

REPUBLIC OF THE PHILIPPINES
DEPARTMENT OF FINANCE
BUREAU OF INTERNAL REVENUE

March 15, 2011

REVENUE REGULATIONS NO. 4-2011

SUBJECT: **PROPER ALLOCATION OF COSTS AND EXPENSES AMONGST INCOME EARNINGS OF BANKS AND OTHER FINANCIAL INSTITUTIONS FOR INCOME TAX REPORTING PURPOSES**

TO: All Revenue Officials, Employees and Others Concerned

Section 1. Objective -

The purpose of these Revenue Regulations is to clearly set the rules on the allocation of cost and expenses between the Regular Banking Unit (RBU) or Foreign Currency Deposit Unit (FCDU) / Expanded Foreign Currency Deposit Unit (EFCDU) or Offshore Banking Unit (OBU) operations of a depository bank considering that the RBU and FCDU/EFCDU or OBU is governed by different income taxation regime in the National Internal Revenue Code (NIRC) of 1997 as amended.

These Regulations are likewise applicable to other financial institutions which are subject to or exempt from both regular income and final taxes reference to proper allocation of costs and expenses.

Section 2. General Principles -

Income earnings of banks can be derived from the operations of its RBU or from its FCDU / EFCDU or OBU.

Taxable income derived from operations of RBUs are subject to corporate income tax rate of 30% pursuant to Section 27(A) of the NIRC of 1997, as amended.

Income derived by banks from its FCDUs / EFCDUs or OBUs with respect to foreign currency transactions with non-residents, OBUs in the Philippines, and local commercial banks, including branches of foreign banks authorized to transact business with FCDUs / EFCDUs are exempt from income taxes pursuant to Section 28 of the NIRC of 1997, as amended.

Interest income derived by bank from its FCDU / EFCDU or OBU from foreign currency loans granted to residents other than OBUs and FCDUs/EFCDUs is subject to final tax rate of 10%.

Section 3. *Method of Allocation of Cost and Expenses -*

Only costs and expenses attributable to the operations of the RBU can be claimed as deduction to arrive at the taxable income of the RBU subject to regular income tax. Any cost or expense related with or incurred for the operations of FCDU/EFCDU or OBU are not allowed as deduction from the RBU's taxable income.

In computing for amount allowable as deduction from RBU operations, all costs and expenses should be allocated between the RBU and FCDU/EFCDU or OBU using the following basis:

1. By Specific Identification

Expenses which can be specifically identified to a particular unit (RBU, FCDU/EFCDU or OBU) shall be reported and declared as the cost or expenses of that unit.

2. By Allocation

Common expenses or expenses that cannot be specifically identified for a particular unit shall be allocated based on percentage share of gross income earnings of a unit to the total gross income earnings subject to regular income tax and final tax including those exempt from income tax.

This method of allocation is likewise applicable to other financial institutions with reference to allocating cost and expenses among income earnings derived from active business operation which are subject to regular income tax, passive activities which are subject to final tax and other activities producing income which are exempt from income taxes.

Section 4. *Penalty Clause -*

Any person who willfully files a declaration, return or statement containing information which are not true and correct as to every material matter shall, be subject to the penalties prescribed under pertinent law, rules and regulations.

Moreover, any and all applicable criminal offense (e.g. failure to supply correct information) under the NIRC of 1997, as amended, shall be filed against any person who is discovered to have committed any false declaration or misrepresentation.

Section 5. *Repealing Clause -*

All existing regulations and other issuances or portions thereof which are inconsistent with the provisions of these Regulations are hereby repealed, amended or modified accordingly.

Section 6. *Effectivity -*

These Revenue Regulations shall take effect immediately.

(Original Signed)
CESAR V. PURISIMA
Secretary of Finance

Recommending Approval:

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