REPUBLIC OF THE PHILIPPINES
DEPARTMENT OF FINANCE
BUREAU OF INTERNAL REVENUE

Date: October 7, 2022

REVENUE REGULATIONS NO. 13-2022

SUBJECT : ***Income Tax Treatment of Equity-Based Compensation***

TO : ***All Internal Revenue Officials, Employees and Others Concerned***

SECTION 1. *Background.* — Equity-Based compensation covers all types of employee equity schemes that come in different forms such as stock options, restricted stock units, stock appreciation rights, and restricted share awards, which may or may not pertain to the shares of stock of the grantor itself, but which all have the common feature of being granted to existing employees of the grantor as a performance incentive for services rendered by the employees and are typically dependent on performance, outstanding business achievements and, exemplary organizational, technical or business accomplishments.

SECTION 2. *Objective.* — Pursuant to the provisions of Sections 244 and 245, in relation to Section 4, of the National Internal Revenue Code (NIRC) of 1997 as amended, these Regulations are hereby promulgated to prescribe more definitive guidelines, procedures and requirements for the proper income tax treatment of equity based compensation of any kind.

SECTION 3. *Definitions.* —

a) *Stock options* - Stock options merely entitle the employee to purchase shares at a future date. Thus, unless the options are exercised, the employees do not become shareholders. The period between the grant of stock options and the date when they become exercisable represents the vesting period.

b) *Restricted share awards* - The award may or may not be subject to a vesting period, as may be specified in the grant. If subject to a vesting period, any unvested shares shall be forfeited if employment is terminated.

BUREAU OF INTERNAL REVENUE
RECORDS MGT. DIVISION
6:38 PM
RECEIVED

c) *Stock Appreciation Rights (SARs)* - The terms and conditions are similar to stock options. However, under the SARs, the optionee may receive (a) shares, (b) cash or (c) a combination of shares and cash, as determined by the grantor.

d) *Restricted Stock units* - As with restricted shares, stock units may or may not be subject to a vesting period, as will be specified in the grant. Settlement of vested stock units may be made in the form of (a) shares, (b) cash or (c) a combination of shares and cash.

SECTION 4. *Income Tax Treatment.* —

Section 32 (A) of the NIRC of 1997, as amended, defines gross income as all income derived from whatever source, including compensation for services in whatever form paid, including but not limited to, fees, salaries, wages, commissions and similar items. As implemented, compensation includes payment in some form of medium other than money.

Section 2.78.1 of Revenue Regulation (RR) No. 2-98, as amended, provides as follows:

> "Section 2.78.1 *Withholding Tax on Compensation Income.*—
>
> (A) Compensation Income Defined.
>
> xxx
>
> (1) Compensation paid in kind. Compensation may be paid in money or in some medium other than money, as for example, stocks, bonds or other forms of property. If services are paid for in a medium other than money, the fair market value of the thing taken is the payment to be included as compensation subject to withholding. If the services are rendered at a stipulated price, in the absence of evidence to the contrary, such price will be presumed to be the fair market value of the remuneration received If the corporation transfers to its employees its own stock as remuneration for services rendered by the employee, the amount of such remuneration is the fair market value of the stock at the time the services were rendered."

BUREAU OF INTERNAL REVENUE
RECORDS MGT. DIVISION
OCT 07 2022
6:38pm
ADMIN-1
RECEIVED

The equity grants under the applicable equity schemes of the grantor will give rise to a realized benefit on the part of the grantee-employees. The equity grants to be awarded to the employees are for the services being rendered by the said employees. Consequently, the equity grants under the equity plans, once exercised or availed of by the grantee-employees, are considered compensation to be taxed as such under Section 32 of the NIRC of 1997, as amended, and implemented by RR No. 2-98, as amended. This rule will be applied regardless of the employment status of the grantee-employee who could either be rank-and-file or occupying a supervisory or managerial position considering that Section 32 of the NIRC of 1997, as amended and all applicable issuances do not make a distinction for purposes of applying the tax implication on all forms of compensation, including equity based compensation.

SECTION 5. ***Separability Clause.*** — If any provision of these Regulations is declared invalid by a competent court, the remainder of these Regulations or any provision not affected by such declaration of invalidity shall remain in force and effect.

SECTION 6. ***Repealing Clause.*** — The provisions of Revenue Memorandum Circular 079-2014 dated October 31, 2014 and any regulations, rulings or orders, circulars, or portions thereof which are inconsistent with the provisions of these Regulations are hereby revoked, repealed or amended accordingly. All matters and other tax treatment that are not inconsistent with the pronouncements made in these Regulations are hereby maintained and/or adopted accordingly.

SECTION 7. ***Effectivity Clause.*** — These Regulations shall take effect fifteen (15) days following its publication in the Official Gazette or in a newspaper of general circulation, whichever comes first.

BENJAMIN E. DIOKNO
Secretary of Finance
OCT 07 2022

Recommending Approval:

LILIA CATRIS GUILLERMO
Commissioner of Internal Revenue
001911

BUREAU OF INTERNAL REVENUE
RECORDS MGT. DIVISION
OCT 07 2022
6:38pm
ADMIN-1
RECEIVED