PRESENTATION OF TAX EXEMPTION CERTIFICATE OR RULING BY EXEMPT INDIVIDUALS AND ENTITIES

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Section 31 of the National Internal Revenue Code of 1997, as amended (Tax Code), defines taxable income as:

> "Section 31. Taxable Income Defined. - The term 'taxable income' means the pertinent items of gross income specified in this Code, less the deductions and/or personal and additional exemptions, if any, authorized for such types of income by this Code or other special laws."

In connection with Section 31 as defined above. Section 32(A) in relation to Section 27(A) of the Tax Code defines gross income as follows:

> "(A) General Definition. - Except when otherwise provided in this Title, gross income means all income derived from whatever source, including (but not limited to) the following items:
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> (1)
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> Compensation for services in whatever form paid, including, but not limited to fees, salaries, wages, commissions, and similar items;
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> (2)
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> Gross income derived from the conduct of trade or business or the exercise of a profession;
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> (3)
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> Gains derived from dealings in property;
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> (4)
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> Interests;
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> (5)
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> Rents;
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> (6)
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> Royalties;
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> (7)
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> Dividends:
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> (8)
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> Annuities;
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> (9)
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> Prizes and winnings;

(10)

Pensions; and

(11)

Partner's distributive share from the net income of the general professional partnership:”

Pursuant to Sections 57 to 59 and Sections 78 to 83 of the Tax Code, in relation to Revenue Regulations (RR) No. 02-1998, as amended, certain items of income are made subject to the payment of withholding taxes (final tax, creditable/expanded withholding tax, withholding tax on compensation) at the rates prescribed therein.

Under the provisions of existing tax laws and administrative issuances, however, some individuals, entities and transactions are considered exempt from imposition of taxes on income and, consequently, from withholding taxes.

In this regard, the concerned withholding agents shall require all individuals and entities claiming such exemption to provide a copy of a valid, current and subsisting tax exemption certificate or ruling, as per existing administrative issuances and any issuance that may be issued from time to time, before payment of the related income. The tax exemption certificate or ruling must explicitly recognize the grant of tax exemption, as well as the corresponding exemption from imposition of withholding tax. Failure on the part or the taxpayer to present the said tax exemption certificate or ruling as herein required shall subject him to the payment of appropriate withholding taxes due on the transaction. On the other hand, the withholding agent’s failure to withhold notwithstanding the lack of tax exemption certificate or ruling shall cause the imposition of penalties under Section 251 and other pertinent Sections of the Tax Code.

This Circular revokes all other circulars or issuances inconsistent with it. All concerned revenue officials and employees are hereby enjoined to give this Circular as wide a publicity as possible.

This Circular takes effect immediately.

(SGD) KIM S. JACINTO-HENARES
Commissioner of Internal Revenue

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