**ALLOWABLE DEDUCTIONS BY INDUSTRY**

**Gross Income Earned (GIE)** shall refer to gross sales or gross revenues derived from business activities within the subject Ecozone or Freeport, net of sales discounts, sales returns and allowances minus cost of sales or direct costs but before any deduction for administrative, marketing, selling, and/or operating expenses or incidental losses during a given taxable year. Provided, that, in the case of financial enterprises within Freeports, gross income shall include interest income, gains from sales, and other income, net of costs of funds.

Only the following cost of sales/direct cost shall be allowed as deductions for purposes of calculating the GIE earned for the following Ecozone or Freeport Enterprises/industries, to wit:

**TRADING ENTERPRISES**

* Costs of Sales (beginning inventory plus purchases, minus ending inventory of goods).

**MANUFACTURING ENTERPRISES**

* Direct salaries, wages, or labor expenses, inclusive of training directly related to the registered activity;
* Production supervision salaries
* Raw materials used in the manufacture of products;
* Decrease in goods in process account (intermediate goods);
* Decrease in finished goods account;
* Supplies and fuels used in production;
* Depreciation of machinery and equipment used in production, and of that portion of the building owned or constructed by the registered enterprise that is used exclusively in the production of goods;
* Rent and utility charges associated with building, equipment and warehouses used in production; and
* Financing charges associated with fixed assets used in production, the amount of which was not previously capitalized.

**SERVICE ENTERPRISES**

* Direct salaries, wages, or labor expenses, inclusive of training directly related to the registered activity;
* Service supervision salaries;
* Direct materials, supplied used;
* Depreciation of machinery, equipment used in the rendition of registered services, and of that portion of the building owned or constructed by the registered enterprise that is used exclusively in the rendition of the registered service;
* Rent and utility charges for buildings and capital equipment used in the rendition of registered services;
* Financing charges associated with fixed assets used in the registered service business the amount of which was not previously capitalized.

**FINANCIAL INSTITUTIONS**

* None

**NOTE:**

For purposes of implementing the 5% tax on Gross Income Earned, in lieu of national and local taxes, granted to PEZA Ecozone Enterprises in CSEZ, CFZ, MSEZ and JHSEZ, the relevant provisions of R. A. No. 7916, its implementing Rules and Regulations, Circulars, Memoranda of Agreement with other government agencies, and all other relevant issuances of PEZA and of other government agencies relative to the implementation of the tax incentives under R. A. 7916, shall apply.

**Payment and Remittance of the 5% Tax on Gross Income Earned—**

The 5% Tax on Gross Income Earned shall be paid and remitted by Ecozone Enterprises and Freeport Enterprises as follows;

1. 3% to the National Government
2. 2% to the Local Government Units (LGUs) through the Treasurer’s Office of the Municipality or City where the Ecozone Enterprise or Freeport Enterprise is located.