

**[ BIR (DOF) REVENUE REGULATION NO. 2-93,  
January 20, 1993 ]**

**REPUBLIC ACT NO. 7496 ADOPTING THE SIMPLIFIED NET  
INCOME TAXATION SCHEME (SNITS) FOR THE SELF-EMPLOYED  
AND PROFESSIONAL ENGAGED IN THE PRACTICE OF THEIR  
PROFESSION.**

*SECTION 1. Scope* - Pursuant to Section 245 of the National Internal Revenue Code (NIRC), as amended, in relation to Section 6 of Republic Act No. 7496, the following regulations are hereby promulgated to implement the provisions of said Act. These regulations shall govern the income taxation of resident citizens and aliens who are self employed and/or professionals engaged in the practice of their profession; non-resident aliens; estates and trusts engaged in trade or business; general professional partnerships as defined under Section 20 (b) of the NIRC, as amended, and their individual partners.

*SECTION 2. Definitions* - For purposes of these regulations, the following terms and phrases shall be construed to have the following meanings:

(1) Accredited Financial Institutions - shall refer to institutions duly accredited as such by the Central Bank.

(2) Accredited Relief Organizations - shall refer to associations and/or organizations duly accredited as such by the Department of Social Welfare and Development (DSWD) and the Bureau of Internal Revenue (BIR).

(3) Business Rental - compensation for use or profession, for the purpose of the trade, profession or business, of property to which the taxpayer has not taken or is not taking title or in which he has no equity.

(4) Cost of Goods Sold/Cost of Sales - refers to the amount which a manufacture, trader or service concern deducts from his gross sales/revenue representing his cost of capital.

(5) Direct Costs - shall include ordinary and necessary expenses which are incurred in connections with the taxpayer's trade or business and practice of profession during a taxable year. These are the deductions enumerated in Section 3 (B) hereof.

(6) Fuel - is a substance used to produce light, heat or power such as charcoal, gas, gasoline, coal and the like.

(7) Direct Labor - the compensation for all labor that is traceable to the finished goods.

(8) Professionals - refer to persons who derive their income from the practice of their profession. This includes lawyers and other persons who are registered with the Professional Regulations Commission (PRC) such as doctors, dentists, certified public accountants and others similarly situated. The term professionals also refers to one who pursues an art and makes his living therefrom such as artists, athletes and others similarly situated.

(9) Raw Materials - goods purchased for use as an ingredient or component part of a finished product. They range from goods in their natural/original state requiring further processing or fabrication, to intermediate and finished parts that may be assembled without further processing. The cost of raw materials shall include freight and insurance paid or incurred by the buyer.

(10) Salary - the compensation paid for personal services actually rendered in connection with the taxpayer's trade or business and practice of profession.

(11) Supplies - refer to something used directly in carrying on work. They include articles necessary for enabling an existing entity to function properly.

(12) Self-employed - means a person engaged in trade or business or performs services for others for a fee and who derives personal income from such trade or business or from the performance of such services. The term includes but is not limited to single proprietorships engaged in trade or business as manufacturers, traders, market vendors, owners of eateries, and farmers as well as owners of service shops, brokers, agents, and other persons similarly situated.

(13) Telecommunications Cost - the cost of all communications done at a distance such as telephone, radiogram, "fax," telegram, cable and other telecommunication devices.

*SECTION 3. Computation of Income Tax Under SNITS - (A) Coverage and Rates - A tax is hereby imposed on the taxable income as determined in Section 27 of the NIRC, received during each taxable year from all sources, other than from the following:*

1) compensation income [Sec. 21 (a), NIRC];

2) foreign source income derived by a non-resident citizen [Sec. 21 (b)];

3) certain passive incomes, i.e., interest income/yield from Philippine currency bank deposits and deposit substitute instruments; royalties; prizes exceeding P3,000 and winnings; dividends received from domestic corporation and share of the individual partner in a partnership subject to income tax under Section 24 (a), NIRC [Sec. 21 (c)];

4) capital gains from sales of shares of stock [Sec. 21 (d)]; and

5) capital gains from sales of real property [Sec. 21 (e)].

by every individual whether a citizen of the Philippines or an alien residing in the Philippines who is self-employed or a professional engaged in the practice of his profession therein, computed in accordance with the following schedule:

Not over P10,000 - 3%

Over P10,000 but not over P30,000 -  
P300 + 9% of excess over P10,000

Over P30,000 but not over P120,000 -  
P2,100 + 15% of excess over P30,000

Over P120,000 but not over P350,000 -  
P15,600 + 20% of excess over P120,000

Over P350,000 - P61,600 + 30% of  
excess over P350,000

*B. Allowable deductions* - In computing the taxable income subject to income tax under Section 21 (f), NIRC, only the following direct costs shall be allowed as deductions:

- a. Raw Materials, supplies and direct labor;
- b. Salaries of employees directly performing services for the taxpayer in the course or pursuant to his business or practice of his profession. This includes salaries and wages paid for janitorial, security, bookkeeping, administrative and sales personnel, by a self-employed taxpayer or a professional in the exercise of his profession.
- c. Telecommunication, electricity, fuel, light and water;
- d. Business rental;
- e. Depreciation;
- f. Contribution made to the Government and accredited relief organizations for the rehabilitation of calamity-stricken areas declared by the President.

The deductibility of the contributions is based on two criteria, to wit:

- i) The donee or recipient must be the government or accredited relief organization; and
- ii) The contribution must be utilized for the rehabilitation of calamity-stricken areas declared by the President.

The term Government as used in the law refers to the Government of the Philippines or any of its agencies or political subdivisions and includes:

- i) Departments, agencies, bureaus, commissions and authorities, including state colleges and universities;
  - ii) Autonomous regions, provincial, city or municipal governments;
- g. Interest paid or accrued within a taxable year on loans contracted from accredited financial institutions which must be proven to have been paid or