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SENATE BILL NO. 3181

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Introduced by Senator EDGARDO J. ANGARA

EXPLANATORY NOTE

This bill seeks to remove the documentary stamp tax and tax on the premiums for life insurance.

The underlying principle behind this proposed legislation is that life insurance is practically a savings vehicle for an individual and, the imposition of a tax on this type of insurance serves to increase the cost of savings thereby diminishing its attractiveness as an economic method for long-term saving accumulation.

The premium paid on a life insurance policy consists of two major components: (1) the insurance component or the amount necessary to cover the cost of pure insurance protection; (2) the investment component or the amount that is added to the policy reserve which the insurer invests. The latter represents the accumulated savings in the form of cash values to be returned to the policyholder upon maturity of the policy or at the time it is surrendered for cash. Hence, the higher the number of the policy holders or the amount of insurance coverage, the higher the amount of savings that can be accumulated by the insurance industry. Higher savings mean more investments that translate to higher economic growth.

From the equity point of view, the savings portion of the insurance policy is inevitably taxed since the premium tax is applied on gross premiums. This places savings in the form of insurance policies at a disadvantage compared to other forms of savings particularly those generated by the banking industry. It is to be pointed out that in case of bank deposits, only the interest income on the amount deposited is taxed.

Any tax policy should preferably be neutral. This means that a tax policy should not cause anyone industry or product to have undue economic gain over the other. The present tax treatment of life insurance makes the banking system a more attractive option for placement of savings.

Likewise, heavy taxes serve as a disincentive to buy life insurance products. Comparatively speaking, the Philippines is the only country in the Southeast Asia which charges a five-percent (5%) tax on the yearly premium for life insurance policies. This is over and above the additional taxes imposed on the earnings of the policyholder's long-term savings with the insurance company, such as a 20% tax on interest income.

Thus, by removing the premium tax on the life insurance policies and annuities, this measure will strengthen the life insurance industry, promote its ability to generate long-term funds for the economy and as a consequence, it would also address the unequal tax treatment of the various forms of savings.

On the other hand, the current method of imposition of the documentary stamp tax on life insurance requires a fixed percentage of premium every time premiums are paid which effectively is an add-on premium tax.

It may well be that the practice of other jurisdictions and several ASEAN countries like Singapore, Indonesia and Malaysia be adopted where a one-time fixed but nominal tax is imposed regardless of the value of the insurance policy.

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




EDGARDO J. ANGARA
Senator

FOURTEENTH CONGRESS OF
THE REPUBLIC OF THE PHILIPPINES
SECOND REGULAR SESSION

OFFICE OF THE SECRETARY
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S E N A T E

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SENATE BILL NO. 3181

Introduced by SENATOR EDGARDO J. ANGARA

AN ACT GRANTING TAX RELIEF TO THE LIFE INSURANCE INDUSTRY BY ABOLISHING THE DOCUMENTARY STAMP TAX AND PREMIUM TAX ON LIFE INSURANCE, REPEALING FOR THIS PURPOSE SECTIONS 123 AND 183 AND AMENDING FURTHER SECTION 199 OF THE NATIONAL INTERNAL REVENUE CODE, AS AMENDED.

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

Section 1. Section One Hundred Twenty Three (123) of the National Internal Revenue Code as amended, otherwise known as the Tax Reform Act, is hereby repealed.

Sec. 2. No tax on life insurance premiums shall be collected after the effectivity of this Act. Premiums that shall be paid and collected from previously issued policies by insurance companies after the effectivity of this act shall no longer be subject to the premium tax.

Sec. 3. Section One Hundred Eighty Three (183) of the National Internal Revenue Code, as amended by Republic Act No. 9243, is hereby repealed.

Sec. 4. Section One Hundred Ninety-Nine (199) of the National Internal Revenue Code, as amended by Republic Act No. 9243, is hereby further amended to read as follows:

“SEC. 199 *Documents and Papers Not Subject to Stamp Tax.* — The provisions of Section 173 to the contrary notwithstanding, the following instruments, documents and papers shall be exempt from the documentary stamp tax:

xxx

(o) On all policies of insurance or other instruments by whatever name the same may be called, whereby any insurance shall be made or renewed upon any life or lives.”

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

Sec. 6. Repealing Clause. All laws, decrees, executive orders, letters of instructions, rules and regulations or parts thereof which are inconsistent with this Act are hereby repealed, amended or modified accordingly.

Sec. 7. Effectivity. This Act shall take effect fifteen days following the completion of its publication in the Official Gazette or in a newspaper of general circulation in the Philippines.

Approved.