

1                                   **Republic of the Philippines**  
2                                   **HOUSE OF REPRESENTATIVES**  
3                                   **Quezon City**

4  
5                                   **FIFTEENTH CONGRESS**  
6                                   First Regular Session

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8                                   House Bill \_\_\_\_\_  
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11                                   Introduced by  
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15                   **AN ACT AMENDING CERTAIN PROVISIONS OF THE NATIONAL INTERNAL**  
16                   **REVENUE CODE OF 1997, AS AMENDED, AND PRESIDENTIAL DECREE NO.**  
17                   **1185 OTHERWISE KNOWN AS THE FIRE CODE OF THE PHILIPPINES, AND**  
18                   **FOR OTHER PURPOSES**  
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21                   *Be it enacted by the Senate and House of Representatives of the Philippines in Congress*  
22 *assembled:*  
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25                                   **ARTICLE I**  
26                                   **GENERAL PROVISIONS**  
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28                   **SEC. 1. *Short Title.*** – This Act shall be known as “*The Financial Sector Tax Neutrality*  
29 *Act of 2007.*”  
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31                   **SEC. 2. *Declaration of Policy.*** – It is the policy of the State to promote an efficient and  
32 neutral taxation system of financial institutions and instruments that level the playing field for  
33 equivalent instruments issued by different financial institutions to encourage savings and develop  
34 the general capital market.  
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36                   **SEC. 3.** Section 22 (Y) of the National Internal Revenue Code, as amended, shall be  
37 further amended to exclude from the definition of deposit substitutes reverse repurchase  
38 agreements entered into by and between the Bangko Sentral ng Pilipinas (BSP) and any  
39 authorized agent bank, as follows:

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(Y) The term "*deposit substitutes*" shall mean an alternative form of obtaining funds from the public (the term 'public' means borrowing from twenty (20) or more individual or corporate lenders at any one time) other than deposits, through the issuance, endorsement, or acceptance of debt instruments for the borrowers own account, for the purpose of relending or purchasing of receivables and other obligations, or financing their own needs or the needs of their agent or dealer. These instruments may include, but need not be limited to bankers' acceptances, promissory notes, repurchase agreements, [including reverse repurchase agreements entered into by and between the Bangko Sentral ng Pilipinas (BSP) and any authorized agent bank], certificates of assignment or participation and similar instruments with recourse: Provided, however, That debt instruments issued for interbank call loans with maturity of not more than five (5) days to cover deficiency in reserves against deposit liabilities, including those between or among banks and quasi-banks, shall not be considered as deposit substitute debt instruments.

**SEC. 4.** A uniform tax rate of ten percent (10%) shall be imposed upon the amount of interest income derived by individual citizens and individual resident aliens from any currency bank deposit and yield or any other monetary benefit from deposit substitutes and from trust funds and similar arrangements. The uniform final tax rate of ten percent (10%) shall apply to interest income derived by an individual taxpayer (except a nonresident individual) from a depository bank under the expanded foreign currency deposit system and to 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). For this purpose, Section 24 of the National Internal Revenue Code, as amended, is hereby further amended as follows:

SEC. 24. *Income Tax Rates.* -

(A) x x x

71 (B) *Rate of Tax on Certain Passive Income on Individual Citizens and Individual Resident*  
72 *Aliens.*

73 (1) *Interests, Royalties, Prizes, and Other Winnings.* - A final tax at the rate of [twenty  
74 percent (20%)] **TEN PERCENT (10%)** is hereby imposed upon the amount of interest  
75 from any currency bank deposit and yield or any other monetary benefit from deposit  
76 substitutes and from trust funds and similar arrangements; royalties, except on books, as  
77 well as other literary works and musical compositions, which shall be imposed a final  
78 tax of ten percent (10%); prizes (except prizes amounting to Ten thousand pesos  
79 (P10,000) or less which shall be subject to tax under Subsection (A) of Section 24; and  
80 other winnings (except Philippine Charity Sweepstakes and Lotto winnings), derived  
81 from sources within the Philippines.

82 [Provided, however, That interest income received by an individual taxpayer (except a  
83 nonresident individual) from a depository bank under the expanded foreign currency  
84 deposit system shall be subject to a final income tax at the rate of seven and one-half  
85 percent (7 1/2%) of such interest income;

86 [Provided, further, That interest income from long-term deposit or investment in the  
87 form of savings, common or individual trust funds, deposit substitutes, investment  
88 management accounts and other investments evidenced by certificates in such form  
89 prescribed by the Bangko Sentral ng Pilipinas (BSP) shall be exempt from the tax  
90 imposed under this Subsection: Provided, finally, That should the holder of the  
91 certificate pre-terminate the deposit or investment before the fifth (5<sup>th</sup>) year, a final tax  
92 shall be imposed on the entire income and shall be deducted and withheld by the  
93 depository bank from the proceeds of the long-term deposit or investment certificate  
94 based on the remaining maturity thereof:

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

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

98 Less than three (3) years - 20%]  
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100           **SEC. 5.** A uniform tax rate of ten percent (10%) shall be imposed upon the amount of  
101 interest income derived by domestic and resident foreign corporations from any currency bank  
102 deposit and yield or any other monetary benefit from deposit substitutes and from trust funds and  
103 similar arrangements. The uniform final tax rate of ten percent (10%) shall apply to interest  
104 income derived by a domestic corporation and resident foreign corporation from a depository  
105 bank under the expanded foreign currency deposit system.

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107           **SEC. 6.** Domestic and resident foreign banks and non-bank financial intermediaries  
108 performing quasi-banking functions shall not be subject to the final tax on interest imposed under  
109 Sec. 27 (D) (1), and 28 (7)(a) respectively. Interest derived by such domestic and resident  
110 foreign banks and non-bank financial intermediaries performing quasi-banking functions shall  
111 form part of their gross income.

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113           **SEC. 7.** To effect Sections 5 and 6 of this Act, Sections 27 and 28 of the National  
114 Internal Revenue Code, as amended, is hereby further amended as follows:

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116           SEC. 27. *Rates of Income tax on Domestic Corporations.* -

117           (A) x x x

118           (D) *Rates of Tax on Certain Passive Incomes.* -

119           1) *Interest from Deposits and Yield or any other Monetary Benefit from Deposit Substitutes and*  
120 *from Trust Funds and Similar Arrangements, and Royalties.* - A final tax at the rate of  
121 [twenty percent (20%)] **TEN PERCENT (10%)** is hereby imposed upon the amount of  
122 interest on currency bank deposit and yield or any other monetary benefit from deposit  
123 substitutes and from trust funds and similar arrangements received by domestic  
124 corporations, and royalties, derived from sources within the Philippines:

125           [Provided, however, That interest income derived by a domestic corporation from a  
126 depository bank under the expanded foreign currency deposit system shall be subject to  
127 a final income tax at the rate of seven and one-half percent (7 1/2%) of such interest  
128 income.]

129           x x x

130 PROVIDED, HOWEVER, THAT INTEREST INCOME OF BANKS AND NON-  
131 BANK FINANCIAL INTERMEDIARIES PERFORMING QUASI-BANKING  
132 FUNCTIONS DERIVED FROM REPURCHASE AGREEMENTS, DEPOSIT  
133 SUBSTITUTES, AND SECURITIES SHALL NOT BE CONSIDERED PASSIVE  
134 INCOME UNDER THIS SECTION, AND SHALL INSTEAD FORM PART OF THEIR  
135 GROSS CORPORATE INCOME TAX UNDER SEC. 27 (A).

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137 *Sec. 28. Rates of Income Tax on Foreign Corporations. -*

138 (1) x x x

139 (7) *Tax on Certain Incomes Received by a Resident Foreign Corporation. -*

140 (a) *Interest from Deposits and Yield or any other Monetary Benefit from Deposit Substitutes,*  
141 *Trust Funds and Similar Arrangements and Royalties. -* Interest from any currency bank  
142 deposit and yield or any other monetary benefit from deposit substitutes and from trust  
143 funds and similar arrangements and royalties derived from sources within the  
144 Philippines shall be subject to a final income tax at the rate of [twenty percent (20%)]  
145 **TEN PERCENT (10%)** of such interest:

146 [Provided, however, That interest income derived by a resident foreign corporation from  
147 a depository bank under the expanded foreign currency deposit system shall be  
148 expanded foreign currency deposit system shall be subject to a final income tax at the  
149 rate of seven and one-half percent (7 1/2%) of such interest income.]

150 PROVIDED, HOWEVER, THAT INTEREST INCOME OF BANKS AND NON-  
151 BANK FINANCIAL INTERMEDIARIES PERFORMING QUASI-BANKING  
152 FUNCTIONS DERIVED FROM REPURCHASE AGREEMENTS, DEPOSIT  
153 SUBSTITUTES, AND SECURITIES SHALL NOT BE CONSIDERED PASSIVE  
154 INCOME UNDER THIS SECTION, AND SHALL INSTEAD FORM PART OF THEIR  
155 GROSS CORPORATE INCOME TAX SEC. 28 (A) (1).

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157 **SEC. 8.** Section 34 of the National Internal Revenue Code, as amended, is hereby further  
158 amended as follows:

160 SEC. 34. *Deductions from Gross Income*

161 (A) x x x

162 (B) *Interest.-*

163 (1) In General. - The amount of interest paid or incurred within a taxable year on  
164 indebtedness in connection with the taxpayer's profession, trade or business shall be  
165 allowed as deduction from gross income: Provided, however, That the taxpayer's  
166 otherwise allowable deduction for interest expense shall be reduced by an amount equal  
167 to the following percentages of the interest income subjected to final tax:

168 Forty-one percent (41%) beginning January 1, 1998;

169 Thirty-nine percent (39%) beginning January 1, 1999;

170 Thirty-eight percent (38%) beginning January 1, 2000;

171 **SEVENTY ONE PERCENT (71%) BEGINNING \_\_\_\_\_ ; AND**

172 **SIXTY SEVEN PERCENT (67%) BEGINNING JANUARY 1, 2009**

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174 **SEC. 9:** Section 37 of the National Internal Revenue Code, as amended, shall be further  
175 amended as follows:

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177 SEC. 37. *Special Provisions Regarding Income and Deductions of Insurance Companies,*  
178 *Whether Domestic or Foreign. -*

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180 x x x

181 **SEC. 37.1: SPECIAL PROVISIONS REGARDING INCOME AND DEDUCTIONS OF**  
182 **BANKS AND QUASI-BANKS.**

183 **IN THE CASE OF INTEREST INCOME AND TRADING GAINS OF BANKS AND**  
184 **NON-BANK FINANCIAL INSTITUTIONS EXERCISING QUASI-BANKING**  
185 **FUNCTIONS DERIVED FROM REPURCHASE AGREEMENTS, DEPOSIT**  
186 **SUBSTITUTES, AND SECURITIES, ALL FINAL WITHHOLDING TAXES PAID ON**  
187 **SUCH INSTRUMENTS, IF ANY, ANY ACCRUED INTEREST, AND OTHER COSTS**

188           **OF OBTAINING THE INSTRUMENT MAY BE DEDUCTED FROM THEIR GROSS**  
189           **INCOME.**

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191           **SEC. 10.** The seven percent (7%) gross receipts tax on net trading gains of banks and  
192 financial intermediaries under Sec. 121 (d) of the National Internal Revenue Code is hereby  
193 abolished. Net trading gains derived by banks and non-bank financial intermediaries from  
194 foreign currency, debt securities, derivatives, and other financial instruments shall form part of  
195 their gross income.

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197           **SEC. 11.** Sec. 122 of the National Internal Revenue Code, as amended, is hereby further  
198 amended, as follows:

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200           SEC. 122. *Tax on Finance Companies.* -

201           There shall be collected a tax of five percent (5%) on the gross receipts derived by all  
202 finance companies, as well as by other financial intermediaries not performing quasi-  
203 banking functions done business in the Philippines, from interest, discounts and all  
204 other items treated as gross income under this Code:

205           **PROVIDED, HOWEVER, THAT GROSS RECEIPTS DERIVED FROM FINANCIAL**  
206 **AND OPERATING LEASES BY FINANCE COMPANIES AND FINANCIAL**  
207 **INTERMEDIARIES, WHETHER OR NOT PERFORMING QUASI-BANKING**  
208 **FUNCTIONS, SHALL BE SUBJECT TO VALUE ADDED TAX ACCORDING SEC.**  
209 **108 (A)(8), AND SHALL CONFORM TO BIR GUIDELINES TO BE ISSUED ON THE**  
210 **PROPER USE OF INPUT VAT CREDITS.**

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212           **SEC. 12.** Sec, 123 of the National Internal Revenue Code, as amended is hereby further  
213 amended, as follows:

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215           SEC. 123. *Tax on Life Insurance Premiums.* -

216           There shall be collected from every person, company or corporation (except purely  
217 cooperative companies or associations) doing life insurance business of any sort in the

218 Philippines a tax of [~~five percent (5%)~~] **TWO PERCENT (2%)** of the total premium  
219 collected, whether such premiums are paid in money, notes, credits or any substitute for  
220 money; x x x

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222 **SEC. 123 (A). TAX ON PRE-NEED COMPANIES. -**  
223 **THERE SHALL BE COLLECTED FROM EVERY PHILIPPINE PRE-NEED**  
224 **COMPANY OR CORPORATION PHILIPPINES A TAX OF TWO PERCENT (2%) OF**  
225 **THE TOTAL PREMIUM OR TOTAL CONTRIBUTION COLLECTED, WHETHER**  
226 **SUCH PREMIUMS OR CONTRIBUTIONS ARE PAID IN MONEY, NOTES,**  
227 **CREDITS OR ANY SUBSTITUTE FOR MONEY; BUT PREMIUMS OR**  
228 **CONTRIBUTIONS REFUNDED OR RETURNED WITHIN SIX (6) MONTHS AFTER**  
229 **PAYMENT TO THE PURCHASER OF A PRE-NEED PLAN SHALL NOT BE**  
230 **INCLUDED IN THE TAXABLE RECEIPTS.**

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232 **SEC. 13.** The tax on the sale, barter, or exchange of shares of stock traded through  
233 initial public offering under Sec. 27 (B) of the National Internal Revenue Code is hereby  
234 repealed. For this purpose, Section 127 of the National Internal Revenue Code, as amended, is  
235 hereby further amended, as follows:

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237 *SEC. 127. Tax on Sale, Barter or Exchange of Shares of Stock Listed and Traded Through The*  
238 *Local Stock Exchange [or Through Initial Public Offering].*

239 (A) x x x  
240 [(B) Tax on Shares of Stock Sold or Exchanged Through Initial Public Offering. - There  
241 shall be levied, assessed and collected on every sale, barter, exchange or other  
242 disposition through initial public offering of shares of stock in closely held corporations,  
243 as defined herein, a tax at the rates provided hereunder based on the gross selling price  
244 or gross value in money of the shares of stock sold, bartered, exchanged or otherwise  
245 disposed in accordance with the proportion of shares of stock sold, bartered, exchanged  
246 or otherwise disposed to the total outstanding shares of stock after the listing in the local  
247 stock exchange x x x x]

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(C) *Return on Capital Gains Realized from Sale of Shares of Stocks.* -

(1) *Return on Capital Gains Realized from Sale of Shares of Stock Listed [and Traded in the Local Stock Exchange].* - It shall be the duty of every stock broker who effected the sale subject to the tax imposed herein to collect the tax and remit the same to the Bureau of Internal Revenue within five (5) banking days from the date of collection thereof and to submit on Mondays of each week to the secretary of the stock exchange, of which he is a member, a true and complete return which shall contain a declaration of all the transactions effected through him during the preceding week and of taxes collected by him and turned over to the Bureau Of Internal Revenue.

[(2) Return on Public Offerings of Share Stock. - In case of primary offering, the corporate issuer shall file the return and pay the corresponding tax within thirty (30) days from the date of listing of the shares of stock in the local stock exchange. In the case of secondary offering, the provision of Subsection (C)(1) of this Section shall apply as to the time and manner of the payment of the tax.]

**SEC. 14.** The temporary exemption of the sale, barter or exchange of shares of stock listed and traded through the local stock exchange from documentary stamp tax is hereby made permanent. For this purpose, Section 199 of the National Internal Revenue Code, as amended, is hereby further amended, as follows:

*Sec. 199. Documents and Papers Not Subject to Stamp Tax.* - The provisions of Section 13 to the contrary notwithstanding, the following instruments, documents, and papers shall be exempt from the documentary stamp tax:

(a) x x x

(e) Sale, barter or exchange of shares of stock listed and traded through the local stock exchange [for a period of five (5) years from the effectivity of this Act].

276           **SEC. 15.** Sec. 13 (b) (4) of Presidential Decree No. 1185, otherwise known as the Fire  
277 Code of the Philippines is hereby repealed.

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279           **SEC. 16. *Prospectivity Clause*** - The uniform final tax rate of ten percent (10%) imposed  
280 on interest income provided Sections 5, 6, and 7 of this Act shall apply to repurchase  
281 agreements, deposit substitutes, and securities issued after the effectivity of this Act.

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283           **SEC. 17. *Repealing Clause***. – All laws, executive orders, rules and regulations, and parts  
284 thereof which are inconsistent with this Act are hereby repealed or amended accordingly.

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286           **SEC. 18. *Separability Clause***. – If for any reason any article or provision of this Act or  
287 any portion thereof or application of such article, provision, or portion thereof to any person,  
288 group, or circumstance is declared invalid or unconstitutional, the remainder of this Act shall not  
289 be affected by such decision.

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291           **SEC. 19. *Effectivity Clause***. – This Act shall take effect fifteen (15) days after its  
292 complete publication in the *Official Gazette* or in at least two (2) newspapers of general  
293 circulation, whichever comes earlier.

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295           Approved:

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