REPUBLIC OF THE PHILIPPINES
DEPARTMENT OF FINANCE
BUREAU OF INTERNAL REVENUE

Quezon City

April 22, 2009

REVENUE MEMORANDUM CIRCULAR NO. 22 - 2009

SUBJECT: Clarifying the Allowable Claims for Personal and Additional Exemptions and Optional Standard Deduction (OSD) Pursuant to Revenue Regulations Nos. 10-2008 and 16-2008, Respectively

TO : All Internal Revenue Officials, Employees and Others Concerned

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In the implementation of Republic Act No. 9504, Revenue Regulations Nos. 10-2008 and 16-2008 were issued to determine correctly the amounts of allowable claim for exemptions and optional standard deduction, respectively. Inasmuch as the law was approved on June 17, 2008, the increased personal and additional exemptions for individuals and the 40% OSD for individual and corporate taxpayers cannot be claimed in full for taxable year 2008.

For individuals, the increased personal and additional exemptions shall be apportioned for 2008 in accordance with the rules prescribed under RR No. 10-2008, and the amounts of transitory personal and additional exemptions which shall be used are those presented at the back of the new Annual Income Tax Return for Self-Employed Individuals, Estates and Trusts [BIR Form 1701 – July, 2008 (ENCS)]. For the period from January to June 2008, the OSD that can be claimed against business income by individuals, shall only be 10% of gross income (i.e., the amount remaining after deducting cost of sales from gross sales or gross receipts) while for the period covering July 1, 2008 to December 31, 2008, the rate of deduction shall be a maximum of 40% of gross sales or gross receipts, which are net of returns, discounts and allowances. In case the taxpayer's gross sales or receipts reflect his total income for the whole year of 2008 and such cannot be identified to a specific month, the total OSD shall be computed based on 10% of 50% of gross income plus 40% of 50% of gross sales or receipts.

For corporations that opt to use the OSD method of deduction, the 40% OSD based on gross income shall be applied only for the period beginning July 1, 2008 while the method of deduction for the prior period of the taxable year shall remain to be under the itemized deduction.

Taxpayers shall observe the foregoing guidelines in the preparation of their 2008 income tax returns in case no returns have yet been filed. Those who have made an error or inadvertence on their returns filed have until July 15, 2009 to amend their returns and pay, without need of demand, the deficiency basic income tax with no penalties, based on the authority of the Commissioner to abate or cancel a tax liability in accordance with Section 204 (B) of the 1997 Tax Code, as amended.

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

(Original Signed)
SIXTO S. ESQUIVIAS IV
Commissioner of Internal Revenue

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