

[REPUBLIC ACT NO. 8424]

AN ACT AMENDING THE NATIONAL INTERNAL REVENUE CODE, AS AMENDED, AND FOR OTHER PURPOSES

SECTION 1. Short Title. — This Act shall be cited as the “Tax Reform Act of 1997.”

“CHAPTER III — TAX ON INDIVIDUALS

“SECTION 24. Income Tax Rates. —

“(A) Rates of Income Tax on Individual Citizen and Individual Resident Alien of the Philippines. —

“(1) An income tax is hereby imposed:

“(a) On the taxable income defined in Section 31 of this Code, other than income subject to tax under Subsections (B), (C) and (D) of this Section, derived for each taxable year from all sources within and without the Philippines by every individual citizen of the Philippines residing therein;

“(b) On the taxable income defined in Section 31 of this Code, other than income subject to tax under Subsections (B), (C) and (D) of this Section, derived for each taxable year from all sources within the Philippines by an individual citizen of the Philippines who is residing outside of the Philippines including overseas contract workers referred to in Subsection (C) of Section 23 hereof; and

“(c) On the taxable income defined in Section 31 of this Code, other than income subject to tax under Subsections (B), (C) and (D) of this Section, derived for each taxable year from all sources within the Philippines by an individual alien who is a resident of the Philippines.

“The tax shall be computed in accordance with and at the rates established in the following schedule:

“Not over ₱10,000	5%
“Over ₱10,000 but not over ₱30,000	₱500+10% of the excess over ₱10,000
“Over ₱ 30,000 but not over ₱70,000	₱2,500+15% of the excess over ₱30,000
“Over ₱ 70,000 but not over ₱140,000	₱8,500+20% of the excess over ₱70,000
“Over ₱140,000 but not over ₱250,000	₱22,500+25% of the excess over ₱140,000
“Over ₱250,000 but not over ₱500,000	₱50,000+30% of the excess over ₱250,000
“Over ₱500,000	₱125,000+34% of the excess over ₱500,000 in 1998.

“*Provided*, That effective January 1, 1999, the top marginal rate shall be thirty-three percent (33%) and effective January 1, 2000, the said rate shall be thirty-two percent (32%).

“For married individuals, the husband and wife, subject to the provision of Section 51(D) hereof, shall compute separately their individual income tax based on their respective total taxable income: *Provided*, That if any income cannot be definitely attributed to or identified as income exclusively earned or realized by either of the spouses, the same shall be divided equally between the spouses for the purpose of determining their respective taxable income.

“(B) *Rate of Tax on Certain Passive Income: —*

“(1) *Interests, Royalties, Prizes, and Other Winnings. —* A final tax at the rate of twenty percent (20%) is hereby imposed upon the amount of interest from any currency bank deposit and yield or any other monetary benefit from deposit substitutes and from trust funds and similar arrangements; royalties, except on books, as well as other literary works and musical compositions, which shall be imposed a final tax of ten percent (10%); prizes (except prizes amounting to Ten thousand pesos (₱10,000) or less which shall be subject to tax under Subsection (A) of Section 24; and other winnings (except Philippine Charity Sweepstakes and Lotto winnings), derived from sources within the Philippines: *Provided, however*, That interest income received by an individual taxpayer (except a nonresident individual) from a depository bank under the expanded foreign currency deposit system shall be subject to a final income tax at the rate of seven and one-half percent (7 1/2%) of such interest income: *Provided, further*, That interest income from long-term deposit or investment in the form of savings, common or individual trust funds, deposit substitutes, investment management accounts and other investments evidenced by certificates in such form prescribed by the Bangko Sentral ng Pilipinas (BSP) shall be exempt from the tax imposed under this Subsection: *Provided, finally*, That should the holder of the certificate pre-terminate the deposit or investment before the fifth (5th) year, a final tax shall be imposed on the entire income and shall be deducted and withheld by the depository bank from the proceeds of the long-term deposit or investment certificate based on the remaining maturity thereof:

“Four (4) years to less than five (5) years — 5%;

“Three (3) years to less than four (4) years — 12%; and

“Less than three (3) years — 20%.

“(2) *Cash and/or Property Dividends. —* A final tax at the following rates shall be imposed upon the cash and/or property dividends actually or constructively received by an individual from a domestic corporation or from a joint stock company, insurance or mutual fund companies and regional operating headquarters of multinational companies, or on the share of an individual in the distributable net income after tax of a partnership (except a general professional partnership) of which he is a partner, or on the share of an

proceeds of sale or disposition, the portion of the gain presumed to have been realized from the sale or disposition shall be subject to capital gains tax. For this purpose, the gross selling price or fair market value at the time of sale, whichever is higher, shall be multiplied by a fraction which the unutilized amount bears to the gross selling price in order to determine the taxable portion and the tax prescribed under paragraph (1) of this Subsection shall be imposed thereon.

“SECTION 35. Allowance of Personal Exemption for Individual Taxpayer. —

“(A) In General. — For purposes of determining the tax provided in Section 24(A) of this Title, there shall be allowed a basic personal exemption as follows:

“For single individual or married individual judicially decreed as legally separated with no qualified dependents	₱20,000
“For head of family	₱25,000
“For each married individual	₱32,000

“In the case of married individuals where only one of the spouses is deriving gross income, only such spouse shall be allowed the personal exemption.

“For purposes of this paragraph, the term ‘head of family’ means an unmarried or legally separated man or woman with one or both parents, or with one or more brothers or sisters, or with one or more legitimate, recognized natural or legally adopted children living with and dependent upon him for their chief support, where such brothers or sisters or children are not more than twenty-one (21) years of age, unmarried and not gainfully employed or where such children, brothers or sisters, regardless of age are incapable of self-support because of mental or physical defect.

“(B) Additional Exemption for Dependents. — There shall be allowed an additional exemption of Eight thousand pesos (₱8,000) for each dependent not exceeding four (4).

“The additional exemption for dependents shall be claimed by only one of the spouses in the case of married individuals.

“In the case of legally separated spouses, additional exemptions may be claimed only by the spouse who has custody of the child or children: *Provided*, That the total amount of additional exemptions that may be claimed by both shall not exceed the maximum additional exemptions herein allowed.

“For purposes of this Subsection, a ‘dependent’ means a legitimate, illegitimate or legally adopted child chiefly dependent upon and living with the taxpayer if such dependent is not more than twenty-one (21) years of age, unmarried and not gainfully employed or if such dependent, regardless of age, is incapable of self-support because of mental or physical defect.

“(C) Change of Status. — If the taxpayer marries or should have additional dependent(s) as defined above during the taxable year, the taxpayer may claim the corresponding additional exemption, as the case may be, in full for such year.

“If the taxpayer dies during the taxable year, his estate may still claim the personal and additional exemptions for himself and his dependent(s) as if he died at the close of such year.

“If the spouse or any of the dependents dies or if any of such dependents marries, becomes twenty-one (21) years old or becomes gainfully employed during the taxable year, the taxpayer may still claim the same exemptions as if the spouse or any of the dependents died, or as if such dependents married, became twenty-one (21) years old or became gainfully employed at the close of such year.

“(D) Personal Exemption Allowable to Nonresident Alien Individual. — A nonresident alien individual engaged in trade, business or in the exercise of a profession in the Philippines shall be entitled to a personal exemption in the amount equal to the exemptions allowed in the income tax law in the country of which he is a subject or citizen, to citizens of the Philippines not residing in such country, not to exceed the amount fixed in this Section as exemption for citizens or residents of the Philippines: *Provided*, That said nonresident alien should file a true and accurate return of the total income received by him from all sources in the Philippines, as required by this Title.

“CHAPTER IX — RETURNS AND PAYMENT OF TAX

“SECTION 51. Individual Return. —

“(A) Requirements. —

“(1) Except as provided in paragraph (2) of this Subsection, the following individuals are required to file an income tax return:

“(a) Every Filipino citizen residing in the Philippines;

“(b) Every Filipino citizen residing outside the Philippines, on his income from sources within the Philippines;

“(c) Every alien residing in the Philippines, on income derived from sources within the Philippines; and

“(d) Every nonresident alien engaged in trade or business or in the exercise of profession in the Philippines.

“(2) The following individuals shall not be required to file an income tax return:

“(a) An individual whose gross income does not exceed his total personal and additional exemptions for dependents under Section 35: *Provided*, That a citizen of the Philippines and any alien individual engaged in business or practice of profession within the Philippines shall file an income tax return, regardless of the amount of gross income;

“(b) An individual with respect to pure compensation income, as defined in Section 32(A)(1), derived from sources within the Philippines, the income tax on which has been correctly withheld under the provisions of Section 79 of this Code: *Provided*, That an individual deriving compensation concurrently from two or more employers at any time during the taxable year shall file an income tax return: *Provided, further*, That an individual whose pure compensation income derived from sources within the Philippines exceeds Sixty thousand pesos (P60,000) shall also file an income tax return;

“(c) An individual whose sole income has been subjected to final withholding tax pursuant to Section 57(A) of this Code; and

“(d) An individual who is exempt from income tax pursuant to the provisions of this Code and other laws, general or special.

“(3) The foregoing notwithstanding, any individual not required to file an income tax return may nevertheless be required to file an information return pursuant to rules and regulations prescribed by the Secretary of Finance, upon recommendation of the Commissioner.

“(4) The income tax return shall be filed in duplicate by the following persons:

“(a) A resident citizen — on his income from all sources;

“(b) A nonresident citizen — on his income derived from sources within the Philippines;

“(c) A resident alien — on his income derived from sources within the Philippines; and

“(d) A nonresident alien engaged in trade or business in the Philippines — on his income derived from sources within the Philippines.

“(B) Where to File. — Except in cases where the Commissioner otherwise permits, the return shall be filed with an authorized agent bank, Revenue District Officer, Collection Agent or duly authorized Treasurer of the city or municipality in which such person has his legal residence or principal place of business in the Philippines, or if there be no legal residence or place of business in the Philippines, with the Office of the Commissioner.

“(C) When to File. —

“(1) The return of any individual specified above shall be filed on or before the fifteenth (15th) day of April of each year covering income for the preceding taxable year.

“(2) Individuals subject to tax on capital gains:

“(a) From the sale or exchange of shares of stock not traded thru a local stock exchange as prescribed under Section 24(C) shall file a return within thirty (30) days after each transaction and a final consolidated return on or before April 15 of each year covering all stock transactions of the preceding taxable year; and

“(b) From the sale or disposition of real property under Section 24(D) shall file a return within thirty (30) days following each sale or other disposition.

“(D) Husband and Wife. — Married individuals, whether citizens, resident or nonresident aliens, who do not derive income purely from compensation, shall file a return for the taxable year to include the income of both spouses, but where it is impracticable for the spouses to file one return, each spouse may file a separate return of income but the returns so filed shall be consolidated by the Bureau for purposes of verification for the taxable year.

“(E) Return of Parent to Include Income of Children. — The income of unmarried minors derived from property received from a living parent shall be included in the return of the parent, except (1) when the donor’s tax has been paid on such property, or (2) when the transfer of such property is exempt from donor’s tax.

“(F) Persons Under Disability. — If the taxpayer is unable to make his own return, the return may be made by his duly authorized agent or representative or by the guardian or other person charged with the care of his person or property, the principal and his representative or guardian assuming the responsibility of making the return and incurring penalties provided for erroneous, false or fraudulent returns.

“(G) Signature Presumed Correct. — The fact that an individual’s name is signed to a filed return shall be prima facie evidence for all purposes that the return was actually signed by him.

February 25, 1998