TAX Insights

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What's Inside…

INSIGHTS is a monthly publication of BDB LAW to inform, update and provide perspectives to our clients and readers on significant tax-related court decisions and regulatory issuances (*includes BIR, SEC, BSP and various government agencies*).

20/F Chatham House
Valero cor. Rufino Sts.

Salcedo Village
Makati Zip Code

www.bdblaw.com.ph
info@bdblaw.com.ph

T: (632) 403-2001
F: (632) 403-2001 loc. 130

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- **Electric Cooperatives registered under NEA are exempt from payment of income tax.** *(Agusan Del Norte Electric Cooperative Inc. vs. Commissioner of Internal Revenue, CTA Case No. 9376, August 5, 2019)*

- **The LOA must be served to the taxpayer within thirty (30) days from its date of issuance; otherwise, it becomes null and void, unless revalidated.** *(Edmund U. Bermejo IV vs. Commissioner of Internal Revenue, CTA Case No. 9310, August 5, 2019)*

- **No law or regulation requires that payments should be made in foreign currency before a Subic Ecozone or Freeport Enterprise can avail of the 5% preferential tax rate**. *(Subic Water and Sewerage Co., Inc. vs. Commissioner of Internal Revenue, CTA Case No. 9074, August 14, 2019)*

- **Filing of application for merger with the BIR is not a precondition before the surviving corporate taxpayer may use the unutilized input tax of the absorbed corporation.** *(Commissioner of Internal Revenue vs. MY Solid Technologies & Devices Corporation, CTA En Banc No. 1767 (CTA Case No. 8854), August 9, 2019)*

- **The 120-day period for the BIR to render a decision from a VAT refund claim should be counted from the lapse of the 30-day period notice of BIR to submit additional documents and not from the last date of actual submission of documents.** *(Taisei Philippines Construction, Inc. vs. Commissioner of Internal Revenue, CTA En Banc No. 1825 (CTA Case No. 9008), August 7, 2019)*

- **The BIR has no valid authority to issue a second LOA after the three (3)-year prescriptive period had expired.** *(The Professional Services, Inc. vs. Commissioner of Internal Revenue, CTA Case No. 9502, August 13, 2019)*

- **The law does not require that the input taxes subject of a claim for refund be directly attributable to zero-rated sales or effectively zero-rated sales. Hence, no need to prove that there is direct connection of the purchases or input tax to the finished product whose sale is zero-rated.** *(Rio Tuba Nickel Mining Corporation vs. Commissioner of Internal Revenue, CTA Case No. 9127, August 8, 2019)*

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- **The requirement that an administrative claim be filed prior to a judicial claim is not complied if both claims were filed on the same date.** *(Philippine Airlines, Inc. vs. Commissioner of Internal Revenue, CTA Case No. 9435, August 8, 2019)*

- **Receipt of the FLD prior to the receipt of PAN did not violate the right to due process when a subsequent Amended FLD was received by the taxpayer.** *(Cagayan De Oro Doctors, Inc. (Madonna and Child Hospital) vs. Commissioner of Internal Revenue, CTA Case No. 9260, August 5, 2019)*

- **There must be a "disputed assessment" that is seasonably elevated to the CTA before it can take cognizance of a case**. *(Jovita G. Panopio vs. Commissioner of Internal Revenue, CTA Case No. 9464, August 6, 2019)*

- **In allegations of fraud in the filing of returns, the same must be duly proven that there was willful neglect to file the required tax return.** *(First Global Corporation, BYO vs. Honorable Kim Henares, in her capacity as the Commissioner of the Bureau of Internal Revenue, CTA Case Nos. 9172, 9212 and 9242, August 6, 2019)*

- **The decisions of the CIR over disputed assessments are separate and independent from his decisions over "other matters" arising under the NIRC. Thus, the fact that the taxpayer failed to Protest the FAN is not important if the latter questions the validity of the imposition of taxes.** *(Commissioner of Internal Revenue vs. Royal Class Trading and Transport Corporation, CTA En Banc No. 1832 (CTA Case No. 8844), July 29, 2019)*

- **Although the ICPA is a commissioned officer of the court, it is the responsibility of the taxpayer to coordinate with the ICPA and ensure that the ICPA's report comply with the Court's requirements.** *(Commissioner of Internal Revenue vs. Toledo Power Co., CTA En Banc Nos. 1778 and 1780, August 15, 2019*

- **Only documents duly identified by a competent witness and formally offered in evidence will merit admission for the consideration and evaluation by the Court.** *(Nokia (Philippines), Inc., vs. Commissioner of Internal Revenue, CTA EB No. 1824 (CTA Case No. 8876), August 16, 2019)*

- **No amount of ICPA examination would matter without the recommendation of the Director of the MGB and approval of the Sec. of the DENR of the expenses and capital expenditures of the taxpayer to be considered it as recoverable pre-operating expenses.** *(Oceana Gold (Philippines), Inc. vs Commissioner of Internal Revenue, CTA EB No. 1904 (CTA Case Nos. 8995 & 9034), August 16, 2019)*

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- **Like PAGCOR, its contractees and licensees shall likewise pay corporate income tax for income derived from such "other related services".** *(Prime Investment Korea, Inc. vs Commissioner of Internal Revenue, CTA CASE NO. 9573, August 20, 2019)*

- **Dividend income is excluded from gross receipts for purposes of imposition of LBT.** *(Makati City and the City Treasurer of Makati City vs Metro Pacific Tollways Development Corporation, CTA EB NO. 1754 (CTA AC Case No. 172), August 27, 2019)*

- **In disputed assessments, taxpayer has the option to either file a petition for review with the Court a quo within thirty (30) days after the expiration of the 180-day period or wait for the final decision of the Commissioner of Internal Revenue on the disputed assessment, even after the expiration of the 180-day period fixed by law.** *(Commissioner of Internal Revenue vs. Rieckermann Philippines, Inc, CTA EB No.1855 (CTA Case No. 8715)*

- **Allegation of abuse, arbitrariness, or capriciousness committed by the Court in Division is necessary to disturb the factual findings of the Court in Division.** *(Commissioner of Internal Revenue vs Mindanao II Geothermal Partnership, CTA EB NO. 1768 and 1770 (CTA Case Nos. 7899, 7942 & 7960), August 30, 2019)*

- **Transfer of shares is not the transfer of real property ownership contemplated under Section 135 of the LGC.** *(Province of Pangasinan & Marilou E. Utanes in her Capacity as the Provincial Treasurer of Pangasinan vs Team Sual Corporation, CTA EB NO. 1883 (CTA AC No. 173), August 30, 2019)*

- **Imported goods that remain in the special economic zones or re-exported to another foreign jurisdiction, shall continue to be tax-free.** *(PTT Philippines Trading Corporation vs Commissioner of Customs and Commissioner of Internal Revenue, CTA Case No. 9132, August 29, 2019)*

- **Service by the BIR of assessment notices to a taxpayer's old address despite having earlier knowledge about its new address is not a valid notice for purposes of tax assessment.** *(Commissioner of Internal Revenue vs Daewoo Engineering & Construction Company Limited, CTA EB NO. 1799 (CTA Case No. 8829), August 29, 2019)*

- **The bare invocation of "the interest of substantial justice" is not a magic wand that will automatically compel this Court to suspend procedural rules set forth in the Revised Rules of Court of Tax Appeals and Sec. 2 of RA 1125 (An Act Creating the Court of Tax Appeals).** *(Nanox Philippines, Inc. vs Commissioner of Internal Revenue, CTA EB No. 1629 (CTA Case No. 8433) August 28, 2019)*

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- **Non-compliance with the mandatory period of 120+30 days is fatal to its claim for refund on the ground of prescription.** *(Ibex Philippines, Inc. vs Commissioner of Internal Revenue, CTA EB No. 1850 (CTA Case No. 8849) August 28, 2019)*

- **The issuance of a new LOA in cases of reassignment or transfer of the investigator is mandatory.** *(FPIP Prope rty Developers and Management Corporation vs Commissioner of Internal Revenue, CTA Case No. 8980, August 28, 2019)*

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The final decision that is appealable before the CTA is the Final Decision on Disputed Assessment (FDDA). Hence, failure to await the decision of the CIR in the administrative level is not tantamount to premature filing so long as the BIR already issued the FDDA.

Taxpayer, an electric cooperative, was assessed by the Bureau of Internal Revenue (BIR) for alleged deficiency taxes for taxable year 2012. BIR issued a PAN and subsequently a Formal Letter of Demand (FLD). The taxpayer was able to file a Protest but it was denied by BIR, prompting the former to file a Protest before the CIR. The taxpayer received a Final Decision on Disputed Assessment (FDDA) thereafter, so the taxpayer, without waiting for the decision of the CIR, filed its Petition for Review before the CTA. The BIR alleged the failure of the taxpayer to wait for the decision of the CIR prior to filing the Petition for Review is tantamount to premature filing. Hence, the CTA should dismiss the case for failure to exhaust administrative remedies.

CTA ruled that it has jurisdiction over the case. The final decision of the CIR or his authorized representative on disputed assessment that is appealable before this Court is the FDDA. Taxpayer received its FDDA and it timely filed its Petition within the 30-day period from such receipt. The fact that the Taxpayer failed to await the decision of the CIR prior to filing the Petition is of no moment for what is crucial in conferring jurisdiction on this Court is the whole or partial denial of the protest by the CIR or his authorized representative, which was subsequently issued and received by the taxpayer prior to the filing of the present Petition for Review. Hence, the Court acquired jurisdiction over the case. ***(Agusan Del Norte Electric Cooperative Inc. vs. Commissioner of Internal Revenue, CTA Case No. 9376, August 5, 2019)***

Electric Cooperatives registered under NEA are exempt from payment of income tax.

It was alleged that Taxpayer cannot claim perpetual tax exemption under PD 269 since exemption is merely for a period of thirty (30) years or until the cooperative becomes completely free from indebtedness incurred from borrowing, whichever comes first. Hence, taxpayer is allegedly subject to income tax.

The Court ruled that PD 269 provides for the exemption from taxes, imposts, duties and fees to electric cooperatives. The limit of 30-year period, mentioned in PD 269, pertains to taxes other than income tax. Thus, considering that petitioner is exempt from income tax by provision of the law, it is likewise exempted from payment of MCIT, it being in the nature of an income tax. ***(Agusan Del Norte Electric Cooperative Inc. vs. Commissioner of Internal Revenue, CTA Case No. 9376, August 5, 2019)***

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CTA UPDATES

The LOA must be served to the taxpayer within thirty (30) days from its date of issuance; otherwise, it becomes null and void, unless revalidated.

BIR issued a Letter of Authority (LOA) on October 22, 2012 to the taxpayer and the same was served on January 14, 2013. It subsequently issued a PAN and the taxpayer timely filed its Protest. However, BIR denied the same and issued the corresponding FLD. Taxpayer then filed a Petition for Review challenging the validity of the assessment on the ground that the tax audit was void for failure of the BIR to serve the LOA within 30 days from issuance and to revalidate the same. The BIR claimed that the failure of the Revenue Officer to serve the LOA within 30 days from issuance does not affect the validity of an assessment and it only subjects the revenue officer concerned to administrative sanctions. Hence, the LOA and the assessment are valid.

CTA ruled that for an audit and examination of books to be considered as lawful, the same must be based on a valid LOA. It must be served or presented to the concerned taxpayer within thirty (30) days from its date of issuance; otherwise, it becomes null and void, unless revalidated. In this case, while the subject LOA was issued on October 22, 2012, records reveal, however, that it was served only on January 14, 2013, or eighty-four (84) days after the date of its issuance. Thus, for failure of the concerned revenue officers to observe the 30-day mandatory period, the issued LOA has already become void. It was already without force and effect when it was served on the taxpayer. Hence, the subject tax assessment issued by the BIR is void. ***(Edmund U. Bermejo IV vs. Commissioner of Internal Revenue, CTA Case No. 9310, August 5, 2019)***

No law or regulation required that the payments should be made in foreign currency before a Subic Ecozone or Freeport Enterprise can avail of the 5% preferential tax rate.

Taxpayer is engaged in the business of providing water and sewerage services in the Subic Special Economic and Free Port Zone (SSEZ). It provided water and sewerage services to Olongapo City. The BIR assessed the taxpayer for deficiency taxes when it considered the taxpayer's operations in Olongapo City as not entitled to the 5% preferential tax treatment (PTR). Taxpayer argued that it is entitled to the 5% preferential tax treatment (PTR) since under the law, rules and regulations, Olongapo City is part of the Subic Bay Special Economic Zone (SSEZ) and outside of the customs territory. The BIR counter-argued that the PTR only apply if the services are paid in foreign currency inwardly remitted through the Bangko Sentral ng Pilipinas as provided under RR No. 2-2005. Hence, since the taxpayer failed to comply with the condition, it is allegedly not entitled to the PTR.

The Tax Court held that the Subic Bay Freeport is a separate customs territory consisting of the City of Olongapo and the municipality of Subic, Province of Zambales, and the lands formerly occupied by the Subic Naval Base. Hence, its income generated from Olongapo City should not be treated as income within the Customs Territory and is subject to the 5% PTR. Also, the tax court ruled that no law or regulation required that payments should be made in foreign currency before a Subic Ecozone or Freeport Enterprise can avail of the 5% preferential tax rate. Hence, the contention of BIR is incorrect. ***(Subic Water***

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and Sewerage Co., Inc. vs. Commissioner of Internal Revenue, CTA Case No. 9074, August 14, 2019)

Filing of application for merger with the BIR is not a precondition before the surviving corporate taxpayer may use the unutilized input tax of the absorbed corporation.

Taxpayer entered into a merger with Mytel Mobility Solutions, Inc. (Mytel). Subsequently, the unused input tax of Mytel was absorbed and utilized by taxpayer. The BIR then issued an assessment for deficiency value-added tax (VAT) arising from the alleged utilization of unused input tax of Mytel. The BIR alleged that taxpayer failed to file any application for merger with the BIR thus any benefits, e.g., transfer of input tax of the absorbed entity to the surviving entity cannot yet be availed of. A corresponding application for cancellation of registration should have also been filed with the BIR. Hence, for failure to fulfill the two important requisites, i.e., filing of the notice of merger and the notice of cancellation with the BIR, the merger has no legal effect as far as acquiring the unused input tax credits of the absorbed entity by the taxpayer.

The CTA held that the prior filing of an application for notice of merger and /or notification of closure with the BIR is not a precondition for the utilization of the unused input value-added tax (VAT) credits of the absorbed corporation. The merger shall take effect upon issuance by the SEC of the Certificate of Filing of the Articles and Plan of Merger and it also marks the moment when the consequences of a merger take place. Upon the issuance of the Certificate, all effects of the merger, such as transfer of rights, properties, etc. are automatically transferred to the surviving entity. Hence, there is no need for taxpayer to apply for application of merger with the BIR before utilizing the unused input VAT. Likewise, the application for cancellation of registration with the BIR pertains to the effects of a closure of a company from a tax perspective and it is separate from the effects of a statutory merger resulting to a dissolution of the absorbed company. ***(Commissioner of Internal Revenue vs. MY Solid Technologies & Devices Corporation, CTA En Banc No. 1767 (CTA Case No. 8854), August 9, 2019)***

The 120-day period for the BIR to render a decision from a VAT refund claim should be counted from the lapse of the 30-day period notice of BIR to submit additional documents and not from the last date of actual

The taxpayer claimed for VAT Refund with the BIR. On July 29, 2013, a LOA was issued by the latter pursuant to Mandatory Audit-Claim and a separate LOA was issued the next day (July 30, 2013) authorizing another Revenue Officer to assist in the audit investigation and requesting for the submission of additional documents. In the course of the examination, taxpayer submitted additional documents in batches, where its last batch of documents was submitted on October 14, 2014. Due to the CIR's inaction on its administrative claim for refund, taxpayer filed a Petition for Review before the CTA on March 13, 2015. The BIR challenged the timeliness of the filing of the Petition since the same was made beyond the 120-day period counted from the issuance of the last Letter of Authority dated July 30, 2013. The taxpayer on the other hand insisted that the reckoning period must be counted from October 14, 2014 or the last day they submitted additional documents.

submission of documents.

The CTA ruled and applied the doctrine in Pilipinas Total Gas case since the claim for tax refund was filed prior to June 11, 2014 or the effectivity of RMC No. 54-2014. The taxpayer filed its administrative claim on June 25, 2013. Thus, it had thirty (30) days from the time of filing of its administrative claim for tax credit or refund to submit all the required supporting documents. If in the course of the investigation, additional documents are required, the BIR must inform taxpayer of the need to submit additional documents through a notice, and it shall have thirty (30) days to comply. Upon completion of all required documents, the 120-day period shall commence; but in all cases, all filings and submissions must be completed within the two-year period Hence, the 120-day period shall be counted thirty (30) days from July 30, 2013 when the BIR issued a request for additional documents, or from August 29, 2013. Since the Petition was filed only on March 13, 2015, the judicial claim was filed beyond the prescriptive period. ***(Taisei Philippines Construction, Inc. vs. Commissioner of Internal Revenue, CTA En Banc No. 1825 (CTA Case No. 9008), August 7, 2019)***

Our Take

NOTE: The VAT refund claim in this case pertains to taxable year 2012. Prior to June 11, 2014 or the effectivity of RMC No. 54-2014, if the BIR required the taxpayer to submit additional documents, the latter must submit the same within thirty days.

The BIR has no valid authority to issue a second LOA after the three (3)-year prescriptive period had expired.

The BIR issued an LOA and conducted an audit wherein taxpayer was allegedly found liable for deficiency taxes. The taxpayer paid the assessed amount of the BIR. The BIR, thereafter, issued a “second” LOA for Income Tax and VAT for the same taxable period, with the BIR claiming "first LOA did not cover the Income Tax and VAT issues on the sale of the property subject of the present case”. Taxpayer claimed that the Assessment was issued or served upon it beyond the three-year period provided by NIRC, as amended. The BIR argued that the 10-year period applies in this case since there was fraud when taxpayer deliberately misclassified the sales pertaining to a sale of land as a capital asset since the same was being leased and rented out as parking lot within two (2) years, prior to its sale, making it a capital asset. Thus, the prescriptive period applicable is 10 years instead of 3 years.

The CTA ruled that there was no fraud in this case that warrants the application of the 10-year prescriptive period to assess the Taxpayer. Citing the case of Philippine International Air Terminals Co., Inc. vs. Commissioner of Internal, the CTA ruled that where the BIR had already made an initial assessment for deficiency taxes in a taxable year, and the taxpayer paid the deficiency tax assessed, the BIR has no valid authority to issue, after the three (3)-year prescriptive period had expired, a second or third assessment for the same taxable year. Here, the first LOA which the Taxpayer settled and the second

LOA covered the same taxable year 2007. Thus, the taxpayer should not have been assessed again for taxable year 2007. ***(The Professional Services, Inc. vs. Commissioner of Internal Revenue, CTA Case No. 9502, August 13, 2019)***

The law does not require that the input taxes subject of a claim for refund be directly attributable to zero-rated sales or effectively zero-rated sales. Hence, no need to prove that there is direct connection of the purchases or input tax to the finished product whose sale is zero-rated.

BIR argued that the taxpayer's input value-added tax (VAT) is not attributable to valid zero-rated sales because the law itself does not state that all input taxes of a VAT-registered person whose sales are zero-rated are refundable. BIR alleged further that what is refundable are "creditable input taxes" that are "attributable" or must come from purchases of goods that form part of the finished product of the taxpayer or it must be directly used in the chain of production. The connection between the purchases and the finished product is "concrete" and not "imaginary" or "remote". Here, the taxpayer allegedly failed to prove that there is direct connection of the purchases or input tax to the finished product whose sale is zero-rated.

The CTA ruled that the NIRC, as amended, does not require that the input taxes subject of a claim refund be directly attributable to zero-rated sales or effectively zero-rated sales. Input taxes that bears a direct or indirect connection with a taxpayer's zero-rated sales satisfies the requirement of the law. Also, it allows the allocation of input taxes in case the same cannot be directly and entirely attributed to any of the sales. The term "input tax" means the value-added tax due from or paid by a VAT-registered person in the course of his trade or business on importation of goods or local purchase of goods or services, including lease or use of property, from a VAT-registered person. Thus, the law did not limit input taxes to those purchases that only form part of the finished product of the taxpayer. Thus, the contention of the BIR is erroneous. ***(Rio Tuba Nickel Mining Corporation vs. Commissioner of Internal Revenue, CTA Case No. 9127, August 8, 2019)***

The requirement that an administrative claimed be filed prior to a judicial claim is not complied if both claims were filed on the same date.

Taxpayer imported various cigarette and alcohol products for use in its international flights. It was assessed by the BIR for excise taxes and the taxpayer paid under protest. It subsequently filed a claim for refund with the CIR and on the same date, filed a Petition for Review with the CTA. The BIR alleged that the filing of the Petition was premature for the taxpayer failed to await the decision of the CIR before filing its judicial claim.

The CTA ruled that law does not require the CIR to act upon the administrative claim before claimant can file its judicial claim for refund. Section 229, as worded, only requires that an administrative claim be filed prior to the judicial claim. The primary purpose that an administrative claim be filed prior to the judicial claim is to serve as a notice of warning to the CIR that court action would follow unless the tax alleged to have been collected erroneously or illegally is refunded, was defeated. Failure to seek relief initially at the administrative level would result in dismissal of the judicial claim for refund

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once it is elevated to the Court of Tax Appeals (CTA). In this case, the taxpayer failed to establish that prior to the judicial claim for refund, administrative claims for refund were in fact filed with the respondent CIR. There is non-compliance considering that both the administrative claim and the judicial claim for refund was simultaneously filed on August 22, 2016. The primary purpose of filing an administrative claim prior to the judicial claim was defeated in this case. Hence, the Petition was prematurely filed by the taxpayer in the instant case. ***(Philippine Airlines, Inc. vs. Commissioner of Internal Revenue, CTA Case No. 9435, August 8, 2019)***

Receipt of the FLD prior to the receipt of PAN did not violate the right to due process when a subsequent AFLD was received by the taxpayer.

Taxpayer received a FLD from the BIR for all internal revenue taxes allegedly due for taxable year 2010. It received a PAN thereafter, and an amended FLD (AFLD) covering the same tax period with no substantial difference as to the once originally issued. The taxpayer then alleged that the service of PAN should precede the FLD and that the BIR violated its right to due process when the PAN was belatedly served. It further alleged that the issuance of the AFLD was merely an afterthought and was meant to cover up BIR's mistake in serving the original FLD earlier than the PAN. Hence, the deficiency tax assessments should be cancelled due to lack of factual and legal bases.

The Court held that the BIR did not violate the right to due process of the taxpayer. The latter received the requisite assessment notices from the BIR and was given the opportunity to contest the assessment. Although the PAN was belatedly received by the taxpayer, records show that it was issued on August 15, 2013. The original FLD and the AFLD were issued on September 25, 2013 and January 13, 2014, respectively. The issuance of PAN preceded the issuance of AFLD. Thus, the BIR substantially complied with the due process requirements provided by law when the taxpayer was accorded its right to be informed of its deficiency tax assessment, and the right to dispute the same. It is erroneous for the taxpayer to reckon the date of issuance of the subject tax assessments on September 25, 2013, considering that the same had been effectively superseded and supplanted with the subsequent issuance of the AFLD on January 13, 2014. ***(Cagayan De Oro Doctors, Inc. (Madonna and Child Hospital) vs. Commissioner of Internal Revenue, CTA Case No. 9260, August 5, 2019)***

There must be a "disputed assessment" that is seasonably elevated to the CTA before it can take cognizance of a case.

Taxpayer is the proprietor of JG Builders. Various notices were sent by the BIR through registered mail to JG Builders and to the taxpayer, however, the BIR did not receive any reply. Hence, the administrative process of collection was initiated by the BIR. The taxpayer challenged the validity of the assessments alleging, amongst others, that the assessment notices are void because the it was served to a wrong address, hence, she never received the same.

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The CTA dismissed the case for lack of jurisdiction. The law mandates that there must be a "disputed assessment" that is seasonably elevated to this Court for review. An assessment becomes a disputed assessment after a taxpayer has validly filed its protest to the assessment in the administrative level. The Protest must be compliant with the requirements of the law and regulations which include, among others, that the protest must be filed within thirty (30) days from receipt of the assessment. Hence, there can be no disputed assessment without a valid protest being filed by the taxpayer to dispute the findings in the assessment. Here, the subject assessments did not become "disputed assessment" since the taxpayer failed to dispute and protest the assessment issued by the BIR. Taxpayer set a letter for reconsideration after the lapse of 194 days, hence, it was filed out of time. ***(Jovita G. Panopio vs. Commissioner of Internal Revenue, CTA Case No. 9464, August 6, 2019)***

In allegations of fraud in the filing of returns, the same must be duly proven that there was willful neglect to file the required tax return.

The BIR assessed the taxpayer for deficiency taxes. The Taxpayer alleged that the benefits of the Rulings extend to taxpayer as agent of BDO and that the 3-year prescriptive period has already lapsed for the BIR to validly assess the alleged deficiency taxes. The BIR on the other hand alleged that the failure of taxpayer to to file the Withholding Tax Remittance Return and the Documentary Stamp Tax Return for the said transaction is tantamount to fraud and intent to evade payment of taxes. Hence, the 10-year prescriptive period applies.

The CTA held that in allegations of fraud, the same must be duly proven that there was willful neglect to file the required tax return. In this case, although the taxpayer failed to report receipts in an amount exceeding thirty percent (30%) of that declared per return, such is a mere presumption. The BIR merely relied only on the third-party information sources that were not verified by the revenue officers who conducted the examination or assessment. Considering that there was no fraud that warrants the application of the 10-year prescriptive period in this case, the assessment is void for the FAN being issued beyond the 3-year period to assess. ***(First Global Corporation, BYO vs. Honorable Kim Henares, in her capacity as the Commissioner of the Bureau of Internal Revenue, CTA Case Nos. 9172, 9212 and 9242, August 6, 2019)***

The decisions of the CIR over disputed assessments are separate and independent from his decisions over "other

The BIR in this case alleged that the taxpayer failed to file its protest on the FAN within the time provided for by the NIRC, as amended. Since taxpayer admitted having received the FLD/FAN on January 10, 2011, it had the opportunity until February 9, 2011, within which to file a valid protest on the assessment. However, it allegedly failed to file said protest within such period. The taxpayer on the other hand, argued that the Letter of Authority is invalid for the failure of the revenue officer to finish the audit within 120 days. There was a re-

matters" arising under the NIRC. Thus, the fact that the taxpayer failed to Protest the FAN is not important if the latter questions the validity of the imposition of taxes

assignment of the undertaking to a new Revenue Officer (RO), and the same done by mere internal indorsement hence the assessments are void for lack of authority of the examining RO.

The RO who continued the audit and the examination has no authority to conduct the same, in the absence of the issuance of a new LOA specifically naming the new RO. Any re-assignment of cases requires the issuance of a new LOA, its fatal infirmity is further highlighted by the fact that it was signed and issued by the RDO only and not by the Revenue Regional Director. Thus, the Court ruled in favor of the Taxpayer. ***(Commissioner of Internal Revenue vs. Royal Class Trading and Transport Corporation, CTA En Banc No. 1832 (CTA Case No. 8844), July 29, 2019)***

Although ICPA is a commissioned officer of the court, it is the responsibility of the taxpayer to coordinate with ICPA and ensure that the ICPA's report comply with the Court's requirements.

Taxpayer sought the refund of its unutilized input VAT arising from its zero-rated sales/receipts for taxable year 2011. The CTA Division partly denied the Petition for failure to substantiate the claims of the taxpayer. taxpayer alleged that the CTA's outright non-reliance on the report of the court-commissioned independent CPA (ICPA) and the denial of taxpayer's right to present additional documents amount to denial its right to due process. Also, the taxpayer further alleged that it should not be bound by mistake on the representation of the commissioned ICPA that all the necessary documents had been photocopied and submitted to the Court since the ICPA is an officer of the Court completely independent of the taxpayer.

The CTA en banc ruled that the opportunity to be heard is the essence of the right to due process. Hence, as long as a party is given the opportunity to defend his interests in due course, the said right is not violated. The taxpayer in this case was given several opportunities to prove its refund case during the trial and even during the filing of the motion for reconsideration. Likewise, although ICPA is a commissioned officer of the court it is the responsibility of the taxpayer to coordinate with ICPA and ensure that the ICPA's report comply with the Court's requirements. Hence, it is still the duty of the taxpayer to ensure the sufficiency of the evidence it presented during the trial of the case, especially when it filed its formal offer of evidence and rested its case. Thus, taxpayer's right to due process was not violated. ***(Commissioner of Internal Revenue vs. Toledo Power Co., CTA En Banc Nos. 1778 and 1780, August 15, 2019)***

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Only documents duly identified by a competent witness and formally offered in evidence will merit admission for the consideration and evaluation by the Court.

On March 27, 2014, taxpayer filed its administrative claim for refund or issuance of TCC for its alleged unutilized/unclaimed excess input VAT for the four quarters of TY 2012. On August 22, 2014, taxpayer filed before the CTA a Petition for Review.

The CTA denied the claim for refund of the taxpayer ruling that the taxpayer failed to prove that it is a VAT-registered entity. To prove that it is a VAT-registered taxpayer, the taxpayer offered in evidence a certified true copy of BIR Certificate of Registration. However, since the taxpayer failed to have it identified by any of its witnesses, it was denied admission. The said BIR Certificate of Registration was not admitted since it was not identified by a competent witness during the trial on the merits. It does not even appear in any of the Judicial Affidavits executed and identified by the taxpayer's witnesses, precisely it is not found in the minutes of the proceedings during which petitioner's witnesses were presented on the witness stand. ***(Nokia (Philippines), Inc., vs. Commissioner of Internal Revenue, CTA EB No. 1824 (CTA Case No. 8876), August 16, 2019)***

DISSENTING OPINION (J. Del Rosario): BIR Certificate of Registration, being a public document, is admissible in evidence notwithstanding that it was not identified by any of taxpayer's witnesses during the trial. A public document is admissible in evidence even without further proof of its due execution and genuineness. The said document is self-authenticating and thus, petitioner is not actually required to have it identified by its witness to prove its genuineness and due execution.

No amount of ICPA examination would matter without the recommendation of the Director of the MGB and approval of the Sec. of the DENR of the expenses and capital expenditures of the taxpayer to be considered it as recoverable pre-operating expenses.

Taxpayer filed a letter addressed to BIR Excise LT Audit Division I seeking for the recovery of excise taxes paid on its removals of copper and excise taxes paid dore bars. Without the decision of the BIR on its claim for refund or the issuance of a TCC, the taxpayer filed a Petition for Review with the CTA.

The CTA denied the claim for refund of the taxpayer ruling that, assuming that the claimed excise taxes were paid within the 5-year recovery period, the Court could not grant taxpayer's claim for failure to comply with the requisites set forth in DAO No. 99-56, particularly, the provision listing the expenses and capital expenditures to be considered as recoverable pre-operating expenses. This is on the fact that the taxpayer did not submit to the Court the pertinent supporting documents and work programs to ascertain the date when the recovery period should be reckoned from. Thus, the Court in Division find that the taxpayer failed to present evidence to prove that the imposition of excise tax was made during the recovery period.

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However, taxpayer avers that its pre-operating expenses have been examined and validated by independent CPAs twice. Nevertheless, DAO No. 99-56 requires that petitioner's pre-operating expenses be approved by the Secretary of the DENR upon recommendation of the Director of the Mines and Geosciences Bureau (MGB). No amount of ICPA examination would matter without such recommendation and approval. Hence, the Court En Banc denied the claim for failure to submit the necessary supporting documents. ***(Oceana Gold (Philippines), Inc. vs Commissioner of Internal Revenue, CTA EB No. 1904 (CTA Case Nos. 8995 & 9034), August 16, 2019)***

Our Take

NOTE: In the instant case, the Court also pass upon to rule that where the issue involved is characterized as a pure question of law, the doctrine of exhaustion of administrative remedies does not apply. Here, the taxpayer failed to file an appeal with the Secretary of Finance on its question on the validity or constitutionality of an RMC before going to the Court. The reason for this is because an appeal to an administrative officer involving pure questions of law would be an exercise in futility as issues of law cannot be resolved by administrative agencies with finality. At best, the resolution of administrative authorities on these issues is merely tentative.

Like PAGCOR, its contractees and licensees shall likewise pay corporate income tax for income derived from such "other related services".

This is an Omnibus Motion for Reconsideration filed by the taxpayer. It argues that the Court sweepingly concluded that any income from junket gaming operations is subject to corporate income tax. According to the taxpayer the Court's reliance on RMC No. 13-2013 is misplaced and glaringly inconsistent with the provisions under Section 13(2) (a) and (b) of P.D. No. 1869.

The CTA ruled that taxpayer's argument that it is exempt from corporate income tax pursuant to Section 13 of P.D. No. 1869, insofar as its income from its junket gaming operations under the Junket Agreement and the Supplement to Junket Agreement both entered into with PAGCOR is concerned, is without legal basis. It is without a doubt that, like PAGCOR, its contractees and licensees shall likewise pay corporate income tax for income derived from such "other related services", including income from junket operations, considering that Section 14(5) of P.D. No. 1869 is clear that any income that may be realized from these related services shall not be included as part of the income for the purpose of applying the franchise tax, but the same shall be considered as a separate income and shall be subject to income tax. ***(Prime Investment Korea, Inc. vs Commissioner of Internal Revenue, CTA CASE NO. 9573, August 20, 2019)***

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Dividend income is excluded from gross receipts for purposes of imposition of LBT.

The City of Makati assessed the taxpayer for deficiency local business tax (LBT) at the rate of 20% of 1% of its gross receipts in accordance with the provision of Revised Makati Revenue Code (RMRC), thereby categorizing the taxpayer as holding company, as an owner or operator of banks and other financial institutions. The City of Makati argues that the taxpayer's dividend income constitutes taxable gross receipts which may be subjected to LBT. The taxpayer admits that it is a holding company, however, contends should not be taxed as a financial institution under the provisions of RMRC.

The Regional Trial Court (RTC) cancelled the assessment finding that Makati City erroneously imposed LBT on taxpayer's dividend income. Makati City elevated the case to the CTA. The CTA ruled that the City of Makati's taxing power does not extend to the levy of income tax, except when levied on banks and other financial institutions under Section 143(f) of the 1991 LGC. The dividends and interests of the taxpayer in this case, which are considered part of its passive income, are therefore not subject to the city's taxing power, unless the taxpayer is a bank or other financial institution, the imposition of LBT on its dividend income is erroneous. ***(Makati City and the City Treasurer of Makati City vs Metro Pacific Tollways Development Corporation, CTA EB NO. 1754 (CTA AC Case No. 172), August 27, 2019)***

In disputed assessments, taxpayer had the option to either file a petition for review with the Court a quo within thirty (30) days after the expiration of the 180-day period or wait for the final decision of the Commissioner of Internal Revenue on the disputed assessment, even after the expiration of the 180-day period fixed by law.

Taxpayer was assessed by the BIR for calendar year 2007 covering deficiency income tax, value-added tax, expanded withholding tax and withholding tax on compensation. When the case reached the CTA, BIR argues that subject assessments had become final, executory, and demandable by reason of the failure of the taxpayer to timely file its Petition for Review pursuant to the provisions of Section 228 of the National Internal Revenue Code ("NIRC") of 1997, as amended.

The CTA ruled that in the present case where there was inaction on a disputed assessment, taxpayer chose the second option under Section 228 of the NIRC of 1997, as amended. It opted to await the final decision on the protested assessment. On September 03, 2013, taxpayer received the Final Decision dated August 28, 2013 signed by the Regional Director. Accordingly, taxpayer timely filed a "Petition for Review on October 03, 2013, preventing the assessment from becoming final, executory and demandable. ***(Commissioner of Internal Revenue vs. Rieckermann Philippines, Inc, CTA EB No.1855 (CTA Case No. 8715)***

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Allegation of abuse, arbitrariness, or capriciousness committed by the Court in Division is necessary for the disturbance the factual findings of the Court in Division.

The taxpayer filed a Petition for Review against the ruling of the Court in Division denying its claim for refund or the issuance of tax credit certificate notwithstanding its support to the claim by competent evidence. The taxpayer argues that the amount of VAT on the following sales invoices, official receipts, and transaction receipts were shown as a separate item therein, hence, a fact that the VAT was actually paid.

The CTA En Banc ruled that the Court in Division already found that said invoices and official receipts had failed to comply with the substantiation requirements because either the VAT was not separately indicated therein or that the transactions were supported only by a statement of account or a transaction receipt and not by valid VAT invoices and official receipts. Thus, this Court a quo will not disturb the factual findings of the Court in Division absent any allegation of abuse, arbitrariness, or capriciousness committed by the said court against the taxpayer. ***(Commissioner of Internal Revenue vs Mindanao II Geothermal Partnership, CTA EB NO. 1768 and 1770 (CTA Case Nos. 7899, 7942 & 7960), August 30, 2019)***

Transfer of shares is not a transfer of real property ownership contemplated under Section 135 of the LGC.

The corporation is being assessed of tax on transfer of real property ownership under Section 135 of the Local Government Code (LGC) because of the sale of shares of stock of the corporation resulting to change of ownership and name of the corporation.

The CTA En Banc ruled the transfer of shares is not a transfer of real property ownership under Section 135 of the LGC. Clearly, shares are equities and, by definition, not real properties under the contemplation of Section 135 in relation to Article 415 of the Civil Code. Furthermore, with respect to the corporate assets of the corporation, no conveyance transpired between one person to another, which would have had a real property tax consequence. While there was evidence to prove the conveyance of shares, no evidence was uncovered for the alleged conveyance of the corporate assets subject to Section 135. The legal title to the machineries and buildings remained in the same owner, under these indirect shareholders ***(Province of Pangasinan & Marilou E. Utanes in her Capacity as the Provincial Treasurer of Pangasinan vs Team Sual Corporation, CTA EB NO. 1883 (CTA AC No. 173), August 30, 2019)***

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Imported goods that remain in the special economic zones or re-exported to another foreign jurisdiction, shall continue to be tax-free.

The taxpayer is claiming tax refund or issuance of tax credit certificate on the erroneously paid VAT to the Bureau of Customs (BOC) on its importations of petroleum products into the Subic Bay Freeport Zone sold to duly registered locators of Clark Development Corporation and Philippine Economic Zone Authority. On the other hand, the BIR contends that Section 3 of RR No. 2-2012 provides that no claim for refund shall be granted unless it is properly shown to the satisfaction of the BIR that petroleum products imported have been sold to a duly registered locator and have been utilized in the registered activity/ operation of the locator, or that such have been sold and have been used for international shipping or air transport operations, or that the entities to which the said goods were sold are statutorily zero-rated for VAT.

The CTA ruled that Republic Act (RA) No. 7227, otherwise known as the "Bases Conversion and Development Act of 1992" grants tax exemption privileges in the special economic zones because the law considers them as separate customs territories, which means that such jurisdictions are, by legal fiction, foreign territories. Thus, RR No. 2-2012 directly contravenes the tax exemptions granted to the taxpayer under RA No. 7227, as amended by RA No. 9400. Since RR No. 2-2012 is of no force and effect, BIR's imposition of VAT on the taxpayer's importation of diesel is without valid basis. Hence, the VAT payment made by taxpayer on the importation of diesel is erroneous and illegal and should be refunded. ***(PTT Philippines Trading Corporation vs Commissioner of Customs and Commissioner of Internal Revenue, CTA Case No. 9132, August 29, 2019)***

Service by the BIR of assessment notices to a taxpayer's old address despite having earlier knowledge about its new address is no valid notice for purposes of tax assessment.

The BIR contends that the PAN and FAN sent through mail to taxpayer's old address should be deemed valid as the taxpayer failed to notify in writing the RDOs having jurisdiction over its old and new business locations, as well as the BIR computer center as required in Section 11 of RR No. 12-85.

The CTA En Banc ruled that in *BPI case* (*G.R. No. 135446, September 3, 2003*), the Supreme Court invalidated the assessment issued by the BIR against a taxpayer for sending the assessment notice to its old address, despite previous knowledge of its new principal place of business. In the BPI case, the assessment was nullified though it was not shown that the taxpayer therein notified in writing the BIR offices enumerated in Section 11 of RR No. 12-85 of its change of address. The quintessence of the said case-law is that service by the BIR of assessment notices to a taxpayer's old address despite having earlier knowledge about its new address is no valid notice for purposes of tax assessment. Succinctly stated, when the BIR acquires information of a taxpayer's new address, notices should be sent to that address alone, lest the assessment shall be invalid and without force and effect. ***(Commissioner of Internal Revenue vs Daewoo Engineering & Construction Company Limited, CTA EB NO. 1799 (CTA Case No. 8829), August 29, 2019)***

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The bare invocation of "the interest of substantial justice" is not a magic wand that will automatically compel this Court to suspend procedural rules set forth in the Revised Rules of Court of Tax Appeals and Sec. 2 of RA 1125 (An Act Creating the Court of Tax Appeals).

The taxpayer in its Motion for Reconsideration avers that a strict application of the rules can be relaxed in the interest of justice. Allegedly, a strict application of the rules would have an effect of making valid an assessment, which should have been voided in the first place, and the same would indubitably result to the deprivation of taxpayer's right to property because it will then be held liable to pay the amount stated on the subject assessment

The CTA En Banc ruled that the bare invocation of "the interest of substantial justice" is not a magic wand that will automatically compel this Court to suspend procedural rules. Procedural rules are not to be belittled or dismissed simply because their non-observance may have resulted in prejudice to a party's substantive rights. Like all rules, they are required to be followed except only for the most persuasive of reasons when they may be relaxed to relieve a litigant of an injustice not commensurate with the decree of his thoughtlessness in not complying with the procedure prescribed. ***(Nanox Philippines, Inc. vs Commissioner of Internal Revenue, CTA EB No. 1629 (CTA Case No. 8433) August 28, 2019)***

Non-compliance with the mandatory period of 120+30 days is fatal to its claim for refund on the ground of prescription.

The taxpayer filed a Petition for Review against the decision of the Court in Division dismissing the Petition for lack of jurisdiction. The taxpayer insists that the Petition was timely filed within thirty (30) days counted from June 30, 2014 or the date when it was notified by BIR revenue officers of the issuance of RMC No. 54-2014 which denied all pending VAT refund claims. Thus, allegedly it had until July 30, 2014 to file the Petition.

The CTA En Banc ruled that the pronouncements made in RMC No. 54-2014 applies to administrative cases filed after June 11, 2014 only. It must be noted, however, that in the instant case, all administrative claims for refund were filed prior to June 11, 2014, the date of issuance of RMC No. 54-14 and as such, what is applicable to the instant case is 120+30 days rule. Thus, the taxpayer's non-compliance with the mandatory period of 120+30 days is fatal to its claim for refund on the ground of prescription. Accordingly, the Court in Division has no jurisdiction over the taxpayer's judicial claim for refund. ***(Ibex Philippines, Inc. vs Commissioner of Internal Revenue, CTA EB No. 1850 (CTA Case No. 8849) August 28, 2019)***

The issuance of a new LOA in cases of reassignment or transfer of the investigator is mandatory

The taxpayer received a copy of the FLD with the FAN finding it liable for deficiency Income Tax, Value-Added Tax, Withholding Tax on Compensation, Expanded Withholding Tax, Final Withholding Tax, VAT Withholding, Documentary Stamp Tax and the corresponding penalties. Here, the Court questioned the authority of the Revenue Officers who conducted the audit, though this was not raised as an issue by the parties.

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The CTA ruled that RMO No. 43-90, specifically requires the issuance of a new LOA in cases of reassignment or transfer of the investigating Revenue Officer (RO) to another revenue office. On this regard, the Court has already ruled that the issuance of a new LOA in cases of reassignment or transfer of the investigator is mandatory. Here, the absence of a new LOA naming the new ROs rendered them without authority to continue the examination/audit of taxpayer's internal revenue tax liability for TY 2009**. *(FPIP Property Developers and Management Corporation vs Commissioner of Internal Revenue, CTA Case No. 8980, August 28, 2019)***

SEPARATE CONCURRING OPINION (J. Ringpis-Liban): Notwithstanding the absence of a new letter of authority issued to the newly assigned revenue officers the same may be given an authority to continue the audit and examination of the taxpayer's books and other accounting records by way of a Revalidation Notice or Memorandum of Reassignment or any letter in this case. This may validly done under the provisions of NIRC – Sections 6, 7 & 10 – and the laws on agency under the Civil Code.

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BIR ISSUANCES

UPDATES

- **Revenue Memorandum Circular No. 81-2019, July 16, 2019** –A new BIR payment facility is now available, i.e., PESONet.

- **Revenue Memorandum Circular No. 85-2019, August 7, 2019** – The full text of Joint Circular prescribing the implementing guidelines of the fuel marking program.

- **Revenue Memorandum Order No. No. 44-2019, August 6, 2019** – This provides policies, guidelines and procedures on the transmittal of BIR records/dockets to the litigation, prosecution, appellate and legal divisions of revenue regions.

- **Revenue Memorandum Order No. No. 45-2019, June 13, 2019** - This provides for the amendment of Accounts Receivables/Delinquent Account (AR/DAs) to be reported in the financial statements.

- **Revenue Regulations No. 9-2019, August 27, 2019** - This amends Sections 2, 3 and 7 of RR 5-2017 relative to the tax privileges of PWD.

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Revenue Memorandum Circular No. 81-2019, July 16, 2019 – This informs the availability of new payment facility utilizing PESONet.

This was issued to inform the taxpayers, tax practitioners, and others concerned about the availability of the new payment facility utilizing the PESONet Payment system under the National Retail Payment System (NRPS) policy framework of the Bangko Sentral ng Pilipinas (BSP) for the payment of internal revenue taxes.

The PESONet payment system enables taxpayers with an account in any of Bangko Sentral-regulated Financial Institutions to pay their taxes online through the Land Bank of the Philippines' Link.Biz Portal. However, the facility will only be available initially to the depositors of Rizal Banking Corporation (RCBC).

Taxpayers filing their tax returns using the eBIR Forms and taxpayers mandated to use the eFPS may also make use the said payment facility.

Revenue Memorandum Circular No. 85-2019, August 7, 2019 – This circularizes the full text of Joint Circular prescribing the implementing guidelines of the fuel marking program.

Circularizing the full text of Joint Circular No. 001-2019 of the DOF, BIR, and the BOC entitled "Prescribing the Implementing Guidelines of the Fuel Marking Program Pursuant to R.A. No. 10963, otherwise known as the Tax Reform for Acceleration and Inclusion (TRAIN) Law.

The Joint Circular implements the mandatory marking of refined, manufactures, or imported gasoline, diesel, and kerosene in the Philippines, in accordance with the provisions of Section 1800 of the Customs Modernization and Tariff Act (CMTA) and Section 244 of the NIRC, as amended by the TRAIN Law.

Revenue Memorandum Order No. N. 44-2019, August 6, 2019 – This provides policies, guidelines and procedures on the transmittal of BIR

This was issued to ensure the integrity, retention, and availability of BIR records for any legal action and collection of deficiency taxes.

The states that the original or certified true copies (CTC) of the entire BIR records/docket shall be made within fifteen (15) days from receipt of the request of the concerned Legal Division as required by the Department of Justice and/or the CTA for any legal action under the Tax Code. The original or CTC of the BIR records/docket shall be retained by the assessing office for the purpose of enforcing collection action, if necessary, while the case is still pending before the court or while a request for reconsideration is pending before the Commissioner.

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records/dockets to the litigation, prosecution, appellate and legal divisions of revenue regions.

Accordingly, upon receipt of the request for transmittal of the entire BIR docket by the RDO, it shall reproduce the entire docket. The docket must contain an index of contents numbered chronologically, with correct pagination, the top page being the latest dated document. The total number of pages contained in the docket must be certified in the transmittal letter. Within 15 days from receipt of the request, said docket must be transmitted to the requesting division, retaining a copy for file. However, in case there is a need to immediately enforce collection procedures, the RDO shall retain either the original or CTC of the entire BIR Records.

Revenue Memorandum Order No. No. 45-2019, June 13, 2019 - provides for the amendment of Accounts Receivables/Delinquent Account (AR/DAs) to be reported in the financial statements.

This is issued to amend the term "Accounts Receivables / Delinquent Accounts (AR/DA)" as defined under RMO No. 11-2014. Thus, "ARDA" refers to the amount of tax due from a taxpayer which was not paid within the time prescribed for its payment. It includes: (a) Unpaid Revenues *(composed of dishonored check; validated unpaid tax due per tax returns filed by the taxpayer; validated unpaid second installment of income tax by individual taxpayers; and tax liabilities of taxpayers per final and executory decision of the Court)* and (b) Unpaid Assessments which become final and executory due the taxpayer's failure to do the following:

1. File valid protest within the prescribed period of thirty (30) days from its receipt. For this purpose, a valid protest is one which is filed within the time prescribed and it contains the factual and/or legal basis of the protest;

2. Submit the necessary documents to support request for re-investigation within sixty (60) days from the date of filing a valid protest;

3. Appeal the decision of the BIR either to the Commissioner's Office or Court of Tax Appeals within thirty (30) days from receipt of the decision denying the protest,

4. File a motion for reconsideration the decision of the Court favorable to the BIR or appeal the same to higher court within the prescribed time for its filing.

5. Update the BIR on the change of address or cancellation of business registration resulting to the non-receipt of the assessment notice that was delivered or served to the address as indicated in the Registration database in the Integrated Tax System.

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The RMO likewise provides that "Unpaid Revenues" shall be recorded as asset in the Financial Statements of the NG Books of Accounts. However, "Unpaid Assessments" shall not be recorded in the NG Books of Accounts and reported in the Financial Statements considering that the taxpayer can still invoke doubtful validity of the tax assessment at any stage of collection enforcement.

Revenue Regulations No. 9-2019, August 27, 2019 - This amends Sections 2, 3 and 7 of RR 5-2017 relative to the tax privileges of PWD.

This is issued to amend RR No. 05-2017 and insert new paragraphs to be known as paragraph 2.8 and 2.9 which defined the term "Basic Necessities" and "Prime Commodities" in relation to R.A. No. 10754 entitled "An Act Expanding the Benefits and Privileges of Persons with Disability (PWD). RR. No. 05-2017 is the implementing rule relative to the tax privileges of PWDs and tax incentives for establishments granting sales discounts, and prescribing guidelines for the availment thereof.

The RR No. 9-2019 defined basic necessities as goods vital to the needs of consumers for their sustenance and existence. On the other hand, prime commodities was defined as goods not considered basic necessities but are essential to consumers.

RR No. 9-2019 amended Section 3 of RR No. 5-2017 to include a new paragraph which provides that all other goods and services sold by the establishments not included in the enumeration expressly provided by law shall not considered for the 20% discount privilege even if they exclusive use and enjoyment or availment of the PWD. Instead, every PWD shall enjoy a special discount of five percent (5%) of the regular retail price, without exemption from VAT as regards basic necessities and prime commodities enumerated under Sec. 2 (2.8) and (2.9). This is on the condition that total amount of the purchase for personal use and consumption of the PWD shall not exceed the Php 1,300.00 per calendar week, without carry-over of the unused amount, containing at least four kinds of items listed as basic necessities and prime commodities.
Consequently, Section 7.1 of Section 7 of RR No. 5-2017, was also amended to read:

> "SECTION 7. EXEMPTION FROM VALUE-ADDED TAX (VAT) ON SALE OF GOODS OR SERVICES TO QUALIFIED PERSONS WITH DISABILTY.
> 7.1 sales of any goods and services under Section 3 of these Regulations to PWD, *except sale of basic necessities and prime commodities* enumerated under Sec. 2 (2.8) and (2.9) hereof, shall be exempt from the value-added tax. xxx xxx xxx"

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SEC ISSUANCES

- **SEC Memorandum Circular No. 17 series of 2019, August 6, 2019** - This provides the guidelines on securities deposit of branch offices of foreign corporations.
- **SEC Notice, August 5, 2019** - This notifies concerned entities on the Submission of the Mandatory Disclosure Form (MDF).
- **SEC Memorandum Circular No. 18 series of 2019, August 23, 2019** - This provides the prohibition on unfair debt collection practices of financing companies and lending companies.

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SEC Memorandum Circular No. 17 series of 2019, August 6, 2019 - This provides the guidelines on securities deposit of branch offices of foreign corporations.

This covers branch offices of foreign corporations duly licensed to operate in the Philippines that are mandated to deposit securities with the SEC. It further provides that sales returns, allowances and discounts, and direct costs and expenses incurred with foreign entities and related parties are deductible items from the gross income computation of certain types of branch offices. The deductions for the direct costs and expenses incurred with foreign entities and related parties are subject to the submission of certain requirements like the branch office's Audited Special or Annual Income Statement showing separately the amounts of direct cost and expenses actually incurred with foreign entities and foreign related parties; the solvency ratio of the foreign corporation and Philippine Branch indicating the sufficiency of assets to cover the branch's obligations; and the property and equipment should consist of large, permanent, and non-mobile items.

The formula for the computation of the security deposits of foreign airline companies' branch offices has been modified as follows:

Revenue Allocated to the Philippine Operations = Total Direct Operating Cost and Expenses Incurred in the Phil. for the Entire Operation
= Rate Derived Above x Gross Revenue in the Philippine Operations

Amount of Security Deposit = Revenue in the Philippine Operations x 2%

This circular also provides an exclusive list of acceptable securities which are classified into two, namely, government debt instruments and equity instruments. For the second classification, only the following are acceptable: shares of stock in registered enterprises under EO 226, shares of stock in domestic corporations registered in the stock exchange, shares of stock in domestic insurance corporations under the supervision and regulation of the Office of the Insurance Commissioner, and shares of stock in banks licensed by the BSP. These securities may be substituted, released, and returned, so long as the conditions to do so are met. Finally, fines and penalties may be imposed for non-compliance with this circular, without prejudice to the filing of criminal charges against the persons responsible for the violation.

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SEC Notice, August 5, 2019 - This notifies concerned entities on the Submission of the Mandatory Disclosure Form (MDF).

This notice is to inform concerned entities that effective 1 August 2019, the SEC is no longer accepting the MDF using the form required under SEC MC No. 15, Series of 2018. Those who have not yet submitted their MDFs are advised to await the issuance by the SEC of the amendments to the said Circular with the MDF required to be submitted thereunder.

SEC Memorandum Circular No. 18 series of 2019, August 23, 2019 - This circular provides the prohibition on unfair debt collection practices of financing companies and lending companies.

This lays down the conduct constituting unfair collection practices which shall then be subject to penalties. These practices are enumerated in this Memorandum Circular.

For purposes of collection, Financing Companies (FCs) and Lending Companies (LCs) shall keep strictly confidential the data on the borrower, except under the certain circumstances which justify the disclosure of such information, such as a written or recorded consent of the borrower; release, submission, or exchange of customer information with other financial institutions, credit information bureaus, lenders (potential or actual), their agents and/or representatives; upon orders of a court of competent jurisdiction or any government office or agency authorized by law; disclosure to collection agencies, counsels and other agents of the FCs and LCs to enforce the latter's rights against the borrower; disclosure to third party service providers solely for the purpose of assisting or rendering services to the FCs and LCs in the administration of its lending or financing business; and disclosure to third parties such as insurance companies, solely for the purpose of insuring the FCs and LCs from borrower default or other credit loss, and the borrower from fraud or unauthorized charges.

Violation of this Circular shall subject FCs and LCs to the payment of fines, without prejudice to any other penalties that may be imposed by the Commission pursuant to Presidential Decree No. 902-A, Republic Act No. 11232, otherwise known as the Revised Corporation Code of the Philippines, and all other relevant laws, rules and regulations being implemented by the Commission, which may include the suspension or revocation of the FC/LC's primary license and/or disqualification of its directors and officers; and further, to the penalties that may be imposed by the courts or other government agencies in the exercise of their respective mandates.

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- **SEC-OGC Opinion No. 19-29, August 28, 2019, RE: Wholly or Partly Nationalized Activity; Anti-Dummy Law -** For trading to be considered as retail, the sale must be directed to the general public.

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SEC
OPINION AND DECISION

For trading to be considered as retail, the sale must be directed to the general public.

This is issued pursuant to a request to determine whether a corporation is engaged in a wholly or partly nationalized activity under the Foreign Investments Act (FIA) and other applicable laws, and whether it is covered by the Anti-Dummy Law.

The Corporation is primarily engaged in the business of wholesale trading, importing, exporting, and repackaging pharmaceutical, food supplements or functional cosmetic products, consumer goods, medical devices, molecular diagnostic household products, and other related items.

The SEC ruled that the corporation is not deemed to be engaged in retail trade because it is selling on a wholesale basis, hence, its sales are not direct to the general public. Citing previous SEC Opinions, the SEC stated that for trading to be considered as retail, the sale must be directed to the general public or for the consumption to the general public as end-user. The SEC added that the corporation is also not subject to the foreign equity restriction for domestic enterprises under the DIA since its paid-up capital is more than the paid in equity capital threshold. Finally, the SEC ruled that the Anti-Dummy Law does not apply to the corporation since it is not engaged in a wholly or partly nationalized activity. *(SEC-OGC Opinion No. 19-29, August 28, 2019, RE: Wholly or Partly Nationalized Activity; Anti-Dummy Law)*

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IC ISSUANCES

- **IC Circular Letter (CL) No. 2019-39, August 8, 2019** – This revises the framework on the selection of external auditors.

- **IC Circular Letter (CL) No. 2019-41, August 19, 2019** – This provides the amendment to Circular Letter No. 2018-43 in relation to Item No. 5 of Circular Letter No. 2017-42 on salary loans extended to Department of Education (DepEd) teachers.

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Insurance Commission (IC) Circular Letter (CL) No. 2019-39, August 8, 2019 – This circular letter revises the framework on the selection of external auditors.

This provides that IC-regulated entities shall engage the services of an external auditor included in the List of Accredited External Auditors. A regulated entity shall only appoint an external auditor belonging to the same category or from categories higher than the category of the concerned regulated entity. The external auditor appointed by the regulated entity shall likewise audit its subsidiaries and affiliates engaged allied and related services. The performance of the accredited external auditor shall be periodically evaluated through an assessment of the quality of the regulated entity's financial statements and the supplemental report requirements to be issued by the IC. The results of assessment shall serve as the basis for their continuing inclusion in the List of Accredited External Auditors. The external auditor shall be changed or the lead and concurring partner of the audit firm shall be rotated every five (5) years or earlier and regulated entities shall observe a cooling off period of at least two (2) years before the re-engagement of the same lead and concurring partner of the audit firm or individual external auditor.

The IC may issue directives, orders, or impose sanctions for non-compliance with this circular letter. So long as there is notice and an opportunity to be heard, the accredited external auditor/auditing firm may be delisted. The imposition of sanctions shall be without prejudice to the sanctions or penalty that the other FSF member regulators may impose on concerned external auditor pursuant to their respective rules and regulations.

Insurance Commission (IC) Circular Letter (CL) No. 2019-41, August 19, 2019 – This circular letter provides the amendment to Circular Letter No. 2018-43 in relation to Item No. 5 of Circular Letter No. 2017-42 on salary loans extended to Department of Education (DepEd) teachers.

This provides that Item No. 5 of Circular Letter No. 2018-43 is amended, such that, the aggregate amount of loans shall be valued according to their unpaid balances but shall not exceed forty percent (40%) of the total assets for life insurance companies and Mutual Benefit Associations (MBAs) and fifty percent (50%) of the net worth for non-life insurance companies as shown in the latest approved financial statements.

This limitation or ceiling shall not apply to Insurance Companies, MBAs, and Pre-Need Companies under Conservatorship as a way to extend relief and rehabilitation assistance (to encourage increased business). In lieu of the ceiling, the Insurance Commissioner may, at his discretion and upon recommendation of the conservator or receiver, adjust said ceiling for, or otherwise exempt them, provided that such will promote the objectives of the conservatorship or receivership of the concerned distressed companies. The conservator shall determine and recommend the extent within which the aggregate amount of loans receivables can be admitted, taking into account such parameters as efficiency rate, default risk, contribution to earnings and other factors that would minimize risk and optimize income opportunities.

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BSP ISSUANCES

- **Bangko Sentral ng Pilipinas (BSP) Circular No. 2019-1045, August 2, 2019** – This provides the amendments to minimum capitalization of Non-stock Savings and Loan Associations (NSSLAs) and capital contributions of members.

- **Bangko Sentral ng Pilipinas (BSP) Circular No. 2019-1047, August 29, 2019** – This provides the guidelines on the Adoption of Philippine Financial Reporting Standard (PFRS) 9 - Financial Instruments and Financial Reporting Package for Non-Stock Savings and loan Associations (FRPNSSLA).

- **Bangko Sentral ng Pilipinas (BSP) Memorandum No. M-2019-22, August 22, 2019** – This submits the revised Annex X and the new Annex AD of the Manual of Regulations on Foreign Exchange Transactions, as amended by BSP circular No. 1030 dated 5 February 2019.

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Bangko Sentral ng Pilipinas (BSP) Circular No. 2019-1045, August 2, 2019 – This provides the amendments to minimum capitalization of Non-stock Savings and Loan Associations (NSSLAs) and capital contributions of members.

The Monetary Board approved the amendments to Sections 4106S of the Manual of Regulations for Non-Bank Financial Institutions (MORNBFI) on the minimum capitalization of NSSLAs and capital contributions of members. Section 4116S was amended to provide that for purposes of computing CAR, the aggregate amount of capital contribution buffer that shall be allowed to form part of an NSSLA's total capital accounts shall be capped at ten times (10x) the aggregate amount of fixed capital contributions.

Section 4106S pertains to the policy of the BSP to ensure that NSSLAs operate in a safe and sound manner. Towards this end, the BSP shall set requirements for NSSLAs that is capable to support the NSSLAs as a going concern, commensurate to the risk exposures of the NSSLA and provides loss absorption mechanism, for both expected and unexpected losses.

Subsection 4106S.3 pertains to the administration of capital contributions of members wherein an NSSLA shall ensure that each member has a capital contribution account representing the member's capital contributions and it shall issue to its member a member's ownership document evidencing the member's capital contribution, containing the member's capital contribution balance with a breakdown showing separately the fixed and capital contribution buffer balances. Receipt of funds from persons not belonging to the well-defined group of an NSSLA is strictly prohibited and in cases of violations pertaining to receipts of funds intended as capital contribution and/or deposits from such persons, the funds shall not be considered as capital contributions, and/or deposits, as the case may be, and shall be treated as payables and presented under other liabilities in the financial reporting package.

Bangko Sentral ng Pilipinas (BSP) Circular No. 2019-1047, August 29, 2019 – This provides the guidelines on the Adoption of Philippine Financial Reporting Standard (PFRS) 9 - Financial Instruments and Financial Reporting

The Monetary Board approved the guidelines governing the adoption of PFRS 9 - Financial Instruments and the Financial Reporting Package for Non-Stock Savings and Loan Associations (NSSLAs), wherein Subsections 4161S.1, 4161S.2, 4181S, 4305S.5, and 4391S.3 of the Manual of Regulations for Non-Bank Financial Institutions (MORNBFI) were amended.

As to the first amended subsection, it mainly discussed the BSP policy to align its financial reporting requirements with widely accepted international standards and practices. In line with this, the BSP requires NSSLAs to adopt PFRS and prepare prudential reports and audited financial statements. The BSP also issued guidelines on the adoption of PFRS 9 financial instruments and reserves its right to deploy supervisory tools and enforcement actions to promote adherence to the standards and principles set forth in the guidelines. As to the second amended subsection, NSSLAs are required to adopt the

Package for Non-Stock Savings and loan Associations (FRPNSSLA).

Manual of Accounts prescribed under the Financial Reporting Package for Non-Stock Savings and Loan Associations (FRPNSSLA) for prudential reporting purposes. Third, NSSLAs are required, within 120 calendar days after the close of the calendar year or their fiscal year, as the case may be, to furnish the Monetary Board and post in any of the NSSLAs' bulletin boards or in any other conspicuous place a copy of their financial statements showing the amount and character of the assets and liabilities of the NSSLAs at the end of the preceding calendar/fiscal year. The Monetary Board may, in addition to the foregoing, require the disclosure of such other information as it shall deem necessary for the protection of the members of the NSSLA. Fourth, it was provided that the accrual of interest earned on non-performing loans and other credit accommodations shall not be allowed. Fifth, financial instruments that are required to be classified and measured at fair value, within the scope of PFRS 9 under Appendix S-17, shall be marked-to-market in accordance with the provisions of PFRS 13 on Fair Value Measurement and the related rules and regulations issued by the SEC. Investments in debt instruments shall be marked-to-market following the guidelines set out in Appendix Q-20a. Finally, NSSLAs and the concerned officers found to have violated the provisions of these regulations shall be subject to supervisory enforcement actions.

Bangko Sentral ng Pilipinas (BSP) Memorandum No. M-2019-22, August 22, 2019 – This submits the revised Annex X and the new Annex AD of the Manual of Regulations on Foreign Exchange Transactions, as amended by BSP circular No. 1030 dated 5 February 2019.

This provides that pursuant to Section 3 of Circular No. 1030, all foreign exchange selling/remitting AABs and registering MBs shall submit to the BSP, through the International Operations Department, reports on Foreign Investments Registered with the BSP (Annex X) and reports on Foreign Direct Investments Registered with AAB (Annex AD) commencing on 04 September 2019 using the prescribed forms.

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TRAIN 2 OFFERS SUPER INCENTIVES

By
Benedicta Du-Baladad

Contrary to the expectations of many, TRAIN 2 or the Trabaho bill under House Bill 176 that was approved last Wednesday by the House Committee on Ways and Means actually offers not just basic incentives, but super incentives.

But the catch is, the business or activity must be in the targeted priority list. Fair enough, isn't it? For why should the government exempt one from paying its share in taxes without getting a bigger benefit in return? Phrased differently, why should we allow free riders?

The Department of Finance has been saying all along that they want an incentive system that is targeted, performance-based, transparent and time-bound. By a strike of luck or perhaps hard lobbying, they got what they wanted in HB 176, the Trabaho bill. Or is it now called the Citira bill (Corporate Income Tax and Incentives Rationalization Act)?

Under HB 176, the income tax-based incentive is capped at five years, consisting of three years income-tax holiday (ITH) and additional two years under a 50 percent reduced income tax (RIT). The rule is clear—there will be no extension beyond five years. Time-bound.

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But certain enterprises, activities or projects that are believed to foster national development are exempted from the five-year limitation rule. This category of enterprises or activities are not only given extended period of incentives, but are granted what I call “super incentives” that are attractive enough to change business decisions.

Among these are the following: (1) agribusiness projects or activities located outside Metro Manila and other urban areas identified in the Strategic Investment Priority Plan; (2) those undertaking projects or activities in less developed areas identified in SIPP or recovering from armed conflict or major disaster; (3) those relocating their business outside Metro Manila and selected urban areas adjacent to Metro Manila to other areas of the country.

All of these shall be entitled to additional two-year incentives, or a total of seven years. Of the additional two years, one year can be under ITH.

Not only that. There are incentives that are tied to certain preferred activities or projects and for as long as you continue to engage in that activity or project, you can enjoy these “super incentives,” without limitation as to the period of availment. So, who says there is no forever?

Manufacturing enterprises reinvesting their surplus or undistributed earnings in SIPP activities can deduct from their gross income 50 percent of the amount reinvested within a period of five years from reinvestment. If the enterprise reinvests every five years and such reinvestment is big enough to offset yearly taxable income for the next five years from the time of reinvestment, the enterprise can effectively enjoy ITH in perpetuity for as long as it reinvests.

The same could be said for infrastructure costs spent for countrywide development. These are allowed as deduction from gross income to the extent of 100 percent of the infrastructure costs incurred.

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To top it all, HB 176 has empowered the President to grant a longer incentive period or even grant incentives to those not covered in the SIPP or granted in the Tax Code if the interest of national economic development so requires. The power given to the President is wide, both as to coverage and period of availment. The only limitation is that, it shall be given to desirable projects where the benefits to be derived from such projects is clear and convincing, and far outweigh the cost of incentives given.

While TRAIN 2 had cut down on certain incentives especially the "forever incentives," it also gave more generous incentives to targeted recipients. It did not totally abolish incentives, which was the fear of many. It only redirected or refocused its lenses to capture the proper subjects of its generosity, keeping in mind the overall value they bring to national development.

As in all reforms, there would be those caught in transition. HB 176 provides for transition rules to those affected by the phasing out of the "forever incentives."

For those under ITH, they can continue with ITH but only for the remaining period not exceeding five years. Those under the 5 percent gross income earned shall be allowed to continue based on the following schedule: two years, if GIE was availed for more than 10 years, three years if five to 10 years, and five years if below five years.

Given all these, TRAIN 2 is not bad after at all.

But the implementation could be a big concern. TRAIN 2 incorporated the whole incentives law in the Tax Code, thereby placing it within the exclusive playground of the BIR. I have doubts if there would be an honest-to-goodness implementation of the incentives system in those hands whose main task is to collect taxes.

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Something to worry about, and should do something about. There should be proper safeguards to protect this good law, good incentive system, from becoming a dead law.

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For inquiries on the article, you may call or email

ATTY. BENEDICTA DU-BALADAD
Founding Partner, Chair and CEO
T: +63 2 403 2001 loc. 300
dick.du-baladad@bdblaw.com.ph

THE BDB TEAM

OUR EXPERTS

BENEDICTA DU-BALADAD
Founding Partner, Chair & CEO
T: +63 2 403 2001 loc. 300
dick.du-baladad@bdblaw.com.ph

FULVIO D. DAWILAN
Managing Partner
T: +63 2 403 2001 loc. 310
fulvio.dawilan@bdblaw.com.ph

IRWIN C. NIDEA, JR.
Senior Partner
T: +63 2 403 2001 loc. 330
irwin.c.nideajr@bdblaw.com.ph

RODEL C. UNCIANO
Partner
T: +63 2 403 2001 loc. 140
rodel.unciano@bdblaw.com.ph

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