REPUBLIC OF THE PHILIPPINES
DEPARTMENT OF FINANCE
FISCAL INCENTIVES REVIEW BOARD
MANILA

BAGONG PILIPINAS

FIRB Advisory 010-2026

FOR	:	**Bureau of Internal Revenue, All Investment Promotion Agencies, Registered Business Enterprises, and All Other Stakeholders Concerned**
SUBJECT	:	**Circularizing Department of Finance (DOF) Department Order No. 026-2026 Prescribing the Terms and Conditions for the Grant of the Enhanced Deductions Regime under Section 294(C) of the National Internal Revenue Code of 1997, as amended by Republic Act (RA) No. 12066**
DATE	:	22 July 2026

This Advisory circularizes the attached DOF Department Order No. 026-2026, entitled the "Terms and Conditions on the Grant of the Enhanced Deductions Regime under Section 294(C) of the National Internal Revenue Code of 1997, as amended by Republic Act (RA) No.12066."

The Department Order prescribes the terms and conditions governing the grant of the Enhanced Deductions Regime under Section 294(C) of the National Internal Revenue Code of 1997, as amended, and to establish the guidelines, rules, and regulations for its availment by registered business enterprises.

Pursuant to Section 15 thereof, the Department Order shall take effect immediately following its publication in a newspaper of general circulation and filing of three (3) copies with the Office of the National Administrative Register of the University of the Philippines Law Center.

Attached to this *Advisory* is a copy of the aforementioned Department Order. Nonetheless, should you wish to secure an electronic copy of the said issuance, you may download it from the FIRB website at:
https://firb.gov.ph/download/dof-department-order-no-06-2026/

For information and guidance.

Date:
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BAGONG PILIPINAS

DEPARTMENT ORDER NO. 026.2026

FOR: **Revenue Collecting Agencies, All Investment Promotion Agencies, Registered Business Enterprises, and All Other Stakeholders Concerned**

SUBJECT: **Terms and Conditions on the Grant of the Enhanced Deductions Regime under Section 294(C) of the National Internal Revenue Code of 1997, as amended by Republic Act (RA) No. 12066**

SECTION 1. Rationale and Objective. This Department Order is issued to provide the terms and conditions for the grant of the Enhanced Deductions Regime (EDR) under Section 294(C) of the National Internal Revenue Code of 1997 (Tax Code), as amended, and to establish the guidelines, rules, and regulations for its availment by registered business enterprises (RBEs).

SECTION 2. Legal Bases. Section 295(B)(2) of the Tax Code and Rule 2, Section 1(c) of the Implementing Rules and Regulations (IRR) of Title XIII of the Tax Code, as amended by RA No. 12066, mandates the Department of Finance (DOF), in coordination with the Bureau of Internal Revenue (BIR), Fiscal Incentives Review Board (FIRB), and Investment Promotion Agencies (IPAs), to prescribe the terms and conditions on the grant of EDR under Section 294(C).

SECTION 3. Coverage. This Order shall cover the availment of the EDR of the following RBEs:

A. Registered domestic market enterprises, including High-value Domestic Market Enterprises, which were granted EDR under their certificate of registration with their respective IPAs pursuant to RA Nos. 11534 and 12066;

B. Registered export enterprises that have elected the EDR upon registration with their concerned IPA; and

C. Pre-Corporate Recovery and Tax Incentives for Enterprises Act (CREATE) RBEs that have transferred their registration to CREATE and opted to avail of the EDR pursuant to the Interim IRR on the Availment of Incentives and Transfer of Registration as provided under RA No. 12066.

SECTION 4. Definition of Terms. For purposes of this Order, the following terms are hereby defined as follows:

A. **Direct local employment** refers to the full and decent employment of Filipinos by RBEs under an employer-employee relationship within the Philippines to perform functions directly related to the production of goods or performance of services under the registered project or activity;

B. **Domestic input** refers to purchases of locally manufactured goods, locally produced raw materials, or domestically outsourced services known as services embedded in manufacturing and materials or supplies for the delivery of services that are used directly in the production of goods and the performance of services under the registered project or activity. In the case of locally manufactured goods, fifty percent (50%) of the value-added of the said goods should likewise be locally produced or manufactured;

C. **Domestic Market Enterprise (DME)** refers to any RBE other than a registered export enterprise. This shall also include High-Value DMEs as defined under Subsection (E) hereof;

D. **Gross income** refers to gross sales or gross revenues derived from the registered project or activity, net of sales discounts, sales returns and allowances, and minus costs of sales or direct costs, but before any deduction is made for administrative expenses or incidental losses during a given taxable period;

E. **High-value DMEs (HVDMEs)** refer to registered DMEs with investment capital exceeding Fifteen Billion Pesos (P15,000,000,000) and are engaged in sectors considered import-substituting, or with export sales in the immediately preceding year of at least One Hundred Million US Dollars ($100,000,000), or its equivalent in an acceptable foreign currency: *Provided*, That the threshold specified herein may be increased by the FIRB. For this purpose, the term "import-substituting" shall refer to the ability of the country's domestic production of goods and services to locally supply such goods and services that are normally being imported by the Philippines: *Provided further*, That the determination of the eligibility of what constitutes import substituting per sector shall be determined through the Strategic Investment Priority Plan (SIPP);

F. **Investment Promotion Agencies (IPAs)** refer to government entities created by law, executive order, decree, or other issuance, in charge of promoting investments, granting and administering tax and non-tax incentives, and overseeing the operations of the different economic zones and freeports in accordance with their respective special laws. These include the Board of Investments (BOI), Bangsamoro Board of Investments (BBOI), Bangsamoro Economic Zone Authority (BEZA), Philippine Economic Zone Authority (PEZA), Bases Conversion and Development Authority (BCDA), Subic Bay Metropolitan Authority (SBMA), Clark Development Corporation (CDC), John Hay Management Corporation (JHMC), Poro Point Management Corporation (PPMC), Cagayan Economic Zone Authority (CEZA), Zamboanga City Special Economic Zone Authority (ZCSEZA), PHIVIDEC Industrial Authority (PIA), Aurora Pacific Economic Zone and Freeport Authority (APECO), Authority of the Freeport Area of Bataan (AFAB), Tourism Infrastructure and Enterprise Zone Authority (TIEZA), Bulacan Special Economic Zone and Freeport Authority (BuZ), and all other similar existing authorities or that may be created by law unless otherwise specifically exempted from the coverage of the Tax Code;

G. **Machinery and equipment** refers to machines, equipment, mechanical contrivances, instruments, apparatus, or property plant and equipment items considered as essential operational assets used directly in the performance of the project's registered activity, plus any costs directly attributable to bringing the asset to the location and condition necessary for its intended use, and must comply with the guidelines set forth under the SIPP;

H. **Newly constructed or newly acquired buildings** refer to structures, including their annexes, extensions, or facilities that are directly related to the RBE's production of goods and services, other than administrative and other support services, which have been newly built or acquired for the RBE's registered project, and accounted for as new investments.

I. **Operating expenses** refer to costs that are not considered as direct costs but are directly related to day-to-day business activities, excluding the processes involved in manufacturing a product or delivering a service;

J. **Qualified capital expenditure** refers to purchases of capital goods with a useful life of more than one (1) year acquired for the entity's production of goods and performance of services to be directly used in the registered project or activity of the RBE;

K. **Qualified expansion project** refers to a project of an existing enterprise that would involve the installation of additional facilities or equipment, or infusion of additional investment that will result in an increase in capacity of the same or similar activity within the same existing plant or facilities of the enterprise, and additional benefits to the economy. It shall include modernization and rehabilitation, resulting in the upgrade of the registered product or service. The resulting increase in capacity or upgrade of the registered product or service shall be determined in the SIPP;

L. **Registered business enterprise (RBE)** refers to any individual, partnership, corporation, Philippine branch of a foreign corporation, or other entity organized and existing under Philippine laws and registered with an IPA, excluding service enterprises such as those engaged in customs brokerage, trucking or forwarding services, janitorial services, security services, insurance, banking, and other financial services, consumers' cooperatives, credit unions, consultancy services, retail enterprises, restaurants, or such other similar services, as may be determined by the FIRB;

M. **Registered export enterprise (REE)** refers to any RBE engaged in manufacturing, assembling or processing activity, and services such as information technology (IT) activities and business process outsourcing (BPO), and resulting in the direct exportation, and/or sale of its manufactured, assembled or processed product or IT/BPO services to another REE that will form part of the final export product or export service of the latter, of at least seventy percent (70%) of its total production or output;

N. **Related party** refers to a person or entity related to the RBE, as defined under applicable revenue regulations and other issuances;

O. **Research and development (R&D)** refers to experimental or other related initiatives:

1. Whose outcome cannot be known or determined in advance based on current knowledge, information, or experience, but can only be determined by applying a systematic progression of work:

    a. Based on principles of established science; and
    b. Proceeds from hypothesis to experiment, observation, and evaluation, leading to logical conclusions;

2. That are conducted to generate new knowledge, including new knowledge in the form of new or improved materials, products, devices, processes, or services; and

P. **Training** refers to courses, curricula, certifications, or modules provided to Filipino employees that are directly related to the production of goods or performance of services under the registered project or activity and that are of a technical nature, which shall develop or improve the specific skills or practical knowledge of the employee, especially in the mechanical, industrial art, scientific field or practical science of a particular position or job function in the registered project or activity, or in preparation for enhancing the value chain.

SECTION 5. Enhanced Deductions Regime. The EDR may be availed of by DMEs and REEs in addition to the allowable ordinary and necessary deductions under Section 34 of the Tax Code, as amended. The following may be allowed as enhanced deductions:

A. Depreciation allowance of the assets acquired for the entity's production of goods and services (qualified capital expenditure) - additional ten percent (10%) for buildings; and additional twenty percent (20%) for machinery and equipment;

B. Fifty percent (50%) additional deduction on the labor expense incurred in the taxable year;

C. One hundred percent (100%) additional deduction on R&D expense incurred in the taxable year;

D. One hundred percent (100%) additional deduction on training expense incurred in the taxable year;

E. Fifty percent (50%) additional deduction on domestic input expense incurred in the taxable year;

F. One hundred percent (100%) additional deduction on power expense incurred in the taxable year;

G. Deduction for reinvestment allowance to manufacturing and tourism industries - when a manufacturing or tourism RBE reinvests its undistributed profit or surplus in manufacturing or tourism projects or activities, respectively, that are listed in the SIPP, no more than fifty percent (50%) of the amount reinvested shall be allowed as a deduction from its gross income within a period of five (5) years from the time of such reinvestment;

H. Fifty percent (50%) additional deduction on expenses relating to exhibitions, trade missions, or trade fairs; and

I. Enhanced Net Operating Loss Carry-Over (NOLCO) - The net operating loss of the registered project or activity during the first three (3) years from the start of commercial operation (SCO), which had not been previously offset as deduction from gross income, may be carried over as deduction from gross income within the next five (5) consecutive taxable years immediately following the last year of the Income Tax Holiday (ITH) entitlement period of the project or immediately following the year of loss for RBEs electing EDR at the onset.

SECTION 6. Manner of Application of Enhanced Deductions. The enhanced deductions shall be treated as additional allowable deductions from taxable income. For this purpose, enhanced deductions shall be applied only after the determination of gross income and the deduction of ordinary and necessary operating expenses.

The tax base of enhanced deductions shall be the actual amount of costs and expenses incurred for the year, without the benefit of other additional deductions as provided in the Tax Code, as amended, or in other special laws.

SECTION 7. General Rules for EDR Availment. The availment of enhanced deductions shall be governed by the following rules:

A. Costs or expenses deducted from gross income must comply with generally accepted accounting principles[1].

B. The RBE shall comply with the conditions for the grant of tax incentives as provided in Rule 8, Section 7 of the IRR of Title XIII of the Tax Code, as amended by RA No. 12066. Particularly, the RBE shall keep and maintain separate books of accounts and separately account for the investments, revenue, costs, profits and losses for each registered project or activity.

C. Except for reinvestment allowance, costs or expenses must comply with the substantiation and other requirements as provided under Section 34 of the Tax Code, as amended, and other prevailing revenue laws and issuances.

D. Costs or expenses must be **directly related** to the registered project or activity of the enterprise. To qualify as **"directly related"**, the expense must be directly tied to a specific product, service, or project for the primary purpose of implementing the project.

E. The eligibility of a registered project or activity for any enhanced deduction under the Tax Code, as amended, shall be determined in accordance with the SIPP.

F. RBEs with multiple projects registered with an IPA shall keep a record of cost items common to the qualified projects and the cost allocation methodology for those cost items.

   To determine the appropriate allocation of costs, where costs cannot be directly identified to a particular project or activity, the RBE may adopt any of the following allocation methods:

   1. **Revenue allocation** where costs are allocated based on the proportion or contribution of the sales or revenue generated by each particular project or activity to the overall sales or revenue of the RBE;

[1] Currently, the Philippines has three financial reporting frameworks, namely the: 1) Philippine Financial Reporting Standards (PFRS) Accounting Standards; 2) Philippine Financial Reporting Standard for Small and Medium-Sized Entities (PFRS for SMEs) Accounting Standards; and 3) Philippine Financial Reporting Standard for Small Entities (PFRS for SEs) Accounting Standards. Source: Philippine Financial and Sustainability Reporting Standards Council (https://www.pfsrsc.org/government-organization-our-standards).

2. **Cost or expense allocation** where costs are distributed by determining the direct cost of the particular project or activity in relation to the aggregate direct costs of the RBE;
3. **Number of employees** where costs are allocated by determining the number of employees assigned to a specific project or activity as a proportion of the total employee count within the RBE as reported in the Alphalist of Employees for the current taxable year; or
4. Such other allocation methods as may be prescribed by the Secretary of Finance upon the recommendation of the Commissioner of Internal Revenue.

The allocation method adopted shall be applied consistently across the incentivized periods. All RBEs must maintain detailed records of the allocation process and shall disclose the chosen process in their notes to financial statements to ensure transparency and ease of validation during audit by the BIR or other regulatory agencies.

G. Unless otherwise provided in this Order, the deduction shall be availed of in the taxable year in which the cost or expenses have been incurred. This ensures that only actual and legitimate costs are considered for enhanced deductions within the availment period.

H. Related party transactions shall not be allowed for enhanced deductions, unless the transaction can be proven to be conducted at arm's length. For this purpose, the enterprise must provide evidence that the purchase price and terms are comparable to market conditions and are not influenced by related-party relationships, pursuant to the applicable revenue regulations and other issuances.

I. RBEs availing of the EDR shall be subject to the Minimum Corporate Income Tax (MCIT) beginning on the fourth taxable year immediately following the year in which such RBE commenced its business operations, when the minimum income tax is greater than the regular income tax computed after EDR has been applied. For purposes of MCIT, the determination of the gross income shall be as defined under section 27(E) and section 28(A)(2) of the Tax Code, as amended, and shall not consider any enhanced deductions under Title XIII of the Tax Code, as amended.

SECTION 8. Specific Rules for EDR Availment. The availment of EDR shall be governed by the following rules:

A. **Additional depreciation allowance of assets acquired for the production of goods and services (qualified capital expenditure).** From the total depreciable cost of the assets that are directly related to the RBE's production of goods and performance of services (qualified capital expenditure), RBEs may be allowed to claim an additional depreciation allowance of:

   1. Ten percent (10%) for buildings; and
   2. Twenty percent (20%) for machinery and equipment.

   The following conditions must be complied with:

   1. The assets qualified for depreciation allowance shall **exclude** assets used for administrative and other support or auxiliary services, such as service vehicles.

   2. The depreciation methods allowed shall be in line with Section 34(F)(2) of the Tax Code, as amended, as follows:

      a. The straight-line method;
      b. Declining-balance method, using a rate not exceeding twice the rate which would have been used had the annual allowance been computed under the method described in Section 34(F)(1) of the Tax Code, as amended;
      c. The sum-of-the-years-digit method; and
      d. Any other method which the Secretary of Finance may prescribe upon recommendation of the Commissioner of Internal Revenue.

      Any change in the depreciation method may be allowed upon prior approval from the BIR, provided that it is based on justifiable circumstances.

   3. The building, machinery, and equipment subject to additional enhanced deductions must be owned by the RBE availing of the tax incentives.

4. For new projects, the additional depreciation allowance shall apply to "**newly constructed**" or "**newly acquired**" buildings, including any capitalized renovation, restoration, or remodeling costs, that are directly related to the RBE's production of goods and performance of services.

   Meanwhile, for qualified expansion projects, the depreciation of improvements to modernize, increase the capacity, or extend the useful life of buildings is likewise included.

5. The incentive shall not apply to second-hand machinery and equipment, unless otherwise allowed under the SIPP.

6. For right-of-use assets, if the lease agreement is substantially a conditional sale, depreciation of the leased assets may be claimed as an additional deduction, subject to the rules provided for in PFRS 16 (Leases) and Revenue Memorandum Circular (RMC) No. 11-2024.

7. The depreciation allowance shall apply only to the depreciation expense for each year during the EDR period.

8. The amortization of intangible assets shall not be allowed under this item of enhanced deductions. However, where a specific intangible asset (e.g., computer software) is essential and integral for the operation of machinery and equipment, such software may be capitalized as part of the cost of the related machinery and equipment. The depreciation of such machinery and equipment, if directly related to the production of goods and the performance of services, may be allowed as an enhanced deduction. For this purpose, the related software cost must be clearly identifiable and itemized to facilitate the assessment of its reasonableness.

B. Additional deduction on labor expenses. RBEs shall be entitled to an additional deduction of fifty percent (50%) of their total labor expense for direct local employment in the taxable year. The additional deductions shall **not include** salaries, wages, benefits, and other personnel costs incurred for managerial, administrative, indirect labor, and support services.

The following conditions must be complied with:

1. The RBE shall keep and maintain sufficient documentation to substantiate the deduction, including, but not limited to, the following:

    a. Certified list of Filipino employees in the registered project or activity, duly signed by the company's President or Chief Executive Officer, as authorized by its Board of Directors; and
    b. Proof of withholding of tax on the employees' compensation.

2. Direct local employment shall be limited to individuals who are directly hired by the RBE. Only those employees who are actively engaged in the registered project or activity and receive direct compensation from the RBE shall be considered.

3. For purposes of computing the direct labor expense, the gross direct compensation income shall include the basic pay, cash bonuses paid or to be paid to the employees within the taxable year, and other employee benefits such as the employer's mandatory share in statutory contributions (e.g., SSS, PhilHealth, HDMF).

4. Salaries, wages, benefits, and other personnel costs incurred for managerial, administrative, indirect labor, such as subcontractors, outsourced personnel, and other third-party workers engaged for the project or activity, and support services **shall not be qualified** for the additional deduction on labor expense.

C. Additional deduction on R&D expenses. RBEs shall be allowed to claim an additional deduction of one hundred percent (100%) on their R&D expenses that are directly related to the registered project or activity of the RBE: *Provided,* That the additional deduction shall be limited to local expenditure incurred for salaries of Filipino employees, consumables, and payments to local R&D organizations.

The following conditions must be complied with:

1. Enhanced deductions for R&D may be availed by RBEs across all industries that will undertake qualified R&D initiatives for its registered projects as defined under Section 4(O) hereof.

   However, RBEs engaged in R&D services may claim enhanced deductions only for R&D initiatives that are directly attributable to their registered project or activity. Under no circumstances shall such RBEs be allowed to claim enhanced deductions on R&D initiatives performed on behalf, or for the benefit of, third parties.

2. The availment of the enhanced deductions under this Section shall coincide with the timing of the deduction for the related R&D expense. Pursuant to Section 34(I) of the Tax Code, as amended, R&D expense may be deducted outright during the taxable year when paid or incurred, or treated as a deferred expense and amortized over a period of not less than 60 months. The method so elected shall be irrevocable.

3. If the R&D initiatives involve both local and foreign expenditures, only the proportionate amount attributable to local expenditure shall be eligible for the additional R&D deduction.

4. The RBE must submit to the concerned IPA the R&D proposal indicating the description of specific R&D initiatives, its purpose, methodology, direct relation to the RBE's registered activity, and how such initiatives are expected to generate new knowledge or technological advancement. The RBE must submit its R&D proposal before it commences its R&D initiatives, or for R&D initiatives already undertaken as of the issuance of this Order, at any time prior to the filing of the Annual Income Tax Return (ITR) for the taxable year in which the EDR incentive is claimed.

5. The RBE, through its IPA, shall secure an endorsement from the relevant government agency or body, or as may be provided in the General Policies and Specific Guidelines of the SIPP, confirming that the specific R&D initiatives on the R&D proposal are expected to lead to new knowledge or technological

advancement; thus, the expenditures arising therein may be eligible to be claimed as additional deductions for R&D expenses. In case the R&D proposal covers multiple years, a one-time endorsement from the relevant government agency or body shall be deemed sufficient compliance.

6. The FIRB Secretariat and the BOI shall further coordinate with the relevant government agencies or bodies, as identified in the general policies and specific guidelines of the SIPP, for the formulation and issuance of specific rules and procedures governing the endorsement required under this subsection.

7. The following expenditures shall be explicitly **excluded** from qualifying for additional R&D deduction:

    a. Expenses for R&D initiatives not included in the approved R&D proposal submitted to the concerned IPA;
    b. Market-related activities, such as market research, market testing for products or services not related to the R&D initiative, market development, or sales promotions (e.g., consumer surveys);
    c. Exploration activities such as prospecting, drilling, or analyzing mineral or petroleum deposits for discovery, mapping, or evaluation;
    d. Feasibility studies related to business viability assessments;
    e. Managerial, operational, or efficiency studies and surveys;
    f. Research in non-scientific fields, including social sciences, arts, and humanities;
    g. Administrative, legal, or commercial activities associated with patenting, licensing, or other intellectual property rights; and
    h. Development, modification, or customization of computer software intended for internal business administration by the RBE or its affiliated entities.

D. **Additional deduction on training expenses.** RBEs shall be entitled to an additional deduction of one hundred percent (100%) of their total expense on technical trainings conducted, as approved by the concerned IPA, based on the SIPP, given only to the Filipino employees engaged directly in the RBE's production of goods and performance of services.

The following conditions must be complied with:

1. To qualify for the additional deduction, the training expense shall be considered "directly related" if the same is:

    a. Technically and functionally relevant - It is of a technical nature, focusing on the development of specialized skills or practical knowledge required for the execution, maintenance, or improvement of the registered project or activity; and
    b. Aligned with operational needs - It enhances competencies in mechanical, industrial, scientific, or practical fields that are essential to a specific position, job function, or operational requirement within the enterprise.

2. The following reasonable expenses incurred in conducting training programs shall be allowed as part of the additional deduction:

    a. Training materials, including manuals, handouts, and instructional aids necessary for skills development. This includes the cost of raw materials and consumables used in hands-on training activities;
    b. Reasonable travel (including travel insurance premium, if applicable), accommodation, and per diem expenses (or equivalent daily subsistence allowance) of resource speakers, trainers, instructors, and participants;
    c. Registration fees, if required for attendance in training programs;
    d. Honoraria for speakers, trainers, or instructors who provide expertise and facilitate the training;
    e. Venue rental costs, including the lease or use of training rooms, conference facilities, and other appropriate spaces used exclusively for the conduct of training;
    f. Rental or purchase of training equipment, tools, and devices essential to the delivery of the training program; and
    g. Insurance coverage for trainees, if required for participation in hands-on or technical training activities that involve potential risk.

3. The RBE shall keep and maintain sufficient documentation to substantiate the deduction, including, but not limited to, the following:

    a. Supporting documents from related government or private entities responsible for conducting the program;
    b. Actual training program details, including course outlines, participant lists, and duration; and
    c. Relevant certificates of participation or completion, as signed by the training service provider.

4. The RBE shall disclose in the notarized comprehensive summary report the list of trainings conducted during the year, including their purpose, objectives, content, methods, schedules, and resources used in delivering the training, for approval by the concerned IPA.

5. To ensure that only technical trainings required by the registered project or activity are covered, the following shall **not be eligible** for an additional training expense deduction:

    a. Onboarding workshops for newly-hired employees, unless the trainings are proven to be technical in nature, as determined by the concerned IPA;
    b. Team building activities, field trips, and tours;
    c. Executive education and leadership programs for senior management and C-suite;
    d. Professional and legal training, such as seminars on employees' rights, and other related matters;
    e. Safety training such as evacuation plans, fire drills, workplace violence, and first aid. Other safety trainings that are directly related to the performance of core job functions may be covered by the incentives as long as they are part of a technical training program;
    f. Quality training, such as ISO processes and standards, that is not related to the performance of an employee's core job functions; and
    g. Training and seminars mandated by law, which are necessary for the acquisition, retention, or renewal of

professional licenses and certifications (e.g., Continuing Professional Development, Mandatory Continuing Legal Education, etc.).

6. The expenses incurred under this subsection shall not be eligible for deduction as labor expense under Section 8(B) of this Order.

E. **Additional deduction on domestic input expense.** RBEs shall be allowed to claim an additional deduction of fifty percent (50%) on domestic inputs that are directly related to and actually used in the registered project or activity.

The following conditions must be complied with:

1. The domestic inputs must have a clear connection to the production process, operations, or development of the registered project or activity.

2. The locally produced raw materials must be integral to the registered project or activity, either incorporated into or considered in the transformation process of the final product or output.

3. The expense must be incurred and utilized within the premises of the registered business operations, ensuring that the domestic inputs directly contribute to the production being offered.

4. For locally-manufactured goods, the RBE shall ensure that at least fifty percent (50%) of the value-added comes from locally produced or manufactured components. "Value added" refers to the value of the final product or service less the value of imported inputs.

5. For purposes of determining whether locally-manufactured goods qualify as domestic inputs, the RBE shall include in the notarized comprehensive summary report, a detailed computation showing compliance with the value addition requirement of at least fifty percent (50%).

   The percentage of value added shall be computed as follows:

$$\text{Percentage of value added} = \frac{\text{(Cost of Goods Sold - Cost of Imported Raw Materials)}}{\text{Cost of Goods Sold}} \times 100$$

For this purpose, the following terms are defined:

"Cost of Goods Sold (COGS)" shall include all business expenses directly incurred to produce the merchandise to bring them to their present location and use, as defined in the Tax Code, as amended, and in the revenue regulations.

"Cost of Imported Raw Materials" must be relative to the cost of goods sold, and not the overall imported raw materials purchased for manufacturing the products.

6. Business support services or standalone services that **do not** form part of the manufacturing process or directly support operations shall **not** be considered as a qualifying domestic inputs. This includes consulting, administrative, marketing, financial, legal, and other support services that are not directly involved in core production or service delivery. However, services **directly integrated** into core operational processes (e.g., custom fabrication in manufacturing, specialized industrial or technical services, utilities, construction) shall be considered as qualifying domestic input expenses.

F. Additional deduction on power expenses. From the total power costs incurred in the production of the registered project or activity, RBEs shall be allowed to claim an additional deduction equal to one hundred percent (100%) of the power expense incurred in the taxable year.

The following conditions must be complied with:

1. Power expense shall refer to the total cost of electricity utilized for the registered project or activity in the production of goods or services. This includes generation, transmission, system loss, distribution, metering, and supply charge, but **excludes** penalties, surcharges, late payment fees, and other fees and charges of similar nature; and

2. In cases where a single power meter serves both registered and unregistered activities, the total electricity cost shall be allocated proportionally. The allocation method shall be determined pursuant to Section 7(F) of this Order.

G. **Deduction for reinvestment allowance to the manufacturing and tourism industries.** RBEs in the manufacturing and tourism industries that reinvest their undistributed profit or surplus in another registrable manufacturing or tourism project or activity, respectively, shall be allowed to avail only until 31 December 2034 an additional deduction of no more than fifty percent (50%) of the amount reinvested within a period of five (5) years from the time of such reinvestment.

The following conditions must be complied with:

1. The enterprise must be engaged in manufacturing or tourism activities and must reinvest in projects or activities in manufacturing or tourism activities, respectively, which are specifically listed in the SIPP.

2. The reinvestment must come from retained earnings or undistributed profits, ensuring that only funds originally generated from the operations of the registered project or activity are reinvested.

3. In order to claim the reinvestment allowance, an RBE must show proof of actual cash and/or capital expenditures reinvested in another manufacturing or tourism project or activity. Such reinvestment must also be realized or utilized. The RBE must keep and maintain adequate business records as supporting documentation of actual realization and/or utilization, in case they are requested by the BIR or other regulatory agencies.

4. The deduction shall be no more than fifty percent (50%) of the amount reinvested, and can be claimed using any of the following methods, so long as the availment period shall not extend beyond 31 December 2034:

    a. Outright expense; or

b. Allocated within five (5) years from the time of actual reinvestment.

Any unused deduction at the end of the incentive period or by 31 December 2034 shall expire and cannot be claimed as an additional deduction once the registered project or activity reverts to the regular tax regime.

5. The deduction for reinvestment allowance shall **exclude** investments in debt securities, index funds, pension funds, and other similar investments in another RBE.

6. A reinvestment allowance cannot be applied to the purchase of an asset for which a reinvestment allowance has already been claimed.

7. To substantiate the reinvestment allowance, the RBE must submit the following to the IPA as an attachment to the notarized comprehensive summary report: a formal board resolution (*for corporations*) or a partnership resolution (*for partnerships*), authorizing the appropriation of undistributed profits for reinvestment.

8. The RBE shall include, as an additional disclosure in the notes to financial statements, the amount of actual capital expenditures incurred or realized in the current or prior years for which reinvestment allowance may be claimed. The RBE shall likewise disclose the following:
   a. Amount of reinvestment allowance claimed (if claimed outright); or
   b. Amount allocated as reinvestment allowance for the year (if allocated within five [5] years from the time of actual reinvestment).

H. **Additional deductions on expenses relating to exhibitions, trade missions, or trade fairs.** RBEs shall be allowed to claim an additional deduction of fifty percent (50%) on expenses relating to exhibitions, trade missions, or trade fairs, including expenses incurred in promoting the export of goods or the provision of services to foreign markets approved by the concerned IPA.

The following conditions must be complied with:

1. The exhibition, trade mission, or trade fair must serve the purpose of expanding export markets, attracting international clients, and/or promoting the enterprise's goods or services globally.

2. The event must have a clear objective of promoting the export of locally manufactured goods or enhancing the provision of services to foreign markets.

3. The RBE shall disclose in the notarized comprehensive summary report the list of exhibitions, trade missions, or trade fairs, which it participated in during the year, including its purpose, objectives, schedule, and resources used, for the approval by the concerned IPA.

4. The following expenses shall be **excluded** from the additional deduction:

    a. Participation in trade shows or events catering to domestic markets;
    b. Expenses for client entertainment, social events, or hospitality (e.g., banquets, receptions, sightseeing tours);
    c. Travel expenses for participants who are not involved in the RBE's registered project or activity (e.g., family members or personal assistants of RBE representatives);
    d. Fines or contractual penalties for breach or non-compliance with the rules and regulations of the trade fair, exposition, or exhibition; and
    e. Sponsorship fees directly linked to the promotion of registered products or services during the event.

5. Expenses incurred for tokens, giveaways, and similar gifts used in promoting goods or services for export may be allowed as an additional deduction, subject to the limitation on Entertainment, Amusement and Recreation (EAR) expenses under Revenue Regulations (RR) No. 10-2002.

6. The RBE shall keep and maintain third-party documentation to prove that it actively participated in the exhibition, trade mission, or trade fair, such as, but not limited to, the following:

   a. Invitation from the event organizers;
   b. Event program, registration confirmation, and attendance; and
   c. Photos or video documentation of the exhibition booth or trade mission.

I. **Enhanced Net Operating Loss Carry Over (NOLCO).** The net operating loss of the registered project or activity during the first three (3) years from the SCO, which had not been previously offset as a deduction from gross income, may be carried over as a deduction from gross income within the next five (5) consecutive taxable years immediately following the last year of the ITH entitlement period of the project or immediately following the year of loss for RBEs electing EDR at the onset.

The following conditions must be complied with:

1. The net operating losses were incurred during the first three (3) years from the SCO.

2. The term "net operating loss" shall mean the excess of the allowable deduction over the gross income of the registered project or activity in a given taxable year, in accordance with Section 34(D)(3) of the Tax Code, as amended.

3. The total allowable deduction on the enhanced NOLCO shall be computed without the benefit of any or a combination of other additional deductions. Any net operating loss resulting from the availment of the enhanced deductions shall not give rise to any NOLCO deduction.

4. The enhanced NOLCO may be carried over and deducted from the gross income within the next five (5) consecutive taxable years immediately following the year of such loss (if the project elected to avail the EDR at the onset) or immediately following the last year of the ITH entitlement period (if the project elected to avail the EDR after ITH entitlement).

5. Any net operating loss incurred in the fourth year of commercial operations onwards shall not be claimed as enhanced NOLCO. However, an RBE may claim the same as regular NOLCO as defined under Section 34(D)(3) of the Tax Code, as amended, and carry the same as a deduction from gross income for the next three (3) consecutive taxable years immediately following the year of such loss. Any net loss incurred in a taxable year during which the taxpayer was exempt from income tax shall not be allowed as a NOLCO deduction.

6. The net operating loss sustained or incurred by one project or activity shall not be allowed as a regular or enhanced NOLCO deduction from the gross income derived from another project or activity within the same business enterprise. Neither shall the same be allowed as a regular NOLCO deduction from the aggregate gross income of the RBE.

7. Both the regular and enhanced NOLCO shall be allowed only if there has been no substantial change in the ownership of the enterprise:

   a. 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
   b. 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.

   The RBE shall submit, as an attachment to the notarized comprehensive summary report, its General Information Sheet (GIS), Sworn Statement of List of Beneficial Owners, or Sworn Statement of No Change in Stockholders, and Partners or Board Resolution or Secretary's Certificate.

8. In order that compliance with the five (5) year statutory requisite can be effectively monitored, the RBE shall, at all times, show its additional deduction of enhanced and/or regular NOLCO in the following:

a. Annual ITR, as a separate item of deduction; and
b. Notes to the Financial Statements showing, in detail, the taxable year in which the net operating loss was sustained or incurred, and any amount thereof claimed as enhanced NOLCO deduction within five (5) consecutive years immediately following the year of such loss (if elected, EDR at the onset) or immediately following the last year of the ITH entitlement period (if elected, EDR after ITH entitlement).

9. Nothing in this Order shall be construed to affect the entitlement of RBEs to utilize any unused regular NOLCO deduction for net operating losses incurred in prior years, subject to compliance with the requirements under the Tax Code, as amended, and prevailing revenue issuances.

SECTION 9. General Substantiation Requirements. All RBEs availing of EDR shall prepare and maintain the following substantiation requirements to support claims for enhanced deductions, including, but not limited to, the following:

A. Supporting documents to validate the transactions subject to the enhanced deductions (e.g., invoices, payroll records, electricity bills or meter readings, official receipts, contracts, or similar evidence); and

B. For related party transactions, transfer pricing documentation, comparable market data, third-party contracts or quotations, or other relevant supporting evidence.

Unless otherwise provided in this Order, these documents need not be attached to the Annual ITR but must be kept by the RBE on hand when requested by the BIR, IPA, or the FIRB, as may be applicable.

SECTION 10. EDR Availment Process. All RBEs availing the EDR shall comply with the following:

A. The RBE shall report each type of enhanced deduction claimed under "special allowable itemized deductions" in the annual ITR, citing the appropriate legal basis. Further, the computation and availment of the enhanced NOLCO shall be reported in the appropriate schedule of the ITR.

In addition to the disclosures required under the financial reporting standards, the RBE shall disclose in the notes to the financial statements information on the availment of EDR during the taxable year.

The BIR shall issue specific rules for the implementation of this subsection.

B. The RBE shall submit to the concerned IPA a notarized comprehensive summary report on the enhanced deduction claimed in its Annual ITR using the prescribed template, with the following details, among others:

    1. Types of enhanced deductions availed and the corresponding amounts claimed during the taxable year;
    2. Methods used in allocating common expenses based on the allocation methods provided in Section 7(F) of this Order, as applicable;
    3. Checklist of compliance with the general and specific documentary and substantiation requirements for EDR availment as provided in Sections 7, 8, and 9 of this Order, as applicable;
    4. Details of the availment of reinvestment allowance and enhanced NOLCO deduction, including any unused balance; and
    5. Approval or disapproval by the IPA of the following:
        a. Trainings conducted during the year; and
        b. Nature of the exhibitions, trade missions, or trade fairs participated in by the RBE.

The notarized comprehensive summary report shall be on a per project or activity basis, and shall be sworn to under oath by the President, General Manager, or other authorized officer of the RBE, and shall be submitted to the concerned IPA within thirty (30) calendar days from the date of filing of the Annual ITR with the BIR or from the last day prescribed by law for the filing of the Annual ITR, whichever comes later.

The RBE shall keep and maintain its copy of the notarized comprehensive summary report in case requested by the BIR or other regulatory agencies.

The concerned IPA shall review the notarized comprehensive summary report within one (1) year from receipt thereof. Thereafter, the concerned IPA shall endorse the following to the BIR in hard and soft copy (in auditable file format):

1. Findings of the IPA on the EDR availment, as applicable;
2. Copy of the notarized comprehensive summary report;
3. Attachments to the report, if any; and
4. Copy of the R&D proposal submitted by the RBE, and the endorsement from the relevant government agency, in case the RBE claims additional deduction on R&D expenses.

For this purpose, the IPAs may adopt internal rules and regulations to operationalize this requirement.

In case of contrary findings on the IPA endorsement, the BIR may gather and verify any third-party information (TPI) and documents from the concerned IPAs, as may be necessary, in accordance with the provisions of Revenue Audit Memorandum Order No. 1-2020 or the Updated Handbook on Audit Procedures and Techniques.

SECTION 11. Penalties. Noncompliance with the requirements of this Order shall, after due process, result in the partial or full disallowance of the enhanced deductions claimed for the taxable year, without prejudice to the appropriate penalties to be imposed by the BIR, IPA, or the FIRB, as applicable.

SECTION 12. Transitory provisions. Unless otherwise provided, the strict compliance with the substantiation requirements under this Order, including the submission of the notarized comprehensive summary report, shall be mandatory for all RBEs claiming the EDR incentive beginning the taxable year ending 31 December 2026, and thereafter.

RBEs that have already availed the EDR in taxable years prior to 31 December 2026 may be allowed to claim the said incentive without submitting the notarized comprehensive summary report; Provided, That the Certificate of Entitlement to Tax Incentive (CETI) is attached to the Annual ITR; Provided further, That the concerned RBEs shall comply with the regular substantiation and documentation requirements under the Tax Code, as amended.

SECTION 13. Separability. If any provision of this Order is declared invalid or unconstitutional by a court of competent jurisdiction, such provision shall not affect the validity of the rest of the provisions, which shall remain in full force and effect.

SECTION 14. Repealing Clause. All guidelines, revenue regulations, or similar issuances, and/or parts thereof, which are inconsistent with this Order are hereby repealed or modified accordingly.

SECTION 15. Effectivity. This Order shall take effect fifteen (15) days following its publication in a newspaper of general circulation and filing of three (3) copies with the Office of the National Administrative Register, University of the Philippines Law Center, Diliman, Quezon City, pursuant to Presidential Memorandum Circular No. 11 dated 09 October 1992, and all concerned shall be guided accordingly.

FREDERICK D. GO
Secretary
JUL 09 2026