REPUBLIC OF THE PHILIPPINES
DEPARTMENT OF FINANCE
BUREAU OF INTERNAL REVENUE
National Office Building
Quezon City

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June 28, 2023

REVENUE MEMORANDUM CIRCULAR NO. 13-2024

SUBJECT : Clarification on the Treatment of Retirement Benefits Expense for Financial Reporting and Tax Purposes

TO : All Internal Revenue Officials, Employees and Others Concerned

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This Circular is issued to clarify and reconcile the differences between the recording and treatment of income and expenses relating to employee retirement benefits under the: (1) Philippine Financial Reporting Standards ("**PFRS**")/Philippine Accounting Standards ("**PAS**") (the "**Accounting Treatment**"); and (2) National Internal Revenue Code of 1997, as amended ("**Tax Code**") and other tax laws, rules and regulations (the "**Tax Treatment**"). For the avoidance of doubt, this Circular does not apply to entities classified as small and medium enterprises ("**SMEs**") which are covered by PFRS for SMEs.

I. TABULAR LIST OF DIFFERENCES

Particulars	PFRS	Taxation	
		RA No. 4917[1]	RA No. 7641[2]
1. Employee benefit expense	Employee benefit expense comprises of: 1. Service costs 2. Net interest costs	Contribution to a tax qualified plan is deductible expense	Actual retirement benefits paid is a deductible expense
2. Current service costs	Recognized in profit or loss as part of employee benefit expense	Contribution for normal cost is deductible in full	Not applicable
3. Past service costs	Recognized in profit or loss as part of employee benefit expense	Contribution for past service liability is recognized as deductible expense over ten years	Not applicable
4. Gain or loss on settlement	Recognized in profit or loss as part of employee benefit expense	Not applicable	

[1] Act Providing that Retirement Benefits of Employees of Private Firms shall not be subject to Attachment, Levy, Execution, or any Tax whatsoever, June 17, 1967.
[2] An Act Amending Article 287 of Presidential Decree N0. 442, as amended, otherwise known as The Labor Code of the Philippines, by Providing for Retirement Pay to Qualified Private Sector Employees in the Absence of Any Retirement Plan in the Establishment, December 9, 1992.

Particulars	PFRS	Taxation	
		RA No. 4917[1]	RA No. 7641[2]
5. Return on plan assets	Included in the employee benefit costs	Exempt from income tax	Not applicable
6. Remeasurement gains and losses	Remeasurement gains and losses are recognized in other comprehensive income	Not applicable	
7. Actuarial Valuation Method	Actuarial valuation for accounting	Actuarial valuation for funding	Not applicable

II. PFRS TREATMENT

Post-employment benefits are employee benefits that are payable after the completion of employment. The most common form of a post-employment benefit is the retirement benefit given by employer to its employees.

The accounting for the post-employment benefit depends on whether it is classified as a defined contribution plan or a defined benefit plan.

A. Defined Contribution Plan

A **defined contribution plan** is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

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Accounting for a defined contribution plan is straight-forward. When an employee has rendered service to an entity during a period, the entity recognizes the contribution payable to a defined contribution plan in exchange for that service as an expense unless another Standard requires it to be included in the cost of an asset.

Defined contribution plans are accounted for as a defined benefit plan based on Q&A 2013-03 as provided by the Philippine Interpretations Committee of the Philippine Financial and Sustainability Reporting Standards Council. A major reason for this is that the mandatory minimum retirement benefit under RA No. 7641 is in nature, a defined benefit plan.

B. Defined Benefit Plan

Any post-employment benefit plan other than a defined contribution plan is a **defined benefit plan.**

Accounting for defined benefits plans requires a valuation prepared by an actuary using a projected unit credit method. This includes attributing benefit to periods of service and making actuarial assumptions.

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PAS 19 requires an entity to accrue retirement benefit liability on its defined benefit plan. Accordingly, a periodic journal entry is recorded as follows:

Employee benefit costs	XXX	
Accrued employee benefits		XXX

The amount of employee benefit cost can be disaggregated into: (1) employee benefit expense recognized in profit or loss; and (2) remeasurement gains and losses recognized in other comprehensive income.

A. Employee benefit expense

There are two components of employee benefit expense recognized in profit or loss: (1) the service costs; and (2) the net interest costs.

1. Service costs

   Service cost is comprised of: (a) Current service costs; (b) Past service costs; and (c) Settlement gain or loss.

   Current service cost is the increase in the present value of the defined benefit obligation resulting from employee service in the current period.

   Past service cost, on the other hand, is the change in the present value of the defined benefit obligation resulting from a plan amendment or curtailment.

   A settlement occurs when an employer enters into a transaction that eliminates all further legal or constructive obligations for part or all of the benefits provided under a defined benefit plan. A gain or loss on settlement arises when there are differences between the present value of the defined benefit obligation being settled and the settlement price. (PAS 19.109).

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2. Net interest costs

   The net interest cost/income represents the increase in the net defined benefit liability/asset due to passage of time. This is determined by multiplying the net defined benefit liability/asset by the discount rate taking into account any changes in the net defined benefit liability/asset during the period resulting from contributions or benefit payments. (PAS 19.123, 123A).

Employee benefit expense is recognized in profit or loss unless another Standard requires it to be included as cost of an asset.

B. Remeasurement gains and losses

Remeasurement gains and losses may occur because the reality may differ from the actuarial assumptions. Also, changes in assumptions used to determine the net defined asset/liability can also give rise to remeasurement gains and losses. Remeasurements of the net defined benefit liability/asset comprise:

1. Actuarial gains and losses;

2. The difference between the actual return on plan assets and the interest income; and
3. The effect of the asset ceiling. (PAS 19.8, 127)

Remeasurement gains and losses are generally recognized as "Other Comprehensive Income."

III. CLARIFICATION OF ISSUES RELATIVE TO THE TAX TREATMENT OF RETIREMENT BENEFIT EXPENSE

Q1: What amount of retirement benefits expense can be claimed as a deduction from gross income for income tax purposes?

A1: The amount of expense that can be claimed as deduction for income tax purposes will depend primarily on whether the employer has a retirement benefit plan that is registered with the Bureau of Internal Revenue ("**BIR**") and declared as reasonable within the contemplation of Section 32 (B) (6) (a) of the Tax Code ("**Tax Qualified Plan**").

If the employer's retirement benefit plan meets the requirements under RA No. 4917, evidenced by a certificate of tax qualification issued by the BIR, the employer may deduct the following contributions to the retirement fund (the "**Retirement Fund**") pursuant to Section 34(J) of the Tax Code:[3]

a. contributions to the Retirement Fund during the taxable year to cover the pension liability accrued during that year ("**Normal Cost**"); and

b. contributions to the Retirement Fund during the taxable year in excess of the **Normal Cost** but only if such amount: (i) has not theretofore been allowed as a deduction; and (ii) is apportioned in equal parts over a period of ten (10) consecutive years beginning with the year in which the transfer or payment is made.

Q2: In relation to Q&A No. 1, what amount of retirement benefits expense can be claimed as deduction if the employer has no Tax Qualified Plan?

A2: If an employer does not have a Tax Qualified Plan, the rules under RA No. 7641 shall apply. Accordingly, only the actual amount of retirement benefits paid to employees pursuant to RA No. 7641 can be claimed as deduction from the gross income.

Q3: What is the tax treatment of excessive contributions of the employers to the Retirement Fund under a Tax Qualified Plan?

A3: In relation to Q&A No. 1, only the: (a) Normal Cost; and (b) contributions to the trust during the taxable year in excess of the Normal Cost but only if such amount (i) has not theretofore been allowed as a deduction, and (ii) is apportioned in equal parts over a period of ten (10) consecutive years beginning with the year in which the transfer or payment is made, are allowed as deductions for income tax purposes.

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[3] BIR Ruling No. 3-1973, February 8, 1973

Hence, any amount of contribution other than items (a) and (b) above shall not be allowed as deduction from gross income.

In the event that portions of the retirement fund in excess of the amount actuarially determined to cover the benefits of the covered employees are reverted to the employer, said reverted amount shall be reported as income and the applicable taxes thereon shall be paid by the employer concerned.

Q4: What are the requirements relating to the application for tax exemption of the employee retirement benefit plan?

A4: The employer shall apply with the BIR, through the Legal and Legislative Division at the National Office, for the issuance of a Certificate of Qualification as a Reasonable Employee's Retirement Benefit Plan ("**Certificate of Qualification**") within thirty (30) days from the date of effectivity of the retirement benefit plan. Otherwise, penalty shall be imposed upon the employer under the existing rules and regulations. The issued Certificate of Qualification shall be valid until revoked by the BIR.

Pursuant to RA No. 4917 and Revenue Regulations ("**RR**") No. 1-68,[4] as amended by RR No. 1-83,[5] the following documentary requirements shall be submitted to the BIR relating to the approval and issuance of a Certificate of Qualification:

a. Certified True Copy of the latest Actuarial Valuation Report[6] which must not be more than three (3) years prior to the date of application;
b. Certified True Copy of the Trust Agreement;
c. Duly accomplished BIR Form 17.60 (Retirement Benefit Plan Information Sheet), signed by an authorized officer. BIR Form 17.60 is attached herewith as Annex "**A**;"
d. Certified True Copy of the Retirement Plan Rules and Regulations which must contain the following provisions:
    i. Provision on non-forfeitable rights, that is, upon the termination of the plan or upon the complete discontinuance of contributions under the plan, the rights of the members accrued to the date of such termination or discontinuance to the extent then funded, or the rights to the amounts credited to the account at such time are non-forfeitable;
    ii. Provision that forfeitures must not be applied to increase the benefits any employee would receive, but must be used to reduce the employer's contribution under the plan; and
    iii. Provision on impossibility of diversion, that is, that no part of the corpus or income of the Trust Fund shall be used for or diverted to purposes other than for the exclusive benefit of the members-employees and their beneficiaries.
e. TIN of Retirement Plan, Certificate of Registration of the Retirement Plan, and BIR Form No. 1901;

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[4] Private Retirement Benefit Plan Regulations, March 25, 1968.
[5] Amendments to Revenue Regulations No. 1-68 or the Private Retirement Benefit Plan Regulations, October 28, 1982.
[6] The report for funding purposes on the actuarial funding status of the retirement plan prepared by an accredited actuary in accordance with the existing laws, rules and regulations. This report shall only be needed for the application of issuance of Certificate of Qualification.

f. Secretary Certificate as to adoption/approval of amendments of Retirement Plan/appointment of Trustee; and
g. Payment of fees prescribed under RR No. 11-2001.

Q5: What is the tax treatment of income earned from investing the employee retirement fund under RA No. 4917?

A5: The income of the Retirement Fund from its investments are exempt from income tax provided all the statutory requirements for a reasonable retirement benefit plan are met and complied with pursuant to Section 60(B) of the Tax Code. A Tax Qualified Plan may invest some or all of its fund without losing its tax-exempt status provided that in such investment activity said funds are not actually used or diverted to purposes other than for the exclusive benefit of the employees or their beneficiaries.

Q6: In relation to Q&A No. 5, what are the instances when the income derived by the Retirement Fund will be taxable?

A6: The exemption of the trust income under Section 60(B) of the Tax Code may be denied if the trust: [7]

a. Lends any part of its income or corpus without adequate security and a reasonable rate of interest;
b. Pays any compensation in excess of a reasonable allowance for salaries or other compensation for personal services actually rendered;
c. Makes any part of its services available on a preferential basis;
d. Makes any substantial purchase of securities or any other property for more than adequate consideration in money or money's worth;
e. Sells any substantial part of its securities or other property, for less than an adequate consideration in money's worth; or
f. Engages in any other transaction which results in a substantial diversion of its income or corpus.

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to or from the employer or if the employer is an individual, to or from a member of the family of the employer, or to or from a corporation controlled by the employer through the ownership, directly or indirectly, of 50% or more of the total combined voting power of all classes of stock entitled to vote or 50% or more of the total value of shares of all classes of stock of the corporation.

Q7: Can the employer use the Retirement Fund to invest/deposit in any of the employer's business ventures?

A7: No. The fund manager should not in any way use the Retirement Fund to invest/deposit in any of the employer's business ventures in keeping with the requirements under Section 5(f) of RR No. 1-68, as amended.

While it is true that there are no specific limitations provided in the law with respect to investments which may be made by the trustee of a Retirement Fund, it is important however, that the said fund be invested in proper and sound investments for the sole

[7] Section 5 of RR No. 1-68, Private Retirement Benefit Plan Regulations, March 25, 1968.

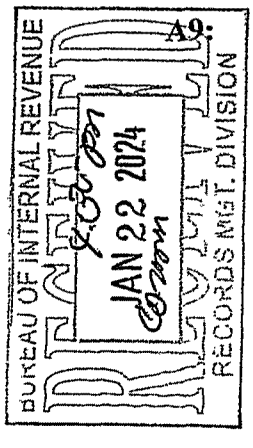
benefit of the employees. Considering the potential variability in the business operations of the employer which may adversely affect its capability to contribute to the Retirement Fund, it is deemed best to allow the trustees of a Retirement Fund to use and/or invest said funds in various diverse investments (other than the business ventures of the employer) with the sole objective of accumulating adequate resources to fulfill its obligations.

Also, it is important to maintain the separation of fund (or avoid the comingling of funds) of the Retirement Fund from that of the employer, which may be an avenue for evasion of taxes.

Q8: Is there a difference in the calculation of service/retirement costs under PAS/PFRS and the Tax Code?

A8: Yes. There is a difference in the calculation of service/retirement costs under PAS/PFRS and the Tax Code. The retirement cost for financial reporting purposes is based on the requirements of PAS 19/PFRS which uses the published discount rates for the projected unit credit method (PAS 19.67,83) or accrual method (PFRS for Small Entities 22.393). On the other hand, the retirement cost deductible for tax purposes is based on actuarial valuation for funding requirements that uses the expected return on the fund's actual investments in determining normal costs and past service liability.

Q9: Is the retirement benefit received by an employee pursuant to a Tax Qualified Plan under RA No. 4917 subject to income tax and, consequently, to withholding tax?



A9: The retirement benefit received by a retiring employee is considered as compensation subject to income tax and, consequently, to withholding tax.

However, if the retirement benefit is received by a qualified retiring employee pursuant to a Tax Qualified Plan under RA No. 4917, such retirement benefit is exempt from income tax and, consequently, from withholding tax provided that such retiring employee meets all of the following criteria:

a. must be at least fifty (50) years of age and has served his/her employer for at least ten (10) years; and
b. has not previously availed of the privilege under a retirement benefit plan of the same or another employer.

Q10: In relation to Q&A No. 9, if the retirement benefit is received by a retiring employee under RA No. 7641, is such retirement benefit subject to income tax and, consequently to, withholding tax?

A10: If the retirement benefit is received by a qualified employee under RA No. 7641, such retirement benefit is exempt from income tax and, consequently, from withholding tax provided that such retiring employee meets all of the following criteria:

a. must be at least sixty (60) years of age, but not beyond sixty-five (65) years which is declared the compulsory retirement age;
b. has served his/her employer for at least five (5) years, which includes authorized absences and vacations, regular holidays and mandatory fulfillment of military or civic duty; and

c. has not previously availed of the privilege under a retirement benefit plan of the same or another employer.

For the avoidance of doubt, a certificate of qualification for tax exemption is not required in order to avail of the tax exemption of the retirement benefits received by retirees under RA No. 7641.

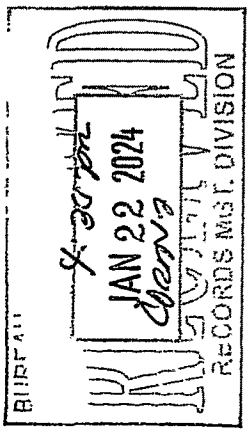
Q11: In relation to Q&A No. 10, if, for example, the retirement benefit is received under RA No. 7641 by a qualified employee at the age of seventy (70) years old, is such retirement benefit subject to income tax and, consequently, to withholding tax?

A11: While it is true that the age qualification under RA No. 7641 is sixty (60) years or more, but not beyond sixty-five (65) years which is hereby declared the compulsory retirement age, the employer and qualified employee is not prohibited to continue the employment. In such case, all the retirement benefits received by the qualified employee at the age of his/her actual retirement (in this example is seventy (70) years old) shall be exempt from income tax and, consequently, from withholding tax: *Provided*, however, that such qualified employee has: (a) served his/her employer for at least five (5) years, which includes authorized absences and vacations, regular holidays and mandatory fulfillment of military or civic duty; and (b) has not previously availed of the privilege under a retirement benefit plan of the same or another employer since it must be availed only once.

If such qualified employee has received his/her retirement benefits at the age of sixty-five (65), and was allowed to continue his/her employment thereafter, all income and other benefits he/she received beyond the age of sixty-five (65) shall be considered as compensation that is subject to income tax and, consequently, to withholding tax.

Q12: What should be the treatment of the following during the interim period between date of filing and issuance of Certificate of Qualification?

A12: a. *Retirement benefit of those who attained the age of 50 and rendered at least 10 years of service*



Once the retirement benefit plan is approved by the BIR, the effectivity of the approval is retroacting to the date of effectivity of the retirement benefit plan.[8]

Pending the employer's application with the BIR, the retirement benefits received by any qualified retiring employees shall be exempt from income tax and, consequently, from withholding tax pursuant to RA No. 4917.

However, should the application of the employer for issuance of a Certificate of Qualification be denied by the BIR, the employer/trust shall be directly and solely liable for the deficiency income taxes due on the retirement benefits provided to the qualified retiring employees.

b. *Investment income of the retirement fund*

[8] Section 3 of Revenue Regulations No. 1-1983, Amendments to Revenue Regulations No. 1-68 or the Private Retirement Benefit Plan Regulations, October 28, 1982.

Pending the employer's application with the BIR, any income derived from the investment of the retirement fund shall be exempt from income tax pursuant to Section 60(B) of the Tax Code. However, should the application of the employer for issuance of a Certificate of Qualification be denied by the BIR, the employer/trust shall be directly and solely liable for the deficiency income taxes due on the investment income.

c. *Tax-deductibility of contributions*

Pending the employer's application with the BIR, the contributions of the employers to the retirement fund pursuant to a retirement benefit plan are deductible from the gross income based on Section 34 (J) of the Tax Code. However, should the application of the employer for issuance of a Certificate of Qualification be denied by the BIR, the employer/trust shall be directly and solely liable for the deficiency income taxes due on the same.

Q13: For multi-employer retirement plan, is it necessary that the 10-year requirement would be with the last company only or an aggregate of 10 years within participating companies?

A13: Under Section 32 (B) (6) (a) of the Tax Code, the retirement benefits to be received by a qualified employee-member of the retirement plan shall be exempt from income tax provided the two (2) conditions are satisfied: (a) the employee had been in the service of the **same** firm for at least ten (10) years; and (b) he or she is already fifty (50) years old at the time of retirement.

Accordingly, the ten (10)-year requirement would be computed only in one company. However, in case of transfer of employees from one participating company to another participating company within a multi-employer plan due to a valid merger, the aggregate years of service to the said companies shall be considered in computing the prescribed ten (10)-year period, provided, however, that said employees did not receive their respective separation pay (an additional pay given to employees who are separated from their employment due to authorized causes as these employees are not at fault since their employment was ended due to legitimate business reasons) from their previous employer/company (the absorbed or acquired company).[9] Considering that the said transfer of employees is outside the control of the concerned employees, it is but just and fair to consider the period of services to both companies.[10]

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For this purpose, a "multi-employer plan" refers to a Retirement Plan to which two or more related reporting entities (each of which shall be individually referred to as "**Participating Company**") contribute for the benefit of its retiring officials and employees. Reporting entities are considered related in this context if they are either a parent, subsidiary, or fellow subsidiary, of any Participating Company/ies.

[9] Sections 3 and 4 of Revenue Regulations No. 01-1968, March 25, 1968
[10] BIR Ruling [DA-243-00], May 19, 2000.

Q14: If there are changes to the Plan Rules other than the benefits/eligibilities defined in the originally approved retirement plan, is there still a need to formally amend the retirement plan and submit this to BIR?

A14: Pursuant to RR No. 01-83, any amendment to the approved corporate retirement plan should be submitted to the BIR for certification that the amendment/s do not affect the qualification of the approved retirement plan. Also, the prescribed fees under RR No. 11-01 shall be paid to the BIR.

Illustrations and Accounting Entries on retirement benefits are reflected in the Annex "B" hereof, as guide for recording and reporting of retirement benefit expense.

All revenue issuances and BIR rulings inconsistent herewith are hereby considered amended, modified or revoked accordingly. Interpretations in BIR rulings and court rulings cited in this Circular can be subject to change under prevailing circumstances of latest court decisions and new laws enacted affecting the subject matter.

All internal revenue officers, employees and others concerned are hereby enjoined to strictly implement the provision of this Circular.

This Circular takes effect immediately.

ROMEO D. LUMAGUI, JR.
Commissioner of Internal Revenue

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