REPUBLIC OF THE PHILIPPINES
DEPARTMENT OF FINANCE
BUREAU OF INTERNAL REVENUE
Quezon City

Bureau of Internal Revenue Ruling

Revenue Regulations (RR) No. 2-98, as amended		# 123-2018

Person to Contact: Chief, Law Division
Tel. Nos. 926-55-36 / 927-09-63

Date: February 2, 2018

GDR LAW
6/F W Global Center, 30th St. corner 9th Ave.,
Bonifacio High Street, Bonofacio Global City,
Metro Manila 1634

Attention: **Atty. RODOLFO O. REYES**
and
Atty. ANACELLE L. NARCA

Gentlemen:

This refers to your letter dated January 25, 2017, requesting on behalf of your client, **BACS Premier Unlimited Services Co.** ("BACS" for brevity), for a ruling to provide clarity on the applicable withholding tax rate against the services rendered by BACS to its clients, which by the nature of its business, the applicable rate should be two percent (2%).

Background:

BACS, with Tax Identification Number . . . . , is a general partnership duly organized and existing under Philippines laws. As stated in its Articles of Partnership, BACS shall have the following purposes, to wit:

"Service provider for various business by:

1. *Assisting proponents in complying with government laws and guidelines in securing permits, licenses, clearances and other pertinent documents needed for the implementation of projects or activities efficiently and systematically;*

2. *Preparation, documentation, data gathering, research and packaging of reports, studies, plans and relevant documents related to real estate development, environmental compliance, construction and other various business operations; and*

3. *Business development services."*

BACS has several clienteles for which it secured important documents from various agencies in connection with their regulatory requirements. While the Articles of Partnership of BACS connote that it has the power to engage in consulting, it has actually only strictly been providing services under paragraph 1 of its purpose clause, by providing documentation and liaison services to its clients.

It is well-recognized that part of regular business process is to withhold taxes on certain income payments to individuals and juridical persons as required by the Bureau of Internal Revenue (BIR). However, the laws and regulations covering withholding taxes have become too complex as it requires different rates depending on the nature of goods and services. Hence, this request.

In reply, please be informed that income payments to certain contractors residing in the Philippines, such as messengerial, janitorial, private detective and/or security agencies, credit and/or collection agencies, and other business agencies shall be subject to creditable withholding tax (CWT) of two percent (2%) based on gross payments, pursuant to Section 2.57.2(E)(4)(g) of Revenue Regulations (RR) No. 2-98, as amended, to wit:

> *"**Sec. 2.57.2. Income payments subject to creditable withholding tax and rates prescribed thereon.** - Except as herein otherwise provided, there shall be withheld a creditable income tax at the rates herein specified for each class of payee from the following items on income payments to persons residing in the Philippines:*
>
> *xxx xxx xxx*
>
> *(E) **Income payments to certain contractors.** – On gross payments to the following contractors, whether individual or corporate – **Two percent (2%);***
>
> *xxx xxx xxx*
>
> *(4) **Other contractors.** –*
>
> *xxx xxx xxx*
>
> *(g) Messengerial, janitorial, private detective and/or security agencies, credit and/or collection agencies and other business agencies;"*

Accordingly, income payments to BACS on the documentation and liaison services to its clients is subject to two percent (2%) CWT, which tax must be withheld by its clients. Should BACS, however, engage in consulting services, payments thereof shall be subject to CWT at the rate of ten percent (10%) or fifteen percent (15%), as the case may be.

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,

CAESAR R. DULAY
Commissioner of Internal Revenue

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