



FUN-tastic Friday 2019: a day of fun and inclusivity

# Client Advisory Letter

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October 2019

# At a glance

Updates, reiterations, and clarifications on selected topics

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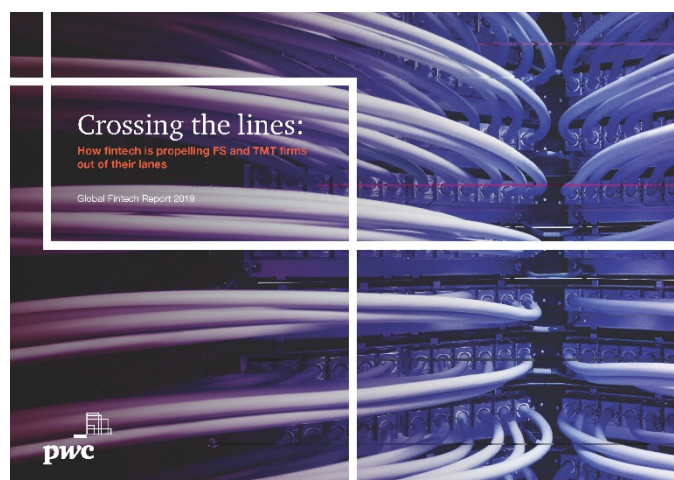
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# How financial services and technology firms are navigating the current fintech landscape



- Adopting a fintech-centred strategy is paramount
- FS should look to TMT for ideas about how best to use fintech
- FS and TMT should look to each other and retrain to fill skills gaps
- Firms should push cross-sector fusion further

PwC's 2019 Global Fintech Survey polled over 500 financial services (FS) and technology, media and telecommunications (TMT) executives worldwide to figure out the factors that will determine the winners and losers in the race to develop and profit from fintech-driven business models.

FS and TMT industries are using fintech (financial technology) to sharpen operational efficiency, lower costs, improve customer experience, and heighten the appeal of their products and services. They're also carving out new commercial possibilities. Digital-only banks are offering redesigned client propositions and cost profiles. Investment managers are deploying fully customised robo-advice. Insurers are using sensors to monitor people's health and drive illness prevention. And according to a recent PwC survey, consumers are ready for the digital shake-up. The question is no longer whether fintech will transform FS, but which firms will apply it best and emerge as leaders.

## Key findings and insights

### **Adopting a fintech-centred strategy is paramount**

– The survey found that 47% of TMT and 48% of FS organisations have embedded fintech fully into their strategic operating model. Also, 44% of TMT and 37% of FS organisations have incorporated emerging technologies into the products and services they sell.

“The really big changes have to be top-down. They have to be strategic. They have to be something that leadership, the board, and the executives are closely involved in and have decided the organisation needs to pursue,” said John Garvey, Global Financial Services Leader, PwC.

**FS should look to TMT for ideas about how best to use fintech** – FS executives surveyed think that using fintech to improve the ease and speed of their service will be key to retaining customers. But people expect ease and speed, so firms that focus their fintech efforts on these attributes might only meet customers' expectations and not differentiate themselves, especially when competing with digitally sharp-intuitive TMT businesses.

**FS and TMT should look to each other and retrain to fill skills gaps** – Our survey showed that 80% of TMT and 75% of FS organisations are creating jobs related to fintech. Yet 42% of both TMT and FS organisations are struggling to fill these roles. While 73% of FS organisations are hiring from the technology sector, only 52% of TMT firms are looking to recruit from FS. Finding ways to attract people from TMT to FS, and vice versa, will be important to future success because each sector needs the other's expertise. Upskilling will also be important.

### **Firms should push cross-sector fusion further**

– Among organisations that are planning to pursue an acquisition, strategic alliance or joint venture to drive growth via fintech, 78% of TMT and 76% of FS firms are targeting businesses within their own sectors. Less than half (44% of TMT and 47% of FS organisations) are targeting a company specialising in fintech. At a time when FS firms are striving to sharpen their technology capabilities and TMT needs product and regulatory expertise to compete in the FS market, firms will miss opportunities if they don't pursue more cross-sector cross-over.

“In China, convergence is gathering pace. At the top of the market, we've even seen regulators seeking to match up the big four TMT firms with the big four banks and get them to work together — you could call it an arranged marriage. The TMT firm provides the tech-enablement and the FS firm delivers the end product,” said Wilson Chow, TMT Global Leader, PwC.

## The current landscape

Emerging technologies have given companies a low-cost way of creating convenient, personalised, data-intuitive products and services. Fintech has also lowered the barriers to entry for firms — from established FS groups to startups or TMT entrants — and has therefore created a complex web of cooperative competition, or “coopetition,” and collision.

## Winners and losers

Companies that have embraced fintech are reshaping the marketplace, and those that haven't are being left behind. Three-quarters of the FS and TMT executives surveyed said they're stepping up their fintech investment in the next two years. More than 90% are very or somewhat confident that fintech will deliver revenue growth over the next two years. But focus, maturity and speed to market vary.

# Taxes, compliance matters, assessments, and refunds

## Informal offer

### When evidence not formally offered is admitted

Generally, evidence not formally offered shall not be considered by the court. However, if it was duly identified by testimony duly recorded, and was incorporated in the records of the case, it may be considered. Accordingly, the CTA admitted and considered a PEZA certification that was not formally offered before the CTA but was made part of the CTA's records when the independent CPA identified said PEZA certification in his Judicial Affidavit.

(CTA EB No. 1889, promulgated 11 October 2019)

## Pending protest

### When the FDDA is not considered the final decision of the CIR

On 28 March 2011, a taxpayer received an Amended Assessment Notice for amended deficiency EWT after reinvestigation, and an FDDA stating that, after reinvestigation, deficiency EWT and FWT was still due from the taxpayer. After replying to the Amended Assessment Notice and the FDDA, the CIR informed the taxpayer that the assessments in the FDDA have become final, executory and demandable because of the taxpayer's failure to file an appeal with the CTA within thirty (30) days from receipt of the FDDA.

Subsequently, the taxpayer filed an appeal with the CTA which was dismissed for lack of jurisdiction for being filed beyond 30 days after the FDDA was received.

The Supreme Court held that the CTA had jurisdiction because the FDDA cannot be considered the final decision of CIR given that the amended deficiency EWT (in the Amended Assessment Notice), which is a component of the FDDA, was still under protest. There will be a final decision only when the CIR has denied or granted said protest.

(GR No. 210604, promulgated 3 June 2019)

## Sufficient evidence

### PEZA letter is like a certificate

In a claim for refund of input VAT attributable to VAT zero-rated or effectively VAT zero-rated sales, a taxpayer was required to prove, among others, that its sales were made to clients registered with the PEZA and SBMA. In this connection, the CTA ruled that the presentation of original or certified true copies of the PEZA and SBMA certificates of registration of the clients is no longer necessary if the taxpayer was able to present a letter by the PEZA Director General confirming the issuance of VAT zero-rating certifications to said clients.

(CTA EB No. 1884, promulgated 14 October 2019)

## Direct certification

### Proof that a foreign corporation is not doing business in the Philippines

To prove that a foreign corporation is not doing business in the Philippines, one of the documents required to be presented is the certification of incorporation or establishment issued by the pertinent government office in the foreign country.

However, Certificates of Incorporation, Certificate of Change of Name, and Certification from the Registrar of Companies for England were considered by the CTA as insufficient proof if an appropriate officer of the Philippine Embassy in England did not directly certify the relevant documents or the foreign certifying officer's authority to authenticate or legalize said documents.

(CTA Case No. 9631, promulgated 7 October 2019)

### Glossary

BIR – Bureau of Internal Revenue
CIR – Commissioner of Internal Revenue
CTA – Court of Tax Appeals
EWT – Expanded Withholding Tax
FDDA – Final Decision on Disputed Assessment
FWT – Final Withholding Tax
PEZA – Philippine Economic Zone Authority
SBMA – Subic Bay Metropolitan Authority
VAT – Value-Added Tax



## Service charge

### Assessment of deficiency income taxes on service charges

Although service charges collected by hotels, restaurants and similar establishments do not constitute taxable income, the taxpayer should be able to prove that said service charges did not form part of gross income and were properly distributed to employees and management in accordance with Article 96 of the Labor Code. Otherwise, the deficiency income taxes assessed thereon will be upheld.

(CTA Case No. 9389, promulgated 15 October 2019)

## Tax amnesty

### Additional clarifications regarding the estate tax amnesty

In implementing the estate tax amnesty, the BIR issued the following clarifications, among others:

1. If the estate involves several stages of succession and the succeeding decedents owned properties separate from those inherited from the first decedent, the Estate Tax Amnesty Return shall be individually filed with the respective RDOs having jurisdiction over each of the decedents.
2. A supplemental Extra-Judicial Settlement (“EJS”) covering undeclared property is required in the availment of the estate tax amnesty.
3. If the decedent has an on-going tax investigation in an RDO different from the RDO having jurisdiction over his/her last place of residence, the estate tax amnesty shall be filed with the latter RDO where the on-going investigation shall be consolidated.
4. An Electronic Certificate Authorizing Investigation (eCAR) may be issued even if the decedent has an on-going tax investigation, provided, that the filer posts a bond.
5. The estate tax amnesty may be availed even if the original certificate of title was lost, provided, that the filer shall submit a certified true copy of the certificate of title of the subject property issued by

the Register of Deeds (“RD”)/Land Registration Authority.

6. The estate tax amnesty may be availed even if the RD copy of the certificate of title was lost, provided, that the Owner’s Copy together with Certificate of Loss issued by the RD are submitted. However, only the Certificate of Availment shall be issued while the eCAR shall be issued only when the certified true copy of the reconstituted title is submitted.
7. Medical expenses are treated as special items of deduction which should not affect the share of the surviving spouse.
8. In case the decedent has many heirs, self-adjudication by one of the heirs is not allowed. An EJS signed by all the heirs is required.
9. Generally, there is no donation in the waiver or renunciation of rights, interest and participation pursuant to the Civil Code on Succession. Since there is no donation, there is no documentary stamp tax due.

(Revenue Memorandum Circular No. 102-2019, issued 4 October 2019)

## Amnesty forms

### Revising the forms used in the availment of the estate tax amnesty

The BIR issued the following:

1. Revised Estate Tax Amnesty Return (“ETAR”) which can be downloaded from [www.bir.gov.ph](http://www.bir.gov.ph);
2. Revised Certificate of Availment to be issued by the RDOs; and
3. Revised statement for allowable deductions from the gross estate of non-resident aliens.

It also clarified the treatment of items of deductions from the gross estate if no estate tax return was previously filed.

(Revenue Memorandum Circular No. 103-2019, issued 4 October 2019)

## Latest return

### Availability of the revised DST return for one-time transactions

BIR Form No. 2000-OT has been revised due to the implementation of the TRAIN Law. It is already available for download from [www.bir.gov.ph](http://www.bir.gov.ph). However, it is not yet available in the Electronic Bureau of Internal Revenue

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### Glossary

BIR – Bureau of Internal Revenue

DST – Documentary Stamp Tax

RDO – Revenue District Office

TRAIN – Tax Reform for Acceleration and Inclusion

Forms (eBIRForms). Thus, taxpayers shall use the manual return by downloading the PDF version, printing the same and completing all applicable fields.

(Revenue Memorandum Circular No. 106-2019, issued 11 October 2019)

## Clark district

### Creating a new RDO for the Clark Freeport Zone

The Department of Finance created RDO No. 21C to cater exclusively to taxpayers in the Clark Freeport Zone which was previously under the jurisdiction of RDO No. 21A.

RDO 21C will have jurisdiction over the lands occupied by the Clark military reservations and its contiguous extensions, located within the territorial jurisdiction of Angeles City, municipalities of Mabalacat and Porac, Province of Pampanga, and the municipalities of Capas and Bamban, Province of Tarlac.

(Revenue Administrative Order No. 6-2019, issued 21 October 2019)

## Machine accreditation

### Effectivity and validity dates of Certificates of Accreditation

The BIR clarified the effectivity dates and extended the validity dates of Certificates of Accreditation issued to developers/dealers/supplier-vendors/pseudo-suppliers of Cash Register Machines, Point-of-Sale Machines and other sales machines/receipting software, and Permits to Use, as follows:

Date of Issuance	Effectivity Date	Valid Until
Prior to 1 August 2020	1 August 2020	31 July 2025
1 August 2020 onwards	Actual date of issuance	Five (5) years from date of issuance

(Revenue Memorandum Circular No. 107-2019, issued 15 October 2019)

### Glossary

BIR – Bureau of Internal Revenue  
 PDF – Portable Document Format  
 RDO – Revenue District Office  
 TIN – Taxpayer Identification Number

## Writing codes

### Modification of ATCs for VAT monthly declarations and quarterly returns

In relation to the Monthly VAT Declaration (BIR Form No. 2550M) and the Quarterly VAT Return (BIR Form No. 2550Q), the following Alphanumeric Tax Codes (“ATCs”) have been modified:

Existing (per ATC Handbook)		Modified / New		BIR Form No.
ATC	Description	Tax Rate	Description	
VB102	Dealers on Securities/ Lending Investors	12%	Lending Investors / Dealer in Securities / Pawnshops / Pre-Need Co.	2550M/ 2550Q
VB105 VB108	Operators of Common Carriers with Respect to Transport Cargo	12%	Transport Storage and Communications	
	Land-Based (Road Freight) Aircraft	12%	Land Transport-Cargo Air Transport-Cargo	
VH010	On Community, Personal & Household Services	12%	Other Community Social and Personal Service Activity	

(Revenue Memorandum Order No. 54-2019, issued 31 October 2019)

## Treaty requirement

### Processing and issuance of Tax Residency Certificate

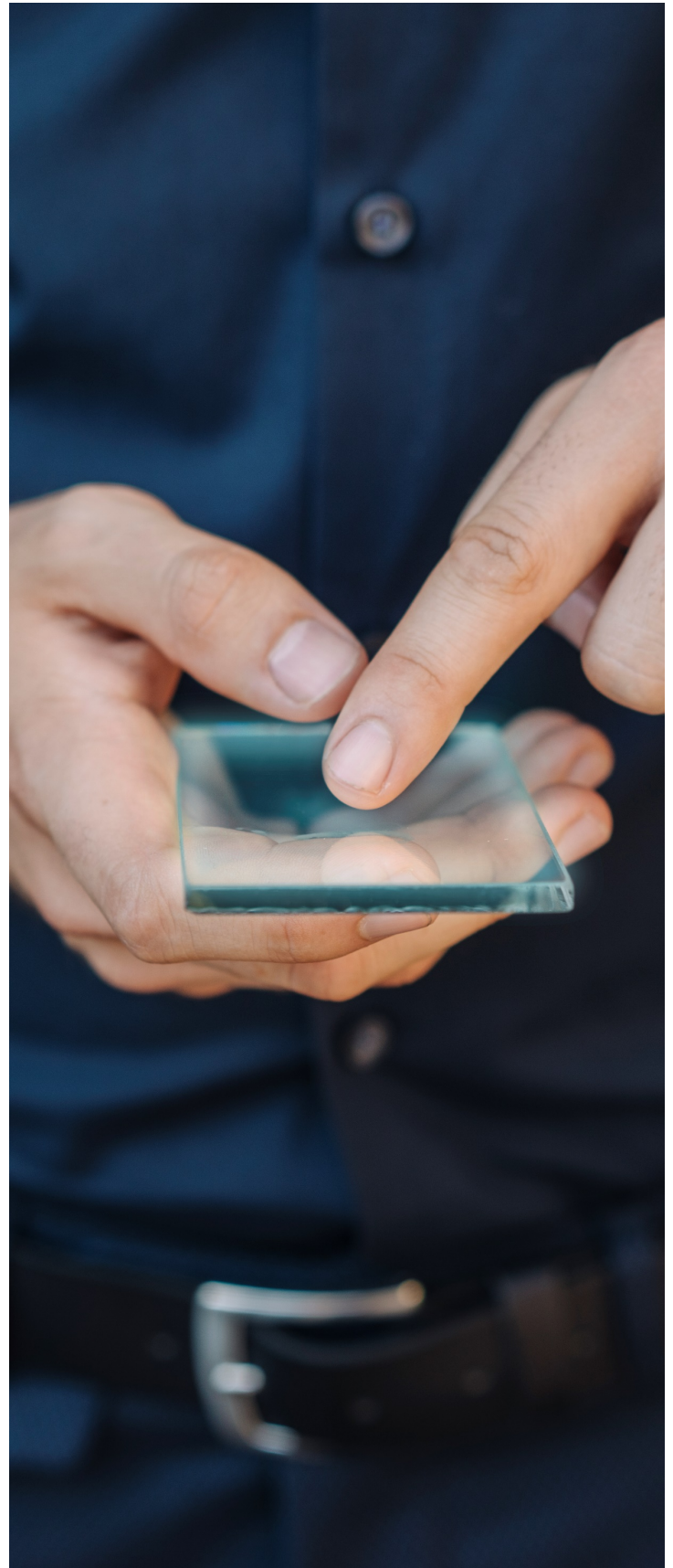
The BIR issued guidelines and procedures for the processing and issuance of Tax Residency Certificates (“TRCs”) which are secured by Philippine tax residents for purposes of availing tax treaty benefits.

The guidelines and procedures provide for the following, among others:

1. The International Tax Affairs Division (“ITAD”) shall receive and process all applications for TRCs. The TRCs will be signed by the Assistant Commissioner for Legal Service.
2. All applicants should be registered with the BIR and have a TIN.

3. TRCs shall be issued on the basis of the applicant's tax residency in the Philippines.
4. The BIR designed its own TRC, and shall no longer sign the TRC forms of foreign jurisdictions.
5. ITAD will no longer accept TRC applications of resident aliens, including pensioners, and resident foreign corporations.
6. Proper linkage between the assessment offices of this Bureau and ITAD shall be established.

(Revenue Memorandum Order No. 51-2019, issued 22 October 2019)



## Glossary

BIR – Bureau of Internal Revenue

ITAD – International Tax Affairs Division

TRC – Tax Residency Certificate

# Latest on regulatory landscape

## Public hearing

### Proposed amendments to the Philippine Mineral Reporting Code

The Philippine Stock Exchange and the Philippine Mineral Reporting Code Committee (“PMRCC”) is inviting all concerned parties to submit their comments to the Proposed First Draft containing the proposed amendments to the Philippine Mineral Reporting Code. Comments may be sent to [contact@pmrcc.org.ph](mailto:contact@pmrcc.org.ph) addressed to Mr. Ciceron Angeles, Jr., PMRCC Chairperson and Mr. George Baquiran, PMRCC Standards Sub-Committee Chairperson.

(PSE Memorandum CN – No. 2019-49, dated 29 October 2019)

## Paying dividends

### Declaration and/or distribution of dividends by domestic insurance companies

The IC prescribed the following guidelines in the declaration and/or distribution of cash, property and stock dividends by domestic insurance companies:

- The declaration of dividends does not require prior approval or clearance from the IC.
- The declaration or distribution of dividends must be reported by the insurance company to the IC within thirty (30) days after such declaration or distribution. Said report shall be accompanied by certain documentary requirements.
- A domestic insurance company shall declare or distribute dividends only if it meets the minimum paid-up capital and net worth requirements.

(Insurance Commission Circular Letter No. 2019-60, dated 30 October 2019)

## Transient goods

### Guidelines governing foreign goods for transshipment

The CoC issued guidelines for the movement, transfer and clearance of all foreign goods for transshipment. However, the following are excluded:

1. Foreign goods subject of co-loading under Section 4 of RA No. 10668; and
2. Foreign goods for shifting, temporarily unloaded due to emergency or necessity and to be re-loaded on board the same carrier and voyage or flight.

The guidelines provide for the following:

- Transshipment goods shall not be subject to duties and taxes if the Transshipment Goods Declaration indicates the nature of goods, duly supported by commercial or transport documents as required by the BOC.
- Goods intended for transshipment must be loaded in the exporting means of transport within thirty (30) calendar days from arrival date.
- In case of failure to load within the period allowed, the transshipment goods shall be treated as regular importations.
- Customs supervision in the handling and movement of transshipment goods
- Prohibited goods covered by international conventions or agreements
- The transporting vessel shall be seized in case of hazardous waste, radioactive waste and other toxic substances.
- Goods with derogatory information
- Prohibited goods for transshipment shall be seized.
- Responsibilities of the carrier and the customs facility and warehouse operator inside the port
- Supervision fees
- Schedules of penalties

(Custom Administrative Order No. 12-2019, filed with UP Law Center 20 September 2019)

## Glossary

BOC – Bureau of Customs  
CoC – Commissioner of Customs  
IC – Insurance Commission  
RA – Republic Act



## Money laundering

### Rules of Procedure for Administrative Cases under the AMLA

The BSP disseminated the Anti-Money Laundering Council's ("AMLC") Rules of Procedure in Administrative Cases ("RPAC") under the Anti-Money Laundering Act ("AMLA")<sup>1</sup> and its Implementing Rules and Regulations. The RPAC covers administrative cases against covered persons and/or their directors, officers and employees for violations of the AMLA and its IRR, and guidelines and issuances of the AMLC from 7 March 2013.

The RPAC has retroactive effect unless prejudicial to the respondent and supersedes AMLC Resolution No. 46, dated 24 May 2017.

(BSP Circular Letter No. CL-2019-76, dated 9 October 2019)

## Health standards

### Accounting Standards for HMOs

The following Accounting Standards shall be applied by health maintenance organizations (HMOs):

- PFRS 4 shall be applied to HMO agreements with membership fee-based benefits or where the fixed prepaid fee is in the form of a membership fee where the risks are borne by the HMO.
- PFRS 15 shall be applied to HMO agreements with fund-based benefits or where the fixed prepaid fee is in the form of the enrolment fee, administrative fee and the Administrative Services Only Cash Fund where the risks are borne by the HMO client.
- An HMO agreement with a combination of membership fee-based and fund-based benefits shall be bifurcated and the corresponding PFRS applied accordingly.

(Insurance Commission Circular Letter No. 2019-58, dated 28 October 2019)

### Glossary

BSP – Bangko Sentral ng Pilipinas

IC – Insurance Commission

PFRS – Philippine Financial Reporting Standard

SEC – Securities and Exchange Commission

<sup>1</sup> Republic Act No. 9160.

## Outsourcing disclosures

### BPO Activities of Insurers/Reinsurers

The IC amended the Supplemental Guidelines on Business Process Outsourcing (BPO) Activities of Insurers/Reinsurers, particularly, Circular Letter No. 2019-49, as follows:

1. Section 1 was amended to require insurers/reinsurers to submit their respective reports on their existing outsourcing contracts as of 31 December of every calendar year to the concerned Division of the Financial Examination Group on or before 31 March of the succeeding calendar year.
2. Section 2 on Division in Charge was deleted.
3. Section 3 on Examination of Outsourcing Agreements was retained.

(Insurance Commission Circular Letter No. 2019-54, dated 3 October 2019)

## Loan limit

### When financial assistance constitutes a lending activity

The granting of financial assistance with 1.5% monthly interest constitutes a lending business which is covered by the Lending Company Regulation Act<sup>2</sup> and can only be undertaken by a duly registered lending company. Limiting the financial assistance only to clients for medical emergencies and educational needs of their families does not remove the activity from the ambit of the term "lending" or "granting of loans".

(SEC-OGC Opinion No. 19-45, dated 7 October 2019)

## Turn of events

### Whether event organizing and food catering constitute retail trade

Event organizing, by itself, is a service activity which does not constitute retail trade. However, event organizing which includes food catering constitutes retail trade since it satisfies the following elements:

1. The seller is habitually engaged in selling;
2. The sale is direct to the general public; and
3. The products sold are consumer goods.

The SEC opined that the customers of the catering business are no less than the general public which

<sup>2</sup> Republic Act No. 9474.

pertain to every consumer celebrating an event such as weddings, baptisms, birthdays, anniversaries, etc.

Further, food catering is not considered merely incidental to event organizing because food is the biggest expense in catered events.

(SEC-OGC Opinion No. 19-44, dated 4 October 2019)

## Outlet sale

### When customer lounge sales constitute retail trade activities

The sale of goods, commodities and merchandise by an event caterer in a single customer lounge may be considered as retail trade because:

1. the exception granted under the Retail Trade Liberalization Act and its IRR to a “single outlet sale” refers only to the sale by a manufacturer of its products manufactured in the Philippines; and
2. the commodities and merchandise in the single customer lounge may be purchased by walk-in customers without engaging in further business.

(SEC-OGC Opinion No. 19-44, dated 4 October 2019)

## Incidental sale

### Whether the sale of prescription lenses and eyeglass frames is a retail trade activity

The sale of prescription lenses and eyeglass frames by an optical clinic does not constitute retail trade because such sale is made only after the prescription of the attending optometrist and specific only to a particular patient. In other words, the lenses and frames are not readily available for sale to the general public.

Furthermore, the SEC had previously opined that the sale of merchandise as an incident to the primary purpose of the corporation does not constitute retail trade. In the same light, the sale of prescription lenses and eyeglass frames is incidental to the rendering of optometry services and is not being pursued as an independent business.

(SEC-OGC Opinion No. 19-46, dated 7 October 2019)

## Glossary

IRR – Implementing Rules and Regulations

SEC – Securities and Exchange Commission

# Meet us

## Alex Cabrera discusses economic bill with leaders at PEZA RTD



Philippine Economic Zone Authority (PEZA) Director General Charito Plaza invited PwC Philippines Chairman and Senior Partner Alex Cabrera to give a presentation and share his insights on the CITIRA bill in a round table discussion on 8 October 2019. It was held at the PEZA Board at Building 5 within the DOE-PNOC Complex at BGC, Taguig City.

Alex joined other representatives from the academe and labor sectors in coming up with an objective perspective on the bill.

PEZA organized the forum to subject to academic rigor the Corporate Income Tax and Incentive Rationalization Act (CITIRA) bill before it is passed into law. CITIRA rationalizes tax perks and lowers corporate income tax, but has been seriously debated among economic managers and investment promotion agencies, including the ecozone industries. PEZA noted the absence of the academe and labor sectors' voice, thus the forum.

## PwC PH is DOT's Knowledge Partner for tourism promotion



PwC Philippines and the Department of Tourism (DOT) signed a Memorandum of Understanding on 7 October 2019, recognizing PwC as the Knowledge Partner of the DOT for purposes of Philippine tourism promotion.

The two parties are mainly represented by PwC Philippines Chairman and Senior Partner Alex Cabrera, and DOT Undersecretary for Tourism Regulation, Coordination and Resource Generation (TRCRG), Arturo Boncato, Jr.

Both parties will have an exchange of knowledge and expertise in the promotion of Philippine tourism.

Witnesses who signed the MoU at City Garden Grand Hotel, Makati City were PwC Philippines' Community Empowerment Partner Gigie Longa and Director Rebecca Labit from DOT's Office of Tourism Standards and Regulation.

The MoU clearly states that the relationship is neither a partnership nor a joint venture.

## Alex Cabrera presents corporate governance study at GGAPP forum



PwC Philippines Chairman and Senior Partner Alex Cabrera presented the results of the 2019 GGAPP-PwC Philippines Governance Study on 16 October 2019 during GGAPP's 7th Annual Forum on Good Governance, Ethics and Compliance at SMX Aura, BGC, Taguig City.

Members and guests of the Good Governance Advocates and Practitioners of the Philippines (GGAPP) attended the forum entitled "Good Governance Convergences". The event featured speakers from both the public and private sector, including Chief Justice Artemio V. Panganiban.

PwC Philippines has been collaborating with GGAPP as the latter's Knowledge Partner for the third straight year in producing studies to help advance the state of corporate governance practices and compliance in the Philippines. All forum attendees received copies of the snapshot of the results of this year's study.

GGAPP members from PwC Philippines, namely Independence Director Grace Aries, Consulting Director Alvin Dave Pusing, and Consulting Manager Rochelle Dichaves have produced the report and have assisted Alex in his presentation. Markets Assistant Officer Jagz Gonzales and Markets Senior Manager Rocky Saldajeno have helped put together and finalize all study collateral.

## Talk to us

For further discussion on the contents of this issue of the **Client Advisory Letter**, please contact any of our partners.

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## Request for copies

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