

PROVIDING FOR THE TAXATION OF CERTAIN PASSIVE INCOME

PRESIDENTIAL DECREE NO. 1800, January 16, 1981

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WHEREAS, there is a need to raise capital to hasten the industrialization of our developing economy;

WHEREAS, it is a more desirable policy to raise the needed capital through equity investment and at the same time to broaden the base of equity ownership of existing corporations;

WHEREAS, there is a need to restructure our tax system on investment income by realigning the taxation of dividend income and interest income;

WHEREAS, there is a need to simplify the collection of taxes on all types of investment income through a withholding tax system.

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

SECTION 1. Section 21 of the National Internal Revenue Code is hereby amended by adding a new paragraph to read as follows:

"SEC. 21. Rates of tax on citizens or residents. —

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"Dividends received by an individual who is a citizen or resident of the Philippines from a domestic corporation, shall be subject to a final tax at the rate of fifteen (15%) per cent on the total amount thereof, which shall be collected and paid as provided in Sections 53 and 54 of this Code;"

SEC. 2. Section 24, paragraph (c) of the National Internal Revenue Code is hereby amended to read as follows:

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

- 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: Provided, That if the recipient of such dividend is exempt from income taxation, no tax shall be imposed and that if the recipient is enjoying preferential income tax treatment, the preferential tax rates so provided shall apply;

- 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 inter corporate dividends before computing the 10% final tax. Any excess of the interest herein allowed as a deduction from inter corporate 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 inter corporate 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.

SEC. 3. Sub-paragraph (b) (8) of Section 29 of the same Code is hereby amended by adding subparagraph (b) (8) (E) to read as follows:

"SEC. 29. Gross income. —

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"(E) Dividends received from a domestic corporation subjected to the final tax under Sections 21 and 24 of this Code."

SEC. 4. Section 53, paragraph (c) of the National Internal Revenue Code is hereby amended to read as follows"

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"(c) Withholding tax on royalties. — Royalties (except payments of any kind to mining claim-owners or lessees of mining rights pursuant to any kind of agreement) received by individuals residing in the Philippines 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 fifteen (15%) per cent 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. 5. Section 53, paragraph (d) of the National Internal Revenue Code is hereby amended to read as follows:

"(d) Withholding tax on dividends. — The tax imposed by Sections 21 and 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."

SEC. 6. Effectivity. — This Decree shall take effect on passive income earned beginning January 1, 1981.

Done in the City of Manila, this 16th day of January, in the year of Our Lord, nineteen hundred and eighty-one.

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

By the President:

(Sgd.) JUAN C. TUVERA
Presidential Executive Assistant

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