

AN ACT TO REVISE, AMEND AND CODIFY THE INTERNAL REVENUE LAWS OF THE PHILIPPINES

Commonwealth Act No. 466, June 15, 1939

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Be it enacted by the National Assembly of the Act:

TITLE OF ACT

SECTION 1. Title of Act. — This Act shall be known as the National Internal Revenue Code.

TITLE I ORGANIZATION OF BUREAU

SEC. 2. Chief officials of Bureau of Internal Revenue. — The Bureau of Internal Revenue shall have one chief and one assistant chief to be known, respectively, as the Collector of Internal Revenue and the Deputy Collector of Internal Revenue.

SEC. 3. Powers and duties of Bureau. — The powers and duties of the Bureau of Internal Revenue shall comprehend the collection of all national internal-revenue taxes, fees, and charges, and the enforcement of all forfeitures, penalties, and fines connected therewith. Said Bureau shall also give effect to and administer the supervisory and police power conferred to it by this Code or other laws.

SEC. 4. Specific provisions to be contained in regulations. — The regulations of the Bureau of Internal Revenue shall, among other things, contain provisions specifying, prescribing, or defining:

- (a) The time and manner in which provincial treasurers shall canvass their provinces for the purpose of discovering persons and property liable to national internal revenue taxes, and the manner in which their lists and records of taxable persons and taxable objects shall be made and kept.
- (b) The forms of labels, brands, or marks to be required on goods subject to a specific tax, and the manner in which the labeling, branding, or marking shall be effected.
- (c) The conditions under which and the manner in which goods intended for export, which if not exported, would be subject to a specific tax, shall be labelled, branded, or marked.
- (d) The conditions to be observed by revenue officers, provincial fiscals, and other officials respecting the institution and conduct of legal actions and proceedings.
- (e) The manner in which persons authorized to have and keep prohibited drugs shall keep their records relating to the same.
- (f) The conditions under which opium may be imported, the manner of its storage and removal for use, as well as the manner in which the same shall be marked or labelled prior to removal.
- (g) The conditions under which prohibited drugs may be transferred from the possession of persons authorized to have and keep the same to the possession of other persons similarly authorized.

(h) The conditions under which goods intended for storage in bonded warehouses shall be conveyed thither, their manner of storage, and the method of keeping the entries and records in connection therewith, also the books to be kept by storekeepers, and the reports to be made by them in connection with their supervision of such houses.

(i) The conditions under which alcohol intended for use in the arts and industries may be removed and dealt in, the character and quantity of the denaturing material to be used, the manner in which the process of denaturing shall be effected, the bonds to be given, the books and records to be kept, the entries to be made therein, the reports to be made to the Collector of Internal Revenue, and the signs to be displayed in the business or by the person for whom such denaturing is done or by whom such alcohol is dealt in.

(j) The manner in which revenue shall be collected and paid, the instrument, document, or object to which revenue stamps shall be affixed, the mode of cancellation of the same, manner in which the proper books, records, invoices, and other papers shall be kept and entries therein made by the person subject to the tax, as well as the manner in which licenses and stamps shall be gathered up and returned after serving their purposes.

(k) The conditions to be observed by revenue officers, provincial fiscals, and other officials respecting the enforcement of Title III imposing a tax on estate, inheritances, legacies, and other acquisitions mortis causa as well as on gifts and such other rules and prohibition which the Collector of Internal Revenue may consider suitable for the enforcement of the said Title III.

(l) The manner in which income tax returns, information, and reports shall be prepared and reported and the tax collected and paid, as well as the conditions under which evidence of payment shall be furnished the taxpayer, and the preparation and publication of income tax statistics.

SEC. 5. Forms, certificates, and appliances supplied by the Collector or Internal Revenue. — It shall be the duty of the Collector of Internal Revenue, among other things, to prescribe, provide, and distribute to the proper officials the requisite licenses, internal-revenue stamps, and labels or tags used in sealing weights and measures, and all other forms, certificates, bonds, records, invoice books, instruments, appliances, and apparatus used in administering the laws falling within the jurisdiction of the Bureau.

SEC. 6. Agents and deputies for collection of National internal revenue. — For the collection of the national internal revenue on imported articles the Insular Collector of Customs and his subordinates are constituted agents of the Collector of Internal Revenue; and the provincial and City treasurers, and their deputies shall be his deputies for the collection of other national internal revenue and the enforcement of all laws falling within the jurisdiction of the Bureau.

SEC. 7. Expenses of collection to be borne by provinces and cities. — The expenses incurred by the provincial, city, and municipal authorities in collecting national internal revenue and in enforcing the laws falling within the jurisdiction of the Bureau of Internal Revenue, including expenses incurred in appearing in the courts in internal-revenue cases, shall be borne by the respective provinces and cities.

SEC. 8. Internal-revenue inspection districts. — With the approval of the Department Head, the Collector of Internal Revenue shall divide the Philippines into such number of inspection districts as may from time to time be required for administrative purposes. Each of these districts shall be under the supervision of a provincial revenue agent.

SEC. 9. Duties of provincial revenue agents and other internal-revenue officers. — It shall be the duty of every provincial revenue agent or other internal-revenue officers to see that all laws and regulations affecting national internal revenues are faithfully executed and complied with, and to aid in the prevention, detection, and punishment of any frauds or delinquencies in connection therewith.

It shall also be the duty of every provincial revenue agent to examine into the efficiency of all officers and employees of the Bureau of Internal Revenue under his supervision, and to report in writing to the Collector of Internal Revenue any neglect of duty, incompetency, delinquency, or malfeasance in office of any internal-revenue officer of which he may obtain knowledge, with a statement of all the facts in each case and any evidence sustaining the same. He may, by notice in writing, suspend from duty any storekeeper or secret service agent, and in such case he shall immediately notify the Collector of Internal Revenue and within three days thereafter report his action and his reasons therefor in writing to said Collector

Should a provincial revenue agent or any officer under his supervision discover any neglect, incompetency, delinquency, or malfeasance of any provincial or city treasurer in the performance of his duty under section six hereof, he shall immediately report the facts to the Collector of Internal Revenue in writing.

SEC. 10. Authority of agent's assistant or examiner. — An agent's assistant or examiner in any district may, in the name of the provincial revenue agent in charge of such district and under the control of such officer as his immediate superior, exercise any power or perform any act which might be exercised or performed by such provincial revenue agent himself.

SEC. 11. Assignment of storekeepers or secret service agents. The Collector of Internal Revenue shall employ and assign internal-revenue storekeepers or secret service agents to establishments or places where articles subject to specific tax are produced or kept.

SEC. 12. Assignment of internal-revenue agents and other employees to other duties. — The Collector of Internal Revenue may, with the approval of the Secretary of Finance, assign internal-revenue agents and other officers and employees of the Bureau of Internal Revenue without change in their official character or salary to such special duties connected with the administration of the revenue laws as the best interests of the service may require.

SEC. 13. Reports of violations of law. — When an internal-revenue officer discovers evidence of a violation of this Code or of any law or regulation administered by the Bureau of Internal Revenue, of such character as to warrant the institution of criminal proceedings, he shall immediately report the facts to the Collector of Internal Revenue, through his immediate superior, giving the name and address of the offender and the names of the witnesses, if possible: Provided, That in urgent cases the provincial revenue agent, provincial treasurer, or city treasurer, as the case may be, may send the report direct to the corresponding prosecuting officer. In the latter case, a copy of his report shall be sent to the Collector of Internal Revenue.

It shall be the duty of any officer or employees of the Bureau of Internal Revenue to report to the Bureau of Forestry any violations of the Forest Law within his knowledge. A duplicate of each such report shall be furnished the Collector of Internal Revenue.

SEC. 14. Authority of internal-revenue officers to make arrests and seizures. — The Collector of Internal Revenue, the Deputy Collector of Internal Revenue, internal revenue agents, agent's assistants and examiners, and provincial or city treasurers and their deputies shall have authority to make arrests and seizures for the violation of any penal law or regulation administered by the Bureau of Internal Revenue. Any person so arrested shall be forthwith carried before a magistrate, there to be dealt with according to law.

SEC. 15. Power of Collector of Internal Revenue to make assessments. — When a report required by law as a basis for the assessment of any national internal-revenue law shall not be forthcoming within the time fixed by law or regulation, or when there is reason to believe that any such report is false, incomplete, or erroneous, the Collector of Internal Revenue shall assess the proper tax on the best evidence obtainable.

When it shall come to the knowledge of the Collector of Internal Revenue that a taxpayer is retiring from the

business subject to taxation or intends to leave the Philippines, or remove his property therefrom, or hide or conceal his property, or perform any act tending to obstruct the proceedings for collecting the tax for the past or current quarter or year, or render the same totally or partly inefficient, unless such proceedings are begun immediately, the Collector of Internal Revenue shall declare the tax period of such taxpayer terminated at any time and shall send the taxpayer a notice of such decision, together with a request for the immediate payment of the tax for the tax period so declared terminated and the tax for the preceding year or quarter, or such portion thereof as may be unpaid, and said taxes shall be due and payable immediately and shall be subject to all the penalties hereafter prescribed, unless paid within the time fixed in the request of the Collector of Internal Revenue.

SEC. 16. Authority of officers to administer oaths and take testimony. — The Collector of Internal Revenue, the Deputy Collector of Internal Revenue, special deputies of the Collector, internal-revenue agents, agent's assistants and examiners, provincial, or city treasurers and their deputies, and any other employees of the Bureau thereunto specially deputed by the Collector shall have power to administer oaths and to take testimony in any official matter or investigation conducted by them touching any matter within the jurisdiction of the Bureau.

SEC. 17. Contents of Collector's annual report. — The annual report of the Collector of Internal Revenue shall contain a detailed statement of the collections and disbursements of the Bureau with specifications of the sources of revenue and classes of disbursements.

SEC. 18. Sources of revenue. — The following taxes, fees, and charges are deemed to be national internal-revenue taxes:

- (a) Income tax;
- (b) Estate, inheritance and gift taxes;
- (c) Specific taxes on certain articles;
- (d) Privilege taxes on business or occupation;
- (e) Documentary stamp taxes;
- (f) Mining taxes;
- (g) Miscellaneous taxes; fees and charges, namely, taxes on banks, and insurance companies, franchise taxes, taxes on amusements, charges on forest products, fees for sealing weights and measures, firearms license fees, radio registration fees, tobacco inspection fees, and water rentals.

TITLE II Income Tax

SEC. 19. Classification of provisions. — The provisions of this Title are herein classified and designated as —

- Chapter I. Introductory provision.
- Chapter II. Tax on individuals.
- Chapter III. Tax on corporations.
- Chapter IV. Computation of net income.
- Chapter V. Accounting periods and methods of accounting.
- Chapter VI. Returns and payment of tax.
- Chapter VII. Estates and trusts.

Chapter VIII Personal holding companies.

Chapter IX Administrative provisions.

Chapter X Definitions.

CHAPTER I - Introductory Provision

SEC. 20. Application of Title. — The provisions of this Title shall apply only to income received from January first, nineteen hundred and thirty-nine.

CHAPTER II - Tax on Individuals

SEC. 21. Rates of tax on citizens or residents. — There shall be levied, assessed, collected, and paid annually upon the entire net income received in the preceding taxable year of the Philippines, a tax equal to the sum of the following:

One per centum per annum upon the amount by which such total net income does not exceed two thousand pesos;

Two per centum per annum upon the amount by which such total net income exceeds two thousand pesos and does not exceed four thousand pesos;

Three per centum per annum upon the amount by which such total net income exceeds four thousand pesos and does not exceed six thousand pesos;

Four per centum per annum upon the amount by which such total net income exceeds six thousand pesos and does not exceed ten thousand pesos;

Five per centum per annum upon the amount by which such total net income exceeds ten thousand pesos and does not exceed twenty thousand pesos;

Six per centum per annum upon the amount by which such total net income exceeds twenty thousand pesos and does not exceed thirty thousand pesos;

Seven per centum per annum upon the amount by which such total net income exceeds thirty thousand pesos and does not exceed forty thousand pesos;

Eight per centum per annum upon the amount by which such total net income exceeds forty thousand pesos and does not exceed fifty thousand pesos;

Nine per centum per annum upon the amount by which such total net income exceeds fifty thousand pesos and does not exceed sixty thousand pesos;

Ten per centum per annum upon the amount by which total net income exceeds sixty thousand pesos and does not exceed seventy thousand pesos;

Eleven per centum per annum upon the amount by which such total net income exceeds seventy thousand pesos and does not exceed eighty thousand pesos;

Twelve per centum per annum upon the amount by which such total net income exceeds eighty thousand pesos and does not exceed ninety thousand pesos;

Thirteen per centum per annum upon the amount by which such total net income exceeds ninety thousand pesos and does not exceed one hundred thousand pesos;

Fourteen per centum per annum upon the amount by which such total net income exceeds one hundred thousand pesos and does not exceed one hundred and twenty thousand pesos;

Fifteen per centum per annum upon the amount by which such total net income exceeds one hundred and twenty thousand pesos and does not exceed one hundred and forty thousand pesos;

Seventeen per centum per annum upon the amount by which such total net income exceeds one hundred and forty thousand pesos and does not exceed one hundred and sixty thousand pesos;

Nineteen per centum per annum upon the amount by which such total net income exceeds one hundred and sixty thousand pesos and does not exceed one hundred and eighty thousand pesos;

Twenty-one per centum per annum upon the amount by which such total net income exceeds one hundred and eighty thousand pesos and does not exceed two hundred thousand pesos;

Twenty-three per centum per annum upon the amount by which such total net income exceeds two hundred thousand pesos and does not exceed two hundred and twenty-five thousand pesos;

Twenty-five per centum per annum upon the amount by which such total net income exceeds two hundred and twenty-five thousand pesos and does not exceed two hundred and seventy-five thousand pesos;

Twenty-nine per centum per annum upon the amount by which such total net income exceeds two hundred and seventy-five thousand pesos and does not exceed three hundred thousand pesos;

Thirty-one per centum per annum upon the amount by which such total net income exceeds three hundred thousand pesos and does not exceed three hundred and fifty thousand pesos;

Thirty-three per centum per annum upon the amount by which such total net income exceeds three hundred and fifty thousand pesos and does not exceed four hundred thousand pesos;

Thirty-five per centum per annum upon the amount by which such total net income exceeds four hundred thousand pesos and does not exceed four hundred and fifty thousand pesos;

Thirty-seven per centum per annum upon the amount by which such total net income exceeds four hundred and fifty thousand pesos and does not exceed five hundred thousand pesos;

Thirty-nine per centum per annum upon the amount by which such total net income exceeds five hundred thousand pesos and does not exceed six hundred thousand pesos;

Forty-one per centum per annum upon the amount by which such total net income exceeds seven hundred thousand pesos and does not exceed eight hundred thousand pesos;

Forty-two per centum per annum upon the amount by which such total net income exceeds eight hundred thousand pesos and does not exceed one million pesos;

Forty-three per centum per annum upon the amount by which such total net income exceeds one million pesos and does not exceed one million and five hundred thousand pesos;

Forty-four per centum per annum upon the amount by which such total net income exceeds one million and five hundred thousand pesos and does not exceed two million pesos;

Forty-five per centum per annum upon the amount by which such total net income exceeds two million pesos.

SEC. 22. Tax on non-resident alien individuals. —

(a) Non-resident alien engaged in trade or business within the Philippines or having an office or place of business therein. — There shall be levied, assessed, collected, and paid for each taxable year upon the entire net income received from all sources within the Philippines by every non-resident alien individual engaged in trade or

business within the Philippines or having an office or place of business therein the tax imposed by section 21.

(b) Non-resident alien not engaged in trade or business within the Philippines or not having an office or place of business therein. — There shall be levied, assessed, collected, and paid for each taxable year upon the entire net income received from all sources within the Philippines by every non-resident alien individual not engaged in trade or business within the Philippines or not having an office or place of business therein a tax equal to eight per centum thereof: Provided, That if the total net income of such non-resident alien individual from all sources within the Philippines exceeds eighty thousand pesos, the rates established in section 21 shall apply: And provided, further, That in case such non-resident alien individual files with the Collector of Internal Revenue a true and accurate return of his income from all sources within the Philippines on or before the date fixed under this Title for the filing of returns, he shall be entitled to have the tax thereon computed at the rates provided for in section 21, regardless of the amount of income declared in such return.

SEC. 23. Amount of personal exemptions allowable to individuals. — For the purpose of the tax provided for in this Title, there shall be allowed the following personal exemptions:

(a) Personal exception of single individuals. — The sum of one thousand pesos, if the person making the return is a single person or a married person legally separated from his or her spouse.

(b) Personal exemption of married persons or heads of family. — The sum of two thousand five hundred pesos, if the person making the return is a married man with a wife not legally separated from him, or a married woman with a husband not legally separated from her, or the head of a family: Provided, That only one exemption of two thousand five hundred pesos shall be made from the aggregate income of both husband and wife when not legally separated. For the purpose of this section, the term "head of a family" includes an unmarried man or woman with one or both parents, or one or more brothers or sisters, or one or more legitimate, recognized natural, or adopted children dependent upon him or her for their chief support where such brothers, sisters, or children are less than twenty-one years of age.

(c) Additional exemption for dependents — The sum of five hundred pesos for each legitimate, recognized natural, or adopted child wholly dependent upon the taxpayer, if such dependents are under twenty-one years of age, or incapable of self-support because mentally or physically defective. The additional exemption under this subsection shall be allowed only if the person making the return is the head of a family.

(d) Change of status. — If the status of the taxpayer insofar as it affects the personal and additional exemptions for himself or his dependents, changes during the taxable year, the amount of the personal and additional exemptions shall be apportioned, under rules and regulations prescribed by the Secretary of Finance, in accordance with the number of months before and after such change. For the purpose of such apportionment a fractional part of a month shall be disregarded unless it amounts to more than half a month, in which case it shall be considered as a month.

(e) Personal exemptions allowable to a non-resident alien individual — A non-resident alien individual shall be entitled to personal exemptions in an amount equal to the exemptions allowed by the income tax law in 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 non-resident alien file a true and accurate return of the total income received by him from all sources in the Philippines, as required by this Title.

CHAPTER III - Tax on Corporations

SEC. 24. Rate of tax on corporations. — There shall be levied, assessed, collected, and paid annually upon the total

net income received in the preceding taxable year from all sources by every corporation organized in, or existing under the laws of, the Philippines, no matter how created or organized, but not including duly registered general co-partnerships (*companias colectivas*), a tax of eight per centum upon such income; and a like tax shall be levied, assessed, collected, and paid annually upon the total net income received in the preceding taxable year from all sources within the Philippines by every corporation organized, authorized, or existing under the laws of any foreign country: Provided, however, That in the case of dividends received by a corporation liable to tax under this Chapter, only twenty-five per centum thereof shall be returnable for purposes of the tax imposed by this section.

SEC. 25. Additional tax on corporations improperly accumulating profits or surplus. — (a) Imposition of tax. — If any corporation, except banks, insurance companies, or personal holding companies, whether domestic or foreign, is formed or availed of for the purpose of preventing the imposition of the tax upon its shareholders or members or the shareholders or members of another corporation, through the medium of permitting its gains and profits to accumulate instead of being divided or distributed, there is levied and assessed against such corporation, for each taxable year, a tax equal to twenty-five per centum of the undistributed portion of its accumulated profits or surplus which shall be in addition to the tax imposed by section 24, and shall be computed, collected and paid in the same manner and subject to the same provisions of law, including penalties, as that tax.

(b) Prima facie evidence. — The fact that any corporation is a mere holding company shall be prima facie evidence of a purpose to avoid the tax upon its shareholders or members. Similar presumption will lie in the case of an investment company where at any time during the taxable year more than fifty per centum in value of its outstanding stock is owned, directly or indirectly by one person.

(c) Evidence determinative of purpose. — The fact that the earnings or profits of a corporation are permitted to accumulate beyond the reasonable needs of the business shall be determinative of the purpose to avoid the tax upon its shareholders or members unless the corporation, by the clear preponderance of evidence, shall prove to the contrary.

SEC. 26. Tax liability of members of duly registered general co-partnerships. — Persons carrying on business in general co-partnership (*compania colectiva*) duly registered in the mercantile registry shall be liable for income tax only in their individual capacity, and the share of the profits of the registered general co-partnership (*compania colectiva*) to which any taxable partner would be entitled, whether divided or otherwise, shall be returned for taxation and the tax paid in accordance with the provisions of this Title.

SEC. 27. Exemptions from tax on corporations. — The following organizations shall not be taxed under this Title in respect to income received by them as such —

- (a) Labor, agricultural, or horticultural organization;
- (b) Mutual savings bank not having a capital stock represented by shares, and cooperative bank without capital stock organized and operated for mutual purposes and without profit;
- (c) Fraternal beneficiary society, order, or association, operating under the lodge system or for the exclusive benefit of the members of a fraternity itself operating under the lodge system and providing for the payment of life, sick, accident, or other benefits to the members of such society, order, or association, or their dependents;
- (d) Loan and building associations operating as such in accordance with sections 171 to 190 of the Corporation Law, as amended;
- (e) Cemetery company owned and operated exclusively for the benefit of its members;

- (f) Corporation or association organized and operated exclusively for religious, charitable, scientific, athletic, cultural, or educational purposes, no part of the net income of which is distributed to any private stockholder or individual: Provided, however, That the income of whatever kind and character from any of its properties, real or personal, except income expressly exempted by this title, shall be liable to the tax imposed under this Code;
- (g) Business league, chamber of commerce, or board of trade, not organized for profit and no part of the net income of which inures to the benefit of any private stockholder or individual;
- (h) Civic league or organization not organized for profit but operated exclusively for the promotion of social welfare;
- (i) Club organized and operated exclusively for pleasure, recreation, and other non-profitable purposes, no part of the net income of which inures to the benefit of any private stockholder or member;
- (j) Farmers' or other mutual typhoon or fire insurance company, mutual ditch or irrigation company, mutual or cooperative telephone company, or like organizations of a purely local character, the income of which consists solely of assessments, dues, and fees collected from members for the sole purpose of meeting its expenses;
- (k) Farmers; fruit growers, or like association organized and operated as a sales agent for the purpose of marketing the products of its members and turning back to them the proceeds of sales, less the necessary selling expenses, on the basis of the quantity of produce furnished by them;
- (l) Corporation or association organized for the exclusive purpose of holding title to property, collecting income therefrom, and turning over the entire amount thereof, less expenses to an organization which itself is exempt from the tax imposed by this Title.

CHAPTER IV - Computation of Net Income

SEC. 28. Meaning of net income. — "Net income" means the gross income computed under section 29 less the deductions allowed by section 30.

SEC. 29. Gross income. — (a) General Definition. — "Gross income" includes gains, profits, and income derived from salaries, wages, or compensation for personal service of whatever kind and in whatever form paid, or from professions, vocations, trades, business, commerce, sales, or dealings in property, whether real or personal, growing out of the ownership or use of or interest in such property; also from interests, rents, dividends, securities, or the transactions of any business carried on for gain or profit, or gains, profits, and income derived from any source whatever.

(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 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 premium or premiums paid by him under life insurance, endowment, or annuity contracts, either during the term at the maturity of the term mentioned in the contract or upon surrender of the contract.
- (3) 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.
- (4) Interest on Government securities. — Interest upon the obligations of the United States to the extent provided in

the act authorizing the issue thereof; interest upon the obligations of the Government of the Philippines or any political subdivision 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.

(5) 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 amount of any damages received whether by suit or agreement on account of such injuries or sickness.

(6) Income exempt under treaty. — Income of any kind, to the extent required by any treaty obligation binding upon the Government of the Philippines.

(7) Miscellaneous items. — (A) Income of foreign governments received from their investments in the Philippines in stock, bonds, or other domestic securities, or from interest on their deposits in banks in the Philippines.

(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.

SEC. 30. Deductions from gross income. — In computing net income there shall be allowed as deduction —

(a) Expenses —

(1) In General. — All the 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; traveling expenses while away from home in the pursuit of a trade or business; and rentals or other payments required to be made as a condition to the continued use or possession, for the purposes of the trade 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 non-resident alien individuals and foreign corporations. — In the case of a non-resident alien individual or a foreign corporation, the expenses deductible are the necessary expenses paid or incurred in carrying on any business or trade conducted within the Philippines exclusively.

(b) Interest —

(1) In General. — The amount of interest paid within the taxable year on indebtedness, except on indebtedness incurred or continued to purchase or carry obligations the interest upon which is exempt from taxation as income under this Title.

(2) Interest allowable to non-resident aliens. — In the case of a non-resident alien Individual or a foreign corporation, the amount of interest allowable is the proportion of the amount of interest paid within the year on indebtedness, except on indebtedness incurred or continued to purchase or carry obligations, the interest upon which is wholly exempt from taxation as income under this Title, which the gross amount of income for the year derived from sources within the Philippines bears to the gross amount of income derived all sources within and without the Philippines; but this deduction shall be allowed only if such non-resident alien individual or foreign corporation includes in the return required by this Title all the information necessary for its calculation.

(c) Taxes —

(1) In General. — Taxes paid or accrued within the taxable year, except-

(A) The income tax provided for under this Title;

(B) Income, war-profits, and excess-profits taxes imposed by the authority of the United States, a possession of the United States, or 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 credit for taxes of foreign countries);

(C) Estate, inheritance and gift taxes; and

(D) Taxes assessed against local benefits of a kind tending to increase the value of the property assessed.

(2) Limitations and deductions. —

(A) In the case of a non-resident 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

(B) 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 net income taxable under this Title shall be allowed as deduction.

(3) Credits 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) Partnership and estates. — In the case of any such individual who is a member of a partnership or a beneficiary of an estate or trust, his proportionate share of such taxes of the 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.

(D) Non-resident aliens and foreign corporations. — Non-resident alien individuals and foreign corporations shall not be allowed the credits against the tax for 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 of 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 net income from sources within such country taxable under this Title bears to his entire net 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 net income from sources without the Philippines taxable under this Title bears to his entire net 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 Collector of Internal Revenue, who shall predetermine the amount of the tax for the year or years affected, and the amount of tax due upon such re-determination, if any, shall be paid by the taxpayer upon notice and demand by the Collector, 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 Collector 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 Collector in such sum as he may require, conditioned upon the payment by the taxpayer of any amount of tax found due upon any such re-determination. The bond herein prescribed shall contain such further conditions as the Collector may require.

(6) Year in which credit taken. — The credits provided for in paragraph (3) of this subsection 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 5 of this subsection. 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 (3) of this subsection shall be allowed only if the taxpayer establishes to the satisfaction of the Collector (1) the total amount of income derived from sources without the Philippines, (2) 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 Secretary of Finance, and (3) all other information necessary for the verification and computation of such credits.

(8) Taxes of foreign subsidiary. — For the 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 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 net 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 Collector of Internal Revenue shall have full power to determine from the accumulated profits of what year or years such dividends were paid; treating dividends were paid; treating dividends paid in the first sixty 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 subsection (c) shall be allowed to a corporation in the case of taxes imposed upon a shareholder of the corporation upon his interest as 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 or business; or

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

(C) Of property not connected with the trade or business, if the loss arises from fires, storms, shipwreck, or other casualty, or from robbery, theft, or embezzlement 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 or inheritance tax proposes in the estate or inheritance tax return

(2) By corporations. — 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) By non-resident aliens or foreign corporations. — In the case of. a non-resident alien individual or a foreign corporation, the losses deductible are those actually sustained during the year incurred in business or trade conducted within the Philippines, and losses of property within the Philippines arising from fires, storms, shipwreck, or other casualty, and from robbery, theft, or embezzlement, 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.

(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 any securities as defined in section 84 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.

(e) Bad debts —

(1) In general. — Debts due to the taxpayer actually ascertained to be worthless and charged off within the taxable year.

(2) Bad debts deductible by non-resident aliens or foreign corporations. — In the case of a non-resident alien individual or a foreign corporation, bad debts are deductible if any have arisen in the course of business or trade conducted within the Philippines and actually ascertained to be worthless and charged off within the year.

(3) Securities becoming worthless. — If any securities as defined in section 84 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 or the United States a substantial part of whose business is the receipt of deposits, 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.

(f) Depreciation —

(1) In general. — A reasonable allowance for deterioration of property arising out of its use or employment in the business or trade, or out of its not being used: Provided, That when the allowance authorized under this subsection shall equal the capital invested by the taxpayer or, in the case of purchase made prior to March first, nineteen hundred and thirteen, the fair market value as of that date, no further allowance shall be made. 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 trustee 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) Depreciation deductible by non-resident aliens or foreign corporations. — In the case of a non-resident alien individual or a foreign corporation, a reasonable allowance for the deterioration of property arising out of the 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. — (A) In the case of oil and gas wells, a reasonable allowance for actual reduction in flow and production to be ascertained not by the flush flow, but by the settled production or regular flow; (B) in the case of mines, a reasonable allowance for depletion thereof not to exceed the market value in the mine of the product thereof, which has been mined and sold during the year for which the return and computation are made. The allowances shall be made under rules and regulations to be prescribed by the Secretary of Finance: Provided, That when the allowances shall equal the capital invested, or in case of purchase made prior to March first, nineteen hundred and thirteen, the fair market value as of that date, no further allowance shall be made.

(2) Depletion of oil and gas wells and mines deductible by non-resident aliens or foreign corporations. — In the case of a non-resident alien individual or a foreign corporation, allowance for depletion of oil and gas wells or mines under paragraph (1) shall be authorized only in respect to oil and gas wells origins located within the Philippines.

(h) Charitable and other contributions. — Contributions or gifts actually paid or made within the taxable year or for use of the Government of the Philippines or any political subdivision thereof for exclusively public purposes, or to domestic corporations or associations organized and operated exclusively for religious, charitable, scientific, athletic, cultural or educational purposes, or to societies for the prevention of cruelty to children or animals, no part of the net income of which is distributed to any private stockholder or individual to an amount not in excess of six per centum in the case of an individual, and three per centum in the case of a corporation, of the taxpayer's taxable net income as computed without the benefit of this paragraph. Such contributions or gifts shall be allowable as deductions only if verified under rules and regulations prescribed by the Secretary of Finance.

(i) Conditions under which a non-resident alien individual may receive benefit of deductions. — A non-resident alien individual shall receive the benefit of the deductions provided for in this section only by filing or causing to be filed with the Collector of Internal Revenue a true and accurate return of his total income, received from all sources, corporate or otherwise, in the Philippines, in the manner prescribed by this Code; and in case of his failure to file such return the Collector of Internal Revenue shall collect the tax on such income.

(j) Pension trusts. — General rule. — 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 trusts during the taxable year to cover the pension liability accruing during the year, allowed as a deduction under subsection (a) 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 heretofore been allowable as a deduction, and (2) is apportioned in equal parts over a period of ten consecutive years beginning with the year in which the transfer or payment is made.

SEC. 31. Items not deductible. — (a) General rule. — In computing net income no deduction shall in any case be

allowed in respect of —

- (1) Personal, living, or family expenses;
 - (2) Any amount paid out for new buildings or for permanent improvements, or betterments made to increase the value of any property or estate;
 - (3) Any amount expended in restoring property or in making good the exhaustion thereof for which an allowance is or has been made; or
 - (4) Premiums paid on any life insurance policy covering the life of any officer or employee, or of any person financially interested in any trade or business carried on by the taxpayer, individual or corporate, when the taxpayer is directly or indirectly a beneficiary under such policy.
- (b) Losses from sales or exchanges of property. In computing net income no deduction shall in any case be allowed in respect of losses from sales or exchanges of property, directly or indirectly —
- (1) Between members of a family. For the purposes of this paragraph, the family of an individual shall include only his brothers and sisters (whether by the whole or half blood), spouse, ancestors, and lineal descendants;
 - (2) Except in the case of distributions in liquidation, between an individual and a corporation more than fifty per centum in value of the outstanding stock of which is owned, directly or indirectly, by or for such liquidation, between two corporations more than fifty per centum in value of the outstanding stock of each of which is owned, directly or indirectly, by or for the same individual, if either one of such corporations, with respect to the taxable year of the corporation preceding the date of the sale or exchange was, under the law applicable to such taxable year, a personal holding company or a foreign personal holding company;
 - (4) Between a grantor and a fiduciary of any trust;
 - (5) Between the fiduciary of a trust and the fiduciary of another trust, if the same person is a grantor with respect to each trust; or
 - (6) Between a fiduciary of a trust and a beneficiary of such trust.

SEC. 32. Special provisions regarding income and deductions of insurance companies, whether domestic or foreign. — (a) Special deductions allowed to insurance companies. — In the case of insurance companies, whether domestic or foreign, the net additions, if any, required by law to be made within the year to reserve funds and the -sums other than dividends paid within the year on policy and annuity contracts may be deducted from their gross income.

(b) Mutual insurance companies. — In the case of mutual fire and mutual employers' liability and mutual workmen's compensation and mutual casualty insurance companies requiring their members to make premium deposits to provide for losses and expenses, said companies shall not return as income any portion of the premium deposits returned to the policyholders, but shall return as taxable income all income received by them from all other sources plus such portion of premium deposits as are retained by the companies for purposes other than payment of losses and expenses and re-insurance reserves.

(c) Mutual marine insurance companies. — Mutual marine insurance companies shall include in their return of gross income gross premiums collected and received by them less amounts paid for re-insurance, but shall be entitled to include in deductions from gross income amounts repaid to policyholders on account of premiums previously paid by them, and interest paid upon such amounts between the ascertainment thereof and the payment thereof.

(d) Life insurance companies. — Life insurance companies shall not include as income in any year such portion of any actual premium received from any individual policyholder as shall have been paid back or credited to such individual policyholder, or treated as an abatement of premium of such individual policyholder within the taxable year.

(e) Assessment insurance companies. — In the case of assessment insurance companies, whether domestic or foreign, the actual deposit of sums with the officers of the Government of the Philippines pursuant to law, as additions to guarantee or reserve funds, shall be treated as payments required by law to reserve funds.

SEC. 33. Losses from wash sales of stock or securities. — (a) In the case of any loss claimed to have been sustained from any sale or other disposition of shares of stock or securities where it appears that, within a period beginning thirty days before after such date, the taxpayer has acquired (by purchase or by exchange upon which the entire amount of gain or loss was recognized by law), or has entered into a contract or option so to acquire, substantially identical stock or securities, then no deduction for the loss shall be allowed under section 30 unless the claim is made by a dealer in stocks or securities, and with respect to a transaction made in the ordinary course of the business of such dealer.

(b) If the amount of stock or securities acquired (or covered by the contract or option to acquire) is less than the amount of stock or securities sold or otherwise disposed of, then the particular shares of stock or securities the loss from the sale or other disposition of which is not deductible shall be determined under rules and regulations prescribed by the Secretary of Finance.

(c) If the amount of stock or securities acquired or covered by the contract or option to acquire) is not less than the amount of stock or securities sold or otherwise disposed of, then the particular shares of stock or securities the acquisition of which (or the contract or option to acquire which) resulted in the non-deductibility of the loss shall be determined under rules and regulations prescribed by the Secretary of Finance.

SEC. 34. Capital gains and losses. — (a) Definition. — As used in this Title-

The term "capital assets" means property held by the taxpayer (whether or not connected with his trade or business), but does not include stock in trade of the taxpayer or other property of a kind which would properly be included in the inventory of the taxpayer if on hand at the close of the taxable year, or property held by the taxpayer primarily for sale to customers in the ordinary course of his trade or business, or property, used in the trade or business, of a character which is subject to the allowance for depreciation provided in subsection (a) of section 30;

(b) Percentage taken into account. — In computing net income, only fifty per centum of the gain or loss recognized upon the sale or exchange of a capital asset shall be taken into account.

(c) Limitation on capital losses. — Losses from sale or exchanges of capital assets shall be allowed only to the extent of the gains from such sales or exchanges. If a bank or trust company incorporated under the laws of the Philippines or of the United States, a substantial part of whose business in the receipt of deposits, sells any bond, debenture, note, or certificate or other evidence of indebtedness issued by any corporation (including one issued by a government or political subdivision thereof), with interest coupons or in registered form, any loss resulting from such sale shall not be subject to the foregoing limitation and shall not be included in determining the applicability of such limitation to other losses.

(d) Retirement of bonds, etc. — For the purposes of this Title amounts received by the holder upon the retirement of bonds, debentures, notes, or certificates or other evidences of indebtedness issued by any corporation (including those issued by a government or political subdivision thereof), with interest coupons or in registered

form, shall be considered as amounts received in exchange therefor

(e) Gains and losses from short sales, etc. — For the purpose of this Title.-

(1) Gains or losses from short sales of property shall be considered as gains or losses from sales or exchanges of capital assets; and

(2) Gains or losses attributable to the failure to exercise privileges or options to buy or sell property shall be considered as capital gains or losses.

SEC. 35. Determination of gain or loss from the sale or other disposition of property. — The gain derived or loss sustained from the sale or other disposition of property, real, personal, or mixed, shall be determined in accordance with the following schedule.

(a) In the case of property acquired before March first, nineteen hundred and thirteen, the fair market price or value of such property as of March first, nineteen hundred and thirteen.

(b) In the case of property acquired on or after March first, nineteen hundred and thirteen, the cost thereof if such property was acquired by purchase or the fair market price or value as of the date of the acquisition if the same was acquired by gratuitous title.

(c) In the case of the exchange of one piece of property for another, the property received in exchange shall be considered as the equivalent of money in a sum equal to its fair market value on the date on which the exchange was made.

SEC. 36. Inventories. — Whenever in the judgment of the Collector of Internal Revenue, the use of inventories is necessary in order to determine clearly the income of any taxpayer, inventories shall be taken by such taxpayer upon such basis as the Secretary of Finance may, by regulations, prescribe, as conforming as nearly as may be to the best accounting practice in the trade or business and as most clearly reflecting the income.

SEC. 37. Income from sources within the Philippines. — (a) Gross income from sources within the Philippines. — The following items of gross income shall be treated as gross income from sources within the Philippines:

(1) Interest. — Interest derived from sources within the Philippines, and interest on bonds, notes, or other interest bearing obligations of residents, corporate or otherwise;

(2) Dividends. — The amount received as dividends —

(A) From a domestic corporation;

(B) From a foreign corporation unless less than fifty per centum of the gross income of such foreign corporation for the three-year period ending with the close of its taxable year preceding the declaration of such dividends (or for such part of such period as the corporation has been in existence) was derived from sources within the Philippines as determined under the provisions of this section; but only in an amount which bears the same ratio to such dividends as the gross income of the corporation for such period derived from sources within the Philippines bears to its gross income from all sources;

(3) Services. — Compensation for labor or personal services performed in the Philippines;

(4) Rentals and royalties. — Rentals and royalties from property located in the Philippines or from any interest in such property, including rentals or royalties for the use of or for the privilege of using in the Philippines patents, copyrights, secret processes and formulas, goodwill, trademarks, trade brands, franchise, and other like property;

(5) Sale of real property. — Gains, profits, and income from the sale of real property located in the Philippines; and

(6) Sale of personal property. — Gains, profits, and income from the sale of personal property, as determined in subsection (e) of this section.

(b) Net income from sources in the Philippines. — From the items of gross income specified in subsection (a) of this section there shall be deducted the expenses, losses, and other deductions properly apportioned or allocated thereto and a ratable part of any expenses, losses, or other deductions which can not definitely be allocated to some item or class of gross income. The remainder, if any, shall be included in full as net income from sources within the Philippines.

(c) Gross income from sources without the Philippines. — The following items of gross income shall be treated as income from sources without the Philippines:

(1) Interest other than that derived from sources within the Philippines as provided in paragraph (1) of subsection (a) of this section;

(2) Dividends other than those derived from sources within the Philippines as provided in paragraph (2) of subsection (a) of this section;

(3) Compensation for labor or personal services performed without the Philippines;

(4) Rentals or royalties from property located without the Philippines or from any interest in such property, including rentals or royalties for the use of or for the privilege of using without the Philippines, patents, copyrights, secret processes and formulas, good will, trademarks, trade brands, franchises, and other like properties; and

(5) Gains, profits, and income from the sale of real property located without the Philippines.

(d) Net income from Sources without the Philippines. — From the items of gross income specified in subsection (c) of this section there shall be deducted the expenses, losses, and other deductions properly apportioned or allocated thereto, and a ratable part of any expenses, losses or other deductions which cannot definitely be allocated to some item or class of gross income. The remainder, if any, shall be treated in full as net income from sources without the Philippines.

(e) Income from sources partly within and partly without the Philippines. — Items of gross income, expenses, losses and deductions, other than those specified in subsection (a) and (c) of this section shall be allocated or apportioned to sources within or without the Philippines under rules and regulations prescribed by the Secretary of Finance. Where items of gross income are separately allocated to sources within the Philippines, there shall be deducted (for the purpose of computing the net income therefrom) the expenses, losses, and other deductions properly apportioned or allocated thereto and a ratable part of other expenses, losses or other deduction which can not definitely be allocated to some item or class of gross income. The remainder, if any, shall be included in full as net income from sources within the Philippines. In the case of gross income derived from sources partly within and partly without the Philippines, the net income may first be computed by deducting the expenses, losses, or other deductions apportioned or allocated thereto and a ratable part of any expenses, losses, or other deductions which can not definitely be allocated to some items or class of gross income; and the portion of such net income attributable to sources within the Philippines may be determined by processes or formulas of general apportionment prescribed by the Secretary of Finance. Gains, profits, and income from (1) transportation or other services rendered partly within and partly without the Philippines, or (2) from the sale of personal property produced (in whole or part) by the taxpayer within and sold without the Philippines, or produced (in whole or in part) by the taxpayer without and sold within the Philippines, shall be treated as derived partly from sources without the Philippines. Gains, profits, and income derived from the purchase of personal property within and its

sale without the Philippines or from the purchase of personal property without and its sale within the Philippines, shall be treated as derived entirely from sources within the country in which sold.

(f) Definitions. — As used in this section the words "sale" or "sold" include "exchange" or "exchanged", and the word "produced" includes "created", "fabricated", "manufactured", "extracted", "processed", "cured", or

CHAPTER V - Accounting and Methods of Accounting

SEC. 38. General rule. — The net income shall be computed upon the basis of the taxpayer's annual accounting period (fiscal year or calendar year, as the case may be) in accordance with the method of accounting regularly employed in keeping the books of such taxpayer; but if no such method of accounting has been so employed, or if no method employed does not clearly reflect the income, the computation shall be made in accordance with such method as in the opinion of the collector of Internal Revenue does clearly reflect the income. If the taxpayer's annual accounting period is other than a fiscal year, as defined in section 84, or if the taxpayer has no annual accounting period, or does not keep books, or if the taxpayer is an individual, the net income shall be computed on the basis of the calendar.

SEC. 39. Period in which items of gross income included. — The amount of all items of gross income shall be included in the gross income for the taxable year in which received by the taxpayer, unless, under methods of accounting permitted under Section 38 any such amounts are to be properly accounted for as of a different period. In the case of the death of a taxpayer there shall be included in computing net income for the taxable period in which falls the date of his death, amounts accrued up to the date of his death if not otherwise properly allowable in respect of such period or a prior period.

SEC. 40. Period for which deductions and credits taken. — The deductions provided for in this Title shall be taken for the taxable year in which "paid or accrued" or "paid or incurred", dependent upon the method of accounting upon the basis of which the net income is computed, unless in order to clearly reflect the income the deductions should be taken as of a different period. In the case of the death of a taxpayer there shall be allowed as deductions for the taxable period in which falls the date of his death, amounts accrued up to the date of his death, if not otherwise properly allowable in respect of such period or a prior period.

SEC. 41. Change of accounting period. — If a taxpayer, other than an individual, changes his accounting period from fiscal year to calendar year, from calendar year to fiscal year, or from fiscal year to another, the net income shall, with the approval of the Collector of Internal Revenue, be computed on the basis of such new accounting period, subject to the provisions of section 42.

SEC. 42. Returns for a period of less than twelve months. — (a) Returns for short period resulting from change of accounting period. — If a taxpayer, other than an individual, with the approval of the Collector of Internal Revenue, changes the basis of computing net income from fiscal year to calendar year a separate return shall be made for the period between the close of the last fiscal year for which return was made and the following December 31. If the change is from calendar year to fiscal year, a separate return shall be made for the period between the close of the new fiscal year.

(b) Income computed on basis of short period. — Where a separate return is made under subsection (a) on account of a change in the accounting period, and in all other cases where a separate return is required or permitted, by regulations prescribed by the Secretary of Finance, to be made for a fractional part of a year, then the income shall be computed on the basis of the period for which separate return is made.

SEC. 43. Installment basis. — (a) Dealers in personal property. — Under regulations prescribed by the Secretary 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 real property and casual sales of personal property. — 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, in either case the initial payments do not exceed twenty-five per centum of the selling price, the income may, under regulations prescribed by the Secretary 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) Change from accrual to installment basis. — If a taxpayer entitled to the benefits of subsection (a) elects for any taxable year to report his net 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.

(b) Sales of real property and casual sales of personal property. — 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, in either case the initial payments do not exceed twenty-five per centum of the selling price, the income may, under regulations prescribed by the Secretary 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) Change from accrual to installment basis. — If a taxpayer entitled to the benefits of subsection (a) elects for any taxable year to report his net 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.

SEC. 44. Allocation of income and deductions. — In any case of two or more organizations, trades, or businesses (whether or not incorporated and whether or not organized in the Philippines) owned or controlled directly or indirectly by the same interests, the Collector of Internal revenue is authorized to distribute, apportion, or allocate gross income or deductions between or among such organizations, trades, or businesses, if he determines that such distribution, apportionment, or allocation is necessary in order to prevent evasion of taxes or clearly to reflect the income of any of such organizations, trades, or businesses.

CHAPTER VI - Returns and Payment of Tax

SEC. 45. Individual returns. — (a) Requirement. — (1) Every citizen of the Philippines of lawful age, whether residing at home or abroad and, (2) every person residing in the Philippines, though not a citizen thereof, having a gross income of one thousand pesos or over, including dividends, for the taxable year, and (3) every non-resident, alien deriving income from sources within the Philippines regardless of amount, shall file an income tax return, in duplicate, setting forth specifically the gross amount of income from all sources and deducting from the total thereof the aggregate items of allowances authorized under this Title, in such form and manner as the Collector of Internal Revenue, with the approval of the Secretary of Finance, may prescribe.

(b) Where to file. — The return shall be filed with the Collector of Internal Revenue, provincial revenue agent or treasurer of the province, city, or municipality in which such person has his legal residence or principal place of business, or if there be no legal residence or place of business in the Philippines, then with the Collector of Internal Revenue in Manila.

(c) When to file. — The return shall be filed on or before the first day of March of each year covering income of the preceding calendar year, or within the extension which may be granted by the Collector of Internal Revenue as herein set forth.

(d) Husband and wife. — In the case of married persons, whether citizens, resident or non-resident aliens, only one consolidated 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 consolidated return, each spouse may file his separate return of income, but the returns so filed shall be consolidated for the purpose of the tax prescribed under this Title.

(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 the 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.

SEC. 46. Corporation returns. — (a) Requirement. — Every corporation, subject to the tax herein imposed, shall render, in duplicate, a true and accurate return of its annual net income in the manner and form prescribed by the collector of Internal Revenue with the approval of the Secretary of Finance, and containing such facts, data and information as are appropriate and in the opinion of the Collector of Internal revenue necessary to determine the correctness of the net income returned and to carry out the provisions 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) When to file. — The return shall be rendered on or before the first day of March of each year for the preceding calendar year, or if the corporation has designated fiscal year, then within sixty days after the close of such fiscal year.

(c) Where to file. — The return shall be made to the Collector of Internal Revenue, provincial revenue agent, or to the treasurer of the province, city, or municipality in which is located the principal office of the corporation where its books of account and other data from which the return is prepared are kept, or in the case of a foreign corporation, to the Collector of Internal Revenue, provincial revenue agent, or to the treasurer of the province city, or municipality in which is located its principal place of business in the Philippines, or if it has no office of any kind or agency in the Philippines, then to the Collector of Internal Revenue in Manila. All such returns shall as received be transmitted forthwith by the officer receiving them to the Collector of Internal Revenue:

(d) Fiscal year of corporations. — Every corporation subject to tax, including duly registered general co-partnerships, may designate the last day of any month in the year as the day of the closing of its fiscal year, and shall be entitled to have the tax payable by it computed upon the basis of the net income ascertained as herein provided for the year ending on the day so designated in the year preceding the date of assessment instead of upon

the basis of the net income for the calendar year preceding the date of assessment; and it shall give notice of the day it has thus designated as the closing of its fiscal year to the Collector of Internal Revenue at any time not less than thirty days prior to the first day of March of the year in which its return would be filed if made upon the basis of the calendar year.

SEC. 47. Extension of time to file returns. — The Collector of Internal Revenue may, in meritorious cases, grant a reasonable extension of time for filing returns of income.

SEC. 48. Returns of receivers, trustees in bankruptcy, or assignees. — In cases wherein receivers, trustees in bankruptcy, or assignees are operating the property or business of a corporation, subject to the tax imposed by this Title, such receivers, trustees, or assignees shall make returns of net income as and for such corporation, in the same manner and form as and for such corporation, in the same manner and form as such organization is hereinbefore required to make returns, and any tax due on the income as returned by receivers, trustees, or assignees shall be assessed and collected in the same manner as if assessed directly against the organizations of whose businesses or properties they have custody and control.

SEC. 49. Returns of duly registered general co-partnership. — Every duly registered general co-partnership (compania colectiva) shall render, in duplicate, a return of its earnings, profits, and income, except income exempt under subsection (b) of section 29 of this Title, setting forth the items of the gross income and the deductions allowed by the Code, and the names and addresses of individuals who would be entitled to the next earnings, profits and income, if distributed.

SEC. 50. Returns to be verified by oath. — The Collector of Internal Revenue or other internal-revenue officer shall require every return to be verified by the oath of the party rendering it. If the Collector or other internal-revenue officer has reason to believe that the amount of any income returned is understated, he shall give due notice to the person, making the return to show cause why the amount of income declared in the return should not be increased, and, upon proof of the amount understated, may increase the same accordingly. Such person may furnish sworn testimony to prove any relevant facts, and, if dissatisfied with the decision of an internal revenue officer, may appeal to the Collector of Internal Revenue for his decision under such rules of procedure as may be prescribed by regulations.

SEC. 51. Assessment and payment of income tax. — (a) Assessment of tax. — All assessments shall be made by the Collector of Internal Revenue and all persons and corporations subject to tax shall be notified of the amount for which they are respectively liable on or before the first day of May of each successive year.

(b) Time of payment. — The total amount of tax imposed by this Title shall be paid on or before the fifteenth day of May following the close of the calendar year, by the person subject to tax, and, in the case of a corporation, by the president, vice-president, or other responsible officer thereof. If the return is made on the basis of a fiscal year, the total amount of the tax shall be paid on or before the fifteenth day of the fifth month following the close of the fiscal year.

(c) Installment payments. — When the tax assessed against the taxpayer is in excess of ten pesos, the taxpayer may elect to pay the tax in two equal installments in which case the first installment shall be paid on or before the date prescribed in the preceding subsection, and the second installment, on or before the fifteenth day of August following the close of the calendar year, or on or before the fifteenth day of the eighth month following the close of the fiscal year, as the case may be. If any installment is not paid on or before the date fixed for its payment, the whole amount of tax unpaid shall be paid upon notice and demand from the Collector of Internal Revenue.

(d) Refusal or neglect to make returns; fraudulent returns etc. — In cases of refusal or neglect to make a return and

in cases of erroneous, false, or fraudulent returns, the Collector of Internal Revenue shall, upon the discovery thereof, at any time within three years after said return is due, or has been made, make a return upon information obtained as provided for in this code or by existing law, or require the necessary corrections to be made, and the assessment made by the Collector of Internal Revenue thereon shall be paid by such person or corporation immediately upon notification of the amount of such assessment.

(e) Surcharge and interest in case of delinquency. — To any sum or sums due and unpaid after the dates prescribed in subsections (b), (c) and (d) for the payment of the amount of tax unpaid and interest at the rate of one per centum a month upon said tax from the time the same became due, except from the estates of insane, deceased, or insolvent persons.

SEC. 52. Receipts for payments made. — It shall be the duty of the Collector of Internal Revenue or other internal revenue officer to whom any payment of any taxes is made under the provisions of this Title, to give to the person making such payment a full written or printed receipt, expressing the amount paid and the particular account for which such payment was made; and whenever such payment is made, such Collector or other officer shall, if required, give a separate receipt for each tax paid by any debtor, on account of payments made to or to be made by him to separate creditors in such form that such debtor can conveniently produce the same separately to his several creditors in satisfaction of their respective demands to the amounts specified in such receipts; and such receipts shall be sufficient evidence in favor of such debtor to justify him in withholding the amount therein expressed from his next payment to his creditor; but such creditor may, upon giving to his debtor a full written receipt, acknowledging the payment to him of whatever sum may be actually paid, and accepting the amount of tax paid as aforesaid, specifying the same as a further satisfaction of the debt to that amount, require the surrender to him of such Collector's or other officer's receipt.

SEC. 53. Withholding of tax at source. — (a) Tax-free covenant bonds. — (1) Requirement of withholding. — 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 by this Title upon the obligee or to reimburse the obligee for any portion of the tax or to pay the interest without deductions 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 of any state or country, the obligor shall deduct and withhold a tax equal to eight per centum of the interest upon such bonds, mortgages, deeds of trust, or other obligations, whether such interest is payable annually or at shorter or longer periods, and whether such bonds, obligations, or securities had been heretofore or are hereafter issued or marketed, and the interest thereon paid, within or without the Philippines if such interest is payable to a non-resident alien individual or to a citizen or resident of the Philippines.

(2) Benefit of exemptions against net income. — Such deduction and withholding shall not be required in the case of a citizen or resident entitled to receive such interest if such person shall be filed with the withholding agent, on or before February first, a signed notice in writing claiming the benefit of the exemption provided in section 23 of this Title.

(b) Non-resident aliens. — All persons, corporations, and general co-partnerships (companias colectivas), in whatever capacity acting, including lessees or mortgagors of real or personal property, trustees acting in any trust capacity, executors, administrators, receivers, conservators, fiduciaries, employers and all officers and employees of the Government of the Philippines having the control, receipt, custody, disposal, or payment of interests, dividends, rents, salaries, wages, premiums, annuities, compensations, remunerations, emoluments, or other fixed or determinable annual or periodical gains, profits, and income of any non-resident alien individual, not engaged in trade or business within the Philippines and not having any office or place of business therein shall (except in the cases provided for in subsection (a) of this section) deduct and withhold from such annual or periodical gains,

profits, and income a tax equal to eight per centum thereof: Provided, That no such deduction or withholding shall be required in the case of dividends paid by a foreign corporation unless (1) such corporation is engaged in trade or business therein, and (2) more than eighty-five per centum of the gross income of such corporation for the three-year period ending with the close of its taxable year preceding the declaration of such dividends (or for such part of such period as the corporation has been in existence) was derived from sources within the Philippines as determined under the provisions of section 37: Provided, further, That the Collector of Internal Revenue may authorize such tax to be deducted and withheld from the interest upon any securities the owners of which are not known to the withholding agent.

(c) Return and payment. — Every person required to deduct and withhold any tax under this section shall make return thereof, in duplicate, on or before March first of each year, and, on or before the time fixed by law for the payment of the tax, shall pay the amount withheld to the officer of the Government of the Philippines authorized to receive it. Every such person is made personally liable for such tax, and is indemnified against the claims and demands of any person for the amount of any payments made in accordance with the provisions of this section.

(d) Income of recipient. — Income upon which any tax is required to be withheld at the source under this section shall be included in the return of the recipient of such income but any amount of tax so withheld shall be credited against the amount of income tax as computed in such return and the amount, if any, by which the income tax collected at source exceeds the tax due on the return shall be refunded subject to the provisions of section 309.

(e) Tax paid by recipient. — If any tax required under this section to be deducted and withheld is paid by the recipient of the income, it shall not be re-collected from the withholding agent; nor in cases in which the tax is so paid shall any penalty be imposed upon or collected from the recipient of the income or the withholding agent for failure to return or pay the same, unless such failure was fraudulent and for the purpose of evading payment.

SEC. 54. Payment of corporation income tax at source. — In the case of foreign corporations subject to taxation under this Title not engaged in trade or business within the Philippines and not having any office or place of business therein, there shall be deducted and withheld at the source in the same manner and upon the same items of income as is provided in section 53 a tax equal to eight per centum thereof, and such tax shall be returned and paid in the same manner and subject to the same conditions as provided in that section.

SEC. 55. Tax on profits collectible from owner or other persons. — The tax imposed under this Title upon gains, profits, and income not falling under the foregoing and not returned and paid by virtue of the foregoing or as otherwise provided by law shall be assessed by personal return under rules and regulations to be prescribed by the Secretary of Finance. The intent and purpose of this Title is that all gains, profits, and income of a taxable class, as defined in this Title, shall be charged and assessed with the corresponding tax prescribed by this Title, and said tax shall be by the owner of such gains, profits, and income, or the proper person having the receipt, custody, control, or disposal of the same. For the purpose of this Title ownership of such gains, profits and income or liability to pay the tax shall be determined as of the year for which a return is required to be rendered.

CHAPTER VII - Estates and Trusts

SEC. 56. Imposition of tax. — (a) Application of tax. — The taxes imposed by this Title upon individuals shall apply to the income of estates or of any kind of property held in trust, including —

- (1) Income accumulated in trust for the benefit of unborn or unascertained persons or persons with contingent interests, and income accumulated or held for future distribution under the terms of the will or trust;
- (2) Income which is to be distributed currently by the fiduciary to the beneficiaries, and income collected by the guardian of an infant which is to be held or distributed as the court may direct;

(3) Income received by estates of deceased persons during the period of administration or settlement of the estate; and

(4) Income which, in the discretion of the fiduciary, may be either distributed to the beneficiaries or accumulated.

(b) Computation and payment. —

(1) In general. — The tax shall be computed upon the net income of the estate or trust and shall be paid by the fiduciary, except as provided in section 59 (relating to revocable trusts) and section 60 (relating to income for the benefit of the grantor);

(2) Consolidation of income of two or more trusts. — Where, in the case of two or more trusts, the creator of the trust in each instance is the same person and the beneficiary in each instance is the same, the net income of all the trusts shall be consolidated and the tax provided in this section computed on such consolidated income, and such proportion of said tax shall be assessed and collected from each trustee which the net income of the trust administered by him bears to the consolidated income of the several trusts.

SEC. 57. Net income. — The net income of the estate or trust shall be computed in the same manner and on the same basis as in the case of an individual, except that —

(a) There shall be allowed as a deduction in computing the net income of the estate or trust the amount of the income of the estate or trust for its taxable year which is to be distributed currently by the fiduciary to the beneficiaries, and the amount of the income collected by a guardian of an infant which is to be held or distributed as the court may direct, but the amount so allowed as a deduction shall be included in computing the net income of the beneficiaries whether distributed to them or not. Any amount allowed as a deduction under this subsection shall not be allowed as a deduction under subsection (b) of the section in the same or any succeeding taxable year.

(b) In the case of income received by estates or deceased persons during the period of administration or settlement of the estate, and in the case of income which, in the discretion of the fiduciary, may be either distributed to the beneficiary or accumulated, there shall be allowed as an additional deduction in computing the net income of the estate or trust the amount of the income of the estate or trust for its taxable year, which is properly paid or credited during such year to any legatee, heir, or beneficiary, but the amount so allowed as a deduction shall be included in computing the net income of the legatee, heir, or beneficiary.

(c) In the case of a trust administered in a foreign country, the deductions mentioned in subsections (a) and (b) of this section shall not be allowed: Provided, That the amount of any income included in the return of said trust shall not be included in computing the income of the beneficiaries.

SEC. 58. Exemption allowed to estates and trust. — For the purpose of the tax provided for in this Title, there shall be allowed an exemption of one thousand pesos from the income of the estate or trust.

SEC. 59. Revocable trusts. — Where at any time the power to revest in the grantor title to any part of the corpus of the trust is vested (1) in the grantor, either alone or in conjunction with any person not having a substantial adverse interest in the disposition of such part of the corpus or the income therefrom, or (2) in any person not having a substantial adverse interest in the disposition of such part of the corpus or the income therefrom, the income of such part of the trust shall be included in computing the net income of the grantor.

SEC. 60. Income for benefit of grantor. — (a) Where any part of the income of a trust (1) is, or in the discretion of the grantor or of any person not having a substantial adverse interest in the disposition of such part of the income may be held or accumulated for future distribution to the grantor; or (2) may, in the discretion of the grantor or of any person not having a substantial adverse interest in the disposition of such part of the income, be distributed to

the grantor; or (3) is, or in the discretion of the grantor or of any person not having a substantial adverse interest in the disposition of such part of the income may be, applied to the payment of premiums upon policies of insurance on the life of the grantor; such part of the income of the trust shall be included in computing the net income of the grantor.

(b) As used in this section, the term "in the discretion of the grantor" means in the discretion of the grantor, either alone or in conjunction with any person not having a substantial adverse interest in the disposition of the part of the income in question.

SEC. 61. Fiduciary returns. — Guardians, trustees, executors, administrators, receivers, conservators, and all persons or corporations, acting in any fiduciary capacity, shall render, in duplicate, a return of the income of the person, trust, or estate for whom or which they act, and be subject to all the provisions of this Title, which apply to individuals in case such person, estate, or trust has a gross income of one thousand pesos or over during the taxable year. Such fiduciary or person filing the return for him or it, shall take oath that he has sufficient knowledge of the affairs of such person, trust, or estate to enable him to make such return and that the same is, to the best of his knowledge and belief, true and correct, and be subject to all the provisions of this Title which apply to individuals: Provided, That a return made by or for one of two or more joint fiduciaries filed in the province where such fiduciary resides, under such regulations as the Secretary of Finance may prescribe, shall be sufficient compliance with the requirements of this section.

SEC. 62. Fiduciaries indemnified against claims for taxes paid. — Trustees, executors, administrators, and other fiduciaries are indemnified against the claims or demands of every beneficiary for all payments of taxes which they shall be required to make under the provisions of this Title, and they shall have credit for the amount of such payments against the beneficiary or principal in any accounting which they make as such trustees or other fiduciaries.

CHAPTER VIII - Personal Holding Companies

SEC. 63. Tax on personal holding companies. — There shall be levied, collected, and paid, for each taxable year, upon the undistributed net income of every personal holding company, in addition to the tax imposed by section 24 a tax equal to forty-five per centum of the undistributed net income of such personal holding company.

SEC. 64. Definition of personal holding company. — (a) General rule. — For the purposes of this Title, the term "personal holding company" means any corporation, as defined in section 84 if —

(1) Gross income requirement. — At least eighty per centum of its gross income for the taxable year is personal holding company income as defined in section 65, but if the corporation is a personal holding company with respect to any taxable year beginning after December thirty-first, nineteen hundred and thirty-eight, then, for each subsequent taxable year, the minimum percentage shall be seventy per centum in lieu of eighty, and it shall continue to be considered as a personal holding company until in a taxable year, during the whole of the last half of which, the stock ownership required by paragraph (2) does not exist, or until the expiration of three consecutive taxable years in each of which less than seventy per centum of the gross income is personal holding company income; and

(2) Stock ownership requirement. — Any time during the last half of the taxable year more than fifty per centum in value of its outstanding stock is owned, directly or indirectly, by or for not more than five individuals.

(b) Exceptions. — The term "personal holding company" does not include a corporation, firm or association exempt from taxation under section 27, a bank duly licensed to do business as such in the Philippines, a life insurance company, or a foreign personal holding company as defined in section 67. Section 65. Personal holding

company income. — For the purposes of this Title the term "personal holding company income" means the portion of the gross income which consists of:

(a) Dividends, interest (other than interest constituting rent as defined in subsection (g) hereof), royalties (other than mineral, oil, or gas royalties), and annuities. The term "royalties", as herein used, includes income from copyrights, patents, and other similar revenues.

(b) Stock and securities transactions. — Except in the case of regular dealers in stock or securities (as defined in subsection (s) of section 84), gains from the sale or exchange of stock or securities.

(c) Commodities transactions. — Gains from future transactions in any commodity on or subject to the rules of a board of trade or commodity exchange. This subsection shall not apply to gains by a producer, processor, merchants, or handler of the commodity which arise out of bona fide hedging transactions reasonably necessary to the conduct of its business in the manner in which such business is customarily and usually conducted by others.

(d) Estates and trusts. — Amounts includible in computing the net income of estates and trusts under section 56; and gains from the sale or other disposition of any interest in an estate or trust.

(e) Personal service contracts. — (1) Amounts received under a contract under which the corporation is to furnish personal services, if some person other than the corporation has the right to designate (by name or by description) the individual who is to perform the services, or if the individual who is to perform the services is designated (by name or by description) in the contract; and (2) amounts received from the sale or other disposition of such a contract. This subsection shall apply with respect to amounts received for services under a particular contract only if at some time during the taxable year twenty-five per centum or more in value of the outstanding stock of the corporation is owned, directly or indirectly, by or may be designated (by name or by description) as the one to perform, such services.

(f) Use of corporation property by shareholder. — Amounts received as compensation (however designated and from whomsoever received) for the use of, or right to use, property of the corporation in any case where, at any time during the taxable year, twenty-five per centum or more in value of the outstanding stock of the corporation is owned, directly or indirectly, by or for an individual entitled to the use of the property, whether such right is obtained directly from the corporation or by means of sublease or other arrangement.

(g) Rents. — Rents, unless constituting fifty per centum or more of the gross income. For the purposes of this subsection, the term "rents" means compensation, however designated, for the use of, or right to use, property, and the interest on debts owed to the corporation, to the extent such debts represent the price for which real property held primarily for sale to customers in the ordinary course of its trade or business was sold or exchanged by the corporation; but does not include amounts constituting personal holding company income under subsection (f).

(h) Mineral, oil, or gas royalties. — Mineral, oil, or gas royalties, unless (1) constituting fifty per centum or more of the gross income, and (2) the deductions relating to expenses, other than compensation for personal services rendered by shareholders, constitute fifteen per centum or more of the gross income.

SEC. 66. Stock ownership. — For the purpose of determining whether a corporation is a personal holding company, insofar as such determination is based on stock ownership, the following rules shall be observed:

(a) Stock not owned by individual. — Stock owned, directly or indirectly, by or for a corporation, estate, or trust shall be considered as being owned proportionately by its shareholders, partners, or beneficiaries.

(b) Family and partnership ownership. — An individual shall be considered as owning the stock owned, directly or indirectly, by or for his family or by or for his partner. For the purposes of this subsection, the family of an

individual includes only his brothers and sisters (whether by the whole or half blood), spouse, ancestors, and lineal descendants.

(c) Options. — If any person has an option to acquire stock such stock shall be considered as owned by such person. For the purposes of this subsection, an option to acquire such an option, and each one of a series of such options, shall be considered as an option to acquire such stock.

SEC. 67. Definition of foreign personal holding company. — (a) General rule. — For the purposes of this Title, the term "foreign personal holding company" means any foreign corporation if —

(1) Gross income requirement. — At least sixty per centum of its gross income from all sources for the taxable year is foreign personal holding company income in accordance with section 68; but if the corporation is a foreign personal holding company with respect to any taxable year ending after December thirty-first, nineteen hundred and thirty-eight, then, for each subsequent taxable year, the minimum percentage shall be fifty per centum in lieu of sixty per centum, and it shall continue to be considered as a foreign personal holding company until in a taxable year, during the whole of which the stock ownership required by paragraph (2) does not exist, or until the expiration of three consecutive taxable years in each of which less than fifty per centum of the gross income is foreign personal holding company income; and

(2) Stock ownership requirement. — At any time during the taxable year more than fifty per centum in value of its outstanding stock is owned, directly or indirectly, by or for not more than five individuals who are citizens or residents of the Philippines.

(b) Exception. — The term "foreign personal holding company" does not include a corporation exempt from taxation under section 27.

SEC. 68. Gross income and stock ownership requirements of foreign personal holding companies. — In determining the percentage of the gross income of a foreign personal holding company income, as well as the stock ownership requirement of such company, the same rules prescribed in sections 65 and 66 with regard to domestic personal holding companies shall apply.

SEC. 69. Corporation income taxed to Philippine shareholders. — (a) General rule. — The undistributed net income of a foreign personal holding company shall be included in the gross income of the citizens or residents of the Philippines, domestic corporations, and estates or trusts, who are shareholders in such foreign personal holding company.

(b) Amount included in gross income. — Each Philippine shareholder, who was a shareholder on the day in the taxable year of the company which was the last day on which the stockholders satisfying the stock ownership requirement defined under paragraph (2) of subsection (a) of section 67 existed with respect to the company, shall include in his gross income, as a dividend, for the taxable year in which or with which the taxable year of the company ends, the amount he would have received as a dividend if on such last day there had been distributed by the company, and received by the shareholders, an amount which bears the same ratio to the undistributed net income of the company for the taxable year as the portion of such taxable year up to and including such last day bears to the entire taxable year.

SEC. 70. Information returns by officers and directors. — (a) Monthly returns. — On the fifteenth day of each month which begins after the date of the enactment of this Code, each individual who on such day is an officer or a director of a foreign personal holding company, shall file with the Collector of Internal Revenue a return setting forth with respect to the preceding calendar month the name and address of each shareholder the class and number of shares held by each, together with any changes in stockholdings during such period, the name and address of

any holder of securities convertible into stock of such corporation, and such other information with respect to the stock and securities of the corporation as the Secretary of Finance shall, by regulations, prescribe as necessary for carrying out the provisions of this Code. The Secretary of Finance may, by regulations, prescribe, as the period with respect to which returns shall be filed, a longer period than a month. In such case the return shall be due on the fifteenth day of the succeeding period, and shall be filed by the individuals who on such day are officers and directors of the corporation.

(b) Annual returns. — On the sixtieth day after the close of the taxable year of a foreign personal holding company, each individual who on such sixtieth day is an officer or director of the corporation shall file with the Collector of Internal Revenue a return setting forth —

(1) In complete detail the gross income, deductions and credits, net income, and undistributed net income of such foreign personal holding company for such taxable year; and

(2) The same information with respect to such taxable year as is required in subsection (a) hereof; except that if all the required returns with respect to such year have been filed under said subsection (a), no information under this paragraph need be set forth in the return filed under this subsection.

SEC. 71. Information returns by shareholders. — (a) Monthly returns. — On the fifteenth day of each month which begins after the date of the enactment of this Code, each Philippine shareholder, by or for whom fifty per centum or more in value of the outstanding stock of a foreign corporation is owned, directly or indirectly (including in the case of an individual, stock owned by the members of his family as defined in this Code), if such foreign corporation with respect to its taxable year preceding the taxable year in which such month occurs was a foreign personal holding company, shall file with the Collector of Internal Revenue a return setting forth with respect to the preceding calendar month the name and address of each shareholder, the class and number of shares held by each together with any changes in stockholdings during such period, the name and address of any holder of securities convertible into stock of such corporation, and such other information with respect to the stock and securities of the corporation as the Secretary of Finance shall, by regulations, prescribe as necessary for carrying out the provisions of this Code. The Secretary of Finance may, by regulations, prescribe, as the period with respect to which returns shall be filed, a longer period than a month. In such case the return shall be due on the fifteenth day of the succeeding period, and shall be due on the fifteenth day of the succeeding period, and shall be filed by the persons who on such day are Philippine shareholders.

(b) Annual returns. — On the sixtieth day after the close of the taxable year of a foreign personal holding company, each Philippine shareholder by or for whom on such sixtieth day fifty per centum or more in value of the outstanding stock of such company is owned, directly or indirectly (including in the case of an individual stock owned by members of his family as defined in this Code), shall file with the Collector of Internal Revenue a return setting forth the same information with respect to such taxable year as is required in subsection (a) hereof; except that if all the required returns with respect to such year have been filed under said subsection (a), no return shall be required under this subsection.

CHAPTER IX - Administrative Provisions

SEC. 72. Surcharge for failure to render returns and for rendering false and fraudulent returns. — The Collector of Internal Revenue shall assess all income taxes. In case of willful neglect to file the return or list within the time prescribed by law, or in case a false or fraudulent return or list is willfully made, the Collector of Internal Revenue shall add to the tax or to the deficiency tax, in case any payment has been made on the basis of such return before the discovery of the falsity or fraud, or surcharge of fifty per centum of the amount of such tax or deficiency tax. In case of any failure to make and file a return or list within the time prescribed by law or by the Collector or

other internal-revenue officer, not due to willful neglect, the Collector of Internal Revenue shall add to the tax twenty-five per centum of its amount, except that, when a return is voluntarily and without notice from the Collector or other officer filed after such time, and it is shown that the failure to file it was due to a reasonable cause, no such addition shall be made to the tax. The amount so added to any tax shall be collected at the same time and in the same manner as part of the tax unless the tax has been paid before the discovery of the neglect, falsity or fraud, in which case the amount so added shall be collected in the same manner as the tax.

SEC. 73. Penalty for failure to file return or to pay tax. — Any one liable to pay the tax, to make a return or to supply information required under this code, who refuses or neglects to pay such tax, to make such return or to supply such information at the time or times herein specified in each year, shall be punished by a fine of not more than two thousand pesos or by imprisonment for not more than six months, or both.

Any individual or any officer of any corporation, or general co-partnership (*compania colectiva*), required by law to make, render, sign, or verify any return or to supply any information, who makes any false or fraudulent return or statement with intent to defeat or evade the assessment required by this code to be made, shall be punished by a fine of not exceeding four thousand pesos or by imprisonment for not exceeding one year, or both.

SEC. 74. Penalty imposed on corporations which refuse or neglect to make a return. — If any corporation or duly registered general co-partnership shall refuse or neglect to make a return at the time or times hereinbefore specified in each year, or shall render a false or fraudulent return, such corporation or partnership shall be liable to a fine of not exceeding twenty thousand pesos.

SEC. 75. Return of information by corporations; penalty for failure to keep records of stockholders or dividends paid. — Every corporation subject to the tax herein imposed, or otherwise engaged in business or trade within the Philippines, when required by the Collector of Internal Revenue, shall render a correct return, duly verified under oath, of its payments of profits or dividends, whether made in cash or its equivalent or in stock, including the names and addresses of members or stockholders, the paid-up capital or the number of shares owned by each, and the tax years and gains or earnings from which such dividends or profits were derived, in such form as may be prescribed by the Collector of Internal Revenue with the approval of the Secretary of Finance.

Any such corporation which fails to keep records of the names and addresses of its members or stockholders, or the correct amount of profits or dividends paid or credited to each of them, or which fails to furnish the information referred to in this section together with certified copies of its balance sheet, profit and loss statements, and such other financial statements which may be required by the Collector of Internal Revenue, shall pay to the Government an amount equal to ten per centum of the dividends or profits distributed, or, in the absence of information as to the amount of profits or dividends distributed, the additional amount herein required to be paid shall be computed on the net profits or income reported in the income tax returns or shown in the books of such corporation, firm or association. However, resident foreign corporations, fifty-one per centum or more of whose income is derived from sources outside of the Philippines, shall not be liable to the payment of the amount prescribed in this section.

SEC. 76. Collection of foreign items. — All persons, corporations, or duly registered general co-partnerships (*companias colectivas*) undertaking for profit or otherwise the collection of foreign payments of interest or dividends by means of coupons, checks, or bills of exchange shall obtain license from the Collector of Internal Revenue, and shall be subject to such regulations enabling the Government to obtain the information required under this Title, as the Secretary of Finance shall prescribe; and whoever knowingly undertakes to collect such payments as aforesaid without having obtained a license therefor, or without complying with such regulations, shall, for each offense, be fined in a sum not exceeding ten thousand pesos or imprisoned for a term not exceeding

one year, or both.

SEC. 77. Information at source as to payments of one thousand pesos or more. — All persons, corporations, or duly registered general co-partnerships (*companias colectivas*), in whatever capacity acting, including lessees or mortgagors of real or personal property, trustees acting in any trust capacity, executors, administrators, receivers, conservators, and employers, making payment to another person, corporation, or duly registered general co-partnership (*compania colectiva*), of interests, rents, salaries, wages, premiums, annuities, compensations, remunerations, emoluments, or other fixed or determinable gains, profits, and income, other than payments described in sections 75 and 79, of one thousand pesos or more in any taxable year, or, in the case of such payments made by the Government of the Philippines, the officers or employees of the Government having information as to such payments and required to make returns in regard thereto, are authorized and required to render a true and accurate return to the Collector of Internal Revenue, under such rules and regulations and in such form and manner as may be prescribed by the Secretary of Finance, setting forth the amount of such gains, profits, and income, and the name address of the recipient of such payment: Provided, That such returns shall be required, regardless of amounts in the case of payments of interest upon bonds and mortgages or deeds of trust or other similar obligations of corporations, and in the case of collections of items, not payable in the Philippines, of interest upon the bonds of foreign countries and interest from the bonds and dividends from the stock of foreign corporations by persons, corporations, or duly registered general co-partnerships (*companias colectivas*) undertaking as a matter of business or for profit or otherwise the collection of foreign payments of such interest or dividends by means of coupons or bills of exchange.

SEC. 78. 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, render a correct return to the collector of Internal Revenue, verified under oath, setting forth the terms of such resolution or plan and such other information as the Secretary of Finance shall, by regulations, prescribe.

SEC. 79. Return of information of brokers. — Every person, corporation, or duly registered general co-partnership (*compania colectiva*), doing business as a broker in any exchange or board of trade or other similar place of business shall, when required by the Collector of Internal Revenue, render a correct return duly verified under oath under such regulations as the Secretary of Finance may prescribe, showing the names of customers for whom such person, corporation, or duly registered general co-partnership (*compania colectiva*), has transacted any business with such details as to the profits, losses, or other information which the collector may require as to each of such customers as will enable the Collector of Internal Revenue to determine whether all income tax due on profits or gains of such customers has been paid.

SEC. 80. Returns as to formation, etc., of foreign corporations. — (a) Requirement. — Under regulations prescribed by the Secretary of Finance, any attorney, accountant, fiduciary, bank, trust company, financial institution, or other person who, after the date of the enactment of this Code, aids, assists, counsels, or advises in, or with respect to the formation, organization or reorganization of any foreign corporation, shall, within thirty days thereafter, file with the Collector of Internal Revenue a return.

(b) Form and contents of return. — Such return shall be in such form and shall set forth, under oath, in respect of each such corporation, to the full extent of the information within the possession or knowledge or under the control of the person required to file the return, such information as the Secretary of Finance shall prescribe by regulations as necessary for carrying out the provisions of this Title. Nothing in this section shall be construed to require the divulging of privileged communications between attorney and client.

SEC. 81. Disposition of income tax returns; publication of lists of persons filing returns and paying taxes. — After the assessment shall have been made, as provided in this Title, the returns, together with any corrections thereof which may have been made by the Collector, shall be filed in the office of the Collector of Internal Revenue and shall constitute public records and be open to inspection as such upon the order of the Philippines under rules and regulations to be prescribed by the Secretary of Finance.

Subject to the approval of the Secretary of Finance, the Collector of Internal Revenue may in each year cause to be prepared and published in any newspaper or made available to public inspection in such manner as he may determine, lists containing the names and addresses of persons who filed income tax returns and/or paid income taxes.

SEC. 82. Suit to recover tax based on false or fraudulent returns. — When an assessment is made in case of any list, statement, or return, which in the opinion of the Collector of Internal Revenue was false or fraudulent, or contained any understatement or undervaluation, no tax collected under such assessment shall be recovered by any suit unless it is proved that the said list, statement, or return was not false nor fraudulent and did not contain any understatement or undervaluation; but this provision shall not apply to statements or returns made or to be made in good faith regarding annual depreciation of oil or gas wells and mines.

SEC. 83. Distribution of dividends or assets by corporations. — (a) Definition of dividends. — The terms "dividends" when used in this Title means any distribution made by a corporation to its shareholders out of its earnings or profits accrued since March first, nineteen hundred and thirteen and payable to its shareholders, whether in money or other property.

Where a corporation distributes all of its assets in complete liquidation or dissolution, the gain realized or loss sustained by the stockholder, whether individual or corporate, is a taxable income or a deductible loss, as the case may be.

(b) Stock dividend. — A stock dividend representing the transfer of surplus to capital account shall not be subject to tax. However, if a corporation cancels or redeems stock issued as a dividend at such item and in such manner as to make the distribution and cancellation or redemption, in whole or in part, essentially equivalent to the distribution of a taxable dividend, the amount so distributed in redemption or cancellation of the stock shall be considered as taxable income to the extent that it represents a distribution of earnings or profits accumulated after March first, nineteen hundred and thirteen.

(c) Dividends distributed are deemed made from most recently accumulated profits. — Any distribution made to the shareholders or members of a corporation in the year nineteen hundred and thirty-nine or subsequent tax years, shall be deemed to have been made from the most recently accumulated profits or surplus, and shall constitute a part of the annual income of the distributee for the year in which received: Provided, That nothing herein shall be construed as taxing any earnings or profits accrued prior to March first, nineteen hundred and thirteen, but such earnings or profits may be distributed in stock dividends or otherwise, exempt from the tax, after the distribution of earnings and profits accrued since March first, nineteen hundred and thirteen, has been made.

CHAPTER X - Definitions

SEC. 84. Definitions. — When used in this Title —

(a) The term "person" means an individual, a trust, estate, corporation, or a duly registered general co-partnership.

(b) The term "corporation" includes partnerships, no matter how created or organized, joint-stock companies, joint accounts (cuentas en participacion), association or insurance companies, but does not include duly registered general co-partnerships (companias colectivas).

- (c) The term "domestic," when applied to a corporation, means created or organized in the Philippines or under its laws.
- (d) The term "foreign," when applied to a corporation, means a corporation which is not domestic.
- (e) The term "resident alien" means an individual whose residence is within the Philippines and who is not a citizen thereof.
- (f) The term "non-resident alien" means an individual whose residence is not within the Philippines and who is not a citizen thereof.
- (g) The term "resident foreign corporation" applies to a foreign corporation engaged in trade or business within the Philippines or having an office or place of business therein.
- (h) The term "non-resident foreign corporation" applies to a foreign corporation not engaged in trade or business within the Philippines and not having any office or place of business therein.
- (i) The term "fiduciary" means a guardian, trustee, executor, administrator, receiver, conservator, or any person acting in any fiduciary capacity for any person.
- (j) The term "withholding agent" means any person required to deduct and withhold any tax under the provisions of section 53.
- (k) The term "stock" includes the share in an association, joint-stock company, or insurance company.
- (l) The term "shareholder" includes a member in an association, joint-stock company, or insurance company.
- (m) The term "taxpayer" means any person subject to tax imposed by this Title.
- (n) The terms "including" and "includes" when used in a definition contained in this Title shall not be deemed to exclude other things otherwise within the meaning of the term defined.
- (o) The term "taxable year" means the calendar year, or the fiscal year ending during such calendar year, upon the basis of which the net income is computed under this Title. "Taxable year" includes, in the case of a return made for a fractional part of a year under the provisions of this Title, or under regulations prescribed by the Secretary of Finance, the period for which such return is made.
- (p) The term "fiscal year" means an accounting period of twelve months ending on the last day of any month other than December
- (q) The terms "paid or incurred" and "paid or accrued" shall be construed according to the method of accounting upon the basis of which the net income is computed under this Title.
- (r) The term "trade or business" includes the performance of the functions of a public office.
- (s) The term "securities" means shares of stock in a corporation and rights to subscribe for or to receive such shares. The term includes bonds, debentures, notes, or certificates, or other evidences of indebtedness, issued by any corporation, including those issued by a government or political subdivision thereof, with interest coupons or in registered form.
- (t) The term "dealer in securities" means a merchant of stocks or securities, whether an individual, partnership, or corporation, with an established place of business, regularly engaged in the purchase of securities and their re-sale to customers; that is, one who as a merchant buys securities and sells them to customers with a view to the gains and profits that may be derived therefrom.

(u) The terms "alien" and "foreign government" shall be deemed to include the citizens and Government of the United States, including the political subdivisions thereof; Provided, however, That citizens of the United States residing in the Philippines shall not be subject to taxation under this Title as to their incomes derived from sources within the United States, if it is shown that the tax thereon has been paid in accordance with the laws of that country.

TITLE III - ESTATE, INHERITANCE AND GIFT TAXES

CHAPTER I - Estate and Inheritance Taxes

SEC. 85. Rates of estate tax. — There shall be levied, assessed, collected, and paid upon the transfer of the net estate of every decedent, whether a resident or non-resident of the Philippines, a tax equal to the sum of the following percentages of the value of the net estate determined as provided in sections 88 and 89:

One per centum of the amount by which the net estate exceeds three thousand pesos and does not exceed ten thousand pesos;

One and one-half per centum of the amount by which the net estate exceeds ten thousand pesos and does not exceed thirty thousand pesos;

Two per centum of the amount by which the net estate exceeds thirty thousand pesos and does not exceed fifty thousand pesos;

Two and one-half per centum of the amount by which the net estate exceeds fifty thousand pesos and does not exceed eighty thousand pesos;

Three per centum of the amount by which the net estate exceeds eighty thousand pesos and does not exceed one-hundred and ten thousand pesos;

Three and one-half per centum of the amount by which the net estate exceeds one hundred and ten thousand pesos and does not exceed one hundred and fifty thousand pesos;

Four per centum of the amount by which the net estate exceeds one hundred and fifty thousand pesos and does not exceed one hundred and ninety thousand pesos;

Four and one-half per centum of the amount by which the net estate exceeds one hundred and ninety thousand pesos and does not exceed two hundred and forty thousand pesos;

Five per centum of the amount by which the net estate exceeds two hundred and forty thousand pesos and does not exceed two hundred and ninety thousand pesos;

Five and one-half per centum of the amount by which the estate exceeds two hundred and ninety thousand pesos and does not exceed three hundred and fifty thousand pesos;

Six per centum of the amount by which the net estate exceeds three hundred and fifty thousand pesos and does not exceed four hundred and twenty thousand pesos;

Six and one-half per centum of the amount by which the net estate exceeds four hundred and twenty thousand pesos and does not exceed five hundred thousand pesos,

Seven per centum of the amount by which the net estate exceeds five hundred thousand pesos and does not exceed six hundred thousand pesos;

Seven and one-half per centum of the amount by which the net estate exceeds six hundred thousand pesos and does not exceed seven hundred and twenty thousand pesos;

Eight per centum of the amount by which the net estate exceeds seven hundred and twenty thousand pesos and does not exceed eight hundred and fifty thousand pesos;

Eight and one half per centum of the amount by which the net estate exceeds eight hundred pesos does not exceed one million pesos;

Nine per centum of the amount by which the net estate exceeds one million pesos and does not exceed one million two hundred thousand pesos;

Nine and one-half per centum of the amount by which the net estate exceeds one million two hundred thousand pesos and does not exceed one million five hundred thousand pesos; and

Ten per centum of the amount by which the net estate exceeds one million five hundred thousand pesos.

The corresponding estate tax pertaining to and payable by every child or grandchild shall be reduced by five per centum of the said tax.

SEC. 86. Rates of inheritance tax. — In addition to the estate tax imposed by section 85, there shall be levied, assessed, collected and paid an inheritance tax equal to the sum of the following percentages of the value of the individual share of each heir or beneficiary in the net estate, after deducting the amount of the estate tax, of every decedent, whether a resident or non-resident of the Philippines:

(a) When the surviving spouse, a legitimate, recognized natural, or adopted child, or legitimate descendant, or ascendant, or either of the adopting parents is the beneficiary, or the father or mother who had recognized him as natural child, and in every case where the beneficiary receives the property exclusively for educational or charitable purpose, there shall be collected upon the share which corresponds to each beneficiary in the inventoried property a tax according to the following schedule:

One per centum of the amount of the share not in excess of ten thousand pesos;

Two per centum of the amount by which the share exceeds ten thousand pesos and does not exceed thirty thousand pesos;

Three per centum of the amount by which the share exceeds thirty thousand pesos and does not exceed fifty thousand pesos;

Four per centum of the amount by which the share exceeds fifty thousand pesos and does not exceed eighty thousand pesos;

Five per centum of the amount by which the share exceeds eighty thousand pesos and does not exceed one hundred and ten thousand pesos;

Six per centum of the amount by which the share exceeds one hundred and ten thousand pesos and does not exceed one hundred and fifty thousand pesos;

Seven per centum of the amount by which the share exceeds one hundred and fifty thousand pesos and does not exceed one hundred and ninety thousand pesos;

Eight per centum of the amount by which the share exceeds one hundred and ninety thousand pesos and does not exceed two hundred and forty thousand pesos;

Nine per centum of the amount by which the share exceeds two hundred and forty thousand pesos and does not exceed two hundred and ninety thousand pesos;

Ten per centum of the amount by which the share exceeds two hundred and ninety thousand pesos and does not exceed three hundred and fifty thousand pesos;

Eleven per centum of the amount by which the share exceeds three hundred and fifty thousand pesos and does not exceed four hundred and twenty thousand pesos;

Twelve per centum of the amount by which the share exceeds four hundred and twenty thousand pesos and does not exceed five hundred thousand pesos;

Thirteen per centum of the amount by which the share exceeds five hundred thousand pesos and does not exceed six hundred thousand pesos;

Fourteen per centum of the amount by which the share exceeds six hundred thousand pesos and does not exceed seven hundred and twenty thousand pesos;

Fifteen per centum of the amount by which the share exceeds seven hundred and twenty thousand pesos and does not exceed eight hundred and fifty thousand pesos;

Sixteen per centum of the amount by which the share exceeds eight hundred and fifty thousand pesos and does not exceed one million pesos; and

Seventeen per centum of the amount by which the share exceeds one million pesos.

Where the property is received for educational or charitable purposes, it shall be the duty of the person or persons in charge thereof to submit from time to time a report of the administration and use of the property to the Collector of Internal Revenue and within twenty days after demand therefor has been made by the said Collector.

(b) When a brother or sister, who is a legitimate or acknowledged natural child or a common father or mother, or both, or the children of such brother or sister, or any descendant mentioned as such in the will and not included in the subsection (a) hereof is the beneficiary, there shall be collected the same tax fixed in said subsection with an increase of one hundred per centum.

(c) When other relatives within the sixth degree not included in the two next preceding subsections are beneficiaries, there shall be collected the same tax fixed in subsection (a) with an increase of two hundred per centum.

(d) When a relative by affinity within the same degree as those mentioned in subsection (a) and (b), with the exception of the surviving spouse, is the beneficiary, there shall be collected the same tax fixed in subsection (a) with an increase of three hundred per centum.

(c) When strangers are beneficiaries there shall be collected upon the share which corresponds to each beneficiary in the inventoried property a tax according to the following schedule:

Ten per centum of the amount of the share not in excess of ten thousand pesos;

Twenty per centum of the amount by which the share exceeds ten thousand pesos and does not exceed thirty thousand pesos;

Thirty per centum of the amount by which the share exceeds thirty thousand pesos and does not exceed fifty thousand pesos;

Thirty-five per centum of the amount by which the share exceeds fifty thousand pesos and does not exceed eighty thousand pesos;

Forty per centum of the amount by which the share exceeds eighty thousand pesos and does not exceed one hundred and ten thousand pesos;

Forty-five per centum of the amount by which the share exceeds one hundred and ten thousand pesos and does not exceed one hundred and fifty thousand pesos;

Fifty per centum of the amount by which the share exceeds one hundred and fifty thousand pesos and does not exceed one hundred and ninety thousand pesos;

Fifty-five per centum of the amount by which the share exceeds one hundred and ninety thousand pesos and does not exceed two hundred and forty thousand pesos;

Sixty per centum of the amount by which the share exceeds two hundred and forty thousand pesos and does not exceed two hundred and ninety thousand pesos;

Sixty-five per centum of the amount by which the share exceeds two hundred and ninety thousand pesos and does not exceed three hundred and fifty thousand pesos;

Sixty-eight per centum of the amount by which the share exceeds three hundred and fifty thousand pesos and does not exceed four hundred and twenty thousand pesos;

Seventy per centum of the amount by which the share exceeds four hundred and twenty thousand pesos and does not exceed five hundred thousand pesos;

Seventy-one per centum of the amount by which the share exceeds five hundred thousand pesos and does not exceed six hundred thousand pesos;

Seventy-two per centum of the amount by which the share exceeds six hundred thousand pesos and does not exceed seven hundred and twenty thousand pesos;

Seventy-three per centum of the amount by which the share exceeds seven hundred and twenty thousand pesos and does not exceed eight hundred and fifty thousand pesos;

Seventy-five per centum of the amount by which the share exceeds one million pesos.

For the purposes of this tax, strangers are deemed those relatives by consanguinity of the seventh or more remote degree in the collateral line, and all relatives by affinity with the exception of the spouse and those mentioned in subsection (d) of this section: Provided, however, That where the beneficiary is a domestic servant, or a trusted employee, there shall be collected on the first two thousand pesos and five thousand pesos, respectively, the tax fixed in subsection (a) of this section, and on the excess, the tax prescribed in this subsection. In cases of property which by the will of the testator should be divided among the poor, without the designation of any particular persons, or which should be disposed of for masses or other pious works, there shall be collected the tax at the rate fixed in this subsection upon the total amount of said property.

In case the property is transmitted to the heirs subject to the usufructuary interest, use, or habitation, or annuity of a third person, the tax shall be based on the value of the inventoried property less that of the usufruct, use or habitation, or annuity determined as hereinafter provided.

SEC. 87. Rule of taxation when beneficiaries belong, to different classes. — When diverse persons not included in the same class or group prescribed in section 86 are beneficiaries, each share shall be subject to the scale of taxation which corresponds to the persons taking.

Section 88. Gross estate. — The value of the gross estate of the decedent shall be determined by including the value

at the time of his death of all property, real or personal, tangible or intangible, wherever situated, except real property situated outside the Philippines —

(a) Decedent's interest. — To the extent of the interest therein of the decedent at the time of his death;

(b) Transfers in contemplation of death. — To the extent of any interest therein of which the decedent has at any time made a transfer, by trust or otherwise, in contemplation of or intended to take effect in possession or enjoyment at or after his death, or of which he has at any time made a transfer, by trust or otherwise, under which he has retained for his life or for any period not ascertainable without reference to his death or for any period which does not in fact end before his death (1) the possession or enjoyment of, or the right to the income from the property, or (2) the right, either alone or in conjunction with any person, to designate the persons who shall possess or enjoy the property or the income therefrom; except in case of a bona fide sale for an adequate and full consideration in money or money's worth. Any transfer of a material part of his property in the nature of a final disposition or distribution thereof, made by the decedent within three years prior to his death without such consideration, shall, unless shown to the contrary, be deemed to have been made in contemplation of death within the meaning of this Chapter.

(c) Revocable transfers. — (1) To the extent of any interest therein of which the decedent has at any time made a transfer (except in case of bona fide sale) for an adequate and full consideration in money or money's worth; by trust or otherwise, where the enjoyment thereof was subject at the date of his death to any change through the exercise of a power (in whatever capacity exercisable) by the decedent alone or by the decedent in conjunction with any other person (without regard to when or from what source the decedent acquired such power, to alter, amend, revoke, or terminate, or where any such power is relinquished in contemplation of the decedent's death.

(2) For the purposes of this subsection the power to alter, amend, or revoke shall be considered to exist on the date of the decedent's death even though the exercise of the power is subject to a precedent giving of notice or even though the alteration, amendment, or revocation takes effect only on the expiration of a stated period after the exercise of the power, whether or not on or before the date of the decedent's death notice has been given or the power has been exercised. In such cases proper adjustment shall be made representing the interests which would have been excluded from the power if the decedent had lived, and for such purpose if the notice has not been given or the power has not been exercised on or before the date of his death, such notice shall be considered to have been given, or the power exercised, on the date of his death.

(3) The relinquishment of any such power, not admitted or shown to have been in contemplation of the decedent's death, made within three years prior to his death without such consideration and affecting the interest or interests (whether arising from one or more transfers or the creation of one or more trusts) of any one beneficiary mentioned in subsection (a) of section 86, of a value or aggregate value, at the time of such death, in excess of two thousand pesos, then, to the extent of such excess, such relinquishment or relinquishments shall, unless shown to the contrary, be deemed to have been made in contemplation of death within the meaning of this Chapter.

(d) Property passing under general power of appointment. — To the extent of any property passing under a general power of appointment exercised by the decedent (1) by will, or (2) by deed executed in contemplation of or intended to take effect in possession or enjoyment at or after his death, or (3) by deed under which he has retained for his life or any period not ascertainable without reference to his death or for any period which does not in fact end before his death (a) the possession or enjoyment of, or the right to the income from. the property, or (b) the right, either alone or in conjunction with any person, to designate the persons who shall possess or enjoy the property or the income therefrom; except in case of a bona fide sale for an adequate and full consideration in money or money's worth.

(e) Proceeds of life insurance. — To the extent of the amount receivable by the estate of the deceased, his executor, or administrator as insurance under policies taken out by the decedent upon his own life, irrespective of whether or not the insured retained the power of revocation, or to the extent of the amount receivable by any beneficiary designated in the policy of insurance where the insured reserved to himself the power to change or revoke the name of the beneficiary during his lifetime, whether or not he has, during his lifetime, exercised such power of revocation.

(f) Prior interests. — Except as otherwise specifically provided therein, subsections (b), (c), and (e) of this section shall apply to the transfers, trusts, estates, interests, rights, powers, and relinquishment of powers, as severally enumerated and described therein, whether made, created, arising, existing, exercised, or relinquished before or after the enactment of this Code.

(g) Transfer for insufficient consideration. — If any one of the transfers, trusts, interests, rights, or powers, enumerated and described in subsections (b), (c) and (d) of this section is made, created, exercised, or relinquished for a consideration in money or money's worth, but is not a bona fide sale for an adequate and full consideration in money or money's worth, there shall be included in the gross estate only the excess of the fair market value, at the time of death, of the property otherwise to be included on account of such transaction over the value of the consideration received therefor by the decedent.

(h) Capital of the surviving spouse. — The capital of the surviving spouse of a decedent shall not, for the purpose of this Chapter, be deemed a part of his or her gross estate.

SEC. 89. Net estate. — For the purpose of the taxes imposed in this Chapter the value of the net estate shall be determined:

(a) In the case of a citizen or resident of the Philippines, by deducting from the value of the gross estate —

(1) Expenses, losses, indebtedness, and taxes. — Such amounts —

(A) For funeral expenses which shall, in no case, exceed five per centum of the gross estate;

(B) For judicial expenses of the testamentary or intestate proceedings;

(C) For claims against the estate;

(D) For claims of the deceased against insolvent persons where the value of decedent's interest therein is included in the value of the gross estate; and

(E) For unpaid mortgages upon, or any decedent's interest therein, undiminished by such mortgage or indebtedness, is included in the value of the gross estate, but not including any income taxes upon income received after the death of the decedent, or property taxes not accrued before his death, or any estate or inheritance taxes. The deduction herein allowed in the case of claims against the estate, unpaid mortgages, or any indebtedness shall, when founded upon a promise or agreement, be limited to the extent that they were contracted bona fide and for an adequate and full consideration in money or money's worth. There shall also be deducted losses incurred during the settlement of the estate arising from fires, storms, shipwreck, or other casualties, or from robbery, theft, or embezzlement, when such losses are not compensated for by insurance or otherwise, and if at the time of the filing of the return such losses have not been claimed as a deduction from income tax purposes in an income tax return.

(2) Property previously taxed. — An amount equal to the value specified below of any property forming a part of the gross estate situated in the Philippines of any person who died within five years prior to the death of the decedent, or transferred to the decedent by gift within five years prior to his death, where such property can be

identified as having been received by the decedent from the donor by gift, or from such prior decedent by gift, bequest, devise or inheritance, or which can be identified as having been acquired in exchange for property so received:

One hundred per centum of the value if the prior decedent died within one year prior to the death of the decedent, or if the property was transferred to him by gift within the same period prior to his death;

Eighty per centum of the value if the prior decedent died more than one year but not more than two years prior to the death of the decedent, or if the property was transferred to him by gift within the same period to his death;

Sixty per centum of the value if the prior decedent died more than two years but not more than three years prior to the death of the decedent, or if the property was transferred to him by gift within the same period prior to his death;

Forty per centum of the value if the prior decedent died more than three years but not more than four years prior to the death of the decedent, or if the property was transferred to him by gift within the same period prior to his death; and

Twenty per centum of the value if the prior decedent died more than four years but not more than five years prior to the death of the decedent, or if the property was transferred to him by gift within the same period prior to his death.

These deductions shall be allowed only where a gift tax, or estate and inheritance taxes imposed under this Title were finally determined and paid by or on behalf of such donor, or the estate of such prior decedent, as the case may be, and only in the amount finally determined as the value of such property in determining the value of the gift, or the gross estate of such prior decedent, and only to the extent that the value of such property is included in the decedent's gross estate, and only if in determining the value of the net estate of the prior decedent no deduction was allowable under paragraph (2) in respect of the property or property given in exchange therefor. Where a deduction was allowed of any mortgage or other lien in determining the gift tax, or the estate and inheritance taxes of the prior decedent, which were paid in whole or in part prior to the decedent's death then the deduction allowable under said paragraph shall be reduced by the amounts so paid. Such deduction allowable shall be reduced by an amount which bears the same ratio to the amounts allowed as deductions under paragraphs (1), (3), and (4) of this subsection as the amount otherwise deductible under said paragraph (2) bears to the value of the decedent's gross estate. Where the property referred to consists of two or more items the aggregate value of such items shall be used for the purpose of computing the deduction.

(3) Transfers for public purposes. — The amount of all bequests, legacies, devises, or transfers, to or for the use of the Government of the Philippines, or any political subdivision thereof, for exclusively public purposes. If the taxes imposed by sections 85 and 86 of this Chapter, or any estate, succession, legacy or inheritance taxes are either by the terms of the will, by the law of the jurisdiction under which the estate is administered, or by the law of the jurisdiction imposing the particular tax, payable in whole or in part out of the bequests, legacies, or devises otherwise deductible under this paragraph, then the amount deductible shall be the amount of such bequests, legacies, or devises, reduced by the amount of such taxes the amount of the deduction under this paragraph for any transfer shall not exceed the value of the transferred property required to be included in the gross estate.

(4) Transfers to the surviving spouse and children. — The amount of all bequests, legacies, devises, or transfers to the surviving spouse and the legitimate or recognized natural or adopted children not exceeding three thousand pesos each.

(b) Deductions allowed to non-resident estates. — In the case of non-resident not a citizen of the Philippines, by

deducting from the value of that part of his gross estate which at the time of his death is situated in the Philippines —

(1) Expenses, losses, indebtedness, and taxes. — That proportion of the deductions specified in paragraph (1) of subsection (a) of this section which the value of such part bears to the value of his entire gross estate wherever situated;

(2) Property previously taxed. — An amount equal to the value specified below of any property forming a part of the gross estate situated in the Philippines of any person who died within five years prior to the death of the decedent, or transferred to the decedent by gift within five years prior to his death, where such property can be identified as having been received by the decedent from the donor by gift, or from such prior decedent by gift, bequest, devise, or inheritance, or which can be identified as having been acquired in exchange for property so received:

One hundred per centum of the value if the prior decedent died within one year prior to the death of the decedent, or if the property was transferred to him by gift within the same period prior to his death;

Eighty per centum of the value if the prior decedent died more than one year but not more than two years prior to the death of the decedent, or if the property was transferred to him by gift within the same period prior to his death;

Sixty per centum of the value if the prior decedent died more than two years but not more than three years prior to the death of the decedent, or if the property was transferred to him by gift within the same period prior his death;

Forty per centum of the value if the prior decedent died more than three years but not more than four years prior to the death of the decedent, or if the property was transferred to him by gift within the same period prior to his death; and

Twenty per centum of the value if the prior decedent died more than four years but not more than five years prior to death of the decedent, or if the property was transferred to him by gift within the same period prior to his death.

These deductions shall be allowed only where a gift tax, or estate and inheritance taxes imposed under this Title were finally determined and paid by or on behalf of such donor, or the estate of such prior decedent, as the case may be, and only in the amount finally determined as the value of such property in determining the value of the gift, or the gross estate of such prior decedent, and only to the extent that the value of such property is included in that part of the decedent's gross estate which at the time of his death is situated in the Philippines, and only if in determining the value of the net estate of the prior decedent no deduction was allowable under paragraph (2) of subsection (b) of this section in respect of the property or properties given in exchange therefor. Where a deduction was allowed of any mortgage or other lien in determining the gift tax, or the estate and inheritance taxes of the prior decedent, which were paid in whole or in part prior to the decedent's death, then the deduction allowable under said paragraph shall be reduced by the amounts so paid. Such deduction allowable shall be reduced by an amount which bears the same ratio to the amounts allowed as deductions under paragraphs (1) and (3) of this subsection as the amount otherwise deductible under paragraph (2) bears to the value of that part of the decedent's gross estate which at the time of his death is situated in the Philippines. Where the property referred to consists of two or more items the aggregate value of such terms shall be used for the purpose of computing the deduction.

(3) Transfer for public use. — The amount of all bequests, legacies, devises, or transfers to or for the use of the Government of the Philippines, or any political subdivision thereof for exclusively public purposes. If the taxes imposed by sections 85 and 86 of this Chapter, or any estate, succession, legacy, or inheritance taxes are, either by

the terms of the will, by the law of the jurisdiction under which the estate is administered, or by the law of the jurisdiction imposing the particular tax, payable in whole or in part out of the bequests, legacies, or devises, otherwise deductible under this paragraph, then the amount deductible shall be the amount of such bequests, legacies, or devises reduced by the amount of such taxes. The amount of the deduction for any transfer shall not exceed the value of the transferred property required to be included in the gross estate.

(c) Share in the conjugal property. — The net share of the surviving spouse in the conjugal partnership property as diminished by the obligations properly chargeable to such property shall, for the purpose of this section, be deducted from the net estate of the decedent.

(d) Miscellaneous provisions. — (1) No deductions shall be allowed in the case of a non-resident not a citizen of the Philippines unless the executor, administrator or anyone of the heirs, as the case may be, includes in the return required to be filed under section 93 the value at the time of his death of that part of the gross estate of the non-resident not situated in the Philippines.

(2) For the purpose of this Chapter, stock in a domestic corporation owned and held by a non-resident not a citizen of the Philippines shall be deemed property within the Philippines, and any property of which the decedent has made a transfer by trust or otherwise, within the meaning of subsection (b) or (c) of section 83 of this Chapter, shall be deemed to be situated in the Philippines if so situated either at the time of the transfer or at the time of the decedent's death.

SEC. 90. Exemption of certain acquisitions and transmissions. — The following shall not be taxed:

(a) The merger of usufruct in the owner of the naked title.

(b) The transmission or delivery of the inheritance or legacy by the fiduciary heir or legatee to the fideicommissary.

(c) The transmission from the first heir, legatee, or donee in favor of another beneficiary, in accordance with the desire of the predecessor.

In the last two cases, if the scale of taxation appropriate to the new beneficiary is greater than that paid by the first, the former must pay the difference.

SEC. 91. Determination of value of usufructs, annuities, and other property. — In order to determine the value of the right of usufruct, use or habitation, as well as that of annuity, there shall be taken into account the probable life of the beneficiary in accordance with the American Tropical Experience Table, calculated at eight per centum annual interest.

The estate shall be appraised at its fair market value as of the time of death, or as of six months thereafter, at the election of the executor or administrator in the case of the estate tax or the heirs in the case of inheritance tax. However, for the purpose of determining the value of real property, the assessed value as of the time of death, or, at the election of the executor, administrator or the heirs, as of six months after death, as shown by the tax rolls shall be considered as the fair market value, unless the contrary is shown.

In order to determine the tax which should be paid by the beneficiary of a legacy of education referred to in article 879 of the Civil Code, when the legacy consists of profits, interests, or dividends derived from any property, the legatee should be considered as a usufructuary until he becomes of legal age.

In case a legacy of usufruct is made in favor of a juridical person, the legatee shall pay seventy-five per centum of the tax and the remaining twenty-five per centum shall be paid by the owner of the naked title of the property.

SEC. 92. Notice of death to be filed. — In all cases of inheritance or transfer subject to tax, or where, though exempt from tax, the gross value of the estate exceeds three thousand pesos, the executor, administrator, or the heirs, as the case may be, within two months after the decedent's death, or within a like period after qualifying as such executor or administrator, shall give a written notice thereof to the Collector of Internal Revenue.

SEC. 93. Returns.

(a) Requirements. — In all cases of inheritance or transfers subject to either the estate tax or the inheritance tax, or both, or where, though exempt from both taxes, the gross value of the estate exceeds three thousand pesos, the executor, administrator, or anyone of the heirs, as the case may be, shall file a return under oath in duplicate, setting forth (1) the value of the gross estate of the decedent at the time of his death, or, in case of a non-resident not a citizen of the Philippines, of that part of his gross estate situated in the Philippines; (2) the deductions allowed from gross estate in determining net estate as defined in section 89; (3) such part of such information as may at the time be ascertainable and such supplemental data as may be necessary to establish the correct taxes.

(b) Time for filing. — For the purpose of determining both the estate and inheritance taxes provided for in sections 85 and 86 of this Chapter, the return required under the preceding subsection (a) shall be filed within six months after the decedent's death; but if judicial testamentary or intestate proceedings shall be instituted for the settlement of the decedent's state prior to the expiration of said period, the return must be filed within twelve months after the decedent's death.

A certified copy of the schedule of partition and the order of the court approving the same shall be furnished the Collector of Internal Revenue by the clerk of court within thirty days after the promulgation of such order.

(c) Extension of time. — The Collector of Internal Revenue shall have authority to grant, in meritorious cases, a reasonable extension not exceeding thirty days for filing the return.

(d) Place for filing. — The return required under subsection (a) shall be filed with the Collector of Internal Revenue, provincial revenue agent, or with the treasurer of the province, city, or municipality in which the decedent was domiciled at the time of his death.

SEC. 94. Where no return, or a false or fraudulent return filed. — In case the executor, administrator, or any heir fails to file a return at the time prescribed above, or makes, willfully or otherwise, a false or fraudulent return, the Collector of Internal Revenue shall make the return from his own knowledge and from such information as he can obtain through testimony or otherwise. In any such case, the Collector of Internal Revenue may make a return or amend any return and any return so made shall be prima facie good and sufficient for all legal purposes.

SEC. 95. Payment of tax.

(a) Time of payment.

(1) General rule. — The estate and inheritance taxes imposed by sections 85 and 86 shall be due and payable within nine months and twelve months, respectively, after the decedent's death and shall be paid by the executor, administrator, or the heirs, as the case may be, to the Collector of Internal Revenue or to the treasurer of the province, city, or municipality in which the decedent was domiciled at the time of his death.

(2) Exception. — In case judicial testamentary or intestate proceedings shall be instituted for the settlement of the decedent's estate prior to the expiration of six months after his death, the estate and inheritance taxes shall be due and payable within twenty-one months and twenty-four months, respectively, after the decedent's death.

(b) Extension of time. — When the Collector of Internal Revenue finds that the payment on the due date of the estate or inheritance taxes or of any part of the said amounts would impose undue hardship upon the estate or any

of the heirs, he may extend the time for payment of such taxes or any part thereof not to exceed five years in case the estate is settled through the court or two years in case the estate is settled extra-judicially. In such case the amount in respect of which the extension is granted shall be paid on or before the date of the expiration of the period of the extension, and the running of the statute or limitations for assessment as provided in section 331 of this Code shall be suspended for the period of any such extension.

Where the taxes are assessed by reason of negligence, intentional disregard of rules and regulations, or fraud on the part of the taxpayer, no extension will be granted by the Collector.

If an extension is granted, the Collector of Internal Revenue may require the executor, or administrator, or the beneficiary, as the case may be, to furnish a bond in such amount, not exceeding double the amount of the taxes and with such sureties as the Collector deems necessary, conditioned upon the payment of the said taxes in accordance with the terms of the extension.

(c) Liability for payment. — The estate tax imposed by section 85 shall be paid by the executor or administrator before delivering to any beneficiary his distributive share of the estate. For the purpose of this Chapter, the term "executor" or "administrator" means the executor or administrator of the decedent, or, if there is no executor or administrator appointed, qualified, and acting within the Philippines, then any person in actual or constructive possession of any property of the decedent.

The inheritance tax imposed by section 86 shall, in the absence of contrary disposition by the predecessor, be charged to the account of each beneficiary, in proportion to the value of the benefit received, and in accordance with the scale fixed for the class or group to which he pertains: Provided, That in cases where the heirs divide extra-judicially the property left to them by their predecessor or otherwise convey, sell, transfer, mortgage, or encumber the same without paying the estate or inheritance taxes within the period prescribed in the preceding subsections (a) and (b), they shall be solidarily liable for the payment of the said taxes to the extent of the estate they have received.

SEC. 96. Examination of return and determination of tax. —As soon as practicable, after the return is filed the Collector of Internal Revenue shall examine it and shall determine the correct amount of the taxes due thereon.

SEC. 97. Discharge of executor or administrator from personal liability. — If the executor or administrator makes written application to the Collector of Internal Revenue for determination of the amount of the estate tax and discharge from personal liability therefor, the Collector of Internal Revenue, as soon as possible, and in any event within one year after the making of such application, or, if the application is made before the return is filed, then within one year after the return is filed, but not after the expiration of the period prescribed for the assessment of the tax in section 331, shall notify the executor or administrator of the amount of the tax. The executor or administrator, upon payment of the amount of which he is notified, shall be discharged from personal liability for any deficiency in the tax thereafter found to be due and shall be entitled to a receipt or writing showing such discharge.

SEC. 98. Definition of deficiency. — As used in this Chapter, the term "deficiency" means:

(a) The amount by which the taxes imposed by this Chapter exceed the amount shown as the taxes by the executor, administrator or any of the heirs 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 amounts previously abated, refunded, or otherwise repaid in respect of such taxes; or

(b) If no amount is shown as the taxes by the executor, administrator or any of the heirs upon his return or if no return is made by the executor, administrator, or any heir, then the amount by which the taxes exceed 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, refunded, or otherwise repaid in respect of such taxes.

SEC. 99. Interest on extended payment. — (a) Tax shown on the return. — If the time for the payment of either the estate tax or the inheritance tax or any part thereof is extended as provided in subsection (b) of section 95, there shall be collected, as a part of such amount, interest thereon at the rate of six per centum per annum from the day following the due date of the taxes to the expiration of the period of the extension.

(b) Deficiency. — In case an extension for the payment of a deficiency is granted, there shall be collected, as a part of the tax, interest on the part of the deficiency the time for the payment of which is so extended, at the rate of six per centum per annum for the period of the extension.

SEC. 100. Interest on deficiency. — Interest upon the amount determined as a deficiency shall be assessed at the same time as deficiency, shall be paid upon notice and demand from the Collector of Internal Revenue, and shall be collected as a part of the tax, at the rate of six per centum per annum from the due date of the tax to the date the deficiency is assessed.

SEC. 101. Additions to the tax in case of non-payment. — (a) Tax shown on the return.

(1) Payment not extended.-Where the amount of the taxes imposed by this Chapter, or any part of such amount is not paid on the due date of the taxes, there shall be collected as a part of the taxes, interest upon such unpaid amount at the rate of one per centum a month from the due date until it is paid.

(2) Payment extended.-Where an extension of time for payment of the amount of the taxes has been granted, and the amount, the time for the payment of which has been extended, and the interest thereon determined under subsection (a) of section 99, is not paid in full prior to the expiration of the period of the extension, interest at the rate of one per centum a month shall be collected on such unpaid amount from the date when the same was originally due until it is paid.

(b) Deficiency.

(1) Payment not extended. — Where a deficiency, or any interest assessed in connection therewith under section 100, or any addition to the taxes provided for in section 102 is not paid in full within thirty days from the date of the notice and demand from the Collector, there shall be collected as part of the taxes, interest upon the unpaid amount at the rate of one per centum a month from the date of such notice and demand until it is paid.

(2) Payment extended. — If the part of the deficiency the time for payment of which is extended is not paid in accordance with the terms of the extension, there shall be collected, as a part of the taxes, interest on such unpaid amount at the rate of one per centum a month from the date the same was originally due until it is paid.

(c) Surcharge. — If any amount of the taxes included in the notice and demand from the Collector of Internal Revenue is not paid in full within thirty days after such notice and demand, there shall be collected in addition to the interest prescribed herein and in sections 99 and 100 and as part of the taxes a surcharge of five per centum of the unpaid amount.

SEC. 102. Ad valorem penalties. — In case of any failure to make and file a return within the time prescribed by law or by the Collector of Internal Revenue, the Collector shall add to the tax twenty-five per centum of its amount, except that, when a return is voluntarily and without notice from the Collector filed after such time, and it is shown that the failure to file it was due to a reasonable cause, no such addition shall be made to the tax. In case a false or fraudulent return is made, the Collector of Internal Revenue shall add to the tax or to the deficiency tax,

in case any payment has been made on the basis of such return before the discovery of the falsity or fraud, a surcharge of fifty per centum of its amount. The amount so added to any tax shall be collected at the same time and in the same manner and as part of the tax unless the tax has been paid before the discovery of the neglect, falsity, or fraud, in which case the amount so added shall be collected in the same manner as the tax.

SEC. 103. Payment before delivery by executor or administrator. — No judge shall authorize the executor or judicial administrator to deliver a distributive share to any party interested in the estate unless it shall appear that the estate tax has been paid.

SEC. 104. Duties of certain officers and debtors. — Registers of deeds shall not register in the registry of property any document transferring real property or real rights therein or any chattel mortgage, by way of gifts inter vivos or mortis causa, legacy or inheritance, unless the payment of the taxes fixed in this Title and actually due thereon shall be shown. And they shall immediately notify the Collector of Internal Revenue or the corresponding provincial or city treasurer of the non-payment of the tax discovered by them. Any lawyer, notary public, or any Government officer who, by reason of his official duties, intervenes in the preparation or acknowledgment of documents regarding partition or disposal of donation inter vivos or mortis causa, legacy or inheritance, shall have the duty of furnishing the Collector of Internal Revenue or the provincial or city treasurer of the place where he may have his principal office, with copies of such documents and any information whatsoever which may facilitate the collection of the aforementioned tax. Neither shall a debtor of a deceased pay his debts to the heirs, legatees, executor, or administrator of his creditor, unless the payment of the tax fixed in this Chapter shall be shown; but he may pay the executor or judicial administrator without said requirement if the credit is included in the inventory of the estate of the deceased.

SEC. 105. Restitution of tax upon satisfaction of outstanding obligations. — If, after the payment of the taxes, new obligations of the testator shall appear, and the persons interested shall have satisfied them by order of the court, they shall have a right to the restitution of the proportional parts of the taxes paid.

SEC. 106. Payment of tax antecedent to the transfer of shares, bonds, or rights. — There shall not be transferred to any new owner in the books of any corporation, sociedad anonima, partnership, business, or industry organized or established in the Philippines, any shares, obligations, bonds, or rights by way of gift inter vivos or mortis causa, legacy, or inheritance unless it is shown that the taxes fixed in this Title and due thereon have been paid.

SEC. 107. Specific penalties. — (a) Any person required under this Chapter or regulations made under authority thereof to pay the tax, make a return, keep any records, or supply any information, for the purposes of the computation, assessment, or collection of any tax imposed by this Chapter, who fails to pay such tax, make such return, keep such records, or supply such information, at the time or times required by this Chapter or regulations, shall, in addition to other penalties provided herein, be fined not more than two thousand pesos or imprisoned for not more than six months, or both.

(b) Any person required under this Chapter to make, render, sign, or verify any return, or to supply any information, who makes any false or fraudulent return or statement with intent to defeat or evade the assessment required by this Chapter to be made, in addition to other penalties provided herein, be fined not more than four thousand pesos or imprisoned for not more than one year, or both.

(c) Any executor or administrator who shall deliver or distribute to an heir, legatee, devisee, donee, or beneficiary any real or personal property, credit, right, or franchise, and any officer, manager or employee of any corporation, firm or association, sociedad anonima, partnership, business or industry who transfers in its books to any new owner any share, obligation, bond, or right, pertaining to an estate or inheritance subject to the taxes imposed in this Chapter without their payment being shown, shall be fined not more than five thousand pesos or imprisoned

for not more than one year, or both.

(d) Any administrator, executor, donee, legatee, or heir who conceals any goods, rights, credits, or transfers subject to the taxes imposed in this Chapter shall be punished by a fine of not less than twenty-five per centum of the value of that which he may have concealed, not more than said value, or by imprisonment for not more than one year, or both.

CHAPTER II - Gift Tax

SEC. 108. Imposition of tax. — (a) There shall be levied, assessed, collected, and paid upon the transfer by any individual, resident or non-resident, of property by gift, a tax, computed as provided in section 109.

(b) The tax shall apply whether the transfer is in trust or otherwise, whether the gift is direct or indirect, and whether the property is real or personal, tangible or intangible.

SEC. 109. Rates of tax payable by donor. — The tax for each calendar year shall be an amount equal to the excess of a tax, computed in accordance with the rate schedule hereinafter set forth, on the aggregate sum of the net gifts for such calendar year and for each of the preceding calendar years, over a tax, computed in accordance with the rate schedule, on the aggregate sum of the net gifts for each of the preceding calendar years.

Rate Schedule

Three-fourths of one per centum of the amount by which the net gifts exceed three thousand pesos and do not exceed ten thousand pesos;

One and one-fourth per centum of the amount by which the net gifts exceed ten thousand pesos and do not exceed thirty thousand pesos;

One and one-half per centum of the amount by which the net gifts exceed thirty thousand pesos and do not exceed fifty thousand pesos;

One and seven-eighths per centum of the amount by which the net gifts exceed fifty thousand and do not exceed eighty thousand pesos;

Two and one-fourth per centum of the amount by which the net gifts exceed eighty thousand pesos and do not exceed one hundred and ten thousand pesos;

Two and five-eighths per centum of the amount by which the net gifts exceed one hundred and ten thousand pesos and do not exceed one hundred and fifty thousand pesos;

Three per centum of the amount by which the net gifts exceed one hundred and fifty thousand pesos and do not exceed one hundred and ninety thousand pesos;

Three and three eighths per centum of the amount by which the net gifts exceed one hundred and ninety thousand pesos and do not exceed two hundred and forty thousand pesos;

Three and three-fourths per centum of the amount by which the net gifts exceed two hundred and fifty thousand pesos and do not exceed two hundred and ninety thousand pesos;

Four and one-eighth per centum of the amount by which the net gifts exceed two hundred and ninety thousand pesos and do not exceed three hundred and fifty thousand pesos;

Four and one-half per centum of the amount by which the net gifts exceed three hundred and fifty thousand pesos and do not exceed four hundred and twenty thousand pesos;

Four and seven-eighths per centum of the amount by which the net gifts exceed four hundred and twenty thousand

pesos and do not exceed five hundred thousand pesos;

Five and one-fourth per centum of the amount by which the net gifts exceed five hundred thousand pesos and do not exceed six hundred thousand pesos;

Five and five-eighths per centum of the amount by which the net gifts exceed six hundred thousand pesos and do not exceed seven hundred and twenty thousand pesos;

Six per centum of the amount by which the net gifts exceed seven hundred and twenty thousand pesos and do not exceed eight hundred and fifty thousand pesos;

Six and three-eighths per centum of the amount by which the net gifts exceed eight hundred and fifty thousand pesos and do not exceed one million pesos;

Six and three-fourths per centum of the amount by which the net gifts exceed one million pesos and do not exceed one million and two hundred thousand pesos;

Seven and one-eight per centum of the amount by which the net gifts exceed one million and two hundred thousand pesos and do not exceed one million and five hundred thousand pesos; and

Seven and one-half per centum of the amount by which the net gifts exceed one million and five hundred thousand pesos.

Section 110. Rates of tax payable by donee. — In addition to the gift tax imposed under the preceding section, there shall be levied a tax in the amount equal to the excess of a tax, computed in accordance with the rate schedule hereinafter set forth, on the aggregate sum of the net gifts received by each donee for such calendar year and for each of the preceding calendar years, over a tax, computed in accordance with the rate schedule, on the aggregate sum of the net gifts for each of the preceding years received by each donee.

Rate Schedule

(a) When the donee or beneficiary is a spouse, a legitimate, recognized natural or adopted child, or a legitimate descendant or ascendant, or either of the adopting parents of the donor, or the father or mother who had recognized such donor as a natural child, and in every case where the donee receives the property exclusively for educational or charitable purposes, there shall be collected from the donee upon the gifts received by him a tax equal to the sum of the following:

Three-fourths of one per centum upon the first ten thousand pesos;

One and one-half per centum of the amount by which the net gifts exceed ten thousand pesos and do not exceed thirty thousand pesos;

Two and one-fourth per centum of the amount by which the net gifts exceed thirty thousand pesos and do not exceed fifty thousand pesos;

Three per centum of the amount by which the net gifts exceed fifty thousand pesos and do not exceed eighty thousand pesos;

Three and three-fourths per centum of the amount by which the net gifts exceed eighty thousand pesos and do not exceed one hundred and ten thousand pesos;

Four and one-half per centum of the amount by which the net gifts exceed one hundred and ten thousand pesos and do not exceed one hundred and fifty thousand pesos;

Five and one-fourth per centum of the amount by which the net gifts exceed one hundred and fifty thousand pesos

and do not exceed one hundred and ninety thousand pesos;

Six per centum of the amount by which the net gifts exceed one hundred and ninety thousand pesos and do not exceed two hundred and forty thousand pesos;

Six and three-fourths per centum of the amount by which the net gifts exceed two hundred and forty thousand pesos and do not exceed two hundred and ninety thousand pesos;

Seven and one-half per centum of the amount by which the net gifts exceed two hundred and ninety thousand pesos and do not exceed three hundred and fifty thousand pesos;

Eight and one-fourth per centum of the amount by which the net gifts exceed three hundred and fifty thousand pesos and do not exceed four hundred and twenty thousand pesos;

Nine per centum of the amount by which the net gifts exceed four hundred and twenty thousand pesos and do not exceed five hundred thousand pesos;

Nine and three-fourths per centum of the amount by which the net gifts exceed five hundred thousand pesos and do not exceed six hundred thousand pesos;

Ten and one-half per centum of the amount by which the net gifts exceed six hundred thousand pesos and do not exceed seven hundred and twenty thousand pesos;

Eleven and one-fourth per centum of the amount by which the net gifts exceed seven hundred and twenty thousand pesos and do not exceed eight hundred and fifty thousand pesos;

Twelve per centum of the amount by which the net gifts exceed eight hundred and fifty thousand pesos and do not exceed one million pesos; and

Twelve and three-fourths per centum of the amount by which the net gifts exceed one million pesos.

Where the property is received for educational or charitable purposes, it shall be the duty of the person or persons in charge thereof to submit from time to time a report of the administration and use of the property to the Collector of Internal Revenue and within twenty days after demand therefor has been made by the said Collector.

(b) When the donee or beneficiary is a brother or sister who is a legitimate or acknowledged natural child of a common father or mother, or both, of the donor, or the children of such brother or sister, or any descendant mentioned as such in the deed and not included in subsection (a) hereof, there shall be collected the same tax fixed in said subsection with an increase of one hundred per centum.

(c) When the donee or beneficiary is a relative within the sixth degree and not included in subsection (a) and (b), there shall be collected the same tax fixed in subsection (a) with an increase of two hundred per centum.

(d) When the donee or beneficiary is a relative by affinity within the same degree as those mentioned in subsections (a) and (b), with the exception of the spouse, there shall be collected the same tax fixed in subsection (a) with an increase of three hundred per centum.

(e) When the donee or beneficiary is a stranger, there shall be collected from the donee upon the net gifts received by him a tax equal to the sum of the following: Seven and one-half per centum upon the first ten thousand pesos;

Fifteen per centum of the amount by which the net gifts exceed ten thousand pesos and do not exceed thirty thousand pesos;

Twenty-two and one-half per centum of the amount by which the net gifts exceed thirty thousand pesos and do

not exceed fifty thousand pesos;

Twenty-six and one-fourth per centum of the amount by which the net gifts exceed fifty thousand pesos and do not exceed eighty thousand pesos;

Thirty per centum of the amount by which the net gifts exceed eighty thousand pesos and do not exceed one hundred and ten thousand pesos;

Thirty-three and three-fourths per centum of the amount by which the net gifts exceed one hundred and ten thousand pesos and do not exceed one hundred and fifty thousand pesos;

Thirty-seven and one-half per centum of the amount by which the net gifts exceed one hundred and fifty thousand pesos;

Forty-one and one-fourth per centum of the amount by which the net gifts exceed one hundred and ninety thousand pesos and do not exceed two hundred and forty thousand pesos;

Forty-five per centum of the amount by which the net gifts exceed two hundred and forty thousand pesos and do not exceed two hundred and ninety thousand pesos;

Forty-eight and three-fourths per centum of the amount by which the net gifts exceed two hundred and ninety thousand pesos and do not exceed three hundred and fifty thousand pesos;

Fifty-one per centum of the amount by which the net gifts exceed three hundred and fifty thousand pesos and do not exceed four hundred and twenty thousand pesos;

Fifty-two and one-half per centum of the amount by which the net gifts exceed four hundred and twenty thousand pesos and do not exceed five hundred thousand pesos;

Fifty three and one-fourth per centum of the amount by which the net gifts exceed five hundred thousand pesos do not exceed six hundred thousand pesos;

Fifty-four per centum of the amount by which the net gifts exceed six hundred thousand pesos and do not exceed seven hundred and twenty thousand pesos;

Fifty-four and three-fourths per centum of the amount by which the net gifts exceed seven hundred and twenty thousand pesos and do not exceed eight hundred and fifty thousand pesos;

Fifty-five and one-half per centum of the amount by which the net gifts exceed eight hundred and fifty thousand pesos and do not exceed one million pesos; and

Fifty-six and one-fourth per centum of the amount by which the net gifts exceed one million pesos.

For the purpose of this tax, strangers are deemed those relatives by consanguinity of the seventh or more remote degree in the collateral line, and all relatives by affinity not included in subsection (a) and (d): Provided, however, That where the beneficiary is a domestic servant or a trusted employee, there shall be collected on the first two thousand pesos and five thousand pesos, respectively, the tax fixed in subsection (a) of this section and, on the excess, the tax prescribed in this subsection. In cases of property which by the desire of the donor should be divided among the poor, without the designation of any particular person or which should be disposed of for masses or other pious works, there shall be collected from the donee the tax at the rate fixed in this subsection upon the total aggregate amount of such gifts.

In case the property donated is subject to the usufructuary interest, use or habitation or annuity of a third person, the tax shall be based on the value of the net gifts less that of the usufruct, use or habitation or annuity determined

in accordance with the provisions of section 91.

SEC. 111. Transfer for less than adequate and full consideration. — Where property is transferred for less than an adequate and full consideration in money or money's worth, then the amount by which the 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.

SEC. 112. Exemption of certain gifts. — The following gifts or donations shall be exempt from the tax provided for in this Chapter:

(a) In the case of gifts made by a resident:

(1) Gifts made in favor of the spouse and the legitimate, recognized natural, or adopted children where the aggregate value of such gifts in any one year to any one donee does not exceed two thousand pesos.

(2) Dowries or gifts made on account of marriage and before its celebration or within one year thereafter by the parents to each of their legitimate, recognized natural, or adopted children to the extent of the first ten thousand pesos.

(3) Gifts made in favor of persons other than the spouse and the legitimate, recognized natural, or adopted children to the extent of the first one thousand pesos a year, or five per centum of the net income of the donor during the preceding year, whichever is the greater, but in no case shall the amount of exemption allowed under this paragraph exceed five thousand pesos.

(4) Gifts made to or for the use of the National Government or any entity created by any of its agencies which is not conducted for profit, or to any political subdivision of the said Government.

(b) In the case of gifts made by a non-resident not a citizen of the Philippines:

Gifts made to or for the use of the National Government or any entity created by any of its agencies which is not conducted for profit, or to any political subdivision of the said Government.

SEC. 113. Valuation of gifts made in property. — If the gift is made in property, the fair market value thereof at the time of the gift shall be considered the amount of the gift: Provided, That in case of real property, the assessed value in the year of the gift as shown in the tax rolls shall be considered as the fair market value, unless the contrary is shown.

SEC. 114. Notice of donation to be filed. — In all cases of donations valued at ten thousand pesos or more, the donor shall, within thirty days after the donation, give a written notice thereof to the Collector of Internal Revenue stating the value of the gifts, the name of the donee and the relation of the donor to the donee. For the purpose of this section, the date of execution of the deed or, in case no deed is executed, the date of the delivery of the thing donated or, in case acceptance is required for the validity of the gifts, the date of acceptance shall be deemed to be the date of the transfer.

SEC. 115. Returns.

(a) Return by donor. — Any individual who after the approval of this Code or in any calendar year thereafter makes any transfer by gift (except those which under section 112 are exempt from tax shall, for the purpose of the tax prescribed in section 109, make return under oath in duplicate. The return shall set forth (1) each gift made during the calendar year which is to be included in computing net gifts; (2) the deductions claimed and allowable; (3) the net gifts for each of the preceding calendar years; (4) the name of the donee and his relation to the donor; and (5) such further information as may be required by regulations made pursuant to law.

(b) Return by donee. — Any donee who after the approval of this Code or in any calendar year thereafter receives any transfer by gift (except those which under section 112 are exempt from tax) shall, for the purpose of the tax prescribed in section 110, make a return under oath in duplicate. The return shall set forth (1) each gift received during the calendar year which is to be included in computing net gifts; (2) the deduction claimed and allowable; (3) the net gifts for each of the preceding calendar years; (4) the name of the donor and his relation to the donee; and (5) such further information as may be required by regulations made pursuant to law. The donee shall file a separate return for gifts received from each donor.

(c) Time and place of filing. — The return of the donor or the donee required in this section shall be filed on or before the first day of March following the close of the calendar year with the Collector of Internal Revenue, provincial revenue agent, or with the treasurer of the province, city, or municipality in which the donor or the donee was domiciled at the time of the transfer.

(d) Extension for filing. — The Collector of Internal Revenue shall have authority to grant, in meritorious cases, a reasonable extension not exceeding thirty days for filing returns required of the donor or the donee.

SEC. 116. Payment of Tax.

(a) Time of payment of tax. — The gifts taxes imposed by sections 109 and 110 of this Chapter shall be due and payable on or before the first day of March following the close of the calendar year and shall be paid by the donor or the donee, as the case may be, to the Collector of Internal Revenue or to the treasurer of the province, city or municipality of which the donor or the donee is a resident.

(b) Extension of time. — When the Collector of Internal Revenue finds that the payment on the due date of the gift taxes or of any part of the said amounts would impose undue hardship upon the donor or the donee, the Collector of Internal Revenue may extend the time for payment of any such part not to exceed six months from the date prescribed for the payment of the tax. In such case the amount in respect of which the extension is granted shall be paid on or before the date of the expiration of the period of the extension.

Where the taxes are assessed by reason of negligence intentional disregard of rules and regulations, or fraud on the part of taxpayer, no extension will be granted by the Collector.

If an extension is granted, the Collector of Internal Revenue may require the donor or donee, as the case may be, to furnish a bond in such amount, not exceeding double the amount of the taxes and with such sureties as the Collector deems necessary, conditioned upon the payment of the said taxes in accordance with the terms of the extension.

(c) Voluntary payment. — The tax imposed by this Chapter may be paid, at the election of the donor or the donee, prior to the date prescribed for its payment.

SEC. 117. Examination of return and determination of tax. — As soon as practicable, after return is filed, the Collector of Internal Revenue shall examine it and shall determine the correct amount of the gift taxes.

SEC. 118. Interest on extended payments.

(a) Tax shown on the return. — If the time for the payment of the amount determined as the taxes by the donor or by the donee is extended under the authority of subsection (b) of section 116, there shall be collected, as part of such amounts, interest thereon at the rate of six per centum per annum from the date when such payment should have been made if no extension had been granted, until the expiration of the period of the extension.

(b) Deficiency. — In case an extension for the payment of a deficiency is granted, there shall be collected, as a part of the taxes, interest on the part of the deficiency the time for payment of which is so extended, at the rate of six

per centum per annum for the period of the extension.

SEC. 119. Additions to the tax in case of non-payment.

(a) Tax shown on the return.

(1) Payment not extended. — Where the amount of the taxes determined by the donor or the donee as the taxes or any part of such amount is not paid on the due date of the taxes, there shall be collected as a part of the taxes, interest upon such unpaid amount at the rate of one per centum a month from the due date until it is paid.

(2) Payment extended. — Where an extension of time for payment of the amount so determined as the tax by the donor or the donee has been granted, and the amount the time for the payment of which has been extended, and the interest thereon determined under subsection (a) of section 118 is not paid in full prior to the expiration of the period of the extension, interest at the rate of one per centum a month shall be collected on such unpaid amount from the date when the same was originally due until it is paid.

(b) Deficiency.

(1) Payment not extended. — Where a deficiency, or any interest assessed in connection therewith, or any addition to the taxes provided for in section 120 is not paid in full within thirty days from the date of the notice and demand from the Collector, there shall be collected as a part of the taxes, interest upon the unpaid amount at the rate of one per centum a month from the date of such notice and demand until it is paid.

(2) Payment extended. — If the part of the deficiency the time for payment of which is extended is not paid in accordance with the terms of the extension, there shall be collected, as a part of the taxes, interest on such unpaid amount at the rate of one per centum a month from the date the same was originally due until it is paid.

(c) Surcharge. — If any amount of the taxes included in the notice and demand from the Collector of Internal Revenue is not paid in full within thirty days after such notice and demand, there shall be collected in addition to the interest prescribed above and as a part of the taxes a surcharge of five per centum of the unpaid amount.

SEC. 120. Ad valorem penalties. — In case of any failure to make and file a return within the time prescribed in subsection (c) of section 115 or by the Collector of Internal Revenue, there shall be added to the tax twenty-five per centum of its amount, except that, when a return is voluntarily and without notice from the Collector filed after such time, and it is shown that the failure to file it was due to a reasonable cause and not to willful neglect, no such addition shall be made to the tax. In case a false or fraudulent return is willfully made, there shall be added to the tax or to the deficiency tax, in case any payment has been made on the basis of such return before the discovery of the falsity or fraud, a surcharge of fifty per centum of its amount. The amount so added to any tax shall be collected at the same time and in the same manner and as a part of the tax unless the tax has been paid before the discovery of the neglect, falsity, or fraud, in which case the amount so added shall be collected in the same manner as the tax.

SEC. 121. Specific penalties. — (a) Any person required under this Chapter to pay any tax, or required by law or regulations made under authority thereof to make a return, keep any records, or supply any information for the purpose of the computation, assessment, or collection of any tax imposed by this Chapter, who fails to pay such tax, make such return, keep such records, or supply such information, at the time or times required by law or regulations, shall, in addition to other penalties provided for in this Chapter, be fined not more than two thousand pesos or imprisoned for not more than six months, or both.

(b) Any person who attempts in any manner to evade or defeat any tax imposed by this Chapter, or the payment thereof, or who transfers fictitiously by sale or otherwise any property to evade or defeat the purpose of this

Chapter, shall, in addition to other penalties, be punished by a fine of not more than four thousand pesos or imprisoned for not more than one year, or both.

SEC. 122. Definitions. — For the purposes of this Title, the terms "gross estate" and "gift" include real estate and tangible personal property, or mixed, physically located in the Philippines; franchise which must be exercised in the Philippines; shares, obligations, or bonds issued by any corporation or sociedad anonima organized or constituted in the Philippines in accordance with its laws; shares, obligations, or bonds issued by any foreign corporation eighty-five per centum of the business of which is located in the Philippines; shares, obligations, or bonds issued by any foreign corporation if such shares, obligations, or bonds have acquired a business situs in the Philippines; shares, or rights in any partnership, business or industry established in the Philippines; or any personal property, whether tangible or intangible, located in the Philippines: Provided, however, That in the case of a resident, the transmission or transfer of any tangible personal property, regardless of its location, is subject to the taxes prescribed in this Title: And provided, further, That no tax shall be collected under this Title in respect of intangible personal property (a) if the decedent at the time of his death was a resident of a foreign country which at the time of his death did not impose a transfer tax or death tax of any character in respect of intangible personal property of citizens of the Philippines not residing in that foreign country, or (b) if the laws of the foreign country of which the decedent was a resident at the time of his death allow a similar exemption from transfer taxes or death taxes of every character in respect of intangible personal property owned by citizens of the Philippines not residing in that foreign country.

The term "deficiency" means (a) the amount by which the taxes imposed by this Chapter exceed the amount shown as the taxes by the donor or donee 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 amounts previously abated, refunded, or otherwise repaid in respect of such taxes; or (2) if no amount is shown as the taxes by the donor or donee upon his return, or if no return is made by the donor or donee, then the amount by which the taxes exceed 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, refunded, or otherwise repaid in respect of such taxes.

TITLE IV - SPECIFIC TAXES

CHAPTER I Articles Subject to Specific Tax

SEC. 123. Articles subject to specific tax. — Specific internal-revenue taxes apply to things manufactured or produced in the Philippines for domestic sale or consumption and to things imported from the United States or foreign countries, but not to anything produced or manufactured here which shall be removed for exportation and is actually exported without returning to the Philippines, whether so exported in its original state or as an ingredient or part of any manufactured article or product.

In case of importations the internal-revenue tax shall be in addition to the customs duties, if any.

No specific tax shall be collected on any articles sold and delivered directly to the United States Army or Navy for actual use or issue by the Army or Navy, or on any article sold to the Bureau of Coast and Geodetic Survey, purchased with funds furnished by the Government of the United States, and any taxes which have been paid on articles so sold and delivered for such use or issue shall be refunded upon sale and delivery.

SEC. 124. Payment of specific tax on domestic products. — Specific taxes on domestic products shall be paid by the manufacturer, producer, owner, or person having possession of the same; and, except as otherwise especially allowed such taxes shall be paid immediately before removal from the place of production.

SEC. 125. Payment of specific tax on imported articles. — Specific taxes on imported articles shall be paid by the owner or importer to the customs officers, conformably with regulations of the Department of Finance and before the release of such articles from the customhouse.

SEC. 126. Mode of computing contents of cask or package. — Every fractional part of a proof liter equal to or greater than a half liter in a cask or package containing more than one liter shall be taxed as a liter, and any smaller fractional part shall be exempt; but any package of spirits the total contents of which are less than a proof liter shall be taxed as one liter.

SEC. 127. Tax on preparations containing distilled spirits as chief ingredient. — Medicinal and toilet preparations, flavoring extracts, and all other preparations, of which, excluding water, distilled spirits form the chief ingredient, shall be subject to the same tax as such chief ingredient.

Upon permit from the Collector of Internal Revenue and subject to the regulations of the Department of Finance, manufacturers of cigars may withdraw from bond free of tax imported wine in specific quantities and grades for use in the treatment of tobacco leaf to be used in the manufacture of cigars; but such wine must first be suitably denatured.

SEC. 128. Exemption in favor of domestic denatured alcohol. — Domestic alcohol of not less than one hundred eighty degrees proof (ninety per centum absolute alcohol) may, when denatured, be withdrawn from a registered distillery or bonded warehouse of the distiller or of the Government without the payment of the specific tax prescribed in section 133, for the purpose of being used for fuel, or light or for use generally in the arts and industries.

SEC. 129. Removal of spirits or cigars under bond. — Spirits requiring rectification may be removed from the place of their manufacture to some other establishment for the purpose of rectification without the prepayment of the specific tax, provided the distiller removing such spirits and the rectifier receiving them shall file with the Collector of Internal Revenue their joint bond conditioned upon the future payment by the rectifier of the specific tax that may be due on any finished products, and cigars may be removed by a manufacturer of tobacco products owning and operating a branch factory separate from his principal factory, from the branch factory to the principal factory, for exportation, without the prepayment of the specific tax, provided the manufacturer shall file with the Collector of Internal Revenue his bond conditioned upon the future payment of the specific tax that may be due on the finished product.

SEC. 130. Removal of fermented liquors to bonded warehouse. — Any brewer may remove or transport or cause to be removed or transported from his brewery or other place of manufacture to a bonded warehouse used by him exclusively for the storage or sale in bulk of fermented liquors of his own manufacture, any quantities of such fermented liquors not less than one thousand liters at one removal, without paying the tax thereon at the time of removal from the place of manufacture, under a permit which shall be granted by the Collector of Internal Revenue; and thereafter the manufacturer of such fermented liquors shall pay the tax in the same manner and under the same penalty and liability as when paid at the brewery. Such permit shall be affixed to every package so removed and shall be canceled or destroyed in such manner as the Collector of Internal Revenue may prescribe.

SEC. 131. Removal of damaged liquors free of tax. — When any fermented liquor has become sour or otherwise damaged so as to be unfit for use as such, brewers may sell and, after securing a special permit from the Collector of Internal Revenue and under the regulations of the Department of Finance, remove the same without the payment of the tax thereon to any place where such liquor is to be used for manufacturing purposes, in casks or other packages, unlike those ordinarily used for fermented liquors, containing each not less than one hundred seventy-five liters and having a note of their contents marked thereon.

SEC. 132. Removal of tobacco products without prepayment of tax. — Products of tobacco entirely unfit for chewing or smoking may be removed free of tax for agricultural or industrial use, under such conditions as may be prescribed in the regulations of the Department of Finance; and stemmed leaf tobacco, fine-cut shorts, the refuse of fine-cut chewing tobacco, refuse, scraps, cuttings, clippings and sweepings of tobacco may be sold in bulk as raw material by one manufacturer directly to another, under such conditions as may be prescribed in the regulations of the Department of Finance, without the prepayment of the tax.

"Stemmed leaf tobacco," as herein used means leaf tobacco which has had the stem or midrib removed. The term does not include broken leaf tobacco.

SEC. 133. Specific tax on distilled spirits. — On distilled spirits there shall be collected, except as hereinafter provided, specific taxes as follows:

(a) If produced from sap of the nipa, coconut, cassava, camote, or hurl palm, or from the juice, syrup, or sugar of the cane, per proof liter, thirty-eight centavos.

(b) If produced from any other material, per proof liter, one peso and thirty centavos.

This tax shall be proportionally increased for any strength of the spirits taxed over proof spirits.

"Distilled spirits," as here used, includes all substances known as ethyl alcohol, hydrated oxide of ethyl, or spirits of wine, which are commonly produced by the fermentation and subsequent distillation of grain, starch, molasses, or sugar, or of some syrup or sap, including all dilutions or mixtures; and the tax shall attach to this substance as soon as it is in existence as such, whether it be subsequently separated as pure or impure spirits, or be immediately or at any subsequent time transformed into any other substances either in process of original production or by any subsequent process.

"Proof spirits" is liquor containing one-half its volume of alcohol of a specific gravity of seven thousand nine hundred and thirty-nine ten-thousandths at fifteen degrees centigrade. A proof liter means a liter of proof spirits.

SEC. 134. Specific tax on wines. — On wines and imitation wines there shall be collected, per liter of volume capacity regardless of proof, the following taxes:

(a) Sparkling wines, one peso and sixty centavos.

(b) Still wines containing fourteen per centum of alcohol or less twenty centavos.

(c) Still wines containing more than fourteen per centum of alcohol, forty centavos.

Imitation wines containing more than twenty-five per centum of alcohol shall be taxed as distilled spirits.

SEC. 135. Specific tax on fermented liquors. — On beer, lager beer, ale, porter, and other fermented liquors (except tuba, basi, tapuy and similar domestic fermented liquors), there shall be collected, on each liter of volume capacity twelve and one-half centavos.

SEC. 136. Specific tax on products of tobacco. — on manufactured products of tobacco, except cigars, cigarettes, and tobacco specially prepared for chewing so as to be unsuitable for consumption in any other manner, but including all other tobacco twisted by hand or reduced into a condition to be consumed in any manner other than by the ordinary mode of drying and curing; and on all tobacco prepared or partially prepared for sale or consumption, even if prepared without the use of any machine or instrument and without being pressed or sweetened; and on all fine-cut shorts and refuse, scraps, clippings, cuttings, and sweepings of tobacco, there shall be collected on each kilogram, sixty centavos on tobacco specially prepared for chewing so as to be unsuitable for use in any other manner, on each kilogram, forty-eight centavos.

SEC. 137. Specific tax on cigars and cigarettes. — On cigars and cigarettes there shall be collected the following taxes:

(a) Cigars —

- (1) When the manufacturer's or importer's wholesale price, less the amount of the tax, does not exceed thirty pesos per thousand, on each thousand, two pesos and thirty centavos.
- (2) When the manufacturer's or importer's wholesale price, less the amount of the tax, exceeds thirty pesos but does not exceed sixty pesos per thousand, on each thousand, four pesos and sixty centavos.
- (3) When the manufacturer's or importer's wholesale price, less the amount of the tax, exceeds sixty pesos per thousand, on each thousand, seven pesos.

(b) Cigarettes —

- (1) When the manufacturer's or importer's wholesale price, less the amount of the tax, is four pesos or less per thousand, on each thousand, one peso and thirty centavos.
- (2) When the manufacturer's or importer's wholesale price, less the amount of the tax, is more than four pesos but not more than six pesos per thousand, on each thousand, three pesos.
- (3) When the manufacturer's or importer's wholesale price, less the amount of the tax, exceeds six pesos per thousand, on each thousand, four pesos.

The maximum price at which the various classes of cigars and cigarettes are sold at wholesale in the factory or in the establishment of the importer to any member of the public shall determine the rate of tax applicable to such cigars and cigarettes; and if the manufacturer or importer also sells, or allows to be sold, his cigars and cigarettes at wholesale in another establishment of which he is the owner or in the profits of which he has an interest, the maximum sale price in such establishment shall determine the rate of the tax applicable to the cigars and cigarettes therein sold.

Every manufacturer or importer of cigars and cigarettes shall file with the Collector of Internal Revenue, on the date or dates designated by the latter, a sworn statement of the maximum wholesale prices of cigars and cigarettes, and it shall be unlawful to sell said cigars and cigarettes at wholesale at a price in excess of the one specified in the statement required by this Title without previous written notice to said Collector of Internal Revenue.

SEC. 138. Specific tax on matches. — On matches there shall be collected:

- (a) On each gross of boxes containing not more than eighty sticks to the box, forty centavos;
- (b) On each gross of boxes containing over eighty sticks to the box, a proportionate additional tax.

SEC. 139. Specific tax on mechanical lighters. — On every mechanical lighter, there shall be collected a tax of forty centavos. The term "mechanical lighter" includes any mechanical or chemical contrivances for causing ignition which is portable and which operates by producing a spark or flame whether by itself or when brought into contact with electric current or gas, and includes also a mechanical lighter issued from a manufactory in an incomplete state or requiring for its completion the addition of a flint.

SEC. 140. Specific tax on firecrackers. — On all firecrackers, there shall be collected for each kilogram a tax of forty centavos. Section 141. Specific tax on skimmed milk. — On all condensed skimmed milk and on all skimmed milk, in whatever form, from which the cream has been removed entirely or in part, sold in the Philippines, there shall be collected for each kilogram of the gross weight of said milk and container, twenty centavos.

SEC. 142. Specific tax on manufactured oils and other fuels. — on refined and manufactured mineral oils and motor fuels, there shall be collected the following taxes:

- (a) Kerosene or petroleum, per liter of volume capacity, one and one-half centavos;
- (b) Lubricating oils, per liter of volume capacity, four centavos;
- (c) Naphtha, gasoline, and all other similar products of distillation, per liter of volume capacity, five centavos; and
- (d) On denatured alcohol to be used for motive power per liter of volume capacity, one-half centavo: Provided, That if the denatured alcohol is mixed with gasoline the specific tax on which has already been paid, only the alcohol content shall be subject to the tax herein prescribed.

For the purposes of this subsection, the removal of denatured alcohol of not less than one hundred eighty degrees proof (ninety per centum absolute alcohol) shall be deemed to have been removed for motive power, unless shown to the contrary.

Whenever the above-mentioned oils are used in aviation the specific tax thereon shall be refunded by the Collector of Internal Revenue upon the submission of a sworn certificate satisfactory to him proving that the said oils were actually used in aviation.

SEC. 143. Specific tax on coal. — On all coal and coke, there shall be collected, per metric ton, twenty-five centavos.

SEC. 144. Specific tax on bunker fuel oil. — On fuel oil, commercially known as bunker fuel oil, and on all similar fuel oils, having more or less the same generating power, there shall be collected, per metric ton, forty centavos.

SEC. 145. Specific tax on Diesel fuel oil. — On fuel oil, commercially known as Diesel fuel oil, and all similar fuel oils, having more or less the same generating power, there shall be collected, per metric ton, eighty centavos.

SEC. 146. Specific tax on cinematographic films. — There shall be collected, once only, on each cinematographic film (not including cinematographic films of sixteen millimeters or less in width) imported into or manufactured in the Philippines a tax of five centavos per linear meter.

This tax shall not be collected on any tax paid cinematographic film subsequently returned to the Philippines or on any negative films or unprinted positive film and may taxes heretofore paid on cinematographic films so returned or on any negative films or unprinted positive films shall be refunded subject to the provisions of section 309.

SEC. 147. Specific tax on playing cards. — (a) On each pack of cards containing not more than fifty-eight cards, there shall be collected a tax of thirty-five centavos: Provided, however, That when the size of playing cards is two and one-half centimeters by six centimeters or less there shall be collected a tax of twenty centavos on each pack containing not more than fifty-eight cards.

(b) On each pack containing more than fifty-eight cards, there shall be collected the tax established in subsection (a) and a proportionate additional tax on the number in excess of fifty-eight.

SEC. 148. Specific tax on saccharine. — On saccharine there shall be collected a tax of sixty pesos per kilogram.

CHAPTER II - Administrative provisions regulating business of persons dealing in articles subject to specific tax.

SEC. 149. Extent of supervision over establishments producing taxable output.-The Bureau of Internal Revenue has authority to supervise establishments where articles subject to a specific tax are made or kept. The Secretary of Finance shall prescribe regulations as to the mode in which the processes of production shall be conducted in

so far as may be necessary to secure a sanitary output and to safeguard the revenue.

SEC. 150. Records to be kept by manufacturers Assessment based therein. — The Secretary of Finance is authorized to prescribe, by regulations, the records which shall be kept by manufacturers of articles subject to specific tax, and such records, whether of raw materials received into the factory or of articles produced therein, shall be deemed public and official documents for all purposes.

The records of raw materials kept by such manufacturers may be used as a species of evidence by which to determine the amount of specific taxes due from them, and whenever the amount of raw materials received into any factory exceeds the amount of manufactured or partially manufactured products on hand and lawfully removed from the factory, plus waste removed or destroyed, and a reasonable allowance for unavoidable loss in manufacture, the Collector of Internal Revenue may assess and collect the tax due on the products which should have been produced from the excess.

SEC. 151. Premises subject to approval by Collector. — No person shall engage in business as a manufacturer or dealer in articles subject to a specific tax unless the premises upon which the business is to be conducted shall have been approved by the Collector of Internal Revenue.

SEC. 152. Labels and form of packages. — All articles of domestic manufacture subject to a specific tax and all leaf tobacco shall be put up and prepared by the manufacturer or producer, when removed for sale or consumption, in such packages only and bearing such marks or brands as shall be prescribed in the regulations of the Department of Finance; and goods of similar character imported into the Philippines shall likewise be packed and marked in such manner as may be required.

SEC. 153. Removal of articles after payment of tax. — When the tax has been paid on articles or products subject to a specific tax the same shall not thereafter be stored or permitted to remain in the distillery, distillery warehouse, bonded warehouse, or other factory or place where produced.

SEC. 154. Storage of goods in internal-revenue bonded warehouse. — An internal-revenue bonded warehouse may be maintained in any. port of entry for the storing of imported or manufactured goods which are subject to a specific tax. The taxes on such goods shall be payable only upon removal from such warehouse, and a reasonable charge shall be made for their storage therein. The Collector of Internal Revenue may, in his discretion, exact a bond to secure the payment of the tax on any goods so stored.

SEC. 155. Proof of exportation. — Exporter's bond. — Exporters of goods that would be subject to a specific tax if sold or removed for consumption in the Philippines shall submit proof of exportation satisfactory to the Collector of Internal Revenue, and, when the same is deemed necessary, shall be required to give a bond prior to the removal of the goods for shipment, conditioned upon the exportation of the same in good faith.

SEC. 156. Manufacturers' and importers' bonds. — Manufacturers and importers of articles subject to a specific tax shall give bond in an amount equal, as nearly as can be estimated, to twenty per centum of the taxes payable by them during an average year. Such bond shall be conditioned upon the faithful compliance, during the time such business is followed, with the law and regulations relating to such business and for the satisfaction of all fines and penalties imposed by this Code. No such bond shall be required in an amount exceeding fifty thousand pesos nor be received in a sum less than one thousand pesos.

SEC. 157. Records to be kept by wholesale dealers. — Wholesale dealers shall keep records of their purchases and sales or deliveries of articles subject to a specific tax, in such form as shall be prescribed in the regulations of the Department of Finance. These records and the entire stock of goods subject to tax shall be subject at all times to the inspection of internal-revenue officers.

SEC. 158. Records to be kept by dealers in leaf tobacco. — Dealers in leaf tobacco shall keep records of the product sold or delivered by them to other persons in such manner as may be prescribed in the regulations of the Department of Finance, such records to be at all times subject to the inspection of internal-revenue officers.

SEC. 159. Preservation of invoices and stamps. — All dealers whosoever shall preserve for the period prescribed in section 337 all official invoices received by them from other dealers or from manufacturers, together with the fractional parts of stamps affixed thereto, if any, and upon demand shall deliver or transmit the same to any internal revenue officer.

SEC. 160. Information to be given by manufacturers or importers of any apparatus or mechanical contrivance specifically for the manufacture of articles subject to specific tax. — Manufacturers and importers of any apparatus or mechanical contrivance specifically for the manufacture of articles subject to specific tax shall, before any such apparatus or mechanical contrivance is removed from the place of manufacture or from the customhouse, give written information to the Collector of Internal Revenue as to the nature and capacity of the same, the time when it is to be removed, and the place for which it is destined, as well as the name of the person by whom it is to be used; and such apparatus or mechanical contrivance shall not be set up without a permit in writing from the Collector of Internal Revenue.

SEC. 161. Establishment of distillery warehouses. — Every distiller, when so required by the Collector of Internal Revenue, shall provide at his own expense a warehouse, to be situated on and to constitute a part of his distillery premises and to be used only for the storage of distilled spirits of his own manufacture until the tax thereon shall have been paid; but no dwelling house shall be used for such purpose. Such warehouse, when approved by the Collector of Internal Revenue, is declared to be a bonded warehouse, to be known as a distillery warehouse.

SEC. 162. Custody of distillery or distillery warehouse. — Every distillery or distillery warehouse shall be in the joint custody of the storekeeper, if one is assigned thereto, and of the proprietor thereof. It shall be kept securely locked, and shall at no time be unlocked or opened or remain unlocked or open unless in the presence of such storekeeper or other person who may be designated to act for him as provided by law.

SEC. 163. Limitation on quantity of spirits removed from warehouse. — No distilled spirits shall be removed from any distillery, distillery warehouse, or bonded warehouse in quantities of less than fifteen gauge liters at any one time, except bottled goods, which may be removed by the case of not less than twelve bottles.

SEC. 164. Requirements incident to process of denaturing alcohol. — Where alcohol is withdrawn for denaturing for use in the arts and industries, or as motor fuel, the process of denaturing shall be effected either on the distillery premises or in a bonded warehouse designated by the Collector of Internal Revenue for denaturing purposes only. To such warehouse alcohol may be transferred under bond and under conditions prescribed in the regulations of the Department of Finance.

SEC. 165. Recovery of alcohol for use in arts and industries. — Manufacturers employing processes in which denatured alcohol used in arts and industries is expressed or evaporated from the articles manufactured may, under regulations to be prescribed by the Department of Finance, be permitted to recover the alcohol so used and restore it again to a condition suitable solely for use in manufacturing processes.

SEC. 166. Requirements governing rectification and compounding of liquors. — Persons engaged in the rectification or compounding of liquors shall, as to the mode of conducting their business and supervision over the same, be subject to all the requirements of law applicable to distilleries: Provided, That where a rectifier makes use of spirits upon which the specific tax has been paid no further tax shall be collected on any rectified spirits produced exclusively therefrom: And provided, further, That compounders, in the manufacture of any intoxicating

beverage whatever, shall not be allowed to make use of spirits upon which the specific tax has not been previously said.

SEC. 167. Authority of internal-revenue officer in searching for taxable articles. — Any internal-revenue officer may in the discharge of his official duties enter any house, building, or place where articles subject to tax under this Title are produced or kept, or are believed by him upon reasonable grounds to be produced or kept, so far as may be necessary to examine, discover, or seize the same.

He may also stop and search any vehicle or other means of transportation when upon reasonable grounds he believes that the same carries any article on which the specific tax has not been said.

SEC. 168. Detention of package containing taxable articles. — Any revenue officer may detain any package containing or supposed to contain articles subject to a specific tax when he has good reason to believe that the lawful tax has not been paid or that the package has been or is being removed in violation of law, and every such package shall be held by such officer in a safe place until it shall be determined whether the property so detained is liable by law to be proceeded against for forfeiture; but such summary detention shall not continue in any case longer than seven days without process of law or intervention of the officer to whom such detention is to be reported.

SEC. 169. Inscription to be placed on skimmed milk. — All condensed skimmed milk and all milk, in whatever form, from which the fatty part has been removed totally or in part, sold or put on sale in the Philippines shall be clearly and legibly marked on its immediate containers, and in all the languages in which such containers are marked, with the words, "This milk is not suitable for nourishment for infants less than one year of age", or with other equivalent words.

CHAPTER III - Penal Provisions

SEC. 170. Unlawful practices relative to payment of specific taxes. — Any person who, without express authority from the Collector of Internal Revenue, makes, imports, sells, uses, or possesses any die for printing or making internal-revenue stamps, labels, tags, or playing cards shall be punished by a fine of not less than three hundred pesos nor more than five thousand pesos or by imprisonment for a term of not less than three months nor more than five years, or both.

Any person who erases the cancellation marks on any internal-revenue stamp which has been previously used or who alters the written or printed figures or letters or cancellation marks on any internal-revenue stamp previously used, or who has in his possession any false, counterfeit, restored, or altered internal-revenue stamp, label, or tag for the purpose of using the same in the payment of specific taxes or in securing any exemption or privilege conferred by this Title, or who procures the commission of any such offense by another, shall be fined in a sum of not less than three hundred pesos nor more than five thousand pesos or imprisoned for a term of not less than three months nor more than five years, or both.

Any person who gives away or accepts from another, or who sells, buys, or uses any container on which the stamps or labels are not utterly destroyed shall for each such offense be fined in a sum of not less than fifty pesos nor more than five hundred pesos or imprisoned for a term not exceeding seven months, or both.

Any internal-revenue officer may destroy any emptied container upon which an internal-revenue stamp or official tax-paid label is found still undestroyed.

SEC. 171. Unlawful use of denatured alcohol. — Any person who, for the purpose of manufacturing any beverage, uses denatured alcohol or alcohol withdrawn under bond for industrial uses, or who knowingly sells any beverage made in whole or in part from such alcohol, or who uses such alcohol for the manufacture of liquid medicinal

preparations, or knowingly sells such preparations containing as an ingredient such alcohol, shall on conviction be fined not more than one thousand pesos or be imprisoned for not more than one year, or both.

Any person who shall unlawfully recover or attempt to recover by redistillation or other process any denatured alcohol or who knowingly uses, sells, conceals, or otherwise disposes of alcohol so recovered or redistilled shall be subject to the same penalty as above provided.

SEC. 172. Forfeiture of goods illegally stored or removed. — All articles subject to a specific tax which are stored or allowed to remain in a distillery, distillery warehouse, bonded warehouse, or other place where made, after the tax thereon has been paid, shall be forfeited; and all such articles unlawfully removed from any such place without the payment of the required tax shall likewise be forfeited.

SEC. 173. Forfeiture of property used in unlicensed business, or of dies used for printing false stamps, etc. — All chattels, machinery, and removable fixtures of any sort used in the production of articles subject to specific tax when the required tax has not been paid for such business, shall be forfeited.

Dies used for the printing or making of any internal revenue stamp, label, or tag which is in imitation of or purports to be a lawful stamp, label, or tag shall also be forfeited.

SEC. 174. Unlawful possession or removal of articles subject to specific tax without payment of tax. — Any person who is found in possession of articles subject to specific tax, the tax on which has not been paid in accordance with law, shall be punished by a fine of not less than three times the amount of the specific tax due on the articles found but not less than two hundred pesos nor more than five thousand pesos or by imprisonment of from four months and one day to four years and two months, or both. Any manufacturer, owner, or person in charge of any article subject to a specific tax who removes or allows or procures the unlawful removal of any such article from the place of manufacture or bonded warehouse, upon which article the specific tax has not been paid in the time and manner required, and any person who knowingly aids or abets in the removal of such articles as aforesaid, or conceals the same after illegal removal, shall for the first offense be punished by a fine of not less than five times the amount of the specific tax due on the articles removed, but not less than five hundred pesos nor more than ten thousand pesos or by imprisonment of not less than six months and one day but not more than six years, or both.

Every manufacturer so offending shall, before continuing or resuming business, execute a bond in double the amount of his original bond and containing the same conditions.

SEC. 175. Punishment for subsequent offense. — In case of reincidence, the offender under the preceding section shall be punished by a fine of not less than ten times the amount of the specific tax due on the articles found or removed, but not less than one thousand pesos nor more than twenty thousand pesos or by imprisonment of from one year and one day to eight years, or both; and if the offense be committed by the owner or the manufacturer, or with his connivance, the factory and the ground upon which it stands, including the machinery and apparatus used in and about the business shall be forfeited.

SEC. 176. Shipment of liquor or tobacco under false name or brand. — Any person who ships, transports, or removes spirituous or fermented liquors, wines, or tobacco under any other than the proper name or brand known to the trade as designating the kind and quality of the contents of the cask or package containing the same, or causes such act to be done, shall be subject to a fine of five hundred pesos, and in addition the article or articles so transported or removed shall be forfeited.

SEC. 177. Illegal sale of skimmed milk. — Any person who sells or puts on sale in the Philippines any condensed skimmed milk or milk from which the fat has been removed totally or in part, on which the specific tax has not

been fully paid, or which does not bear the legend provided for therein, shall, upon conviction thereof, be punished by a fine of not exceeding six hundred pesos or by imprisonment not exceeding six months, or both.

TITLE V Privilege Taxes on Business and Occupation

CHAPTER I - Tax on Business

SEC. 178. Payment of privilege taxes. — A privilege tax must be paid before any business or occupation hereinafter specified can be lawfully begun or pursued. The tax on business is payable for every separate or distinct establishment or place where business subject to the tax is conducted; and one occupation or line of business does not become exempt by being conducted with some other occupation or business for which such tax has been paid.

The occupation tax must be paid by each individual engaged in a calling subject thereto; the tax on a business, by the person, firm, or company conducting the same.

SEC. 179. Legality of business as affected by payment of tax. — The payment of a business or occupation tax shall not exempt any person from any tax, penalty, or punishment provided by law or ordinance in places where such business or occupation is prohibited or regulated by municipal law, nor shall the payment of any such tax be held to prohibit any municipality from placing a tax upon same business or occupation, for local purposes, where the imposition of such tax is authorized by law.

SEC. 180. Time for payment of fixed taxes. — The yearly fixed taxes are due on the first of January of each year, and, if tendered in semi-annual installments, on or before the twentieth of January and July, or if in quarterly installments, on or before the twentieth of January, April, July, and October, or on or before the last day of said months, in remote provinces, in the discretion of the Collector of Internal Revenue, shall be received without penalty. But any person first beginning a business or occupation must pay the tax before engaging therein.

SEC. 181. Reckoning of tax for business first began or abandoned during year. — When an occupation or business subject to a fixed tax is newly begun during any year the tax shall be reckoned from the commencement of the current semester or quarter, or, in case of a business subject to a monthly tax, from the first of the month; and when either is at any time abandoned, the tax shall not be exacted for a longer period than to the end of the semester, quarter, or month, as the case may be.

SEC. 182. Fixed tax upon business. — Unless otherwise provided, every person engaging in a business on which the percentage tax is imposed shall pay in full a fixed annual tax of ten pesos for each calendar year or fraction thereof in which such person shall engage in said business.

Every person who is not required to pay the percentage tax prescribed in sections 184, 185, 186, and 187 shall pay in full for each calendar year or fraction thereof in which such person shall engage in business a fixed annual tax based upon his gross annual sales during the preceding calendar year, as follows:

Four pesos, if the amount of the gross annual sales exceeds two thousand pesos but does not exceed ten thousand pesos;

Ten pesos, if the amount of the gross annual sales exceeds ten thousand pesos but does not exceed twenty-five thousand pesos;

Twenty pesos, if the amount of the gross annual sales exceeds twenty-five thousand pesos but does not exceed fifty thousand pesos;

Fifty pesos, if the amount of the gross annual sales exceeds fifty thousand pesos but does not exceed one hundred thousand pesos;

One hundred pesos, if the amount of the gross annual sales exceeds one hundred thousand pesos but does not exceed two hundred thousand pesos;

Two hundred pesos, if the amount of the gross annual sales exceeds two hundred thousand pesos but does not exceed five hundred thousand pesos; and

Three hundred pesos, if the amount of the gross annual sales exceeds five hundred thousand pesos: Provided, That if a merchant is engaged in two or more businesses, one or more of which is subject to, and the others exempt from, the percentage tax, he shall pay the graduated fixed annual tax provided above, based on the sales not subject to the percentage tax under this Title.

This tax shall be payable before the person subject to the same begins to engage in the business, and thereafter within the regulation period in the month of January during which the other fixed privilege taxes may be paid without penalty.

The following shall be exempt from the tax imposed in this section:

- (a) Small merchants whose gross annual sales do not exceed two thousand pesos.
- (b) All persons engaged in the sale of food products, cooked foods, or refreshments at retail in public market places whose gross annual sales do not exceed twenty thousand pesos and all persons engaged in public market places exclusively in the sale at retail of domestic meat, fruits, vegetables, game, poultry, fish, and other domestic food products.
- (c) Peddlers and sellers at fixed stands and other similar selling places engaged exclusively in the sale at retail of domestic meat, fruits, vegetable, game, poultry, fish and similar domestic food products, whose total stock in trade on any one day does not reach a retail value of fifty pesos.
- (d) Producers of commodities of all classes working in their own homes, consisting of parents and children living as one family, when the value of each day's production by each person capable of working is not in excess of five pesos.
- (e) Owners of animal-drawn two-wheeled vehicles.
- (f) Owners of bancas.

SEC. 183. Payment of percentage taxes. — Quarterly report of earnings or value of output. — The percentage taxes on business shall be payable at the end of each calendar quarter in the amount lawfully due on the business transacted during each quarter; and it shall be the duty of every person conducting a business on which a percentage tax is imposed under this Title, within twenty days after the end of each calendar quarter, to make a true and complete return of the amount of the gross sales, receipts, or earnings, or gross value of output actually removed from the factory or mill warehouse, during the preceding calendar quarter and pay the tax due thereon: Provided, That it shall be the duty of any person retiring from a business subject to the percentage tax to notify immediately the nearest internal-revenue officer thereof and, within ten days after closing his business, file his return or declaration, and pay the tax due thereon.

If the percentage tax on any business is not paid within the time prescribed above, the amount of the tax shall be increased by twenty-five per centum, the increment to be a part of the tax.

In case a false or fraudulent return is made, there shall be added to the tax or to the deficiency tax, in case any payment has been made on the basis of such return before the discovery of the falsity or fraud, a surcharge of fifty per centum of its amount. The amount so added to any tax shall be collected at the same time and in the same

manner and as part of the tax unless the tax has been paid before the discovery of the falsity or fraud, in which case the amount so added shall be collected in the same manner as the tax.

SEC. 184. Percentage tax on sales of jewelry, automobiles, toilet preparations and others. — There is levied, assessed and collected once only on every original sale, barter, exchange, or similar transaction intended to transfer ownership of, or title to, the articles hereinbelow enumerated, a tax equivalent to ten per centum of the gross selling price or gross value in money of the articles so sold, bartered, exchanged, or transferred, such tax to be paid by the manufacturer, producer or importer: Provided, That where the articles are manufactured out of materials subject to tax under this section, the total cost of such materials, as duly established, shall be deductible from the gross selling price or gross value in money of the manufactured articles: And provided, further, That where the articles herein mentioned are consigned abroad by the manufacturer or producer thereof, the shipment shall be subject to the tax established in section 187 and not to the tax imposed by this section:

(a) All articles commonly or commercially known as jewelry, whether real or imitation; pearls, precious and semi-precious stones, and imitations thereof; articles made of, or ornamented, mounted or titled with, precious metals or imitations thereof or ivory (not including surgical instruments or silver-plated ware, or frames or mountings for spectacles or eyeglasses); opera glasses; and lorgnettes.

(b) Automobile chassis and bodies, the selling price of which exceeds two thousand five hundred pesos each. A sale of automobile shall, for the purposes of this section, be considered to be a sale of the chassis and of the body together with parts and accessories of which the same are usually equipped.

(c) Perfumes, essences, extracts, toilet matters, cosmetics, petroleum jellies, hair oils, pomades, hair dressings, hair restoratives, hair dyes, and any similar substance, article, or preparation, by whatsoever name known or distinguished, except tooth and mouth washes, dentifrices, tooth paste, and talcum or medicated toilet powders; and any of the above which are used or applied or intended to be used or applied for toilet purposes: Provided, That the tax herein imposed shall not apply to toilet preparation on which the specific tax established in section 127 has been paid.

SEC. 185. Percentage tax on sales of automobiles, sporting goods, refrigerators, musical instruments, and others. — There is levied, assessed, and collected once only on every original sale, barter, exchange, or similar transaction intended to transfer ownership of, or title to, the articles hereinbelow enumerated, a tax equivalent to five per centum of the gross selling price or gross value in money of the articles so sold, bartered, exchanged or transferred, such tax to be paid by the manufacturer, producer, or importer: Provided, That where the articles are manufactured out of materials subject to tax under this section and section 186 the total cost of such materials, as duly established, shall be deductible from the gross selling price or gross value in money of the manufactured articles: And, provided, further, That where the articles herein mentioned are consigned abroad by the manufacturer or producer thereof, the shipment shall be subject to the tax established in section 187 and not to the tax imposed by this section:

(a) Automobile chassis and bodies, the selling price of which does not exceed two thousand five hundred pesos each. A sale of automobile shall, for the purposes of this section, be considered to be a sale of the chassis and of the body together with parts and accessories with which the same are usually equipped;

(b) Watches and clocks, the value of which exceeds twenty pesos each, marine glasses, field glasses, binoculars, cameras, camera lenses, and cinematographic films of not more than sixteen millimeters in width;

(c) Polo mallets and balls; golf bags, clubs and balls; fishing rods and reels; chess and checker boards and pieces; dice; and mah-jong sets;

- (d) Beauty parlor equipment;
- (e) Household type refrigerators (for single or multiple cabinet installations) operated with electricity, gas, kerosene, or other means;
- (f) Musical instruments, phonographs, combination radio and phonograph sets, and phonograph records; and
- (g) Cartridges or other forms of ammunition, (except those for caliber .22 firearms): Provided, however, That no tax shall be collected on cartridges or other forms of ammunition sold and delivered directly to the Philippine Constabulary or Philippine Army for their actual use or issue.

SEC. 186. Percentage tax on sales of other articles. — There is levied, assessed, and collected once only on every original sale, barter, exchange, and similar transaction intended to transfer ownership of, or title to, the articles not enumerated in sections 184 and 185 a tax equivalent to three and one-half per centum of the gross selling price or gross value in money of the articles so sold, bartered, exchanged, or transferred, such tax to be paid by the manufacturer, producer, or importer: Provided, That where the articles are manufactured out of materials subject to tax under this section, the total cost of such materials as duly established, shall be deductible from the gross selling price or gross value in money of the manufactured articles: And provided, further, That where the said articles are consigned abroad by the manufacturer or producer thereof, the shipment shall be subject to the tax established in section 187 and not to the tax imposed by this section.

SEC. 187. Percentage tax on consignments abroad. — Every person, whether he is a merchant or not, and not herein specifically exempted, shall pay a tax of one and one-half per centum of the gross value in money of the commodities, goods, wares, and merchandise consigned abroad by him, such tax to be based on the actual selling price or value of the things in question at the time they are consigned abroad, whether consisting of raw materials or of manufactured or partially manufactured products or whether of domestic or foreign origin: Provided, That the tax prescribed in this section shall not be imposed on articles upon which the tax prescribed in sections 184, 185, 186, and 189 has previously been paid. The tax upon things consigned abroad shall be refunded upon satisfactory proof of the return thereof to the Philippines unsold, subject to the limitation established in section 309 of this Code.

SEC. 188. Transactions not subject to percentage tax. — In computing the tax imposed in sections. 184, 185, and 186, transactions in the following commodities shall be excluded:

- (a) Things subject to tax under Title IV of this Code.
- (b) Agricultural products and the ordinary salt when sold, bartered, or exchanged in this country, whether in their original state or not: Provided, That in the case of hemp, whether stripped or unstripped, sugar cane, unhusked rice or palay, coconut, corn, and copra, no tax shall be collected except when they are consigned abroad, in which case the tax prescribed in section 187 shall be due and payable, irrespective of whether the consignor is the producer thereof or not, or whether or not he is a merchant.
- (c) Minerals and mineral products when sold or consigned abroad by the lessee, concessionaire, or owner of the mineral land from which removed.
- (d) Articles imported into the Philippines and re-exported from the same in their original condition by the importer.

SEC. 189. Percentage tax upon proprietors or operators of rope factories, sugar centrals, rice mills, coconut oil mills, corn mills, and desiccated coconut factories. — Proprietors or operators of rope factories, sugar centrals, rice mills, coconut oil mills, corn mills, and desiccated coconut factories shall pay a tax equivalent to one and one-half

per centum of the gross value in money of all the rope, sugar rice, coconut oil, grounded or milled corn, and desiccated coconut manufactured or milled by them, including the derivatives, products, and by-products of the raw materials from which the said articles are produced or manufactured, when these derivatives, products, and by-products constitute sixty per centum or more by weight or value of the raw materials mentioned above, such tax to be based on the actual selling price or market value of these articles at the time they leave the factory or mill warehouse: Provided, however, That in case the raw materials are manufactured or milled in pursuance of a contract whereby the factory, central, or mill receives a share of the finished product, the tax on the share pertaining to the planter or owner and withheld by the proprietor or operator of the factory, central, or mill and paid by him to the Collector of Internal Revenue: And provided, further, That on sugar sold to the refinery mill for the production of refined sugar "washesugar," or beet sugar, the tax shall not be paid by the central but shall be paid by the refinery mill upon local sale or consignment abroad.

SEC. 190. Compensating tax. — All persons purchasing or receiving from without the Philippines any commodities, goods, wares, or merchandise, excepting those subject to specific taxes under Title IV of this Code, shall pay on the total value thereof at the time they are received by such persons, including freights postage, insurance, commission, and all similar charges, a compensating tax equivalent to the percentage tax imposed under this Title on original transaction effected by merchants importers, or manufacturers, such tax to be paid upon the withdrawal or removal of said commodities, goods, wares, or merchandise from the customhouse or the post office: Provided, however, That merchants, importers, and manufacturers, who are subject to tax under sections 184, 185, 186, 187, and 189 of this Title shall not be required to pay the tax herein imposed where the articles purchased or received by them from without the Philippines are to be resold, bartered, or exchanged, or used in connection with their business.

SEC. 191. Percentage tax on road, building, irrigation, artesian well, waterworks, and other construction work contractors, proprietors or operators of dockyards, and others. — Road, building, irrigation, artesian well, waterworks, and other construction work contractors; filing contractors; persons engaged in the installation of gas, or electric light, heat, or power; persons selling light, heat or power, except those paying a franchise tax; proprietors or operators of dockyards, mine drilling apparatus, smelting plants, engraving plants, plating establishments, drycleaning or dyeing establishments, steam laundries photographic studios, telephone or telegraph lines or exchanges, broadcasting or wireless stations, funeral parlors, shops for the construction or repair of bicycles or vehicles of any kind, mechanical devices, instruments, apparatus, or furniture of any kind, and tailor shops; dressmakers; milliners; hatters; keepers of hotels, lodging houses, restaurants, cafes or refreshment parlors; stevedores; warehousemen; plumbers; smiths; house or sign painters; lithographers; publishers, except those engaged in the publication or printing and publication of any newspaper, magazine, review, or bulletin which appears at regular intervals, with fixed prices for subscription and sale, and which is not devoted principally to the publication of advertisements; printers; and bookbinders, shall pay a tax equivalent to one and one-half per centum of their gross receipts: Provided, That contractors or others whose gross receipts do not exceed two hundred pesos each quarter shall be exempt from the payment of the tax provided for in this section.

SEC. 192. Percentage tax on carriers and keepers of garages. — Keepers of garages, transportation contractors, persons who transport passengers or freight for hire, and common couriers by land, air, or water, except owners of boats taxed under the laws administered by the Bureau of Customs, owners of bancas, and owners of animal-drawn two wheeled vehicles, shall pay a tax equivalent to one and one-half per centum of their gross receipts: Provided, That those whose gross receipts do not exceed two hundred pesos each quarter shall be exempt from the payment of the tax provided for in this section.

SEC. 193. Amount of tax on business. — Fixed taxes on business shall be collected as follows, the amount stated

being for the whole year, when not otherwise specified:

- (a) Brewers, four hundred pesos.
- (b) Distillers of spirits, fifty pesos, if the annual production does not exceed fifty thousand gauge liters; one hundred pesos, if the annual production exceeds fifty thousand gauge liters but does not exceed one hundred thousand gauge liters; two hundred pesos, if the annual production exceeds one hundred thousand gauge liters but does not exceed two hundred fifty thousand gauge litres; and three hundred pesos, if the annual production exceeds two hundred fifty thousand gauge liters; rectifiers of distilled spirits, compounders, and repackers of wines or distilled spirits, three hundred pesos
- (c) Wholesale peddlers of distilled, manufactured, or fermented liquor, one hundred and twenty pesos.
- (d) Wholesale peddlers of distilled, manufactured tobacco, eighty pesos.
- (e) Retail peddlers of distilled, manufactured, or fermented liquor. sixty pesos.
- (f) Retail peddlers of manufactured tobacco, sixteen pesos.
- (g) Wholesale liquor dealers —
 - 1. In the City of Manila, four hundred pesos.
 - 2. In any other place, one hundred and twenty pesos.
- (h) Wholesale dealers in fermented liquors, except basi, tuba, and tapuy, one hundred and twenty pesos.
- (i) Retail liquor dealers, sixty pesos.
- (j) Retail vino dealers, twelve pesos.
- (k) Retail dealers in fermented liquors, thirty pesos.
- (l) Retail leaf tobacco dealers, thirty pesos.
- (m) Manufacturers of tobacco and manufacturers of cigars or cigarettes, twenty pesos.
- (n) Tobacco dealers, eight pesos.
- (o) Manufacturers, or importers of playing cards, eighty pesos.
- (p) Manufacturers, producers, or importers of soft drinks or mineral waters, fifty pesos.
- (q) Stockholders, real estate brokers, commercial brokers, customs brokers, and immigration brokers, eighty pesos.
- (r) Owners of race tracks, for each day on which races are run on any track, three hundred pesos.
- (s) Lending investors —
 - 1. In chartered cities and first-class municipalities, two hundred pesos;
 - 2. In second-class municipalities, one hundred and fifty pesos;
 - 3. In third-class municipalities, one hundred pesos; and
 - 4. In fourth and fifth-class municipalities and municipal districts, fifty pesos: Provided, That lending investors who do business as such in more than one province shall pay a tax of two hundred pesos.

(t) Business agents (agentes de negocios), forty pesos.

SEC. 194. Words and phrases defined. — In applying the provisions of the preceding section, words and phrases shall be taken in the sense and extension indicated below:

(a) "Brewer" comprises all persons who manufacture fermented liquors of any description for sale or delivery to others, but does not include manufacturers of tuba, basi, or tapuy, or similar domestic fermented liquors whose daily production does not exceed two hundred gauge liters.

(b) "Distiller of spirits" comprises all who distill spirituous liquors by original and continuous distillation from mash, wort, wash, sap, or sirup through continuous closed vessels and pipes until the manufacture thereof is complete.

(c) "Rectifier" comprises every person who rectifies, purifies, or refines distilled spirits or wines by any process other than by original and continuous distillation from mash, wort, wash, sap, or sirup through continuous closed vessels and pipes until the manufacture thereof is complete. Every wholesale or retail liquor dealer who has in his possession any still or mash tub, or who keeps any other apparatus for the purpose of distilling spirits or in any manner refining distilled spirits, shall also be regarded as a rectifier and as being engaged in the business of rectifying.

(d) "Compounder" comprises every person who, without rectifying, purifying, or refining distilled spirits, shall by mixing such spirits, wine, or other liquor with any materials except water, manufacture any intoxicating beverage whatever.

(e) "Repacker of wines or distilled spirits" includes all persons who remove wines or distilled spirits from the original container for repacking and selling the same at wholesale.

(f) "Peddler" means any person who either for himself or on commission travels from place to place in town or country and sells his goods or offers to sell and deliver the same. Whether a peddler is a wholesale peddler, or retail peddler of a particular commodity, shall be determined from the definitions of wholesale dealer and retail dealer, as hereinbelow given in connection with the particular commodity peddled. A wholesale peddler of manufactured tobacco is one who sells for the purpose of resale.

(g) "Wholesale liquor dealer" comprehends every person who for himself or on commission sells or offers for sale wines or distilled spirits (other than denatured alcohol) in larger quantities than five liters at any one time, or who sells or offers the same for sale for the purpose of resale, irrespective of quantity.

(h) "Wholesale dealer in fermented liquors" means any one who for himself or on commission sells or offers for sale fermented liquors in larger quantities than five liters at any one time, or who sells or offers for sale such fermented liquors (excluding tuba, basi, tapuy, and similar domestic fermented liquors) for the purpose of resale, regardless of quantity.

(i) "Retail liquor dealer" includes every person, except a retail vino dealer, who for himself or on commission sells or offers for sale wine or distilled spirits (other than the denatured alcohol) in quantities of five liters or less at any one time and not for resale.

(j) "Retail vino dealer" includes every person who for himself or on commission sells or offers for sale only domestic distilled spirits in quantities of five liters or less at any one time and not for resale.

(k) "Retail dealer in fermented liquors" includes every person, except retail dealers in tuba, basi, and tapuy, who for himself or on commission sells or offers for sale fermented liquors in quantities of five liters or less at any one time and not for resale.

(l) "Retail leaf tobacco dealer" includes every person who for himself or on commission sells leaf tobacco or offers the same for sale to any person except a registered dealer in leaf tobacco or manufacturer of cigars, cigarettes, or manufactured tobacco; but the term does not include a planter or producer so far as concerns the sale of leaf tobacco of his own production.

(m) "Manufacturer of tobacco" includes every person whose business it is to manufacture tobacco or snuff, or who employs others to manufacture tobacco or snuff, whether such manufacture be by cutting, pressing, grinding, or robbing any raw or leaf tobacco, or otherwise preparing raw or leaf tobacco, or manufactured or partially manufactured tobacco and snuff, or putting up for consumption scraps, refuse, or stems, scraps, clippings, or waste by sifting, twisting, screening, or by any other process.

(n) "Manufacturer of cigars or cigarettes" includes those whose business it is to make or manufacture cigars or cigarettes or both for sale or who employ others to make or manufacture cigars or cigarettes for sale; but the term does not include artisans or apprentices employed to make cigars or cigarettes from material supplied by the employer, the latter being lawfully engaged in the manufacture of cigars and cigarettes.

(o) "Tobacco dealer" comprehends every person who for himself or on commission sells or offers for sale cigars, cigarettes, or manufactured tobacco.

(p) "Manufacturer or importer of playing cards" includes those whose business it is to make manufacture, or import playing cards for sale.

(q) "Manufacturer, producer, or importer of soft drinks or mineral waters" includes all persons who manufacture, produce, or import for sale:

1. Beverages derived wholly or in part from cereals or substitutes therefor, containing less than one-half of one per centum of alcohol by volume;
2. Unfermented grape juice, in natural or concentrated form (whether or not sugar has been added), containing thirty-five per centum or less of sugar by weight;
3. Unfermented fruit juices (except grape juice), in natural or slightly concentrated form, or such fruit juice to which sugar has been added (as distinguished from finished or fountain syrups), intended for consumption as beverages with the addition of water or water and sugar, and upon all imitations of any such fruit juices, and upon all carbonated beverages, commonly known as soft drinks, manufactured, compounded, or mixed by the use of concentrate, essence, or extract, instead of a finished or fountain syrup;
4. Still drinks (except grape juice), containing less than one-half of per centum of alcohol by volume, intended for consumption as beverages in the form in which sold (except natural or artificial mineral and table waters and imitations thereof, and pure apple cider); and
5. Natural or artificial mineral waters or table waters, whether carbonated or not, and all imitations thereof.

(r) "Stockholder" includes all persons whose business it is, for themselves or others, to negotiate purchases or sales of stock, bonds, exchange, bullion, coined money, bank notes, promissory notes, or other securities.

(s) "Real estate broker" includes all persons whose business it is, for themselves or others, to negotiate purchases or sales of lands, buildings, or interests therein, or to negotiate loans secured by lands, buildings, or interests therein, or to rent real estate for others or to collect rents thereon

(t) "Commercial broker" includes all persons, other than importers, manufacturers, producers, or bona fide employees, who, for compensation or profit, sell or bring about sales or purchases of merchandise for other

persons, or bring proposed buyers and sellers together, or negotiate freights or other business for owners of vessels, or other means of transportation, or for the shippers, or consignors or consignees of freight carried by vessels or other means of transportation. The term includes commission merchants

(u) "Lending investor" includes all persons who make a practice of lending money for themselves or others at interest

(v) "Business agent" (agente de negocios) includes all persons who act as agents of others in the transaction of business with any public officer, as well as those who conduct collecting, advertising, employment, or private detective avenues

(w) "Merchant" means a person engaged in the sale, barter, or exchange of personal property of whatever character. Except as specifically provided, the term includes manufacturers who sell articles of their own production.

(x) "Manufacturer" includes every person who by physical or chemical process alters the exterior texture or form or inner substance of any raw material or manufactured or partially manufactured product in such manner as to prepare it for a special use or uses to which it could not have been put in its original condition, or who by any such process alters the quality of any such raw material or manufactured or partially manufactured product so as to reduce it to marketable shape or prepare it for any of the uses of industry, or who by any such process combines any such raw material or manufactured or partially manufactured products with other materials or products of the same or of different kinds and in such manner that the finished product of such process of manufacture can be put to a special use or uses to which such raw material or manufactured or partially manufactured products in their original condition could not have been put, and who in addition alters such raw material or manufactured or partially manufactured products, or combines the same to produce such finished products for the purpose of their sale or distributions to others and not for his own use or consumption.

SEC. 195. Percentage tax on stock, real estate, commercial, customs, and immigration brokers. — Stock, real estate, commercial, customs, and immigration brokers shall pay a percentage tax equivalent to four per centum of the gross compensation received by them in excess of five hundred pesos per quarter.

The records kept by said brokers may be used as evidence to determine the amount of the percentage tax due from them, and the Collector of Internal Revenue may assess and collect the tax due on the compensation earned in accordance with said records.

In any case, the amount of the compensation of said brokers shall be reported quarterly within the time established for the other quarterly reports of sales and receipts.

SEC. 196. Reduction of tax on race tracks. — The provincial board of any province or the city council of any chartered city may in any year reduce the per diem tax on race tracks for the ensuing calendar year or years to any amount not less than twenty pesos; but no such reduction shall be made for the City of Manila or for any place situated within a radius of ten kilometers from the boundary of the City of Manila.

Written notice of such action shall be sent to the Collector of Internal Revenue before the same shall become effective.

SEC. 197. Privilege secured by payment of tax. — A person who has paid the tax as a manufacturer of distilled spirits, manufactured liquors or wines, fermented liquors, cigars, cigarettes, snuff, or other manufactured tobacco may, without further payment of privilege tax, sell his products at wholesale and in the original packages at the place of manufacture, but not otherwise.

A retail liquor dealer may without further payment of privilege tax engage in business as a retail vino dealer.

SEC. 198. Continuation of business of deceased person.—When any individual paying a business tax dies and the same business is continued by the person or persons interested in his estate, no additional payment shall be required for the residue of the term for which the tax was paid.

SEC. 199. Removal of business to other location. — Any business for which the privilege tax has been paid may, subject to the regulations of the Department of Finance, be removed and continued in any other place without the payment of additional tax during the term for which the payment was made.

SEC. 200. Revocation of privilege. — When a person doing business under the provisions of this Title as a retail liquor dealer, retail vino dealer, dealer in fermented liquors, or as a peddler of tobacco or liquor, is abusing his privilege to the injury of the public morals or peace, or when a place where any such business is established has been or is conducted in a disorderly or unlawful manner, or is a nuisance, or is permitted to be used as a resort for disorderly characters, criminals, or women of ill repute, the Collector of Internal Revenue may, after due investigation, and with the approval of the Department Head, revoke such privilege, subject to appeal to the President of the Philippines, whose action on the appeal shall be final. Such revocation shall operate to forfeit all sums which may have been paid in respect of said privilege and to prohibit the sale, by the person whose privilege is so revoked, of liquor or tobacco for a term which may be fixed in said order.

CHAPTER II - Tax on Occupation

SEC. 201. Amount of privilege tax on occupation. — Privilege taxes on occupation shall be collected as follows, the amount stated being the sum due for the whole year which may be paid annually or semi-annually:

(a) Lawyers, medical practitioners, land surveyors, architects, public accountants, civil, electrical, chemical, mechanical or mining engineers, insurance agents and sub-agents, veterinarians, dental surgeons, opticians, professional appraisers or connoisseurs of tobacco and other domestic or foreign products, licensed ship masters, and marine chief engineers, twenty-four pesos.

The term "mechanical engineers", as used in this section means professional mechanical engineers as defined in Commonwealth Act Numbered Two hundred and ninety-four.

(b) Chief mates, marines second engineers, pharmacists, chiropodists, tattooers, and masseurs, twelve pesos.

SEC. 202. Exemption of persons employed by Government or engaged in work of charity. — No occupation tax shall be imposed upon persons in any branch of the service of the Government of the United States or of the Government of the Philippines whose entire professional services are devoted exclusively to such Governments or as applied under their direction, or upon persons devoting their entire professional services to any religious, educational, or charitable institution, or hospital, sanitarium or to any similar establishment, not conducted for private gain.

CHAPTER III - Administrative Provisions

SEC. 203. Registration of name or style with provincial revenue agent or provincial treasurer. — Every person engaged in any business or occupation on which a privilege tax is imposed by law shall register with the provincial revenue agent or with the provincial treasurer, in case no provincial revenue agent is assigned to the province, his name or style, place of residence, business or occupation, and the place where such business or occupation is carried on. In case of a firm, the names and residences of the various persons constituting the same shall also be registered.

SEC. 204. Merchants, importers, and manufacturers to issue sales invoices. — All merchants, importers, or

manufacturers subject to tax under sections 182, 184, 185, 186, 187, and 189, of this Title, shall, for each sale or transfer of merchandise valued at ten pesos or more, prepare and issue sales or commercial invoices serially numbered in duplicate, showing, among other things, their names, or styles, if any, and business addresses: Provided, That in case of sales or transfers in the amount of fifty pesos or more the invoices shall further show the name, or style, if any, and business address of the purchaser. The original of each sales invoice shall be issued to the purchaser who, if engaged in any taxable business, shall keep and preserve the same in his place of business for a period of five years from the date of the invoice, the duplicate to be kept and preserved by the merchant, importer, or manufacturer also in his place of business for a like period.

The Collector of Internal Revenue may, in meritorious cases, exempt any merchant, importer, or manufacturer from compliance with the provisions of this section.

SEC. 205. Sign to be exhibited by distiller, rectifier, compounder, repacker, and wholesale liquor dealer. — Every person engaged in distilling or rectifying spirits, compounding liquors, repacking wines or distilled spirits, and every wholesale liquor dealer, shall keep conspicuously on the outside of his place of business a sign exhibiting, in letters not less than six centimeters high, his name or firm style, with the words "Registered distiller", "Rectifier of spirits", "Compounder of liquors", "Repacker of wines or distilled spirit", or "Wholesale liquor dealer", as the case may be, and his assessment number.

SEC. 206. Sign to be exhibited by manufacturer of products of tobacco. — Every manufacturer of cigars, cigarettes, or tobacco, and every wholesale dealer in leaf tobacco or manufactured products of tobacco shall place and keep on the outside of the building wherein his business is carried on, so that it can be distinctly seen, a sign stating his full name and business in letters not less than six centimeters high and also giving his assessment number.

SEC. 207. Exhibition of certificate of payment at place of business. — The certificate or receipt showing payment of tax issued to a person engaged in a business or occupation subject to a privilege tax shall be kept conspicuously exhibited in plain view in or at the place where the business is conducted or occupation plied; and, in case of a peddler or other person not having a fixed place of business, shall be kept in the possession of the holder thereof, subject to production upon the demand of any internal-revenue officer.

CHAPTER IV - Penal Provisions Especially Applicable to Business and Occupation

SEC. 208. Unlawful pursuit of business or occupation. — Any person who distills, rectifies, repacks, compounds, or manufactures any article subject to a specific tax, without having paid the privilege tax therefor as required by law, or who knowingly aids or abets in the conduct of illicit distilling, rectifying, repacking, compounding, or illicit manufacture of any article subject to a specific tax shall, in addition to being liable for the payment of such tax, be punished by a fine a sum not less than five hundred pesos nor more than five thousand pesos, or by imprisonment for a term of not less than six years, or both; and all articles distilled, rectified, repacked, compounded, or manufactured, and all personal property found at the distillery, repacking, rectifying, compounding, or manufacturing establishment or in any building, room, yard, or enclosure connected therewith and used with or constituting a part of the premises on which the distilling, repacking, rectifying, compounding, or manufacturing of said article is carried on, and all the right, title, and interest of such person in the lot or tract of land in which such distillery, repacking, rectifying, compounding, or manufacturing establishment is situated, and all the rights, title, and interest therein of every person who knowingly or with negligence has suffered or permitted the business of a distiller, repacker, rectifier, compounder, or manufacturer of any article subject to a specific tax to be there carried on or has connived at the same, shall be forfeited.

In case of reincidence, the offender under the first paragraph hereof shall be punished by a fine of not less than

two thousand pesos nor more than fifteen thousand pesos, or by imprisonment of not less than two years nor more than twelve years, or both.

Any person who carries on any other business, or pursues any calling for which a fixed privilege tax is imposed without paying such tax as required by law or who knowingly aids or abets in the conduct of such business, shall in addition to being liable to the payment of such tax, be punished by a fine in a sum not exceeding one thousand pesos or by imprisonment for a term not exceeding six months, or both.

SEC. 209. Failure to make return of receipts, sales, or gross value of output removed, or pay the tax due there on. — Any person who, being required under this Title to make a return of the amount of his receipts, sales, business, or gross value of output actually removed, or pay the tax due thereon, shall fail or neglect to make such return or pay such tax within the time required, shall be punished by a fine not exceeding two thousand pesos or by imprisonment for a term not exceeding one year, or both.

Any such person who shall make a false or fraudulent return shall, besides being liable to the surcharge prescribed in section 183 of this Title, be punished by a fine of not less than five hundred pesos nor more than ten thousand pesos or by imprisonment of not less than six months but not more than six years, or both.

TITLE VI - Documentary Stamp Tax

SEC. 210. Stamp taxes upon documents, instruments, and papers. — Upon documents, instruments, and papers, and upon acceptances, assignments, sales, and transfers of the obligation, right, or property incident thereto, there shall be levied, collected and paid, for and in respect of the transaction so had or accomplished, the corresponding documentary stamp taxes prescribed in the following sections of this Title, by the person making, signing, issuing, accepting, or transferring the same, and at the time such act is done or transaction had.

SEC. 211. Stamp tax on bonds, debentures, and certificates of indebtedness. — On all bonds, debentures, and certificates of indebtedness issued by any association, company, or corporation, there shall be collected a documentary stamp tax of twenty centavos on each two hundred pesos, or fractional part thereof, of the face value of such documents.

SEC. 212. Stamp tax on original issue of certificates of stock. — On every original issue, whether on organization, reorganization, or for any lawful purpose, of certificates of stock by any association, company, or corporation, there shall be collected a documentary stamp tax of twenty centavos on each two hundred pesos, or fractional part thereof, of the par value of such certificates: Provided, That in the case of the original issue of stock without par value the amount of the documentary stamp tax herein prescribed shall be based upon the actual consideration received by the association, company, or corporation for the issuance of such stock and in the case of stock dividends, on the actual value represented by each share.

SEC. 213. Stamp tax on sales, agreements to sell, memoranda of sales, deliveries or transfers of bonds, due bills, certificates of obligation, or shares or certificates of stock. — On all sales, or agreements to sell, or memoranda of sales, or deliveries, or transfer of bonds, due-bills, certificates of obligation, or shares or certificates of stock, in any association, company, or corporation, or transfer of such securities by assignment in blank, or by delivery, or by any paper, or agreement, or memorandum or other evidences of transfer or sale whether entitling the holder in any manner to the benefit of such bonds, due-bills, certificates of obligation or stock, or to secure the future payment of money, or for the future transfer of any bond, due-bill, certificate of obligation or stock, there shall be collected a documentary stamp tax of four centavos on each two hundred pesos, or fractional part thereof, of the par value of such bond, due-bill, certificates of obligation or stock, there shall be collected a documentary stamp tax of four centavos on each two hundred pesos or fractional part thereof of the par value of such bond, due bills, certificates of obligation or stock: Provided, That only one tax shall be collected on each sale or transfer of stock

or securities from one person to another, regardless of whether or not a certificates of stock or obligation is issued, indorsed, or delivered in pursuance of such sale or transfer: And provided, further, That in the case of stock without par value the amount of the documentary stamp tax herein prescribed shall be equivalent to twenty per centum of the documentary stamp tax paid upon the original issue of said stock.

SEC. 214. Stamp tax on bonds, debentures, certificates of stock or indebtedness issued in foreign countries. — On all bonds, debentures, certificates of stock, or certificates of indebtedness issued in any foreign country, there shall be collected from the person selling or transferring the same in the Philippines such tax as is required by law on similar instruments when issued, sold, or transferred in the Philippines.

SEC. 215. Stamp tax on certificates of profits or interest in property or accumulations. — On all certificates of profits, or memorandum showing interest in the property or accumulations of any association, company, or corporation, and on all transfers of such certificates or memoranda, there shall be collected a documentary stamp tax of two centavos on each two hundred pesos, or fractional part thereof, of the face value of such certificate or memorandum.

SEC. 216. Stamp tax on bank checks, drafts, certificates of deposit not bearing interest, and other instruments. — On each bank check, draft, or certificate of deposit not drawing interest, or order for the payment of any sum of money drawn upon or issued by any bank, trust company, or any person or persons, companies or corporations, at sight or on demand, there shall be collected a documentary stamp tax of two centavos.

SEC. 217. Stamp tax on negotiable promissory notes, bills of exchange, drafts, certificates of deposit bearing interest and others not payable on sight or demand. — On all bills of exchange (between points within the Philippines), drafts or certificates of deposit drawing interest, or orders for the payment of any sum of money otherwise than at sight or on demand, or on all negotiable promissory notes, except bank notes issued for circulation, and on each renewal of any such note, there shall be collected a documentary stamp tax of two centavos on each two hundred pesos, or fractional part thereof, of the face value of any such bill of exchange, draft, certificate of deposit, or note.

SEC. 218. Stamp tax upon acceptance of bills of exchange and others. — Upon any acceptance or payment of any bill of exchange or order for the payment of money purporting to be drawn in a foreign country but payable in the Philippines, there shall be collected a documentary stamp tax of four centavos on each two hundred pesos, or fractional part thereof, of the face value of any such bill of exchange or order, or the Philippine equivalent of such value, if expressed in foreign currency.

SEC. 219. Stamp tax on foreign bills of exchange and letters of credit. — On all foreign bills of exchange and letters of credit (including orders, by telegraph or otherwise, for the payment of money issued by express or steamship companies or by any person or persons) drawn in but payable out of the Philippines, in a set of three or more according to the custom of merchants and bankers, there shall be collected a documentary stamp tax of four centavos on each two hundred pesos, or fractional part thereof, of the face value of any such bill of exchange or letter of credit, or the Philippine equivalent of such face value, if expressed in foreign currency.

SEC. 220. Stamp tax on life insurance policies. — On all policies of insurance or other instruments by whatever name the same may be called, whereby any insurance shall be made or renewed upon any life or lives, there shall be collected a documentary stamp tax of ten centavos on each two hundred pesos, or fractional part thereof, of the amount insured by any such policy.

SEC. 221. Stamp tax on policies of insurance upon property. — On all policies of insurance or other instruments by whatever name the same may be called, by which insurance shall be made or renewed upon property of any

description, including rents or profits, against peril by sea or on inland waters, or by fire or lightning, there shall be collected a documentary stamp tax of four centavos on each four pesos, or fractional part thereof, of the amount of premium charged.

SEC. 222. Stamp tax on fidelity bonds and other insurance policies. — On all policies of insurance or bonds or obligations of the nature of indemnity for loss, damage, or liability made or renewed by any person, association, company or corporation transacting the business of accident, fidelity, employer's liability, plate glass, steam boiler, burglar, elevator, automatic sprinkler, or other branch of insurance (except life, marine, inland, and fire insurance), and all bonds, undertakings, or recognizances conditioned for the performance of the duties of any office or position, for the doing or not doing of anything therein specified, and on all obligations guaranteeing the validity or legality of any bonds or other obligations issued by any province, city, municipality, or other public body or organization, and on all obligations guaranteeing the title to any real estate, or guaranteeing any mercantile credits, which may be made or renewed by any such person, company or corporation, there shall be collected a documentary stamp tax of four centavos on each four pesos, or fractional part thereof, of the premium charged.

SEC. 223. Stamp tax on policies of annuities. — On all policies of annuities, or other instruments by whatever name the same may be called, whereby an annuity may be made, transferred, or redeemed, there shall be collected a documentary stamp tax of twenty centavos, on each two hundred pesos, or fractional part thereof, of the capital of the annuity, or should this be unknown, then on each two hundred pesos, or fractional part thereof, of thirty-three and one-third times the annual income.

SEC. 224. Stamp tax on indemnity bonds. — On all bonds for indemnifying any person, firm, or corporation who shall become bound or engaged as surety for the payment of any sum of money or for the due execution or performance of the duties of any office or position to account for money received by virtue thereof, and on all other bonds of any description, except such as may be required in legal proceedings or are otherwise provided for herein, there shall be collected a documentary stamp of fifty centavos.

SEC. 225. Stamp tax on certificates. — On each certificate of damage, or otherwise, and on every other certificate or document issued by any customs officer, marine surveyor, or other person acting as such, and on each certificate issued by a notary public, and on each certificate of any description required by law, or by rules or regulations of a public office, or which is issued for the purpose of giving information, or establishing proof of a fact, and not otherwise specified herein, there shall be collected a documentary stamp tax of twenty centavos: Provided, That in the case of tax clearance certificates, there shall be collected a documentary stamp tax of ten pesos on each certificate for a first class passenger; five pesos for a second or tourist class passenger; and one peso for a third class or steerage passenger.

SEC. 226. Stamp tax on warehouse receipts. — On each warehouse receipt for property held in storage in a public or private warehouse or yard for any other person than the proprietor of such warehouse or yard himself, there shall be collected a documentary stamp tax of twenty centavos: Provided, That no tax shall be collected on each warehouse receipt issued to any one person in any one calendar month covering property the value of which does not exceed two hundred pesos.

SEC. 227. Stamp tax on bills of lading or receipts. — On each set of bills of lading or receipts (except charter party) for any goods, merchandise, or effects shipped from one port or place in the Philippines to another port or place in the Philippines, or to any foreign port, there shall be collected a documentary stamp tax of four centavos, if the value of such goods exceeds five pesos and does not exceed two hundred pesos; ten centavos, if the value exceeds two hundred pesos and does not exceed one thousand pesos; twenty centavos, if the value exceeds one

thousand pesos and does not exceed five thousand pesos and does not exceed ten thousand pesos; and one peso, if the value exceeds ten thousand pesos

SEC. 228. Stamp tax on passage tickets. — On each passage ticket, whether a single fare or return ticket, or any receipt for money paid for the passage of a person on any vessel or other means of transportation other than a vessel or other means of transportation belonging to the Government of the Philippines or the Government of the United States from any port or place in the Philippines to any port or place in the United States, or any other foreign country there shall be collected a documentary stamp tax at the following rates:

- (a) If said passage costs not more than sixty pesos, three pesos.
- (b) If said passage costs not more than sixty pesos, and not more than one hundred twenty pesos, five pesos.
- (c) If said passage costs more than one hundred and twenty pesos and not more than two hundred and fifty pesos, seven pesos.
- (d) If said passage costs more than two hundred and fifty pesos, ten pesos.

SEC. 229. Stamp tax on proxies. — On each proxy for voting at any election for officers of any company or association, or for any other purpose, except proxies issued affecting the affairs of associations or corporations organized for religious, charitable, or literary purposes, there shall be collected a documentary stamp tax of thirty centavos.

SEC. 230. Stamp tax on powers of attorney. — On each power of attorney to perform any act whatsoever, except acts connected with the collection of claims due from or accruing to the Government of the United States, the Government of the Philippines or the government of any province, city, or municipality, there shall be collected a documentary stamp tax of twenty centavos; Provided, however, That on each power of attorney which authorizes another to administer, sell, lease, or otherwise dispose of the property of a principal, there shall be collected a documentary stamp tax of forty centavos

SEC. 231. Stamp tax on leases and other hiring agreements. — On each lease, agreement, memorandum, or contract for the hire, use or rent of any lands or tenements, or portions thereof, there shall be collected a documentary stamp tax at the following rates:

- (a) If executed for not more than one year, forty centavos
- (b) If executed for more than one year and not more than three years, one peso.
- (c) If executed for more than three years, two pesos.

SEC. 232. Stamp tax on mortgages, pledges, and deeds of trust. — On every mortgage or pledge of lands, estate, or property, real or personal, heritable or movable, whatsoever, where the same shall be made as a security for the payment of any definite and certain sum of money lent at the time or previously due and owing or forborne to be paid being payable, and on any conveyance of land, estate, or property, whatsoever, in trust or to be sold, or otherwise converted into money, which shall be and intended only as security, either by express stipulation or otherwise, there shall be collected a documentary stamp tax at the following rates:

- (a) When the amount for which the mortgage or deed of trust is given exceeds one thousand pesos and does not exceed three thousand pesos, one peso.
- (b) On each three thousand pesos or fractional part thereof in excess of three thousand pesos, an additional tax of one peso.

SEC. 233. Stamp tax on deeds of sale and conveyance of real property. — On all conveyance, deeds, instruments, or writings, other than grants, patents, or original certificates of adjudication issued by the Government, whereby any lands, tenements, or other real property sold shall be granted, assigned, transferred, or otherwise conveyed to the purchaser or purchasers, or to any other person or persons designated by such purchaser or purchasers, there shall be collected a documentary stamp tax at the following rates:

(a) When the consideration, or value received or contracted to be paid for such real property, after making proper allowance for any encumbrance, exceeds two hundred pesos and does not exceed one thousand pesos, fifty centavos.

(b) For each additional one thousand pesos, or fractional part thereof in excess of one thousand pesos of such consideration or value, one peso.

When it appears that the amount of the documentary stamp tax payable thereunder has been reduced by an incorrect statement of the consideration in any conveyance, deed, instrument, or writing subject to such tax, the Collector of Internal Revenue, provincial or city treasurer, or other revenue officer shall from the assessment rolls or other reliable source of information, assess the property at its true market value and collect the proper tax thereon.

SEC. 234. Stamp tax on charter parties and similar instruments. — On every charter party, contract, or agreement for the charter of any ship, vessel, or steamer, or any letter or memorandum or other writing between the captain, master, or owner, or other person acting as agent of any ship, vessel, or steamer, and any other person or persons for or relating to the charter of any ship, vessel, or steamer, and on any renewal or transfer of such charter, contract, agreement, letter, or memorandum, there shall be collected a documentary stamp tax at the following rates:

(a) If the registered gross tonnage of the ship, vessel or steamer does not exceed three hundred tons, and the duration of the charter or contract does not exceed six months, twelve pesos; and for each month or fraction of a month in excess of six months, an additional tax of two pesos shall be paid.

(b) If the registered gross tonnage exceeds three hundred tons and does not exceed six hundred tons, and the duration of the charter or contract does not exceed six months, twenty-four pesos; and for each month or fraction of a month in excess of six months, an additional tax of four pesos shall be paid.

(c) If the registered gross tonnage exceeds six hundred tons and the duration of the charter or contract does not exceed six months, forty-eight pesos; and for each month or fraction of a month in excess of six months, an additional tax of eight pesos shall be paid.

SEC. 235. Stamp tax on assignments and renewals of certain instruments. — Upon each and every assignment or transfer of any mortgage, lease, or policy of insurance, or the renewal or continuance of any agreement, contract, charter, or an evidence of obligation or indebtedness by altering or otherwise, there shall be levied, collected and paid a documentary stamp tax, at the same rate as that imposed on the original instrument.

SEC. 236. Documents and papers not subject to stamp tax. — The following instruments, documents, and papers shall be exempt from the documentary stamp tax:

(a) Bonds, debentures, and certificates of indebtedness issued by the National Government or any provincial, city, or municipal government.

(b) Checks, drafts, warrants, and bills of exchange issued in payment of any debt, obligation, or liability, or in fulfillment of any contract of the Government of the United States, or the National Government, or of a

provincial, city, or municipal government.

(c) Policies of insurance or annuities made or granted by a fraternal or beneficiary society, order, association, or cooperative company, operated on the lodge system or local cooperation plan, and organized and conducted solely by the members thereof for the exclusive benefit of its members and not for profit.

(d) Certificates of oaths administered to any Government official, in his official capacity, or of acknowledgment by any Government official in the performance of his official duties; written appearances in any court by any Government official, in his official capacity; certificates of the administration of oaths to any person as to the authenticity of any paper required to be filed in court by any person or party thereto, whether the proceedings be civil or criminal; papers and documents filed in courts by or for the Government of the United States, or the national, provincial, city, or municipal governments; affidavits of poor persons for the purpose of proving poverty; statements and other compulsory information required of persons or corporations by rules and regulations of the Government of the United States, or the national, provincial, city, or municipal governments exclusively for statistical purposes and which are wholly for the use of the bureau or office in which the same are filed, and not at the instance or for the use or benefit of the person filing the same; certified copies and other certificates placed upon documents, instruments, and papers for the Government of the United States, or for the national, provincial, city, or municipal governments, made at the instance and for the sole use of some other branch of the Government of the United States, or of the national, provincial, city, or municipal governments; and certificates of the assessed value of lands, not exceeding two hundred pesos in value assessed, furnished by provincial, city, or municipal treasurer to applicants for registration of title to land.

When any bond, note, or other obligation is secured by a mortgage, pledge, deed of trust, or by the assignment or transfer of any documentary security, one tax only shall be collected upon such papers, such tax to be at the highest rate imposed on such mortgage, bond, note, obligation, or other document, as the case may be.

SEC. 237. Payment of documentary stamp tax cancellation of stamp. — Documentary stamp taxes shall be paid by the purchase and affixture of documentary stamps to the document or instrument taxed or to such other paper as may be indicated by law or regulations as the proper recipient of the stamp, and by the subsequent cancellation of the same, such cancellation to be accomplished by writing, stamping, or perforating the date of the cancellation across the face of each stamp in such manner that part of the writing, impression, or perforation shall be on the stamp itself and part on the paper to which it is attached: Provided, That, if the cancellation is accomplished by writing or stamping the date of cancellation, a hole sufficiently large to be visible to the naked eye shall be punched, cut or perforated on both the stamp and the document either by the use of a hand punch, knife, perforating machine, scissors, or any other cutting instrument; but if the cancellation is accomplished by perforating the date of cancellation, no other hole need be made on the stamp.

In appropriate cases, and in the discretion of the Collector of Internal Revenue, documentary stamps may be imprinted on certain documents upon payment of the face value of such stamps, in which case the imprinted stamps need not be canceled as indicated in the preceding paragraph.

When the evidence of a sale or transfer is shown only on the books of a company, the stamp shall be affixed to such books; and in case of the issuance of certificates of stock or other securities or passage tickets, the stamp shall be affixed to the stub or duplicate to be kept in the office of the person or company issuing such certificates, securities, or tickets; and in case the change of ownership is by transfer of certificates the stamp shall be affixed to the certificate; and in case of an agreement to sell, or when the transfer is by delivery of the certificate assigned in blank, there shall be made and delivered by the seller to the buyer a bill or memorandum of such sale to which the stamp shall be affixed; and every such bill or memorandum of sale, or agreement to sell, shall show the date

thereof, the name of the seller and/or of the purchaser, the amount of the sale, and matter or thing to which it refers: Provided, That where the sale is effected through a broker, the memorandum of sale herein required shall be made and delivered by said broker: And provided, further, That for the purpose of this section a notice of sale to the vendor, commonly known as "confirmation slip," shall be considered as a bill or memorandum of sale.

SEC. 238. Effect of failure to stamp taxable document. — An instrument, document, or paper which is required by law to be stamped and which has been signed, issued, accepted, or transferred without being duly stamped, shall not be recorded, nor shall it or any copy thereof or any record of transfer of the same be admitted or used in evidence in any court until the requisite stamp or stamps shall have been affixed thereto and cancelled No notary public or other officer authorized to administer oaths shall add his jurat or acknowledgment to any document subject to documentary stamp tax unless the proper documentary stamps are affixed thereto and canceled.

SEC. 239. Failure to affix or cancel documentary stamps. — Any person who fails to affix the correct amount of documentary stamps to any taxable document, instrument, or paper, or to cancel in the manner prescribed in section 237 any documentary stamp affixed to any document, instrument, or paper, shall be subject to a fine of not less than twenty pesos nor more than three hundred pesos.

SEC. 240. Falsification, or counterfeiting, restoration, or alteration of documentary stamps; possession or use of false, counterfeit, restored, or altered stamps. — Any person who makes, sells, or uses any false, counterfeit, restored, or altered documentary stamps, or makes, sells, or uses any die for printing or making stamps which are in imitation of or purport to be a lawful stamp or die of the kind required by the provisions of this Title, or who erases the cancellation marks or any stamp previously used, or who alters the written or printed figures or letters or cancellation marks on any stamp previously used, or who has in his possession any such false, counterfeit, restored, or altered stamp or die for the purpose of using the same in the payment of internal-revenue tax or in securing any exemption or privilege conferred by this Code, or who procures the commission of any such offense by another, shall for each offense be fined in a sum not less than three hundred pesos nor more than five thousand pesos and imprisoned for a term not less than three months nor more than five years.

TITLE VII - MINING TAXES

SEC. 241. Occupation fee. — Any locator, holder, or occupant of any mining claim shall pay to the Collector of Internal Revenue in advance, upon the expiration of the period of two years from the date of the registration of the claim in the office of the Mining Recorder, and on the same date every year thereafter, an annual occupation fee of one peso per hectare, or fractional part thereof, until the lease covering the mining claim shall have been granted. Fifty per centum of all the fees collected under this section shall accrue to the province, and fifty per centum to the municipality in which the mining claims are located: Provided, That in case the mining claims are located in a chartered city, the full amount shall accrue to the city concerned. Failure to pay the occupation fee herein required within thirty days after demand shall cause the mining claims to be open to relocation and lease by other persons qualified to locate and lease the same under the provisions of the Mining Act, in the same manner as if no location of the said mining claims had ever been made, unless the locator, holder, occupant, his heirs, executors, administrators, or legal representatives, shall have paid the delinquent occupation fees and have resumed occupation of the claims before relocation by other persons.

No lease shall be granted on any mining claim until the occupation fees required to be paid under this section shall have been fully paid: Provided, however, That nothing herein contained shall be construed to extend the period of four years within which application for lease of a mining claim shall be filed from the date of the recording of the claim in the office of the Mining Recorder, as provided for in the Mining Act.

SEC. 242. Rentals and royalties on mineral lands under lease. — For the privilege of exploring, developing,

mining, extracting, and disposing of the minerals from the lands covered by his lease, the lessee shall pay to the Government of the Philippines, through the Collector of Internal Revenue, rentals and royalties as follows:

(a) Rentals.

(1) On coal-bearing public lands, an annual rental, payable in advance on the date of the approval of the lease and on the same date every year thereafter, on the lands covered by such lease, at the rate of two pesos and fifty centavos per hectare or fraction thereof for each and every year for the first ten years, and five pesos per hectare or fraction thereof for each and every year thereafter during the life of the lease: Provided, That such rental for any year shall be credited against the royalties as they accrue for that year as provided in subsection (b) hereof: And provided, further, That such rental and royalties paid during any year shall be credited against the specific tax provided for in section 143.

(2) On all mineral lands of the first, second, fourth, and fifth groups provided under the Mining Act, one peso per hectare or fraction thereof. The rental shall be paid in advance to the provincial, city, or deputy provincial treasurers on the date of the granting of the lease and on the same date every year thereafter during the life of the lease. Fifty per centum of all the rentals collected shall accrue to the province, and fifty per centum to the municipality in which the mining claims are located: Provided, That in case the mining claims are located in a chartered city, the full amount shall accrue to that city.

(b) Royalties.

(1) On coal, such royalties as may be specified in the lease, which shall not be less than ten centavos per ton of one thousand and sixteen kilograms.

(2) On gold, a royalty based on the actual market value of the annual gross output thereof, as follows:

One and one-half per centum upon the first five hundred thousand pesos of the value of said output:

Two and one-half per centum upon the amount by which such output exceeds five hundred thousand pesos and does not exceed one million pesos;

Three and one-half per centum upon the amount by which such output exceeds one million pesos and does not exceed one million five hundred thousand pesos;

Four and one-half per centum upon the amount by which such output exceeds one million five hundred thousand pesos and does not exceed two million pesos;

Five and one-half per centum upon the amount by which such output exceeds two million pesos and does not exceed two million five hundred thousand pesos:

Six and one-half per centum upon the amount by which such output exceeds three million pesos and does not exceed four million pesos;

Seven and one-half per centum upon the amount by which such output exceeds four million pesos and does not exceed five million pesos;

Eight per centum upon the amount by which such output exceeds six million pesos and does not exceed seven million pesos;

Eight and one-fourth per centum upon the amount by which such output exceeds seven million pesos and does not exceed eight million pesos:

Eight and one-half per centum upon the amount by which such output exceeds eight million pesos and does not

exceed ten million pesos;

Eight and three-fourths per centum upon the amount by which such output exceeds ten million pesos and does not exceed twelve million pesos;

Nine per centum upon the amount by which such output exceeds twelve million pesos and does not exceed fourteen million pesos;

Nine and one-half per centum upon the amount by which such output exceeds fourteen million pesos and does not exceed sixteen million pesos;

Nine and one-half per centum upon the amount by which such output exceeds sixteen million pesos and does not exceed eighteen million pesos;

Nine and three-fourths per centum upon the amount by which such output exceeds eighteen million pesos and does not exceed twenty million pesos; and

Ten per centum upon the amount by which such output exceeds twenty million pesos.

(3) On all other minerals extracted from or mineral products of, mineral lands of the first, second, fourth, and fifth groups as provided for in the Mining Act, a royalty of one and one-half per centum of the actual market value of the gross output thereof.

Before the minerals or mineral products are removed from the mines, the Collector of Internal Revenue or his representative shall first be notified of such removal on a form prescribed for the purpose.

The rentals and royalties at the rates herein established or at such rates as hereafter may be prescribed by law shall be paid by the lessee and a provision to this effect shall be deemed to be a part of every contract of lease covering the mineral lands and mineral product referred to in this section

SEC. 243. Ad valorem taxes on output of mineral lands not covered by lease. — There shall be assessed and collected on the actual market value of the annual gross output of the minerals or mineral products extracted or produced from all mineral lands, not covered by lease, an ad valorem tax, payable to the Collector of Internal Revenue, as follows:

(1) On gold —

One and one-half per centum upon the first five hundred thousand pesos of the value of said output;

Two and one-half per centum upon the amount by which such output exceeds five hundred thousand pesos and does not exceed one million pesos;

Three and one-half per centum upon the amount by which such output exceeds one million pesos and does not exceed one million five hundred thousand pesos;

Four and one-half per centum upon the amount by which such output exceeds one million five hundred thousand pesos and does not exceed two million pesos;

Five and one-half per centum upon the amount by which such output exceeds two million pesos and does not exceed two million five hundred thousand pesos;

Six and one-half per centum upon the amount by which such output exceeds two million five hundred thousand pesos and does not exceed three million pesos;

Seven per centum upon the amount by which such output exceeds three million pesos and does not exceed four

million pesos;

Seven and one-half per centum upon the amount by which such output exceeds four million pesos and does not exceed five million pesos;

Seven and three-fourths per centum upon the amount by which such output exceeds five million pesos and does not exceed six million pesos;

Eight per centum upon the amount by which such output exceeds six million pesos and does not exceed seven million pesos;

Eight and one-fourth per centum upon the amount by which such output exceeds seven million pesos and does not exceed eight million pesos;

Eight and one-half per centum upon the amount by which such output exceeds eight million pesos and does not exceed ten million pesos;

Eight and three-fourths per centum upon the amount by which such output exceeds ten million pesos and does not exceed twelve million pesos;

Nine per centum upon the amount by which such output exceeds twelve million pesos and does not exceed fourteen million pesos;

Nine and one-fourth per centum upon the amount by which such output exceeds fourteen million pesos and does not exceed sixteen million pesos;

Nine and one-half per centum upon the amount by which such output exceeds sixteen million pesos and does not exceed eighteen million pesos;

Nine and three-fourths per centum upon the amount by which such output exceeds eighteen million pesos and does not exceed twenty million pesos; and

Ten per centum upon the amount by which such output exceeds twenty million pesos.

(2) On all other minerals, one and one-half per centum of the value of said output.

Before the minerals or mineral products are removed from the mines, the Collector of Internal Revenue or his representative shall first be notified of such removal on a form prescribed for the purpose.

SEC. 244. Deductions from royalty or ad valorem tax on the output of gold. — The following deductions from the royalty or ad valorem tax, as the case may be, on the annual gross output of gold shall be allowed:

(a) Twenty-five per centum in the case of gold placer mines;

(b) Fifteen per centum in the case of lode mines producing gold from ores which average less than ten pesos but more than seven pesos per ton; and

(c) Thirty per centum in the case of lode mines prorefining, transporting, handling, marketing, or any other producing gold from ores which average less than seven pesos per ton.

The average value per ton of ore shall be determined by dividing the total gross output of gold in pesos for any year by the total number of tons milled or shipped as crude ore during that year for any particular lode mine.

SEC. 245. Time and manner of payment of royalties or ad valorem taxes. — The royalties or ad valorem taxes, as the case may be, shall be due and payable upon the removal of the mineral products from the locality where

mined. However, the output of the mine may be removed from such locality without the prepayment of such royalties or ad valorem taxes if the lessee, owner, or operator shall file a bond in the form and amount and with such sureties as the Collector of Internal Revenue may require, conditioned upon the payment of such royalties or ad valorem taxes, in which case, it shall be the duty of every lessee, owner, or operator of a mine to make a true and complete return in duplicate under oath setting forth the quantity and the actual market value of the output of his mine removed during each calendar quarter and pay the royalties or ad valorem taxes due thereon within twenty days after the close of said quarter.

In case the royalties or ad valorem taxes are not paid within the period prescribed above, there shall be added thereto a surcharge of twenty-five per centum. Where a false or fraudulent return is made, there shall be added to the royalties or ad valorem taxes a surcharge of fifty per centum of their amount. The surcharge so added shall be collected in the same manner and as part of the royalties or ad valorem taxes, as the case may be.

SEC. 246. Definition of the term "gross output". — The term "gross output" shall be interpreted as the actual market value of minerals or mineral products, or of bullion from each mine or mineral lands operated as a separate entity without any deduction for mining, milling refining, transporting, handling, marketing, or any other expenses: Provided, however, That if the minerals or mineral products are sold or consigned abroad by the lessee or owner of the mine under C.I.F. terms, the actual cost of ocean freight and insurance shall be deducted. The output of any group of contiguous mining claims shall not be subdivided. All the royalties or ad valorem taxes herein provided shall accrue to the National Treasury.

SEC. 247. Deductions from royalties payable by persons removing minerals from private lands. — In case mining is carried on upon private lands, the royalty due on the value of the output of such mines under any and all leases granted for the purpose shall be reduced by five per centum of the amount due to the Government under the provisions of this Title. The amount so reduced to be paid by the lessee to the land owner. This privilege shall not be granted to any person acquiring an option on the surface right after any mining location has been made on the minerals found therein.

SEC. 248. Specific penalties. — Anyone liable to make a return of the actual market value of the output of mines or to pay the royalties or ad valorem taxes required in section 245, who refuses or neglects to file such return, or to pay such royalties or ad valorem taxes at the time or time specified therein and any lessee, owner, or person in charge of any minerals or mineral products upon which the royalties or ad valorem taxes imposed in this Title are applicable, who removes, in violation of the first paragraph of said section, or who allows or procures the unlawful removal from the place where mined of any such products, upon which the royalties or ad valorem taxes have not been paid; and any person who abets or aids in the unlawful removal of minerals or mineral products, shall be fined not more than one thousand pesos or imprisoned for not more than six months, or both.

Anyone required by this Title to make, render, or file a return of the actual value of the output of mines, who makes, renders, or files a false or fraudulent return with intent to defeat or evade the payment of the royalties or ad valorem taxes, as the case may be, shall be fined not more than four thousand pesos or imprisoned for not more than one year, or both.

TITLE VIII - MISCELLANEOUS TAXES

CHAPTER I - Taxes on Resources of Banks

SEC. 249. Tax on capital, deposits, and circulation of banks. — Subject to the exemptions herein made, there shall be collected from banks the following taxes on capital, deposits, and circulation.

(a) Upon the capital employed by the bank, for each month, one twenty-fourth of one per centum.

(b) Upon the average amount of deposits of money, subject to payment by check or draft, or represented by certificates of deposit or otherwise, whether payable on demand or at some future day, for each month, one eighteenth of one per centum.

(c) Upon the average amount of circulation issued by the bank, including as circulation all notes and other obligations calculated or intended to circulate or be used as money, but not including such as may be retained in the vault of the bank or redeemed and on deposit for said bank, for each month, one-twelfth of one per centum.

(d) Upon the amount of reserve deficiencies incurred by the bank, and for the periods of their duration, as provided in section 126 of Act Numbered one thousand four hundred and fifty-nine, as amended by Act Numbered Three Thousand six hundred and ten, one per centum per month.

"Bank," as herein used, includes every incorporated or other bank, and every person, association, or company having a place of business where credits are opened by the deposit or collection of money or currency subject to be paid or remitted upon draft, check, or order, or where money is advanced or loaned on stocks, bonds, bullion, bills of exchange, or promissory notes, are received for discount or for sale.

"Capital employed" does not include money borrowed or received from time to time in the usual course of business from any person whose sole business is lending money on real estate security.

SEC. 250. Times for payment of tax. — Increase of tax in case of delinquency. — These taxes shall be due at intervals of six months—namely, on the first of January and July for the respective preceding half-year periods; and if any such tax remains unpaid for four months thereafter, the amount of the tax shall be increased by twenty-five per centum, the increment to be a part of the tax.

SEC. 251. Banker's semi-annual report of business done. — A report of the monthly amount of capital, deposits, and circulation shall be rendered on or before the first of May and first of November of each year by each bank subject to the tax above prescribed, with a declaration annexed thereto under oath of the president, cashier, manager, or proprietor to the effect that such report contains a true, faithful, and correct statement of the amounts subject to tax as aforesaid for the period therein covered.

SEC. 252. Computing resources of bank incorporated abroad. — The amount of capital used by a bank within the Philippines, when such bank is a branch of a bank incorporated under the laws of the United States or a foreign country, shall, for the purposes of assessment hereunder be determined in the following manner: The total amount of the capital of the bank shall be ascertained, and, likewise the total amount of the net earnings of the bank accruing during the preceding six months, and also the total amount of the net earnings accruing from the bank's business conducted in the Philippines, and such a proportion of the total capital of the bank shall be deemed to have been employed in the Philippines as the net earnings in the Philippines bear to the total net earnings of the bank: Provided, however, That the amount of capital deemed to have been employed by a foreign banking corporation in this country shall, in no case, be less than the minimum capital required of a bank organized under the laws of the Philippines.

SEC. 253. Exemption of savings institutions. — The deposits in associations or companies known as provident institutions, savings banks, savings funds, or savings institutions, having no capital stock and which do no other business than receiving deposits to be loaned or invested for the sole benefit of the parties making such deposits and without profit or compensation to the association or company, shall be exempt from this tax on so much of their deposits as such institutions have invested in securities satisfactory to the Treasurer of the Philippines and on all deposits, not exceeding four thousand pesos, made in the name of any one person.

SEC. 254. Exemption in case of reduced circulation. — When the outstanding circulation of any bank is reduced to

an amount not exceeding five per centum of the chartered or declared capital existing at the time the same was issued, such circulation shall be free from taxation; and when any bank which has ceased to issue notes or circulation deposits with the Treasurer of the Philippines in lawful money, the amount of its outstanding circulation to be redeemed at par, under such regulations as the Secretary of Finance may prescribe, it shall be exempt from any tax upon said circulation.

CHAPTER II - TAXES ON RECEIPTS OF INSURANCE COMPANIES

SEC. 255. Tax on insurance premiums. — There shall be collected from every person, company, or corporation (except purely cooperative companies or association) doing insurance business of any sort in the Philippines a tax of one per centum of the total premiums collected during the first ten years of his or its operation and one and one-half per centum of the total premiums collected thereafter, whether such premiums are paid in money, notes, credits, or any substitute for money, but premiums refunded within six months after payment on account of rejection of risk or returned for other reason to persons insured shall not be included in the taxable receipts; nor shall any tax be paid upon reinsurance by a company that has already paid the tax.

"Cooperative companies or associations" are such as are conducted by the members thereof with money collected from among themselves and solely for their own protection and not for profit.

SEC. 256. Time for payment of tax. — Increase of tax in case of delinquency. — The tax on insurance companies shall be due on the first of July in each year for the preceding calendar year, and if the same remains unpaid for fifteen days thereafter the amount of the tax shall be increased by twenty-five per centum, the increment to be a part of the tax.

SEC. 257. Yearly report from insurance company. — Every company liable to the payment of the aforesaid tax shall, on or before the first day of April in each year, render a statement in writing, in such form as the Collector of Internal Revenue shall prescribe, containing an account of the conditions of its business during the calendar year last preceding, the entire amount of all premiums and other considerations received during such year, and such additional information as the Collector may require.

SEC. 258. Tax due from agents of foreign insurance companies. — Every fire, marine, or miscellaneous insurance agent authorized under section 192 of Act Numbered Two Thousand four hundred and twenty-seven, as amended by Acts Numbered Two thousand six hundred and forty-eight and Three thousand five hundred and seventy-five to procure policies of insurance as he may have previously been legally authorized to transact on risks located in the Philippines for companies not authorized to transact business in the Philippines, shall likewise make a yearly report to the Collector of Internal Revenue at the time and in the manner prescribed in section 257, showing the entire amount of all premiums received by the company he represents under the authority of the Insurance Law. And such agent shall pay to the Collector of Internal Revenue a tax equal to twice the tax imposed in section 255 which tax shall be paid at the same time and be subject to the same penalty for delinquency as the tax imposed by said section: Provided, however, That the provisions of this section shall not apply to reinsurance: And provided, further, That the prohibition of this section shall not affect the right of an owner of property to apply for and obtain for himself policies in foreign companies in cases where said owner does not make use of the services of any agent, company, or corporation residing or doing business in the Philippines. In all cases where owners of property obtain insurance directly with foreign companies, it shall be the duty of said owners to report to the Insurance Commissioner and to the Collector of Internal Revenue each case where insurance has been so effected, and shall pay the tax of one and one-half per centum on premiums paid, in the manner required by section 255 of insurance companies, and shall be subject to the same penalty for failure to do so.

CHAPTER III - Franchise Tax

SEC. 259. Tax on corporate franchises. — There shall be collected in respect to all existing and future franchises, upon the gross earnings or receipts from the business covered by the law granting the franchise, such taxes, charges and percentages as are specified in the special charters of the corporations upon whom such franchises are conferred, and, for the purpose of facilitating the assessment of this tax, reports shall be made by the respective holders of the franchises in such form and at such times as shall be required by the regulations of the Department of Finance.

The taxes, charges, and percentages on corporate franchises shall be due and payable as specified in the particular franchise, or, in case no time limit is specified therein, the provisions of section 182 shall apply; and if such taxes, charges, and percentages remain unpaid for fifteen days from and after the date on which they must be paid, twenty-five per centum shall be added to the amount of such taxes, charges, and percentages, which increase shall form part of the tax.

CHAPTER IV - Amusement Taxes

SEC. 260. Amusement taxes. — There shall be collected from the proprietor, lessee, or operator of theaters, cinematographs, concert halls, circuses, boxing exhibitions, and other places of amusement the following taxes:

- (a) When the amount paid for admission exceeds twenty centavos but does not exceed twenty-nine centavos, two centavos on each admission.
- (b) When the amount paid for admission exceeds twenty-nine centavos but does not exceed thirty-nine centavos, three centavos on each admission;
- (c) When the amount paid for admission exceeds thirty-nine centavos but does not exceed forty-nine centavos, four centavos on each admission;
- (d) When the amount paid for admission exceeds forty-nine centavos but does not exceed fifty-nine centavos, five centavos on each admission:
- (e) When the amount paid for admission exceeds fifty-nine centavos but does not exceed sixty-nine centavos, six centavos on each admission
- (f) When the amount paid for admission exceeds sixty-nine centavos but does not exceed seventy-nine centavos, six centavos on each admission;
- (g) When the amount paid for admission exceeds seventy-nine centavos but does not exceed eighty-nine centavos, eight centavos on each admission;
- (h) When the amount paid for admission exceeds eighty-nine centavos but does not exceed ninety-nine centavos, nine centavos on each admission; and
- (i) When the amount paid for admission exceeds ninety-nine centavos, ten centavos on each admission.

In the case of theaters or cinematographs, the taxes herein prescribed shall first be deducted and withheld by the proprietors, lessees, or operators of such theaters or cinematographs and paid to the Collector of Internal Revenue before the gross receipts are divided between the proprietors, lessees, or operators of the theaters or cinematographs and the distributors of the cinematographic films.

In the case of cockpits, race tracks, and cabarets, there shall be collected from the proprietor, lessee, or operator a tax equivalent to ten per centum of the gross receipts, irrespective of whether or not any amount is charged or paid for admission: Provided, however, That in the case of race tracks, this tax is in addition to the privilege tax prescribed in section 193. For the purpose of the amusement tax, the term "gross receipts" embraces all the

receipts of the proprietor, lessee, or operator of the amusement place, excluding the receipts derived by him from the sale of liquors, beverages, or other articles subject to specific tax, or from any business subject to tax under this Code.

SEC. 261. Exemption. — The tax herein imposed shall not be paid where the admission fees or charges are collected by or for and in behalf of any religious, charitable, scientific, or educational institution or association, and where no part of the net proceeds of such admission fees or charges inures to the benefit of any private stockholder or individual.

CHAPTER V - Charges in Forest Products

SEC. 262. Measuring of forest products and collection of charges thereon. — The duties incident to the measuring of forest products and the collection of the charges thereon shall be discharged by the Bureau of Internal Revenue, under the regulations of the Department of Finance.

Employees of the Bureau of Forestry may be deputized by the Collector of Internal Revenue for the performance of duties incident to the measuring and invoicing of forest products when the Director of Forestry deems such course advisable for the protection of the forest revenues and is willing to supply the services of such employees at the expense of the Bureau of Forestry.

SEC. 263. Mode of measuring timber. — Except as hereinbelow provided, all timber shall be measured and manifested in the round or squared, before being sawn or manufactured. The volume of all round timber shall be ascertained by multiplying the area of the small end by the length of the log, the diameter of the log to be measured exclusive of the bark; but if the end of a log is irregular the average diameter shall be used; and in order to ascertain the volume of a log more than eight meters long, the diameter of the middle of said log, or the average of the diameters, at both ends thereof, shall be used as basis. If a log in the round, cut under license, is measured and manifested by forest officers, the Director of Forestry shall make due allowance for rot, cavities, or other natural defects; but from any decision of the Director of Forestry in this respect, an appeal shall lie to his Department Head, whose decision shall be final. The manifest of timber cut by licensees operating sawmills in or near the forest shall be attested by forest officers whenever practicable.

The volume of squared timber shall be ascertained by multiplying the average of the cross section measured by the length, to which thirty per centum shall be added for loss in squaring: Provided, however, That if squared timber cut under license is measured and manifested by forest officers, the Director of Forestry shall make due allowance for rot, cavities, or other natural defects; but from any decision of the Director of Forestry in this respect an appeal shall lie to his Department Head, whose decision shall be final. The privilege of manifesting timber after squaring shall, however, be granted only to licensees who have squared their logs in the forests with the tax and intend to take it to the market in this form.

If sawn or otherwise manufactured timber is found which has not been manifested in accordance with the provisions hereof, the corresponding forest charges shall be assessed on twice the volume of the actual contents of such sawn or manufactured timber.

SEC. 264. Charges on timber cut in public forest. — Except as otherwise especially provided, the following charges shall be collected on each cubic meter of timber cut in any public forest or forest reserve in the Philippines whether removed therefrom or not:

(a) On timber in the first group, not including ebony, camagon, and molave stripped of sapwood, three pesos and fifty centavos.

(b) On ebony stripped of sapwood, six pesos.

- (c) On camagon stripped of sapwood, five pesos.
- (d) On molave stripped of sapwood, four pesos.
- (e) On timber in the second group, two pesos.
- (f) On timber in the third group, not including firewood, one peso and twenty-five centavos.
- (e) On timber in the fourth group, not including firewood, sixty centavos.

SEC. 265. Charges on firewood cut in public forests. — On firewood cut in public forests and forest reserves, the following charges shall be collected:

On bacauan and tangal, per cubic meter, twenty centavos.

On other woods, per cubic meter, ten centavos.

Only third or fourth-group wood can be taken for firewood. However, at the discretion of the Director of Forestry, first and second-group woods may be removed for firewood purposes from land which is more valuable for agricultural than for timber purposes.

SEC. 266. Charges collectible on wood cut from unregistered private lands. — The charges above prescribed shall be collected on all wood cut upon any land the title to which is not registered with the Director of Forestry as required by the Forest Law; and in the absence of such registration, wood cut and removed from alleged private lands shall be considered as cut and removed under license from public forest or forest reserves, and shall be subject to the law and regulations in such case applicable.

SEC. 267. Surcharges for illegal cutting and removal of forest products or for delinquency. — Where forest products are unlawfully cut or gathered in any public forest without license or, if under license, in violation of the terms thereof, the charges on such products shall be increased by three hundred per centum. If forest products shall be removed without invoice, or upon removal, shall be discharged without permit from boat, car, cart, or other means of transportation, the charges shall be increased by fifty per centum, and if, in any case, the proper charges upon forest products are not paid within sixty days after the same shall be due and payable, such charges shall be increased by fifty per centum: Provided, however, That the Collector of Internal Revenue may, in meritorious cases, waive the surcharge of fifty per centum for discharging without permit or grant an extension of time not exceeding thirty days for the payment of the forest charges without surcharge.

SEC. 268. Charges on timber cut for use on mining claim. — When a license is granted by the Bureau of Forestry allowing a miner or mining company to cut timber for the development of a mining claim on land other than such as is covered by his or its claim, the charges on timber so cut shall be one-half the charges hereinabove fixed.

SEC. 269. Charges on gums, resins, and other forest products. — On gums, resins, rattan, and other products of the forest gathered or removed from any public forest or forest reserve, and not hereinabove provided for, there shall be collected a charge of ten per centum of the market value thereof, determined in the manner indicated below.

The market value of the various forest products on which forest charges may thus be collected shall be determined from time to time by a joint assessment of the Collector of Internal Revenue and the Director of Forestry, to be approved by their respective Department Heads, the same to be published for the information of the public in the Official Gazette. Where the value of any forest product included in this section is not determined and published in the manner specified, such product may be gathered or removed free of charge.

SEC. 270. Charges on stone, earth, salt, and guano taken from lands under the jurisdiction of the Bureau of Forestry.-On stone, earth, salt, or guano gathered or removed from the lands under the jurisdiction of the Bureau

of Forestry, there shall be collected such charges as may be fixed in particular cases by the Director of Forestry, with the approval of the Department Head.

SEC. 271. No charges on products lawfully removed under gratuitous license. — No charges shall be collected on forest products removed in conformity with the terms of a gratuitous license of the Bureau of Forestry, with the approval of the Department Head.

SEC. 272. Gratuitous licensees subject to regulations of Department of Finance. — Gratuitous licensees authorized to cut first-group timber under license from the Bureau of Forestry must comply with the regulations of the Department of Finance in regard to the removal of such timber and shall submit on the proper forms full invoices showing the volume of timber cut by them.

SEC. 273. Time for payment of forest charges. — Except as hereinbelow provided, the charges on forest products shall be payable at the time of the removal of the same from the forest.

With the approval of the Collector of Internal Revenue, timber may be removed from a saw mill situated on a licensed cutting area upon the giving of a bond conditioned upon the monthly payment of the charges due on the output of such mill. He may also authorize the shipment of forest products under auxiliary invoices without the pre-payment of charges in special cases where the payment of the charges at the point of origin would result in undue hardship, if the owner or concessionaire shall first file a bond with the Bureau of Internal Revenue in the form and amount and with such sureties as the Collector of Internal Revenue may require, conditioned upon the payment of the forest charges at the point of destination or at such time and place as the Collector may direct.

CHAPTER VI - for Sealing of Weights and Measures

SEC. 274. Sealing and licensing of weights and measures. — The duties incident to the official inspection of weights and measures, and the sealing and licensing of the same for use, shall be performed under the supervision of the Bureau of Internal Revenue.

SEC. 275. Fees for sealing linear metric measures. — Fees for sealing linear measures of the metric system shall be as follows:

- (a) Measures not over one and one-half meters, ten centavos.
- (b) Measures over one and one-half meters, twenty centavos.

SEC. 276. Fees for sealing English linear measures. — Fees for sealing linear measures of the English system, allowable only when such measures are to be used in measuring manufactured lumber, shall be as follows:

- (a) Measures not over one yard, ten centavos.
- (b) Measures over one yard, twenty centavos.

SEC. 277. Fees for sealing metric measures of capacity. — Fees for sealing metric measures of capacity shall be as follows:

- (a) For a measure not over ten liters, twenty centavos.
- (b) For a measure over ten liters thirty centavos.

SEC. 278. Fees for sealing metric instruments of weight. — Fees for sealing instruments for determining weight graduated solely in the metric system shall be as follows:

- (a) Those having a capacity of over three thousand kilograms, three pesos.

(b) Those having a capacity of not over three thousand but over three hundred kilograms, one peso and twenty centavos.

(c) Those having a capacity of not over three hundred but more than thirty kilograms, sixty centavos.

(d) Those with a capacity not greater than thirty kilograms, thirty centavos.

For an apothecary balance or other balance of precision the charge shall be doubled.

With each scale or balance, a complete set of weights for use therewith shall be sealed free of charge. For each extra weight, the charge shall be five centavos.

SEC. 279. Form and duration of license for use of weights and measures. — The receipt for the fee charged for the sealing of weights and measures shall serve as a license to use such instrument for one year from the date of sealing, unless deterioration or damage which renders the weight or measure inaccurate occurs in that period. When a license is renewed, the same shall expire on the same day and month of the year following its original issuance. Such license shall be preserved by the owner and, together with the weights and measures covered by the license, shall be exhibited on demand of any internal- revenue officer.

SEC. 280. Secondary standards preserved by provincial treasurers. — Testing of same. — For use in the testing of weights and measures in the provinces, provincial treasurers shall keep full sets of secondary standards in the provincial buildings. The Collector of Internal Revenue shall be responsible for the inspection and proper testing of all provincial and municipal standards of weights and measures.

SEC. 281. Comparison of secondary and fundamental standards. — The comparison of the secondary and fundamental standards shall be made in the Bureau of Science at the instance of the Collector of Internal Revenue. When found to be sufficiently accurate, the secondary standard shall be distinguished by a label, tag, or seal, and shall be accompanied by a certificate showing the amount of its variation from the fundamental standard. If the variation is of sufficient magnitude to impair the utility of the instrument, it shall be destroyed in the Bureau of Science.

SEC. 282. Inspectors of weights and measures. — Internal revenue agents shall inspect and test balances or scales, weights and pleasures, and report upon the condition thereof in the territory assigned to them. It shall be their duty to secure evidence of infringements of the law or of fraud in the use of weights and measures or of neglect of duty on the part of any officer engaged in sealing weights and measures. Evidence so secured by them shall be presented forthwith to the Collector of Internal Revenue and also to the proper prosecuting officer.

SEC. 283. Sealers of weights and measures. — The sealing and licensing of weights and measures shall be the duty of the city or provincial treasurers and their deputies, and for the purposes of this law such officers shall be termed sealers of weights and measures.

SEC. 284. Destruction of defective instrument of weight or measure. — Any defective instrument of weight or measure may be destroyed by any inspector or sealer of weights and measures if its defect is such that it can not readily and securely be repaired.

SEC. 285. Testing of instruments used in Government work. — All measures and instruments for determining weight used in the Government work or maintained for public use by any province, city, or municipality shall be tested and sealed free of charge.

SEC. 286. Dealer's permit to keep unsealed weights and measures. — Upon obtaining written permission from the Collector of Internal Revenue any dealer may keep instruments of weight or measure in stock for sale without sealing, until sold or used

SEC. 287. Fraudulent practices relative to weights and measures. — Any person other than an official sealer of weights and measures who places an official tag or seal upon any instrument of weight or measure, or attaches it thereto; or who fraudulently imitates any mark, stamp, brand, tag, or other characteristic sign used to indicate that weights and measures have been officially sealed; or who alters in any way the certificate given by the sealer as an acknowledgment that the weights and measures mentioned therein have been duly sealed; or who makes or knowingly sells or uses any false or counterfeit stamp, tag, certificate, or licenses which is an imitation of or purports to be a lawful stamp, tag, certificate, or license of the kind required by the provisions of this Chapter; or who alters the written or printed figures or letters on any stamp, tag certificate, or license used or issued; or who has in his possession any such false, counterfeit, restored, or altered stamp, tag, certificate or license for the purpose of using or reusing the same in the payment of fees or charges imposed in this Chapter; or who procures the commission of any such offense by another, shall for each such offense be fined not less than two hundred pesos nor more than ten thousand pesos or imprisoned for not less than one month nor more than five years, or both.

SEC. 288. Unlawful possession or use of instrument not sealed before using and not sealed within twelve months from last sealing. — Any person making a practice of buying or selling goods by weight, or measure, or of furnishing services the value of which is estimated by weight or measure, who has in his possession without permit any unsealed scale, balance, weight or measure, and any person who uses, in any purchase or sale or in estimating the value of any service furnished, any instrument of weight or measure that has not been officially sealed, or if previously sealed, the license therefor has expired and has not been renewed in due time, shall be punished by a fine not exceeding five hundred pesos or by imprisonment for not exceeding one year, or both; but if such scale, balance, weight, or measure so used has been officially affixed thereto remain intact and in the same position and condition in which they were placed by the official sealer, and the instrument is found not to have been altered or rendered inaccurate but still to be sufficiently accurate to warrant its being sealed without repairs or alteration, such instrument shall, if presented for sealing promptly on demand of any authorized sealer or inspector of weights and measures, be sealed, and the owner, possessor, or user of same shall be subject to no penalty except a surcharge equal to five times the regular fee fixed by law for the sealing of an instrument of its class, this surcharge to be collected and accounted for by the same official and in the same manner as the regular fees for sealing such instruments.

SEC. 289. Alteration or fraudulent use of instrument of weight or measure. — Any person who with fraudulent intent alters any scale or balance, weight, or measure after it is officially sealed, or who knowingly uses any false scale or balance, weight, or measure, whether sealed or not, shall be punished by a fine of not less than two hundred pesos nor more than four thousand pesos or by imprisonment for not less than three months nor more than two years, or both.

Any person who fraudulently gives short weight or measure in the making of sale, or who fraudulently takes excessive weight or measure in the making of a purchase, or who, assuming to determine truly the weight or measure of any article bought or sold by weight or measure thereof, shall be punished by a fine of not less than two hundred pesos nor more than two thousand pesos or by imprisonment for not less than three months nor more than two years, or both.

CHAPTER VII - The Firearms Tax

SEC. 290. Definition of terms. — As used in this Chapter, the word "firearm" or "arm" includes rifles, muskets, carbines, shotguns, revolvers, pistols, and all other deadly weapons from which a bullet, ball, shot, shell, or other missile may be discharged by means of gunpowder or other explosives. The term also includes air rifles coming under regulations of the Philippine Constabulary. The barrel of any firearm shall be considered a complete firearm

for all the purposes hereof. The word "ammunition" shall mean loaded shell for rifles, muskets, carbines, shotguns, revolvers, and pistols from which a bullet, ball, shot, shell, or other missile may be fired by means of gunpowder or other explosives. The term also includes ammunition for air rifles mentioned elsewhere in this section. The words "explosive" and "explosives" shall mean gunpowders, powder used for blasting, all forms of high explosives, blasting materials, dynamite, fuses, detonators and detonating agent, smokeless powder, and any other chemical compound or chemical mixture that contains any combustible units or other ingredients in such proportion, quantities or packing that ignition by fire, by friction, by concussion, by percussion, or by detonator of all or any part of the compound or mixture may cause such a sudden generation of highly heated gases that the resultant gaseous pressures are capable of producing destructive effects on contiguous objects or of destroying life or limb.

SEC. 291. License fees of dealers in firearms, ammunition, and explosives. — Any person dealing in fire arms or ammunition under license issued in accordance with the provisions of section 883 of the Administrative Code, or in explosives as provided by Act Numbered Twenty- two hundred and fifty-five, shall pay the following annual fees:

Dealers selling one thousand or more firearms of all kinds in a year, two hundred pesos.

Dealers selling less than one thousand firearms of all kinds in a year, one hundred twenty pesos.

Dealers selling or manufacturing one million or more rounds of ammunition of all kinds in a year, one hundred fifty pesos.

Dealers importing or selling less than one million rounds of ammunition of all kinds in a year, one hundred pesos.

Dealers in or manufacturers of explosives, two hundred pesos.

This section shall not be applicable to fireworks manufacturers.

SEC. 292. Firearms license fees. — Any person who owns or possesses a license to possess a firearm in accordance with section 888 of the Administrative Code, as amended, shall pay the following initial and annual fees:

For each shotgun held on license:

Initial fee

P10.00

Annual fee

5.00

For each high-power rifle held on license:

Initial fee.....

15.00

Annual fee

5.00

For each revolver held on license except caliber .22 revolver:

Initial fee

10.00

Annual fee

5.00

For each rifle held on license, except caliber .22 revolver:

Initial fee

10.00

Annual fee

5.00

Provided, however, That bona fide and active members of Constabulary shall pay an initial fee of five pesos and an annual fee of two pesos for each firearm held on license, except caliber .22 revolver or rifle.

SEC. 293. Hunting permits. — Persons holding license to possess rifles and shotgun shall not engage in hunting unless they provide themselves with an annual hunting permit, the fee for which shall be two pesos.

SEC. 294. Collection and disposition of fees. — The fees herein provided shall be collected by the Collector of Internal Revenue under such rules and regulations as said Collector and the Chief of Constabulary may prescribe, with the approval of the respective Department Heads. The proceeds of the collection of such fees shall accrue to the National Government.

SEC. 295. Penal provision. — The fees provided in this Chapter are due and payable on the date the license to possess or deal in firearms, ammunition or explosives is issued by the Chief of Constabulary and on each anniversary thereof, and failure to pay said fees within sixty days after they become due and payable shall render the person in arrears liable to a surcharge of twenty-five per centum of the regular fees unpaid.

CHAPTER VIII - Radio Fees

SEC. 296. Registration of radio receiving sets, notice of sale or change in ownership or location of each set. — Every person, firm, company, association, corporation, or any other entity having in his or in its possession or control a radio receiving set, shall register the same with the Collector of Internal Revenue within thirty days after coming into possession or control of such set, and it shall be the duty of the owner or possessor thereof to advise the Collector of Internal Revenue of any change in his or its address within 30 days after such change takes place. Whenever any radio receiving set is sold, or any change in ownership or possession takes place, the dealer, or former owner, or possessor thereof shall advise the Collector of Internal Revenue of such sale or transfer.

Dealers or persons selling receivers to the Government of the United States or of the Philippines shall comply with the provisions of this section and with the regulations which may be issued by the Secretary of Finance.

SEC. 297. Annual fees to be paid. — Except as otherwise provided in section 300, there shall be paid and collected a registration fee of one peso per annum, for every crystal receiving set, and for every receiving set that uses a vacuum tube or tubes for amplification or for detections, there shall be paid and collected, in accordance with the following zones, registration fees as follows:

(a) First zone. — Manila, Bataan, Batangas, Bulacan, Cavite, Laguna, Marinduque, Mindoro, Nueva Ecija, Pampanga, Pangasinan, Rizal, Romblon, Tarlac, Tayabas, and Zambales; one peso a year for sets using not more than five tubes, and five pesos a year for sets using more than five tubes.

(b) Second zone. — Abra, Albay, Antique, Cagayan, Camarines Norte, Camarines Sur, Capiz, Cebu, Ilocos Norte,

Ilocos Sur, Iloilo, Isabela, La Union, Masbate, Mountain Province, Nueva Vizcaya, Occidental Negros, Samar, and Sorsogon: One peso a year for sets using not more than seven tubes, and five pesos for sets using more than seven tube.

(c) Third zone. — Agusan, Batanes, Bohol, Bukidnon, Cotabato, Davao, Lanao, Leyte, Occidental Misamis, Oriental Misamis, Oriental Negros, Palawan, Sulu, Surigao, and Zamboanga: One peso a year for sets using not more than nine tubes, and five pesos a year for sets using more than nine tubes.

The "annual fees" above specified shall be understood to be for a period of twelve months counting from the date of acquisition of a radio receiver.

SEC. 298. When to pay fees; surcharge to be paid for late payment. — The annual fees prescribed in the preceding section shall be paid in full upon registration of the radio receiving set as required in section 296. Subsequent payment of these fees shall be made from year to year counting from the date of acquisition of the radio receiving sets.

Any fee not paid within the time fixed herein shall be increased by a surcharge of twenty per centum thereof.

SEC. 299. Exemption of the Governments of the United States and the Philippines. — The Government of the United States shall be exempt from all requirements of this Chapter. The Government of the Philippines shall be exempt likewise for all radio receiving sets owned or operated by it for communication purposes.

SEC. 300. Receiving sets for specified uses to be registered but exempt from payment of fees. — Subject to such rules and regulations as may be prescribed by the Secretary of Finance, owners of receiving sets covered by this section shall comply with the requirements of section 296 of this Chapter as regards registration but shall be exempt from payment of the fees as required by section 297:

- (a) Sets in storage or out of service;
- (b) Sets kept for sale or used for demonstration by those engaged in the manufacture or sale of radio apparatus;
- (c) Sets owned or operated by the Government of the Philippines and used for purposes other than communications;
- (d) Sets installed on airplanes and ships licensed under Act Numbered Thirty-eight hundred and forty-six;
- (e) Sets operated by owners of broadcasting stations if such sets are used for the purpose of monitoring or checking the quality or efficiency of the broadcasting stations;
- (f) Sets owned and operated by lighthouse-keepers at their official stations;
- (g) In cases where an amateur radio operator, who is licensed under Act Numbered Thirty-eight hundred and forty-six, or the owner of a licensed amateur radio station has more than one receiver in his immediate household all such receivers shall be registered but the fee need be paid on one receiver only; and
- (h) Sets of not more than two tubes and used exclusively for scientific experimentation.

No credit for, nor refund or reimbursement of registration fees already paid or parts thereof shall be made on account of a radio set becoming exempt under the provisions of this section subsequent to the payment of such fees.

SEC. 301. Disposition of radio registration fees. — All collections made under this Chapter shall accrue to the National Radio Broadcasting Fund created by Act Numbered Three thousand nine hundred and ninety-seven.

CHAPTER IX - Tobacco Inspection Fees

SEC. 302. Inspection fees. — For inspection made in accordance with this Chapter, there shall be collected a fee of thirty centavos for each thousand cigars or fraction thereof in the lot offered for inspection; three centavos for each thousand cigarettes or fraction thereof in the lot offered for inspection; twenty-five centavos for each one hundred kilograms of leaf tobacco or fraction thereof in the lot offered for inspection; and one centavo for each kilogram or fraction thereof, of other manufactured tobacco in the lot offered for inspection.

The tobacco inspection fees shall accrue to the Tobacco Inspection Fund created by section 12 of Act Numbered Two thousand six hundred and thirteen, as amended by Act Numbered Three thousand one hundred and seventy-nine.

CHAPTER X - Water Rentals

SEC. 303. Water rentals. — The appropriator of water for power purposes for a small development shall pay to the Government of the Philippines an annual rental of twenty-five centavos per horsepower for the first ten years, beginning on the first day of January after the plant is ready for operation. After this first period, the rental shall become one peso, per horsepower per year: Provided, however, That the development of less than thirty horsepower shall be exempt from the rental provided in this section.

The appropriator of water for power purposes for a large development shall pay to the Government of the Philippines an annual rental of fifty centavos per horsepower for the first ten years, beginning on the first day of January after the plant is ready for operation. At the end of the first ten years and of each ten-year period thereafter, the Secretary of Public Works and Communications shall determine the rate of rental which shall be charged for the succeeding ten years: Provided, That in no case shall the rental rate be is less than one peso nor more than two pesos per horsepower per year.

The amount of water upon which rental shall be charged shall be determined as follows: The normal rated water capacity of the water wheels installed expressed in second-liters shall be multiplied by the difference in level of water surface in forebay and tailrace expressed in meters, and the product divided by one hundred, the quotient representing the developed horse power on the basis of an efficiency of seventy-six per centum for the plant.

SEC. 304. When rentals shall be paid. — The rental shall be paid within twenty days after the end of each calendar quarter and shall be collected by the Bureau of Internal Revenue as a tax. If at any time payment shall not be made when the same shall have become due, said rental shall be increased by twenty-five per centum and together with the penalty shall become a lien upon the right of use of water and all the works, lands, buildings, and machinery which constitute the property appurtenant thereto, which lien shall be enforced in the manner prescribed in Title IX of this Code.

TITLE IX - GENERAL ADMINISTRATION PROVISIONS

CHAPTER I - Remedies in General

SEC. 305. Injunction not available to restrain collection of tax. — No court shall have authority to grant an injunction to restrain the collection of any national internal revenue tax fee or charge imposed by this Code.

SEC. 306. Recovery of tax erroneously or illegally collected. — No suit or proceeding shall be maintained in any court for the recovery of any national internal-revenue tax hereafter alleged to have been erroneously or illegally assessed or collected, or of any penalty claimed to have been collected without authority, or of any sum alleged to have been excessive or in any manner wrongfully collected, until a claim for refund or credit has been duly filed with the Collector of Internal Revenue; but such suit or proceeding may be maintained, whether or not such tax, penalty, or sum has been paid under protest or duress. In any case, no such suit or proceeding shall be begun after

the expiration of two years from the date of payment of the tax or penalty.

SEC. 307. Action to contest forfeiture of chattel. — In case of the seizure of personal property under claim of forfeiture may, at any time before sale or destruction of the property, bring an action against the person seizing the property or having possession thereof to recover the same, and upon giving proper bond may enjoin the sale; or after the sale and within six months he may bring an action to recover the net proceeds realized at the sale.

SEC. 308. Form and mode of proceeding in actions arising under this Code. — Civil actions and proceedings instituted in behalf of the Government under the authority of this Code or other laws enforced by the Bureau of Internal Revenue shall be brought in the name of the Government of the Philippines and shall be conducted by the provincial or city fiscal, or the Solicitor-General, or by any person designated by the latter; but no civil action for the recovery of taxes or the enforcement of any fine, penalty, or forfeiture under this Code shall be begun without the approval of the Collector of Internal Revenue

SEC. 309. Authority of Collector to make compromises and to refund taxes. — The Collector of Internal Revenue may compromise any civil or other case arising under this Code or other law or part of law administered by the Bureau of Internal Revenue, may credit or refund taxes erroneously or illegally received, or penalties imposed without authority, and may remit before payment any tax that appears to be unjustly assessed or excessive.

He shall refund the value of internal-revenue stamps when the same are returned in good condition by the purchaser, and may, in his discretion, redeem or exchange unused stamps that have been rendered unfit for use, and may refund their value upon proof of destruction.

The authority of the Collector of Internal Revenue to credit or refund taxes or penalties under this section can only be exercised if the claim for credit or refund is made in writing and filed with him within two years after the payment of the tax or penalty.

SEC. 310. Satisfaction of judgment recovered against treasurer or other officer. — When an action is brought against any revenue officer to recover damages by reason of any act done in the performance of official duty and the Collector of Internal Revenue is notified of such action in time to make defense against the same, through the Solicitor-General, any judgment, damages or costs recovered in such action shall be satisfied by the Collector of Internal Revenue upon approval of the Department Head, or if the same be paid by the person sued, shall be repaid or reimbursed to him.

No such judgment, damages, or costs shall be paid or reimbursed in behalf of a person who has acted negligently or in bad faith, or with willful oppression.

SEC. 311. Remedy for enforcement of statutory penal provisions. — The remedy for enforcement of statutory penalties of all sorts shall be by criminal or civil action, as the particular situation may require.

SEC. 312. Remedy for enforcement of forfeitures. — The forfeiture of chattels and removable fixtures of any sort shall be enforced by the seizure and sale, or destruction, of the specific forfeited property. The forfeiture of real property shall be enforced by a judgment of condemnation and sale in a legal action or proceeding, civil or criminal, as the case may require.

SEC. 313. When property to be sold or destroyed. — Sales of forfeited chattels and removable fixtures shall be effected, so far as practicable, in the same manner and under the same conditions as to public notice and the time and manner of sale as are prescribed for sales of personal property distrained for the non-payment of taxes.

Distilled spirits, liquors, cigars, cigarettes, other manufactured products of tobacco, and playing cards, and all apparatus used in or about the illicit production of such articles may upon forfeiture, be destroyed by order of the

Collector of Internal Revenue, when the sale of the same for consumption or use would be injurious to the public health or prejudicial to the enforcement of the law.

All other articles subject to specific tax, which have been manufactured or removed in violation of this Code, as well as dies for the printing or making of internal-revenue stamps, labels and tags which are in imitation of or purport to be lawful stamps, labels, or tags may, upon forfeiture, be sold or destroyed in the discretion of the Collector of Internal Revenue.

Forfeited property shall not be destroyed until at least twenty days after seizure.

SEC. 314. Disposition of funds recovered in legal proceedings or obtained from forfeitures. — All judgments and moneys recovered and received for taxes, costs, forfeitures, fines, and penalties shall be paid to the Collector of Internal Revenue or his authorized deputies as the taxes themselves are required to be paid, and, except as specially provided, shall be accounted for and dealt with in the same was.

CHAPTER II - Civil Remedies for Collection of Taxes

SEC. 315. Nature and extent of tax lien. — Every internal-revenue tax on property or on any business or occupation, and every tax on resources and receipts, and any increment to any of them incident to delinquency, shall constitute a lien superior to all other charges or liens not only on the property itself upon which such tax may be imposed but also upon the property used in any costs that may accrue in addition thereto upon all property and rights to property belonging to the taxpayer business or occupation upon which the tax is imposed and upon all property rights therein.

The estate tax shall be a lien for five years upon the gross estate of the decedent from the date the tax becomes legally due. The lien of the tax on inheritances, legacies, and other acquisitions mortis causa shall be superior to all other liens, mortgages, encumbrances, or real right created thereon subsequent to the death of the predecessor, and shall be enforceable against the property inherited whether in the possession of the delinquent owner or purchaser, but this lien will be extinguished at the end of five years from the date when the tax becomes legally due.

The tax on gifts shall be a lien upon all gifts made during the calendar year, for five years from the time the tax becomes legally due. If the tax is not paid when due the taxpayer (donor or donee) shall be personally liable for such tax to the extent of the value of such gift. Any part of the property comprised in the gift sold by the donee to a bona fide purchaser for an adequate and full consideration in money or money's worth shall be divested of the lien herein imposed and the lien, to the extent of the value of such gift, shall attach to all the property of the taxpayer (donor or donee), including after-acquired property, except any part sold to a bona fide purchaser for an adequate and full consideration in money or money's worth.

If any person, corporation, partnership, joint-account (*cuenta en participacion*), association, or insurance company liable to pay the income tax, neglects or refuses to pay the same after demand, the amount shall be a lien in favor of the Government of the Philippines from the time when the assessment was made by the Collector of Internal Revenue until paid, with interest, penalties, and Provided, That this lien shall not be valid against any mortgagee, purchaser, or judgment creditor until notice of such lien shall be filed by the Collector in the office of the register of deeds of the province or city where the property of the taxpayer is situated or located.

SEC. 316. Civil remedies for the collection of delinquent taxes. — The civil remedies for the collection of internal-revenue taxes, fees, or charges, and any increment thereto resulting from delinquency shall be (a) by distraint of goods, chattels or effects, and other personal property of whatever character, including stocks and other securities, debts, credits, bank accounts, and interest in and rights to personal property, and by levy upon

real property and interest in or rights to real property; and (b) by judicial action. Either of these remedies or both simultaneously may be pursued in the discretion of the authorities charged with the collection of such taxes.

No exemption shall be allowed against the internal-revenue taxes in any case.

SEC. 317. Constructive distraint of the property of a taxpayer. — To safeguard the interest of the Government, the Collector of Internal Revenue may place under constructive distraint the property of a delinquent taxpayer or any taxpayer who, in his opinion, is retiring from any business subject to tax or intends to leave the Philippines, or remove his property therefrom, or hide or conceal his property, or perform any act tending to obstruct the proceedings for collecting the tax due or which may be due from him. The constructive distraint of personal property shall be effected by requiring the taxpayer or any person having possession or control of such property to sign a receipt covering the property distrained and obligate himself to preserve the same intact and unaltered and not to dispose of the same in any manner whatever without the express authority of the Collector of Internal Revenue. In case the taxpayer or the person having the possession and control of the property sought to be placed under constructive distraint refuses or fails to sign the receipt herein referred to, the revenue officer effecting the constructive distraint shall proceed to prepare a list of such property and in the presence of two witnesses leave a copy thereof in the premises where the property distrained is located, after which the said property shall be deemed to have been placed under constructive distraint.

SEC. 318. Distraint of personal property. — The remedy by distraint shall proceed as follows: Upon the failure of the person owing any delinquent tax or delinquent revenue to pay the same, at the time required, the Collector of Internal Revenue or his deputy may seize and distraint any goods, chattels, or effects, and other personal property, including stocks and other securities, debts, credits, bank accounts, and interest in and rights to personal property, of such person in sufficient quantity to satisfy the tax, or charge, together with any increment thereto incident to delinquency, and the expenses of the distraint.

SEC. 319. Mode of procedure. — The officer levying the distraint shall make or cause to be made an account of the goods, chattels, effects, or other personal property distrained, a copy of which, signed by himself, shall be left either with the owner or person from whose possession such goods, chattels, or effects, or other personal property were taken, or at the dwelling or place of business of such person and with some one of suitable age and discretion, to which list shall be added a statement of the sum demanded and note of the time and place of sale. Stocks and other securities shall be distrained by serving a copy of the warrant of distraint upon the taxpayer and upon the president, manager, treasurer, or other responsible officer of the corporation, company, or association, which issued the said stocks or securities.

Debts and credits shall be distrained by leaving with the person owing the debts or having in his possession or under his control such credits or with his agent, a copy of the warrant of distraint. The warrant of distraint shall be sufficient authority to the person owing the debts or having in his possession or under his control any credits belonging to the taxpayer to pay to the Collector of Internal Revenue the amount of such debts or credits.

Bank accounts shall be distrained by serving a warrant of distraint upon the taxpayer and upon the president manager, treasurer, or other responsible officer of the bank. Upon receipt of the warrant of distraint, the bank shall turn over to the Collector of Internal Revenue so much of the bank accounts as may be sufficient to satisfy the claim of the government.

SEC. 320. Sale of property distrained and disposition of proceeds. — The officer levying the distraint shall forthwith cause a notification to be exhibited in not less than two public places in the municipality or city where the distraint is made; specifying the time and place of sale and the articles distrained. The time of sale shall not be less than twenty days after notice to the owner or possessor of the property as above specified and the publication

or posting of such notice. One place for the posting of such notice shall be at the office of the mayor of the city or municipality in which the property is distrained. At the time and place fixed in such notice the said officer shall sell the goods, chattels, or effects, or other personal property, including stocks and other securities so distrained, at public auction, to the highest bidder for cash, or, with the approval of the Collector of Internal Revenue, through duly licensed produce or stock exchanges. In the case of stocks and other securities, the officer making the sale shall execute a bill of sale which he will deliver to the buyer, and a copy thereof furnished the corporation, company, or association which issued the stocks or other securities. Upon receipt of the copy of the bill of sale, the corporation, company, or association shall make the corresponding entry in its books, transfer the stocks or other securities sold in the name of the buyer, and issue, if required to do so, the corresponding certificates of stock or other securities.

Any residue over and above what is required to pay the entire claim, including expenses, shall be retained to the owner of the property sold. The expenses chargeable upon such seizure and sale shall embrace only the actual expense of seizure and preservation of the property pending the sale, and no charge shall be imposed for the service of the local internal-revenue officer or his deputy.

SEC. 321. Release of distrained property upon payment prior to sale. — If at any time prior to the consummation of the sale all proper charges are paid to the officer conducting the sale, the goods or effects distrained

SEC. 322. Report of sale to Bureau of Internal Revenue.-Within two days after the sale the officer making the same shall make a report of his proceedings in writing to the Collector of Internal Revenue and shall himself preserve a copy of such report as an official record.

SEC. 323. Purchase by Government at sale upon distraint. — When the amount bid for the property under distraint is not equal to the amount of the tax or is very much less than the actual market value of the articles offered for sale, the Collector of Internal Revenue or his deputy may purchase the same in behalf of the National Government for the amount of taxes, penalties, and costs due thereon.

Property so purchased may be resold by the Collector of Internal Revenue or his deputy, subject to the regulations of the Department of Finance, the net proceeds to be covered into the National Treasury and accounted for as internal revenue.

SEC. 324. Levy on real estate. — Real property may be levied upon before, simultaneously, or after the distraint of personal property belonging to the delinquent to this end any internal-revenue officer designated by the Collector of Internal Revenue shall prepare a duly authenticated certificate showing the name of the taxpayer and the amounts of the tax and penalty due from him. Said certificate shall operate with the force of a legal execution throughout the Philippines. Levy shall be effected by writing upon said certificate a description of the property upon which levy is made. At the same time written notice of the levy shall be mailed to or served upon the delinquent or, if he be absent from the Philippines, to his agent or the manager of the business in respect to which the liability arose, or, if there be none such, to the occupant of the property in question.

SEC. 325. Advertisement and sale. — Within twenty days after levy the officer conducting the proceedings shall proceed to advertise the property or so much thereof as may be necessary to satisfy the claim and costs of sale; and such advertisement shall cover a period of at least thirty days. It shall be effectuated by posting a notice at the main entrance of the municipal building or city hall and in a public and conspicuous place in the barrio or district in which the real estate lies, and by publication once a week for three weeks in a newspaper of general circulation published in the municipality or city where the property is located, if there be such newspaper. The advertisement shall contain a statement of the amount of taxes and penalties so due and the time and place of sale the name of the taxpayer against whom the taxes are levied, and a short description of the property to be sold At any time

before the day fixed for the sale the taxpayer may discontinue all proceedings by paying the taxes, penalties, and interest. If he does not do so, the sale shall proceed and shall be held either at the main entrance of the municipal building or city hall, or on the premises to be sold, as the officer conducting the proceedings shall determine and as the notice of sale shall specify.

Within five days after the sale a return of the proceedings shall be entered upon the records of the provincial or city treasurer; and the provincial or city treasurer shall then make out and deliver to the purchaser a certificate from his records, showing the proceedings of the sale, describing the property sold, stating the name of the purchaser, and setting out the exact amount of all public taxes, penalties, and interest.

SEC. 326. Redemption of property sold. — Within one year from the date of sale the delinquent taxpayer, or any one for him, shall have the right of paying to the provincial or city treasurer the amount of the public taxes, penalties, and interest thereon from the date of delinquency to the date of sale, together with interest on said purchase price at the rate of fifteen per centum per annum from the date of purchase to the date of redemption, and such payment shall entitle the person paying to the delivery of the certificate issued to the purchaser and a certificate from the said treasurer that he has redeemed the property, and the treasurer shall forthwith pay over to the purchaser the amount by which such property has thus been redeemed, and said property thereafter shall be free from the lien of such taxes and penalties.

The owner shall not, however, be deprived of the possession of the said property and shall be entitled to the rents and other income thereof until the expiration of the time allowed for its redemption.

SEC. 327. Final deed to purchaser. — In case the taxpayer shall not redeem the property as above provided, the provincial or city treasurer shall, as grantor, execute a deed conveying to the purchaser so much of the property as has been sold, free from all liens of any kind whatsoever, and the deed shall succinctly recite all the proceedings upon which the validity of the sale depends.

SEC. 328. Forfeiture to Government for want of bidder.-In case there is no bidder for real property exposed for sale as hereinabove provided or if the highest bid is for an amount insufficient to pay the taxes, penalties, and costs, the provincial or city treasurer shall declare the property forfeited to the Government in satisfaction of the claim in question and within two days thereafter shall make a return of his proceedings and the forfeiture, which shall be spread upon the records of his office.

Within one year from the date of such forfeiture the taxpayer, or any one for him, may redeem said property by paying to the provincial or city treasurer the full amount of the taxes and penalties, together with interest thereon and the costs of sale; but if the property be not thus redeemed, the forfeiture shall become absolute.

SEC. 329. Resale of real estate taken for taxes. — The Collector of Internal Revenue shall have charge of any real estate obtained by the Government of the Philippines in payment or satisfaction of taxes, penalties, or costs arising under this Code or in compromise or adjustment of any claim therefor; and said Collector may upon the giving of not less than twenty days' notice sell and dispose of the same at public auction, or, with the prior approval of the Department Head, may dispose of the same at private sale. In either case the proceeds of the sale shall be deposited in the National Treasury, and an account of the same shall be rendered to the Auditor General.

SEC. 330. Further distraint or levy. — The remedy by distraint of personal property and levy on real property may be repeated if necessary until the full amount due, including all expenses, is collected.

SEC. 331. Period of limitation upon assessment and collection. — Except as provided in the succeeding section, internal-revenue taxes shall be assessed within five years after the return was filed, and no proceeding in court without assessment for the collection of such taxes shall be begun after the expiration of such period. For the

purposes of this section a return filed before the last day prescribed by law for the filing thereof shall be considered as filed on such last day: Provided, That this limitation shall not apply to cases already investigated prior to the approval of this Code.

SEC. 332. Exceptions as to period of limitation of assessment and collection of taxes. — (a) In the case of a false or fraudulent return with intent to evade tax or of a failure to file a return, the tax may be assessed, or a proceeding in court for the collection of such tax may be begun without assessment, at any time within ten years after the discovery of the falsity, fraud or omission

(b) Where before the expiration of the time prescribed in the preceding section for the assessment of the tax, both the Collector of Internal Revenue and the taxpayer have consented in writing to its assessment after such time, the tax may be assessed at any time prior to the expiration of the period agreed upon. The period so agreed upon may be extended by subsequent agreements in writing made before the expiration of the period previously agreed upon.

(c) Where the assessment of any internal-revenue tax has been made within the period of limitation above prescribed such tax may be collected by distraint or levy or by a proceeding in court, but only if begun (1) within five years after the assessment of the tax, or (2) prior to the expiration of any period for collection agreed upon in writing by the Collector of Internal Revenue and the taxpayer before the expiration of such five-year period. The period so agreed upon may be extended by subsequent agreements in writing made before the expiration of the period previously agreed upon.

SEC. 333. Suspension of running of statute. — The running of the statute of limitations provided in section 331 or 332 on the making of assessments and the beginning of distraint or levy or a proceeding in court for collection, in respect of any deficiency, shall be suspended for the period during which the Collector of Internal Revenue is prohibited from making the assessment or beginning distraint or levy or a proceeding in court, and for sixty days thereafter.

CHAPTER III - Keeping of Books of Accounts and Records

SEC. 334. Corporations, companies, partnerships, or persons required to keep journal and ledger. — All corporations, companies, partnerships, or persons required by law to pay internal-revenue taxes shall keep a journal and a ledger, or their equivalents: Provided, however, That those whose gross quarterly sales, earnings, receipts, or output do not exceed five thousand pesos shall, at their option, be exempt from the requirements of keeping the books above mentioned, but unless they do keep the same, they must keep the internal-revenue sale and purchase books and other records prescribed by the Bureau of Internal Revenue and any other additional data that the Secretary of Finance may require by rules and regulations and which may be necessary for the accurate determination of the amount of taxes due the Government

SEC. 335. Subsidiary books. — All corporations, companies, partnerships, or persons keeping the books of accounts mentioned in the preceding section may, at their option, keep such subsidiary books as the needs of their service may require: Provided, That where such subsidiaries are kept, they shall form part of the accounting system of the taxpayer and shall be subject to the same rules and regulations as to their keeping, translation, production, and inspection as are applicable to the journal and the ledger.

SEC. 336. Books to be translated. — All such corporations, companies, partnerships, or persons who keep any of the books or records mentioned in section 334 hereof in a language other than a native language, English, or Spanish, shall make a true and complete translation of all their entries in such books into a native language, English, or Spanish, and the said translation must be made by the bookkeeper of such corporations, companies, partnerships, or persons, or, in his absence, by the manager thereof, and must be certified to under oath as to its

correctness by the said bookkeeper or manager, and shall form an integral part of the books of accounts aforesaid.

SEC. 337. Preservation of books of accounts, and other accounting records. — All the books of accounts, including the subsidiary books, and other accounting records, of such corporations, companies, partnerships, or persons shall be preserved by them for a period of at least five years from the date of the last entry in each book and shall be subject to examination and inspection at any time by internal-revenue officers: Provided, That all corporations companies, partnerships, or persons, who retire from business shall, within ten days from the date of such retirement or within such period of time as may be allowed by the Collector of Internal Revenue in special cases, submit their books of accounts, including the subsidiary books, and other accounting records, to the Collector of Internal Revenue or any of his deputies for examination, after which they shall be returned.

CHAPTER IV - Rules and Regulations

SEC. 338. Authority of Secretary of Finance to promulgate rules and regulations. — The Secretary of Finance upon recommendation of the Collector of Internal Revenue shall promulgate all needful rules and regulations for the effective enforcement of the provisions of this Code

TITLE X - MISCELLANEOUS ADMINISTRATIVE PROVISIONS

SEC. 339. Words and phrases defined. — The term "prohibited drugs" as herein used, includes opium, cocaine, alpha and beta eucaïne, their derivatives, and all preparations made from them.

"Opium" embraces every kind, class, and character of opium, whether crude, preparcel, ash, or refuse, and all narcotic preparations thereof or therefrom, and all morphine or alkaloids of opium, and all preparations in which opium, morphine, or any alkaloid of opium enters as an ingredient, together with all opium leaves and wrappings of opium leaves, whether such leaves or wrappings are prepared for use or not.

SEC. 340. Lawful possession and uses of prohibited drugs specified. — Prohibited drugs may be lawfully kept, used, administered, and dealt in under the following conditions and by the following persons only:

(a) Duly licensed and practicing physicians, dentists, and veterinarians may, in the proper course of their professional practice only, prescribe and administer, or cause to be administered, prohibited drugs as medicine or anesthetic and may receive and keep the same in their possession for such use.

(b) Government bureaus or officers of the Government duly designated in writing for such purpose by the President of the Philippines may receive, keep, use, and dispose of such drugs in accordance with law, and the same may be lawfully sold, transferred, or delivered to them.

(c) Pharmacists may receive, keep, and dispense prohibited drugs upon the prescription of a duly licensed and practicing physician, dentist, or veterinarian, and upon permit from the Collector of Internal Revenue may transfer and deliver the same to other pharmacists or to any person or institution lawfully authorized to receive the same.

SEC. 341. Importation of opium — Storage of same. Opium shall be imported only by the Government of the Philippines through the Bureau of Internal Revenue; and all imported opium, after the payment of duties, taxes, and charges, shall be delivered by the customs authorities to the Collector of Internal Revenue for storage in a place to be approved by him. Except in case of fire or similar necessity, opium so stored shall be removed only for delivery to a person authorized to receive the same, and before removal from storage the drug shall be marked or labeled in such manner as may be prescribed in the regulations of the Department of Finance.

A reasonable charge may be made for such storage, to be paid before the opium is removed.

SEC. 342. Record to be kept by physicians, pharmacists, dentists, and veterinarians. — Inspection of same. — Physicians, dentists, veterinarians, and pharmacists shall keep true and correct records of all prohibited drugs

received and dispensed or transferred by them, in such form and manner as may be prescribed in the regulations of the Department of Finance.

Such record and the stock of prohibited drugs on hand shall be subject to inspection at all times by the duly authorized officers, agents, or deputies of the Bureau of Internal Revenue.

SEC. 343. Certificates of tax clearance to be secured by persons leaving the Philippines. — No person shall leave the Philippines without a certificate of tax clearance to be issued by the Collector of Internal Revenue or his duly authorized representative. The provisions of this section shall not, however, apply to sovereigns of foreign governments and the members of their suites, whether personal or official, representatives of foreign governments bearing diplomatic passports, and consular agents and tourists not engaged in commerce in the Philippines.

SEC. 344. Passage ticket to be issued only to persons exhibiting certificates of tax clearance. — No person, corporation, company, or association engaged in the business of carrying passengers shall issue a passage ticket or carry any passenger from a place or port in the Philippines to a foreign place or port, unless the tax clearance certificate prescribed in the next preceding section is duly presented.

TITLE XI - GENERAL PROVISIONS

SEC. 345. Statutory offenses of officers and employees. — Every officer, agent, or employee of the Bureau of Internal Revenue who is guilty of any delinquency hereinbelow specified, or who fails within any of the classes hereinbelow indicated shall be punished by a fine of not less than four hundred pesos nor more than ten thousand pesos or by imprisonment for not less than six months nor more than five years, or both:

- (a) Those guilty of extortion or willful oppression under color of law.
- (b) Those who knowingly demand other or greater sums than are authorized by law or receive any fees, compensation, or reward, except as by law prescribed, for the performance of any duty.
- (c) Those who willfully neglect to give receipts, as by law required, for any sums collected in the performance of duty, or who willfully neglect to perform any of the duties enjoined by law.
- (d) Those who conspire or collude with another or others to defraud the revenues or otherwise violate the law.
- (e) Those who willfully make opportunity for any person to defraud the revenues, or who do or omit to do any act with intent to enable any other person to defraud the revenues.
- (f) Those who negligently or designedly permit the violation of the law by any other person.
- (g) Those who make or sign any false entry or entries in any book, or make or sign any false certificate or return in any case where the law requires the making by them of such entry, certificate, or return.
- (h) Those who, having knowledge or information of a violation of any provision of this Code, or of any fraud committed on the revenues collectible by the Bureau of Internal Revenue, fail to report such knowledge or information to their superior officer, or to report as otherwise required by law.
- (i) Those who, without the authority of law, demand or accept or attempt to collect, directly or indirectly, as payment or otherwise, any sum of money or other thing of value for the compromise, adjustment, or settlement of any charge or complaint for any violation or alleged violation of law.

SEC. 346. Reward of informer against officers and employees. — In case of a conviction under the preceding section, one-half of any fine imposed shall accrue to the National Government and the other half for the benefit of the informer, who shall be ascertained and named in the judgment of the court.

SEC. 347. Unlawful divulgence of trade secrets. — Except as provided in section 81 any officer or employee of the Bureau of Internal Revenue who divulges to any person or makes known in any other manner than may be provided by law information regarding the business, income, or inheritance of any taxpayer, the secrets, operation, style of work, or apparatus of any manufacturer or producer, or confidential information regarding the business of any taxpayer, knowledge of which was acquired by him in the discharge of his official duties, shall be fined in a sum of not more than two thousand pesos or imprisoned for a term of not less than six months nor more than five years, or both.

SEC. 348. Unlawful interest of revenue officers in business.-Any internal-revenue officer who is or shall become interested, directly or indirectly, in the manufacture, sale or importation of any article subject to tax under Title IV of this Code, or in the manufacture or repair or sale, of any scale or balance, weight, or measure, or die for the printing, or making of stamps, labels, or tags, shall be fined in a sum of not less than four hundred pesos nor more than ten thousand pesos.

SEC. 349. Procuring unlawful divulgence of trade secrets. — Any person who causes or procures an officer or employee of the Bureau of Internal Revenue to divulge any confidential information regarding the business, income, or inheritance of any taxpayer, knowledge of which was acquired by him in the discharge of his official duties, and which it is unlawful for him to reveal, and any person who publishes or prints in any manner whatever, not provided by law, any income, profits, losses, or expenditures appearing in any income tax return shall be fined in a sum of not more than two thousand pesos or imprisoned for a term of not less than six months nor more than five years, or both.

SEC. 350. Penalty for selling, transferring, encumbering or in any way disposing of property placed under constructive distraint. — Any taxpayer whose property has been placed under constructive distraint who sells, transfers, encumbers, or in any way disposes of the said property, or any part thereof, without the knowledge and consent of the Collector of Internal Revenue, shall be punished by a fine in a sum equal to twice the value of the property so sold, encumbered, or disposed of, or by imprisonment of not less than six months but not more than six years, or both: Provided, That where the value of the property sold, encumbered, or disposed of is less than five hundred pesos, the minimum fine shall be not less than five hundred pesos.

SEC. 351. Failure to surrender property placed under distraint and levy. — Any person having in his possession or under his control any property or rights to property, upon which a warrant of constructive distraint or of actual distraint and levy has been issued shall, upon demand by the Collector of Internal Revenue or any of his deputies executing such warrant, surrender such property or right to property to the Collector of Internal Revenue or any of his deputies, under such property or rights is, at the time of such demand, subject to an attachment or execution under any judicial process. Any person who fails or refuses to surrender any of such property or right shall be liable in his own person and estate to the Government in a sum equal to the value of the property or rights not so surrendered but not exceeding the amount of the taxes (including penalties and interest) for the collection of which such warrant has been issued, together with costs and interests, if any, from the date of such warrant. In addition, such person shall be punished by a fine of not more than three hundred pesos or by imprisonment for not more than six months or both

SEC. 352. Violation of other provisions of this Code or regulations in general. — A person who violates any provision of this Code or any regulation of the Department of Finance made in conformity with the same, for which delinquency no specific penalty is provided by law, shall be punished by a fine of not more than three hundred pesos or by imprisonment for not more than six months, or both.

SEC. 353. Subsidiary penalty. — If the person convicted for violation of any of the provisions of this Code has no

property with which to meet the fine imposed upon him by the court, or is unable to pay such fine, he shall be subject to a subsidiary personal liability at the rate of one day for each two pesos and fifty centavos, subject to the rules established in article 39 of the Revised Penal Code.

SEC. 354. Prescription for violations of any provisions of this Code. - All violations of any provisions of this Code shall prescribe after five years.

Prescription shall begin to run from the day of the commission of the violation of the law, and if the same be not known at the time, from the discovery thereof and the institution of judicial proceedings for its investigation and punishment.

The prescription shall be interrupted when proceedings are instituted against the guilty persons and shall begin to run again if the proceedings are dismissed for reasons not constituting jeopardy.

The term of prescription shall not run when the offender is absent from the Philippines.

SEC. 355. Making false entries or writing false or fictitious names in books or records. — Any person who knowingly shall make a false entry or enter a false or fictitious name in the books or records mentioned in sections 334 and 335 of this Code, or who shall abet or aid in any manner in the making or writing thereof, shall be fined in a sum of not less than five hundred pesos nor more than five thousand pesos or imprisoned for a term of not less than six months and one day nor more than five years, or both.

SEC. 356. Failure to keep pharmacist's record. — A physician, dentist, veterinarian, or pharmacist who fails to keep a true and correct record of prohibited drugs received and dispensed or transferred by him, as required by law and prescribed in the regulations of the Department of Finance, or who fails to allow the immediate inspection of his entire stock of such drugs upon the demand of any internal-revenue officer or agent shall be punished by a fine of not less than fifty pesos nor more than one thousand pesos.

TITLE XII - ALLOTMENT OF INTERNAL REVENUE

CHAPTER I - Special Disposition of Certain National Internal Revenue

SEC. 357. Disposition of fees for sealing weights and measures. — The proceeds of fees for the sealing and licensing of weights and measures shall accrue equally to the province and municipality wherein collected.

SEC. 358. Disposition of proceeds of certain taxes. — Three-sevenths of the proceeds of the internal-revenue percentage taxes on agricultural products prescribed in sections 187 and 188 as well as the taxes due from proprietors or operators of rope factories, sugar centrals, rice mills, corn mills, coconut oil mills, and desiccated coconut factories prescribed in section 189 of this Code shall accrue to the provinces and the remaining four-sevenths shall accrue to the municipalities. The apportionment shall be based on population as shown by the latest official census,

SEC. 359. Disposition of proceeds of taxes on franchises. — Where the grantee of any franchise, his lessees, successors, or assigns have issued bonds with interest guaranteed by the Government of the Philippines, the franchise tax shall accrue in its entirety to the National Government until the guaranty ceases.

Taxes upon franchises whose obligations are not thus guaranteed shall be applied as follows:

a) Where the franchise is for the operation of a submarine telegraphic cable, the entire franchise tax shall accrue to the National Government.

(b) Where the franchise is for a steam railroad or marine railway operating in one or more municipalities, five-tenths of the franchise tax shall accrue to the National Government, two-tenths to the province or provinces

concerned, and three-tenths to the municipality or municipalities concerned; and where more than one province participates in the provincial share, only so much of their population shall be considered in making the division as is found in the municipality or municipalities wherein the franchise is operated in the particular province.

(c) Where the franchise is for an electric or tramway line operating in one or more municipalities, one-fifth of the franchise tax shall accrue to the National Government, one-fifth to the province or provinces concerned and three fifths to the municipality or municipalities concerned; and where more than one province participates, the same rule of apportionment shall be observed as in the subsection preceding.

(d) Where the franchise is for the operation of a public-service plant or system different from those specified above, and the same is doing business in one or more municipalities, one-fifth of the franchise tax shall accrue to the National Government, one-fifth to the municipality or municipalities concerned; and where more than one province or municipality participates, the apportionment shall be in proportion to the gross receipts from the business transacted within their respective limits

SEC. 360. Disposition of proceeds of income, inheritance, and gift taxes. — Two and one-half per centum of the proceeds of the tax on income and of the tax on inheritance, legacies, and other acquisitions mortis causa, as well as on gifts, shall accrue to the provinces, two and one-half per centum shall accrue to the municipalities, and the remaining ninety-five per centum shall accrue to the National Government. The proceeds accruing to the provinces and municipalities shall be apportioned on the basis of population as shown by the latest official census.

SEC. 361. Disposition of proceeds of taxes on motor fuel. — The proceeds of the tax on motor fuel prescribed in subsections (b), (c), and (d) of section 142 of this Code shall be distributed as follows:

Twenty per centum shall accrue to the provincial road and bridge funds of the different provinces in proportion to the population in each province as shown in the latest available census and the remaining eighty per centum of said money shall be deposited in the National Treasury to constitute a special fund for the maintenance, reconstruction, improvement, and, where practicable, for the construction of provincial and national roads and bridges, to be apportioned by the Secretary of Public Works and Communications to the different provinces in the following proportions:

Twenty per centum equally among all the provinces;

Twenty per centum in proportion to the combined length of first and second-class roads maintained through out the previous year in each province;

Twenty per centum in proportion to the land area; and

Twenty per centum in the discretion of the Secretary of Public Works and Communications for the maintenance, improvement, or construction of interprovincial and coast-to-coast roads, or for the maintenance and improvement of roads subject to unusually heavy traffic.

The sub province of Catanduanes shall be considered as a province separate and independent from the Province of Albay for the purposes of this section.

Chartered cities shall each receive a share equal to that of a province:

Provided, That the share corresponding to the chartered cities together with the share corresponding to the province to which said cities were formerly attached shall in no case exceed the whole amount which corresponded to the city and the province together prior to their separation.

The eighty per centum of the funds herein set aside are appropriated exclusively for the maintenance,

reconstruction, improvement, and, where practicable, for the construction of provincial and national roads and bridges; and the said funds shall be expended only upon projects to be designated by the Secretary of Public Works and Communications.

CHAPTER II - Disposition and Allotment of National Internal Revenue in General

SEC. 362. Disposition of national internal revenue in general. — National internal revenue collected and not applied as hereinabove provided or otherwise specially disposed of by law shall accrue to the National Treasury and shall be available for the general purposes of the Government, with the exception of the amounts set apart by way of allotment under the next succeeding section.

SEC. 363. Allotment of national internal revenue for special purposes. — Of the national internal revenue accruing to the National Treasury under the preceding section there shall be set apart twenty per centum to be distributed as follows:

Five per centum as a provincial allotment; five per centum as a road and bridge allotment; and ten per centum as a municipal allotment: Provided, however, That, instead of twenty per centum, only sixteen per centum shall be set apart as provincial, road and bridge, and municipal allotments, in the same proportion as specified above, during the fiscal year nineteen hundred and thirty-nine and nineteen hundred and forty; eighteen per centum nineteen hundred and forty-one; and twenty per centum during the fiscal years thereafter.

The basis of the allotment shall be the collection during the preceding fiscal year except that for the fiscal year nineteen hundred and thirty-nine to nineteen hundred and forty, the basis shall be the collection during the year nineteen hundred and thirty-eight: Provided, however, That in case the collection for the current fiscal year is greater or less than the collection for the preceding fiscal year, necessary adjustment shall be made in the following fiscal year.

SEC. 364. Apportionment of provincial allotment. — The provincial allotment shall be distributed among the provinces, and shall accrue in equal proportions to their general funds and road and bridge funds.

SEC. 365. Apportionment and use of municipal allotment. — The municipal allotment shall be for the benefit of the inhabitants of the Philippines in the purview of their community requirements, being available for municipal or other use as hereinbelow provided.

In regularly organized provinces containing non-Christian inhabitants, so much of the municipal allotment available for a particular province as pertains to its non-Christian inhabitants shall accrue to its non-Christian inhabitants' fund.

In specially organized provinces, so much of the municipal allotment available for a particular province as does not pertain to municipalities or chartered cities shall accrue to the municipal district and settlement fund of such province.

Such part of the municipal allotment as is not applied as hereinabove provided shall be distributed among the various municipalities and shall accrue in equal proportions to their general funds and school funds.

CHAPTER III - Miscellaneous Provisions

SEC. 366. Status of cities, municipal districts, and other local governmental divisions. — For purposes of the allotment of national internal revenue, a municipal district, or other local governmental division not constituting part of a municipality proper, shall have the status of a municipality and shall be deemed to be included under the term "municipality" as used in this Title.

Chartered cities shall receive the shares which they would receive if they were both a municipality and a regularly

organized province, and for the purposes hereof shall be deemed to be both the one and the other

SEC. 367. Apportionment to be based upon census population. — Apportionment of national internal revenue under the provisions of this Title shall be based on population as shown by the latest official census.

SEC. 368. Payment of allotments. — The payment of the internal-revenue allotments shall be made from the National Treasury quarterly, upon warrants drawn by the Collector of Internal Revenue

TITLE XIII - Repealing Provisions

SEC. 369. Laws repealed. — The Acts or parts of Acts enumerated to the following schedule are repealed:

SCHEDULE OF REPEALED ACTS

(a) Acts Repealed in their Entirety

Acts Numbered Two thousand eight hundred and thirty-three, Two thousand nine hundred and twenty-six, Three thousand and twenty-six, Three thousand and ninety-seven, Three thousand two hundred and forty-three, Three thousand six hundred and five, and Three thousand seven hundred and sixty-one; Commonwealth Acts Numbered One hundred and seventeen, One hundred and twenty-eight, and One hundred and ninety-five.

(b) Acts Repealed in Part

PORTION REPEALED

Acts Numbered —

Two thousand one hundred and fifty-two, sections twenty-two and twenty-three.

Two thousand six hundred and thirteen, section eight only.

Two thousand seven hundred and eleven, otherwise known as the Revised Administrative Code, Chapter nineteen; Chapter forty, as amended by Acts Numbered Two thousand seven hundred and thirty-three, Two thousand seven hundred and seventy-five, Two thousand eight hundred and thirty-five, Two thousand eight hundred and ninety-two, Two thousand nine hundred and twenty-five, Two thousand nine hundred and seventy-one, Three thousand thirty-one, Three thousand and forty-seven, Three thousand and seventy-four, Three thousand and eighty-two, Three thousand two hundred and forty-eight, Three thousand two hundred and seventy-four, Three thousand two hundred and ninety-three, Three thousand five hundred and twenty-six, Three thousand six hundred and six, Three thousand six hundred and eighty-five, Three thousand seven hundred and nine, Three thousand seven hundred and twelve, Three thousand seven hundred and thirteen, Three thousand eight hundred sixty-seven, Three thousand nine hundred and sixty-three, and Four thousand and fifty-eight, and Commonwealth Acts Numbered One hundred and six, One hundred and twenty-two, One hundred and thirty-five, Two hundred and three, Two hundred and fifteen, Two hundred and forty-three, Two hundred and fifty-one, and Four hundred and eleven; Article XII, of Chapter sixty-six, as amended by Acts Numbered Two thousand eight hundred and thirty-three, Two thousand eight hundred and thirty-five, Three thousand six hundred and six, and Three thousand seven hundred and thirteen, and Commonwealth Acts Numbered One hundred thirty-seven and Two hundred and seven.

Two thousand nine hundred and eighty-four, section two as amended by Act Numbered Three thousand eight hundred sixty-five.

Three thousand nine hundred and ninety-seven, sections two, three, four, and five, the last two sections as amended by Commonwealth Act Numbered Three hundred and forty-one. Commonwealth Act Numbered One hundred and thirty-seven, sections seventy-nine and eighty-eight:

Provided, That paragraphs (k), (g), (r), (s), (t), and (v) of section One thousand four hundred and sixty-four paragraphs (k), (o), (p), (q), (r), and (t) of section one thousand four hundred and sixty-five and section one thousand four hundred and sixty-seven, all of Act Numbered Two thousand seven hundred and eleven, and section two of Act Numbered Two thousand nine hundred and eighty-four, as amended by Act Numbered Three thousand eight hundred and sixty-five, shall be considered repealed only after the cities and municipalities shall have lawfully taxed the business specified in said paragraphs (k), (q), (r), (s), (t), and (v), of said section one thousand four hundred and sixty-four of Act Numbered Two thousand seven hundred and eleven and in section two of Act Numbered Two thousand nine hundred and eighty-four, as amended, at rates not less than those prescribed therein: Provided, further, That section one thousand four hundred and fifty-nine also of Act Numbered Two thousand seven hundred and eleven and Act Numbered Three thousand two hundred and forty-three, shall be considered repealed only upon proclamation by the President of the Philippines of the approval by the President of the United States of section 187 of this Code: And provided finally, That nothing in this Section shall be construed as affecting any tax exemption granted by any Act not specifically mentioned in this section.

TITLE XIV - Final Provisions

SEC. 370. Separability clause. — If any clause sentence, paragraph, or part of this Code shall be adjudged by any Court of competent jurisdiction to be invalid, such judgment shall not affect, impair, or invalidate the remainder of said Code, but shall be confined in its operation to the clause, sentence, paragraph, or part thereof directly involved in the controversy.

SEC. 371. Effective date. — When section 187 of this Code shall have been approved by the President of the United States, as provided in section two, subsection (a), paragraph nine of the Act of Congress of March twenty-four, nineteen hundred and thirty-four, entitled, "An Act to provide for the complete independence of the Philippine Islands, to provide for the adoption of a constitution and a form of government for the Philippine Islands, and for other purposes," such fact shall be made known by proclamation of the President of the Philippines, and said section 187 of this Code shall take effect on the date of said proclamation.

Except as otherwise specifically provided, this Code shall take effect on July first; nineteen hundred and thirty-nine.

Approved: June 15, 1939.

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