REPUBLIC OF THE PHILIPPINES
DEPARTMENT OF FINANCE
BUREAU OF INTERNAL REVENUE
Quezon City

Sec. 87 & 97, 1997 Tax Code, as amended
BIR Ruling No. 156-98 & DA-336-08
Financial Accounting, Volume One, First Part, 2013 Edition
OT- 0572-2020

OCT 06 2020

ESPINA & YUMUL-ESPINA
ATTORNEYS-AT-LAW
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Attention: RICARDO M. ESPINA
FE B. MAGPANTAY

Gentlemen:

This refers to your letter dated August 18, 2017, filed in behalf of your client, ZENAIDA S. SARTE ("Mrs. Sarte"), requesting for confirmation that BIR Ruling No. 156-98 (DA-336-08) dated June 3, 2008 which ruled that "stock dividends issued after the death of a stockholder no longer forms part of the inventory of assets of the deceased stockholder as these already belong to his heirs and that said stock dividends can be transferred to his heirs, without the necessity of having the Certificate Authorizing Registration and Tax Clearance Certificate amended."

The facts as culled from your letter are as follows:

1. Edgar S. Sarte ("Edgar") was the owner of [redacted]) shares of stock in Manulife covered by Share Ownership Statement No. [redacted] with MFC Reference No. [redacted] (the "Manulife Shares");

2. On December 23, 2003, Edgar died in Muntinlupa City, Metro Manila;

3. After Edgar's death, Mrs. Sarte filed a Petition for Judicial Settlement of his Estate before the Regional Trial Court of Muntinlupa, Branch 203 ("the Court");

4. Proceedings were held and the Court issued an Order dated September 2, 2011 and the Certificate of Finality dated September 29, 2011, settling the deceased Edgar's Estate and adjudicating the Manulife shares to his legitimate wife, Mrs. Sarte;

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5. The corresponding estate taxes were paid in full and the BIR Revenue District Office No. 53-B issued Certificate Authorizing Registration (the "CAR") No. [redacted] dated April 19, 2016 covering the deceased Edgar's Estate;

6. On March 23, 2017 and on behalf of Mrs. Sarte, all the documents were submitted and the processing fee was paid to RCBC, acting as Manulife's Transfer Agent, for the transfer of the Manulife Shares from the deceased Edgar to Mrs. Sarte;

7. It was at that time when RCBC informed Mrs. Sarte and counsel that the deceased Edgar has total of [redacted] ([redacted]) shares of stock in Manulife because an additional [redacted] ([redacted]) shares of stock were declared as dividends on June 2, 2006 or after Edgar's death (the "Manulife Stock Dividends");

8. RCBC was then informed that since the estate tax due on the deceased Edgar's Estate, including the Manulife Shares, were fully paid and the Manulife Stock Dividends were declared after Edgar's death, the transfer of the Manulife Shares and the Manulife Stock Dividends from the deceased Edgar to Mrs. Sarte should be made by RCBC without necessity of amending the CAR;

9. However, RCBC did not transfer the Manulife Shares and the Manulife Stock Dividends to Mrs. Sarte and instead required her to first secure a Certification from the BIR that the BIR Ruling No. 156-98 (DA-336-08) dated June 3, 2008 is still effective.

Hence, the request for confirmation.

In reply, please be informed that "dividends are recognized as revenue on the *date of declaration.* The reason is that when dividends are declared, the shareholder acquires the right thereto and a legal liability binding on the corporation is created." (*Page 678, Financial Accounting, Volume One, First Part, 2013 Edition by Valix, Peralta & Valix*)

Section 777 of the Civil Code of the Philippines, provides:

"ART. 777. The rights to the succession are transmitted from the moment of the death of the decedent."

For purposes of determining the estate tax, Section 85 of the Tax Code of 1997, amended, identifies what constitutes the gross estate of a decedent. It includes the value of all property, real or personal, tangible or intangible, wherever situated, owned by the decedent ***at the time of his death***.

Pursuant to Section 97 of the same Code, the heirs must submit to the Corporate Secretary a certification from the BIR that the estate tax has been paid or that the estate is exempt from payment of the said tax as a condition precedent for the acquisition of ownership over the shares, viz:

> "**SEC. 97.** ***Payment of Tax Antecedent to the Transfer of Shares, Bonds or Rights.*** – There shall not be transferred to any new owner in the books of any corporation, sociedad anonima, partnership, business, or industry organized or established in the Philippines any share, obligation, bond or right by way of gift inter vivos or mortis causa, legacy or inheritance, unless a cetification from the Commissioner that the taxes fixed in this Title and due theron have been paid is shown." (*BIR Ruling No. DA-336-08, June 3, 2008)*

Thus, Edgar's Properties, including the 545 Manulife Shares, are transmitted to his heirs through his death by virtue of intestate succession. From that time on, Edgar ceased to be its owner and any gain or benefit, such as stock dividend, realized from the 545 Manulife Shares shall then on be accounted or credited to the heirs as the owners thereof. Conversely speaking, the 545 Manulife Shares of stock issued as stock dividends shall no longer form part of the inventory of assets of the decedent as they already belong to the heirs.

Based on the foregoing, since the stock dividends were declared on June 2, 2006 when the ownership of the original 545 Manulife Shares has long been transmitted to Edgar's heirs, this Office confirms your opinion that the Manulife shares issued as stock dividends can be transferred to Edgar's heirs without amending the Certificate Authorizing Registration and Tax Clearance Certificate.

This ruling is being issued on the basis of the foregoing facts as represented. However, if upon investigation, it will be ascertained that the facts are different, then this ruling shall be considered null and void.

Very truly yours,

CAESAR R. DULAY
Commissioner of Internal Revenue

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