

**REPUBLIC OF THE PHILIPPINES  
DEPARTMENT OF FINANCE  
BUREAU OF INTERNAL REVENUE**

December 27, 2002

**REVENUE MEMORANDUM CIRCULAR NO. 1-2003**

**SUBJECT:** Clarifying Certain Provisions of Revenue Regulations No. 3-2002 as amended by Revenue Regulations No. 19-2002 amending Section 2.83 of Revenue Regulations 2-98 in relation to the Substituted Filing of Income Tax Returns of Qualified Pure Compensation Income Earners

**TO:** All Internal Revenue Officers and Officials Concerned

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The Bureau of Internal Revenue (BIR), in its mission of providing an efficient and convenient service to its taxpayers, is implementing a “hassle-free” method of filing Individual Income Tax Returns (BIR Form 1700). This method of filing recognizes under certain circumstances, the employer’s Annual Information Return (BIR Form No. 1604CF) as the “substitute” income tax return filed by the employee since it contains the same information found in the income tax return ordinarily filed.

This Circular aims to provide some basic information and answers to questions frequently asked on substituted filing.

**1. What is “Substituted Filing”?**

Substituted Filing is when the employer’s annual return (BIR Form 1604CF) may be considered as the “substitute” Income Tax Return (ITR) of employee inasmuch as the information provided in his income tax return (BIR Form 1700) would exactly be the same information contained in the employer’s annual return (BIR Form No. 1604-CF).

**2. How is “Substituted Filing” different from “Non-Filing”?**

Under “substituted filing”, an individual taxpayer although required under the law to file his income tax return, will no longer have to personally file his own income tax return but instead the employer’s annual information return filed will be considered as the “substitute” income tax return of the employee inasmuch as the information in the employer’s return is exactly the same information contained in the employee’s return.

“Non-filing” is applicable to certain types of individual taxpayers who are not required under the law to file an income tax return. An example is an employee whose pure compensation income does not exceed ₱60,000, and has only one employer for the taxable year and whose tax withheld is equivalent to his tax due.

**3. Who are qualified and under what conditions will substituted filing of BIR Form No. 1700 apply?**

Substituted filing applies only to individuals who meet all the following conditions:

- a. The employee receives purely compensation income (regardless of amount) during the taxable year
- b. The employee receives the income only from one employer in the Philippines during the taxable year
- c. The amount of tax due from the employee at the end of the year equals the amount of tax withheld by the employer
- d. The employee’s spouse also complies with all three (3) conditions stated above.
- e. The employer files the annual information return (BIR Form No. 1604-CF)
- f. The employer issues BIR Form 2316 (Oct 2002 ENCS) version to each employee

**4. Who are not qualified for substituted filing of BIR Form 1700?**

The following individuals are not qualified for substituted filing:

- a. Individuals deriving compensation income from two or more employers, concurrently or successively at anytime during the taxable year
- b. Employees deriving compensation income, regardless of amount, whether from a single or several employers during the calendar year, the income tax of which has not been withheld correctly (i.e. tax due is not equal to the tax withheld) resulting to a collectible or refundable return
- c. Employees whose monthly gross compensation income does not exceed Five Thousand Pesos (P5,000) or the statutory minimum wage, whichever is higher, and opted for non-withholding of tax on said income
- d. Individuals deriving other non-business, non-profession-related income in addition to compensation not otherwise subject to final tax
- e. Individuals deriving purely compensation income from a single employer, although the income of which has been correctly subjected to withholding tax, but whose spouse is not entitled to substituted filing
- f. Non-resident aliens engaged in trade or business in the Philippines deriving purely compensation income or compensation income and other business or profession related income

**5. What will be presented in case an ITR is required?**

BIR Form 2316 (Oct 2002 ENCS version) is a statement signed by both the employee and the employer and serves the same purpose as if BIR Form No. 1700 had been filed. This, however, is not to be submitted or filed with the BIR if the employee is qualified for substituted filing.

**6. What are contained in BIR Form No. 2316 Certificate?**

The new BIR Form 2316 (Oct 2002 ENCS version) consists of the following parts:

- a. Part I – Employee Information (items 3 to 12)  
This refers to employee's personal information as declared by him in the Certificate of Update of Exemption and Employer's and Employee's Information (BIR Form 2305). The same information should likewise be consistent with the information in the Annual Information Return (BIR Form 1604CF).
- b. Part II – Present Employer Information (items 13 to 15A)  
The information herein refers to the present employer.
- c. Part III – Previous Employer Information (items 16 to 24A)  
In cases where an employee has previous employer in the same taxable year, the present employer should mention the previous employer's information as contained in the employee's BIR Form 2316 issued by the previous employer.
- d. Part IV – Details of Compensation Income and Tax withheld from the Present Employer (items 25 to 50)  
This part contains the details and summary of all taxable and non-taxable regular and supplementary compensation received by the employee including the summary of taxes withheld from the compensation of the employee.
- e. 1<sup>st</sup> Signature Box (items no. 51 and 52)  
This contains a declaration by the present employer that all the information contained in BIR Form 2316 (Parts I to IV and Summary) was made in good faith, verified, and to the best of their knowledge and belief, is true and correct pursuant to the provisions of the National Internal Revenue Code.
- f. 2<sup>nd</sup> (Substituted Filing) Signature Box (items 53 and 54)  
This box shall be accomplished under the substituted filing scheme.

**7. Who shall prepare and issue BIR Form 2316?**

In general, every employer or other person who is required to deduct and withhold the tax on compensation including fringe benefits given to rank and file employees, shall furnish every employee from whose compensation taxes have

been withheld the Certificate of Compensation Payment/Tax Withheld (BIR Form 2316 Oct 2002 ENCS version).

**8. When should the employer issue BIR Form 2316?**

Employers should issue BIR Form 2316 to the employee on or before January 31 of the succeeding calendar year, or if employment is terminated before the close of such calendar year, on the day on which the last payment of compensation is made.

**9. What is contained in the Substituted Filing signature box in BIR Form 2316?**

The lowest portion of BIR Form 2316 (Oct 2002 ENCS version) shall be accomplished only for substituted filing. It consists of two parts namely, matters certified to by the employer and matters certified to by the employee. The employer and employee, under the pain of perjury, shall sign the boxes for substituted filing.

**10. For substituted filing, what are the matters being certified to by the EMPLOYER?**

The matters being certified to by the employer are as follows:

- a. That the information contained in BIR Form 2316 (Oct 2002 ENCS version) are the same as reported and declared in BIR Form 1604 CF, i.e.,
  - The employee's information is the same as that declared by the employee in BIR Form 2305
  - If employee had previous employer/s, the previous employer's information is the same as that declared in previous employer's BIR Form 2316 issued to said employee
  - The information pertaining to the present employer is true and correct
  - The details of compensation and taxes withheld is true and correct
- b. That the employer filed with the BIR the Annual Information Return (BIR Form 1604CF)

**11. For substituted filing, what are the matters being certified to by the EMPLOYEE?**

The matters being certified to by the employee are as follows:

- a. That the employee is qualified under the substituted filing of income tax returns (BIR Form 1700), i.e.,
  - The employee receives purely compensation income (regardless of amount) during the taxable year
  - The employee receives the income only from one employer in the Philippines during the taxable year

- The amount of tax due from the employee at the end of the year equals the amount of tax withheld by the employer
- b. If married, that the employee's spouse also complies with all three (3) conditions stated above.
- c. That the employee has none of the instances for disqualification for substituted filing. (refer to question no. 4 of this issuance)
- d. That the BIR Form 1604CF filed by his employer shall constitute as his income tax return
- e. That BIR Form 2316 (Oct 2002 ENCS version) shall serve as the same purpose as if BIR Form 1700 had been filed pursuant to the provisions of RR 3-2002 as amended by RR 19-2002.

**12. For other government agencies and other offices, public and private, requiring presentation of individual income tax return (BIR Form 1700) as proof of income earnings, what would be a replacement for BIR Form 1700 for those qualified for substituted filing?**

For those qualified for substituted filing, BIR Form 1700 should no longer be required as proof of financial capacity or proof of income earnings. Presentation of BIR Form 2316 (Oct 2002 ENCS version) is sufficient proof of income earnings since it is a statement signed by both the employee and the employer and it shall serve the same purpose as if BIR Form No. 1700 had been filed.

**13. What is the use of the BIR Form 2316, for those qualified for substituted filing?**

The BIR Form 2316 (Oct 2002 ENCS version) can be used for the following purposes:

- a. As proof of financial capacity for purposes of loan, credit card, or other application
- b. As proof of payment of tax or for availing tax credit in the employee's home country
- c. In securing travel permits and travel tax exemptions when necessary; and
- d. For other purposes to meet the requirements of various government/private agencies

**14. When does substituted filing take effect?**

It took effect for taxable year 2001 on a voluntary basis and is mandatory for income/compensation earned starting taxable year 2002. Thus, employees who qualify for substituted filing for taxable year 2002 and beyond will no longer file BIR Form 1700 on or before the 15<sup>th</sup> of April of every year.

**15. What will an employee do with BIR Form 2316 issued by the employer?**

If the BIR Form 2316 was issued by a previous employer as a result of termination of employment and the employee has been subsequently employed within the same calendar year, the employee should submit a copy of BIR Form 2316 issued by the previous employer to his present employer, for consolidation with his current compensation received from the present employer.

If the employee is qualified for substituted filing, the employee concerned should sign the substituted filing signature box of BIR Form 2316 and have the same signed by the employer. A copy of BIR Form 2316 signed both by the employer and employee shall be retained and kept by the employer and the employee.

If an employee is not qualified for substituted filing, he is required by law to file his income tax return (BIR Form 1700 or BIR Form 1701). BIR Form 2316 should be attached as proof of his compensation income and withholding taxes as well as other necessary and applicable attachments, like financial statements, certificate of creditable withholding taxes.

**16. For those qualified for substituted filing, is it necessary to have BIR Form 2316 notarized?**

No, it is not necessary to have BIR Form 2316 notarized for those qualified for substituted filing.

**17. Can an employee file an ITR (BIR Form No. 1700) even if he is qualified for substituted filing?**

No, for taxable year 2002 and beyond, substituted filing is mandatory for qualified employees.

(Original Signed)  
**GUILLERMO L. PARAYNO, JR.**  
Commissioner of Internal Revenue