

Chapter I

INCOME TAXES¹

A. INDIVIDUAL INCOME TAX

1. Persons subject to the individual income tax

For income tax purposes, individual taxpayers are classified into:

a. Citizen

- (1) **Resident citizen** - is a citizen of the Philippines who has a permanent home or place of abode in the Philippines to which he/she intends to return whenever he/she is absent for business or pleasure.
- (2) **Nonresident citizen** - is a citizen of the Philippines who:
(a) establishes the fact of his/her physical presence abroad with the definite intention to reside therein; (b) leaves the country to reside abroad, either as an immigrant or for employment on a permanent basis; (c) works and derives income from abroad and whose employment thereat requires him to be physically present abroad most of the time during the taxable year; or, who has been considered

¹ Title II of the National Internal Revenue Code (NIRC) of 1997, as amended.

nonresident citizen previously and who arrives in the Philippines at anytime during the taxable year to reside permanently in the Philippines shall be treated as nonresident citizen for the taxable year in which he arrives in the Philippines with respect to his income abroad until the date of his arrival in the Philippines.²

b. Alien

- (1) **Resident alien** - is an individual who is not a citizen of the Philippines but whose residence is within the Philippines.³
- (2) **Nonresident alien** - is an individual who is not a citizen of the Philippines and whose residence is not within the Philippines.⁴

A nonresident alien is deemed engaged in trade or business in the Philippines if he/she has stayed in the Philippines for an aggregate period of more than 180 days during any calendar year.⁵

2. *Income subject to tax*

The incomes of individuals are grouped into different categories, to wit:

- a. Compensation income, consists of income arising from employer-employee relationship such as salaries, wages, emoluments and honoraria, commissions, taxable bonuses and

²Sec. 22(E), *supra*.

³Sec. 22(F), *supra*.

⁴Sec. 22(G), *supra*.

⁵Sec. 25(A)(1), *supra*.

fringe benefits, taxable allowances (such as transportation, representation, entertainment, and the like)⁶, non-monetary compensation, director's fees and the like, taxable pensions and retirement pay, amounts drawn as salaries by partners of a partnership and other incomes of a similar nature unless specifically exempted by the Tax Code. [refer to item A (4)]

- b. Business income and income from profession, consist of business and/or trade income, fees from the exercise of profession, gains from sale or exchange of assets, commissions, rental income, and other incomes not covered by compensation income.
- c. Passive income and other sources of income⁷, consist of interest from foreign and Philippine currency bank deposits (including yields and other monetary benefits from deposit substitutes and trust fund and similar arrangements), royalties, prizes and other winnings, and dividends. The other sources of income include capital gains from sales of shares of stock, sales of real property⁸, informer's rewards, etc.⁹

⁶ Representation and Transportation Allowances (RATA) granted to government officials and employees under the General Appropriations Act are deemed as reimbursement for expenses incurred in the performance of the duties of the recipient-government officials and employees and thus are not considered as additional compensation taxable under the regular individual income tax and subject to withholding tax. (BIR Ruling No. 062-91).

⁷ Sec. 24(B)(1), *supra*.

⁸ Sec. 24(C) and (D), *supra*.

⁹ Revenue Regulations (RR) No. 7-2011 (issued by the BIR on June 14, 2011) provides that unutilized/excess campaign funds or campaign contributions net of an election candidate's campaign expenditures, shall be considered as subject to income tax, and as such, must be included in the candidate's taxable income as stated in his/her income tax return filed for the subject taxable year.

3. *Determination of Taxable Income*

a. Citizen

(1) **Resident citizen** - on incomes derived from sources *within* and *without* the Philippines, as follows:

(a) *On compensation income* - on modified gross income basis i.e., gross compensation income less deductions and/or personal and additional exemptions;¹⁰

(b) *On income from profession, business and/or trade* - on net income basis i.e., gross income from profession, business and/or trade less the itemized deductions or optional standard deduction equivalent to 40% of gross sales or gross receipts and personal and additional exemptions; and

(c) *On passive income* - on the gross amount thereof.

(2) **Nonresident citizen** - taxed similarly as a resident citizen on incomes from sources *within* the Philippines.

¹⁰ Except those who are subject to 15% tax on their gross income.

Section 7(A) of RR 17-2011, “Implementing the Tax Provisions of the Personal Equity and Retirement Act (PERA) Law”, provides that a qualified PERA contributor is entitled to a tax credit equivalent to five percent (5%) of the aggregate qualified PERA contributions made in one calendar year. Each qualified PERA contributor shall be issued a Certificate of Entitlement to 5% tax credit or PERA Tax Credit Certificate, as the case may be. The entitlement to the 5% tax credit for an employee or one who is self-employed shall be allowed to be credited only against the contributor’s income tax liability; while in the case of overseas Filipinos, he/she shall be entitled to claim the 5% tax credit against any national internal revenue tax liabilities (excluding the contributor’s withholding tax liabilities as withholding agent).

b. Alien

- (1) **Resident alien** - taxed similarly as a resident citizen on incomes received from sources *within* the Philippines.
- (2) **Nonresident alien:**
 - (a) *engaged in trade or business in the Philippines* - taxed similarly as a resident citizen on incomes from sources *within* the Philippines.
 - (b) *not engaged in trade or business in the Philippines* - taxed on gross income from sources *within* the Philippines.
 - (c) *employed by regional or area headquarters and regional operating headquarters of multinational corporations, offshore banking units, or service contractors or subcontractors engaged in petroleum operations in the Philippines* - taxed on gross income derived from such employment.

4. Exclusions from Gross Income

The following are not included in the computation of the gross income of taxpayers:¹¹

- a. Proceeds of life insurance policies but not the interest paid to the heirs or beneficiaries;
- b. Amount received by the insured as return of premium;
- c. Value of property acquired by gratuitous transfer but not the income from such property;

¹¹ Sec. 32(B), *supra*.

- d. Compensation for injuries or sickness including damages received¹²;
- e. Income exempt under treaty;
- f. Retirement benefits, pensions, gratuities, etc. under certain conditions;
- g. Income derived by foreign governments, financing institutions owned, controlled or enjoying financing from foreign governments, and international or regional financing institutions established by foreign governments, from their investments in loans, stocks, bonds or other domestic securities or from interest on their deposits in banks in the Philippines;
- h. Income derived from any public utility or from the exercise of any essential government function accruing to the Philippine government or to any political subdivision;
- i. Prizes and awards made primarily in recognition of religious, charitable, scientific, educational, artistic, literary, or civic achievement but only if the recipient was selected without any action on his part to enter the contest or proceeding, and is not required to render substantial future services as a condition to receiving the prize or award;
- j. Prizes and awards granted to athletes in local and international sports competitions and tournaments held in the Philippines or abroad and sanctioned by their respective national sports associations;

¹² Republic Act (RA) No. 10368, entitled, “An Act Providing for Reparation and Recognition of Victims of Human Rights Violations During the Marcos Regime, Documentation of Said Violations, Appropriating Funds Therefor and For Other Purposes” (approved on February 25, 2013), provides for the exemption from any type of tax of the reparation received by any qualified human rights violation victim (HRVV) or the legal heirs of a deceased or involuntary disappeared HRVV or such other person named by the executor or administrator of the deceased or involuntary disappeared HRVV’s estate.

Table 1. TAX TREATMENT OF INCOME SOURCES OF INDIVIDUAL TAXPAYERS

Sources of Income Subject to Tax	Citizen				Alien			
	Resident		Non resident		Resident		Non resident	
	Within the Philippines	Without the Philippines	Within the Philippines	Without the Philippines	Within the Philippines	Without the Philippines	Engaged in business	Not engaged
1. Compensation income	Y	Y	Y	N	Y	N	Y	Y
2. Business/ Professional Income	Y	Y	Y	N	Y	N	Y	N
3. Passive Income								
a. Royalties	Y	Y	Y	N	Y	N	Y	N
b. Prizes and other taxable winnings	Y	Y	Y	N	Y	N	Y	N
c. Interest income from Philippine currency bank deposits and yield or any other monetary benefit from deposit substitutes and from trust funds and similar arrangements	Y	Y	Y	N	Y	N	Y	N
d. Interest income from long-term deposit instruments pre-terminated before the fifth (5 th) year	Y	Y	Y	N	Y	N	Y	N
e. Interest income from foreign currency bank deposits	Y	Y	N	N	Y	N	N	N
f. Cash and/or property dividends	Y	Y	Y	N	Y	N	Y	N
4. Other Sources of Income	Y	Y	Y	N	Y	N	Y	Y

Legend: Y- yes / N- No

- k. 13th month pay mandated by RA 6686 and Presidential Decree (PD) No. 851, as amended and other benefits not covered by PD 851 and benefits such as productivity incentives and Christmas bonus which should not exceed Php82,000.00¹³;
- l. GSIS, SSS, Medicare and Pag-IBIG contributions¹⁴, and union dues of individuals;
- m. Gains realized from the sale or exchange or retirement of bonds, debentures or other certificate of indebtedness, with a maturity of more than five (5) years; and
- n. Gains realized by the investor upon redemption of the shares of stocks in a mutual fund company.

5. Deductions from Gross Income

a. Citizen

(1) Resident Citizen

(a) *Compensation Income*

Only premium payments on health and/or hospitalization not exceeding Php2,400 a year are deductible from gross compensation income provided that

¹³ As amended by RA 10653, entitled, “An Act Adjusting the 13th Month Pay and Other Benefits Ceiling Excluded from the Computation of Gross Income for Purposes of Income Taxation, Amending for the Purpose Section 32(B), Chapter VI of the National Internal Revenue Code of 1997, As Amended”, approved on February 12, 2015. RR 3-2015 implements the provisions of RA 10653 particularly on the increase of the total amount of exclusion to Php82,000.

¹⁴ The BIR held in Revenue Memorandum Circular (RMC) No. 27-2011 (issued on July 1, 2011) that only the mandatory/compulsory contributions made by employees to the GSIS, SSS, PHIC and HDMF are excludible from the gross income of the taxpayer and therefore exempt from income tax and withholding tax. Amounts in excess of mandatory/compulsory contributions shall be subject to income tax.

the taxpayer availing of said deduction has a family income of not more than PhP250,000 for the taxable year.

(b) *Business and/or Professional Income*

The following payments incurred in connection with the taxpayer's profession, trade or business are deductible from gross income:¹⁵

(1) Ordinary and necessary trade, business or professional expenses paid or incurred during the taxable year (such as salaries, wages, grossed-up monetary value of fringe benefits granted to employees, travel, rental, entertainment, amusement and recreation).

(2) Interest¹⁶

Interest paid or incurred within the taxable year on indebtedness in connection with the taxpayer's profession, trade or business which shall be reduced by 33% of the grossed-up value of the interest income subjected to final tax.

(3) Taxes

Taxes paid or incurred within the taxable year in connection with the taxpayer's profession, trade or business, except the income tax imposed under the Code, foreign income tax paid by a taxpayer who did not signify in his/her return his/her desire to have any refund or credit, estate and donor's taxes, and

¹⁵ Sec. 34, *supra*.

¹⁶ At the option of the taxpayer, interest incurred to acquire property used in trade or business or exercise of a profession may be allowed as a deduction or treated as capital expenditure [Sec. 34(B)(3), *supra*].

taxes assessed against local benefits of a kind tending to increase the value of the property assessed.

(4) Losses

- Losses actually sustained by the taxpayer in connection with the taxpayer's trade, profession, or business which are charged off within the taxable year and not compensated for by insurance or other forms of indemnity.
- Losses from sale or exchanges of capital assets are deductible only to the extent of the gains from such sales or exchanges.
- Losses from wash sales of stock or securities are allowed when the claim is made by a dealer in stock or securities, and with respect to a transaction made in the ordinary course of business of such dealer under certain conditions.
- Losses from wagering transactions are deductible to the extent of the gains from such transactions.

(5) Net Operating Loss Carry-over

- The amount of net operating loss sustained by an individual taxpayer engaged in business or practice of profession who does not enjoy an income tax exemption under the Tax Code or special laws at the time such loss was incurred is allowed to be carried over as a deduction from gross income for three (3) consecutive taxable years immediately following the year of the loss.
- In the case of businesses or enterprises engaged in mining operations other than oil and gas wells which are not enjoying the benefit of incentives

granted under EO 226, as amended, the net operating loss incurred in the first ten (10) years of the operation of their business may be carried over as deduction from taxable income for five (5) years immediately following the year of the loss.

(6) Bad Debts

- Bad debts actually ascertained to be worthless and charged off during the taxable year.
- Bad debts arising from loss on securities held as capital assets which are ascertained to be worthless and charged off within the taxable year by a taxpayer, except domestic banks or trust companies the substantial part of whose business is the receipt of deposits.

(7) Depreciation

- A reasonable allowance for the exhaustion, wear and tear (including reasonable allowance for obsolescence) of property used in trade or business computed using the straight-line method, declining-balance method or sum-of-the-years-digit method.
- An allowance for depreciation of properties directly related to production of petroleum initially placed in service in a taxable year using the straight-line or declining-balance method of depreciation, at the option of the taxpayer. The useful life of properties used in or related to the production of petroleum shall be ten (10) years or such shorter life as may be permitted by the Commissioner, and five (5) years for those

properties not used directly in the production of petroleum.

- An allowance for depreciation in respect of all properties used in mining operations which shall be computed at the normal rate of depreciation if the expected life is ten (10) years or less, or depreciated over any number of years between five (5) years and the expected life if the latter is more than ten (10) years, and the depreciation thereon allowed as deduction from taxable income.

(8) Depletion of Oil and Gas Wells and Mines

- A reasonable allowance for the extraction of mineral deposits of the oil and gas wells or mines computed using the cost-depletion method which, however, should not exceed the amount of capital invested therein.

After commencement of production in commercial quantities, the amount of intangible exploration and development drilling costs incurred by a taxpayer in petroleum and mining operations for non-producing wells and/or mines shall be deductible in full in the year paid or incurred. On the other hand, the same costs incurred for producing wells and/or mines in the same contract area are allowed to be deducted in full in the year paid or incurred or capitalized and amortized, at the option of the taxpayer.

- At the option of the taxpayer, the exploration and development expenditures accumulated as cost or adjusted basis for cost depletion as of the date of prospecting, as well as exploration and development expenditures paid or incurred during

the taxable year may be deducted in an amount not to exceed twenty-five percent (25%) of the net income from mining operations computed without the benefit of any tax incentives under existing laws. The actual exploration and development expenditures minus twenty-five percent (25%) of the net income from mining is allowed to be carried forward to the succeeding years until fully deducted.

(9) Charitable and Other Contributions

Charitable contributions actually paid or made within the taxable year to or for the use of the government of the Philippines or any of its agencies or any political subdivision thereof for exclusive public purposes, or to accredited domestic corporations or associations organized and operated exclusively for religious, charitable, scientific, youth and sports development, cultural or educational purposes or for the rehabilitation of veterans or to social welfare institutions, or to nongovernment organizations, no part of the net income of which inures to the benefit of any private stockholder or individual in an amount not in excess of ten percent (10%) of the taxpayer's taxable income as computed without the benefit of said deduction.

However, donations made to the Government of the Philippines or to any of its agencies or political subdivisions, including fully-owned government corporations, exclusively to finance priority activities in education, health, youth and sports development, human settlements, science and culture, and in economic development according to a national priority plan shall be deductible in full. Also deductible in full are donations made to certain private entities which qualify as donee-institutions as provided for under the Tax Code.

(10) Research and Development

Amount of research and development expenditures paid or incurred during the taxable year in connection with the taxpayer's trade, business or profession which are not chargeable to capital account. At the option of the taxpayer, the same expenditures may be treated as a deferred expense if the expenditure is not ordinary and necessary current expense and chargeable to capital account but not chargeable to property of a character which is subject to depreciation or depletion.

(11) Pension Trusts

Amount transferred or paid by an employer establishing or maintaining a pension trust, but only if such amount has not been allowed as a deduction and is apportioned in equal parts over a period of ten (10) consecutive years beginning with the year in which the transfer or payment is made.

(12) An optional standard deduction equal to 40% of the gross sales or gross receipts of resident individual taxpayers engaged in business or practice of profession in lieu of the foregoing deductions.

(13) Premium Payments on Health and/or Hospitalization Insurance

The amount of premiums not to exceed PhP2,400 or PhP200 a month paid during the taxable year for health and/ or hospitalization insurance taken by the taxpayer for himself/herself, including his/her family provided that the taxpayer availing of said deduction has a family income of not more than PhP250,000 for the taxable year and is the one claiming the additional exemptions for dependents.

(14) Free Legal Services¹⁷

A lawyer or professional partnership rendering actual free legal services, as defined by the Supreme Court, shall be entitled to an allowable deduction from the gross income, the amount that could have been collected for the actual free legal services rendered or up to ten percent (10%) of the gross income derived from the actual performance of the legal profession, whichever is lower: Provided, That the actual free legal services herein contemplated shall be exclusive of the minimum sixty (60)-hour mandatory legal aid services rendered to indigent litigants as required under the Rule on Mandatory Legal Aid Services for Practicing Lawyers, under BAR Matter No. 2012, issued by the Supreme Court.

(c) *Passive Income*

No deductions are allowed.

(2) Nonresident Citizen

Same deductions as allowed to resident citizens.

b. Alien

(1) Resident alien

Same deductions as allowed to resident citizens.

(2) Nonresident Alien(a) *Engaged in trade or business in the Philippines*

¹⁷ Per Section 5 of RA 9999, otherwise known as the “Free Legal Assistance Act of 2010,” approved on February 23, 2010.

Nonresident aliens engaged in trade or business in the Philippines are entitled to the same deductions allowed to resident citizens and subject to the same conditions and limitations, except on the following items of deductions:

- Taxes - the deductions for taxes shall be allowed only if and to the extent that they are connected with income from sources within the Philippines.
 - Losses - losses deductible shall be those actually sustained during the year incurred in business, trade or exercise of a profession conducted within the Philippines and not compensated for by insurance or other forms of indemnity.
 - Depreciation - a reasonable allowance for the deterioration of property arising out of its use or employment or its non-use in the business, trade or profession on properties located in the Philippines.
 - Depletion of oil and gas wells and mines - the allowance for depletion of oil and gas wells or mines is authorized only with respect to oil and gas wells or mines located within the Philippines.
- (b) *Not engaged in trade or business in the Philippines* - no deductions are allowed.
- (c) *Employed by regional or area headquarters and regional operating headquarters of multinational corporations, offshore banking units, or service contractors or subcontractors engaged in petroleum operations in the Philippines* - no deductions are allowed.

6. *Items not Deductible from Gross Income*¹⁸

The following items are not allowed to be deducted from the gross income of taxpayers:

- a. Personal, living, or family expenses;
- b. Amounts paid out for new buildings or for permanent improvements, or betterments made which tend to increase the value of any property or estate;
- c. Amounts spent for restoring property or in making good the exhaustion thereof for which an allowance is or has been made;
- d. Premiums paid on any life insurance policy covering the life of any officer or employee, or of any person financially interested in any trade or business carried on by the taxpayer, where the taxpayer is directly or indirectly a beneficiary under such policy; and
- e. Losses from sales or exchanges of property under certain conditions.

7. *Personal Exemptions*

Personal and additional exemptions are allowed to be deducted from gross compensation income and net income arising from business or profession of the taxpayer. In case of individuals who derive compensation and other incomes, the amount of personal and additional exemptions shall be deducted first from compensation income. Any excess thereof shall be deducted from other incomes.

¹⁸ Sec. 36, *supra*.

a. Citizen

(1) Resident and Nonresident(a) *Personal Exemption*¹⁹

PhP50,000 - for each individual taxpayer

(b) *Additional Exemption for Dependents*²⁰

PhP 25,000 - for each legitimate, illegitimate or legally adopted child or foster child provided that the number of dependents for whom additional exemption may be claimed should not exceed four (4).

¹⁹ Sec. 35(A), *supra*. Pursuant to Sec. 4 of RA 9504 (An Act Amending Sections 22, 24, 34, 35, 51, and 79 of RA 8424, as Amended, Otherwise Known as the National Internal Revenue Code of 1997), individual taxpayers, regardless of status are given a uniform amount of personal exemption allowance.

²⁰ Sec. 35(B) of the NIRC provides that in case of married individuals, additional exemption for dependents shall be claimed by only one of the spouses. In the case of legally separated spouses, additional exemptions shall be claimed only by the spouse who has custody of the child or children. RA 10165, entitled, “An Act to Strengthen and Propagate Foster Care and to Provide Funds Therefor” (approved on June 11, 2012) include a ‘foster child’ or a child placed under foster care in the definition of the term “dependent” for purposes of claiming the PhP25,000 additional exemption allowance provided, that all other conditions provided for under the aforesaid section of the NIRC of 1997 are complied with. The Act requires, however, that the period of foster care must be for a continuous period of at least one (1) taxable year and that only one (1) foster parent can treat the foster child as a dependent for a particular taxable year. RA 10754, entitled, “An Act Expanding the Benefits and Privileges of Persons with Disability (PWD)” (approved on March 23, 2016) likewise provides that PWDs who are within the fourth civil degree of consanguinity or affinity to the taxpayer and who are not gainfully employed and chiefly dependent upon the taxpayer, regardless of age, may also be claimed as dependents by those caring for them.

b. Alien

(1) Resident

Resident alien individuals are entitled to the same personal and additional exemptions allowed to resident citizens and subject to the same conditions and limitations.

(2) Nonresident

(a) *Engaged in trade or business in the Philippines* - shall be entitled to personal exemption in an amount equal to the exemptions allowed by the income tax law of the country of which he/she is a subject or citizen but not to exceed the amount fixed in the NIRC as exemption for citizens or residents of the Philippines.

(b) *Not engaged in trade or business in the Philippines* - no personal and additional exemptions allowed.

8. Tax Rates

a. Compensation / Business Income

(1) Citizen

(a) *Resident*²¹ - on taxable compensation and business income (i.e., gross compensation and/or business income less deductions and personal and additional exemptions)

²¹ Sec. 24(A), *supra*. Pursuant to Sec. 2 of RA 9504, minimum wage earners are exempt from the payment of income tax on their taxable income including their holiday pay, overtime pay, night shift differential pay and hazard pay. Minimum wage earners as defined under Sec. 22(HH) of the NIRC refer to workers in the private sector paid the statutory minimum wage, or to an employee in the public sector with compensation income of not more than the statutory minimum wage in the non-agricultural sector where he/she is assigned.

received from all sources within and without the Philippines, the following tax schedule²² shall apply:

Over	But Not Over	Tax Due
	PhP 10,000	
PhP 10,000	PhP 30,000	PhP 500 + 10% of the excess over PhP10,000
PhP 30,000	PhP 70,000	PhP 2,500 + 15% of the excess over PhP30,000
PhP 70,000	PhP 140,000	PhP8,500 + 20% of the excess over PhP70,000
PhP 140,000	PhP 250,000	PhP 22,500 + 25% of the excess over PhP140,000
PhP 250,000	PhP 500,000	PhP50,000 + 30% of the excess over PhP250,000
PhP 500,000		PhP 125,000 + 32% of the excess over PhP500,000

(b) *Nonresident*²³

On taxable compensation and business income received from all sources within the Philippines - same rates as for resident citizens.

(c) *Filipinos employed and occupying the same position as those aliens employed by regional or area headquarters and regional operating headquarters, offshore banking units, petroleum service contractors and sub-contractors* - same as the rate for resident citizens or 15% of gross compensation income received therefrom.²⁴

²² Sec. 24(A), *supra*.

²³ Sec. 24(A)(1)(b), *supra*.

²⁴ Sec. 25(C)(D)(E), *supra* and RR 12-2001.

(2) Alien

(a) *Resident* - on taxable compensation and business income received from all sources within the Philippines, same rates as for resident citizens.

(b) *Nonresident* ²⁵

➤ *Engaged in trade or business in the Philippines* - on taxable compensation and business income received from all sources within the Philippines, same rates as for resident citizens.

➤ *Not engaged in trade or business in the Philippines*²⁶ - 25% on the gross amount of compensations, remunerations, salaries or emoluments received from sources within the Philippines.

(c) *Alien*²⁷ *employed by* -

➤ *Regional or area headquarters and regional operating headquarters of multinational corporations* - 15% of gross compensation received therefrom.

➤ *Offshore banking units* - 15% of gross compensation income received therefrom.

➤ *Petroleum service contractors and subcontractors* - 15% final tax on gross compensation income received therefrom.

Any income earned from other sources within the Philippines by these alien employees shall be subject to the pertinent income tax imposed under the Tax Code.

²⁵ Sec. 25(A), *supra*.

²⁶ Sec. 25(B), *supra*.

²⁷ Sec. 25(C),(D),(E), *supra*.

Table 2. SUMMARY OF TAX BASE AND TAX RATES ON COMPENSATION AND BUSINESS INCOME OF INDIVIDUAL TAXPAYERS

Taxpayers	Tax Base	Tax Rates
A. Citizen		
1. Resident Citizen	Taxable Compensation Income (TCI) and or Taxable Business Income (TBI)	5% - 32%
Resident Citizen Employed By:		
a. Regional or Area Headquarters and Regional Operating Headquarters of Multinational Corp.	Taxable Gross Compensation Income (TGCI)	15% or 5% - 32%
b. Offshore Banking Units	TGCI	15%
c. Petroleum Service Contractor and Subcontractor	TGCI	15%
2. Nonresident Citizen	TCI/TBI	5% - 32%
B. Alien		
1. Resident Alien	TCI/TBI	5% - 32%
2. Nonresident Alien		
a. Engaged in Trade or Business in the Philippines	TCI/TBI	5% - 32%
b. Not engaged in Trade or Business in the Philippines	Taxable Gross Income (TGI)	25%
c. Alien employed by:		
(1) Regional or Area Headquarters and Regional Operating Headquarters of Multinational Corp.	TGCI	15%
(2) Offshore Banking Units	TGCI	15%
(3) Petroleum Service Contractor and Subcontractor	TGCI	15%

b. Passive Income

(1) Citizens²⁸(a) *Residents* - on the following items of income:

- Royalties - (except royalties on books, literary works and musical compositions which shall be subject to 10% final tax) - 20% final withholding tax on gross amount.
- Prizes (exceeding PhP10,000)²⁹ and other taxable winnings (except PCSO and Lotto Winnings) - 20% final withholding tax on the gross amount.
- Interest income from Philippine currency bank deposits and yield or any other monetary benefit from deposit substitutes and from trust funds and similar arrangements (except interest income from long-term deposits or investments evidenced by certificates prescribed by the BSP) - 20% final income tax on the gross amount.
- Interest income from long-term deposits or investments in the form of savings, common or individual trust funds, deposit substitutes, investment management accounts and other investments evidenced by certificates in such forms prescribed by the BSP which are preterminated by the holder before the fifth (5th) year based on the holding period at the following rates:

²⁸ Sec. 24(B), *supra*.

²⁹ Prizes amounting to PhP10,000 or less are lumped with other business income (if there is any) subject to the regular individual income tax.

Four (4) years to less than five (5) years	5%
Three (3) years to less than four (4) years	12%
Less than three (3) years	20%

- Interest income from foreign currency bank deposits – 7 1/2% final tax on the gross amount.
- Cash and/or property dividends actually or constructively received and share of an individual partner in the net profits of a taxable partnership - 10%.

(b) *Nonresidents* - same treatment as with resident citizens except on interest income from foreign currency bank deposits which is exempt from tax.

(2) Aliens

(a) *Residents* - on passive incomes received from sources within the Philippines, same treatment as with resident citizens.

(b) *Nonresidents*

- *Engaged in trade or business in the Philippines* - same treatment as with resident citizens except on interest income from foreign currency bank deposits and long-term deposits and investments evidenced by certificates prescribed by the BSP which is exempt from tax, and cash and/or property dividends which are subject to 20% final tax.³⁰
- *Not engaged in trade or business in the Philippines* - amounts received as interests, cash and/or property dividends, rents, salaries, wages, premiums, annuities,

³⁰ Sec. 25 (A)(2), *supra*.

compensation, remuneration, emoluments, and other fixed or determinable annual or periodic or casual gains, profits and income, and capital gains (except capital gains from sale of shares of stock in any domestic corporation and real property which are taxed in similar manner like resident citizens) are subject to a tax of 25% of such amounts.³¹

c. Capital Gains³²

These are gains arising from the sale or exchange of capital assets. The NIRC defines “capital assets”³³ as property held by the taxpayer (whether or not connected with his trade or business) but not including the following:

- (1) stock in trade of the taxpayer; or
- (2) property of a kind which would properly be included in the inventory of the taxpayer if on hand at the close of the taxable year; or
- (3) property held by the taxpayer primarily for sale to customers in the ordinary course of his trade or business; or
- (4) property used in trade or business of a character which is subject to the allowance for depreciation; or
- (5) real property used in trade or business of the taxpayer.

As a general rule, capital gains are subject to the same rate schedule imposed on compensation and business income, except those arising from the following:

³¹ Sec. 25(B), *supra*.

³² Sec. 24(C), *supra*.

³³ Sec. 39(A)(1), *supra*.

- (1) sale or disposition of real property by citizens of the Philippines or resident alien individuals (except those involving the sale or disposition of their principal residence which is exempt from capital gains tax under certain conditions) - 6% final tax on gross selling price or fair market value whichever is higher.³⁴
- (2) sale or exchange of shares of stock not listed or traded in any local stock exchange which shall be taxed on the net capital gains, as follows:³⁵

Not over PhP100,000	5%
On any amount in excess of PhP100,000	10%

d. Informer's Reward³⁶

A final tax of ten percent (10%) is imposed on the cash reward received by persons instrumental in the discovery of violations of the NIRC and in the discovery and seizure of smuggled goods. The amount of reward is equivalent to 10% of the revenues, surcharges or fees recovered and/or fine or penalty imposed and collected or PhP1,000,000 per case whichever is lower.

³⁴ Sec. 24(D)(1), *supra*. In the case, however, of sale or disposition of real property by a citizen or resident alien to the government or any of its political subdivisions or agencies or to GOCCs, the taxpayer has the option to be taxed under the regular individual income tax or 6% final tax.

³⁵ Sec. 24(C), *supra*. RR 6-2013 provides that in the case of shares of stock not listed or traded in any local stock exchange, the value of the shares of stocks at the time of sale shall be the fair market value. In determining the value of the shares, the Adjusted Net Asset Method shall be used whereby all assets and liabilities are adjusted to fair market values. The appraised value of real property at the time of sale, on the other hand, shall be the higher of: (a) the fair market value as determined by the Commissioner; or (b) the fair market value as shown in the schedule of value fixed by the Provincial and City Assessors; or (c) the fair market value as determined by an Independent Appraiser.

³⁶ Sec. 282, *supra*.

e. Withholding of Tax at Source

The withholding tax is a mechanism designed to facilitate the collection of taxes from taxpayers. The withholding tax may be creditable or final. If creditable, the amount of tax withheld is allowed to be credited against the taxpayer's final tax liability and adjusted accordingly. If final, no such tax credit and adjustments are to be made by the taxpayers.

Subject to withholding tax are the following individual incomes at the following rates:

Table 3. SUMMARY OF WITHHOLDING TAX RATES FOR INDIVIDUALS³⁷

Type of Income	Resident Citizen or Alien Individuals	Non-resident Aliens Engaged in Trade or Business	Non-resident Aliens Not Engaged in Trade or Business
Dividends from a domestic corporation	10% final	20% final	25% final
Royalties (In general)	20% final	20% final	25% final
Royalties on books, other literary works and musical compositions	10% final	10% final	25% final
Share in the distributable net income after tax of a partnership	---	20% final	25% final
Interest on Philippine currency bank deposits and deposit substitutes	20% final	20% final	25% final

³⁷ The withholding tax rates are those provided under RR 2-98, as amended.

Type of Income	Resident Citizen or Alien Individuals	Non-resident Aliens Engaged in Trade or Business	Non-resident Aliens Not Engaged in Trade or Business
Interest income on long-term deposits pre-terminated before the fifth year			
<i> Holding period</i>			
- 4 yrs to less than 5 yrs	5% final	5% final	---
- 3 yrs to less than 4 yrs	12% final	12% final	---
- less than 3 yrs	20% final	20% final	---
Interest on foreign currency bank deposits	7.5% final	Exempt	Exempt
Prizes exceeding PhP10,000 and other winnings (except Sweepstakes and Lotto Winnings)	20% final	20% final	25% final
Gains from sale of shares of stock	5% and 10% final	5% and 10% final	5% and 10% final
Gains from sale of real property classified as capital asset	6% final	6% final	6% final
Informer's reward	10% final	---	---
Other fixed or determinable gains, profit and income	---	---	25% final
Income derived from contracts from Service Contractors engaged in petroleum operations	8% final	8% final	---

Type of Income	Resident Citizen or Alien Individuals	Non-resident Aliens Engaged in Trade or Business	Non-resident Aliens Not Engaged in Trade or Business
Disposition of real property classified as capital asset to the government or any of its political subdivisions	6% final or 5%-32%	6% final 5%-32%	6% final 5%-32%
Gross income by non-resident cinematographic film owners, lessors or distributors	---	25% final	---
Professional fees, talent fees of the following individuals:			
a. lawyers; certified public accountants; doctors of medicine; architects; civil, electrical, chemical, mechanical, structural, industrial, mining, sanitary, metallurgical and geodetic engineers; marine surveyors; doctors of veterinary science; dentists; professional appraisers; connoisseurs of tobacco; actuaries; and interior decorators, designers, real estate service practitioners (RESPs), (i.e. real estate consultants, real estate appraisers and	15% creditable if the gross income for the current year exceeds PhP720,000; and 10% if otherwise	---	---

Type of Income	Resident Citizen or Alien Individuals	Non-resident Aliens Engaged in Trade or Business	Non-resident Aliens Not Engaged in Trade or Business
<p>real estate brokers) requiring government licensure examination given by the Real Estate Service pursuant to RA 9646³⁸ and all other professions requiring government licensure examinations and/or regulated by the Professional Regulations Commission, Supreme Court, etc.</p>			
<p>b. actors and actresses; singers; lyricists; composers; emcees; professional athletes; directors and producers, insurance agents and insurance adjusters; management and technical consultants; bookkeeping agents and agencies; other recipients of talent fees; and fees of directors who are not employees of the company paying such fees.³⁹</p>	<p>15% creditable if the gross income for the current year exceeds PhP720,000; and 10% if otherwise</p>	<p>---</p>	<p>---</p>

³⁸ RR 2-98, as amended by RR 10-2013.

³⁹ RR 2-98, as amended by RRs 06-01, 12-01 and 30-03.

Type of Income	Resident Citizen or Alien Individuals	Non-resident Aliens Engaged in Trade or Business	Non-resident Aliens Not Engaged in Trade or Business
Rentals of real or personal property used in business, poles, satellites and transmission facilities, and billboards	5% creditable	---	---
Income payments made to resident individuals and corporate cinematographic film owners, lessors or distributors	5% creditable	---	---
Income payments made to general engineering, building, and specialty and other contractors	2% creditable	---	---
Income distributed to the beneficiaries of estates and trust (except such income subject to FWT and tax exempt income)	15% creditable	---	---
Gross commissions of customs, insurance, stock, immigration and commercial brokers, fees of agents of professional entertainers and real estate service practitioners (RESPs), (i.e. real estate consultants, real estate appraisers and real estate brokers) who	10% creditable	---	---

Type of Income	Resident Citizen or Alien Individuals	Non-resident Aliens Engaged in Trade or Business	Non-resident Aliens Not Engaged in Trade or Business
failed or did not take up the licensure examination given by and not registered with the Real Estate Service under the Professional Regulations Commission ⁴⁰			
Income payments to partners of General Professional Partnerships	15% creditable if the gross income for the current year exceeds PhP720,000; and 10% if otherwise	---	---
Professional fees paid to medical practitioners (includes doctors of medicine, doctors of veterinary science and dentists) by hospitals and clinics, or paid directly to the medical practitioners by patients 'admitted and confined' to such hospitals or clinics, or paid directly to such medical practitioners by health maintenance organizations (HMOs) and/or similar establishments ⁴¹	15% creditable if income payments to the medical practitioner for the current year exceeds P720,000; and 10% if otherwise	---	---

⁴⁰ RR 2-98, as amended by RR 10-2013.

⁴¹ RR 2-98, as amended by RRs. 12-98, 03-99, 6-01, 14-02, 17-03 and 30-03.

Type of Income	Resident Citizen or Alien Individuals	Non-resident Aliens Engaged in Trade or Business	Non-resident Aliens Not Engaged in Trade or Business
----------------	---------------------------------------	--	--

Gross selling price or total amount of consideration or its equivalent paid to the seller/owner for the sale, exchange or transfer of real property classified as ordinary asset:

a. Where the seller/transferor is exempt from creditable withholding tax	Exempt		
b. Where the seller/transferor is habitually engaged in the real estate business and the selling price of real property is:			
- PhP500,000 or less	1.5% creditable	---	---
- more than PhP500,000 but less than PhP2,000,000	3% creditable	---	---
- more than PhP2,000,000	5% creditable	---	---
c. Where the seller/transferor is not habitually engaged in the real estate business	6% creditable	---	---

Type of Income	Resident Citizen or Alien Individuals	Non-resident Aliens Engaged in Trade or Business	Non-resident Aliens Not Engaged in Trade or Business
Additional Income of Government Personnel from importers, shipping and airline companies, or their agents	15% creditable	---	---
One-half (1/2) of the gross amounts paid by credit card companies to any business entity representing the sales of goods/services to cardholders	1% creditable	---	---
Payments made by the top 20,000 private corporations to their local/resident suppliers of goods and local/resident supplier of services other than those covered by other rates of withholding tax ⁴²	1% creditable to supplier of goods; 2% creditable to supplier of services	1% creditable to supplier of goods; 2% creditable to supplier of services	---
Payments made by the government to its local/resident supplier of goods and local/resident supplier of services other than those covered by other rates of withholding	1% creditable to supplier of goods; 2% creditable to supplier of services	---	---

⁴² RR 2-98, as amended by RRs 06-01, 17-03 and 14-08.

Type of Income	Resident Citizen or Alien Individuals	Non-resident Aliens Engaged in Trade or Business	Non-resident Aliens Not Engaged in Trade or Business
tax (except any single purchase of PhP10,000 and below)			
Commissions of independent and/or exclusive sales representatives, and marketing agents and sub-agents of companies, including multi-level marketing companies	10% creditable	---	---
Tolling fees paid to refineries ⁴³	5% creditable	---	---
Payments made by pre-need companies to funeral parlor	1% creditable	---	---
Payments made to embalmers for services rendered to funeral companies	1% creditable	---	---
Payments made to suppliers of agricultural products	1% creditable	---	---
Payments on purchases of minerals ⁴⁴ , mineral	5% creditable	---	---

⁴³ As added by RR 14-02.

⁴⁴ RR 2-98, as amended by RR 6-2012. This also includes purchases of gold by the Bangko Sentral ng Pilipinas (BSP) from gold miners/suppliers under PD 1899, as amended by RA 7076 (People's Small-Scale Mining Act of 1991).

Type of Income	Resident Citizen or Alien Individuals	Non-resident Aliens Engaged in Trade or Business	Non-resident Aliens Not Engaged in Trade or Business
products and quarry resources, such as but not limited to silver, gold, marble, granite, sand, boulders and other materials/products			
MERALCO Payments on:			
a. MERALCO Refund arising from Supreme Court Case GR No. 14814	25% for customers with active contract; 32% for customers with terminated contract	---	---
b. Interest income on the refund of meter deposit	10% creditable; and 20% if non-residential customers with monthly electricity consumption of more than 200kwh		
Income payments made by political parties and candidates of local and national elections of all their campaign expenditures, and income payments made by individuals or juridical persons for their purchases of goods and services intended to be	5% creditable	---	---

Type of Income	Resident Citizen or Alien Individuals	Non-resident Aliens Engaged in Trade or Business	Non-resident Aliens Not Engaged in Trade or Business
given as campaign contribution to political parties and candidates ⁴⁵			
Income payments received by Real Estate Investment Trust (REIT) ⁴⁶	1% creditable	---	---
Income payments made by the top 5,000 individual taxpayers to their local/resident suppliers of goods and local/resident suppliers of services other than those covered by other rates of withholding tax	1% creditable to supplier of goods; 2% creditable to supplier of services	---	---
Interest income derived from any other debt instruments not within the coverage of deposit substitutes and RR 14-2012 subject to Creditable/Expanded Withholding Tax ⁴⁷	20% creditable	---	---

⁴⁵ RR 2-98, as amended by RR 8-2009.

⁴⁶ Section 12 of RR 13-2011, Implementing the Tax Provisions of RA 9856, otherwise known as the “Real Estate Investment Trust Act of 2009”.

⁴⁷ RR 2-98, as amended by RR 14-2012.

9. *Filing of Returns*

a. **The following persons are required to file income tax returns:**⁴⁸

- (1) Every Filipino citizen residing in the Philippines (except persons not required to file income tax returns and those who are subject to substituted filing of income tax return [refer to items A (9)(c) and (d)];
- (2) Every Filipino citizen residing outside the Philippines, on income from sources within the Philippines;
- (3) Every alien residing in the Philippines, on income derived from sources within the Philippines;
- (4) Every nonresident alien engaged in trade or business, or in the exercise of profession in the Philippines; and
- (5) Estates and trusts engaged in trade or business.⁴⁹

b. **Persons required to file information on returns**⁵⁰ (for income not subject to withholding):

Every person who made payment to another person on any of the fixed or determinable gains, profits and income for the preceding calendar year as in:

- (1) interests;
- (2) rents;
- (3) salaries and wages;

⁴⁸ Sec. 51(A)(1), *supra*.

⁴⁹ Sec. 65, *supra*.

⁵⁰ Sec. 68, *supra*.

- (4) premiums;
- (5) annuities;
- (6) compensations;
- (7) remunerations;
- (8) emoluments; and
- (9) other fixed or determinable gains, profits and income.

c. Persons not required to file income tax returns:⁵¹

- (1) Individuals whose gross income does not exceed their total personal and additional exemptions;
- (2) Individuals whose pure compensation income derived from sources within the Philippines, the income tax on which has been correctly withheld under the provisions of the NIRC;
- (3) Individuals whose income consists solely of interest, prizes, winnings, royalties, dividends, share in a partnership taxable as a corporation which has been subjected to final withholding tax; and
- (4) Minimum wage earners or an individual who is exempt from income tax pursuant to the provisions of the NIRC and other laws, general or special.

d. Substituted Filing of Income Tax Returns

An individual taxpayer receiving purely compensation income from only one employer is no longer required to file the Annual Income Tax Return (Form No. 1700) if the income tax has been correctly withheld by the employer. The Annual Information Return of Income Taxes Withheld on Compensation and Final Withholding Taxes (BIR Form No. 1604-CF) filed by employers

⁵¹ Sec. 51(A)(2), *supra*.

shall be equivalent to the substituted filing of income tax returns by said employees. The following taxpayers, however, are not qualified to avail of the substituted filing⁵²:

- (1) Individuals deriving compensation from two or more employers concurrently or successively at anytime during the taxable year.
- (2) Individuals deriving compensation income, regardless of the amount, whether from a single or several employers during the calendar year, the income tax of which has not been withheld correctly (i.e. tax due is not equal to the tax withheld) resulting to collectible or refundable return.
- (3) Minimum wage earners including employees of the government of the Philippines, or any political subdivisions, agencies or instrumentalities, with Salary Grades 1 to 3 whose income were not subjected to withholding tax.
- (4) Individuals deriving other non-business, non-profession-related income in addition to compensation not otherwise subject to a final tax.
- (5) Individuals receiving purely compensation income from a single employer, although the income tax of which has been correctly withheld, but whose spouse falls under Section 2.83.4(A), (B), (C) and (D) of RR 2-98, as amended.
- (6) Nonresident aliens engaged in trade or business in the Philippines deriving purely compensation income, or compensation income and other non-business, non-profession-related income.

⁵² In case of married individuals who are still required to file returns under existing provisions of the law, i.e., in those instances not covered by the substituted filing of returns, only one return for the taxable year shall be filed by either spouse to cover the income of the spouses, which return shall be signed by the husband and wife unless it is physically impossible to do so, in which case signature of one of the spouses would suffice.

e. Electronic Filing and Payment System (EFPS)⁵³

Both large and non-large individual taxpayers filing BIR Form 1700 who are required to file an income tax return have the option to avail of the EFPS in filing their annual income tax returns and paying the taxes due thereon. All taxpayers who intend to e-file their income tax return and pay electronically their income tax liability must register with the BIR - Integrated Tax System (ITS) and must have an e-mail account and Internet access. Taxpayers who e-file their returns may pay their tax liabilities either electronically (e-pay) or manually.

Large taxpayers who opt to e-pay their tax due must do so through any Authorized Agent Bank (AAB) accredited by the BIR which is e-payment capable. On the other hand, non-large taxpayers can pay through the internet banking facilities of any AAB, regardless of whether such AAB is within the territorial jurisdiction or not of the RDO where the taxpayer is registered.

⁵³ EFPS is the electronic processing and transmission of tax return information including attachments, and taxes due thereon to the government made over to the internet through BIR website. In compliance with Section 34 of RA 8792, otherwise known as the Electronic Commerce Act, the Bureau is expanding its services for a paperless filing of returns and payment of taxes thru EFPS. Non-EFPS filers or taxpayers, particularly accredited tax agents/practitioners and all their client-taxpayers, accredited printers of principal and supplementary receipts/invoices, one-time transaction (ONETT) taxpayers, those who shall file a “No Payment” return, Government-Owned or -Controlled Corporations (GOCCs), local government units (LGUs), except barangays and cooperatives registered with National Electrification Administration (NEA) and Local Water Utilities Administration (LWUA) are mandated to use Electronic BIR Forms (eBIRForms) in the preparation and filing of all tax returns starting September 1, 2014 (RR No. 6-2014). Section 3 of RR 5-2015, on the other hand, not only amends certain provisions of RR 6-2014 but also provides for the penalties that shall be imposed for failure to file returns under the electronic systems of the BIR.

f. Basic forms used in filing an income tax return:

- (1) Taxpayers who are within the jurisdiction of Revenue District Offices (RDOs) are required to use the following redesigned/new BIR forms⁵⁴:

Annual Income Tax Return for - 1700 Version
 individuals earning purely compensation June 2013
 income (including Non-Business/
 Non-Profession Income)

Annual Income Tax Return for - 1701 Version
 Self-Employed Individuals, Estates, June 2013
 and Trusts (including those with both
 Business and Compensation Income)

For real property transactions - 1706
 (individual capital gains tax)

Account Information Form - 1701AIF

10. Place of Filing⁵⁵

- a. The return shall be filed with an Authorized Agent Bank, Revenue District Officer, Collection Agent, or duly authorized Treasurer of

⁵⁴ For income earned for taxable year ended December 31, 2013, RR 2-2014 prescribes the use of revised BIR income tax forms with barcodes to reflect the changes in information requested (Supplemental Information) from said BIR Forms and to enable the said forms to be read by an Optical Character Reader.

⁵⁵ Sec. 51(B), NIRC. The prevailing modes of payment are: (a) Bank Debit System; (b) Over-the-Counter Cash Transactions; (c) Credit Facility; (d) Tax Debit Memo; and (e) Card Payments such as Credit, Debit and Prepaid Card Payment System (RR 3-2016, Subject: Prescribing the Policies and Guidelines on the Adoption of Additional Modes of Payment of Internal Revenue Taxes.). Taxpayers who live in a municipality where there is no AAB may pay their taxes in cash to the BIR Collection Agent assigned to said municipality.

the city or municipality in which such person has a legal residence or principal place of business in the Philippines, or if there is no legal residence or place of business in the Philippines, with the Office of the Commissioner.

Information returns (BIR Form 1701AIF) shall be filed with the Revenue Regional Director, Revenue District Officer, or Collection Agent where the principal office of the taxpayer is located.

11. Time of Filing⁵⁶

- a. Residents of the Philippines, whether citizens or aliens whose income had been derived solely from salaries, wages, interest, dividends, allowances, commissions, fees, pensions, or any combination thereof⁵⁷ - *on or before April 1*⁵⁸.
- b. Individuals subject to the final schedular tax on net capital gains from the sale or exchange of shares of stock not traded thru a local stock exchange - *within 30 days after each transaction and a final consolidated return on or before April 15*.
- c. Individuals subject to the capital gains tax on the sale or disposition of real property - *within 30 days following each sale or other disposition of capital assets*.

⁵⁶ Sec. 51(C), *supra*.

⁵⁷ With respect, however, to taxpayers, whether large or non-large, who availed of the electronic filing and payment system (EFPS), the deadline for electronically filing the applicable withholding tax returns and paying the taxes due thereon via the EFPS shall be five (5) days later than the deadlines, unless the EFPS regulations provide for different deadline dates and except for the final capital gains tax on the sale, barter or exchange of real property where the law fixes a definite deadline for the payment thereof.

⁵⁸ Government officials and employees are enjoined to file their income tax on or before March 15 by virtue of Memorandum Circular No. 94 issued by President Corazon C. Aquino on February 13, 1989.

- d. Account Information Form (BIR Form 1701 AIF) - *on or before April 15 of each year covering income for the preceding taxable year.*

12. Payment of Tax⁵⁹

The income tax is payable at the time the return is filed. When the income tax due exceeds PhP2,000, it may be paid in two equal installments: the first, at the time the return is filed; and second, on or before the 15th day of July following the close of the calendar year.

13. Penalties⁶⁰

In general, the non-filing of income tax returns and/or non-payment of income tax shall result in the following:

- a. imposition of fine and/or imprisonment;
- b. imposition of surcharge of -
 - (1) 50% of the tax or deficiency tax, in case of willful neglect to file the return within the period prescribed by the Code, or in case of false or fraudulent return willfully made, to be added to the tax or deficiency⁶¹ tax; and

⁵⁹ Sec. 56(A)(1) and (2) of the NIRC. On the other hand, RA 9505, otherwise known as the PERA Act of 2008 provides that an individual making contributions to a Personal Equity and Retirement Account (PERA) may be entitled to a non-refundable tax credit equivalent to five percent (5%) of the maximum allowable PERA contribution. The maximum allowable contribution is PhP100,000.00 or PhP200,000.00 if the contributor is an overseas Filipino.

⁶⁰ Secs. 247, 248 and 253, *supra*.

⁶¹ The term “deficiency” means: (1) the amount by which the tax imposed by law exceeds the amount shown as the tax of the taxpayer upon his return; or (2) if no amount is shown as the tax by the taxpayer upon his return or if no return is made by the taxpayer, then the amount by which the tax exceeds the amount previously assessed (or collected without assessment) as a deficiency. [Sec. 56(B)(1) and (2), *supra*.]

- (2) 25% of the amount due, to be imposed in any of the following cases:
- (a) failure to file the income tax return and pay the tax due thereon on the date prescribed by law; or
 - (b) filing a return with an internal revenue officer other than those with whom the return is required to be filed; or
 - (c) failure to pay the deficiency tax within the time prescribed for its payment; or
 - (d) failure to pay full or part of the amount of tax shown in the return required to be filed, or full amount of tax due for which no return is required to be filed, on or before the date prescribed for its payment.
- c. Imposition of interest on any unpaid amount of tax at 20% annually or such higher rate of interest as may be required.⁶²
- (1) In case of a tax shown in the return as due but unpaid, the interest shall be 20% a year from due date until paid.
 - (2) If the period for filing return is extended, there is also a 20% a year interest to be paid from due date up to the date of payment.
- d. Deportation of the taxpayer, if an alien.⁶³

⁶² Sec. 249, *supra*.

⁶³ Sec. 253 (c), *supra*.

B. CORPORATE INCOME TAX

1. *Corporations subject to tax*

The corporate income tax is imposed on:

a. Domestic Corporation - is a corporation created or organized in the Philippines or under its laws which shall include partnerships, no matter how created or organized, joint-stock companies, joint accounts, associations, or insurance companies, but does not include general professional partnerships and a joint venture or consortium formed for the purpose of undertaking construction projects or engaging in petroleum, coal, geothermal and other energy operations pursuant to an operating or consortium agreement under a service contract with the Government.⁶⁴

b. Foreign Corporation

(1) *Resident Foreign Corporation* - is one which is organized or existent under the laws of any foreign country but is engaged in trade or business in the Philippines.

(2) *Nonresident Foreign Corporation* - is one which is organized under the laws of any foreign country and not engaged in trade or business in the Philippines but is deriving income from sources within the Philippines.

2. *Determination of Taxable Income*

a. Domestic Corporation - taxable on the entire net income received from sources *within* and *without* the Philippines. Net taxable income is the amount equal to gross income less allowable deductions.⁶⁵

⁶⁴ Sec. 22(B and C), *supra*.

b. Foreign Corporation

- (1) *Resident Foreign Corporation* - taxed similarly as a domestic corporation on incomes derived from sources *within* the Philippines.⁶⁶
- (2) *Nonresident Foreign Corporation* - taxable upon the entire *gross income* received from all sources *within* the Philippines.⁶⁷

c. Exclusions - refer to item A(4)**d. Deductions from Gross Income**⁶⁸(1) *Domestic Corporation*

Same deductions allowed to individual taxpayers except premium payments on health and/or hospitalization insurance or optional standard deduction equivalent to 40% of its gross income. With respect to charitable and other contributions subject to limitation, the same should not exceed 5% of the taxable income without the benefit of said deduction. For health institutions, they are entitled to deduct from their gross income up to twice the amount incurred in complying with the provisions of RA 7600⁶⁹. Also allowed as additional deductions are discounts given to senior citizens and persons with disability under RA 9257⁷⁰ and RA 9442⁷¹, as amended, respectively and 50% of the expenses incurred for the adopt-a-school program pursuant to RA 8525⁷².

⁶⁵ Sec. 27(A), *supra*. Pursuant to RA 9856 (An Act Providing the Legal Framework for Real Estate Investment Trust [REIT] and for Other Purposes), REIT will be subject to the income tax on the taxable net income as defined in Chapter V of the NIRC instead of its taxable net income as stated in this Act, upon the occurrence of the following: (i) failure to maintain its status as a public company; (ii) failure to maintain the listed status of the investor securities on the registered entity and the registration of the investor securities by the Securities and Exchange Commission; and/or (iii) failure to distribute at least 90% of its distributable income required under Section 7 of RA 9856.

(2) *Foreign Corporation*

(a) Resident Foreign Corporation

Same deductions allowed to domestic corporations and conditions and limitations except on the following items of deductions:

- *Taxes* - the deductions for taxes shall be allowed only if and to the extent that they are connected with income from sources within the Philippines.
- *Losses* - losses deductible shall be those actually sustained during the year incurred in business, trade or exercise of a profession conducted within the Philippines and not compensated for by insurance or other forms of indemnity.
- *Bad debts* - the deductions for bad debts shall be allowed only if they arise in the course of business or trade conducted within the Philippines.

⁶⁶ Sec. 28(A), *supra*.

⁶⁷ Sec. 28(B), *supra*.

⁶⁸ Sec. 34, *supra*.

⁶⁹ Entitled “An Act Providing Incentives to All Government and Private Health Institutions With Rooming-In and Breast-Feeding Practices and for Other Purposes,” approved on June 2, 1992.

⁷⁰ Entitled “An Act Granting Additional Benefits and Privileges to Senior Citizens Amending for the Purpose RA 7432, Otherwise Known as “An Act to Maximize the Contribution of Senior Citizens to Nation Building, Grant Benefits and Special Privileges and for Other Purposes,” approved on February 26, 2004.

⁷¹ Entitled, “An Act Amending RA 7277, otherwise known as the “Magna Carta for Disabled Persons, and for Other Purposes”, approved on April 30, 2007.

⁷² Entitled “An Act Establishing an “Adopt-A-School Program,” Providing Incentives Therefor, and for Other Purposes,” approved on February 14, 1998.

- *Depreciation* - a reasonable allowance for the deterioration of property arising out of its use or employment or its non-use in the business, trade or profession on properties located in the Philippines.
- *Depletion of oil and gas wells and mines* - the allowance for depletion of oil and gas wells or mines is authorized only with respect to oil and gas wells or mines located within the Philippines.

(b) *Nonresident Foreign Corporation*

No deductions are allowed.

- e. **Non-deductible items** - Same as the items not deductible from gross income under the Individual Income Tax. [refer to item A(6)]
- f. **Exemptions**⁷³

The following are exempt from the payment of corporate income tax, subject to certain conditions:

- (1) Labor, agricultural, or horticultural organization not organized principally for profit;

⁷³ Sec. 30, *NIRC of 1997*. Under RMO 20-13, as amended by RMO 28-13, corporations and associations enumerated under Section 30 of the NIRC of 1997, must secure a tax exemption ruling or certificate to confirm their tax-exempt status. In case of failure to secure a tax exemption ruling, RMO 34-14 provides that the concerned non-stock, non-profit entity is duty bound to prove compliance with the conditions laid down by the law and other pertinent administrative issuances in the event of tax investigation to be exempt from income tax. Non-stock, non-profit entities that fail to renew their tax exemption ruling before the lapse of its validity period may still file their applications with the Revenue District Office where they are registered and the same shall already be treated as a new application. RMC 08-2014, on the other hand, provides that failure on the part of non-stock, non-profit entities to present valid, current and subsisting Tax Exemption Ruling to the appropriate withholding agents shall subject them to the payment of the withholding taxes due on their transactions while failure of withholding agents to withhold, notwithstanding the lack of Tax Exemption Ruling, shall cause the imposition of penalties under Section 251 and other pertinent Sections of the Tax Code.

- (2) Mutual savings bank not having a capital stock represented by shares, and cooperative bank without capital stock organized and operated for mutual purposes and without profit;
- (3) A beneficiary society, order or association, such as fraternal organization, or a mutual aid association or a non-stock corporation, organized and operated exclusively for the benefit of its members;
- (4) Cemetery company owned and operated exclusively for the benefit of its members;
- (5) Religious, charitable⁷⁴, scientific, athletic, and cultural organizations or those organized for the rehabilitation of veterans, under certain conditions⁷⁵;
- (6) Business league, chamber of commerce, or board of trade, not organized for profit and no part of the net income of which inures to the benefit of any private individual;
- (7) Civic league or organization organized for profit but operated exclusively for the promotion of social welfare;
- (8) Non-stock and nonprofit educational institutions;
- (9) Government educational institutions;
- (10) Farmers' or other mutual typhoon or fire insurance company or like organization of purely local character; and

⁷⁴ RA 10165, otherwise known as the "Foster Care Act of 2012," provides for the exemption from the payment of corporate income tax of the income derived by child-caring or child-placing institutions licensed by the Department of Social Welfare and Development (DSWD) to implement the foster care program under the Act.

⁷⁵ RMC 51-2014 clarifies the inurement prohibition applicable to non-stock, non-profit corporations/associations/organizations.

- (11) Farmers', fruit growers', or like associations organized and operated as sales agent, under certain conditions.

3. *Tax Base and Tax Rates*

a. **Corporate Income**

(1) *Domestic Corporations*⁷⁶

- (a) In general - 30% upon the taxable income derived during each taxable year from all sources within and without the Philippines by every corporation, organized in, or existing under the laws of the Philippines.
- (b) Proprietary Educational Institutions and Hospitals which are nonprofit - 10% on their taxable income from the operation of the educational institution and hospital but if their gross income from unrelated trade, business or other activity exceeds 50% of the total gross income then the regular corporate income tax shall apply.
- (c) Government-owned or controlled corporations⁷⁷, agencies or instrumentalities, except Government Service Insurance System (GSIS), Social Security System (SSS), Philippine Health Insurance Corporation (PHIC), Local Water

⁷⁶ Sec. 27, *supra*. Pursuant to RA 9337 (Expanded VAT Law), the corporate income tax is decreased from 35% to 30% effective January 1, 2009. In the case of duly registered and accredited NGOs engaged in microfinance operations for the poor and low-income individuals, Section 20 of RA 10693 (approved on November 3, 2015) provides that such organizations shall pay a two percent (2%) tax based on its gross receipts from microfinance operations in lieu of all national taxes. However, such microfinance NGOs are still liable to applicable regular taxes on its non-microfinance activities.

⁷⁷ Pursuant to RA 9593 [Tourism Act of 2009 (May 12, 2009) and RA 10026 (March 11, 2010)], the following are exempted from payment of corporate income tax: Tourism Promotions Board, Tourism Infrastructure and Enterprise Zone Authority, Duty Free Philippines Corporation and Local Water Districts.

Districts (LWD), and Philippine Charity Sweepstakes Office (PCSO)⁷⁸ - 30% upon their taxable income derived during each taxable year.

(d) Tax on income derived under the Expanded Foreign Currency Deposit System.⁷⁹

- Income derived by a depository bank under the expanded foreign currency deposit system from foreign currency transactions with nonresidents, offshore banking units in the Philippines, local commercial banks including branches of foreign banks that may be authorized by the Bangko Sentral ng Pilipinas (BSP) to transact business with foreign currency deposit system units under the EFCDS, except net income from such transactions as may be specified by the Secretary of Finance - exempt.
- Interest income from foreign currency loans granted by such depository banks under said expanded system to residents other than offshore banking units in the Philippines or other depository banks under the expanded system - 10% final tax.
- Income of nonresidents, whether individuals or corporations, from transactions with depository banks under the expanded system - exempt.

⁷⁸ RMC 43-2011 circularized Sec. 19 of RA 9679, otherwise known as the “Home Development Mutual Fund Law of 2009” which provides that all contributions collected and accruals to the Pag-IBIG Fund and income or investment earnings therefrom, as well as all supplies, equipment, paper or documents shall be exempt from any tax, assessment, fee, charge, or customs or import duty; and all benefit payments made by the Pag-IBIG Fund shall likewise be exempt from all taxes, fees or charges.

⁷⁹ Sec. 27(D), 28(A)(4), (A)(7)(b), *supra.*, as amended by RA 9294.

Table 4. SUMMARY OF TAX SOURCES OF CORPORATE TAXPAYERS

Sources of Income Subject to Tax	Domestic Corporation		Foreign Corporation			
	Within the Philippines	Without	Resident		Nonresident	
			Within	Without	Within	Without
			the Philippines		the Philippines	
a. Business Income	Y	Y	Y	N	Y	N
b. Passive Income						
1. Royalties	Y	N	Y	N	Y	N
2. Interest income from Philippine currency bank deposits and yield or any other monetary benefit from deposit substitutes and from trust funds and similar arrangements	Y	N	Y	N	Y	N
3. Interest income from long-term deposit instruments pre-terminated before the fifth (5 th) year	Y	N	Y	N	Y	N
4. Interest income from foreign currency bank deposits	Y	N	Y	N	N	N
5. Cash and/or property dividends	N	N	N	N	Y	N
c. Other Sources of Income	Y	Y	Y	N	Y	N

(2) *Foreign Corporations*⁸⁰

(a) Resident foreign corporations⁸¹

- In General - 30% on taxable income derived during the taxable year from all sources within the Philippines by a corporation organized, authorized, or existing under the laws of any foreign country, engaged in trade or business within the Philippines.
- International carriers - 2.5%⁸² on their Gross Philippine Billings.⁸³
- Offshore banking units⁸⁴ –
 - Income derived from foreign currency transactions with local commercial banks and branches of foreign banks authorized by the BSP to transact with OBUs - exempt

⁸⁰ Sec. 28, *supra*.

⁸¹ Sec. 28(A)(1), *supra*.

⁸² RA 10378, entitled “An Act Recognizing the Principle of Reciprocity as Basis for the Grant of Income Tax Exemptions to International Carriers and Rationalizing Other Taxes Imposed Thereon by Amending Sections 28(A)(3)(a), 109, 118 and 236 of the National Internal Revenue Code (NIRC), As Amended, and for Other Purposes” (approved on March 7, 2013), provides that international carriers doing business in the Philippines may avail of a preferential rate or exemption from the 2.5% Gross Philippine Billings tax on their gross revenue derived from the carriage of persons and their excess baggage on the basis of an applicable tax treaty or international agreement to which the Philippines is a signatory or on the basis of reciprocity such that an international carrier, whose home country grants income tax exemption to Philippine carriers, shall likewise be exempt from the tax imposed under this provision.

⁸³ “Gross Philippine Billings” refers to the amount of gross revenue derived from carriage of persons, excess baggage, cargo and mail originating from the Philippines in a continuous and uninterrupted flight, irrespective of the place of sale or issue and the place of payment of the ticket or passage document.

⁸⁴ Sec. 27(D), 28(A)(4), *supra*., as amended by RA 9294 (April 28, 2004).

- Interest income derived from foreign currency loans granted to residents other than offshore banking units or local commercial banks, including local branches of foreign banks that may be authorized by the BSP to transact business with offshore banking units - 10% final tax.
- Income of nonresidents, whether individuals or corporations, from transactions with said offshore banking units - exempt.
- Branch profits remittances - 15% on any profit remitted by a branch to its head office abroad, except profit remitted by enterprises which are registered with the Philippine Economic Zone Authority (PEZA) and other companies within the special economic zones such as Subic Bay Metropolitan Authority (SBMA) and Clark Development Authority (CDA).
- Regional or Area Headquarters and Regional Operating Headquarters of Multinational Corporations.⁸⁵
 - Regional or Area Headquarters of Multinational Corporations. - exempt.
 - Regional Operating Headquarters - 10% final tax on their taxable income.
- Depository banks under the Expanded Foreign Currency Deposit System (EFCDS).
 - Income derived by a depository bank under the expanded foreign currency deposit system from foreign currency transactions with nonresidents,

⁸⁵ Sec. 28(A)(6), *supra*.

offshore banking units in the Philippines, local commercial banks including branches of foreign banks that may be authorized by the Bangko Sentral ng Pilipinas (BSP) to transact business with foreign currency deposit system units, except net income from such transactions as may be specified by the Secretary of Finance - exempt.

- Interest income from foreign currency loans granted by such depository banks under said expanded system to residents other than offshore banking units in the Philippines or other depository banks under the expanded system - 10% final tax.
- Income of nonresidents, whether individuals or corporations, from transactions with depository banks under the expanded system - exempt.

(b) Nonresident Foreign Corporations⁸⁶

- In general - 30% on the gross income received during the taxable year from all sources within the Philippines, such as interests, dividends, rents, royalties, salaries, premiums (except reinsurance premiums), annuities, emoluments or other fixed or determinable annual, periodic, or casual gains, profits and income, and capital gains, except gains realized from sale, exchange or disposition of shares of stock in any domestic corporation.
- Nonresident cinematographic film owners, lessors or distributors - 25% of their gross income from all sources within the Philippines.

⁸⁶ Sec. 28(B), *supra*.

- Nonresident owners or lessors of vessels chartered by Philippine nationals - 4.5% on gross rentals, lease or charter fees.
- Nonresident owners or lessors of aircrafts, machineries and other equipment - 7.5% on gross rentals, lease and other fees.

Table 5. SUMMARY OF TAX BASE AND TAX RATES OF CORPORATE TAXPAYERS

Taxpayers	Tax Base	Tax Rates
1. Domestic Corporations (In General)	Taxable Net Income (TNI)	30%
a. Proprietary Educational Institutions and Hospitals	TNI	10% or 30%
b. GOCCs, Agencies or Instrumentalities (except GSIS, SSS, PHIC, LWD, Pag-IBIG Fund, PCSO, TPB and TIEZA)	TNI	30%
c. Depository Banks under the EFCDS	Taxable Gross Income (TGI)	10%/exempt
2. Resident Foreign Corporations (In General)	TNI	30%
a. International Carriers	Gross Philippine Billings	2.5%/ Preferential Tax Rate/ Exempt ⁸⁷
b. Offshore Banking Units	TGI	10%/exempt

⁸⁷ On the basis of an applicable tax treaty or international agreement to which the Philippines is a signatory or on the basis of reciprocity.

Taxpayers	Tax Base	Tax Rates
c. Regional or Area Headquarters of Multinational Corporations	---	Exempt
d. Regional Operating Headquarters of Multinational Corporations	TNI	10%
e. Depository Banks under the EFCDS	TGI	10%/exempt
3. Nonresident Foreign Corporations (In General)	TGI	30%
a. Nonresident Cinematographic Film Owners, Lessors or Distributors	TGI	25%
b. Nonresident Owner or Lessor of Vessels Chartered by Philippines Nationals	TGI	4.5%
c. Nonresident Owner or Lessor of Aircrafts, Machineries and other Equipment	TGI	7.5%

b. Passive and Other Sources of Income

(1) Domestic Corporations - on the following items of income:

- (a) Interest from Philippine currency bank deposits and yield or any other monetary benefit from deposit substitutes and from trust funds and similar arrangements, and royalties - 20% final withholding tax on the gross amount.⁸⁸

⁸⁸ Sec. 27(D)(1), *supra*.

- (b) Interest income from foreign currency bank deposits - 7 1/2% final withholding tax on the gross amount.⁸⁹
- (c) Net capital gains derived from the sale of shares of stock not traded in the stock exchange:⁹⁰
- | | | |
|--------------------------------|---|-----|
| Not over PhP100,000 | - | 5% |
| Amount in excess of PhP100,000 | - | 10% |
- (d) Intercorporate dividends⁹¹ - Exempt
- (e) Capital gains derived from the sale, exchange or disposition of lands and/or buildings treated as capital assets and not used in the business of a corporation - 6% of the gross selling price or fair market value whichever is higher.⁹²

(2) Foreign Corporations

- (a) *Resident foreign corporations*⁹³ - on passive incomes received from sources within the Philippines, same treatment as with domestic corporations.

⁸⁹ Sec. 27(D)(1), *supra*.

⁹⁰ Sec. 27(D)(2), *supra*.

⁹¹ Sec. 27(D)(4), *supra*.

⁹² Sec. 27(D)(5), *supra*. Gains derived from the sale or disposition of lands and/or buildings which are used in the business and treated as ordinary assets are required to be reported as part of the gross income of the corporation subject to the regular corporate income tax.

⁹³ Sec. 28(A)(7), *supra*.

(b) *Nonresident foreign corporations*⁹⁴ - on interest, rents, royalties, capital gains, dividends, etc. which shall form part of the taxable income of a nonresident foreign corporation subject to the regular corporate income tax on gross amount thereof, except the following:

- Income from foreign currency transactions with depository banks under the expanded foreign currency deposit system and offshore banking units - exempt.
- Interest on foreign loans contracted on or after August 1, 1986 - 20% final withholding tax on gross amount.
- Intercorporate dividends - 15% on the amount of cash and/or property dividends.
- Capital gains from sale of shares of stock not traded in the stock exchange - same treatment as with domestic corporation.⁹⁵

c. **Minimum Corporate Income Tax (MCIT)**⁹⁶

A Minimum Corporate Income Tax (MCIT) at two percent (2%) of the gross income of domestic and resident foreign corporations is imposed beginning on the fourth taxable year immediately following the year in which said corporations

⁹⁴ Sec. 28(B), *supra*.

⁹⁵ Provided that the country in which the nonresident foreign corporation is domiciled shall allow a tax credit against the tax due from the nonresident foreign corporation taxes deemed to have been paid in the Philippines equivalent to 17%.

⁹⁶ Sec. 27(E) and Sec. 28(A)(2), *supra*.

commenced their business operations. The MCIT is payable only when the minimum income tax exceeds the regular corporate income tax.

Any excess of the MCIT over the regular corporate income tax is allowed to be carried forward and credited against the regular income tax payable by subject corporations for three (3) immediately succeeding taxable years.

d. Improperly Accumulated Earnings Tax⁹⁷

- (1) In addition to the other taxes imposed by the NIRC, an improperly accumulated earnings tax equal to ten percent (10%) is imposed on the improperly accumulated taxable income of every corporation (except publicly-held corporations, banks and other nonbank financial intermediaries, and insurance companies) formed or availed for the purpose of avoiding the income tax with respect to its shareholders or the shareholders of any other corporation, by permitting its earnings and profits to accumulate instead of being divided or distributed.
- (2) The term “improperly accumulated taxable income” means the taxable income adjusted by income exempt from tax, income excluded from gross income, income subject to final tax, and the amount of net operating loss carry-over deducted and reduced by the sum of dividends actually or constructively paid and income tax paid for the taxable year.

e. Withholding Tax at Source

Subject to a withholding tax system are the following corporate incomes at the indicated rates:

⁹⁷ Sec. 29, *supra*.

Table 6. SUMMARY OF WITHHOLDING TAX RATES⁹⁸

Type of Income	Domestic Corporation	Resident Foreign Corporation	Non-resident Foreign Corporation ⁹⁹
Dividends from a domestic corporation	---	---	30% final, but 15% creditable under a tax sparing provision
Royalties	20% final	20% final	30% final
Interest on Philippine currency bank deposits and deposit substitutes	20% final	20% final	30% final
Interest from a depository bank under the Expanded Foreign Currency Deposit System	7.5% final	7.5% final	---
Gains from sale of shares of stock	5% - 10% final	5% - 10% final	5% - 10% final
Gains from sale of lands and/or buildings	6% final	---	---
Other fixed or determinable gains, profit and income	---	---	30% final
Gross income from contracts by subcontractors from service contractors	8%	8%	---

⁹⁸ The withholding tax rates are those provided under RR 2-98, as amended.

⁹⁹ 30% beginning January 1, 2009, pursuant to RA 9337.

Type of Income	Domestic Corporation	Resident Foreign Corporation	Non-resident Foreign Corporation
engaged in “petroleum operations”			
Professional fees, talent fees, management, and technical consultant fees, etc., for services of taxable juridical persons	15% creditable if the gross income for the current year exceeds PhP720,000; and 10% if otherwise	15% creditable if the gross income for the current year exceeds PhP720,000; and 10% if otherwise	---
Gross rentals for the use of real property used in business, poles, satellites and transmission facilities, and spaces used in posting advertisements in the form of billboards	5% creditable	5% creditable	---
Gross rentals in excess of PhP10,000 for the use of personal property used in business ¹⁰⁰	5% creditable	5% creditable	---
Gross payments to corporate cinematographic film owners, lessors or distributors	5% creditable	5% creditable	---

¹⁰⁰ The PhP10,000.00 threshold shall not apply when the accumulated gross rental paid by the lessee to the same lessor exceeds or is reasonably expected to exceed PhP10,000.00 within the year. In which case, the lessee shall withhold the five percent (5%) withholding tax on the entire amount.

Type of Income	Domestic Corporation	Resident Foreign Corporation	Non-resident Foreign Corporation
Income payments made to general engineering, building, and specialty contractors (when taxable as a corporation)	2% creditable	2% creditable	---
Commission or service fees of custom, insurance, stock, real estate, immigration and commercial brokers and fees of agents of professional entertainers	10 % creditable		
One-half (1/2) of the gross amount paid by credit card companies to any business entity representing the sales of goods/services to cardholders	1% creditable	1% creditable	---
Payments made by the government to its local/resident supplier of goods and local/resident supplier of services other than those covered by other rates of withholding tax (except any single purchase of ₱10,000 and below)	1% creditable to supplier of goods; 2% creditable to supplier of services	1% creditable to supplier of goods; 2% creditable to supplier of services	---

Type of Income	Domestic Corporation	Resident Foreign Corporation	Non-resident Foreign Corporation
Income payments made by top twenty thousand corporations and government to local suppliers of goods and services (except single purchase of P10,000 or less by government) ¹⁰¹	1% creditable to supplier of goods; 2% creditable to supplier of services	1% creditable to supplier of goods; 2% creditable to supplier of services	---
Commissions, rebates, discounts and other similar considerations paid/granted to independent and exclusive distributors, medical/technical and sales representatives and marketing agents and sub-agents of multi-level marketing companies	10% creditable	5% creditable	---
Tolling fees paid to refineries	5% creditable	5% creditable	---
Payments made to embalmers for services rendered to funeral companies	1% creditable	1% creditable	---
Payments made by pre-need company to funeral parlors	1% creditable	1% creditable	---

¹⁰¹ For purchases involving agricultural products in their original state, the tax required to be withheld shall only apply to purchases in excess of the cumulative amount of PhP 300,000 within the same taxable year. RR 11-2014 limits agricultural products in their original state to only include corn, coconut, copra, palay, rice, cassava, coffee, fruit, vegetable, marine food product, poultry and livestock.

Type of Income	Domestic Corporation	Resident Foreign Corporation	Non-resident Foreign Corporation
Payments made to suppliers of agricultural products ¹⁰²	1% creditable	1% creditable	---
Payments on purchases of minerals, mineral products and quarry resources, such as but not limited to silver, gold, marble, granite, sand, boulders and other materials/products	5% creditable	10% creditable	---
MERALCO Payments on:			
a. MERALCO Refund arising from Supreme Court Case GR No. 14814	25% creditable for customers with active contract; 32% for customers with terminated contract	25% creditable for customers with active contract; 32% for customers with terminated contract	
b. Interest income on the refund of meter deposit	10% creditable; and 20% if non-residential customers with monthly electricity consumption of more than 200 kwh as classified by other electric Distribution Utilities (DU)	10% creditable; and 20% if non-residential customers with monthly electricity consumption of more than 200 kwh as classified by other electric Distribution Utilities (DU)	

¹⁰² RR 11-2014 lifted the suspension of the implementation of the withholding tax on income payments made to suppliers of agricultural products under RR 3-2014.

Type of Income	Domestic Corporation	Resident Foreign Corporation	Non-resident Foreign Corporation
Income payments made by the top 5,000 individual taxpayers to their local/resident suppliers of goods and local/resident suppliers of services other than those covered by other rates of withholding tax	1% creditable to supplier of goods; 2% creditable to supplier of services	1% creditable to supplier of goods; 2% creditable to supplier of services	---
Income payments made by political parties and candidates of local and national elections of all their campaign expenditures, and income payments made by individuals or juridical persons for their purchases of goods and services intended to be given as campaign contribution to political parties and candidates	5% creditable	5% creditable	---
Interest income derived from any other debt instruments not within the coverage of deposit substitutes and RR 14-2012 subject to Creditable/Expanded Withholding Tax	20% creditable	20% creditable	---

4. *Filing of Returns and Payment of Tax*

a. **Corporations required to file returns**

Every corporation, whether domestic or foreign, except non-resident foreign corporations not engaged in trade or business in the Philippines, is required to file corporate returns. The returns shall be filed by the president, vice-president or other principal officer, and shall be sworn to by such officer and by the treasurer or assistant treasurer.¹⁰³

b. **Forms**

Annual Income Tax Return for Use ONLY by Corporation, Partnership and Other Non-Individual Taxpayer EXEMPT under the Tax Code, as Amended, [Sec. 30 and those exempted in Sec. 27(C) and Other Special Laws, with NO Other Taxable Income]	-	BIR Form No. 1702-EX version June 2013
Annual Income Tax Return for Corporation, Partnership and Other Non-Individual with MIXED Income Subject to Multiple Income Tax Rates or with Income Subject to SPECIAL/PREFERENTIAL RATE	-	BIR Form No. 1702-MX version June 2013
Annual Income Tax Return for Corporation, Partnership and Other Non-Individual Taxpayer Subject Only to REGULAR Income Tax Rate	-	BIR Form No. 1702-RT version June 2013

¹⁰³ Sec. 52, *supra*.

Quarterly Income Tax Return for Corporations, Partnerships and Other Non-Individual Taxpayers	-	BIR Form No. 1702Q version July 2008
Improperly Accumulated Earnings Tax Return	-	BIR Form No. 1704 version May 2001
Capital Gains Tax Return for Onerous Transfer of Real Property Classified as Capital Asset (both Taxable and Exempt)	-	BIR Form No. 1706 version July 1999
Capital Gains Tax Return for Onerous Transfer of Shares of Stocks Not Traded Through the Local Stock Exchange	-	BIR Form No. 1707 version July 1999
Annual Capital Gains Tax Return for Onerous Transfer of Shares of Stock Not Traded Through the Local Stock Exchange	-	BIR Form No. 1707-A version June 2001

c. Place of Filing¹⁰⁴

Corporate returns shall be filed with the Commissioner of Internal Revenue, AAB, Revenue District Officer, Collection Agent or duly authorized Treasurer of the city or municipality in which the principal office of the corporation is located or where its books of accounts and other data from which the return is prepared are kept.

¹⁰⁴ Sec. 77(A), *supra*.

d. Time of Filing¹⁰⁵

Corporations are allowed to file returns either on a calendar year basis or fiscal year basis, and are required to file returns for each quarter of the taxable year on a cumulative basis, as follows:

- (1) For the first, second, and third quarters - within sixty days from the close of the quarter; and
- (2) For the last quarter - on or before the 15th day of April or on or before the 15th day of the 4th month following the close of the taxable year.

e. Payment of Tax

Same as the manner of payment of individual income tax.

f. Electronic Filing and Payment System

Corporations, have the option to avail of the EFPS in filing their annual income tax returns and paying the taxes due thereon. Corporations which intend to e-file their income tax return and pay electronically their income tax liability must register with the Integrated Tax System (ITS) and must have an e-mail account and Internet access. Corporations which e-file their returns may pay their tax liabilities either electronically (e-pay) or manually.

RR 9-2001, as last amended by RR 10-2014¹⁰⁶, identifies the corporate taxpayers that are mandated to use the system, as follows:

¹⁰⁵ Sec. 75, *supra*.

¹⁰⁶ Subject: Amending Further Section 3 of RR 9-2001, as Amended, Expanding the Coverage of Taxpayers Required to File Returns and Pay Taxes through the Electronic Filing and Payment System (eFPS), issued on December 10, 2014.

1. Large taxpayers duly notified by the BIR;
2. Top Twenty Thousand (20,000) Private Corporations;
3. Local Government Units
4. Government Bidders
5. Bank Borrowers
6. Stock Brokers
7. Corporations with Paid-Up Capital Stock of P10 Million Pesos and above
8. Taxpayers with Computerized Accounting System (CAS)
9. Enterprises Enjoying Fiscal Incentives (i.e. PEZA, BOI Certified, etc.)
10. National Government Agencies
11. Volunteering Non-Large Taxpayers (Individual and Non-Individual)
12. Taxpayers included in the Tax Account Management Program (TAMP)¹⁰⁷
13. Accredited importers, including prospective importers required to secure the Importer Clearance Certificates (ICCs) and Customs Broker Clearance Certificates (BCCs)

Identified taxpayers that would like to avail of the eFPS and/or required to file certain tax returns via the eFPS shall enroll in the eFPS in accordance with the provisions of the applicable regulations, circulars and orders. For juridical entities or artificial persons, enrollment shall be made by the officers required by law to file returns i.e., for domestic corporations, it shall be the President, Vice-President, and other principal officers; for partnerships, the managing partner; for joint ventures, the managing head; and for resident foreign corporation, the country manager.

¹⁰⁷ Refers to taxpayers, whether individual or juridical entities that have been identified by RDO based on selection criteria pursuant to existing revenue issuances.

Taxpayers which opt to e-pay shall enroll with any EFPS Authorized Agent Bank (AAB) where a corporation intends to pay through the bank debit system. However, Large Taxpayer's enrollment shall be limited only to the EFPS AABs authorized to serve them and who are capable to accept e-payments.¹⁰⁸

C. TREATMENT OF FRINGE BENEFITS¹⁰⁹

1. A final tax of thirty-two percent (32%) is imposed on the grossed-up monetary value of fringe benefits furnished or granted to the employee (except rank and file employees) by the employer, whether an individual or a corporation (unless the fringe benefit is required by the nature of, or necessary to the trade, business or profession of the employer, or when the fringe benefit is for the convenience or advantage of the employer).

As implemented by RR 3-98, as amended, fringe benefits granted to individual taxpayers who are enjoying preferential tax treatment are also subject to the fringe benefits tax at the following rates: (1) nonresident alien individuals not engaged in trade or business in the Philippines - 25%; (2) aliens employed by regional or area headquarters or by regional operating headquarters of a multinational company, offshore banking units, foreign service contractors or sub-contractors - 15%; and (3) fringe benefits granted to employees in special economic zones - 32%, 25% or 15%, as the case may be.¹¹⁰

¹⁰⁸ RR 9-2001, as amended by RR 5-2004.

¹⁰⁹ Sec. 33, *supra*. The tax on fringe benefit is payable by the employer and shall be subject to final withholding tax.

¹¹⁰ To arrive at the grossed-up monetary value of the fringe benefit granted to nonresident alien individuals not engaged in trade or business in the Philippines, divide the monetary value of the fringe benefit by seventy-five percent (75%). In the case of fringe benefits granted to aliens employed by regional or area headquarters or regional operating headquarters of multinational company, offshore banking units, and foreign service contractors and sub-contractors, divide the monetary value of the fringe benefit by eighty-five percent (85%).

2. Fringe benefit is any good, service or other benefit furnished or granted in cash or in kind by an employer, whether an individual or a corporation, to an individual employee (except rank and file employees) such as, but not limited to, the following:
 - a. housing;
 - b. expense account;
 - c. vehicle of any kind;
 - d. household personnel, such as maids, drivers and others;
 - e. interest on loans at less than market rate to the extent of the difference between the market rate and the actual rate granted;
 - f. membership fees, dues and other expenses borne by the employer for the employee in social and athletic clubs or other similar organizations;
 - g. expenses for foreign travel;
 - h. holiday and vacation expenses;
 - i. educational assistance to the employee or his dependents; and
 - j. life or health insurance and other non-life insurance premiums or similar amount in excess of what the law allows.
3. Non-taxable fringe benefits:
 - a. fringe benefits which are authorized and exempted from tax under special laws;
 - b. contributions of the employer for the benefit of the employee to retirement, insurance and hospitalization benefit plans;
 - c. benefits given to the rank and file employees, whether granted under a collective bargaining agreement or not¹¹¹; and

5. Filing of Returns and Payment of Tax:

a. *Who are required to file returns*

Every individual or non-individual withholding agent or payor is required to deduct and withhold taxes on fringe benefits furnished to their employees other than rank and file employees subject to applicable final withholding taxes.

b. *BIR Form*

Quarterly Remittance Return of Final - 1603
Income Taxes Withheld (On Fringe
Benefits Paid to Employees Other
than Rank and File)

c. *Place of Filing*

The return shall be filed and the tax paid with the Authorized Agent Bank (AAB) of the Revenue District Office (RDO) having jurisdiction over the withholding agent's place of business or office. In places where there are no AABs, the return shall be filed and the tax paid with the Revenue Collection Officer or the duly Authorized City or Municipal Treasurer of the RDO having jurisdiction over the withholding agent's place of business or office.

d. *Time of Filing*

The return shall be filed and payments made on or before the tenth (10th) day of the month following the calendar quarter in which the withholding was made.

Provided, however, that with respect to withholding agents who filed through the eFPS, the deadline for electronically filing and paying the taxes due thereon shall be fifteenth (15th) day of the

month following the quarter in which the withholding was made¹¹². be filed through the eFPS and paid on or before the 10th day of the month following the quarter in which the withholding was made¹¹³

e. *Payment of tax*

The final withholding tax on fringe benefits furnished to employees other than rank and file employees shall be payable at the time the return is filed.

f. *EFPS*

Except for those who are mandated to make use of the eFPS, withholding tax agents may opt to use this facility in order to remit their withholding taxes on fringe benefits made to employees other than rank and file employees. Such withholding agents who intend to use this facility are required to have their e-mail account and internet access and must be registered in the BIR ITS.

In case of NGAs, taxes withheld should be remitted through the Electronic Tax Remittance Advice (eTRA) system, in lieu of the manual filing of Tax Remittance Advice¹¹⁴.

g. *Penalties*

Same penalties under individual and corporate income tax.”



¹¹² Section 5 of RR 4-2002 (issued on March 26, 2002).

¹¹³ Section 7 of RR 1-2013 (issued on January 23, 2013).

¹¹⁴ RR 1-2013 requires all NGAs to use eTRA system, a sub-system of the eFPS, in the settlement of their withholding tax liabilities arising from the use of funds being released by the Department of Budget and Management (DBM) to achieve transparency and efficiency in revenue collection reporting. The system will also enhance reconciliations as all concerned parties can view and record on real time the remittances made by the NGAs.