
Introduced by Senator Loren Legarda

EXPLANATORY NOTE

Proclamation No. 1059 of 1997 acknowledged the role of the life insurance industry as a major contributor to the social and economic development of our country, particularly in the government's thrust to generate meaningful long-term savings. However, the current tax burden on the industry hampers the maximization of the industry's potential to benefit the country in the long-term.

The Philippines is the only country in Southeast Asia which charges a five-percent (5%) tax on the yearly premium for life insurance policies, which may be viewed as a tax on capital or savings. 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.

International standards uphold that any tax policy should preferably be neutral. Neutrality means that a tax policy should not cause any one industry or product to have undue economic gain over the other. The tilted taxation makes the banking system a more attractive option for placement of savings. The five-percent (5%) premium tax is imposed on the gross premium received by the insurance companies, a large portion of which comprise of savings. In contrast, no gross receipts tax is imposed on savings deposits in banks.

Life insurance taxation must also take into account the additional social and economic benefits from the industry based on global experience. A study by the Swiss Reinsurance company covering ten OECD (Organization for Economic Cooperation and Development) countries found a significant negative relationship between social expenditures and life insurance premiums, providing that life insurance may substitute for declining state-provided social security programs. In addition, life insurance mobilizes savings in long-term instruments, which is a condition for economic development.

This bill seeks to reduce the five-percent (5%) premium tax on gross premium received by the insurance companies to two percent (2%). Giving this tax concession will not only address the issue of tax neutrality among the products of financial institutions, but also provide the much-needed long-term capital mobilization and formation to gear up for economic growth.

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


LOREN LEGARDA
Senator

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

SENATE
S.B. No. 2117

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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 House of Representatives of the Philippines in 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 to 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 be imposed a tax of five percent (5%) on gross premiums collected.

SECTION 3. 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.

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,