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

FEB 2 4 2020

REVENUE MEMORANDUM CIRCULAR NO. 14-2020

SUBJECT	:	Clarifying the Taxability of the Bangko Sentral ng Pilipinas Pursuant to Republic Act No. 11211 Amending Section 125 of Republic Act No. 7653 otherwise known as "The New Central Bank Act" and Other Existing Laws and Revenue Issuances
TO	:	All Internal Revenue Officers and Other Concerned

BACKGROUND

This Circular is issued to clarify the taxation of the Bangko Sentral ng Pilipinas (BSP) with respect to its activities which are considered as tax exempt pursuant to Republic Act (RA) No. 11211 and other existing laws and revenue issuances. This aims to identify which income are considered derived from the exercise of its governmental function as distinguished from its proprietary income.

I. TAX-EXEMPT AND TAXABLE INCOME.

Income/revenues of the BSP derived from the exercise of its governmental function as provided under Revenue Regulations (RR) No. 2-2020 shall be exempt from all national internal revenue taxes.

All other income not considered as derived from its governmental functions shall be considered as proprietary income and shall be subject to all national internal revenue taxes.

II. **TAX-EXEMPT INCOME.** – The following income are considered as derived from the exercise of BSP's governmental function and are exempt from income tax, and consequently not subject to withholding:

A. Interest Income

1. Local interest income earned from the BSP's open market operations (OMO) which is a monetary tool involving the BSP's buying or selling of government securities from banks and financial institutions in order to expand or contract the supply of money.

2. Interest income generated from the BSP's reserve management functions denominated in foreign currency which are sourced from foreign government securities, currency and gold holdings.

3. Interest income earned from collateralized overnight funding, known as the Overnight Lending Facility, provided by the BSP which is available on demand to qualified counterparties.

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4. Interest income earned by the BSP from its credit operations such as the following:

   a) Normal Credit Operations which are credit operations granted to banking institutions through the BSP Rediscounting Facility.

   b) Special Credit Operations which are loans and advances extended to banking institutions for purposes of providing liquidity to the banking system in times of need.

   c) Emergency Credit Operations which are loans and advances extended to banking institutions in periods of national and/or local emergency or of imminent financial panic which directly threaten monetary and financial stability. It shall also include grant of emergency loans or advances to banking institutions, even during normal periods for the purpose of assisting a bank in a precarious financial condition or under serious financial pressures brought about by unforeseen events, or events which though foreseeable, could not be prevented by the bank concerned.

   d) Direct provisional advances granted to the National Government to finance expenditures authorized in its annual appropriation.

   e) Financial facilities extended to Islamic Banks.

   f) Credit extended to the Philippine Deposit Insurance Corporation (PDIC) for insurance purposes and in cases of financial assistance that the latter is authorized to extend under Section 22(e) of RA No. 3591, as amended.

   g) Overdraft Credit Line (OCL) extended to banks participating directly in the clearing operations of the Philippine Clearing House Corporation to cover shortfalls in the banks' demand deposit accounts with the BSP arising from clearing operations.

5. Interest income earned from installment sales of BSP-acquired properties forming part of the monthly installment payments.

B. Income Derived from Sale of BSP Owned and Acquired Properties. This includes:

   1. Gain on sale of assets which the BSP acquired through the following:

      a. Foreclosure proceedings against banks with past due loans; and

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b. Acquired by closed banks from PDIC in payment of outstanding BSP claims against closed banks;

2. Miscellaneous income, as follows:

   a. Realized profits from asset sold;

   b. Income from Redemption of Acquired Assets;

   c. Gain on sale of real and other properties acquired representing remittance by bank on the BSP's share that is not part of the BSP's dacion agreement; and

   d. Other miscellaneous income derived from sale and purchase of acquired assets.

C. Fees and Commissions

1. Those derived from the BSP's exercise of supervisory, regulatory, oversight and/or examination powers over banks, quasi-banks, non-bank financial institutions, money service business, credit granting business, payment system operators and such other entities under the BSP's authority, such as but not limited to:

   a. Annual supervisory fees;
   b. Licensing fees
   c. Processing and filing fees for branching, off-shore banking units, derivatives, establishment of unit investment trust funds;
   d. Seminar fees of the BSP-supervised entities (including but not limited to banks, pawnshops, money changers, remittance agents and foreign exchange dealers);
   e. Application fees for external auditors;
   f. Banking fees of closed banks.

2. Those related to the BSP's international operations, such as but not limited to:

   a. Processing and filing fees of foreign exchange loans, for the BSP approval of publicly guaranteed private sector foreign/foreign currency loans/borrowings;
   b. BSP registration of private sector foreign loans/borrowings that are not publicly guaranteed, wherein the notice to the BSP and/or the application for registration is filed beyond prescriptive period;
   c. Review of and clearance for foreign loan documents/agreements of government-owned and controlled corporations;

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d. Replacement of lost Bangko Sentral Registration Document (BSRD) for the BSP-registered foreign loans and investments; and
e. Filing of application of registration of foreign investments with the BSP beyond the one-year prescriptive period;

3. Philippine Payment and Settlement system (PhilPaSS) fees and other fees related to the BSP's payment and settlement operations;

4. Charges, such as handling and service fees of currency banknote deposits (new, fit or mixed) and foreign exchange deposits on banks;

5. Those related to BSP's loan and credit operations, such as, but not limited to:

   a. Cable charges for dollar rediscounting availments of banks;
   b. Fees for the processing of application, amendment of annual review of collateralized OCL of banks; and
   c. Liquidated damages for penalty charges collected on past-due loans and payments for loans of closed banks, cable, handling and administrative penalties and charges for failed foreign exchange transactions of banks and the Treasurer of the Philippines.

6. Fees and commissions from transactions which form part of the BSP's reserve management functions, including fees, *e.g.* refining fees, relating to BSP's purchase of gold.

D. Penalties. Monetary penalties imposed on/for the following:

1. Supervised financial institutions for reserve deficiencies, late reporting, non-reporting, violation of the BSP issuances, among others;

2. Violation of the terms and conditions of the loans granted by the BSP and of the applicable laws, rules and regulations, BSP's credit policies and non-compliance with the BSP directives;

3. Late payment of installments due from sale of BSP-acquired properties.

E. **Miscellaneous Income.**

1. Teller's Overages;
2. Premium on FX Currency Shipment;
3. Income on foreign currency deposit – Authorized Agent Banks (AAB);
4. Dividend Income;
5. Currency retirement overage;

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6. Income from demonetization of currency;
7. Recoveries in cash or in kind, on exempt written-off loans and advances and accounts receivables arising from tax-exempt BSP transactions;
8. Income realized from the collections/recoveries on PDIC-dacioned mortgage credits in excess of dacion value and related expenses incurred by the BSP;
9. Liquidating dividends which pertain to excess assets of closed banks distributed by the PDIC as payment of the BSP claims against closed banks;
10. Recovery of asset accounts with valuation reserves;
11. Seigniorage income; and
12. Other income similar to the above-enumerated.

F. Gain on Fluctuation, Trading Gains, and Premium Received /(Paid) on Call /Put Options.

1. Gains on fluctuation accounts which represent realized foreign exchange gains arising from repatriation of foreign currency converted to local currency; use of foreign currency to pay foreign obligations and maturity of a foreign exchange forward or options contracts with regard to Philippine peso, including income accounts to recognize fluctuation on foreign exchange rate on shipments abroad;

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2. The trading gain accounts which represent realized gains due to change in price from internally and externally managed foreign securities, sale of gold (spot or exercised call option) and closure of futures contract; and

3. Premium Received or Paid on Call/Put Options income accounts relating to BSP's governmental function.

G. All other income derived by BSP relative to its governmental functions.

III. **TAXABLE INCOME. -** These are income derived from the exercise of BSP's proprietary function subject to income tax, and consequently subject to withholding, such as, but not limited to the following:

A. Income from sale of Printed Securities – This includes, but not limited to, income earned from printing of Security Documents for Bureau of Immigration, Certificates of Professional Regulation Commission, Certificates for Technical Education and Skills Development Authority (TESDA), and Judicial Land Titles;

B. Income from sale of BSP forms, such as sale of bid forms, location maps, and vicinity maps of the properties;

C. Sale of Scrap items – This includes income from sale of old machinery, cans, boxes, drums, etc., as well as, penalty imposed for late delivery;

D. Parking fees collected for use of parking areas by BSP tenants;

E. Income from sale of commemorative medals;

F. Income from sale of demonetized commemorative notes and coins;

G. Income from sale of demonetized notes and coins;

H. Sale of corporate gifts and other souvenir items, excluding printed publications;

I. Rental income arising from the rental of vault space by Presidential Commission on Good Governance (PCGG);

J. Rental collected/earned for the use of BSP owned and acquired properties and facilities therein;

K. Realized profits from assets sold other than those provided under paragraph II(B) hereof;

L. Income from sale of shredded records;

M. Income from sale of car stickers, security pass and other identification paraphernalia issued to the BSP employees and bank representatives;

N. Income from sale thru bidding/auction of scrap and waste materials;

O. Net gain from sale thru bidding/auction of unserviceable furniture and equipment; and

P. Other similar income derived by the BSP not categorically defined under this RMC.

IV. **EXEMPTION FROM VALUE-ADDED TAX.** - BSP is exempt from business taxes for its revenues and receipts derived from the exercise of essential governmental functions, as provided under Revenue Memorandum Circular (RMC) No. 65-2008.

V. **BSP TRANSACTION EXEMPT FROM DOCUMENTARY STAMP TAX.** - Pursuant to Section 199 (L) of the National Internal Revenue Code, as amended, all contracts, deeds, documents and transactions related to the conduct of business entered into by BSP which require payment of Documentary Stamp Tax shall be exempted from the payment thereof.

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VI. **EFFECTIVITY OF TAX EXEMPTION. -** The exemption granted under RA No. 11211 took effect on March 6, 2019 or fifteen (15) days from February 19, 2019, the date of publication in the Official Gazette and a newspaper of general circulation.

All internal revenue officials and employees are hereby enjoined to give this Circular as wide a publicity as possible.

CAESAR R. DULAY
Commissioner of Internal Revenue

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