

AN ACT ESTABLISHING THE INCOME TAX, MAKING OTHER PROVISIONS RELATING TO SAID TAX, AND AMENDING CERTAIN SECTIONS OF ACT NUMBERED TWENTY-SEVEN HUNDRED AND ELEVEN.

Act No. 2833, March 07, 1919

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Be it enacted by the Senate and House of Representatives of the Philippines in Legislature assembled and by the authority of the same:

CHAPTER I.—On individuals.

SECTION 1. (a) There shall be levied, assessed, collected, and paid annually upon the entire net income received in the preceding calendar year from all sources by every individual, a citizen or resident of the Philippine Islands, a tax of two per centum upon such income; and a like tax shall be levied, assessed, collected, and paid annually upon the entire net income received in the preceding calendar year from all sources within the Philippine Islands by every individual, a nonresident alien, including interest on bonds, notes, or other interest-bearing obligations of residents, corporate or otherwise.

(b) In addition to the income tax imposed by subdivision (a) of this section, herein referred to as the normal tax, there shall be levied, assessed, collected, and paid upon the total net income of every individual, or, in the case of a nonresident alien, the total net income received from all sources within the Philippine Islands, an additional income tax, herein referred to as the additional tax, of one per centum per annum upon the amount by which such total net income exceeds twenty thousand pesos and does not exceed forty thousand pesos; two per centum per annum upon the amount by which such total net income exceeds forty thousand pesos and does not exceed sixty thousand pesos; three per centum per annum upon the amount by which such total net income exceeds sixty thousand pesos and does not exceed eighty thousand pesos; four per centum per annum upon the amount by which such total net income exceeds eighty thousand pesos and does not exceed one hundred thousand pesos; five 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 fifty thousand pesos; six per centum per annum upon the amount by which such total net income exceeds one hundred and fifty thousand pesos and does not exceed two hundred thousand pesos; seven 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 fifty thousand pesos; eight per centum per annum upon the amount by which such total net income exceeds two hundred and fifty thousand pesos and does not exceed three hundred thousand pesos; nine per centum per annum upon the amount by which such total net income exceeds three hundred thousand pesos and does not exceed five hundred thousand pesos; ten per centum per annum upon the amount by which such total net income exceeds five hundred thousand pesos and does not exceed one million pesos; eleven per centum per annum upon the amount by which such total net income exceeds one million pesos and does not exceed one million five hundred thousand pesos; twelve per centum per annum upon the amount by which such total net income exceeds one million five hundred thousand pesos and does not exceed two million pesos, and thirteen per centum per annum upon the amount by which such total net income exceeds two million pesos.

For the purposes of the additional tax there shall be included as income the income derived from dividends or net earnings subject to the tax established in subsection (a) of section ten.

All the provisions of this Law relating to the normal tax on individuals, so far as they are applicable and are not inconsistent with this subdivision and section three, shall apply to the imposition, levy, assessment, and collection of the additional tax imposed under this subdivision. .

(c) The foregoing normal and additional tax rates shall apply to the entire net income, except as hereinafter provided, received by every taxable person in the calendar year nineteen hundred and nineteen and in each year thereafter.

INCOME DEFINED

SEC. 2. (a) Subject only to such exemptions and deductions as are hereinafter allowed, the taxable net income of a person shall include 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, businesses, trade, commerce, sales or dealings in property, whether real or personal, growing out of the ownership or use of or interest in real or personal property, also from interest, rent, dividends, securities, or the transaction of any business carried on for gain or profit, or gains, profits and income derived from any source whatever.

(b) Income received by estates of deceased persons during the period of administration or settlement of the estate, shall be subject to the normal and additional tax and taxed to their estates, and also such income of estates or any kind of property held in trust, including such income accumulated in trust for the benefit of unborn or unascertained persons, or persons with contingent interests, and income held for future distribution under the terms of the will or trust shall be likewise taxed, the tax in each instance, except when the income is returned for the purpose of the tax by the beneficiary, to be assessed to the executor, administrator, or trustee, as the case may be: Provided, That where the income is to be distributed annually or regularly between existing heirs or legatees, or beneficiaries the rate of tax and method of computing the same shall be based in each case upon the amount of the individual share to be distributed.

Such trustees, executors, administrators, and other fiduciaries are hereby 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 Law, 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.

(c) For the purpose of ascertaining the gain derived from the sale or other disposition of property, real, personal, or mixed, 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, shall be the basis for determining the amount of such gain derived.

ADDITIONAL TAX IS LEVIED ON UNDISTRIBUTED PROFITS.

SEC. 3. For the purpose of the additional tax, the taxable income of any individual shall include the share to which he would be entitled of the gains and profits, if divided or distributed, whether divided or distributed or not, of all corporations, joint-stock companies, partnerships, joint-accounts (cuentas en participacion), associations or insurance companies, however created or organized, when such gains or profits have been fraudulently accumulated or retained for the purpose of evading the payment of the additional tax upon them; and the fact that any such corporation, joint-stock company, partnership, joint-account (cuentas en participacion), association, or insurance company, is a mere holding company, or that the gains and profits are permitted to accumulate beyond the reasonable needs of the business, shall be prima facie evidence of a fraudulent purpose to escape such tax; but the fact that the gains and profits are in any case permitted to accumulate and become surplus shall not be

construed as evidence of a purpose to escape the said tax in such case unless the Secretary of Finance shall certify that in his opinion such accumulation is unreasonable for the purposes of the business. When requested by the Collector of Internal Revenue such corporation, joint-stock company, partnership, joint-account (cuenta en participacion), association, or insurance company shall forward to him a correct statement of such gains and profits and the names and addresses of the individuals or shareholders who would be entitled to the same if divided or distributed.

INCOME EXEMPT BY LAW.

SEC. 4. The following incomes shall be exempt from the provisions of this Law:

- (a) The proceeds of life insurance policies paid to beneficiaries upon the death of the insured.
- (b) 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 or at the maturity of the term mentioned in the contract or upon surrender of the contract.
- (c) The value of property acquired by gift, bequest, devise, or descent, but the income from such property shall be included as income.
- (d) 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 Philippine Islands or any political subdivision thereof, but in the case of such obligations issued after January first, nineteen hundred and nineteen, only to the extent provided in the Act authorizing the issue thereof.

DEDUCTIONS AND CREDITS ALLOWED.

SEC. 5. In computing net income in the case of a citizen or resident of the Philippine Islands:

- (a) For the purpose of the tax there shall be allowed as deductions—

First. The necessary expenses actually paid or incurred in carrying on any business or trade, not including personal, living, or family expenses.

Second. All interest paid within the year on his indebtedness except on indebtedness incurred for the purchase of obligations or securities the interest upon which is exempt from taxation as 'income under this Law.

Third. Taxes paid within the year imposed by any foreign government, by the Government of the Philippine Islands, or by any province, city, municipality, or township, not including those assessed against local benefits.

Fourth. Losses actually sustained during the year, incurred in his business or trade, or arising from fires, storms, shipwreck, or other casualty, and from theft, when such losses are not compensated for by insurance or otherwise: Provided, That for the purpose of ascertaining the loss sustained from the sale or other disposition of property, real, personal, or mixed 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, shall be the basis for determining the amount of such loss sustained.

Fifth. In transactions entered into for profit but not connected with his business or trade the losses actually sustained therein during the year to an amount not exceeding the profits arising there from.

Sixth. Debts due to the taxpayer actually ascertained; to be worthless and charged off within the year.

Seventh. A reasonable allowance for depreciation of property arising out of its use or employment in the business or trade.

Eighth, (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, such reasonable allowance to be made in the case of both (a) and (b) under rules and regulations to be prescribed by the Collector of Internal Revenue with the approval of the Secretary of Finance: Provided, That when the allowances authorized in (a) and (b) shall equal the capital originally 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. No deduction shall be allowed for any amount paid out for new buildings, permanent improvements, or betterments, made to increase the value of any property, and no deduction shall be made for any amount of expense of restoring property or making good the exhaustion thereof for which an allowance is or has been made.

Ninth. Contributions or gifts actually paid or made within the year to corporations or associations organized and ; operated exclusively for religious, charitable, scientific, or educational purposes, or to societies for the prevention of cruelty to children or animals, no part of the net income of which inures to the benefit of any private stockholder or individual, to an amount not in excess of five per centum 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 Collector of Internal Revenue with the approval of the Secretary of Finance.

(b) For the purpose of the normal tax only, the income embraced in a personal return shall be credited with the amount received as dividends or net profits subject to the tax established in subsection (a) of section ten.

(c) A like credit shall be allowed as to the amount of income, the normal tax upon which has been paid or with held for payment at the source of the income under the provisions of this Law.

NONRESIDENT ALIENS.

SEC. 6. In computing net income in the case of a nonresident alien—

(a) For the purpose of the tax there shall be allowed as deductions:

First. The necessary expenses paid or incurred in carrying on any business or trade conducted by him within the Philippine Islands, not including personal, living or family expenses.

Second. The proportion of all interest paid within the year by such person on his indebtedness, except on indebtedness incurred for the purchase of obligations or securities the interest upon which is exempt from taxation as income under this Law, which the grows amount of his income for the year derived from sources within the Philippine Islands bears to the gross amount of his income for the year derived from all sources within and without the Philippine Islands, but this deduction shall be allowed only if such person includes in the return required by section eight all the information necessary for its calculation.

Third. Taxes paid within the year imposed by the Government of the United States, the Government of the Philippine Islands, or any province, city, municipality, or township, paid within the Philippine Islands, not including those assessed against local benefits.

Fourth. Losses actually sustained during the year incurred in business or trade conducted by him within the Philippine Islands, and losses of property within the Philippine Islands arising from fires, storms, shipwreck, or other casualty, and from theft, when such losses are not compensated for by insurance or otherwise: Provided, That for the purpose of ascertaining the amount of such loss or losses sustained in the sale or other disposal of real, personal or mixed 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, shall be the basis for determining the amount of such loss or losses.

Fifth. In transactions entered into for profit but not connected with his business or trade, the losses actually sustained therein during the year to an amount not exceeding the profits arising there from in the Philippine Islands.

Sixth. Debts arising in the course of business or trade conducted by him within the Philippine Islands due to the taxpayer actually ascertained to be worthless and charged off within the year.

Seventh. A reasonable allowance for the depreciation of property within the Philippine Islands arising out of its use or employment in the business or trade:

(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; (a) 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, such reasonable allowance to be made in the case of both (a) and (b) under rules and regulations to be prescribed by the Collector of Internal Revenue with the approval of the Secretary of Finance: Provided, That when the allowance authorized in (a) and (b) shall equal the capital originally 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. No deduction shall be allowed for any amount paid out for new buildings, permanent improvements, or betterments, made to increase the value of any property, 2nd no deduction shall be made for any amount of expense of restoring property or making good the exhaustion thereof for which an allowance is or has been made.

(b) There shall also be allowed the credits specified by subdivisions (b) and (c) of section five.

(c) A nonresident alien individual shall receive the benefit of the deductions and credits 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 Philippine Islands, in the manner prescribed by this Law ; and in case of his failure to file such return the Collector of Internal Revenue shall collect the tax on such income.

PERSONAL EXEMPTION.

SEC. 7. For the purpose of the normal tax only, there shall be allowed as an exemption in the nature of a deduction from the amount of the net income of each citizen or resident of the Philippine Islands, ascertained as provided herein, the sum of six thousand pesos, plus two thousand pesos additional if the person making the return be a head of a family or a married man with a wife living with him, or plus the sum of two thousand pesos additional if the person making the return be a married woman with a husband living with her; but in no event shall this additional exemption of two thousand pesos be deducted by both: Provided, That only one deduction of eight thousand pesos shall be made from the aggregate income of both husband and wife when living together: Provided further, That if the person making the return is the head of a family there shall be an additional exemption of four hundred pesos for each legitimate, recognized natural or adopted child dependent upon such person, if under eighteen years of age, or if incapable of self-support because mentally or physically defective: Provided further, That guardians or trustees shall be allowed to make this personal exemption as to income derived from the property of which such guardian or trustee has charge in favor of each ward or cestui que trust: Provided further, That in no event shall a ward or cestui que trust be allowed a greater personal exemption than as provided in this section, from the amount of net income received from all sources. There shall also be allowed an

exemption from the amount of the net income of estates of deceased citizens or residents of the Philippine Islands during the period of administration or settlement, and of trust or other estates of citizens or residents of the Philippine Islands the income of which is not distributed annually or regularly under the provisions of subdivision (b) of section two, the sum of six thousand pesos, including such deductions as are allowed under section five.

RETURNS.

SEC. 8. (a) The tax shall be commuted upon the net income, ascertained in accordance with the foregoing provisions, of each person subject thereto, received in each preceding calendar year ending December thirty-first.

(b) On or before the first day of March, nineteen hundred and twenty and the first day of March in each year thereafter, a true and accurate return under oath shall be made by each person of lawful age, except as hereinafter provided, having an income of six thousand pesos or over for the taxable year to the Collector of Internal Revenue or provincial treasurer of the province 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 Philippine Islands, then with the Collector of Internal Revenue, in such form as the latter, with the approval of the Secretary of Finance, shall prescribe, setting forth specifically the gross amount of income from all separate sources, and from the total thereof deducting the aggregate items of allowances herein authorized: Provided, That the Collector of Internal Revenue shall have authority to grant a reasonable extension of time, in meritorious cases, for filing returns of income: Provided further, That the aforesaid return may be made by an agent when by reason of illness, absence, or nonresidence the person liable for said return is unable to make and render the same, the agent assuming the responsibility of making the return and incurring penalties provided for erroneous, false or fraudulent returns.

(c) Guardians, trustees, executors, administrators, receivers, conservators, and all persons, corporations, partnerships, joint-accounts (cuentas en participacion), or associations, acting in any fiduciary capacity, shall render 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 Law which apply to individuals. Such fiduciary shall make 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 Law which apply to individuals: Provided, That a return made by one of two or more joint fiduciaries filed in the province where such fiduciary resides, under such regulations as the Collector of Internal Revenue with the approval of the Secretary of Finance may prescribe, shall be a sufficient compliance with the requirements of this paragraph: Provided further, That no return of income not exceeding six thousand pesos shall be required except as in this Law otherwise provided.

(d) Persons carrying on business in general co-partnership (compañía colectiva) duly registered shall be liable for income tax only in their individual capacity, and the share of the profits of the general co-partnership (compañía colectiva) to which any taxable partner would be entitled if the same were divided, whether divided or otherwise, shall be returned for taxation and the tax paid under the provisions of this Law: Provided, That from the net distributive interests on which the individual members shall be liable for tax, normal and additional, there shall be excluded their proportionate shares received from interests on 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 Philippine Islands or any political subdivision thereof, but in the case of such obligations issued after January first, nineteen hundred and nineteen, only to the extent provided in the Act authorizing the issue thereof, and that for the purpose of computing the normal tax there shall be allowed a credit for their proportionate share of the profits derived from the dividends or net profits subject to the tax established in subsection (a) of section ten. Such general co-partnership; (compañía colectiva), when requested by the Collector of Internal Revenue or his

authorized deputies, shall render a correct return of its earnings, profits, and income, except income exempt under section four of this Act, setting forth the item of the gross income and the deductions and credits allowed by this Law, and the names and addresses of the individuals who would be entitled to the net earnings, profits, and income, if distributed. A general co-partnership (compania colectiva) shall have the same privilege of fixing its own fiscal year and making returns upon the basis of the same as accorded to corporations.

(e) An individual keeping accounts upon any basis other : than that of actual receipts and disbursements, unless such other basis does not clearly reflect his income, may, subject to regulations made by the Collector of Internal Revenue, with the approval of the Secretary of Finance, make his return upon the basis upon which his accounts are kept, in which case the tax shall be computed upon his income as so returned.

ASSESSMENT.

SEC. 9. (a) All assessments shall be made by the Collector of Internal Revenue and all persons shall be notified of the amount for which they are respectively liable on or before the first day of June of each successive year, and said amounts shall be paid on or before the fifteenth day of June, except in cases of refusal or neglect to make such return and in cases of erroneous, false, or fraudulent returns, in which cases 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 Law 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 persons immediately upon notification of the amount of such assessment; and to any sum or sums due and unpaid after the fifteenth day of June in any year, and for ten days after notice and demand thereof by the Collector, there shall be added the sum of five per centum on the amount of tax unpaid, and interest at the rate of one per centum per month upon said tax from the time the same became due, except from the estates of insane, deceased, or insolvent persons.

(b) All persons, corporations, joint-stock companies, partnerships, joint accounts (cuentas en participacion),' associations, insurance companies, and general co-partner-ships (compañias colectivas), in whatever capacity acting, including lessees or mortgagors of personal property, trustees acting in any trust capacity, executors, administrators, receivers, conservators, employers, and all officers and employees of the Government of the Philippine Islands having the control, receipt, custody, disposal, or payment of interests, rents, salaries, wages, premiums, annuities, compensations, remunerations, emoluments, or other fixed or determinate annual or periodical gains, profits, and income of any nonresident alien individual, other than income derived from dividends or net profits subject to the tax established in subsection (a) of section ten are hereby authorized and required to deduct and withhold from such annual or periodical gains, profits, and income such sum as will be sufficient to pay the normal tax thereon, and shall make return thereof 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 Philippine Islands authorized to receive the same; and they are each hereby made personally liable for such tax, and they are each hereby indemnified against every person, corporation, joint stock company, partnership, joint-account (cusnta en participacion), association, or insurance company, or demand whatsoever by reason of the payment of the said tax.

(c) The normal tax herein before imposed shall also be deducted and withheld from fixed or determinable annual or periodical gains, profits, and income derived from interest upon bonds and mortgages, or deeds of trust or other similar obligations of corporations, joint-stock companies, partnerships, joint-accounts (cuentas on participacion), associations, and insurance companies if such bonds, mortgages, or other obligations contain a contract or provision by which the obligor agrees to pay any portion of the tax imposed by this Law upon the obligee or to reimburse the obligee for any portion of the tax or to pay the interest without deduction for any tax which the

obligor may be required or permitted to pay thereon or to retain there from under any law of the Philippine Islands, whether payable annually or at shorter or longer periods and whether such interest is payable to a nonresident alien individual or to a citizen or resident of the Philippine Islands, subject to the provisions of the foregoing subdivision (b) of this section requiring the tax to be withheld at the source and deducted from annual income and returned and paid to the Government, unless the person entitled to receive such interest shall file with the withholding agent, on or before February first, a signed notice in writing claiming the benefit of an exemption under section seven of this Law.

(d) All persons, corporations, joint-stock companies, partnerships, joint-accounts (*cuentas en participacion*), associations, or general co-partnerships (*compañías 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 a license from the Collector of Internal Revenue, and shall be subject to such regulations enabling the Government to obtain the information required under this Law, as the Collector of Internal Revenue, with the approval of the Secretary of Finance, shall prescribe; and whoever knowingly undertakes to collect such payments as aforesaid without having obtained a license there for, or without complying" with such regulations, shall be deemed guilty of a misdemeanor and for each offense, be fined in a sum not exceeding ten thousand pesos, or imprisoned for a term not exceeding one year, or both, in the discretion of the court.

(e) The tax herein imposed upon gains, profits, and incomes 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 Collector of Internal Revenue and approved by the Secretary of Finance. The intent and purpose of this Law is that all gains, profits, and income of a taxable class, as denned by this Law, shall be charged and assessed with the corresponding tax, normal and additional, prescribed by this Law, and said tax shall be paid by the owner of such gains, profits and income, or the proper representative having the receipt, custody, control, or disposal of the same. For the purpose of this Law 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.

The provisions of this section, except subdivision (c), relating to the deduction and payment of the tax at the source of income shall only apply to the normal tax herein before imposed upon nonresident alien individuals.

CHAPTER II.—On corporations.

SEC. 10. (a) There shall be levied, assessed, collected, and paid annually upon the total net income received in the preceding calendar year from all sources by every corporation, joint-stock company, partnership, joint-account (*cuenta en participacion*), association, or insurance company, organized in the Philippine Islands, no matter how created or .organized, but not including duly registered general co-partnerships (*compañías colectivas*), a tax of two 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 calendar year from all sources within the Philippine Islands by every corporation, joint-stock company, partnership, joint-account (*cuenta en participacion*), association, or insurance company, organized, authorized, or existing under the laws of any foreign country, including interest on bonds, notes, or other interest bearing obligations of residents, corporate or otherwise, and including the income derived from dividends or net profits subject to the tax established in this subsection.

For the purpose of ascertaining the gain derived or loss sustained from the sale or other disposition by a corporation, joint-stock company, partnership, joint-account (*cuenta en participacion*), association, or insurance company, of property, real, personal, or mixed, 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, shall be the basis for determining the amount of such gain derived or loss sustained.

The foregoing tax rate shall apply to the net income received by every taxable corporation, joint-stock company, partnership, joint-account (cuenta en participacion), association, or insurance company, in the calendar year nineteen hundred and nineteen, and in each year thereafter.

EXEMPTIONS.

SEC. 11. (a) There shall not be taxed under this Law any income received by any—

First. Labor, agricultural, or horticultural organization.

Second. 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.

Third. 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.

Fourth. Loan and building association organized under the Corporation Law.

Fifth. Cemetery company owned and operated exclusively for the benefit of its members.

Sixth. Corporation or association organized and operated exclusively for religious, charitable, scientific, or educational purposes, no part of the net income of which inures to the benefit of 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 Law, shall be liable to the tax imposed under this chapter.

Seventh. Business league, chamber of commerce, or board of trade, not organized for the profit and no part of the net income of which inures to the benefit of any private stockholder or individual.

Eighth. Civic league or organization not organized for profit but operated exclusively for the promotion of social welfare.

Ninth. Club organized and operated exclusively for pleasure, recreation, and other nonprolitable purposes, no part of the net income of which inures to the benefit of any private stockholder or member.

Tenth. Farmers', or other mutual typhoon or fire insurance company, mutual ditch or irrigation company, mutual or cooperative telephone company, or like organization 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.

Eleventh. 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.

Twelfth. 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 law; or Thirteenth. Joint-stock land bank as to income derived from bonds or debentures of other joint-stock land bank or any land bank belonging to such joint-stock land bank.

(b) There shall not be taxed under this Law any income derived from any public utility or from the exercise of any essential governmental function accruing to the government of the Philippine Islands or of any political subdivision of the Philippine Islands: Provided, That whenever any province, city or any political subdivision of a province has, prior to the passage of this Law, entered in good faith into a contract with any person or corporation, the object and purpose of which is to acquire, construct, operate, or maintain a public utility, no tax shall be levied under the provisions of this Law upon the income derived from the operation of such public utility,

so far as the payment thereof will impose a loss or burden upon such province, city or a political subdivision of a province; but this provision is not intended to confer upon such person or corporation any financial gain or exemption or to relieve such person or corporation from the payment of a tax as provided for in this Law upon the part or portion of the said income to which such person or corporation shall be entitled under such contract.

DEDUCTIONS.

SEC. 12. (a) In the case of a corporation, joint-stock company, partnership, joint-account (cuenta en participacion), association, or insurance company, organized in the Philippine Islands, such net income shall be ascertained by deducting from the gross amount of its income received within the year from all sources—

First. All the ordinary and necessary expenses paid within the year in the maintenance and operation of its business' and properties, including rentals or other payments for the continued use or possession of property to which the corporation has not taken or is not taking title, or in which it has no equity.

Second. All losses actually sustained and charged off within the year and not compensated by insurance or otherwise, including a reasonable allowance for the depreciation of property arising out of its use or employment in the business or trade: (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, such reasonable allowance to be made in the case of both (a) and (b) under rules and regulations to be prescribed by the Collector of Internal Revenue with the approval of the Secretary of Finance: Provided, That when the allowance authorized in (a) and (b) shall equal the capital originally 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; and (c) in the case of insurance companies, the net addition, 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: Provided, That no deduction shall be allowed for any amount paid out for new buildings, permanent improvements, or betterments made to increase the value of any property or estate, and no deduction shall be made for any amount of expense of restoring property or making good the exhaustion thereof for which an allowance is or has been made: Prodded further, That 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 shall not return as income any portion of the premium deposits returned to their policyholders, but shall return as taxable income all income received by them from all other sources plus such portion of the premium deposits as are retained by the companies for purposes other than the payment of losses and expenses and reinsurance reserves: Provided, further. That mutual marine insurance companies shall include in their return of gross income gross premiums collected and received by them less amounts paid for reinsurance, 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, and 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 such year.

Third. The amount of interest paid within the year on its indebtedness, except on indebtedness incurred for the purchase of obligations or securities the interest upon which is exempt from taxation as income under this Law, to an amount of such indebtedness not in excess of the sum of (a) the entire amount of the paid-up capital stock outstanding at the close of the year, or, if no capital stock, the entire amount of capital employed in the business at the close of the year, and (b) one-half of its interest-bearing indebtedness then outstanding: Provided, That for the

purpose of this Law preferred capital stock shall not be considered interest bearing indebtedness, and interest or dividends paid upon this stock shall not be deductible from gross income: Provided further, That in cases wherein shares of capital stock are issued without par or nominal value, the amount of paid-up capital stock within the meaning of this section, as represented by such shares, will be the amount of cash, or its equivalent, paid or transferred to the corporation as a consideration for such shares: Provided further, That in the case of indebtedness wholly secured by property collateral, tangible or intangible, the subject of sale or hypothecation in the ordinary business of such corporation, joint-stock company, partnership, joint-account (cuenta en participacion), or association as a dealer only in the property constituting such collateral, or in loaning the funds thereby procured, the total interest paid within the year on any such indebtedness may be deducted as a part of its expenses of doing business, but interest on such indebtedness shall only be deductible on an amount of such indebtedness not in excess of the actual value of such property collateral: Provided further, That in the case of bonds or other indebtedness, which have been issued with t a guaranty that the interest payable thereon shall be free from taxation, no deduction for the payment of the tax herein imposed, or any other tax paid pursuant to such guaranty, shall be allowed; and in the case of a bank, banking association, loan or trust company, interest paid within the year on deposits or on moneys received for investment and secured by interest-bearing certificates of indebtedness issued by such bank, banking association, loan or trust company shall be deducted.

Fourth. Taxes paid within the year imposed by any foreign government, by the Government of the Philippine Islands, or by any province, city, municipality, or township, not including those assessed against local benefits.

(b) In the case of a corporation, joint-stock company,-partnership, joint-account (cuenta en participacion), association, or insurance company, organized, authorized, or existing under the laws of any foreign country, such net income shall be ascertained by deducting from the gross amount of its income received within the year from all sources within the Philippine Islands—

First. All the ordinary and necessary expenses actually; paid or deducted within the year out of earnings in the maintenance and operation of its business and property within the Philippine Islands, including rentals or other payments for the continued use or possession of property to which the corporation has not taken or is not taking title, or in which it has no equity.

Second. All losses actually sustained and charged off within the year in business or trade conducted by it within the Philippine Islands and not compensated by insurance or otherwise, including a reasonable allowance for the depreciation of property arising out of its use or employment in the business or trade: (a) and 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, such reasonable allowance to be made in the case of both (a) and (b) under rules and regulations to be prescribed by the Collector of Internal Revenue with the approval of the Secretary of Finance: Provided, That when the allowances authorized in (a) and (b) shall equal the capital originally 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; and (c) in the case of insurance companies, the net addition, 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: Provided, That no deduction shall be allowed for any amount paid out for new buildings, permanent improvements, or betterments, made to increase the value of any property, and no deduction shall be made for any amount of expense of restoring property or making good the exhaustion thereof for which an allowance is or has been made: Provided, further. That 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 shall not return as income any portion of the premium deposits returned to their policyholders, but shall return as taxable income all income received by them from all other sources plus such portion of the premium deposits as are retained by the companies for purposes other than the payment of losses and expenses and reinsurance reserves: Provided further, That mutual marine insurance companies shall include in their return of gross income gross premiums collected and received by them less amounts paid for reinsurance, 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, and 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 such year.

Third. The amount of interest paid within the year on its indebtedness, except on indebtedness incurred for the purchase of obligations or securities the interest upon which is exempt from taxation as income under this Law, to an amount of such indebtedness not in excess of the proportion of the sum of (a) the entire amount of the paid-up capital stock outstanding at the close of the year, or, if no capital stock, the entire amount of the capital employed in the business at the close of the year, and (b) one-half of its interest-bearing indebtedness then outstanding, which the gross amount of its income for the year from business transacted and capital invested within the Philippine Islands bears to the gross amount of its income derived from all sources within and without the Philippine Islands: Provided, That in the case of bonds or other indebtedness which have been issued with a guaranty that the interest payable thereon shall be free from taxation, no deduction for the payment of the tax herein imposed or any other tax paid pursuant to such guaranty shall be allowed; and in case of a bank, banking association, loan or trust company, or branch thereof, interest paid within the year on deposits by or on moneys received for investment from either citizens or residents of the Philippine Islands and secured by interest-bearing certificates of indebtedness issued by such bank, banking association, loan or trust company, or branch thereof shall be deducted.

Fourth. Taxes paid within the year in the Philippine Islands, imposed by the Government of the United States, by the Government of the Philippine Islands, or by any province, city, municipality or township, not including those assessed against local benefits.

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

RETURNS.

SEC. 13. (a) The tax shall be computed upon the net-income, ascertained in accordance with the foregoing provisions, received within each preceding calendar year ending December thirty-first: Provided, That any corporation, joint-stock company, partnership, joint-account (cuenta en participacion), association, or insurance company, subject to this tax, 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.

(b) Every corporation, joint-stock company, partnership, joint-account (cuenta en participacion), association, or

insurance company, subject to the tax herein imposed, shall, on or before the first day of March, nineteen hundred and twenty, and the first day of March in each year thereafter, or if it has designated a fiscal year, then within sixty days after the close of such fiscal year ending prior to December thirty-first, nineteen hundred and twenty, and the close of each such fiscal year thereafter, render a true and accurate return of its annual net income in the manner and form to be 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 necessary to determine the correctness of the net income returned and to carry out the provisions of this Law. The return shall be sworn to by the president, vice-president, or other principal officer,' and by the treasurer or assistant treasurer. The return shall be made to the Collector or to the treasurer of the province in which is located the principal office of the corporation, joint-stock company, partnership, joint-account (cuenta en participacion), or association, where are kept its books of account and other data from which the return is prepared, or in the case of a foreign corporation, joint-stock company, partnership, joint-account (cuenta en participacion) , or association, to the Collector or to the treasurer of the province in which is located its principal place of business in the Philippine Islands, or if it have no office of any kind or agency in the Philippine Islands, then to the Collector of Internal Revenue. All such returns shall as received be transmitted forthwith by the officer receiving them to the Collector of Internal Revenue.

(c) In cases wherein receivers, trustees in bankruptcy, or assignees are operating the property or business of corporations, joint-stock companies, partnerships, joint accounts (cuentas en participacion), associations or insurance companies, subject to tax imposed by this Law, such receivers, trustees, or assignees shall make returns of net income as and for such corporations, joint-stock companies, partnerships, joint-accounts (cuentas en participacion), associations, and insurance companies, in the same manner and form as such organizations are 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.

(d) A corporation, joint-stock company, partnership, joint-account (cuenta en participacion), association, or insurance company, keeping account upon any basis other than that of actual receipts and disbursements, unless such other basis does not clearly reflect its income, may, subject to regulations made by the Collector of Internal Revenue with the approval of the Secretary of Finance, make its return upon the basis upon which its accounts are kept, in which case the tax shall be computed upon its income as so returned.

(e) All the provisions of this Law relating to the tax required to be deducted and withheld and paid to the internal revenue officer authorized to receive the same from the income of nonresident alien individuals from sources within the Philippine Islands shall be made applicable to the tax imposed by subdivision (a) of section ten upon incomes derived from interest upon bonds and mortgages or deeds of trust or similar obligations of domestic or other resident corporations, joint-stock companies, partnerships, joint-accounts (cuentas en participacion), associations, and insurance companies by nonresident alien firms, copart nerships, companies, corporations, joint-stock companies, partnerships, and insurance companies, not engaged in business or trade within the Philippine Islands and not having any office or place of business therein.

(f) Likewise, all the provisions of this Law relating to the tax required to be deducted and withheld and paid to the officer of the Government of the Philippine Islands authorized to receive the same from the income of nonresident alien individuals from sources within the Philippine Islands shall be made applicable to income derived from dividends upon the capital stock or from the net earnings of domestic or other resident corporations, joint-stock companies, partnerships, joint-accounts (cuentas en participacion), associations, and insurance companies by nonresident alien firms, corporations, joint-stock companies, partnerships, joint-accounts (cuentas en

participacion), associations, and insurance companies, not engaged in business or trade within the Philippine Islands and not having any office or place of business therein.

ASSESSMENT.

SEC. 14. (a) All assessments shall be made by the Collector of Internal Revenue, and the several corporations, joint-stock companies, partnerships, joint-accounts (cuentas en participacion), associations, and insurance companies shall be notified of the amount for which they are respectively liable on or before the first day of June of each year, and said assessment shall be paid on or before the fifteenth day of June: Provided, That every corporation, joint-stock company, partnership, joint-account y (cuenta en participacion), association, and insurance company, computing taxes upon the income of the fiscal year which it may designate in the manner herein before provided, shall pay the taxes due under its assessment within one hundred and five days after the date upon which it is required to file its list or return of income for assessment; except in cases of refusal or neglect to make such return, and in cases of erroneous, false, or fraudulent returns, in which cases the Collector of Internal Revenue shall, upon the discovery thereof, at any time within three years after said return is made or due, make a return upon information obtained as provided for in this Law or by existing law or require the return made to be corrected and the assessment made by the Collector of Internal Revenue thereon shall be paid by such corporation, joint-stock company, partnership, joint-account (cuenta en participaci6n), association, or insurance company immediately upon notification of the amount of such assessment; and to the tax due and unpaid after the fifteenth day of June of any year, or after one hundred and five days from the date on which the return of income is required to be made by the taxpayer, and after ten days' notice and demand thereof by the Collector, there shall be added five per centum on the amount and interest at the rate of one per centum per month upon the said tax, from the time the same becomes due: Provided, That upon the examination of any return of income made pursuant to this Law, if it shall appear that amounts of tax have been paid in excess of those properly due, the taxpayers shall be permitted to present a claim for refund thereof.

(b) After the assessment shall have been made, as provided in this Law, 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 Governor-General under rules and regulations to be prescribed by the Secretary of Finance.

(c) If any of the corporations, joint-stock companies, partnerships, joint-accounts (cuentas en participacion), associations, or insurance companies aforesaid shall refuse or neglect to make a return at the time or times herein before specified in each year, or shall render a false or fraudulent return, such corporation, joint-stock company, partnership, joint-account (cuenta en participaci6n), association, or insurance company shall be liable to a penalty of not exceeding P20,000: Provided, That the Collector of Internal Revenue shall have authority to grant a reasonable extension of time in meritorious cases, as he may deem proper.

(d) When a second assessment is made in case of any list, statement, or return, which in the opinion of the Collector 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.

CHAPTER III.—General administrative provisions.

SEC. 15. The Collector of Internal Revenue shall assess all income taxes. 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, the Collector of Internal Revenue shall add to the tax fifty 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 and not to willful neglect, no such addition shall be made to the tax. In case a false or fraudulent return or list is willfully made, the Collector of Internal Revenue shall add to the tax one hundred 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. 16. It shall be the duty of the Collector of Internal Revenue and every other internal-revenue officer to whom any payment of any taxes is made under the provisions of this Law, 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 herein 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. 17. Any one liable to pay the tax, to make a return or to supply information required under this Law, 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 liable, except as otherwise specially provided in this Law, to a penalty of not less than Forty pesos nor more than two thousand pesos. Any individual or any officer of any corporation, partnership, joint-account (*cuenta en participacion*), association, insurance company, 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 Law to be made, shall be guilty of a misdemeanor, and shall be fined not exceeding four thousand pesos or be imprisoned, not exceeding one year, or both, in the discretion of the court, with the costs of prosecution: Provided, That where any tax heretofore due and payable has been duly paid by the taxpayer, it shall not be re-collected from any withholding agent required to retain it at its source, nor shall any penalty be imposed or collected in such cases from the taxpayer, or such withholding agent whose duty it was to retain it, for failure to return or pay the same, unless such failure was fraudulent and for the purpose of evading payment.

SEC. 18. The Collector 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 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 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. 19. All administrative, special, and general provisions of law, including the laws in relation to the assessment, remission, collection, and refund of internal-revenue taxes not heretofore specifically repealed and not inconsistent with the provisions of this Law are hereby extended and made applicable to all of the provisions of this Law and to the tax herein imposed.

SEC. 20. Section II of the Act of the United States Congress approved October third, nineteen hundred and

thirteen, entitled "An Act to reduce tariff duties and to provide revenue for the Government, and for other purposes;" title I of the Act of the United States Congress approved September eighth, nineteen hundred and sixteen, entitled "An Act to increase the revenue, and for other purposes and title XII of the Act of the United States Congress approved October third, nineteen hundred and seventeen, entitled "An Act to provide revenue to defray war expenses, and for other-purposes," are hereby superseded, except as herein otherwise provided, and except that they shall remain in force for the assessment and collection of all taxes which have accrued thereunder, and for the imposition and collection of all penalties or forfeitures which have accrued or may accrue in relation to any of such taxes.

SEC. 21. Every corporation,, joint-stock company, partnership, joint-account (cuenta en participacion), association, or insurance company subject to the tax herein imposed, 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.

SEC. 22. Every person, corporation, partnership, joint-account (cuenta en participacion), general co-partnership (compañia colectiva), or association, 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 Collector of Internal Revenue, with the approval of the Secretary of Finance, may prescribe, showing the names of customers for whom such person, corporation, partnership, joint-account (cuenta en participacion), general co-partnership (compañia colectiva), or association 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. 23. All persons, corporations, partnerships, joint-accounts (cuentas en participacion), general co-partnerships (compañias colectivas), associations, and insurance companies, 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, partnership, joint-account (cuenta en participacion), general co-partnership (compañia colectiva), association, or insurance company of interests, rents, salaries, wages, premiums, annuities, compensation, remuneration, emoluments, or other fixed or determinable gains, profits, and income, other than payments described in sections twenty-one and twenty-two, of four thousand pesos or more in any taxable year, or, in the case of such payments made by the Government of the Philippine Islands, the officers or employees of the Government having information as to such payments and required to make returns in regard thereto, are hereby 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 him with the approval of the Secretary of Finance, setting forth the amount of such gains, profits, and income, and the name and 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, joint-stock companies, partnerships, joint-accounts (cuentas en participacion), associations, and insurance companies, and in the case of collections of items, not payable in the Philippine Islands, of interest upon the bonds of foreign countries and interest from the bonds and dividends from the stock of foreign corporations by persons, corporations, partnerships, joint-accounts (cuentas en participacion), general co-partnerships (compañias colectivas), or associations, 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, checks, or bills of exchange.

The provisions of this section shall apply to the calendar year nineteen hundred and nineteen and each calendar year thereafter.

SEC. 24. Nothing in this Law shall be construed as taxing the income of foreign governments received from their investments in the Philippine Islands in stocks, bonds, or other domestic securities, or from interest on their deposits in banks in the Philippine Islands.

SEC. 25. (a) The term "dividends" as used in this Law . shall be held to mean any distribution made or ordered to be made by a corporation, joint-stock company, association, or insurance company, out of its earnings or profits accrued since March first, nineteen hundred and thirteen, and payable to its shareholders, whether in cash or in stock of the corporation, joint-stock company, association, or insurance company. Stock dividend shall be considered income, to the amount of the earnings or profits distributed.

(b) Any distribution made to the shareholders or members of a corporation, joint-stock company, partnership, joint-account (cuenta en participacion), association, or insurance company in the year nineteen hundred and nineteen, 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, and shall be taxed to the distributee at the rates prescribed by law for the years in which such profits or surplus were accumulated, but 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.

SEC. 26. Premiums paid on life insurance policies covering the lives of officers, employees, or those financially interested in any trade or business conducted by an individual, partnership, joint-account (cuenta en participacion), general co-partnership (compañia colectiva), corporation, joint-stock company, association, or insurance company, shall not be deducted in computing the net income of these.

SEC. 27. Section four hundred and eighty-nine of Act Numbered Twenty-seven hundred and eleven is hereby amended to read as follows:

"SEC. 489. Disposition of proceeds of income and inheritance taxes.—The proceeds of the tax on income and of the tax on inheritances, legacies, and other acquisitions mortis causa shall accrue to the Insular Government."

SEC. 28. Section fourteen hundred and twenty-four of Act Numbered Twenty-seven hundred and eleven is hereby amended by adding a new subsection (m), which shall read as follows:

"(m) 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. 29. Section fifteen hundred and eighty-eight of Act Numbered Twenty-seven hundred and eleven is hereby amended by adding thereto the following paragraph:

"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 Philippine Islands from the time when the assessment was made by the Collector of Internal Revenue until paid, with interest, penalties and cost that may accrue in addition thereto upon all property and rights to property belonging to the taxpayer: 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 clerk of the Court of First Instance having jurisdiction over the property subject to tax,"

SEC. 30. Section twenty-seven hundred and sixteen of Act Numbered Twenty-seven hundred and eleven is hereby amended to read as follows:

"SEC. 2716. Unlawful divulgence of trade secrets.—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 or income 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 not more than two thousand pesos or be imprisoned for a term of not less than six months nor more than five years, or both."

SEC. 31. Section twenty-seven hundred and thirty-one of Act Numbered Twenty-seven hundred and eleven is hereby amended to read as follows:

"SEC. 2731. 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 or income 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 not more than two thousand pesos or be imprisoned for a term of not less than six months nor more than five years, or both."

CHAPTER IV.—General provisions.

SEC. 32. If any clause, sentence, paragraph or part of this Act shall be adjudged by any court of competent jurisdiction to be invalid, such judgment shall not affect, impair, or invalidate the remainder of said Act, but shall be confined in its operation to the clause, sentence, paragraph, or part thereof directly involved in the controversy.

SEC. 33. For the purposes of this Law, the terms "alien" and "foreign government" shall be deemed to include the citizens and Government of the United States of America, including the political subdivisions thereof: Provided, however. That citizens of the United States residing in the Philippine Islands shall not be subject to taxation under this Law 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.

SEC. 34. This Act shall take effect on January first, nineteen hundred and twenty.

Approved, March 7, 1919.

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