

# [ PRESIDENTIAL DECREE NO. 778, August 24, 1975 ]

## AMENDING CERTAIN SECTIONS OF THE NATIONAL INTERNAL REVENUE CODE, AS AMENDED.

**WHEREAS**, there is a need to update, simplify, reduce the number of special tax classifications, and equalize taxation of similar business activities;

**WHEREAS**, there is a need to improve the administrative provisions of the National Internal Revenue Code.

**NOW, THEREFORE, I, FERDINAND E. MARCOS**, President of the Philippines, by virtue of the powers in me vested by the Constitution, do hereby order and decree the following:

**SECTION 1.** Section 24 of the National Internal Revenue Code is hereby amended to read as follows:

**"SEC. 24. Rates of tax on corporations.—**(a.) Tax on domestic Corporations.—A tax is hereby imposed upon the taxable net income received during each taxable year from all sources by every corporation organized in, or existing under the laws of the Philippines, and partnerships, no matter how created or organized, but not including general professional partnership, in accordance with the following:

"Twenty-five per cent upon the amount by which the taxable net income does not exceed one hundred thousand pesos; and

"Thirty-five per cent upon the amount by which the taxable net income exceeds one hundred thousand pesos.

"Private educational institutions, whether stock or non-stock shall pay a tax of ten per cent of their taxable net income from the operation of the school, related school activities, and on their passive investment income consisting of interest, dividends, royalties, and the like: *Provided, However,* That dividends received by a private educational institution, whether stock or non-stock from a domestic or resident foreign corporation shall be subject to the intercorporate dividends tax under subsection (c) hereof.

**"(b) Tax on foreign corporation.—**(1) *Non-resident corporations.*— A foreign corporation not engaged in trade or business in the Philippines shall pay a tax equal to thirty-five percent of the gross income received during each taxable year from all sources within the Philippines as interest, (except interest on foreign loans which shall be subject to fifteen per cent tax), dividends, rents, royalties, salaries, remunerations for technical services, emoluments or other fixed or determinable annual, periodical or casual gains, profits, and income, and capital gains: *Provided, however,* That premium shall not include reinsurance premiums: *Provided, further,* That cinematographic film owners, lessors or distributors shall pay a tax of fifteen per cent of their gross income from all sources within the Philippines: *Provided, still further,* That on

dividends received from a domestic corporation liable to tax under this chapter the tax shall be 15% of the dividends received, which shall be collected and paid as provided in Section 53 (d) of this Code subject to the condition that the country in which the non-resident foreign corporation is domiciled shall allow a credit against the tax due from the non-resident foreign corporation, taxes deemed to have been paid in the Philippines equivalent to 20% which represents the difference between the regular tax (35%) on corporations and the tax (15%) on dividends as provided in this section: *Provided, finally*, That regional or area headquarters established in the Philippines by multinational corporations and which headquarters do not earn or derive income from the Philippines and which act as supervisory, communications and coordinating centers for their affiliates, subsidiaries or branches in the Asia-Pacific Region shall not be subject to tax.

"For purposes of this paragraph, the gross income of cinematographic film owners, lessors, or distributors shall include film rentals and all items of gross income under Section 29(a).

"(2) *Resident corporations*.—A corporation organized, authorized, or existing under the laws of any foreign country, engaged in trade or business within the Philippines, shall be taxable as provided in subsection (a) of this section upon the total net income received in the preceding taxable year from all sources within the Philippines: *Provided, however*, That international carriers shall pay a tax of two and one-half per cent on their gross Philippine billings: *Provided, further*, That any profit remitted abroad by a branch office to its mother company shall be subject to tax of twenty per cent (except those registered with the Export Processing Zone Authority).

"(c) *Rate of tax on certain dividends*.—Dividends received by a domestic or resident foreign corporation from a domestic corporation liable to tax under this Code shall be subject to a final tax at 10% on the total amount thereof, which shall be collected and paid as provided in Section 53 and 54 of this Code; and which shall not be included in the determination of gross income.

"(d) The provisions of existing special or general laws to the contrary notwithstanding all corporate taxpayers not specifically exempt under Section 27 of this Code shall pay the rates provided in this Section. All corporations, agencies, or instrumentalities owned or controlled by the Government, including the Government Service Insurance System and the Social Security System but excluding educational institutions, shall pay such rate of tax upon their taxable net income as are imposed by this section upon associations or corporations engaged in a similar business or industry."

**SEC. 2.** Section 26 of the National Internal Revenue Code is hereby amended to read as follows:

**"SEC. 26.** *Tax liability of members of general professional partnerships.*—Persons exercising a common profession in general partnership, shall be liable for income tax only in their individual capacity, and the share in