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Stakeholders' Briefing on the Package 4 of the Comprehensive Tax Reform Program

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Department of Finance

1 March 2024

Goal of the Package 4 of the CTRP

Redesign financial sector taxation
to be **simpler, fairer, more efficient, and regionally more competitive.**

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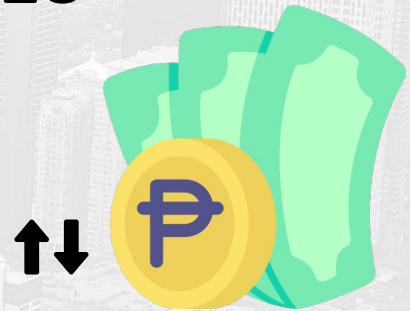
Goal of the Package 4 of the CTRP

Make general tax compliance easier and taxation equitable to **ensure progressivity**, **boost our tax effort**, and **increase tax trust**.

Draft for discussion. Subject to change.

Goal of the Refined DOF Proposal

- **Frontloading** the implementation of the **revenue-increasing provisions** in 2024
- **Backloading** some of the administration of **revenue-eroding provisions** in 2028 when the country is in a better fiscal position



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Problem 1: Multiple tax rates and bases make the tax structure very complicated, causing arbitrage and unfairness.

- **By product:** interest income, dividends, capital gains, banks, insurance, DST
- **By currency:** peso, foreign
- **By maturity:** short-term, long-term
- **By issuer:** RBU, FCDU
- **By taxpayer:** individual, corporate
- **By residency:** resident, non-resident
- **By business status:** engaged in business, not engaged in business
- Under special laws

Solution 1: Reduce the number of combination of tax rates and bases from 83 to 57.

Type of income/financial intermediaries/transactions	Current number of combination of tax rates and bases	Proposed number of combination of tax rates and bases
Total	**83**	**57**
A. Tax on passive income	**54**	**40**
1. Interest	19	10
2. Dividends	13	10
3. Capital gains/STT	12	11
4. Royalties	2	1
5. Prizes and other winnings	8	8
B. Tax on financial intermediaries	**8**	**5**
1. Banks and non-banks subject to GRT	5	2
2. FIs subject to premium tax	1	1
3. Other FIs subject to VAT	2	2
C. DST on financial transactions	**21**	**12**

Problem 2: Inequitable distribution of tax burden.

The rich enjoys lower tax rates than the poor.

Instrument	Poor	Rich
	Tax rate (percent)	Tax rate (percent)
Tax rate on peso interest income	20 (short)	0, 5, 12, 20 (long)
Tax rate on foreign currency deposits interest income	15*	15
Tax rate on a portfolio of investment (interest income, dividend, capital gains)	20	0, 10, 15, 20

* Typically does not invest

Solution 2: Harmonize the tax rates on interest income.

Proposed tax rate on interest income

Current:

1. Interest income from short-term deposits: subject to **20 percent**.
2. Interest income from long-term and foreign currency deposits, where the rich can invest their money, are generally subject to lower tax rates ranging from **0 to 15 percent**.

20%

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Solution 2: Lower the rate on royalties

Proposed tax rate on royalties

Resident / NRAETB / DC / RFC:

20%

NRANETB / NRFC:

25%

Same as Tax Code until 2027;

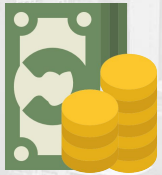
15%

in 2028

Solution 2: Harmonize the tax on dividends with the tax on interest income.

Proposed tax rate on dividend income

Resident Individuals	10%
Resident Corporations	0%
Non-resident Individuals	20%
Non-resident Foreign Corp	25%
NRAETB	20%



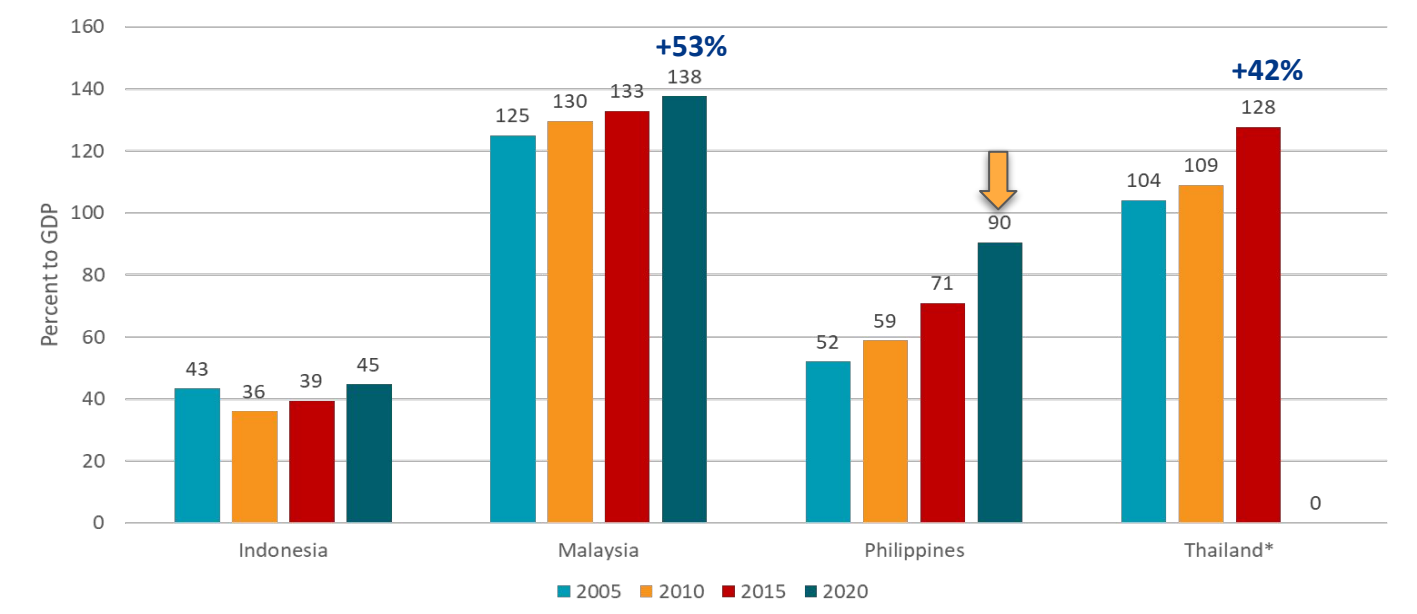
Same as Tax Code until 2027

10%

in 2028

Problem 3: Shallow equity and debt capital markets.

Broad money as a percent of GDP is among the lowest in the region, suggesting shallow capital markets.

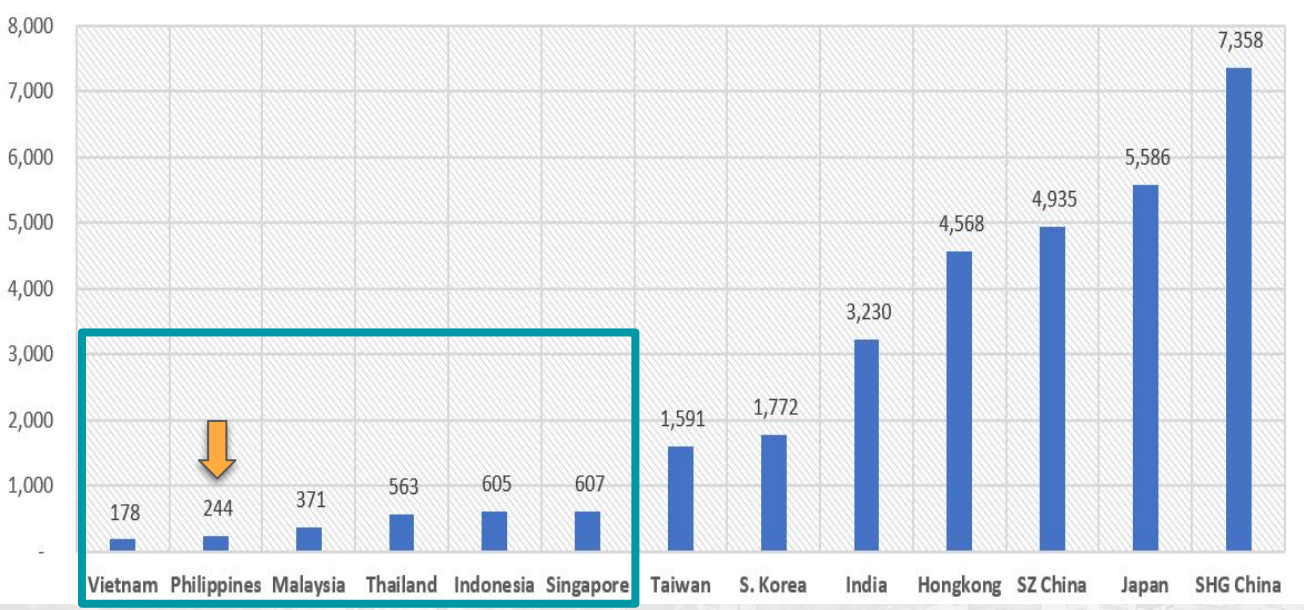


Note. Data gathered from World Bank
*2020 data for Thailand not available

Problem 3: Shallow equity and debt capital markets.

Current tax structure contributes to the shallow financial market of the country.

Market capitalization of listed domestic companies, May 2023 (in billion USD)



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Solution 3: Lower the tax rates on passive income, and harmonize the tax treatment between equity and debt

Proposed tax on sale of shares of stock of a domestic corporation in foreign stock exchange

Capital Gain Tax

15%

Stock Transaction Tax

2024 - 0.5%
2025 - 0.4%
2026 - 0.3%
2027 - 0.2%
2028 - 0.1%

To allow companies to expand sources of capital and to increase liquidity.

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Solution 3: Lower the tax rates on passive income, and harmonize the tax treatment between equity and debt

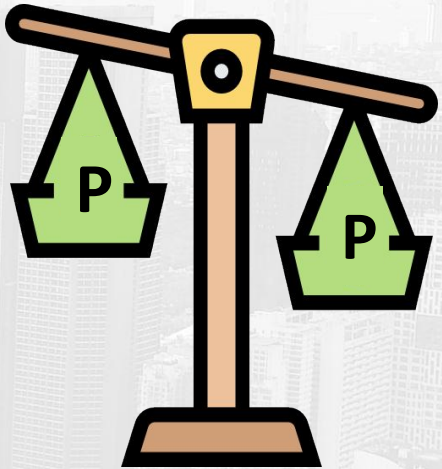
Proposed documentary stamp tax on original issues of shares of stock

Debt Instruments	0.75	no change →	0.75
Original shares of stock	1.0	reduced to →	0.75

Problem 4: Uneven playing field among financial institutions.

Gives advantage to certain sectors

1. Non-lending income of **banks and quasi-banks** subject to **7 percent** but **other FIs** subject to **5 percent.**
2. Lending income of banks and other FIs from **long-term instruments** are subject to **1 percent** while **short-term instruments** are subject **5 percent.**



Solution 4: Equalize the tax treatment for all FIs.

Proposed gross receipts tax for banks and quasi banks

1%
5%
7%

→

5%

To simplify the business tax for banks and quasi-banks, a harmonized flat rate of 5 percent on gross receipts will be levied on lending income and other income.

Problem 5: Unequal treatment for insurance products with similar nature.

Gives advantage to certain sectors.

1. **Life insurance premium** is subject to **2 percent premium tax,** but **pre-need** contribution is subject to **12 percent VAT**.

2. **Life insurance** levied graduated and **fixed DST with P200 as maximum** but **non-life insurance** levied **12.5 percent DST**.

Solution 5: Harmonize the rates for life and health insurance, and non-life insurance.

Summary of proposed tax on life, health, HMO, and pre-need insurance

2% premium tax on life and health;

12% VAT on HMO and pre-need

→

2% premium tax on life, health, HMO, and pre-need

To encourage participation on insurance products, a 2 percent premium tax will be applied on HMO, pre-need and pension plans, which will make it similar to life and health insurance. **Premium tax is appropriate since these products are more of investment, not consumption.**

Problem 6: High friction cost due to DSTs.

Summary of issues on DST:

1. Not all DST rates are expressed in ad valorem (%) form.
2. DSTs on debt and equity instruments vary.
3. Non-life insurance products have high and varying DST rates.
4. Fees on domestic money transfers are subject to DST.
5. There are multiple DSTs with low revenue take.

Solution 6: Generally harmonize, rationalize or lower the rates on DST.

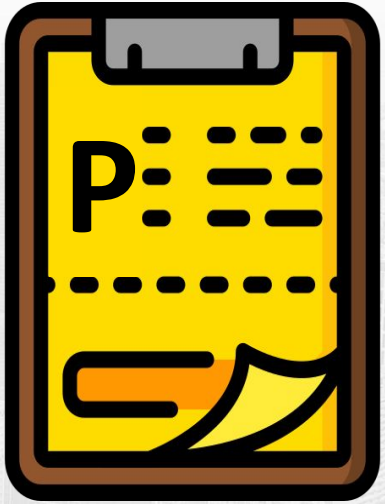
Problem	Solution	Example
1. Not all DST rates are expressed in ad valorem (%) form.	**1. Express all DST rates in ad valorem (%).**	**Sec. 179 (debt instruments)** Current: P1.50 on each P200, or fractional part thereof Proposed: 0.75% (no increase in rate)
2. DSTs on debt and equity instruments vary.	**2. Equate DST on debt and equity.**	**Sec. 174 and 179 (original shares of stock and debt instruments)** Current: 1% and 0.75% Proposed: harmonized at 0.75% (lower for equity, same for debt)
3. Non-life insurance products have high and varying DST rates.	**3. Unify all non-life insurance rates and lower them gradually.**	**Sec. 184, 185, and 187 (non-life insurance)** Current: 12.5% and 7.5% Proposed: harmonized and gradually lower at 7.5%
4. Fees on domestic money transfers are subject to DST.	**4. Remove DST on domestic money transfer fees to support financial inclusion.**	**Sec. 180 (bills of exchange domestic to domestic)** Current: 0.3% Proposed: Same as Tax Code until 2027, Removed in 2028
5. There are multiple "nuisance" DSTs with low revenue take.	**5. Remove provisions with low revenue take.**	**Sec. 192 and 193 (proxies and powers of attorney)** Current: P5 and P 10 Proposed: P 0

Problem 7: High administrative and compliance cost.

1. **Tedious and costly to check** applicable taxes and remaining maturity every time, especially given bank secrecy law.

2. **Prone to tax calculation errors**.

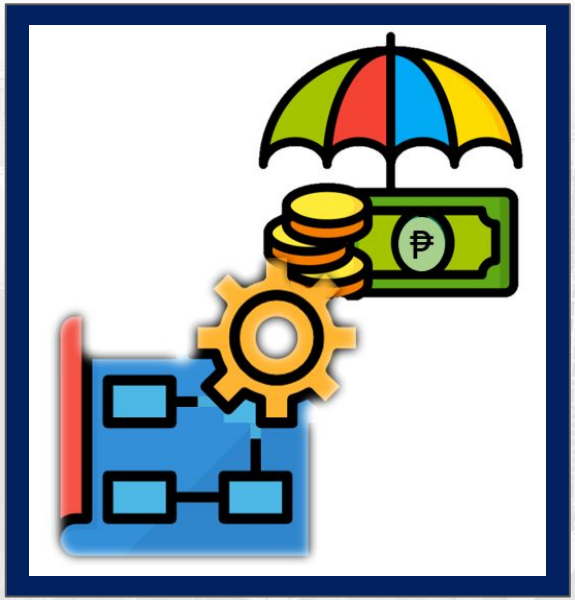
3. **Opportunity for tax avoidance and evasion**.



Solution 7: Reduce administrative and compliance cost by simplifying tax policy.

1. **Equal tax treatment** regardless of maturity, currency, and/or instrument will **ease tax compliance and reduce tax calculation errors.**

2. The above will also **reduce the opportunity for tax arbitrage, avoidance, and evasion**.



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Removal of pick-ups from the exemption of excise tax on automobiles

- Pick-up trucks were granted special tax treatment under the TRAIN Law for their utility as **workhorses for small business owners and professionals in their livelihood**. However, the Department of Trade and Industry observed that **manufacturers modify pick-up trucks to serve as passenger, leisure, or sports utility vehicles**.

EXEMPT

removed

Rates are based on the net manufacturing price or importer's price which is as follows:

P600,000 and below	**0.05%**
Above P600,000 to P1 million	**10%**
Above P1 million to P4 million	**20%**
Above P4 million	**50%**

- Removes the inequity and counter the adverse impact of such exemption in the automobile industry
- Further supports our carbon reduction goals in our commitments to the Paris Agreement

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Preliminary Revenue Implications of Various P4 Proposals

Particulars	HB 4339						Original DOF Proposal						Refined DOF Proposal					
	Q3 2024	2025	2026	2027	2028	Total	Q3 2024	2025	2026	2027	2028	Total	Q3 2024	2025	2026	2027	2028	Total
Tax on passive income	6.0	9.0	7.8	5.7	2.5	31.0	1.8	-5.4	-16.3	-29.3	-45.2	-94.3	1.9	1.7	0.7	-0.5	-11.1	-7.3
Tax on financial intermediaries	2.5	6.9	7.9	9.2	10.6	37.1	2.5	6.9	7.9	9.2	10.6	37.1	2.5	6.9	7.9	9.2	10.6	37.1
Tax on financial transactions (DST)	-7.2	-17.4	-20.6	-24.3	-28.3	-97.8	-4.1	-10.3	-12.7	-15.2	-18.1	-60.4	-1.6	-4.7	-6.3	-8.1	-17.3	-38.1
Excise tax on pick-ups	2.9	6.4	7.1	7.9	8.7	33.0	2.9	6.4	7.1	7.9	8.7	33.0	2.9	6.4	7.1	7.9	8.7	33.0
Prospectivity	-1.6	-4.1	-4.8	-5.6	-6.5	-22.6	-1.6	-1.5	-0.3	1.4	3.6	1.6	-1.6	-4.1	-4.8	-5.6	3.6	-12.5
TOTAL	**2.5**	**0.8**	**-2.6**	**-7.1**	**-12.9**	**-19.3**	**1.6**	**-3.9**	**-14.2**	**-26.1**	**-40.4**	**-83.0**	**4.0**	**6.1**	**4.6**	**2.9**	**-5.4**	**12.2**

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Thank you!

Stakeholder's Briefing on the Package 4 of the CTRP

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1 March 2024

Summary of Proposed Tax Rates under Package 4

Taxes on Passive Income

Type of Tax	HB 4339	Old DOF Proposal (October 2023)	Refined DOF Proposal (February 2024)
1. Interest income [Secs. 24(B)(1), 25(A)(2), 25(B), 27(D)(1), 28(A)(7), 28(B)(1)]	20% regardless of the maturity or term, issuer, and currency Revenue (2024-2028): P30.8B	15% Revenue (2024-2028): -P109.3B	**20%** Revenue (2024-2028): P30.8B
a. Savings Deposits	20% Revenue (2024-2028): -P0.1B	Gradual reduction by 1% until it reaches 15% in 2028 Revenue (2024-2028): -P13.5B	**20%** Revenue (2024-2028): -P0.1B
b. Time Deposits	20% Revenue (2024-2028): P22.8B	Gradual reduction by 1% until it reaches 15% in 2028 Revenue (2024-2028): -P3.7B	**20%** Revenue (2024-2028): P22.8B
c. FCDUs	20% Revenue (2024-2028): P5.4B	Gradual reduction by 1% until it reaches 15% in 2028 Revenue (2024-2028): P3.3B	**20%** Revenue (2024-2028): P5.4B

Note: Green-filled cells contain differing provisions

Summary of Proposed Tax Rates under Package 4

Taxes on Passive Income

Type of Tax	HB 4339	Old DOF Proposal (October 2023)	Refined DOF Proposal (February 2024)
d. Deposit Substitutes	20% Revenue (2024-2028): -P1.2B	Gradual reduction by 1% until it reaches 15% in 2028 Revenue (2024-2028): -P2.8B	**20%** Revenue (2024-2028): -P1.2B
e. Long-term Negotiable Certificate of Deposits	20% Revenue (2024-2028): P3.8B	Gradual reduction by 1% until it reaches 15% in 2028 Revenue (20204-2028): P2.1B	**20%** Revenue (2024-2028): P3.8B
f. Treasury bills/bonds	20% Exempt from tax on interest income and gains from the transfer of project-specific bonds Revenue (2024-2028): P0.0B	Gradual reduction by 1% until it reaches 15% in 2028 Exempt from tax on interest income and gains from the transfer of project-specific bonds Revenue (2024-2028): -P75.6B	**20%** **Exempt from tax on interest income and gains from the transfer of project-specific bonds** Revenue (2024-2028): P0.0B

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Summary of Proposed Tax Rates under Package 4

Taxes on Passive Income

Type of Tax	HB 4339	Old DOF Proposal (October 2023)	Refined DOF Proposal (February 2024)
g. Corporate bonds/ commercial bonds	20% Revenue (2024-2028): P0.0B	Gradual reduction by 1% until it reaches 15% in 2028 Revenue (2024-2028): -P19.1B	**20%** Revenue (2024-2028): P0.0B
2. Royalties [Secs. 24(B)(1), 25(A)(2), 25(B), 27(D)(1), 28(A)(7), 28(B)(1)]	2024 – 19% 2025 – 18% 2026 – 17% 2027 – 16% 2028 – 15% Revenue (2024-2028): -P6.6B	2024 – 19% 2025 – 18% 2026 – 17% 2027 – 16% 2028 – 15% Revenue (2024-2028): -P6.6B	**Same as Tax Code until 2027** **15% in 2028** Revenue (2028): -P2.7B
3. Prizes and Other Winnings [Secs. 24(B)(1), 25(A)(2)]	2024 – 19% 2025 – 18% 2026 – 17% 2027 – 16% 2028 – 15% Prizes amounting to P10,000 or less: PIT Revenue (2024-2028): -P8.6B	Same as Tax Code	**Same as Tax Code**

Summary of Proposed Tax Rates under Package 4

Taxes on Passive Income

Type of Tax	HB 4339	Old DOF Proposal (October 2023)	Refined DOF Proposal (February 2024)
4. PCSO Winnings [Secs. 24(B)(1), 25(A)(2)]	10% P10,000 or less: Exempt Revenue (2024-2028): -P6.2B	Same as Tax Code	**Same as Tax Code**
5. Dividend income [Secs. 24(B)(2), 25(A)(2), 25(B), 28(A)(6)(d), 28(B)(1)]	15% Revenue (2024-2028): P50.4B	15% Revenue (2024-2028): P50.4B	**Same as Tax Code until 2027** **10% in 2028** Revenue (2024-2028): -P6.6B
6. Stock Transaction Tax (Sec. 127(A))	2024 – 0.5% 2025 – 0.4% 2026 – 0.3% 2027 – 0.2% 2028 – 0.1% Insertion of "OR LISTED AND TRADED IN BOTH A LOCAL AND FOREIGN STOCK EXCHANGE" (double listing). Revenue (2024-2028): -P28.7B		

Note: Green-filled cells contain differing provisions

Summary of Proposed Tax Rates under Package 4

Taxes on Financial Intermediaries & Excise Tax on Pick-ups

Type of Tax	HB 4339	Old DOF Proposal (October 2023)	Refined DOF Proposal (February 2024)
1. Gross Receipts Tax (GRT) on banks and non-banks (Sec. 121)	5% of gross receipts from both lending and non-lending activities, regardless of maturity Revenue (2024-2028): P27.2 billion (GRT on banks, non-banks, and NBFIs)		
2. GRT on other non-bank financial intermediaries (Sec. 122)	5% Revenue (2024-2028): P27.2 billion (GRT on banks, non-banks, and NBFIs)		
3. GRT on lending investors [Sec. 108 (A)]	5% GRT Revenue (2024-2028): -P1.4B		
4. VAT on HMOs, pre-need, and pension funds (Sec. 123)	2% premium tax Revenue (2024-2028): -P0.6 billion		
1. Excise Tax on Pick-ups	Removed the exemption. The prevailing rates under the NIRC will apply. 4% to 50% depending on the net manufacturer's price/importer's selling. Revenue (2024-2028): P33B		

Note: Green-filled cells contain differing provisions

Summary of Proposed Tax Rates under Package 4

Taxes on Financial Transactions

Type of Tax	HB 4339	Old DOF Proposal (October 2023)	Refined DOF Proposal (February 2024)
1. Original issue of certificate of stocks (Sec. 174)	0.75% Revenue (2024-2028): -P13.1 billion		
2. Sales, agreements to sell, memoranda of sales, deliveries or transfer of shares of or certificates of stock (Sec. 175)	Removed DST Revenue (2024-2028): -P2.6B	Removed DST Revenue (2024-2028): -P2.6B	**Same as Tax Code until 2027, Removed in 2028** Revenue (2028): -P769M
3. Bonds, debentures, certificates of stock or indebtedness issued in any foreign country (Sec. 176)	0.75%		
4. Certificate of profits or interest of property or accumulations (Sec. 177)	Removed DST Revenue (2024-2028): -P17.01M		
5. Bank checks, drafts, certificates of deposit not bearing interest and other instruments (Sec. 178)	Removed DST Revenue (2024-2028): -P3.0B	Removed DST Revenue (2024-2028): -P3.0B	**Same as Tax Code**

Note: Green-filled cells contain differing provisions

Summary of Proposed Tax Rates under Package 4

Taxes on Financial Transactions

Type of Tax	HB 4339	Old DOF Proposal (October 2023)	Refined DOF Proposal (February 2024)
6. Debt instruments (Sec. 179)	0.75%		
7. All bills of exchange or drafts (Sec. 180)	Removed DST Revenue (2024-2028): -P1.2B	Removed DST Revenue (2024-2028): -P1.2B	**Same as Tax Code until 2027, Removed in 2028** Revenue (2028): -P308M
8. Upon acceptance of bills of exchange and others (Sec. 181)	0.30%		
9. Foreign bills of exchange and letters of credit (Sec. 182)	0.30%		
10. Life insurance policies (Sec. 183)	No change in the tax rate. Transferred policies of annuities from Sec. 186. Revenue (2024-2028): -P1 thousand	No change in the tax rate. Transferred policies of annuities and pre-need plans from Sec. 186. Revenue (2024-2028): P0.3B	**No change in the tax rate.** **Transferred policies of annuities and pre-need plans from Sec. 186.** Revenue (2024-2028): P0.3B

Note: Green-filled cells contain differing provisions

Summary of Proposed Tax Rates under Package 4

Taxes on Financial Transactions

Type of Tax	HB 4339	Old DOF Proposal (October 2023)	Refined DOF Proposal (February 2024)
11. Policies of insurance upon property (Sec. 184)	2024 – 11.5% 2025 – 10.5% 2026 – 9.5% 2027 – 8.5% 2028 – 7.5% Revenue (2024-2028): -P16.1B		
12. Fidelity bonds and other insurance policies (Sec. 185)	2024 – 11.5% 2025 – 10.5% 2026 – 9.5% 2027 – 8.5% 2028 – 7.5% Revenue (2024-2028): -P1.4B		
13. Policies of annuities and pre-need plans (Sec. 186)	Transferred policies of annuities to Sec. 183 Policies of Pre-need: 0.2% Revenue (2024-2028): -P8 thousand	Transferred to life insurance policies (Sec. 183) Revenue (2024-2028): -P0.3B	**Transferred to life insurance policies (Sec. 183)** Revenue (2024-2028): -P0.3B

Note: Green-filled cells contain differing provisions

Summary of Proposed Tax Rates under Package 4

Taxes on Financial Transactions

Type of Tax	HB 4339	Old DOF Proposal (October 2023)	Refined DOF Proposal (February 2024)
14. Indemnity bonds (Sec. 187)	7.5%		
15. Certificates (Sec. 188)	Removed DST Revenue (2024-2028): -P8.1B	Removed DST Revenue (2024-2028): -P8.1B	**Same as Tax Code until 2027, Removed in 2028** Revenue (2028): -P2.3B
16. Jai-alai, Horse-Racing Tickets, Lotto or Other Authorized Number Games (Sec. 190)	Same as Tax Code		
17. PCSO Lotto Tickets (Sec. 190)	10% Revenue (2024-2028): -P37.4B	Same as Tax Code	**Same as Tax Code**
18. Proxies for voting in any elections (Sec. 192)	Removed DST Revenue (2024-2028): -P1.4M		
19. Powers of attorney (Sec. 193)	Removed DST Revenue (2024-2028): -P72 thousand		

Note: Green-filled cells contain differing provisions

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Summary of Proposed Tax Rates under Package 4

Taxes on Financial Transactions

Type of Tax	HB 4339	Old DOF Proposal (October 2023)	Refined DOF Proposal (February 2024)
20. Mortgages, pledges and deed of trust (Sec. 195)	0.3% Revenue (2024-2028): -P14.8B	0.3% Revenue (2024-2028): -P14.8B	Same as Tax Code 0.3% in 2028 Revenue (2024-2028): -P4.0B
21. Assignments and renewals of certain instruments (Sec. 198)	Same rate as imposed on the original document for renewals of instruments. Removed DST on assignments on certain instruments. Revenue (2024-2028): -P9.1M		

Note: Green-filled cells contain differing provisions