

[Act No. 2833, March 07, 1919]

AN ACT ESTABLISHING THE INCOME TAX, MAKING OTHER PROVISIONS RELATING TO SAID TAX, AND AMENDING CERTAIN SECTIONS OF ACT NUMBERED TWENTY-SEVEN HUNDRED AND ELEVEN.

Be it enacted by the Senate and House of Representatives of the Philippines in Legislature assembled and by the authority of the same:

CHAPTER I.—*On individuals.*

SECTION 1. (a) There shall be levied, assessed, collected, and paid annually upon the entire net income received in the preceding calendar year from all sources by every individual, a citizen or resident of the Philippine Islands, a tax of two per centum upon such income; and a like tax shall be levied, assessed, collected, and paid annually upon the entire net income received in the preceding calendar year from all sources within the Philippine Islands by every individual, a nonresident alien, including interest on bonds, notes, or other interest-bearing obligations of residents, corporate or otherwise.

(b) In addition to the income tax imposed by subdivision (a) of this section, herein referred to as the normal tax, there shall be levied, assessed, collected, and paid upon the total net income of every individual, or, in the case of a nonresident alien, the total net income received from all sources within the Philippine Islands, an additional income tax, herein referred to as the additional tax, of one per centum per annum upon the amount by which such total net income exceeds twenty thousand pesos and does not exceed forty thousand pesos; two per centum per annum upon the amount by which such total net income exceeds forty thousand pesos and does not exceed sixty thousand pesos; three per centum per annum upon the amount by which such total net income exceeds sixty thousand pesos and does not exceed eighty thousand pesos; four per centum per annum upon the amount by which such total net income exceeds eighty thousand pesos and does not exceed one hundred thousand pesos; five per centum per annum upon the amount by which such total net income exceeds one hundred thousand pesos and does not exceed one hundred and fifty thousand pesos; six per centum per annum upon the amount by which such total net income exceeds one hundred and fifty thousand pesos and does not exceed two hundred thousand pesos; seven per centum per annum upon the amount by which such total net income exceeds two hundred thousand pesos and does not exceed two hundred and fifty thousand pesos; eight per centum per annum upon the amount by which such total net income exceeds two hundred and fifty thousand pesos and does not exceed three hundred thousand pesos; nine per centum per annum upon the amount by which such total net income exceeds three hundred thousand pesos and does not exceed five hundred thousand pesos; ten per centum per annum upon the amount by which such total net income exceeds five hundred thousand pesos and does not exceed one million pesos; eleven per centum per annum upon the amount by which such total net income exceeds one million pesos and does not exceed one million five hundred thousand pesos; twelve per centum per annum upon the amount by which such total net income exceeds one million five hundred thousand pesos and does not exceed two million pesos, and thirteen per centum per annum upon the amount by which such total net

income exceeds two million pesos.

For the purposes of the additional tax there shall be included as income the income derived from dividends or net earnings subject to the tax established in subsection (a) of section ten.

All the provisions of this Law relating to the normal tax on individuals, so far as they are applicable and are not inconsistent with this subdivision and section three, shall apply to the imposition, levy, assessment, and collection of the additional tax imposed under this subdivision. .

(c) The foregoing normal and additional tax rates shall apply to the entire net income, except as hereinafter provided, received by every taxable person in the calendar year nineteen hundred and nineteen and in each year thereafter.

INCOME DEFINED

SEC. 2. (a) Subject only to such exemptions and deductions as are hereinafter allowed, the taxable net income of a person shall include gains, profits, and income derived from salaries, wages, or compensation for personal service of whatever kind and in whatever form paid, or from professions, vocations, businesses, trade, commerce, sales or dealings in property, whether real or personal, growing out of the ownership or use of or interest in real or personal property, also from interest, rent, dividends, securities, or the transaction of any business carried on for gain or profit, or gains, profits and income derived from any source whatever.

(b) Income received by estates of deceased persons during the period of administration or settlement of the estate, shall be subject to the normal and additional tax and taxed to their estates, and also such income of estates or any kind of property held in trust, including such income accumulated in trust for the benefit of unborn or unascertained persons, or persons with contingent interests, and income held for future distribution under the terms of the will or trust shall be likewise taxed, the tax in each instance, except when the income is returned for the purpose of the tax by the beneficiary, to be assessed to the executor, administrator, or trustee, as the case may be: *Provided*, That where the income is to be distributed annually or regularly between existing heirs or legatees, or beneficiaries the rate of tax and method of computing the same shall be based in each case upon the amount of the individual share to be distributed.

Such trustees, executors, administrators, and other fiduciaries are hereby indemnified against the claims or demands of every beneficiary for all payments of taxes which they shall be required to make under the provisions of this Law, and they shall have credit for the amount of such payments against the beneficiary or principal in any accounting which they make as such trustees or other fiduciaries.

(c) For the purpose of ascertaining the gain derived from the sale or other disposition of property, real, personal, or mixed, 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, shall be the basis for determining the amount of such gain derived.

ADDITIONAL TAX IS LEVIED ON UNDISTRIBUTED PROFITS.

SEC. 3. For the purpose of the additional tax, the taxable income of any individual shall include the share to which he would be entitled of the gains and profits, if divided or distributed, whether divided or distributed or not, of all corporations, joint-stock companies, partnerships, joint-accounts (cuentas en participacion), associations or insurance companies, however created or organized, when such gains or profits have been fraudulently accumulated or retained for the purpose of evading the payment of the additional tax upon them; and the fact that any such corporation, joint-stock company, partnership, joint-account (cuentas en participacion), association, or insurance company, is a mere holding company, or that the gains and profits are permitted to accumulate beyond the reasonable needs of the business, shall be prima facie evidence of a fraudulent purpose to escape such tax; but the fact that the gains and profits are in any case permitted to accumulate and become surplus shall not be construed as evidence of a purpose to escape the said tax in such case unless the Secretary of Finance shall certify that in his opinion such accumulation is unreasonable for the purposes of the business. When requested by the Collector of Internal Revenue such corporation, joint-stock company, partnership, joint-account (cuenta en participacion), association, or insurance company shall forward to him a correct statement of such gains and profits and the names and addresses of the individuals or shareholders who would be entitled to the same if divided or distributed.

INCOME EXEMPT BY LAW.

SEC. 4. The following incomes shall be exempt from the provisions of this Law:

(a) The proceeds of life insurance policies paid to beneficiaries upon the death of the insured.

(b) The amount received by the insured, as a return of premium or premiums paid by him under life insurance, endowment, or annuity contracts, either during the term or at the maturity of the term mentioned in the contract or upon surrender of the contract.

(c) The value of property acquired by gift, bequest, devise, or descent, but the income from such property shall be included as income.

(d) Interest upon the obligations of the United States . to the extent provided in the Act authorizing the issue thereof; interest upon the obligations of the Government of the Philippine Islands or any political subdivision thereof, but in the case of such obligations issued after January first, nineteen hundred and nineteen, only to the extent provided in the Act authorizing the issue thereof.

DEDUCTIONS AND CREDITS ALLOWED.

SEC. 5. In computing net income in the case of a citizen or resident of the Philippine Islands:

(a) For the purpose of the tax there shall be allowed as deductions—

First. The necessary expenses actually paid or incurred in carrying on any business or trade, not including personal, living, or family expenses.

Second. All interest paid within the year on his indebtedness except on indebtedness incurred for the purchase of obligations or securities the interest upon which is exempt from taxation as 'income under this Law.

Third. Taxes paid within the year imposed by any foreign government, by the Government of the Philippine Islands, or by any province, city, municipality, or township, not including those assessed against local benefits.

Fourth. Losses actually sustained during the year, incurred in his business or trade, or arising from fires, storms, shipwreck, or other casualty, and from theft, when such losses are not compensated for by insurance or otherwise: *Provided*, That for the purpose of ascertaining the loss sustained from the sale or other disposition of property, real, personal, or mixed 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, shall be the basis for determining the amount of such loss sustained.

Fifth. In transactions entered into for profit but not connected with his business or trade the losses actually sustained therein during the year to an amount not exceeding the profits arising there from.

Sixth. Debts due to the taxpayer actually ascertained; to be worthless and charged off within the year.

Seventh. A reasonable allowance for depreciation of property arising out of its use or employment in the business or trade.

Eighth, (a) In the case of oil and gas wells a reasonable -allowance for actual reduction in flow and production to be ascertained not by the flush flow, but by the settled production or regular flow; (b) in the case of mines a reasonable allowance for depletion thereof not to exceed the market value in the mine of the product thereof, which has been mined and sold during the year for which the return and computation are made, such reasonable allowance to be made in the case of both (a) and (b) under rules and regulations to be prescribed by the Collector of Internal Revenue with the approval of the Secretary of Finance: *Provided*, That when the allowances authorized in (a) and (b) shall equal the capital originally invested, or in case of purchase made prior to March first, nineteen hundred and thirteen, the fair market value as of that date, no further allowance shall be made. No deduction shall be allowed for any amount paid out for new buildings, permanent improvements, or betterments, made to increase the value of any property, and no deduction shall be made for any amount of expense of restoring property or making good the exhaustion thereof for which an allowance is or has been made.

Ninth. Contributions or gifts actually paid or made within the year to corporations or associations organized and ; operated exclusively for religious, charitable, scientific, or educational purposes, or to societies for the prevention of cruelty to children or animals, no part of the net income of which inures to the benefit of any private stockholder or individual, to an amount not in excess of five per centum of the taxpayer's taxable net income as computed without the benefit of this paragraph. Such contributions or gifts shall be allowable as deductions only if verified under rules and regulations prescribed by the Collector of Internal Revenue with the

approval of the Secretary of Finance.

(b) For the purpose of the normal tax only, the income embraced in a personal return shall be credited with the amount received as dividends or net profits subject to the tax established in subsection (a) of section ten.

(c) A like credit shall be allowed as to the amount of income, the normal tax upon which has been paid or with held for payment at the source of the income under the provisions of this Law.

NONRESIDENT ALIENS.

SEC. 6. In computing net income in the case of a nonresident alien—

(a) For the purpose of the tax there shall be allowed as deductions:

First. The necessary expenses paid or incurred in carrying on any business or trade conducted by him within the Philippine Islands, not including personal, living or family expenses.

Second. The proportion of all interest paid within the year by such person on his indebtedness, except on indebtedness incurred for the purchase of obligations or securities the interest upon which is exempt from taxation as income under this Law, which the gross amount of his income for the year derived from sources within the Philippine Islands bears to the gross amount of his income for the year derived from all sources within and without the Philippine Islands, but this deduction shall be allowed only if such person includes in the return required by section eight all the information necessary for its calculation.

Third. Taxes paid within the year imposed by the Government of the United States, the Government of the Philippine Islands, or any province, city, municipality, or township, paid within the Philippine Islands, not including those assessed against local benefits.

Fourth. Losses actually sustained during the year incurred in business or trade conducted by him within the Philippine Islands, and losses of property within the Philippine Islands arising from fires, storms, shipwreck, or other casualty, and from theft, when such losses are not compensated for by insurance or otherwise: *Provided*, That for the purpose of ascertaining the amount of such loss or losses sustained in the sale or other disposal of real, personal or mixed 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, shall be the basis for determining the amount of such loss or losses.

Fifth. In transactions entered into for profit but not connected with his business or trade, the losses actually sustained therein during the year to an amount not exceeding the profits arising there from in the Philippine Islands.

Sixth. Debts arising in the course of business or trade conducted by him within the Philippine Islands due to the taxpayer actually ascertained to be worthless and charged off within the year.