REPUBLIC OF THE PHILIPPINES
DEPARTMENT OF FINANCE
BUREAU OF INTERNAL REVENUE

Quezon City

November12, 2007

REVENUE MEMORANDUM CIRCULAR NO. 73-2007

SUBJECT : Re-issuing the Guidelines on the Proper Treatment of Block Sale of Shares of Stock Disposed of in the Stock Exchange

TO : The Philippine Stock Exchange, Internal Revenue Officers and Employees and All Others Concerned

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I. Background

The National Internal Revenue Code has traditionally made a distinction between shares of stock that are listed and traded in the Stock Exchange from those that are not. Briefly, under Section 127 of the Tax Code of 1997, sale, barter, exchange or other disposition of shares of stock other than the sale by a dealer in securities, are taxed at the rate of 1/2 of 1% of the gross selling price or gross value in money provided the shares are listed and traded through the local stock exchange; while on the other hand, for shares that are not disposed of through the local stock exchange, a final tax at either 5% or 10% is imposed on the net capital gains under Section 24(C); Section 25(A)(3); Section 25(B); Section 27(D)(2); Section 28(A)(7)(c) and Section 28(B)(5)(c), all of the Tax Code of 1997, as amended.

The fundamental principle underlying this preferential treatment was and still is the national goal of promoting and hastening the development of the domestic capital market by means of enticing and stimulating the general public to actively take part in the trading in the local stock exchange.

II. Statement of Policy

In order to keep-up with modern developments and more importantly give emphasis on the economic as well as substantial aspect rather than on the formal portion of the transaction, sale of shares of stock where the sale is prearranged or the buyer/s is predetermined is taxable under either Section 24(C); Section 25(A)(3); Section 25(B); Section 27(D)(2); Section 28(A)(7)(c) and Section 28(B)(5)(c) notwithstanding the fact that the transaction passed through the Exchange or the said facility was used.

Accordingly, any transaction, which in effect excludes the public by any means from taking part in the trading, shall be taxed under the aforementioned relevant provisions as enumerated in the preceding paragraph.

This Circular expressly covers but is not limited to cases of block sale. A block sale as defined in the Implementing Rules and Regulations of the Securities Regulation Code is a matched trade that does not go through the automated order matching system of an Exchange trading system but instead has been prearranged by and among the Broker Dealer's clients and is then entered as a done deal directly into the trading system.

All internal revenue issuances which are inconsistent herewith, are hereby repealed, modified, and/or amended accordingly.

All internal revenue officers and others concerned are enjoined to give this Circular as wide as publicity as possible.

This Circular shall take effect immediately.

(Original Signed)
LILIAN B. HEFTI
Commissioner of Internal Revenue