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

REVENUE MEMORANDUM CIRCULAR NO. 3-2012

SUBJECT : Tax implications of General Professional Partnership

TO : All Internal Revenue Officers and Others Concerned

Under Section 26 of the National Internal Revenue Code (NIRC) of 1997, as amended, a general professional partnership as such shall not be subject to income tax. However, persons engaging in business as partners in a general professional partnership shall be liable for income tax only in their separate and individual capacities, thus:

> *"SEC. 26. Tax Liability of Members of General Professional Partnerships. — A general professional partnership as such shall not be subject to the income tax imposed under this Chapter. Persons engaging in business as partners in a general professional partnership shall be liable for income tax only in their separate and individual capacities.*
>
> *For purposes of computing the distributive share of the partners, the net income of the partnership shall be computed in the same manner as a corporation.*
>
> *Each partner shall report as gross income his distributive share, actually or constructively received, in the net income of the partnership."*

In relation thereto, Section 2.57.5 of Revenue Regulations No. 2-98, as amended, provides that:

> *"SECTION 2.57.5. Exemption from Withholding. — The withholding of creditable withholding tax prescribed in these Regulations shall not apply to income payments made to the following:*
>
> *(A) . . .*
>
> *(B) Persons enjoying exemption from payment of income taxes pursuant to the provisions of any law, general or special, such as but not limited to the following:*
>
> *(1) . . .*
>
> *(4) General Professional Partnerships*
>
> *xxx xxx xxx"*

Clearly, a general professional partnership shall not be subject to income tax since it is the individual partners who shall be subject to income tax in their separate and individual capacities. A general professional partnership is defined in Section 22 (B) of the 1997 Tax Code, as amended, as follows:

> *"SEC. 22. Definitions. — When used in this Title:*
>
> *(A)* . . .
>
> *(B) The term 'corporation' shall include partnerships, no matter how created or organized, joint-stock companies, joint accounts (cuentas en participacion), associations, or insurance companies, but does not include general professional partnerships and a joint venture or consortium formed for the purpose of undertaking construction projects or engaging in petroleum, coal, geothermal and other energy operations pursuant to an operating or consortium agreement under a service contract with the Government. 'General professional partnerships' are partnerships formed by persons for the sole purpose of exercising their common profession, no part of the income of which is derived from engaging in any trade or business.*
>
> *xxx xxx xxx"*

Relative thereto, income payments made to a General Professional Partnership in consideration for its professional services are not subject to income tax and consequently to withholding tax prescribed in Revenue Regulations No. 2-98, as amended.

It is the individual partners who shall be subject to income tax, and consequently, to withholding tax, in their separate and individual capacities pursuant to Section 26 of the 1997 Tax Code, as amended. Furthermore, each partner shall report as gross income his distributive share, actually or constructively received, in the net income of the partnership.

However, it is worth mentioning that income payments made periodically or at the end of the taxable year by a general professional partnership to the partners, such as drawings, advances, sharings, allowances, stipends and the like, are subject to the Fifteen percent (15%), if the payments to the partner for the current year exceeds P720,000.00; and Ten percent (10%) creditable withholding tax, if otherwise, pursuant to Section 2.57.2 (H) of Revenue Regulations No. 2-98, as amended by Revenue Regulations No. 30-03.

All concerned are hereby enjoined to be guided accordingly and give this circular as wide a publicity as possible.

(Original Signed)
KIM S. JACINTO-HENARES
Commissioner of Internal Revenue

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