Improperly Accumulated Earnings
Tax Return

For Corporations

May 2001

BIR Form No. 1704

Part I  Background Information

1  Year Ended (MM/DD/YYYY)  [ ] Yes  [X] No

Part II  Computation of Tax

13  Add: Income exempt from Tax

14A  Income subject to Final Tax

14  Add: Income exempt from Tax

14  Add: Income exempt from Tax

14A  Income subject to Final Tax

15A  Income excluded from Gross Income

15B  Income excluded from Gross Income

15C  Income excluded from Gross Income

15D  Income excluded from Gross Income

16  Income subject to Final Tax

16A  Income subject to Final Tax

16B  Income subject to Final Tax

16C  Income subject to Final Tax

17  Net Operating Loss Carry-over (NOLCO) deducted

17A  Net Operating Loss Carry-over (NOLCO) deducted

17B  Net Operating Loss Carry-over (NOLCO) deducted

18  Total (Sum of Item 13 and Item 17B)

19  Less: Income tax paid/payable for the taxable year

19  Less: Income tax paid/payable for the taxable year

20  Dividends actually or constructively paid/issued

20  Dividends actually or constructively paid/issued

21  Amount reserved for the reasonable needs of the business

21A  Amount reserved for the reasonable needs of the business

21B  Amount reserved for the reasonable needs of the business

22  Improperly Accumulated Taxable Income (Item 18 less Item 21B)

22  Improperly Accumulated Taxable Income (Item 18 less Item 21B)

23  Tax Rate

23  Tax Rate

24  Improperly Accumulated Earnings Tax (Item 22 multiply by Item 23)

24  Improperly Accumulated Earnings Tax (Item 22 multiply by Item 23)

25  Add: Penalties

25  Add: Penalties

25A  Surcharge

25B  Surcharge

25C  Interest

25D  Interest

26  Total Amount Payable (Sum of Item 24 and Item 25D)

26  Total Amount Payable (Sum of Item 24 and Item 25D)

We declare, under the penalties of perjury, that this return has been made in good faith, verified by us, and to the best of our knowledge and belief, is true and correct, pursuant to the provisions of the National Internal Revenue Code, as amended, and the regulations issued under authority thereof.

27  President/Vice-President/Authorized Representative

27  President/Vice-President/Authorized Representative

28  Treasurer/Asst. Treasurer/Authorized Representative

28  Treasurer/Asst. Treasurer/Authorized Representative

Community Tax Certificate Number

Place of Issue

Date Issued

Amount

Part III  Details of Payment

33  Cash Bank

34  Debit Memo

35  Tax Debit Memo

36  Others

Debit Memo

Check

Check

Check

Check

Check

Check

Check

Debit Memo

Debit Memo

Debit Memo

Debit Memo

Debit Memo

Debit Memo

Debit Memo

Debit Memo

Date

Date

Date

Date

Date

Stamp of Receiving Office and Date of Receipt

Machine Validation/Revenue Office Receipt Details (If not filed with the bank)
<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Allowance for the increase in the accumulation of earnings</td>
<td>P</td>
</tr>
<tr>
<td>Paid-up Capital as of balance sheet date (covered year)</td>
<td>P</td>
</tr>
<tr>
<td>Less: Accumulated Retained Earnings as of previous year</td>
<td>P</td>
</tr>
<tr>
<td>Allowable increase considered as reasonable accumulation</td>
<td>P</td>
</tr>
<tr>
<td>Reserved for definite corporate expansion projects or programs</td>
<td></td>
</tr>
<tr>
<td>Reserved for building, plants or equipment acquisition</td>
<td></td>
</tr>
<tr>
<td>Reserved for compliance with any loan covenant or pre-existing obligation established under a legitimate business agreement</td>
<td></td>
</tr>
<tr>
<td>Earnings with legal prohibition against distribution</td>
<td></td>
</tr>
<tr>
<td>For subsidiaries of foreign corporations, Earnings intended or reserved for investment within the Philippines</td>
<td></td>
</tr>
<tr>
<td>Total amount reserved for the reasonable needs of the business (To Item No. 21)</td>
<td>P</td>
</tr>
</tbody>
</table>

**Guidelines and Instructions**

**BIR FORM NO. 1704**

Improperly Accumulated Earnings Tax (IAET) Return

Guidelines and Instructions
Who shall file
Every domestic corporation (branch of a foreign corporation not included) classified as closely-held corporation except banks and other non-bank financial intermediaries, insurance companies, taxable partnerships, general professional partnerships, non-taxable joint ventures and enterprises duly registered with the Philippine Economic Zone Authority (PEZA) under R.A. 7916, and enterprises registered pursuant to the Overseas Workers Welfare Act of 1995 (R.A. 7227), and other similar laws, shall render a true and accurate tax return in accordance with the provisions of the Tax Code. The return shall be filled in triplicate copies by the president, vice-president or other principal officer, sworn to by such officer and by the Treasurer or Assistant Treasurer.

When and Where to File
The return shall be filed within 15 days after the close of the year immediately succeeding taxpayer's covered taxable year. Example: For calendar year 2000, the IAET return shall be filed on or before January 15, 2002. This return shall be filed with any Authorized Agent Bank (AAB) located within the territorial jurisdiction of the Revenue District Office where the taxpayer's place of business is located and registered.

In places where there are no AABs, the return shall be filed with the Revenue Collection Officer or Duly Authorized City or Municipal Treasurer of the municipality or city under the jurisdiction of the Revenue District Office where the taxpayer's principal place of business is located and registered.

If the taxpayer is a large taxpayer, the return shall be filed with the AAB located at the BIR National Office except if said taxpayer is under the jurisdiction of a Large Taxpayer District Office, (LTDI), in which case the return shall be filed with the LTDI having jurisdiction over the taxpayer.

When and Where to Pay
Upon filing this return, the total amount payable shall be paid in full to the AAB where the return is filed. In places where there are no AABs, payment shall be made directly to the Revenue Collection Officer or Duly Authorized City or Municipal Treasurer who shall issue Revenue Official Receipt (BIR Form No. 2524) as receipt of payment. The machine validation shall reflect the amount paid, the date of payment and the transaction code and the stamp mark shall show the name of the AAB, branch code, teller's code and teller's initial. The AAB shall also issue an Official Receipt as proof of payment.

Rate and Base of Tax
The ten percent (10%) IAET is imposed on improperly accumulated taxable income earned starting January 1, 1998 by domestic corporations as defined under the Tax Code and which are classified as closely-held corporation. The IAET shall not apply on improperly accumulated income as of December 31, 1997 in the case of corporations using the calendar year basis. In the case of corporations adopting the fiscal year accounting period, the IAET shall not apply on improperly accumulated taxable income as of the end of the month comprising the twelve-month period of fiscal year 1997-1998.

Closely-held Corporations
Closely-held corporations are those corporations at least fifty percent (50%) in interest of whose outstanding stock entitled to vote is owned directly or indirectly by or for not more than twenty (20) individuals. For purposes of determining whether the corporation is closely-held corporation, insofar as such determination is based on stock ownership, the following rules shall be applied:

(1) Stock Not Owned by Individuals. – Stock owned directly or indirectly by, or for a corporation, partnership, estate or trust shall be considered as being owned proportionately by its shareholders, partners or beneficiaries.

(2) Family and Partnership Ownership. – An individual shall be considered as owning the stock owned, directly or indirectly, by or for his family, or by or for his partner. For purposes of this paragraph, the 'family of an individual' includes his brothers or sisters (whether by whole or half-blood), spouse, ancestors or lineal descendants.

(3) Option to Acquire Stocks. – If any person has an option to acquire stock, such stock shall be considered as owned by such person. For purposes of this paragraph, an option to acquire such an option and each one of a series of option shall be considered as an option to acquire such stock.

(4) Constructive Ownership as Actual Ownership. – Stock constructively owned by reason of the application of paragraph (1) or (3) hereof shall, for purposes of applying paragraph (1) or (2), be treated as actually owned by such person; but stock constructively owned by the individual by reason of the application of paragraph (2) hereof shall not be treated as owned by him for purposes of again applying such paragraph in order to make another the constructive owner of such stock.

Penalties
There shall be imposed and collected as part of the tax:

1. A surcharge of twenty five percent (25%) for each of the following violations:
   a) Failure to file any return and pay the amount of tax or installment due on or before the due date;
   b) Unless otherwise authorized by the Commissioner, filling a return with a person or office other than those with whom it is required to be filed; or
   c) Failure to pay the full or part of the amount of tax shown on the return on or before the due date; or
   d) Failure to pay the deficiency tax within the time prescribed for its payment in the notice of assessment.

2. A surcharge of fifty percent (50%) of the tax or of the deficiency tax, in case any payment has been made on the basis of such return before the discovery of the falsity or fraud, for each of the following violations:
   a) Willful neglect to file the return within the period prescribed by the code or by rules and regulations; or
   b) In case a false or fraudulent return is willfully made.

3. Interest at the rate of twenty percent (20%) per annum or such higher rates as may be prescribed by rules and regulations, on any unpaid amount of tax, from the date prescribed for the payment until it is fully paid.


Attachments:
1. Photocopy of the Annual Income Tax Return (BIR Form No. 1702) and audited Financial Statements/Account Information Forms of the taxable year covered duly received by the BIR; and
2. Sworn declaration as to dividends declared taken high by the corporation for purposes of the corresponding tax withheld, if any.

Note: All background information must be properly filled up.
• Nos. 1 and 2 of this form refer to transaction period and not the date of filing this return.
• TIN = Taxpayer Identification Number.