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The American Chamber of Commerce OF THE Philippine Islands

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retroactive from its inception in 1925. Therefore, if you have been selling goods in the Philippines which you bought in the United States, you have no United States income tax to pay on the income from such sales. This section relieves Spanish, British, Chinese, Japanese, etc., merchants and corporations from the tax that they may have been formerly liable for. Many merchants in the Philippines were greatly relieved as this section removed a substantial liability. As to Americans and American corporations, they are still liable for Federal taxes on income from such sales unless they are exempt under Section 251 (80/50). No. 812, however, aids Americans in meeting the conditions for exemption under Section 251, since it makes the income from such sales entirely from Philippine sources. If any taxes have previously been paid on such income, see the United States Revenue Agents for assistance in preparing and filing claims for refund.

"As to the next section discussed, No. 821, this provides for the reduction of interest of 6%, which accrued during the period October 24, 1933 to August 30, 1935 on delinquent Federal income, estate and gift taxes. This benefits everyone irrespective of nationality or residence. The citizen who has paid interest to the United States in excess of 6% on the taxes mentioned, which interest accrued during the stated period. Therefore, if you have paid any interest in excess of 6% which accrued during such period, a claim for refund should be filed immediately with the United States Revenue Agents. All persons, so far as known, entitled to refunds of interest, have been notified and advised to file claims. *Claims under this section must be filed by November 27, 1938.* If claims are not filed by the date given, no refunds will be made.

"Section 813. This affects American citizens and American corporations only. It wipes out back penalties and interest on Federal income taxes for the years 1917, 1918, 1919 and 1920, and extends the time for payment of such taxes to July 1, 1939, if certain conditions are met, as follows:

- (1) The citizen must have been a resident of the Philippines for more than six months during the year for which the tax was due.
- (2) The citizen or corporation would have been exempt on Philippine income if the 80-50 law had been in effect in the year for which the tax was due.
- (3) Refunds of interest and penalties previously paid will be refunded if:
 - (I) Claim is filed before July 1, 1939.
 - (II) The interest and penalties were paid after May 28, 1936.

"All persons, so far as believed to be entitled to refunds, have been specially invited to file claims. Persons who have not filed claims, or who have paid any interest or penalties on taxes for the years 1917 to 1920, since May 28, 1936, should contact the United States Revenue Agents promptly.

"Attention is invited to the fact that any taxes for the years 1917 to 1920 are not required to be paid before July 1, 1939, if the person who owes the taxes can meet conditions (1) and (2) above. The taxes may, however, be paid before July 1, 1939. The liability for taxes, if any, is determinable before July 1, 1939. In other words, if any tax for 1917 to 1920 is payable on July 1, 1939, find out how much it is beforehand.

"As to the 80-50 law, or Section 251, which has been referred to in this article. During the World War years, 1917, 1918, 1919 and 1920, American citizens and corporations were required to assist in carrying on this war by paying Federal war income taxes regardless of the place of their residence and regardless of where they earned their income. In 1921, Congress enacted the 80-50 law. This was not retroactive. It began with the year 1921. It provided that American residents of the Philippines were exempt from American income taxation on Philippine income if 80% or over of their incomes, (over specified periods), was from Philippine sources, AND (conjunctive) if 50% or over of their incomes, (over specified periods), was from businesses engaged in within the Philippines, AND if none of the Philippine income was received in the United States."

W. W. BERCAW ON INCOME TAXES

Recent congressional legislation deferring to points urged upon Congress by the American Chamber of Commerce and by High Commissioner Paul V. McNutt in his testimony in committee last February at Washington, changed certain conditions affecting Americans' obligations in the Commonwealth respecting Federal income taxes. Incapable of digesting the situation ourselves, we asked W. W. Bercaw, a United States Internal Revenue Agent, to provide us a digest intelligible to our readers, and the following is his response:

"The United States Revenue Act of 1938 became law on May 28, 1938.

"Three of the sections, Nos. 812, 821 and 813, of this law provide for the refund of amounts collected under prior laws.

"Philippine residents are benefited by these sections to a greater extent, probably, than residents of any other place.

"Persons who live in the Philippines, therefore, who have paid taxes and interest to the United States should be familiar with the new law, and they should know how to get refunds if they are entitled to them.

"The first section of the new law herein discussed is No. 812. This provides that there is no Federal tax due on income resulting from sales in the Philippines of goods bought in the United States. And, that income from such sales is from Philippine sources. The law is