PUBLISHING SECTIONS 7(1), (2) AND (5) AND 8 OF REPUBLIC ACT NO. 6971, OTHERWISE KNOWN AS THE "PRODUCTIVITY INCENTIVES ACT OF 1990"

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SECTION 1. For the information and guidance of all concerned, there are quoted hereunder Sections 7(1), (2) and (5) and (8) of Republic Act No. 6971, otherwise known as the "Productivity Incentives Act of 1990"

> Sec. 7. (1) Benefits and Incentives – Subject to the provisions of Section 6 hereof, a business enterprise which adopts a productivity incentives program, duly and mutually agreed upon by parties to the labor-management committee, shall be granted a special deduction from gross income equivalent to fifty percent (50%) of the total productivity bonuses given to employees under the program over and above the total allowable ordinary and necessary business deductions for said bonuses under the National Internal Revenue Code, as amended.
>
> "(2) Grants for manpower training and special studies given to rank-and-file employees pursuant to a program prepared by the labor-management committee for the development of skills identified as necessary by the appropriate government agencies shall also entitle the business enterprise to a special deduction from gross income equivalent to fifty percent (50%) of the total grants over and above the allowable ordinary and necessary business deductions for said grants under the National Internal Revenue Code, as amended.
>
> "(5) The special deductions from gross income provided for herein shall be allowed starting the next taxable year after the effectivity of this Act.
>
> "Sec. 8. Notification – A business enterprise which adopts a productivity incentives program shall submit copies of the same to the National Wages and Productivity Commission and to the Bureau of Internal Revenue for their information and record."

Features of the Law

- Presently, bonuses to employees are deductible from gross income if such bonuses meet the following requirements:

a. the payment of bonuses is in fact compensation;

b. it must be for personal services actually rendered; and

c. the bonuses when added to salaries are reasonable when measured by the amount and quality of the services performed with relation to the business of the particular employee. (See Kuenzle & Streiff, Inc. vs. Collector, 106 Phil. 355).

In addition to the deductibility of bonuses under the foregoing circumstances, 50% of the total productivity bonuses given to the employees of the business enterprise availing of the productivity incentives program shall be deductible from the gross income of the business enterprise.

- The business enterprise which grants manpower training and special studies to rank-and-file employees pursuant to a program prepared by the labor-management committee for the development of skills shall also be entitled to a 50% special deduction from gross income of the total grants.

- Under the law, the productivity bonuses shall not be deemed as salary increases due the employees and workers. However, since the productivity bonuses are flow of wealth coming into the hands of the employees and workers, and there being no provision in the law exempting such bonuses from tax, the same are subject to income tax.

- The special deductions under paragraphs 1 and 2 above shall be allowed starting the next taxable year after the effectivity of the law. R.A. No. 6971 took effect on December 9, 1990, 15 days after its publication in newspapers of general circulation on November 24, 1990.

- A business enterprise which adopts a productivity incentives program shall submit copies of the same to the Bureau of Internal Revenue for its information and recording purposes.

SECTION 2. All internal revenue officers and others concerned are requested to give this circular a wide publicity as possible.

Adopted: 13 Dec. 1990

(SGD.) VICTOR A. DEOFERIO, JR.

Deputy Commissioner
Officer-In-Charge

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