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

AUG 0 3 2020

REVENUE REGULATIONS NO. 20-2020

SUBJECT: **Amending Certain Provisions of Revenue Regulations No. 06-2008 entitled Consolidated Regulations Prescribing the Rules on the Taxation of Sale, Barter, Exchange or Other Disposition of Shares of Stock held as Capital Assets**

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

SECTION 1. Scope. – Pursuant to the provisions of Section 244 of the National Internal Revenue Code of 1997 (Tax Code), as amended, in relation to Sections 24(C), 25(A)(3), 25(B), 27(D)(2), 28(A)(7)(c), 28(B)(5)(c) of the Tax Code, these Regulations are hereby promulgated to amend certain provisions of Revenue Regulations (RR) No. 6-2013, in relation to RR No. 6-2008, relative to the imposition of tax for the sale, barter, exchange or other disposition of shares of stock not traded through the Local Stock Exchange.

SECTION 2. Amendment. – Section 7 of RR No. 06-2008, as amended by RR No. 6-2013, is hereby amended to read as follows:

"SEC. 7. Sale, Barter or Exchange of Shares of Stock Not Traded Through a Local Stock Exchange Pursuant to Secs. 24 (C), 25 (A)(3), 25 (B), 27 (D) (2), 28 (A) (7) (C), 28 (B) (5) (C) of The Tax Code, as Amended. —

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(c.2) Definition of "fair market value" of the Shares of Stock. — For purposes of this Section, "fair market value" of the shares of stock sold shall be:

(c.2.1) . . .

(c.2.2) In the case of shares of stock not listed and traded in the local stock exchanges, the following rules shall apply:

1) For common shares of stock, the book value based on the latest available financial statements duly certified by an independent public accountant prior to the date of sale, but not earlier than the immediately preceding taxable year, shall be considered as the prima facie fair market value.

2) For preferred shares of stock, the liquidation value, which is equal to the redemption price of the preferred shares as of balance sheet date nearest to the transaction date, including any premium and cumulative preferred dividends in arrears, shall be considered as fair market value.

3) In case there are both common and preferred shares, the book value per common share is computed by deducting the liquidation value of the preferred shares from the total equity of the corporation and dividing the result by the number of

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outstanding common shares as of balance sheet date nearest to the transaction date.

Illustration: Assume that Mr. A sold 10,000 shares in X Corporation on June 30, 2020. The corporation's accounting period is on a calendar year basis. In this case, the book value as the fair market value of the shares of stock in X Corporation shall be determined based on its audited financial statements for year ending December 31, 2019, since the audited financial statements for taxable year 2020 is not yet existent as of the date of the sale of shares.

Assume further that based on the audited financial statements as of December 31, 2019, the total assets of X Corporation are Php50,000,000 while its liabilities are Php20,000,000 resulting to an equity of Php30,000,000. Its outstanding shares are 200,000. For this purpose, the net book value as the fair market value of each share call be computed as follows:

$$\frac{\text{30,000,000 (equity)}}{\text{200,000 (outstanding shares)}}$$

= 150 (net book value per share)

In this case, the net book value of the shares of stock in X Corporation based on its latest audited financial services shall be Php150 per share. As such, the fair market value of the shares of stocks in X Corporation shall be Php150 per share.

4) For this purpose, the book value of the common shares of stock or the liquidation value of the preferred shares of stock, need not be adjusted to include any appraisal surplus from any property of the corporation not reflected or included in the latest audited financial statements, in order to determine the fair market value of the shares of stock. The latest audited financial statements shall be sufficient in determining the fair market value of the shares of stock subject of the sale, barter, exchange, or other disposition.

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SECTION 3. Repealing Clause. – All revenue issuances or parts thereof inconsistent with the provisions of these Regulations are hereby considered repealed, amended or modified accordingly.

SECTION 4. Effectivity. – These regulations shall be effective after 15 days following its publication in the Official Gazette or in a newspaper of general circulation.

CARLOS G. DOMINGUEZ
Secretary of Finance

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Recommending Approval:

CAESAR R. DULAY
Commissioner of Internal Revenue

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