

**[ BIR REVENUE MEMORANDUM CIRCULAR NO. 38-2011, September 01, 2011 ]**

**CLARIFICATIONS ON THE APPLICATION OF EXPANDED WITHHOLDING TAX ON THE PAYMENTS OF PHILIPPINE HEALTH INSURANCE CORPORATION TO MEDICAL PRACTITIONERS AND/OR HOSPITALS PERTAINING TO PHIC MEMBERS' BENEFITS**

Philippine Health Insurance Corporation (PHIC) is one of the Government-Owned and Controlled Corporations exempt from income tax. However, it is not exempt from its responsibilities of being a withholding agent of the Bureau of Internal Revenue (BIR). Among those responsibilities include the withholding of correct tax on its income payments, ranging from the payment of compensation to its employees to the payment of its operating expenses such as acquisition of goods and equipment, payments for services rendered to the corporation, etc.

Among the income payments being subjected to expanded withholding tax (EWT) are its payments to hospitals and medical practitioners who rendered medical services to PHIC members. Under existing issuances, PHIC's payments to medical practitioners are subjected to EWT rates of ten percent (10%) or fifteen percent (15%), whichever is appropriate, based on the medical practitioner's declared gross income in a year pursuant to Section 2.57.2(A) of Revenue Regulations (RR) No. 2-98, as amended. On the other hand, payment to hospitals for medical services provided to PHIC members are subjected to EWT rate of two percent (2%) pursuant to Section 2.57.2(N) of the same regulations. However, some field or regional offices of the PHIC do not withhold the prescribed tax on payments made to hospitals and medical practitioners since it is their opinion that such payments are just reimbursements of the members' benefits and not as payment for services rendered to PHIC. This issue has been the subject of debates between the BIR's examiners/auditors and the concerned PHIC regional or field offices.

In view thereof, this Circular is issued to clarify the following issues:

1. Whether or not payments of PHIC of the members' medical benefits given directly to the service provider is subject to EWT; and
2. If in the affirmative, what will be the applicable EWT rate/s assuming that PHIC shall pay the total amount, consisting of facility fees and professional fees, directly to the hospital, which in turn shall pay the professional fees of the medical practitioners.

On the first issue, Section 2.57.2(A) of RR No. 2-98, as amended, provides that professional fees, talent fees, etc. for services rendered by professionals are subject to expanded withholding tax of either ten percent (10%), if the gross income of the professional does not exceed P720,000 in a year, or fifteen percent (15%), if the