

## Tax in a dot

Clarification and amendments on existing BIR issuances for EOPT alignment



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### TAX 2025-09

## Clarification and amendments on existing BIR issuances for EOPT alignment

The Bureau of Internal Revenue (BIR) issued Revenue Memorandum Circular (RMC) No. 5-2025 to align existing BIR issuances with the provisions of Republic Act No. 11976 or the Ease of Paying Taxes Act (EOPT) and its implementing rules and regulations.

RMC 5-2025 amended and clarified certain provisions of the following circulars:

- RMC 11-2024 (Lease accounting by lessees)



- RMC 12-2024 (FOREX transactions)
- RMC 13-2024 (Retirement benefits)
- RMC 19-2024 (Interest expense)

*Please see attached RMC 5-2024 for your reference.*

## Amendments to align with EOPT Act

### RMC 11-2024 (Lease accounting by lessees)

#### **Q6: What shall be the income tax treatment of initial direct costs paid by the lessee in relation to the lease of an asset?**

Initial Direct Costs are defined as payments, which are directly related to the negotiation and execution of a lease agreement. The initial direct cost paid or incurred by the lessee in relation to the lease agreement shall be claimed as outright expenses in the year it was paid or incurred subject to substantiation requirements pursuant to Section 34(A)(1)(b) of the National Internal Revenue Code of 1997, as amended (Tax Code).

Furthermore, these costs shall be subject to withholding tax pursuant to Section 9 of the EOPT Act and Section 7 of Revenue Regulations (RR) No. 4-2024. However, as clarified in RMC 60-2024, non-withholding of tax will no longer be a ground for the disallowance of the claimed deduction/expense for taxable year covering 1 January 2024 onwards.

#### **Q7: What shall be the income tax treatment of expenses paid or incurred by the lessee which are properly for the account of the lessor?**

Amounts paid by the lessee for expenses that are the responsibility of the lessor, as indicated in the contractual agreement between the parties, shall be allowed as deductions in the year they are paid or accrued, which shall be properly substantiated with invoices issued by the lessor in the name of the lessee. Thus, it will form part of the gross sales of the lessor and allowable as deduction on the part of the lessee.

#### **Q12: What are the business tax implications relative to leases?**

The corresponding input value-added tax (VAT) shall only be creditable to the lessee for the amount of rentals paid, incurred, or accrued, as evidenced by a **VAT invoice**.

#### **Q13: What are the withholding tax implications of leases?**

The 5% withholding tax shall be based on the amount payable which refers to the value paid/accrued or recorded as an expense or asset, whichever is applicable in the payor's book or at the issuance by the seller of the sales invoice or other adequate document to support such payable, whichever comes first.

### RMC 12-2024 (FOREX transactions)

## Clarifications/transitory provisions

### RMC 12-2024 (FOREX Transactions)



**Q1: Is the use of average rate for a period under Philippine Accounting Standards (PAS) 21 for Foreign Currency Transactions permitted both for financial reporting and tax purposes?**

A1: **No.** For tax purposes, foreign currency transactions shall be converted to Philippine peso using only the spot rate of exchange on the date of transaction.

For financial reporting purposes, paragraph 22 of PAS 21 allows a rate that approximates the actual rate at the date of transactions, which can be used provided that specific spot rate within the day (opening, closing, high, low, or weighted average) has been identified in the sworn statement. If exchange rates fluctuate significantly, the use of average rate for a certain period is inappropriate.

A reconciliation on the foreign exchange (forex) rates used must be prepared for presentation and submission during BIR audit, in case the taxpayer used different rates for financial reporting and tax purposes.

**Q2: PAS 21 does not mandate the use of forex rates published exclusively by a specified source for financial reporting purposes. Do taxpayers have an option to choose the source of forex rate to be used in converting foreign currency denominated transactions for tax purposes?**

A2: **Yes.** Q&A No. 4 of RMC 12-2024 standardizes the forex rates to be used for tax purposes in converting foreign currency denominated transactions to Philippine Peso.

**Q3: What shall be the spot rate applicable for transactions that occurred prior to the opening of Banker's Association of the Philippines (BAP) rates at 9AM, like transactions between 6AM to 8AM or before 9AM?**

A3: For transactions occurring prior to the opening of the BAP rates, the taxpayer shall use the latest selected spot rate available on the business date immediately preceding the opening of the BAP rates.

**Q4: Is netting or offsetting of forex gains and losses allowed for income tax purposes?**

A4: **No.** The practice of offsetting or netting of separate and distinct transactions, and the accounting and recording of the same and its related/incidental transactions (e.g., forex gains/losses) in the taxpayer's books, is strictly prohibited for tax purposes.

**Q5: What is the deadline for submission of the Notarized Sworn Statement as a Requirement under No. 4 of RMC 12-2024?**

A5: The notarized sworn statement informing the concerned BIR offices of electing the use of forex rates other than BAP published rates shall be submitted within 30 days prior to the start of the taxable year. In case of subsequent change in forex rates used, a new notice shall be submitted to the concerned BIR office, which shall be applied from the start of the succeeding taxable year.

Since RMC 12-2024 was issued on 22 January 2024, which is beyond the deadline, taxpayer shall submit the Notarized Sworn Statement for the selected forex rates for 2024 without penalty/sanction on or before 31 December 2024. In case the elected/used forex rates for 2024 with



corresponding Sworn Statement is the same for the succeeding year/s, there is no need to resubmit a Sworn Statement for the year 2025.

The template for the notarized sworn statement is attached as **Annex A**.

**Q6: What is the timeline for taxpayers who intend to adopt the standardized forex rates under Q&A No. 4 of RMC 12-2024 on their duly registered Computerized Accounting System (CAS) or Computerized Books of Accounts (CBA)?**

A6: Taxpayers that are using duly registered CAS or CBA need to revisit their system in case alignment is needed in terms of their use of forex rates for financial reporting and what is prescribed as source of forex rates under Q&A No. 4 of RMC 12-2024 for tax purposes. In case the adoption of forex rates will have a direct effect on the financial aspect, the system shall be updated/reconfigured following the existing policies and procedures on system enhancement.

System reconfiguration shall be allowed to be undertaken on or before 31 December 2024. In case of non-accomplishment within 31 December 2024, a request for extension shall be submitted for approval by the Regional Director or Assistant Commissioner–Large Taxpayers Service (LTS) for a period of not more than 6 months from 31 December 2024.

### **RMC 13-2024 (Retirement benefits)**

**Q1: What is the rationale for the exclusion of entities applying Philippine Financial Reporting Standard (PFRS) for Small-Medium Enterprises (SMEs), considering that PFRS for SME allows use of projected unit credit method for Defined Benefit plans?**

A1: The PFRS for SMEs and Small Entities were excluded from the coverage since certain standards adopted in the full PFRS are not applicable to PFRS for SMEs and Small Entities. Hence, to avoid any confusion, the BIR initially limited the coverage of the same to full PFRS. For compliance purposes, SME and/or Small Entities may avail of the provisions of RMC 13-2024 on an optional basis and to comply with the required disclosure under PFRS.

**Q2: In the absence of the actuarial valuation report for funding can the taxpayer use the current service cost under the actuarial valuation report under PAS 19R as replacement of normal cost?**

A2: **No.** There is a difference in the calculation of service/retirement costs under PAS/PFRS and the Tax Code. The current service cost pertains to the amount that the employee earned for his service in the current reporting period while actuarial valuation is an estimate established by an actuary.

**Q3: If the taxpayer contributed to the retirement fund before the date of filing of a Tax Qualified Plan but within the taxable period of the interim period between the date of filing and issuance of certificate of qualification, can the taxpayer claim the contribution up to normal cost as a deductible expense?**

A3: **No.** Employers may deduct their contributions to the retirement fund if they meet the requirements under RA 4917, evidenced by a certificate of tax qualification issued by the BIR. Nevertheless, pending employers' application with the BIR, contributions to the retirement fund are allowed to be deducted from the gross income subject to the subsequent issuance of the said certificate (Q&A No. 12, RMC 13-2024).







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