

[DOF, January 26, 2016]

**REVISED IMPLEMENTING RULES AND REGULATIONS TO
REPUBLIC ACT NO. 7656, "AN ACT REQUIRING GOVERNMENT-
OWNED OR -CONTROLLED CORPORATIONS TO DECLARE
DIVIDENDS UNDER CERTAIN CONDITIONS TO THE NATIONAL
GOVERNMENT, AND FOR OTHER PURPOSES"**

Pursuant to Section 7 of Republic Act No. 7656, which was approved on 09 November 1993, the following rules and regulations are hereby promulgated to implement the provisions of the said Act:

Section 1. Title

These rules shall be known as the "Revised Implementing Rules and Regulations to Republic Act No. 7656 (2016)," hereinafter referred to as the Rules.

Section 2. Declaration of Policy

It shall be the policy of the State that in order for the National Government to realize additional revenues, Government-Owned or Controlled Corporations (GOCCs), without impairing their viability and the purposes for which they have been established, shall share a substantial amount of their Net Earnings to the National Government.

These Rules are also intended to promote fiscal discipline among GOCCs and improve National Government cash management.

Section 3. Definition of Terms

As used in these Rules, the term:

- a. "Act" refers to Republic Act No. 7656.
- b. "*Acquired Asset Corporation*" refers to a corporation: (1) which is under private ownership, the voting or outstanding shares of which were: (i) conveyed to the Government or to a government agency, instrumentality or corporation in satisfaction of debts whether by foreclosure or otherwise, or (ii) duly acquired by the Government through final judgment in a sequestration proceeding; or (2) which is a subsidiary of a government corporation organized exclusively to own and manage, or lease, or operate specific physical assets acquired by a government financial institution in satisfaction of debts incurred therewith, and which in any case by law or enunciated policy is required to be disposed of to private ownership within a specified period of time.

- c. *"BIR," "BSP," "BTr," "COA," "DBM," "DOF," "DOJ," and "GCG"* refer to the Bureau of Internal Revenue, the Bangko Sentral ng Pilipinas, the Bureau of the Treasury, the Commission on Audit, the Department of Budget and Management, the Department of Finance, the Department of Justice, and the Governance Commission for GOCCs, respectively.
- d. *"Dividends"* refer to distribution of profits to stockholders of a corporation in proportion to the number of shares held by the respective owners which may take the form of cash, shares of the company's own stock or property, as allowed by law. All dividends declared and remitted to the National Treasury shall be non-refundable.
- e. *"Dividend Year"* refers to the calendar year during which Net Earnings were realized by a GOCC.
- f. *"Financial Institutions Owned or Controlled by the National Government"* refer to financial institutions or corporations in which the National Government directly or indirectly owns majority of the capital stock, and which are either: (1) registered with or directly supervised by the BSP; or are (2) collecting or transacting funds or contributions from the public and thereafter, placing them in financial instruments or assets such as deposits, loans, bonds and equity including, but not limited to, the Government Service Insurance System and the Social Security System.
- g. *"Government-Owned or -Controlled Corporations ("GOCCs")"*, refer to corporations organized as a stock or non-stock corporation vested with functions relating to public needs, whether governmental or proprietary in nature, and owned by the National Government directly or through its instrumentalities either wholly or, where applicable as in the case of stock corporations, to the extent of at least fifty-one percent (51%) of its capital stock. This term shall also include financial institutions owned or controlled by the National Government, but shall exclude acquired asset corporations, state universities, and colleges.
- h. *"National Government"* refers to the entire machinery of the central government, as distinguished from the different forms of local governments.
- i. *"Net Earnings"* refers to income derived from whatever source, whether exempt or subject to tax, net of deductions allowed under Section 29^[1] of the National Internal Revenue Code, as amended, and income tax and other taxes paid thereon, but in no case shall any reserve for whatever purpose be allowed as a deduction from Net Earnings. For the avoidance of doubt, "Net Earnings" shall include:
- i. Income subject to income tax, as provided in the Annual Income Tax Return^[2], net of tax;
 - ii. income subject to final tax, as provided in the Annual Income Tax Return Schedule on Supplemental Information^[3], net of tax;

- iii. Income exempt from tax, as provided in the Annual Income Tax Return Schedule on Gross Income/Receipts Exempt from Income Tax^[4], net of tax;

Provided, further that:

1. Net Earnings shall not include program subsidies and subsidies granted to settle tax obligations for prior years if included in the income statement as revenues, and actual disbursements of program subsidies treated as expenses. In the case of operating subsidies, these shall be considered part of revenues;
2. Net Earnings shall not include dividend income remitted directly to the National Government in compliance with Section 5(h) of these Rules; and,
3. This definition of Net Earnings shall likewise apply to GOCCs that are exempted from income tax.

j. **"Parent GOCC"** refers to a GOCC receiving Dividends from another GOCC;

k. **"Property"** refers to land and buildings, securities issued by the National Government, other marketable securities, and other assets to be approved by the Secretary of Finance;

l. **"Reserves"** refer to the portion of Retained Earnings of a GOCC that has been appropriated by its governing board for a specific purpose, i.e. legal or contractual obligation, plant expansion, and other contingencies.

Section 4. Coverage

These Rules shall apply to all GOCCs, as defined herein, including GOCCs whose profit distribution is provided by their respective charters or by special law: *Provided*, however, That the GOCCs created or organized by law to administer real or personal properties held in trust for the use and benefit of its members shall not be covered by these Rules such as, but not limited to:

- a. Government Service Insurance System;
- b. Social Security System;
- c. Home Development Mutual Fund;
- d. Employees Compensation Commission;
- e. Overseas Workers Welfare Administration; and
- f. Philippine Health Insurance Corporation.

Provided, finally, that Net Earnings derived from operations funded by monies not held in a fiduciary or trustee capacity by the above cited GOCCs shall be subject to declaration of dividends as herein required.

Section 5. Dividends

- a. Except as otherwise provided herein, all GOCCs covered by these Rules, regardless of shareholdings, shall annually declare and remit Dividends directly to the National Government in the name of the Treasurer of the Philippines in

accordance with following guidelines:

- i. On or before 15 May of each year, at least fifty percent (50%) of their Net Earnings, as Cash, Stock and/or Property Dividends to the National Government.
 - ii. In the interest of promoting fiscal discipline and improving revenue generation efforts, the Department of Finance, upon consultation with the DBM and the GCG, may request the GOCC to remit above the 50% minimum dividend rate in the event that the GOCC has excess cash or windfall earnings; provided that the viability and purposes for which the GOCC has been established are not impaired.
- b. As a general rule, GOCCs shall declare and remit Dividends in the form of cash in order to raise additional revenues for the National Government. GOCCs intending to remit Dividends in any form other than cash, i.e. stock or property, may do so only upon express written permission from the Secretary of Finance. Request for remittance of Dividends in stock or property shall be submitted to the DOF on or before 15 May of the year following the relevant Dividend Year, with the documentary requirements under Annex A.
- c. In the case of a stock corporation, GOCCs may declare stock dividend to the National Government provided that their authorized capitalization has not been fully paid-up. Stock dividends shall be valued at par or the book value of shares based on the latest audited financial statements of the GOCCs.
- d. GOCCs owned directly by the National Government and whose shares of stock are not listed in the stock exchange shall, upon obtaining written DOF approval for its declaration of stock dividends, request from DBM the corresponding appropriation following its declaration.
- e. GOCCs may declare property dividends, upon obtaining DOF approval for its declaration. GOCC shall execute and deliver in the name of the Treasurer of the Philippines the necessary deed of transfer or other instrument of conveyance in favor of the National Government. GOCCs shall bear the cost of transferring title, notarial expenses and other fees and charges incidental to the transfer. Land and buildings declared as property dividends, as accepted and approved by the DOF, shall include assets which are owned, but not used in operation, by a GOCC. The property shall be free from all liens and encumbrances and not subject to any adverse judicial process at the time of conveyance. The value of the property shall be based on its fair market value as approved by the COA.
- f. GOCCs remitting stock dividend:
 - (i) that are owned directly by the National Government and whose shares are listed in the Stock Exchange, shall deliver to the BTr the stock certificates with the aggregate value corresponding to the dividend due on or before May 15 following the dividend year.
 - (ii) that are owned directly by the National Government and whose shares are not listed shall earmark the same and shall deliver to

the BTr the stock certificates upon issuance by the DBM of the appropriate document based on the provisions of the General Appropriations Act.

- (iii) that are corporations with majority of its outstanding capital stock owned or controlled, directly or indirectly, through one or more intermediaries, by one or multiple GOCCs, shall deliver to the parent GOCCs the stock dividend which in the latter shall, in turn, assign the same to the BTr within ten (10) working days upon receipt of the stock certificate.
- g. Corporations with majority of its outstanding capital stock owned or controlled, directly or indirectly, through one or more intermediaries, by one or multiple GOCCs, shall remit directly to the National Government all Dividends declared in compliance with Section 5(a) of these Rules.
- h. For the purposes of computing Net Earnings, Parent GOCCs shall not include as part of its Net Earnings any dividend income received from shareholdings in other GOCCs which were remitted directly to the National Government. Neither shall the former credit Dividends directly remitted to the National Government by the latter as part of its own Dividend remittance.
- i. Government-owned banks shall declare and remit Dividends to the National Government pursuant to the applicable banking laws and regulations.
- j. These Rules shall apply to Dividends which shall become due and payable after the effectivity of these Rules, in accordance with the provisions hereof.

Section 6. Schedule of Remittance

- a. All GOCCs shall declare and remit to the BTr in the name of the Treasurer of the Philippines the Dividend due for a given Dividend Year subject to Section 5 (a) of these Rules.
- b. Simultaneous with the payment of the Dividends to the BTr, the GOCC shall send the DOF: (i) schedule showing the computation of Dividends due (copy furnish BTr); (ii) copy of its Annual Income Tax Return, duly received by the BIR or authorized agent banks, for the relevant Dividend Year; (iii) Financial Statements for the relevant Dividend Year duly received by the BIR or authorized agent bank; and (iv) schedules on program subsidies and subsidies granted to settle tax obligations for prior year/s treated as revenues, and actual disbursements of program subsidies treated as expenses. The schedules should be signed by the GOCC's chief executive officer.
- c. The DOF-Corporate Affairs Group (DOF-CAG) shall determine and review the correctness of the computation of dividend remittance.
- d. Any amendment to the Annual Income Tax Return resulting to an increase in the Net Earnings shall warrant a reevaluation by the DOF-CAG. Within ten (10) working days of filing the amended tax return, the GOCC shall submit to the DOF documents enumerated in Section 6 (b) of these Rules related to such