May 18, 2018

BIR RULING NO. 898-18

Section 32 (B) (7) (e) (iv) of the Tax Code, as amended; BIR Ruling No. 1-07

Gofluent Philippines, Inc.
10F IBM Plaza Building, Eastwood City,
Libis, Quezon City 1110 Philippines

Attention: *AAA*

Gentlemen :

This refers to your letter dated September 24, 2012 requesting for clarification on whether or not the *lesson bonus* given to the trainers and the *performance bonus* given to non-trainers can be included in the "other benefits" which will form part of the Php30,000 ceiling under Section 32 (B) (7) (e) of the Tax Code of the Philippines, as amended.

As represented, **GOFLUENT PHILIPPINES, INC.**, with Taxpayer's Identification No. 000-000-000 is a domestic corporation organized and existing under the laws of the Philippines with principal office at 10th Floor IBM Plaza Building, Eastwood City, Cyberpark, Libis, Quezon City. It is registered with the Securities and Exchange Commission (SEC) and the Philippine Economic Zone Authority under Registration No. 04-30-IT. The company provides for specialized English lessons over the telephone (distance learning) and other IT-enabled services and quality assurance services in relation to distance learning. The company employs English Trainers who are paid fixed basic salary and variable salary in the form of lesson wage computed on a per lesson basis. On top of it, the company also provides an incentive for each trainer which is called a *lesson bonus*. This bonus is computed on a per lesson basis, given every quarter which is established to recognize a level of quality based on several criteria. An English trainer may or may not get this bonus depending on the evaluation made on his overall performance for the said quarter. In addition to lesson bonus, the company also gives *performance bonus* for non-trainer employees on a monthly, quarterly and annual basis depending on the evaluation rating of his/her immediate superior on the employees' overall performance of the given task.

Copyright 2020 CD Technologies Asia, Inc.

In reply, please be informed that under Section 32 (B) (7) (e) (iv) of the Tax Code of 1997, *"other benefits"* include all benefits other than the 13th month pay, such as, productivity incentives and the annual Christmas bonus given by private offices, 14th month pay, mid-year productivity incentive bonus, gifts in cash or in kind and other similar benefits received by an official or employee for one (1) calendar year *(BIR Ruling No. 1-07 dated January 10, 2007)*.

Section 32 (B) (7) (e) (iv) of the Tax Code of 1997 reads:

"(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

(e) *13th Month Pay and Other Benefits*. — Gross benefits received by officials and employees of public and private entities: Provided, however, That the total exclusion under this subparagraph shall not exceed Thirty thousand pesos (P30,000) which shall cover:

xxx xxx xxx

(iv) Other benefits such as productivity incentives and Christmas bonus: Provided, further, That the ceiling of Thirty thousand pesos (P30,000) may be increased through rules and regulations issued by the Secretary of Finance, upon recommendation of the Commissioner, after considering, among others, the effect on the same of the inflation rate at the end of the taxable year.

xxx xxx xxx"

In view of the foregoing, the *lesson bonus* given to the trainers and the *performance bonus* given to non-trainers by **GOFLUENT PHILIPPINES, INC.** may be considered as falling within the contemplation of *"other benefits"* provided for under Section 32 (B) (7) (e) (iv) [1] of the Tax Code of 1997, and therefore, need not form part of the employees' taxable compensation income subject to withholding tax on wages under Section 79 in relation to Section 24 (A) both of the Tax Code of 1997, provided, however, that such *"other benefits,"* inclusive of the above allowances/benefits, shall not, in the aggregate, exceed P82,000.00 [2] when added to the 13th month pay. Any amount in excess of the P82,000.00 ceiling shall form part of the taxable income of the employee receiving the benefits.

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.

Copyright 2020 CD Technologies Asia, Inc.

Very truly yours,

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

Footnotes

1. As amended by Republic Act No. 10653 "AN ACT ADJUSTING THE 13TH MONTH PAY AND OTHER BENEFITS CEILING EXCLUDED FROM THE COMPUTATION OF GROSS INCOME FOR PURPOSES OF INCOME TAXATION, AMENDING FOR THE PURPOSE SECTION 32 (B), CHAPTER VI OF THE NATIONAL INTERNAL REVENUE CODE OF 1997, AS AMENDED."
2. Republic Act No. 10653 took effect on February 29, 2015 is prospective in application. Section 3 of Revenue Regulations No. 03-15 dated March 9, 2015 clarifies that the P82,000.00 ceiling applies to benefits accrued beginning January 1, 2015. Thus, for prior years, the annual ceiling is limited to P30,000.00.

Copyright 2020 CD Technologies Asia, Inc.