



Republic of the Philippines
DEPARTMENT OF FINANCE

Roxas Boulevard Corner Pablo Ocampo, Sr. Street
Manila 1004

**REVISED IMPLEMENTING RULES AND REGULATIONS
TO REPUBLIC ACT NO. 7656, "AN ACT REQUIRING
GOVERNMENT-OWNED OR -CONTROLLED CORPORATIONS
TO DECLARE DIVIDENDS UNDER CERTAIN CONDITIONS
TO THE NATIONAL GOVERNMENT, AND FOR OTHER PURPOSES"**

Pursuant to Section 7 of Republic Act No. 7656, which was approved on 09 November 1993, the following rules and regulations are hereby promulgated to implement the provisions of the said Act:

Section 1. Title

These rules shall be known as the "Revised Implementing Rules and Regulations to Republic Act No. 7656 (2016)," hereinafter referred to as the Rules.

Section 2. Declaration of Policy

It shall be the policy of the State that in order for the National Government to realize additional revenues, Government-Owned or Controlled Corporations (GOCCs), without impairing their viability and the purposes for which they have been established, shall share a substantial amount of their Net Earnings to the National Government.

These Rules are also intended to promote fiscal discipline among GOCCs and improve National Government cash management.

Section 3. Definition of Terms

As used in these Rules, the term:

- a. "*Act*" refers to Republic Act No. 7656.
- b. "*Acquired Asset Corporation*" refers to a corporation: (1) which is under private ownership, the voting or outstanding shares of which were: (i) conveyed to the Government or to a government agency, instrumentality or corporation in satisfaction of debts whether by foreclosure or otherwise, or (ii) duly acquired by the Government through final judgment in a sequestration proceeding; or (2) which is a subsidiary of a government corporation organized exclusively to own and manage, or lease, or operate specific physical assets acquired by a government financial institution in satisfaction of debts incurred therewith, and which in any case by law or enunciated policy is required to be disposed of to private ownership within a specified period of time.
- c. "*BIR*," "*BSP*," "*BTr*," "*COA*," "*DBM*," "*DOF*," "*DOJ*," and "*GCG*" refer to the Bureau of Internal Revenue, the Bangko Sentral ng Pilipinas, the Bureau of the Treasury, the Commission on Audit, the Department of Budget and Management, the Department of Finance, the Department of Justice, and the Governance Commission for GOCCs, respectively.

- d. "*Dividends*" refer to distribution of profits to stockholders of a corporation in proportion to the number of shares held by the respective owners which may take the form of cash, shares of the company's own stock or property, as allowed by law. All dividends declared and remitted to the National Treasury shall be non-refundable.
- e. "*Dividend Year*" refers to the calendar year during which Net Earnings were realized by a GOCC.
- f. "*Financial Institutions Owned or Controlled by the National Government*" refer to financial institutions or corporations in which the National Government directly or indirectly owns majority of the capital stock, and which are either: (1) registered with or directly supervised by the BSP; or are (2) collecting or transacting funds or contributions from the public and thereafter, placing them in financial instruments or assets such as deposits, loans, bonds and equity including, but not limited to, the Government Service Insurance System and the Social Security System.
- g. "*Government-Owned or -Controlled Corporations ("GOCCs")*", refer to corporations organized as a stock or non-stock corporation vested with functions relating to public needs, whether governmental or proprietary in nature, and owned by the National Government directly or through its instrumentalities either wholly or, where applicable as in the case of stock corporations, to the extent of at least fifty-one percent (51%) of its capital stock. This term shall also include financial institutions owned or controlled by the National Government, but shall exclude acquired asset corporations, state universities, and colleges.
- h. "*National Government*" refers to the entire machinery of the central government, as distinguished from the different forms of local governments.
- i. "*Net Earnings*" refers to income derived from whatever source, whether exempt or subject to tax, net of deductions allowed under Section 29¹ of the National Internal Revenue Code, as amended, and income tax and other taxes paid thereon, but in no case shall any reserve for whatever purpose be allowed as a deduction from Net Earnings. For the avoidance of doubt, "Net Earnings" shall include:
 - i. Income subject to income tax, as provided in the Annual Income Tax Return², net of tax;
 - ii. Income subject to final tax, as provided in the Annual Income Tax Return Schedule on Supplemental Information³, net of tax;
 - iii. Income exempt from tax, as provided in the Annual Income Tax Return Schedule on Gross Income/Receipts Exempt from Income Tax⁴, net of tax;

Provided, further that:

¹Now Section 34 of the amended National Internal Revenue Code under Presidential Decree No. 1158 and Republic Act No. 8424 (Tax Reform Act of 1997).

²BIR Form No. 1702 as of June 2013. Part IV – Computation of Tax for BIR Form No. 1702-RT; Schedule 1 - Computation of Tax per Tax Regime for BIR Form No. 1702-MX; Part IV - Computation of Tax for BIR Form No. 1702-EX.

³BIR Form No. 1702 as of June 2013. Schedule 12 for BIR Form No. 1702-RT; Schedule 13 for BIR Form No. 1702-MX; Schedule 9 for BIR Form No. 1702-EX.

⁴BIR Form No. 1702 as of June 2013. Schedule 13 for BIR Form No. 1702-RT; Schedule 14 for BIR Form No. 1702-MX; Schedule 10 for BIR Form No. 1702-EX.

1. Net Earnings shall not include program subsidies and subsidies granted to settle tax obligations for prior years if included in the income statement as revenues, and actual disbursements of program subsidies treated as expenses. In the case of operating subsidies, these shall be considered part of revenues;
 2. Net Earnings shall not include dividend income remitted directly to the National Government in compliance with Section 5(h) of these Rules; and,
 3. This definition of Net Earnings shall likewise apply to GOCCs that are exempted from income tax.
- j. “*Parent GOCC*” refers to a GOCC receiving Dividends from another GOCC;
- k. “*Property*” refers to land and buildings, securities issued by the National Government, other marketable securities, and other assets to be approved by the Secretary of Finance;
- l. “*Reserves*” refer to the portion of Retained Earnings of a GOCC that has been appropriated by its governing board for a specific purpose, i.e. legal or contractual obligation, plant expansion, and other contingencies.

Section 4. Coverage

These Rules shall apply to all GOCCs, as defined herein, including GOCCs whose profit distribution is provided by their respective charters or by special law: *Provided*, however, That the GOCCs created or organized by law to administer real or personal properties held in trust for the use and benefit of its members shall not be covered by these Rules such as, but not limited to:

- a. Government Service Insurance System;
- b. Social Security System;
- c. Home Development Mutual Fund;
- d. Employees Compensation Commission;
- e. Overseas Workers Welfare Administration; and
- f. Philippine Health Insurance Corporation.

Provided, finally, that Net Earnings derived from operations funded by monies not held in a fiduciary or trustee capacity by the above cited GOCCs shall be subject to declaration of dividends as herein required.

Section 5. Dividends

- a. Except as otherwise provided herein, all GOCCs covered by these Rules, regardless of shareholdings, shall annually declare and remit Dividends directly to the National Government in the name of the Treasurer of the Philippines in accordance with following guidelines:
 - i. On or before 15 May of each year, at least fifty percent (50%) of their Net Earnings, as Cash, Stock and/or Property Dividends to the National Government.
 - ii. In the interest of promoting fiscal discipline and improving revenue generation efforts, the Department of Finance, upon consultation with the DBM and the GCG, may request the

GOCC to remit above the 50% minimum dividend rate in the event that the GOCC has excess cash or windfall earnings; provided that the viability and purposes for which the GOCC has been established are not impaired.

- b. As a general rule, GOCCs shall declare and remit Dividends in the form of cash in order to raise additional revenues for the National Government. GOCCs intending to remit Dividends in any form other than cash, i.e. stock or property, may do so only upon express written permission from the Secretary of Finance. Request for remittance of Dividends in stock or property shall be submitted to the DOF on or before 15 May of the year following the relevant Dividend Year, with the documentary requirements under Annex A.
- c. In the case of a stock corporation, GOCCs may declare stock dividend to the National Government provided that their authorized capitalization has not been fully paid-up. Stock dividends shall be valued at par or the book value of shares based on the latest audited financial statements of the GOCCs.
- d. GOCCs owned directly by the National Government and whose shares of stock are not listed in the stock exchange shall, upon obtaining written DOF approval for its declaration of stock dividends, request from DBM the corresponding appropriation following its declaration.
- e. GOCCs may declare property dividends, upon obtaining DOF approval for its declaration. GOCC shall execute and deliver in the name of the Treasurer of the Philippines the necessary deed of transfer or other instrument of conveyance in favor of the National Government. GOCCs shall bear the cost of transferring title, notarial expenses and other fees and charges incidental to the transfer. Land and buildings declared as property dividends, as accepted and approved by the DOF, shall include assets which are owned, but not used in operation, by a GOCC. The property shall be free from all liens and encumbrances and not subject to any adverse judicial process at the time of conveyance. The value of the property shall be based on its fair market value as approved by the COA.
- f. GOCCs remitting stock dividend:
 - (i) that are owned directly by the National Government and whose shares are listed in the Stock Exchange, shall deliver to the BTr the stock certificates with the aggregate value corresponding to the dividend due on or before May 15 following the dividend year.
 - (ii) that are owned directly by the National Government and whose shares are not listed shall earmark the same and shall deliver to the BTr the stock certificates upon issuance by the DBM of the appropriate document based on the provisions of the General Appropriations Act.
 - (iii) that are corporations with majority of its outstanding capital stock owned or controlled, directly or indirectly, through one or more intermediaries, by one or multiple GOCCs, shall deliver to the parent GOCCs the stock dividend which in the latter shall, in turn, assign the same to the BTr within ten (10) working days upon receipt of the stock certificate.
- g. Corporations with majority of its outstanding capital stock owned or controlled, directly or indirectly, through one or more intermediaries, by one or multiple GOCCs, shall remit directly to the National Government all Dividends declared in compliance with Section 5(a) of these Rules.

- h. For the purposes of computing Net Earnings, Parent GOCCs shall not include as part of its Net Earnings any dividend income received from shareholdings in other GOCCs which were remitted directly to the National Government. Neither shall the former credit Dividends directly remitted to the National Government by the latter as part of its own Dividend remittance.
- i. Government-owned banks shall declare and remit Dividends to the National Government pursuant to the applicable banking laws and regulations.
- j. These Rules shall apply to Dividends which shall become due and payable after the effectivity of these Rules, in accordance with the provisions hereof.

Section 6. Schedule of Remittance

- a. All GOCCs shall declare and remit to the BTr in the name of the Treasurer of the Philippines the Dividend due for a given Dividend Year subject to Section 5 (a) of these Rules.
- b. Simultaneous with the payment of the Dividends to the BTr, the GOCC shall send the DOF: (i) schedule showing the computation of Dividends due (copy furnish BTr); (ii) copy of its Annual Income Tax Return, duly received by the BIR or authorized agent banks, for the relevant Dividend Year; (iii) Financial Statements for the relevant Dividend Year duly received by the BIR or authorized agent bank; and (iv) schedules on program subsidies and subsidies granted to settle tax obligations for prior year/s treated as revenues, and actual disbursements of program subsidies treated as expenses. The schedules should be signed by the GOCC's chief executive officer.
- c. The DOF-Corporate Affairs Group (DOF-CAG) shall determine and review the correctness of the computation of dividend remittance.
- d. Any amendment to the Annual Income Tax Return resulting to an increase in the Net Earnings shall warrant a reevaluation by the DOF-CAG. Within ten (10) working days of filing the amended tax return, the GOCC shall submit to the DOF documents enumerated in Section 6 (b) of these Rules related to such amendment and remit to the BTr any deficiency.
- e. In the case of GOCCs which may encounter cash flow difficulties in remitting cash dividends to the National Government, the GOCC may request an alternative schedule of payment through the submission of a request to the Secretary of Finance on or before 15 May of the year following the relevant Dividend Year, with the documentary requirements under Annex A.

Section 7. Flexible Clause

- a. In the interest of the national economy and general welfare, and in consideration of the viability of the GOCCs and the purposes for which they were established, the percentage of annual Net Earnings that shall be declared by the GOCC may be adjusted by the President of the Philippines below the minimum 50% Dividend rate, upon recommendation by the Secretary of Finance.
- b. Subject to Section 7 (a) of these Rules, a downward adjustment in Dividend rate below the minimum 50% may be allowed for the following cases: (i) where there is a presence of a deficit as reflected in the GOCC's latest Statement of Equity, (ii) where the GOCC's viability or the purpose for which the GOCC has been established will be impaired by the payment of the required Dividends; (iii) where the declaration and remittance of Dividends at the minimum

Dividend rate will result in a breach in minimum regulatory requirements (e.g. capital level and ratios as may be required by BSP); and, (iv) for GOCCs governed by Batas Pambansa Blg. 68 (or the Corporation Code of the Philippines), where declaration and remittance of Dividends at the minimum Dividend rate exceeds the unrestricted retained earnings of the GOCC.

- c. Requests for downward adjustment should be submitted to the Secretary of Finance on or before 15 May of the year following the relevant dividend year. The requesting GOCC shall submit the documentary requirements as provided under Annex A of these Rules.

Section 8. Recording of Dividends

The BTr shall record the dividends as follows:

- a. Cash dividends - recorded as income to the General Fund;
- b. Property dividends - recorded as assets upon receipt of the property and, upon sale of the property, income to the General Fund;
- c. Stock dividends:
 - (i) For GOCCs whose shares are listed in the stock exchange, dividends shall be recorded as asset upon receipt of the shares of stock and the excess over the par value of shares, and, upon sale of the shares of stock, income to the General Fund;
 - (ii) For GOCCs directly owned by the National Government whose shares are not listed in the stock exchange, dividends shall be recorded as income to the General Fund and as additional paid-up equity by the National Government to the GOCC upon issuance by the DBM of the appropriate document based on the provisions of the General Appropriations Act.
 - (iii) For corporations, where at least a majority of the outstanding capital stock is owned or controlled, directly or indirectly, through one or more intermediaries, by one or multiple GOCCs, and whose shares are not listed in the stock exchange, dividends shall be recorded as income to the General Fund.

Section 9. Responsibility, Sanctions and Penalty

- a. The governing board of the GOCC shall be responsible for approving the declaration of the proper amount of Dividends in accordance with these Rules. The chief executive and finance officers of the GOCC shall be responsible for the remittance of said Dividends. In case of failure of a GOCC to declare and remit the proper amount of dividends in accordance with these Rules: (i) The DOF shall recommend to the GCG or DBM the deferral or disapproval of the performance incentive of the GOCC's Appointive Directors (including the chief executive) without prejudice to other sanctions as may be imposed by the GCG or DBM; and, (ii) The BTr, in coordination with DOF, shall assess the GOCC a penalty charge for late payment equivalent to the prevailing 364-day regular Treasury bill rate plus five percent (5%) on the Dividend due.
- b. In case of failure to remit the declared Stock or Property Dividends on the specified deadline, the GOCC shall immediately remit in the form of cash the equivalent cash value of stock or Property Dividend within ten (10) days upon the advice of the BTr. Additional sanctions and

penalty charges, as provided for in Section 9 (a) of these Rules, shall be imposed on the GOCC should it further fail to remit the equivalent cash Dividend within this period.

Section 10. Criminal Liabilities of Directors and Officers

In addition to the penalties which may be imposed on the GOCC pursuant to Section 9 of these Rules, any member of the governing board, the chief executive officer and the chief financial officer of a GOCC who violates any provision of these Rules, in addition to other sanctions provided by law, upon conviction thereof, shall suffer the penalty of a fine of not less than Ten thousand pesos (P10,000.00) but not more than Fifty thousand pesos (P50,000.00) or imprisonment of not less than one (1) year but not more than three (3) years, or both at the discretion of the court, without prejudice to other appropriate sanctions provided by law.

Section 11. Resolution of Related Issues

All cases for clarification not covered by the provision of these Rules shall be referred to the DOF for resolution.

Section 12. Repealing Clause

Implementing Rules and Regulations issued on 28 January 1994 and 5 August 1998 are hereby amended, revised, modified or repealed accordingly.


Section 13. Separability Clause

If for any reason or reasons any part of the provisions of these Rules shall be deemed unconstitutional or invalid, other parts or provisions thereof which are not affected thereby shall continue to be in force and effect.

Section 14. Effectivity

These Rules shall be applicable immediately upon publication.

Done in the City of Manila, this 26th day of January, 2016.


CESAR V. PURISIMA
Secretary of Finance

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ANNEX A
Documentary Requirements

- a. In requesting for downward adjustments or an alternative schedule of payment or remittance in the form of stocks, the GOCC shall submit the following to the DOF not later than 15 May of the year following the relevant Dividend Year. The DOF shall not entertain requests beyond the period specified herein.
 - i. Letter from the Head of the GOCC or its duly designated officer requesting the approval from the DOF citing details to the request and specific reasons and justifications;
 - ii. Copy of the GOCC Board Resolution on the request;
 - iii. Copy of the quarterly financial statements for the relevant Dividend Year and the year prior;
 - iv. Detailed Dividend computation and necessary supporting schedules, including Income Tax Return and financial statements of the relevant Dividend Year, duly received by the BIR or authorized agent banks;
 - v. Copy of the Corporate Operating Budget, including projected financial statements and supporting schedules, for the year following the relevant Dividend Year as submitted to the DBM. In the case of applications for an alternative schedule of payment, projected financial statements shall cover all applicable years up to the end of the proposed payment schedule;
 - vi. In the case of GOCCs, except those expressly exempted under Section 4 of Republic Act No. 7656, which may be exempted or may not apply provisions under Republic Act No. 7656 as a result of special laws (e.g. charters), copy of the DOJ opinion providing such exemption;
 - vii. Details of existing and additional reserve requirements necessary pursuant to regulatory benchmarks and underlying supporting documents and computations, if any;
 - viii. All other information that the DOF may require in the course of its evaluation.
- b. In requesting permission to pay Dividends in the form of Property Dividends, the GOCC shall submit to DOF the following requirements in addition to Annex A (a) hereof not later than 15 May of the year following the relevant Dividend Year, as may be applicable:
 - i. Statement of confirmation from the head of the GOCC or its duly designated officer that the property (i) is not used in operations by the GOCC, (ii) is free of all liens and encumbrances, (iii) is not occupied by informal settlers, (iv) is not subject to any adverse judicial process at the time of conveyance; and (v) the property is under the name of the GOCC;
 - ii. In case where the GOCC has an identified beneficiary or implementing agency, a letter from the head of the GOCC or its duly designated officer identifying the implementing agency and reason/s for utilizing the Property;
 - iii. Fair market value of the property as determined by COA no later than one year prior to the proposed date of conveyance or 15 May of the year for which the Property Dividend is proposed to be paid, whichever is later;

- iv. Presidential issuance transferring the Property declared as Dividends to a government agency, instrumentality, or GOCC;
- v. Deed of transfer or other instrument of conveyance in favor of the National Government from the head of the GOCC or its duly designated officer. The conveyance shall be supported with (i) certified true copy of the Certificate of Title under the name of the GOCC; (ii) real property tax declaration; (iii) proof of payment of real property tax; and (iv) proof of payment of other taxes and fees required by law;
- vi. Draft memorandum of agreement between the GOCC and the Republic of the Philippines thru the Department of Finance; and,
- vii. All other information that the DOF may require in the course of its evaluation.