

PEZA vs. BOI: Choosing the Right Investment Incentives for a Solar Factory in the Philippines

A strategic framework for evaluating incentive pathways in PV module manufacturing

Content Partner: J. v. G. technology GmbH

Turnkey solar module production lines — since 1997

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Technical Overview: PEZA vs. BOI Incentives for Philippine Solar Factories



Created as part of the PVKnowHow Knowledge Network



Prepared by J.v.G. Technology GmbH



European specialists in turnkey solar module production lines

Key Project Data

PEZA ...

Decision

Selecting the optimal investment incentive framework

PV Mfg.

Industry

Solar module manufacturing – turnkey PV production line

Export...


Focus

Export vs. domestic market strategy

PH

Region

Philippines – Southeast Asia growth market

 Industry: Solar module manufacturing · Decision: PEZA vs BOI · Investment type: Turnkey PV production line · Source: PVKnowHow / J.v.G. Technology GmbH

The Investment Decision: PEZA or BOI?

The Core Question

- A new solar module manufacturer in the Philippines must register with **one** agency
- PEZA and BOI both offer substantial incentives — but serve different business models
- The choice shapes financial structure and market focus for the full project lifetime
- Once registered, switching frameworks requires corporate restructuring

Why It Is a Strategic Decision

- Determines export obligation and sales mix
- Dictates where the factory can be located
- Sets the applicable tax regime for 10–27 years
- Affects import duty and VAT treatment on capital equipment and materials

Core Difference: Export Focus vs. Domestic Flexibility

PEZA — Export-Oriented Framework

- Minimum **70% of production** must be exported
- Operations required inside designated special economic zones
- Streamlined one-stop-shop regulatory environment within PEZA zones
- Structurally aligned with global supply chain and export-led manufacturing

BOI — Domestic Market Flexibility

- **No minimum export requirement** — serves domestic and export markets
- Factory location unrestricted — any site nationwide
- Suited for businesses targeting the Philippines' growing local solar demand
- Performance-based compliance tied to SIPP registration commitments

Legal Framework: CREATE Act & SIPP

CREATE Act (2021) / CREATE MORE Act (2024)

- Landmark law that reformed the Philippine corporate tax and incentives system
- Standardized ITH periods and post-incentive tax regimes across all investment promotion agencies
- Provides a uniform legal basis for benefits offered by both PEZA and BOI
- CREATE MORE (signed November 2024) extended maximum incentive periods up to 27 years

SIPP — Strategic Investment Priority Plan

- Government's master list of industries eligible for tax incentives
- Solar module / renewable energy component manufacturing is a **listed priority activity**
- 2025–2028 SIPP categorizes activities in three tiers; renewables listed under Tier I
- Reviewed every three years — administered by the BOI

FIRB — Fiscal Incentives Review Board

- Oversees approval of tax incentives for large projects (above threshold investment capital)
- Chaired by the Secretary of Finance
- Sets performance targets as conditions for incentive eligibility

Incentive Comparison: Income Tax Holiday (ITH)

Criterion	PEZA	BOI
ITH Duration	4–7 years (export enterprise, SIPP-based)	4–6 years; pioneer projects up to 6–8 years
Pioneer Classification	Available; affects ITH length	Available; priority review; extended ITH
Location Outside NCR	Within PEZA zone required	Extension possible outside Metro Manila / LDCAs
Commencement	From actual start of commercial operations	From actual start of commercial operations
Foreign Ownership	Permitted; 70% export threshold applies	70% export needed for full foreign ownership

Incentive Comparison: Post-ITH Tax Regime

PEZA — Post-ITH Options

- **5% Special Corporate Income Tax (SCIT)** on Gross Income Earned — in lieu of all national and local taxes
- Gross Income = gross sales minus direct costs (raw materials, direct labor)
- Dramatically simplifies tax compliance
- SCIT or Enhanced Deductions Regime (EDR) available for up to 20 years post-ITH (CREATE MORE)

BOI — Post-ITH Options

- **Enhanced Deductions Regime (EDR):** 100% deduction on power, training, R&D costs
- 150% deduction on incremental export value; accelerated depreciation on capital equipment
- Standard corporate income tax applies, offset by enhanced deductions
- EDR available for up to 20 years post-ITH under CREATE MORE

Key Structural Difference

- PEZA SCIT provides certainty and simplicity — one flat rate replaces all national/local taxes
- BOI EDR requires active management of deduction categories — better for capex-heavy models
- Both regimes can deliver comparable effective tax rates depending on cost structure

Incentive Comparison: Import Duties & VAT

PEZA – Duty & VAT Treatment

- **Tax-and-duty-free importation** of capital equipment, raw materials, spare parts, and accessories
- **VAT zero-rating** on local purchases of goods and services directly used in registered activity
- VAT exemption on importation for the period of registration
- Domestic sales allowance: up to **30% of total sales**
- Improves cash flow and reduces input cost exposure significantly

BOI – Duty & VAT Treatment

- Duty-free importation of capital equipment available for registered activities
- VAT zero-rating on local purchases for registered export enterprises
- No zone-based bonded customs environment – standard customs processes apply
- Greater domestic pricing flexibility but less automatic customs cost reduction
- Reliance on domestic cost control and pricing power to maintain margins

Location Constraints: PEZA Zones vs. Nationwide Flexibility

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PEZA: Zone-Bound Operations

- Factory must be inside a designated PEZA special economic zone
- Zone availability and developer coordination required upfront
- Customs supervision and movement controls on imported/exported goods
- Reduces duty leakage; constrains operational site flexibility

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BOI: Nationwide Site Selection

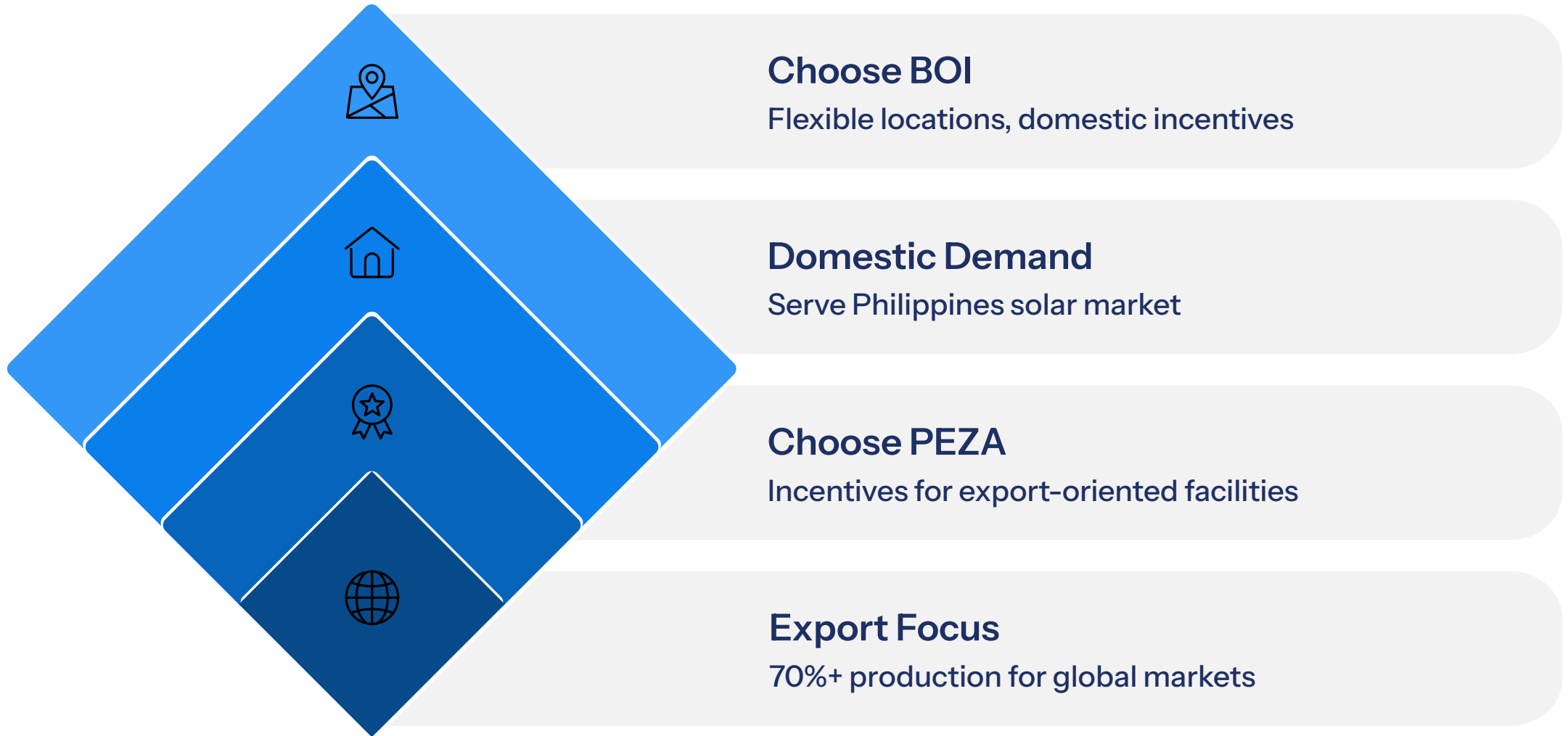
- Factory can be located anywhere in the Philippines
- Proximity to demand centers (Metro Manila, Cebu, Davao) possible
- No bonded zone infrastructure — standard logistics apply
- Greater flexibility for supply chain and workforce planning

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Practical Implication

- PEZA zone availability may limit site options — requires early site assessment
- BOI allows faster initial site planning but less automatic customs efficiency
- For a turnkey PV line, infrastructure quality and logistics access are critical selection factors

Strategic Decision Logic



The choice between PEZA and BOI is not a ranking of options — it is a structural alignment of incentive framework with commercial strategy. The market target determines the correct registration pathway; the financial model follows.

Export-Focused Strategy: The Case for PEZA

Qualifying Conditions

- Production plan: $\geq 70\%$ **exported** to international markets
- Factory site available within or adjacent to a PEZA special economic zone
- Supply chain primarily import-based (cells, encapsulants, glass)

Financial Advantages

- Duty-free capital equipment import – significant for a turnkey PV line
- 5% SCIT post-ITH: simplified, low-rate regime replacing all national/local taxes
- VAT zero-rating on local purchases reduces working capital requirements

Operational Profile

- One-stop-shop environment with reduced bureaucratic friction
- Bonded zone customs controls streamline export logistics
- Proven framework for export-oriented manufacturing – PEZA locator exports reached ~US\$58.7 billion in 2024

Domestic-Focused Strategy: The Case for BOI

Qualifying Conditions

- Production plan targets **Philippine domestic solar market**
- No fixed export volume commitment required
- Preferred factory location outside available PEZA zones

Financial Advantages

- ITH of 4–6 years (pioneer classification available for extended duration)
- Enhanced Deductions Regime: 100% deductions on power, training, R&D costs
- Duty-free capital equipment import available for registered activities

Operational Profile

- Full nationwide site flexibility — locate near workforce, infrastructure, or demand centers
- Scales with the Philippines' rapidly growing domestic renewables deployment
- Performance-based compliance reporting — suitable for mixed-market business models

Key Takeaways

1 – Market Strategy Drives the Decision

- PEZA aligns with export-led manufacturing; BOI aligns with domestic market supply
- Neither framework is inherently superior – fit with business model is the only valid criterion

2 – Solar Manufacturing Is a Priority Activity

- PV module manufacturing is listed under SIPP – both PEZA and BOI incentives are accessible
- Tier I classification (renewables) enables strongest available incentive packages

3 – The Decision Is Difficult to Reverse

- Switching between PEZA and BOI requires corporate restructuring and re-approval
- Correct framework selection at project inception is essential for long-term financial planning

4 – Technical & Commercial Planning Must Be Aligned

- Incentive structure affects production line sizing, location, and output allocation
- An experienced European turnkey provider integrates regulatory requirements into factory planning from day one

Note: These case studies are based on real figures but represent composite scenarios. Regulatory frameworks are subject to change – verify current SIPP and CREATE MORE provisions with qualified legal and tax advisors in the Philippines.

About the Content Partner

J. v. G. technology GmbH – The DESERT Company

Founded in 1997 in Bavaria, Germany. Family-owned engineering company specializing in turnkey solar module production lines.

More than 90 factory projects delivered worldwide.

On-site team training included – no prior manufacturing experience required.

Key areas:

Turnkey PV manufacturing lines | DESERT Technology® |
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