

## Philippines Bureau of Internal Revenue Clarifies Tax Treatment of Stock Options

---

January 22, 2013

---

---

According to Revenue Memorandum Circular (RMC) No. 88-2012, the Philippines Bureau of Internal Revenue recently clarified that income or gains derived from an employee's exercise of stock options is subject to income tax as "additional compensation," and employers are required to withhold taxes on such compensation. For managerial or supervisory employees, to the extent any such income or gain qualifies as fringe benefits, it is subject to the fringe benefit tax pursuant to Section 33 of the National Internal Revenue Code of 1997, as amended ("NIRC"). Further, if the shares to be issued upon the employee's exercise of the stock option come from unissued stock of the corporation, then the issuance of these shares is also subject to the documentary stamp tax (the "DST") pursuant to NIRC Section 174. Finally, the RMC details the tax implications to an employee upon his or her subsequent sale, exchange, or disposal of shares of stock obtained from the stock option exercise. The tax treatment applied will depend on whether the shares involved are shares of a foreign or domestic corporation and whether the shares are publicly traded. Affected employers are encouraged to review their stock option plans to ensure compliance with the appropriate tax treatment based upon an employee's position; tax withholding requirements, if any; and the DST for the original issuance of shares. The Revenue Memorandum Circular No. 88-2012 can be found [here](#).