
Any income payment which is otherwise deductible under the Tax Code, shall be allowed as a deduction from the payor’s gross income only if it is shown that the income Tax required to be withheld has been paid to the BIR in accordance with Sections

A deduction will be allowed in the following cases where no withholding of tax was made:

a. The payee reported the income and pays the tax due thereon and the withholding agent pays the tax, including the interest incident to the failure to withhold the tax, and surcharges, if applicable, at the time of audit/investigation or reinvestigation/reconsideration;

b. The recipient/payee failed to report the income on the due date thereof, but the withholding agent/taxpayer pays the tax, including the interest incident to the failure to withhold the tax, and surcharges, if applicable, at the time of audit/investigation or reinvestigation/reconsideration; and

c. The withholding agent erroneously underwithheld the tax but pays the difference between the correct amount and the amount of tax withheld, including the interest incident to such error and surcharges, if applicable, at the time of audit/investigation or reinvestigation/reconsideration.

Items of deduction representing return of capital, such as those pertaining to purchases of raw materials forming part of finished product purchases of goods for resale, shall be allowed as deduction upon withholding agent’s payment of the basic withholding tax and penalties incident to non-withholding or underwithholding.