REPUBLIC OF THE PHILIPPINES
DEPARTMENT OF FINANCE
BUREAU OF INTERNAL REVENUE

March 6, 2007

REVENUE REGULATIONS NO. 5-2007

SUBJECT : **Prescribing the Guidelines and Conditions for the Tax Treatment of Securities Borrowing and Lending (SBL) or Securities Lending Transactions (SLTs) Involving the Fixed-Income Securities Lending Program of the Philippine Dealing & Exchange Corp. (PDEx)**

TO : **All Internal Revenue Officers and Others Concerned**

SECTION 1. Scope. - Pursuant to the provisions of Sections 244 and 245 of the Tax Code of 1997 (Tax Code) and Section 9 (C) of Republic Act (RA) No. 9243, these Regulations are hereby promulgated to prescribe the guidelines and conditions for the tax treatment of Securities Borrowing and Lending (SBL) transactions under the Securities Lending Transactions (SLT) Program of the Philippine Dealing & Exchange Corp. (PDEx).

Specifically, for purposes of these Regulations, SBL/SLTs shall be limited to borrowing and lending of securities under the Fixed-Income Securities Lending Program of PDEx as identified in Section 3(f) hereof, unless declared to be ineligible by the Securities and Exchange Commission (SEC) for borrowing and lending under the said SLT Program.

SBL or SLT of securities administered by other Exchanges other than PDEx, though duly registered with the SEC, shall be covered by separate Regulations.

SECTION 2. Concept of Securities Borrowing and Lending (SBL). - Securities Borrowing and Lending (SBL) or Securities Lending Transactions (SLTs) is an important element in securities trading and capital market development among emerging markets. It is a vital facility behind the efficient trading settlements and growth of derivatives and options market.

SBL/SLTs under these Regulations involve the lending of fixed income debt securities as identified in Section 3(f) hereof, ("Lent/Borrowed Securities") by the Lender, who owns or controls them, to the Borrower who is driven by its needs to source specific securities to cover "short" or "oversold" securities positions from market-making activities, deliberate strategic positions or to prevent securities settlement failures, in exchange for collateral and the promise to return the equivalent securities on or before the end of the Borrowing Period.

For the duration of the SBL/SLT, the Lender temporarily transfers title over the securities lent but retains a contractual right to receive all benefits accruing to the securities. The objective is to put the Lender in the same economic position as the Lender would have, had the securities not been lent. This means that in case of corporate actions, such as coupon payments paid by the Issuer to the Borrower on the Lent/ Borrowed Securities during the duration of the SBL/SLT, and other benefits accruing in the same period, the Borrower is contractually required to pass on the same to the Lender, thereby putting the Lender in the same economic position as if the Lent/Borrowed Securities "never left his hands". In exchange for such securities, the Borrower shall deliver the collateral in the manner prescribed in the Program Rules of PDEx to secure the return of the Lent/Borrowed Securities according to the tenor of the SBL/SLT.

On or before the end of the Borrowing Period, the Borrower is obligated to return equivalent securities and the Lender, in turn, returns the collateral put up by the Borrower. In effect, an SBL/SLT is similar to a simple collateralized cash loan transaction. However, instead of cash, what is borrowed are securities and what is provided as collateral is either cash, government or equity securities, or a guaranteed letter of credit or such assets as are admitted under these Regulations as eligible collateral.

SECTION 3. Definition of Terms.

a. *Borrowing Period* . The period agreed upon by the parties during which an SBL/SLT should be outstanding, which period, however, shall in no case exceed one (1) year from the date of execution of the SLT Confirmation Notice allowed under the Fixed-Income Securities Lending Program of PDEx. At the end of this period, the Borrower must return to the Lender the equivalent securities borrowed, and the Lender must return the Borrower's Collateral.

b. *Collateral* . Assets delivered to the Lending Pool System Operator, which shall hold the same in recognition of the Lender's security interest therein until the loan is repaid, as prescribed under the Fixed-Income Securities Lending Program of PDEx.

The following are the only types of Collateral that may be delivered into the Collateral Management System under the said Program:

1. Fixed-Income Instruments (PhP-Denominated)
    i. Securities issued by the Republic of the Philippines Bureau of Treasury;
    ii. Securities issued by the Bangko Sentral ng Pilipinas (BSP);
    iii. Securities issued by Municipal or Local Government Units of the Republic of the Philippines and as listed in PDEx; and
    iv. Private Corporate Debt Securities listed in PDEx.

2. Fixed-Income Instruments (USD-Denominated)

    i. Securities issued by the Republic of the Philippines (RoP Debt); and
    ii. Private Corporate Debt Securities listed in PDEx.

3. Equity Instruments (Php-Denominated) Equities listed as components of the Philippine Stock Exchange Composite Index (PHISIX)

4. Cash

c. *Confirmation Notice* - A notice in the format prescribed by PDEx but pre-cleared with the BIR which is issued and sent by the Lending Pool System Operator to the Lender and the Borrower to indicate the details of the SBL/SLT including, but not limited to, the type of securities borrowed and the terms of borrowing.

d. *Equivalent Securities* - Securities recognized in the Registry of Scripless Securities and/or listed in the Exchange as the equivalent of the Lent Securities, in such amount as is required under the said Program or securities with the same International Securities Identification Number (ISIN) and same tax treatment as the Lent/Borrowed Security.

e. *Exchange* - An entity that provides a venue for the dealing/exchange of fixed-income securities and is duly authorized by the SEC to engage in such activity. For purposes of these Regulations, the term shall only refer to the Philippine Dealing & Exchange Corp. (PDEx).

f. *Fixed-Income Securities* - Types of debt securities that are acceptable to the Lending Pool System for lending under the Fixed-Income Securities Lending Program of PDEx, which shall refer only to the following--

1. Fixed-Income Instruments (Php-Denominated):

    i. Securities issued by the Republic of the Philippines Bureau of Treasury;
    ii. Securities issued by the Bangko Sentral ng Pilipinas (BSP);
    iii. Securities issued by Municipal or Local Government Units of the Republic of the Philippines and listed in PDEx;
    iv. Private Corporate Debt Securities listed in PDEx.

2. Fixed-Income Instruments (USD-denominated):

    i. Securities issued by the Republic of the Philippines (RoP Debt);
    ii. Private Corporate Debt Securities listed in PDEx.

g. *Lender/Lending Agent* - Any person or entity that lends securities from its pool of assets as principal or from the assets of its client/s in case of a Lending Agent.

h. *Failed Settlement* - In the context of regular sales of securities, failed settlement means the failure of the seller to deliver to the buyer the securities subject of the transaction within the required period for settlement.

i. *Manufactured Income/Substitute Payment* - Otherwise referred to as " Pass-through Payment", shall consist of both or any one of the following: 1) interest income or coupon payment received from the Lent/Borrowed Securities arising from corporate action of the Issuer thereof~ or 2) interest income that has accrued and received by the Borrower from its sale of the Lent/Borrowed Securities which the Borrower is obliged to pass on to the Lender during the life of the SBL/SLT, in accordance with the terms of the agreement.

j. *Mark-to-Market.* The practice of periodically re-valuing the securities on loan against the value of the Collateral based on the valuation methodology agreed upon by the Borrower and the Lender under the Fixed-Income Securities Lending Program of PDEx.

k. *Master Securities Lending Agreement (MSLA).* A written contract between the Borrower and the Lender (or the Lending Agent) embodying the general terms and conditions for the conduct of SBL/SLT transactions under the Fixed-Income Exchange Program of PDEx.

l. *Participation Agreement* - An agreement which signifies a party's undertaking and willingness to be bound by the Program Rules of PDEx and the MSLA, as a Borrower, Lender and Lending Agent, or both as applicable.

m. *Securities Return* - The obligation of the Borrower to return the equivalent of the Lent/Borrowed Securities on or before the expiration of the Borrowing Period, in accordance with the requirements provided under the Fixed-Income Securities Lending Program of PDEx.

n. *Short Sale or Short Selling.* Any sale~ of Lent/Borrowed Securities not yet in the possession of the seller.

SECTION 4. Parties **to an SBL/SLT.** The parties to an SBL/SLT are as follows:

a. *Borrower* - is a duly admitted Trading Participant of PDEx that is qualified in accordance with the latter's Fixed-Income Securities Lending Program who obtains securities from a Lender's portfolio under a Master Securities Lending Agreement (MSLA) strictly for any of the purposes specified under Section 6 (f) hereof and within the purposes of such Program.

b. *Lender* - is any institution qualified by PDEx under its Fixed-Income Securities Lending Program, who lends securities from his/its pool of assets or the assets of his/its clients (in the case of Lending Agents). A foreign lender is required to deal through a Lending Agent for the purpose of these Regulations.

c. *Lending Agent.* - is an institution accredited by the BSP or the SEC and qualified by PDEx that lends securities from the assets of its clients for SBL/SLTs under the Fixed-Income Securities Lending Program of PDEx.

d. *Lending Pool System Operator* - refers to the Philippine Depository and Trust Corporation (PDTC), the entity accredited by PDEx which is capable of operating a Lending Pool System and which accepts all securities intended for transactions under its Fixed-Income Securities Lending Program and delivers the same to Borrowers upon execution of an SBL/SLT. The Lending Pool System Operator shall have such other functions as are defined under such Program.

e. *Collateral Management System Operator* - refers to PDTC, the entity also accredited by PDEx which is capable of operating a Collateral Management System and which accepts all assets intended as collateral for transactions under its Fixed-Income Securities Lending Program, and holds the same for the benefit of Lenders during the Borrowing Period.

SECTION 5. Tax Treatment of an SBL/SLT under these Regulations. –

a. For purposes of these Regulations, the borrowing and lending of securities under a Fixed-Income Securities Lending Program of PDEx shall not be subject to the documentary stamp tax under Section *175* of the Tax Code, as amended by RA 9243. Likewise, the delivery to, and return by, the Lender of the Collateral in respect thereof shall not be subject to DST, capital gains or income tax, and other taxes, if otherwise applicable; Provided that, (a) a valid MSLA is executed by the parties and registered with and approved by the BIR; (b) the SBL/SLT involving the Fixed-Income Securities Lending Program of PDEX are in accordance with the rules and regulations of the SEC; (c) the Program is administered, supervised by PDEx; and (d) the terms and conditions of these Regulations and the subsequent issuance/s to be issued to implement these Regulations are complied with.

b. The SBL/SLTs under a Fixed-Income Securities Lending Program of PDEx should not fall within the classification of "deposit substitutes" under Section 2(g) of Revenue Regulations (Rev. Regs.) No. 12-80, as amended by Rev. Regs. 8-81, Rev. Regs. 17-84 and Rev. Regs. 3-97, except as otherwise provided in these Revenue Regulations. Furthermore, an SBL/SLT shall also not involve any regular banking unit transactions, such as cash loans, the income of which are subject to the appropriate taxes imposed under the Tax Code of 1997, as amended.

However, it is understood that an SBL/SLT conducted under a Fixed-Income Securities Lending Program of PDEx shall be treated as a deposit substitute transaction or a "sale transaction" and shall be subject to the applicable taxes on the transaction as prescribed by law, if the terms and conditions of these Regulations and the subsequent issuance/s to be issued to implement these Regulations are not strictly complied with.

c. Taxes on the Manufactured Income shall be as follows:

   1. *General Tax Treatment for Manufactured Income*

      The receipt of Manufactured Income by the Lender from the Borrower shall only be subject to the applicable taxes on the interest income or coupon payment or other benefits paid by the issuer and accruing thereon during the Borrowing Period of the Lent/Borrowed Securities as prescribed by law.

   2. *Manufactured Income Arising from Accrued Interest Income of Lent/Borrowed Securities received from sale of such Securities and from Corporate Action of the Issuer received by the Borrower.*

      Payment of the Manufactured Income to the Lender derived by the Borrower from the sale of the Lent/Borrowed Securities or from a coupon payment by the Issuer of such Securities shall not be treated as a tax-deductible expense.

d. The receipt of interest income by the Borrower accruing on the Collateral shall be subject to withholding tax under Section 57 of the Tax Code of 1997, as amended.

SECTION 6. Master Securities Lending Agreement; Basic Requirements - Prior to any borrowing of debt securities as identified in Section 3(f) hereof by the Borrower and negotiating the terms of an SBL/SLT, the parties must have entered into an MSLA through execution of their respective Participation Agreements. A valid MSLA shall contain the following features:

a. *Entitlement of Lender to All Income on Lent/Borrowed Securities* - While there is transfer of title of the Lent/Borrowed Securities to the Borrower, the Lender continues to retain all the rights accruing thereto, such as the right to receive interest income, which the Borrower is obliged to pass on to the Lender.

b. Entitlement of Borrower to All Income on Collateral —While there is transfer of title over the Collateral to the Lender, the Borrower continues to retain ownership and all the rights accruing to the Collateral, such as the right to receive interest income or cash stock dividends which the Lender is obliged to pass on to the Borrower.

c. *Collateral requirement.* - There is no consideration involved unlike a regular buy and sell transaction. Instead, the Borrower merely puts up Collateral as identified in Section 3(b) to guarantee his obligations under and in accordance with the MSLA. As it is in the nature of securities to fluctuate in value, the Lent/Borrowed Securities and the Collateral shall be valued periodically using a valuation methodology agreed upon by the parties in the MSLA. Any excess in the Collateral required may be released to the Borrower. Any shortfall shall be replenished by the Borrower, in accordance with the terms of the MSLA.

d. *Borrowing Period.* - The period agreed upon by the parties and in accordance with the Fixed-Income Securities Lending Program of PDEx during which the specific SBL/SLT transaction under the MSLA is made effective and upon the termination of which, the specific SBL/SLT transaction is likewise ended. However, this period shall in no case exceed one (1) year from the date of execution of SLT Confirmation Notice.

e. *Return of Borrowed Securities and Collateral.* - On or before the expiration of the Borrowing Period, the Borrower is bound to return the equivalent of the Lent/Borrowed Securities, in accordance with the requirements provided under the Fixed-Income Securities Lending Program of PDEx. Concomitantly, the Lender is required to return or cause the return of the Collateral.

f. *Specified Purpose(s).* - The purpose or purposes for which the securities will be used are specified in and accordingly limited by the MSLA, which must be any of the following:

1. *Settlement of sale of Philippine securities effected in the Philippines.* Securities may be borrowed to avoid failure to deliver for the settlement of a sale. This happens when the seller cannot deliver what he owns on time (failed settlement) and therefore, would need to borrow in order to fulfill his settlement obligations.

2. *Settlement of a future sale whether agreed or not at the time the borrowing is effected.* Securities may be borrowed in advance of a sale if it is anticipated that the borrowed securities will be required for settlement of the said future sale such as in a short sale.

3. *Replacement in whole or in part of securities obtained by the Borrower under another SBL/SLT agreement.* Where an early return of Lent Securities is required under the Fixed-Income Securities Lending Program of PDEx, a Borrower without sufficient quantity on hand of the securities can borrow additional securities from a third party to repay the Lender. The replacement borrowing may be for the whole, or part only, of the previously borrowed securities in accordance with the Fixed-Income Securities Lending Program. A condition applying to such an arrangement

is that the initial borrowing must itself be an SBL/SLT within the meaning of these Regulations.

4. *On-lending of borrowed securities to another Borrower who has effected another SBL/SLT agreement.* This occurs when an SBL/SLT is made by an Agent for on-lending to another Borrower who also effects an SBL/SLT, where such an arrangement is authorized under the Fixed Income Securities Lending Program of PDEx. However, the subsequent Borrower must use the Borrowed securities for any of the Specified Purpose specified herein. Because of the practical difficulties an intermediary could face in determining how the subsequent Borrower had used the securities, the BIR shall look at an intermediary's borrowings and on-lendings separately. Thus, provided an intermediary borrows for the purpose of on-lending, his borrowing transaction will qualify under a conditional tax-free status. Furthermore, as securities carrying the same rights are fungible, it is not necessary to match each of an intermediary's SBL/SLT with each of his on-lendings on a case-by-case basis.

5. *Other Authorized Specified Purposes.* Other purposes similar or analogous to the foregoing, or consistent with the objectives of the SBL/SLT program as may be determined by the BIR upon favorable recommendation of PDEx.

The MSLA shall be valid for as long as the same shall not have been revoked, superceded, or otherwise terminated in effect by the act of the Exchange; and Provided further, that the MSLA shall in no case be construed to be coterminous with any SBL/SLT and/or Participation Agreement.

SECTION 7. Guidelines in the Execution of the MSLA.

a. The Borrower must obtain the securities for one or more of the Specified Purposes as defined in Section 6(f) of these Regulations. In this regard, the MSLA may refer to the Specified Purposes within the meaning of these Regulations. However, an MSLA which permits securities to be borrowed for some other purposes not defined or authorized by these Regulations shall not qualify as a valid MSLA.

b. A single MSLA may provide for the borrowing and lending of more than one type of securities and shall cover all securities borrowing and lending transaction of the participant under the Fixed-Income Securities Lending Program of PDEx. However, only securities, the sale and purchase of which are subject to the rules of PDEx, are eligible for SBL/SLT transactions under such Program. Securities not listed in and/or traded through PDEx are not eligible for SBL/SLT transactions. Except to the extent provided for under the Fixed-Income Securities Lending Program, securities not listed and/or traded through PDEx do not fall within the scope of these Regulations.

c. The Exchange shall register the MSLA with the Bureau of Internal Revenue (BIR). The Participation Agreement under the SBL/SLT Program shall be individually registered by each Participant with the BIR upon execution thereof and prior to the first SBL/SLT transaction under the Participation Agreement, with payment of applicable fees thereon. The Participation Agreement signifies the enrollment of the Participant under the Fixed-Income Securities Lending Program of PDEx and its agreement to abide and be bound by the MSLA and the said Fixed-Income Securities Lending Program.

SECTION 8. Registration of the MSLA and Participation Agreements. - The following guidelines shall govern the registration of the MSLA and Participation Agreements:

a. *Requirements.* Prior to entering into an SBL/SLT under a Fixed-Income Securities Lending Program of PDEx,

1. PDEx must provide the BIR with the following:
   a. Three certified true copies of its MSLA;
   b. A specimen of the Participation Agreement; and
   c. The MSLA shall be registered initially prior to operation of the Fixed-Income Securities Lending Program of PDEx and for every amendment thereafter.

2. The Borrower and Lender must provide the BIR with the following:
   a. Duly executed Participation Agreement with the conformity of the Exchange;
   b. The prescribed registration fee of Php 5,000.00 for every Participation Agreement on a per capacity basis. Thus, a participant who undertakes to be a Borrower shall register the Agreement and pay the prescribed fee thereon. Should the same party desire to participate as a Lender, such undertaking shall be covered by a separate Participation Agreement which requires compliance with the registration requirements as stated herein; and
   c. Other documents and information that the BIR may require.

The Borrower's and Lender's copy of the Participation Agreement endorsed with a registration number and duly stamped to acknowledge payment of registration fee, will be returned to the Borrower and Lender endorsed with the approval or denial of the BIR, as the case may be, within ten (10) working days from receipt thereof The Participation Agreement shall not bind PDEx until the Participant shall have submitted the BIR-registered Participation Agreement with PDEx, in such form as the latter shall prescribe.

b. *Place and Time of Registration.* The MSLA and the Participation Agreement shall be registered at the Law Division of the BIR National Office or in such other office which the Commissioner of Internal Revenue may hereafter direct upon filing of Registration Form and payment of the registration fee for the Participation Agreement with the General Services Division at the BIR National Office. Registration of the duly accomplished Participation Agreement should be made within two (2) weeks if executed in the Philippines and within one (1) month

if executed outside the Philippines before an SBL/SLT can be effected. The Participation Agreement shall remain in full force and effect until the same is revoked in accordance with the Program Rules; Provided however, that registration fees due thereon shall be paid every year by the Borrower and/or Lender as the case may be; Provided further, that any interruption/changes in the Participation Agreement shall be subject to registration and payment of fees.

c. *Approval of MSLA and Participation Agreement.* Only SBL/SLTs under an MSLA and Participation Agreement duly registered and approved by the BIR pursuant to these Regulations shall be entitled to the tax treatment provided under Section 5 of these Regulations.

d. *Failure to Register.* Failure to register the MSLA and/or Participation Agreement will make the SBL/SLT transaction and the Collateral provided either a sale and purchase transaction or a deposit substitute and therefore subject to the applicable taxes on the type of transaction imposed under the Tax Code of 1997, as amended.

e. *Duty of the BIR.* It shall be the duty of the Law Division of the BIR National Office to determine whether or not the registered MSLA and Participation Agreement conforms with the requirements herein imposed, to recommend to the Commissioner of Internal Revenue the approval or denial of the MSLA and Participation Agreement registration, to monitor compliance of the parties with the conditions herein prescribed, and to recommend, where proper, assessment of the taxes against the parties found to have entered into an SBL/SLT transaction in violation of these Regulations.

Section 9. SBL/SLT Deemed as a **Deposit Substitute** - An SBL/SLT is deemed as a "Deposit Substitute", when any of the following circumstances is present:

a. The borrowed securities, or part of it, have been used other than for any of the Specified Purpose in these Regulations;
b. The Borrower or Lender fails to comply with the essential features of a valid MSLA;
c. The Participation Agreement/s relied upon by the party/ies to the transaction is/are not registered with the BIR.
d. The transaction itself involves regular banking unit transactions that are subject to the appropriate taxes under the Tax Code of 1997, as amended.

The SBL/SLT transaction deemed as deposit substitute shall be subject to the applicable taxes on a deposit substitute imposed under Sections 24(B)(1), 25(A)(2), 25 (B), 27(D)(1), 28(A)(7)(a) and 28(B)(1) of the Tax Code of 1997, as amended and to other taxes, if otherwise applicable.

Section 10. SBL/SLT Deemed as Sale An SBL/SLT is deemed as sale and purchase of the borrowed securities, and the Collateral as well, when any of the following circumstances is present:

a. There is no return of the Lent Securities or Collateral at the end of the Borrowing Period;

b. Any actual sale of debt securities subject of the SBL/SLT such as a short sale;

c. The Borrower or Lender fails to comply with the essential features of a valid MSLA;

d. The parties to the transaction are not registered as a securities lender and/or borrower with the BIR as evidenced by their respective Participation Agreements;

The SBL/SLT deemed as a sale shall be subject to the applicable taxes on the sale and purchase of securities imposed under Sections 24(C), *25*(B), 27(A), and 28(B) of the Tax Code of 1997, as amended and to other taxes, if otherwise applicable.

Section 11. Compliance Requirements.

a. *Record Keeping and Reporting* - The Borrower and the Lender who have entered into an SBL/SLT transaction are required to:

1. Keep SBL/SLT ledgers and other books of account in the form prescribed by the Commissioner of Internal Revenue;

2. Enter required particulars of SBL/SLT transactions and Securities Returns into that ledger;

3. Provide the BIR with reports of SBL/SLT transactions and the accompanying Confirmation Notices and Securities Returns; and

4. Prepare and keep an SBL/SLT Report for each specific SBL/SLT. The BIR may require submission of information from PDEx, PDTC and/or any third-party service provider or collateral management system operator to validate the report of the Borrower and Lender or for such other purpose/s as it may deem necessary to monitor SBL/SLTs under these Regulations.

b. *Recording Format* - The SBL/SLT ledgers shall be kept in a written form or electronic form where the relevant information can be supplied in a legible hard copy format.

The ledger with respect to each SBL/SLT transaction and related Securities Return should be in a format prescribed by the BIR which shall be subsequently covered by another BIR issuance.

c. *Filing of Bi-Annual Summary Report of Outstanding SBL/SLT Transactions and Securities Returns.* A bi-annual summary report of outstanding SBL/SLTs and

Securities Returns, in the format prescribed by the BIR, must be prepared by PDTC every six months and filed with the Law Division of the BIR National Office within one (1) month after the end of the covered period.

d. *Filing of Annual Reports of Liquidated SBL/SLT Transactions.* In addition to the bi-annual summary report, a report of all liquidated SBL/SLTs as of December 31 of each year must be prepared in the format prescribed by the BIR and likewise filed by PDTC with the Law Division of the BIR National Office within one month after such date.

SECTION 12. Penalties. In the event that the appropriate taxes and/or tax returns are not paid and/or filed by the taxpayer concerned in the SBL/SLT, such taxpayer will be subject to the penalties provided under this Section. These penalties will attach irrespective of whether or not the transaction involving the Lent/Borrowed Securities qualifies as an SBL/SLT or not.

In addition to the civil and criminal liabilities of the taxpayer for violation of the provision of Sec. 127 (A) and Sec. *175* of the Tax Code of 1997, the following administrative penalties incident to the delinquency or deficiency prescribed under Secs. 248 and 249 of the same Code shall be imposed which shall be collected at the same time, in the same manner and as part of the tax.

a. Surcharges

1. *25% surcharge* - In case of any failure to make and file a return and pay the tax due thereon as required by these Regulations on the date prescribed; or unless otherwise authorized by the Commissioner of Internal Revenue, filing a return with an internal revenue officer other than those with whom the return is required to be filed; or failure to pay the deficiency tax within the time prescribed for its payment in the notice of assessment; or failure to pay the full or part of the amount of tax shown on any return required to be filed under the provisions of the Tax Code or of these Regulations, or full amount of the tax due for which no return is required to be filed on or before the date prescribed for its payment, there shall be imposed, in addition to the tax required to be paid, a surcharge equivalent to twenty - five percent *(25%)* of the amount due.

2. *50 % surcharge* - In case of willful neglect to file the return and/or to pay the tax due within the period prescribed by the Tax Code or these Regulations, or in case a false or fraudulent return is willfully made, the penalty to be imposed shall be fifty percent *(50 %)* of the tax or of the deficiency tax, in case any payment has been made on the basis of such return before the discovery of the falsity or fraud.

b. *Interest* - There shall be assessed and collected on any unpaid amount of tax, interest at the rate of twenty percent (20 %) per annum, or such higher rate as

maybe prescribed by the rules and regulations, from the date prescribed for its payment until the full payment hereof.

1. *Deficiency interest* - Any deficiency in the tax due shall be subjected to interest at the rate of twenty percent (20%), which interest shall be assessed and collected from the date prescribed for its payment until the full payment thereof.

2. *Delinquency interest* - In case of failure to pay the amount of the tax due on the return required to be filed, or a deficiency tax, or any surcharge or interest thereon on the due date appearing in the notice and demand of the Commissioner of Internal Revenue, there shall be assessed and collected on the unpaid amount, interest at the rate of the twenty percent (20%) per annum until the amount is fully paid, which interest shall form part of the tax.

c. *Failure to File Certain Information Returns* - In case of each failure to file an information return, statement or list, or keep any record, or supply any information required by these Regulations on the date prescribed therefore, unless it is shown that such failure is due to reasonable cause and not to willful neglect, there shall upon notice and demand by the Commissioner of Internal Revenue, be paid by the person failing to file, keep or supply the same, One Thousand Pesos (Php 1,000) for each such failure: Provided, however, that the aggregate amount to be imposed for all such failures during a calendar year shall not exceed Twenty Five Thousand Pesos (Php 25,000).

SECTION 13. Effectivity. - These Regulations shall take effect after fifteen *(15)* days from publication in the Official Gazette or in any newspaper of general circulation.

(Original Signed)
MARGARITO B. TEVES
Secretary of Finance

Recommending Approval:

(Original Signed)
JOSE MARIO C. BUÑAG
Commissioner of Internal Revenue