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

BUREAU OF INTERNAL REVENUE
RECORDS MGT. DIVISION
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January 9, 2023

REVENUE MEMORANDUM CIRCULAR NO. 4-2023

SUBJECT : Clarification of the Base Amount for the Imposition of the Twenty Percent (20%) Penalty Relative to the Early Withdrawal of Personal Equity and Retirement Account (PERA) for Assets, Accounts and Sub Accounts Classified as Unqualified

TO : All Internal Revenues and Employees Concerned

This Circular is being issued to clarify, by way of illustrations, the base amount to be used in the imposition of a flat rate of twenty percent (20%) applied to the total gross income earned by the PERA in cases of "unqualified early withdrawal".

I. DEFINITION OF TERMS

For common and better understanding of the terms used in this circular, the following words and phrases shall have the following meaning:

- **PERA Assets** –refers to the aggregate assets in the PERA at any one time, which include the cash funds and the PERA investment products into which they are invested and re-invested and all the income earned therefrom.

- **Account** – pertains to the main account corresponding to one product category of PERA investment products as enumerated under Annex "A" 3(h) of the PERA Rules.

- **Sub-Account** – pertains to the specific PERA investment from different issuers under the same category

- **Qualified Early Withdrawal** – is the withdrawal, whether in full or in part, which is not subject to the Early Withdrawal Penalty (EWP), where the reasons for the withdrawal fall in any of the following:

  a. For the payment of accident or illness-related hospitalization in excess of thirty (30) days; or
  b. Permanent /Total disability of the contributor; or
  c. Transfer of PERA Assets to another qualified PERA investment product and/or another PERA Administrator within fifteen (15) days from withdrawal thereof.

  Under qualified early withdrawal, the specific sub-account to be withdrawn, in case of partial withdrawal, to be used for the above circumstances will not affect other existing sub-accounts. No automatic termination shall result to the whole PERA investments.

- **Unqualified Early Withdrawal** – is the withdrawal, whether in full or in part, where the reasons for the withdrawal are not among those cited above; hence, subject to EWP.

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II. IMPOSITION OF EARLY WITHDRAWAL PENALTY

Pursuant to Section 10(C) of Revenue Regulations (RR) No. 17-2011, the early withdrawal penalty, composed of the 20% of the gross income earned by the PERA for the entire duration and the 5% tax credit availed, shall be imposed on any early withdrawal not within the circumstances enumerated under Section 10 (B) of the aforesaid regulations. Any loss incurred on PERA sub-accounts shall not be deducted from the gross income earned.

Under "unqualified early withdrawal", the withdrawal of a sub-account will result to the automatic termination of all other sub-accounts. Below is an illustration on the computation of EWP and PERA proceeds upon termination of the account:

PERA Assets				EWP			Termination Proceeds
Account	Sub-account	Income Earned	Loss Incurred	20% Penalty on Income Earned	Tax Credit Granted*	Total	
	A	B	C	D (B x 20%)	E	F (D+E)	G (A+B+C-F)
UITF=100,000	ABC MM UITF = 20,000	5,000		1,000	1,000	2,000	23,000
	DEF Bond UITF= 50,000	3,000		600	2,500	3,100	49,900
	GHI Equity UITF= 30,000		-2,000**		1,500	1,500	26,500
Total	**100,000**	**8,000**	**-2,000**	**1,600**	**5,000**	**6,600**	**99,400**

* *In the assumption that the tax credit granted has been utilized already.*
In case of non-utilization of tax credit, the same shall not form part of the EWP. However, the tax credit granted shall be tagged as invalid and can no longer be used as payment for tax liabilities.

***The loss incurred in any sub-account shall not be offset from the gross income of other sub-accounts.*

For the purpose of this regulation, it is reiterated that the PERA Administrator shall be responsible for administering, overseeing and maintaining of accounts/ sub-accounts of the contributor's PERA; and shall compute and withhold the EWP from the proceeds due to the contributor, consistent with the above provisions, for reporting and remittance to the Bureau pursuant to RR No. 2-2022 and RMC No. 45-2022.

All internal revenue officials, and employees are hereby enjoined to be guided accordingly and give this Circular as wide a publicity as possible.

ROMEO D. LUMAGUI JR.
Commissioner of Internal Revenue

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