

Republika ng Pilipinas
(Republic of the Philippines)
MINISTRI NG EDUKASYON AT KULTURA
(MINISTRY OF EDUCATION AND CULTURE)
Maynila

May 6, 1982

MEC M E M O R A N D U M
No. 123, s. 1982

WITHHOLDING TAX ON SALARIES/WAGES
AND REMITTANCE THEREOF

To: Deputy Ministers
Assistant Secretaries
Bureau/Cultural Agency Directors
Chiefs of Services and Heads of Units
Schools Superintendents
Presidents, State Colleges and Universities
Heads of Private Schools, Colleges and Universities
Vocational School Superintendents/Admitting Officers

1. Conformably with a letter dated March 29, 1982 from Acting Commissioner of Internal Revenue Ruben B. Ancheta, this Office enjoins all heads of schools, both public and private, throughout the Philippines, to withhold the correct taxes on salaries and wages and make timely remittance to the Bureau of Internal Revenue of the amounts withheld. The funds to be raised from this source will be used to finance the different development projects of the government.

2. In this connection, a copy of Revenue Memorandum Circular No. 5-82 is inclosed for the necessary guidelines in the implementation of the new law on the withholding of tax on salaries and wages.

3. In order to avoid any future inconvenience or difficulty, the field is reminded of the stiff penalties provided for under Section 97 of the Tax Code, as amended by PD. 1773, for failure to deduct and withhold or failure to remit to the Bureau of Internal Revenue the amounts withheld.

4. Strict compliance with the contents of this Memorandum is requested.

(SGD.) ONOFRE D. CORPUZ
Minister

Incl.: As stated

Reference:
None

Allotment: 1-2-3-4--(D.O. 1-76)

To be indicated in the Perpetual Index
under the following subjects:

BUREAUS & OFFICES
EMPLOYEES
LEGISLATION
OFFICIALS
RULES & REGULATIONS
SALARY
TAXES
TEACHERS

(Inclosure to MEC Memorandum No. 123, s. 1982)

REPUBLIKA NG PILIPINAS
MINISTRI NG PANANALAPI
KAWANIHAN NG RENTAS INTERNAS
Lungsod ng Quezon

January 21, 1982

REVENUE MEMORANDUM CIRCULAR NO. 5-82

SUBJECT: Publishing the Features of Batas Pambansa Blg. 135 Amending Certain Provisions of the National Internal Revenue Code of 1977, as amended, and Providing for a Modified Gross Income Tax System.

T O : All Internal Revenue Officers and Others Concerned

For the information and guidance of all concerned, the following are the essential features of Batas Pambansa Blg. 135.

The schedular approach is used whereby income is classified into three categories, namely: I. Compensation Income of Individuals; II. Income of Individuals from Business, Trade, Profession, or Vocation; and III. Passive Incomes.

CATEGORY I. COMPENSATION INCOME

A. Coverage. - Income arising from employer-employee relationship including the following:

1. Salaries, wages, compensation, emolument and honoraria;
2. Bonuses;
3. Allowances such as transportation, representation, entertainment and the like;
4. Fees (including director's fees paid to a director who is at the same time an employee of the payor);
5. Taxable pensions; and
6. Other incomes of similar nature, including compensation paid in kind.

B. Exclusions. - The following income items are excluded:

1. Actual, moral, exemplary and nominal damages received by the employee or his heirs pursuant to a final judgement or compromise agreement arising out of or related to an employer-employee relationship.

2. All items enumerated under Section 29 of the Tax Code, as follows:

- a. Life Insurance;
- b. Amount received by insured as return of premium;
- c. Gift, bequests; and devices;
- d. Interest on Government securities;
- e. Compensation for injuries and sickness;
- f. Income exempt under treaty;
- g. Retirement benefits, pensions, gratuities, etc.; and
- h. Miscellaneous items

1) Income received from their investments in the Philippines in loans, stocks, bonds or other domestic securities, or from interest on their deposits in banks of the Philippines by

(a) foreign governments (b) financing institutions owned, controlled or enjoying refinancing from them, and (c) international or regional financing institutions established by governments.

2) Income derived from any public utility or from the exercise of any essential governmental function accruing to the Government of the Philippines or to any political subdivision thereof.

3) Income derived as rewards under R.A. No. 2338, as amended by P.D. No. 707.

4) Interest earned from deposits maintained with a bank under the expanded foreign currency deposit system.

C. Exemptions. -Only personal and additional exemptions are deductible. These are:

For single individuals or those legally separated from his or her spouse	(P3,000)
For Heads of Family	(P4,500)
For Married Persons	(P6,000)
For each qualified dependent but not exceeding four	(P2,000)
Where dependents exceed four, additional exemption for each child who qualified as dependent prior to January 1, 1980	(P1,000)

D. Deductions. - The following are not allowed.

1. Optional standard deduction;
2. Itemized deduction; and
3. Deduction for the working wife.

E. Tax Rates. - The rates range from 0% to 35% divided into 10 brackets as follows:

Not over P2,500		0%
Over P 2,500 but not over P 5,000	P	1%
Over P 5,000 but not over P 10,000	P 25 +	3% of excess over P 5,000
Over P 10,000 but not over P 20,000	P 175 +	7% of excess over P 10,000
Over P 20,000 but not over P 40,000	P 875 +	11% of excess over P 20,000
Over P 40,000 but not over P 60,000	P 3,075 +	15% of excess over P 40,000
Over P 60,000 but not over P100,000	P 6,075 +	19% of excess over P 60,000
Over P100,000 but not over P250,000	P 13,675 +	24% of excess over P100,000
Over P250,000 but not over P500,000	P 40,675 +	28% of excess over P250,000
Over P500,000	P122,175 +	31% of excess over P500,000

F. Withholding Tax. - The employer shall deduct and withhold the tax determined in accordance with the new withholding tax table.

The withholding tax is either of the following:

1. Final Withholding Tax - Taxes withheld from the following employees deriving compensation income from only one employer shall be deemed final:
 - a. Single or married individuals but legally separated;
 - b. Heads of family;
 - c. Married individuals when not legally separated and only one of the spouses receives compensation income; and
 - d. Married individuals when not legally separated and both spouses receive compensation income from the same employer. In this case, the employer shall treat the spouses as a single taxable unit by aggregating their joint compensation income in determining the correct withholding tax.
2. Creditable Withholding Tax - taxes withheld by more than one employer from individuals, whether single, head of family or married, shall not be deemed final but may be applied against the tax due per income tax return required to be filed under Section 45a(2) of the Tax Code.

Every employee receiving wages shall file with his employer a signed withholding exemption certificate, in triplicate, on Form W-4, relating to the number of withholding exemption units claimed which in no case shall exceed the number to which he is legally entitled.

A new withholding exemption certificate shall be filed within 10 days from the time a change in his personal status and number of dependents occur. New employees shall file the required certificate with their employers within 5 days from the start of employment.

If an employee fails or refuses to file the withholding exemption certificate, the employer shall withhold the taxes prescribed under the schedule for Zero exemption of the withholding tax table. The personal exemption to which an employee is entitled depends upon his status as single, married, head of family, and the number of his qualified dependents (i.e., legitimate, recognized natural or adopted children in accordance with Section 23 of the Tax Code, as amended).

G. Filing of Returns

1. In the case of employees whose withholding tax is deemed final, the employers shall file BIR Form No. W2-A to be accomplished by both the employer and the employee.
2. Employees whose withholding tax are deemed creditable shall file the revised income tax returns (BIR Form No. _____) required to be filed under Sec. 45a(2) of the Tax Code.
3. The required return shall be filed on or before the eighteenth day of March of each year.

H. Penalties. - Compensation income earners subject to final income tax are exempt from penalties for non-filing of income tax returns and non-payment of tax on such compensation income.

I. Taxpayers Covered. - Residents, whether citizens or aliens shall be governed by the above scheme relative to compensation income.

CATEGORY II

BUSINESS INCOME, INCOME FROM PROFESSION, TRADE OR VOCATION

- A. Coverage. - Income includes the following:
1. Business and/or trade income;
 2. Income from profession and vocation; and
 3. All other incomes not covered by Category I (taxable compensation income) and Category III (passive income).
- B. Exclusions. - The following incomes are excluded:
1. Gross compensation income and items of gross income subject to the final income tax, and
 2. All items enumerated under Section 29 of the Tax Code.
- C. Exemptions. - The following scheme governs:
1. The same levels of personal and additional exemptions as in Category I are allowed.
 2. For taxpayers with mixed incomes (both Category I and Category II incomes), personal and additional exemptions shall be deducted first from Category I income and any excess thereof shall be deductible from Category II income.
- D. Deductions.
1. Taxpayers, except non-resident aliens, may elect a standard deduction in an amount not exceeding 10% of his gross income without any maximum limit, or the itemized deduction.
 2. Items of deduction are allowed only if they are related to business, trade, profession or vocation, except in the case of charitable and other contributions which shall remain deductible as provided by B.P. 45. All other personal deductions such as tuition fees, medical expenses, nonbusiness interest and the like are disallowed.
- E. Tax Rates. - The rates range from 5% to 60% divided into five brackets as follows:

Not over P10,000	5%
Over P 10,000 but not over P 30,000	P 500 + 15 % of excess over P 10,000
Over P 30,000 but not over P150,000	P 3,500 + 30% of excess over P 30,000
Over P150,000 but not over P500,000	P 39,500 + 45% of excess over P150,000
Over P500,000	P197,000 + 60% of excess over P500,000

- F. Filing. - Income earners under Category II, and mixed income earners (both under Category I and Category II) on a single return with two schedules, one for Category I and the other for Category II, shall file their income tax returns on or before April 15 of each year.

CATEGORY III. PASSIVE INCOME

A. Tax Rates.

1. Passive income received by resident citizens and resident aliens:

- a. Interest - The aggregate amount of exempt interest of Philippine currency bank deposit accounts increased to ₱1,000 a year or ₱250 per quarter (originally ₱800 a year or ₱200 per quarter).

Final tax of 20% on interest from trust fund and similar arrangements.

[P.D. No. 1739 imposes the final tax of 15% on savings deposit and 20% on time deposits and yield or any other monetary benefit from deposit substitutes.]

- b. Dividends and share of individual partner-
Final tax of 15% of dividends received from a domestic corporation and the share of an individual partner in a partnership subject to tax.
- c. Royalties - Final tax of 15%.

- d. Prizes and other winnings - Final Tax of 15% on prizes (except prizes amounting to ₱3,000 or less which shall be subject to tax under Sec. 21(b) at 5% to 60% rates) and other winnings (except Philippine Charity Sweeps-takes winnings).
2. Passive income received by non-resident aliens, whether or not engaged in trade or business in the Philippines.

Final tax of 30% on dividends, share in the net profits of a taxable partnership, interest, royalties, prizes and other winnings.

B. Withholding

The tax on dividends, interest, royalties, prizes and other winnings shall be withheld by the payor, corporation and/or person, and shall be final.

C. Exclusion.

Interest earned from deposits maintained with a bank under the expanded foreign currency deposit system.

Effectivity - The foregoing amendments shall be applicable to incomes earned on January 1, 1982.

For purposes of BP 135, the implementation thereof shall be governed by the rules and regulations to be promulgated by the Minister of Finance.

It is desired that this Circular be given as wide a publicity as possible.

(SGD.) RUBEN B. ANCHETA
Commissioner

A true copy