REVENUE MEMORANDUM CIRCULAR NO. 21-2005 issued on May 30, 2005 circularizes the guidelines and policies for sourcing, pooling and distribution of Philhealth “Common Fund” in Department of Health (DOH) hospitals and other government clinics and hospitals.

The Circular is issued to implement Item N, Section 52, Rule VIII of the implementing Rules and Regulations of Republic Act (RA) No. 7875 entitled “National Insurance Act of 1995”, which provides that professional fees for services rendered by salaried public health providers may be retained by the health care institution in which services are rendered for pooling and distribution among health personnel. The manner of distributing the professional fees is left to the discretion of the health care institution and the funds are kept on a trust account.

The professional fees for services rendered by salaried public health service providers paid by Philhealth kept in “common fund” shall not be subjected to 10% expanded withholding tax considering that the payor of income is a government entity and the recipient of income is also a government entity without proprietary function and that such gross income payment shall be in the name of the public health institution. Philhealth shall issue a Certificate of Income Payment Not Subject to Withholding Tax (BIR Form No. 2304) and included in the submission of the Annual Information Return to BIR.

The public health institution, upon distribution of their share from Philhealth to their medical and non-medical personnel, shall be responsible for the withholding of tax on compensation, the issuance of Employer’s Certificate of Compensation Payment/Tax Withheld (BIR Form No. 2316) and the submission of Annual Information Return. Such share from Philhealth shall form part of compensation income for the taxable year subject to appropriate withholding tax rate.

The disbursements of funds from Philhelath other than the distribution of additional compensation to public health workers shall be subjected to expanded withholding tax under Section 2.57.2(N) of Revenue Regulations (RR) No. 2-98, as amended, on purchases by government from local/resident suppliers on purchases of goods at 1% and on purchase of services other than those covered by other withholding tax rates at 2%.