

REVENUE REGULATIONS NO. 13-2022 issued on October 7, 2022 prescribes the guidelines, procedures and requirements for the proper Income Tax treatment of equity based compensation of any kind.

Section 32 (A) of the National Internal Revenue Code (NIRC) of 1997, as amended, defines gross income as all income derived from whatever source, including compensation for services in whatever form paid, including but not limited to, fees, salaries, wages, commissions and similar items. As implemented, compensation includes payment in some form of medium other than money.

Section 2.78.1 of Revenue Regulation (RR) No. 2-98, as amended, provides as follows:

"Section 2.78.1 Withholding Tax on Compensation Income. –

(A) Compensation Income Defined.

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(1) Compensation paid in kind. Compensation may be paid in money or in some medium other than money, as for example, stocks, bonds or other forms of property. If services are paid for in a medium other than money, the fair market value of the thing taken is the payment to be included as compensation subject to withholding. If the services are rendered at a stipulated price, in the absence of evidence to the contrary, such price will be presumed to be the fair market value of the remuneration received. If the corporation transfers to its employees its own stock as remuneration for services rendered by the employee, the amount of such remuneration is the fair market value of the stock at the time the services were rendered."

The equity grants under the applicable equity schemes of the grantor will give rise to a realized benefit on the part of the grantee-employees. The equity grants to be awarded to the employees are for the services being rendered by the said employees. Consequently, the equity grants under the equity plans, once exercised or availed of by the grantee-employees, are considered compensation to be taxed as such under Section 32 of the NIRC of 1997, as amended, and implemented by RR No. 2-98, as amended. This rule will be applied regardless of the employment status of the grantee-employee who could either be rank-and-file or occupying a supervisory or managerial position considering that Section 32 of the NIRC of 1997, as am and all applicable issuances do not make a distinction for purposes of applying the tax implication on all forms of compensation, including equity based compensation.