

# Proposed Reforms

## CAPITAL INCOME AND FINANCIAL TRANSACTIONS (Package 4)

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# KEY ISSUES of CURRENT SYSTEM:

## 1. Complicated tax structure

- Many rates and not easy to comprehend.
- Unequal tax rates can promote tax arbitrage
  - Peso vs. foreign currency (20%, 15%, and 7.5%)
  - Resident vs. nonresident (20%, 7.5%, and exempt)
  - Short-term vs. long-term (20%, 12%, 5%, and exempt)
  - Debt vs. equity (20% vs. 10%)

# KEY ISSUES of CURRENT SYSTEM:

## Multiplicity of Rates

1. By product (interest income, dividends, capital gains, banks, insurance, DST)
2. By type of lending (private or public / currency bank deposits)
3. By issuer (RBU, FCDO, OBU)
4. By currency (peso vs. foreign)
5. By maturity (short vs. long-term)
6. By taxpayer (individual vs. corporate)
7. By residency (resident vs. non-resident)
8. By business status (engaged vs. not engaged in business)
9. Under special laws (41 special laws)

## KEY ISSUES of CURRENT SYSTEM:

Type of income/financial intermediaries/transactions	Number of unique rates and bases
<b>Total</b>	<b>80</b>
<b>A. Tax on capital income</b>	<b>52</b>
1. Interest	22
2. Dividends	13
3. Capital gains/stock transaction tax	17
<b>B. Tax on financial intermediaries</b>	<b>8</b>
1. Banks and non-banks subject to GRT	5
2. FIs subject to premium tax	1
3. Other FIs subject to VAT	2
<b>C. DST on financial transactions</b>	<b>20</b>

# KEY ISSUES of CURRENT SYSTEM:

## 2. Susceptible to tax arbitrage

- Unequal tax treatment among equivalent or comparable financial intermediaries, instruments, and transactions.
- Phasing/gaming the system to breach the 20-lender rule
  - (e.g., PEACE bonds issued to only one entity, then repackaged and sold at a premium to investors)
- Tax overshadows all other considerations
  - Investment decisions based on tax implication and not risk appetite.

# KEY ISSUES of CURRENT SYSTEM:

## 3. **Uneven playing field** - Gives advantage to certain sectors

- Non-lending income of banks and quasi banks subject to 7% but other FIs subject to 5%.
- Life insurance premium is subject to 2% premium tax, but pre-need contribution is subject to 12% VAT.
- Interest income exemption on long-term investment and debt instruments given only to banks
- Working class with peso savings are levied 20% tax while the rich with investments are levied 0% to 10% for long-term investment and dividends.

## KEY ISSUES of CURRENT SYSTEM:

### 4. Uncompetitive

- Philippines generally has the higher tax rates in the region.
  - KIT (Capital income tax) rate of up to 30% but there are 43 special laws giving exemptions or special rates.
  - Heavy friction costs due to DST rates of up to 12.5% for certain instruments.

## **KEY ISSUES of CURRENT SYSTEM:**

### **5. High administrative and compliance cost**

- Tedious and costly to check applicable taxes and remaining maturity every time, especially given bank secrecy law.
- Prone to tax calculation errors.
- Opens opportunity for tax avoidance and evasion.



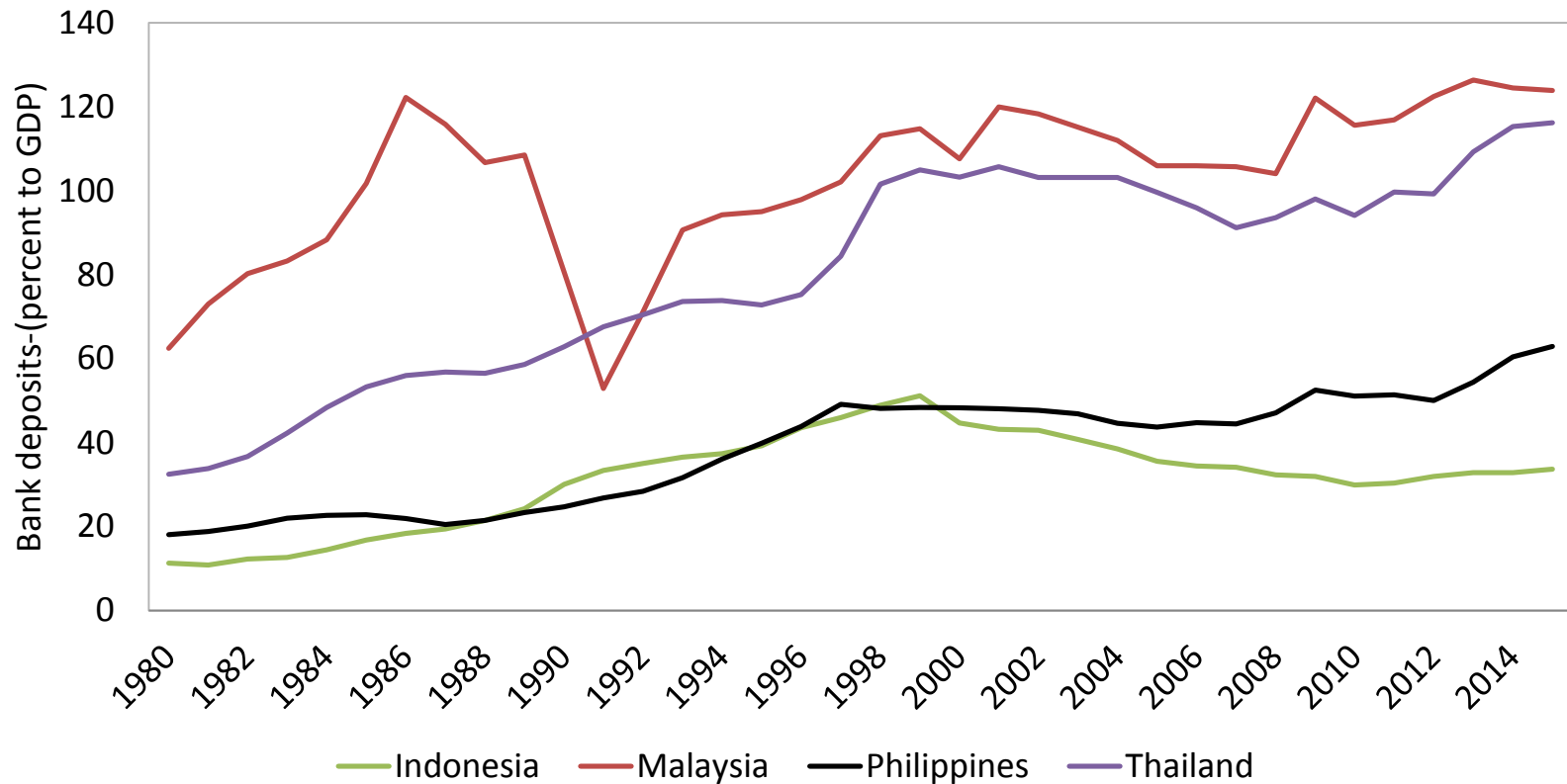
## KEY ISSUES of CURRENT SYSTEM:

### 5. Not supportive of capital market development

- Various taxes hinder capital market development.
- IPO tax a deterrent to listing.
- DST imposes friction cost and toll to compliance.
- High taxes on interest income impede the promotion of savings.

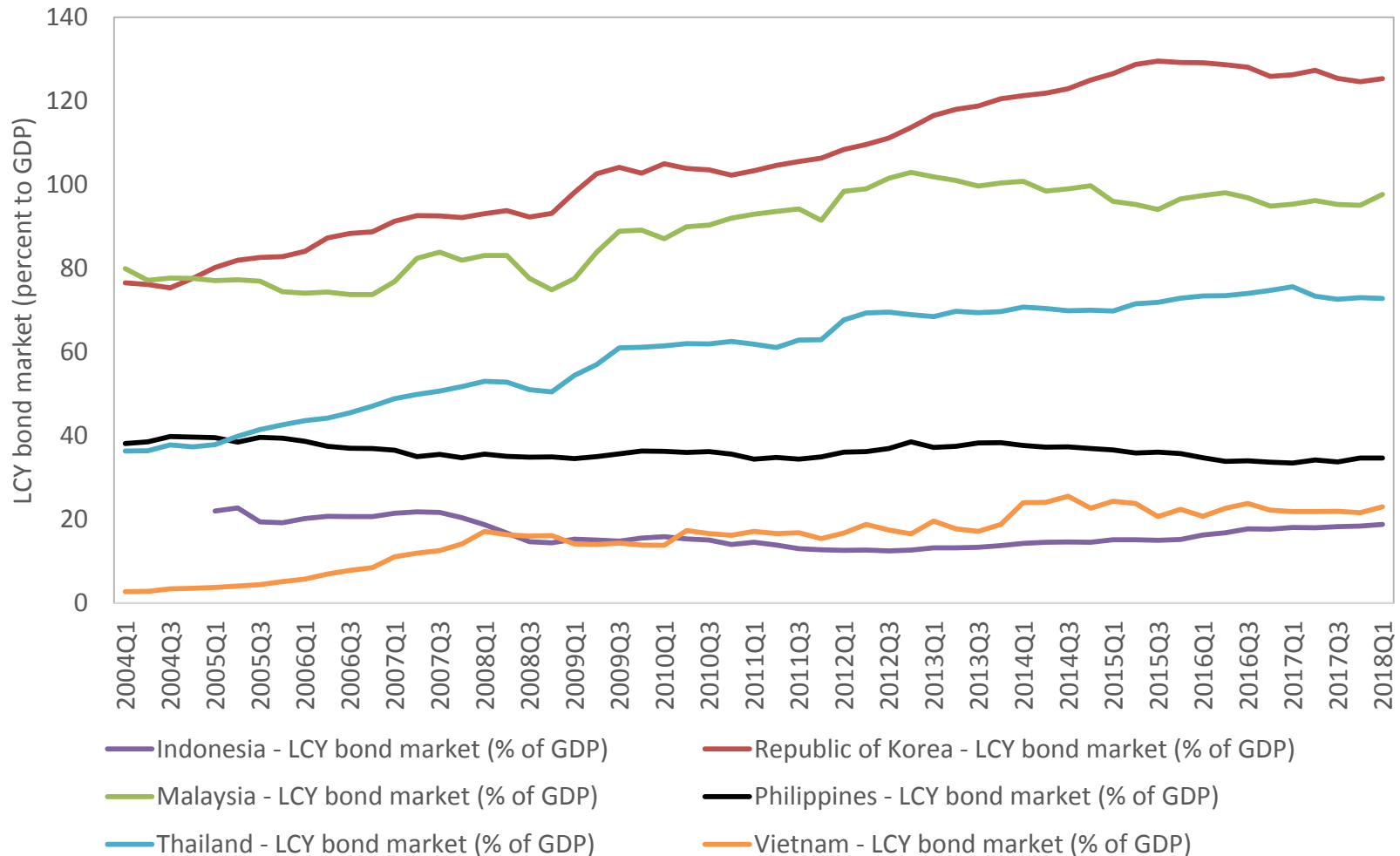
# SHALLOW CAPITAL MARKET

# Low bank deposits as a percent of GDP indicate shallow capital market.



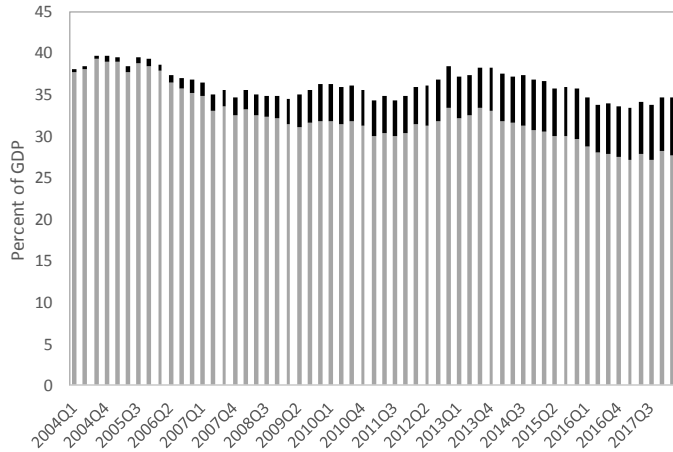
Source: International Financial Statistics (IFS), International Monetary Fund (IMF) as extracted from DataMarket  
<https://datamarket.com/data/set/2817/deposit-money-bank-assets-to-gdp#!ds=2817!2rq8=26.4m.3n.3g&display=line>

# Local currency bond market is weak compared to our neighbors.

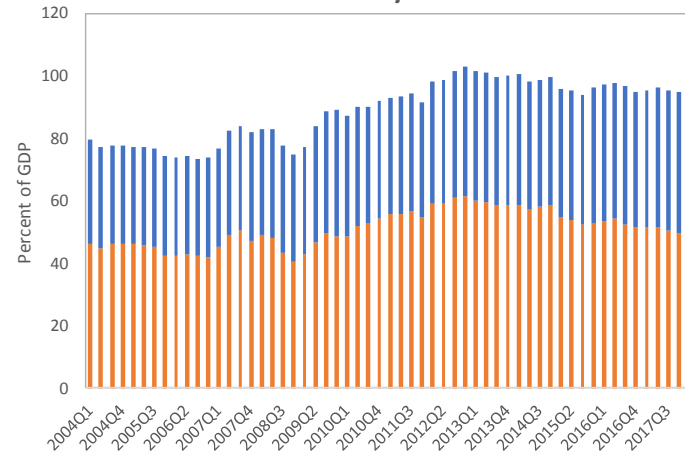


# Corporate bond market is weak compared to our neighbors.

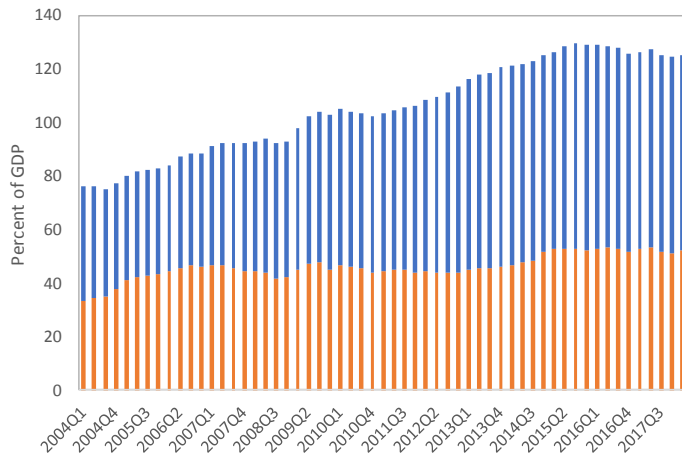
## Philippines



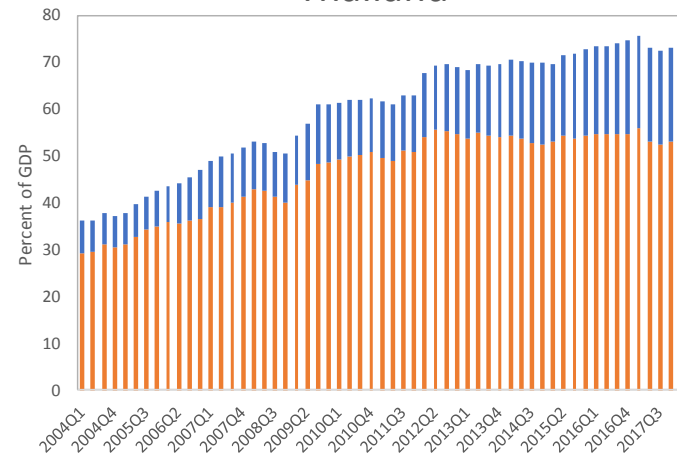
## Malaysia



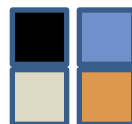
## Korea



## Thailand



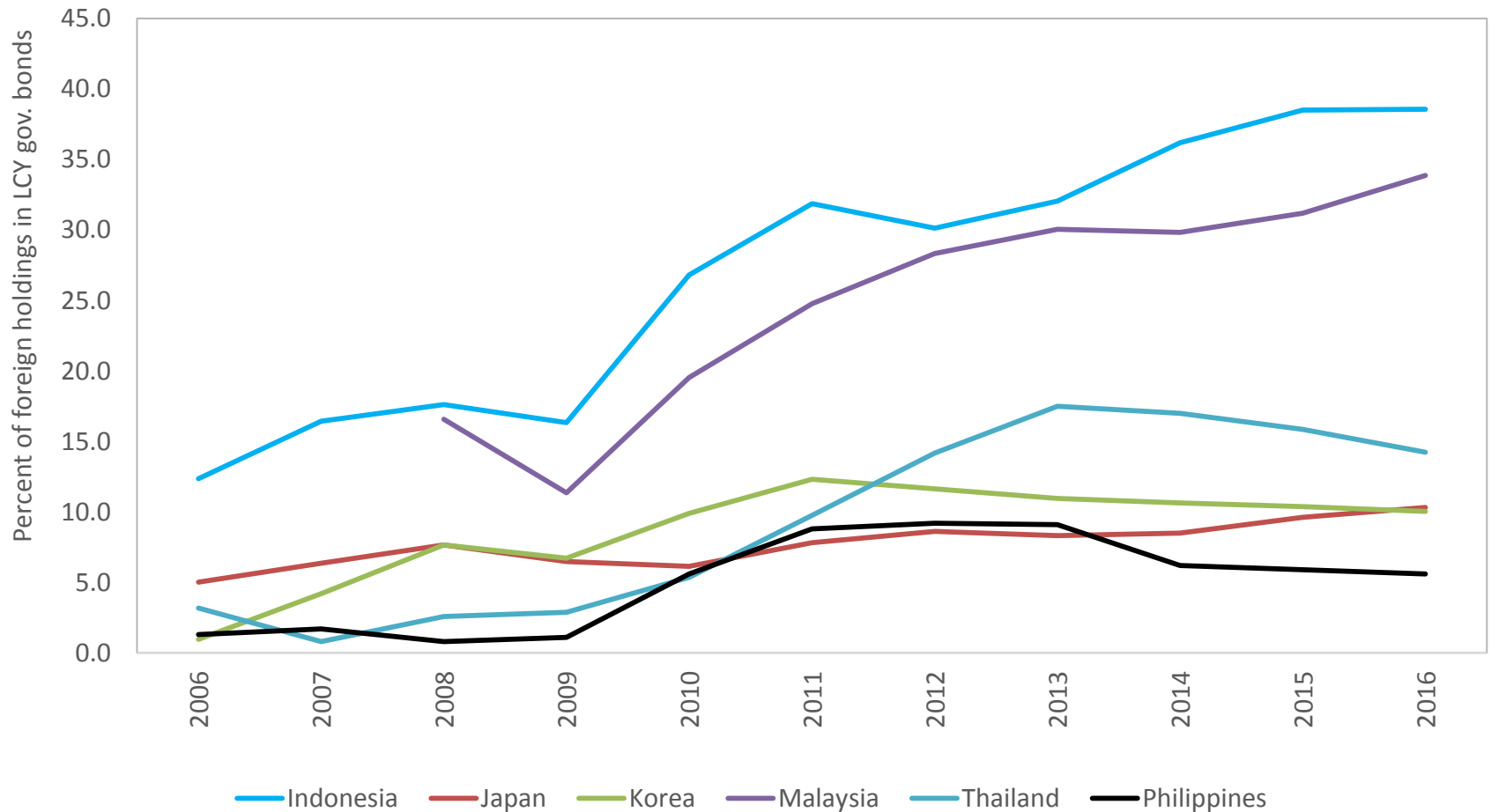
Source: ADB



Corporate LCY bond market (percent of GDP)

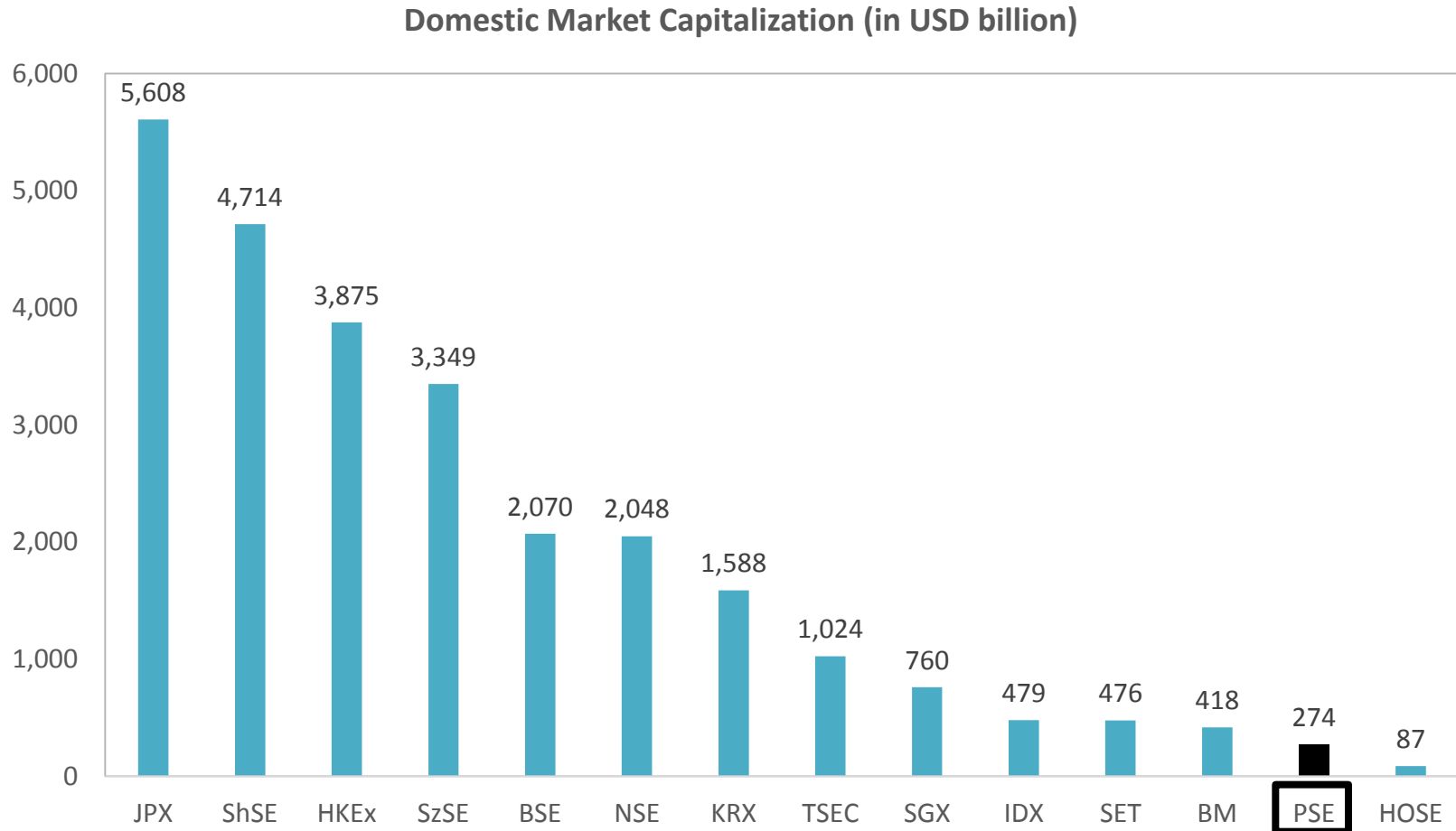
Government LCY bond (percent of GDP)

# Percent of foreign holdings in LCY government bonds



Source: AsianBonds Online

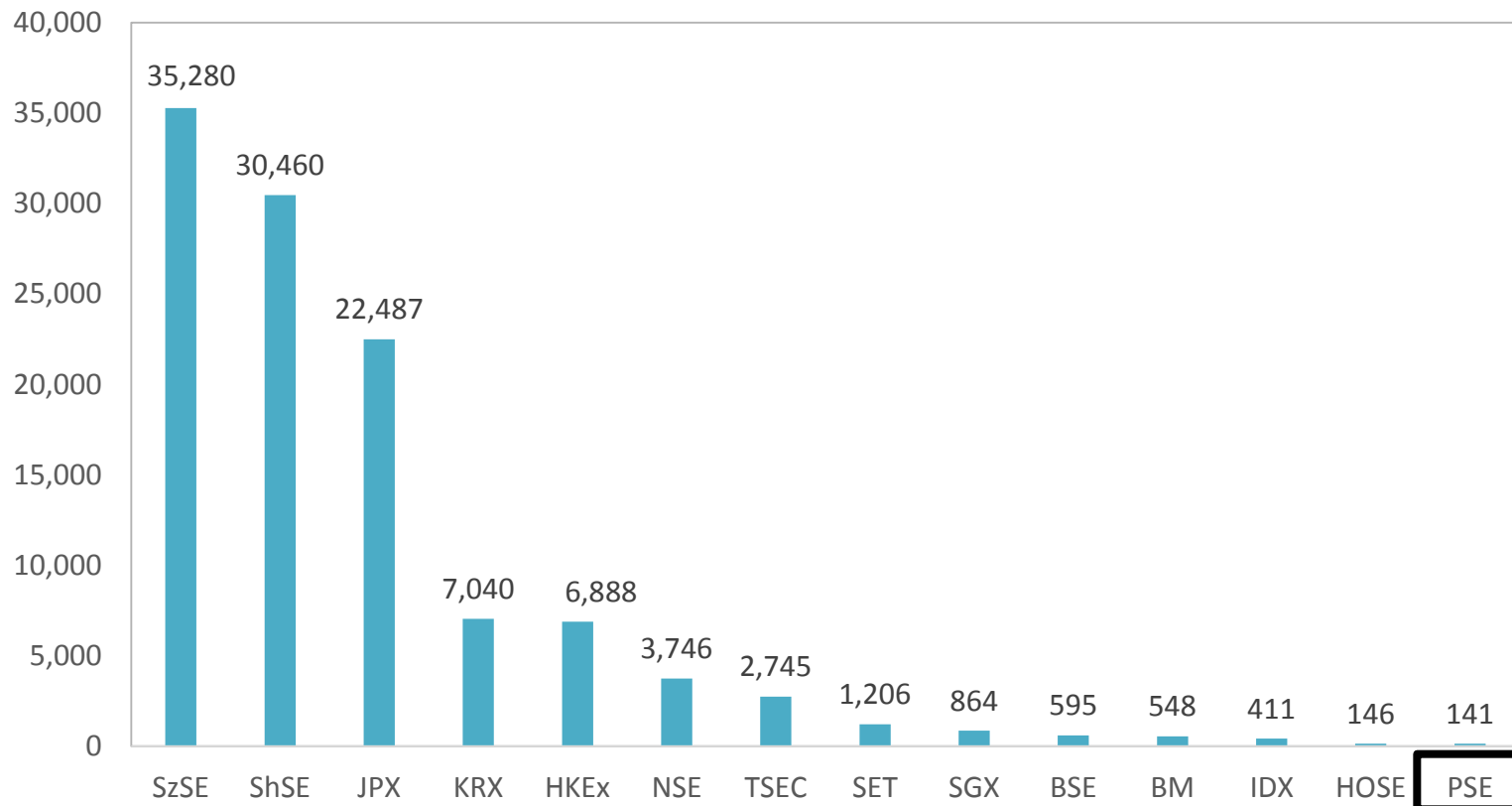
# Market capitalization in equity also very low.



Source: World Federation of Exchanges as cited in Refran, R. (2017). "The Philippine Stock Exchange: An Overview," a presentation to the National Tax Research Center last 30 August 2017.

# Average value turnover also very low.

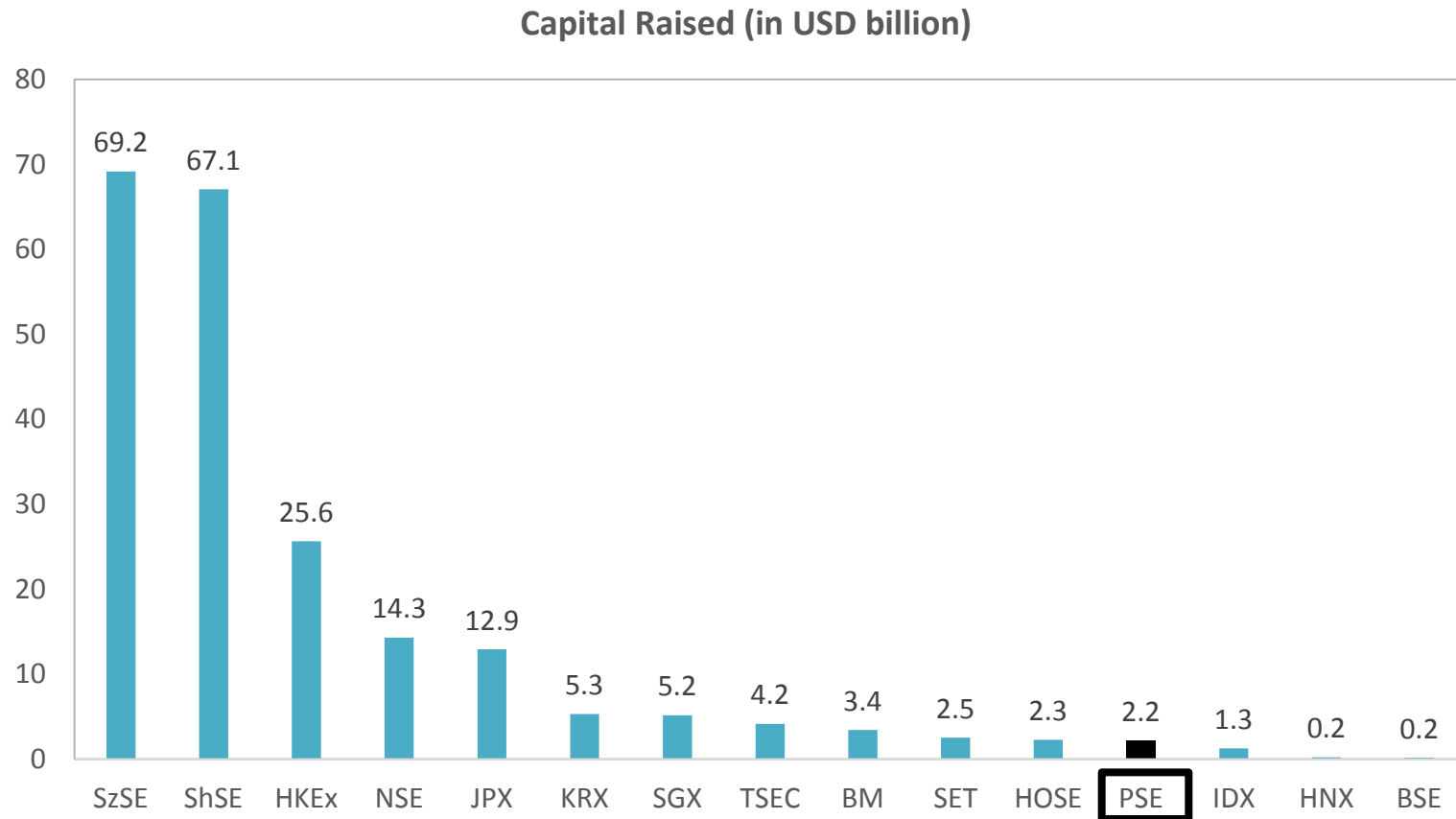
Ave. Daily Value Turnover (in USD billion)



Source: World Federation of Exchanges as cited in Refran, R. (2017). "The Philippine Stock Exchange: An Overview," a presentation to the National Tax Research Center last 30 August 2017.

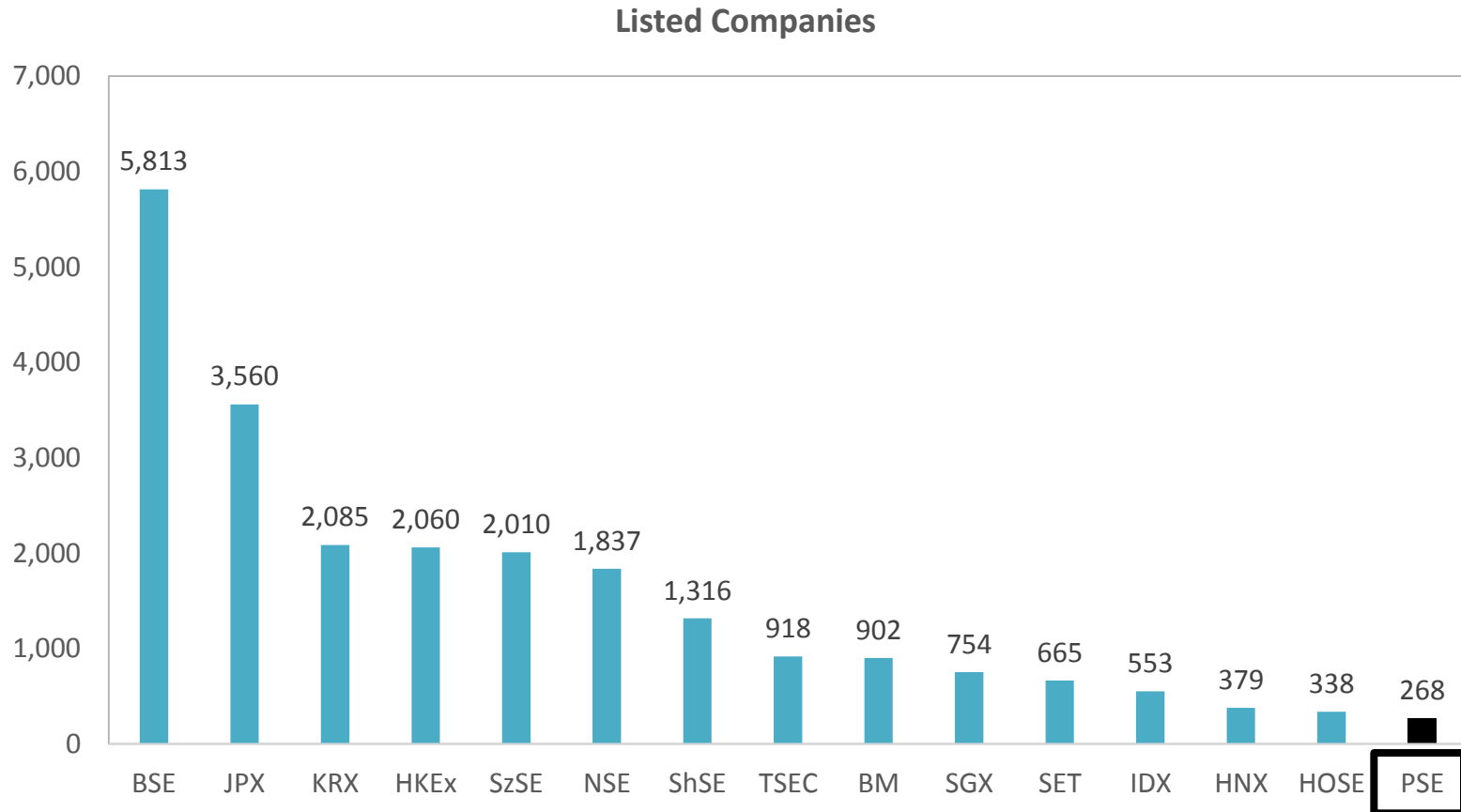


# Amount of capital raised is at the low end.



Source: World Federation of Exchanges as cited in Refran, R. (2017). "The Philippine Stock Exchange: An Overview," a presentation to the National Tax Research Center last 30 August 2017.

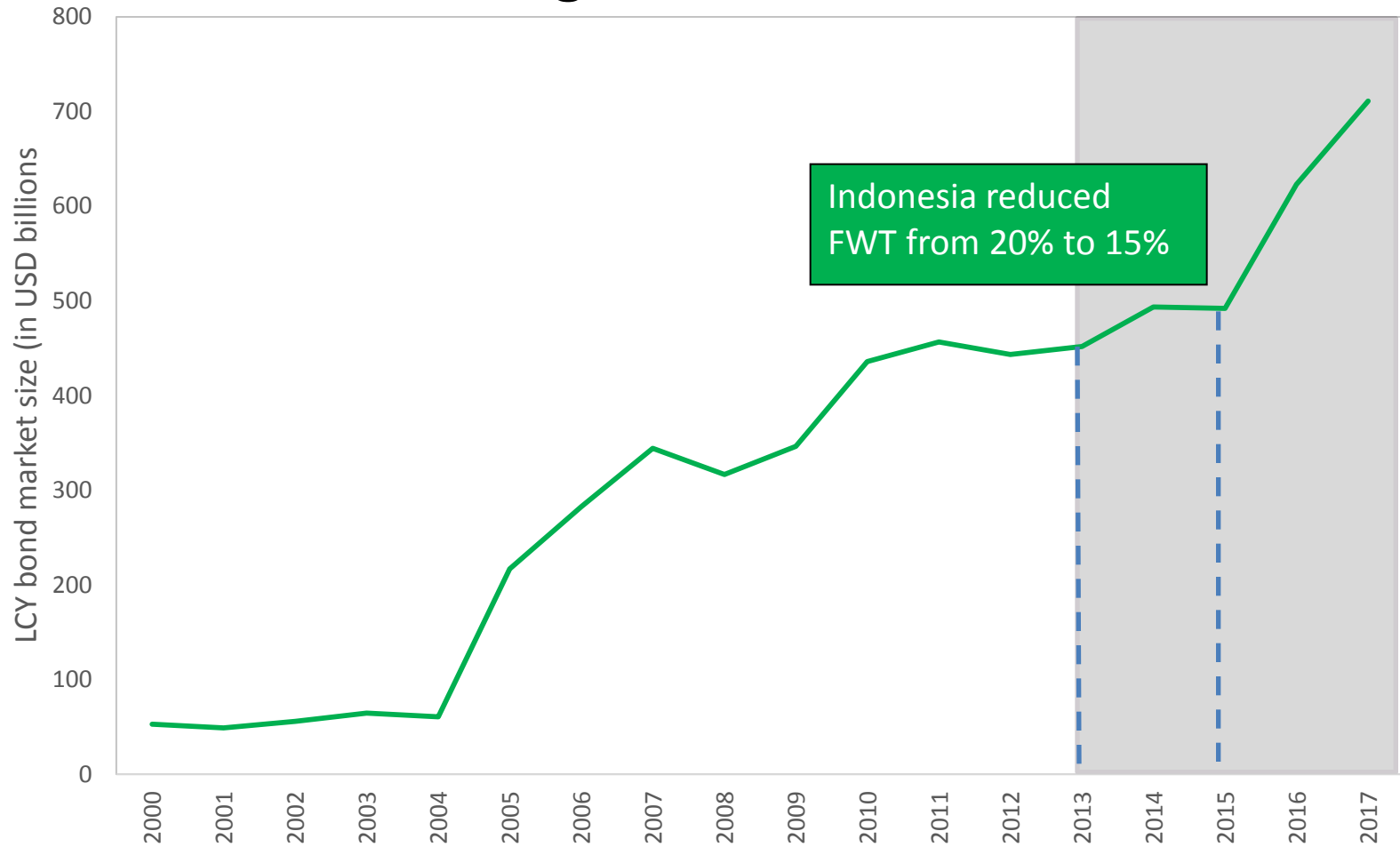
# Number of listed companies is the lowest.



Source: World Federation of Exchanges as cited in Refran, R. (2017). "The Philippine Stock Exchange: An Overview," a presentation to the National Tax Research Center last 30 August 2017.

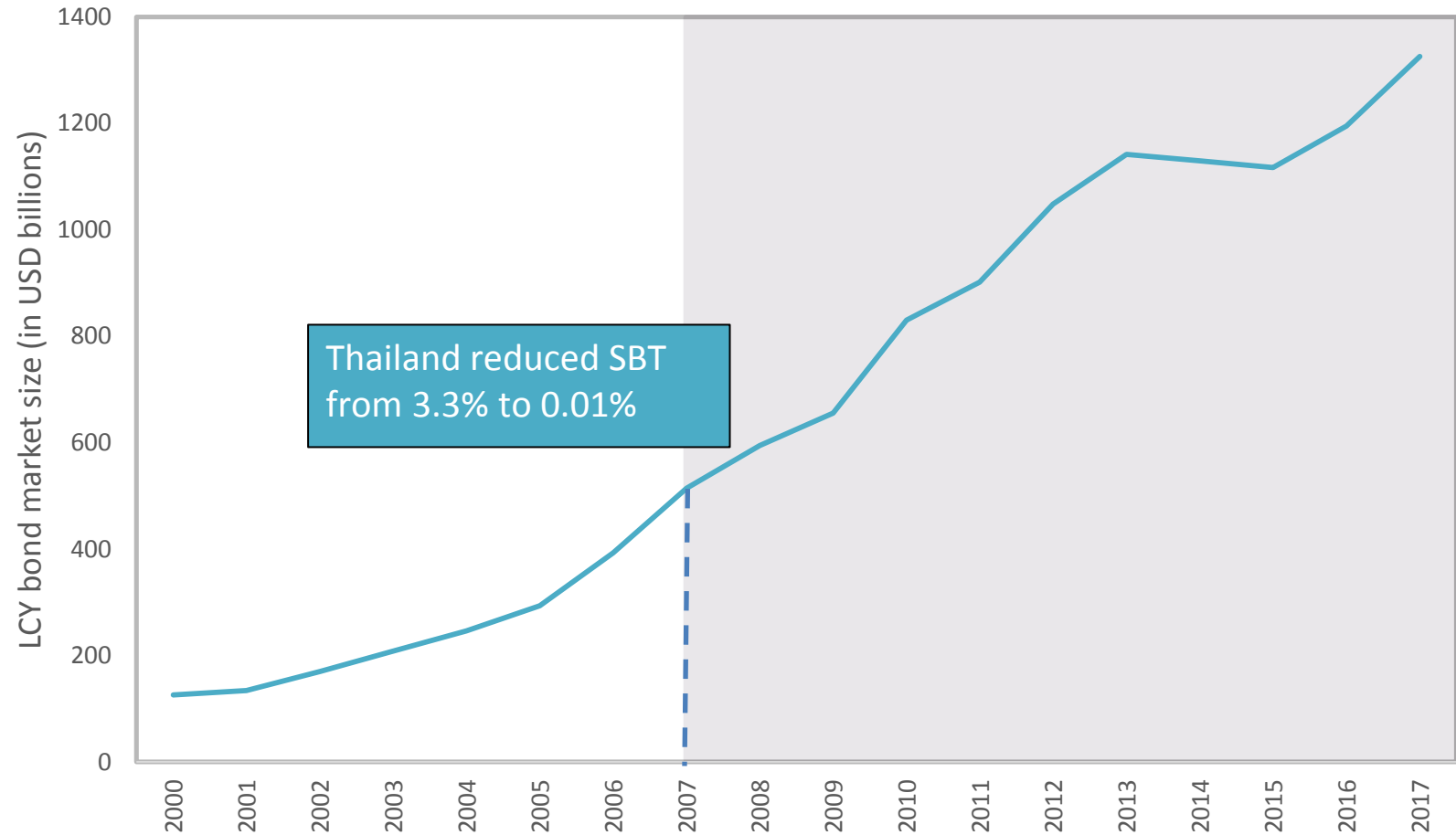
# **INTERNATIONAL EXPERIENCE: INDONESIA AND THAILAND**

# Lowering of tax in Indonesia led to larger bond market.



Source: AsianBonds Online

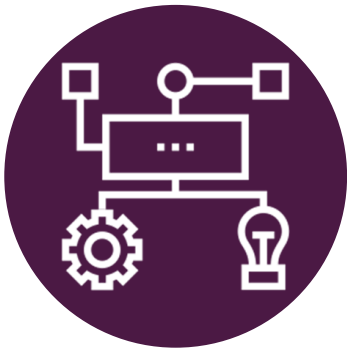
# Lowering of tax in Thailand led to a larger bond market.



Source: AsianBonds Online

# Goal of the reform

The goal is to redesign financial sector taxation to be **simpler, fairer, more efficient, and revenue neutral in the short-term.**



**Simpler**



**Fairer**



**More  
efficient**



**Revenue  
neutral in  
short-term**

## GOAL OF THE REFORM:

- Promote neutrality in the tax treatment across FIs and financial instruments
- Simplify what has become a complex tax system.
- Improve equity across investors and savers
- Minimize arbitrage opportunities
- Promote capital market development within the context of financial globalization, increased international capital mobility, and financial inclusion
- Competitiveness in attracting capital and foreign investment

# Proposed Reforms



## Summary of rates on common interest income

	Current	Proposed	Remarks	ASEAN5
<b>Individual</b>				
Resident citizens/ resident aliens	<b>Regular:</b> FT rates vary: exempt, 5, 12, and 20% depending on maturity, issuer, and business status <b>FCDU:</b> 15%	<b>15% FT</b>	<ul style="list-style-type: none"> <li>- 15% is the lowest tax on labor income</li> <li>- Simplified so easy to implement</li> <li>- 15% within ASEAN range</li> </ul>	13.5%
Non-resident citizens / non-resident aliens engaged in trade or business (NRA ETB)	<b>Regular:</b> same as above <b>FCDU:</b> Exempt	<b>15% FT</b>		
Non-resident alien NETB	<b>Regular:</b> 25% FT or TTR <b>FCDU:</b> Exempt	<b>15% FT or TTR</b>	<ul style="list-style-type: none"> <li>- Dominant TTR (25 of 42 countries including ASEAN, US, UK, Australia, Canada, France).</li> </ul>	14.0%
<b>Corporation</b>				
Domestic/ resident foreign corp. (RFC)	<b>Regular:</b> 20% FT <b>FCDU:</b> 15% for domestic corp. and 7.5% for RFC	<b>15% FT</b>	<ul style="list-style-type: none"> <li>- Simplified so easy to implement</li> <li>- 15% within ASEAN range</li> </ul>	21.2%
Non-resident foreign corp. (NRFC)	<b>Regular:</b> 30% FT or TTR <b>FCDU:</b> Exempt	<b>15% FT or TTR</b>		14.0%

### Note:

1. Project specific bonds (e.g., Marawi bonds) can be issued with exempt tax on interest income.

# Summary of current rates on other interest income

Kind of interest income	Philippine citizens		Aliens			Corporations		
	Resi- dent	Non- resi- dent	Resi- dent	Non-resident		Do- mestic	Foreign	
				Engaged in business	Not engaged in business		Resi- dent	Non- resi- dent
1. Other interest income derived <b>within</b> the Philippines	PIT	PIT	PIT	PIT	25% FT	30% CIT	30% CIT	30% FT
2. Other interest income derived <b>outside</b> the Philippines	PIT	N/A	N/A	N/A	N/A	30% CIT	N/A	N/A
3. Interest Income on <b>foreign loans</b> contracted on or after August 1, 1986	N/A	N/A	N/A	N/A	N/A	N/A	N/A	20% FT
4. Interest income received by a <b>FCDU</b> : Income derived by a depository bank from foreign currency transactions with <b>nonresidents</b> , offshore banking units in the Philippines, local commercial banks authorized by BSP	N/A	N/A	N/A	N/A	N/A	Exempt	Exempt	N/A
5. Interest income received by a <b>FCDU</b> : Interest income from foreign currency loans to <b>residents</b> other than offshore banking units	N/A	N/A	N/A	N/A	N/A	10% FT	10% FT	N/A
6. Interest income received by a <b>OBU</b> : interest derived by a depository bank from foreign currency transactions with <b>nonresidents</b> , offshore banking units, local commercial banks authorized by the BSP	N/A	N/A	N/A	N/A	N/A	N/A	Exempt	N/A
7. Interest income received by an <b>OBU</b> : Interest income from foreign currency loans granted to <b>residents</b> other than offshore banking units or local commercial banks	N/A	N/A	N/A	N/A	N/A	N/A	10% FT	N/A

# Summary of proposed rates on other interest income

Kind of interest income	Philippine citizens		Aliens			Corporations		
	Resi- dent	Non- resi- dent	Resi- dent	Non-resident		Do- mestic	Foreign	
				Engaged in business	Not engaged in business		Resi- dent	Non- resi- dent
1. Other interest income derived <b>within</b> the Philippines	PIT	PIT	PIT	PIT	15 FT	15% CIT	15% CIT	15% FT
2. Other interest income derived <b>outside</b> the Philippines	PIT	N/A	N/A	N/A	N/A	15% CIT	N/A	N/A
3. Interest Income on <b>foreign loans</b> contracted on or after August 1, 1986	N/A	N/A	N/A	N/A	N/A	N/A	N/A	15% FT
4. Interest income received by a <b>FCDU</b> : Income derived by a depository bank from foreign currency transactions with <b>nonresidents</b> , offshore banking units in the Philippines, local commercial banks authorized by BSP	N/A	N/A	N/A	N/A	N/A	15% FT	15% FT	N/A
5. Interest income received by a <b>FCDU</b> : Interest income from foreign currency loans to <b>residents</b> other than offshore banking units	N/A	N/A	N/A	N/A	N/A	15% FT	15% FT	N/A
6. Interest income received by a <b>OBU</b> : interest derived by a depository bank from foreign currency transactions with <b>nonresidents</b> , offshore banking units, local commercial banks authorized by the BSP	N/A	N/A	N/A	N/A	N/A	N/A	15% FT	N/A
7. Interest income received by an <b>OBU</b> : Interest income from foreign currency loans granted to <b>residents</b> other than offshore banking units or local commercial banks	N/A	N/A	N/A	N/A	N/A	N/A	15% FT	N/A

# Summary of rates on dividend income

	Current	Proposed	Remarks	ASEAN5
<b>Individual</b>				
Citizens/ resident aliens	10% FT	<b>15% FT</b>	- 15% to harmonize with other capital income and interest inc.	10%
Non-resident alien ETB	20% FT	<b>15% FT</b>	- 33 of 42 countries have 15%, including ASEAN (Vietnam, Singapore, Malaysia, Indonesia, Thailand), and Japan, Germany, China, France	11.7%
Non-resident alien NETB	25% FT or TTR	<b>15% FT or TTR</b>		
<b>Corporation</b>				
Domestic/ RFC	Exempt	<b>Exempt, except for sole corporation, subject to 15% FT</b>	- No change	Exempt, except for Indonesia
NRFC	30% FT, 15% tax sparing rule, or TTR	<b>15% FT or TTR</b>	- Same as individual	15%
Branch profit remittance tax	15% or TTR	<b>15% or TTR including ecozones</b>	- Remove the in lieu of provision in incentives	
Improperly accumulated earnings tax	10%	<b>15%</b>	- Align with tax on dividends	

# Summary of stock transaction tax on listed stocks

	Current	Proposed	Remarks	ASEAN5
<b>Individual</b>				
Citizens/ resident aliens/ Non-resident alien ETB	0.6% FT	<b>0.6% FT</b> ↓	<ul style="list-style-type: none"> <li>- Kept at 0.6% as main issue of market is DST per SEC.</li> <li>- Note: 0.1% highest in the region (Indonesia and Vietnam). Others exempt.</li> </ul>	Mostly exempt
Non-resident NETB	0.6% FT	<b>0.6% FT</b> ↓		
<b>Corporation</b>				
Domestic/ RFC	0.6% FT	<b>0.6% FT</b> ↓		Mostly exempt
NRFC	0.6% FT	<b>0.6% FT</b> ↓		
IPO tax	1,2,and 4%	<b>Removed</b>	- Collection is very low and no country imposes this.	Exempt, except for Indonesia

Note: **0.6% FT**↓ means 0.1% reduction every year until it reaches 0.1%.

# Summary of rates on capital gains on unlisted stocks

	Current	Proposed	Remarks	ASEAN5
<b>Individual</b>				
Citizens, resident aliens, non-resident alien ETB	15% FT	<b>15% FT</b>	<ul style="list-style-type: none"> <li>- 15% harmonized rate</li> <li>- Most TTR exempts capital gains except if shares consist principally of real properties</li> </ul>	PIT
Non-resident NETB	15% FT	<b>15% FT or TTR</b>		Mostly exempt
<b>Corporation</b>				
Domestic	15% FT	<b>15% FT</b>	<ul style="list-style-type: none"> <li>- 15% harmonized rate</li> <li>- Most TTR exempts capital gains except if shares consist principally of real properties</li> </ul>	CIT
RFC / NRFC	5, 10% FT	<b>15% FT or TTR</b>		17.5%

# Summary of rates on trading gains on debt instruments (traded or not traded in PDEX)

	Current	Proposed	Remarks	ASEAN5
<b>Individual</b>				
Citizens/ resident aliens/ non-resident alien ETB	Exempt if more than 5 years. Otherwise, PIT.	<b>Traded:</b> <b>0.1% TT FT for non- dealers, PIT for dealers</b>	-Simplification	
Non-resident NETB	Exempt if more than 5 years. Otherwise, 25% FT.	<b>Non-traded:</b> <b>15% FT on capital gains</b>	-15% harmonized rate	
<b>Corporation</b>				
Domestic/ RFC	Exempt if more than 5 years. Otherwise, CIT.	<b>Traded:</b> <b>0.1% TT FT for non- dealers. CIT for dealers.</b>	- Simplification	
NRFC	Exempt if more than 5 years. Otherwise, 30% FT.	<b>Non-traded:</b> <b>15% FT on capital gains</b>	- 15% harmonized rate	

# Summary of rates on banks and quasi banks

Type of income	Current	Proposed	Remarks	ASEAN
Interest, commissions, and discounts from lending activities as well as income from financial leasing	<p>Maturity period is 5 years or less: <b>5% of GR</b></p> <p>Maturity period is more than 5 years: <b>1% of GR</b></p> <p>Other income: <b>7%</b></p> <p>Dividends and equity shares in net income of subsidiaries: <b>0%</b></p>	<p><b>5% of GR</b></p> <p><b>5% of GR</b></p> <p><b>5% of GR</b></p> <p><b>0%</b></p>	<ul style="list-style-type: none"> <li>- Simplification</li> <li>- Remove distinction / classification based on maturity or type of income</li> </ul>	Mostly exempt
Determination of GR		<p><b>Use GAAP. Accrual method allowed as long as used consistently.</b></p>	<ul style="list-style-type: none"> <li>- Easy monitoring for compliance and collection</li> </ul>	



# Summary of rates on non-bank financial intermediaries

Type of income	Current	Proposed	Remarks	ASEAN
Interest, commissions, and discounts from lending activities as well as income from financial leasing	Maturity period is 5 years or less: <b>5% of GR</b>	<b>5% of GR</b>	- Harmonize banks and quasi-banks with all non-banking FI to level playing field	Mostly exempt
	Maturity period is more than 5 years: <b>1% of GR</b>	<b>5% of GR</b>		
	Other income: <b>5%</b>	<b>5% of GR</b>	- Remove distinction as to type/nature, maturity of income	
	Dividends and equity shares in subsidiaries: <b>0%</b>	<b>0%</b>		
Pawnshop money remitter (non-bank financial intermediary)	5% of GR on service fee	<b>5% of GR on service fee</b>		
Padala money remitter (non financial intermediary remittance agent)	12% VAT on service fee	<b>12% VAT on service fee</b>		
GR definition		<b>Same as banks</b>		

# Summary of rates on insurance products

	Current	Proposed	Objectives achieved	ASEAN
<b>Life insurance</b>				
<b>Life and health</b>	2% premium tax	<b>2% premium tax</b>	Same tax on insurance used for savings to level playing field and simplify compliance	Mostly exempt
<b>HMO</b>	12% VAT (ETR: 6.3%)*	<b>2% premium tax</b>		
<b>Pension and pre-need</b>	12% VAT (ETR: 6.1%)	<b>2% premium tax</b>		
<b>Non-life insurance</b>				
<b>Property, marine, fire</b>	12% VAT (ETR: 6.1%)	<b>5% premium tax</b>	Shift from VAT to premium tax to simplify compliance.  6% is average effective VAT rate of non-life insurance	8%
<b>Livestock</b>	12% VAT	<b>5% premium tax</b>		
<b>Crop</b>	Exempt from VAT	<b>5% premium tax</b>		
<b>Income other than premium: 12% VAT</b>				

\*This estimate is based on average ETRs of 3 large taxpayers.

# Principles of DST reform

1. Express all DST rates in ad valorem (%).
2. Equate DST on debt and equity.
3. Unify all life insurance rates.
4. Unify all non-life insurance rates.
5. Remove DST on domestic money transfers (to support financial inclusion).
6. Remove “nuisance” provisions with low revenue take.

**Note: above is ideal if revenues can be preserved for the entire reform.**

# Summary of DST on sale of shares of stock

Sec	Transaction	Tax base	Pre-TRAIN	Current	Ad valorem	Ideal proposal	Practical proposal
174	<b>Original issue of shares of stock</b>	Par value	P1 on each P200, or fractional part thereof	P2 on each P200, or fractional part thereof	1%	<b>0.5%</b>	<b>0.75%</b>
175	<b>Sales, agreements to sell, memoranda of sales, deliveries, or transfer of shares or certificates of stock</b>						
	<b>a. With par value</b>	Par value	P0.75 on each P200 or fractional part thereof	P1.50 on each P200 or fractional part thereof	0.75%	<b>Remove</b>	<b>Remove</b>
	<b>b. Without par value</b>	DST paid upon the original issue of said stock	25%	50%	50%	<b>Remove</b>	<b>Remove</b>
	<b>c. Listed shares of stock at PSE</b>	---	Exempt	Exempt	---	---	---

# Summary of DST on debt instruments and bank deposits

Sec	Transaction	Tax base	Pre-TRAIN	Current	Ad valorem	Ideal proposal	Practical proposal
176	<b>Bonds, debentures, certificates of stock, or certificates of indebtedness issued in any foreign country</b>	Face value	P1 on each P200, or fractional part thereof	P1.50 on each P200, or fractional part thereof	0.75%	<b>0.75%</b>	<b>0.75%</b>
177	<b>Certificates of profits or interest in property or accumulations</b>	Face value	P0.50 on each P200, or fractional part thereof	P1 on each P200, or fractional part thereof	0.5%	<b>Remove</b>	<b>Remove</b>
178	<b>Bank checks, drafts, certificates of deposit not bearing interest, and other instruments</b>	Per instrument	P1.50	P3.00	---	<b>Remove</b>	<b>Remove</b>
179	<b>Debt instruments</b>	Issue price; if term is less than 1 year, a proportional amount based on a ratio of its term to 365 days	P1 on each P200, or fractional part thereof	P1.50 on each P200, or fractional part thereof	0.75%	<b>0.75%</b>	<b>0.75%</b>

# Summary of DST on bills of exchange and trust receipts

Sec	Transaction	Tax base	Pre-TRAIN	Current	Ad valorem	Ideal proposal	Practical proposal
180	<b>Bills of exchange or drafts (domestic to domestic)</b>	Face value	P0.30 on each P200 or fraction thereof	P0.60 on each P200 or fraction thereof	0.3%	<b>Remove</b>	<b>Remove</b>
181	<b>Acceptance of bill of exchange and others (foreign to domestic)</b>	Face value	P0.30 on each P200 or fraction thereof	P0.60 on each P200 or fraction thereof	0.3%	<b>0.15%</b>	<b>0.3%</b>
182	<b>Foreign bills of exchange and letters of credit drawn in but payable outside the Philippines (domestic to foreign)</b>	Face value	P0.30 on each P200 or fraction thereof	P0.60 on each P200 or fraction thereof	0.3%	<b>0.15%</b>	<b>0.3%</b>
195	<b>Mortgages, pledges, and deeds of trust</b>	Amount secured P5,000 or less  On each P5,000 or fraction thereof in excess of P5,000	P20  P10	P40  P20	---	<b>0.5% of amount secured, exempt if DST already imposed on promissory note</b>	<b>0.3% of amount secured, exempt if DST already imposed on promissory note</b>

# Summary of DST on life insurance

Sec	Transaction	Tax base	Pre-TRAIN	Current	Ad valorem	Ideal proposal	Practical proposal
183	<b>Life insurance policies</b>	a. If the amount of insurance does not exceed P100,000	Exempt	Exempt	Exempt	<b>0.2% of premium, same with pre-need</b>	<b>No change</b>
		b. Exceeds P100,000 but does not exceed P300,000	P10	P20	0.007% to 0.02%		
		c. Exceeds P300,000 but does not exceed P500,000	P25	P50	0.01% to 0.017%		
		d. Exceeds P500,000 but does not exceed P750,000	P50	P100	0.013% to 0.02%		
		e. Exceeds P750,000 but does not exceed P1 million	P75	P150	0.015% to 0.02%		
		f. Exceeds P1 million	P100	P200	0.02%		

# Summary of DST on non-life insurance

Sec	Transaction	Tax base	Pre-TRAIN	Current	Ad valorem	Ideal proposal	Practical Proposal	
184	<b>Policies of insurance upon property</b>	Premium charged	P0.50 on each P4.00 or fraction thereof	P0.50 on each P4.00 or fraction thereof	12.5%	<b>0.5% of premium</b>	<b>12.5% of premium in initial year until it reaches 7.5%.</b>	
185	<b>Fidelity bonds and other insurance property</b>	Premium charged	P0.50 on each P4.00 or fraction thereof	P0.50 on each P4.00 or fraction thereof	12.5%	<b>0.5% of premium</b>		
187	<b>Indemnity bonds</b>	Premium charged	P0.30 on each P4.00 or fraction thereof	P0.30 on each P4.00 or fraction thereof	7.5%	<b>0.5% of premium</b>		<b>7.5%</b>
186	<b>Policies of annuities and pre-need plans</b>							<b>No change</b>
	<b>a. Annuities</b>	Premium or installment payment or contract price collected	P0.50 on each P200, or fraction thereof	P1 on each P200, or fraction thereof	0.5%	<b>0.5% of premium, same with life</b>		
	<b>b. Pre-need plans</b>	Premium or contribution collected	P0.20 on each P200, or fraction thereof	P0.40 on each P200, or fraction thereof	0.2%			

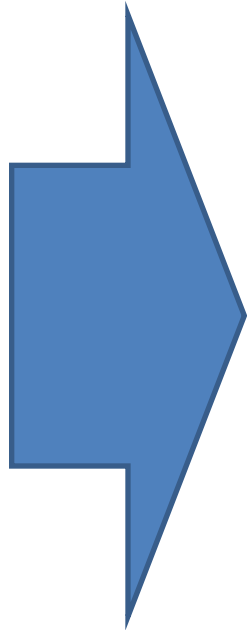


# Summary of DST on other miscellaneous related transactions

Sec	Transaction	Tax base	Pre-TRAIN	Current	Ad valorem	Ideal proposal	Practical proposal
188	<b>Certificates</b>	Per instrument	P15	P30	---	P50	<b>P50 only on notarized documents</b>
192	<b>Proxies</b>	Per instrument	P15	P30	---	Remove	<b>Remove</b>
193	<b>Powers of attorney</b>	Per instrument	P5	P10	---	Remove	<b>Remove</b>
198	<b>Assignments and renewals of certain instruments</b>		Same as that of the original instrument	Same as that of the original instrument	---		<b>Remove for assignment and retain for renewals</b>

# Comparison between the current and proposed systems

Type of income/financial intermediaries/transactions	Number of unique rates/bases (current)	Number of unique rates/bases (proposed)
<b>TOTAL</b>	<b>80</b>	<b>42</b>
<b>A. Tax on capital income</b>	<b>52</b>	<b>24</b>
1. Interest	22	10
2. Dividends	13	9
3. Capital gains/transfers	17	5
<b>B. Tax on financial intermediaries</b>	<b>8</b>	<b>5</b>
1. Banks and non-banks subject to GRT	5	2
2. FIs subject to premium tax	1	2
3. Other FIs subject to VAT	2	1
<b>C. DST on financial transactions</b>	<b>20</b>	<b>13</b>



# REPEAL/RETENTION OF NIRC PROVISIONS

# Exemptions/preferential rates in NIRC

Law	Tax type exempted	Proposal	Revenue impact on interest income (in PHP millions)
Mutual savings bank and cooperative bank (Sec. 30, RA 8424)	<ul style="list-style-type: none"> <li>Interest income</li> <li>Capital gains</li> </ul>	<b>Repeal exemption</b>	225.8 (coop banks only)
Offshore Banking Units (OBUs) and Foreign Currency Deposit Units (FCDUs) [Sec. 28(A)(4) and 28(A)(7)(b), RA 8424, as amended by RA 9294]	<ul style="list-style-type: none"> <li>Corporate income tax</li> </ul>	<b>Repeal exemption</b>	10,021.0
Foundations [Sec. 30(E), Tax Code]	<ul style="list-style-type: none"> <li>Capital gains</li> </ul>	<b>Retain exemption</b>	0
Gains from sale of bonds, debentures or other certificate of indebtedness with maturity of more than 5 years [Sec. 32(B)(7)(g), RA 8424]	<ul style="list-style-type: none"> <li>Capital gains</li> </ul>	<b>Repeal exemption</b>	1,900.0*

\*The revenue impact on trading gains on debts instruments are not included in the grand total since this is included in the capital income revenue impact estimation.

**Total – Exemptions in NIRC**

**PHP10.2 billion**

# Exemptions in NIRC

Law	Tax type exempted	Proposal	Revenue impact on interest income (in PHP millions)
Exemption of financial documents and papers from documentary stamp tax (Sec 199. RA 8424, as amended by RA 9243 and RA 9648):			
➤ Policies of insurance or annuities made or granted by a fraternal or beneficiary society, order, association or cooperative company, conducted solely by members and not for profit	• DST	<b>Retain exemption</b>	0
➤ Borrowing and lending of securities under the security borrowing and lending program	• DST	<b>Retain exemption</b>	0
➤ Loan agreements or promissory notes and aggregate of which does not exceed P250,000 for personal use.	• DST	<b>Retain exemption</b>	0
➤ Sale, barter, exchange of shares of stock listed and traded through the stock exchange	• DST	<b>Retain exemption</b>	0

# Exemptions/preferential rates in NIRC

Law	Tax type exempted	Proposal	Revenue impact on interest income (in PHP millions)
➤ Assignment or transfer of any mortgage, lease or policy of insurance renewal or continuance of any agreement, contract (etc.) if there is no change in maturity date or period of coverage	• DST	<b>Retain exemption</b>	0
➤ Fixed income and other securities traded in the secondary market through an exchange	• DST	<b>Retain exemption</b>	0
➤ Derivatives, repurchase agreements, reverse repurchase agreements	• DST	<b>Retain exemption</b>	0
➤ Bank deposit accounts without a fixed term or maturity	• DST	<b>Retain exemption</b>	0
➤ All contracts, deeds, documents and transactions of BSP	• DST	<b>Retain exemption</b>	0
➤ Interbank call loans with maturity of not more than 7 days to cover deficiency in reserves against liabilities	• DST	<b>Retain exemption</b>	0

# REPEAL/RETENTION OF SPECIAL LAWS

# Special laws

There are 41 laws outside the NIRC on capital

	Number of laws	Number to be repealed
GOCC	8	8
GFI	6	5
Retirement and savings	5	1
Property and housing	3	2
Power and water	4	2
Agriculture	4	4
Cooperatives and basic sectors	3	3
OFW	3	2
Non-banking	2	2
Banking	2	2
Special purpose vehicles	1	1
<b>TOTAL</b>	<b>41</b>	<b>32</b>



# Special laws – GOCC

Law	Tax type exempted	Proposal	Revenue impact on interest income (in PHP millions)
National Development Company (PD 1648)  • Issuance of tax-exempt bonds	Sec. 9: • Capital gains • Interest income • DST	<b>Repeal exemption</b>	7.3
Light Rail Transit Authority (EO 603)	Sec. 7 and 8: • Interest income	<b>Repeal exemption</b>	25.0
Philippine Postal Corporation (RA 7354)	Sec. 14: • Interest income • Capital gains	<b>Repeal exemption</b>	0.9
Laguna Lake Development Authority (RA 4850)	Sec. 12: • Capital gains • Interest income	<b>Repeal exemption</b>	0.6

No revenue impact for DST since under Sec. 173 whenever one party to the taxable document enjoys exemption, the other party who is not exempt shall be the one directly liable for the tax.

# Special laws – GOCC

Law	Tax type exempted	Proposal	Revenue impact on interest income (in PHP millions)
Nayong Pilipino Foundation, Inc. (PD 37)	No. 8: <ul style="list-style-type: none"> <li>Capital gains</li> <li>DST</li> </ul>	<b>Repeal exemption</b>	1.7
Development Academy of the Philippines (PD 205)	Sec. 12: <ul style="list-style-type: none"> <li>Interest income</li> <li>Capital gains</li> <li>DST</li> </ul>	<b>Repeal exemption</b>	0.6
Employees Compensation Commission (PD 626)	Art. 202.: <ul style="list-style-type: none"> <li>Capital gains</li> <li>Premium tax</li> </ul>	<b>Repeal exemption</b>	0.6
Philippine Aerospace Development Corporation (PD 696)	Sec. 10: <ul style="list-style-type: none"> <li>Capital gains</li> <li>Interest income</li> <li>DST</li> </ul>	<b>Repeal exemption (sunset provision)</b>	0*

\*No revenue impact since the exemption under PD 696 for the Philippine Aerospace Development Corporation (PADC) only extends for a period of 7 years beginning July 1, 1974. However, for subsidiaries, it begins on the date of incorporation if such date is later than July 1, 1974.

# Special laws – GFI

Law	Tax type exempted	Proposal	Revenue impact on interest income (in PHP millions)
Development Bank of the Philippines (RA 2081)	Sec. 2 (g): <ul style="list-style-type: none"> <li>Interest income</li> <li>Capital gains</li> </ul>	<b>Repeal exemption</b>	2,872.7
Land Bank of the Philippines (RA 3844)	Sec. 76: <ul style="list-style-type: none"> <li>Interest income</li> </ul> Sec. 77: <ul style="list-style-type: none"> <li>Capital gains</li> </ul> Sec. 98: <ul style="list-style-type: none"> <li>GRT</li> </ul>	<b>Repeal exemption</b>	6,252.4
Al–Amanah Islamic Investment Bank of the Philippines (RA 6848)	Sec. 37: <ul style="list-style-type: none"> <li>Interest income</li> <li>Capital gains</li> <li>GRT</li> <li>DST</li> </ul>	<b>Repeal exemption</b>	3.7

# Special laws – GFI

Law	Tax type exempted	Proposal	Revenue impact on interest income (in PHP millions)
Philippine Deposit Insurance Corporation (PDIC) (RA 3591, as amended by RA 9576)	Sec. 19: <ul style="list-style-type: none"> <li>• Capital gains</li> <li>• Interest income</li> <li>• DST</li> </ul>	<b>Repeal exemption</b>	1,245.3
Bangko Sentral ng Pilipinas (RA 7653)	Sec. 125: <ul style="list-style-type: none"> <li>• Capital gains</li> <li>• Interest income</li> <li>• GRT</li> <li>• DST</li> </ul>	<b>Regulatory functions: Retain exemption</b>  <b>Corporate functions: Repeal exemption (sunset provision)</b>	0
Philippine Export Credit Insurance and Guarantee Corporation (RA 6424)	Sec. 32: <ul style="list-style-type: none"> <li>• Capital gains</li> <li>• Interest income</li> <li>• DST</li> </ul>	<b>Repeal exemption (sunset provision not applicable anymore)</b>	0*

\* No revenue impact since the exemption under RA 6424 for Philippine Export Credit Insurance and Guarantee Corporation only extends for five years beginning March 30, 1972.

# Special laws – Retirement & savings

Law	Tax type exempted	Proposal	Revenue impact on interest income (in PHP millions)
Philippine Retirement Authority (EO 1037)	Sec. 12: <ul style="list-style-type: none"> <li>Interest income</li> <li>Capital gains</li> </ul>	<b>Repeal exemption</b>	12.3
Government Service Insurance System (GSIS) (PD 1146, as amended by RA 8291)	Sec. 39: <ul style="list-style-type: none"> <li>Capital gains</li> <li>Interest income</li> <li>Premium tax</li> </ul>	<b>Retain exemption</b>	0
Social Security System (SSS) (RA 1161, as amended by RA 8282)	Sec. 16: <ul style="list-style-type: none"> <li>Capital gains</li> <li>Interest income</li> <li>Premium tax</li> </ul>	<b>Retain exemption</b>	0
PERA Contributor (RA 9505)	Sec. 9 and 10: <ul style="list-style-type: none"> <li>Interest income</li> <li>Premium tax</li> </ul>	<b>Retain exemption</b>	0
Philippine Health Insurance Corporation (PhilHealth) (RA 7875, as amended by RA 9241 and RA 10606)	Sec. 15: <ul style="list-style-type: none"> <li>Interest income</li> </ul>	<b>Retain exemption</b>	0

# Special laws – Property & housing

Law	Tax type exempted	Proposal	Revenue impact on interest income (in PHP millions)
Home Guaranty Corporation (RA 8763)	Sec. 19: <ul style="list-style-type: none"> <li>• Interest income</li> <li>• Capital gains</li> <li>• DST</li> </ul>	<b>Repeal exemption</b>	8.6
National Housing Authority (RA 7279)	Sec. 19: <ul style="list-style-type: none"> <li>• Interest income</li> <li>• Capital gains</li> <li>• DST</li> </ul>	<b>Repeal exemption</b>	5.7
Home Development Mutual Fund (HDMF) (RA 9679)	Sec. 19: <ul style="list-style-type: none"> <li>• Interest income</li> <li>• Capital gains</li> <li>• DST</li> </ul>	<b>Retain exemption</b>	0

# Special laws – Power & water

Law	Tax type exempted	Proposal	Revenue impact on interest income (in PHP millions)
National Power Corporation (RA 6395)	Sec. 41: <ul style="list-style-type: none"> <li>Interest income</li> <li>Capital gains</li> <li>DST</li> </ul>	<b>Repeal exemption</b>	136.6
Philippine National Oil Company (PD 334)	Sec. 9: <ul style="list-style-type: none"> <li>Interest income</li> <li>Capital gains</li> <li>DST</li> </ul>	<b>Repeal exemption</b>	173.8
Local Water Utilities Administration (PD 198 as amended by PD 768)	Sec. 76: <ul style="list-style-type: none"> <li>Interest income</li> <li>Capital gains</li> <li>DST</li> </ul>	<b>Retain exemption</b>	0
National Electrification Administration (RA 6038)	Sec. 41: <ul style="list-style-type: none"> <li>Interest income</li> <li>Capital gains</li> <li>DST</li> </ul>	<b>Retain exemption</b>	0

# Special laws – Agriculture

Law	Tax type exempted	Proposal	Revenue impact on interest income (in PHP millions)
Philippine Crop Insurance Corporation (PD 1467)	Sec. 16: <ul style="list-style-type: none"> <li>• Interest income</li> <li>• Capital gains</li> <li>• DST</li> </ul>	<b>Repeal exemption</b>	0.7
National Irrigation Administration (RA 3601)	Sec. 3: <ul style="list-style-type: none"> <li>• Interest income</li> <li>• DST</li> </ul>	<b>Repeal exemption</b>	2.2
National Food Authority (PD 4, as amended by PD 1485)	Sec. 6 (a, xviii (2)): <ul style="list-style-type: none"> <li>• Interest income</li> <li>• Capital gains</li> <li>• DST</li> </ul>	<b>Repeal exemption</b>	1.0
Coconut Investment Company (RA 6260)	Sec. 5, (e): <ul style="list-style-type: none"> <li>• Interest income</li> <li>• DST</li> </ul>	<b>Repeal exemption</b>	0*

\*No available financial statement



# Special laws – Cooperative & basic sectors

Law	Tax type exempted	Proposal	Revenue impact on interest income (in PHP millions)
Philippine Cooperative Code of 2008 (RA 6938, as amended by RA 9520)	Art. 60 and 61: <ul style="list-style-type: none"> <li>• Interest income</li> <li>• Capital gains</li> <li>• DST</li> </ul>	<b>Repeal exemption</b>	0*
Credit Surety Fund Act of 2014 (RA 10744)	Sec. 9: <ul style="list-style-type: none"> <li>• Interest income</li> <li>• Capital gains</li> <li>• DST</li> </ul>	<b>Repeal exemption</b>	0*
Microfinance Non-Governmental Organizations (RA 10693)	Sec. 20: <ul style="list-style-type: none"> <li>• Preferential tax treatment of 2% of gross receipts</li> </ul>	<b>Repeal exemption</b>	0*

\*No available financial statement

# Special laws – OFW

Law	Tax type exempted	Proposal	Revenue impact on interest income (in PHP millions)
Overseas Workers' Investment (OWI) Fund Act (RA 7111)	Sec. 7: <ul style="list-style-type: none"> <li>Interest income</li> <li>DST</li> </ul>	<b>Repeal exemption</b>	0*
Overseas Workers Welfare Administration (RA 10801)	Sec. 56: <ul style="list-style-type: none"> <li>Interest income</li> <li>Capital gains</li> <li>DST</li> </ul>	<b>Repeal exemption</b>	151.6
Remittance of Overseas Filipino Workers (RA 8042, as amended by RA 10022)	Sec. 35: <ul style="list-style-type: none"> <li>DST</li> </ul>	<b>Retain exemption</b>	0

\*No available financial statement

**Total from special laws**

**PHP 10.9 billion**

**Grand total: Exemptions from NIRC and special laws**

**PHP 21.1 billion**

# Special laws – Non-banking sector

Law	Tax type exempted	Proposal	Revenue impact on interest income (in PHP millions)
Revised Non-Stock Savings and Loan Association of 1997 (RA 8367)	Sec. 5: <ul style="list-style-type: none"> <li>Interest income</li> </ul>	<b>Repeal exemption</b>	Imputed under FI's in revenue analysis
The Securitization Act of 2004 (RA 9267)	Sec. 28: <ul style="list-style-type: none"> <li>Capital gains</li> <li>DST</li> </ul>	<b>Repeal exemption</b> ( <b>sunset provision not applicable anymore</b> )	Imputed under FI's in revenue analysis

# Special laws – Banking sector

Law	Tax type exempted	Proposal	Revenue impact on interest income (in PHP millions)
Thrift banks (RA 7906)	Sec. 17: <ul style="list-style-type: none"> <li>• GRT</li> <li>• Interest income</li> <li>• Capital gains</li> <li>• DST</li> </ul>	<b>Repeal exemption*</b>	Imputed under FI's in revenue analysis
Cooperative banks (RA 6938, as amended by RA 9520)	Art. 60 and 61: <ul style="list-style-type: none"> <li>• Interest income</li> <li>• Capital gains</li> <li>• DST</li> </ul>	<b>Repeal exemption</b>	Imputed under FI's in revenue analysis

\*At present, there are no existing thrift banks qualified for the exemptions. To be able to qualify, the date of commencement of operations of the thrift banks should be 2013 and beyond.

# Special laws – Special purpose vehicles

Law	Tax type exempted	Proposal	Revenue impact on interest income (in PHP millions)
Special purpose vehicles that are organized as stock corporation in accordance with “The Corporation Code of the Philippines (RA 9182, as amended by RA 9343)	Sec. 15: <ul style="list-style-type: none"> <li>• Capital gains</li> <li>• DST</li> </ul>	<b>Repeal exemption (sunset)</b>	Imputed under FI’s in revenue analysis

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