

# **[ PRESIDENTIAL DECREE NO. 1994, November 05, 1985 ]**

## **FURTHER AMENDING CERTAIN PROVISIONS OF THE NATIONAL INTERNAL REVENUE CODE.**

WHEREAS, the current economic crisis amounts to a grave emergency which affects the stability of the nation and require immediate action;

WHEREAS, there is an imperative need to simplify and restructure certain provisions of the National Internal Revenue Code;

WHEREAS, the issuance of this Decree is an essential and necessary component of the national economic recovery program promulgated to meet and overcome the emergency;

NOW, THEREFORE, I, FERDINAND E. MARCOS, President of the Republic of the Philippines, by virtue of the powers vested in me by the Constitution, do hereby order and decree:

SECTION. 1. Section 5 of the National Internal Revenue Code is hereby amended to read as follows:

"SEC. 5. Forms, receipts, certificates, and appliances. [a] Provision and distribution to proper officials. – It shall be the duty of the Commissioner, among other things, to prescribe, provide, and distribute to the proper officials the requisite licenses, internal revenue stamps, labels, all other forms, certificates, bonds, records, invoices, books, receipts, instruments, appliances and apparatus used in administering the laws falling within the jurisdiction of the Bureau. For this purpose, internal revenue stamps, strip stamps and labels shall be caused by the Commissioner to be printed with adequate security features.

"[b] Receipts for payments made. – It shall be the duty of the Commissioner or his duly authorized representative to whom any payment of any taxes is made under the provisions of this Code, to issue to the person making such payment a receipt, expressing the amount paid and the particular account for which such payment was made."

SEC. 2. Section 7 of the National Internal Revenue Code is hereby amended to read as follows:

"SEC. 7. Power of the Commissioner to obtain information, examine, summon and take testimony. – For the purpose of ascertaining the correctness of any return, making a return where none has been made, determining the liability of any person or any internal revenue tax, or collecting any such liability, the Commissioner is authorized:

"[1] To examine any book, paper, record or other data which may be relevant or material to such inquiry;

"[2] To obtain information from any office or officer of the national and local governments, government agencies or its instrumentalities, including the Central Bank of the Philippines and government-owned or controlled corporations;

"[3] To summon the person liable for tax or required to file a return, or any officer or employee of such person, or any person having possession, custody, or care of the books of accounts and other accounting records containing entries relating to the business of the person liable for tax, or any other person, to appear before the Commissioner or his duly authorized representative at a time and place specified in the summons and to produce such books, papers, records, or other data, and to give testimony;

"[4] To take such testimony of the person concerned, under oath, as may be relevant or material to such inquiry; and

"[5] To cause revenue officers and employees to make a canvass from time to time of any revenue district or region and inquire after and concerning all persons therein who may be liable to pay any internal revenue tax, and all persons owning or having the care, management or possession of any object with respect to which a tax is imposed."

SEC. 3. Section 16 of the National Internal Revenue Code is hereby amended to read as follows:

"SEC. 16. Power of the Commissioner to make assessments. – [a] Examination of returns and determination of tax. – After a return is filed as required under the provisions of this Code, the Commissioner shall examine it and assess the correct amount of the tax. The tax or deficiency tax so discovered shall be paid upon notice and demand from the Commissioner. Any return, statement or declaration filed by any person in any revenue office bearing or purportedly bearing the official or receiving seal or stamp of a revenue office wherein the same is filed shall not be withdrawn: Provided, however, that the same may be modified or changed by filing another amended return, statement or declaration.

"[b] Failure to submit required reports, statements, etc. – When a report required by law as a basis for the assessment of any national internal revenue tax shall not be forthcoming within the time fixed by law or regulation or when there is reason to believe that any such report is false, incomplete or erroneous, the Commissioner shall assess the proper tax on the best evidence obtainable.

"In case a person fails to make and file a required return or list at the time prescribed by law, or makes willfully or otherwise, a false or fraudulent return or list, the Commissioner shall make the return from his own knowledge and from such information as he can obtain through testimony or otherwise. In any such case, the Commissioner may make a return or amend any return and any return so made or amended shall be prima facie good and sufficient for all legal purposes.

"[c] Authority to conduct inventory taking, surveillance and to prescribe presumptive gross sales and receipts. – The Commissioner may at any time during the taxable year order inventory taking of the stock-in-trade of any taxpayer as a basis for determining his internal revenue tax liabilities or may place the business operations of any person, natural or juridical, under observation or surveillance if there are reasons to believe that such person is not declaring his correct income and receipts for internal revenue tax purposes. The findings may be used as a basis for assessing the taxes for the other months or quarters of the same or different taxable years and such assessment shall be deemed prima facie correct.

"When it is found that a person has failed to issue receipts and invoices in violation of the requirements of Section 181, or when there is reason to believe that the books of accounts or other records do not correctly reflect the declarations made or to be made in a return required to be filed under the provisions of this Code, the Commissioner, after taking into account the sales, receipts, income or other taxable base of other persons engaged in similar businesses under similar situations or circumstances or after considering other relevant information, may prescribe a minimum amount of such gross receipts, sales, and taxable base, and such amount so prescribed shall be prima facie correct for purposes of determining the correct internal revenue tax liabilities of such person.

"[d] Authority to terminate taxable period. -When it shall come to the knowledge of the Commissioner that a taxpayer is retiring from the business subject to tax or intends to leave the Philippines, or remove his property therefrom, or hide or conceal his property, or perform any act tending to obstruct the proceedings for the collection of the tax for the past or current quarter or years or render the same totally or partly ineffective unless such proceedings are begun immediately, the Commissioner shall declare the tax period of such taxpayer terminated at any time and shall send the taxpayer a notice of such decision, together with a request for the immediate payment of the tax for the period so declared terminated and the tax for the preceding year or quarter, or such portion thereof as may be unpaid, and said taxes shall be due and payable immediately and shall be subject to all the penalties hereafter prescribed, unless paid within the time fixed in the demand made by the Commissioner.

"[e] Authority of the Commissioner to prescribe real property values. - The Commissioner is hereby authorized to divide the Philippines into different zones or areas and shall, upon consultation with competent appraisers both from private and public sectors, determine the fair market value of real properties located in each zones or area. For purposes of computing any internal revenue tax the value of the property shall be whichever is the higher of:

"[1] the fair market value as determined by the Commissioner; or

"[2] the fair market value as shown in the schedule of values of the Provincial and City Assessors.

"[f] Authority of the Commissioner to inquire into bank deposit accounts. - The provisions of Republic Act No. 1405 to the contrary notwithstanding, the Commissioner is hereby authorized to inquire into the bank deposits of a decedent for the purpose of determining the gross estate of such decedent. In case a taxpayer offers to compromise the payment of his tax liabilities on the ground that his financial position demonstrates a clear inability to pay the tax assessed, his offer shall not be considered unless he waives his privilege under the said law and such waiver shall serve as authority of the Commissioner to inquire into the bank deposits of said taxpayer.

"[g] Authority to accredit and register tax agents. - The Commissioner may require prior accreditation and registration, based on competence and moral fitness, of persons and general professional partnerships or their representatives in the preparation and filing of required tax returns, statements, reports, memoranda, or in appearing or in filing protests or papers with the Bureau for taxpayers. For this purpose, the Commissioner is empowered to create national and regional

accreditation boards and to designate from among the ranks of senior officials of the Bureau, one chairman and two members in each board and issue the necessary rules and regulations subject to the approval of the Minister of Finance.”

SEC. 4. Section 19 of the National Internal Revenue Code is hereby amended to read as follows:

“SEC. 19. Sources of revenue. – The following taxes, fees and charges are deemed to be national internal revenue taxes:

“[a] Income tax;

“[b] Estate and gift taxes;

“[c] Excise taxes;

“[d] Taxes on business;

“[e] Documentary stamp taxes;

“[f] Mining taxes; and

“[g] Miscellaneous taxes, fees and charges, namely: taxes on banks, finance companies, insurance companies, franchise taxes, taxes on amusements, and charges on forest products, tobacco inspection fees and such other taxes as are or hereafter may be imposed and collected by the Bureau of Internal Revenue.”

SEC. 5. Section 21 [d] of the National Internal Revenue Code is hereby amended to read as follows:

“SEC. 21 [d] On interest from bank deposits and yield or any other monetary benefit from deposit substitutes and from trust fund and similar arrangements. – Interest from Philippine Currency Bank deposits and yield or any other monetary benefit from deposit substitutes and from trust fund and similar arrangements whether received by citizens of the Philippines or by resident alien individuals, shall be subject to a 17-1/2% final tax and paid as provided in Sections 51 and 52 of this Code.

SEC. 6. Section 24 [b] [2] [ii] of the National Internal Revenue Code is hereby amended to read as follows:

“[ii] Tax on branch profits remittances. – Any profit remitted by a branch to its head office shall be subject to a tax of 15% [except those registered with the Export Processing Zone Authority]: Provided, That any profit remitted by a branch to its head office authorized to engage in petroleum operations in the Philippines shall be subject to tax at 7-1/2%. In both cases, the tax shall be collected and paid in the same manner as provided in Sections 51 and 52 of this Code: and Provided, further, That interests, dividends, rents, royalties, including remunerations for technical services, salaries, wages, premiums, annuities, emoluments or other fixed or determinable annual, periodical or casual gains, profits, income and capital gains received by a foreign corporation during each taxable year from all sources within the Philippines shall not be considered as branch profits unless the same are effectively connected with the conduct of its trade or business in the Philippines.

SEC. 7. Section 24 [cc] of the National Internal Revenue Code is hereby renumbered and amended as 24 [d] and a new sub-paragraph denoted as 24 [e] is hereby added, both to read as follows:

“[d] Rates of tax on interest from deposits and yield or any other monetary benefit from deposit substitutes and from trust fund and similar arrangements. – Interest

on Philippine currency bank deposits and yield or any other monetary benefit from deposit substitutes and from trust fund and similar arrangements received by domestic or resident foreign corporation shall be subject to a 17-1/2% final tax to be collected and paid as provided in Sections 51 and 52 of this Code, except income received by [1] foreign governments, [2] financing institutions owned, controlled, or enjoying refinancing from them, and [3] international or regional financing institutions established by governments.”

“[e] Tax on Royalties. – Royalties shall be subject to 15% final tax, the return and payment of which shall be in accordance with Sections 51 and 52 of this Code.

SEC. 8. A new subparagraph [E] is hereby added to paragraph [c] [7] of Section 29 of the National Internal Revenue Code to read as follows:

“[E] Prizes and awards made primarily in recognition of religious, charitable, scientific, educational, artistic, literary, or civic achievement but only if:

“[1] the recipient was selected without any action on his part to enter the contest or proceeding; and

“[2] the recipient is not required to render substantial future services as a condition to receiving the prize or award.”

SEC. 9. Paragraphs [a] [3]; [b] [1]; and [b] [2] of Section 30 of the National Internal Revenue Code are hereby amended and a new sub-paragraph to Section 30 [d] [1], denoted as 30 [d] [1] [c] is hereby inserted, to read as follows:

“[a] [3] Expenses allowable to private educational institutions. – In addition to the expenses allowable as deductions under subparagraph [1] of this paragraph, a private educational institution, whether stock or nonstock, may at its option, elect either [a] to deduct expenditures otherwise considered as capital outlays of depreciable assets incurred during the taxable year for the expansion of school facilities or [b] to deduct allowances for depreciation therefor under paragraph [f] of this Section.”

“[b] [1] In general. – That amount of interest paid or accrued within a taxable year on indebtedness in connection with the taxpayer’s profession, trade or business, except on indebtedness incurred or continued to purchase or carry obligation the interest upon which is exempt from taxation as income under this Title. However, no such deduction shall be allowed to a branch in the Philippines in respect to the amount of interest paid or incurred abroad by a non-resident parent lending institution, unless the indebtedness was incurred to provide funds for investment in the said resident branch, the income from which is taxable under this Title.

“The deduction shall be allowed to the branch if it submits an authenticated copy of the investment agreement and such other information as may be required for its determination.

“[b] [2] Interest allowable to non-resident aliens. – In the case of a non-resident alien individual or a foreign corporation, the amount of interest allowable is the amount of interest paid within the year on indebtedness incurred in connection with his profession, trade or business in the Philippines, except on indebtedness incurred or continued to purchase or carry obligations, the interest upon which is wholly exempt from taxation as income under this Title, and a ratable part of any interest effectively connected with the business or trade conducted exclusively within the