
<b>Option 1: ITH + 5% tax on gross income earned (GIE)</b>				
SCIT/GIE duration	5% GIE forever	None	5% GIE for 10 years	Not applicable
ITH + SCIT/GIE duration	Forever	Forever	14-17 years (ITH: Up to 7 years, and GIE: 10 years)	Not applicable
<b>Option 2: ITH + enhanced deductions (ED)</b>				
Enhanced deductions duration	None	None	10 years	5 years
ITH + enhanced deductions duration	None	None	14-17 years (ITH: Up to 7 years, and ED: 10 years)	9-12 years (ITH: Up to 7 years, and ED: 5 years)
<b>Other incentives</b>				
Duty exemption	Forever	5 years under BOI	Up to 17 years from date of registration	Up to 12 years from date of registration
VAT exemption and zero-rating	Forever	None	Up to 17 years from date of registration	-



## Enhanced deductions under CREATE

Particulars	Pre-CREATE	CREATE
<b>Power expense</b>	100%	150%
<b>Labor expense</b>	150%*	150%
<b>Training expense</b>	100%	200%
<b>Research and development</b>	100%	200%
<b>Domestic input expense</b>	100%	150%
<b>Reinvestment allowance to the manufacturing industry</b>	None	Up to 50% of reinvested profit (within 5 years from time of reinvestment)
<b>Depreciation allowance</b>	None	10% for buildings, 20% for machinery

\*The deduction shall be 200% if the activity is located in less developed areas. However, this incentive does not apply to TIEZA, SBMA, CDC, and APECO.

## Power of the President to grant incentives

**The President may grant incentives for up to 40 years for highly desirable projects or very specific industrial activities, subject to the following conditions:**

- The project has a comprehensive sustainable development plan with clear inclusive business approaches, and high level of sophistication and innovation, and
- Minimum investment capital of fifty billion pesos (P50,000,000,000.00) or its equivalent in US dollars, or a minimum direct local employment generation of at least ten thousand (10,000) within three (3) years from the issuance of the certificate of entitlement.

# Overview of application for tax incentives process

## Business enterprise

- Applies for tax incentives with concerned IPA through the FIRB online application system (**FIRB Incentives Registration and Monitoring System or FIRMS**).

## Investment promotion agency

- Checks the completeness of the application form and documents submitted.
- Conduct an initial impact evaluation.
- Prepare evaluation report.
  - If investment capital is less than P1 billion, IPA will decide on the application.
  - If investment capital is P1 billion or above, the IPA will recommend to the approval or disapproval of the application.

## FIRB (only for above P1 billion)

### Secretariat

- Review the IPA evaluation and recommendation
- Prepares an evaluation report for the Technical Committee's consideration.

### Technical Committee

- Adopts or rejects Secretariat's recommendation
- Submits recommendation to the Board

### Board Proper

- Decides on the application and issues Board Resolution

# CREATE Act as a tool for post pandemic recovery

- Reduction of corporate income tax rates and other tax relief measures are intended to help firms to quickly recover from the impact of the pandemic.
- The fiscal incentives rationalization will ensure that every peso given as tax incentives will provide, among others, higher return to the economy in terms of more quality jobs, value creation through innovation, and support to essential sectors that are critical to industrial development and structural transformation of the economy.



**Thank you.**