PRESCRIBING THE USE AND GUIDELINES FOR ACCOMPLISHING BIR FORM NO. 1702 H – (INFORMATION RETURN ON TRANSACTIONS WITH RELATED FOREIGN PERSONS)

Read online (full-text search, related cases, audio case brief): https://batas.org/library/ef3120321c70/

1. Objective - This order prescribes the use of BIR FORM 1702 H (refer to Annex A[*]) containing information on transactions with related foreign person(s). This form shall be accomplished in triplicate and attached to the Corporation/Partnership Annual Income Tax Return (BIR Form No. 1702).

2. Coverage - BIR Form 1702 H must be accomplished by persons enumerated on the next paragraphed in reporting certain transactions with related foreign person(s).

Reporting persons are any of the following: (1) domestic corporations that "control" or are "controlled" by a related foreign person(s); (2) foreign corporations that are engaged in trade or business in the Philippines and are "controlled" by a related foreign person(s), or; (3) agents in the Philippines of related foreign person(s).

Related foreign person(s) are those which control or are controlled by the reporting person(s) and who are any of the following: (1) individual who is not a citizen or resident of the Philippines; (2) partnership, association, company or corporation that was not created or organized under the laws of the Philippines; (3) foreign trust or estate; (4) foreign government agency or its instrumentality, or; (5) Philippine branch of a corporation organized in a foreign country. The transactions that must be reported in the form are those listed in Annex B[*]. Transactions during a taxable year adding up to one hundred thousand pesos (P100,000.00) or more for each category of reportable transactions, as enumerated in Annex B (see below), are to be indicated in BIR Form 1702H. Furthermore, only the totals of these transactions for all categories are to be indicated in just one form.

Control, as used in this order, is defined as a situation wherein a reporting person owns or is owned by a foreign to the extent of at least 20% of the value of the outstanding stock or capital as of the calendar/fiscal year.

3. Illustrations – The following examples illustrate the use and accomplishment of BIR Form No. 1702 H:

Example 1

Domestic Co. A has the following transaction with Related Foreign Person B for the year 19XX:

Royalties Paid: 1-23-XX

P55,000.00

3-27-XX

35,000.00

Total

P90,000.00

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In the example above, there will be no reportable transaction since the total of these transactions does not exceed P100,000.00.

Example 2

Domestic Co. C has the following transaction with Related Foreign Person D for the year 19XX:

Interests Paid:

2-23-XX

P55,000.00

4-27-XX

30,000.00

6-16-XX

60,000.00

Total

P145,000.00

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In the example above, the reportable transaction to be indicated in BIR FORM 1702 H would be the total interests paid amounting to P145,000.00. The amount is to be indicated in line 24 of the form.

Example 3

Resident Foreign Corporation E has the following transaction with Related Foreign Person F for the year 19XX:

Sale of Stock:
in Trade 2-23-XX

P 55,000.00

4-27-XX

30,000.00

6-16-XX

110,000.00

Total

P195,000.00

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In the example above, the reportable transaction to be indicated in BIR FORM 1702 H would be the sale of stock in trade adding up to P195,000.00. The total amount of P195,000.00 is to be indicated in line 1 of the form.

Example 4

Domestic Co. G has the following transaction with Related Foreign Persons H for the year 19XX:

Interests Paid Royalties Paid

2-23-XX

P40,000.00

3-13-XX

P55,000.00

4-27-XX

45,000.00

5-20-XX

20,000.00

Total

P85,000.00

Total

P75,000.00

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In the example above, there will be no reportable transactions to be indicated in BIR FORM 1702 H since the totals for each category does not exceed P100,000.00 for either the interest or royalty category.

Example 5

Domestic Co. J has the following transaction with Related Foreign Person K for the year 19XX:

Interests Received

2-23-XX

P 55,000.00

4-27-XX

90,000.00

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Total P145,000.00

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Royalties Received

3-13-XX

P40,000.00

5-20-XX

10,000.00

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Total P50,000.00

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In the example above, the reportable transaction to be indicated in BIR FORM 1702 H is the interest received in the amount of P145,000.00. This should be reported in line 14 of the form. The royalties received amounting to P50,000.00 should not be reported inasmuch as these do not exceed the P100,000.00 minimum requirement for that category.

Example 6

Domestic Co. L has the following transaction with Related Foreign Person M and N for the year 19XX:

Royalties Received

Foreign Person M Foreign Person N

1-23-XX

P20,000.00

3-13-XX

P30,000.00

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3-27-XX

40,000.00

6-20-XX

50,000.00

Total

P60,000.00

Total

P80,000.00

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In the example above, the reportable transaction to be indicated in BIR Form 1702 H would be the total royalties received from M and N adding up to P140,000.00. This should be reported in one form in line 5.

Example 7

Resident Foreign Corp. O has the following transactions with Related Foreign Persons P and O for the year 19XX:

Royalties Paid

Foreign Person P

Foreign Person O

1-22-XX

P 90,000.00

3-13-XX

P 60,000.00

3-27-XX

40,000.00

6-20-XX

180,000.00

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Total

P130,000.00

Total

P240,000.00

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In the example above, the reportable transaction to be indicated in BIR Form 1702 H would be the total royalties paid to P and Q amounting to P370,000.00. This should be reported in one form in line 20.

Example 8

Domestic Co. R has the following transaction with Related Foreign Persons S and T for the year 19XX:

Interests Paid
to Foreign Person S

Royalties Paid

to Foreign Person T

2-33-XX

P 60,000.00

3-13-XX

P 55,000.00

4-27-XX

50,000.00

5-20-XX

90,000.00

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Total

P110,000.00

Total

P145,000.00

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In the example above, the reportable transactions to be indicated in BIR FORM 1702 H would be the total interests and royalties paid in the amount of P110,000.00 and 145,000.00, respectively. This should be reported in one form, with the amount of P110,000.00 to be indicated in line 24 and the amount of P145,000.00 in line 20.

4. Effectivity - This order takes effect on January 1, 1993 for corporation annual income tax returns filed on or after said date.

Adopted: 18 Nov. 1992

(SGD.) VICTOR A. DEOFERIO JR.
Officer-in-Charge

A N N E X "B"

TRANSACTIONS BY REPORTING
CORPORATION WITH RELATED
FOREIGN PERSON

SALES/RECEIPTS

1. Sales of stock in trade by reporting corporation/branch.

2. Sales of personal property other stock in trade

3. Sales of real property in the Philippines

4. Sales of domestic shares of stock

5. Rents/leases received

6. Royalties/license fees received

7. Consideration received for technical, managerial, engineering, construction, scientific, or like services.

8. Commissions received

9. Amounts borrowed

10. Interests received

11. Capital stock/equity withdrawn/sold

12. Dividends/share in profits received

13. Head office expense allocation, reimbursement of expenses, exchange transaction, and other similar transactions

PURCHASES/PAYMENTS

1. Purchases of stock in trade by reporting corporation/branch

2. Purchases of personal property other than stock in trade

3. Purchases of real property in the Philippines

4. Purchases of domestic shares of stock

5. Rents/leases paid

6. Royalties/license fees paid

7. Considering paid for technical, managerial, engineering, construction, scientific, or like services

8. Commission paid

9. Amounts loaned

10. Interests paid

11. Capital stock/equity placed/invested

12. Dividends/share in profits paid

13. Branch office expense allocation, reimbursement of expenses, exchange transaction, and other similar transactions.

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[*] Text available upon request at the Office of the National Administrative Register (ONAR), U.P. Law Center, Diliman, Quezon City.

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