

[BIR REVENUE REGULATIONS NO. 4-2011, March 15, 2011]

**PROPER ALLOCATION OF COSTS AND EXPENSES AMONGST
INCOME EARNINGS OF BANKS AND OTHER FINANCIAL
INSTITUTIONS FOR INCOME TAX REPORTING PURPOSES**

SECTION 1. Objective. – The purpose of these Revenue Regulations is to clearly set the rules on the allocation of cost and expenses between the Regular Banking Unit (RBU) or Foreign Currency Deposit Unit (FCDU)/Expanded Foreign Currency Deposit Unit (EFCDU) or Offshore Banking Unit (OBU) operations of a depository bank considering that the RBU and FCDU/EFCDU or OBU is governed by different income taxation regime in the National Internal Revenue Code (NIRC) of 1997, as amended.

These Regulations are likewise applicable to other financial institutions which are subject to or exempt from both regular income and final taxes with reference to proper allocation of costs and expenses.

SECTION 2. General Principles. – Income earnings of banks can be derived from the operations of its RBU or from its FCDU/EFCDU or OBU.

Taxable income derived from operations of RBUs are subject to corporate income tax rate of 30% pursuant to Section 27 (A) of the NIRC of 1997, as amended.

Income derived by banks from its FCDUs/EFCDUs or OBUs with respect to foreign currency transactions with non-residents, OBUs in the Philippines, and local commercial banks, including branches of foreign banks authorized to transact business with FCDUs/ EFCDUs are exempt from income taxes pursuant to Section 28 of the NIRC of 1997, as amended.

Interest income derived by banks from its FCDU/EFCDU or OBU from foreign currency loans granted to residents, other than OBUs and FCDUs/EFCDUs, is subject to final tax rate of 10%.

SECTION 3. Method of Allocation of Cost and Expenses. – Only costs and expenses attributable to the operations of the RBU can be claimed as deduction to arrive at the taxable income of the RBU subject to regular income tax. Any cost or expense related with or incurred for the operations of FCDU/EFCDU or OBU are not allowed as deduction from the RBU's taxable income.

In computing for amount allowable as deduction from RBU operations, all costs and expenses should be allocated between the RBU and FCDU/EFCDU or OBU using the following basis: