

TAXABILITY OF PRIZES FROM SMALL TOWN LOTTERIES (STL)

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Pursuant to Section 10 of Republic Act No. 1169 as amended by B.P. Blg. 42 and P.D. No. 1157 or "An Act Providing for Charity Sweepstakes, Horse Races and Lotteries" the Philippine Charity Sweepstakes Office (PCSO) has promulgated "Rules and Regulations Governing Experimental Runs of Various Numbers Game for the Small Town Lottery." Accordingly, said rules and regulations have allowed the holding of small town lotteries. Under a Resolution passed by PCSO, small town lotteries must be endorsed by means of a resolution passed by the Sangguniang Panlalawigan or Sangguniang Panglunsod.

Under Section 4 of Republic Act No. 1169, only the holding of horse race sweepstakes by the PCSO and the sale of tickets in the said sweepstakes shall be exempted from all taxes. Under Section 21(c)(1) of the Tax Code, the Philippine Charity Sweepstakes winnings are not subject to the twenty percent (20%) withholding tax. It is clear, therefore, that the holding of small town lotteries is not embraced within the said tax exemption. Accordingly, prizes awarded in small town lotteries are subject to a final tax of twenty percent (20%) if the amount of prizes is more than P3,000.00, pursuant to Section 21(c)(1) of the Tax Code. If the prize is less than P3,000.00, the same is subject to income tax pursuant to Section 21(a) of the same Code. The individual, corporation, company or any juridical entity authorized by the PCSO to conduct the small town lottery, hence the party paying the prize shall undertake the withholding of the 20% final tax, before paying the prize to the winner, pursuant to Section 50(a) of the Tax Code.

Moreover, the income derived by the party conducting the small town lottery is subject to income tax.

All concerned are enjoined to give this Circular as wide a publicity as possible.

Adopted: 1 Aug. 1990

(SGD.) JOSE U. ONG

Commissioner of Internal Revenue

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