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

Sec. 32(B)(7)(a)
BIR Ruling Nos. 070-18 and 449-12
OT- 0185-2020

FEB 11 2020

SYCIP GORRES VELAYO & CO
6760 Ayala Avenue
Makati City

Attention: **ALLENIEREY ALLAN V. EXCLAMADOR**
Partner, Business Tax Services

Gentlemen :

This refers to your letter dated October 30, 2013 requesting on behalf of your client, **Teacher Retirement System of Texas (TRS)**, for confirmation that pursuant to Section 32(B)(7)(a) of the 1997 Tax Code, as amended, any income derived by **TRS** from its investments in the Philippines in loans, stocks, bonds or other domestic securities or from interests on its deposits in banks in the Philippines are not subject to income tax and consequently to withholding tax. You also request confirmation that as a consequence of this exemption, any future investments of **TRS** in the Philippines in loans, stocks, bonds or other domestic securities or from interests on its deposits in banks in the Philippines shall likewise be exempt from Philippine income tax.

It is represented that **Teacher Retirement System of Texas (TRS)** is a statewide pension plan and entity of the State of Texas created and existing under the authority of Article 16, Section 67 of the Texas Constitution, Chapters 821-825 of the Texas Government Code; that the legislature established the **TRS** to provide benefits for public education employees of public schools, colleges and universities supported wholly or partially by the State of Texas; that **TRS** has only three sources of income - state and member contributions, required by the Texas Constitution, and investment returns; that **TRS** holds its assets in trust for the exclusive benefits of its members and invests only in that capacity pursuant to its constitutional and statutory authority; and that it has investments in the Philippines in loans, stocks, bonds or other domestic securities.

In reply thereto, please be informed that Section 32(B)(7)(a) of the Tax Code of 1997, as amended, provides that —

"(B) Exclusions from Gross Income — The following items shall not be included in gross income and shall be exempt from taxation under this Title:

xxx xxx xxx

(7) Miscellaneous Items. —

(a) Income Derived by Foreign Government. — Income derived from investments in the Philippines in loans,

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stocks, bonds or other domestic securities, or from interest on deposits in banks in the Philippines by (i) foreign governments, (ii) financing institutions owned, controlled, or enjoying refinancing from foreign governments, and (iii) international or regional financial institutions established by foreign governments."

From the foregoing, it is clear that the income derived by a foreign government from investments in the Philippines in loans, stocks, bonds or other domestic securities or from interests on its deposits in banks in the Philippines including sale of investments by foreign governments and financing institutions wholly-owned, controlled or enjoying refinancing from foreign governments shall be exempt from income tax and consequently to withholding tax.

Considering that **Teacher Retirement System of Texas (TRS)** is a statewide pension plan and entity owned by the State of Texas, any income derived by it in the Philippines in loans, stocks, bonds, or other domestic securities, or from interest on its deposits in bank in the Philippines is exempt from Philippine income tax and consequently to withholding tax. For as long as it maintains its status as a stateside pension plan and entity owned by the State of Texas, any income to be derived by **TRS** from its future investments in the Philippines in loans, stocks, bonds, or other domestic securities, or from interest on its deposits shall likewise be exempt from Philippine income tax (*BIR Ruling 449-2012 dated July 10, 2012 and BIR Ruling 070-2018 dated January 25, 2018*).

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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