



Philippines
Tax Guide
2013

FOREWORD

A country's tax regime is always a key factor for any business considering moving into new markets. What is the corporate tax rate? Are there any incentives for overseas businesses? Are there double tax treaties in place? How will foreign source income be taxed?

Since 1994, the PKF network of independent member firms, administered by PKF International Limited, has produced the PKF Worldwide Tax Guide (WWTG) to provide international businesses with the answers to these key tax questions. This handy reference guide provides clients and professional practitioners with comprehensive tax and business information for over 90 countries throughout the world.

As you will appreciate, the production of the WWTG is a huge team effort and I would like to thank all tax experts within PKF member firms who gave up their time to contribute the vital information on their country's taxes that forms the heart of this publication.

I hope that the combination of the WWTG and assistance from your local PKF member firm will provide you with the advice you need to make the right decisions for your international business.

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PREFACE

The PKF Worldwide Tax Guide 2013 (WWTG) is an annual publication that provides an overview of the taxation and business regulation regimes of the world's most significant trading countries. In compiling this publication, member firms of the PKF network have based their summaries on information current on 1 January 2013, while also noting imminent changes where necessary.

On a country-by-country basis, each summary addresses the major taxes applicable to business; how taxable income is determined; sundry other related taxation and business issues; and the country's personal tax regime. The final section of each country summary sets out the Double Tax Treaty and Non-Treaty rates of tax withholding relating to the payment of dividends, interest, royalties and other related payments.

While the WWTG should not be regarded as offering a complete explanation of the taxation issues in each country, we hope readers will use the publication as their first point of reference and then use the services of their local PKF member firm to provide specific information and advice.

In addition to the printed version of the WWTG, individual country taxation guides are available in PDF format which can be downloaded from the PKF website at www.pkf.com

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PKF International Limited (PKFI) administers the PKF network of legally independent member firms. There are around 300 member firms and correspondents in 440 locations in around 125 countries providing accounting and business advisory services. PKFI member firms employ around 2,270 partners and more than 22,000 staff. PKFI is the 11th largest global accountancy network and its member firms have \$2.68 billion aggregate fee income (year end June 2012). The network is a member of the Forum of Firms, an organisation dedicated to consistent and high quality standards of financial reporting and auditing practices worldwide.

Services provided by member firms include:

- Assurance & Advisory
- Insolvency – Corporate & Personal
- Financial Planning/Wealth management
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- Corporate Finance
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PKF member firms are organised into five geographical regions covering Africa; Latin America; Asia Pacific; Europe, the Middle East & India (EMEI); and North America & the Caribbean. Each region elects representatives to the board of PKF International Limited which administers the network. While the member firms remain separate and independent, international tax, corporate finance, professional standards, audit, hotel consultancy and business development committees work together to improve quality standards, develop initiatives and share knowledge and best practice cross the network.

Please visit www.pkf.com for more information.

STRUCTURE OF COUNTRY DESCRIPTIONS

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INTERNATIONAL TIME ZONES

AT 12 NOON, GREENWICH MEAN TIME, THE STANDARD TIME ELSEWHERE IS:

A

Algeria	1 pm
Angola	1 pm
Argentina	9 am
Australia -	
Melbourne	10 pm
Sydney	10 pm
Adelaide	9.30 pm
Perth	8 pm
Austria	1 pm

B

Bahamas	7 am
Bahrain	3 pm
Belgium	1 pm
Belize	6 am
Bermuda	8 am
Brazil	7 am
British Virgin Islands	8 am

C

Canada -	
Toronto	7 am
Winnipeg	6 am
Calgary	5 am
Vancouver	4 am
Cayman Islands	7 am
Chile	8 am
China - Beijing	10 pm
Colombia	7 am
Cyprus	2 pm
Czech Republic	1 pm

D

Denmark	1 pm
Dominican Republic	7 am

E

Ecuador	7 am
Egypt	2 pm
El Salvador	6 am
Estonia	2 pm

F

Fiji	12 midnight
Finland	2 pm
France	1 pm

G

Gambia (The)	12 noon
Germany	1 pm
Ghana	12 noon
Greece	2 pm
Grenada	8 am
Guatemala	6 am

VI

Guernsey	12 noon
Guyana	7 am

H

Hong Kong	8 pm
Hungary	1 pm

I

India	5.30 pm
Indonesia	7 pm
Ireland	12 noon
Isle of Man	12 noon
Israel	2 pm
Italy	1 pm

J

Jamaica	7 am
Japan	9 pm
Jordan	2 pm

K

Kenya	3 pm
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L

Latvia	2 pm
Lebanon	2 pm
Luxembourg	1 pm

M

Malaysia	8 pm
Malta	1 pm
Mexico	6 am
Morocco	12 noon

N

Namibia	2 pm
Netherlands (The)	1 pm
New Zealand	12 midnight
Nigeria	1 pm
Norway	1 pm

O

Oman	4 pm
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P

Panama	7 am
Papua New Guinea	10 pm
Peru	7 am
Philippines	8 pm
Poland	1 pm
Portugal	1 pm

Q

Qatar	8 am
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R

Romania	2 pm
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Russia -	
Moscow	3 pm
St Petersburg	3 pm

S

Singapore	7 pm
Slovak Republic	1 pm
Slovenia	1 pm
South Africa	2 pm
Spain	1 pm
Sweden	1 pm
Switzerland	1 pm

T

Taiwan	8 pm
Thailand	8 pm
Tunisia	12 noon
Turkey	2 pm
Turks and Caicos Islands	7 am

U

Uganda	3 pm
Ukraine	2 pm
United Arab Emirates	4 pm
United Kingdom	(GMT) 12 noon
United States of America -	
New York City	7 am
Washington, D.C.	7 am
Chicago	6 am
Houston	6 am
Denver	5 am
Los Angeles	4 am
San Francisco	4 am
Uruguay	9 am

V

Venezuela	8 am
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Z

Zimbabwe	2 pm
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PHILIPPINES

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A. TAXES PAYABLE

FEDERAL TAXES AND LEVIES

COMPANY TAX

Company tax is payable by domestic companies on all income derived from sources within and without the Philippines. Foreign corporations, whether resident or non-resident, are taxable only on income derived from sources within the Philippines. However, non-resident foreign corporations are, in certain circumstances, subject to a final withholding tax on passive (investment) incomes at rates generally higher than the applicable tax rates applying to domestic and resident foreign corporations.

Resident companies are those that are created or organised under the laws of the Philippines or foreign companies duly licensed to engage in trade or business in the Philippines.

The corporate income tax rate both for domestic and resident foreign corporations is 30% based on net taxable income. Excluded from the income tax are dividends received from domestic corporations; interest on Philippine currency bank deposit and yield or any other monetary benefit from deposit substitutes and from trust funds and similar arrangements; and other passive income previously subject to final taxes.

Interest income derived from the expanded foreign currency deposit is subject to a final tax of 7.5%. All other interest earned by domestic and resident foreign corporations is subject to a 20% final withholding tax except for long-term time deposits of five years or more that is exempt from final withholding tax rates. Those with a term of three and four years are taxed at 5% and those between four and five years are subject to 12% tax.

Regional operating headquarters are taxed at 10% on taxable income.

Special economic zone enterprises duly registered with the Philippines Economic Zone Authority (PEZA) are taxed at the rate of 5% on gross income in lieu of national and local taxes, except real property tax. The term 'gross income' refers to gross sales or gross revenue derived from the business activity within the Ecozone, net of sales discount, sales returns and allowances, less the cost of sales or direct costs but before deduction is made for administrative expenses and incidental losses during the taxable period. Likewise, Tourism Infrastructure and Enterprise Zone Authority (TIEZA) registered entities enjoy a special income tax rate of 5%.

The tax year runs for the calendar year although approval of the Commissioner of Internal Revenue can be obtained for the adoption of a fiscal year. Tax is payable in four quarterly instalments with every corporation filing quarterly income tax returns for the first three quarters and tax being payable 60 days following the end of each quarter. A final return covering the full year is required to be lodged 105 days after year end at which time the balance of tax, after deducting the prior three instalments and creditable withholding tax and other tax credits, is payable. Any excess is refundable or can be claimed as tax credit against future tax payments.

MINIMUM CORPORATE INCOME TAX

A minimum corporate income tax of 2% based on the gross income is imposed from the beginning of the fourth taxable year immediately following the commencement of the business operation of the corporation. Any excess of the minimum corporate income tax over the normal income tax may be carried forward and credited against the normal income tax for the three taxable years immediately succeeding. The computation and the payment of MCIT shall likewise apply at the time of filing of the quarterly corporate income tax.

The term 'gross income' for the purpose of applying the minimum corporate income tax shall mean the gross sales less sales returns, discounts and allowances and cost of goods sold.

The Secretary of Finance, however, may suspend the imposition of the minimum corporate income tax on any corporation which suffers losses on account of a prolonged labour dispute, force majeure or legitimate business reverses.

CAPITAL GAINS TAX ON SHARES OF STOCK

The net capital gains from the sale of shares of stock of a domestic corporation not listed and traded through the Philippine Stock Exchange are taxed on a per transaction basis at the rate of 5% on the first PhP 100,000 and 10% in excess of said amount. On the other hand, the sale of shares of stock of a domestic corporation through the Philippine Stock Exchange or through the initial public offering is subject to a percentage tax on the transaction at the rate of 1/2 of 1% of the selling price. Any gain or loss from said transaction is not considered for income tax purposes.

CAPITAL GAINS TAX ON SALE OF REAL PROPERTY

The sale of land, building and other real properties classified as capital asset is subject to 6% final capital gains tax based on the gross selling price, current fair market value or zonal value at the time of sale, whichever is higher.

IMPROPERLY ACCUMULATED EARNINGS TAX

In addition to other taxes, an Improperly Accumulated Earnings Tax (IAET) equal to 10% is imposed for each taxable year on the Improperly Accumulated Taxable Income (IATI) of corporations. It shall apply to every corporation formed or availed for the purpose of avoiding the income tax by permitting earnings and profits to accumulate instead of being divided or distributed.

The amount that may be retained, taking into consideration the accumulated earnings within the "reasonable needs of the business", shall be 100% of the paid-up capital or the amount contributed to the corporation representing the par value of the shares of stock, hence, any excess capital over and above the par shall be excluded.

IATI is computed as taxable income of the current year plus income exempt from tax, income excluded from gross income, income subject to final tax, and the amount of net operating loss carry-over deducted. It is reduced by income tax paid for the current year, dividends actually or constructively paid, and amount reserved for the reasonable needs of the business. The resulting IATI is thereby multiplied by 10% to arrive at IAET.

The IAET does not apply to the following corporations:

- (a) Banks and other non-bank financial intermediaries
- (b) Insurance companies
- (c) Publicly-held corporations
- (d) Taxable partnerships
- (e) General professional partnerships
- (f) Non-taxable joint ventures
- (g) Duly registered enterprises located within the special economic zones declared by law which enjoy payment of special tax rate on their registered operations or activities in lieu of other taxes, national or local.

BRANCH PROFITS TAX

A branch is classified as a resident foreign corporation. As such, it is subject to income tax at the rate of 30% on its net income derived within the Philippines. Any branch profit to be remitted to the Head Office is additionally taxed at the rate of 15%. For purposes of branch profit remittance, income items which are not effectively connected with the conduct of its trade or business in the Philippines are not considered branch profits. Such income items include interests, dividends, rents, royalties, including remuneration for technical services, salaries, wages, premiums, annuities, emoluments or other fixed or determinable annual, periodic or casual gains, profits, income and capital gains received during each taxable year from all sources within the Philippines.

To be 'effectively connected', it is not necessary that the income be derived from the actual operation of the branch's trade or business. It is sufficient that the income arises from the business activity in which the branch is engaged.

However, the 15% branch profit tax does not apply to profits remitted by a branch coming from those activities duly registered with the Philippine Economic Zone Authority (PEZA).

SALES TAXES/VALUE ADDED TAX (VAT)

A 12% value added tax (VAT) of the gross selling price or gross value in money of the goods is imposed to all importation, sale, barter, exchange or lease of goods or properties and sale of services.

'Gross selling price' means the total amount of money or its equivalent that the purchaser pays or is obligated to pay to the seller in consideration of the sale, barter or exchange of the goods or properties, excluding the value added tax. The excise tax, if any, on such goods or properties shall form part of the gross selling price.

FRINGE BENEFITS TAX

Fringe benefits furnished or granted in cash or in kind by an employer to an individual employee (except rank and file employees) are taxed at the rate of 32% based on the grossed-up monetary value of the fringe benefits.

LOCAL TAXES

There are no local taxes other than local authority rates and local (business) taxes and permit fees which vary depending on the local government unit.

OTHER TAXES

Other taxes include the following.

PERCENTAGE TAXES

Percentage taxes are imposed on carriers (domestic or international), franchises, banks, financial intermediaries, finance companies, life insurance companies, agents of foreign insurance companies, overseas communications, amusement, winnings and stock transactions.

INITIAL PUBLIC OFFERING (IPO) TAX

Sale, barter, exchange or other disposition through initial public offering of shares of stock in closely held corporations is taxed at the rates provided below based on the gross selling price or gross value in money of the shares of stock sold, bartered, exchanged or otherwise disposed of in accordance to the total outstanding shares of stock after the listing in local stock exchange:

Up to 25%	4%
Over 25% but not over 33.33%	2%
Over 33.33%	1%

EXCISE TAXES

Excise taxes are imposed on alcohol and tobacco products, petroleum and mineral products, automobiles and certain non-essential goods.

DOCUMENTARY STAMP TAX

Documentary stamp tax is imposed on certain documents including shares certificates, bank cheques, bonds, sales documents of real properties and mortgages.

REAL PROPERTY TAX

Real property tax is imposed on owners of real property and is calculated on the assessed value of the property.

B. DETERMINATION OF TAXABLE INCOME

A company's taxable profit is calculated by deducting ordinary and necessary expenses paid or incurred during the tax year in carrying on business. Typical expenses include salaries, travelling expenses and rentals, all of which need to be substantiated to be deductible. Additionally, taxes that relate to the business other than income, estate, gift and energy taxes and taxes charged to local benefits of a kind likely to increase the value of property are deductible. In calculating taxable income, special rules and exemptions apply in the circumstances outlined below.

INVESTMENT INCENTIVES

Tax incentives available to enterprises registered with the Board of Investments (BOI) or the Philippine Economic Zone Authority (PEZA) include six years' income tax holidays for pioneer firms and four years for non-pioneer firms with expanding firms granted three years. For PEZA registered enterprises, a 5% tax on the modified gross income is imposed after the end of the income tax holiday. Likewise, Tourism Infrastructure and Enterprise Zone Authority (TIEZA) registered entities enjoy a special income tax rate of 5%.

The tax holiday may be extended for an additional year in specified circumstances but in no case may the aggregate period of the tax holiday exceed eight years.

For the first five years, an enterprise registered with the BOI or PEZA is, in specified circumstances, allowed an additional deduction from the taxable income of 50% of the wage expense corresponding to the increment in the number of direct labour for skilled and unskilled workers.

Enterprises located in less developed areas are, in specified circumstances, allowed a 100% deduction of said wages and a 100% deduction for construction costs. Enterprises located in export processing zones and special economic zones are likewise

entitled to income tax holidays and tax and duty-free importation of raw materials and equipment.

'Gross income earned' shall refer to gross sales or revenues derived from business activity within the respective zones, net of sales discounts, sales returns and allowances and minus cost of sales or direct costs but before any deduction is made for administrative, marketing, selling and/or operating expenses or incidental losses during a given taxable period.

DEPRECIATION

Any recognised depreciation method may be used if it is 'reasonable'. The annual depreciation allowance is determined on the basis of depreciable property, estimated useful life and salvage value. In order for the deduction for depreciation may be allowed, the asset must be in direct connection to the conduct of the business of the taxpayer.

For extraction industries, a distinction is made between petroleum and other mining activities. Distinctions are also made for different categories of expense (e.g. tangible or intangible, exploration or drilling etc), and different methods apply (e.g. expenditure, cost depletion etc).

STOCK/INVENTORY

For taxpayers engaged in a trade or business, the valuation of inventories must meet the following conditions:

- it must conform as nearly as possible to the best accounting practice in the trade or business; and
- it must clearly reflect the income.

As such, although it cannot be uniform for all taxpayers, the system used must come within the scope of the best accounting practice in the particular trade or business. In order to clearly reflect income, the inventory practice of a taxpayer should be consistent from year to year as greater weight is given to consistency than to any particular method or basis of valuation. As long as the method is substantially in accord with these regulations, it is likely to be accepted.

The basis of valuation which is most commonly used by business concerns and which meets the requirements of the tax laws is the cost price or the lower of cost or market price.

Regardless of the basis of valuation, inventories are subject to investigation by the Commissioner of Internal Revenue and the taxpayer must satisfy the Commissioner of the correctness of the price adopted.

CAPITAL GAINS AND LOSSES

See discussions above. Ordinary assets include:

- (a) Stock in trade of the taxpayers, or other property of a kind which would properly be included in the inventory of the taxpayer if on hand at the end of the taxable year
- (b) Property held by the taxpayer primarily for sale to customers in the ordinary course of trade or business
- (c) Property used in trade or business of a character which is subject to allowance for depreciation
- (d) Real property used in trade or business.

All properties held by the taxpayer, whether or not connected with trade or business, not included in the enumeration of ordinary assets are capital assets. Capital gains arise from the disposal of 'capital assets'.

DIVIDENDS

Dividends received by a Philippine corporation or by a resident foreign corporation from a Philippine corporation are not subject to income tax. However, resident individuals receiving dividends are subject to 10% final income tax.

No credit is granted for underlying corporate profits out of which the dividends are declared. However, a domestic corporation that owns a majority of the voting stock of a foreign corporation from which it receives dividends is deemed to have paid the underlying foreign taxes.

INTEREST DEDUCTIONS

Interest is deductible on a cash or accrual basis depending upon the taxpayer's method of accounting but shall be reduced by 33% to the extent that a portion of interest income has been subjected to final tax. Where interest is paid to a foreign

lender, it will remain deductible provided it is incurred in connection with the trade or business of the taxpayer.

LOSSES

Losses may be offset against all income and capital gains in the same tax year.

Losses must be sustained by the taxpayer during the taxable year and must be incurred in relation to the trade and business and evidenced by a completed transaction.

Operating loss for any taxable year immediately preceding the current taxable year which had not been previously offset as deduction from gross income may be carried over as a deduction from gross income for the next three consecutive years immediately following the year of such loss. This is known as the Net Operating Loss Carryover or the excess of allowable deduction over gross income in a taxable year. However, there are certain limitations to be followed:

- (a) any net loss incurred in a taxable year during which the taxpayer is exempt from income tax shall not be allowed as deduction
- (b) allowed only if no substantial change in the ownership in that:
 - not less than 75% in nominal value of the outstanding issued shares, if the business is in the name of the corporation, is held by or on behalf of the same persons; or
 - not less than 75% of the paid in capital of the corporation, if the business is in the name of the corporation, is held by or on behalf of the same persons.

For mines other than oils and gas wells, a net operating loss without the benefit of incentives provided for under Executive Order No. 226, as amended, otherwise known as the Omnibus Investment Code of 1987, incurred in any of the first ten years of operation may be carried over as a deduction from gross income for the next five years immediately following the year of loss.

FOREIGN SOURCED INCOME

A Philippine (domestic) corporation is taxed on worldwide income. Foreign income is taxed when earned or received, depending on the accounting method used by the taxpayer. Resident foreign corporations are taxed in the Philippines only on Philippine source income.

INCENTIVES

Tax credits are available for taxes and duties paid on purchases of raw materials of products for export, domestic capital equipment, domestic breeding stock and genetic materials. A number of Special Economic Zones, some of which are operated as separate customs territories also exist. (Refer also to 'Investment incentives' above.)

OPTIONAL STANDARD DEDUCTION (OSD)

In lieu of the itemised deduction of ordinary and necessary expenses paid or incurred to calculate the net taxable profit, domestic and foreign corporations are allowed an OSD in the amount not exceeding 40% of gross income. Companies intending to avail of the OSD are required to indicate such intention upon filing the first quarter income tax return.

The computation and the payment using the OSD shall likewise apply at the time of filing of the quarterly corporate income tax.

C. FOREIGN TAX RELIEF

Relief from double taxation is provided by way of tax treaties and/or by means of foreign tax credits. The treaties generally define when a taxpayer will be deemed for income tax purposes to be doing business in the Philippines.

D. CORPORATE GROUPS

Group taxation is not permitted. The grouping of corporations has no tax implications as the tax laws treat each corporation in isolation.

E. RELATED PARTY TRANSACTIONS

Philippine corporations can claim a deduction for royalties, management services and interest charges paid to foreign affiliates provided the amount represents an arm's length price and the appropriate withholding taxes are withheld and remitted. Some interest deductions can be affected by related party transactions involving non-residents. See Section B above.

F. WITHHOLDING TAX

NON-RESIDENT FOREIGN CORPORATIONS

Interests on foreign loans, royalties and dividends paid to non-resident foreign corporations are subject to withholding tax at source at the time of their accrual in the taxpayer's books.

The only exemption to this rule is when, at the time of the accrual of the income, there is a governmental restriction which prevents the actual remittances of the income due to the non-resident.

DIVIDENDS

Dividends received by non-resident foreign corporations from domestic corporations are subject to a final tax of 30%. However, tax is withheld at the reduced rate of 15% in certain circumstances.

INTEREST

Interest received by non-resident foreign corporations is subject to the following final withholding tax:

- (a) 20% on interest paid or accrued from foreign loans contracted on or after 1 August 1986
- (b) 30% on other interest.

ROYALTIES

Royalties received by non-resident foreign corporations are subject to a final withholding tax of 30%. However, said tax rate may be reduced under applicable tax treaties.

TECHNICAL ASSISTANCE AND SERVICE FEES

Technical assistance and service fees received by non-resident foreign corporations are subject to the final withholding tax of 30%.

RENTAL AND LEASING INCOME

Rental and leasing income received by non-resident foreign corporations is subject to the following final withholding tax:

- 25% of the gross amount on film rentals from sources within the Philippines
- 4.5% of the gross amount on charter fees or rentals in respect of foreign vessels
- 7.5% of the gross amount on rentals and other fees in respect of aircraft, machinery and other equipment.

NON-RESIDENT ALIENS

The following income received by non-resident aliens (not engaged in trade or business in the Philippines) are subject to a final withholding tax of 25% of the gross amount of:

- (a) Dividends, interest and royalties
- (b) Technical assistance and service fees (no tax is withheld in certain circumstances)
- (c) Rental and leasing income
- (d) Capital gains (special rules apply to residents of double tax treaty states).

FINAL WITHHOLDING TAX

The following income received by Philippine citizens and resident aliens are subject to a final withholding tax of 20% of the gross amount of:

- (a) Interest
- (b) Royalties, except royalties on books, literary works and musical compositions which are subject to 10%
- (c) Technical assistance and service fees.

G. EXCHANGE CONTROL

The Bangko Sentral ng Pilipinas (BSP) administers the exchange control laws of the Philippines including establishing minimum and maximum rates for the foreign exchange dealings of banks. However, banks may set their own rates for trading foreign exchange with the public. The value of the peso generally floats freely, although intervention by the BSP does occur when deemed necessary.

H. PERSONAL TAX

Income is divided into the following three categories which are taxed separately, as summarised below.

Compensation employment income: This income is taxed at progressive rates on gross income after deduction of personal and additional exemptions but without deductions for expenses.

Passive income: This income (i.e. dividends, certain interest, royalties, etc.) is subject to final withholding tax only.

Business income and professional income: This income is taxed at progressive rates on net business income, or income from the practice of a profession, i.e. after deduction of certain specified expenses and any excess of personal and additional exemptions over compensation income.

TAXABLE INCOME RESIDENT CITIZENS

Resident citizens of the Philippines are taxed on all their net income derived from sources within and without the Philippines.

ALIEN INDIVIDUALS

An alien individual, whether a resident or not of the Philippines, is taxable only on income derived from sources within the Philippines. Resident aliens are taxed in the same manner as resident citizens on income sourced within the Philippines.

Tax is generally withheld in sufficient amounts from salary and wages to satisfy the final tax liability. If not, then the balance must be paid when filing the return, which is required on or before 15 April of the year following the year of income. In some cases, income tax liability may be paid in two equal installments.

RESIDENT INDIVIDUALS

Income of residents is subject to the following rates:

Taxable Income		Income Tax Payable		
Exceeds (PhP)	But does not exceed (PhP)	On amount in 'Exceeds' (PhP)	Percentage on excess (PhP)	(PhP)
–	10,000	–	5	–
10,000	30,000	500	10	10,000
30,000	70,000	2,500	15	30,000
70,000	140,000	8,500	20	70,000
140,000	250,000	22,500	25	140,000
250,000	500,000	50,000	30	250,000
Over 500,000	–	125,000	32	500,000

The above rates also apply to individuals who derive income from business (including capital gains from the sale transfer or exchange of shares in a foreign corporation) or from the practice of a profession.

OPTIONAL STANDARD DEDUCTION (OSD)

Except for individuals earning compensation income, resident citizens, non-resident citizens, and resident aliens shall be allowed to claim OSD in lieu of the itemised deductions of ordinary and necessary expenses paid or incurred during the year. The OSD allowed shall be a maximum of 40% of gross sales or gross receipts without deduction of the cost of sales or cost of services.

The computation and the payment using the OSD shall likewise apply at the time of filing of the quarterly income tax return.

I. TREATY AND NON-TREATY WITHHOLDING TAX RATES

The rates are as follows:

	Interest (1) (%)	Dividends (%)	Royalties (2) (%)
<i>Treaty Countries:</i>			
Australia	15	15/25	15/25
Austria	10/15	10/25	15
Belgium (3)	10	10/15	15
Brazil	15	15/25	25/15

