

[REPUBLIC ACT NO. 9294, April 28, 2004]

**AN ACT RESTORING THE TAX EXEMPTION OF OFFSHORE
BANKING UNITS (OBUS) AND FOREIGN CURRENCY DEPOSIT
UNITS (FCDUS), AMENDING FOR THE PURPOSE SECTION 27 (D)
AND SECTION 28, PARAGRAPHS (A) (4) AND (A) (7) (B) OF THE
NATIONAL INTERNAL REVENUE CODE AS AMENDED**

*Be it enacted by the Senate and House of Representatives of the Philippines in
Congress assembled:*

SECTION 1. Section 27, paragraph (D) (3) of the National Internal Revenue Code,
as amended, is hereby further amended to read as follows:

"SEC. 27. *Rates of Income Tax on Domestic Corporations.* -

"(D) *Rates of Tax on Certain Passive Incomes.* -

"(3) *Tax on Income Derived under the Expanded Foreign Currency
Deposit System.* - Income derived by a depository bank under the
expanded foreign currency deposit system from foreign currency
transactions with nonresidents, offshore banking units in the
Philippines, local commercial banks including branches of foreign
banks that may be authorized by the Bangko Sentral ng Pilipinas
(BSP) to transact business with foreign currency deposit system
units and other depository banks under the expanded foreign
currency deposit system shall be exempt from all taxes, except net
income from such transactions as may be specified by the Secretary
of Finance, upon recommendation by the Monetary Board to be
subject to the regular income tax payable by banks: *Provided,*
however, That interest income from foreign currency loans granted
by such depository banks under said expanded system to residents
other than offshore banking units in the Philippines or other
depository banks under the expanded system shall be subject to a
final tax at the rate of ten percent (10%).

"Any income of nonresidents, whether individuals or corporations,
from transactions with depository banks under the expanded
system shall be exempt from income tax."

SEC. 2. Section 28, paragraph (A)(4) and (A)(7)(b) of the same Code are hereby
amended to read as follows:

"SEC. 28. *Rates of Income Tax on Foreign Corporations.* -

"(A) Tax on Resident Foreign Corporations. -

"(1) In General. - Except as otherwise provided in this Code, a corporation organized, authorized, or existing under the laws of any foreign country, engaged in trade or business within the Philippines, shall be subject to an income tax equivalent to thirty five percent (35%) of the taxable income derived in the preceding taxable year from all sources within the Philippines: *Provided, That* effective January 1, 1998, the rate of income tax shall be thirty-four percent (34%); effective January 1, 1999, the rate shall be thirty-three percent (33%); and effective January 1, 2000 and thereafter, the rate shall be thirty-two percent (32%).

"In the case of corporations adopting the fiscal-year accounting period the taxable income shall be computed without regard to the specific date when sales, purchases and other transactions occur. Their income and expenses for the fiscal year shall be deemed to have been earned and spent equally for each month of the period.

"The reduced corporate income tax rates shall be applied on the amount computed by multiplying the number of months covered by the new rates within the fiscal year by the taxable income of the corporation for the period, divided by twelve.

"Provided, however, That a resident foreign corporation shall be granted the option to be taxed at fifteen percent (15%), on gross income under the same conditions, as provided in Section 27(A).

"(2) Minimum Corporate Income Tax on Resident Foreign Corporations. - A minimum corporate income tax of two percent (2%) of gross income, as prescribed under Section 27(E) of this Code, shall be imposed, under the same conditions, on a resident foreign corporation taxable under paragraph (1) of this Subsection.

"(3) International Carrier. - An International carrier doing business in the Philippines shall pay a tax of two and one-half percent (2%) on this "Gross Philippine Billings" as defined hereunder:

"(a) International Air Carrier. - 'Gross Philippine Billings' refers to the amount of gross revenue derived from carriage of persons, excess baggage, cargo and mail originating from the Philippines in a continuous and uninterrupted flight, irrespective of the place of sale or issue and the place of payment of the ticket or passage document: *Provided, That* tickets revalidated, exchanged and/or indorsed to another international airline form part of the Gross Philippine Billings if the passenger boards a plane in a port or point in the Philippines: *Provided, further, That* for a flight which originates from the Philippines, but transshipment of passenger takes place at any port outside the Philippines on another airline, only the aliquot portion of the cost of the ticket corresponding to the leg flown from the Philippines to the point of transshipment shall form part of Gross Philippine Billings.

"(b) *International Shipping.* - 'Gross Philippine Billings' means gross revenue whether for passenger, cargo or mail originating from the Philippines up to final destination, regardless of the place of sale or payments of the passage or freight documents.

"(4) *Offshore Banking Units.* - The provisions of any law to the contrary notwithstanding, income derived by offshore banking units authorized by the Bangko Sentral ng Pilipinas (BSP), from foreign currency transactions with nonresidents, other offshore banking units, local commercial banks, including branches of foreign banks that may be authorized by the Bangko Sentral ng Pilipinas (BSP) to transact business with offshore banking units shall be exempt from all taxes except net income from such transactions as may be specified by the Secretary of Finance, upon recommendations of the Monetary Board which shall be subject to the regular income tax payable by banks: *Provided, however,* That any interest income derived from foreign currency loans granted to residents other than offshore banking units or local commercial banks, including local branches of foreign banks that may be authorized by the BSP to transact business with offshore banking units, shall be subject only to a final tax at the rate of ten percent (10%).

"Any income of nonresidents, whether individuals or corporations, from transactions with said offshore banking units shall be exempt from income tax.

"(5) *Tax on Branch Profits Remittances.* - Any profit remitted by a branch to its head office shall be subject to a tax of fifteen percent (15%) which shall be based on the total profits applied or earmarked for remittance without any deduction for the tax component thereof (except those activities which are registered with the Philippine Economic Zone Authority). The tax shall be collected and paid in the same manner as provided in Section 57 and 58 of this Code: *Provided,* That interests, dividends, rents, royalties, including remuneration for technical services, salaries, wages, premiums, annuities, emoluments or other fixed or determinable annual, periodic or casual gains, profits, income and capital gains received by a foreign corporation during each taxable year from all sources within the Philippines shall not be treated as branch profits unless the same are effectively connected with the conduct of its trade or business in the Philippines.

"(6) *Regional or Area Headquarters and Regional Operating Headquarters of Multinational Companies.* -

"(a) Regional or area headquarters as defined in Section 22(DD) shall not be subject to income tax.

"(b) Regional operating headquarters as defined in Section 22