

[PRESIDENTIAL DECREE NO. 1800, January 16, 1981]

PROVIDING FOR THE TAXATION OF CERTAIN PASSIVE INCOME

WHEREAS, there is a need to raise capital to hasten the industrialization of our developing economy;

WHEREAS, it is a more desirable policy to raise the needed capital through equity investment and at the same time to broaden the base of equity ownership of existing corporations;

WHEREAS, there is a need to restructure our tax system on investment income by realigning the taxation of dividend income and interest income;

WHEREAS, there is a need to simplify the collection of taxes on all types of investment income through a withholding tax system.

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

SECTION 1. Section 21 of the National Internal Revenue Code is hereby amended by adding a new paragraph to read as follows:

"**SEC. 21.** *Rates of tax on citizens or residents.* —

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"Dividends received by an individual who is a citizen or resident of the Philippines from a domestic corporation, shall be subject to a final tax at the rate of fifteen (15%) per cent on the total amount thereof, which shall be collected and paid as *provided* in Sections 53 and 54 of this Code;"

SEC. 2. Section 24, paragraph (c) of the National Internal Revenue Code is hereby amended to read as follows:

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"(c) *Rate of tax on certain dividends.* — Dividends received by a domestic or resident H foreign corporation from a domestic corporation liable to tax under this Code —

1. Shall be subject to a final tax of 10% on the total amount thereof, which shall be collected and paid as *provided* in Sections 53 and 54 of this Code: Provided, That if the recipient of such dividend is exempt from income taxation, no tax shall be imposed and that if the recipient is enjoying preferential income tax treatment, the preferential tax rates so provided shall apply;
2. Shall not be included in the determination of the gross income of the recipient corporation: *Provided, however,* That interest paid or incurred on indebtedness abroad by a domestic or resident foreign corporation, which indebtedness was incurred to provide funds for investment in a domestic corporation shall be allowed as a