

REPUBLIC OF THE PHILIPPINES  
DEPARTMENT OF FINANCE  
**BUREAU OF INTERNAL REVENUE**  
Quezon City

September 1, 2011

**REVENUE MEMORANDUM CIRCULAR NO. 38-2011**

**SUBJECT : Clarifications on the Application of Expanded Withholding Tax on the Payments of Philippine Health Insurance Corporation to Medical Practitioners and/or Hospitals Pertaining to PHIC Members' Benefits**

**TO : All Revenue Officers and Employees, Withholding Agents, Medical Practitioners, Hospitals/Clinics and Others Concerned.**

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Philippine Health Insurance Corporation (PHIC) is one of the Government-Owned and Controlled Corporations exempt from income tax. However, it is not exempt from its responsibilities of being a withholding agent of the Bureau of Internal Revenue (BIR). Among those responsibilities include the withholding of correct tax on its income payments, ranging from the payment of compensation to its employees to the payment of its operating expenses such as acquisition of goods and equipment, payments for services rendered to the corporation, etc.

Among the income payments being subjected to expanded withholding tax (EWT) are its payments to hospitals and medical practitioners who rendered medical services to PHIC members. Under existing issuances, PHIC's payments to medical practitioners are subjected to EWT rates of ten percent (10%) or fifteen percent (15%), whichever is appropriate, based on the medical practitioner's declared gross income in a year pursuant to Section 2.57.2 (A) of Revenue Regulations (RR) No. 2-98, as amended. On the other hand, payment to hospitals for medical services provided to PHIC members are subjected to EWT rate of two percent (2%) pursuant to Section 2.57.2 (N) of the same regulations. However, some field or regional offices of the PHIC do not withhold the prescribed tax on payments made to hospitals and medical practitioners since it is their opinion that such payments are just reimbursements of the members' benefits and not as payment for services rendered to PHIC. This issue has been the subject of debates between the BIR's examiners/auditors and the concerned PHIC regional or field offices.

In view thereof, this Circular is issued to clarify the following issues:

1. Whether or not payments of PHIC of the members' medical benefits given directly to the service provider is subject to EWT; and
2. If in the affirmative, what will be the applicable EWT rate/s assuming that PHIC shall pay the total amount, consisting of facility fees and professional fees, directly to the hospital, which in turn shall pay the professional fees of the medical practitioners.

On the first issue, Section 2.57.2 (A) of RR No. 2-98, as amended, provides that professional fees, talent fees, etc. for services rendered by professionals are subject to expanded withholding tax of either ten percent (10%), if the gross income of the professional does not exceed P720,000 in a year, or fifteen percent (15%), if the professional's gross income exceeds P720,000 in a year. Moreover, Section 2.57.3 of the same regulations provides that "all income payments which are required to be subjected to withholding tax shall be subject to the corresponding withholding tax rate to be withheld by the person having control over the payment and who, at the same time, claims the expenses". Hence, PHIC, as the person having control of the payment, is required to withhold the tax that should be withheld on income payments made to professionals which include medical practitioners.

Since the PHIC determines the members' medical benefits based on pre-approved amount on a per case basis, such that, it can determine the amount to be paid as professional fees and the amount for medical services (facility fee) which include medical procedures, room and board, and pharmacy, the applicable rates for each of the payment identified shall be used.

For issue no. 2, payments made to medical practitioner shall be covered with the expanded withholding tax (EWT) rates prescribed under Section 2.57.2(A) of RR No. 2-98, as amended, which is 10% or 15%, whichever is applicable, while for the facility fees paid to hospitals or clinic, the EWT rate shall be two percent (2%) pursuant to Section 2.57.2(N) of the same RR.

**ILLUSTRATION:** Patient A was confined in Hospital X, a PHIC- accredited hospital. Patient A, being a PHIC member, accomplished PHIC Form and submitted the same to Hospital X. Upon settlement of his hospital bills, he only paid an amount net of his PHIC benefits. Based on the hospital bills, the patient's PHIC benefits include the following:

Professional Fees	-	P 4,000
Facility Fee	-	<u>10,000</u>
Total	-	<u>P 14,000</u>

**Question 1. How much should be the tax to be withheld by PHIC?**

**Answer:**

Withholding on Professional Fees (P4,000 X 15%*)	-	P 600.00
Withholding on Facility Fees (P10,000 X 2%)	-	<u>200.00</u>
Total		<u>P 800.00</u>

\*On the assumption that the medical practitioner did not submit a sworn declaration of his gross income

The amount that PHIC must pay to Hospital X is P 13,200.00 (P14,000 – 800.00)

**Question 2. Will the total amount of P14,000 be reflected in the Official Receipt (OR) to be issued by Hospital X?**

**Answer:** No. Hospital X shall issue the Official Receipt (OR) only for the amount pertaining to the facility fee, which is P10,000.00. With respect to the professional fees of P4,000.00, the concerned medical practitioner shall issue the OR.

**Question 3. What amount should be reflected in the Certificate of Income and Tax Withheld (BIR Form 2307) that will be issued by PHIC?**

**Answer:** The amount of P 10,000 and P200 as income paid and tax withheld, respectively, shall be reflected in BIR Form 2307 that shall be issued by PHIC in the name of the hospital, while another BIR Form 2307 in the name of the medical practitioner must also be issued, with income reflected amounting to P4,000 and tax withheld of P 600.00.

All internal revenue officers and employees and others concerned are enjoined to be guided accordingly and to give this Circular as wide a publicity as possible.

(Original Signed)

**KIM S. JACINTO-HENARES**  
Commissioner of Internal Revenue