

**[REVENUE MEMORANDUM CIRCULAR NO. 51-
2002, NOVEMBER 51, 2002, November 14, 2002]**

**IMPOSITION OF THE GROSS RECEIPTS TAX UNDER SECTIONS
121 AND 122 OF THE TAX CODE ON ITEMS OF GROSS INCOME
SUBJECT TO FINAL WITHHOLDING TAX AND CLARIFYING THE
TAX BASE THEREOF**

For the information and guidance of all internal revenue officers and employees, quoted hereunder is pertinent provision of Revenue Regulations No. 2-98 clarifying that the imposition of the final withholding tax on a particular income will not relieve the recipient/income earner from the imposition of the percentage tax, viz:

"Sec. 2.57. WITHHOLDING TAX AT SOURCE

(A)	Final	Withholding	Tax	—
xxx	xxx			
xxx	xxx		xxx	

xxx.

The finality of the withholding tax is limited only to the payee's income tax liability on the particular income. It does not extend to the payee's other tax liability on said income, such as when the said income is further subject to percentage tax. For example, if a bank receives income subject to final withholding tax, the same shall be subject to a percentage tax."

It is clear from the above-quoted provision that the final withholding tax is only final in so far as the imposition of the income tax is concerned. The final withholding tax is only a procedure by which the income tax is collected from that particular income. Once the final withholding tax is withheld and remitted by the payor, the income recipient is no longer required to declare the income in its income tax returns, nor to pay anymore income tax on such income.

However, since the withholding tax only answers for the income tax liability of the recipient/income earner, the particular income received, inclusive of the amount of withholding tax withheld by the payor, shall still be subject to the percentage tax, if applicable. The gross receipts tax shall be based on the amount of income actually or constructively received during a taxable period, which is equivalent to the economic benefit derived from the income payment. Hence, not only should the amount actually received form part of gross receipts for purposes of the gross receipts tax, but also the amount constructively received corresponding to the final withholding tax which was used in extinguishing the income tax liability of the recipient on the income received. In fine, the gross receipts tax for percentage tax