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TITLE I

ORGANIZATION AND FUNCTION OF THE BUREAU OF INTERNAL REVENUE

(As Last Amended by RA 10963) ^[1]

SEC. 1. *Title of the Code.* - This Code shall be known as the National Internal Revenue Code of 1997. ^[2]

SEC. 2. *Powers and Duties of the Bureau of Internal Revenue.* - The Bureau of Internal Revenue shall be under the supervision and control of the Department of Finance and its powers and duties shall comprehend the assessment and collection of all national internal revenue taxes, fees, and charges, and the enforcement of all forfeitures, penalties, and fines connected therewith, including the execution of judgments in all cases decided in its favor by the Court of Tax Appeals and the ordinary courts. The Bureau shall give effect to and administer the supervisory and police powers conferred to it by this Code or other laws.

SEC. 3. *Chief Officials of the Bureau of Internal Revenue.* - The Bureau of Internal Revenue shall have a chief to be known as Commissioner of Internal Revenue, hereinafter referred to as the Commissioner, and four (4) assistant chiefs to be known as Deputy Commissioners.

SEC. 4. *Power of the Commissioner to Interpret Tax Laws and to Decide Tax Cases.* - The power to interpret the provisions of this Code and other tax laws shall be under the exclusive and original jurisdiction of the Commissioner, subject to review by the Secretary of Finance.

The power to decide disputed assessments, refunds of internal revenue taxes, fees or other charges, penalties imposed in relation thereto, or other matters arising under this Code or other laws or portions thereof administered by the Bureau of Internal Revenue is vested in the Commissioner, subject to the exclusive appellate jurisdiction of the Court of Tax Appeals. ^[3]

SEC. 5. *Power of the Commissioner to Obtain Information, and to Summon, Examine, and Take Testimony of Persons.* - In ascertaining the correctness of any return, or in making a return when none has been made, or in determining the liability of any person for any internal revenue tax, or in collecting any such liability, or in evaluating tax compliance, the Commissioner is authorized:

(A) To examine any book, paper, record, or other data which may be relevant or material to such inquiry;

(B) To obtain on a regular basis from any person other than the person whose internal revenue tax liability is subject to audit or investigation, or from any office or officer of the national and local governments, government agencies and instrumentalities, including the Bangko Sentral ng Pilipinas and government-owned or -controlled corporations, any information such as, but not limited to, costs and volume of production, receipts or sales and gross incomes of taxpayers, and the names, addresses, and financial statements of corporations, mutual fund companies,

insurance companies, regional operating headquarters of multinational companies, joint accounts, associations, joint ventures of consortia and registered partnerships, and their members; Provided, That the Cooperative Development Authority shall submit to the Bureau a tax incentive report, which shall include information on the income tax, value added tax, and other tax incentives availed of by cooperatives registered and enjoying incentives under Republic Act No. 6938, as amended: Provided, further, That the information submitted by the Cooperative Development Authority to the Bureau shall be submitted to the Department of Finance and shall be included in the database created under Republic Act No. 10708, otherwise known as "The Tax Incentives Management and Transparency Act (TIMTA)." [4]

(C) To summon the person liable for tax or required to file a return, or any officer or employee of such person, or any person having possession, custody, or care of the books of accounts and other accounting records containing entries relating to the business of the person liable for tax, or any other person, to appear before the Commissioner or his duly authorized representative at a time and place specified in the summons and to produce such books, papers, records, or other data, and to give testimony;

(D) To take such testimony of the person concerned, under oath, as may be relevant or material to such inquiry; and

(E) To cause revenue officers and employees to make a canvass from time to time of any revenue district or region and inquire after and concerning all persons therein who may be liable to pay any internal revenue tax, and all persons owning or having the care, management or possession of any object with respect to which a tax is imposed.

The provisions of the foregoing paragraphs notwithstanding, nothing in this Section shall be construed as granting the Commissioner the authority to inquire into bank deposits other than as provided for in Section 6(F) of this Code.

SEC. 6. Power of the Commissioner to Make Assessments and Prescribe Additional Requirements for Tax Administration and Enforcement. -

(A) Examination of Return and Determination of Tax Due. After a return has been filed as required under the provisions of this Code, the Commissioner or his duly authorized representative may authorize the examination of any taxpayer and the assessment of the correct amount of tax, notwithstanding any law requiring the prior authorization of any government agency or instrumentality [4]: Provided, however, That failure to file a return shall not prevent the Commissioner from authorizing the examination of any taxpayer.

The tax or any deficiency tax so assessed shall be paid upon notice and demand from the Commissioner or from his duly authorized representative.

Any return, statement of declaration filed in any office authorized to receive the same shall not be withdrawn: Provided, That within three (3) years from the date of such filing, the same may be modified, changed, or amended: Provided, further, That no notice for audit or investigation of such return, statement or declaration has in the meantime been actually served upon the taxpayer.

(B) Failure to Submit Required Returns, Statements, Reports and other Documents. - When a report required by law as a basis for the assessment of any national internal revenue tax shall not be forthcoming within the time fixed by laws or rules and regulations or when there is reason to believe that any such report is false, incomplete or erroneous, the Commissioner shall assess the proper tax on the best evidence obtainable.

In case a person fails to file a required return or other document at the time prescribed by law, or willfully or otherwise files a false or fraudulent return or other document, the Commissioner shall make or amend the return from his own knowledge and from such information as he can obtain through testimony or otherwise, which shall be prima facie correct and sufficient for all legal purposes.

(C) Authority to Conduct Inventory-taking, Surveillance and to Prescribe Presumptive Gross Sales and Receipts. - The Commissioner may, at any time during the taxable year, order inventory-taking of goods of any taxpayer as a basis for determining his internal revenue tax liabilities, or may place the business operations of any person, natural or juridical, under observation or surveillance if there is reason to believe that such person is not declaring his correct income, sales or receipts for internal revenue tax purposes. The findings may be used as the basis for assessing the taxes for the other months or quarters of the same or different taxable years and such assessment shall be deemed prima facie correct.

When it is found that a person has failed to issue receipts and invoices in violation of the requirements of Sections 113 and 237 of this Code, or when there is reason to believe that the books of accounts or other records do not correctly reflect the declarations made or to be made in a

return required to be filed under the provisions of this Code, the Commissioner, after taking into account the sales, receipts, income or other taxable base of other persons engaged in similar businesses under similar situations or circumstances or after considering other relevant information may prescribe a minimum amount of such gross receipts, sales and taxable base, and such amount so prescribed shall be prima facie correct for purposes of determining the internal revenue tax liabilities of such person.

(D) Authority to Terminate Taxable Period. - When it shall come to the knowledge of the Commissioner that a taxpayer is retiring from business subject to tax, or is intending to leave the Philippines or to remove his property therefrom or to hide or conceal his property, or is performing any act tending to obstruct the proceedings for the collection of the tax for the past or current quarter or year or to render the same totally or partly ineffective unless such proceedings are begun immediately, the Commissioner shall declare the tax period of such taxpayer terminated at any time and shall send the taxpayer a notice of such decision, together with a request for the immediate payment of the tax for the period so declared terminated and the tax for the preceding year or quarter, or such portion thereof as may be unpaid, and said taxes shall be due and payable immediately and shall be subject to all the penalties hereafter prescribed, unless paid within the time fixed in the demand made by the Commissioner.

(E) Authority of the Commissioner to Prescribe Real Property Values. -The Commissioner is hereby authorized to divide the Philippines into different zones or areas and shall, upon mandatory consultation with competent appraisers both from the private and public sectors, and with prior notice to affected taxpayers, determine the fair market value of real properties located in each zone or area, subject to automatic adjustment once every three (3) years through rules and regulations issued by the Secretary of Finance based on the current Philippine valuation standards: Provided, That no adjustment in zonal valuation shall be valid unless published in a newspaper of general circulation in the province, city or municipality concerned, or in the absence thereof, shall be posted in the provincial capitol, city or municipal hall and in two (2) other conspicuous public places therein: Provided, further, That the basis of any valuation, including the records of consultations done, shall be public records open to the inquiry of any taxpayer. ^[4] For purposes of computing any internal revenue tax, the value of the property shall be, whichever is the higher of:

- (1) The fair market value as determined by the Commissioner; or
- (2) The fair market value as shown in the schedule of values of the Provincial and City Assessors.

(F) Authority of the Commissioner to Inquire into Bank Deposit Accounts and Other Related information held by Financial Institutions. ^[5] - Notwithstanding any contrary provision of Republic Act No. 1405, Republic Act No. 6426, otherwise known as the Foreign Currency Deposit Act of the Philippines, and other general or special laws, the Commissioner is hereby authorized to inquire into the bank deposits and other related information held by financial institutions of:

- (1) A decedent to determine his gross estate; and
- (2) Any taxpayer who has filed an application for compromise of his tax liability under Section 204(A)(2) of this Code by reason of financial incapacity to pay his tax liability.

In case a taxpayer files an application to compromise the payment of his tax liabilities on his claim that his financial position demonstrates a clear inability to pay the tax assessed, his application shall not be considered unless and until he waives in writing his privilege under Republic Act No. 1405, Republic Act No. 6426, otherwise known as the Foreign Currency Deposit Act of the Philippines, or under other general or special laws, and such waiver shall constitute the authority of the Commissioner to inquire into the bank deposits of the taxpayer.

- (3) A specific taxpayer or taxpayers subject of a request for the supply of tax information from a foreign tax authority pursuant to an international convention or agreement on tax matters to which the Philippines is a signatory or a party of: Provided, That the information obtained from the banks and other financial institutions may be used by the Bureau of Internal Revenue for tax assessment, verification, audit and enforcement purposes.

In case of a request from a foreign tax authority for tax information held by banks and financial institutions, the exchange of information shall be done in a secure manner to ensure confidentiality thereof under such rules and regulations as may be promulgated by the Secretary of Finance, upon recommendation of the Commissioner.

The Commissioner shall provide the tax information obtained from banks and financial institutions pursuant to a convention or agreement upon request of the foreign tax authority when such requesting foreign tax authority has provided the following information to demonstrate

the foreseeable relevance of the information to the request:

- (a) The identity of the person under examination or investigation;
- (b) A statement of the information being sought, including its nature and the form in which the said foreign tax authority prefers to receive the information from the Commissioner;
- (c) The tax purpose for which the information is being sought;
- (d) Grounds for believing that the information requested is held in the Philippines or is in the possession or control of a person within the jurisdiction of the Philippines;
- (e) To the extent known, the name and address of any person believed to be in possession of the requested information;
- (f) A statement that the request is in conformity with the law and administrative practices of the said foreign tax authority, such that if the requested information was within the jurisdiction of the said foreign tax authority then it would be able to obtain the information under its laws or in the normal course of administrative practice and that it is in conformity with a convention or international agreement; and
- (g) A statement that the requesting foreign tax authority has exhausted all means available in its own territory to obtain the information, except those that would give rise to disproportionate difficulties.

The Commissioner shall forward the information as promptly as possible to the requesting foreign tax authority. To ensure a prompt response, the Commissioner shall confirm receipt of a request in writing to the requesting tax authority and shall notify the latter of deficiencies in the request, if any, within sixty (60) days from receipt of the request.

If the Commissioner is unable to obtain and provide the information within ninety (90) days from receipt of the request, due to obstacles encountered in furnishing the information or when the bank or financial institution refuses to furnish the information, he shall immediately inform the requesting tax authority of the same, explaining the nature of the obstacles encountered or the reasons for refusal.

The term "**foreign tax authority**," as used herein, shall refer to the tax authority or tax administration of the requesting State under the tax treaty or convention to which the Philippines is a signatory or a party of.

(G) Authority to Accredite and Register Tax Agents. - The Commissioner shall accredit and register, based on their professional competence, integrity and moral fitness, individuals and general professional partnerships and their representatives who prepare and file tax returns, statements, reports, protests, and other papers with or who appear before, the Bureau for taxpayers. Within one hundred twenty (120) days from January 1, 1998, the Commissioner shall create national and regional accreditation boards, the members of which shall serve for three (3) years, and shall designate from among the senior officials of the Bureau, one (1) chairman and two (2) members for each board, subject to such rules and regulations as the Secretary of Finance shall promulgate upon the recommendation of the Commissioner.

Individuals and general professional partnerships and their representatives who are denied accreditation by the Commissioner and/or the national and regional accreditation boards may appeal such denial to the Secretary of Finance, who shall rule on the appeal within sixty (60) days from receipt of such appeal. Failure of the Secretary of Finance to rule on the Appeal within the prescribed period shall be deemed as approval of the application for accreditation of the appellant.

(H) Authority of the Commissioner to Prescribe Additional Procedural or Documentary Requirements. - The Commissioner may prescribe the manner of compliance with any documentary or procedural requirement in connection with the submission or preparation of financial statements accompanying the tax returns.

SEC. 7. Authority of the Commissioner to Delegate Power. - The Commissioner may delegate the powers vested in him under the pertinent provisions of this Code to any or such subordinate officials with the rank equivalent to a division chief or higher, subject to such limitations and restrictions as may be imposed under rules and regulations to be promulgated by the Secretary of Finance, upon recommendation of the Commissioner: Provided, however, That the following powers of the Commissioner shall not be delegated:

- (a) The power to recommend the promulgation of rules and regulations by the Secretary of Finance;
- (b) The power to issue rulings of first impression or to reverse, revoke or modify any existing ruling of the Bureau;
- (c) The power to compromise or abate, under Sec. 204 (A) and (B) of this Code, any tax liability: Provided, however, That assessments issued by the regional offices involving basic deficiency taxes of Five hundred thousand pesos (P500,000) or less, and minor criminal violations, as may be determined by rules and regulations to be promulgated by the Secretary of finance, upon recommendation of the Commissioner, discovered by regional and district officials, may be compromised by a regional evaluation board which shall be composed of the Regional Director as Chairman, the Assistant Regional Director, the heads of the Legal, Assessment and Collection Divisions and the Revenue District Officer having jurisdiction over the taxpayer, as members; and
- (d) The power to assign or reassign internal revenue officers to establishments where articles subject to excise tax are produced or kept.

SEC. 8. Duty of the Commissioner to Ensure the Provision and Distribution of Forms, Receipts, Certificates, and Appliances, and the Acknowledgment of Payment of Taxes. -

(A) Provision and Distribution to Proper-Officials. – Any law to the contrary notwithstanding, it shall be the duty of the Commissioner, among other things, to prescribe, provide, and distribute to the proper officials the requisite licenses; internal revenue stamps; unique, secure and non-removable identification markings (hereafter called unique identification markings), such as codes or stamps, be affixed to or form part of all unit packets and packages and any outside packaging of cigarettes and bottles of distilled spirits; labels and other forms; certificates; bonds; records; invoices; books; receipts; instruments; appliances and apparatus used in administering the laws falling within the jurisdiction of the Bureau. For this purpose, internal revenue stamps, or other markings and labels shall be caused by the Commissioner to be printed with adequate security features.

Internal revenue stamps, whether of a bar code or fusion design, or other markings shall be firmly and conspicuously affixed or printed on each pack of cigars and cigarettes and bottles of distilled spirits subject to excise tax in the manner and form as prescribed by the Commissioner, upon approval of the Secretary of Finance.

To further improve tax administration, cigarette and alcohol manufacturers shall be required to install automated volume-counters of packs and bottles to deter over-removals and misdeclaration of removals.

(B) Receipts for Payment Mode. – It shall be the duty of the Commissioner or his duly authorized representative or an authorized agent bank to whom any payment of any tax is made under the provisions of this Code to acknowledge the payment of such tax, expressing the amount paid and the particular account for which such payment was made in a form and manner prescribed therefor by the Commissioner.

SEC. 9. Internal Revenue Districts. - With the approval of the Secretary of Finance, the Commissioner shall divide the Philippines into such number of revenue districts as may from time to time be required for administrative purposes. Each of these districts shall be under the supervision of a Revenue District Officer.

SEC. 10. Revenue Regional Director. - Under rules and regulations, policies and standards formulated by the Commissioner, with the approval of the Secretary of Finance, the Revenue Regional director shall, within the region and district offices under his jurisdiction, among others:

- (a) Implement laws, policies, plans, programs, rules and regulations of the department or agencies in the regional area;
- (b) Administer and enforce internal revenue laws, and rules and regulations, including the assessment and collection of all internal revenue taxes, charges and fees;
- (c) Issue Letters of authority for the examination of taxpayers within the region;
- (d) Provide economical, efficient and effective service to the people in the area;
- (e) Coordinate with regional offices or other departments, bureaus and agencies in the area;
- (f) Coordinate with local government units in the area;

(g) Exercise control and supervision over the officers and employees within the region; and

(h) Perform such other functions as may be provided by law and as may be delegated by the Commissioner.

SEC. 11. Duties of Revenue District Officers and Other Internal Revenue Officers. - It shall be the duty of every Revenue District Officer or other internal revenue officers and employees to ensure that all laws, and rules and regulations affecting national internal revenue are faithfully executed and complied with, and to aid in the prevention, detection and punishment of frauds or delinquencies in connection therewith.

It shall be the duty of every Revenue District Officer to examine the efficiency of all officers and employees of the Bureau of Internal Revenue under his supervision, and to report in writing to the Commissioner, through the Regional Director, any neglect of duty, incompetency, delinquency, or malfeasance in office of any internal revenue officer of which he may obtain knowledge, with a statement of all the facts and any evidence sustaining each case.

SEC. 12. Agents and Deputies for Collection of National Internal Revenue Taxes. - The following are hereby constituted agents of the Commissioner:

- a) The Commissioner of Customs and his subordinates with respect to the collection of national internal revenue taxes on imported goods;
- b) The head of the appropriate government office and his subordinates with respect to the collection of energy tax; and
- c) Banks duly accredited by the Commissioner with respect to receipt of payments internal revenue taxes authorized to be made thru banks.

Any officer or employee of an authorized agent bank assigned to receive internal revenue tax payments and transmit tax returns or documents to the Bureau of Internal Revenue shall be subject to the same sanctions and penalties prescribed in Sections 269 and 270 of this Code.

SEC. 13. Authority of a Revenue Officer. - Subject to the rules and regulations to be prescribed by the Secretary of Finance, upon recommendation of the Commissioner, a Revenue Officer assigned to perform assessment functions in any district may, pursuant to a Letter of Authority issued by the Revenue Regional Director, examine taxpayers within the jurisdiction of the district in order to collect the correct amount of tax, or to recommend the assessment of any deficiency tax due in the same manner that the said acts could have been performed by the Revenue Regional Director himself.

SEC. 14. Authority of Officers to Administer Oaths and Take Testimony. - The Commissioner, Deputy Commissioners, Service Chiefs, Assistant Service Chiefs, Revenue Regional Directors, Assistant Revenue Regional Directors, Chiefs and Assistant Chiefs of Divisions, Revenue District Officers, special deputies of the Commissioner, internal revenue officers and any other employee of the Bureau thereunto especially deputized by the Commissioner shall have the power to administer oaths and to take testimony in any official matter or investigation conducted by them regarding matters within the jurisdiction of the Bureau.

SEC. 15. Authority of Internal Revenue Officers to Make Arrests and Seizures. - The Commissioner, the Deputy Commissioners, the Revenue Regional Directors, the Revenue District Officers and other internal revenue officers shall have authority to make arrests and seizures for the violation of any penal law, rule or regulation administered by the Bureau of Internal Revenue. Any person so arrested shall be forthwith brought before a court, there to be dealt with according to law.

SEC. 16. Assignment of Internal Revenue Officers Involved in Excise Tax Functions to Establishments Where Articles subject to Excise Tax are Produced or Kept. - The Commissioner shall employ, assign, or reassign internal revenue officers involved in excise tax functions, as often as the exigencies of the revenue service may require, to establishments or places where articles subject to excise tax are produced or kept: Provided, That an internal revenue officer assigned to any such establishment shall in no case stay in his assignment for more than two (2) years, subject to rules and regulations to be prescribed by the Secretary of Finance, upon recommendation of the Commissioner.

SEC. 17. Assignment of Internal Revenue Officers and Other Employees to Other Duties. - The Commissioner may, subject to the provisions of Section 16 and the laws on civil service, as well as the rules and regulations to be prescribed by the Secretary of Finance upon the recommendation of the Commissioner, assign or reassign internal revenue officers and employees of the Bureau of Internal Revenue, without change in their official rank and salary, to other or special duties connected with the enforcement or administration of the revenue laws as the exigencies of the service may require: *Provided*, That internal revenue officers assigned to perform assessment or collection function shall not

remain in the same assignment for more than three (3) years; *Provided, further,* That assignment of internal revenue officers and employees of the Bureau to special duties shall not exceed one (1) year.

SEC. 18. Reports of Violation of Laws. - When an internal revenue officer discovers evidence of a violation of this Code or of any law, rule or regulations administered by the Bureau of Internal Revenue of such character as to warrant the institution of criminal proceedings, he shall immediately report the facts to the Commissioner through his immediate superior, giving the name and address of the offender and the names of the witnesses if possible: *Provided,* That in urgent cases, the Revenue Regional director or Revenue District Officer, as the case may be, may send the report to the corresponding prosecuting officer in the latter case, a copy of his report shall be sent to the Commissioner.

SEC. 19. Contents of Commissioner's Annual Report. - The Annual Report of the Commissioner shall contain detailed statements of the collections of the Bureau with specifications of the sources of revenue by type of tax, by manner of payment, by revenue region and by industry group and its disbursements by classes of expenditures.

In case the actual collection exceeds or falls short of target as set in the annual national budget by fifteen percent (15%) or more, the Commissioner shall explain the reason for such excess or shortfall.

SEC. 20. Submission of Report and Pertinent Information by the Commissioner. -

(A) Submission of Pertinent Information to Congress. - The provision of Section 270 of this Code to the contrary notwithstanding, the Commissioner shall, upon request of Congress and in aid of legislation, furnish its appropriate Committee pertinent information including but not limited to: industry audits, collection performance data, status reports in criminal actions initiated against persons and taxpayer's returns: *Provided,* however, That any return or return information which can be associated with, or otherwise identify, directly or indirectly, a particular taxpayer shall be furnished the appropriate Committee of Congress only when sitting in Executive Session Unless such taxpayer otherwise consents in writing to such disclosure.

(B) Report to Oversight Committee. - The Commissioner shall, with reference to Section 204 of this Code, submit to the Oversight Committee referred to in Section 290 hereof, through the Chairmen of the Committee on Ways and Means of the Senate and House of Representatives, a report on the exercise of his powers pursuant to the said section, every six (6) months of each calendar year.

SEC. 21. Sources of Revenue. - The following taxes, fees and charges are deemed to be national internal revenue taxes:

- (a) Income tax;
- (b) Estate and donor's taxes;
- (c) Value-added tax;
- (d) Other percentage taxes;
- (e) Excise taxes;
- (f) Documentary stamp taxes; and
- (g) Such other taxes as are or hereafter may be imposed and collected by the Bureau of Internal Revenue.

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TITLE II

TAX ON INCOME

(As Amended by RA Nos. 9294, 9337, 9504, 10021, 10026, 10653 & 10963) ^[6]

CHAPTER I

DEFINITIONS

SEC. 22. Definitions. - When used in this Title:

(A) The term '**person**' means an individual, a trust, estate or corporation.

(B) The term '**corporation**' shall include partnerships, no matter how created or organized, joint-stock companies, joint accounts (*cuantas en participacion*), association, 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 consortium agreement under a service contract with the Government. '**General professional partnerships**' are partnerships formed by persons for the sole purpose of exercising their common profession, no part of the income of which is derived from engaging in any trade or business.

(C) The term '**domestic**', when applied to a corporation, means created or organized in the Philippines or under its laws.

(D) The term '**foreign**', when applied to a corporation, means a corporation which is not domestic

(E) The term '**nonresident citizen**' means;

(1) A citizen of the Philippines who establishes to the satisfaction of the Commissioner the fact of his physical presence abroad with a definite intention to reside therein.

(2) A citizen of the Philippines who leaves the Philippines during the taxable year to reside abroad, either as an immigrant or for employment on a permanent basis.

(3) A citizen of the Philippines who 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.

(4) A citizen who has been previously considered as nonresident citizen and who arrives in the Philippines at any time during the taxable year to reside permanently in the Philippines shall likewise be treated as a nonresident citizen for the taxable year in which he arrives in the Philippines with respect to his income derived from sources abroad until the date of his arrival in the Philippines.

(5) The taxpayer shall submit proof to the Commissioner to show his intention of leaving the Philippines to reside permanently abroad or to return to and reside in the Philippines as the case may be for purpose of this Section.

(F) The term '**resident alien**' means an individual whose residence is within the Philippines and who is not a citizen thereof.

(G) The term '**nonresident alien**' means an individual whose residence is not within the Philippines and who is not a citizen thereof.

(H) The term '**resident foreign corporation**' applies to a foreign corporation engaged in trade or business within the Philippines.

(I) The term '**nonresident foreign corporation**' applies to a foreign corporation not engaged in trade or business within the Philippines.

(J) The term '**fiduciary**' means a guardian, trustee, executor, administrator, receiver, conservator or any person acting in any fiduciary capacity for any person.

(K) The term '**withholding agent**' means any person required to deduct and withhold any tax under the provisions of Section 57.

(L) The term '**shares of stock**' shall include shares of stock of a corporation, warrants and/or options to purchase shares of stock, as well as units of participation in a partnership (except general professional partnerships), joint stock companies, joint accounts, joint ventures taxable as corporations, associations and recreation or amusement clubs (such as golf, polo or similar clubs), and mutual fund certificates.

(M) The term '**shareholder**' shall include holders of a share/s of stock, warrant/s and/or option/s to purchase shares of stock of a corporation, as well as a holder of a unit of participation in a partnership (except general professional partnerships) in a joint stock company, a joint account, a taxable joint venture, a member of an association, recreation or amusement club (such as golf, polo or similar clubs) and a holder of a mutual fund certificate, a member in an association, joint-stock company, or insurance company.

(N) The term '**taxpayer**' means any person subject to tax imposed by this Title.

(O) The terms '**including**' and '**includes**', when used in a definition contained in this Title, shall not be deemed to exclude other things otherwise within the meaning of the term defined.

(P) The term '**taxable year**' means the calendar year, or the fiscal year ending during such calendar year, upon the basis of which the net income is computed under this Title. '**Taxable year**' includes, in the case of a return made for a fractional part of a year under the provisions of this Title or under rules and regulations prescribed by the Secretary of Finance, upon recommendation of the commissioner, the period for which such return is made.

(Q) The term '**fiscal year**' means an accounting period of twelve (12) months ending on the last day of any month other than December.

(R) The terms '**paid or incurred**' and '**paid or accrued**' shall be construed according to the method of accounting upon the basis of which the net income is computed under this Title.

(S) The term '**trade or business**' includes the performance of the functions of a public office.

(T) The term '**securities**' means shares of stock in a corporation and rights to subscribe for or to receive such shares. The term includes bonds, debentures, notes or certificates, or other evidence or indebtedness, issued by any corporation, including those issued by a government or political subdivision thereof, with interest coupons or in registered form.

(U) The term '**dealer in securities**' means a merchant of stocks or securities, whether an individual, partnership or corporation, with an established place of business, regularly engaged in the purchase of securities and the resale thereof to customers; that is, one who, as a merchant, buys securities and re-sells them to customers with a view to the gains and profits that may be derived therefrom.

(V) The term '**bank**' means every banking institution, as defined in Section 2 of Republic Act No. 337, ^[7] as amended, otherwise known as the "**General banking Act.**" A bank may either be a commercial bank, a thrift bank, a development bank, a rural bank or specialized government bank.

(W) The term '**non-bank financial intermediary**' means a financial intermediary, as defined in Section 2(D)(C) of Republic Act No. 337, ^[8] as amended, otherwise known as the "**General Banking Act,**" authorized by the Bangko Sentral ng Pilipinas (BSP) to perform quasi-banking activities.

(X) The term '**quasi-banking activities**' means borrowing funds from twenty (20) or more personal or corporate lenders at any one time, through the issuance, endorsement, or acceptance of debt instruments of any kind other than deposits for the borrower's own account, or through the issuance of certificates of assignment or similar instruments, with recourse, or of repurchase agreements for purposes of relending or purchasing receivables and other similar obligations: Provided, however, That commercial, industrial and other non-financial companies, which borrow funds through any of these means for the limited purpose of financing their own needs or the needs of their agents or dealers, shall not be considered as performing quasi-banking functions.

(Y) The term '**deposit substitutes**' shall mean an alternative from of obtaining funds from the public (the term '**public**' means borrowing from twenty (20) or more individual or corporate lenders at any one time) other than deposits, through the issuance, endorsement, or acceptance of debt instruments for the borrowers own account, for the purpose of relending or purchasing of receivables and other obligations, or financing their own needs or the needs of their agent or dealer. These instruments may include, but need not be limited to bankers' acceptances, promissory notes, repurchase agreements, including reverse repurchase agreements entered into by and between the Bangko Sentral ng Pilipinas (BSP) and any authorized agent bank, certificates of assignment or participation and similar instruments with recourse: *Provided, however,* That debt instruments issued for interbank call loans with maturity of not more than five (5) days to cover deficiency in reserves against deposit liabilities, including those between or among banks and quasi-banks, shall not be considered as deposit substitute debt instruments.

(Z) The term '**ordinary income**' includes any gain from the sale or exchange of property which is not a capital asset or property described in Section 39(A)(1). Any gain from the sale or exchange of property which is treated or considered, under other provisions of this Title, as '**ordinary income**' shall be treated as gain from the sale or exchange of property which is not a capital asset as defined in Section 39(A)(1). The term '**ordinary loss**' includes any loss from the sale or exchange of property which is not a capital asset. Any loss from the sale or exchange of property which is treated or considered, under other provisions of this Title, as '**ordinary loss**' shall be treated as loss from the sale or exchange of property which is not a capital asset.

(AA) The term '**rank and file employees**' shall mean all employees who are holding neither managerial nor supervisory position as defined under existing provisions of the Labor Code of the Philippines, as amended.

(BB) The term '**mutual fund company**' shall mean an open-end and close-end investment company as defined under the Investment Company Act. ^[9]

(CC) The term '**trade, business or profession**' shall not include performance of services by the taxpayer as an employee.

(DD) The term '**regional or area headquarters**' shall mean a branch established in the Philippines by multinational companies and which headquarters do not earn or derive income from the Philippines and which act as supervisory, communications and coordinating center for their affiliates, subsidiaries, or branches in the Asia-Pacific Region and other foreign markets.

(EE) The term '**regional operating headquarters**' shall mean a branch established in the Philippines by multinational companies which are engaged in any of the following services: general administration and planning; business planning and coordination; sourcing and procurement of raw materials and components; corporate finance advisory services; marketing control and sales promotion; training and personnel management; logistic services; research and development services and product development; technical support and maintenance; data processing and communications; and business development.

(FF) The term '**long-term deposit or investment certificate**' shall refer to certificate of time deposit or investment in the form of savings, common or individual trust funds, deposit substitutes, investment management accounts and other investments with a maturity period of not less than five (5) years, the form of which shall be prescribed by the Bangko Sentral ng Pilipinas (BSP) and issued by banks only (not by non-bank financial intermediaries and finance companies) to individuals in denominations of Ten thousand pesos (P10,000) and other denominations as may be prescribed by the BSP.

(GG) The term '**statutory minimum wage**' shall refer to the rate fixed by the Regional Tripartite Wage and Productivity Board, as defined by the Bureau of Labor and Employment Statistics (BLES) of the Department of Labor and Employment (DOLE). ^[10]

(HH) The term "**minimum wage earner**" shall refer to a worker 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. ^[8]

CHAPTER II

GENERAL PRINCIPLES

SEC. 23. General Principles of Income Taxation in the Philippines. - Except when otherwise provided in this Code:

(A) A citizen of the Philippines residing therein is taxable on all income derived from sources within and without the Philippines;

(B) A nonresident citizen is taxable only on income derived from sources within the Philippines;

(C) An individual citizen of the Philippines who is working and deriving income from abroad as an overseas contract worker is taxable only on income derived from sources within the Philippines: *Provided*, That a seaman who is a citizen of the Philippines and who receives compensation for services rendered abroad as a member of the complement of a vessel engaged exclusively in international trade shall be treated as an overseas contract worker;

(D) An alien individual, whether a resident or not of the Philippines, is taxable only on income derived from sources within the Philippines;

(E) A domestic corporation is taxable on all income derived from sources within and without the Philippines; and

(F) A foreign corporation, whether engaged or not in trade or business in the Philippines, is taxable only on income derived from sources within the Philippines.

CHAPTER III

TAX ON INDIVIDUALS

SEC. 24. *Income Tax Rates.* -

(A) Rates of Income Tax on Individual Citizen and Individual Resident Alien of the Philippines.-

(1) An income tax is hereby imposed

(a) On the taxable income defined in Section 31 of this Code, other than income subject to tax under Subsections (B), (C) and (D) of this Section, derived for each taxable year from all sources within and without the Philippines be every individual citizen of the Philippines residing therein;

(b) On the taxable income defined in Section 31 of this Code, other than income subject to tax under Subsections (B), (C) and (D) of this Section, derived for each taxable year from all sources within the Philippines by an individual citizen of the Philippines who is residing outside of the Philippines including overseas contract workers referred to in Subsection(C) of Section 23 hereof; and

(c) On the taxable income defined in Section 31 of this Code, other than income subject to tax under Subsections (B), (C) and (D) of this Section, derived for each taxable year from all sources within the Philippines by an individual alien who is a resident of the Philippines.

(2) Rates of Tax on Taxable Income of Individuals. ^[11] - The tax shall be computed in accordance with and at the rates established in the following schedule:

(a) Tax Schedule Effective January 1, 2018 until December 31, 2022 ^[4]:

Not over P250,000.....	0%
Over P250,000 but not over P400,000.....	20% of the excess over P250,000
Over P400,000 but not over P800,000.....	P30,000 + 25% of the excess over P400,000
Over P800,000 but not over P2,000,000.....	P130,000 + 30% of the excess over P800,000
Over P2,000,000 but not over P8,000,000.....	P490,000 + 32% of the excess over P2,000,000
Over P8,000,000	P2,410,000 + 35% of the excess over P8,000,000

Tax Schedule Effective January 1, 2023 and onwards:

Not over P250,000.....	0%
Over P250,000 but not over P400,000.....	15% of the excess over P250,000
Over P400,000 but not over P800,000.....	P22,500 + 20% of the excess over P400,000
Over P800,000 but not over P2,000,000.....	P102,500 + 25% of the excess over P800,000
Over P2,000,000 but not over P8,000,000.....	P402,500 + 30% of the excess over P2,000,000
Over P8,000,000	P2,202,500 + 35% of the excess over P8,000,000

For married individuals, the husband and wife, subject to the provision of Section 51 (D) hereof, shall compute separately their individual income tax based on their respective total taxable income: Provided, That if any income cannot be definitely attributed to or identified as income exclusively earned or realized by either of the spouses, the same shall be divided equally between the spouses for the purpose of determining their respective taxable income.

Provided, That minimum wage earners as defined in Section 22(HH) of this Code shall be exempt from the payment of income tax on their taxable income: Provided, further, That the holiday pay, overtime pay, night shift differential pay and hazard pay received by such minimum wage earners shall likewise be exempt from income tax. ^[12]

(b) Rate of Tax on Income of Purely Self-employed Individuals and/or Professionals Whose Gross Sales or Gross Receipts and Other Non-operating Income Does Not Exceed the Value-added Tax(VAT) Threshold as Provided in Section 109(BB). – Self-employed individuals and/or professionals shall have the option to avail of an eight percent (8%) tax on gross sales or gross receipts and other non-operating income in excess of Two hundred fifty thousand pesos (P250,000) in lieu of the graduated income tax rates under Subsection (A)(2)(a) of this Section and the percentage tax under Section 116 of this Code.

(c) Rate of Tax for Mixed Income Earners. – Taxpayers earning both compensation income and income from business or practice of profession shall be subject to the following taxes:

(1) All Income from Compensation – The rate prescribed under Subsection (A)(2)(a) of this Section.

(2) All Income from Business or Practice of Profession –

(a) If Total Gross Sales and/or Gross Receipts and Other Non-Operating Income Do Not Exceed the VAT Threshold as Provided in Section 109(BB) of this Code. – The rates prescribed under Subsection (A)(2)(a) of this Section on taxable income, or eight percent (8%) income tax based on gross sales or gross receipts and other non-operating income in lieu of the graduated income tax rates under Subsection (A)(2)(a) of this Section and the percentage tax under Section 116 of this Code.

(b) If Total Gross Sales and/or Gross Receipts and Other Non-operating Income Exceeds the VAT Thresholds Provided in Section 109(BB) of this Code. – The rates prescribed under Subsection (A)(2)(a) of this Section.

(B) Rate of Tax on Certain Passive Income: -

(1) Interests, Royalties, Prizes, and Other Winnings. – A final tax at the rate of twenty percent (20%) is hereby imposed upon the amount of interest from any currency bank deposit and yield or any other monetary benefit from deposit substitutes and from trust funds and similar arrangements; royalties, except on books, as well as other literary works and musical compositions, which shall be imposed a final tax of ten percent (10%); prizes (except prizes amounting to Ten thousand pesos (P10,000) or less which shall be subject to tax under Subsection (A) of Section 24; and other winnings (except winning amounting to Ten thousand pesos (P10,000) or less from Philippine Charity Sweepstakes and Lotto which shall be exempt), derived from sources within the Philippines: Provided, however, That interest income received by an individual taxpayer (except a nonresident individual) from a depository bank under the expanded foreign currency deposit system shall be subject to a final income tax at the rate of fifteen percent (15%) of such interest income ^[4]: Provided, further, That interest income from long-term deposit or investment in the form of savings, common or individual trust funds, deposit substitutes, investment management accounts and other investments evidenced by certificates in such form prescribed by the Bangko Sentral ng Pilipinas (BSP) shall be exempt from the tax imposed under this Subsection: Provided, finally, That should the holder of the certificate pre-terminate the deposit or investment before the fifth (5th) year, a final tax shall be imposed on the entire income and shall be deducted and withheld by the depository bank from the proceeds of the long-term deposit or investment certificate based on the remaining maturity thereof:

Four (4) years to less than five (5) years - 5%;

Three (3) years to less than (4) years - 12%; and

Less than three (3) years - 20%

(2) Cash and/or Property Dividends. - A final tax at the rate of ten percent (10%) ^[4] shall be imposed upon the cash and/or property dividends actually or constructively received by an individual from a domestic corporation or from a joint stock company, insurance or mutual fund companies and regional operating headquarters of multinational companies, or on the share of an individual in the distributable net income after tax of a partnership (except a general professional partnership) of which he is a partner, or on the share of an individual in the net income after tax of an association, a joint account, or a joint venture or consortium taxable as a corporation of which he is a member or co-venturer:

(C) Capital Gains from Sale of Shares of Stock not Traded in the Stock Exchange. - The provisions of Section 39(B) notwithstanding, a final tax at the rate of fifteen percent (15%) is hereby imposed upon the net capital gains realized during the taxable year from the sale, barter, exchange or other disposition of shares of stock in a domestic corporation, except shares sold, or disposed of through the stock exchange. ^[4]

(D) Capital Gains from Sale of Real Property. –

(1) In General. - The provisions of Section 39(B) notwithstanding, a final tax of six percent (6%) based on the gross selling price or current fair market value as determined in accordance with Section 6(E) of this Code, whichever is higher, is hereby imposed upon capital gains presumed to have been realized from the sale, exchange, or other disposition of real property located in the Philippines, classified as capital assets, including pacto de retro sales and other forms of conditional sales, by individuals, including estates and trusts: Provided, That the tax liability, if any, on gains from sales or other dispositions of real property to the government or any of its political subdivisions or agencies or to government-owned or controlled corporations shall be determined either under Section 24 (A) or under this Subsection, at the option of the taxpayer;

(2) Exception. - The provisions of paragraph (1) of this Subsection to the contrary notwithstanding, capital gains presumed to have been realized from the sale or disposition of their principal residence by natural persons, the proceeds of which is fully utilized in acquiring or constructing a new principal residence within eighteen (18) calendar months from the date of sale or disposition, shall be exempt from the capital gains tax imposed under this Subsection: Provided, That the historical cost or adjusted basis of the real property sold or disposed shall be carried over to the new principal residence built or acquired: Provided, further, That the Commissioner shall have been duly notified by the taxpayer within thirty (30) days from the date of sale or disposition through a prescribed return of his intention to avail of the tax exemption herein mentioned: Provided, still further, That the said tax exemption can only be availed of once every ten (10) years: Provided, finally, That if there is no full utilization of the proceeds of sale or disposition, the portion of the gain presumed to have been realized from the sale or disposition shall be subject to capital gains tax. For this purpose, the gross selling price or fair market value at the time of sale, whichever is higher, shall be multiplied by a fraction which the unutilized amount bears to the gross selling price in order to determine the taxable portion and the tax prescribed under paragraph (1) of this Subsection shall be imposed thereon.

SEC. 25. Tax on Nonresident Alien Individual. –

(A) Nonresident Alien Engaged in trade or Business Within the Philippines. –

(1) In General. - A nonresident alien individual engaged in trade or business in the Philippines shall be subject to an income tax in the same manner as an individual citizen and a resident alien individual, on taxable income received from all sources within the Philippines. A nonresident alien individual who shall come to the Philippines and stay therein for an aggregate period of more than one hundred eighty (180) days during any calendar year shall be deemed a 'nonresident alien doing business in the Philippines'. Section 22 (G) of this Code notwithstanding.

(2) Cash and/or Property Dividends from a Domestic Corporation or Joint Stock Company, or Insurance or Mutual Fund Company or Regional Operating Headquarter or Multinational Company, or Share in the Distributable Net Income of a Partnership (Except a General Professional Partnership), Joint Account, Joint Venture Taxable as a Corporation or Association., Interests, Royalties, Prizes, and Other Winnings. - Cash and/or property dividends from a domestic corporation, or from a joint stock company, or from an insurance or mutual fund company or from a regional operating headquarter of multinational company, or the share of a nonresident alien individual in the distributable net income after tax of a partnership (except a general professional partnership) of which he is a partner, or the share of a nonresident alien individual in the net income after tax of an association, a joint account, or a joint venture taxable as a corporation of which he is a member or a co-venturer; interests; royalties (in any form); and prizes (except prizes amounting to Ten thousand pesos (P10,000) or less which shall be subject to tax under Subsection (B)(1) of Section 24) and other winnings (except Philippine Charity Sweepstakes and Lotto winnings); shall be subject to an income tax of twenty percent (20%) on the total amount thereof: Provided, however, that royalties on books as well as other literary works, and royalties on musical compositions shall be subject to a final tax of ten percent (10%) on the total amount thereof: Provided, further, That cinematographic films and similar works shall be subject to the

tax provided under Section 28 of this Code: Provided, furthermore, That interest income from long-term deposit or investment in the form of savings, common or individual trust funds, deposit substitutes, investment management accounts and other investments evidenced by certificates in such form prescribed by the Bangko Sentral ng Pilipinas (BSP) shall be exempt from the tax imposed under this Subsection: Provided, finally, that should the holder of the certificate pre-terminate the deposit or investment before the fifth (5th) year, a final tax shall be imposed on the entire income and shall be deducted and withheld by the depository bank from the proceeds of the long-term deposit or investment certificate based on the remaining maturity thereof:

Four (4) years to less than five (5) years - 5%;

Three (3) years to less than four (4) years - 12%; and

Less than three (3) years - 20%.

(3) Capital Gains. - Capital gains realized from sale, barter or exchange of shares of stock in domestic corporations not traded through the local stock exchange, and real properties shall be subject to the tax prescribed under Subsections (C) and (D) of Section 24.

(B) Nonresident Alien Individual Not Engaged in Trade or Business Within the Philippines.- There shall be levied, collected and paid for each taxable year upon the entire income received from all sources within the Philippines by every nonresident alien individual not engaged in trade or business within the Philippines as interest, cash and/or property dividends, rents, salaries, wages, premiums, annuities, compensation, remuneration, emoluments, or other fixed or determinable annual or periodic or casual gains, profits, and income, and capital gains, a tax equal to twenty-five percent (25%) of such income. Capital gains realized by a nonresident alien individual not engaged in trade or business in the Philippines from the sale of shares of stock in any domestic corporation and real property shall be subject to the income tax prescribed under Subsections (C) and (D) of Section 24.

(C) Alien Individual Employed by Regional or Area Headquarters and Regional Operating Headquarters of Multinational Companies. - There shall be levied, collected and paid for each taxable year upon the gross income received by every alien individual employed by regional or area headquarters and regional operating headquarters established in the Philippines by multinational companies as salaries, wages, annuities, compensation, remuneration and other emoluments, such as honoraria and allowances, from such regional or area headquarters and regional operating headquarters, a tax equal to fifteen percent (15%) of such gross income: Provided, however, That the same tax treatment shall apply to Filipinos employed and occupying the same position as those of aliens employed by these multinational companies. For purposes of this Chapter, the term 'multinational company' means a foreign firm or entity engaged in international trade with affiliates or subsidiaries or branch offices in the Asia-Pacific Region and other foreign markets.

(D) Alien Individual Employed by Offshore Banking Units. - There shall be levied, collected and paid for each taxable year upon the gross income received by every alien individual employed by offshore banking units established in the Philippines as salaries, wages, annuities, compensation, remuneration and other emoluments, such as honoraria and allowances, from such off-shore banking units, a tax equal to fifteen percent (15%) of such gross income: Provided, however, That the same tax treatment shall apply to Filipinos employed and occupying the same positions as those of aliens employed by these offshore banking units.

(E) Alien Individual Employed by Petroleum Service Contractor and Subcontractor. ^[13] - An Alien individual who is a permanent resident of a foreign country but who is employed and assigned in the Philippines by a foreign service contractor or by a foreign service subcontractor engaged in petroleum operations in the Philippines shall be liable to a tax of fifteen percent (15%) of the salaries, wages, annuities, compensation, remuneration and other emoluments, such as honoraria and allowances, received from such contractor or subcontractor: Provided, however, That the same tax treatment shall apply to a Filipino employed and occupying the same position as an alien employed by petroleum service contractor and subcontractor.

Any income earned from all other sources within the Philippines by the alien employees referred to under Subsections (C), (D) and (E) hereof shall be subject to the pertinent income tax, as the case may be, imposed under this Code.

(F) The preferential tax treatment provided in Subsections (C), (D), and (E) of this Section shall not be applicable to regional headquarters (RHQs), regional operating headquarters (ROHQs), offshore banking units (OBUs) or petroleum service contractors and subcontractors registering with the Securities and Exchange Commission (SEC) after January 1, 2018: Provided, however, That existing RHQs/ROHQs, OBUs or petroleum service contractors and subcontractors presently availing of preferential tax rates for qualified employees shall continue to be entitled to avail of the preferential tax rate for present and future qualified employees. ^[14]

(NOTE: The amendments introduced by the TRAIN Law on Section 6(F) was vetoed by the President. The veto message reads:

“I am constrained to veto the provision under Section 6(F) of the enrolled bill that effectively maintains the special tax rate of 15% of gross income for the aforementioned employees, to wit:

‘Provided, However, That Existing RHQs/ROHQs, OBUs or Petroleum Service Contractors and Subcontractors Presently Availing of Preferential Tax Rates For Qualified Employees Shall Continue To Be Entitled To Avail Of The Preferential Tax Rate For Present And Future Qualified Employees.’

While I understand the laudable objective of the proposal, the provision is violative of the Equal Protection Clause under Section 1, Article III of the 1987 Constitution, as well as the rule of equity and uniformity in the application of the burden of taxation:

Section 1. No person shall be deprived of life, liberty, or property without due process of law, nor shall any person be denied the equal protection of the laws.

In line with this, the overriding consideration is the promotion of fairness of the tax system for individuals performing similar work. Given the significant reduction in the personal income tax, the employees of these forms should follow the regular tax rates applicable to other individual taxpayers.)

SEC. 26. Tax Liability of Members of General Professional Partnerships. - A general professional partnership as such shall not be subject to the income tax imposed under this Chapter. Persons engaging in business as partners in a general professional partnership shall be liable for income tax only in their separate and individual capacities.

For purposes of computing the distributive share of the partners, the net income of the partnership shall be computed in the same manner as a corporation.

Each partner shall report as gross income his distributive share, actually or constructively received, in the net income of the partnership.

CHAPTER IV

TAX ON CORPORATIONS

SEC. 27. Rates of Income tax on Domestic Corporations. –

(A) In General. - Except as otherwise provided in this Code, an income tax of thirty-five percent (35%) is hereby imposed upon the taxable income derived during each taxable year from all sources within and without the Philippines by every corporation, as defined in Section 22(B) of this Code and taxable under this Title as a corporation, organized in, or existing under the laws of the Philippines: Provided, That effective January 1, 2009, the rate of income tax shall be thirty percent (30%). ^[19]

In the case of corporations adopting the fiscal-year accounting period, the taxable income shall be computed without regard to the specific date when specific sales, purchases and other transactions occur. Their income and expenses for the fiscal year shall be deemed to have been earned and spent equally for each month of the period.

The corporate income tax rate shall be applied on the amount computed by multiplying the number of months covered by the new rate within the fiscal year by the taxable income of the corporation for the period, divided by twelve. ^[8]

Provided, further, That the President, upon the recommendation of the Secretary of Finance, may effective January 1, 2000, allow corporations the option to be taxed at fifteen percent (15%) of gross income as defined herein, after the following conditions have been satisfied:

- (1) A tax effort ratio of twenty percent (20%) of Gross National Product (GNP);
- (2) A ratio of forty percent (40%) of income tax collection to total tax revenues;

(3) A VAT tax effort of four percent (4%) of GNP; and

(4) A 0.9 percent (0.9%) ratio of the Consolidated Public Sector Financial Position (CPSFP) to GNP.

The option to be taxed based on gross income shall be available only to firms whose ratio of cost of sales to gross sales or receipts from all sources does not exceed fifty-five percent (55%).

The election of the gross income tax option by the corporation shall be irrevocable for three (3) consecutive taxable years during which the corporation is qualified under the scheme.

For purposes of this Section, the term '**gross income**' derived from business shall be equivalent to gross sales less sales returns, discounts and allowances and cost of goods sold. '**Cost of goods sold**' shall include all business expenses directly incurred to produce the merchandise to bring them to their present location and use.

For a trading or merchandising concern, '**cost of goods sold**' shall include the invoice cost of the goods sold, plus import duties, freight in transporting the goods to the place where the goods are actually sold, including insurance while the goods are in transit.

For a manufacturing concern, '**cost of goods manufactured and sold**' shall include all costs of production of finished goods, such as raw materials used, direct labor and manufacturing overhead, freight cost, insurance premiums and other costs incurred to bring the raw materials to the factory or warehouse.

In the case of taxpayers engaged in the sale of service, '**gross income**' means gross receipts less sales returns, allowances and discounts.

(B) Proprietary Educational Institutions and Hospitals.–

Proprietary educational institutions and hospitals which are nonprofit shall pay a tax of ten percent (10%) on their taxable income except those covered by Subsection (D) hereof: Provided, that if the gross income from 'unrelated trade, business or other activity' exceeds fifty percent (50%) of the total gross income derived by such educational institutions or hospitals from all sources, the tax prescribed in Subsection (A) hereof shall be imposed on the entire taxable income. For purposes of this Subsection, the term 'unrelated trade, business or other activity' means any trade, business or other activity, the conduct of which is not substantially related to the exercise or performance by such educational institution or hospital of its primary purpose or function. A 'proprietary educational institution' is any private school maintained and administered by private individuals or groups with an issued permit to operate from the Department of Education, Culture and Sports (DECS)^[15], or the Commission on Higher Education (CHED), or the Technical Education and Skills Development Authority (TESDA), as the case may be, in accordance with existing laws and regulations.

(C) Government-owned or –Controlled Corporations, Agencies or Instrumentalities. ^[16] - The provisions of existing special or general laws to the contrary notwithstanding, all corporations, agencies, or instrumentalities owned or controlled by the Government, except the Government Service Insurance System (GSIS), the Social Security System (SSS), the Philippine Health Insurance Corporation (PHIC) and the local water districts (LWDs) ^[17] shall pay such rate of tax upon their taxable income as are imposed by this Section upon corporations or associations engaged in similar business, industry, or activity.

(D) Rates of Tax on Certain Passive Incomes. –

(1) Interest from Deposits and Yield or any other Monetary Benefit from Deposit Substitutes and from Trust Funds and Similar Arrangements, and Royalties. - A final tax at the rate of twenty percent (20%) is hereby imposed upon the amount of interest on currency bank deposit and yield or any other monetary benefit from deposit substitutes and from trust funds and similar arrangements received by domestic corporations, and royalties, derived from sources within the Philippines: Provided, however, That interest income derived by a domestic corporation from a depository bank under the expanded foreign currency deposit system shall be subject to a final income tax at the rate of fifteen percent (15%) of such interest income. ^[4]

(2) Capital Gains from the Sale of Shares of Stock Not Traded in the Stock Exchange. - A final tax at the rate of fifteen percent (15%) shall be imposed on net capital gains realized during the taxable year from the sale, exchange or other disposition of shares of stock in a domestic corporation except shares sold or disposed of through the stock exchange. ^[4]

(3) Tax on Income Derived under the Expanded Foreign Currency Deposit System. – 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 shall be exempt from all taxes, except net income from such transactions as may be specified by the Secretary of Finance, upon recommendation by the Monetary Board to be subject to the regular income tax payable by banks: Provided, however, That 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, shall be subject to a final tax at the rate of ten percent (10%). [20]

Any income of nonresidents, whether individuals or corporations, from transactions with depository banks under the expanded system shall be exempt from income tax.

(4) Intercorporate Dividends. - Dividends received by a domestic corporation from another domestic corporation shall not be subject to tax.

(5) Capital Gains Realized from the Sale, Exchange or Disposition of Lands and/or Buildings. - A final tax of six percent (6%) is hereby imposed on the gain presumed to have been realized on the sale, exchange or disposition of lands and/or buildings which are not actually used in the business of a corporation and are treated as capital assets, based on the gross selling price of fair market value as determined in accordance with Section 6(E) of this Code, whichever is higher, of such lands and/or buildings.

(E) Minimum Corporate Income Tax on Domestic Corporations. –

(1) Imposition of Tax. - A minimum corporate income tax of two percent (2%) of the gross income as of the end of the taxable year, as defined herein, is hereby imposed on a corporation taxable under this Title, beginning on the fourth taxable year immediately following the year in which such corporation commenced its business operations, when the minimum income tax is greater than the tax computed under Subsection (A) of this Section for the taxable year.

(2) Carry Forward of Excess Minimum Tax. - Any excess of the minimum corporate income tax over the normal income tax as computed under Subsection (A) of this Section shall be carried forward and credited against the normal income tax for the three (3) immediately succeeding taxable years.

(3) Relief from the Minimum Corporate Income Tax Under Certain Conditions. - The Secretary of Finance is hereby authorized to suspend the imposition of the minimum corporate income tax on any corporation which suffers losses on account of prolonged labor dispute, or because of force majeure, or because of legitimate business reverses.

The Secretary of Finance is hereby authorized to promulgate, upon recommendation of the Commissioner, the necessary rules and regulation that shall define the terms and conditions under which he may suspend the imposition of the minimum corporate income tax in a meritorious case.

(4) Gross Income Defined. - For purposes of applying the minimum corporate income tax provided under Subsection (E) hereof, the term '**gross income**' shall mean gross sales less sales returns, discounts and allowances and cost of goods sold. '**Cost of goods sold**' shall include all business expenses directly incurred to produce the merchandise to bring them to their present location and use.

For a trading or merchandising concern, '**cost of goods sold**' shall include the invoice cost of the goods sold, plus import duties, freight in transporting the goods to the place where the goods are actually sold including insurance while the goods are in transit.

For a manufacturing concern, '**cost of goods manufactured and sold**' shall include all costs of production of finished goods, such as raw materials used, direct labor and manufacturing overhead, freight cost, insurance premiums and other costs incurred to bring the raw materials to the factory or warehouse.

In the case of taxpayers engaged in the sale of service, '**gross income**' means gross receipts less sales returns, allowances, discounts and cost of services. '**Cost of services**' shall mean all direct costs and expenses necessarily incurred to provide the services required by the customers and clients including (A) salaries and employee benefits of personnel, consultants and specialists directly rendering the service and (B) cost of

facilities directly utilized in providing the service such as depreciation or rental of equipment used and cost of supplies: Provided, however, That in the case of banks, '**cost of services**' shall include interest expense.

SEC. 28. Rates of Income Tax on Foreign Corporations. - ^[18]

(A) Tax on Resident Foreign Corporations. -

(1) In General. - Except as otherwise provided in this Code, a corporation organized, authorized, or existing under the laws of any foreign country, engaged in trade or business within the Philippines, shall be subject to an income tax equivalent to thirty-five percent (35%) of the taxable income derived in the preceding taxable year from all sources within the Philippines: Provided, That effective January 1, 2009, the rate of income tax shall be thirty percent (30%). ^[19]

In the case of corporations adopting the fiscal-year accounting period, the taxable income shall be computed without regard to the specific date when sales, purchases and other transactions occur. Their income and expenses for the fiscal year shall be deemed to have been earned and spent equally for each month of the period.

The corporate income tax rate shall be applied on the amount computed by multiplying the number of months covered by the new rate within the fiscal year by the taxable income of the corporation for the period, divided by twelve. ^[8]

Provided, however, That a resident foreign corporation shall be granted the option to be taxed at fifteen percent (15%) on gross income under the same conditions, as provided in Section 27 (A).

(2) Minimum Corporate Income Tax on Resident Foreign Corporations. - A minimum corporate income tax of two percent (2%) of gross income, as prescribed under Section 27 (E) of this Code, shall be imposed, under the same conditions, on a resident foreign corporation taxable under paragraph (1) of this Subsection.

(3) International Carrier. — An international carrier doing business in the Philippines shall pay a tax of two and one-half percent (2 1/2 %) on its 'Gross Philippine Billings' as defined hereunder:

(a) International Air Carrier. — '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: Provided, That tickets revalidated, exchanged and/or indorsed to another international airline form part of the Gross Philippine Billings if the passenger boards a plane in a port or point in the Philippines: Provided, further, That for a flight which originates from the Philippines, but transshipment of passenger takes place at any part outside the Philippines on another airline, only the aliquot portion of the cost of the ticket corresponding to the leg flown from the Philippines to the point of transshipment shall form part of Gross Philippine Billings.

(b) International Shipping. — 'Gross Philippine Billings' means gross revenue whether for passenger, cargo or mail originating from the Philippines up to final destination, regardless of the place of sale or payments of the passage or freight documents.

Provided, That international carriers doing business in the Philippines may avail of a preferential rate or exemption from the tax herein imposed 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.

(4) Offshore Banking Units. - The provisions of any law to the contrary notwithstanding, income derived by offshore banking units authorized by the Bangko Sentral ng Pilipinas (BSP), from foreign currency transactions with nonresidents, other offshore banking units, local commercial banks, including branches of foreign banks that may be authorized by the Bangko Sentral ng Pilipinas (BSP) to transact business with offshore banking units shall be exempt from all taxes except net income from such transactions as may be specified by the Secretary of Finance, upon recommendation of the Monetary Board which shall be subject to the regular income tax payable by banks: Provided, however, That any 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, shall be subject only to a final tax at the rate of ten percent (10%). ^[20]

Any income of nonresidents, whether individuals or corporations, from transactions with said offshore banking units shall be exempt from income tax.

(5) Tax on Branch Profits Remittances. - Any profit remitted by a branch to its head office shall be subject to a tax of fifteen (15%) which shall be based on the total profits applied or earmarked for remittance without any deduction for the tax component thereof (except those activities which are registered with the Philippine Economic Zone Authority). The tax shall be collected and paid in the same manner as provided in Sections 57 and 58 of this Code: Provided, that interests, dividends, rents, royalties, including remuneration for technical services, salaries, wages premiums, annuities, emoluments or other fixed or determinable annual, periodic or casual gains, profits, income and capital gains received by a foreign corporation during each taxable year from all sources within the Philippines shall not be treated as branch profits unless the same are effectively connected with the conduct of its trade or business in the Philippines.

(6) Regional or Area Headquarters and Regional Operating Headquarters of Multinational Companies. –

(a) Regional or area headquarters as defined in Section 22(DD) shall not be subject to income tax.

(b) Regional operating headquarters as defined in Section 22(EE) shall pay a tax of ten percent (10%) of their taxable income.

(7) Tax on Certain Incomes Received by a Resident Foreign Corporation. -

(a) Interest from Deposits and Yield or any other Monetary Benefit from Deposit Substitutes, Trust Funds and Similar Arrangements and Royalties. - Interest from any currency bank deposit and yield or any other monetary benefit from deposit substitutes and from trust funds and similar arrangements and royalties derived from sources within the Philippines shall be subject to a final income tax at the rate of twenty percent (20%) of such interest: Provided, however, That interest income derived by a resident foreign corporation from a depository bank under the expanded foreign currency deposit system shall be subject to a final income tax at the rate of seven and one-half percent (7 1/2%) of such interest income.

(b) Income Derived under the Expanded Foreign Currency Deposit System. - 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, and other depository banks under the expanded foreign currency deposit system shall be exempt from all taxes, except net income from such transactions as may be specified by the Secretary of Finance, upon recommendation by the Monetary Board to be subject to the regular income tax payable by banks: Provided, however, That 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 shall be subject to a final tax at the rate of ten percent (10%). [20]

Any income of nonresidents, whether individuals or corporations, from transactions with depository banks under the expanded system shall be exempt from income tax.

(c) Capital Gains from Sale of Shares of Stock Not Traded in the Stock Exchange. - A final tax at the rates prescribed below is hereby imposed upon the net capital gains realized during the taxable year from the sale, barter, exchange or other disposition of shares of stock in a domestic corporation except shares sold or disposed of through the stock exchange:

Not over P100, 000	5%
On any amount in excess of P100,000	10%

(d) Intercorporate Dividends. - Dividends received by a resident foreign corporation from a domestic corporation liable to tax under this Code shall not be subject to tax under this Title.

(B) Tax on Nonresident Foreign Corporation. -

(1) In General. - Except as otherwise provided in this Code, a foreign corporation not engaged in trade or business in the Philippines shall pay a tax equal to thirty-five percent (35%) of the gross income received during each 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