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

08 APR 2021

REVENUE REGULATIONS NO. 2-2021

SUBJECT : Amending Certain Provisions of Revenue Regulations No. 2-98, as Amended, to Implement the Amendments Introduced by Republic Act No. 11534, or the "*Corporate Recovery and Tax Incentives for Enterprises Act*" (CREATE), to the National Internal Revenue Code of 1997, as Amended, Relative to the Final Tax on Certain Passive Income

TO : All Internal Revenue Officers and Others Concerned

Pursuant to the provisions of Section 244 of the National Internal Revenue Code, in relation to Section 21 of Republic Act No. 11534, or CREATE, certain provisions of Revenue Regulations (RR) No. 2- 98, as amended, are hereby further amended to implement the new final tax rates on certain passive incomes of individuals and corporations as prescribed under the aforesaid Act.

SECTION 1. Section 2.57.1(B), (E) and (F) of RR No. 2-98, as amended, is hereby further amended to read as follows:

"**SECTION 2.57.1. Income Payments Subject to Final Withholding Tax.** The following forms of income shall be subject to final withholding tax at the rates herein specified:

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(B) Income Payments to Non-resident Aliens Engaged in Trade or Business in the Philippines. – The following forms of income derived from sources within the Philippines shall be subject to final withholding tax in the hands of a non-resident alien individual engaged in trade or business within the Philippines, based on the gross amount thereof and at the tax rates prescribed therefor:

(1) On Certain Passive Income – A tax of twenty percent (20%) is hereby imposed on certain passive income received from all sources within the Philippines.

(a) Cash and property dividend from a domestic corporation or from a joint stock company, or from an insurance or mutual fund company or from a regional operating headquarter of a multinational company;

(b) Share in distributable net income after tax of a partnership (except general professional partnership) of which he is a partner, or share in the net income after tax of an association, a joint account, or a joint venture of which he is a member or a co-venturer;

(c) Interests from any currency bank deposit and yield or any other monetary benefit from deposit substitutes and from trust funds and similar arrangements;

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(d) Royalties (except royalties on books, as well as other literary works and musical compositions which shall be subject to 10% final withholding tax);

(e) Prizes (except prizes amounting to Ten thousand pesos [₱10,000] or less which shall be subject to tax under Subsection [B] [1] of Section 24 of the Tax Code, as amended) and other winnings (except winnings from Philippine Charity Sweepstakes Office [PCSO] games amounting to ₱10,000 or less which shall be exempt from income tax)

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(E) Income payments to a Resident Foreign Corporation. – The following forms of income shall be subject to a final withholding tax in the hands of a foreign corporation, based on the gross amount thereof and at the rate of tax prescribed therefor:

(1) Tax on Branch Remittances – On any profit remitted by the Philippine branch of a foreign corporation to its head office abroad based on the total profits applied or earmarked for remittance without any deduction for the tax component thereof except those registered with the Philippine Economic Zone Authority (PEZA)– Fifteen percent (15%)

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(2) Interest on any currency bank deposit and yield or any other monetary benefit from deposit substitutes and from trust funds and similar arrangements and royalties derived from sources within the Philippines – **Twenty percent (20%)**

(3) Interest income derived from a Depository Bank under the Expanded Foreign Currency Deposit System – **Fifteen percent (15%)**

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(6) Capital Gains from Sale of Shares of Stock Not Traded in the Stock Exchange. - On the net capital gains realized during the taxable year from the sale, barter, exchange or other disposition of shares of stock in a domestic corporation – **Fifteen Percent (15%)**

(F) Income Derived From all Sources Within the Philippines by Non-Resident Foreign Corporation (NRFC) – The Following shall be subject to final withholding tax based on the gross amount of income and at the rate of tax prescribed therefor:

(1) In general – on gross income derived from all sources within the Philippines such as interests, dividends, rents, royalties, salaries, premiums (except reinsurance premiums), annuities, emoluments, or other fixed or determinable annual, periodic or casual gains, profits and income and capital gains (except capital gains realized from sale, exchange, disposition of shares of stock in any domestic corporation which is subject to capital gains tax under item 7 hereof) –

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January 1, 2021 onwards - **Twenty-five percent (25%)**

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(6) Dividends received from a domestic corporation – In general, it is subject to Twenty-five percent (25%) final withholding tax. However, a reduced rate of **Fifteen percent (15%)** shall be applied, subject to the condition that the country in which the non-resident foreign corporation is domiciled (*a*) shall allow a credit against the tax due from the said non-resident foreign corporation which are equivalent to taxes deemed to have been paid in the Philippines equal to ten percent (10%) effective January 1, 2021, which represents the difference between the regular income tax rate for non-resident foreign corporation under Section 28(B)(1) of the NIRC of 1997, as amended, and the fifteen percent (15%) tax on dividends as herein provided; or, (*b*) does not impose any income tax on dividends received from a domestic corporation.

(7) Capital Gains from sale of Shares of Stock Not Traded in the Stock Exchange. – On net capital gains realized during the taxable year from the sale, barter, exchange or other disposition of shares of stock in a domestic corporation – **Fifteen percent (15%)**

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SECTION 2. GOVERNMENT MONEY PAYMENTS. Purchases made by Government–Owned and Controlled Corporations, National Government Agencies, Local Governments, and other government instrumentalities, from persons/entities subject to percentage tax pursuant to Section 116 of the Tax Code, as amended, shall be subject to **One percent (1%) withholding tax for the period July 1, 2020 until June 30, 2023.**

SECTION 3. TRANSITORY PROVISIONS. Any taxes withheld from persons/entities where the withholding agents used the rate higher than what are imposed in these Regulations, may be claimed as tax refund by the withholding agents if the withheld taxes have already been remitted, provided that, in case the withholding agents or other persons/entities shall file the claim for refund for and on behalf of the payees, they must be duly authorized by said payees. The claim for refund shall be filed with the Revenue District Office/Large Taxpayer Service having jurisdiction over the withholding agents.

SECTION 4. REPEALING CLAUSE. All existing rules and regulations or parts thereof which are inconsistent with the provisions of these regulations are hereby amended or revoked accordingly.

SECTION 5. EFFECTIVITY. These regulations shall take effect immediately upon publication in the Official Gazette or in any two newspapers of general circulation, whichever comes earlier.

CARLOS G. DOMINGUEZ
Secretary of Finance
APR 07 2021

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Recommending Approval:

CAESAR R. DULAY
Commissioner of Internal Revenue
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