REPUBLIKA NG PILIPINAS
KAGAWARAN NG PANANALAPI
KAWANIHAN NG RENTAS INTERNAS
Quezon City

June 17, 2005

REVENUE MEMORANDUM CIRCULAR NO. 32-2005

SUBJECT : Publishing the full text of BIR Ruling No. 001-2005 dated June 16, 2005 subjecting the income realized by enterprises registered under the Bases Conversion and Development Act of 1992 and the Philippine Economic Zone Act of 1995 that is not related to its registered activity/ies to regular internal revenue taxes.

TO : All Banks and Others concerned

For the information and guidance of all banks and others concerned, quoted hereunder is the full text of BIR Ruling No. 001-2005 dated June 16, 2005 subjecting the income realized by enterprises registered under the Bases Conversion and Development Act of 1992 and the Philippine Economic Zone Act of 1995 that is not related to its registered activity/ies, particularly interest income from foreign currency deposits, to the regular internal revenue taxes:

"***Bureau of Internal Revenue Ruling***

27(D)(1); RA 7916; RR 20-2002	000-00	001-2005

Person to Contact:
Chief, Law Division

Tel. Nos. 926-55-36 / 927-09-63

Date: June 16, 2005

ADVANCED POWER COMPONENTS PHILS., INC.
Bldg. 8634, Aparri Road, Cubi Point
Subic Bay Freeport Zone

Attention: **Mr. Michael J. London**
Managing Director

Gentlemen:

This refers to your letter which was indorsed by the Department of Finance requesting for a ruling on whether the interest on foreign currency deposits maintained in a Subic bank by PEZA-registered/SBMA locator is subject to withholding tax.

In reply, please be informed that Section 1 of Revenue Regulations (RR) No. 20-2002 provides, to wit:

> "**SECTION 1. Tax Treatment**. – Income derived by an enterprise registered with the Subic Bay Metropolitan Authority (SBMA), the Clark Development Authority (CDA), or the Philippine Economic Zone Authority (PEZA) from its registered activity/ies shall be subject to such tax treatment as may be specified in its terms of registration (i.e., the 5% preferential tax rate, the income tax holiday, or the regular income tax rate, as the case may be). Nonetheless, whatever the tax treatment of said enterprise with respect to its registered activity/ies, income realized by such registered enterprise that is <u>not</u> related to its registered activity/ies shall be subject to the regular internal revenue taxes, such as the 20% final income tax on interest from Philippine Currency bank deposits and yield or any other monetary benefit from deposit substitutes, and from trust funds and similar arrangements, the 7.5% tax on foreign currency deposits and the 5%/10% capital gains tax or ½% stock transaction tax, as the case may be, on the sale of shares of stock.
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> xxx"

It may be gleaned from the aforecited provision of RR No. 20-2002 that the incentives granted under Bases Conversion and Development Act of 1992 and the Philippine Economic Zone Act of 1995 shall apply only to the registered operations of the ECOZONE enterprises. (*Section 5, Rules and Regulations to Implement R.A. No. 7916*)

Therefore, the income earned from unregistered activities by enterprises registered under the Bases Conversion and Development Act of 1992 and the Philippine Economic Zone Act of 1995, such as the interest income from foreign currency deposits shall be subject to the final income tax at the rate of 7.5% of such interest income. (*Section 27(D)(1) of the Tax Code of 1997*)**"**

All revenue officials and employees are enjoined to give this Circular as wide a publicity as possible.

(Original Signed)
GUILLERMO L. PARAYNO, JR.
Commissioner of Internal Revenue