

Republic of the Philippines
HOUSE OF REPRESENTATIVES
Quezon City, Metro Manila

NINETEENTH CONGRESS
Second Regular Session

HOUSE BILL NO. **8958**



Introduced by REP. JOEY SARTE SALCEDA

AN ACT
INSTITUTING REFORMS TO ENHANCE THE EFFICIENCY AND DYNAMISM OF
THE PHILIPPINE CAPITAL MARKETS, AMENDING FOR THE PURPOSE SECTIONS
24, 24, AND 127 OF THE NATIONAL INTERNAL REVENUE CODE, AS AMENDED

EXPLANATORY NOTE

This measure aims to boost the capital markets and the investment competitiveness of the Philippines, and create parity in the tax treatment of debt and stock securities by instituting the following:

- (1) Reduction of the stock transaction tax from 0.6% to 0.1%;
- (2) Imposition of the debt transaction tax of 0.1%, except for government securities; and
- (3) Reduction of the dividends tax to non-resident aliens from 25% to 10% to harmonize the cash and property dividends rate.

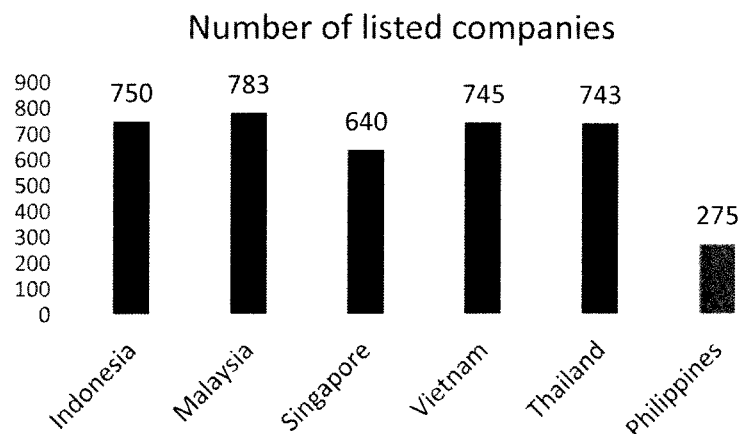
The rationale for these amendments is as follows:

(1) Immediate Reduction of the stock transaction tax from 0.6% to 0.1%. The Philippines currently imposes the highest stock transaction levies among all major economies in the ASEAN. As a result of this and other factors, the Philippine Stock Exchange index is also the worst performing stock market index among all ASEAN-6 countries. Reducing this to 0.1% will result in a reduction in revenues by P6.763 billion.

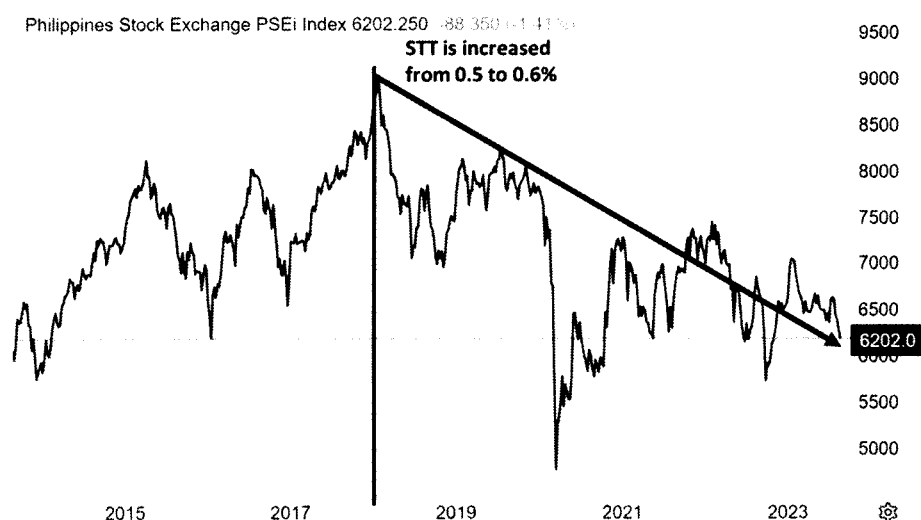
This has adverse effects on the strength of the country's pension and health insurance systems, because the Social Security System and the Philippine Health Insurance Corporation charters have strict investment policies that limit their equities exposure almost exclusively to Philippine index stocks.

It also affects the capacity of Philippine companies to raise money through the Philippine markets. In part because of high transaction costs, the Philippine Stock Exchange

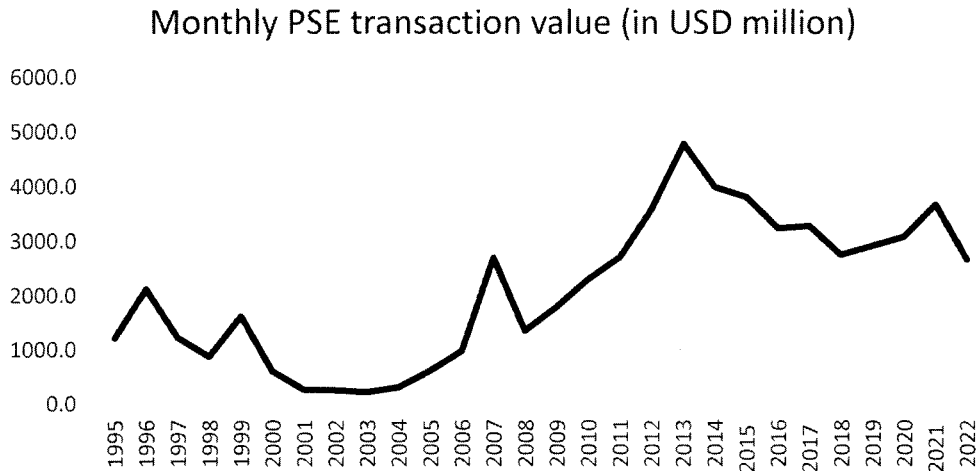
has the fewest listed companies of all ASEAN-6 economies, with just 275 listed companies, with the second lowest already being Singapore, with some 640 listed companies.



Since the stock transaction tax was increased from 0.5% to 0.6% of transaction value, the PSEi has declined by 29.83%.



(2) Reduction of the dividends tax to non-resident aliens from 25% to 10% to harmonize the cash and property dividends rate. Along with the stock transaction tax, higher dividends taxes on non-resident aliens discourage foreign buying of Philippine stocks, which, in turn, prevents price discovery. As a result, Philippine stocks stagnate in value. In fact, monthly transaction volume continues to be lower than 2012 levels in peso terms. In dollar terms, it matches 2007 levels. Reducing this to harmonize rates to 10% will result in a reduction of revenues by P5.097 billion.



(3) Imposition of the debt transaction tax – To promote parity between stock and debt instruments as means of capitalization, this measure imposes a debt transaction tax at a rate of 0.1% of the gross selling price of the instrument, in parity with the stock transaction tax. The measure will raise revenues by P2.035 billion.

The reform will result in a revenue loss of P9.825 billion, but will increase pension assets in the SSS and GSIS alone by at least P72.9 billion.

In view of the foregoing, the approval of this bill is urgently sought.



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SEC. 1. *Short title.* – This Act shall also be known as the “Capital Markets Efficiency Promotion Act.”

SEC. 2. Section 24 of the National Internal Revenue Code, as amended, is hereby further amended to read as follows:

“SEC. 24. Income Tax Rates. -

(A) Rates of Income Tax on Individual Citizen and Individual Resident Alien of the Philippines.-

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(B) Rate of Tax on Certain Passive Income: -

(1) Interests, Royalties, Prizes, and Other Winnings.

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(3) FINAL TAX ON LISTED AND TRADED DEBT INSTRUMENTS. - A FINAL TAX AT THE RATE OF ONE-TENTH OF ONE PERCENT (1/10 OF 1%) OF THE GROSS SELLING PRICE OR GROSS VALUE IN MONEY OF THE DEBT INSTRUMENT OR SECURITIES SOLD, BARTERED, EXCHANGED, OR OTHERWISE DISPOSED SHALL BE LEVIED, ASSESSED, AND COLLECTED ON EVERY SALE, BARTER, EXCHANGE, OR OTHER DISPOSITION OF DEBT INSTRUMENTS

AND OTHER SECURITIES, LISTED AND TRADED THROUGH A LOCAL EXCHANGE OR AN ORGANIZED MARKETPLACE, AND SHALL BE PAID BY THE SELLER OR TRANSFEROR: *PROVIDED*, THAT DEBT INSTRUMENTS ISSUED BY THE PHILIPPINE GOVERNMENT SHALL BE EXEMPT FROM THE TAX IMPOSED HEREIN. ”

SEC. 3. Section 25 of the National Internal Revenue Code, as amended, is hereby further amended, to read as follows:

“SEC. 25. *Tax on Nonresident Alien Individual. –*

(A) Nonresident Alien Engaged in trade or Business Within the Philippines. –

(1) In General. - A nonresident alien individual engaged in trade or business in the Philippines shall be subject to an income tax in the same manner as an individual citizen and a resident alien individual, on taxable income received from all sources within the Philippines. A nonresident alien individual who shall come to the Philippines and stay therein for an aggregate period of more than one hundred eighty (180) days during any calendar year shall be deemed a 'nonresident alien doing business in the Philippines'. Section 22 (G) of this Code notwithstanding.

*(2) [Cash and/or Property Dividends from a Domestic Corporation or Joint Stock Company, or Insurance or Mutual Fund Company or Regional Operating Headquarter or Multinational Company, or] Share in the Distributable Net Income of a Partnership (Except a General Professional Partnership), Joint Account, Joint Venture Taxable as a Corporation or Association, Interests, Royalties, Prizes, and Other Winnings. – [Cash and/or property dividends from a domestic corporation, or from a joint stock company, or from an insurance or mutual fund company or from a regional operating headquarter of multinational company, or t]The share of a nonresident alien individual in the distributable net income after tax of a partnership (except a general professional partnership) of which he is a partner, or the share of a nonresident alien individual in the net income after tax of an association, a joint account, or a joint venture taxable as a corporation of which he is a member or a co-venturer; interests; royalties (in any form); and prizes (except prizes amounting to Ten thousand pesos (P10,000.00) or less which shall be subject to tax under Subsection (B)(1) of Section 24) and other winnings (except winnings amounting to Ten thousand pesos (P10,000.00) or less from¹ Philippine Charity Sweepstakes Office (PCSO) games which shall be exempt); shall be subject to an income tax of twenty percent (20%) on the total amount thereof: *Provided, however*, That royalties on books as well as other literary works, and royalties on musical compositions shall be subject to a final tax of ten percent (10%) on the total amount thereof: *Provided, further*, That cinematographic films and similar works shall be subject to the tax provided under Section 28 of this Code: *Provided, furthermore*, That interest income from long-term deposit or investment in the form of savings, common or individual trust funds, deposit substitutes, investment management accounts and other investments evidenced by certificates in such form prescribed by the Bangko*

Sentral ng Pilipinas (BSP) shall be exempt from the tax imposed under this Subsection: Provided, finally, That should the holder of the certificate pre-terminate the deposit or investment before the fifth (5th) year, a final tax shall be imposed on the entire income and shall be deducted and withheld by the depository bank from the proceeds of the long-term deposit or investment certificate based on the remaining maturity thereof:

Four (4) years to less than five (5) years - 5%;

Three (3) years to less than four (4) years - 12%; and

Less than three (3) years - 20%.

(3) *Capital Gains.* - Capital gains realized from sale, barter or exchange of shares of stock in domestic corporations not traded through the local stock exchange, and real properties shall be subject to the tax prescribed under Subsections (C) and (D) of Section 24.

(B) *Nonresident Alien Individual Not Engaged in Trade or Business Within the Philippines.*- There shall be levied, collected and paid for each taxable year upon the entire income received from all sources within the Philippines by every nonresident alien individual not engaged in trade or business within the Philippines as interest, cash and/or property dividends, rents, salaries, wages, premiums, annuities, compensation, remuneration, emoluments, or other fixed or determinable annual or periodic or casual gains, profits, and income, and capital gains, a tax equal to twenty-five percent (25%) of such income. Capital gains realized by a nonresident alien individual not engaged in trade or business in the Philippines from the sale of shares of stock in any domestic corporation and real property shall be subject to the income tax prescribed under Subsections (C) and (D) of Section 24.”

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“(H) CASH AND/OR PROPERTY DIVIDENDS FROM A DOMESTIC CORPORATION OR JOINT STOCK COMPANY, OR INSURANCE OR MUTUAL FUND COMPANY OR REGIONAL OPERATING HEADQUARTER OR MULTINATIONAL COMPANY OF A NONRESIDENT INDIVIDUAL. CASH AND/OR PROPERTY DIVIDENDS FROM A DOMESTIC CORPORATION, OR FROM A JOINT STOCK COMPANY, OR FROM AN INSURANCE OR MUTUAL FUND COMPANY OR FROM A REGIONAL OPERATING HEADQUARTER OF MULTINATIONAL COMPANY TO A NONRESIDENT INDIVIDUAL SHALL BE SUBJECT TO AN INCOME TAX OF TEN PERCENT (10%) ON THE TOTAL AMOUNT THEREOF.”

SEC. 4. Section 127 of the National Internal Revenue Code, as amended, is hereby further amended to read as follows:

“SEC. 127. Tax on Sale, Barter or Exchange of Shares of Stock Listed and Traded through the Local Stock Exchange [or through Initial Public Offering]. –

(A) Tax on Sale, Barter or Exchange of Shares of Stock Listed and Traded through the Local Stock Exchange. – There shall be levied, assessed and collected on every sale, barter, exchange, or other disposition of shares of stock **OF A DOMESTIC CORPORATION** listed and traded through the local stock exchange, **OR LISTED AND TRADED IN BOTH A LOCAL AND FOREIGN STOCK EXCHANGE**, other than the sale by a dealer in securities, **IN LIEU OF CAPITAL GAINS TAX**, a tax at the rate of [six-tenths] **ONE-TENTH** of one percent ([6/10] **1/10** of 1%) of the gross selling price or gross value in money of the shares of stock sold, bartered, exchanged or otherwise disposed which shall be paid by the seller or transferor”

Approved,