



Funding the Republic

Republic of the Philippines
KAGAWARAN NG PANANALAPI
KAWANIHAN NG INGATANG-YAMAN
(BUREAU OF THE TREASURY)
Intramuros, Manila



MEMORANDUM

TO **NRoSS Custodians**

SUBJECT **Streamlined Procedure for Tax Treaty Implementation in the National Registry of Scripless Securities (NRoSS)**

DATE **22 August 2024**

I. Background

In line with the National Government's efforts to boost foreign investor participation in the domestic capital market, particularly in Government Securities (GS), a more streamlined implementation of the tax agreements with other countries is hereby implemented in coordination with the Bureau of Internal Revenue (BIR).

II. New Tax Treaty Procedure in NRoSS

1. The non-resident investor or its authorized representative shall submit a general inquiry to the BIR on the applicable treaty rates on the interest income of investors who are residents of a jurisdiction with which the Philippines has concluded a double taxation agreement (DTA). The general inquiry shall state the relevant provision of the applicable tax treaty and shall be accompanied by supporting documents, including the Tax Residency Certificate (TRC) and the BIR's Beneficial Ownership Declaration Form.
2. BIR shall then issue a general guidance document indicating the treaty rates and the conditions and/or requirements that must be met to be entitled to the preferential rate being sought by the non-resident investor.
3. BTr shall approve the creation of the securities account (NRoSS Account) in NRoSS system, following BIR's guidance and the submission of other required documents.

III. Benefits of the New Procedure:

- Removes the need for non-resident investors to specify which GS transactions/income they wish to avail of the tax treaty rates. This would also mean that a non-resident investor can open a securities account ahead of future GS purchases.
- Eliminates the need for the Issuer (BTr) to submit a confirmation of the propriety of the withholding tax applied on the income.

ISO 9001:2015 Quality Management System
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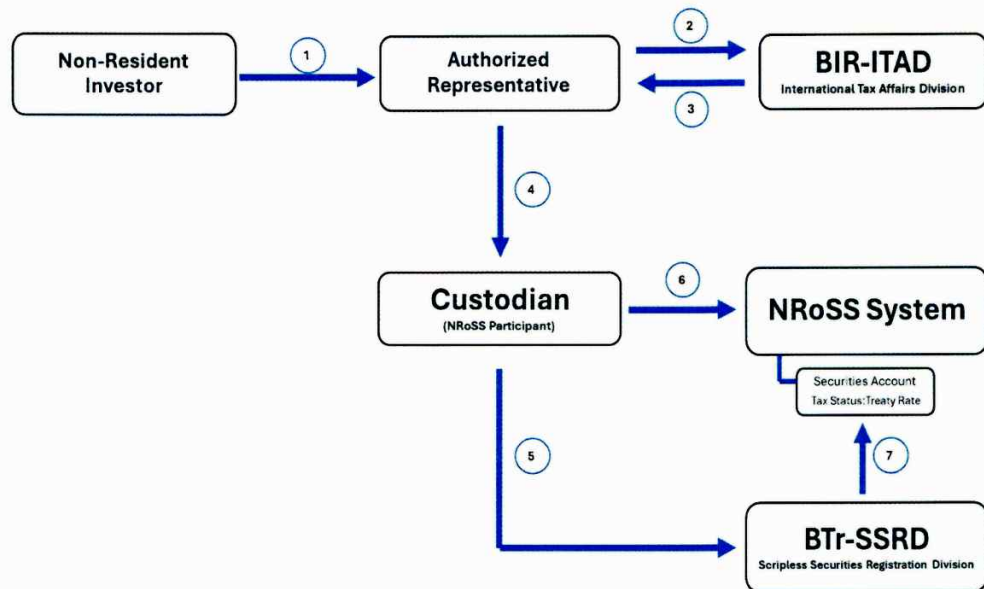
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- Leverages the tax tracking feature of NRoSS, and eliminates the need for tax reclaims in cases where the treaty rates were not applied.

IV. Detailed Process Flow

a. Account Opening Procedure

- This is a one-time activity required to onboard the non-resident investor into the NRoSS system and set-up the NRoSS account with preferential tax rates.



1. A non-resident investor shall execute a Notarized Special Power of Attorney (SPA) to its authorized representative, which may also be its securities custodian, to inquire on its behalf about the investor's eligibility for preferential tax rates based on the tax treaty between its country of residence and the Philippines, specifically for interest income from its Philippine government securities investment.
2. The authorized representative shall submit the original or certified true copy of the following to the Bureau of Internal Revenue - International Tax Affairs Division (BIR-ITAD):

Documentary Requirement	Details
a. General Inquiry Letter	<ul style="list-style-type: none"> - free format - inquiry on whether the interest income arising from government securities issued by the Republic of the Philippines, through the Bureau of the Treasury, and to

	be paid to the non-resident investor is subject to the preferential tax rate pursuant to the relevant tax treaty and state the relevant provision of the applicable tax treaty
b. Tax Residency Certificate	- issued by the tax authority of the country of the non-resident investor.
c. Beneficial Ownership Declaration Form	- a copy of this form can be obtained from the BIR-ITAD - does not require notarization
d. Notarized SPA	- issued by the non-resident investor to his/her authorized representative

3. In lieu of BIR ruling, the BIR-ITAD will issue a General Guidance document for each non-resident investor, indicating the treaty rates and the conditions and/or requirements that must be met to qualify for the preferential rate within 15 business days from receipt.
4. The authorized representative shall forward the General Guidance document and TRC to the Custodian.
5. The Custodian shall submit via email the following to the BTr:
 - a. General Guidance document
 - b. TRC
 - c. Investor's Undertaking (Annex A)
 - d. Letter of Indemnity (Annex B)
6. The Custodian shall create a segregated NRoSS Account reflecting the treaty rate in the NRoSS system and notify the BTr via email of the account creation.
7. The BTr-SSRD shall approve the NRoSS Account and notify the Custodian via email within 5 business days of receiving the documents mentioned in item 5 and the email notification in item 6.

V. Account Maintenance

- To maintain eligibility to the same tax treatment in the subsequent years, the non-resident investor must ensure the TRC is updated annually through its Custodian. Failure to submit the same shall result in the imposition of the regular tax rate of **20%** as provided under Section 28(B)(5)(a) of the National Internal Revenue Code of 1997, as amended.
- a. The non-resident investor shall submit the updated TRC to its Custodian, if the validity period of the previously submitted TRC has already lapsed. The Custodians shall notify clients of the TRC expiration to ensure timely compliance.
- b. On the first business day of April each taxable year, Custodian shall submit a Certification (Annex C) to BTr. This Certification includes the list of all their clients (new and existing) who have valid TRC for the concerned taxable year. Clients who are still in the process of obtaining their updated TRC and thus will not be included in the Certification must submit a Guarantee Letter (Annex D) to BTr through the Custodian on the same day. The BTr shall acknowledge receipt of both the Certification and the Guarantee Letter.
- c. If a non-resident investor fails to to be included in the Certification or provide a Guarantee letter, they shall be subjected to the regular tax rate of 20% on all interest income for the taxable year.
- d. Upon determination by the Custodian of non-compliance with the updated TRC requirement, the following actions shall be undertaken:
 - i. Transfer the client's GS from their preferential rate NRoSS account to their taxable NRoSS account.
 - ii. Calculate any excess income and proceed with the clawback process.
 - iii. Notify via email the BTr of the calculated clawback amount and specify the remittance date.
- e. On the first business day of July each taxable year, Custodian or NRoSS Sponsors shall submit another Certification (Annex C) to the BTr that includes a list of all their clients (new and existing) who have successfully submitted their updated TRC for the concerned taxable year. This assumes that all active preferential rate NRoSS accounts have complied with the updated TRC requirements. It is also assumed that the Custodian has identified those who did not comply and has taken the necessary actions accordingly.
- f. All required submissions to the BTr shall be done via email at ssrd_nross@treasury.gov.ph The Custodian shall keep in custody the original copy of the supporting documents of the client, and be ready to furnish the hard copies to the BTr upon request.

VI. Authentication Requirement

Documents executed abroad must be either authenticated by the Philippine Embassy in the respective country or apostilled, if the country is a signatory to the 1961 Apostille Convention, to be deemed acceptable in the Philippines.

VII. Tax-Tracking Mechanics

a. Basis for Tax tracking Computation

- i. The NRoSS system shall track the appropriate withholding tax based on the tax rate specified in the NRoSS account. This implies that the tax status of an investor in GS can only be tracked upon the creation of the NRoSS account with the correct tax rate assigned.
- ii. The final withholding taxes on accrued interest due for each trade transaction shall be calculated based on the actual settlement date of the securities balances and their actual lodgment in the appropriate preferential tax NRoSS account of the bondholder.
- iii. For NRoSS accounts with preferential tax rate, the system will compute the gross coupon less the specific tax adjustments for the given coupon period.

1. Tax adjustments are either tax payable or receivable.

- a. A tax receivable shall be recorded by the system with each sale of GS, representing the reimbursement of the tax on accrued interest. This amount will be paid to the NRoSS Account holder on the subsequent payment date of the GS.
- b. A tax payable shall be recorded by the system with each GS purchase, reflecting the tax on accrued interest. Tax payable will be deducted from the gross coupon on the subsequent payment date.

2. The accrued days for an ISIN, used in calculating the tax adjustment, are determined as the days between the NRoSS system's calculation date for the preceding payment date and the settlement date of the securities into the respective NRoSS account.

b. Reimbursements

- i. Any shortfall or loss in amounts intended for the sponsored clients with preferential tax rates, resulting from delays or errors in transferring securities to the appropriate NRoSS account, shall be for the account of the concerned Custodian or NRoSS Sponsor. The BTr will not entertain any requests for adjustments to coupons paid if the cause is attributed to such delays or error.

- ii. Tax claims related to income of the non-resident investor that was taxed at the regular rates prior to the creation of the preferential tax NRoSS account should be filed directly with the BIR.

VIII. Point of Contact

The following BTr personnel shall be the points of contact for all issues concerning this memorandum:

Name	Designation	Contact
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ORIGINAL SIGNED
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