

REPUBLIC OF THE PHILIPPINES
DEPARTMENT OF FINANCE
BUREAU OF INTERNAL REVENUE

September 9, 2002

REVENUE REGULATIONS NO. 14-2002

SUBJECT : Amending Further Pertinent Provisions of Revenue Regulations No. 2-98, as amended.

TO : All Internal Revenue Officers, Employees, Withholding Agents and Others Concerned.

SECTION 1. Scope. – Pursuant to the provisions of Section 244, in relation to Sections 57(B), 58, 114, 116 and other pertinent Sections, all of the National Internal Revenue Code of 1997 (Tax Code), in relation to P.D. 1354 and R.A. 9010, these Regulations are hereby promulgated to further amend portions of Revenue Regulations No. 2-98, as last amended by Revenue Regulations No 12-2001, providing for additional income payments to be subjected to withholding tax and clarifying pertinent provisions in relation thereto.

SECTION. 2. Income payments subject to creditable withholding tax and rates prescribed thereon. Section 2.57.2 of Revenue Regulations No. 2-98, as amended, is hereby further amended to read as follows:

“**Sec. 2.57.2.**— Except as herein otherwise provided, there shall be withheld a creditable income tax at the rates herein specified for each class of payee from the following items of income payments to persons residing in the Philippines:

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(C) Rentals

(1) Real properties. – On gross rental for the continued use or possession of real property used in business which the payor or obligor has not taken or is not taking title, or in which he has no equity – Five percent (5%);

(2) Personal properties. – On gross rental or lease in excess of Ten Thousand Pesos (P10,000.00) per payment for the continued use or possession of personal property used in business which the payor or obligor has not taken or is not taking title, or in which he has no equity which include, but not limited to the following: land transport equipment, water transport equipment, air transport equipment, industrial equipment, commercial equipment, scientific equipment, agricultural machinery and equipment, construction/civil engineering machinery and equipment, telecommunication equipment, office furniture/machines/equipment, main frame computer and all

other computer machines/equipment, materials handling equipment and auxiliary equipment – Five percent (5%);

However, the Ten Thousand Pesos (P10,000.00) threshold shall not apply when the accumulated gross rental or lease paid by the lessee to the same lessor exceeds or is reasonably expected to exceed P10,000.00 within the year. In which case, the lessee shall withhold the five percent (5%) withholding tax on the entire amount.

(3) Poles, satellites and transmission facilities. - On gross rentals or lease for the use of poles, satellites and/or transponder and transmission facilities which include but not limited to the following: switchboards, land lines/aerial cables, underground cables and submarine cables - Five percent (5%);

(4) Billboards. - On gross rentals or lease of spaces used in posting advertisements in the form of billboards and/or structures similar thereto, posted in public places such as, but not limited to, buildings, vehicles, amusement places, malls, street posts, etc. - Five percent (5%)

(D) xxx xxx xxx

(E) Income payments to certain contractors. - On gross payments to the following contractors, whether individual or corporate- Two percent (2%)

xxx xxx xxx

(4) Other contractors -

xxx xxx xxx

(m) Persons engaged in the sale of computer services, computer programmers, software/program developer/designer, internet service providers, web page designing, computer data processing, conversion or base services and other computer related activities;

xxx xxx xxx

(F) xxx xxx xxx

(G) Income payments to certain brokers and agents. – On gross commissions of customs, insurance, stock, real estate, immigration and commercial brokers, and fees of agents of professional entertainers.- Ten percent (10%)

(H) xxx xxx xxx

(I) Professional fees paid to medical practitioners. – Any amount collected for and paid to medical practitioners (includes doctors of medicine, doctors of veterinary science and dentists) by hospitals and clinics or paid directly to the medical practitioners by patients who were ‘admitted and confined’ to such Hospitals or Clinics. – Ten percent (10%)

a) It shall be the duty and responsibility of the Hospital or Clinic to remit taxes withheld from the following:

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b) Exception - The withholding tax herein prescribed shall not apply whenever there is proof that no professional fee has in fact been charged by the medical practitioner and paid by his patient. Provided, however, that this fact is shown in a sworn declaration jointly executed by the medical practitioner, and the patient or his duly authorized representative, in case the patient is a minor or otherwise incapacitated. This sworn declaration, to be executed in the form presented in Annex "A" of these Regulations, shall form part of the records of the hospital or clinic and shall constitute as part of its records and shall be made readily available to any duly authorized Revenue Officer for tax audit purpose. Provided, further, that the said administrator of the hospital or clinic shall inform the Revenue District Office having jurisdiction over such hospital or clinic about any medical practitioner who fails or refuses to execute the sworn statement herein prescribed, within ten (10) days from the occurrence of such event.

c) Hospitals and Clinics shall submit the names and addresses of medical practitioners in the following classifications, every 15th day after the end of each calendar quarter, to the Collection Division of the Revenue Region for non-large taxpayers and at the Large Taxpayers Document Processing and Quality Assurance Division (LTDP&QAD) in the National Office or Large Taxpayers District Office (LTDO) in the Region for large taxpayers, where such hospital or clinic is registered, using the prescribed format.

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d) For this purpose, the term 'medical practitioners' includes, medical technologists, allied health workers (e.g., occupational therapists, physical therapists, speech therapists, nurses etc.) and other medical practitioners who are not under an employer-employee relationship with the hospital or clinic.

e) Hospitals and clinics shall be responsible for the accurate computation of professional fees paid directly to hospitals and clinics and timely remittance of 10% expanded withholding tax. The list of all income recipients-payees in this Subsection shall be included in the Alphalist of Payees Subject to Expanded Withholding Tax attached to BIR Form No. 1604-E (Annual Information Return of Creditable Income Taxes Withheld (Expanded)/Income Payments Exempt from Withholding Tax).

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(N) Income payments by government. – Income payments, except any casual or single purchase of P10,000.00 and below, which are made by a government office, national or local including barangays, or their attached agencies or bodies, and government-owned or controlled corporations, on their purchases of goods from local suppliers – Two percent (2%);

A government-owned or controlled corporation shall withhold the tax in its capacity as a government-owned or controlled corporation rather than as a corporation stated in Subsection (M) hereof.

(O) Commissions of independent and exclusive distributors, medical/ technical and sales representatives, and marketing agents of multi-level marketing companies. – On gross commissions paid by multi-level marketing companies to independent and exclusive distributors,

medical/technical and sales representatives, and marketing agents and sub-agents on their sale of goods or services by way of direct selling or similar arrangements. – Ten percent (10%);

‘Multi-level marketing’ is a system of direct selling in which consumer products are sold by individuals where consumer products and services are supplied by an established multi-level marketing company who encourages the distributor to build and manage his own sales force by recruiting, motivating, and training others to sell the product or service. A percentage on the sales of the distributor’s sales force would be his compensation in addition to his personal sales.

‘Multi-level marketing companies’ means any entity that is engaged in the sale of its products or services through individual that directly sell such products or services to the consumers.

(P) Tolling fees paid to refineries. - On the gross processing/tolling fees paid to refineries for the conversion of molasses to its by-products and raw sugar to refined sugar - Five percent (5%)

(Q) Payments made by pre-need companies to funeral parlors. - On gross payments made by pre-need companies to funeral parlors for funeral services rendered.- One percent (1%)

(R) Payments made to embalmers. - On gross payments made to embalmers for embalming services rendered to funeral companies.- One percent (1%)

For purposes of these regulations, all income payments paid to sub-agents or their equivalent, whether paid directly or indirectly by the agent or the owner of the goods, shall be subject to withholding tax in the same manner as that of the agent.”

SECTION 3. Persons required to deduct and withhold. - Section 2.57.3 of Revenue Regulations No. 2-98 is hereby amended to read as follows:

“Sec. 2.57.3. Persons required to deduct and withhold. – The following persons are hereby constituted as withholding agents for purposes of the creditable tax required to be withheld on income payments enumerated in Section 2.57.2:

(A) In general, any juridical person, whether or not engaged in trade or business;

(B) An individual, with respect to payments made in connection with his trade or business. However, insofar as taxable sale, exchange or transfer of real property is concerned, individual buyers who are not engaged in trade or business are also constituted as withholding agents;

(C) All government offices including government-owned or controlled corporations, as well as provincial, city and municipal governments and barangays.”

SECTION 4. Exemption from Withholding. – Section 2.57.5 of Revenue Regulations No. 2-98 is hereby amended to read as follows:

“Sec. 2.57.5. Exemption from Withholding – The withholding of creditable withholding tax prescribed in these Regulations shall not apply to income payments made to the following:

(A) National government agencies and its instrumentalities including provincial, city, municipal governments and barangays except government-owned and controlled corporations.

(B) Persons enjoying exemption from payment of income taxes pursuant to the provisions of any law, general or special, such as but not limited to the following:

(1) xxx xxx xxx

(2) Corporations duly registered with the Board of Investments, Philippine Export Processing Zones and Subic Bay Metropolitan Authority enjoying exemption from income tax pursuant to E.O. 226, as amended, R.A. 7916, the Omnibus Investment Code of 1997 and R.A. 7227, as amended, respectively;

(3) xxx xxx xxx

(4) General professional partnerships

(5) Joint ventures or consortium formed for the purpose of undertaking construction projects or engaging in petroleum, coal, geothermal & other energy operations pursuant to an operating or consortium agreement under a service contract with the government.

SECTION 5. Registration. – Sec. 2.58.2 of Revenue Regulations No. 2-98 is hereby amended to read as follows:

“Sec. 2.58.2. Registration

Registration with the Register of Deeds. - xxx xxx

The Register of Deeds shall annotate on the Original Certificate of Title, Transfer Certificate of Title or Condominium Certificate of Title of the said property such information required under Section 58(E) of the Tax Code. In case of any violation of the said requirement, he shall be liable to the penalties provided under Section 269 of the said Tax Code.”

SECTION 6. Requirements for Deductibility of Certain Expenses. – Section 2.58.5 of Revenue Regulations No. 2-98 is hereby amended to read as follows:

“Sec. 2.58.5. Requirements for Deductibility – Any income payment which is otherwise deductible under the Code shall be allowed as a deduction from the payor’s gross income only if it is shown that the income tax required to

be withheld has been paid to the Bureau in accordance with Secs. 57 and 58 of the Code.

A deduction will also be allowed in the following cases where no withholding of tax was made:

(A) The payee reported the income and pays the tax due thereon and the withholding agent pays the tax including the interest incident to the failure to withhold the tax, and surcharges, if applicable, at the time of the audit investigation or reinvestigation/reconsideration.

(B) The recipient/payee failed to report the income on the due date thereof, but the withholding agent/taxpayer pays the tax, including the interest incident to the failure to withhold the tax, and surcharges, if applicable, at the time of the audit/investigation or reinvestigation/reconsideration.

(C) The withholding agent erroneously underwithheld the tax but pays the difference between the correct amount and the amount of tax withheld, including the interest, incident to such error, and surcharges, if applicable, at the time of the audit/investigation or reinvestigation/reconsideration. “

SECTION 7. Withholding of Value Added Tax. – Section 4.114 of Revenue Regulations No. 2-98 is hereby amended to read as follows:

“ Sec. 4.114. WITHHOLDING OF VALUE ADDED TAX

In general, value-added tax due on the sale of goods and services are not subject to withholding since the tax is not determinable at the time of sale. However, gross payments to non-residents by both government and private entities for services rendered in the Philippines shall be subject to final withholding tax at the rate of 10% to be filed and paid using BIR Form No. 1600 – Monthly Remittance Return of Value-Added Tax and Other Percentage Taxes Withheld.

Moreover, sale of goods and services subject to VAT to the government shall be subject to withholding pursuant to Sec. 114(C) of the National Internal Revenue Code of 1997.

(A) **Rates and basis of value-added tax to be withheld.** – The gross payments made by the government to sellers of goods and services shall be subject to withholding tax at the rates herein prescribed.

(1) In general, payments by the government or any of its political subdivisions, instrumentalities or agencies including government-owned or controlled corporations (GOCCs) on account of its purchase of goods from sellers and services rendered by contractors/ service providers who are subject to the value-added tax –

On <u>gross selling price</u> for the purchase of goods <u>(creditable)</u>	3%
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On gross payment for services rendered <u>(creditable)</u>	6%
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(2) Payments made to government public works contractors <u>(creditable)</u>	8.5%
(3) <u>Payments for services rendered in the Phils.</u>	
by <u>non-residents</u> –	
For lease or use of property or property rights owned by non-residents in the Phils. <u>(final)</u>	
	10%
<u>Services rendered to local insurance companies, with respect to reinsurance premiums payable to non-resident insurance or reinsurance companies (final)</u>	
	10%
<u>Other services rendered in the Phil. by non-residents (final)</u>	
	10%

(B) Persons required to deduct and withhold. – All local government units, represented by the Provincial Treasurer in the provinces, the City Treasurer in the cities, the Municipal Treasurer in the municipalities, and Barangay Treasurer in the barangays, Treasurers of GOCCs and the Chief Accountants or any person holding similar position and performing similar function in government offices and GOCCs, as withholding agents, shall deduct and withhold the value-added tax before making any payment to the seller of goods and services.

Where the government as herein defined has regional offices, branches or units, the withholding and remittance of the VAT withheld may be done on a decentralized basis. As such the treasurer or the chief accountant or any person holding similar function in said regional office, branch or unit shall deduct and withhold the VAT before making any payment to the seller of goods and services. Decentralized remittance, however, is not applicable if the taxpayer-withholding agent is classified as large taxpayer by the Commissioner of Internal Revenue.

Private entities are likewise considered as withholding agents on gross payments made to non-residents, applying the final withholding tax rate of ten (10%) percent.

(C) Returns and payment of taxes withheld. - The withholding agents shall accomplish the Monthly Remittance Returns of Value-Added Tax and Other Percentage Taxes Withheld (BIR Form No. 1600) in triplicate and the amount withheld paid upon filing the return with the authorized agent banks under the jurisdiction of the Revenue District Office (RDO)/ Large Taxpayers District Office (LTDO) where the withholding agent is required to register and file the return. In places where there is no authorized agent bank, the return shall be filed directly with the Revenue Collection Officer or the duly authorized Municipal/City Treasurer of the Revenue District Office where the withholding agent is required to register or file the return, except in cases where the Commissioner otherwise permits.

SECTION 8. Withholding of Percentage Tax. – Section 5.116 of Revenue Regulations No. 2-98 is hereby amended to read as follows:

“Sec. 5.116. WITHHOLDING OF PERCENTAGE TAX –

Bureaus, offices and instrumentalities of the government, including government-owned or controlled corporations as well as their subsidiaries, provinces, cities and municipalities making any money payment to private individuals, corporations, partnerships and/or associations are required to deduct and withhold the percentage taxes due from the payees on account of such money payments.

(A) Internal revenue taxes required to be withheld. - Percentage taxes on gross money payments to the following shall be subjected to withholding at the rates herein prescribed:

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(12) On gross payments to stock, real estate, commercial, customs, insurance and immigration brokers based on gross receipts for services rendered pursuant to R.A. 9010. - Seven percent (7%).

(B) Returns and payments of taxes withheld. - No money payments shall be made by any government office or agency, unless the taxes due thereon shall have been deducted and withheld.

Taxes deducted and withheld shall be covered by the Monthly Remittance Return of VAT and Other Percentage Taxes Withheld (BIR Form No. 1600) in triplicate to be filed and the tax to be paid to the Authorized Agent Bank under the jurisdiction of the Large Taxpayers Service including the Large Taxpayer's District Office, in case of large taxpayer, or the Authorized Agent Bank under the jurisdiction of the Revenue District Office where the withholding agent is located, for non-large taxpayer. In places where there are no authorized agent bank, the return shall be filed directly with the Revenue Collection Officer or the duly authorized Treasurer of the City or Municipality where the withholding agent is required to register except in cases where the Commissioner otherwise permits. The required return shall be filed and payments made within ten (10) days following the end of the month the withholding was made or the withholding tax has accrued.

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SECTION 9. Repealing Clause. – All existing rules and regulations or any revenue issuances or parts thereof which are inconsistent with the provisions of these regulations are hereby revoked or amended accordingly.

SECTION 10. Effectivity. – These Regulations shall take effect on October 1, 2002 and shall cover income payments to be paid or payable starting October 2002, which are required to be remitted to the Bureau of Internal Revenue within the month of November.

(Original Signed)
JOSE ISIDRO N. CAMACHO
Secretary of Finance

Recommending Approval:

(Original Signed)
GUILLERMO L. PARAYNO, JR.
Commissioner of Internal Revenue

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ANNEX "A"

**AFFIDAVIT-DECLARATION THAT NO PROFESSIONAL FEE
HAS BEEN CHARGED BY MEDICAL PRACTITIONER**

Republic of the Philippines)
Province of _____) SS
City/Municipality of _____)

WE,
_____, (Patient/ Authorized Representative) of legal age, single/married and
residing at _____,
_____, (Medical Practitioner) of legal age, single/married residing at
_____ ,

after having been duly sworn to in accordance with law, hereby depose & state:

- 1) That, _____ is a patient in the name of the hospital, having been confined from _____ to _____ due to _____;
- 2) That, _____ is the authorized representative/guardian of the herein-mentioned patient;
- 3) That, _____ is the attending physician of the herein-mentioned patient for the duration of his stay in the herein-mentioned hospital;
- 4) That, no professional fee was charged by the aforesaid physician, the patient being his/her _____.
- 5) That, this affidavit has been executed as a requirement of Revenue Regulations _____.

IN WITNESS WHEREOF, we have hereunto set our hands this _____ day of
_____, 20_____, at _____.

Affiant-Declarant

Patient/Guardian
CTC No. _____
Issued at _____
Issued on _____

Medical Practitioner
License No. _____
CTC No. _____
Issued at _____
Issued on _____

SUBSCRIBED and sworn to before me, in the City/Municipality of _____
this _____ day of _____, 20_____.

Doc. No. ____;
Page No. ____;
Book No. ____;
Series of ____.

Notary Public
Until _____
PTR No. _____