

13TH CONGRESS OF THE REPUBLIC )  
OF THE PHILIPPINES )  
First Regular Session )

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SENATE

S. BILL NO. 1340

Introduced by Senator Ralph G. Recto

**Explanatory Note**

The Family Income and Expenditure Survey of 2000 revealed that families belonging to the lowest 20% income cannot live on their earnings alone and had to resort to borrowing in order to afford life's basic necessities. The same is true for those in the second decile. Only those in the third to tenth deciles are able to save. However, compared with the 1997 survey, families from the middle and high-income earners posted significant declines in their saving capability. The drop in savings ranged from 8.2% (6th decile) to 80.1% (4th decile). The richest 10% of the population were likewise adversely affected by the economic downturn as these families saved 11.2% less in 2000.

At a time of growing uncertainty brought about by political instability, peace and order problems, social unrest and a seemingly endless economic slump, the importance of the saying, "Save for the rainy day." comes to reality.

However, the Philippines' savings rate of 24.7% relative to GDP, as compared to Thailand's 30.5%, China's 38.7%, Malaysia's 41.8% and Singapore's 44.2% is one of the lowest among the ASEAN countries.

Aside from the bleak over-all economic outlook, bolstered by a continuing decline in the interest rates of time and savings deposits, our country's low savings rate may have been caused by the exodus of prospective bank depositors who pursued other means of earning higher interest for their hard-earned money. We are already familiar with a number of these get-rich-quick schemes which are offered by lending and investment companies providing interest rates of as high as 5-10 % monthly. Needless to say, such rates are more attractive compared with what banks currently offer. Unfortunately, some of these companies are masquerading as legal investment companies when their actual operations include pyramiding schemes.

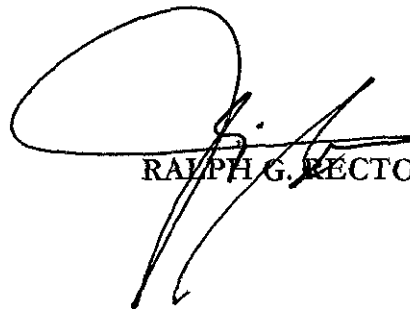
Like all pyramid schemes, there will come a time when the investing public lured by high returns on their investments end up being duped as the expected yield from their investments fail to be redeemed. Such cases have led to the discovery of a number of financial scams involving billions of pesos of investors' money. But, we cannot blame ordinary depositors who respond to these luxurious offers as banks could only offer an average annual interest rate of 4.3% and 7.4% for time deposits with maturities of less than 360 days and more than 360 days, respectively. Time deposits on the other hand, earn only an average of 3.6% for the period December 2002.

With this information on the savings behavior of families in the country based on their respective income level, the generally low savings ratio and the continuing decline in the interest rates being offered by our savings institutions, it is imperative that government should find alternative and effective means of encouraging its citizens to improve their saving capabilities.

In order to entice depositors to invest their hard-earned money in the form of bank deposits which are considered to be the safer mode of investment, and in order to spur economic activity, this bill seeks to lower the interest income tax on bank deposits from 20% to 10%.

This measure effectively increases the interest income of bank deposits by 50%. This would be a most welcome incentive not only to depositors who are desperately trying to make ends meet, but also to banks which are faced with the challenges of financial liquidity within their system.

In view of the foregoing, immediate passage of this bill is earnestly sought.



RAIPH G. RECTO

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SENATE

**1340**

S. BILL NO. \_\_\_\_\_

**Introduced by Senator Ralph G. Recto**

AN ACT  
REDUCING THE TAX ON INTEREST INCOME, AMENDING FOR THE  
PURPOSE THE NATIONAL INTERNAL REVENUE CODE, AS AMENDED

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

1 SECTION 1. Section 24 (B) (1) of the National Internal Revenue Code, as  
2 amended is hereby amended to read as follows:

3 "SEC. 24. Income Tax Rates. —

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

5 (1) Interests, Royalties, Prizes, and Other Winnings. — A final tax at the rate  
6 of **TEN** [twenty] percent (10%) [(20%)] is hereby imposed upon the amount of  
7 interest from any currency bank deposit and yield or any other monetary benefit  
8 from deposit substitutes and from trust funds and similar arrangements;  
9 **TWENTY PERCENT (20%) ON** royalties, except on books, as well as other  
10 literary works and musical compositions, which shall be imposed a final tax of ten  
11 percent (10%); **TWENTY PERCENT (20%) ON** prizes (except prizes  
12 amounting to Ten thousand pesos (P10,000) or less which shall be subject to tax  
13 under Subsection (A) of Section 24; and **TWENTY PERCENT (20%) ON** other  
14 winnings (except Philippine Charity Sweepstakes and Lotto winning), derived from  
15 sources within the Philippines: *Provided, however,* That interest income received by an  
16 individual taxpayer (except a nonresident individual) from a depository bank under  
17 the expanded foreign currency deposit system shall be subject to a final income tax  
18 at the rate of seven and one-half percent (7 ½%) of such interest income: *Provided,*

1        *further*, That interest income from long-term deposit or investment in the form of  
2        savings, common or individual trust funds, deposit substitutes, investment  
3        management accounts and other investments evidenced by certificates in such form  
4        prescribed by the Bangko Sentral ng Pilipinas (BSP) shall be exempt from the tax  
5        imposed under this Subsection: Provided, finally, That should the holder of the  
6        certificate pre-terminate the deposit or investment before the fifth (5th) year, a final  
7        tax shall be imposed on the entire income and shall be deducted and withheld by  
8        the depository bank from the proceeds of the long-term deposit or investment  
9        certificate based on the remaining maturity thereof:

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

11                Three (3) years to less than four (4) years – 12% and

12                Less than three (3) years – 20%.

13        SEC. 2. *Implementing Rules and Regulations.* – Within ninety (90) days from the  
14        effectivity of this Act, the Department of Finance, the Bureau of Internal Revenue  
15        and the Bangko Sentral ng Pilipinas shall formulate the necessary rules and  
16        regulations to implement the provisions of this Act. The rules and regulations  
17        issued pursuant to this section shall take effect fifteen (15) days after its publication  
18        in a newspaper of general circulation.

19        Sec. 3. *Separability Clause.* – If any provision of this Act is held unconstitutional or  
20        invalid, all other provisions not affected thereby shall remain valid.

21        Sec. 4. *Repealing Clause.* – All laws, decrees, executive orders, rules and regulations or  
22        parts thereof, which are inconsistent with this Act, are hereby repealed, amended or  
23        modified accordingly.

24        Sec. 5. *Effectivity.* – This Act shall take effect fifteen (15) days following its  
25        publication in the Official Gazette or in two (2) newspapers of general circulation.

26        *Approved,*