REPUBLIC OF THE PHILIPPINES
DEPARTMENT OF FINANCE
BUREAU OF INTERNAL REVENUE

February 24, 2011

REVENUE REGULATIONS NO. 1-2011

SUBJECT: **TAX TREATMENT OF INCOME EARNINGS AND MONEY REMITTANCES OF AN OVERSEAS CONTRACT WORKER (OCW) OR OVERSEAS FILIPINO WORKER (OFW)**

TO: All Revenue Officials, Employees and Others Concerned

Section 1. ***Objective***

These Revenue Regulations are issued to clarify who are considered as OCW or OFW for taxation purposes and to define the tax treatment of their income earned within and without the Philippines of such persons considered as an OCW or OFW.

Section 2. ***Definition of an OCW***

OCW refer to Filipino citizens employed in foreign countries, commonly referred to as OFWs, who are physically present in a foreign country as a consequence of their employment thereat. Their salaries and wages are paid by an employer abroad and is not borne by any entity or person in the Philippines. To be considered as an OCW or OFW, they must be duly registered as such with the Philippine Overseas Employment Administration (POEA) with a valid Overseas Employment Certificate (OEC).

Seafarers or seamen are Filipino citizens who receive compensation for services rendered abroad as a member of the complement of a vessel engaged exclusively in international trade. To be considered as an OCW or OFW they must be duly registered as such with the Philippine Overseas Employment Administration (POEA) with a valid Overseas Employment Certificate (OEC) with a valid Seafarers Identification Record Book (SIRB) or Seaman's Book issued by the Maritime Industry Authority (MARINA).

Section 3. ***Tax Treatment***

A) Income Taxes:

Section 23 (C) of the National Internal Revenue Code of 1997, as amended states that an individual citizen of the Philippines who is working and deriving income from abroad as an overseas contract worker is taxable only on income from sources within the Philippines: Provided, That a seaman who is a citizen of the Philippines and who receives compensation for services rendered abroad as a member of the complement of a vessel engaged exclusively in international trade shall be treated as an overseas contract worker. Thus, an OCW or OFW's income arising out of his overseas employment is exempt from income tax.

However, if an OCW or OFW has income earnings from business activities or properties within the Philippines, such income earnings are subject to Philippine income tax as follows:

a. For Regular Income [Section 24 (A)]:
   i. Tax Rate of 5 -32% of taxable income

b. For Passive Income [Section 24(B)]:
   i. 20% Final Tax on Interest Income from any currency bank deposit and yield or any monetary benefit from deposit substitutes and from trust funds and similar arrangements;
   ii. 20% Final Tax on any royalties;
   iii. 10% Final Tax on any royalty related on books, as well as literary works and musical compositions;
   iv. 20% Final Tax on prizes (except prizes amounting to P10,000 or less which shall be subject to regular income tax rate of 5 -32%) and other winnings (except Philippine Charity Sweepstakes and Lotto Winnings);
   v. Exemption from 7.5% Final Tax on Interest Income from a depository bank under the expanded foreign currency deposit system upon presentation of proof of non-residency such as OEC or Seaman's Book. However, If the account is jointly in the name of the overseas contract worker or a Filipino seaman, and an individual (spouse or dependent) who is living in the Philippines, fifty percent (50%) of the interest income from such bank deposit will be treated as exempt while the other fifty percent (50%) shall be subject to a final withholding tax of seven and one-half percent (7.5%);
   vi. 10% Final Tax on cash or property dividends
   vii. 5% / 10% Final Tax on net capital gains realized on sale, barter, exchange or other disposition of shares of stock in a domestic corporation (except shares sold or disposed of through the stock exchange);
   viii. 6% Final Tax on capital gains from the sale, exchange or other disposition of real property located in the Philippines classified as capital assets based on gross selling price or current fair market value whichever is higher;
   ix. 5% / 12% / 20% Final Tax on interest income from long term deposits or investment in the form of savings, common or individual trust funds, deposit substitutes, investment management accounts and other investments evidenced by certificates in such form prescribed by the Bangko Sentral ng Pilipinas which was pre-terminated by the holder before the fifth (5th) year.

B) Business Taxes:

An OCW or OFW may be subjected to 12% Value Added Tax (VAT) if in the course of his trade or business, he sells, barters exchanges, leases goods or properties, renders services in the Philippines or imports goods into the Philippines pursuant to Sections 106 to 108 of the National Internal Revenue Code of 1997, as amended. However, if gross annual

sales and/or receipts do not exceed the amount of one million five hundred thousand pesos (P1,500,000) and he opted not to register as a VAT taxpayer, he shall be liable to pay instead 3% percentage tax of his gross quarterly sales or receipts.

C) Other Taxes and Fees:

Section 35 of Republic Act No. 8042 otherwise known as the "Migrant Workers and Overseas Filipinos Act of 1995," as amended by Sec 22 of Republic Act No. 10022, provides that all migrant workers shall be exempt from the payment of travel tax and airport-fee upon proper showing of proof entitlement (i.e. Overseas Employment Certificate [OEC]) issued by the POEA.

The remittances of all OCWs or OFWs, upon showing of the OEC or valid Overseas Workers Welfare Administration (OWWA) Membership Certificate by the OCWs or OFW beneficiary or recipient, shall be exempt from the payment of documentary stamp tax (DST) as imposed under Section 181 of the National Internal Revenue Code of 1997, as amended. For this purpose, in addition to the original copy, a duplicate copy or a certified true copy of the valid proof of entitlement referred to above shall be secured by the OCW or OFW from the POEA or OWWA, which shall be held and used by his/her beneficiary in the availment of the DST exemption.

In case of OCWs or OFWs whose remittances are sent through the banking system, credited to beneficiaries or recipient's account in the Philippines and withdrawn through an automatic teller machine (ATM), it shall be the responsibility of the OCW or OFW to show the valid proof of entitlement when making arrangement that for his/her remittance transfers.

A proof of entitlement that is no longer valid shall not entitle an OCW or OFW to any DST tax exemption.

Section 4. ***Effectivity Clause***

This Revenue Regulations shall take effect immediately.

(Original Signed)
CESAR V. PURISIMA
Secretary of Finance

Recommending Approval:

(Original Signed)
KIM S. JACINTO - HENARES
Commissioner of Internal Revenue