

THIRTEENTH CONGRESS OF THE)
REPUBLIC OF THE PHILIPPINES)
First Regular Session)

SECRETARY

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SENATE

S.B. NO. 1016

Introduced by Senator JINGGOY EJERCITO ESTRADA

EXPLANATORY NOTE

A major factor that gives impetus to the development of the life insurance industry is the reduction of the premium tax on life insurance. In the US, for instance, where our tax laws are basically patterned, the premium tax, which is a state imposition, is pegged at two percent (2%) and that the proceeds are used by the regulatory body to strengthen the industry.

The proposed reduction in premium tax would bring down the cost of insurance protection which can be passed on to the policy holders in the form of lower premium or higher insurance coverage with the same amount of premium. Lower rates, in turn, encourage new or additional insurance coverage.

It is to noted that 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 part as savings in the form of cash values to be returned to the policy holder upon maturity of the policy or at 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 the 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, not on the amount deposited, is taxed. The reduction of the premium tax would somehow mitigate the unequal tax treatment of the various forms of savings.

Since the proposed reduction of the premium tax applies to new policies only, that is, life insurance policies issued after the effectivity of the law adopting the reduced rates, the estimated revenue loss would only amount to P 138.85 million per annum instead of P 442.78 million if the reduction applies even to the existing policies or P 737.93 million in the case of total abolition of the premium tax.

The proposed reduction of the premium tax from five percent (5%) to two percent (2%) would still ensure a steady source of revenue for the government.

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



JINGGOY EJERCITO ESTRADA
Senator

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AN ACT
REDUCING THE TAX INSURANCE PREMIUM UNDER CERTAIN CONDITIONS,
AMENDING FOR THIS PURPOSE SECTION 123 OF THE NATIONAL INTERNAL
REVENUE CODE, AS AMENDED

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

SECTION 1. Section 123 of the National Internal Revenue Code, as amended, is hereby further amended to read as follows:

SEC 123. Tax on Life Insurance Premiums. – There shall be collected from every person, company or corporation (except purely cooperative companies or associations) doing life insurance business of any sort in the Philippines a tax of [five percent (5%)] **TWO PERCENT (2%)** of the total premium collected, whether such premiums refunded within (6) months after payment of account of 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 non-resident, 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 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 premium 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 association 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.”

SECTION 2. The new rate of two percent (2%) shall apply only on insurance policies that will be issued after the effectivity of this Act. Premiums that shall be paid and collected from previously issued policies by insurance companies shall continue to imposed a tax of five percent (5%) on gross premiums collected.

SECTION 3. 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.

SECTION 4. *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.

SECTION 5. *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,