

**Republic of the Philippines
DEPARTMENT OF BUDGET AND MANAGEMENT
DEPARTMENT OF FINANCE**

Joint Circular No. 2
August 7, 2014

**FOR : ALL CONCERNED OFFICIALS OF THE DEPARTMENT OF
BUDGET AND MANAGEMENT (DBM) AND THE
DEPARTMENT OF FINANCE (DOF)**

**SUBJECT : GUIDELINES AND PROCEDURES ON THE RELEASE OF
THE SHARES OF LOCAL GOVERNMENT UNITS FROM
THE GROSS INCOME EARNED BY ALL BUSINESSES
WITHIN THE CAGAYAN SPECIAL ECONOMIC ZONE FOR
FY 2012 AND SUBSEQUENT YEARS**

1.0 PURPOSE

This Joint Circular is issued to prescribe the guidelines and procedures on the release of the shares of local government units (LGUs) appropriated in the General Appropriations Act (GAA) for Fiscal Year (FY) 2012 and subsequent years from the gross income earned by all businesses within the Cagayan Special Economic Zone (CSEZ) pursuant to Republic Act (RA) No. 7922 entitled "An Act Establishing a Special Economic Zone and Free Port in the Municipality of Santa Ana and the Neighboring Islands in the Municipality of Aparri, Province of Cagayan, Providing Funds Therefor, and for Other Purposes" or the "Cagayan Special Economic Zone Act of 1995."

Specifically, the objectives are as follows:

- 1.1 To provide procedural guidelines on the release of funds to LGUs concerned which are collectively entitled to the one and one-half percent (1½%) share in the gross income earned by all businesses within the CSEZ pursuant to RA No. 7922; and
- 1.2 To delineate the responsibilities of the DBM and the DOF in the allocation and release of the funds to the LGUs concerned.

2.0 GUIDELINES

- 2.1 All registered enterprises which conduct their business activities inside the CSEZ shall, in lieu of paying local and national taxes, pay to the BIR five percent (5%) final tax on their Gross Income Earned (GIE). GIE refers to the gross sales or gross revenues derived from registered business activities within the CSEZ, net of sales discounts, sales returns and allowances and minus cost of sales, cost of production or direct cost of services (depending on the nature of business) but before any deduction is made for selling, administrative and other expenses or incidental losses during a given taxable period.
- 2.2 The following LGUs shall be entitled to their respective shares out of the 5% final tax on GIE, to wit:
 - 2.2.1 One percent (1%) of the 5% final tax, which is equivalent to twenty percent (20%) of the total tax collected, to the Province of Cagayan; and
 - 2.2.2 One-half percent (½%) of the 5% final tax, which is equivalent to ten percent (10%) of the total tax collected, to be shared by the municipalities affected by the declaration of the CSEZ in proportion to their income from business activities within the CSEZ.
- 2.3 The remaining 2% and 1 ½% out of the 5% final tax shall accrue to the national government and CEZA, respectively.

- 2.4 The share of the LGUs from the final tax on GIE is intended for local development projects, pursuant to Republic Act No. 7922 dated February 24, 1995.

3.0 ROLES AND RESPONSIBILITIES

3.1 The DOF-BIR shall:

- 3.1.1 For budget preparation purposes, submit to the DBM, the certification on the total computed LGU shares based on the actual revenue collections corresponding to thirty percent (30%) of the total final tax collected on GIE for the base year, which is two (2) years immediately preceding the current year, on or before March 15 of every year.
- 3.1.2 Include the amount reflected in the aforesaid certification as one of the authorized deductions in the computation of the Internal Revenue Tax Collection Base (IRTCB); and
- 3.1.3 For budget execution purposes, prepare a Joint Certification with the BTr the actual 5% final tax collections/remittances on GIE for the base year and the schedule of the corresponding shares of the beneficiary LGUs. The said certification shall be transmitted to the BTr on or before April 15 of each year for validation/reconciliation and approval.

3.2 The DOF-BTr shall:

- 3.2.1 For budget execution purposes, receive from the BIR the Joint Certification of the 5% final tax collections/remittances on GIE. Validate/reconcile the said certification from the reports submitted by the BTr Regional Offices and Authorized Government/Agent Depository Banks within 30 days from the receipt thereof.
- 3.2.2 Transmit to the DBM the duly validated/reconciled and approved Joint Certification of the 5% Tax

Collections/Remittances on GIE together with the Schedule for Distribution of LGUs shares from the BIR, within twenty (20) days from receipt of BIR certification of remittances.

- 3.2.3 Furnish the BIR with the validated/reconciled and approved Joint Certification of the 5% Tax Collections/Remittances on GIE and other supporting documents within fifteen (15) days after transmittal thereof to the DBM.


3.3 The DBM shall:


- 3.3.1 Include under the Special Purpose Fund – Assistance to Local Government Units of the GAA, the amount jointly certified by the BIR and BTr, as the total share of the Province of Cagayan and LGUs affected by the declaration of the CSEZ; and

- 3.3.2 Issue the necessary release documents corresponding to the one and one half percent (1 ½%) share of the LGUs from the GIE which is equivalent to the 30% of the final tax collected by BIR based on the joint certification issued by the BIR and BTr.

4.0 EFFECTIVITY

This Circular shall take effect immediately, and shall remain in force and effect until superseded or rescinded.


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