



Republic of the Philippines
DEPARTMENT OF FINANCE
Roxas Boulevard Corner Vito Cruz Street
Manila 1004



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ATTN: JULIE

**REVISED IMPLEMENTING RULES AND REGULATIONS
TO REPUBLIC ACT NO. 7656, "AN ACT REQUIRING
GOVERNMENT-OWNED AND/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 guidelines shall be known as the "Revised Implementing Rules and Regulations to Republic Act No. 7656", 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 and/or controlled corporations, 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.

Section 3. Definition of Terms. - As used in these Rules, the term:

- (a) "Act" refers to Republic Act No. 7656.
- (b) "National Government" refers to the entire machinery of the central government, as distinguished from the different forms of local governments.
- (c) "Government-Owned and/or Controlled Corporations (GOCC)", hereinafter also referred to as GOCCs, refers 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 as defined in the next paragraph, state universities, and colleges.
- (d) "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



"Tulong-tulong sa pagsulong!"

which in any case by law or enunciated policy is required to be disposed of to private ownership within a specified period of time.

- (e) "Net Earnings" shall mean income derived from whatever source, whether exempt or subject to tax, net of deductions allowed under Section 29 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.
- (f) "Reserves" shall 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.
- (g) "Dividends" refers 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.
- (h) "Property" refers to land and buildings readily convertible into cash within one (1) year, securities issued by the National Government and such other marketable securities to be approved by the Secretary of Finance.
- (i) "Subsidiary" refers to a corporation incorporated and organized under the Corporation Code which is owned by a GOCC as herein defined 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.
- (j) "Dividend Year" refers to the calendar year during which net earnings were realized by a GOCC.
- (k) "DOF", "COA", and "BTr" refer to the Department of Finance, the Commission on Audit and the Bureau of the Treasury, respectively.

Section 4. Coverage. - These Rules shall apply to all GOCCs and government financial institutions. It shall also apply to those GOCCs whose profit distribution is provided by their respective charters or by special law; Provided, however, that GOCCs created or organized by law to administer real or personal properties or funds 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. - All GOCCs shall declare and remit at least fifty percent (50%) of their annual net earnings as cash, stock and/or property dividends to the National Government, subject to the following:

- (a) 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 or any part thereof other than in cash shall consult the Secretary of Finance prior to its declaration. A proper request shall be made not later than February 15 following the dividend year.
- (b) 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 audited financial statements of the GOCC.

Parent GOCCs whose shares of stock are not listed in the stock exchange shall, upon obtaining DOF approval for its declaration, request the Department of Budget and Management the corresponding appropriation following its declaration.

- (c) 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.
- (d) Government-owned banks shall declare and remit dividends to the National Government upon prior approval by the Bangko Sentral ng Pilipinas pursuant to Central Bank Circular No. 1354, s. 1992.
- (e) Subsidiary corporations owned or controlled by GOCCs up to at least 51% of their capital stock shall remit 50% of declared dividends directly to the National Government. The declaration of dividends shall, however, be in accordance with Section 43 of the Corporation Code (B.P. Blg. 68).
- (f) GOCCs with net income but have negative retained earnings may be exempt from declaring and remitting dividend upon proper submission to the Secretary of Finance of a request for exemption on or before February 15 of the year following the dividend year. No exemption shall be granted except upon receipt by the Department of Finance of audited financial statements showing negative retained earnings during the dividend year covered.

Section 6. Supporting Documents. - GOCCs requesting for (a) declaration of dividends other than in cash; or (b) dividend rate adjustment, shall submit to the Corporate Affairs Group (CAG) of this Department the hereunder listed documents on the specified deadlines provided herein, to wit:

- (a) Actual financial statements covering the dividend year and the past two years immediately preceding it, such as Balance Sheet, Income Statement and Cash Flow Statement following the prescribed format in Annex "A" hereof;
- (b) Details of maintenance and operating expenses and other expenses deducted from gross income covering the same period cited above;
- (c) Details of capital expenditures, including information on the status of implementation and sources of financing, covering the same period cited above and following prescribed format in Annex "B" hereof;
- (d) Projected financial statements covering the year of payment and the year succeeding it such as balance sheet; income statement; and cash flow statement. Details of capital expenditure program shall likewise be provided citing the status of implementation and sources of financing for the same period;
- (e) In case of a request for declaration of property dividend, the following shall be submitted: (i) the current valuation report on the property as approved by COA, (ii) certification from the Chief Executive Officer of the GOCC concerned that the property is free from liens, encumbrances and other adverse judicial process and (iii) information regarding the present status and use of said property to the GOCC.

Section 7. Mode of Remittance. The following procedure and schedule shall govern the declaration and remittance of dividends to the National Government:

- (a) Except as otherwise provided herein, all GOCCs shall declare cash dividends and shall remit to the BTr at least fifty percent (50%) of the dividend due on or before April 30 following the dividend year, based on the financial statements submitted to COA for audit.

The balance thereof shall be computed based on the COA audited net income and shall be remitted to the BTr within seven (7) working days after receipt of the COA Annual Audit Report for the dividend year.

- (b) GOCCs who may be granted dividend rate adjustment shall remit at least fifty percent (50%) of the recommended dividend rate by the Secretary of Finance on or before April 30 following the dividend year.

The balance thereof shall be remitted in the same mode provided above.

- (c) GOCCs remitting stock dividend:
- i. who are parent companies and whose shares are listed shall deliver to the BTr the stock certificates with the aggregate value corresponding to the dividend due on or before April 30 following the dividend year.
 - ii. who are parent companies and whose shares are unlisted shall earmark the same and shall deliver to the BTr the stock certificates upon issuance by the Department of Budget and Management of the corresponding Advice of Allotment based on the provisions of the General Appropriations Act.
 - iii. who are subsidiary corporations shall deliver to the parent GOCCs the stock dividend which the latter shall, in turn, assign the same to the BTr within ten (10) working days upon receipt of the stock certificate.
- (d) In the case of property dividends, GOCCs 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 on or before April 30 following the dividend year. The conveyance shall also be supported with (i) certificate of title, if any; (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. The conveying GOCC shall also bear the cost of transferring title in the name of the National Government, notarial expenses and other fees and charges incidental to the transfer.
- (e) Remittance of dividends by GOCCs shall in all cases be supported with a detailed Statement of Net Earnings as well as with the details of the dividend computation based on the prescribed format in Annex "C" hereof, duly attested by the concerned Chief Executive Officer.

For the remittance of the balance, a copy of the annual audit report and proof of receipt of said COA reports should likewise be attached. These documents shall be submitted to the Treasurer of the Philippines, copy furnished the CAG-Department of Finance.

- (f) In the case of GOCCs which may encounter cash flow difficulties in remitting cash dividends to the National Government, the Secretary of Finance may approve an alternative schedule of payment not exceeding one (1) year based on the recommendation of the Corporate Affairs Group-Department of Finance. In this regard, said GOCCs shall submit in writing to the Department of Finance not later than February 15 their proposed payment scheme for the cash dividend due to the National Government together with the underlying justifications.
- (g) The BTr shall determine the correctness of the computation and record the dividends as follows:

- (1) Cash dividends - recorded as income to the General Fund;

- property*
Deferred Dividend
- (2) Property dividends - recorded as assets upon receipt of the property and income to the General Fund upon sale of the property;
- (3) Stock dividends:
- cut paper*
copy into file
- (i) For GOCCs whose shares are listed in the stock exchange, dividends shall be recorded as assets upon receipt of the shares of stock and the excess over the par value of shares as income to the General Fund upon the sale of the shares of stock;
- (ii) For parent GOCCs 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 Department of Budget and Management of the corresponding Advice of Allotment based on the provisions of the General Appropriations Act.
- (iii) For subsidiary corporations whose shares are not listed in the stock exchange, dividends shall be recorded as income to the General Fund.
- (4) In the event that a GOCC fails to remit on time, the BTr shall (a) assess and collect the corresponding penalty charges; and (b) collect immediately the unremitted cash equivalent of the declared stock and/or property dividends.

Section 8. Flexibility Clause. - In the interest of national economy and general welfare, the percentage of annual net earnings that shall be declared by a GOCC may be adjusted by the President of the Philippines upon recommendation by the Secretary of Finance. For this purpose, GOCCs may propose said adjustments to the Department of Finance through the Corporate Affairs Group, on or before February 15 of each year. Any adjustment in the percentage of annual net earnings that shall be declared by a GOCC as dividends to the National Government may, among other financial and fiscal considerations, consider the need for revenues by the National Government, the level of the GOCC's liquidity and implementation of critical capital projects and statutory obligations. The DOF shall not entertain requests for (a) declaration of dividends other than in cash; or (b) dividend rate adjustment, beyond the period specified herein.

Section 9. Creditable Dividend - In the event the dividend remitted by the GOCC exceeds its dividend payable, the excess can be applied against GOCC's future dividend obligation or be offset against its outstanding liability to the National Government, following existing procedures on offsetting arrangements as mandated under EO 739.

Section 10. Responsibility and Sanctions. The governing board of the GOCC shall be

responsible for approving the declaration of dividends in compliance with the Act. The chief executive and finance officers of the GOCC shall be responsible for the remittance of dividends based on the declaration made by the governing board. GOCCs which fail to declare and remit dividends on the stipulated deadlines provided in Section 7 hereof shall be assessed a penalty charge for late payment equivalent to the prevailing 364-day regular Treasury bill rate plus five percent (5%) on the dividend due.

In case of failure to remit the declared stock or property dividends on the specified deadline, the GOCC shall immediately remit the equivalent cash dividend within ten (10) days upon the advice of the BTr. Additional penalty charges equivalent to the 364-day regular T-Bill rate plus five percent (5%) shall be imposed on the GOCC should it further fail to remit the equivalent cash dividend within this period.

Section 11. Criminal Liabilities. - 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.


Section 12. Resolution of Related Issues. - All cases for clarification and those not covered by the provisions of these Rules shall be referred to the Department of Finance for resolution.

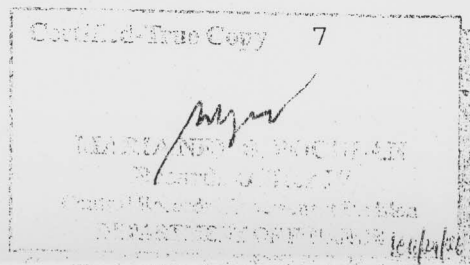
Section 13. Repealing Clause. - The Implementing Rules and Regulations issued on 28 January 1994 are hereby amended, revised, modified or repealed accordingly.

Section 14. 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 hereof which are not affected thereby shall continue to be in force and effect.

Section 15. Effectivity. - These Rules shall take effect immediately.

Done in the City of Manila, this 5th day of August, 1998.


EDGARDO B. ESPIRITU
Secretary



ANNEX A

Financial Statements

- (a) Balance Sheet
- (b) Income Statement
- (c) Cash Flow Statement (Traditional Format 1/)

Illustrative Format:

Name of GOCC
 Comparative Balance Sheet
 as of Fiscal Years 1995, 1996 and 1997 2/

Account Title	Two (2) Preceding Years				Subject Dividend Year	
	1 9 9 5		1 9 9 6		1 9 9 7	
	Target	Actual	Target	Actual	Target	Actual
Assets						
XXXXXXXXXXXX						
XXXXXXXXXXXX						
XXXXXXXXXXXX						
XXXXXXXXXXXX						
XXXXXXXXXXXX						
Liabilities						
XXXXXXXXXXXX						
XXXXXXXXXXXX						
XXXXXXXXXXXX						
Equity						
XXXXXXXXXXXX						
XXXXXXXXXXXX						

1/ Cash flow report showing sources and usage of funds.
2/ Same report format on Income Statement and Cash Flow Statement will have to be submitted.

ANNEX C

COMPUTATION OF DIVIDEND

(a) 1st Payment*

Net Income After Tax (Based on report submitted to COA)	xxx	
Add: Allowance for Bad Debts	xxx	
Other Types of Provisionary Expenses	xxx	
Other Deductions Not Allowable Under Section 29 of the National Internal Revenue Code (NIRC)	xxx	xxx
		<hr/>
		xxx
Less: Bad Debts Written-Off	xxx	
Other Types of Actual Losses for the Year	xxx	xxx
		<hr/>
Dividend Base		xxx
Multiplied by the Dividend Rate		<hr/> xx%
Dividend Payable		xxx
Multiplied by 50%		<hr/> 50%
Dividend Due on or before April 30		<hr/> <hr/> xxx

(b) 2nd Payment**

Dividend Payable (To be recomputed following 1st payment method based on COA Audit Report)		xxx
Less: 1st Payment Made		<hr/> xxx
Balance of Dividend Due		<hr/> <hr/> xxx

* To be made on or before April 30 following the dividend year.

** To be made within 7 working days upon receipt of COA Audit Report.