



MALACAÑANG

Manila

EXECUTIVE ORDER NO. 37

FURTHER AMENDING CERTAIN PROVISIONS OF THE NATIONAL INTERNAL CODE, AS AMENDED

WHEREAS, it is necessary to rationalize the present system of taxing incomes derived by individuals and corporations to improve equity, to achieve greater administrative simplicity, to broaden the tax base and improve revenue elasticity and to provide incentives for greater resource allocation;

NOW, THEREFORE, I, CORAZON C. AQUINO, President of the Philippines, do hereby order:

SECTION 1. Section 20 of the National Internal Revenue Code, as amended, is hereby further amended by adding a new paragraph (z) to read as follows:

"(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 34(a). 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 34(a). 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."

SECTION 2. Section 21 of the National Internal Revenue Code, as amended, is hereby further amended to read as follows:

"Section 21. Tax on citizens or residents. -
 (a) Taxable compensation, business and other income. - A tax is hereby imposed upon the taxable compensation, business and other income as defined in

Section 28, other than the incomes subject to tax under paragraphs (b), (c), (d) and (e) of this Section, received during each taxable year from all sources determined in accordance with the following schedule:

Not over ₱2,500	0%
Over ₱ 2,500 but not over ₱ 5,000	1% of excess over ₱ 2,500
Over ₱ 5,000 but not over ₱ 10,000	₱ 25 + 3% of excess over ₱ 5,000
Over ₱ 10,000 but not over ₱ 20,000	₱ 175 + 7% of excess over ₱ 10,000
Over ₱ 20,000 but not over ₱ 40,000	₱ 875 + 11% of excess over ₱ 20,000
Over ₱ 40,000 but not over ₱ 60,000	₱ 3,075 + 15% of excess over ₱ 40,000
Over ₱ 60,000 but not over ₱100,000	₱ 6,075 + 19% of excess over ₱ 60,000
Over ₱100,000 but not over ₱250,000	₱ 13,675 + 24% of excess over ₱100,000
Over ₱250,000 but not over ₱500,000	₱ 49,675 + 29% of excess over ₱250,000
Over ₱500,000	₱122,175 + 35% of excess over ₱500,000

In the case of married individuals, the husband and wife, subject to the provision of Section 45(d) hereof, may elect to compute separately their individual income tax based on their respective total taxable incomes: Provided, That if any income can not be definitely attributable to or identifiable as income exclusively earned or realized by either of the spouses, the same shall be divided equally between the spouses for the purpose of computing their respective taxable income.

(b) Foreign source gross income derived by a non-resident citizen. - A tax is hereby imposed upon the taxable income derived by a nonresident citizen from all sources without the Philippines during each taxable year computed in accordance with the following schedule:

JA

If the amount subject to tax is:

Not over U.S. \$6,000.00	1%
Over U.S. \$6,000.00 but not over U.S. \$20,000.00	U.S.\$60 plus 2% of excess over U.S. \$6,000
Over U.S. \$20,000.00	U.S.\$340 plus 3% of excess over U.S. \$20,000

(c) Certain passive incomes. - A tax at the rate prescribed below is hereby imposed upon the amount of the following items of gross income received by a citizen or resident alien from sources within the Philippines:

Interest from any Philippine currency bank deposit and yield or any other monetary benefit from deposit substitutes and from trust fund and similar arrangements; royalties, prizes (except prizes amounting to ₱3,000 or less which shall be subject to tax under paragraph (a) and other winnings (except Philippine Charity Sweepstakes winnings) - 20%; and

Dividends received from a domestic corporation and the share of an individual partner in a partnership subject to tax under Section 24(a) at the rate of 15% in 1936; 10% effective January 1, 1937; 5% effective January 1, 1938; and 0% effective January 1, 1939.

(d) Capital gains from sales of shares of stock. - The provisions of Section 34(b) notwithstanding, capital gains realized from the sale, exchange or disposition of shares of stocks in any domestic corporation shall be taxed as follows:

(1) Net capital gain as defined in Section 34(a)(2) realized during each taxable year from the sale, exchange or other disposition of shares of stock not traded through a local stock exchange:

Not over ₱100,000	10%
Over ₱100,000 ..	20%

- (2) Capital gains presumed to have been realized from the sale, exchange or disposition of shares of stock listed and traded through a local stock exchange — 1/4 of 1% based on the gross selling price of the share or shares of stock.

(e) Capital gains from sales of real property. - The provisions of Section 34(b) notwithstanding, 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, shall be taxed at the rate of 5% based on the gross selling price or the fair market value prevailing at the time of sale, whichever is higher: 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 21(a) or under this sub-section, at the option of the taxpayer."

SECTION 3. Section 22 of the National Internal Revenue Code, as amended, is hereby further amended to read as follows:

"Section 22. Tax on nonresident alien individuals. -

(a) Nonresident alien engaged in trade or business within the Philippines. (1) In general. - Nonresident aliens engaged in trade or business in the Philippines shall be subject to tax in the same manner as resident citizens and aliens on taxable income received from all sources within the Philippines, except capital gains realized from buying and/or selling shares of stock of Philippine corporations listed in the dollar or any foreign currency board of stock exchange: Provided, That for purposes of this Title, a nonresident alien individual who shall come to the Philippines and stay therein for an aggregate period of more than 180 days during any calendar year shall be deemed a nonresident alien doing business in the Philippines, Section 20(g) of this Code notwithstanding.

(2) Dividends, share in the net profits of a taxable partnership, interest, royalties, prizes and other winnings. - Dividends from a domestic corporation, share in the net profits of a partnership taxable under Section 24(a), interest, royalties (in any form) and

prizes (except prizes amounting to ₱3,000 or less which shall be subject to tax under paragraph (a) of Section 21) and other winnings (except Philippine Charity Sweepstakes winnings), shall be subject to a tax of thirty percent (30%) on the total amount thereof.

(3) Capital gains. - Capital gains realized from sales of shares of stocks in domestic corporations and real properties shall be subject to the tax prescribed under Sub-sections (d) and (e) of Section 21.

(b) Nonresident aliens 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, dividends, rents, salaries, wages, premiums, annuities, compensation, remuneration, emoluments, or other fixed or determinable annual or periodical or casual gains, profits, and income, and capital gains (except capital gains realized from buying and/or selling shares of stock of Philippine corporations listed in the dollar or any acceptable foreign currency board of any stock exchange), a tax equal to 30% of such income: Provided, That capital gains realized from sales of shares of stocks in any domestic corporation and real property shall be subject to the tax prescribed under Sub-sections (d) and (e) of Section 21.

(c) Aliens employed by regional or area headquarters of multinational corporations. - 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 established in the Philippines by multinational corporations as salaries, wages, annuities, compensation, remuneration and other emoluments, such as honoraria and allowances, from such regional or area headquarters, a tax equal to 15% of such gross income: Provided, That the activities of the said regional headquarters or area headquarters shall be limited to acting as supervisory, communications and coordinating center for their affiliates, subsidiaries or branches of such multinational corporations. For purposes of this chapter, the term "multinational corporation" means a foreign firm or entity engaged in international trade with affiliates or subsidiaries or branch offices in the Asia Pacific Region.

JA

(d) Aliens 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 offshore banking units, a tax equal to 15% of such gross income.

(e) Aliens employed by petroleum service contractors and subcontractors. - Aliens who are permanent residents of a foreign country but who are employed and assigned in the Philippines by service contractors or by subcontractors engaged in petroleum operations in the Philippines shall be liable to a tax of 15% of the salaries, wages, annuities, compensation, remuneration and other emoluments, such as honoraria and allowances, received from such contractors or subcontractors.

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 the National Internal Revenue Code, as amended."

SECTION 4. The provisions of Section 23 of the National Internal Revenue Code, as amended, are hereby superseded by new provisions to read as follows:

"Section 23. Tax liability of members of general professional partnerships. - (a) Persons exercising a common profession in general partnership shall be liable for income tax only in their individual capacity, and the share in the net profits of the general professional partnership to which any taxable partner would be entitled whether distributed or otherwise, shall be returned for taxation and the tax paid in accordance with the provisions of this Title.

(b) In determining his distributive share in the net income of the partnership, each partner-

- (1) Shall take into account separately his distributive share of the partnership's income, gain, loss, deduction, or credit to the extent provided by the pertinent provisions of this Code, and
- (2) Shall be deemed to have elected the itemized deductions, unless he declares his distributive share of the gross income undiminished by his share of the deductions."

SECTION 5. Section 24 of the National Internal Revenue Code, as amended, is hereby further amended, in its entirety to read as follows:

"Section 24. Rates of tax on domestic corporations.-

(a) In general. - Unless otherwise provided, a tax of 35% is hereby imposed upon the taxable income received 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, and partnerships, no matter how created or organized, but not including general professional partnerships.

(b) Private Educational Institutions. - Private educational institutions, whether stock or non-stock, shall pay a tax of 10% on their taxable income except those covered by paragraph (e) hereof: Provided, That if the gross income from unrelated trade, business or other activity exceeds 50% of the total gross income derived by any educational institution from all sources, the tax prescribed in paragraph (a) hereof shall be imposed on the entire taxable income of the educational institution. For purposes of this paragraph, 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 of its educational purpose or function. A private educational institution is any "private school" maintained and administered by private individuals or groups issued a permit to operate by the Ministry of Education, Culture and Sports (MECS) in accordance with existing laws and regulations.

(c) Government-owned or controlled corporations, agencies or instrumentalities. - The provisions of existing special or general laws to the contrary notwithstanding, all corporate taxpayers not specifically exempt under Section 27 of this Code shall pay the rates provided in this Section. All corporations, agencies, or instrumentalities owned or controlled by the Government, including the Government Service Insurance System and the Social Security System, shall pay such rate of tax upon their taxable income as are imposed by this section upon associations or corporations engaged in a similar business, industry, or activity.

(d) Mutual life insurance companies. - Mutual life insurance companies organized in and existing under the laws of the Philippines shall pay a tax of 10% of their gross investment income consisting of interest, dividends, rents, net capital gains, and income from any other business than life insurance derived from all sources, except those covered by paragraph (e) hereof.

(e) Tax on certain incomes derived by domestic corporations. - (1) Interest from deposits and yield or any other monetary benefit from deposit substitutes and from trust fund and similar arrangements, and royalties. - Interest on Philippine currency bank deposits and yield or any other monetary benefit from deposit substitutes and from trust fund and similar arrangements received by domestic corporations, and royalties, derived from sources within the Philippines, shall be subject to a 20% tax.

(2) Capital gains from sales of shares of stock. - Capital gains realized from the sale, exchange or disposition of shares of stocks in any domestic corporation shall be taxed as follows:

Net capital gains as defined in Section 34(a) (2) realized during each taxable year from sale or exchange or other disposition of shares of stock not traded through a local stock exchange:

Not over ₱100,000	10%
Over ₱100,000	20%

(B) Capital gains presumed to have been realized from the sale, exchange or disposition of shares of stock listed and traded through a local stock exchange - 1/4 of 1% based on the gross selling price of the share or shares of stock.

(5) 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 Central Bank to transact business with foreign currency depository system units and other depository banks under the expanded foreign currency deposit system shall be exempt from all taxes, except taxable income from such transactions as may be specified by the Minister of Finance, upon recommendation of the Monetary Board to be subject to the usual income tax payable by banks: Provided, That interest income from foreign currency loans granted by such depository banks under said expanded system to residents (other than off-shore banking units in the Philippines or other depository banks under the expanded system) shall be subject to a 10% tax.

Any income of nonresidents 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."

SECTION 6. The provisions of Section 25 of the National Internal Revenue Code, as amended, are hereby superseded by new provisions to read as follows:

"Section 25. Rates of tax on foreign corporation. -

(a) Tax on resident foreign corporations (1) in general. - Unless otherwise provided, 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 a tax equivalent to 35% of the taxable income derived in the preceding taxable year from all sources within the Philippines.

(2) International carriers. - International carriers doing business in the Philippines shall pay a tax of two and one-half percent (2 1/2%) on their 'Gross Philippine Billings' as defined hereunder:

(A) International air carrier. - 'Gross Philippine Billings' means gross revenue realized from uplifts of passengers anywhere in the world and excess baggage, cargo and mail originating from the Philippines, covered by passage documents sold in the Philippines: Provided, That documents sold outside the Philippines under a 'prepaid ticket advice' scheme for passengers

originating from the Philippines shall be considered as documents sold in the Philippines. Gross revenue from chartered flights originating from the Philippines shall likewise form part of the 'Gross Philippine Billings' regardless of the place of sale or payment of the passage documents. For purposes of determining the taxability of revenues from chartered flights, the term "originating from the Philippines" shall include flights of passengers who stay in the Philippines for more than forty-eight (48) hours prior to embarkation.

(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.

(3) Foreign mutual life insurance companies. - Foreign mutual life insurance companies authorized to carry business in the Philippines shall pay a tax of 10% on their gross investment income derived from sources within the Philippines except those covered by subsection (6) hereof.

(4) Offshore banking units. - The provisions of any law to the contrary notwithstanding, income derived by offshore banking units authorized by the Central Bank of the Philippines from foreign currency transactions with non-residents, other offshore banking units, local commercial banks, including branches of foreign banks that may be authorized by the Central Bank to transact business with offshore banking units shall be exempt from all taxes except taxable income from such transactions as may be specified by the Minister of Finance, upon recommendation of the Monetary Board, to be subject to the normal income tax payable by banks: Provided, That any interest income derived from foreign currency loans granted to residents other than offshore banking units or local branches of foreign banks that may be authorized by the Central Bank of the Philippines to transact business with offshore banking units, shall be subject only to a 10% tax.

Any income of noresidents 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 15% (except those registered with the Export Processing Zone Authority): Provided, That any profit remitted by a branch to its head office authorized to engage in petroleum operations in the Philippines shall be subject to tax at 7-1/2%. In both cases, the tax shall be collected and paid in the same manner as provided in Sections 51 and 52 of this Code: and Provided, further, That interests, dividends, rents, royalties, including remuneration for technical services, salaries, wages, premiums, annuities, emoluments or other fixed or determinable annual, periodical 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 considered as branch profits unless the same are effectively connected with the conduct of its trade or business in the Philippines.

(6) Tax on certain incomes received by resident foreign corporations. (A) Interest from deposits and yield or any other monetary benefit from deposit substitutes, trust fund and similar arrangements and royalties. Interest on Philippine currency bank deposits and yield or any other monetary benefit from deposit substitutes and from trust fund and similar arrangements and royalties derived from sources within the Philippines shall be subject to a 20% tax.

(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 Central Bank of the Philippines to transact business with foreign currency depository system units and other depository banks under the expanded foreign currency deposit system shall be exempt from all taxes, except taxable income from such transactions as may be specified by the Minister of Finance, upon recommendation of the Monetary Board to be subject to the usual income tax payable by banks: Provided, 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 10% tax.

Any income of nonresidents from transactions with depository banks under the expanded system shall be exempt from income tax.

(C) Capital gains from sales of shares of stock. - Capital gains realized from sale, exchange or disposition of shares of stocks in any domestic corporation shall be taxed as follows:

(i) Net capital gains as defined in Section 34(a)(2) realized during each taxable year from sale or exchange or other disposition of shares of stocks not traded through a local stock exchange shall be taxed as follows:

Not over ₱100,000	10%
Over ₱100,000	20%

(ii) Capital gains presumed to have been realized from the sale, exchange or disposition of shares of stock listed and traded through a local stock exchange — 1/4 of 1% based on the gross selling price of the share or shares of stock.

(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) Nonresident foreign corporations. - (1) In general. - Unless otherwise provided, a foreign corporation not engaged in trade or business in the Philippines shall pay a tax equal to 35% of the gross income received during each taxable year from all sources within the Philippines such as interest, dividends, rents, royalties, salaries, premiums (except reinsurance premiums), annuities, emoluments or other fixed or determinable annual, periodical or casual gains, profits and income, and capital gains, except capital gains subject to tax under subparagraph 5(C).

(2) Nonresident cinematographic film owners, lessors or distributors. - Cinematographic film owners, lessors, or distributors shall pay a tax of 25% of their gross income from all sources within the Philippines.

(3) Nonresident owners of vessels chartered by Philippine nationals. - Rentals, lease and charter fees derived by nonresident owners of vessels chartered by

Philippine nationals and which charter or lease has been duly approved by the Maritime Industry Authority shall be subject to a 4.5% tax.

(4) Nonresident lessors of aircrafts, machineries and other equipment. - Rentals, charter and other fees derived by nonresident lessors of aircrafts, machineries and other equipment shall be subject to a tax of not less than 5% but not more than 10% to be fixed and determined by the President upon recommendation of the Minister of Finance: Provided, That the rate of 7-1/2% shall be imposed on such rentals, charter and other fees until such time as the President shall have prescribed the rates appropriate for each category of property.

(5) Tax on certain incomes received by nonresident foreign corporations. - (A) Interest on foreign loans contracted on or after August 1, 1986 shall be subject to a 20% tax;

(B) On dividends received from a domestic corporation liable to tax under this Chapter, the tax shall be 15% of the dividends received, which shall be collected and paid as provided in Section 51(a) of the National Internal Revenue Code, as amended, subject to the condition that the country in which the nonresident foreign corporation is domiciled shall allow a credit against the tax due from the nonresident foreign corporation, taxes deemed to have been paid in the Philippines equivalent to 20% which represents the difference between the regular tax (35%) on corporations and the tax (15%) on dividends as provided in this subparagraph;

(C) Capital gains realized from sale, exchange or disposition of shares of stocks in any domestic corporation shall be subject to tax as follows:

(i) Net capital gains as defined in Section 34(a)(2) realized during each taxable year from sale or exchange or other disposition of shares of stocks not traded through a local stock exchange:

Not over ₱100,000	10%
Over ₱100,000	20%

(ii) Capital gains presumed to have been realized from the sale, exchange or disposition

of shares of stock listed and traded through a local stock exchange - 1/4 of 1% based on the gross selling price of the share or shares of stock."

SECTION 7. Section 26 of the National Internal Revenue Code, as amended, is hereby repealed.

SECTION 8. Section 27 of the National Internal Revenue Code, as amended, is hereby further amended by adding a new sub-section (1) to the first paragraph thereof as follows:

"(1) Government educational institution."

SECTION 9. Section 28 of the National Internal Revenue Code, as amended, is hereby further amended to read as follows:

"Section 28. Taxable Income. - The term 'taxable income' means the pertinent items of gross income specified in this Code less the deductions, if any, authorized by such types of income by this Code or other special laws: Provided, That for purposes of Section 21(b) 'taxable income' means gross income from all sources without the Philippines less the deductions allowed in Section 30(m)."

SECTION 10. Section 29 of the National Internal Revenue Code, as amended, is hereby further amended as follows:

"Section 29. Gross Income. - (a) General definition. Gross income means all income from whatever source derived, including (but not limited to) the following items:

- (1) Compensation for services, including fees, commissions, and similar items;
- (2) Gross income derived from business;
- (3) Gains derived from dealings in property;
- (4) Interest;
- (5) Rents;
- (6) Royalties;
- (7) Dividends;
- (8) Annuities;
- (9) Prizes and winnings;
- (10) Pensions; and
- (11) Partner's distributive share of the gross income of general professional partnership.

(b) Exclusions from gross income. - The following items shall not be included in gross income and shall be exempt from taxation under this Title:

- (1) Life insurance. - The proceeds of life insurance policies paid to the heirs or beneficiaries upon the death of the insured, whether in a single sum or otherwise, but if such amounts are held by the

insurer under an agreement to pay interest thereon, the interest payments shall be included in gross income.

(2) Amount received by insured as return of premium. -

The amount received by the insured, as a return of premiums paid by him under life insurance, endowment, or annuity contracts, either during the term or at the maturity of the term mentioned in the contract or upon surrender of the contract.

Gifts, bequests, and devises. - The value of property acquired by gift, bequest, devise, or descent; but the income from such property shall be included in gross income.

Interest on Government securities. - Interest upon the obligations of the Government of the Republic of the Philippines or any political subdivisions thereof, but in the case of such obligations issued after the approval of this Code, only to the extent provided in the act authorizing the issue thereof.

Compensation for injuries or sickness. - Amounts received, through Accident or Health Insurance or under Workmen's Compensation Acts, as compensation for personal injuries or sickness, plus the amounts of any damages received whether by suit or agreement on account of such injuries or sickness.

Income exempt under treaty. - Income of any kind, to the extent required by any treaty obligation binding upon the Government of the Philippines.

Retirement benefits, pensions, gratuities, etc. - (A) retirement benefits received by officials and employees of private firms, whether individual or corporate, in accordance with a reasonable private benefit plan maintained by the employer: Provided, That the retiring official or employee has been in the service of the same employer for at least 10 years and is not less than 50 year of age at the time of his retirement: Provided, further, That the benefits granted under this subparagraph shall be availed of by an official or employee only once. For purposes of this subsection, the term 'reasonable private benefit plan' means a pension, gratuity, stock bonus or profit-sharing plan maintained by an employer for the benefit of some or all of his officials or employees,

wherein contributions are made by such employer for officials or employees, or both, for the purpose of distributing to such officials and employees the earnings and principal of the fund thus accumulated, and wherein it is provided in said plan that at no time shall any part of the corpus or income of the fund be used for, or be delivered to, any purpose other than for the exclusive benefit of the said officials and employees.

(B) Any amount received by an official or employee or by his heirs from the employer as a consequence of separation of such official or employee from the service of the employer due to death, sickness or other physical disability or for any cause beyond the control of the said official or employee.

(C) The provisions of any existing law to the contrary notwithstanding, social security benefits, retirement gratuities, pensions and other similar benefits received by resident or nonresident citizens of the Philippines or aliens who come to reside permanently in the Philippines from foreign government agencies and other institutions, private or public.

(D) Payments of benefits due or to become due to any person residing in the Philippines under the laws of the United States administered by the United States Veterans Administration.

(E) Payments of benefits made under the Social Security Act of 1954, as amended.

(F) Benefits received from the GSIS and the retirement gratuity received by government officials and employees.

(G) Miscellaneous items.

(A) Income received from their investments in the Philippines in loans, stocks, bonds or other domestic securities, or from interest on their deposits in banks in the Philippines by (i) foreign governments, (ii) financing institutions owned, controlled, or enjoying refinancing from them, and (iii) international or regional financing institutions established by governments.

(B) Income derived from any public utility or from the exercise of any essential governmental function accruing to the Government of the Philippines or to any political subdivision thereof.

(C) Income derived as rewards under Section 316 of this Code, as amended.

(D) Interest earned from deposits maintained with a bank under the expanded foreign currency deposit system.

(E) Prizes and awards made primarily in recognition of religious, charitable, scientific, educational, artistic, literary, or civic achievement but only if:

(i) the recipient was selected without any action on his part to enter the contest or proceeding; and

(ii) the recipient is not required to render substantial future services as a condition to receiving the prize or award."

SECTION 11. Section 30 of the National Internal Revenue Code, as amended, is hereby further amended to read as follows:

"Section 30. Deductions from gross income. - In computing taxable income subject to tax under Sec. 21(a); 24(a) (b) and (c); and 25(a)(1), there shall be allowed as deductions the items specified in paragraphs (a) to (i) of this section.

In the case of an individual, the optional standard deduction under paragraph (k) shall be allowed in lieu of itemized deductions under said paragraphs (a) to (i). In addition, the appropriate personal and additional exemptions allowed under paragraph (1) may be claimed by an individual whose income is subject to tax under Section 21(a): Provided, That no deductions other than the deduction provided in paragraph (1) may be allowed from compensation income arising from personal services rendered under an employer-employee relationship.

(a) Expenses. - (1) Business expenses. - (A) In general. - All ordinary and necessary expenses paid or incurred during the taxable year in carrying

on any trade or business, including a reasonable allowance for salaries or other compensation for personal services actually rendered; travelling expenses while away from home in the pursuit of a trade, profession or business, rentals or other payments required to be made as a condition to the continued use or possession, for the purpose of the trade, profession or business, of property to which the taxpayer has not taken or is not taking title or in which he has no equity.

(2) Expenses allowable to private educational institutions. - In addition to the expenses allowable as deductions under subparagraph (a)(1)(A) above, a private educational institution, referred to under Section 24(b) of this Code, may at its option elect either (A) to deduct expenditures otherwise considered as capital outlays of depreciable assets incurred during the taxable year for the expansion of school facilities or (B) to deduct allowance for depreciation thereof under paragraph (f) of this section.

(b) Interest. - (1) In general. - The amount of interest paid or accrued within a taxable year on indebtedness in connection with the taxpayer's profession, trade or business, except on indebtedness incurred or continued to purchase or carry obligation the interest upon which is exempt from taxation as income under this Title.

(2) No deduction shall be allowed in respect of interest under the succeeding sub-paragraphs:

(i) If within the taxable year an individual taxpayer reporting income on the cash basis incurs an indebtedness on which an interest is paid in advance through discount or otherwise: Provided, That such interest shall be allowed as a deduction in the year the indebtedness is paid: and Provided, further, That if the indebtedness is payable in periodic amortizations, the amount of interest which corresponds to the amount of the principal amortized or paid during the year shall be allowed as deduction in such taxable year.

f.

(ii) If both the taxpayer and the person to whom the payment has been made or is to be made are persons specified under Section 31(b).

(iii) If the indebtedness is incurred to finance petroleum exploration.

(c) Taxes. - (1) In general. - Taxes paid or accrued within the taxable year in connection with the taxpayer's profession, trade or business, except:

The income tax provided for under this Title;

Income, war profits, and excess profits taxes imposed by authority of any foreign country; but this deduction shall be allowed in the case of a taxpayer who does not signify in his return his desire to have to any extent the benefits of paragraph (3) of this subsection (relating to credits for taxes of foreign countries);

Estate and gift taxes;

Taxes assessed against local benefits of a kind tending to increase the value of the property assessed; and

Electric energy consumption tax imposed by Batas Pambansa Blg. 36.

(2) Limitations on deductions. (A) In the case of a nonresident alien individual and a foreign corporation, the deductions for taxes provided in paragraph (1) of this subsection (c) shall be allowed only if and to the extent that they are connected with income from sources within the Philippines; and

In the case of a citizen of a foreign country residing in the Philippines whose income from sources within such foreign country is not taxable under this Title, only that portion of the taxes paid to such foreign country which corresponds to his taxable income under this Title shall be allowed as deduction.

J.

(3) Credit against tax for taxes of foreign countries. If the taxpayer signifies in his return his desire to have the benefits of this paragraph, the tax imposed by this Title shall be credited with:

(A) Citizen and domestic corporation. - In the case of a citizen of the Philippines and of a domestic corporation, the amount of any income, war profits, and excess profits taxes paid or accrued during the taxable year to any foreign country;

(B) Alien resident of the Philippines. - In the case of an alien resident of the Philippines, the amount of any such taxes paid or accrued during the taxable year to any foreign country; if the foreign country of which such alien resident is a citizen or subject, in imposing such taxes allows a similar credit to citizens of the Philippines residing in such country; and

(C) Partnerships and estates. - In the case of any such individual who is a member of a general professional partnership or a beneficiary of an estate or trust, his proportionate share of such taxes of the general professional partnership or the estate or trust paid or accrued during the taxable year to a foreign country, if his distributive share of the income of such partnership or trust is reported for taxation under this Title.

Nonresident alien individuals and foreign corporations shall not be allowed the credits against the tax for the taxes of foreign countries allowed under this paragraph.

(4) Limitations on credit. - The amount of the credit taken under this section shall be subject to each of the following limitations:

(A) The amount of the credit in respect to the tax paid or accrued to any country shall not exceed the same proportion of the tax against which such credit is taken, which the taxpayer's taxable income from sources within such country under this Title bears to his entire taxable income for the same taxable year; and

(B) The total amount of the credit shall not exceed the same proportion of the tax against which such credit is taken, which the taxpayer's taxable income from sources without the Philippines taxable under this Title bears to his entire taxable income for the same taxable year.

(5) Adjustments on payment of accrued taxes. - If accrued taxes when paid differ from the amounts claimed as credits by the taxpayer, or if any tax paid is refunded in whole or in part, the taxpayer shall notify the Commissioner, who shall redetermine the amount of the tax for the year or years affected, and the amount of tax due upon such redetermination, if any, shall be paid by the taxpayer upon notice and demand by the Commissioner, or the amount of tax overpaid, if any, shall be credited or refunded to the taxpayer. In the case of such a tax accrued but not paid, the Commissioner as a condition precedent to the allowance of this credit may require the taxpayer to give a bond with sureties satisfactory to and to be approved by the Commissioner in such sum as he may require, conditioned upon the payment by the taxpayer of any amount of tax found due upon any such redetermination. The bond herein prescribed shall contain such further conditions as the Commissioner may require.

(6) Year in which credit taken. - The credits provided for in paragraph (c)(3) may, at the option of the taxpayer and irrespective of the method of accounting employed in keeping his books, be taken in the year in which the taxes of the foreign country accrued, subject, however, to the conditions prescribed in paragraph (c)(5). If the taxpayer elects to take such credits in the year in which the taxes of the foreign country accrued, the credits for all subsequent years shall be taken upon the same basis, and no portion of any such taxes shall be allowed as a deduction in the same or any succeeding year.

(7) Proof of credits. - The credits provided in paragraph (c)(5) shall be allowed only if the taxpayer establishes to the satisfaction of the Commissioner (A) the total amount of income derived from sources without the Philippines, (B) the amount of income derived from each country, the tax paid or accrued to which is claimed as a credit under said paragraph, such amount to be determined under rules and regulations prescribed by the Minister of Finance, and (C) all other information necessary for the verification and computation of such credits.

(8) Taxes of foreign subsidiary. - For purposes of this subsection a domestic corporation, which owns a majority of the voting stock of a foreign corporation from which it receives dividends in any taxable year shall be deemed to have paid the same proportion of any income,

war profits, or excess profits taxes paid by such foreign corporation to any foreign country, upon or with respect to the accumulated profits of such foreign corporation from which such dividends were paid which the amount of such dividend bears to the amount of such accumulated profits: Provided, That the amount of tax deemed to have been paid under this subsection shall in no case exceed the same proportion of the tax against which credit is taken which the amount of such dividends bears to the amount of the entire taxable income of the domestic corporation in which such dividends are included. The term 'accumulated profits' when used in this subsection in reference to a foreign corporation, means the amount of its gains, profits, or income in excess of the income, war profits, and excess profits taxes imposed upon or with respect to such profits or income; and the Commissioner shall have full power to determine from the accumulated profits of what year or years such dividends were paid, treating dividends paid in the first 60 days of any year as having been paid from the accumulated profits of the preceding year or years (unless to his satisfaction shown otherwise), and in other respects treating dividends as having been paid from the most recently accumulated gains, profits, or earnings. In the case of a foreign corporation, the income, war profits, and excess profits taxes of which are determined on the basis of an accounting period of less than one year, the word 'year' as used in this subsection shall be construed to mean such accounting period.

(9) Taxes of shareholder paid by corporation. - The deduction for taxes allowed by paragraph (c) shall be allowed to a corporation in the case of taxes imposed upon a shareholder of the corporation upon his interest as shareholder which are paid by the corporation without reimbursement from the shareholder, but in such cases no deduction shall be allowed the shareholder for the amount of such taxes.

(d) Losses. - (1) By individuals. - In the case of an individual, losses actually sustained during the taxable year and not compensated for by insurance or otherwise:

(A) If incurred in trade, profession, or business;

(B) If incurred in any transaction entered into for profit, though not connected with the trade or business;

(C) Of property connected with the trade or business, if the loss arises from fires, storms, shipwreck, or other casualties, or from robbery, theft, or embezzlement.

The Minister of Finance, upon recommendation of the Commissioner of Internal Revenue, is hereby authorized to promulgate rules and regulations prescribing, among other things, the time and manner by which the taxpayer shall submit a declaration of loss sustained from casualty or from robbery, theft, or embezzlement during the taxable year: Provided, however, That the time limit to be so prescribed in the regulations shall not be less than 30 days nor more than 90 days from the date of the occurrence of the casualty or robbery, theft, or embezzlement giving rise to the loss.

(D) No loss shall be allowed as a deduction under this paragraph if at the time of the filing of the return, such loss has been claimed as a deduction for estate tax purposes in the estate tax return.

(2) By corporation. - In the case of a corporation, all losses actually sustained and charged off within the taxable year and not compensated for by insurance or otherwise.

(3) Proof of loss. - In the case of a nonresident alien individual or foreign corporation, the losses deductible are those actually sustained during the year incurred in business or trade conducted within the Philippines, and losses actually sustained during the year in transactions entered into for profit in the Philippines although not connected with their business or trade, when such losses are not compensated for by insurance or otherwise. The Minister of Finance, upon recommendation of the Commissioner of Internal Revenue, is hereby authorized to promulgate rules and regulations prescribing, among other things, the time and manner by which the taxpayer shall submit a declaration of loss sustained from casualty or from robbery, theft, or embezzlement during the taxable year: Provided, That the time to be so prescribed in the regulations shall not be less than 30 days nor more than 90 days from the date of the occurrence of the casualty or robbery, theft, or embezzlement giving rise to the loss.

(4) Capital losses. - (A) Limitation. - Losses from sales or exchanges of capital assets shall be allowed only to the extent provided in Section 34.

(B) Securities becoming worthless. - If securities as defined in Section 20 become worthless during the taxable year and are capital assets, the loss resulting therefrom shall, for the purposes of this Title, be

considered as a loss from the sale or exchange, on the last day of such taxable year, of capital assets.

(5) Losses on wash sales of stock or securities. - Losses on 'wash sales' of stock or securities as provided in Section 33.

(6) Wagering losses. - Losses from wagering transactions shall be allowed only to the extent of the gains from such transactions.

(7) Abandonment losses. - (A) In the event a contract area where petroleum operations are undertaken is partially or wholly abandoned, all accumulated exploration and development expenditures pertaining thereto shall be allowed as a deduction: Provided, That accumulated expenditures incurred in that area prior to January 1, 1979, shall be allowed as a deduction only from any income derived from the same contract area. In all cases, notices of abandonment shall be filed with the Commissioner of Internal Revenue.

(B) In case a producing well is subsequently abandoned, the unamortized costs thereof, as well as the undepreciated costs of equipment directly used therein shall be allowed as a deduction in the year such well, equipment or facility is abandoned by the contractor: Provided, That if such abandoned well is reentered and production is resumed, or if such equipment or facility is restored into service, the said costs shall be included as part of gross income in the year of resumption or restoration and shall be amortized or depreciated, as the case may be.

(e) Bad Debts. - (1) In general. - Debts due to the taxpayer actually ascertained to be worthless and charged off within the taxable year except those not connected with profession, trade or business and those sustained in a transaction entered into between parties mentioned under Section 31(b) of this Code.

(2) Securities becoming worthless. - If securities as defined in Section 20 are ascertained to be worthless and charged off within the taxable year and are capital assets, the loss resulting therefrom shall, in the case of a taxpayer other than a bank or trust company incorporated under the laws of the Philippines a substantial part of whose business is the receipt of deposits, for the purpose of this Title, be considered as a loss from the

sale or exchange, on the last day of such taxable year of capital assets.

(f) Depreciation. (1) General rule. - There shall be allowed as a depreciation deduction a reasonable allowance for the exhaustion, wear and tear (including reasonable allowance for obsolescence) of property used in the trade or business. In the case of property held by one person for life with remainder to another person, the deduction shall be computed as if the life tenant were the absolute owner of the property and shall be allowed to the life tenant. In the case of property held in trust, the allowable deduction shall be apportioned between the income beneficiaries and the trustees in accordance with the pertinent provisions of the instrument creating the trust, or in the absence of such provisions, on the basis of the trust income allowable to each.

(2) Use of certain methods and rates. - The term 'reasonable allowance' as used in the preceding paragraph shall include (but not limited to) an allowance computed in accordance with regulations prescribed by the Minister of Finance, under any of the following methods:

The straight line method

(B) Declining balance method, using a rate not exceeding twice the rate which would have been used had the annual allowance been computed under the method described in paragraph (f) (1).

The sum of the years-digits method, and

(D) Any other method which may be prescribed by the Minister of Finance upon recommendation of the Commissioner of Internal Revenue.

(5) Agreement as to useful life on which depreciation rate is based. - Where under regulations prescribed by the Minister of Finance, the taxpayer and the Commissioner of Internal Revenue have entered into an agreement in writing specifically dealing with the useful life and rate of depreciation of any property, the rate so agreed upon shall be binding on both the taxpayer and the Minister of Finance in the absence of facts and circumstances not taken into consideration in the adoption of such agreement. The responsibility of establishing the existence of such facts and circumstances shall rest with the party initiating the modification. Any change in the agreed rate and useful

J.

life specified in the agreement shall not be effective for taxable years before the taxable year in which notice in writing by certified mail or registered mail is served by the party to the agreement initiating such change.

(4) Depreciation of properties used in petroleum operations. - An allowance for depreciation in respect to all properties directly related to production of petroleum initially placed in service in a taxable year under the straight-line or double-declining balance method of depreciation at the option of the service contractor. However, if the service contractor initially elects the double-declining method, it may at any subsequent date, shift to the straight-line method. The useful life of properties used in or related to production of petroleum shall be 10 years or such shorter life as may be permitted by the Commissioner of Internal Revenue.

Properties not used directly in the production of petroleum shall be depreciated under the straight-line method on the basis of an estimated useful life of 5 years.

(5) Depreciation deductible by nonresident aliens or foreign corporations. - In the case of a nonresident alien individual or foreign corporation, a reasonable allowance for the deterioration of property arising out of its use or employment or its non-use in the business or trade shall be permitted only when such property is located within the Philippines.

(g) Depletion of oil and gas wells and mines. - (1) In general. - In the case of oil and gas wells and mines, a reasonable allowance for depletion or amortization computed in accordance with the cost depletion method shall be granted under rules and regulations to be prescribed by the Minister of Finance: Provided, That when the allowance shall equal the capital invested no further allowance shall be granted: Provided, further, That after production in commercial quantities has commenced, certain intangible exploration and development drilling costs (A) shall be deductible in the year incurred if such expenditures are incurred for non-producing wells or (B) shall be deductible in full in the year paid or incurred or at the election of the taxpayer, may be capitalized and amortized if such expenditures incurred are for producing wells in the same contract area.

Intangible costs in petroleum operations refer to any costs incurred in petroleum operations which in itself has

no salvage value and which is incidental to and necessary for the drilling of wells and preparation of wells for the production of petroleum: Provided, That said cost shall not pertain to the acquisition or improvement of property of a character subject to the allowance for depreciation except that the allowances for depreciation on such property, shall be deductible under this subsection

Any intangible exploration, drilling and development expenses allowed as a deduction in computing taxable income during the year shall not be taken into consideration in computing the adjusted cost basis for the purpose of computing allowable cost depletion.

(2) Election to deduct exploration and development expenditures. - In computing taxable income, the taxpayer may, at his option, deduct exploration and development expenditures accumulated as cost or adjusted basis for cost depletion as of January 1, 1978, as well as exploration and development expenditures paid or incurred during the taxable year: Provided, That the total amount deductible for exploration and development expenditures shall not exceed twenty-five percent (25%) of the taxable income from mining operations computed without the benefit of any tax incentives under existing laws. This subparagraph shall not apply to expenditures for the acquisition or improvement of property of a character which is subject to the allowance for depreciation under Section 30(f)(1) of this Code but the allowance for depreciation thereon shall be treated as expenditure.

The election by the taxpayer to deduct the exploration and development expenditures is irrevocable and shall be binding in succeeding taxable years.

In no case shall this paragraph apply with respect to amounts paid or incurred for the exploration and development of oil and gas. The term 'exploration expenditures' means expenditures paid or incurred for the purpose of ascertaining the existence, location, extent, or quality of any deposit of ore or other mineral, and paid or incurred before the beginning of the development stage of the mine or deposit. The term 'development expenditures' means expenditures paid or incurred during the development stage of the mine or other natural deposits. The development stage of a mine or other natural deposit shall begin at the time when deposits of ore or other minerals are shown to exist in sufficient commercial quantity and quality and shall end upon commencement of actual commercial extraction.

(3) Depletion of oil and gas wells and mines deductible by a nonresident alien individual or foreign corporation. - In the case of a nonresident alien individual or a foreign corporation, allowance for depletion of oil and gas wells or mines under subparagraph (1) shall be authorized only in respect to oil and gas wells or mines located within the Philippines.

(h) Charitable and other contributions. - (1) In general. - Contributions or gifts 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 exclusively public purposes, or to 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, 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 6% in the case of an individual, and 3% in the case of a corporation, of the taxpayer's taxable income derived from business as computed without the benefit of this and the following subparagraphs.

(2) Contributions deductible in full. - Notwithstanding the provisions of the preceding subparagraph, donations to the following institutions or entities shall be deductible in full:

(A) Donations to the Government. - Donations to the Government of the Philippines or to any of its agencies or political subdivisions including fully-owned government corporations exclusively to finance, to provide for, or to be used in undertaking priority activities in education, health, youth and sports development, human settlements, science and culture, and in economic development according to a national priority plan to be determined by the NEDA, in consultation with appropriate government agencies, including its regional development councils and private philanthropic persons and institutions: Provided, That any donation which is made to the Government or to any of its agencies or political subdivisions not in accordance with the said annual priority plan shall be subject to the limitations prescribed in subparagraph (1) of this section.

(B) Donations to certain foreign institutions or international organizations. - Donations to foreign institutions or international organizations which are fully deductible in pursuance of or in compliance with agreements, treaties, or commitments entered into by the Government of the Philippines

and the foreign institutions or international organizations or in pursuance of special laws.

(C) Donations to certain private foundations. - The term 'private foundation' means a non-profit domestic corporation:

(i) Organized and operated exclusively for scientific, research, educational, character-building and youth and sports development, health, social welfare, cultural or charitable purposes, or a combination thereof, no part of the net income of which inures to the benefit of any private individual;

(ii) Which, not later than the 15th day of the third month after the close of the foundation's taxable year in which contributions are received, makes utilization directly for the active conduct of the activities constituting the purpose or function for which it is organized and operated, unless an extended period is granted by the Ministry of Finance in accordance with the rules and regulations to be promulgated;

(iii) The level of administrative expense of which, shall on an annual basis conform with the rules and regulations to be prescribed by the Minister of Finance but in no case to exceed thirty percent (30%) of total expenses; and

(iv) The assets of which in the event of dissolution would be distributed to another non-profit domestic corporation organized for similar purpose or purposes, or to the State for public purpose, or would be distributed by a court to another organization to be used in such manner as in the judgment of said court shall best accomplish the general purpose for which the dissolved organization was organized.

Subject to such terms and conditions as may be prescribed by the Minister of Finance, the term 'utilization' means:

Any amount in cash or in kind (including administrative expenses) paid or utilized to accomplish one or more purposes for which the private foundation was created or organized.

Any amount paid to acquire an asset used (or held for use) directly in carrying out one or more purposes for which the foundation was created or organized.

An amount set aside for a specific project which comes within one or more purposes of the foundation may

be treated as a utilization, but only if at the time such amount is set aside, the private foundation establishes to the satisfaction of the Commissioner of Internal Revenue that the amount will be paid for the specific project within a period to be prescribed in regulations to be promulgated by the Minister of Finance, but not to exceed 5 years, and the project is one which can be better accomplished by setting aside such amount than by immediate payment of funds.

Valuation. - Properties other than cash donated shall be valued in accordance with the rules and regulations prescribed by the Minister of Finance in consultation with appropriate government agencies.

Proof of deductions. - Contributions or gifts shall be allowable as deduction only if verified under the regulations prescribed by the Minister of Finance.

(i) Pension trusts. - An employer establishing or maintaining a pension trust to provide for the payment of reasonable pensions to his employees shall be allowed as a deduction (in addition to the contributions to such trust during the taxable year to cover the pension liability accruing during the year, allowed as a deduction under subsection (a)(1) of this section) a reasonable amount transferred or paid into such trust during the taxable year in excess of such contributions, but only if such amount (1) has not theretofore been allowable as a deduction, and (2) is apportioned in equal parts over a period of 10 consecutive years beginning with the year in which the transfer or payment is made.

(j) Additional requirement for deductibility of certain payments. - Any amount paid or payable which is otherwise deductible from, or taken into account in computing gross income or for which depreciation or amortization may be allowed under this section, shall be allowed as a deduction only if it is shown that the tax required to be deducted and withheld therefrom has been paid to the Bureau of Internal Revenue in accordance with this section, Sections 52 and 84 of this Code.

(k) Optional standard deduction. - In lieu of the deductions allowed under the preceding paragraphs of this

section an individual subject to tax under Section 21(a) other than a nonresident alien, may elect a standard deduction in an amount not exceeding ten percent (10%) of his gross income. Unless the taxpayer signifies in his return his intention to elect the optional standard deduction, he shall be considered as having availed himself of the deductions allowed in the preceding subsection. The Minister of Finance shall prescribe the manner of the election. Such election when made in the return shall be irrevocable for the taxable year for which the return is made.

Notwithstanding the provisions of the preceding paragraphs, the Minister of Finance upon recommendation of the Commissioner, after a public hearing shall have been held for this purpose may prescribe by regulations, limitations or ceilings for any of the itemized deductions under paragraphs (a) to (i) of this section: Provided, That for purposes of determining such ceilings or limitations, the Minister of Finance shall consider the following factors: (1) adequacy of the prescribed limits on the actual expenditure requirements of each particular industry; and (2) effects of inflation on expenditure levels: Provided, further, That no ceilings shall further be imposed on items of expense already subject to ceilings under present law.

(1). Personal exemptions allowable to individuals. -
 (1) Basic personal exemption. - For the purpose of determining the tax provided in Section 21(a) of this Title, there shall be allowed a basic personal exemption as follows:

For single individual or married individual judicially decreed as legally separated with no qualified dependents	- ₱ 6,000
For head of a family	₱ 7,500
For married individual	₱12,000

Provided, That husband and wife electing to compute their income tax separately shall be entitled to a personal exemption of ₱6,000 each.

For purposes of this paragraph, the term 'Head of Family' means an unmarried or legally separated man or woman with one or both parents, or with one or more brothers or sisters, or with one or more legitimate, recognized natural

or legally adopted children living with and dependent upon him for their chief support, where such brothers or sisters or children are not more than twenty-one (21) years of age, unmarried and not gainfully employed or where such children, brothers or sisters, regardless of age are incapable of self-support because of mental or physical defect.

(2) Additional exemption

(A) Taxpayers with dependents. - A married individual or a head of family shall be allowed an additional exemption of Three thousand pesos (P3,000) for each dependent: Provided, That the total number of dependents for which additional exemptions may be claimed shall not exceed four dependents: Provided, further, That an additional exemption of One thousand pesos (P1,000) shall be allowed for each child who otherwise qualified as dependent prior to January 1, 1980; and Provided, finally, That the additional exemption for dependents shall be claimed by only one of the spouses in the case of married individuals electing to compute their income tax liabilities separately.

In case of legally separated spouses, additional exemptions may be claimed only by the spouse who was awarded custody of the child or children; Provided, That the total amount of additional exemptions that may be claimed by both shall not exceed the maximum additional exemptions herein allowed.

For purposes of this paragraph, a dependent means a legitimate, recognized natural or legally adopted child chiefly dependent upon and living with the taxpayer if such dependent is not more than twenty-one (21) years of age, unmarried and not gainfully employed or if such dependent, regardless of age, is incapable of self-support because of mental or physical defect.

(B) Taxpayers with gross compensation income not exceeding P20,000. - A special additional exemption of Four thousand pesos (P4,000) shall be allowed if the gross income of a single, married or legally separated individual, or head of family does not exceed the aggregate amount of P20,000: Provided, That in case married individuals elect to compute their income tax separately, the spouse claiming the additional exemption for dependent children shall be entitled to the special additional exemption of P4,000.

(3) Change of status. - If the taxpayer married or should have additional dependents as defined above during the taxable year, the taxpayer may claim the corresponding personal and additional exemption, as the case may be, in full for such year.

If the taxpayer should die during the taxable year, his estate may still claim the personal and additional exemptions for himself and his dependents as if he died at the close of such year.

If the spouse or any of the dependents should die or if any of such dependents becomes twenty-one years old during the taxable year, the taxpayer may still claim the same exemptions as if they died, or if such dependents become twenty-one years old at the close of such year.

(4) Allowances for adjustment. - Upon the recommendation of the Minister of Finance, the President shall automatically adjust not more often than once every three years, the personal and additional exemptions taking into account, among others, the movement in consumer price indices, levels of minimum wages, and bare subsistence levels.

(5) Personal exemptions allowable to nonresident alien individuals. - A nonresident alien individual engaged in trade or business in the Philippines shall be entitled to personal exemption in the amount equal to the exemptions allowed by the income tax law of the country of which he is a subject or citizen to citizens of the Philippines not residing in such country, but not to exceed the amount fixed in this section as exemption for citizens or residents of the Philippines: Provided, That said nonresident alien should file a true and accurate return of the total income received by him from all sources in the Philippines, as required by this Title.

(m) Exemption and deduction allowable from foreign source income derived by nonresident citizens. - In computing the taxable income subject to tax under Section 21(b) the following deductions shall be allowed from gross income derived by a nonresident citizen from sources without the Philippines:

- (1) An allowance for personal exemption in the amount of two thousand dollars (U.S. \$2,000), if the

person making the return is a single or a married person legally separated from his or her spouse; or four thousand dollars (U.S. \$4,000), if the person making the return is married or head of the family, as defined in Section 30 of this Code; and

- (2) The total amount of the national income tax actually paid to the government of the foreign country of his residence. For this purpose, every nonresident citizen availing of this deduction shall attach to his Philippine income tax return a copy of the income tax return he has filed with the government of the foreign country of his residence."

SECTION 12. Section 34, paragraphs (g) and (h) of the National Internal Revenue Code, as amended, are hereby repealed.

SECTION 13. Section 35, paragraphs (a) and (b) of the National Internal Revenue Code, as amended, are hereby amended to read as follows:

"Section 35. Determination of amount of and recognition of gain or loss.

(a) Computation of gain or loss. - The gain from the sale or other disposition of property shall be the excess of the amount realized therefrom over the basis or adjusted basis for determining gain and the loss shall be the excess of the basis or adjusted basis for determining loss over the amount realized. The amount realized from the sale or other disposition of property shall be the sum of money received plus the fair market value of the property (other than money) received.

(b) Basis for determining gain or loss from sale or disposition of property. - The basis of property shall be

(1) The cost thereof in the case of property acquired on or before March 1, 1915, if such property was acquired by purchase; or

(2) The fair market price or value as of the date of acquisition if the same was acquired by inheritance; or

(3) If the property was acquired by gift the basis shall be the same as if it would be in the hands of the donor or the last preceding owner by whom it was not

acquired by gift, except that if such basis is greater than the fair market value of the property at the time of the gift, then for the purpose of determining loss the basis shall be such fair market value; or

(4) If the property, other than capital asset referred to in Section 21(e), was acquired for less than an adequate consideration in money or money's worth, the basis of such property is (i) the amount paid by the transferee for the property or (ii) the transferor's adjusted basis at the time of the transfer whichever is greater.

(5) The basis as defined in paragraph (c)(5) of this section if the property was acquired in a transaction where gain or loss is not recognized under paragraph (c)(2) of this section."

SECTION 14. Section 37, paragraph (b) of the National Internal Revenue Code, as amended, is hereby further amended to read as follows:

"(b) Taxable income from sources within the Philippines
 (1) General rule. - From the items of gross income specified in subsection (a) of this section, there shall be deducted the expenses, losses, and other deductions properly allocated thereto and a ratable part of expenses, interests, losses, and other deductions effectively connected, with the business or trade conducted exclusively within the Philippines which cannot definitely be allocated to some items or class of gross income: Provided, That such items of deductions shall be allowed only if fully substantiated by all the information necessary for its calculation. The remainder, if any, shall be treated in full as taxable income from sources within the Philippines.

(2) Exception. - No deductions for interest paid or incurred abroad shall be allowed from the item of gross income specified in subsection (a) unless indebtedness was actually incurred to provide funds for use in connection with the conduct or operation of trade or business in the Philippines."

SECTION 15. Section 43 of the National Internal Revenue Code, as amended, is hereby amended to read as follows:

"Section 43. Installment basis. - (a) Sales of dealers in personal property. - Under regulations prescribed by the Minister of Finance, a person who regularly sells or otherwise disposes of personal property on the installment plan

may return as income therefrom in any taxable year that proportion of the installment payments actually received in that year which the gross profit realized or to be realized when payment is completed, bears to the total contract price.

(b) Sales of realty and casual sales of personalty. - In the case (1) of a casual sale or other casual disposition of personal property (other than 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), for a price exceeding one thousand pesos, or (2) of a sale or other disposition of real property, if in either case the initial payments do not exceed twenty-five percent of the selling price, the income may under regulations prescribed by the Minister of Finance, be returned on the basis and in the manner above prescribed in this section. As used in this section the term 'initial payments' means the payments received in cash or property other than evidences of indebtedness of the purchaser during the taxable period in which the sale or other disposition is made.

(c) Sales of real property considered as capital asset by individuals. - An individual who sells or disposes of real property, considered as capital asset, and is otherwise qualified to report the gain therefrom under paragraph (b) may pay the capital gains tax in installments under regulations to be promulgated by the Minister of Finance.

(d) Change from accrual to installment basis. - If a taxpayer entitled to the benefits of subsection (a) elects for any taxable year to report his taxable income on the installment basis, then in computing his income for the year of change or any subsequent year, amounts actually received during any such year on account of sales or other dispositions of property made in any prior year shall not be excluded."

SECTION 16. Section 45 of the National Internal Revenue Code, as amended, is hereby further amended to read as follows:

"Section 45. Individual returns. - (a) Requirements
(1) Except as provided in paragraph (2) of this Section, the following individuals are required to file an income tax return:

Every Filipino citizen, whether residing in the Philippines or abroad,

Every alien residing in the Philippines, regardless of whether the gross income was derived from sources within or without the Philippines, and

Every nonresident alien engaged in trade or business in the Philippines.

(2) The following individuals shall not be required to file an income tax return:

Individuals whose gross income does not exceed his total personal and additional exemptions for dependents under Section 30: Provided, That a citizen of the Philippines engaged in business or practice of profession within or without the Philippines and any alien individual engaged in business or practice of profession within the Philippines, shall file an income tax return, regardless of the amount of gross income.

Regardless of the amount of income, the following individuals shall not also be required to file an income tax return:

(i) Individuals whose income consists solely of interest, prizes, winnings, royalties, dividends, share of an individual person in a partnership referred to under Section 21(c);

(ii) Alien employees of regional or area headquarters of multinational corporations with respect to income referred to under Section 22(c);

(iii) Aliens employed by offshore banking units with respect to income under Section 22(d)

(iv) Alien employees of service contractors and subcontractors engaged in petroleum exploration in the Philippines with respect to income referred to under Section 22(e); and

JA
H

(v) Other individuals not required to file an income tax return, pursuant to other provisions of this Code and other laws, general or special.

(3) The income tax return shall be filed in duplicate and shall set forth specifically the gross amount of income from all sources, except that of nonresident aliens engaged in trade or business in the Philippines which shall contain only such income derived from sources within the Philippines.

(b) Where to file. - Except in cases where the Commissioner of Internal Revenue otherwise permits, the return shall be filed with the Revenue District Officer, Collection Agent, or duly authorized Treasurer of the Municipality in which such person has his legal residence or principal place of business in the Philippines, or if there be no legal residence or place of business in the Philippines then with the Office of the Commissioner of Internal Revenue.

(c) When to file. - (1) The return of any individual specified above shall be filed on or before the fifteenth day of April of each year covering income for the preceding taxable year.

(2) Individuals subject to tax on capital gains:

(i) From the sale or exchange of shares of stock not traded thru a local stock exchange as prescribed under Section 21(d)(1) shall file a return within thirty days after each transaction and a final consolidated return on or before April 15 of each year covering all stock transactions of the preceding taxable year.

(ii) From the sale or disposition of real property under Section 21(e) shall file a return within thirty days following each sale or other disposition.

(d) Husband and Wife. - In the case of married persons, whether citizens, resident or nonresident aliens, only one return for the taxable year shall be filed by either spouse to cover the income of both spouses, but where it is impracticable for the spouses to file one return, each spouse

may file a separate return of income but the returns so filed shall be consolidated by the Bureau for purposes of verification.

(e) Return of parent to include income of children. The income of unmarried minors derived from property received from a living parent shall be included in the return of the parent, except (1) when the gift tax has been paid on such property, or (2) when the transfer of such property is exempt from gift tax.

(f) Persons under disability. - If the taxpayer is unable to make his own return, the return may be made by his duly authorized agent or representative or by the guardian or other person charged with the care of his person or property, the principal and his representative or guardian assuming the responsibility of making the return and incurring penalties provided for erroneous, false or fraudulent returns.

(g) Signature presumed correct. - The fact that an individual's name is signed to a filed return shall be prima facie evidence for all purposes that the return was actually signed by him."

SECTION 17. Section 46 of the National Internal Revenue Code, as amended, is hereby further amended to read as follows:

"Section 46. Corporation returns. - (a) Requirements. Every corporation, subject to the tax herein imposed, except foreign corporations not engaged in trade or business in the Philippines shall render, in duplicate, a true and accurate quarterly income tax return and final or adjustment return in accordance with the provisions of Chapter IX of this Title. The return 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.

(b) Taxable year of corporation. - A corporation may employ either calendar year or fiscal year as a basis for filing its annual income tax return: Provided, That the corporation shall not change the accounting period employed without prior approval from the Commissioner of Internal Revenue in accordance with the provisions of Section 41 of this Code.

(c) Return of corporation contemplating dissolution. - Every corporation shall within thirty days after the adoption by the corporation of a resolution or plan for the dissolution of the corporation or for the liquidation of the whole or any part of its capital stock, including corporations which have been notified of possible involuntary dissolution by the Securities and Exchange Commission, render a correct return to the Commissioner of Internal Revenue, verified under oath, setting forth the terms of such resolution or plan and such other information as the Minister of Finance shall, by regulations, prescribe. The dissolving corporation prior to the issuance of the Certificate of Dissolution by the Securities and Exchange Commission shall secure a certificate of tax clearance from the Bureau of Internal Revenue which certificate shall be submitted to the Securities and Exchange Commission.

(d) Return on capital gains realized from sale of shares of stocks. - Every corporation deriving capital gains from the sale or exchange of shares of stock not traded thru a local stock exchange as prescribed under Sections 24(e) (2)(A), 25(a)(6)(C)(i) and 25(b)(5)(C)(i), shall file a return within thirty days after each transaction and a final consolidated return of all transactions during the taxable year on or before the fifteenth day of the fourth month following the close of the taxable year."

SECTION 18. Section 50 of the National Internal Revenue Code, as amended, is hereby further amended to read as follows:

"Section 50. Payment and assessment of income tax for individuals and corporations.

(a) Payment of tax. - (1) In general. - The total amount of tax imposed by this Title shall be paid by the person subject thereto at the time the return is filed. In the case of tramp vessels, the shipping agents and/or the husbanding agents, and in their absence, the captains thereof are required to file the return herein provided and pay the tax due thereon before their departure. Upon failure of the said agents or captains to file the return and pay the tax, the Bureau of Customs is hereby authorized to hold the vessel and prevent its departure until proof of payment of the tax is presented or a sufficient bond is filed to answer for the tax due.

(2) Installment payment. - When the tax due is in excess of ₱2,000, the taxpayer other than a corporation may elect to pay the tax in 2 equal installments in which case, the first installment shall be paid at the time the return is filed and the second installment, on or before July 15 following the close of the calendar year. If any installment is not paid on or before the date fixed for its payment, the whole amount of the tax unpaid becomes due and payable, together with the delinquency penalties.

(3) Installment payment for nonresident citizens. - When the tax due from a nonresident citizen is in excess of U.S.\$200, the taxpayer may elect to pay the tax in 2 equal installments in which case, the first installment shall be paid at the time the return is filed and the second installment, on or before July 15 following the close of the calendar year. If any installment is not paid on or before the date fixed for its payment the whole amount of the tax unpaid becomes due and payable together with the delinquency penalties.

(4) Payment of capital gains tax. - The total amount of tax imposed and prescribed under Section 21(d)(1), 21(e), 24(e)(2)(A), 25(a)(6)(C)(i), and 25(b)(5)(C)(i) shall be paid on the date the return prescribed therefor is filed by the person liable thereto: Provided, That if the seller submits proof of his intention to avail himself of the benefit of exemption of capital gains under existing special laws, no such payments shall be required: Provided, further, That in case of failure to qualify for exemption under such special laws and implementing rules, the tax due on the gains realized from the original transaction shall immediately become due and payable, and subject to the penalties prescribed under applicable provisions of this Code: and Provided, finally, That if the seller, having paid the tax, submits such proof of intent within 6 months from the registration of the document transferring real property, he shall be entitled to a refund of such tax upon verification of his compliance with the requirements for such exemption.

In case the taxpayer elects and is qualified to report the gain by installments under Section 43 of this Code, the tax due from each installment payment shall be paid within 30 days from the receipt of such payments.

No registration of any document transferring real property shall be effected by the Register of Deeds unless the Commissioner of Internal Revenue or his duly authorized representative has certified that such transfer has been reported and the tax herein imposed, if any, has been paid.

(b) Assessment and payment of deficiency tax. - After the return is filed, the Commissioner of Internal Revenue shall examine it and assess the correct amount of the tax. The tax or deficiency income tax so discovered shall be paid upon notice and demand from the Commissioner.

As used in this Chapter, in respect of a tax imposed by this title, the term 'deficiency' means:

(1) The amount by which the tax imposed by this Title exceeds the amount shown as the tax by the taxpayer upon his return; but the amount so shown on the return shall first be increased by the amounts previously assessed (or collected without assessment) as a deficiency, and decreased by the amount previously abated, credited, returned, or otherwise repaid in respect of such tax; 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 amounts previously assessed (or collected without assessment) as a deficiency; but such amounts previously assessed or collected without assessment shall first be decreased by the amounts previously abated, credited, returned, or otherwise repaid in respect of such tax."

SECTION 19. Section 51 of the National Internal Revenue Code, as amended, is hereby further amended to read as follows:

"Section 51. Withholding of tax at source

(a) Withholding of final tax on certain incomes. - The tax imposed or prescribed by Sections 21(c), 21(d)(2); 22(a)(2), (b), (c), (d), (e); 24(e)(1), (e)(2)(B), (e)(5); and 25(a)(4), (a)(5), (a)(6)(A), (a)(6)(B), a(6)(C)(ii), (b)(1), (b)(2), (b)(3), (b)(4), (b)(5)(A), (b)(5)(B), (b)(5)(C)(ii) of this Code on specified items of income shall be withheld by payor-corporation and/or person and paid in the same manner and subject to the same conditions as provided in Section 52 of the National Internal Revenue Code, as amended.

JA

(b) Withholding of creditable tax at source. - The Minister of Finance may upon the recommendation of the Commissioner of Internal Revenue, require also the withholding of a tax on the items of income payable to persons (natural or juridical) residing in the Philippines by payor-corporation/persons as provided for by law at the rate of not less than 2-1/2% but not more than 35% thereof which shall be credited against the income tax liability of the taxpayer for the taxable year.

(c) Tax-free covenant bonds. - In any case where bonds, mortgages, deeds of trust, or other similar obligations of domestic or resident foreign corporations, contain a contract or provision by which the obligor agrees to pay any portion of the tax imposed in this Title upon the obligee or to reimburse the obligee for any portion of the tax or to pay the interest without deduction for any tax which the obligor may be required or permitted to pay thereon or to retain therefrom under any law of the Philippines, or any state or country, the obligor shall deduct and withhold a tax equal to 30% of the interest or other payments upon those bonds, mortgages, deeds of trust, or other obligations, whether the interest or other payments are payable annually or at shorter or longer periods, and whether the bonds, securities or obligations had been or will be issued or marketed, and the interest or other payment thereon paid, within or without the Philippines, if the interest or other payment is payable to a nonresident alien or to a citizen or resident of the Philippines."

SECTION 20. Section 56 of the National Internal Revenue Code, as amended, is hereby further amended to read as follows:

"Section 56. Exemption allowed to estates and trusts.- For the purpose of the tax provided for in this Title, there shall be allowed an exemption of ₱6,000 from the income of the estate or trust."

SECTION 21. Sections 61 to 69 of the National Internal Revenue Code, as amended, are hereby repealed.

SECTION 22. Section 82, paragraphs (a) and (c)(2) of the National Internal Revenue Code, as amended, is hereby further amended to read as follows:

"(a) Requirement of withholding. - Every employer making payment of wages shall deduct and withhold upon

JA

such wages a tax determined in accordance with regulations to be prepared and promulgated by the Minister of Finance."

"(2) Employees. - The amount deducted and withheld under this Chapter during any calendar year shall be allowed as a credit to the recipient of such income against the tax imposed under Section 21(a) of this Title. Refunds and credits in cases of excessive withholding shall be granted under rules and regulations promulgated by the Minister of Finance.

Any excess of the taxes withheld over the tax due from the taxpayer shall be returned or credited within three months from the fifteenth day of April. Refunds or credits made after such time shall earn interest at the rate of six per cent (6%) per annum starting after the lapse of the three-month period to the date the refund or credit is made.

Refunds shall be made upon warrants drawn by the Commissioner of Internal Revenue or by his duly authorized representative without the necessity of counter-signature by the Chairman, Commission on Audit or the latter's duly authorized representatives as an exception to the requirement prescribed by Section 621 of the Revised Administrative Code."

SECTION 23. Section 103 of the National Internal Revenue Code, as amended, is hereby further amended to read as follows:

"Section 103. Transfer for less than adequate and full consideration. - Where property, other than real property referred to in Section 21(e), is transferred for less than an adequate and full consideration in money or money's worth, then the amount by which the fair market value of the property exceeded the value of the consideration shall, for the purpose of the tax imposed by this Chapter, be deemed a gift, and shall be included in computing the amount of gifts made during the calendar year."

SECTION 24. The phrase "net income" and "net taxable income" appearing in any provisions of Title II of the National Internal Revenue Code, as amended, is hereby changed to "taxable income".

SECTION 25. The Section 50 of the National Internal Revenue Code, as amended, which reads as follows:

"Section 50. Verification of Return. - The income tax return shall contain a declaration that the taxpayer or his authorized representative made it under the penalties of perjury."

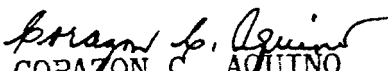
is hereby deleted, the same being covered by Section 301 of this Code.

SECTION 26. The Commissioner of Internal Revenue shall re-number sequentially, codify and consolidate all internal revenue laws embodied in the present National Internal Revenue Code, as amended by various Executive Orders, including this Executive Order, and other pertinent issuances, and to cause the publication thereof.

SECTION 27. All laws, orders, issuances, rules and regulations or any part thereof inconsistent with this Executive Order are hereby repealed or modified accordingly.

SECTION 28. Effectivity. - The provisions of Sections 21(c), 24(e)(1), 24(e)(4), 25(a)(6)(A), 25(a)(6)(D) and Section 103 of the National Internal Revenue Code, as amended by this Executive Order, shall take effect on August 1, 1986. The other provisions of the National Internal Revenue Code, as amended by this Executive Order, shall take effect beginning with the calendar year 1986, except that in the case of corporations filing their income tax returns on a fiscal year basis, the same shall take effect on fiscal years beginning on or after July 1, 1986.

Done in the City of Manila, this 31st day of July in the year of Our Lord, nineteen hundred and eighty-six.


CORAZON C. AQUINO
President of the Philippines

By the President


JOKER P. ARROYO
Executive Secretary