

1:50 P.M.
JUN 26 2013

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May 26, 2013

REVENUE MEMORANDUM CIRCULAR NO. 46-2013

SUBJECT : Clarification on the Taxability of Benefits under Collective Negotiations Agreement (CNA) Granted to Government Employees' Organizations Duly Approved/Accredited by the Civil Service Commission (CSC)

TO : All Internal Revenue Officials, Employees and Others Concerned

This Circular is issued to clarify the taxability of the benefits granted to government employees' organizations duly approved/accredited by the Civil Service Commission (CSC) through CNA.

BACKGROUND

Executive Order No. 180 dated June 1, 1987 provides guidelines for the exercise of the right to organize of government employees by creating a Public Sector Labor-Management Council (PSLMC) while Executive Order No. 135 dated December 27, 2005 authorized the grant of CNA incentives to employees in Government Agencies. Such grant was affirmed by the DBM through Budget Circular No. 2006-1 dated February 1, 2006.

CLARIFICATION

The Bureau had occasion to rule in BIR Ruling No. [DA-(ECB-023) 642-09] dated November 4, 2009 that incentives arising from CNA qualify as "other benefits" under Section 32(B)(7)(e) of the Tax Code of 1997. The ruling reads in part:

" x x x A reading of the aforementioned Circular (DBM Circular No. 2006-1 dated February 1, 2006) shows that the CNA incentive qualifies as "other benefits". Thus, the value of the "other benefits" when added to the thirteenth month pay must not exceed the threshold of P30,000 in order that it may be exempt from income tax and consequently from the withholding tax. If the value exceeds the P30,000 ceiling, then the excess of the "other benefits" and the thirteenth month pay is considered as part of compensation subject to income tax and consequently to the withholding tax"

Based on the foregoing, the CNA incentive is included in the "other benefits" under Section 32(B)(7)(e) of the Tax Code of 1997. It is exempt from income tax and withholding tax provided that, the CNA benefits, when added to the 13th month pay and other benefits, shall not exceed the threshold of P30,000 [CNA + (13th month pay + other benefits) ≤ P30,000.00]. Any excess in the threshold shall be taxable to the employee, whether rank and file or supervisory.

All concerned revenue officials and employees are hereby enjoined to give this Circular as wide a publicity as possible.


KIM S. JACINTO-HENARES
Commissioner of Internal Revenue

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