

AMENDING CERTAIN SECTIONS OF THE NATIONAL INTERNAL REVENUE CODE OF 1939 FOR INCORPORATION IN THE CONSOLIDATION AND CODIFICATION OF ALL EXISTING REVENUE LAWS UNDER PRESIDENTIAL D...

PRESIDENTIAL DECREE NO. 1158-A, June 03, 1977

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WHEREAS, the national government is in dire need of funds to finance its socio-economic program designed to upgrade the living standards of our people;

WHEREAS, it is necessary to amend further certain provisions of the said Code to make it more responsive to current conditions;

NOW, THEREFORE, I, FERDINAND E. MARCOS, President of the Philippines, by virtue of the powers vested in me by the Constitution, do hereby order and decree:

SECTION 1. Section 24 of the National Internal Revenue Code is hereby amended to read as follows:

"Sec. 24. Rates of tax on corporations.-(a) Tax on domestic corporations.-A tax is hereby imposed upon the taxable net income received during each taxable year from all sources by every corporation organized in, or existing under the laws of the Philippines, and partnerships, no matter how created or organized, but not including general professional partnerships, in accordance with the following:

"Twenty-five per cent upon the amount by which the taxable net income does not exceed one hundred thousand pesos; and

"Thirty-five per cent upon the amount by which the taxable net income exceeds one hundred thousand pesos.

"Private educational institutions, whether stock or non-stock shall pay a tax of ten per cent of their taxable net income from the operation of the school, related school activities, and on their passive investment income consisting of interest, dividends, royalties, and the like: Provided, however, That dividends received by a private educational institution, whether stock or non-stock, from a domestic or resident foreign corporation shall be subject to the inter-corporate dividends tax under subsection (e) hereof.

"(b) Tax on foreign corporation.-(1) Non-resident corporations.-A foreign corporation not engaged in trade or business in the Philippines shall pay a tax equal to thirty five percent of the gross income received during each taxable year from all sources within the Philippines, as interest, dividends, rents, royalties, salaries, premiums, annuities, remunerations for technical services, emoluments or other fixed or determinable annual, periodical or casual gains, profits and income, and capital gains: Provided, however, That-

"(i) Premiums shall not include reinsurance premiums;

"(ii) Interest on foreign loans shall be subject to fifteen per cent tax;

"(iii) On dividends received from a domestic corporation liable to tax under this Chapter, the tax shall be 15 % of the dividends received, which shall be collected and paid as provided in Section 53(d) of this Code, subject to the condition that the country in which the non-resident foreign corporation is domiciled shall allow a credit

against the tax due from the non-resident foreign corporation, taxes deemed to have been paid in the Philippines equivalent to 20% which represents the difference between the regular tax (35%) on corporations and the tax (15%) on dividends as provided in this Section;

"(iv) Cinematographic film owners, lessors, or distributors shall pay a tax of twenty-five per cent of their gross income from all sources within the Philippines. For purposes of this paragraph, the gross income of cinematographic film owners, lessors, or distributors shall include film rentals and all items of gross income under Section 29(a)

"(v) Rentals, lease and charter fees payable to non resident owners of vessels chartered by Philippine nationals as the term is defined under Section 3(c) of Presidential Decree No. 474, and which charter or lease has been duly approved by the Maritime Industry Authority, shall be subject to 4.5 % final tax, the return and payment of which shall be in accordance with Section 53 and 54 of this Code;

"(vi) Regional or area headquarters established in the Philippines by multi-national corporations and which headquarters do not earn or derive income from the Philippines and which act as supervisory, communications and coordinating centers for their affiliates, subsidiaries, or branches in the Asia-Pacific Region shall not be subject to tax.

"(2) Resident corporations.-A corporation organized, authorized, or existing under the laws of any foreign country, engaged in trade or business within the Philippines, shall be taxable as provided in subsection (a) of this section upon the total net income received in the preceding taxable year from all sources within the Philippines: Provided, however, That international carriers shall pay a tax of two and one half per cent on their gross Philippine billings: Provided, further That any profit remitted abroad by a branch office to its mother company shall be subject to tax of fifteen per cent (except those registered with the Export Processing Zone Authority).

"(c) Rate of tax on certain dividends.-Dividends received by a domestic or resident foreign corporation from a domestic corporation liable to tax under this Code-

"(1) Shall be subject to a final tax at 10% on the total amount thereof, which shall be collected and paid as provided in Sections 53 and 54 of this Code; and

"(2) Shall not be included in the determination of the gross income of the recipient corporation:

"Provided, however, That interest paid or incurred on indebtedness abroad by a domestic or resident foreign corporation, which indebtedness was incurred to provide funds for investment in a domestic corporation shall be allowed as a deduction from the intercorporate dividends before computing the 10% final tax. Any excess of the interest herein allowed as deduction from intercorporate dividends may be deducted from the other gross income of the recipient corporation, subject to the provisions of Section 30 (b) of this Code.

"The above deduction of interest from intercorporate dividends shall be allowed only if the recipient domestic or resident foreign corporation submits an authenticated copy of the foreign loan agreement stipulating the end-use of the loan proceeds and such other information as may be required for its determination.

"The Secretary of Finance, upon recommendation of the Commissioner of Internal Revenue, shall promulgate rules and regulations to implement the provisions of this paragraph.

"(d) Tax on mutual life insurance companies.-Mutual life insurance companies organized in and existing under the laws of the Philippines shall pay a tax of 10% of their gross investment income consisting of interest, dividends, rents, net capital gains and income from any other business than life insurance derived from all sources. Foreign mutual life insurance companies authorized to carry business in the Philippines shall pay the same rate of tax on the same items of gross investment income derived from sources within the Philippines.

"(e) Corporate development tax.-In addition to the tax imposed in subsection (a) of this Section, an additional tax in an amount equivalent to 5% of the same taxable net income shall be paid by a domestic or a resident foreign corporation: Provided, That this additional tax shall be imposed only if the net income exceeds 10% of the net worth, in case of a domestic corporation, or net assets in the Philippines, in case of a resident foreign corporation: Provided, however, That a closely-held corporation as defined hereinbelow shall be subject to the said additional income tax regardless of the rate of return on its net worth. The term "closely-held corporation" means any corporation, (a) at least 50% of the total combined voting power of all classes of stock entitled to vote, at any time during the taxable year, is owned directly or indirectly by or for not more than five persons, natural or juridical. For the purpose of determining whether an individual indirectly owns shares of stock in a corporation, the attribution rules prescribed by Section 66 of this Code shall be applied.

" The additional corporate income tax imposed in this subsection shall be collected and paid at the same time and in the same manner as the tax imposed in subsection (a) of this Section.

" (f) Tax on transaction by offshore banking units and under the expanded foreign currency deposit systems.-(1) Offshore banking units.-The provisions of any law to the contrary notwithstanding, the transactions of offshore banking units authorized by the Central Bank with non-residents and other offshore banking units shall be subject to a five per cent (5%) tax on the net income from such transactions which shall be in lieu of all taxes on the said transactions: Provided, however, That transactions of offshore banking units with local commercial banks, including branches of foreign banks that may be authorized by the Central Bank to transact business with offshore banking units, shall likewise be subject to the same tax, except net income from such transactions as may be specified by the Secretary of Finance, upon recommendation of the Monetary Board, to be subject to the usual income tax payable by banks. Any income of non-residents from transactions with said offshore banking units shall be exempt from any tax.

" In case of transaction with residents (other than other offshore banking units or local commercial banks including local branches of foreign banks that may be authorized by the Central Bank of the Philippines to transact business with offshore banking units), interest income from loans granted to such residents shall be subject only to a ten percent (10%) withholding tax and final tax.

" (2) Expanded foreign currency deposit system.-The net income derived by a depository bank from foreign currency transactions with nonresidents, offshore banking units in the Philippines and other depository banks under the expanded foreign currency deposit system under the rules and regulations of the Central Bank shall be subject to a five per cent (5%) tax which shall be in lieu of all taxes on said transactions, except net income from such transactions as may be specified by the Secretary of Finance, upon recommendation of the Monetary Board, to be subject to the usual income tax payable by banks.

" Interest income from foreign currency loans granted by such depository banks under said expanded system to residents (other than offshore banking units in the Philippines or other depository banks under the expanded system) shall be subject to a ten per cent (10%) withholding tax as a final tax.

" Income of non-residents not engaged in trade or business in the Philippines from foreign currency loans to depository banks under the expanded system shall be exempt from income tax.

" (g) The provisions of existing special or general laws to the contrary notwithstanding, all corporate taxpayers not specifically exempt under Section 27 of this Code shall pay the rates provided in this Section. All corporations, agencies or instrumentalities owned or controlled by the Government, including the Government Service Insurance System and the Social Security System but excluding educational institutions, shall pay such rate of tax upon their taxable net income as are imposed by this section upon associations or corporations engaged

inn a similar business or industry."

SEC. 2. Subparagraph (b) of Section 29 of the National Internal Revenue Code is hereby amended to read as follows:

" (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 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 return of premium or premiums paid by him under life insurance, endorsement, or annuity contracts, either during the terms or at the maturity of the term mentioned in the contract or upon surrender of the contract.

" (3) Gifts, bequest, and devises.-The value of property acquired by gift, bequests, 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 Government of the Republic 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) Retirement benefits, pensions, gratuities, etc.-(A) Retirement benefits received by officials and employees of private firms, whether individual or corporate, in accordance with a reasonable private benefit plan maintained by the employer: Provided, That the retiring official or employee has been in the service of the same employer for at least ten (10) years and is not less than fifty years of age at the time of his retirement: Provided, further, That the benefits granted under this Code shall be availed of by an official or employees only once. For purposes of this subsection, the term "reasonable private benefit plan" means a pension, gratuity, stock bonus or profit sharing plan maintained by an employer for the benefit of some or all of his officials or employees, wherein contributions are made by such employer for officials and employees, or both, for the purpose of distributing to such officials and employees the earnings and principal of the fund thus accumulated, and wherein it is provided in said plan that at no time shall any part of the corpus or income of the fund be used for, or be delivered to, any purpose other than for the exclusive benefit of the said officials and employees.

" (B) Any amount received by an official and employee or by his heirs from the employer as a consequence of separation of such official or employees from the service of the employer due to death, sickness or other physical disability or for any cause beyond the control of the said official or employee.

" (C) The provisions of any existing law to the contrary notwithstanding, social security benefits, retirement gratuities, pensions and other similar benefits received by resident or non-resident citizens of the Philippines or aliens who come to reside permanently in the Philippines from foreign government agencies and other institutions, private or public.

" (D) Payments of benefits due or to become due to any person residing in the Philippines under the laws of the United States administered by the United States Veterans Administration.

" (E) Payments of benefits made under the Social Security Act of 1954, as amended.

" (F) Benefits received from the GSIS and the retirement gratuity received by government officials and employees.

" (8) Miscellaneous items.-(A) Income received from their investments in the Philippines, in loans, stock, bonds, or other domestic securities, or from interest on their deposit in banks in the Philippines by (1) foreign governments (2) financing institutions owned, controlled, or enjoying refinancing institutions owned, controlled, or enjoying refinancing from them, and (3) international or regional financing institutions established by governments.

" (B) Income derived from any public utility or from the exercises of any essential governmental function accruing to the Government of the Philippines or to any political subdivision thereof.

" (C) Income derived as rewards under Republic Act Numbered twenty-three hundred and thirty-eight, as amended by Presidential Decree No. 707."

SEC. 3. Subparagraph (d) of Section 30 of the National Internal Revenue Code is hereby amended to read as follows:

" (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, 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 tax purposes in the estate tax return. The Secretary of Finance, upon recommendation of the Commissioner of Internal Revenue, is hereby authorized to promulgate rules and regulations prescribing among other things the time and manner by which the taxpayer shall submit a declaration of loss sustained from casualty or from robbery, theft, or embezzlement during the taxable year, Provided; however, That the time limit to be so prescribed in the regulations shall not be less than 20 days nor more than 90 days from the date of the occurrence of the casualty or robbery, theft or embezzlement giving rise to the loss.

" (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 the business or trade conducted within the Philippines, and losses of property within the Philippines arising from fires, storms 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. The Secretary of Finance, upon recommendation of the Commissioner of Internal Revenue, is hereby authorized to promulgate rules and regulations prescribing among other things the item and manner by which the taxpayer shall submit a declaration of loss sustained from casualty or from robbery, theft or embezzlement during the taxable year, Provided, however, That the time to be so prescribed in the regulations, shall not be less than 30 days nor more than 90 days from the date of the occurrence of the casualty or robbery theft or embezzlement giving rise to the loss.'

SEC. 4. Section 45(a) of the National Internal Revenue Code is hereby amended to read as follows:

"SEC. 45. Individual returns.-(a) Requirements.-(1) The following individuals are required to file an income tax return, if they have a gross income of at least P1,800 for the taxable year:

" (A) Every Filipino citizen, whether residing in the Philippines or abroad and,

" (B) Every alien residing in the Philippines, regardless of whether the gross income was derived from sources within or outside the Philippines.

(2) Regardless of amount, every non-resident alien engaged in trade or business in the Philippines shall file an income tax return.

" The income tax return shall be filed in duplicate, and shall set forth specifically the gross amount of income from all sources, except that of non-resident aliens engaged in trade or business in the Philippines which shall contain only such income derived from sources within the Philippines.

" (3) Notwithstanding the provisions of the preceding paragraphs, an individual (except a non-resident alien engaged in trade or business in the Philippines) whose gross income derived solely from salaries, wages, remunerations and other similar compensation for services rendered, does not exceed his personal exemption of P1,800 if he/she is single or P3,000 if he/she is married or head of the family, plus the optional standard deduction to which he/she is entitled to claim under sub-paragraph (K) of Section 30, is not required to file an income tax return."

SEC. 5. Section 53 of the National Internal Revenue Code is hereby amended by adding a new paragraph as follows:

" (c) Resident individuals and corporations.-Dividends perceived by individuals residing in the Philippines from a domestic corporation, as well as royalties in any form received by such individuals and domestic and/or resident foreign corporations from any person whether natural or juridical shall be subject to withholding tax at sources at the rate of 10% thereof. The tax shall be withheld by the payor-corporation and/or person and paid in the same manner and subject to the same conditions as provided in section 54 of the National Internal Revenue Code: Provided, however, That the tax withheld under this sub-paragraph shall be credited against the income tax liability of the recipient-taxpayer for the taxable year."

SEC. 6. Article 1. Requirements of declaration.-Every individual subject to income tax under Section twenty-one or twenty-two of this Title, receiving income other than that subject to withholding under Supplement A of this Title, and every corporation subject to income tax under Section twenty-four of this Title shall file a declaration of its net taxable income for each quarter of its taxable year: Provided, however, That individuals and corporations that have paid the income tax herein required and have filed the adjustment return prescribed in Article Three of this supplement shall be exempt from filing the return required in Section forty-five and forty-six of this Title."

SEC. 7. Article 2 of H.B. No. 5480, enacted as an integral part of Presidential Decree No. 30, as amended, is hereby amended to read as follows:

"Article 2. Time for filing corporate quarterly income tax return and manner of paying the income tax.-Every corporation shall file in duplicate a quarterly summary declaration of its gross income and deductions on a cumulative basis for the preceding quarter or quarters upon which the income tax, as provided in Title II of this Code, shall be levied, collected and paid. The tax so computed shall be decreased by the amount of tax previously paid or assessed during the preceding quarters and shall be paid not later than sixty (60) days from the close of each of the first three (3) quartered of the taxable year, whether calendar or fiscal year."

SEC. 8. Article 4 of H.B. No. 5480 enacted as an integral part of Presidential Decree No. 30, as amended, is hereby amended to read as follows:

"Article 4. Filing of adjustment returns and final payment of income tax.-On or before the fifteenth day of April or on or before the fifteenth day of April or on or before the fifteenth day of the fourth month following the close of the fiscal year, every taxpayer covered by this Supplement shall file an adjustment return covering the total net taxable income of the preceding calendar or fiscal year and if the sum of the quarterly tax payments made during that year is not equal to the total tax due on the entire net taxable income of that year, the corporation shall either (a) pay the excess tax still due or (b) the refunded the excess amount paid, as the case may be. In case the corporation is entitled to a refund of excess quarterly income taxes paid, the refundable amount shown in its final and adjustment return may be credited against the quarterly income tax liabilities for the taxable quarters of the succeeding taxable year."

SEC. 9. Subparagraph (e) of Section 88 of the National Internal Revenue Code is hereby amended to read as follows:

" (e) Proceeds of life insurance.-To the extent of the amount receivable by the estate of the deceased 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, except when it is expressly stipulated that the designation of beneficiary is irrevocable."

SEC. 10. Subparagraph (b) of Section 137 (b) of the National Internal Revenue Code is hereby amended to read as follows:

" (b) Cigarettes-

" (1) On cigarettes per packed in thirties, the retail price of which per pack does not exceed eighty centavos, on each thousand, three pesos;

" (2) On cigarettes packed in thirties, the retail price of which per pack exceeds eighty centavos but does not exceeds eighty centavos but does not exceed one peso on each thousand, five pesos;

" (3) On cigarettes packed in thirties, the retail price of which per packed exceeds one peso but does not exceed one peso and ten centavos, on each thousand, eight pesos;

" (4) On cigarettes packed in twenties, the retail price of which per packed does not exceed one peso and ten centavos, on each thousand, ten pesos;

" (5) On cigarettes packed in twenties, the retail price of which per packed exceeds one peso and ten centavos, but does not exceed one peso and forty centavos, on each thousand, sixteen pesos;

" (6) On cigarettes packed in twenties, the retail price of which per pack exceeds one peso and forty centavos, but does not exceed one peso and forty centavos, on each thousand, sixteen pesos;

" (7) One cigarettes packed in twenties, the retail price of which per pack exceeds one peso and seventy centavos, but does not exceed two pesos, on each thousand, twenty pesos;

" (8) On cigarettes packed in twenties, the retail price of which per pack exceeds two pesos, but does not exceed two pesos and fifty centavos, on each thousand, thirty two pesos;

" (9) On cigarettes packed in twenties, the retail price of which per pack exceeds two pesos and fifty centavos, but does not exceed three pesos, on each thousand, forty pesos;

" (10) On cigarettes packed in twenties, the retail price of which per pack exceeds three pesos on each thousand, fifty pesos;

" (11) If the cigarettes of local manufacture are foreign brands or trade marks and being manufactured locally

under licensing agreements with the foreign brand or trade mark owners, the tax shall be increased by fifty per centum per thousand: Provided, That, any subsequent transfer or alienation of title or right over a cigarette brand or trade mark by a foreign owner to a local manufacturer in whatever manner, form or description shall not affect the rates of tax then prevailing after the effectivity of this Code;

" (12) If the cigarettes of local manufacture are mechanically wrapped or packed, the tax shall be increased by one hundred twenty per centum per thousand. Cigarettes shall be considered mechanically wrapped or packed, the tax shall be increased by one hundred twenty per centum per thousand. Cigarettes shall be considered mechanically wrapped or packed when at any stage of the wrapping or packing thereof, a machine or any mechanical contrivance shall have been used;

" (13) If the cigarettes are of foreign manufacture, regardless of the retail price per pack or the manner of wrapping or packing thereof, on each thousand, eighty pesos.

" Cigarettes subject to tax at lower rates before the effectivity of the new tax rates herein prescribed shall automatically be subject to the corresponding higher rates and there is nothing under this subsection (b) which allows any downward reclassification of tax rates for existing brands or cigarettes duly registered at the time the herein rates become effective.

" Duly registered and/or existing brands of cigarettes packed in 20's at the time of the new rates herein prescribed shall not be allowed to be packed in 30's."

" * * * * * "

" * * * * * "

SEC. 11. Subparagraphs (1) and (2) of Section 182 (A) of the National Internal Revenue Code are hereby amended to read as follows:

"Sec. 182. Fixed taxes.-(1) Persons subject to percentage tax.-Unless otherwise provided, every person engaging in business on which the percentage tax is imposed shall pay a fixed annual tax of one hundred pesos.

" (2) Persons not subject to percentage tax.-Every person who is not required to pay the percentage tax prescribed under this Title shall pay for each calendar year in which the person shall engaged in business a fixed annual tax based upon his gross annual sales during the preceding calendar year, as follows:

" Twenty pesos, if the amount of the gross annual sales does not exceed two thousand four hundred pesos;

" Forty pesos, if the amount of the gross annual sales exceeds two thousand four hundred pesos but not exceed ten thousand pesos;

" Eighty pesos, if the amount of the gross annual sales exceed ten thousand pesos but does not exceed thirty thousand pesos;

" One hundred sixty pesos, if the amount of the gross annual sales exceeds fifty thousand pesos but does not exceed thousand pesos;

" Two hundred fifty pesos, if the amount of the gross annual sales exceeds fifty thousand pesos but does not exceed seventy-five thousand pesos;

" Three hundred fifty pesos, if the amount of the gross annual sales exceeds seventy-five thousand pesos but does not exceed one hundred thousand pesos;

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

" Nine hundred pesos, if the amount of the gross annual sales exceeds on hundred fifty thousand pesos but does not exceed three hundred thousand pesos;

" One thousand six hundred pesos, if the amount of the gross annual sales exceeds three hundred thousand pesos but does not exceed five hundred thousand pesos;

" Three thousand pesos, if the amount of the gross annual sales exceeds five hundred thousand pesos but does not exceed one million pesos;

" Five thousand pesos, if the amount of the gross annual sales exceeds one million pesos but does not exceed one million five hundred thousand pesos;

" Seven thousand pesos, if the amount of the gross annual sales exceeds one million five hundred thousand pesos but does not exceed two million pesos;

" Nine thousand pesos, if the amount of the gross annual sales exceeds two million pesos but does not exceed two million five hundred thousand pesos;

" Eleven thousand pesos, if the amount of the gross annual sales exceeds two million five hundred thousand pesos but does not exceed three million pesos;

" Fourteen thousand pesos, if the amount of the gross annual sales exceeds three million pesos but does not exceed four million pesos;

" Eighteen thousand pesos, if the amount of the gross annual sales exceeds four million pesos but does not exceed five million pesos;

" Twenty-two thousand pesos, if the amount of the gross annual sales exceeds five million pesos but does not exceed six million pesos;

" Twenty-six thousand pesos, if the amount of the gross sales exceeds six million pesos but does not exceed seven million pesos;

" Thirty thousand pesos, if the amount of the gross annual sales exceeds seven million pesos but does not exceed eight million pesos;

" Thirty-four thousand pesos, if the amount of the gross annual sales exceeds eight million pesos but does not exceed nine million pesos;

" Thirty-eight thousand pesos, if the amount of the gross annual sales exceeds nine million pesos but does not exceed ten million pesos;

" If the amount of the gross annual sales exceeds ten million pesos, the graduated fixed tax shall be thirty eight thousand pesos plus one thousand pesos for every one million pesos of gross sales or a fractional part thereof in excess of ten million pesos.

" If a merchant is engaged in two or more businesses, one or more of which is subject to, and others exempt from, the percentage tax, he shall pay the graduated fixed annual tax provided above, based on the individual sales of his business not subject to the percentage tax under this Title. The initial graduated fixed annual tax to be paid by the person first engaging in business subject to the said tax shall be twenty pesos."

SEC. 12. Section 183 of the National Internal Revenue Code is hereby amended by adding a new paragraph (c) to read as follows:

" (c) Flexibility clause.-In the interest of the national economy and the general welfare, and subject to the limitations herein prescribed, the President upon recommendation of the Secretary of Finance and the National

Economic Development Authority is hereby empowered to revise the rates of percentage taxes, including any necessary change in the classification of the articles enumerated in sections 194, 195, 196, 197, 198, 199 and 201. The existing rates may be increased by not more than 50% or decreased by not more than 10%.

" The above authority may be exercised by the President if any of the following condition exists:

" (1) Economic conditions render it necessary to increase revenue, or to redirect expenditure or consumption patterns by increasing or decreasing the rates of percentage tax on certain commodities;

" (2) Where, in the light of technological and social changes, it is necessary to classify new products or to reclassify certain articles subject to the sales tax on the basis of the changed concepts of essentiality or the degree of manufacturing done; or

" (3) Where it is necessary to counter an adverse action on the part of another country."

SEC. 13 Section 186-B of the National Internal Revenue Code is hereby amended to read as follows:

" SEC. 186-B. Percentage tax on sales of processed meat, milk and vegetable, fish and other sea foods, wheat flour and feeds.-

There shall be levied, assessed and collected once on every original sale, barter, exchange and similar transaction either for nominal or valuable consideration, intended to transfer ownership of, or title to, the articles enumerated hereinbelow, a tax equivalent to five per centum of the gross selling price or gross value in money of the articles to sold, bartered, exchanged, or transferred, such tax to be paid by the manufacturer or producer:

" (a) Processed meat, milk and vegetables; fish and other sea foods;

" (b) Wheat flour; and

" (c) Poultry and animal feeds.

Provided, however, That where the articles are manufactured out of materials subject to tax under this section, Section 186, or Section 189, 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.

" For purposes of this section, processed meat, milk, and vegetables, fish and other sea foods include such food products which have undergone the process of curing, canning, bottling or similar processes but exclude such food products which have undergone only simple preserving processes such as freezing, drying, salting or smoking."

SEC. 14. The above sections are amended by this Decree shall be incorporated in the consolidation and codification of all existing internal revenue laws under a separate Presidential Decree.

SEC. 15. Effectivity date.-This Decree shall take effect immediately.

Done in the City of Manila, this 3rd day of June in the year of our Lord, nineteen hundred and seventy-seven.

(Sgd.) FERDINAND E. MARCOS
President of the Philippines

By the President:

(Sgd.) JUAN C. TUVERA
Presidential Assistant

TITLE OF CODE

SEC. 1. Title of Code. — This Code shall be known as National Internal Revenue Code of 1977.

TITLE I. ORGANIZATION AND FUNCTION OF BUREAU

SEC. 2. Chief Officials of the Bureau of Internal Revenue. — The Bureau of Internal Revenue shall have a chief to be known as Commissioner of Internal Revenue, and two assistant chiefs to be known as Deputy Commissioner.

SEC. 3. Powers and Duties of Bureau. — The powers and duties of the Bureau of Internal Revenue shall comprehend the assessment and collection of all national internal revenue taxes, fees, and charges, and the enforcement of all forfeitures, penalties, and fines connected therewith including the execution of judgments in all cases decided in its favor by the Court of Tax Appeals and the ordinary courts. Said Bureau shall also give effect to and administer the supervisory and police power conferred to it this Code or other laws.

SEC. 4. Specific Provisions to be Continued 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 Revenue Regional Directors shall canvass their respective revenue regions 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 kept.

(b) The forms of labels, brands, or marks to be required in 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 fiscal and other officials respecting the institution and conduct of legal actions and proceedings.

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

(f) The condition under which denatured alcohol 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, so as to render the alcohol suitably denatured and unfit for oral intake, 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 Commissioner 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.

(g) The manner in which revenue shall be collected and paid, the instrument, document, or object to which revenue stamps shall be affixed, any provision of Republic Act No. 5448 to the contrary notwithstanding, the mode of cancellation of the same, the 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.

(h) The conditions to be observed by revenue officers, provincial fiscals, and other officials respecting the enforcement of Title III imposing a tax on estate of a decedent, and other transfers mortis causa as well as on gifts and such other rules and prohibitions which the Commissioner of Internal Revenue may consider suitable for the enforcement of the said Title III.

(i) The manner in which 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 tax statistics.

(j) The manner in which internal revenue taxes such as income tax, estate and gift taxes, specific taxes, percentage taxes, documentary stamp taxes, mining taxes, taxes on banks, finance companies, insurance companies, public utilities, taxes on amusements, charges on forest products and such other taxes as may be added thereto shall be paid through the collection agents of the Bureau of Internal Revenue or through authorized agent commercial banks which are hereby deputized to receive payments of such taxes and the returns, papers and statements that may be filed by the taxpayers in connection with the payment of the tax.

SEC. 5. Forms, Certificates, and Appliances supplied by the Commissioner of Internal Revenue — It shall be the duty of the Commissioner of Internal Revenue, among other things, to prescribe, provide, and distribute to the proper officials the requisite licenses, internal revenue stamps, labels 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. For this purpose, internal revenue stamps, strip stamps, science stamps and labels shall be caused by the Commissioner of Internal Revenue to be printed in the same manner as Philippine currency.

SEC. 6. Agents and Deputies for Collection of National Internal Revenue . — For the collection of the national internal revenue on imported articles, the Commissioner of Customs and his subordinates, and for the collection of the energy tax, the Commissioner of the Land Transportation Commission and his subordinates are constituted agents of the Commissioner of Internal Revenue.

SEC. 7. Power of the Commissioner of Internal Revenue to obtain information on potential taxpayer. - When it comes to the knowledge of the Commissioner of Internal Revenue that certain office of Register of Deeds, the Securities and Exchange Commission, the Philippine Patent Office, those of mayors and treasurers, the Government Service Insurance System, the Social Security System, the Philippine Medical Care Commission and others, possess valuable information for discovery of potential taxpayers, the Commissioner or his deputies shall obtain that information upon proper request from the offices concerned. It shall be the duty of those offices to furnish the desired information within thirty days from receipt of the request of the Commissioner of Internal Revenue or his deputies.

SEC. 8. Internal Revenue districts. — With the approval of the Secretary of Finance, the Commissioner of Internal Revenue shall divide the Philippines into such number of revenue districts as may from time to time be required for administrative purposes. Each of these districts shall be under the supervision of a Revenue District Officer.

SEC. 9. Revenue Regional Director. — Under rules and regulations, policies and standards formulated by the Commissioner of Internal Revenue, the Revenue Regional Director shall, within the region and district offices under his jurisdiction, among others:

(1) Implement laws, policies, plans, programs, rules and regulations of the department or agencies in the regional area;

(2) Administer and enforce internal revenue laws and regulations, including the assessment and collection of all internal revenue taxes, charges and fees;

- (3) Provide economical, efficient and effective service to the people in the area;
- (4) Coordinate with regional offices or other departments, bureaus and agencies in the area;
- (5) Exercise control and supervision over the officers and employees within the region; and
- (6) Perform such other function as may be provided by law and as may be delegated by the Commissioner.

SEC. 10. Duties of Revenue District Officers and other internal revenue officers. — It shall be the duty of every Revenue District Officer or other internal revenue officers and employees to see that all laws and regulations affecting national internal revenue are faithfully executed and complied with, and to aid in the prevention, detection and punishment of frauds or delinquencies in connection therewith.

It shall be the duty of every Revenue District Officer 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 Commissioner of Internal Revenue, through the Regional Director, 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 and any evidence sustaining each case.

SEC. 11. Authority of Revenue Examiner. — A revenue examiner in any district may, in the name of the Revenue District Officer 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 Revenue District Officer himself.

SEC. 12. Assignment of internal revenue officers to establishments where articles subject to specific tax are produced. — The Commissioner of Internal Revenue shall employ and assign internal revenue officers to regional offices and the Regional Director shall assign them to establishments or places where articles subject to specific tax are produced or kept.

SEC. 13. Assignment of internal revenue officers and other employees to other duties. — The Commissioner of Internal Revenue may, with the approval of the Secretary of Finance assign internal revenue officers and other 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. 14. Reports of violation of laws. — 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 Commissioner 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 Revenue Regional Director or Revenue District Officer, as the case may be, may send the report to the corresponding prosecuting officer. In the latter case, a copy of his report shall be sent to the Commissioner of Internal Revenue.

It shall also be the duty of any officer or employee of the Bureau of Internal Revenue to report to the Bureau of Forest Development any violation of the Forestry Reform Code of the Philippines within his knowledge. A duplicate of each such report shall be furnished the Commissioner of Internal Revenue.

SEC. 15. Authority of internal revenue officers to make arrests and seizures. — The Commissioner of Internal Revenue, the Deputy Commissioners of Internal Revenue, the Revenue Regional Directors, the Revenue District Officers and other internal revenue officers 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 brought before a court, there to be dealt with according to law.

SEC. 16. Power of Commissioner of Internal Revenue to make assessments. - When a report required by law as a

basis for the assessment of any national internal revenue tax 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 Commissioner of Internal Revenue shall assess the proper tax on the best evidence obtainable.

When it shall come to the knowledge of the Commissioner 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 proceeding are begun immediately, the Commissioner 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 Commissioner of Internal Revenue.

SEC. 17. Authority of officers to administer oaths and take testimony. — The Commissioner of Internal Revenue, Deputy Commissioners, Service Chiefs, Assistant Service Chiefs, Revenue Regional Directors, Assistant Revenue Regional Directors, Chiefs and Assistant Chiefs of Division, Revenue District Officers, special deputies of the Commissioner, internal revenue officers and any other employee of the Bureau thereunto especially deputed by the Commissioner 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. 18. Contents of Commissioner's annual report. — The annual report of the Commissioner 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. 19. Sources of revenue. — The following taxes, fees and charges are deemed to be national internal revenue taxes:

- (a) Income tax;
- (b) Estate and gift taxes;
- (c) Excise taxes;
- (d) Taxes on business;
- (e) Documentary stamp taxes;
- (f) Mining taxes; and
- (g) Miscellaneous taxes, fees and charges, namely: taxes on banks, finance companies, insurance companies, franchise taxes, taxes on amusements, and charges on forest products, tobacco inspection fees and such other taxes as are or hereafter may be imposed and collected by the Bureau of Internal Revenue. (As amended by PD. No. 1994)

TITLE II. TAX ON INCOME

CHAPTER I DEFINITIONS

SEC. 20. Definitions. — When used in this Title —

- (a) The term "person" means an individual, a trust, estate, or corporation.
- (b) The term "corporation" includes partnership, no matter how created or organized, joint stock companies, joint accounts (*cuentas en participacion*), associations or insurance companies, but does not include general professional partnerships and a joint venture or consortium formed for the purpose of undertaking construction

projects or engaging in petroleum, coal, geothermal and other energy operations pursuant to an operating or consortium agreement under a service contract with the Government. General professional partnerships are partnerships formed by persons for the sole purpose of exercising their common profession, no part of the income of which is derived from engaging in any trade or business.

(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 "non-resident citizen" means one who establishes to the satisfaction of the Commissioner the fact of his physical presence abroad for an uninterrupted period which includes an entire taxable year.

(f) The term "resident alien" means an individual whose residence is within the Philippines and who is not a citizen thereof.

(g) The term "non-resident alien" means an individual whose residence is not within the Philippines and who is not a citizen thereof.

(h) The term "resident foreign corporation" applies to a foreign corporation engaged in trade or business within the Philippines.

(i) The term "non-resident foreign corporation" applies to a foreign corporation not engaged in trade or business within the Philippines.

(j) The term "fiduciary" means a guardian trustee, executor, administrator, receiver, conservator, or any person acting in any fiduciary capacity for any person.

(k) The term "withholding agent" means any person required to deduct and withhold any tax under the provision of section fifty-three

(l) The term "stock" includes the share in an association, joint-stock company, or insurance company.

(m) The term "shareholder" includes a member in an association, joint-stock company, or insurance company.

(n) The term "taxpayer" means any person subject to tax imposed by this Title.

(o) The terms "including, 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.

(p) 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 Department of Finance, the period for which such return is made.

(q) The term "fiscal year" means an accounting period for twelve months ending on the last day of any months other than December.

(r) The term "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.

(s) The term "trade or business" includes the performance of the functions of a public office.

(t) 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 evidence of indebtedness, issued by

any corporation, including those issued by a government or political subdivision thereof, with interest coupons or in registered form.

(u) 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 resale 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.

CHAPTER II - Tax On Individuals

SEC. 21. Rates of tax on citizens or residents. A tax is hereby imposed upon the taxable net income received during each taxable year from all sources by every individual, whether a citizen of the Philippines residing therein or an alien residing in the Philippines determined in accordance with the following schedule: Provided, however, That non resident citizens shall be subject to tax under this schedule only on citizens shall be subject to tax under this schedule only on income derived by them from sources within the Philippines.

Not over P2,000

(3%)

Over P2,000 but not over P 4,000 P 60 plus 6% of excess over P 2,000

Over P4,000 but not over P 6,000 P 180 plus 9% of excess over P 4,000

Over P6,000 but not over P 8,000 P 360 plus 12% of excess over P 6,000

Over P8,000 but not over P 10,000 P 600 plus 14% of excess over P 8,000

Over P10,000 but not over P 12,000 P 880 plus 16% of excess over P 10,000

Over P12,000 but not over P 14,000 P 1,200 plus 18% of excess over P 12,000

Over P14,000 but not over P 16,000 P 1,560 plus 20% of excess over P 14,000

Over P16,000 but not over P 18,000 P 1,960 plus 22% of excess over P 16,000

Over P18,000 but not over P 20,000 P 2,400 plus 24% of excess over P 18,000

Over P20,000 but not over P 24,000 P 2,880 plus 27% of excess over P 20,000

Over P24,000 but not over P 28,000 P 3,960 plus 30% of excess over P 24,000

Over P28,000 but not over P 32,000 P 5,160 plus 33% of excess over P 28,000

Over P32,000 but not over P 36,000 P 6,480 plus 36% of excess over P 32,000

Over P36,000 but not over P 40,000 P 7,920 plus 39% of excess over P 36,000

Over P40,000 but not over P 46,000 P 9,460 plus 42% of excess over P 40,000

Over P46,000 but not over P 52,000 P 12,000 plus 44% of excess over P 46,000

Over P52,000 but not over P 58,000 P 14,640 plus 46% of excess over P 52,000

Over P58,000 but not over P 64,000 P 17,400 plus 48% of excess over P 58,000

Over P64,000 but not over P 70,000 P 20,000 plus 50% of excess over P 64,000

Over P70,000 but not over P 78,000 P 23,280 plus 52% of excess over P 70,000

Over P78,000 but not over P 86,000 P 27,440 plus 54% of excess over P 78,000

Over P86,000 but not over P 94,000 P 31,760 plus 56% of excess over P 86,000

Over P94,000 but not over P 102,000 P 36,240 plus 57% of excess over P 94,000

Over P102,000 but not over P 110,000 P 40,800 plus 58% of excess over P 102,000

Over P110,000 but not over P 1200,000 P 45,440 plus 59% of excess over P 110,000

Over P120,000 but not over P 130,000 P 51,340 plus 60% of excess over P 120,000

Over P130,000 but not over P 140,000 P 57,340 plus 61% of excess over P 130,000

Over P140,000 but not over P 150,000 P 63,440 plus 62% of excess over P 140,000

Over P150,000 but not over P 160,000 P 69,640 plus 63% of excess over P 150,000

Over P160,000 but not over P 180,000 P 75,940 plus 64% of excess over P 160,000

Over P180,000 but not over P 200,000 P 88,740 plus 65% of excess over P 180,000

Over P200,000 but not over P 250,000 P 101,740 plus 66% of excess over P 200,000

Over P250,000 but not over P 300,000 P 134,740 plus 67% of excess over P 250,000

Over P300,000 but not over P 400,000 P 168,240 plus 68% of excess over P 300,000

Over P400,000 but not over P 500,000 P 236,240 plus 69% of excess over P 400,000

Over P500,000 P 305,240 plus 70% of excess over P 500,000

Provided, further, That on the income of non-resident citizens from all sources without the Philippines, there is hereby imposed a tax on the gross amount of such income after deducting therefrom the following:

(a) An allowance for personal exemption in the amount of two thousand dollars (U.S. \$2,000.00), if the person making the return is a single person or a married person legally separated from his or her spouse; or four thousand dollars (U.S. 84,000.00), if the person making the return is a married man or head of the family, as defined in Section twenty-three of this Code; and

(b) The total amount of the national income tax actually paid to the government of the foreign country of his residence.

The Philippine income tax on the adjusted gross income shall be computed in accordance with the following schedule:

If the amount subject to tax is:

Not over \$6,000.00 1%

Over 56,000.00 but not over \$20,000.00 2%

Over \$20,000.00 3%

Every non-resident citizen availing of the special rates provided herein is required to support his declaration of

gross income, exemptions and deductions claimed by attaching to his Philippine income tax return a copy of the income tax return he has filed with the government of the foreign country of his residence.

SEC. 22. Tax on non-resident alien individuals. — (a) Non-resident alien engaged in trade or business within the Philippines: There shall be levied, collected, and paid for each taxable year upon the entire net income received from all sources within the Philippines by every nonresident alien individual engaged in trade or business within the Philippines the tax imposed by Section twenty-one:

Provided, That for purposes of this Title, a non-resident alien individual who shall come to the Philippines and stay therein for an aggregate period of more than one hundred eighty days during any calendar year shall be deemed a non-resident alien, doing business in the Philippines, the provision of Section twenty (g) of this Code to the contrary notwithstanding.

(b) Non-resident aliens not engaged in trade or business within the Philippines. — There shall be levied, collected and paid for each taxable year upon the entire income received from all sources within the Philippines by every nonresident alien individual not engaged in trade or business within the Philippines as interest, dividends, rents, salaries, wages, premiums, annuities, compensations, remunerations, emoluments, or other fixed or determinate annual or periodical or casual gains, profits, and income, and capital gains, (except capital gains realized by non resident investors from buying and/or selling shares of stock of Philippine corporations listed in the dollar or any acceptable foreign currency board of any stock exchange), a tax equal to thirty per centum of such income.

(c) Aliens employed by regional or area headquarters of multinational corporations. — There shall be levied, collected and paid for each taxable year upon the gross income received by every alien individual employed by regional or area, headquarter established in the Philippines, by multinational corporations as salaries, wages, annuities, compensation, remuneration and other emoluments, such as honoraria and allowances, from such regional or area headquarters, a tax equal to 15% of such gross income: Provided, That the activities of the said regional headquarters or area headquarters shall be limited to acting as supervisory, communications and coordinating center for their affiliates, subsidiaries or branches of such multi-national corporations. For purposes of this chapter, the term "multinational corporation" means a foreign firm or entity, engaged in international trade with affiliates or subsidiaries or branch office in the Asia Pacific Region.

(d) Aliens employed by offshore banking units. — There shall be levied, collected and paid for each taxable year upon the gross income recovered by every alien individual employed by offshore banking units established in the Philippines as salaries, wages, annuities, compensation, remuneration and other emoluments, such as honoraria and allowances, from such offshore banking units, a tax equal to 15% of such gross income.

SEC. 23. Amount of personal exemptions allowable to individuals.—For the purpose of the tax provided for in this Title, there shall be allowed in the nature of a deduction from the amount of net income the following personal exemptions:

(a) Personal exemption of single individuals.—The sum of one thousand eight hundred 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 three thousand pesos, if the person making the return is a married man or a married woman or the head of a family: Provided, That only one exemption of three thousand 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 the 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 living with and dependent upon him or her for their chief support where such brothers, sisters,

or children are not more than twenty-one years of age, unmarried, and not gainfully employed, or where such children are incapable of self-support because mentally or physically defective.

(c) Additional exemption for dependents.—The sum of one thousand pesos for each legitimate, recognized natural, or adopted child, wholly dependent upon and living with the taxpayer if such dependents are not more than twenty one years of age, unmarried, and not gainfully employed 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 the family: Provided, however, That the total number of dependents for which additional exemptions may be claimed shall not exceed four dependents.

(d) Change of status.—If the taxpayer married or should have additional dependents as defined in subsection (c) above during the taxable year, the taxpayer may claim the corresponding personal exemption in full for such year, If the taxpayer should die during the taxable year, his estate may still claim the personal and additional exemptions for himself and his dependents as if he died at the close of such year. If the spouse or any of the dependents should die or become twenty-one years old during the taxable year, the taxpayer may still claim the same exemptions as if they died, or as if such dependents became twenty-one years old at the close of such year.

(e) Personal exemptions allowable to a on-resident alien individual.—A nonresident alien individual engaged in trade or business in the Philippines shall be entitled to personal exemption 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 nonresident 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. Rates of tax on corporation. - (a) Tax on domestic corporations - A tax is hereby imposed upon the taxable net income received during each taxable year from all sources by every corporation organized in, or existing under the laws of the Philippines, and partnerships, no matter how created or organized, but not including general professional partnerships, in accordance with the following:

Twenty-five per cent upon the amount by which the taxable net income does not exceed one hundred thousand pesos; and

Thirty-five per cent upon the amount by which the taxable net income exceeds one hundred thousand pesos.

Private educational institutions, whether stock or nonstock shall pay a tax of ten per cent of their taxable net income from the operation of the school, related school activities, and on their passive investment income consisting of interest, dividends, royalties, and the like: Provided, however, that dividends received by a private educational institution, whether stock or non-stock, from a domestic or resident foreign corporation shall be subject to the inter-corporate dividends tax under subsection (e) hereof.

(b) Tax on foreign corporations—(1) Nonresident corporations.—A foreign corporation not engaged in trade or business in the Philippines shall pay a tax equal to thirty-five per cent of the gross income received during each taxable year from all sources within the Philippines, as interest, dividends, rents, royalties, salaries, premiums, annuities, remunerations for technical services, emoluments or other fixed or determinable annual, periodical or casual gains, profits and income, and capital gains: Provided, however, That—

(i)

Premiums shall not include reinsurance premiums;

(ii)

Interest on foreign loans shall be subject to fifteen per cent tax;

(iii)

On dividends received from a domestic corporation liable to tax under this Chapter, the tax shall be 15% of the dividends received, which shall be collected and paid as provided in Section 53 (d) of this Code, subject to the condition that the country in which the non-resident foreign corporation is domiciled shall allow a credit against the tax due from the nonresident foreign corporation, taxes deemed to have been paid in the Philippines equivalent to 20 % which represents the difference between the regular tax (35%) on corporations and the tax (15%) on dividends as provided in this Section;

(iv)

Cinematographic film owners, lessors, or distributors shall pay a tax of twenty-five per cent of their gross income from all sources within the Philippines. For purposes of this paragraph, the gross income of cinematographic film owners, lessors, or distributors shall include film rentals and all items of gross income under Section 29 (a) ;

(v)

Rentals, lease and charter fees payable to nonresident owners of vessels chartered by Philippine nationals as the term is defined under Section 3 (c) of Presidential Decree No. 474, and which charter or lease has been duly approved by the Maritime Industry Authority, shall be subject to 4.5% final tax, the return and payment of which shall be in accordance with Sections 53 and 54 of this Code;

(vi)

Regional or area headquarters established in the Philippines by multinational corporations and which headquarters do not earn or derive income from the Philippines and which act as supervisory, communications and coordinating centers for their affiliates, subsidiaries, or branches in the Asia-Pacific Region shall not be subject to tax.

(2) Resident corporation. - A corporation organized authorized, or existing under the laws of any foreign country, engaged in trade or business within the Philippines, shall be taxable as provided in subsection (a) of this section upon the total net income received in the preceding taxable year from all sources within the Philippines: Provided, however, That international carriers shall pay a tax of two and one-half per cent on their gross Philippine billings: Provided, further, That any profit remitted abroad by a branch office to its mother company shall be subject to tax of fifteen per cent (except those registered with the Export Processing Zone Authority).

(c) Rate of tax on certain dividends.—Dividends received by a domestic or resident foreign corporation from a domestic corporation liable to tax under this Code—

(1) Shall be subject to a final tax of 10% on the total amount thereof, which shall be collected and paid as provided in Sections 53 and 54 of this Code; and

(2) Shall not be included in the determination of the gross income of the recipient corporation:

Provided, however, That interest paid or incurred on indebtedness abroad by a domestic or resident foreign corporation, which indebtedness was incurred to provide funds for investment in a domestic corporation shall be allowed as a deduction from the intercorporate dividends before computing the 10% final tax. Any excess of the interest herein allowed as deduction from intercorporate dividends may be deducted from the other gross income of the recipient corporation, subject to the provisions of Section 30 (b) of this Code.

The above deduction of interest from intercorporate dividends shall be allowed only if the recipient domestic or resident foreign corporation submits an authenticated copy of the foreign loan agreement stipulating the end-use of the loan proceeds and such other information as may be required for its determination.

The Secretary of Finance, upon recommendation of the Commissioner of Internal Revenue, shall promulgate rules and regulations to implement the provisions of this paragraph.

(d) Tax on mutual life insurance companies.—Mutual life insurance companies organized in and existing under the laws of the Philippines shall pay a tax of 10% of their gross investment income consisting of interest, dividends, rents, net capital gains and income from any other business than life insurance derived from all sources. Foreign mutual life insurance companies authorized to carry business in the Philippines shall pay the same rate of tax on the same items of gross investment income derived from sources within the Philippines.

(e) Corporate development tax.—In addition to the tax imposed in subsection (a) of this Section, an additional tax in an amount equivalent to 5% of the same taxable net income shall be paid by a domestic or a resident foreign corporation: Provided, That this additional tax shall be imposed only if the net income exceeds 107° of the net worth, in the case of a domestic corporation, or net assets in the Philippines, in the case of a resident foreign corporation: Provided, however, That a closely-held corporation as defined here in below shall be subject- to the said additional income tax regardless of the rate of return on its net worth. The term "closely-held corporation" means any corporation, (a) at least 50 % in value of the outstanding stock or (b) at least 50% of the total combined voting power of all classes of stock entitled to vote, at any time during the taxable year, is owned directly or indirectly by or for not more than five persons, natural or juridical. For the purpose of determining whether an individual indirectly owns shares of stock in a corporation, the attribution rules prescribed by Section 66 of this Code shall be applied.

The additional corporate income tax imposed in this subsection shall be collected and paid at the same time and in the same manner as the tax imposed in subsection (a) of this Section.

(f) Tax on transactions by offshore banking units and under the expanded foreign, currency deposit system.-

(1) Offshore banking units.—The provisions of any law to the contrary notwithstanding, the transactions of offshore banking units authorized by the Central Bank with non-residents and other offshore banking units shall be subject to a five per cent (5%) tax on the net income from such transactions which shall be in lieu of all taxes on the said transactions: Provided, however, that trans actions of offshore banking units with local commercial banks, including branches of foreign banks that may be authorized by the Central Bank to transact business with offshore banking units, shall likewise be subject to the same tax, except net income from such transactions as may be specified by the Secretary of Finance, upon re commendation of the Monetary Board, to be subject to the usual income tax payable by banks. Any income of non-residents from transactions with said offshore banking units shall be exempt from any tax.

In the case of transaction with residents (other than offshore banking units or local commercial banks including local branches of foreign banks that may be authorized by the Central Bank of the Philippines to transact business

with offshore banking units), interest income from loans granted to such residents shall be subject only to a ten per cent (10%) withholding tax as final tax.

(2) Expanded foreign currency deposit system.—The net income derived by a depository bank from foreign currency transactions with nonresidents, offshore banking units in the Philippines and other depository banks under the expanded foreign currency deposit system under the rules and regulations of the Central Bank shall be subject to a five per cent (5%) tax which shall be in lieu of all taxes on said transactions, except net income from such transactions as may be specified by the Secretary of Finance, upon recommendation of the Monetary Board, to be subject to the usual income tax payable by banks.

Interest income from foreign currency loans granted by such depository banks under said expanded system to residents (other than offshore banking units in the Philippines or other depository banks under the expanded system) shall be subject to a ten per cent (10%) withholding tax as a final tax.

Income of non-residents not engaged in trade or business in the Philippines from foreign currency loans to depository banks under the expanded system shall be exempt from income tax.

(g) The provisions of existing special or general laws to the contrary notwithstanding, all corporate taxpayers not specifically exempt under Section 27 of this Code shall pay the rates provided in this Section. All corporations, agencies, or instrumentalities owned or controlled by the Government, including the Government Service Insurance System and the Social Security System but excluding educational institutions, shall pay such rate of tax upon their taxable net income as are imposed by this section upon associations or corporations engaged in a similar business or industry.

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 addition to the tax imposed by Section twenty-four, 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 - That 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 clear preponderance of evidence, shall prove the contrary.

SEC. 26. Tax liability of members of general professional partnerships.—Persons exercising a common profession in general partnership shall be liable for income tax only in their individual capacity, and the share in the profits of the general professional partnership to which any taxable partner would be entitled, whether distributed 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 not organized principally for profit;
- (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, sickness, accident, or other benefits to the members of such society, order, or associations, or their dependents;
- (d) Cemetery company owned and operated exclusively for the benefit of its members;
- (e) Corporation or association organized and operated exclusively for religious, charitable, scientific, athletic, or cultural purposes, or for the rehabilitation of veterans, no part of the net income of which inures to the benefit of any private stockholder or individual.

However, the income of any of the foregoing organizations of whatever kind and character from any of their properties, real or personal, or from any activity conducted for profit, regardless of the disposition made of such income, shall be liable to the tax imposed under this Title-

- (f) 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 stock holder or individual;
- (g) Civic league or organization not organized for profit but operated exclusively for the promotion of social welfare;
- (h) 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;
- (i) 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;
- (j) 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;
- (k) 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; and

(1) Development banks as provided in Republic Act Numbered Four Thousand ninety-three, as amended.

CHAPTER IV.—Computation of Net Income

SEC. 28. Meaning of net income.—"Net income" means the gross income computed under section twenty-nine, less the deductions allowed by section thirty.

SEC. 29. Gross income.— (a) General definitions.— "Gross income" includes gains, profits, and income derived from salaries, wages, or compensation for personal services of whatever kind and in whatever form paid, or from professions, vocations, trades, businesses, 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 or 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, bequests, 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 Government of the Republic 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) Retirement benefits, pensions, gratuities, etc.

(A) Retirement benefits received by officials and employees of private firms, whether individual or corporate, in accordance with a reasonable private benefit plan maintained by the employer: Provided, That the retiring official or employee has been in the continuous service of the same employer for at least ten (10) years and is not less than fifty years of age at the time of his retirement: Provided, further, that the benefits granted under this sub-paragraph shall be availed of by an official or employee only once. For purposes of this sub-section, the term "reasonable private benefit plan" means a pension, gratuity, stock bonus or profit sharing plan maintained by an employer for officials and employees, or both, for the purpose of distributing to such officials and employees the earnings and principal of the fund thus accumulated, and wherein it is provided in said plan that thus accumulated, and wherein it is provided in said plan that at no time shall any part of the corpus or income of the fund be used for, or be diverted to, any purpose other than for the exclusive benefits of the said officials and employees.

(B) Any amount received by an official or employee or by his heirs from the employer as a consequence of separation of such official or employee from the service of the employer due to death, sickness or other physical disability or for any cause beyond the control of the said official or employee.

(C) The provisions of any existing law to the contrary notwithstanding, social security benefits, retirement gratuities, pensions and other similar benefits received by resident or nonresident citizens of the Philippines or aliens who come to reside permanently in the Philippines from foreign government agencies and other institutions, private or public.

(D) Payments of benefits due or to become due to any person residing in the Philippines under the laws of the United States administered by the United States Veterans Administration.

(E) Payments of benefits made under the Social Security Act of 1954, as amended.

- (F) Benefits received from the GSIS and the retirement gratuity received by government officials and employees.
- (8) Miscellaneous items.— (A) Income received from their investments in the Philippines, in loans, stock, bonds, or other domestic securities, or from interest on their deposits in banks in the Philippines by (1) foreign governments, (2) financing institutions owned, controlled, or enjoying refinancing from them, and (3) international or regional financing institutions established by governments.
- (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 sub-division thereof.
- (C) Income derived as rewards under Republic Act Numbered Twenty-three hundred and thirty-eight, as amended by Presidential Decree No. 707.
- (D) Interest earned on commercial papers issued in the primary market as principal instrument subjected to the final tax under Section 210 (b).

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; travelling expenses while away from home in the pursuit of a trade or business, 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.

In the case of an individual, ordinary and necessary entertainment expenses in an amount not in excess of one thousand pesos or five per centum of gross income, whichever is lesser, shall be allowed as deduction. Claims for such ordinary and necessary entertainment expenses in an amount exceeding this allowance shall be duly supported by the corresponding vouchers and/or receipts.

(2) Expenses allowable to citizens or resident individuals. -

(A) Expenses incurred and paid in the Philippines during the taxable year, not compensated for by insurance or otherwise, for medical care of the taxpayer, his spouse, or his dependents as defined in section twenty-three (c).

(1) Definition. - For purpose of this subsection, the term "medical care expenses" means amounts paid for the diagnosis, or for the purpose of affecting any structure or function of the body, but excluding amounts paid for medicines.

(2) Limitation.—The deduction allowed in this sub section shall not exceed five hundred pesos for the tax payer and an additional five hundred pesos for the spouse and each dependent as defined in Section twenty-three (c), but not to exceed two thousand pesos in the aggregate.

(3) Proof of deductions.—In connection with claims for medical care expense deduction, the taxpayer shall furnish the name and address of each person to whom payment for medical care expenses has been made during the taxable year, as well as the amount and the date of the actual payment thereof in each case. Claims for deductions must be substantiated by a receipt or a statement from the individual to whom or entity to which payment for medical care was paid, showing the nature of the service rendered, the name of the person for whom the service is rendered, the amount paid therefor and the date of actual payment thereof, and such other information as the Commissioner may deem necessary.

(B) Expenses incurred and paid in the Philippines during the taxable year for basic tuition fees of taxpayer's dependents, as defined in Section twenty-three (c), who are studying in high schools.

(1) Definition.—For purposes of this subsection, the term "basic tuition fees" means amounts paid for the privilege to receive instruction in a high school but does not include matriculation fees and other miscellaneous fees such as library and athletic fees, laboratory- fee, entrance fee, ROTC fee, student council fee, graduation fee and similar fees.

(2) Limitation.—The deduction allowed in this sub section shall be two hundred fifty pesos for each of the taxpayer's dependents, as defined in Section twenty-three (c), who are studying in high schools but shall not exceed one thousand pesos in the aggregate.

(3) Proof of deductions.—In connection with claims for basic tuition fees deduction, the taxpayer shall furnish the name and date of birth of each dependent child who incurred the expense during the taxable year, as well as the amount and the date of actual payment thereof in each case. Claims for deductions must be substantiated by a receipt or statement of the school to which payment for basic tuition fees was made, showing the total school fees paid, as well as a break down of such fees, and such other information as the Commissioner may deem necessary.

(4) 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.

(5) Expenses allowable to private educational institutions. - In addition to the expenses allowable as deductions under paragraph (1) of this subsection, a private educational institution, whether stock or non-stock, shall also be allowed to deduct during the taxable year when they incurred expenses for the expansion of school facilities to be determined by rules and regulations issued jointly by the Department of Education and Culture and Finance.

(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: Provided, however that interest on deposits paid by authorized agent banks of the Central Bank of the Philippines to depositors shall be allowed as a deduction only if it is shown that the tax on such interest was withheld and paid in accordance with the provisions of Section 53 and 54 of this Code.

(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 from 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 tax able year, except—

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

(B) Income, war-profits, and excess-profits taxes imposed by the authority of 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;

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

(E) Stock transaction tax under section two hundred, ten of this Code.

(2) Limitations on 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) Credit 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 corporation - Non resident alien individuals and foreign corporation shall not be allowed the credits against the tax for the 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 to 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; 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 Commissioner of Internal Revenue, who shall redetermine the amount of the tax for the year or years affected, and the amount of tax due upon such redetermination, if any, shall be paid by the taxpayer upon notice and demand by the Commissioner, 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 Commissioner 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

Commissioner in such sum as he may require, conditioned upon the payment by the taxpayer of any amount of tax found due upon any such redetermination. The bond herein prescribed shall contain such further conditions as the Commissioner 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 five 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 Commissioner (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 were paid, which the amount of 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 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 Commissioner of Internal Revenue shall have full power to determine from the accumulated profits of what year or years such 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 which are paid by the corporation without reimbursement from the shareholder, but in such cases no deduction shall be allowed the 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, 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 tax purposes in the estate tax return. The Secretary of Finance, upon recommendation of the Commissioner of Internal Revenue, is hereby authorized to promulgate rules and regulations prescribing among other things the time and manner by which the taxpayer shall submit a declaration of loss sustained from casualty or from robbery, theft, or embezzlement during the taxable year, Provided, however, That the time limit to be so prescribed in the regulations shall not be less than 30 days nor more than 90 days from the date of the occurrence of the casualty or robbery, theft or embezzlement giving rise to the loss.

(2) By corporations.—In the case of a corporation, all losses actually sustained and charged off within the tax able year and not compensated for by insurance or other wise.

(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, 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. The Secretary of Finance, upon recommendation of the Commissioner of Internal Revenue, is hereby authorized to promulgate rules and regulations prescribing among other things the item and manner by which the taxpayer shall submit a declaration of loss sustained from casualty or from robbery, theft or embezzlement during the taxable year, Provided, however, That the time to be so prescribed in the regulations, shall not be less than 30 days nor more than 90 days from the date of the occurrence of the casualty or robbery, theft or embezzlement giving rise to the loss.

(4) Capital losses.—

(A) Limitation—Losses from sales or exchanges of capital assets shall be allowed only to the extent provided m section thirty-four.

(B) Securities becoming worthless.—If any securities as defined m Section twenty 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 thirty-three.

(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 tax able 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 deduct ible if they 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 twenty are ascertained to be worth less and charged off within the taxable year and are cap ital 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 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 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 trustees 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 allocable to each.

(2) Depreciation deductible by non-resident aliens or foreign corporations.—In the case of a non-resident alien individual or foreign corporation, a reasonable allowance for the deterioration of property arising out of its 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 there- of 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, no further allowance shall be made.

(2) Depletion of oil and gas wells and mines deductible by a non-resident alien individual or foreign corporation. - 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 or mines located within the Philippines.

(h) Charitable and other contributions.—Contributions or gifts actually paid or made within the taxable year to or for the 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 for the rehabilitation of veterans, 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 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.

Notwithstanding the foregoing, the following donations shall be deductible in full and shall not be included for purposes of computing the maximum amount deductible under the preceding paragraph:

(1) Any donation made to any school, college, or university recognized by the Government either for general or special purposes: Provided, That said donation is not for the payment or granting of a salary increase, bonus, or personal benefits to any or all of the school officials, faculty, and personnel in case of a public school or to any of

its stockholders, school officials, faculty, and personnel in case of private schools.

(2) Donations to the Artesian Well Fund as provided in Republic Act Numbered Nine hundred seventy-seven.

(3) Donations to the International Rice Research Institute as provided in Republic Act Numbered Two thousand seven hundred seven.

(4) Donations to the National Science Development Boards and its agencies and to public or recognized private educational institutions, and scientific and research foundations, as provided in Republic Act Numbered Three thousand five hundred eighty-nine.

(5) Donations to the Ramon Magsaysay Award Foundation, as provided in Republic Act Numbered Three thousand six hundred seventy-six.

(6) Donations to the University of the Philippines and other state colleges and universities subject to the same limitations in paragraph one above.

(7) Donations to the Philippine Rural Reconstruction Movement.

(8) Donations to the Catholic Relief Services-NCWC, and the Tools for Freedom Foundation as provided in Republic Act Numbered Four thousand four hundred eighty-one.

(9) Donations to the Cultural Center of the Philippines.

(10) Donations to the Trustees of the Press Foundation of Asia, Inc.

(11) Donations to the National Commission on Culture.

(12) Donations to Humanitarian Science Foundation.

(13) Donations to Roxas Education and Welfare Committee, Inc.

(14) Donations to the Integrated Bar of the Philippines as provided in Presidential Decree No. 181.

(15) Donations to the Development Academy of the Philippines as provided in Presidential Decree No. 205.

(16) Donations to Aquaculture, Department of the Southeast Asian Fisheries Development Center as provided in Presidential Decree No. 292.

(17) Donations to the National Social Action Council as provided in Presidential Decree No. 294.

(18) Donation to the Task Force on Human Settlements.

(19) Donations to the National Museum, Library and Archives as provided in Presidential Decree No. 373.

(20) Donations to the Department of Youth and Sports Development as provided in Presidential Decree No. 604.

(21) Donations to social welfare, cultural and charitable institution, no part of the net income of which inures to the benefit of any individual: Provided, however, That not more than 30% of the said donations be used by such institutions for administration purposes.

The provisions of existing special laws to the contrary notwithstanding, all other contributions or donations shall be subject to the limitations provided in the first paragraph of this subsection.

Such contribution 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 engaged in trade or business in the Philippines shall receive the benefit of the deductions provided for in this section only by filing or causing to be filed with the Commissioner 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 Commissioner 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,¹ 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 theretofore 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.

(k) Optional standard deduction.—In lieu of the deductions allowed under this section an individual, other than a non-resident alien, may elect a standard deduction. Such optional standard deduction shall be in the amount of five thousand pesos or in an amount equal to ten per centum of his gross income, whichever is the lesser. Unless the tax payer signifies in his return his intention to elect the optional standard deduction, he shall be considered as having availed himself of the deductions allowed in the preceding subsection. The Secretary of Finance shall prescribe the manner of the election. Such election when made in the return shall be irrevocable for the taxable year for which the return is made.

(1) Standard deduction for working wife.—If the gross income reported in the return filed by the taxpayer includes that received by his wife, a standard deduction of ten per cent of the gross income received by his wife but not exceeding P500 shall be allowed as deduction from the, combined gross income, regardless of whether the taxpayer uses the itemized deductions under subsection (a) to (j), or the optional standard deduction under sub-section (k), of this Section.

SEC. 31. Items not deductible. - (a) General rule. - In computing net income no deducting 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 improvement, 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 individual;
- (3) Except in the case of distributions in 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 doing business in the Philippines, 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: Provided, however, That the released reserve be treated as income for the year of release.

(b) Mutual insurance companies.—In the case of mutual fire and mutual employer's 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 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 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 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 those amounts between the ascertainment and payment thereof.

(d) Assessment insurance companies.—Assessment insurance companies, whether domestic or foreign, may deduct from their gross income the actual deposit of sums with the officers of the Government of the Philippines pursuant to law, as additions to guarantee or 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 the date of such sale or disposition and ending thirty days 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 thirty unless the claim is made by a dealer in stock 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 nondeductibility of the loss shall be determined under rules and regulations prescribed by the Secretary of Finance.

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

(1) Capital assets.—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 (f) of section thirty; or real property used in the trade or business of the taxpayer.

(2) Net capital gain.—The term "net capital gain" means the excess of the gains from sales or exchanges of capital assets over the losses from such sales or exchanges.

(c) Limitation on capital losses.—Losses from sales or exchange 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, a substantial part of whose business is 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) Net capital loss carry over.—If any taxpayer, other than a corporation, sustains in any taxable year a net capital loss, such loss (in an amount not in excess of the net income for such year) shall be treated in the succeeding taxable year as a loss from the sale or exchange of a capital asset held for not more than twelve months.

(e) Retirement of bonds, etc. - For the purpose 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 the interest coupons or in registered form, shall be considered as amounts received in exchange therefor.

(f) 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.

(g) Gains from sale, barter, or exchange of shares of stock derived from sources within the Philippines shall be taxed under the following schedules:

Rates

Not over P10,000 10%

Over P10,000 but not over P15,000 12%

Over P15,000 but not over P20,000 14%

Over P20,000 but not over 35,000 17%

Over P35,000 but not over P50,000 20%

Over P50,000 25%

Provider however, That non-resident investors buying and/or selling shares of stock of Philippine corporations listed in the dollar or any acceptable foreign currency board of any stock exchange shall be subject only to the y± of 1% stock transaction tax.

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) Exchange of property—

(1) General rule.—Except as herein provided, upon the sale or exchange of property, the entire amount of the gain or loss, as the case may be, shall be recognized.

(2) Exemptions.—No gain or loss shall be recognized if m pursuance of a plan of merger or consolidation (a) a corporation which is a party to a merger or consolidation, exchanges property solely for stock in a corporation which is a party to the merger or consolidation, (b) a shareholder exchanges stock in a corporation which is a party to the merger or consolidation solely for the stock of another corporation, also a party to the merger or consolidation, or (c) a security holder of a corporation which is a party to the merger or consolidation exchanges his securities in such corporation solely for stock or securities in another corporation, a party to the merger or consolidation. No gain or loss shall also be recognized if a person exchanges his Property for stock in a corporation of which as a result of such exchange said person, alone or together with others not exceeding four person, alone or together with others, not exceeding four persons, gains control of said corporation: Provided, That stocks issued for services shall not be considered as issued in return for property.

(3) Exchange not solely in kind.—(a) If, in connection with an exchange described in the above exceptions, a shareholder, security holder or corporation receives not only stock or securities permitted to be received without recognition of gain or loss, but also money and/or other property, the gam, if any, but not the loss, shall be recognized but in an amount not in excess of the sum of the money and the fair market value of such other property received: Provided, That as to the shareholder, if the money and or other property received has the effect of a distribution of a taxable dividend, there shall be taxed as a dividend to the shareholder an amount of the gain recognized not in excess oi his ratable share of the undistributed earnings and profits of the corporation; the remainder, if any of the gain recognized shall be treated as a capital gain.

(b) If, in connection with the exchange described in the above exceptions, the transfer or corporation receives not

only stock permitted to be received without the recognition of gain or loss, but also money and/or other property, then (1) if the corporation receiving such money and/or other property distributed it in pursuance to the plan of merger or consolidation, no gain to the corporation shall be recognized from the exchange, but (2) if the corporation receiving such other property and/or money does not distribute it in pursuance of the plan of merger or consolidation, the gain, if any, but not the loss, to the corporation shall be recognized, but in an amount not in excess of the sum of such money and the fair market value of such other property so received, which is not distributed.

(c) If the taxpayer, in connection with the exchanges described in the foregoing exception, receives stock or securities which would be permitted to be received without the recognition of the gain if it were the sole consideration, and as a part of the consideration, another party to the exchange assumes a liability of the taxpayer, or acquires from the taxpayer property subject to a liability, then such assumption or acquisition shall not be treated as money and or other property, and shall not prevent the exchange from being within the exceptions.

(4) Basis.—(a) The basis of the stock or securities received by the transfer or corporation or its shareholder or security holder upon the exchange specified in the above exception shall be the same as the basis of the property, stock or securities exchanged, decreased by (1) the money received, and (2) the fair market value of the other property received, and increased by (a) the amount treated as dividend of the shareholder and (b) the amount of any gain that was recognized on the exchange: Provided, That the property received as "boot" shall have as basis its fair market value: Provided, further, That if the corporation or its shareholders or security holders received several kinds of stock or securities, the Commissioner of Internal Revenue is hereby authorized to issue rules and regulations for the allocation of the basis among the several classes of stock or securities.

(b) The basis of the property transferred in the hands of the transferee shall be the same as it would be in the hands of the transferor, increased by the amount of the gain recognized to the transferor on the transfer.

(5) Definitions.—(a) The term "securities" means bond and debentures but not "notes" of whatever class or duration.

(b) The term "merger" or "consolidation", -when used in this section, shall be understood to mean: (1) the ordinary merger or consolidation, or (2) the acquisition by one corporation of all or substantially all the properties of another corporation solely for stock: Provided, That for a transaction to be regarded as a merger or consolidation within the purview of this section, it must be undertaken for a bona fide business purpose and not solely for the purpose of escaping the burden of taxation: Provided, further, That in determining whether a bona fide business purpose exists, each and every step of the transaction shall be considered and the whole transaction or series of transactions shall be treated as a single unit: Provided., finally, That in determining whether the property transferred constitutes a substantial portion of the property of the transferor, the term "property" shall be taken to include the cash assets of the transferor.

(c) The term "control" when used in this section shall mean ownership of stocks in a corporation possessing at least fifty-one per cent of the total voting power of all classes of stocks entitled to vote.

(d) The Commissioner of Internal Revenue is hereby authorized to issue rules and regulations for the purpose of determining the proper amount of transferred assets which meet the standard of the phrase "substantially all" and for the proper implementation of this section

SEC. 36. Inventories.—Whenever in the judgment of the Commissioner 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 dearly 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 tax able 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 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, goodwill, 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 source within or without the Philippines, under the rules and regulations prescribed by the Secretary of Finance. Where items or 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 deductions which cannot 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 cannot 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 the sale of personal property produced (in whole or in part) by the taxpayer without and sold within 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 within and 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 "aged".

CHAPTER V. - Accounting Period 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 the method employed does not clearly reflect the income, the computation shall be made in accordance with such method as in the opinion of the Commissioner 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 twenty 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 year.

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 thirty eight, 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 includible 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 one fiscal year to another, the net income shall, with the approval of the Commissioner of Internal Revenue, be computed on the basis of such new accounting period, subject to the provisions of Section forty-two.

SEC. 42. Final or adjustment returns for a period of less than twelve months. — (a) Return for short period resulting from change of accounting period. — If a taxpayer, other than an individual, with the approval of the Commissioner of Internal Revenue, changes the basis of computing net income from fiscal year to calendar year, a separate final or adjustment 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 final or adjustment return shall be made for the period between the close of the last calendar year for which return was made and the date designated as the close of the fiscal year. If the change is from one fiscal year to another fiscal year a separate final or adjustment return shall be made for the period between the close of the former fiscal year and the date designated as the close of the new fiscal year.

(b) Income computed on basis of short period. — Where a separate final or adjustment return is made under subsection (a) on account of a change in the accounting period, and in all other cases where a separate final or adjustment 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 final or adjustment return is made.

SEC. 43. Installment basis. — (a) Sales of 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 realty 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, if in either case the initial payments do not exceed twenty-five percent 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 payment received in cash or property other than evidence 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 taxable 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 sale 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 Commissioner of Internal Revenue is authorized to distribute, apportion, or allocate gross income or deductions between or among such organization, 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 such organizations, trades or businesses.

CHAPTER VI. - Return And Payment Of Tax

SEC. 45. Individual returns.— (a) Requirements.— (1) The following individuals are required to file an income tax return, if they have a gross income of at least P1,800 for the taxable year:

(A) Every Filipino citizen, whether residing in the Philippines or abroad and,

(B) Every alien residing in the Philippines, regardless of whether the gross income was derived from sources within or outside the Philippines.

(2) Regardless of amount, every non-resident alien engaged in trade or business in the Philippines shall file an income tax return. The income tax return shall be filed in duplicate, and shall set forth specifically the gross amount of income from all sources, except that of non-resident aliens engaged in trade or business in the Philippines which shall contain only such income derived from sources within the Philippines.

(3) Notwithstanding the provisions of the preceding paragraphs, an individual (except a non-resident alien engaged in trade or business in the Philippines) whose gross income derived solely from salaries, wages, remunerations and other similar compensation for services rendered, does not exceed his personal exemption of P1,800 if he/she is single or P3,000 if he/she is married or head of the family, plus the optional standard deduction to which he/she is entitled to claim under sub-paragraph (k) of Section 30, is not required to file an income tax return.

(b) Where to file.—The return shall be filed with the Commissioner of Internal Revenue, Revenue Regional Director, Revenue District Officer, Collection Agent, duly authorized treasurer of the province, city, municipality, or authorized agent banks in which such person has his legal residence or principal place of business in the Philippines, or if there be no legal residence or place of business in the Philippines, then with the Commissioner of Internal Revenue in Manila.

(c) When to file.—The return of the following individuals shall be filed on or before the fifteenth day of March of each year¹, covering income of the preceding taxable year:

(A) Residents of the Philippines, whether citizens or aliens, whose income have been derived solely from salaries, wages, interest, dividends, allowances, commissions, bonuses, fees, pensions, or any combination thereof.

(B) The return of all other individuals not mentioned above, including non-resident citizens shall be filed on or before the fifteenth day of April of each year covering income of the preceding taxable year.

(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 gift tax.

(f) Persons wider 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, except foreign corporations not engaged in trade or business in the Philippines shall render, in duplicate, a true and accurate quarterly income tax returns and final or adjustment return in accordance with the provisions of chapter X 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) Fiscal year of corporations.—Every corporation and partnership subject to tax may designate the last day of any month in the year as the day of the net 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 Commissioner of Internal Revenue at any time not less than thirty days prior to the fifteenth day of April 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 Commissioner of Internal Revenue may, in meritorious cases, grant a reasonable extension of time for filing returns of income (or final and adjustment returns in the case of corporations), subject to the provisions of section fifty-one of this Code.

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 such organization is herein before 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 general professional partnerships — Every general professional partnership shall file, in duplicate, a return of its income, except income exempt under Section twenty-nine (b) of this Title, setting forth the items of the gross income and the deductions allowed by this Title, and the names and addresses and shares of the partners.

SEC. 50. Verification of returns.—The income tax return shall contain a declaration that the taxpayer, or his authorized representative made it under the penalties of perjury.

SEC. 51. Payment and assessment of income tax.—(a) Payment of tax.— (1) In general—The total amount of tax imposed by this Title shall be paid at the time the return is filed. Such tax shall be paid by the person subject thereto.

If the return is filed after the time prescribed by law (including cases in which an extension of time for filing the return has been granted under section forty-seven of this Code), there shall be paid at the time of such filing the tax or installment which would have been payable on or before such time if the return had been filed within the time prescribed by law, and the remaining installment shall be paid at the time at which, and in the amount in which, it would have been payable if the return had been so filed, subject to the payment of interest at fourteen per centum per annum from the original due date.

In the case of tramp vessels, the shipping agents and/ or the husbanding agents, and in their absence, the captains thereof are required to file the return herein provided and pay the tax due thereon before their departure. Upon failure of the said agents or captains to file the return and pay the tax, the Bureau of Customs is hereby authorized to hold the vessel and prevent its departure until proof of payment of the tax is presented or a sufficient bond is filed to answer for the tax due.

(2) Installment, payments.—When the tax due is in excess of one thousand pesos, the taxpayer other than a corporation taxable under Section twenty-four and the withholding agents required to deduct and withhold the tax under Sections fifty-three and fifty-four, all of this Title, may elect to pay the tax in two equal installments, in which case, the first installment shall be paid at the time the return is filed and the second installment, on or before the fifteenth day of July following the close of the calendar year. If any installment is not paid on or before the date fixed for its payment, the whole amount of the tax unpaid becomes due and payable together with the delinquency penalties.

(3) Installment payments for non-resident citizens— When the tax due from a non-resident citizen is in excess of two hundred dollars (U.S. 200.00), the taxpayer may elect to pay the tax in two equal installments, in which case, the first installment shall be paid at the time the return is filed and the second installment, on or before the fifteenth day of July following the close of the calendar year. If any installment is not paid on or before the date fixed for its payment the whole amount of the tax unpaid becomes due and payable together with the delinquency penalties.

(b) Assessment and payment of deficiency tax—After the return is filed, the Commissioner of Internal Revenue shall examine it and assess the correct amount of the tax. The tax or deficiency income tax so discovered shall be paid upon notice and demand from the Commissioner of Internal Revenue.

In case a person fails to make and file a return or list at the time prescribed by law, or makes, willfully or otherwise, a false or fraudulent return or list, the Commissioner 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 Commissioner of Internal Revenue may make a return or amend any return and any return so made or amended shall be prima facie good and sufficient for all legal purposes, unless the taxpayer can prove the contrary under proper proceedings to be determined by the Commissioner of Internal Revenue.

(c) Definition of deficiency.—As used in this Chapter, in respect of a tax imposed by this Title, the term "deficiency" means:

(1) The amount by which the tax imposed by this Title exceeds the amount shown as the tax by the taxpayer shall first be increased by 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 amount previously abated, credited, returned, or otherwise repaid in respect of such tax; or

(2) If no amount is shown as the tax by the taxpayer upon his return, or if no return is made by the taxpayer, then the amount by which the tax exceeds 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, credited, returned, or otherwise repaid in respect of such tax.

(d) Interest on deficiency.—Interest upon the amount determined as a deficiency shall be assessed at the same time as the deficiency and shall be paid upon notice and demand from the Commissioner and shall be collected as a part of the tax at the rate of fourteen per centum per annum from the date prescribed for the payment of the tax (or, if the tax is paid in installments, from the date prescribed for the payment of the first installment) to the date the deficiency is assessed: Provided, That the maximum amount that may be collected as interest on deficiency shall in no case exceed the amount corresponding to a period of three years, the present provisions regarding prescription to the contrary notwithstanding.

(e) Additions to the tax in case of nonpayment.— (1) Tax shown on the return.—Where the amount determined by the taxpayer as the tax imposed by this Title or any installment thereof, or any part of such amount or installment, is not paid on or before the date prescribed for its payment, there shall be collected as a part of the tax, interest upon such unpaid amount at the rate of fourteen per centum per annum from the date prescribed for its payment until it is paid: Provided, That the maximum amount that may be collected as interest on deficiency shall in no case exceed the amount corresponding to a period of three years, the present provisions regarding prescription to the contrary notwithstanding.

(2) Deficiency.—Where a deficiency, or any interest assessed in connection therewith under paragraph (d) of this section, or any addition to the taxes provided for in Section seventy-two of this Code is not paid in full within thirty days from the date of notice and demand from the Commissioner of Internal Revenue, there shall be collected upon the unpaid amount, as part of the tax, interest at the rate of fourteen per centum per annum from the date of such notice and demand until it is paid: Provided, That the maximum amount that may be collected as interest on deficiency shall in no case exceed the amount corresponding to a period of three years, the present provisions regarding prescription to the contrary notwithstanding.

(3) Surcharge.—If any amount of tax included in the notice and demand from the Commissioner 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 paragraph (d) above and as part of the tax a surcharge of five per centum of the amount of tax unpaid.

SEC. 52. Receipts for payments made.—It shall be the duty of the Commissioner of Internal Revenue or other internal revenue officer to whom any payment of any taxes it 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 Commissioner 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 maybe 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 Commissioner'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 in this Title 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 therefrom under any law of the Philippines, or of any state or country, the obligor shall deduct and withhold a tax equal to 30 per cent of the interest or other payments upon those bonds, mortgages, deeds of trust, or other obligations, whether the interest or other payments are payable annually or at shorter or longer periods, and whether the bonds, securities, or obligations had been or will be issued or marketed, and the interest or other payment thereon paid, within or outside the Philippines, if the interest or other payment is payable to a non-resident alien or to a citizen or resident of the Philippines.

(2) Benefit of exemption against net income.—The deductions and withholding required in subsection (a) (1) of this section shall not be required in the case of a citizen, resident alien, or non-resident alien engaged in trade or business in the Philippines, entitled to receive the interest or other payment, if that individual shall file with the withholding agent, on or before February first, a signed notice in writing claiming the benefit of the exemption provided in Section twenty-three of this Title.

(b) Non-resident aliens and foreign corporations.— (1) Non-resident aliens.—Every individual, corporation, partnership, or association, in whatever capacity acting, including a lessee or mortgagor of real or personal property, trustee acting in any trust capacity, executor, administrator, receiver, conservator, fiduciary, employer, and every officer or employee of the Government of the Republic of the Philippines having the control, receipt, custody, disposal, or payment of interest, dividends, rents, royalties, salaries, wages, premiums, annuities, compensation, remunerations, emoluments, or other fixed or determinable annual, periodical, or casual gains, profits, and income, and capital gains, of any non-resident alien not engaged in trade or business within the Philippines, shall (except in the cases provided in subsection (a) (1) of this Section) deduct and withhold from the annual, periodical, or casual gains, profits, and income, and capital gains, a tax equal to 30 per cent thereof. This deduction and withholding shall not be required in the case of dividends paid by a foreign corporation unless (1) the corporation is engaged in trade or business within the Philippines, and (2) more than 85 per cent of the gross income of the corporation for the three-year period ending with the close of each taxable year preceding the declaration of the dividends (or for such part of the period as the corporation has been in existence) was derived from sources within the Philippines as determined under the provisions of Section thirty-seven. The Commissioner may authorize the tax to be deducted and withheld from the interest or other income upon any security or obligation the owners of which are not known to the withholding agent.

(2) Non-resident for am corporations.—In the case of foreign corporations subject to tax under this Title, not engaged in trade or business within the Philippines, there shall be deducted and withheld at the source in the same manner and upon the same items as is provided in subsection (b) (1) of this section, as well as on remunerations for technical services or otherwise, a tax equal to thirty-five (35%) per cent thereof: Provided, That interest on foreign loans shall be subject to withholding tax at fifteen per cent. This tax shall be returned and paid in the same manner and subject to the same conditions as provided in Section fifty-four. This deduction and withholding shall not be required in the case of re-insurance premiums ceded to foreign insurance corporations not engaged in trade or business in the Philippines.

(c) Resident individuals and corporations.—Dividends received by individuals residing- In the Philippines from a domestic corporation, as well as royalties in any form received by such individuals and domestic and/or resident foreign corporations from any person whether natural or juridical shall be subject to withholding tax at source at the rate of 10% thereof. A tax shall be withheld by the payor-corporation and/or person and paid in the same manner and subject to the same conditions as provided in Section 54 of the National Internal Revenue Code: Provided, however, That the tax withheld under this sub-paragraph shall be credited against the income tax liability of the recipient-taxpayer for the taxable year.

(d) Withholding on certain dividends.—The tax imposed by Section 24 (c) of this Code on dividends shall be withheld by the payor-corporation and paid in the same manner and subject to the same conditions as provided in Section 54 of this Code.

(e) Withholding tax on interest on bank deposits—(1) Rate of withholding tax.—Every bank or banking institution shall deduct and withhold from the interest on bank deposits (except interest paid or credited to non-resident alien individuals and foreign corporations) a tax equal to fifteen per cent of the said interest: Provided, however, That no withholding of tax shall be made if the aggregate amount of the interest on all deposit accounts maintained by a depositor alone or together with another in any one bank at any time during the taxable period does not exceed three hundred fifty pesos a year or eighty-seven pesos and fifty centavos per quarter. For this purpose, interest on a deposit account maintained by two persons shall be deemed to be equally owned by them.

(2) Treatment of bank deposit interest.—The interest income shall be included in the gross income in computing the depositor's income tax liability in accordance with existing law.

(3) Depositors enjoying tax exemption privileges or preferential tax treatment—In all cases where the depositor is tax-exempt or is enjoying preferential income tax treatment under existing laws, the withholding tax imposed in this paragraph shall be refunded or credited as the case may be upon submission to the Commissioner of Internal Revenue of proof that the said depositor is a tax-exempt entity or enjoys a preferential income tax treatment.

(4) Manner of withholding.—Without divulging the names of the depositors, the tax shall be withheld by the bank and paid in the same manner and subject to the same conditions provided in Section 54 of this Code.

(f) Other cases of withholding tax at source.—The President of the Republic of the Philippines may, upon recommendation of the Secretary of Finance, require also the withholding of a tax on the same items of income payable to persons (natural or juridical) residing in the Philippines by the same persons mentioned in paragraph b) (1) of this section at the rate of ten per cent thereof which shall be credited against the income tax liability of the taxpayer for the taxable year.

SEC. 54. Returns and payment of taxes withheld at source. — (a) Quarterly returns and payment of taxes withheld. — Taxes deducted and withheld under Section fifty-three (now 50) shall be covered by a return and paid to the Revenue District Officer, Collection Agent, or duly authorized Treasurer of the city, or municipality where the

withholding agent has his legal residence or principal place of business or where the withholding agent is a corporation, where the principal office is located. The taxes deducted and withheld by the withholding agent shall be held as a special fund in trust for the Government until paid to the collecting officers. The Commissioner of Internal Revenue may, with the approval of the Secretary of Finance, require these withholding agents to pay or deposit the taxes deducted or withheld at more frequent intervals when necessary to protect the interest of the Government. The return for final withholding tax shall be filed and the payment made within 25 days from the close of each calendar quarter.

(b) Annual statements of income payments made and taxes withheld.—Every withholding agent required to deduct and withhold taxes under Section fifty-three shall furnish each income recipient, in respect to his receipts during the calendar year, on or before January 31 of the succeeding year, a written statement showing the income payments made by the withholding agent during the calendar year, and the amount of the tax deducted and withheld therefrom.

(c) Annual returns.—Every withholding agent required to deduct and withhold taxes under Section fifty-three shall submit to the Commissioner of Internal Revenue a statement of the total amount withheld during the year, with copies of the statement referred to in subsection (b) of this section, on or before January thirty-first of the succeeding year. This return, if made and filed in accordance with regulations, approved by the Secretary of Finance, shall be sufficient compliance with the requirements of section seventy-seven of this Title in respect to the income payments.

The Commissioner of Internal Revenue may, by regulations, grant to any withholding agent a reasonable extension of time to furnish and submit the return required in this subsection.

(d) Verification of returns.—The Commissioner of Internal Revenue may, by regulations, require that any return, statement, or other document required to be filed under this section, or under regulations approved by the Secretary of Finance, shall contain or be verified by a written declaration that it is made under the penalties of Perjury, and this declaration shall be in lieu of any oath otherwise required.

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 the 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 paid by the owners 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

Section 56. Imposition of Tax. — (a) Application of tax. — The tax 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 person 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 a 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) Exception. — The tax imposed by this Title shall not apply to employee's trust which forms part of a pension, stock bonus or profit-sharing plan of an employer for the benefit of some or all of his employees (1) if contributions are made to the trust by such employees, or employees, or both for the purpose of distributing to such employees the earnings and principal of the fund accumulated by the trust in accordance with such plan, and

(2) If under the trust instrument it is impossible, at any time prior to satisfaction of all liabilities with respect to employees under the trust, for any part of the corpus or income to be (within the taxable year or thereafter) used for, or diverted to, purposes other than for the exclusive benefit of his employees: Provided, That any amount actually distributed to any employee or distributee shall be taxable to him in the year in which so distributed to the extent that it exceeds the amount contributed by such employee or distributee.

(c) 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 fifty-seven (relating to revocable trust) and Section fifty-eight (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 trust 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 the 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 this section in the same or any succeeding taxable year.

(b) In the case of income received by estate of 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 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 trusts. — For the purpose of the tax provided for in this Title, there shall be allowed an exemption of Six thousand pesos from the income of the estate or trust.

SEC 59. Revocable trusts. — Where at any time the power to revert 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 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 Three 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 or 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 a 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 twenty-four 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 purpose of this Title, the term "personal holding company" means any corporation, as defined in Section 20 if—

(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.

(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.—At 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.

SEC. 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 (other than dividends subject to tax under Section 24(c) of this Code), 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 (u) of Section twenty), gains from the sales or exchange of stock or securities.

(c) Commodities transactions.—Gains from futures 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, merchant, 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 fifty-six and gains from the sales 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 for the individual who has performed, is to perform, 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 on 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 a sublease or other arrangement.

(g) Rent.—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 individuals.—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 sixty-eight; 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 twenty-seven.

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 that should be classed as foreign personal holding company income, as well as the stock ownership requirement of such company, the same rules prescribed in sections sixty-five and sixty-six 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 sixty-seven 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 Commissioner 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 Commissioner 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 Commissioner 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 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 Commissioner 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. Surcharges for failure to render returns and for rendering false and fraudulent returns,—In case of willful neglect to file the return or list required under this Title within the time prescribed by law, or in case a false or fraudulent return or list is willfully made, the Commissioner 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 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 Commissioner or other internal revenue officer, not due to willful neglect, the Commissioner 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 Commissioner or other officer filed after such time, and it is shown that the failure to file it was seasonable cause, no such addition shall be made to the tax. The amount so added to any tax shall be collected at the same time 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. 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 refused 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; of 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 less than five thousand pesos and imprisonment of not less than two years.

SEC. 74. Penalty impose 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 corporation 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 Commissioner 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 Commissioner 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 Commissioner 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 sources¹ 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, duly registered general co-partnerships (compania 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 Commissioner 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

SEC. 77. Information at source as to payments of one thousand eight hundred pesos or more.—All persons, corporations, or duly registered co-partnerships (compania 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 employees, making payment to another person, corporation, or duly registered general co-partnership (compania colectivas), of interest, rents, salaries, wages, premiums, annuities, compensations, remunerations, emoluments, or other fixed or determinable gains, profits, and income, other than payments described in sections seventy-five and seventy-nine, of one thousand eight hundred 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 Commissioner 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 and address of the recipient of such payment: Provided, That such returns shall be required, regardless of amount 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 (compania 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.

However, such information return shall not be required in case of payment of interest on commercial papers, regardless of amount, upon which transaction tax imposed under Section 210 (b) has been paid.

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 Commissioner 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 Commissioner 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 Commissioner may require as to each of such customers as will enable the Commissioner 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) Requirements.—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, after, file, with the Commissioner of Internal Revenue 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 Commissioner, shall be filed in the office of the Commissioner of Internal Revenue and shall constitute public records and be open to inspection as such upon the order of the President of the Philippines, under rules and regulations to be prescribed within Sixty days, from the date of effectivity of this Code by.. the Secretary of Finance.

The Commissioner of Internal Revenue may in each year cause to be prepared and published in any newspaper and' otherwise make available to public inspection upon written Request and pursuant to regulations to be prescribed by the Secretary of Finance, lists containing the names and addresses of persons who have filed income tax return with the amount of income declared and the income tax paid by each. The. last of taxpayers for the preceding taxable year each municipality or city shall be posted at the main- entrance of the respective municipal building or city hall.

SEC. 82. Suit to recover tax based on false or fraudulent returns. - When an assessment it made in case of any list statement, or return, which in the opinion of the Commissioner of Internal Revenue was false or fraudulent, or contained any understatement or undervaluation, no tax collected under such assessment shall be recovered by any suits unless it is proved that the said list, statement, or return was not false or 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.

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

Where a corporation distributes all of its assets incomplete liquidation or dissolution, the gain realized or loss sustained by the stockholder, whether individual or corporate, is 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 time 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 - Quarterly Corporate Income Tax

SEC. 84. Requirement's of declaration.—Every individual subject to income tax under Section twenty-one or twenty- two of this Title, receiving- income other than that subject to withholding under Chapter XI of this Title and every, corporation subject to income tax under Section twenty-four of this Title shall file a declaration of its estimated net taxable income for each quarter of its taxable year Provided, however, That individuals and corporations that have paid the estimated income tax herein required and have filed the adjustment return prescribed in. Section eighty-seven shall be exempt from filing the return required in Section forty-five and forty-six of this Title,

SEC. 85. Method, of Computing Corporate Quarterly Income Tax.—Every corporation shall file in duplicate a quarterly summary declaration of its gross income and deductions-on a cumulative basis for the preceding quarter or quarters upon which the income tax, as provided in Title II of this Code, .shall be levied, collected and paid. The tax so computed shall be decreased by the amount of tax previously paid or assessed during the preceding quarters and shall be paid not later than sixty (CO) days from the dose of each of .the first three (3) quarters of the taxable year whether calendar or fiscal year.

SEC. 86. Place of filing declaration and paying estimated income tax.—The declaration shall be filed with, and the tax thereon paid to, the Commissioner of Internal Revenue, Revenue Regional Director, Revenue District Officer, or the Collection Agent of the City or municipality where the individual is residing or in case of a corporation, in which is, located its principal office and where its books of accounts and other data from which the return is prepared and kept; in case of an individual who has no legal residence in the .Philippines, or a corporation that has no office of any kind or agency in the Philippines, then the returns shall be filed and the tax thereon paid, with the Commissioner of Internal Revenue in Manila.

SEC. 87. Filing of adjustment returns and final payment of income tax.—On or before the fifteenth day of April or on before the fifteenth day of the fourth month following the close of the fiscal year, every taxpayer covered by this Chapter shall file an adjustment return covering the total net taxable income of the preceding' calendar or fiscal year and tf the sum of the quarterly tax payments made during that year is not equal to the total tax due on the entire net taxable income of that year, the corporation shall either (a) pay the excess tax still due or (b) be refunded the excess amount paid, as the case may be- In case the corporation is entitled to a refund of excess estimated quarterly income taxes paid, the refundable amount shown in its final and adjustment return may be credited against the .estimated quarterly income tax liabilities for the taxable quarters of the succeeding taxable year.

SEC. 88. Civil penalties.— (1) Deficiency.—Definition.— As used, and in respect of the estimated tax referred to* in this Chapter, the term "Deficiency"1 means:

(a) The amount by which eighty per centum of the estimated tax referred to in this Chapter exceeds the amount shown by the taxpayer as the estimated tax on his or its 'return, including tax credit allowable;

(b) If no amount is shown by the taxpayer as estimated; ;tax on his or its return, or if no return is filed by the taxE

payer, and the taxpayer has tax credit allowable, the amount by which eighty per centum of the estimated tax referred to in this Chapter exceeds the tax credit allowable against such estimated tax; or

(c) If no amount is shown by the taxpayer as estimated tax on his or its return, and the taxpayer has no tax credit allowable, eighty per centum of the estimated: tax referred to. in .this Chapter

(2) (a) Interest.—Interest¹ upon the amount determined as a deficiency shall be -assessed' at the same: time as the 'deficiency; and shall be paid upon notice and demand from the Commissioner of Internal Revenue; and shall be collected as- part of the estimated tax at the rate.of fifteen per centum per annum from the date prescribed for the payment of the estimated tax to the date the deficiency is assessed: Provided, That the maximum amount, that .may ,be collected as , interest on deficiency shall in, no. case exceed the amount corresponding, to. a period not later than the fifteenth day of April :or the fifteenth day of the fourth month following the close of. the taxable year: Provided, further, That no interest on. deficiency estimated income tax .shall be assessed at any. time after assessment of the actual income tax due for "the .taxable year.

(b) Addition to estimated' tax in case of nonpayment.— (I) Estimated Tax on the return.—Where the amount -'shown by the taxpayer as estimated tax on his or its return or part of such amount, is not paid on.or before the date prescribed for its "payment, there¹ shall be collected; as part of the estimated tax interest upon such unpaid amount, at the rate of fifteen per centum per annum from the date 'prescribed for its payment until it is paid but not later than the fifteenth day of April or" the fifteenth day of the fourth Month following-the close of-the taxable year.

(2) Deficiency.—Where' the deficiency, or interest on deficiency, assessed under subsection (a) of this section, or part thereof, is not' paid in full within thirty days from the date of receipt by the taxpayer of the notice and demand from the Commissioner- of Internal Revenue, there shall be collected.upon such unpaid amount, as part of the estimated tax, interest at the rate of fifteen per centum per annum from the.date of receipt the taxpayer of¹ such notice and demand until it is paid but not later than the fifteenth day of April or. the fifteenth day of the fourth month following t;he close of ;the taxable year.

SEC. 89. Declaration under .penalties of perjury.— (1). declaration and return required under this Chapter , in lieu, of an oath, contain a written., declaration, that are made under the penalties of perjury.

(2) Any person who willfully files a declaration, or return containing: Information which is not true and correct as to, every material matter shall, upon conviction, be subject to. the penalties prescribed for perjury under .the Revised penal Code.

CHAPTER XI. - Withholding on Wages

SEC. 90. Definitions. — As used in this Chapter. — (a) Wages. — The term "wages" means all remuneration (other than fees paid to a public official) for services performed by an employee for his employer, including the cash value of all remuneration paid in any medium other than cash, except that such term shall not include remuneration paid —

(1) For agricultural labor paid entirely in products of the farm where the labor is performed, or

(2) For domestic service in a private home, or

(3) For casual labor not in the course of the employer's trade or business, or

(4) For services by a citizen or resident of the Philippines for a foreign government or an international organization.

If the remuneration paid by an employer to an employee for services performed during one-half or more of any payroll period of not more than thirty-one consecutive days constitutes wages, all the remuneration paid by such employer to such employee for such period shall be deemed to be wages; but if the remuneration paid by an employer to an employee for services performed during more than one-half of any such payroll period does not constitute wages, then none of the remuneration paid by such employer to such employee for such period shall be deemed to be wages.

(b) Payroll period. — The term "payroll period" means a period for which a payment of wages is ordinarily made to the employee by his employer, and the term "miscellaneous payroll period" means a payroll period other than a daily, weekly biweekly, semi-monthly, monthly, quarterly, semi-annual, or annual period.

(c) Employee. — The term, "employee" refers to any individual who is the recipient of wages and includes an officer, employee, or elected official of the Government of the Philippines or any political subdivision, agency or instrumentality thereof. The term "employee" also includes an officer of a corporation.

(d) Employer. — The term "employer" means the person for whom an individual performs or performed any service, of whatever nature, as the employee of such person, except that:

(1) If the person for whom the individual performs or performed any services does not have control of the payment of the wages for such services, the term "employer" [(except for the purposes of subsection (a))] means the person having control of the payment of such wages; and

(2) In the case of a person paying wages on behalf of a non-resident alien individual, foreign partnership or foreign corporation, not engaged in trade or business within the Philippines, the term "employer" [(except for the purposes of subsection (a))] means such person.

SEC. 91. Income tax collected at source. — (a) Requirement of withholding. — Every employer making payment of wages shall deduct and withhold upon such wages a tax determined in accordance with regulations to be prepared by the Secretary of Finance.

(b) Tax paid by recipient. — If the employer, in violation of the provisions of this chapter, fails to deduct and withhold the tax as required under this chapter, and thereafter the tax against which such tax may be credited is paid, the tax so required to be deducted and withheld shall not be collected from the employer; but this subsection shall in no case relieve the employer from liability for any penalties or additions to the tax otherwise applicable in respect of such failure to deduct and withhold.

(c) Nondeductibility of tax in computing net income. — The tax deducted and withheld under this section shall not be allowed as a deduction either to the employer or to the recipient of the income in computing net income under this Title.

(d) Refunds or credits. — (1) Employer. — When there has been an overpayment of tax under this section, refund or credit shall be made to the employer only to the extent that the amount of such overpayment was not deducted and withheld hereunder by the employer.

(2) Employees. — The amount deducted and withheld under this Chapter during any calendar year shall be allowed as a credit to the recipient of such income against the tax imposed under Section 21 (a) of this Title. Refunds and credits in cases of excessive withholding shall be granted under rules and regulations promulgated by the Secretary of Finance.

Any excess of the taxes withheld over the tax due from the taxpayer shall be returned or credited within three months from the fifteenth day of April. Refunds or credits made after such time shall earn interest at the rate of six

per cent (6%) per annum starting after the lapse of the three-month period to the date the refund or credit is made.

Refunds shall be made upon warrants drawn by the Commissioner of Internal Revenue or by his duly authorized representative without the necessity of counter-signature by the Chairman, Commission on Audit or the latter's duly authorized representative as an exception to the requirement prescribed by Section 621 of the Revised Administrative Code.

(e) Personal exemptions. — (1) In general. — Unless otherwise provided by this chapter, the personal and additional exemptions applicable under this chapter shall be determined in accordance with the main provisions of this Title.

(2) Exemption certificates. — (A) When to be filed. — On or before the date of commencement of employment with an employer, or within ten days, from the effectivity of this Code in case of persons already employed, the employee shall furnish the employer with a signed withholding exemption certificate relating to the personal and additional exemptions to which he is entitled.

(B) Change of status. — In case of change of status of an employee as a result of which he would be entitled to a lesser or greater amount of exemption, the employee shall, within ten days from such change, file with the employer a new withholding exemption certificate reflecting the change. (As amended by R.A. 7497)

(C) Use of certificates. — The certificates filed hereunder shall be used by the employer in the determination of the amount of taxes to be withheld.

(D) Failure to furnish certificate. — Where an employee, in violation of this chapter, either fails or refuses to file a withholding exemption certificate the employer shall withhold the taxes prescribed under the schedule for zero exemption of the withholding tax table in subsection (a).

(f) Withholding on basis of average wages. — The Commissioner of Internal Revenue may, under regulations promulgated by the Secretary of Finance, authorize employers (1) to estimate the wages which will be paid to an employee in any quarter of the calendar year, (2) to determine the amount to be deducted and withheld upon each payment of wages to such employee during such quarter as if the appropriate average of the wages so estimated constituted the actual wages paid, and (3) to deduct and withhold upon any payment of wages to such employee during such quarter amount as may be required to be deducted and withheld during such quarter without regard to his subsection.

(1) The husband shall be deemed the head of the family and proper claimant of the additional exemption in respect to any dependent children.

(2) Taxes shall be withheld from the wages of the wife in accordance with the schedule for zero exemption of the withholding tax table in subsection (a).

(h) Non-resident aliens. — Wages paid to non-resident alien individuals shall not be subject to the provisions of this chapter and shall be governed by the provisions of Section fifty-three of this Title.

SEC. 92. Liability for tax.—The employer shall be liable for the payment of the tax required to be deducted and withheld, under this chapter, and shall not be liable to any person for the amount of any such payment.

SEC. 93. Return and payment to the Government of taxes withheld. — Taxes deducted and withheld hereunder by the employer on wages of employees shall be covered by a return and paid to the collection agent of the city or municipality in which the employer has his legal residence or principal place of business, or, in case the employer is a corporation, in which the principal office is located. The return shall be filed and the payment made within twenty-five days from the close of each calendar quarter. The taxes deducted and withheld by employers shall be held in special fund in trust for the Government until the same are paid to the said collecting officers. The

Commissioner of Internal Revenue may with the approval of the Secretary of Finance, require employers to pay or deposit the taxes deducted and withheld at more frequent intervals, in cases where such requirement is deemed necessary to protect the interest of the Government.

SEC. 94. Return and payment in case of Government employees. — If the employer is the Government of the Philippines or any political subdivision, agency or instrumentality thereof, the return of the amount deducted and withheld upon any wages shall be made by the officer or employee having control of the payment of such wages, or by any officer or employee duly designated for that purpose.

SEC. 95. Statements and returns. — (a) Requirements. — Every employer required to deduct and withhold a tax in respect of the wages of an employee shall furnish to each such employee in respect of his employment during the calendar year, on or before January thirty-first of the succeeding year, on the day of which the last payment of wages is made, a written statement showing the wages paid by the employer to such employee during the calendar year, and the amount of the tax deducted and withheld under this Chapter in respect of such wages. The statement required to be furnished by this section in respect of any wages shall be furnished at such other times, shall contain such other information, and shall be in such form as the Secretary of Finance, may, by regulations prescribe.

(b) Returns. — Every employer required to deduct and withhold the taxes in respect of the wages of his employees shall, on or before January thirty-first of the succeeding year, submit to the Commissioner of Internal Revenue a return of the total amount withheld during the year accompanied by copies of the statement referred to in the preceding paragraph. This return, if made and filed in accordance with regulations with the requirements of Section seventy-one (now sixty-one) of this Title in respect of such wages.

(c) Extension of time. — The Commissioner of Internal Revenue, under such regulations as may be promulgated by the Secretary of Finance, may grant to any employer a reasonable extension of time to furnish and submit the statement and returns required under this section.

SEC. 96. Surcharges for failure to render returns and for rendering false or fraudulent returns; delinquency in payment of taxes.—The surcharges prescribed in Section seventy-two of this Title in cases of failure to render returns and for filing false or fraudulent returns shall apply to the returns required under Sections ninety-three and ninety-four.

In case the taxes deducted and withheld by the employer are not paid within the time prescribed, there shall be added a surcharge of five per centum on the amount of tax unpaid and interest at the rate of one per centum a month upon the amount required to be paid from the time the same became due until paid.

SEC. 97. Penalties—(a) Penalties for failure to file, and for filing fraudulent returns or statements.—Any person who willfully renders or furnishes a false or fraudulent return or statement required under the provisions of Sections ninety-three, ninety-four, and ninety-five or under regulations promulgated by the Secretary of Finance, or who willfully fails to render or furnish a statement as required in this chapter, or fails to remit to the Commissioner the amount withheld by such agent, shall upon conviction, for each such act or omission, be fined not less than one thousand pesos nor more than two thousand pesos and imprisoned for not more than one year.

(b) Penalties in respect of withholding exemption certificates.—Any individual required to supply information who willfully supplies false or fraudulent information, or Who willfully fails to supply information thereunder which would require an increase in the tax to be withheld under Section ninety-one, shall, in lieu of any penalty otherwise provided, upon conviction be fined not more than one thousand pesos or imprisoned for not more than one year or both.

The same penalty shall apply to an employer who willfully accepts as a fact or as true information which would reduce the tax to be withheld under Section ninety-one hereof.

(c) Penalties on corporate officers. - The penalties prescribed in this Section shall, in the case of an employer which is a corporation, partnership, or association, be imposed on the president, manager, treasurer, or other persons responsible for the particular act or omission.

SEC. 98. Verification of returns, etc. (a) Power of Commissioner of Internal Revenue to require.—The Commissioner of Internal Revenue, under regulations, promulgated by the Secretary of Finance, may require, that return, statement, or other document required to be. under this chapter, or under regulations promulgated by the Secretary of Finance, shall contain or be verified by a written declaration that it is made under the penalties of perjury, and such declaration shall be in lieu of an oath otherwise required.

(b) Penalties.--Every- person who willfully makes and subscribes any return, statement, or other document which contains or is verified by a written declaration that it made under the penalties of perjury, and which he does not believe to be true and correct as to every material matter, shall be guilty of a felony, and, upon conviction shall be subject to the penalties prescribed for perjury under the Revised Penal Code,

TITLE III. ESTATE AND DONOR'S TAXES

CHAPTER I. - Estate Tax

SEC. 99. Rates of estate tax. — There shall be levied assessed, collected and paid upon the transfer of the net estate as determined in accordance with Section 100 and 101 of every decedent, whether resident or non-resident of the Philippines, a tax based on the value of such net estate, as computed in accordance with the following schedules:

If the Net Estate is

The Tax Shall Be

Over

But not Over

Plus

of Excess Over

-

P10,000

Exempt

-

-

P 10,000

50,000

3%

-

P10,000

50,000

75,000

1,200

4%

50,000

75,000

100,000

2,200

5%

75,000

100,000

150,000

3,450

10%

100,000

150,000

200,000

8,450

15%

15,000

200,000

300,000

15,950

20%

200,000

300,000

400,000

35,950

25%

300,000

400,000

500,000

60,950

30%

400,000

500,00

625,000

90,950

35%

500,000

625,000

750,000

134,700

40%

625,000

750,000

875,000

184,700

45%

750,000

875,000

1,000,000

240,950

50%

875,000

1,000,000

2,000,000

303,450

53%

1,000,000

2,000,000

3,000,000

833,450

56%

2,000,000

3,000,000

1,393,450

60%

3,000,000

SEC. 100. 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, whether 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) Transfer 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 person 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 transfer. — (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 exerciseable) 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, nor admitted or shown to have been in contemplation of the decedent's death, made within three year prior to his death without such a consideration and affecting the interest or interest

(whether arising from one or more transfers or the creation of one or more trusts) 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 relinquishment shall, unless shown on 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 insured retained the power of revocation, or to the extent of the amount receivable by any beneficiary designated in the policy of insurance, except when it is expressly stipulated that the designation of the beneficiary is irrevocable.

(f) Prior interests. — Except as other specifically provided therein, subsections (b), (c), and (e) of this section shall apply to the transfers, trusts, estate, 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) Transfers 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. 101. Net estate.—For the purpose of the tax 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 in an amount equal to five per centum of the gross estate but in no case to exceed P50,000.00

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

(C) For Claims against 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 indebtedness in respect to, property where the value of 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 that decedent, or property taxes not accrued before his death, or any estate tax. 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 for income tax purposes in an income tax return, and provided that such losses were incurred not later than the last day for the payment of the estate tax as prescribed in subsection (a) of section 10.7.

(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 his death, where such property can be identified as having 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 to the death; and

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 tax 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 properties given in exchange therefor. Where a deduction was allowed of any mortgage or other lien in determining the gift tax, or the estate tax 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 amount 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 said paragraph (2) bears to the value of the decedent's 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 use.—The amount of all bequests, legacies, devises, or transfers to or for the use of the Government of the Republic of the Philippines, or any political subdivision thereof, for exclusively public purpose

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

(2) Property previously taxed,—An amount equal to the value specified below of any property forming part of the gross estate, situated in the Philippines of any person who died within live 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 exchange for or property so received;

One hundred per centum of the value if the prior decedent within one year prior to the death of the decedent, or the property was transferred to him by gift within the -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 to for death; and

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 mare 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 sumo period prior to his death.

These deductions shall be allowed only where a gift tax, or estate tax 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 estate of the prior decedent no deduction was allowable under paragraph (2) 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 tax of the prior decedent, which were paid in whole or in part to the decedent's death then the deduction allowable under said paragraph shall be reduced by the amount 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 said paragraph (2) bear to the value of the decedent's 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 use. — The amount of all bequests, legacies, devises, or transfers to or for the use of the Government of the Republic of the Philippines, or any political subdivision thereof, for exclusively public purposes.

(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. — No deduction 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, included in the return required to be filed under Section 83 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 had made a transfer by trust or otherwise, within the meaning of subsection (b) or (c) of section 100 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 102. 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 commissary.

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

(d) All bequests, devises, legacies or transfers to social welfare, cultural and charitable institutions, no part of the net income of which inures to the benefit of any individual: Provided, however, That not more than 30% of the said bequests, devises, legacies or transfers shall be used by such institutions for administration purposes.

SEC. 103. Determination of value of the estate. — 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. However, the appraised value of real property as of the time of death or, at the election of the executor or administrator, as of 6 months after death, shall be either (a) the current and fair market value as shown in the schedule of values fixed by the Provincial and City Assessors or (b) the fair market value as determined by the Commissioner of Internal Revenue, whichever is higher, and shall be binding upon all concerned for purposes of computing any internal revenue tax based on the value of the property.

SEC. 104. Notice of death to be filed. — In all cases of transfers subject to tax, or where, though exempt from tax, the gross value of the estate exceeds three thousand pesos, the executor, administrator, or any of the legal 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 Commissioner of Internal Revenue.

SEC. 105. Return. — (a) Requirements. — In all cases of transfer subject to tax, or where, though exempt from tax, the gross value of the estate exceeds three thousand pesos, the executor, or administrator, or any of the legal 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 the part of his

gross estate situated in the Philippines: (2) the deductions allowed from gross estate in determining the estate as defined in Section 79, (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; Provided, however, That estate returns showing a gross value of fifty thousand pesos or more shall be accompanied with a statement of (1) itemized assets of the decedent with their corresponding gross value at the time of his death, or in the case of a non-resident not a citizen of the Philippines, of that part of his gross estate situated in the Philippines; (2) itemized deductions from gross estate allowed in section 79; and (3) the amount of tax due whether paid or still due and outstanding duly certified to by a certified public accountant.

(b) Time for filing. — For the purpose of determining the estate tax provided for in Section 77 of this Code, the estate tax return required under the preceding subsection (a) shall be filed within six months from 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 Commissioner within thirty days after the promulgation of such order.

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

(d) Place of filing. — Except in cases where the Commissioner of Internal Revenue permits, the return required under subsection (a) shall be filed with the Revenue District Officer, Collection Agent or duly authorized treasurer of the city or municipality in which the decedent was domiciled at the time of his death or if there be no legal residence in the Philippines, then with the Office of the Commissioner of Internal Revenue.

SEC. 106. 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 Commissioner of Internal Revenue shall make the return from his own knowledge and from such information as can obtain through testimony or otherwise. In any such .case, the Commissioner 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. 107. Payment of Tax. -

(a) Time of Payment. -

(1) General rule. - The estate tax imposed by section 99 shall be due and payable within nine months after the decedent's death and shall be paid by the executor, administrator, or the heirs to the Commissioner of Internal Revenue or to the Regional Director, Revenue District Office or Collection Agent of the city or municipality in which the decedent was domiciled at the time of his death.

(2) Exceptions. - In case judicial testamentary or intestate proceedings shall be instituted for te settlement of the decedents estate prior to the expiration of six months after his death, the estate tax shall be due and payable within twenty-one months after the decedents death.

(b) Extension of time. — When the Commissioner of Internal Revenue finds that the payment on the due date of the estate tax or of any part thereof would impose undue hardship upon the estate or any of the heirs, he may extend the time for payment of such tax or any part thereof not to exceed five years, in case the estate is settled though the courts 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 of the limitation for assessment as provided in Section 203 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 Commissioner.

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

(c) Liability for payment. — The estate tax imposed by Section 77 shall be paid by the executor or administrator before delivery to any beneficiary of his distributive share of the estate. Such beneficiary shall, to the extent of his distributive share of the estate, be subsidiarily liable for the payment of such portion of the estate tax as his distributive share bears to the value of the total net 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.

SEC. 108. Examination of return and, determination of tax.—As soon as practicable, after the return is filed, the Commissioner of Internal Revenue shall examine it and determine the correct amount of the tax due thereon.

SEC. 109. Discharge of executor or administrator from personal liability. — If the executor or administrator makes a written application to the Commissioner of Internal Revenue for determination of the amount of the estate tax and discharge from personal liability therefor, the Commissioner 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 318) 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. 110. Definition of deficiency. — As used in this Chapter, the term "deficiency" means:

(a) The amount by which the tax imposed by this Chapter exceeds the amount shown as the tax 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 tax; or

(b) If no amount is shown as the tax by executor, administrator or any of the heirs upon his return, or if no return is made by executor, administrator, or any heir, then the amount by which the tax exceeds 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 tax.

SEC. 111. Interest on extended payment.— (a) Tax shown on the return.—If the time for the payment of the estate tax or any part thereof is extended as provided in subsection (b) of Section 107, there shall be collected, as a part of such amount, interest thereon at the rate of fourteen per centum per annum from the day following the due date of the tax 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

fourteen per centum per annum for the period of the extension.

SEC. 112. Interest on deficiency.—Interest upon the amount determined as a deficiency shall be assessed at the same time as the deficiency, shall be paid upon notice and demand from the Commissioner of Internal Revenue, and shall be collected as a part of the tax, at the rate of fourteen per centum per annum, from the due date of the tax to the date the deficiency is assessed: Provided, That the maximum amount that may be collected as interest on deficiency shall in no case exceed the amount corresponding to a period of three years, the present provisions regarding prescription to the contrary notwithstanding.

SEC. 113. Additions to the tax in case of nonpayment.—

(a) Tax shown on the return.—

(1) Payment not extended.—Where the amount of the tax imposed by this Chapter, or any part of such amount is not paid on the due date of the tax, there shall be collected as a part of the tax, interest upon such unpaid amount at the rate of fourteen per centum per annum from the due date until it is paid: Provided, That the maximum amount that may be collected as interest on delinquency shall in no case exceed the amount- corresponding to a period of three years, the present provisions regarding prescription to the contrary notwithstanding.

(2) Payment extended.—Where an extension of time for payment of the amount of the tax 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 111 is not paid in full prior to the expiration of the period of the extension, interest at the rate of fourteen per centum per annum, shall be collected on such unpaid amount from the date 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 112, or any addition to the taxes provided for in section 114 is not paid in full within thirty days from the date of the notice and demand from the Commissioner, there shall be collected as part of the tax, interest upon the unpaid amount at the rate of fourteen per centum per annum from the date of such notice and demand until it is paid: Provided, That the maximum amount that may be collected as interest on deficiency shall in no case exceed the amount corresponding to a period of three years, the present provisions regarding prescription to the contrary notwithstanding.

(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 part of the tax, interest on such unpaid amount at the rate of fourteen per centum per annum from the date the same was originally due until it is paid.

(c) Surcharges.—If any amount of the taxes included in the notice and demand from the Commissioner 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 111 and 112 and as part of the tax a surcharge of five per centum of the unpaid amount.

SEC. 114. Ad valorem penalties.—In case of any failure to make and file a return within the time prescribed by law or by the Commissioner of Internal Revenue, the Commissioner shall add to the tax twenty-five per centum of its amount, except that, when a return is voluntarily and without notice from the Commissioner 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 Commissioner 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 had 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. 115. Payment before delivery to 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 a certification from the Commissioner that the estate tax has been paid is shown.

SEC. 116. 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 a certification from the Commissioner that the tax fixed in this Title and actually due thereon had been paid is shown, and they shall immediately notify the Commissioner, Regional Director, Revenue District Officer or Collection Agent of the city or municipality where their offices are located, of the nonpayment 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 Commissioner, Regional Director, Revenue District Officer or Collection Agent 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 the deceased pay his debts to the heirs, legatee, executor, or administrator of his creditor, unless the certification of the Commissioner that the tax fixed in this Chapter had been paid is shown; but he may pay the executor or judicial administrator without said certification if the credit is included in the inventory of the estate of the deceased.

SEC. 117. Restitution of tax upon satisfaction of outstanding obligations.—If after the payment of the estate tax, new obligations of the decedent 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 part of the tax paid.

SEC. 118. 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 a certification from the Commissioner that the taxes fixed in this Title and due thereon have been paid is shown.

SEC. 119. 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 the intent to defeat or evade the assessment required by this Chapter to be made, shall, 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 or gift subject to the taxes

imposed in this Title without the certification from the Commissioner that 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 Title shall be punished by a fine of not less than twenty-five per centum of the value of that which he may have concealed, nor more than said value, or by imprisonment for not more , ' than one year, or both.

CHAPTER II . - (Gift) Donor's Tax

SEC. 120. Imposition of tax. — (a) There shall be levied, assessed, collected, and paid upon the transfer by any person, resident or non-resident, of the property by gift, a tax, computed as provided in Section 121.

(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. 121. Rates of tax payable by donor. —The tax for each calendar year shall be computed on the basis of the total net gifts made during the calendar year in accordance with the following schedule:

If the Net Estate is

The Tax Shall Be

Over

But not Over

Plus

of Excess Over

-

P1,000

Exempt

P 1,000

50,000

1.5%

P1,000

50,000

75,000

7.35

2.5%

50,000

75,000

100,000

1,360

3%

75,000

100,000

150,000

2,110

6%

100,000

150,000

200,000

5,110

9%

150,000

200,000

300,000

9,610

12%

200,000

300,000

400,000

21,610

15%

300,000

400,000

500,000

36,610

18%

400,000

500,00

625,000

54,610

21%

500,000

625,000

750,000

80,860

24%

625,000

750,000

875,000

110,860

28%

750,000

875,000

1,000,000

145,860

32%

875,000

1,000,000

2,000,000

185,860

36%

1,000,000

2,000,000

3,000,000

545,860

38%

2,000,000

3,000,000

925,860

40%

3,000,000

SEC. 122. Transfer for less than adequate and full consideration. — Where property, other than real property referred to in Section 21 (e), is transferred for less than an adequate and full consideration in money or money's worth, then the amount by which the fair market value of the property exceed 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. 123. 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) Dowries or gifts made on account of marriage and before its celebration or within one year thereafter by parents to each of their legitimate, recognized natural, or adopted children to the extent of the first ten thousand pesos;

(2) 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 profits, or to any political subdivisions of the said Government; and

(3) Gifts in favor of an educational and/or charitable, religious, cultural or social welfare corporation, institution, foundation, trust or philanthropic organization or research institution or organization: Provided, however, That not more than thirty per centum of said gifts shall be used by such donee for administration purposes.

For the purpose of this exemption, a non-profit educational and/or charitable corporation, institution, foundation, trust or philanthropic organization and/or research institution or organization is a school, college or university and/or charitable corporation, foundation, trust or philanthropic organization and/or research institution, or organization, incorporated as a non-stock entity, paying no dividends governed by trustees who received no compensation, and devoting all its income, whether student's fees, or gifts, donations, subsidies or other forms of philanthropy, to the accomplishment and promotion of the purposes enumerated in its articles of incorporation.

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

(1) 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.

(2) Gifts in favor of an educational and/or charitable, religious, cultural or social welfare corporation, institution, foundation, trust or philanthropic organization or research institution or organization: Provided, however, That not more than thirty per centum of said gifts shall be used by such donee for administration purposes.

SEC. 124. 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. In case of real property, the provisions of paragraph two, Section 103 shall apply to the valuation thereof.

SEC. 125. Returns. —

(a) Requirements. — Any individual who makes any transfer by gift (except those which, under Section 94, are exempt from the tax provided for in this Chapter) shall, for the purpose of the said tax, make a 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) any previous net gifts made during the same calendar year; (4) the name of the donee; and (5) such further information as may be required by regulations made pursuant to the law.

(b) Time and place of filing. — The return of the donor required in this section shall be filed within thirty days

after the date the gift is made and, except in cases where the Commissioner permits, the return shall be filed with the Revenue District Officer, Collection Agent or duly authorized Treasurer of the City or municipality in which the donor was domiciled at the time of the transfer or if there be no legal residence in the Philippines, then with the Office of the Commissioner of Internal Revenue.

(c) Extension of time for filing. — The Commissioner shall have authority to grant, in meritorious cases, a reasonable extension not exceeding thirty days for filing the return required under this section.

SEC. 126. Payment of Tax. — (a) Time and place of payment of tax. — The donor's tax imposed by Section 121, shall be paid at the time the return is filed. The tax shall be paid by the donor to the Revenue District Officer, Collection Agent of the city or municipality of which the donor is a resident.

(b) Extension of time. — When the Commissioner of Internal Revenue finds that the payment on the due date of the tax or of any part of the said amount, would impose undue hardship upon the donor, the Commissioner of Internal Revenue may extend the time for payment thereof 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 tax is assessed by reason of negligence international disregard of rules and regulations, or fraud on the part of the taxpayer, no extension will be granted by the Commissioner.

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

SEC. 127. Examination of return and determination of tax.—As soon as practicable, after the return is filed, the Commissioner shall examine it and shall determine the correct amount of the tax.

SEC. 128. Interest on extended payments.— (a) Tax shown on the return.—If the time for the payment of the amount determined as the tax by the donor is extended under the authority of subsection (b) of section 126, there shall be collected, as a part of such amount, interest thereon at the rate of fourteen per centum per annum from the date when such payment should have been made if no extension has 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 tax, interest on the part of the deficiency the time for payment of which is so extended, at the rate of fourteen per centum per annum, for the period of the extension.

SEC. 129. Interest on deficiency.—Interest upon the amount determined as deficiency, shall be paid upon notice and demand from the Commissioner, and shall be collected as a part of the tax, at the rate of fourteen per centum per annum, from the due date of the tax to the date the deficiency is assessed: Provided, That the maximum amount that may be collected as interest on deficiency shall in no case exceed the amount corresponding to a period of three years, the present provisions regarding prescription to the contrary notwithstanding.

SEC. 130. Additions to the tax in case of nonpayment.—

(a) Tax shown on the return.

(1) Payment not extended.—Where the amount of the tax determined by the donor as the tax or any part of such amount is not paid on the due date of the tax, there shall be collected as a part of the tax, interest upon such unpaid amount at the rate of fourteen per centum per annum, from the due date until it is paid: Provided, That the maximum amount that may be collected as interest on delinquency shall in no case exceed the amount

corresponding to a period of three years, the present provisions regarding prescription to the contrary notwithstanding.

(2) Payment extended.—Where an extension of the time for payment of the amount so determined as the tax by the donor 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 128 is not paid in full prior to the expiration of the period of the extension, interest at the rate of fourteen per centum per annum, 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 tax provided for in section 131 is not paid in full within thirty days from the date of the notice and demand from the Commissioner, there shall be collected as part of the tax, interest upon the unpaid amount at the rate of fourteen per centum, per annum, from the date of such notice and demand until it is paid: Provided, That the maximum amount that may be collected) as interest on delinquency shall in no case exceed the amount corresponding to a period of three years, the present provisions regarding prescription to the contrary.

(2) Payment extended.—If any 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 tax, interest on such unpaid amount at the rate of fourteen per centum per annum, from the date the same was originally due until it is paid.

(c) Surcharge.—If any amount of the tax included in the notice and demand from the Commissioner 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 tax a surcharge of five per centum of the unpaid amount.

SEC. 131. Ad valorem penalties.—In case of any failure to make and file a return within the time prescribed in subsection (b) of section 125 or by the Commissioner, there shall be added to the tax twenty-five per centum of its amount, except that, when a return is voluntarily without notice from the Commissioner filed after such and if 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. 132. 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 attempt to 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 purposes 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. 133. 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 intangible 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 Philip pines 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 (1) the amount by which; the tax imposed by this Chapter exceeds the amount shown as the tax by the donor upon his return; but the amount so shown on the return shall first be increased' by the amount previously assessed (or collected without assessment) as a deficiency, and decreased by the amounts previously abated, refunded, or otherwise repaid in respect of such tax; or (2) if no amount is shown as the. tax by the donor upon his return, or if no return is made by the donor, then the amount by which the tax exceeds 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 tax.

TITLE IV.—SPECIFIC TAXES

CHAPTER I.—Articles Subject to Specific Tax

SEC. 134. —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, 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.

SEC. 135. 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: Provided, however, That specific taxes on locally manufactured petroleum products levied under Sections 153, 155 and 156 of this Title, except lubricating oil and grease, shall be paid within fifteen (15) days from the date of removal thereof from the place of production.

If the specific tax on petroleum products is not paid within the time specified above, the amount of tax shall be increased by twenty-five per centum the increment to be a part of the tax and the entire amount shall be subject to interest at the rate of fourteen per cent per annum.

Locally manufactured petroleum products produced and stocked by the Philippine National Oil Company pursuant to the national policy of maintaining adequate strategic fuel reserves shall be excluded from these provisions and may continue to remain bonded.

SEC. 136. Payment of specific tax on imported articles. Specific taxes on imported article shall be paid by the owner or importer to the customs officers, conformably with the regulations of the Department of Finance and before the release of such articles from the customhouse, or by the person who is found in possession of articles which are exempt from specific tax other than those to whom the same is lawfully issued.

SEC. 137.—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 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. 138. Tax on preparations containing distilled spirits as chief ingredient.—Medicinal preparations, flavoring extracts, and all other preparations, except toilet 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 Commissioner of Internal Revenue and subject to the regulations of the Department of Finance, manufacturers of cigars and cigarettes may withdraw from bond free of tax local and imported wine and distilled spirits in specific quantities and grades for use in the treatment of tobacco leaf to be used in the manufacture of cigars and cigarettes; but such wine or distilled spirits must first be suitably denatured.

SEC. 139. Exemption in favor of domestic denatured alcohol.—Domestic alcohol of not less than one hundred eighty degrees proof (ninety per centum absolute alcohol) shall when suitably denatured and rendered unfit for oral intake, be exempt from the specific tax prescribed in Section one hundred forty-five: Provided, however, That such denatured alcohol shall be subject to tax under Section one hundred ninety-nine: Provided, further, That if such alcohol is to be used for motive power, it shall be taxed under Section one hundred fifty-three (d) of this Code.

SEC. 140. Denaturation, withdrawal and use of denatured alcohol,—Any person who produces, withdraws, sells, transports or knowingly uses denatured alcohol, or articles containing denatured alcohol in violation of laws or regulations now or hereafter in force pertaining thereto shall be required to pay the corresponding tax, in addition to the penalties provided for under Chapter III of this Title.

SEC. 141. Removal of spirits or cigars under bond.—Spirits requiring rectification may be removed from the place of their production 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 Commissioner 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 product; 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 Commissioner of Internal Revenue his bond conditioned upon the future payment of the specific tax that may be due on the finished product: And provided, further, That in cases where alcohol has already been rectified either by original and continuous distillation or by redistillation is further re-rectified, no loss for rectification and handling shall be allowed and the rectifier thereof shall pay the specific tax due on such losses.

SEC. 142. Removal of fermented liquors to bonded ware-house.—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 the 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 Commissioner 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 cancelled or destroyed in such manner as the Commissioner of Internal Revenue may prescribe.

SEC. 143. 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 Commissioner 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. 144. 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-cuts chewing tobacco, re-refuse, scraps, cuttings, clip-Pings, stems or midribs, 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. 145. Specific tax on distilled spirits.—On distilled spirits there shall be collected, subject to the provisions of section one hundred thirty-nine of this Code, except as hereinafter provided, specific taxes as follows:

(a) If produced domestically from locally produced raw materials, per proof liter, one peso and ten centavos: Provided, That if produced in a pot still or other similar primary distilling apparatus, by a distiller producing not more than one hundred liters a day, containing not more than fifty per centum of alcohol by volume, per proof liter, seventy-eight centavos;

(b) If imported or produced from imported raw materials, per proof liter, twenty-seven _ pesos and fifty centavos.

This tax shall be proportionally increased for any strength of the spirits taxed over proof spirits, 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 the process of original production or by any subsequent process.

"Spirits" or "distilled spirits" is the substance known as ethyl alcohol, ethanol or spirits of wine, including all dilutions and mixtures thereof, from whatever source by whatever process produced, and shall include whisky, brandy, rum, gin and vodka, and other similar products or mixtures.

Proof spirits is liquor containing one-half of 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. 146. Specific tax on wines.—On wines and imitation wines there shall be collected, per liter of volume capacity, the following taxes:

(a) Sparkling wines, regardless of proof, twelve pesos; if imported, twenty-six pesos and forty centavos;

(b) Still wines containing fourteen per centum of alcohol or less (except those manufactured from locally grown raw materials), one peso; if imported, two pesos and twenty centavos; and

(c) Still wines containing more than fourteen per centum of alcohol, two pesos; if imported, four pesos and forty centavos.

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

SEC. 147. 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, fifty centavos: Provided, That if the fermented liquor is imported the tax shall be increased by one hundred per centum.

SEC. 148. 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, stems, and sweepings of tobacco, there shall be collected on each kilogram, seventy-five centavos: Provided, however, That fine-cut shorts and refuse, scraps, clippings, cuttings, stems and sweepings of tobacco resulting from the handling, or stripping of whole leaf tobacco may be transferred, disposed of, or otherwise sold, without prepayment of the specific tax herein provided for under such conditions as may be prescribed in the regulations promulgated by the Secretary of Finance upon recommendation of the Commissioner if the same are to be exported or to be used in the manufacture of other tobacco products on which the specific tax will eventually be paid on the finished product.

On tobacco specially prepared for chewing so as to be unsuitable for use in any other manner, on each kilogram, sixty centavos..

SEC. 149. 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)

On cigarettes packed in thirties, the retail price on each thousand, three pesos;

(2)

On cigarettes packed in thirties, the retail price of which per pack exceeds eighty centavos but does not exceed one peso, on each thousand, five pesos;

(3)

On cigarettes packed in thirties, the retail price of which per pack exceeds one peso but does not exceed one peso and ten centavos, on each thousand, eight pesos;

(4)

On cigarettes packed in twenties, the retail price of which per pack does not exceed one peso and ten centavos, on each thousand, ten pesos;

(5)

On cigarettes packed in twenties, the retail price of which per pack exceeds one peso and ten centavos, but does not exceed one peso and forty centavos, on each thousand, sixteen pesos;

(6)

On cigarettes packed in twenties, the retail price of which per pack exceeds one peso and forty centavos, but does not exceed one peso and seventy centavos, on each thousand, eighteen pesos;

(7)

On cigarettes packed in twenties, the retail price of which per pack exceeds one peso and seventy centavos, but does not exceed two pesos, on each thousand, twenty pesos;

(8)

On cigarettes packed in twenties, the retail price of which per pack exceeds two pesos, but does not exceed two pesos and fifty centavos, on each thousand, thirty two pesos;

(9)

On cigarettes packed in twenties, the retail price of which per pack exceeds two pesos and fifty centavos, but does not exceed three pesos, on each thousand, forty pesos;

(10)

On cigarettes packed in twenties, the retail price of which per pack exceeds three pesos, on each thousand, fifty pesos;

(11)

If the cigarettes of local manufacture are of foreign brands or trade marks and being manufactured locally under licensing agreements with the foreign brand or trade mark owners, the tax shall be increased by fifty per centum per thousand: Provided, That, any subsequent transfer or alienation of title or right over a cigarette brand or trade mark by a foreign owner to a local manufacturer in whatever manner, form or description shall not affect the rates of tax then prevailing after the effectivity of this Code;

(12)

If the cigarettes of local manufacture are mechanically wrapped or packed, the tax shall be increased by one hundred twenty per centum per thousand. Cigarettes shall be considered mechanically wrapped or packed when at any stage of the Wrapping or packing thereof, a machine or any mechanical contrivance shall have been used;

(13)

If the cigarettes are of foreign manufacture, regardless of the retail price per pack or the manner of wrapping or packing thereof, on each thousand, eighty pesos.

Cigarettes subject to tax at lower rates before the effectivity of the new tax rates herein prescribed shall automatically be subject to the corresponding higher rates and there is nothing under this sub-section (b) which allows any downward reclassification of tax rates for existing brands of cigarettes duly registered at the time the herein rates become effective. Duly registered and/or existing brands of cigarettes packed in 20's at the time of the new rates herein prescribed shall not be allowed to be packed in 30's.

The maximum price at which the various classes of cigars are sold at wholesale in the factory or in the establishment of the importer to the public shall determine the rate of the tax applicable to such cigars; and if the manufacturer or importer also sells, or allows to be sold, his cigars 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 therein sold: Provided, however, That when such maximum wholesale price is less than the cost of manufacture or importation plus all expenses incurred until the cigars are finally sold by the manufacturer or importer, such cost plus expenses shall determine the amount of tax to be applied.

Every manufacturer or importer of cigars shall file with the Commissioner on the date or dates designated by the latter, a sworn statement showing the maximum wholesale prices of cigars, together with the cost of manufacture or importation plus expenses incurred or to be incurred until the cigars are finally sold and it shall be unlawful to sell said cigars at wholesale at a price in excess of the one specified in the statement required by this Title without previous written notice to said Commissioner. In the case of imported cigars, the sworn statement required herein shall be accompanied by verified sales invoices of the manufacturers of the cigars as well as the consular invoice issued by a Philippine Consul, should one be available at the place of origin or shipment.

Every manufacturer or importer of cigarettes shall file with the Commissioner, on the date or dates designated by the latter, and as often as may be required, a sworn statement showing, among other information, the brand or brands of cigarettes manufactured or imported; the approved maximum retail prices per pack of said cigarettes; and whether or not the cigarettes are mechanically wrapped or packed. In the case of imported cigarettes, the sworn statement required herein shall, in addition to the above information, be accompanied by a verified commercial invoice of the manufacturer of the cigarettes as well as the consular invoice issued by a Philippine Consul, if any, containing the information that Philippine Internal Revenue strip stamps have been affixed to each and every pack of cigarettes and that such pack bears the inscription "for export to the Philippines."

If the government of a foreign country permits the revenue stamps of such country to be affixed in the Philippines to tobacco (including cigars) or snuff manufactured in the Philippines and imported into such foreign country, internal revenue stamps of the Philippines may be affixed to tobacco (including cigars) or snuff manufactured in such foreign country to be imported into the Philippines from such foreign country under such rules and regulations as the Commissioner of Internal Revenue with the approval of the Secretary of Finance may prescribe.

Except those used as samples, all packs of locally manufactured cigarettes shall, upon the effectivity of the new-rates of tax herein prescribed, bear thereon in print the maximum retail prices at which the said cigarettes are sold. No cigarettes shall be allowed to be removed from any factory unless this requirement has been complied with.

Any manufacturer or importer who, in violation of this section, knowingly misdeclares or misrepresents in his sworn statement herein required any pertinent data or information, including the approved maximum¹ retail prices of his locally manufactured or imported cigarettes, and the manner of packing or wrapping thereof shall upon discovery be penalized by a summary cancellation or withdrawal of his permit to engage in business as a manufacturer or importer of cigarettes. If the violator is an alien, he shall be liable for deportation.

SEC. 150. Definition of terms.—When used herein and in statements or official forms prescribed hereunder, the following terms shall have the meaning indicated:

(a)

Cigars mean all rolls of tobacco or any substitutes thereof, wrapped in leaf tobacco.

(b)

Cigarettes mean all rolls of finely-cut leaf tobacco, or any substitutes therefor, wrapped in paper or any other material.

(c)

Wholesale price shall mean the amount of money Or price paid for cigars or cigarettes purchased for the purpose of resale, regardless of quantity

(d)

Retail price shall mean the amount of money or price which an ultimate consumer or end-user pays for cigars or cigarettes purchased.

SEC. 151. 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, fifty centavos;
- (b) On each gross of boxes containing over eighty sticks to the box, a proportionate additional tax.

SEC. 152. Specific tax on fireworks.—On all fireworks there shall be collected for each kilogram a tax of thirty pesos.

"Fireworks" as herein used shall include firecrackers, sparklers, rockets and similar devices which are exploded or burned to produce noises or brilliant lighting effects.

SEC. 153. Specific tax on manufactured oils and other fuels.—On refined and manufactured mineral oils and motor fuels, there shall be collected the following- taxes which shall attach to the articles hereunder enumerated as soon as they are in existence as such:

(a)

Kerosene, per liter of volume capacity, seven centavos ;

(b)

Lubricating oils, per liter of volume capacity, sixty- five centavos;

(c)

Naptha, gasoline and all other similar products of distillation, per liter of volume capacity, fifty centavos: Provided, That on. premium and aviation gasoline the tax shall be fifty-five centavos per liter of volume capacity;

(d).

On denatured alcohol to be used for motive power, per liter of volume capacity, one centavo: Provided, That unless otherwise provided for by special laws, 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;

(e)

Processed gas, per liter of volume capacity, two- centavos;

(f)

Thinners and solvents, per liter of volume capacity; forty centavos;

(g)

Liquefied petroleum gas, per kilogram, twelve centavos: Provided, That liquefied petroleum gas used for motive power shall be taxed at the equivalent rate as the specific tax on diesel fuel oil;

(h)

Asphalts, per kilogram, five centavos;

(i)

Greases, waxes and petrolatum, per kilogram, thirty-five centavos;

(j)

Aviation turbo jet fuel, per liter of volume capacity, thirty centavos.

SEC. 154. Specific tax on coal—On all coal and coke, there shall be collected, per metric ton, twenty-five centavos.

SEC. 155. 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 liter of volume capacity, four and one-half centavos, which tax shall attach to this fuel oil as soon as it is in existence as such.

SEC. 156. Specific tax on diesel fuel oil.—On fuel oil, commercially known as diesel fuel oil, and on all similar fuel oils, having more or less the same generating power, per liter of volume capacity, seventeen and one-half centavos, which tax shall attach to this fuel oil as soon as it is in existence as such.

SEC. 157. Specific tax on cinematographic films.—There shall be collected, once only, on cinematographic films, including television films, the provisions of Republic Act Numbered 1919 to the contrary notwithstanding, the following taxes:

(a) On films of not more than sixteen millimeters in width, twenty-two and one half centavos per linear meter; and

(b) On films of more than sixteen millimeters in width, thirty centavos per linear meter.

If the films are imported, the tax shall be increased by fifty per centum.

Educational films or cinematographic films used for visual education, whether manufactured in the Philippines or imported, shall be exempt from the tax prescribed in this section.

This tax shall not be collected on any tax-paid cinematographic films subsequently returned to the Philippines or on any negative film or imprinted positive film, and on any reversal film used in amateur photography of sixteen millimeters or less, and any tax heretofore paid on cinematographic films so returned, or on any negative film or imprinted positive film, or on any reversal film shall be refunded subject to the provisions of section two hundred ninety-five.

SEC. 158. Specific tax on saccharine.—On saccharine, sodium saccharinate and all its derivatives or salts of saccharine and other artificial sweetening agents, there shall be collected a tax of seventy-five pesos per kilogram.

CHAPTER II.—Administrative Provisions Regulating Business of Persons Dealing in Articles Subject to Specific Tax

SEC. 159. 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 process of production shall be conducted in so far as may be necessary to secure a sanitary output and to safeguard the revenue.

SEC. 160. Records to be kept by manufacturers.—Assessment based thereon.—Manufacturers of articles subject to specific tax shall keep such records as are required by regulations recommended by the Commissioner and approved by the Secretary of Finance, 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 tax due from them, and whenever the amounts 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 Commissioner may assess and collect the tax due on the products which should have been produced from the excess.

SEC. 161. Premises subject to approval by Commissioner. —No person shall engage in business as a manufacturer of 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 Commissioner.

SEC. 162. Manufacturers to provide themselves with counting or metering devices to determine production.—Manufacturers of cigarettes, alcoholic products, oil products, and other articles subject to specific tax that can be similarly measured shall provide themselves with such necessary number of suitable counting or metering devices to determine as accurately as possible the volume, quantity or number of the articles produced by them under regulations promulgated by the Secretary of Finance upon the recommendation of the Commissioner.

This requirement shall be complied with within twelve months from the date of approval of this Code in the case of existing firms and before commencement of operations in the case of new firms.

SEC. 163. 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 a manner as may be required.

SEC. 164. 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 warehouses, or other factory or place where produced.

SEC. 165. 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 Commissioner may, in his discretion, exact a bond to secure the payment of the tax on any goods so stored.

SEC. 166. 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 Commissioner, 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. 167. Manufacturers and importers' bond.—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 five hundred thousand pesos nor be received in a sum less than ten thousand pesos.

SEC. 168. 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. 169. Records to be kept by dealers in leaf tobacco. —Dealers in leaf tobacco shall keep records of the products 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. 170. Preservation of invoices and stamps.—All dealers whosoever shall preserve for the period prescribed in section 324 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. 171. Information to be given by manufacturers, importers, indentors, and wholesalers of any apparatus or mechanical contrivance specially for the manufacture of articles, subject to specific tax and importers, indentors, manufacturers or sellers of cigarette paper in bobbins, cigarette tipping paper or cigarette filter tips.—Manufacturers, indentors, wholesalers 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 Commissioner 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 nor dismantled or transferred without a permit in writing from the Commissioner.

A written permit from the Commissioner for importing, manufacturing or selling of cigarette paper in bobbins or rolls, cigarette tipping paper or cigarette filter tips is required before any person shall engage in the importation, manufacture, or sale of the said articles. No permit to sell said articles shall be granted unless the name and address of the prospective buyer is first submitted to the Commissioner of Internal Revenue and approved by him. Records showing the stock of the said articles and the disposal thereof by sale to persons with their respective addresses as approved by the Commissioner shall be kept by the seller, and records showing stock of said articles and consumption thereof shall be kept by the buyer, subject to inspection by internal-revenue officers.

It shall be unlawful for any person to have in his possession cigarette paper in bobbins or rolls, cigarette tipping paper or cigarette filter tips, without the corresponding authority therefor issued by the Commissioner. Any Person, importer, manufacturer of cigar and cigarette, who has in his or its stock cigarette paper in bobbins or rolls, cigarette tipping paper or cigarette filter tips and which are not supported by permit from the Commissioner shall be fined in an amount of not less than ten thousand pesos . and imprisoned for not less than five years.

SEC. 172. Establishment of distillery warehouse.—Every distiller, when so required by the Commissioner, 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 Commissioner, is declared to be a bonded warehouse, to be known as a distillery warehouse.

SEC. 173. Custody of distillery or distillery warehouse.— Every distillery or distillery warehouse shall be in the joint custody of the revenue inspector, 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 revenue inspector or other person who may be designated to act for him as provided by law.

SEC. 174. 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. 175. Denaturing within premises.—For purposes of this Title, the process of denaturing alcohol shall be effected only within the distillery premises where the alcohol to be denatured is produced in accordance with formulas duly approved by the Bureau of Internal Revenue and only in the presence of duly designated, representatives of said bureau.

SEC. 176. Recovery of alcohol for use in arts and trades.—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. 177. 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 paid.

SEC. 178. 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 paid.

SEC. 179. 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 tax has not been paid or that the package has been or is removed in violation of law, and every such package 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.

CHAPTER III. Penal Provisions

SEC. 180. Unlawful practices relative to payment of specific taxes.—Any person who, without express authority

from the Commissioner, 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, tag, or who procures the commission of any such offense by another, shall be fined in a sum of not less than one thousand pesos nor more than five thousand pesos or imprisoned for a term of not less than one year nor more than five years, or both.

Any manufacturer, dealer, printer, business agent and any other person who sells or offers for sale any box or other package containing articles subject to the specific tax, having affixed thereto any false, spurious, imitation or counterfeit stamp or label, or stamp or label that has been previously used; or sells from any such fraudulent stamped box, package or container as aforesaid, shall for each such offense, be fined not less than ten thousand pesos nor more than twenty thousand pesos and imprisoned for not less than four years nor more than twelve years and in the case of an alien, he shall be deported after the service of the prison term.

Any person who gives away or accepts from another, 01- who sells, buys, or uses any container on which the stamps or labels are not completely destroyed shall for each such offense be lined in a sum of not less than one thousand pesos nor more than five thousand pesos and imprisoned for a term not exceeding one year.

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

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 provided for by article two hundred sixty-four of the Revised Penal Code.

SEC. 182. Forfeiture of good illegally stored or removed. -All articles subject to a specific tax which are stored of 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 or from customs custody, or brought into or received in this country not through the Bureau of Customs without the payment of the required tax shall likewise be forfeited.

SEC. 183. 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. 184. Unlawful possession or removal of articles subject to specific tax without payment of tax.—Any person

who owns and/or is found in possession of imported articles subject to specific tax, the tax on which had not been paid in accordance with law or any person who owns and/or is found in possession of imported tax-exempt articles other than those to whom they are legally issued shall be punished by:

1. A fine of not less than fifty pesos nor more than two hundred pesos and imprisonment of not less than five days nor more than thirty days, if the appraised value, to be determined in the manner prescribed in the Tariff and Customs Code, including duties and taxes, of the articles does not exceed five hundred pesos.
2. A fine of not less than six hundred pesos nor more than five thousand pesos and imprisonment of not less than six months and one day nor more than four years, if the appraised value, to be determined in the manner prescribed in the Tariff and Customs Code, including duties and taxes, of the article exceeds five hundred pesos but does not exceed fifty thousand pesos.
3. A fine of not less than five thousand pesos nor more than eight thousand pesos and imprisonment of not less than four years and one day nor more than eight years, if the appraised value, to be determined in the manner prescribed in the Tariff and Customs Code, including duties and taxes, of the article is more than fifty thousand pesos but does not exceed one hundred fifty thousand pesos.
4. A fine of not less than eight thousand pesos nor more than ten thousand pesos and imprisonment of not less than eight years and one day nor more than twelve years, if the appraised value, to be determined in the manner prescribed in the Tariff and Customs Code, including duties and taxes, of the articles exceeds one hundred fifty thousand pesos.

In applying the above scale of penalties, if the offender is an alien, he shall be deported after serving the sentence without further proceedings for deportation. If the offender is a government official or employee, the penalty shall be the maximum as hereinabove prescribed and, the offender shall suffer an additional penalty of perpetual disqualification for public office, to vote and to participate in any election.

Any person who is found in possession of locally manufactured articles subject to specific tax, the tax on which has not been paid in accordance with law, or any person who is found in possession of such articles which are exempt from specific tax other than those to whom the same is lawfully issued shall be punished with a fine of not less than ten 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 and imprisonment of from four months and one day to four years and two months. 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 articles as aforesaid, or conceals the same after removal shall, for the first offense be punished with a fine of not less than ten times the amount of the specific tax due on the articles, but not less than five hundred nor more than ten thousand pesos and imprisonment of not less than six months and one day but not more than six years.

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.

The mere unexplained possession of articles subject to specific tax, the tax on which has not been paid in accordance with law, shall be punished under this section: Provided, however, That payment of the tax due after apprehension shall not constitute a valid defense in any prosecution for violation of this section.

Any ordinance that provides a different penalty for acts punishable under this section is hereby repealed.

SEC. 185. Punishment for subsequent offenses.—In case of reincidence, the penalty to be imposed for unlawful possession of imported articles shall be the maximum of the penalty prescribed under the first paragraph of Section 184 for the offense constituting the reincidence, and the penalty to be imposed for unlawful possession of locally manufactured articles shall be a fine of not less than ten times the amount of the specific tax due on the articles possessed but not less than two hundred pesos nor more than five thousand pesos and by imprisonment for not less than six months and one day, but not more than five years and two months. The penalty for unlawful removal shall be a fine ten times the amount of specific tax due on the articles removed but not less than one thousand pesos and imprisonment for not less than eight years but not more than twelve years. 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. 186. Shipment of liquor or tobacco under false name or brand.—Any person who ships, transports or removes spirituous or fermented liquors, wines, or tobacco or any manufactured products of 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.

TITLE V.—TAXES ON BUSINESS

CHAPTER I.—Definitions

SEC. 187. Words and phrases defined.—In applying the provisions of this Title, 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 syrup 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 syrup 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, wines or other liquor with any material 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 a retail peddler of a particular commodity, shall be determined from the definitions of wholesale dealer and retail dealer, as herein below 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 dealer of distilled spirits and wines" comprehends every person who for himself or on commission sells or offers for sale wines or distilled spirits in larger quantities than five liters at anyone 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 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 a 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 rubbing 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 of tobacco resulting from any process of handling tobacco 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 employs 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) "Wholesale tobacco dealer" comprehends every person who for himself or on commission sells or offers for sale cigars, cigarettes or manufactured tobacco in larger quantities than two hundred cigars, eight hundred cigarettes or five kilos of manufactured tobacco at any one time, or who sells or offers the same for the purpose of resale, regardless of quantity; "retail tobacco dealer" comprehends every person who for himself or on commission sells or offers for sale not more than two hundred cigars, not more than eight hundred cigarettes, or not more than five kilos of manufactured tobacco at any one time and not for resale.

(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 juices 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 one 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) "Stockbroker" includes all persons whose business it is, for themselves as such brokers or for other brokers, to negotiate purchases or sales of stock, bonds, exchange, bullion, coined money, bank notes, promissory notes, or other securities; but does not include underwriters for one or more investment companies as defined in the Investment Company Act, "dealer in securities" includes all persons who for their own account are engaged in the sale of stock, bonds, exchange, bullion, coined money, bank notes, promissory notes, or other securities.

(s) "Real estate broker" includes any person, other than a real estate salesman as hereinafter defined, who for another, and for a compensation or in the expectation or promise of receiving compensation, (1) sells or offers for sale, buys or offers to buy, lists, or solicits for prospective purchasers, or negotiates the purchase, sale or exchange of real estate or interests therein; (2) or negotiates loans on real estate; (3) or leases or offers to lease or negotiates the sale, purchase or exchange of a lease, or rents or places for rent or collects rent from real estate or improvements thereon; (4) or shall be employed by or on behalf of the owner or owners of lots or other parcels of real estate at a stated salary, on commission, or otherwise, to sell such real estate or any parts thereof in lots or parcels. "Real estate salesman" means any natural person regularly employed by a real estate broker to perform in behalf of such broker any or all of the functions of a real estate broker. One act of a character embraced within the above definition shall constitute the person performing or attempting to perform the same as a real estate broker. But the foregoing definitions do not include a person who shall directly Perform any of the acts aforesaid with reference to his own property, where such acts are performed in the regular course of or as an incident to the management of such property; nor shall they apply to persons acting pursuant to a duly executed power of attorney from the owner authorizing final consummation by performance of a contract conveying real estate by sale, mortgage or lease; nor shall they apply to any receiver, trustee or assignee in bankruptcy or insolvency, or to any person acting pursuant to the order of any court; nor to a trustee selling under a deed of trust. "Real estate dealer" includes any person engaged in the business of buying, selling, exchanging, leasing, or renting property as principal and holding himself out as a full or part-time dealer in real estate or as an owner of rental property or properties rented or offered to rent for an aggregate amount of four thousand pesos or more a year. Any person shall be considered as engaged in business as real estate dealer by the mere fact that he is the owner or sublessor of property rented or offered to rent for an aggregate amount of four thousand pesos or more a year; Provided, however, That an owner of sugar lands subject to tax under Commonwealth Act Numbered five hundred and sixty-seven shall not be considered as a real estate dealer under this definition.

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

persons, or brings 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 consignee 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 agencies.

(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 or 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 distribution to others and not for his own use or consumption

CHAPTER II.—Tax on Business

SEC. 188. Payment of privilege taxes.—A privilege tax must be paid before any business 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 line of business does not become exempt by being conducted with some other business for which such tax has been paid.

The tax on a business must be paid by the person, firm, or company conducting the same.

SEC. 189. Legality of business as affected by payment of tax.—The payment of business tax shall not exempt any person from any tax, penalty, or punishment provided by law or ordinance in places where such business 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 the same business for local purposes, where the imposition of such tax is authorized by law.

SEC. 190. Time for payment of fixed taxes.—All fixed taxes shall be payable annually, on or before the thirty-first day of January. Any person first beginning a business must pay the tax before engaging therein.

If the privilege tax is not paid within the time specified, the amount of the tax shall be increased by twenty-five per centum, the increment to be part of the tax.

SEC. 191. Interest on delinquency.—Where the amount of the tax imposed under Section one hundred ninety-two, or any part of such amount, is not paid on the due date of the tax, there shall be collected, as part of the tax, interest upon such unpaid amount at the rate of fourteen per centum per annum from the due date until it is paid.

SEC. 192. Fixed taxes.—(1) Persons subject to percentage tax.—Unless otherwise provided, every person engaging in business on which the percentage tax is imposed shall pay a fixed annual tax of cue hundred pesos.

(2) Persons not subject to percentage tax.—Every person who is not required to pay the percentage tax prescribed under this Title shall pay for each calendar year in which the person shall engage in business a fixed annual tax based upon his gross annual sales during the preceding calendar year, as follows:

Twenty pesos, if the amount of the gross annual sales does not exceed two thousand four hundred pesos;

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

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

One hundred sixty pesos, if the amount of the gross annual sales exceeds thirty thousand pesos but does not exceed fifty thousand pesos;

Two hundred fifty pesos, if the amount of the gross annual sales exceeds fifty thousand pesos but does not exceed seventy-five thousand pesos;

Three hundred fifty pesos, if the amount of the gross annual sales exceeds seventy-five thousand pesos but does not exceed one hundred thousand pesos;

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

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

One thousand six hundred pesos, if the amount of the gross annual sales exceeds three hundred thousand pesos but does not exceed five hundred thousand pesos;

Three thousand pesos, if the amount of the gross annual sales exceeds five hundred thousand pesos but does not exceed one million pesos;

Five thousand pesos, if the amount of the gross annual sales exceeds one million pesos but does not exceed one million five hundred thousand pesos;

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

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

Eleven thousand pesos, if the amount of the gross annual sales exceeds two million five hundred thousand pesos but does not exceed three million pesos;

Fourteen thousand pesos, if the amount of the gross annual sales exceeds three million pesos but does not exceed four million pesos;

Eighteen thousand pesos, if the amount of the gross annual sales exceeds four million pesos but does not exceed five million pesos;

Twenty-two thousand pesos, if the amount of the gross annual sales exceeds five million pesos but does not

exceed six million pesos;

Twenty-six thousand pesos, if the amount of the gross annual sales exceeds six million pesos but does not exceed seven million pesos;

Thirty thousand pesos, if the amount of the gross annual sales exceeds seven million pesos but does not exceed, eight million pesos;

Thirty-four thousand pesos, if the amount of the gross annual sales exceeds eight million pesos but does not exceed nine million pesos;

Thirty-eight thousand pesos, if the amount of the gross annual sales exceeds nine million pesos but does not exceed ten million pesos.

If the amount of the gross annual sales exceeds ten million pesos, the graduated fixed tax shall be thirty eight thousand pesos plus one thousand pesos for every one million pesos of gross sales or a fractional part thereof in excess of ten million pesos.

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 individual sales of his business not subject to the percentage tax under this Title. The initial graduated fixed annual tax to be paid by the person first engaging in business subject to the said tax shall be twenty pesos.

(3) Other fixed taxes.—The following fixed taxes shall be collected as follows, the amount stated being for the whole year, when not otherwise specified:

(a) Brewers, five thousand pesos;

(b) Distillers of spirits, one thousand pesos, if the annual production does not exceed one hundred thousand gauge liters; two thousand pesos, if the annual production exceeds one hundred thousand gauge liters but does not exceed two hundred thousand gauge liters; three thousand pesos, if the annual production exceeds two hundred thousand gauge liters but does not exceed three hundred thousand gauge liters; four thousand pesos, if the annual production exceeds three hundred thousand gauge liters but does not exceed five hundred thousand gauge liters; and five thousand pesos, if the annual production exceeds five hundred thousand gauge liters: Provided, That if the annual production does not exceed ten thousand gauge liters, only one hundred pesos shall be collected.

(c) Rectifiers of distilled spirits, compounders, and re- packers of wines or distilled spirits, one thousand pesos; producers of wines, one hundred pesos;

(d) Wholesale dealers of distilled spirits and wines— 1. In the City of Manila, one thousand pesos;

2. In chartered cities other than Manila, six hundred pesos;

3. In any other place, two hundred pesos.

(e) Wholesale dealers in fermented liquors, except basi, tuba and tapuy, two hundred pesos.

(f) Wholesale peddlers of distilled spirits and wines, two hundred pesos.

(g) Wholesale peddlers of fermented liquors, two hundred pesos.

(h) Retail liquor dealers, two hundred pesos.

(i) Retail vino dealers, twenty pesos.

- (j) Retail dealers in fermented liquor, fifty pesos.
- (k) Retail peddlers of distilled spirits, wine and fermented liquors, fifty pesos.
- (l) Wholesale leaf tobacco dealers, four hundred pesos.
- (m) Wholesale dealers of cigars, cigarettes and other manufactured tobacco products, one hundred pesos.
- (n) Wholesale peddlers of manufactured tobacco products, one hundred pesos.
- (o) Retail leaf tobacco dealers, thirty pesos.
- (p) Retail dealers of cigars, cigarettes and other manufactured tobacco products, twenty pesos.
- (q) Retail peddlers of cigars, cigarettes and other manufactured tobacco products, twenty pesos.
- (r) Manufacturers, importers or exporters of cigars, cigarettes and other manufactured tobacco products—
 - 1. In the cities of Manila, Quezon, Pasay and Caloocan and in the Province of Rizal, one thousand pesos;
 - 2. In any other place, five hundred pesos.
- (s) Importers or exporters of leaf tobacco, scrap tobacco and other partially manufactured tobacco products, one thousand pesos.
- (t) Manufacturers or importers of cigarette paper in bobbins or rolls, cigarette tipping papers or cigarette filter tips, one thousand pesos.
- (u) Manufacturers or importers of playing cards, saccharine or sodium saccharinate or any of its other derivatives and salts and other artificial sweetening agents, lighter fluid in liquid or gaseous form, matches, fireworks, denatured alcohol for motive power, five hundred pesos.
- (v) Manufacturers, importers or exporters of petroleum or other manufactured oils and fuels from petroleum, two thousand pesos.
- (w) Manufacturers, producers, or importers of soft drinks or mineral waters, four hundred pesos.
- (x) Wholesale dealers of soft drinks, or other mineral waters, fifty pesos. ;
- (y) Wholesale peddlers of soft drinks or other mineral waters, fifty pesos.
- (z) Dealers in securities, one hundred and fifty pesos.
- (aa) Real estate dealers, one hundred and fifty pesos, if the annual income from buying, selling, exchanging, leasing or renting property (whether on their own accounts as principals or as owners of rental property or properties) is over four thousand pesos but not exceeding ten thousand pesos;
Three hundred pesos, if the annual income exceeds ten thousand pesos but does not exceed thirty thousand pesos;
Five hundred pesos, if the annual income exceeds thirty thousand pesos but does not exceed fifty thousand pesos;
and
One thousand pesos, if the annual income exceeds fifty thousand pesos.
- (bb) Stock brokers, real estate brokers, commercial brokers, customs brokers and immigration brokers, three hundred pesos.
- (cc) Owners of race tracks for each day on which races are run on any track, one thousand pesos.

(dd) Lending investors—

1. In chartered cities and first class municipalities, five hundred pesos;
2. In second and third class municipalities, two hundred and fifty pesos;
3. In fourth and fifth class municipalities and municipal districts, one hundred and twenty-five pesos: Provided, That lending investors who do business as such in more than one province shall pay a tax of five hundred pesos.

(ee) Cinematographic film owners, lessors or distributors, three hundred pesos.

(ff) Pawnshops, five hundred pesos.

(gg) Banks, insurance companies, finance and investment companies doing business in the Philippines and franchise grantees, five hundred pesos.

(hh) Operators, proprietors or lessees of theaters and cinema house: first run, five hundred pesos; second run, two hundred pesos.

(ii) Operators, proprietors or lessees of boxing arenas, swimming pools, resorts, skating rinks, golf links and other places of amusement, one hundred pesos.

(jj) Night clubs and day clubs, one thousand pesos.

(kk) Cabarets, five hundred pesos.

(II) Jai-alai, for each day on which games are played, two hundred and fifty pesos.

(mm) Operators or owners of rice or corn mills shall be subject to an annual graduated fixed tax based upon total capacity per machine in accordance with the following schedule:

Corn mill, not exceeding one hundred cavaness per twelve hour capacity P30.00

Corn mill, exceeding one hundred cavaness per twelve hour capacity 45.00

"Kiskisan" type, not exceeding one hundred cavaness of palay per twelve hour capacity 50.00

"Kiskisan" type, exceeding one hundred cavaness of palay per twelve hour capacity 75.00

"Cono," of not exceeding one hundred cavaness of palay per twelve hour capacity 200.00

"Cono/" of not exceeding two hundred cavaness of palay per twelve hour capacity 400.00

"Cono," of not exceeding three hundred cavaness of palay per twelve hour capacity 600.00

"Cono," of not exceeding four hundred cavaness of palay per twelve hour capacity " 900.00

"Cono," of not exceeding five hundred cavaness of palay per twelve hour capacity , 1,300.00

"Cono," of not exceeding six hundred cavaness of palay per twelve hour capacity 1,800.00

"Cono," of not exceeding seven hundred cavaness of palay per twelve hour capacity 2,500.00

"Cono," of not exceeding eight hundred cavaness of palay per twelve hour capacity 3,200.00

"Cono," of not exceeding nine hundred cavaness of palay per twelve hour capacity 4,000.00

"Cono," of not exceeding one thousand cavaness of palay per twelve hour capacity 4,800.00

"Cono," of over one thousand cavanos of palay per twelve hour capacity - 5,600.00

(nn) Proprietors, operators or lessees of cockpits

1. In chartered cities and municipalities in the Greater Manila Area 1,500.00

2. In first and second class municipalities 1,000.00

3. In third and fourth class municipalities 500.00

4. In fifth, sixth and seventh class municipalities

SEC. 193. Payment of percentage taxes.— (a) In general. Unless otherwise specifically provided, it shall be the duty of every person conducting a business on which a percentage tax is imposed under this Title, to make a true and complete return of the amount of his, her or its gross quarterly sales, receipts or earnings, or gross value of output actually removed from the factory or mill warehouse and within twenty days after the end of each quarter pay the tax due thereon: Provided, That any person retiring from a business subject to the percentage tax shall notify the nearest internal revenue officer thereof, file his return or declaration, and pay the tax due thereon within twenty days after closing his business.

For purposes of this section, sales on consignment shall be considered actually sold on the day of sale or sixty days after the date consigned, whichever is earlier.

If the percentage tax in any business is not paid within the time specified above, the amount of the tax shall be increased by twenty-five per centum, the increment to be a part of the tax and the entire unpaid amount shall be subject to interest at the rate of fourteen per cent per annum.

In case of willful neglect to file the return within the period prescribed herein, or 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 and the entire unpaid amount shall be subject to interest at the rate of fourteen per centum per annum. 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,

(b) Sales tax on imported articles.—When the articles are imported, the percentage taxes established in sections 194, 195, 196, 197, 198, 199 and 201 of this Code shall be paid in advance by the importer, in accordance with the regulations promulgated by the Secretary of Finance and prior to the release of such articles from customs' custody, based on the import invoice value thereof, certified to as correct under penalties of perjury by the Philippine Consul at the port of origin if there is any, including freight, postage, insurance, commission, customs duty and all similar charges, plus one hundred per centum of such total value in the case of articles enumerated in sections 194 and 195; fifty per centum of such total value in the case of articles enumerated in Sections 196, 197, 198; and twenty-five per centum in the case of articles enumerated in Sections 199 and 201. The tax imposed in this Section shall not apply to articles to be used by the importer himself in the manufacture or preparation of articles subject to specific tax: Provided, however, That where the National Economic Development Authority certifies to the availability of local raw materials of sufficient quantity, comparable quality and price to meet the needs of manufacturers subject to specific tax, the importation of such raw materials by said manufacturers for use in their manufacture shall be subject to the tax herein imposed.

The tax herein imposed shall be collected in all cases where the original importer sold, transferred, or negotiated the imported articles to third persons before release thereof from customs' custody, regardless of the tax status of

the original importer and the indorsee or transferee, the same to be paid by the transferee and/or indorsee.

The provisions of this Code shall not be construed as nullifying whatever interpretation the government has given to the word "importer" heretofore.

In the case of tax-free articles brought or imported into the Philippines by persons, entities or agencies exempt from tax which are subsequently sold, transferred, or exchanged in the Philippines to non-exempt private persons or entities, the purchasers shall be considered the importers thereof. The tax due on such articles shall constitute a lien on the article itself superior to all other or liens, irrespective of the possessor thereof.

Any percentage tax paid under Sections one hundred ninety-four, one hundred ninety-five, one hundred ninety-six, one hundred ninety-seven, one hundred ninety-eight, one hundred ninety-nine, and two hundred-one on domestically manufactured or on imported raw materials used in the manufacture of finished products exported shall be allowed to be credited against other tax liabilities of the manufacturer-exporter: Provided, however, That said percentage taxes paid are indicated as a separate item in the invoices.

(c) Flexibility Clause.—In the interest of the national economy and the general welfare, and subject to the limitations herein prescribed, the President, upon recommendation of the Secretary of Finance and the National Economic Development Authority, is hereby empowered to revise the rates of percentage taxes, including any necessary change in the classification of the articles enumerated in sections 194, 195, 196, 197, 198, 199 and 201. The existing rates may be increased by not more than 50% or decreased by not more than 10%.

The above authority may be exercised by the President if any of the following conditions exist:

- (1) Economic conditions render it necessary to increase revenue, or to re-direct expenditure or consumption patterns by increasing or decreasing the rates of percentage tax on certain commodities;
- (2) Where, in the light of technological and social changes, it is necessary to classify new products or to re-classify certain articles subject to the sales tax on the basis of the changed concepts of essentiality or the degree of manufacturing done; or
- (3) Where it is necessary to counter an adverse action on the part of another country.

SEC. 194. Percentage tax on sales of jewelry, toilet preparations and others,—There shall be levied, assessed, and collected once only on every original sale, barter, exchange, or similar transaction for nominal or valuable consideration intended to transfer ownership of, or title to, the articles hereinbelow enumerated a tax equivalent to seventy per centum of the gross value in money of the articles so sold, bartered, exchanged or transferred, such tax to be paid by the manufacturer or producer: Provided, That where the articles enumerated hereinbelow 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 such manufactured articles:

(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 fitted with, precious metals or imitations thereof or ivory (not including surgical instruments, silver-plated wares, frames or mountings for spectacles or eyeglasses, and dental gold or gold alloys and other precious metals used in filling, mounting or fitting of the teeth); opera glasses, and lorgnettes. The term "precious metals" shall include platinum, gold, silver, and other metals of similar or greater value. The term "imitations thereof" shall include platings and alloys of such metals.

(b) Perfumes, essences, extracts, toilet waters, cosmetics, petroleum jellies, hair oils, pomades, hair dressings, hair restoratives, hair dyes, aromatic cachous, toilet powders, and any similar substance, article, or preparations, by

whatsoever name known or distinguished; and any of the above which are used or applied or intended to be used or applied for toilet purposes; except tooth and mouth washes, dentrifices, tooth paste, and talcum or medicated toilet powders.

(c) Dice, mahjong sets and playing- cards, except those locally manufactured;

(d) Beauty parlor equipment and accessories.

Any part or accessory of the above-mentioned articles be taxed at the same rate as the finished articles.

SEC. 195. Percentage tax on sales of automobiles.—There shall be levied, assessed, and collected once only on every original sale, barter, exchange, or similar transaction for nominal or valuable consideration intended to transfer ownership of, or title to, automobiles, a percentage tax, on the gross selling price or gross value in money of the automobiles so sold, bartered, exchanged, or transferred, the tax to be paid by the manufacturer or importer, determined in accordance with the following schedules;

(A)

For locally manufactured, automobiles—If the gross selling price does not exceed ₱20,000, the tax shall be 10% of such selling price; if it exceeds ₱20,000 but does not exceed ₱25,000, the tax shall be ₱2,000 plus 15% of the excess over ₱20,000;

If it exceeds ₱25,000 but does not exceed ₱30,000, the tax shall be ₱2,750 plus 25% of the excess over ₱25,000;

If it exceeds ₱30,000 but does not exceed ₱35,000, the tax shall be ₱4,000 plus 35% of the excess over ₱30,000;

If it exceeds ₱35,000; but does not exceed ₱40,000, the tax shall be ₱5,750 plus 50% of the excess over ₱35,000; and

If it exceeds ₱40,000, the tax shall be ₱8,250 plus 70% of the excess over ₱40,000.

(B)

For imported automobiles—if the landed cost plus mark-up as established by section 193 (b) of this Code does not exceed ₱20,000, the tax shall be 10% of such landed cost plus mark-up;

If it exceeds P20,000 but does not exceed P25,000, the tax shall be P20,000 plus 125% of the excess over P20,000;

If it exceeds P25,000 but does not exceed P30,000, the tax shall be P26,250 plus 150% of the excess over P25,000;

If it exceeds P30,000 but does not exceed P35,000, the tax shall be P33,750 plus 175% of the excess over P30,000;

If it exceeds P35,000, the tax shall be P42,500 plus 200% of the excess over P35,000.

Any percentage tax paid under sections 194, 195, 196, 197, 198, 199 and 203, during the preceding taxable quarter on domestically manufactured or produced, or imported raw materials, parts, accessories or other articles forming part of the finished product or will form part thereof shall be credited against the gross sales tax due on the finished product. In case the tax paid on the raw materials, accessories or other articles exceeds the gross sales tax due on the finished products, the excess shall be credited against the gross sales tax due on the finished products for the succeeding taxable quarter: Provided, however, That the amount of the tax on these raw materials, parts, accessories or other articles are indicated as a separate item in the invoices.

A sale of an automobile shall, for the purpose 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: Provided, however, That parts and accessories of automobiles imported as completely knocked down parts by assemblers registered under the progressive car manufacturing program of the Board of Investments, or as replacement as well as locally manufactured parts and accessories for the assembly of automobiles shall be subject to tax under Section 199.

The term 'automobiles' used herein shall not include motor vehicles classified as trucks and jeeps.

SEC. 196. Percentage tax on sales of sporting goods, and others.—There shall be 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 forty 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 or producer: Provided, That where the articles enumerated hereinbelow 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 such manufactured articles:

(a) Luggage, trunks, valises, traveling bags, suitcases, satchels, overnight bags, hat boxes for use of travelers, beach bags, bathing suit bags, brief cases made of leather or imitation leather, and salesman's sample and display cases; purses, handbags, pocketbooks, wallets, billfolds, and card, pass, and key cases; toilet cases and other cases, bags, and kits (without regard to size, shape, construction, or material from which made) for use in carrying toilet articles or articles of wearing apparel;

- (b) Watches and clocks and cases and movements there for;
- (c) Fishing rods and reels;
- (d) Articles of which celluloid is the component material of chief value;
- (e) Pianos; phonograph records (except those locally manufactured and those used for educational purposes); juke boxes;
- (f) Firearms and cartridges or other forms of ammunition, except those locally manufactured: Provided, however, That no tax shall be collected on .22 caliber firearms and cartridges as well as other forms of ammunition sold or delivered directly to the Armed Forces of the Philippines or to any government instrumentality or agency as well as to any organization and persons engaged in maintaining peace and order for their use or issue.
- (g) Electric fans and air circulators (except those locally manufactured and those specially adapted for industrial use) ; electric, gas or oil water heaters; electric flat irons, electric, gas or oil appliances of the type used for cooking warming, or keeping warm food or beverage for consumption on the premises (except those locally manufactured) ; electric mixers, whippers, and juicers; and household type electric vacuum cleaners;
- (h) Neon-tube signs, electric signs, and electric advertising devices;
- (i) Washing machines of all types; (j) Mechanical lighters;
- (k) Upholstered furniture, tables, desks, chairs, show cases, bookcases, lockers and cabinets (other than filing cabinets) of which wood, rattan or bamboo is not the component material of chief value (except those locally manufactured), but not including iron or steel chairs and tables costing not more than six pesos each and medical or dental equipment or apparatus;
- (l) Textiles, wholly or in chief value of silk, wool, linen, or nylon or other synthetic and/or chemical fabrics, (except those locally manufactured) ; wool and silk hats; and furs and manufactures thereof;
- (m) Fountain pens the gross selling price of which exceeds fifteen pesos: Provided, That if their selling price does not exceed fifteen pesos, they shall be taxed at the rate prescribed in Section 199 hereof;
- (n) Toys and playthings of all sorts (without regard to material from which made), except those locally manufactured.

Any part or accessory of the above-mentioned articles shall be taxed at the same rate as the finished articles.

SEC. 197. Percentage tax on sales of refrigerators, air-conditioners, beverage coolers, ice cream cabinets and others.—There shall be 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 forty per centum of the gross selling price or gross value in money of the articles BO sold, bartered, exchanged or transferred, such tax to be paid by the manufacturer or producer: Provided, however, That where the articles hereinbelow enumerated are locally manufactured and come under the classification of non-integrated manufactured products as hereinafter defined, the tax shall be fifteen per centum: Provided, further, That where the articles hereinbelow enumerated are locally manufactured products and come under the classification of integrated manufactured products as hereinafter defined, the tax shall be seven per centum: Provided, still further, That where the articles enumerated hereinbelow 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 such manufactured articles;

- (a) Refrigerators of all types;

(b) Beverage coolers, ice cream cabinets, water coolers, food and beverage storage cabinets, ice-making machines, and mild cooler cabinets, each such articles having, or being primarily designated for use with, a mechanical refrigerating unit operated by electricity, gas, kerosene, or other means; and

(c) Air-conditioning units.

Any part or accessory of the above-mentioned articles shall be taxed at the same rate as the finished articles.

The words "integrated manufactured products" mean articles manufactured in a manufacturing enterprise which undertakes the operations of processing and/or physically converting raw materials such as metal sheets, plastic pellets, wires, rods, extrusion tubings, castings, forgings, and chemical compounds into various intermediate components and parts, and subsequently assembling or fitting them together into completed and finished articles: Provided, however, That not less than eighty per centum of the components and parts of each main assembly of the products are manufactured domestically: Provided, further, That not less than sixty per centum of the components and parts of each main assembly of the products are manufactured by the said manufacturing enterprise.

The number of main assemblies which shall comprise a product and the intermediate components and parts of each main assembly shall be determined by the Board of Investments.

SEC. 198. Percentage tax on sales of phonographs, combination radio and phonograph sets of all types, television sets, combination radio and television sets, combination radio-phonograph-television sets, gramophones and similar articles,—There shall be 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 forty 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 or producer: Provided, however, That where the articles hereinbelow, enumerated are locally manufactured articles as hereinafter defined, the tax shall be seven per centum,: Provided, further, That where the articles enumerated hereinbelow are manufactured from materials subject to tax under this section, the total cost of such materials shall be deducted from the gross selling price or gross value in money of such manufactured articles:

- (a) Phonographs;
- (b) Combination radio and phonograph sets of all types;
- (c) Television sets;
- (d) Combination radio and television sets;
- (e) Combination radio-phonograph-television sets;
- (f) Gramophones; and
- (g) Similar articles for reproducing and/or recording music and sound, like tape recorders, etc.

The words "locally manufactured articles" mean articles manufactured in a manufacturing enterprise which processes physically and/or chemically raw materials such as copper clad boards, silicon, steel lamination's, other metal sheets, wires, plastic powder and/or pellets, fiber boards, wood, metallic and non-metallic tubes, rods, special paper, etc., into the various intermediate components and parts, and subsequently assembling or fitting them, together with other imported collaterals or intermediate components and parts into such completed and finished articles: Provided, however, That if the following parts are intermediate components of a finished article, except as used in the tuner assembly, they must be locally manufactured within the manufacturing enterprise or any other local manufacturing enterprise:

1. Printed circuit boards;

2. Transformers;
3. Coils, except yoke and flyback, and sheet metal ware attached thereto except the mask;
4. Cabinets; and
5. Chassis.

SEC. 199. Percentage tax on sales of other articles.— There shall be levied, assessed and collected once only on every original sale, barter, exchange, and similar transaction either for nominal or valuable consideration, intended to transfer ownership of, or title to, the articles not enumerated in sections 194, 195, 196, 197, 198 and 201, a tax equivalent to seven 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 or producer: Provided, That where the articles subject to tax under this section are manufactured out of materials likewise subject to tax under this section and section 203, the total cost of such materials, as duly established, shall be deductible from the gross selling price or gross value in money of such manufactured articles.

SEC. 200. Value of tax-free products deductible.— Whenever a tax-free product is utilized in the manufacture or production of any article, in the determination of the value of such finished article, the value of such tax-free product shall be deducted.

SEC. 201. Percentage tax on sales of processed meal, milk and vegetables, fish and other sea foods, wheat flour and feeds.—There shall be levied, assessed and collected once only on every original sale, barter, exchange and similar transaction either for nominal or valuable consideration, intended to transfer ownership of, or title to, the articles enumerated hereinbelow, 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 or producers:

- (a) Processed meat, milk and vegetables; fish and other sea foods;
- (b) Wheat flour; and
- (c) Poultry and animal feeds.

Provided, however, That where the articles are manufactured out of materials subject to tax under this section, Section 199, or Section 203, 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.

For purposes of this section, processed meat, milk and vegetables, fish and other sea foods include such food products which have undergone the process of curing, canning, bottling or similar processes, but exclude such food products which have undergone only simple preserving processes such as freezing, drying, salting or smoking.

SEC. 202. Transactions and persons not subject to percentage tax.—In computing the tax imposed in sections 194, 195, 196, 197, 198, 199 and 201, transactions in the following commodities shall be excluded:

- (a) Articles subject to tax under Title IV of this Code.
- (b) Agricultural food products, ordinary salt and all kinds of fish and its by-products, whether in their original state or not, except those enumerated under Section 201. Agricultural non-food products, whether in their original state or not when sold, bartered, or exchanged by the producer or owner of the land where produced. The phrase "whether in their original state or not" means the transformation of said products by the application of simple processes to preserve or otherwise to prepare said products for the market such as freezing, drying, salting, smoking or stripping.

(c) Minerals and mineral products, whether in their original state or not when sold, bartered, or exchanged by the lessee, concessionaire or owner of the mineral land from which removed.

(d) Articles subject to tax under Section 203 of this Code.

(e) Articles shipped or exported by the manufacturer or producer, irrespective of any shipping arrangement that may be agreed upon which may influence or determine the transfer of ownership of the articles so exported: Provided, however, That sales to tourists, which are paid for in the foreign currency and on which sales tax had been previously paid, shall be considered export sales, if the articles purchased are actually removed by them from the Philippines upon their departure: Provided, further, That if the seller is other than the manufacturer or importer, he may credit the amount corresponding to the sales tax on the articles sold, against his other tax liabilities.

The following shall be exempt from the percentage taxes imposed in sections 194, 195, 196, 197, 198, 199 and 201:

(a) Persons whose gross monthly sales or receipts do not exceed two hundred pesos.

(b) All Filipinos in public market places selling at retail all forms or kinds of food products, meat, fruits, vegetables, game, poultry, fish and other raw and/or cooked 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, vegetables, game, poultry, fish and similar domestic food products, whose total stock in trade in any one day does not reach a retail value of one hundred pesos.

(d) Producers of commodities of all classes working in their own home, 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) Persons importing articles under contract for the exclusive use of the Armed Forces of the Philippines.

SEC. 203. Percentage tax upon proprietors or operators of rope factories, sugar central and mills, coconut oil mills, cassava mills, and desiccated coconut factories.— Proprietors or operators of rope factories, sugar centrals and mills, coconut oil mills, cassava mills, and desiccated coconut factories, shall pay a tax equivalent to two per centum of the gross value in money of all the rope, sugar, coconut oil, cassava flour or starch, dedicated coconut, manufactured, processed or milled by them, including the by-product of the raw materials from which said articles are produced, processed, or manufactured, 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 this tax shall not apply to rope, coconut oil, and the by-product of copra from which it is produced or manufactured, and desiccated coconuts, if such rope, coconut oil, copra by-products and desiccated coconuts shall be removed for exportation and are actually exported without returning to the Philippines, whether so exported in their original state, or an ingredient or part of any manufactured article or product.

In case the raw materials are processed, manufactured or milled in pursuance of a contract where the factory, central, or mill receives a share of the finished products, the tax on the share pertaining to the planter or owner of the raw materials shall be charged to the planter or owner and withheld by the proprietor or operator of the factory, central, or mill and paid by him to the Commissioner,

A proprietor or operator of a refined sugar factory shall be subject to the tax imposed by this section but shall be permitted to deduct from the actual selling price or market value of the refined sugar the total cost, 1 as duly established, of the raw sugar upon which the tax under this section has been previously paid.

Where articles are manufactured out of materials subject to tax under this section, the total cost, as duly established of the said materials shall be deductible from the gross selling price or gross value in money of the manufactured articles.

SEC. 204. Compensating tax.—On the commodities, goods, wares or merchandise purchased or received by persons residing or doing business in the Philippines, there shall be paid a compensating tax on total value thereof, including freight, postage, insurance, commission and similar charges, equivalent to the percentage taxes imposed under this Title on original transactions effected by merchants, importers or manufacturers, such tax to be paid before the withdrawal or removal of said commodities, goods, ware or merchandise from the customhouse or the post office, except as follows:

- (a) Articles subject to the specific taxes under Title IV of this Code and articles to be used by the importer himself in the manufacture or preparation of articles subject to specific taxes;
- (b) Commodities, goods, wares or merchandise purchased or received by merchants, importers and manufacturers who are subject to tax under Sections 194, 195, 196, 197, 198, 199, 201 or 203 of this Title, where such importations are to be sold, resold, bartered or exchanged or are to be used in the manufacture or preparation of articles for sale, barter, or exchange and are to form part thereof;
- (c) Articles to be used by the importer himself in the manufacture or preparation of articles for export;
- (d) Articles to be used by the importer himself as passenger and/or cargo vessel of more than ten thousand tons, whether coastwise or ocean-going, including engine and spare parts of said vessel;
- (e) Articles brought in by resident, including non resident citizens coming to resettle in the Philippines, and accompanying them upon their return or arriving" within ninety days before or after their arrival.
- (f) Professional instruments and implements, tools of trade, occupation or employment, wearing apparel, domestic animals, and personal and household effects belonging to persons coming to settle for the first time in the Philippines, for their own use and not for barter, sale or exchange, accompanying such persons, or arriving within ninety days before or after their arrival, upon the production of evidence satisfactory to the Commissioner, that such persons are actually coming to settle in the Philippines, that the articles were brought from their former place of abode, that change of residence is bona fide: Provided, That no vehicle, vessel, aircraft or merchandise of any kind, machinery or other articles for use in manufacture, shall be classified under this sub section.

If any article withdrawn from the customs house or the post office without the payment of the compensating tax is subsequently used by the importer for other purposes, corresponding entry should be made in the books of accounts, if any are kept, or a written notice thereof sent to the Commissioner and payment of the corresponding-compensating tax made within ten days from the date of such entry or notice. If the tax is not paid within such period, the amount of tax shall be increased by twenty-five per centum the increment to form part of the tax.

In the case of tax-free articles brought or imported into the Philippines by persons, entities or agencies, exempt from tax which are subsequently sold, transferred or exchanged in the Philippines to non-exempt private persons or entities, the purchasers or recipients shall be considered the importers thereof. The tax due on such article shall constitute a lien, on the article itself superior to all other charges or liens, irrespective of the possessor thereof.

The provisions of existing laws to the contrary notwithstanding exemption from this tax shall be limited to the following:

1. Those enumerated in this section;

2. Those granted under Republic Act No. 5186, as amended; Republic Act No. 6135, as amended; Republic Act No. 5490; Republic Act No. 4147; Republic Act No. 4501; Public Act No. 4271, as amended by Republic Act No. 2360.

3. Those granted in pursuance of or in compliance with international treaties or commitments, such as the ADB-RP Host Agreement (1966), the 1947 Convention on Privileges and Immunities of the United Nations and its Specialized Agencies; the United States Agency for International Development-RP Agreement; the 1947 Military Bases Agreement; and other similar treaties or commitments;

4. Machineries, equipment, tools for production, plants to convert mineral ores into saleable form spare parts, supplier, materials, accessories, explosives, chemicals, and transportation and communication facilities imported by and for the use of new mines and old mines which resume operations, when certified to as such by the Secretary of Natural Resources upon the recommendation of the Director of Mines, for a period ending five (5) years from the first date of actual commercial production of saleable mineral products: Provided, That such articles are not locally available in reasonable quantity, quality and price and are necessary or incidental in the proper operation of the mine; and aircrafts imported by agro-industrial companies to be used by them in their agricultural and industrial operations or activities, spare parts and accessories thereof; and

5. Those that may be granted by the President upon recommendation of the NEDA in the interest of economic development.

SEC. 205. Contractors, proprietors or operators of dockyards, and others.—A contractor's tax of three per centum of the gross receipts is hereby imposed on the following:

- (1) General engineering, general building, and specialty contractors as defined in Republic Act Number 4566;
- (2) Filling, demolition and salvage work contractors and proprietors or operators of mine drilling apparatus;
- (3) Proprietors or operators of dockyards;
- (4) Persons engaged in the installation of water system, and gas or electric light, heat, or power;
- (5) Proprietors or operators of smelting plants, engraving plants, plating establishments, and plastic lamination establishments;
- (6) Proprietors or operators of establishments for up holstering, washing, or greasing of motor vehicles, vulcanizing, recapping and battery charging;
- (7) Proprietors or operators of establishment for planing or surfacing and recutting of lumber, and sawmills Under contract to saw or cut logs belonging to others;
- (8) Proprietors or operators of dry-cleaning or dyeing establishments, steam laundries, and laundries using washing machines;
- (9) Proprietors or owners of shops for the repair of any kind of bicycles or vehicles, mechanical and electrical devices, instruments, apparatus, or furniture and shoe repairing by machine or any mechanical contrivance;
- (10) Proprietors or operators of establishments or lots for parking purposes;
- (11) Proprietors or operators of tailor shops, dress shops, milliners and hatters, beauty parlors, barbershops, massage clinics, sauna, turkish, and Swedish baths, slenderizing and body building saloons and similar establishments, photographic studio, and funeral parlors;
- (12) Proprietors or operators of hotels, motels and lodging houses;

- (13) Proprietors or operators of arrastre and stevedoring, warehousing, or forwarding establishments;
- (14) Registered master plumbers, smiths, and house or sign painters;
- (15) Printers, bookbinders, lithographers and 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;
- (16) Business agents and other independent contractors except persons, associations and corporations under contract for embroidery and apparel for export, as well as their agents and contractors and except gross receipts of or from a pioneer industry registered with the Board of Investment under the provisions of Republic Act 5186; and
- (17) Lessors of personal property.

The term "independent contractors" include persona (juridical or natural) not enumerated above (but not including individuals subject to the occupation tax under Section 12 of the Local Tax Code) whose activity consists essentially of the sale of all kinds of services for a fee regardless of whether or not the performance of the service calls for the exercise or use of the physical or mental faculties of such contractors or their employees.

The term "independent contractor" shall not include regional or area headquarters established in the Philippines by multinational corporations, including their alien executives, and which headquarters do not earn or derive income from the Philippines and which act as supervisory, communications and coordinating centers for their affiliates, subsidiaries or branches in the Asia-Pacific Region.

The term "gross receipts" shall not include the portion of the total contract price paid by a principal contractor to a sub-contractor under a subcontract arrangement, which portion shall form part of the taxable gross receipt of the latter.

SEC. 206. Caterers.—A caterer's tax is hereby imposed as follows:

- (1) On proprietors or operators of restaurants, refreshment parlors, and other eating places, including clubs, and caterers, three per cent of their gross receipts;
- (2) On proprietors or operators of restaurants, bars, cafes and other eating places, including clubs, where distilled spirits, fermented liquors, or wines are served, three per cent of their gross receipts from the sale of food or refreshments and seven per cent of their gross receipts from sale of distilled spirits, fermented liquors or wines. Two sets of commercial invoices or receipts serially numbered in duplicate shall be separately prepared and issued, one for each sale of food or refreshment served and another for each sale of distilled spirits, fermented liquors or wines served, the originals of the invoices or Receipts to be issued to the purchasers or customer.
- (3) On proprietors or operators of restaurants, refreshment parlors, bars, cafes and other eating places which are maintained within the premises or compound of a cockpit, race track, jai-alai, cabaret, night or day club or which are accessible to patrons of such cockpit, race track, jai-alai, cabaret, night or day club by means of a connecting door or passage, twenty per cent of their gross receipts.

Where the establishments enumerated above are operated or maintained by clubs of any kind or nature (irrespective of the disposition of their net income and whether or not they cater exclusively to members or their guest) the keepers of the establishments shall pay the corresponding tax at the rates fixed above.

SEC. 207. Percentage tax on carriers and keepers of garages.—Keepers of garages, cars for rent or hire driven by the lessee, transportation contractors, persons who transport passenger or freight for hire, and common carriers by

land, air, or water, except owners of bancas and owners of animal-drawn two wheeled vehicles, shall pay a tax equivalent to two per centum of their monthly gross receipts.

In computing the percentage tax provided in this section, the following shall be considered the minimum monthly gross receipts in each particular case:

Autocalesa—

1. Manila and other cities P200.00
2. Provincial 300.00

Jeepney for hire—

1. Manila and other cities 400.00
2. Provincial 200.00

Public utility bus—

Not exceeding 30 passengers 600.00

Exceeding 30 but not exceeding 50 passengers - 1,000.00

Exceeding 50 passengers 1,200.00

Taxis-

1. Manila and other cities 600.00
2. Provincial 400.00

Car for hire (with chauffeur) 500.00

Car for hire (without chauffeur) 300.00

SEC. 208. Percentage tax on stock, real estate, commercial, customs and immigration brokers and cinematographic film owners, lessors, or distributors.—Stock, real estate, commercial, customs, and immigration brokers shall pay a percentage tax equivalent to six per centum of the gross compensation received by them. Cinematographic film owners, lessors, or distributors shall pay a percentage tax of two per centum of their gross receipts.

The records kept by said brokers and cinematographic film owners, lessors or distributors may be used as evidence to determine the amount of the percentage tax due from them, and the Commissioner may assess and

collect the tax due on the compensation or gross receipts earned in accordance with said records.

In any case, the amount of the compensation or gross monthly receipts of said brokers and cinematographic film owners, lessors, or distributors shall be declared for taxation within the time established for the other monthly reports of sales or receipts.

SEC. 209. Percentage tax on dealers in securities; lending investors.—Dealers: in securities and lending investors shall pay a tax equivalent to three per centum on their gross income.

SEC. 210. Percentage tax on certain transactions.— (a) Stock transactions.—There shall be levied, assessed, collected, and paid on every sale, exchange, transfer or similar transaction intended to convey ownership of, or title to, any share of stock, a tax equivalent to one-fourth of one percent of the gross selling price of the share shares of stock sold, or of the gross value in money of the share or shares of stocks, exchanged or transferred, which shall be paid by the seller or transferor.

The tax herein imposed shall not apply to:

- (1) The issuance by a corporation of shares of stock, whether original or additional issues;
- (2) The donation of any share or shares of stock made to any educational or charitable corporation, institution, foundation, trust or philanthropic organization or research institution or organization as defined in and subject to the conditions imposed by Section 123 of this Code;
- (3) The exchange of any share or shares of stock effected pursuant to the plan for merger or consolidation under paragraph (2) (b)t Section 35 of this Code;
- (4) The transfer of shares of stock by testate or intestate succession; and
- (5) The sale, exchange or transfer of shares acquired before November 5, 1970 in which case the pertinent provisions of this Code shall apply;

Pending the suspension of the effectivity of Section 34 paragraph (g) of this Code by Presidential Decree No. 1116, any capital gain arising from a stock transaction on which the tax herein imposed has been paid shall not be taken into account in computing net capital gain or loss under Section thirty-four of this Code if (1) both the acquisition and the disposition of said stock by the taxpayer are effected after the effectivity of this Code and (2) the sale, exchange, and transfer is bona fide and the consideration for the transaction represents the substantial fair market value of the stock: Provided, That, in case of gain not arising from, but realized out of the said stock transaction, the pertinent provisions of this Code shall apply. However, any capital loss arising from such transaction shall be taken into account in computing net capital gain in accordance with the provisions of this Code: Provided, That there shall be no capital loss carry-over.

Notwithstanding the provisions of Section thirty of this Code, the tax imposed in this section shall not be an allowable deduction for income tax purposes.

For purposes of this section "fair market value" of shares of stock subject of any transaction in a stock exchange on any particular date will be determined by the actual selling- price of the stock as certified by the stock exchange which handled the transaction. In the case of shares of stock not traded through a stock exchange but listed in one or more stock exchanges the highest closing price of the day on which the shares are transferred shall be the fair market value of the shares. In the absence of any sale, the highest closing price of the day nearest to that day on which the shares are transferred shall be the fair market value of the shares. In all other cases, the fair market value shall be determined by considering the nature and history of the business, book value of the stock, earning and dividend paying capacity of the company, goodwill, and sales of both the stock to be valued and that

of companies similarly situated.

No sale, exchange, transfer, or similar transaction intended to convey ownership of, or title to, any share or shares of stock which had been acquired on or after November 5, 1970, shall be registered in the books of a corporation, unless the receipt of payment of the tax imposed under this section or a copy thereof, is filed with and recorded by the stock transfer agent or secretary of the corporation.

In the case of stocks traded through a stock exchange, it shall be the duty of the stock broker to collect on behalf of the government the tax due from the seller or transferor upon the issuance of the confirmation of sale. The stock broker shall issue the confirmation of sale for the Account of any transferor or seller of stocks simultaneously upon payment of the tax herein imposed and not otherwise.

In the case of stocks not traded through a stock exchange, it shall be the duty of the stock transfer agent or the secretary of the corporation, in case a corporation has no stock transfer agent, to collect on behalf of the government the tax due from the seller or transferor before recording the transfer of stock in the stock and transfer book.

The stockbroker, transfer agent, or secretary of the corporation shall issue the corresponding official receipt, which was previously registered with the Bureau of Internal Revenue to the seller or transferor.

It shall be the duty of every stock broker to turn over the sums collected by him as tax to the Bureau of Internal Revenue within three banking days from the date of collection thereof; and to submit on Monday of each week to the secretary of the stock exchange of which he is a member, a true and complete return, which shall contain a declaration that he made it under the penalties of perjury, of all transactions effected through him during the preceding week and of the taxes collected by him and turned over to the Bureau of Internal Revenue. The secretary of the stock exchange shall reconcile the same with the weekly reports of stock brokers and in turn transmit to the Bureau of Internal Revenue on the first and sixteenth day of each month a consolidated return of all transactions effected during the preceding period through the stock exchange.

It shall likewise be the duty of every stock transfer agent, or secretary of the corporation, as the case may be, to turn over the sums collected by him as taxes under this section to the Bureau of Internal Revenue within three banking days from the date of collection thereof and to file with the Bureau of Internal Revenue on Monday of each week a true and complete return, which shall contain a declaration that he made it under the penalties of perjury, of all taxable transactions effected through him during the preceding week and of all taxes collected by him and turned over to the Bureau of Internal Revenue.

(b) Commercial paper transactions.—There shall be levied, assessed, collected and paid on every commercial paper issued in the primary market as principal instrument, a transaction tax equivalent to thirty-five per cent (35%) based on the gross amount of interest thereto as defined hereunder, which shall be paid by the borrower/ issuer: Provided, hoivever, That in the case of a long-term commercial paper whose maturity exceeds one year, the borrower shall pay the tax based on the amount of interest corresponding to one year, and thereafter shall pay the tax upon accrual or actual payment (whichever is earlier) of the untaxed portion of the interest which corresponds to a period not exceeding one year. The transaction tax imposed in this section shall be a final tax to be paid by the borrower and shall be allowed as a deductible item for purposes of computing the borrower's taxable income,

For purposes of this tax—

(1) "Commercial paper" shall be defined as an instru ment evidencing indebtedness of any person or entity, including banks and non-banks performing quasi-banking functions, which is issued, endorsed, sold, transferred or in any manner conveyed to another person or entity, either with or without recourse and irrespective of maturity.

Principally, commercial papers are promissory notes and/ or similar instruments issued in the primary market and shall not include repurchase agreements, certificates of assignments, certificates of participations, and such other debt instruments issued in the secondary market.

(2) The term "interest" shall mean the difference between what the principal borrower received and the amount it paid upon maturity of the commercial paper which shall, in no case, be lower than the interest rate prevailing at the time of the issuance or renewal of the commercial paper. Interest shall be deemed synonymous with discount and shall include all fees, commissions, premiums and other payments which form integral parts of the charges imposed as a consequence of the use of money.

In all cases, where no interest rate is stated or if the rate stated is lower than the prevailing interest rate at the time of the issuance or renewal of commercial paper, the Commissioner of Internal Revenue, upon consultation with the Monetary Board of the Central Bank of the Philippines, shall adjust the interest rate in accordance herewith, and assess the tax on the basis thereof.

The tax herein imposed shall be remitted by the borrower to the Commissioner of Internal Revenue or his Collection Agent in the municipality where such borrower has its principal place of business within five (5) working days from the issuance of the commercial paper. In the case of long term commercial paper, the tax upon the untaxed portion of the interest which corresponds to a period not exceeding one year shall be paid upon accrual payment, whichever is earlier.

SEC. 211. Privilege secured by payment of tax.—A person who has paid the tax as a manufacturer of distilled spirits, manufactured liquors or wines, fermented liquor, 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. 212. 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: Provided, however, That the person or persons interested in the estate should within thirty days from the death of the decedent submit to the Bureau of Internal Revenue or the regional or revenue district office inventories of goods or stocks had at the time of such death.

The requirement under this section shall also be applicable in the case of transfer of ownership or change of name of the business establishment.

SEC. 213. 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. 214. Revocation of privilege.—When a person doing business under the provisions of this Title as a wholesale or retail liquor dealer, retail vino dealer, wholesale or retail fermented liquor dealer, 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 Commissioner 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 III.—Administrative Provisions

SEC. 215. Registration of name or style with the revenue district officer or collection agent.—Every person engaged in any business on which a privilege tax is imposed by law shall, on or before the commencement of his business, register with the revenue district officer or collection agent in cities or municipalities where the revenue district officer is not stationed, within ten days after securing his privilege tax receipt, his name or style, place of residence, business and the place where such business is carried on. In case of a firm, the names and residences of the various persons constituting the same shall also be registered.

SEC. 216. Persons subject to tax, to issue sales invoices or receipts.—All persons subject to an internal revenue tax shall, for each sale or transfer of merchandise or for services rendered valued at two pesos or more, prepare and issue sales or commercial invoices or receipts serially numbered in duplicate, showing, among other things, their names, or styles, if any, and business addresses: Provided, That in case of sales, receipts or transfers in the amount of fifty pesos or more, or regardless of amount, where the sale is made for the purpose of resale, the invoices or receipts shall further show the name, or style, if any, and business address of the purchaser, customer or client. The original of each sales invoices or receipts shall be issued to the purchaser, customer, or client 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 or receipt, the duplicate to be kept and preserved by the persons subject to tax, also in his place of business for a like period: Provided, That persons subject to tax whose gross sales, earnings or receipts during the last preceding year exceed twenty thousand pesos shall, for each sale or transaction, issue an invoice or receipt, irrespective of the value of the article sold or service rendered.

The Commissioner may, in meritorious cases, exempt any person subject to an internal revenue tax, from compliance with the provisions of this section. In any event, public market vendors selling exclusively domestic meat, fruits, vegetables, game, poultry, fish and other domestic food products are hereby exempted from the provisions of this section.

SEC. 217. Sign to be exhibited by distiller, rectifier, com/pounder, 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 spirits/" or "Wholesale liquor dealer," as the case may be, and his assessment number.

SEC. 218. 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. 219. Exhibition of certificate of payment at place of business.—The certificate or receipts showing payment of tax issued to a person engaged in a business subject to a privilege tax shall be kept conspicuously exhibited in plain view in or at the place where the business is conducted ; and, in case of a peddler or other persons 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

SEC. 220. Unlawful pursuit of business.—Any person who distills, rectifies, repacks, compounds, or manufactures any article subject to a specific tax, without having paid the privilege tax therefor, or who 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 the tax, be fined not less than two thousand pesos nor more than ten thousand pesos and imprisoned for not less than six months nor more than six years, and all articles distilled, rectified, repacked, compounded or manufactured, and all personal property found at the distilling, repacking, rectifying, compounding or manufacturing establishment or in any building, room, yard, or inclosure connected therewith and used with or constituting a part of the premises on which distilling, repacking, rectifying, compounding, or manufacturing of these articles is carried on, and the right, title, and interest of the person in the lot or tract of land in which the distilling, repacking, rectifying, compounding, or manufacturing establishment is situated, and the right, 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 business, shall be forfeited: Provided, further, That in the case of a corporation, partnership or association, the official and/or employee who caused the violation shall be responsible: Provided, finally, That if the violation is committed by a public official or employee, he shall be dismissed and permanently disqualified from holding any public office.

In case of repetition of offense, the offender shall be fined not less than five thousand pesos nor more than fifteen thousand pesos and imprisoned for not less than two years nor more than twelve years.

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

SEC. 221. Failure to make return of receipts, sales receipts, or gross value of output removed, or pay the tax due thereon.—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 five thousand pesos and by imprisonment for a term not exceeding one year.

Any such person who shall make a false or fraudulent return shall, besides being liable to the surcharge prescribed in section 193 of this Code, be punished by a fine of not less than two thousand pesos nor more than ten thousand pesos and by imprisonment of not less than six months but not more than six years.

TITLE VI.—DOCUMENTARY STAMP TAXES

SEC. 222. 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. 223. 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 thirty centavos on each two hundred pesos, or fractional part thereof, of the face value of such documents.

SEC. 224. Stamp tax on original issue of certificates of stock.—On every original issue, whether on organization, ^organization or for any lawful purpose, of certificates °f stock by any association, company, or corporation, there shall be collected a documentary stamp tax of fifty 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. 225. Stamp tax on sales, agreements to sell, memoranda of sales, deliveries or transfer 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 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 oi 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 ten centavos on each two hundred pesos, or fractional part thereof, of the par value of S[1ch bond, due-bill, 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 certificate of stock or obligation is issued, indorsed, or delivered in pursuance oi such sale or transfer: And provided, further, That in, tne 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. 226. Stamp tax on bonds, debentures, certificates of stock or indebtedness iss-ued in foreign countries.—On 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. 227. Stamp tax on certificates of profits or interest in property or accumulations.—On all certificates of profits, or any certificate 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 four centavos on each two hundred pesos, or fractional part thereof, of the face value of such certificate or memorandum.

SEC. 228. 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 four centavos.

SEC. 229. 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 deposits 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 four 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. 230. Stamp tax upon acceptance of bills of exchange others.—Upon any acceptance or payment of any bill 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 six 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. 231. 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 eight 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. 232. 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 sixteen centavos on each two hundred pesos or fractional part thereof, of the amount insured by any such policy.

SEC. 233. 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 six centavos on each four pesos, or fractional part thereof, of the amount of premium charged: Provided, however, That no documentary stamp tax shall be collected on reinsurance contracts or on any instrument by which cession or acceptance of insurance risks under any reinsurance agreement is effected or recorded.

SEC. 234. 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 officer 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 six centavos on each four pesos, or fractional part thereof, of the premium charged.

SEC. 235. 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 thirty 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. 236. 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 or 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 tax of seventy-five centavos.

SEC. 237. 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 thirty centavos: Provided, That in the case of tax clearance certificates, there shall be collected a documentary stamp tax of fifteen pesos on each

certificate for a first class passenger; eight pesos for a second or tourist class passenger; and two pesos for a third class or steerage passenger.

SEC. 238. Stamp tax on warehouse, motel and hotel receipts; and others.— (a) 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 thirty 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.

(b) On each hotel receipt issued by keepers of hotels, motels, resthouse, lodging houses or resorts to a guest for lodging, there shall be collected a documentary stamp tax of one peso: Provided, however, That if the amount of the receipt exceeds twenty pesos an additional tax of one peso on each twenty pesos or fractional part thereof shall be collected.

SEC. 239. Stamp tax on Jai-Alai or horse race tickets.— On each Jai-Alai or horse race ticket, there shall be collected a documentary stamp tax of five centavos: Provided, That if the cost of the-tickets exceeds one peso, an additional tax of five centavos on every one peso or fractional part thereof shall be collected.

SEC. 240. 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 (except on ferries across rivers), or to any foreign port, there shall be collected a documentary stamp tax of six centavos, if the value of such goods exceeds five pesos and does not exceed two hundred pesos; fifteen centavos, if the value exceeds two hundred pesos and does not exceed one thousand pesos; thirty centavos, if the value exceeds one thousand pesos and does not exceed five thousand pesos; seventy-five centavos, if the value exceeds five thousand pesos and does not exceed ten thousand pesos; and one peso and fifty centavos, if the value exceeds ten thousand pesos: Provided, however, That freight tickets covering goods, merchandise, or effects carried as accompanied baggage of passengers on land and water carriers primarily engaged in the transportation of passengers are hereby exempt.

SEC. 241. 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 fifty centavos.

SEC. 242. 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 Republic of the Philippines or the Government of any province, city or municipality, there shall be collected a documentary stamp tax of thirty 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 sixty centavos.

SEC. 243. Stamp tax on leases and other hiring agreements.—On each lease, agreement, memorandum, or contract for 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, sixty centavos.
- (b) If executed for more than one year and not more than three years, one peso and fifty centavos.
- (c) If executed for more than three years, three pesos.

SEC. 244. 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 and fifty centavos.

(b) On each three thousand pesos, or fractional part thereof in excess of three thousand pesos, an additional tax of one peso and fifty centavos.

On any mortgage, pledge, or deed of trust, where the same shall be made as a security for the payment of a fluctuating account or future advances without fixed limit, the documentary stamp tax on such mortgage, pledge or deed of trust shall be computed on the amount actually loaned or given at the time of the execution of the mortgage, pledge, or deed of trust. However, if subsequent advances are made on such mortgage, pledge or deed of trust, additional documentary stamp tax shall be paid which shall be computed on the basis of the amount advanced or loaned at the rates specified above: Provided, however, That if the full amount of the loan or credit granted under the mortgage, pledge or deed of trust is specified in such mortgage, pledge or deed of trust, the documentary stamp tax prescribed in this section shall be paid and computed on the full amount of the loan or credit granted.

SEC. 245. Stamp tax on deeds of sale and conveyances of real property.—On all conveyances, deeds, instruments or writings, other than grants, patents, or original certificates of adjudication issued by the Government, whereby any lands, tenements, or other realty 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 realty, after making proper allowance of any incumbrance, exceeds two hundred pesos and does not exceed one thousand pesos, seventy-five centavos.

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

When it appears that the amount of the documentary stamp tax payable hereunder has been reduced by an incorrect statement, of the consideration in any conveyance, deed, instrument, or writing subject to such tax, the Commissioner, 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. 246. 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 such 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, eighteen pesos; and for each month or fraction of a

month in excess of six months, an additional tax of three 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, thirty-six pesos; and for each month or fraction of a month in excess of six months, an additional tax of six 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, seventy-two pesos; and for each month or fraction of a month in excess of six months an additional tax of twelve pesos shall be paid.

SEC. 247. 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 any 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. 248. Documents and papers not subject to stamp tax.—The following instruments, documents, and papers shall be exempt from the documentary stamp tax:

(1) Bonds, debentures, and certificates of indebtedness issued by the Government of the Republic of the Philippines, or the government of any province; city, or municipality.

(2) 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 Republic of the Philippines or the government of any province, city, or municipality; and similar instruments issued in payment of pensions, gratuities, or compensation of veterans, their widows, heirs or dependants.

(3) 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.

(4) 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 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 the rules and regulations of 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 they are filed, and not at the instance or for the use or benefit of the person filing them; certified copies and other certificates placed upon documents, instruments, and papers for the national, provincial, city or municipal governments, made at the instance and for the sole use of some other branch 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 these papers, the tax to be at the highest rate imposed on the mortgage, bond, note, obligation, or other documents, as the case may be.

SEC. 249. 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 by 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 machines, 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 Commissioner, 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 cancelled as indicated in the preceding paragraph.

When the evidence of sale or transfer is shown only on the books of the company, the stamp shall be affixed to such books; and in case of the issuance of certificates of stock or other securities, 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 certificates; 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 the 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. 250. 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 cancelled.

SEC. 251. 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 249 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. 252. 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 stamp, 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 on 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 one thousand pesos nor more than five thousand

pesos and imprisoned for a term of not less than one year nor more than five years.

TITLE VII.—MINING TAXES

SEC 253. Occupation fee.—A locator, holder, or occupant of a mining claim shall pay to the Commissioner on 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 two pesos a hectare or fractional part thereof, until the lease covering the mining claim shall have been granted. For this purpose, the Office of the Mining Recorder shall submit to the treasurers concerned, a list of the mining claims, including the areas of such claims registered with it. 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 for 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, heirs, executors, administrators or legal representatives, shall have paid the delinquent occupation fees plus a surcharge of twenty-five per cent for every year of delinquency 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 and surcharges 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 mining claims shall be filed from the date of recording of the claim in the Office of the Mining Recorder, as provided for in the Mining Act.

SEC. 254. 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 lease, there is hereby imposed upon the lessee rentals and royalties as follows:

(a) Rentals—

(1) On coal-bearing public lands, an annual rental, five pesos per hectare or fraction thereof for each and every year for the first ten years, and ten pesos per hectare or fraction thereof for each and every year thereafter during the life of the lease. Rental for any year shall be credited against the royalties as they accrue for that year as provided in sub-section (b) hereof: Provided, That such rental and royalties paid during any year shall be credited against the specific tax provided for in Section 154.

(2) On all mineral lands of the first, second, fourth and fifth groups provided under the Mining Act, two pesos a hectare or fraction thereof. The rental shall be paid in advance to the collection agent 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 twenty centavos a ton of one thousand and sixteen kilograms.

(2) On gold, a royalty of one and one-half per centum of the actual market value of the annual gross output thereof.

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

Before the minerals or mineral products are removed from the mines, the Commissioner or his representatives shall first be notified of such removal on a form prescribed for the purposes.

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 products referred to in this section.

SEC. 255. Ad valorem taxes on output of mineral lands not covered by lease.—There is hereby imposed 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 in the amount of two per centum of the value of the output, except gold which shall pay one and one-half per centum.

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

SEC. 256. 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 Commissioner 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. 257. Definition of the terms "gross output," "minerals" and "mineral products".—Disposition of royalties and ad valorem taxes.—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 from 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 claim shall not be subdivided. The word "minerals" shall mean all inorganic substances found in nature whether in solid, liquid, gaseous, or any intermediate state. The term "mineral products" shall mean things produced by the lessee, concessionaire or owner of mineral lands, at least eighty per cent of which things must be minerals extracted by such lessee, concessionaire, or owner of mineral lands. Ten per centum of the royalties and ad valorem taxes herein provided shall accrue to the municipality and ten per centum to the province where the mines are situated, and eighty per centum to the National Treasury.

SEC. 258. 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 live per centum. of the amount due to the Government under the provision of this Titla, 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. 259. 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 256, 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 five thousand pesos and imprisoned for not more than three years.

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 ten thousand pesos and imprisoned for not more than five years.

TITLE VIII.—MISCELLANEOUS TAXES

CHAPTER I.—Tax on Banks

SEC. 260. Tax on banks.—There shall be collected a tax of five per centum on the gross receipts derived by all bank doing business in the Philippines from interests, discounts, dividends, commissions, profits from exchange, royalties, rentals of property, real and personal, and all other items treated as gross income under section 29 of this Code. This tax shall also be collected from other financial intermediaries on their gross receipts derived fr quasi-banking activities as herein defined.

"Bank" as herein used, indicates 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.

Quasi-banking activities shall refer to borrowing funds from twenty or more personal or corporate lenders at any one time, through the issuance, endorsement or acceptance of debt instruments of any kind other than deposits for the b?rrower's own accounts, or through the issuance of certificates of assignment or similar instruments, with recourse, or of repurchase agreements for purposes of relend* ing or purchasing receivables and other similar obligations.

SEC. 261. Tax on Finance Companies.—There shall be. collected a tax of five per centum on the gross receipts derived by all finance companies doing business in the, Philippines from interests, discounts, and all other items treated as gross income under this Code.

As used in this section "finance companies" refers to corporations or partnerships other than a bank, or insurance company, primarily organized for the purpose of extending credit facilities to consumers and to industrial, commercial or agricultural enterprises whether by granting direct loans or by discounting or factoring commercial papers or accounts receivable for profit, buying and selling contracts, leases, chattel mortgages and other evidences of indebtedness arising¹ out of one or more of the steps in the distribution and sale of commodities.

SEC. 262. Time for payment of tax.—Increase of tax incase of delinquency.—The tax imposed in sections 260 and

261 shall be payable at the end of each calendar quarter and it shall be the duty of every bank or finance-company, within twenty days after the end of each calendar quarter, to make a true and complete return of the amount of gross income derived during the preceding calendar quarter and pay the tax due thereon and if the tax is not paid within the time prescribed herein, the amount of the tax shall be increased by twenty-five per centum, the increment to be a part of the tax.

In case of willful neglect to file the return within the period prescribed herein, or 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 the 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.

CHAPTER II.—Tax on Receipts of Insurance Companies

SEC. 263. Tax on insurance premium.—There shall be collected from every person, company, or corporation (except purely cooperative companies or associations) doing insurance business of any sort in the Philippines a tax of four per centum of the total premium collected, 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 a person insured shall not be included in the taxable receipts; nor shall any tax be paid upon re-insurance by a company that has already paid the tax; nor upon premiums collected or received by any branch of a domestic corporation, firm or association doing business outside the Philippines on account of any life insurance of the insured who is a non-resident, if any percentage tax on such premium is imposed by the foreign country where the branch is established nor upon premiums collected or received on account of any reinsurance, if the risk insured against covers property located outside the Philippines; or the insured, in case of personal insurance, resides outside the Philippines, if any percentage tax on such premiums is imposed by the foreign country where the original insurance has been issued or perfected; nor upon that portion of the premiums collected or received by the insurance companies on variable contracts (as defined in Section 232 (2) of Presidential Decree No. 612) in excess of the amounts necessary to insure the lives of the variable contract owners.

Cooperative companies or associations are such as are conducted by the members thereof with the money collected from among themselves and solely for their own protection and not for profit.

SEC. 264. Time for payment of tax—Increase of tax in case of delinquency.—The tax on insurance companies shall be due within twenty days after the end of each calendar quarter. It shall be the duty of every insurance company to make a true and complete return of the amount of gross premiums derived during the preceding calendar quarter and pay the tax due thereon and if the tax is not paid within the time prescribed herein the amount of the tax shall be increased by twenty-five per centum., the increment to be part of the tax.

In case of willful neglect to file the return within the the period prescribed herein, or 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 the amount. The amount so added to the 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. 265. 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

Commissioner 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 Commissioner may require.

SEC. 266. Tax due from agents of foreign insurance companies.—Every fire, marine, miscellaneous insurance agent authorized under section 309 of Presidential Decree No. 612, otherwise known as "The Insurance Code" 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 Commissioner at the time and in the manner prescribed in section 265, showing the entire amount of all premiums received by the company he represents under the authority of the Insurance Code. Such agent shall pay to the Commissioner a tax equal to twice the tax impressed in section 263 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 prohibitions of this section shall not affect the right of an owner of property to apply for and obtain for himself policies la foreign companies in cases where said owner does not make 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 companies, it shall be the duty of said owners to report to the Insurance Commissioner and to the Commissioner each case where insurance has been so effected, and shall pay the tax of five per centum on premiums paid, the manner required by section 263 of insurance companies, and shall be subject to the same penalty for failure to do so.

CHAPTER III.—Franchise Tax

SEC. 267. Tax on franchises—(a) In general. shall be collected in respect to all franchises, upon the gross receipts from the business covered by the law granting the franchise, a tax of five per centum or such taxes, charges, and percentages as are specified in the special charters of the grantees upon whom such franchises are conferred, whichever is higher, unless the provisions thereof preclude the imposition of a higher tax. 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 franchises, shall be assessed, collected by and paid to the Commissioner or any of his collection agents, any provision in the franchise to the contrary notwithstanding, and shall be due and payable as specified in the particular franchise, or in case no time limit is specified therein, the provisions of Section 193 shall apply; and if such taxes, charges, and percentages remain unpaid on 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.

(b) Tax on electric franchise holders.—Any provision of law or local ordinance to the contrary notwithstanding, the franchise tax payable by al! grantees of franchise to generate, distribute and sell electric current for light, heat and power and for the manufacture, distribution and sale of city gas shall be two percent of their gross receipts received from the sale of electric current and from transactions incident to the generation, distribution and sale of electric current and of manufactured city gas.

Such franchise tax shall be payable to the Commissioner of Internal Revenue, or his duly authorized representative, on or before the twentieth day of the month following the end of each calendar quarter or month, as may be provided in the respective franchise or pertinent municipal regulation and shall, any provision of the Local Tax Code or any other law to the contrary notwithstanding, be in lieu of all taxes and assessments of whatever nature imposed by any national or local authority on earning, receipt, income and privilege of generation, distribution and sale of electric current and of manufactured city gas.

CHAPTER IV.—Amusement Taxes

SEC. 268. Amusement Taxes.—There shall be collected from the proprietor, lessee or operator of cabarets, day and night clubs, Jai-Alai and race tracks, a tax equivalent to twenty per centum and in the case of cockpits, ten per centum of their gross receipts irrespective of whether or not any amount is charged or paid for admission. For the purpose of amusement tax, the term "gross receipts" embraces all the receipts of the proprietor, lessee or operator of the amusement place.

The taxes imposed herein shall be payable at the end of each quarter and it shall be the duty of the proprietor, lessee, or operator concerned, within twenty days after the end of each quarter, to make a true and complete return of the amount of the gross receipts derived during the preceding quarter and pay the tax due thereon. If the tax 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 part of the tax.

In case of willful neglect to file the return within the Period prescribed herein, or 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 the 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 assessed shall be collected in the same manner as the tax.

SEC. 269. Tax on winnings.—Every person who wins in horse races or Jai-Alai shall pay a tax equivalent to ten per cent of his winnings or "dividends," the tax to be based on the actual amount paid to him for every winning ticket after deducting the cost of the ticket. The tax herein prescribed shall be deducted from the "dividends" corresponding to each winning ticket and withheld by the operator, manager, or person in charge of the horse-races or Jai-Alai before paying the "dividends" to the person entitled thereto. The same tax shall be collected from owners of winning race horses at the same time and in the same manner above.

The operator, manager, or person in charge of horse races or Jai-Alai shall, within twenty days from the date the tax was deducted and withheld in accordance with the first paragraph hereof, file a true and correct return with the Commissioner in the manner or form to be prescribed by the Secretary of Finance, and pay within the same period the total amount of tax so deducted and withheld.

If the tax herein provided is not paid within the time prescribed above, or in case of willful neglect to file the return within that period prescribed herein, or 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 the return before the discovery of the falsity or fraud, the corresponding surcharges provided in Section 268- of this Code.

CHAPTER V.—Charges on Forest Products

SEC. 270. Measuring of forest products and invoicing and collection of charges thereon.—The duties incident to the measuring of forest products shall be discharged by the Bureau of Forest Development, under regulations of the Department of Natural Resources. The invoicing and collection of the charges thereon shall be done by the Bureau of Internal Revenue under regulations approved by the Secretary of Finance.

SEC. 271. Mode of measuring timber.—Except as here-inbelow 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 Forest Development shall make due allowance for rot, cavities, or other natural defects; but from any decision of the Director of Forest Development in this respect, an appeal shall lie to his Department Head, whose decision shall be final. The manifest of timber cut by licenses 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 forty 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 Forest Development shall make due allowance for rot, cavities, or other natural defects; but from any decision of the Director of Forest Development 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 ax 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. 272. Charges on timber cut in public forest.—Except as otherwise specially 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.
- (g) On timber in the fourth group, not including fire wood, sixty centavos.

SEC. 273. Charges on firewood cut in public forests.—On firewood cut in public forests and forest reserves, the following charges shall be collected:

On bacauan, langaray, pototan, and tangal, per cubic meter, sixty centavos.

On other woods, per cubic meter, thirty centavos.

Only third or fourth-group wood can be taken for firewood. However, at the discretion of the Director of Forest Development, first and second-group woods may be removed for firewood purposes from land which is more valuable for agricultural than for forest purposes.

SEC. 274. Charges collectible on forest products cut, gathered and removed from unregistered private lands.— The charges above prescribed shall be collected on all forest products cut, gathered and removed from any private land the title to which is not registered with the Director of

Forest Development as required by Presidential Decree No. 369, otherwise known as the "Forestry Reform Code of the Philippines"; Provided, however, That in the absence of such registration, the owner who desires to cut, gather and remove timber and other forest products from such land shall secure a license from the Director of

Forest Development in accordance with the Forestry Reform Code of the Philippines and regulations. The cutting, gathering and removing of timber and other forest products from said private lands without license shall be considered as unlawful cutting, gathering and removing of forest products from public forests and shall be subject to the charges prescribed in such cases in this Chapter.

SEC. 275. 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 twenty-five 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 twenty-five per centum: Provided, however, That the Commissioner may, in meritorious cases, waive the surcharge of twenty-five 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. 276. Charges on timber cut for use on mining claim.—When a license is granted by the Bureau of Forest Development 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. 277. 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 Commissioner and the Director of Forest Development, 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. 278. Charges on stones, earth, salt, and guano taken from lands under the jurisdiction of the Bureau of Forest Development.—On stone, earth, salt, or guano gathered or removed from the lands under the jurisdiction of the Bureau of Forest Development, there shall be collected such charges as may be fixed in particular cases by the Director of Forest Development, with the approval of the Department Head.

SEC. 279. 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 Forest Development and in compliance with the law and regulations of such Bureau,

SEC. 280. Gratuitous licensees subject to regulations of Department of Finance.—Gratuitous licensees authorized to cut first-group timber under license from the Bureau of Forest Development 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. 281. 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.

SEC. 281. 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 Commissioner, lumber may be removed from a sawmill 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 prepayment of the charges in special cases where the prepayment 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 Commissioner may require, conditioned upon the payment of the forest charges at the point of destination or at such time and place as the Commissioner may direct.

CHAPTER VI.—The Firearms Tax

SEC. 282. 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 Chief of 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 gun powders, powder used for blasting, all forms of high explosives, blasting Materials, dynamite, fuses, detonators and detonating agents, 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 detonation of all or any part of the compound or mixture may cause such a sudden generation of highly heated gases that the resultant gaseous pressured are capable of producing destructive effects on contiguous objects or of destroying life or limb.

SEC. 283. License fees of dealers in firearms, ammunitions, and explosives.—Any person dealing in firearms 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 thousand pesos.

Dealers selling less than one thousand firearms of all kinds in a year, one thousand two hundred pesos.

Dealers selling or manufacturing one million or more rounds of ammunition of all kinds in a year, three hundred pesos.

Dealers importing or selling less than one million rounds of ammunition of all kinds in a year, two hundred pesos.

Dealers in or manufacturers of explosives, four hundred pesos.

This section shall not be applicable to fireworks manufacturers.

SEC. 284. 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 P15.00

Annual fee 10.00

For each high-powered rifle held on license:

Initial fee P30.00

Annual fee 20.00

For each revolver held on license, except caliber .22 revolver

Initial fee P25.00

Annual fee 20.00

For each rifle held on license, except caliber .22 rifle:

Initial fee P30.00

Annual fee 20.00

Provided, however, That bona fide and active members of duly organized gun clubs and accredited by the Chief of Constabulary shall pay an initial fee of fifteen pesos and an annual fee of live pesos for each firearm held on license, except caliber .22 revolver or rifle. And provided, further, That the President of the Philippines may grant such reductions or exemptions from the payment of the fees prescribed in this section in favor of Government officers and employees as he may deem expedient or necessary in the interest of peace and order or national security.

SEC. 285. Hunting permits.—Persons holding license to possess rifles and shotguns shall not engage in hunting unless they provide themselves with an annual hunting permit, the fee for which shall be two pesos.

SEC. 286. Collection mid disposition of fees.—The fees Herein provided shall be collected by the Commissioner under such rules and regulations as said Commissioner 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. 287. Penal Provisions.—The fees provided in this Chapter 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 VII.—Tobacco Inspection Fees

SEC. 288. Inspection fees.—For inspection made in accordance with this Chapter, there shall be collected a fee of fifty centavos for each thousand cigars or fraction thereof; ten centavos for each thousand cigarettes or fraction thereof; two centavos for each kilograms of leaf tobacco or fraction thereof; and three centavos for each kilogram or fraction thereof, of scrap and other manufactured tobacco.

The inspection fee on cigars, cigarettes and other tobacco products shall be paid by the manufacturer, producer or

owner within ten days after the end of each month while the inspection fee on leaf tobacco, scrap and other manufactured tobacco shall be paid immediately before removal from the establishment of the wholesaler, manufacturer, or redrying plant. In case of imported leaf tobacco and products thereof, the inspection fee shall be paid by the importer before removal from customs' custody.

If the inspection fee is not paid within the time specified above, the amount of the fee shall be increased by twenty-five per centum, the increment to be a part of the fee.

Fifty per centum of the tobacco inspection fee shall accrue to the Tobacco Inspection Fund created by Section 12 of Act No. 2613, as amended by Act No. 3179 and fifty per centum shall accrue to the Cultural Center of the Philippines.

CHAPTER VIII.—Water Rentals

SEC. 289. Water rentals.—The appropriates 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, Transportation 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 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 horsepower on the basis of an efficiency of seventy-six per centum for the plant.

SEC. 290. 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 ADMINISTRATIVE PROVISIONS

CHAPTER I.—Remedies in General

SEC. 291. Injunction not available to restrain collection of tax.—No court shall have the authority to grant an injunction to restrain the collection of any national internal-revenue tax, fee, or charge imposed by this Code.

SEC. 292. 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 Commissioner; 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 regardless of any supervening cause that may arise after payment: Provided, however, That the Commissioner may, even without a written claim therefor, refund or credit any tax, where on the face of the return upon which payment was made, such payment appears clearly to have been erroneously paid.

SEC. 293. Action to contest forfeiture of chattel—In case of the seizure of personal property under claim of forfeiture, the owner desiring to contest the validity of the 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. 294. Form and mode of proceeding in actions arising under this Code.—Civil and criminal actions and proceedings instituted in behalf of the Government under the authority of this Code or other law 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 the legal officers of the Bureau of Internal Revenue deputized by the Secretary of Justice, but no civil and criminal actions 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 Commissioner.

SEC. 295. Authority of the Commissioner to make compromises and to refund taxes.—The Commissioner may:

(1) Compromise any civil case arising under this Code or other laws or part of laws administered by the Bureau of Internal Revenue when there is reasonable doubt as to the validity of the claim against the taxpayer or where the financial position of the taxpayer demonstrates a clear inability to pay the assessed tax; or any criminal case other than one involving the commission of fraud by the taxpayer before the case is filed in court.

(2) Abate the payment of any tax that appears to be unjustly or excessively assessed or the unpaid portion of the assessed tax or any liability in respect thereof, if Under the rules and regulations to be recommended by the Commissioner with the approval of the Secretary of Finance, the administration and collection costs involved do not warrant the collection of the amount due.

(3) Credit or refund taxes erroneously or Illegally received, or penalties imposed without authority, refund the value of internal revenue stamps when they are returned in good condition by the purchaser, and, in his discretion, redeem or change unused stamps that have been rendered unfit for use and refund their value upon, proof of destruction.

SEC. 296. Satisfaction of judgment recovered against any internal revenue 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 Commissioner 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 Commissioner 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. 297. 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, subject to the approval of the Commissioner.

SEC. 298. 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. 299. 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 all apparatus used in or about the illicit production of such articles may, upon forfeiture, be destroyed by order of the Commissioner, 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 and labels which are in imitation of or purport to be lawful stamps, or labels may, upon forfeiture, be sold or destroyed in the discretion of the Commissioner.

Forfeited property shall not be destroyed until at least twenty days after seizure.

SEC. 300. Disposition of funds recovered in legal proceedings or obtained from forfeitures.—All judgment and moneys recovered and received for taxes, costs, forfeitures, fines, and penalties shall be paid to the Commissioner 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 way.

CHAPTER II.—Civil Remedies for Collection of Taxes

SEC. 301. Nature and extent of tax lien.—If any person, corporation, partnership, joint-account (cuenta en partv-tipacion), association, or insurance company liable to pay an internal revenue tax, neglects or refuses to pay the after demand, the amount shall be a lien in favor the Government of the Philippines from the time when the assessment was made by the Commissioner until paid, with interest, penalties, and costs that may accrue in 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 Commissioner in the office of the register of deeds of the province or city where the property of the taxpayer is situated or located.

SEC. 302. 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 civil or criminal action. Either of these remedies or both simultaneously may be pursued in the discretion of the authorities charged with the collection of such taxes: Provided, however, That the remedies of distraint and levy shall not be availed of where the amount of tax involved is not more than one hundred pesos.

The judgment in the criminal case shall not only impose the penalty but shall also order payment of the taxes subject of the criminal case as finally decided by the Commissioner.

The Bureau of Internal Revenue shall advance the amounts needed to defray costs" of collection by means of civil or criminal action, including the preservation or transportation of personal property distrained and the advertisement and sale thereof as well as of real property and improvements thereon.

SEC. 303. Constructive distraint of the property of a taxpayer.—To safeguard the interest of the Government, the Commissioner 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 Commissioner.

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. 304. 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 Revenue District Officer, if the amount involved does not exceed five thousand pesos; the Revenue Regional Director, if the amount involved is more than five thousand Pesos but does not exceed twenty thousand pesos; and the Commissioner, if the amount involved exceeds twenty thousand pesos shall seize and distraint not earlier than three months nor later than six months from receipt of demand, any goods, chattels, or effects, and the 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 and the cost of the subsequent sale.

A report of any distraint shall, within ten days from receipt of the warrant, be submitted by the distraining officer to the Revenue District Officer, to the Revenue Regional Director and to the Commissioner.

SEC. 305. Mode of Procedure.—The officer levying the distraint shall make or cause to be made on 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 someone 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, copy of the warrant of distraint. The warrant of distraint shall be sufficient authority to the person owning the debts or having in his possession or under his control any credits belonging to the taxpayer to pay to the Commissioner the amount of such debts or credits.

Bank accounts shall be garnished by serving a warrant of garnishment upon the taxpayer and upon the president, manager, treasurer, or other responsible officer of the bank. Upon receipt of the warrant of garnishment, the bank shall turn over to the Commissioner so much of the bank accounts as may be sufficient to satisfy claim of the Government.

SEC. 306. 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 Commissioner, 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 returned to the owner of the property sold. The expenses charge-able upon each seizure and sale shall embrace only the actual expenses of seizure and preservation of the property pending the sale, and no charge shall be imposed for the services of the local internal-revenue officer or his deputy.

SEC. 307. 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 shall be restored to the owner.

SEC. 308. 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 Commissioner and shall himself preserve a copy of such report as an official record.

SEC. 309. 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 Commissioner 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 Commissioner 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. 310. Levy on real estate.—After the expiration of 'the time required to pay the delinquent tax or delinquent revenue as prescribe in Section 304, 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 Revenue District Officer, or the Revenue Regional Director or the Commissioner, as the case may be, 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 Register of Deeds of the province or city where the property is located and 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, to the occupant of the

property in question.

In case the levy on real property is not issued before or simultaneously with the warrant of distraint on personal property and the personal property of the taxpayer is not sufficient to satisfy his tax delinquency, the Revenue District Officer, Regional Director or Commissioner, as the case may be, shall within thirty days after execution of the distraint, proceed with the levy on the taxpayer's real property.

A report of any levy shall (within ten days after receipt of the warrant, be submitted by the levying officer to the District Revenue Officer, the Revenue Regional Director, and to the Commissioner.

SEC. 311. Penalty for failure to issue and execute warrant.—Any official who fails to issue or execute the warrant of distraint or levy within thirty days after the expiration of the time prescribed in Section 304 and 810 or who is found guilty of abusing the exercise thereof by competent authority shall be automatically dismissed from the service after due notice and hearing.

SEC. 312. Advertisement and sale.—Within twenty days after levy, the officer conducting the proceedings shall proceed to advertise the property or a usable portion thereof as may be necessary to satisfy the claim and cost 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 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 in the municipality or city where the property is located. 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 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 by the distraining or levying officer of the proceedings shall be entered upon the records of all collection agent, the Revenue District Officer, the Revenue Regional Director, and the Commissioner. The collection agent, in consultation with the Revenue District Officer, 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 taxes, penalties and interests; Provided, however, That in case the proceeds of the sale exceeds the claim and cost of sale, the excess shall be turned over to the owner of the property.

The collection agent, upon approval by the Revenue District Officer may, out of his collection, advance an amount sufficient to defray the costs of collections by means of the summary remedies provided for in this Code, including the preservation or transportation in case of personal property, and the advertisement and subsequent sale, both in cases of personal and real property including improvements found on the latter. In his monthly collection report, such advances shall be reflected and supported by receipts.

SEC. 313. 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 Revenue District Officer 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 Revenue District Officer that he has thus redeemed the property, and the Revenue District Officer 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. 314. Final deed to purchaser.—In case the taxpayer shall not redeem the property as above provided, the Revenue District Officer 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. 315. 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 internal revenue officer conducting the sale 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. It shall be the duty of the Register of Deeds concerned upon registration with his Office of any such declaration of forfeiture to transfer the title of the property forfeited to the government without the necessity of an order from a competent Court.

Within one year from the date of such forfeiture the taxpayer, or any one for him, may redeem said property by paying to the Commissioner or the latter's Collection Agent the full amount of the taxes and penalties, together with interest thereon and the cost of sale; but if the property be not thus redeemed, the forfeiture shall become

SEC. 316. Resale of real estate taken for taxes.—The Commissioner 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 Commissioner 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 de-posited in the National Treasury, and an account of the same shall be rendered to the Chairman of the Commission on Audit.

SEC. 317. Further distraint or levy.—The remedy by distraint of personal property and levy on realty may be repeated if necessary until the full amount due, including all expenses, is collected.

SEC 318. Period of limitation upon assessment and collection.—Except as provided in the succeeding section, intern ai-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 eases already investigated prior to the approval of this Code.

SEC. 319. Exceptions as to period of limitation of merit 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 be begun without assessment, at any time within ten years after the discovery of the falsity, fraud, or omission: provided, That in a fraud assessment which has become final and executory, the fact of fraud shall be judicially taken cognizance of in the civil or criminal action for the collection thereof.

(b) Where before the expiration of the time prescribed in the preceding section for the assessment of the tax, both the Commissioner and the taxpayer have consented in writ ing 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 proceeding¹ in court, but only if began (1) within live years after assessment of the tax, or (2) prior to the expiration of any period for collection agreed upon in writing by the Commissioner 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. 320. Suspension of running of statute.—The running of the statute of limitations provided in Section 318 and 319 on the making of assessment and the beginning of distraint or levy or a proceeding in court for collection, to respect of any deficiency, shall be suspended for the Period during which the Commissioner is prohibited from taking the assessment or beginning distraint or levy or a Proceeding in court and for sixty days thereafter; when the taxpayer requests for a reinvestigation which is grant by the Commissioner; when the taxpajrer cannot be in the address given by him in the return filed upon a tax is being assessed or collected: Provided, That, if the taxpayer informs the Commissioner of any change in address, the running of the statute of limitations will not be suspended; when the warrant of distraint and levy is duly served upon the taxpayer, his authorized represents tive, or a member of his household with sufficient discretion, and no property could be located; and when the taxpayer is out of the Philippines.

CHAPTER III.—Keeping of Books of Accounts and Records

SEC. 321. (A) Corporations, companies, partnerships, persons required to keep books of accounts.—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 keep and use a simplified set of bookkeeping records duly authorized by the Secretary of Finance wherein all transactions and results of operations are shown and from which all taxes due the government may readily and accurately be ascertained and determined any time of the year: And provided, further, That in the case of corporations, companies, partnerships, or persons whose gross quarterly sales, earnings, receipts or output exceed twenty-five thousand pesos, shall have their books of accounts audited and examined yearly by independent Certified Public Accountants and their income tax returns accompanied with certified balance sheets, profit and loss statements, schedules listing income reducing properties and the corresponding income there from and other relevant statements.

(B) Independent Certified Public Accountant defined.— The terra "Independent Certified Public Accountant" a⁹ used in the preceding paragraph, means an accountant who possesses the independence as defined in Article f^ourt Section seven of the rules and regulations of the Board of Accountancy promulgated by authority of Republic Act Numbered Five thousand one hundred sixty-six, as amended.

(C) Penal Provision.—Any certified public accountant employed exclusively to examine and audit books of taxpayers under subsection (A) of this section or any person under his direction who willfully falsifies any report or statement bearing on any examination or audit, or renders a report, including exhibits, statements, schedules or other forms of accountancy work which has not been verified by him personally or under his supervision or by a member of his firm or by a member of his staff in accordance with sound auditing practices, or certified financial statements of a business enterprise containing an essential misstate-ment of facts or omission in respect to the transactions^ taxable income, deduction and exemption of his client or who, not being an Independent Certified Public Accountant according to subsection (B) of this section, examines and audits books of taxpayers, or any person who offers to sign and certify financial statement without audit, or any person who offers any taxpayer to use or use wrong accounting/bookkeeping records, or in any way commits an act or omission in violation of the provision of this section shall be punished by a fine of not exceeding five thousand pesos and imprisonment of not

less than two years. If the offender is a certified public accountant, upon conviction, his certificate as a certified public accountant shall automatically be revoked or cancelled. In the case of foreigners, conviction under this Code shall constitute a ground for deportation.

SEC. 322. *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 business 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. 323. *Language in which books are to be kept; translation.*—All such corporations, companies, partnerships, or persons shall keep the books or records mentioned in section 321 hereof in a native language, English or Spanish: Provided, however, That if in addition to said books or records the taxpayer keeps other books or records in a language other than a native language, English or Spanish, he shall make a true and complete translation of all the entries in such other books or records into a native language, English, or Spanish, and the said translation must be made by the bookkeeper or such taxpayer, or, in his absence, by his manager and must be certified under oath as to its correct-ness by the said bookkeeper or manager, and shall form an integral part of the books of accounts aforesaid. The keeping of such books or records in any language other than a native language, English or Spanish, is hereby prohibited.

SEC. 324. *Preservation of books of accounts, and other accounting records.*—All the books of accounts, including the subsidiary books, and other accounting records, of corporations, partnerships, or persons shall be preserved by them for a period of at least five years from the last entry in each book and shall be subject to examination and inspection only once in a taxable year during that five-year period by internal revenue officers, except in cases of fraud, irregularity or mistake as determined by the Commissioner, or unless the taxpayer requests otherwise, in which case, another examination and inspection may be made. Examination and inspection of books of accounts and other accounting records shall be done only in the taxpayer's office or place of business or in the office of the Bureau of Internal Revenue. All corporations, partnerships, or persons, that retire from business shall, within ten days from the date of retirement or within such period of time as may be allowed by the Commissioner in special cases, submit their books of accounts, including the subsidiary books and other accounting records, to the Commissioner or any of his deputies for examination, after which they shall be returned. Corporations and partnerships contemplating dissolution must notify the Commissioner and shall not be dissolved until cleared of any tax liability,

SEC. 325. *Supplying of taxpayer account number.*—Any person required under the authority of this Code to make, render, or file a return, statement, or other document shall be supplied with or assigned a taxpayer account number which he shall include in such return, statement or document filed with the Commissioner for his proper identification for tax purposes.

Only one account number shall be given to a person required to have one, and any person who shall secure more than one account number shall be criminally liable under the provisions of Section 337 of this Code.

CHAPTER IV.—Rules and Regulations

SEC. 326. *Authority of Secretary of Finance to promulgate rules and regulations.*—The Secretary of Finance, upon recommendation of the Commissioner, shall promulgate all needful rules and regulations for the effective enforcement of the provisions of this Code.

SEC. 327. *Non-retroactivity of rulings.*—Any revocation, modification, or reversal of any of the rules and regulations promulgated in accordance with the preceding section or any of the rulings or circulars promulgated

by the Commissioner shall not be given retroactive application if the revocation, modification, or reversal will be prejudicial to the taxpayers except in the following cases: (a) where the taxpayer deliberately misstates or omits material facts from his return or in any document required of him by the Bureau of Internal Revenue; (b) where the facts subsequently gathered by the Bureau of Internal Revenue are materially different from the facts on which the ruling is based; or (c) where the taxpayer acted in bad faith.

TITLE X.—MISCELLANEOUS ADMINISTRATIVE PROVISIONS

SEC. 328. 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 Commissioner 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 the diplomatic passports, and consular agents and tourists not engaged in commerce in the Philippines.

SEC. 329. Passage tickets 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 or validate a passage ticket or carry any passengers 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 PENAL PROVISIONS

SEC. 330. Statutory offenses of officials and employees.— Every official, agent or employee of the Bureau of Internal Revenue or of any other agency of the government charged with the enforcement of the provisions of this Code, who is guilty of any delinquency hereinbelow specified, or who falls within any of the classes hereinbelow indicated, shall be punished with a fine of not less than five thousand pesos nor more than fifty thousand pesos and imprisonment for not less than one year nor more than ten years:

- a. Those guilty of extortion or willful oppression under
- 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 defraud the revenues or otherwise violate the law.
- e. Those who willfully make opportunity for any person defraud the revenues, or who do or omit to do any act with intent to enable any other person to defraud the
- 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, certificates or return.
- h. Those who, having knowledge or information of & violation 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. 331. Reward to persons instrumental in the discovery and seizure of smuggled goods.—To encourage the

public and law-enforcement personnel to extend full co-operation and do their utmost in stamping out smuggling, a cash reward equivalent to five per centum of the fair market value of the smuggled and confiscated goods shall be given to persons instrumental in the discovery and seizure of such smuggled goods in accordance with the and regulations to be issued by the Secretary of Finance.

The provisions of this section, and not those of Public Act Numbered 2338, as amended by Presidential decree No. 707 shall govern the giving of reward in cases covered by this section.

SEC. 332. Unlawful divulgence of trade secrets.—Except as provided in Section 81 of this Code and Section 26 of Republic Act Numbered 6388, 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. 333. 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 Four of this Code in the manufacture or repair or sale, of any die for the printing, or making of stamps, or labels shall be fined in a sum of not less than four hundred pesos, nor more than ten thousand pesos.

SEC. 334. 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. 335. 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 said property, or any part thereof, without the knowledge and consent of the Commissioner, 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 live hundred pesos.

SEC- 336. 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 Commissioner or any of his deputies executing such warrant, surrender such property or right to property to the Commissioner or any of his deputies, unless such property or right is, at the time of such demand, subject to an attachment or execution under any judicial process. Any person who fails or refuses to so 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 had been issued, together, with costs and interest, if any, from the date of such warrant. In addition, such person shall be punished a fine of not more than three hundred pesos or by imprisonment for not more than six months, or both.

SEC. 337. Violation of other provisions of this Code or Adulations 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. 338. Confiscation and forfeiture of the proceeds or instruments of crime. - In addition to the penalty imposed for the violation of the provisions of Title IV, Sections 194, 195, 196, 197, 198, 199 and 201 of Title V, and Chapter V and Chapter VI of Title VIII all of this Code the same shall carry with it the confiscation and for-feiture in favor of the government of the proceeds of the crime or value of the goods, and the instruments or tools with which the crime was committed: Provided, however, That if, in the course of the proceedings it is established that the instruments or tools used in the illicit act belong to a third person, the same shall be confiscated and forfeited after due notice and hearing in a separate proceeding in favor of the government if such third person leased, let, chartered, or otherwise entrusted the same to the offender: Provided, further, That in case the lessee subleased, or the borrower, charterer or trustee allowed the use of the instrument or tools to the offender, such instruments, or tools shall, likewise, be confiscated and forfeited: Provided, finally, That property of common carriers shall not be subject to forfeiture when used in the transaction of their business as such common carrier, unless the owner or operator of said common carrier was, at the time of the illegal act, a consenting party or privy thereto, without prejudice to the owner's right of recovery against the offender in a civil or criminal action. Articles which are not subject to lawful commerce shall be destroyed.

SEC. 339. 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 eight pesos and fifty centavos subject to the rules established in article 39 of the Revised

SEC. 340. Prescription for violations of any provision of this Code.—All violations of any provision of this shall prescribe after five years.

Prescription shall begin to run from the day of commission of the violation of the law, and if the be not known of the time, from the. discover 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. 341. Making false entries; failure to keep required books, etc.—Any person who knowingly shall make a false entry or enter a false or fictitious name in the books or records mentioned in Sections 321 and 322 of this Code, or who shall abet or aid in any manner in the making of writing thereof, shall toe 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.

Any person who fails to keep the books or records mentioned in Section 321 in a native language, English, or Spanish, or to make a true and complete translation as required in Section 323 of this Code, or whose books or records kept in a native language, English, or Spanish and found to be at material variance with books or records kept by him in another language, shall be fined in a sum of not less than two thousand pesos nor more than ten thousand pesos or imprisoned for a term of not less than two years nor more than six years, or both.

TITLE XII.—ALLOTMENT OF INTERNAL REVENUE

CHAPTER I.—Special Disposition of Certain National Internal Revenue Taxes

SEC. 342. Disposition of proceeds of insurance premium tax.—Twenty-five per centum of the premium tax collected Under Section two hundred and sixty-three of this Code shall accrue to the Insurance Fund (as contemplated in Section four hundred and eighteen of Presidential Decree numbered six hundred and twelve) which shall be used for the purpose of defraying the expenses of the Insurance Commission. The Commissioner of Internal Revenue shall turn over and deliver the said Insurance Fund to the Insurance Commission as soon as the collection is made.

SEC. 343. Granting provinces, cities and municipalities shares in the specific tax on certain 'petroleum products.---In addition to the internal revenue allotment under Section three hundred forty-four, provinces, cities and municipalities shall share in the specific taxes on the following petroleum products in such amounts as may be equivalent to the collections therefrom at the rates indicated hereunder:

- (a) Lubricating oil, per liter of volume capacity, twenty centavos;
- (b) Naptha, gasoline and all other similar products of distillation, per liter of volume capacity, four centavos;
- (c) On bunker fuel oil, and on all similar fuel oil having more or less the same generating power, per liter of volume capacity, one-half centavo;
- (d) On diesel fuel oil, and on all similar fuel oil having more or less the same generating power, per liter volume capacity, one-half centavo.

The additional allotment is in lieu of local taxa imposed on petroleum products and for this purpose, Section twenty-four of Presidential Decree numbered two hundred thirty-one, otherwise known as the Local Tax Code, has been repealed by Presidential Decree numbered four, hundred thirty-six on March thirty, nineteen hundred seventy four.

The shares of provinces, cities and municipalities shall be allotted on the basis of the collections in specific taxes during the second fiscal year immediately preceding the current fiscal year in the following proportions:

Twenty per centum (20%) of total shares to provinces
Thirty per centum (30%) of total shares to municipalities
Fifty per centum (50%) of total shares to chartered

The allotment of each province, city and municipality shall be determined on the basis of the following formulae:

Seventy (70%) per cent—population
Twenty (20%) per cent—land area
Ten (10%) per cent—equal sharing

CHAPTER II.—Disposition and allotment of National Internal Revenue in General

SEC. 844. Disposition of national internal revenue—(a) 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.

(b) Shares of local governments.—Twenty per centum of the collections from the national internal revenue taxes shall accrue to local governments to be computed on the basis of the collections of the third fiscal year preceding the current fiscal year. This allotment shall be distributed as follows: Thirty per centum (30%) to provinces;

forty-five per centum (45%) to municipalities; twenty-five per centum (25%) to cities and, sixty-five million pesos (P65M) to the barangays. The share of each province, city and Municipality shall be determined on the basis of the following formulae: seventy (70%) per centum—population; (20%) per centum—land area; and, ten per centum equal sharing.

For the new fiscal year commencing on January 1, 1977 and ending on December 31, 1977, the annual allotment of any local government as determined under this paragraph, shall not increase by more than twenty-five per centum (25%), of, not less than, the annual allotment it shall actually receive for the fiscal year from July 1, 1975 to June 30, 1976.

Thereafter, or beginning- January 1, 1978, the annual allotment shares of each local government shall be determined solely on the basis of this paragraph.

In addition, five per centum (5%) of the collections from national internal revenue taxes not otherwise accruing to special funds and special accounts in the general fund shall accrue to a local government fund which shall be released by the President as financial aid to local governments or to projects.

SEC. 345. Allotment for the Commission on Audit.— One-half of one per centum ($\frac{1}{2}$ of 1%) of the collections from national internal revenue taxes not otherwise accruing to special accounts in the general fund of the national government shall accrue to the Commission on Audit as a fee for auditing services rendered to local government units, excluding maintenance, equipment, and other operating expenses as provided for in Section 21 of Presidential Decree No. 898.

The Secretary of Finance is hereby authorized to deduct from the monthly internal revenue tax collections an amount equivalent to the percentage as herein fixed, and to remit the same direct to the Commission on Audit under such regulations as may be promulgated by the Secretary of Finance and the Chairman of the Commission on Audit.

TITLE XIII.—REPEALING PROVISION

SEC. 346. In general.—All acts, laws, decrees, executive orders, rules and regulations, or parts thereof, which are contrary to or inconsistent with this Code are hereby repealed, amended or modified accordingly.

TITLE XIV.—FINAL PROVISIONS

SEC. 347. 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. 348. Effectivity.—The provisions of the National Internal Revenue Code of 1977 shall take effect immediately, without prejudice, however, to the effectivity dates of the various laws and decrees which have so far amended the provisions of National Internal Revenue Code of 1939 as consolidated with the National Internal Revenue Code of 1977.

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