

[REPUBLIC ACT NO. 1921, June 22, 1957]

**AN ACT TO AMEND SECTION THIRTY-FIVE OF THE NATIONAL
INTERNAL REVENUE CODE, AND FOR OTHER PURPOSE.**

Be it enacted by the Senate and House of Representatives of the Philippines in Congress assembled:

SECTION 1. Section thirty-five of Commonwealth Act Numbered Four hundred sixty-six is hereby amended to read as follows:

"SEC. 35. *Determination of gain or loss from the sale or other disposition of property.*—The gain derived or loss sustained from the sale or other disposition of property, real, personal, or mixed, shall be determined in accordance with the following schedule:

"(a) In the case of property acquired before March first, nineteen hundred and thirteen, the fair market price or value of such property as of March first, nineteen hundred and thirteen.

"(b) In the case of property acquired on or after March first, nineteen hundred and thirteen, the cost thereof if such property was acquired by purchase or the fair market price or value as of the date of the acquisition if the same was acquired by gratuitous title.

"(c) Exchange of property—

1. *General rule:* Except as herein provided, upon the sale or exchange of property, the entire amount of the gain or loss, as the case may be, shall be recognized.
2. *Exceptions:* No gain or loss shall be recognized if in pursuance of a plan of merger or consolidation (a) a corporation which is a party to a merger or consolidation, exchanges property solely for stock in a corporation which is a party to the merger or consolidation, (b) a shareholder exchanges stock in a corporation which is a party to the merger or consolidation solely for the stock of another corporation, also a party to the merger or consolidation, or (c) a security holder of a corporation which is a party to the merger or consolidation exchanges his securities in such corporation solely for stock

or securities in another corporation, a party to the merger or consolidation.

3. *Exchanges not solely in kind:*

- a. If, in connection with an exchange described in the above exceptions, a shareholder or security holder receives not only stock or securities permitted to be received without recognition of gain or loss, but also money and/or other property, the gain, if any, but not the loss, shall be recognized but in an amount not in excess of the sum of the money and the fair market value of such other property received: *Provided*, That as to the shareholder, if the money and/or other property received has the effect of a distribution of a taxable dividend, there shall be taxed as a dividend to the shareholder an amount of the gain recognized not in excess of his ratable share of the undistributed earnings and profits of the corporation; the remainder, if any, of the gain recognized shall be treated as a capital gain.
- b. If, in connection with the exchange described in the above exceptions, the transferor corporation receives not only stock permitted to "be received without the recognition of gain or loss, but also money and/or other property, then (1) if the corporation receiving such money and/or other property distributed it in pursuance to the plan of merger or consolidation, no gain to the corporation shall be recognized from the exchange, but (2) if the corporation receiving such other property and/or money does not distribute it in pursuance of the plan of merger or consolidation, the gain, if any, but not the loss, to the corporation shall be recognized, but in an amount not in excess of the sum of such money and the fair market value of such other property so received, which is not distributed.
- c. If the taxpayer, in connection with the exchanges described in the foregoing exceptions, receives stock or securities which would be permitted to be received without the recognition of gain if it were the sole consideration, and as part of the consideration, another party to the exchange assumes a liability of the taxpayer, or acquires from the taxpayer property subject to a liability, then such assumption or