September 27, 2019

BIR RULING NO. 523-19

Secs. 23 (D), 24 (A) (1) (c), 42 (C) (3),
TC; 000-000

Jimeno Cope & David Law Offices
37th Floor Rufino Pacific Tower
6784 Ayala Avenue cor. V.A. Rufino Street
Makati City 1226

Attention: *AAA*

Gentlemen :

This refers to your letter dated July 7, 2015 requesting on behalf of your client, **BBB** ("BBB") for a ruling on the following:

1. Whether the gains derived from BBB's exercise of the Google Stock Options considered to have come from sources within the Philippines, hence, taxable in the Philippines; and

2. If so, are such gains subject to fringe benefit tax payable by the employer?

As represented, BBB (TIN: 000-000-000-0000) is an American citizen with residence in the Philippines and with office address at Google Philippines, Inc., 25F Zuellig Bldg., Makati Ave. cor. Paseo De Roxas, Makati City.

BBB is currently the _____ for Google Philippines, Inc. From February 2, 2008 up to January 14, 2013, he was employed by Google US. During his employment with Google US, part of his compensation included Google Stock Options which allowed him to exercise stock options such as Restricted Stock Units or RSUs, and Non-Qualified Stock Options or NQSOs (collectively, "Google Stock Options"). The rights to exercise these Google Stock Options accrue after the period set forth under each agreement.

On January 13, 2013, BBB was offered the position of _____ in Google Philippines, Inc. ("Google PH"), a corporation separate and distinct from Google US.

Google PH was incorporated in the Philippines and registered with the Securities and Exchange Commission (SEC) in 2012. The parent company of Google PH is not Google US but Google International LLC, a company organized and incorporated in the

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United States of America.

Upon accepting the job position in Google PH, BBB was considered as having terminated his employment with Google US. Google US and Google PH do not dispute that he occupies a managerial (or non-rank-and-file) position in Google PH. From January 15, 2013 to present, BBB receives all his salaries and compensation from Google PH.

After BBB started working for Google PH, some of his Google Stock Options vested. While working at Google PH, he exercised his rights over Google Stock Options that vested.

In the Philippine Income Tax Returns of BBB for 2013 to 2015, the Google Stock Options were included in the computation of his taxable income subject to Philippine income tax. He also paid all Federal and California State taxes due on the exercise of the Google Stock Options.

Google PH withholds or pays for any taxes on the gains realized by BBB from the Google Stock Options. Furthermore, Google PH recognizes that the Google Stock Options are benefits of BBB related solely to his employment with Google US.

In reply, please be informed that Section 24 (A) (1) (c) of the Tax Code of 1997, as amended, provides:

> *"SEC. 24. Income Tax Rates. —*
>
> *(A) Rates of Income Tax on Individual Citizen and Individual Resident Alien of the Philippines. —*
>
> *(1) An income is hereby imposed:*
>
> *(a)* . . .
>
> *(b)* . . .
>
> *(c) On the taxable income defined in Section 31 of this Code, other than income subject to tax under Subsections (B), (C) and (D) of this Section, derived for each taxable year from all sources within the Philippines by an individual alien who is a resident of the Philippines."*

On the other hand, Section 23 (D) of the same Code, states that:

> *"An alien individual, whether a resident or not of the Philippines, is taxable only on income derived from sources within the Philippines";*

Applying the foregoing provisions, BBB who is an alien individual is taxable only on income derived from sources within the Philippines.

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Pursuant to Section 42 (C) (3) of the Tax Code, income from the provision of services is considered derived from sources without the Philippines if the services are performed outside the Philippines:

> *"SEC. 42. Income from Sources within the Philippines. —*
>
> *(A)* . . .
>
> *(B)* . . .
>
> *(C) Gross income from Sources Without the Philippines. — The following shall be treated as income from sources without the Philippines:*
>
> *(1)* . . .
>
> *(2)* . . .
>
> *(3) Compensation for labor or personal services performed without the Philippines";*

As represented, part of BBB's compensation during his employment with Google US included Google Stock Options. Consequently, the aforesaid compensation of BBB, in the form of stock options, from services rendered in the US is income derived from sources outside the Philippines, therefore, not subject to income tax. In other words, the gains derived from BBB's exercise of the Google Stock Options are not considered to have come from sources within the Philippines, hence, not taxable in the Philippines. Having said that, the second issue has become moot and hypothetical, therefore, considered a "NO-RULING AREA" pursuant to Section 2 (t) of Revenue Bulletin No. 1-2003.

This ruling is being issued on the basis of the foregoing facts as represented. However, if upon investigation, it will be ascertained 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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