



Republic of the Philippines  
**DEPARTMENT OF FINANCE**

Roxas Boulevard Corner Pablo Ocampo, Sr. Street  
Manila 1004

DOF Opinion No. 018.2019

**ENGR. RAMON I. CASTILLO**

Innovatronix, Inc.  
Km. 26, The Richdale, Sumulong Highway  
Sta. Cruz, Antipolo, Rizal 1870

ATTENTION: **AILENE M. DAGAMI**  
*Manager, Finance Department*

**SUBJECT: Request for Review of Bureau of Internal Revenue Ruling  
No. 0505-2019**

Dear **Engr. Castillo**:

This refers to the subject letter dated 7 October 2019 ("Request for Review") which Innovatronix, Inc. filed with this Department to request for review of Bureau of Internal Revenue ("BIR") Ruling No. 0505-2019 dated 9 September 2019, which limited the tax exemption under Republic Act (RA) No. 7459, otherwise known as the "Inventors and Inventions Incentives Act of the Philippines", to the inventor..

In particular, the Request for Review prays for the reversal of the BIR's finding that the tax exemption under the Inventors and Inventions Incentives Act of the Philippines can only be claimed by the inventor. The pertinent portion of BIR Ruling No. 0505-2019 provides:

"The said exemption can be availed of by the inventor, Engr. Ramon I. Castillo, during the first ten (10) years from the date of the first sale on a commercial scale, as follows:

A handwritten signature in black ink, appearing to be the initials "JC" or similar, is written below the text.

Patent Number	Title	Date of First Sale
2-2016-000842	Studio Viewer	May 21, 2018
2-2016-000509	Microprocessor Controlled AC Voltage Regulator	February 27, 2017
2-2016-000506	Digital Picture Processing System	May 4, 2017
2-2016-000505	Pure Sine Wave Inverter	February 27, 2017

provided that said exemption privileges pertaining to the invention shall be extended to the legal heir or assignee upon the death of the inventor. In other words, the tax exemption under the aforesaid Section is for the inventor, in this case, Ramon I. Castillo, and not for any other entity that commercially produces and distributes the invented product. (BIR Ruling No. 011-2016 dated January 08, 2016) Hence, any income received by the company, Innovatronix Incorporated, from such production/distribution/marketing is subject to the payment of appropriate taxes. (BIR Ruling No. 190-2015 dated June 10, 2015)”

On the other hand, Innovatronix, Inc. respectfully disagreed with the above ruling and asserts in its Request for Review that Innovatronix, Inc. is entitled to the exemption under the Inventors and Inventions Incentives Act of the Philippines due to the following reasons:

- a. The Patentee of the above inventions are Engr. Castillo and Innovatronix, Inc.; and
- b. The law exempts from taxes the income on the invention.

***We agree with the BIR.***

A circumspect reading of Section 6 of the Inventors and Inventions Incentives Act of the Philippines vis-a-vis Section 2 of the same law, reveals the intent of Congress to limit the tax exemption privilege to the original inventor. Section 2 is herein reproduced:

“SECTION 2. Declaration of National Policy and Program. — It is hereby declared to be the national policy to give priority to





invention and its utilization on the country's productive systems and national life; **and to this end provide incentives to inventors and protect their exclusive right to their invention**, particularly when the invention is beneficial to the people and contributes to national development and progress." (Emphasis supplied)

While Section 6 does not specifically mention that the exemption therein only applies to the inventor, this should be read in conjunction with Section 2.

Further, congressional records disclose that it is in the legislative intent of RA No. 7459 that *only* the original inventor is entitled to the tax incentives.<sup>1</sup> Consistent with the intent of its framers to provide incentives to the original inventors, Section 6 should be construed to refer only to Engr. Castillo and should not include Innovatronix, Inc.

In light of these circumstances, it must be read that the purpose of Section 6 of RA No. 7459 is to exempt the income derived by the inventor from the technologies and invention. To say that the tax exemption is attached to the technology or invention itself regardless of whoever produces, manufactures, and/or markets the same, would create an absurd result wherein it would allow anyone to claim the tax exemption privilege by alleging that it acts as the producer, manufacturer, and/or marketer of the technology or product.

To be clear, the government's purpose in enacting the Inventors and Inventions Incentives Act of the Philippines is to provide incentives to inventors and protect their exclusive right to their invention, particularly when it is beneficial to the people and contributes to national development and progress. Limiting the tax exemption privilege only to the original inventor does not contradict the furtherance of this policy.

Section 3 of the Inventors and Inventions Incentives Act of the Philippines defines an "inventor" as the patentee/s, heir/s or assignee/s of an Invention letters patent, Utility Model letters or Industrial Design letters patent. Clearly, as applied to the present case, this refers to Engr. Castillo to the exclusion of Innovatronix, Inc.

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<sup>1</sup>*Splash Corporation v. Commissioner of Internal Revenue*, C.T.A. Case No. 8483, 6 April 2017 citing the Congressional records wherein it is discussed that when Representative Mario S. Ty was asked during deliberation with respect to the tax incentives provision of House Bill No. 24801, which later became RA 7459, he was clear and categorical in saying that the tax incentives pertain exclusively to the original inventor,



It is a fundamental principle in Corporation Law that a corporation is an entity separate and distinct from that of its stockholders and from that of other corporations to which it may be connected. A corporation is an artificial entity created by operation of law. It possesses the right of succession and such powers, attributes, and properties expressly authorized by law or incident to its existence.

Consequently, Engr. Castillo, who is the inventor of the above-mentioned inventions, and Innovatronix, Inc. are two distinct and separate parties or entities. In the case of *Aboitiz Equity Ventures, Inc. v. Victor S. Chiongbian*,<sup>2</sup> the Supreme Court further explained:

**“[E]ven the ownership by a single stockholder of all or nearly all the capital stock of a corporation is not, in and of itself, a ground for disregarding a corporation's separate personality.”** (Emphasis supplied)

Thus, even given the fact that Engr. Castillo is a stockholder of Innovatronix, Inc., this does not in any way negate the conclusion that, under the eyes of the law, they are considered two different entities entitled to different rights and obligations arising from their respective transactions. A tax exemption granted to a shareholder cannot be claimed by the corporation just because he/she is a shareholder thereto.

Further, a scrutiny of the documents submitted by Innovatronix, Inc. indicates that he is the inventor as contemplated in RA No. 7459. The Certification from the Filipino Inventors Society, Inc. (FISI) dated 28 May 2018 indicates that it is Engr. Castillo who is the bona fide member of the FISI. The Confirmation Certificate dated 28 June 2018 from the Screening Committee was issued in favor of Engr. Castillo and only refer to Innovatronix, Inc. as the company to which he is the President/CEO.

Moreover, the Utility Model Registrations of the above-mentioned inventions issued by the Intellectual Property of the Philippines all refer to Engr. Castillo as the maker and Innovatronix, Inc. merely as the applicant. This emphasizes and highlights the clear fact that Engr. Castillo is actually the inventor of the said products.

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<sup>2</sup>G.R. No.197530, 9 July 2014.






Accordingly, we agree with BIR Ruling No. 0505-2017 that the tax exemption granted by RA 7459 applies to the inventor and can be enjoyed by the inventor only and not by separate entities that produce, distribute, and/or market the invention. In addition, we affirm the finding of BIR that the tax exemption refers to income tax only as similarly held in a long line of BIR Rulings and decisions of the Court of Tax Appeals.

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

Thank you.

Sincerely yours,

  
CARLOS G. DOMINGUEZ  
Secretary of Finance  
DEC 18 2019



CC **Commissioner Caesar R. Dulay**  
Bureau of Internal Revenue