

**[BIR REVENUE MEMORANDUM CIRCULAR NO. 35-
2011, March 14, 2011]**

**CLARIFICATION OF ISSUES CONCERNING THE IMPOSITION OF
IMPROPERLY ACCUMULATED EARNINGS TAX PURSUANT TO
SECTION 29 OF THE TAX CODE OF 1997, IN RELATION TO
REVENUE REGULATIONS NO. 2-2001**

I. BACKGROUND

This Revenue Memorandum Circular (RMC) is being issued to clarify certain issues relative to the imposition of the 10% Improperly Accumulated Earnings Tax (IAET) pursuant to Section 29 of the National Internal Revenue Code of 1997 (Code), as amended, as it applies to the taxable income earned starting January 1, 1998 by closely-held domestic corporations, except publicly held corporations, banks and other non-bank financial intermediaries, insurance companies, and those enumerated under Section 4 of Revenue Regulations (RR) No. 2-2001.

Under Section 29 of the Code, as amended, a Corporation that permits the accumulation of earnings and profits beyond the reasonable needs of the business, instead of dividing or distributing said profits, is subject to ten percent (10%) improperly accumulated earnings tax on the improperly accumulated taxable income.

II. DEFINITION OF IMPROPERLY ACCUMULATED TAXABLE INCOME

Section 29(D) of the Code, as amended, defines the term Improperly Accumulated Taxable Income as "taxable income adjusted by:

- (1) Income exempt from tax;
- (2) Income excluded from gross income;
- (3) Income subject to final tax; and
- (4) The amount of net operating loss carry-over deducted;

And reduced by the sum of:

- (1) Dividends actually or constructively paid; and
- (2) Income tax paid for the taxable year.

Provided, however, That for corporations using the calendar year basis, the accumulated earnings under tax shall not apply on improperly accumulated income as of December 31, 1997. In the case of corporation adopting the fiscal year accounting period, the improperly accumulated income not subject to this tax, shall