January 24, 2020

BIR RULING NO. OT-020-20

Sec. 28 (B) (5) (b) Tax Code; BIR Ruling No. 453-13; BIR Ruling No. 004-07

Ford Motor Company Philippines, Inc.
8/F Filinvest One Building, Northgate Cyberzone
Filinvest City, Alabang
Muntinlupa City 1781

Attention: *AAA*

Gentlemen :

This refers to the letter of **FORD MOTOR COMPANY PHILIPPINES, INC. ("Ford Philippines")** dated 18 December 2014, requesting for confirmation that the dividends to be paid by Ford Philippines to Ford Motor Company and Ford International Services LLC, are subject to the fifteen percent (15%) final withholding tax (FWT) under Section 28 (B) (5) (b) of the Tax Code of 1997, as amended, otherwise known as "Tax Sparing Credit."

It is represented that **Ford Philippines** with Tax Identification No. 000-000-000-000, is a corporation duly organized and existing under the laws of the Republic of the Philippines and duly registered with the Securities and Exchange Commission (SEC) with Company Registration No. A199713368 and having its principal place of business at No. 1 American Road, Greenfield Automotive Park-Special Economic Zone, Brgy. Don Jose, Sta. Rosa City, Laguna.

On the other hand, Ford Motor Company ("Ford US"), is a non-resident foreign corporation registered and existing under the laws of the United States of America (USA) with office at 1 American Road, Dearborn, MI 48126, USA; that it is not licensed to do business in the Philippines as evidenced by a Certificate of Non-Registration issued by SEC on December 11, 2014; that Ford US owns 89% of the outstanding shares of Ford Philippines.

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Likewise, Ford International Services LLC ("Ford Services"), is a non-resident limited liability company existing under the laws of the United States of America with office address at 1 American Road, WHQ, Dearborn, MI 48126, USA; that it is not licensed to do business in the Philippines as evidenced by a Certificate of Non-Registration issued by SEC on November 20, 2014; that Ford Services owns 11% of the outstanding shares of Ford Philippines.

On December 12, 2014, the Board of Directors of Ford Philippines declared cash dividends in the amount of PHP_____ out of its unrestricted retained earnings payable on December 19, 2014.

Based on the foregoing representations, you now request confirmation that the dividends to be paid by **Ford Philippines** to **Ford US** and **Ford Services** are subject to the fifteen percent (15%) preferential final withholding tax rate prescribed in Section 28 (B) (5) (b) of the Tax Code of 1997, as amended.

In reply thereto, please be informed that Section 28 (B) (5) (b) of the Tax Code of 1997, as amended provides that —

"SEC. 28. Rates of Income Tax on Foreign Corporation. —

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(B) *Tax on Nonresident Foreign Corporation. —*

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(b) Inter-corporate Dividends. — A final withholding tax at the rate of fifteen percent (15%) is hereby imposed on the amount of cash and/or property dividends received from a domestic corporation, which shall be collected and paid as provided in Section 57(A) of this Code, subject to the conditions that the country in which the non-resident foreign corporation is domiciled, shall allow a credit against the tax due from the non-resident foreign corporation taxes deemed to have been paid in the Philippines equivalent to twenty percent (20%), which represents the difference between the regular income tax of thirty-five percent (35%) and the fifteen percent (15%) tax on dividends as provided in this subparagraph; Provided, that effective January 1, 2009 the credit against the tax due shall be equivalent to fifteen percent (15%), which represents the difference between the regular income tax of thirty percent (30%) and the fifteen percent (15%) tax on dividends."

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Based on the foregoing Section, inter-corporate dividends received by a non-resident foreign corporation from a domestic corporation and collected and paid in accordance with

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Section 57 (A) of the Tax Code of 1997 are subject to final tax rate of 15% of the total amount thereof, subject to the condition that the country in which the non-resident foreign corporation is domiciled allows a tax credit against the tax due from the non-resident foreign corporation taxes deemed to have been paid in the Philippines equivalent to the rate of twenty percent (20%) [fifteen percent (15%) beginning January 1, 2009] of such dividend. (BIR Ruling No. 453-13 dated November 27, 2013)

The country of residence of the dividend recipients, Ford US and Ford LLC, is the United States of America. The US Tax Code allows such a credit on the amount of taxes paid or accrued to any foreign country, as provided in Sections 901 and 902 of its US Internal Revenue Code, thus:

> "SEC. 901. Taxes of foreign countries and of possessions of United States. —
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> (a) Allowance of credit. — If the taxpayer chooses to have the benefits of this subpart, the tax imposed by this chapter shall, subject to the limitation of Section 904, be credited with the amounts provided in the applicable paragraph of subsection (b) plus, in the case of a corporation, the taxes deemed to have been paid under Sections 902 and 960. Such choice for any taxable year may be made or changed at any time before the expiration of the period prescribed for making a claim for credit or refund of the tax imposed by this chapter for such taxable year. The credit shall not be allowed against any tax treated as a tax not imposed by this chapter under Section 26(b).
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> (b) Amount allowed. — Subject to the limitation of Section 904, the following amounts shall be allowed as the credit under subsection (a):
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> (a) Citizens and domestic corporations. — In the case of a citizen of the United States and of a domestic corporation, the amount of any income, war profits, and excess profits taxes paid or accrued during the taxable year to any foreign country or to any possession of the United States; and"
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> xxx xxx xxx
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> "SEC. 902. Deemed Paid Credit Where Domestic Corporation Owns 10% or More of Voting Stock of Foreign Corporation. —
>
> (a) Taxes Paid by Foreign Corporation Treated as Paid by Domestic Corporation — For purposes of this subpart, a domestic corporation which owns 10 percent or more of the voting stock of a foreign corporation from which it receives dividends in any taxable year shall be deemed to have paid the same proportion of such foreign corporation's income taxes as —
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> (1) the amount of such dividends bears to;

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(2) such foreign corporation's undistributed earnings."

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(c) Definitions and special rules. — For purposes of this section —

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(4) Foreign income taxes

(A) In general — The term "foreign income taxes" means any income, war profits, or excess profits taxes paid by the foreign corporation to any foreign country or possession of the United States."

In BIR Ruling No. 004-07 dated February 19, 2007, this Office ruled, as follows:

"b. With respect to the cash dividends on the preferred shares of stock held by KO, on the other hand, the same should be subject to the fifteen percent (15%) final withholding tax under Section 28 (B) (5) (b) of the Tax Code, as amended by R.A. No. 9337, *viz.*:

(b) Intercorporate Dividends. — A final withholding tax at the rate of fifteen percent (15%) is hereby imposed on the amount of cash and/or property dividends received from a domestic corporation, which shall be collected and paid as provided in Section 57 (A) of this Code, subject to the condition that the country in which the nonresident foreign corporation is domiciled, shall allow a credit against the tax due from the nonresident foreign corporation taxes deemed to have been paid in the Philippines equivalent to twenty percent (20%), which represents the difference between the regular income tax of thirty-five percent (35%) and the fifteen percent (15%) tax on dividends as provided in this subparagraph: Provided, That effective January 1, 2009, the credit against the tax due shall be equivalent to fifteen percent (15%), which represents the difference between the regular income tax of thirty percent (30%) and the fifteen percent (15%) tax on dividends;

The tax on inter-corporate dividends is reduced by 20% from 35% to 15% subject to the above-mentioned condition. The tax deemed paid is adjusted to correspond to the decreasing corporate income tax rate. The law specifies that such tax credit for "taxes deemed paid in the Philippines," must, as a minimum, reach an amount equivalent to 20 percentage points which represents the difference between the regular 35% dividend tax rate and the preferred 15% rate. (*Commissioner of Internal Revenue vs. Procter & Gamble Philippine Manufacturing Corporation*, G.R. 66838, December 2, 1991) In other words, in the instant case, the reduced fifteen percent (15%) dividend tax rate is applicable if the US shall allow tax credit in favor of KO for "taxes deemed paid in the Philippines" against its US taxes.

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The Supreme Court in *Commissioner of Internal Revenue vs. Procter and Gamble Philippine Manufacturing Corp. (P&G) and Court of Tax Appeals* (G.R. 66838, December 2, 1991) had occasion to rule that dividends paid to a US resident shall be subject to fifteen percent (15%) dividend tax rate, as follows:

It is important to note that Section 34(b)(1), NIRC, now Section 25(b)(5)(B) of the Tax Code, does not require that the US must give a "deemed paid" tax credit for the dividend tax (20 percentage points) waived by the Philippines in making applicable the preferred dividend tax rate of fifteen percent (15%). In other words, our NIRC does not require that the US tax law deem the parent-corporation to have paid the twenty (20) percentage points of dividends tax waived by the Philippines. The NIRC only requires that the US "shall allow" P&G-USA a "deemed paid" tax credit in an amount equivalent to the twenty (20) percentage points waived by the Philippines.

In BIR Ruling No. 175-00, the BIR reiterated the findings of the Supreme Court in the case of *Procter and Gamble Philippines Manufacturing Corp. vs. Comm. of Internal Revenue* (G.R. No. 66838), saying that it "has confirmed that Section 901 of the United States Internal Revenue Code meets the 20% deemed tax credit requirement provided under then Section 25 (b) (5) (B) of the 1993 Tax Code [now Section 28 (B) (5) (b)].

In this connection, therefore, dividends distribution by CCBPI on the preferred shares of stock held by KO shall be subject to the fifteen percent (15%) final withholding tax under Section 28 (B) (5) (b) of the Tax Code."

In view of the foregoing and the fact that Ford US and Ford Services are corporations organized, existing and registered under the laws of the United States of America, a country which allows a credit against the tax due from the non-resident corporation taxes deemed to have been paid in the Philippines, as clearly provided in the US Tax Code, this Office hereby confirms your opinion that the dividends which shall be received by Ford US and Ford Services from the dividends declared by Ford Philippines on December 12, 2014 which shall be paid on December 19, 2014 are subject to the fifteen percent (15%) final withholding tax as prescribed under Section 28 (B) (5) (b) of the Tax Code of 1997, as amended.

This ruling is being issued on the basis of the foregoing facts as represented. However, if upon investigation, it will be disclosed that the facts are different, then this ruling shall be considered null and void.

Very truly yours,

(SGD.) CAESAR R. DULAY
Commissioner of Internal Revenue

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