

REVENUE MEMORANDUM ORDER NO. 26-2011 issued on June 13, 2011 prescribes the guidelines in the tax treatment of separation benefits received by officials and employees on account of their separation from employment due to death, sickness or other physical disability and the issuance of Certificate of Tax Exemption from Income Tax and from Withholding Tax.

In order to facilitate the processing of requests for tax exemption of separation benefits received by officials/employees or his/her heirs as a result of their separation from employment due to death, sickness or other physical disability, regardless of age and length of service, the following documents are required to be submitted to the Revenue District Office (RDO) where the employer is originally registered, to support such request:

- a. Letter request from the official/employee (or by his heirs) or the employer for the exemption of separation benefits from Income Tax and Withholding Tax
- b. Death – Certified true copy of Death Certificate
- c. Sickness/Physical Disability
 - i. Sworn Affidavits to be executed by the employer's physician or the employee's attending physician and the Head of Office/Entity or his representative, attesting to the fact that the retiring/separated official or employee is suffering from a serious illness or physical disability that affects the performance of his duties and endangers his life, if he continues working
 - ii. Clinical Record of the official/employee concerned indicating the history of illness/physical disability and initial diagnosis
 - iii. Laboratory examination confirming the illness suffered by such official/employee or medical certificate confirming the physical disability of the official/employee.

The BIR shall not be precluded from requiring additional documents to prove entitlement to tax exemption under the prevailing circumstances. The steps in the processing of request for issuance of Certificate of Tax Exemption of separation benefits received as a result of separation from employment due to death, sickness or other physical disability of the employee are specified in the Order.

The said separation benefits shall have the following tax implications:

- a. Income Tax - the separation benefits shall not be included in gross income of the employee and shall be exempt from taxation. However, other income received prior to separation shall be subject to tax.
- b. Withholding Tax - the separation benefits shall be exempt from Withholding Tax. Accordingly, no Withholding Taxes shall be deducted from the separation benefits and the entire amount thereof shall be given to the entitled separated employee.

All applications for tax exemption filed and are still pending with the Law Division in the National Office prior to the issuance of this RMO shall be acted upon therein accordingly.