

Republic of the Philippines
HOUSE OF REPRESENTATIVES
Quezon City

Nineteenth Congress
Second Regular Session

House Bill No. **9269**



Introduced by **Representative JOEY SARTE SALCEDA**

EXPLANATORY NOTE

This proposed legislation aims to rationalize the non-life insurance industry's tax burden, consistent with the overall direction of the government towards capital market efficiency.

Non-life insurance, particularly property and catastrophe insurance in the country, has among the highest tax burdens anywhere in the world, at almost 27.5% of the premium. This is policy suicide in a country that is considered the most exposed to natural risks, as indicated in the 2022 World Risk Index.

According to the World Bank, some estimations "place 60% of its land area and 74% of its population as exposed to numerous hazards, including floods, cyclones, droughts, earthquakes, tsunamis and landslides." The same estimates suggest that the country, on average, suffers USD 767 million in property damage from natural disasters annually.

As a result, Atlas Magazine estimates that the non-life insurance penetration rate in the Philippines is just 0.50%, compared to the 2.1% penetration rate in the rest of the Asia-Pacific Region.

Apart from a severe disincentive to good behavior, which is to ensure property in a high-risk nation, taxing premiums is also bad practice in accounting for risks.

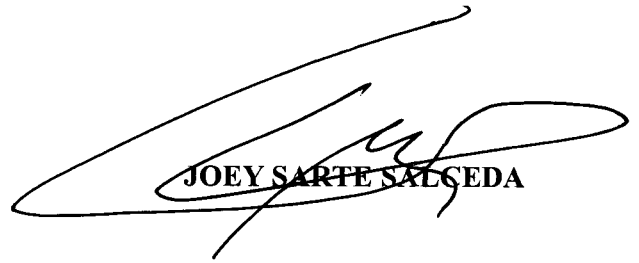
The International Monetary Fund says that "the difficulty with taxing premiums is that it does not take into account the different risks and income associated with different types of life insurance products¹." As such, a premium-based tax, as is the case in the Tax Code, appears to be contrary to the Constitution's requirement that taxation should be progressive.

Instead, taxing insurance based on the coverage presupposes risk calculations of the private sector, and thus allows for some equalization based on risks and income. Because

¹ Taxing the Financial Sector. (2004). INTERNATIONAL MONETARY FUND.
<https://doi.org/10.5089/9781589063167.071>

coverage is already the “equivalent unit” among differing insurance products, using the insurance coverage as the base for taxation also ensures progressivity in taxation.

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



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AN ACT
RATIONALIZING THE TAXES IMPOSED ON NON-LIFE INSURANCE
POLICIES, AMENDING FOR THIS PURPOSE SECTION 108, 123, 184, AND 185 OF
THE NATIONAL INTERNAL REVENUE CODE OF 1997, AS AMENDED

Be it enacted by the Senate and the House of Representatives of the Philippines in Congress assembled:

SECTION 1. Section 108 of the National Internal Revenue Code of 1997, as amended, is hereby amended to read as follows:

"Sec. 108. Value-Added Tax on Sales of Services and Use or Lease of Properties. -

(A) Rate and Base of tax. — xxx

The phrase "sale or exchange of services" means the performance of all kinds of services in the Philippines for others for a fee, remuneration or consideration, including those performed or rendered by construction and service contractors; stock, real estate, commercial, customs and immigration brokers; lessor of property, whether personal or real; warehousing services; lessor or distributors of cinematographic films person engaged in milling processing, manufacturing or repacking goods for others; proprietors, operators or keepers of hotels, motels, rest houses, pension houses, inn, resorts; proprietors or operators of restaurants, refreshment parlors, café and other eating places, including clubs and caterers; dealers in securities; lending investors; transportation contractors on their transport of goods and cargoes; including persons who transport goods or cargoes for hire and other domestic common carriers by land relative to their transport of passenger, goods or cargoes from one place in the Philippines to another place in the Philippines; sales of electricity by generation companies, transmission, and distribution companies; service of franchise grantees of electric utilities, telephone and telegraph, radio and television broadcasting and all other franchise grantees except those under Section 119 of this Code; services of banks, non-bank financial intermediaries and finance companies; [and non-life insurance companies (except their crop insurance), including surety, fidelity, indemnity and bonding companies;] and similar services regardless of whether or not the performance thereof calls for the exercise or use of the physical or mental faculties. xxx."

SEC. 2. Section 123 of the National Internal Revenue Code of 1997, as amended², is hereby further amended to read as follows:

"Sec. 123. Tax on **NON-LIFE AND** Life Insurance Premiums. — There shall be collected from every person, company or corporation (except purely cooperative companies or associations) doing **NON-LIFE AND** life insurance business of any sort in the Philippines a tax of two percent (2%) of the total premium collected, whether such premiums are paid in money, notes credits or any substitute for money; but premiums refunded within six (6) months after payment on account on rejection of risk or returned for other reason to a person insured shall not be included in the taxable receipts; nor shall any tax be paid upon reinsurance by a company that has already paid the tax; nor upon premiums collected or received by any branch of a domestic corporation, firm or association doing business outside the Philippines on account of any life insurance of the insured who is a nonresident, if any tax on such premium is imposed by the foreign country where the branch is established nor upon premiums collected or received on account of any reinsurance, **IF THE RISK INSURED AGAINST COVERS PROPERTY LOCATED OUTSIDE THE PHILIPPINES OR**, if the insured, in case of personal insurance, resides outside the Philippines, if any tax on such premiums is imposed by the foreign country where the original insurance has been issued or perfected; nor upon that portion of the premiums collected or received by the insurance companies on variable contracts (as defined in Section 232[2] of Presidential Decree No. 612), in excess of the amounts necessary to insure the lives of the variable contract workers.

Cooperative companies or associations are such as are conducted by the members thereof with the money collected from among themselves and solely for their own protection and not for profit."

SEC. 3. Section 184 of the National Internal Revenue Code of 1997, as amended, is hereby further amended to read as follows:

"SEC. 184. Stamp Tax on Policies of Insurance Upon Property. — On all policies of insurance or other instruments by whatever name the same may be called, by which insurance shall be made or renewed upon property of any description, including rent or profits, against peril by sea or inland waters, or by fire or lightning there shall be collected a **ONE-TIME** documentary stamp tax **AT THE FOLLOWING RATES:** [of Fifty centavos (P0.50) on each Four pesos (P4.00), or of fractional part thereof, of the amount premium charged:]

**IF THE AMOUNT OF INSURANCE DOES
NOT EXCEED PHP 100,000.00
EXEMPT-**

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**IF THE AMOUNT OF INSURANCE EXCEEDS
PHP 100,000.00 BUT DOES NOT EXCEED
PHP 300,000.00**

PHP 20.00

² As amended by R.A. No. 10001

**IF THE AMOUNT OF INSURANCE EXCEEDS
PHP 300,000.00 BUT DOES NOT EXCEED
PHP 500,000.00** **PHP 50.00**

**IF THE AMOUNT OF INSURANCE EXCEEDS
PHP 500,000.00 BUT DOES NOT EXCEED
750,000.00** **PHP**
100.00

**IF THE AMOUNT OF INSURANCE EXCEEDS
PHP 750,000.00 BUT DOES NOT EXCEED
150.00** **PHP**

**IF THE AMOUNT OF INSURANCE EXCEEDS
PHP 1,000,000** **PHP**
200.00]

Provider, however, That no documentary stamp tax shall be collected on reinsurance contracts or any instrument by which cession or acceptance of insurance risks under any reinsurance agreement is effected or recorded."

SECTION 4. Section 185 of the National Internal Revenue Code of 1997, as amended, is hereby amended further to read as follows:

"Sec. 185. Stamp on Fidelity Bonds and Other Insurance Policies. — On all policies of insurance or bonds or obligations of the nature of indemnity for loss, damages or liability made or renewed by any person, association, company or corporation transacting the business of accident, fidelity, employer's liability, plate, glass, steam boiler, burglar, elevator, automatic sprinkler, or other branch of insurance (except life marine, inland and fire insurance), and all bonds, undertakings, or recognizances, conditioned for the performance of the duties of any office or position, for the doing or not doing of anything therein specified, and on all obligations guaranteeing the validity or legality of any bond or other obligation issued by any province, city, municipality or other public body or organization, and on all obligations guaranteeing the title to any real estate or guaranteeing any mercantile credits which may be made or renewed by any such person, company, or corporation, there shall be collected a **ONE-TIME** documentary stamp tax **AT THE FOLLOWING RATES:** [of Fifty centavos (P0.50) on Four pesos (P4.00), or fractional part thereof, of the premium charged.]

**IF THE AMOUNT OF INSURANCE DOES
NOT EXCEED PHP 100,000.00** **EXEMPT**

**IF THE AMOUNT OF INSURANCE EXCEEDS
PHP 100,000.00 BUT DOES NOT EXCEED
PHP 300,000.00** **PHP 20.00**

**IF THE AMOUNT OF INSURANCE EXCEEDS
PHP 300,000.00 BUT DOES NOT EXCEED**

PHP 500,000.00

PHP 50.00

**IF THE AMOUNT OF INSURANCE EXCEEDS
PHP 500,000. BUT DOES NOT EXCEED
750,000.00**

PHP 100.00

**IF THE AMOUNT OF INSURANCE EXCEEDS
PHP 750,000.00 BUT DOES NOT EXCEED
PHP 1,000,000.00**

PHP 150.00

**IF THE AMOUNT OF INSURANCE EXCEEDS
P1,000,000.00**

P200.00

SEC. 5. Rules and Regulations. - The Secretary of Finance shall, upon recommendation of the Commissioner of Internal Revenue, promulgate the necessary rules and regulations for the effective implementation of the provisions of this Act.

SEC. 6. Separability Clause. — If any provision of this Act is held unconstitutional or invalid, all other provisions not affected thereby shall remain valid.

SEC. 7. Repealing Clause. — All laws, decrees, executive orders, rules and regulations, or part thereof which is inconsistent with this Act are hereby repealed, amended, or modified accordingly.

SEC. 8. Effectivity. — This Act shall take effect fifteen (15) days following the completion of its publication in the Official Gazette or in a newspaper of general circulation in the Philippines.

Approved,