
Proposed Aircraft and Spare Parts Importation Incentives Act

Overview

The Aircraft and Spare Parts Importation Incentives Act aims to remove financial and administrative barriers to the importation of aircraft parts and components, thereby enhancing the competitiveness of the Philippine aviation industry. This measure is particularly crucial in supporting the development of the Maintenance, Repair, and Overhaul (MRO) sector, which plays a key role in ensuring the operational efficiency, safety, and long-term viability of the country's aviation sector.

Currently, import duties, value-added tax (VAT), and other levies on aircraft parts increase the cost of operations for airlines, MRO providers, and aviation service companies in the Philippines. This discourages investment in local MRO services, forcing airlines to seek maintenance and repair solutions abroad where more favorable tax policies are in place. As a result, the country is losing out on significant business opportunities and job creation that could otherwise contribute to the development of a robust domestic aviation ecosystem.

By exempting aircraft and spare parts from import duties and tariffs, this proposal seeks to attract more aircraft registrations in the Philippines, stimulate MRO investments, and strengthen the country's position as a key player in the ASEAN aviation market. Furthermore, this initiative aligns with global best practices, as seen in neighboring countries where tax incentives have helped establish world-class aviation hubs.

In addition to lowering costs for airlines and MRO providers, this proposed legislation will foster a business-friendly environment, create high-value jobs, and drive technological advancements in aviation services. It is a strategic move to enhance the Philippines' economic position, ensuring that it becomes a preferred destination for aviation investments and a leading MRO hub in the Asia-Pacific region.

Benchmarking ASEAN and European Best Practices

To ensure regional alignment and competitiveness, the proposal will be benchmarked against policies in key ASEAN countries that have successfully implemented tax incentives for aircraft and spare parts importation, and similar best practices in Europe and the United Kingdom (UK).

Several ASEAN countries have adopted zero-rated, tax-free, or preferential import duty rates for aircraft parts and supplies. These policies have allowed them to develop thriving MRO industries, attracting international carriers and aviation service providers.

- **Singapore:** In accordance with the Goods and Services Tax (GST) Act of 1993, aircraft parts and supplies are exempt from GST and import duties, making the country a global leader in MRO services.¹
- **Malaysia:** The government provides income tax exemptions for MRO activities under its aerospace industry development plan.²
- **Thailand:** Eligible companies can receive exemptions from import duties on machinery and raw materials, including the manufacture as well as repair of aircraft and aircraft parts, used in production for export. This reduces the initial capital expenditure and operational costs for MRO facilities.³
- **Brunei:** According to a press release from its Ministry of Finance, Brunei has a 0% import tax on unmanned aircraft, including parts.⁴
- **Indonesia:** Recently effective Finance Ministry Regulation No. 81/2024 has eliminated taxes on imported aircraft parts and aviation safety components.⁵ This follows recent government efforts to reduce maintenance costs and lower domestic airfare.⁶
- **Vietnam:** Alongside other aviation services⁷, repairs to foreign aircraft are subject to 0% VAT – contingent on compliance with pertinent import and export procedures.⁸

¹ Inland Revenue Authority of Singapore. (2022). GST Guide for the Aerospace Industry (Seventh Edition). Retrieved from [https://www.iras.gov.sg/media/docs/default-source/e-tax/etax-guide_guide-for-the-aerospace-industry-\(6th-edition\).pdf?sfvrsn=c313d2a1_14](https://www.iras.gov.sg/media/docs/default-source/e-tax/etax-guide_guide-for-the-aerospace-industry-(6th-edition).pdf?sfvrsn=c313d2a1_14)

² Malaysian Investment Development Authority. (2024). Guideline and Procedures for Incentive of Aerospace Industry. Retrieved from https://www.mida.gov.my/wp-content/uploads/2024/03/Guideline-for-Aerospace-Industry_12032024.pdf

³ Thai Board of Investments. Retrieved from https://www.boi.go.th/upload/menu/Aerospace_83259.pdf

⁴ Brunei Ministry of Finance and Economy. (2023). Press Release: Amendments to the Customs and Import and Excise Duties, Effective 17 May 2023. Retrieved from <https://bdnsw.mofe.gov.bn/PublishingImages/Pages/Home/AMENDMENTS%20TO%20THE%20CUSTOMS%20DUTIES%2017%20MAY%202023.pdf>

⁵ DDTIC Indonesia. (2024). Unofficial Translation: Minister of Finance Regulation No. 81 of 2024. Retrieved from <https://ddtc.co.id/uploads/pdf/Minister-of-Finance-Reg-81-2024.pdf>

⁶ Business-Indonesia. (2024). Airfares to drop 10% for Year-End Holidays, Gov't Promises. Retrieved from <https://business-indonesia.org/news/this-week-s-headlines-nov-23-29-2024>

⁷ Viva Business Consulting. (2024). Value-Added Tax 0%. Retrieved from <https://vivabcs.com.vn/resources/company-in-vietnam/vat-rate-value-added-tax-0-percent/>

⁸ Luat Vietnam English Legal Normative Documents. (2023). List of VAT tax-liable goods of 0%, 5%, and 10%. Retrieved from <list-of-vat-tax-liable-goods-of-0-5-and-10-4729-94070-article.html>

Meanwhile, the **European Union (EU)** in general exempts from VAT the supply, modification, repair, and maintenance of aircraft operating for commercial flights mostly on international routes.⁹ The required amount of international flights for European airlines to qualify for this exemption, however, varies among Member States.¹⁰

Additionally, the **UK** allows for the suspension of duties on aircraft parts and other goods used in the manufacture and MRO of aircraft that are imported with a certificate of airworthiness issued by the Civil Aviation Authority.¹¹

Both the EU and the UK provide Inward Processing Relief (IPR) for non-EU member states¹² / non-UK aircraft imported into their respective customs territories for repair, on the condition of re-export upon completion of works.¹³

Among European Free Trade Association (EFTA) countries, **Norway** relieves customs duties for the importation of aircraft and aircraft parts, aircraft engines and engine parts, as well as consumer goods for use in aircraft that fly chiefly internationally.¹⁴ Repair and maintenance work on aircraft, as well as the materials and goods used by the company providing MRO work are also zero-rated in **Iceland**, provided that the aircraft is not private.¹⁵ In **Switzerland**, aircraft imported by a Swiss or foreign air operator are exempt from Swiss VAT as long as they are permanently available for charter to the Air Operator Certificate holder under an operation and charter agreement or a lease with the owner. If the final beneficial owner of the aircraft resides in Switzerland, the VAT-free

⁹ European Council. (2006). Council Directive 2006/112/EC of 28 November 2006 on the common system of value added tax. Title IX, Chapter 7, Article 148 (f). Retrieved from <https://eur-lex.europa.eu/legal-content/EN/ALL/?uri=CELEX:32006L0112>

¹⁰ Norton Rose Fulbright. (2016). VAT exemption for aircraft – scope of the exception for international airlines. Retrieved from

<https://www.nortonrosefulbright.com/en/knowledge/publications/0b53feb3/vat-exemption-for-aircraft--scope-of-the-exemption-for-international-airlines#:~:text=The%20European%20Union%20value%20added,more%20than%2080%25%20in%20France.>

¹¹ GOV.UK. (2023). Using the airworthiness scheme for imported aircraft parts. Retrieved from [airworthiness-scheme-customs-tariff-rules-on-imported-aircraft-parts](https://www.gov.uk/guidance/using-the-airworthiness-scheme-for-imported-aircraft-parts)

¹² European Commission Tax and Customs Union. Inward processing. Retrieved from https://taxation-customs.ec.europa.eu/customs-4/customs-procedures-import-and-export/what-importation/inward-processing_en

¹³ Y&A Group, LP. Inward Processing. Retrieved from <https://yagrouppl.com/resources/inward-processing/#:~:text=Inward%20Processing%2C%20or%20IP%2C%20is,Significant%20repairs>

¹⁴ LOVDATA. (2024). Regulations concerning customs duty. Retrieved from <https://l2baviation.com/tax-regulations/norway/#:~:text=The%20main%20rule%20is%20that,in%20taxable%20activities%20in%20Norway.>

¹⁵ KPMG. (2024). Icelandic Tax Facts 2024. Retrieved from <https://assets.kpmg.com/content/dam/kpmg/is/pdf/2024/01/KPMG-Tax-Facts-2024.pdf>

import from Switzerland is also applicable. The cash-intensive and time-consuming process of reclaiming Swiss import VAT is therefore relieved for the owner.¹⁶ Meanwhile, **Liechtenstein** is subject to import taxes and customs duties levied by Switzerland. The specific tariffs and taxes must be examined for each case separately because they are determined by a number of particular characteristics of the products and are included on comprehensive tariffs and duties lists.¹⁷

The Philippines must adopt similar measures to remain competitive within the ASEAN aviation landscape and attract more MRO investments, airline partnerships, and aircraft servicing operations.

Key Provisions

1. Tax-Free Importation System

Aircraft and spare parts imported into the Philippines shall be exempted from customs duties, value-added tax (VAT), excise taxes, and other import levies, provided they meet the eligibility criteria below.

2. Eligibility Criteria

To qualify under this system, the following conditions must be met:

- The aircraft must be imported and registered under Philippine registration.
- The aircraft must be maintained by an Original Aircraft Manufacturer's (OAM) authorized Maintenance and Repair Organization (MRO).
- The maintenance and repair activities must be conducted within a designated tax-free zone in the Philippines.

3. Incentives and Expected Benefits

The implementation of a tax-free importation system for aircraft and spare parts is expected to generate significant economic and operational benefits for the Philippine aviation sector. By

¹⁶ Blum&Grob. (n.d.). Tax Free Import of Aircraft in Switzerland. Retrieved from <https://blumgrob.ch/en/factsheet/tax-free-import-of-aircraft-in-switzerland/#:~:text=A%20Swiss%20or%20foreign%20AOC,lease%20agreement%20with%20the%20owner.>

¹⁷ PWC. (2025). Liechtenstein - Corporate - Other taxes. Retrieved from <https://taxsummaries.pwc.com/liechtenstein/corporate/other-taxes#:~:text=Customs%20duties/import%20tariffs,checked%20for%20every%20case%20individually.>

removing import duties, value-added tax (VAT), excise taxes, and other levies, this measure will substantially lower operating costs for airlines and MRO providers, allowing them to reinvest in infrastructure, workforce training, and technology upgrades.

Beyond cost efficiency, the proposed tax exemption is designed to stimulate industry growth by making the Philippines a more attractive destination for aviation-related investments. With a more competitive MRO sector, the country can attract new international airlines, aircraft leasing companies, and service providers, creating new revenue streams and boosting local employment opportunities in high-skill aviation and engineering jobs.

The proposed system will also ensure operational continuity for airlines by allowing faster access to critical spare parts, minimizing aircraft downtime, and improving overall fleet efficiency and reliability. This will enhance the country's reputation as a reliable aviation hub capable of supporting the needs of both commercial and business aviation.

Furthermore, aligning the Philippines with ASEAN best practices in aviation taxation will help level the playing field with regional competitors such as Singapore, Malaysia, and Thailand, which have successfully used tax incentives to strengthen their aviation and MRO industries. By adopting similar measures, the Philippines can position itself as a key aviation hub in the region, securing its place in the global aerospace supply chain and reinforcing its long-term competitiveness in the industry.

4. MRO Certification and Compliance

To ensure that only qualified entities benefit from the tax-free importation system, Maintenance and Repair Organizations (MROs) must meet stringent certification and compliance requirements. Eligible MROs must be certified by the Original Aircraft Manufacturer (OAM) to guarantee that they meet global aviation safety and quality standards. Additionally, they must operate within designated tax-free zones in the Philippines, aligning with the country's broader economic development strategy to position Clark, Cebu, and other emerging hubs as leading aviation centers. Compliance with internationally recognized aviation regulations, as prescribed by the Civil Aviation Authority of the Philippines (CAAP) and other governing bodies, is also mandatory. This ensures that tax incentives support only high-quality, globally competitive MRO facilities that enhance the country's aviation industry.

5. Compliance, Monitoring, and Enforcement

The success of the tax-free importation system relies on strict monitoring and enforcement mechanisms to prevent misuse and ensure alignment with national economic goals. The Philippine government, through CAAP, the Bureau of Customs (BOC), and other regulatory agencies, will conduct regular audits and inspections to verify compliance among participating airlines and MRO facilities. These measures will prevent unauthorized entities from taking advantage of the incentive program and ensure that all beneficiaries adhere to the highest safety, security, and operational standards. In cases of non-compliance, penalties will be imposed, including the revocation of tax-free privileges, financial sanctions, and potential legal actions. This robust enforcement framework will safeguard the integrity of the program while reinforcing investor confidence in the Philippine aviation sector.

6. Sunset Clause

A five-year sunset clause shall be implemented to allow Original Aircraft Manufacturers (OAMs) to appoint MROs, establish operations, and train personnel to ensure long-term sustainability of the program.