

REPUBLIC OF THE PHILIPPINES  
DEPARTMENT OF FINANCE  
BUREAU OF INTERNAL REVENUE

Quezon City

December 29, 2005

**REVENUE REGULATIONS NO. 1 - 2006**

**SUBJECT** : Amendments to Sections 2.78.1(B), Section 2.79(A) and (F), 2.83.4(C) and 2.83.5 of Revenue Regulations No. 2-98, as amended.

**TO** : All Internal Revenue Officers and Others Concerned.

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Pursuant to Section 244 in relation to Section 79(A) of the National Internal Revenue Code of 1997, as amended, these Regulations are hereby promulgated to amend Sections 2.78.1(B), Section 2.79(A) and (F), 2.83.4(C) and 2.83.5 of Revenue Regulations No. 2-98, as amended, with respect to the withholding of income tax on compensation income received by minimum wage earners.

**SECTION 1.** Section 2.78.1(B) of Revenue Regulations No. 2-98, as amended, is hereby amended to read as follows:

“SECTION 2.78.1. Withholding of Income Tax on Compensation Income. –

xxx            xxx            xxx

“(B) Exemptions from withholding tax on compensation. - The following income payments are exempted from the requirement of withholding tax on compensation:

xxx            xxx            xxx

**“(13) COMPENSATION INCOME OF INDIVIDUALS THAT DO NOT EXCEED THE STATUTORY MINIMUM WAGE OR FIVE THOUSAND PESOS (PHP5,000.00) PER MONTH (SIXTY THOUSAND PESOS [PHP60,000.00] A YEAR), WHICHEVER IS HIGHER.”**

**“(14) COMPENSATION INCOME OF EMPLOYEES OF THE GOVERNMENT OF THE PHILIPPINES, OR ANY OF ITS POLITICAL SUBDIVISIONS, AGENCIES OR INSTRUMENTALITIES, WITH SALARY GRADES 1 TO 3.”**

**SECTION 2.** Section 2.79(A) and (F) of Revenue Regulations No. 2-98, as amended, is hereby amended to read as follows:

“SECTION 2.79. Income Tax Collected at Source on Compensation Income.

“(A) Requirement of Withholding. - Every employer must withhold from compensations paid, an amount computed in accordance with these regulations. **PROVIDED, THAT COMPENSATION INCOME OF (1) INDIVIDUALS THAT DO NOT EXCEED THE STATUTORY MINIMUM WAGE OR FIVE THOUSAND PESOS (PHP5,000.00) PER MONTH (SIXTY THOUSAND PESOS [PHP60,000.00] A YEAR), WHICHEVER IS HIGHER, AND (2) EMPLOYEES OF THE GOVERNMENT OF THE PHILIPPINES, OR ANY OF ITS POLITICAL SUBDIVISIONS, AGENCIES OR INSTRUMENTALITIES, WITH SALARY GRADES 1 TO 3, SHALL NOT BE SUBJECT TO WITHHOLDING TAX.**

**“THE AFOREMENTIONED INDIVIDUALS WHOSE COMPENSATION INCOME IS NOT SUBJECT TO WITHHOLDING TAX SHALL REMAIN LIABLE FOR INCOME TAXES AND SHALL CONTINUE TO FILE THEIR ANNUAL INCOME TAX RETURNS AND PAY THE INCOME TAXES DUE THEREON, IF ANY, NOT LATER THAN APRIL 15 OF THE YEAR IMMEDIATELY FOLLOWING THE TAXABLE YEAR.**

xxx                   xxx                   xxx

“(F) Requirement for Deductibility. - The provisions of Sec. 2.58.5 of these Regulations shall apply. **PROVIDED, THAT COMPENSATION INCOME WHERE NO INCOME TAXES WERE WITHHELD PURSUANT TO SECTION 2.79(A) OF THESE REGULATIONS, SHALL BE ALLOWED AS A**

**DEDUCTION FROM AN EMPLOYER'S GROSS  
INCOME WHEN THE REQUIRED EMPLOYEES  
WITHHOLDING STATEMENT (BIR FORM NO.  
2316) HAVE BEEN ISSUED TO SUBJECT  
EMPLOYEES IN ACCORDANCE WITH SECTION  
2.83.1 OF RR 2-98. PROVIDED, FURTHER, THAT  
THE ALPHABETICAL LIST OF THE SUBJECT  
EMPLOYEES SHALL BE SUBMITTED UNDER  
SCHEDULE 7.2 OF BIR FORM NO. 1604-CF IN  
ACCORDANCE WITH SECTION 2.83.2 OF RR 2-98.”**

xxx                   xxx                   xxx”

**SECTION 3.** Section 2.83.4(C) of Revenue Regulations No. 2-98, as amended, is hereby amended to read as follows:

“SECTION 2.83.4. Substituted Filing of Income Tax Returns by Employees Receiving Purely Compensation Income. – xxx.

xxx                   xxx                   xxx

The following individuals, however, are not qualified for substituted filing and therefore, still required to file BIR Form No. 1700 in accordance with existing regulations:

xxx                   xxx                   xxx

**“(C) EMPLOYEES WHOSE GROSS  
COMPENSATION INCOME DO NOT EXCEED THE  
STATUTORY MINIMUM WAGE OR FIVE  
THOUSAND PESOS (PHP5,000.00) PER MONTH  
(SIXTY THOUSAND PESOS [PHP60,000.00] A YEAR),  
WHICHEVER IS HIGHER, INCLUDING EMPLOYEES  
OF THE GOVERNMENT OF THE PHILIPPINES, OR  
ANY OF ITS POLITICAL SUBDIVISIONS,  
AGENCIES OR INSTRUMENTALITIES, WITH  
SALARY GRADES 1 TO 3.”**

xxx                   xxx                   xxx”

**SECTION 4.** Section 2.83.5 of Revenue Regulations No. 2-98, as amended, is hereby amended to read as follows:

“SECTION 2.83.5. Registration as Withholding Agent.

- Every person who makes payment or expects to make payment of compensation in **AN AMOUNT EXCEEDING THE STATUTORY MINIMUM WAGE OR SIXTY THOUSAND PESOS (P60,000.00) A YEAR (FIVE THOUSAND PESOS [PHP5,000.00] MONTHLY), WHICHEVER IS HIGHER**, to any single employee shall register by filing in duplicate, with the Revenue District Office (RDO) of the City or Municipality where his legal residence or place of business is located, an Application for Registration as a withholding agent using the form prescribed by the Bureau not later than ten (10) days after becoming an employer.”

**SECTION 5. Effectivity.** - These Regulations shall take effect on 1 January 2006. Provisions of existing rules and regulations not otherwise inconsistent with these regulations shall continue to be in force.

(Original Signed)  
**MARGARITO B. TEVES**  
*Secretary of Finance*

Recommending Approval:

(Original Signed)  
**JOSE MARIO C. BUÑAG**  
*Commissioner of Internal Revenue*