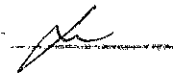


FOURTEENTH CONGRESS OF THE )  
REPUBLIC OF THE PHILIPPINES )  
Second Regular Session )

8 JUL 30 P 3:14

SENATE

RECEIVED BY: 

S. B. No. 2497

**Introduced by Senator Edgardo J. Angara**

**EXPLANATORY NOTE**

The bill seeks to permanently exempt the sale, barter or exchange of shares of stock listed and traded through the local stock exchange from the documentary stamp tax or DST under the National Internal Revenue Code of 1997 (the "Tax Code"). Republic Act No. 9243, "An Act Rationalizing the Provisions on the Documentary Stamp Tax under the National Internal Revenue Code of 1997, as Amended, and for Other Purposes", suspended for a period of five (5) years the imposition of the DST on the sale, barter or exchange of shares of stock listed and traded through the local stock exchange. The period of suspension of the DST will expire in March of 2009.

Trading friction costs should be eliminated to attract foreign investments and encourage domestic trading activity. The Philippines ranks among the highest in the region in terms of trading friction costs given the high stock transaction tax of 0.50% imposed on the gross transaction value of trades through the Philippine Stock Exchange. At a time when the avowed objective is to stimulate economic activity in the market, any additional friction cost will provide a major disincentive against investments, thereby making our goal of enhancing liquidity and turnover in the stock market more difficult to achieve.

A financial sector taxation study, *Financial Sector Taxation Policy Discussion and Recommendations (Second Module)* ("Fintax"), dated June 30, 2007 and prepared by Dr. Felipe M. Medalla, *et. al.*, for the Capital Market Development Council contains the recommendation that the sale, barter or exchange of stocks listed in the stock exchange should be permanently exempted from DST in consideration of the following: (a) in a neutral tax system, transaction taxes (e.g., DST), including those not so named but having the same effect, are discouraged whereas consumption taxes, which encourage savings, are favored; and (b) "the Philippines has the highest transaction cost for transfers of shares as compared to Hong Kong, Thailand and Singapore" resulting in no improvement in the volume of transactions in the stock exchange. The Fintax study concluded that, in the absence of any movement in the stock exchange transactions, any abolition of taxes would improve stock exchange conditions at "little revenue loss".

Studies and simulations conducted by the Philippine Stock Exchange show that a re-imposition of the DST of P0.75 for every P200 par value on the secondary trading through the stock exchange of shares of stock will effectively result in investors paying an additional 8 to 11 basis points (charged on buyers) per trade in the stock exchange, given the DST to be collected in relation to the value traded through the stock exchange for the years 2005 to 2007.

The urgent passage of the proposed measure is earnestly requested.

  
**EDGARDO J. ANGARA**  
Senator

8 JUL 30 P3:44

SENATE

S. B. No. 2497

RECEIVED BY: 

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**Introduced by Senator Edgardo J. Angara**

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**AN ACT**

**EXEMPTING FROM DOCUMENTARY STAMP TAX ANY SALE, BARTER OR EXCHANGE OF SHARES OF STOCK LISTED AND TRADED THROUGH THE STOCK EXCHANGE, FURTHER AMENDING FOR THE PURPOSE SECTION 199 OF THE NATIONAL INTERNAL REVENUE CODE OF 1997, AS AMENDED BY REPUBLIC ACT NO. 9243, AND FOR OTHER PURPOSES**

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

3 SECTION 1. Section 199 of the National Internal Revenue Code of 1997, as amended  
4 by Republic Act No. 9243, is hereby further amended to read as follows:

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

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

10 SECTION 2. Implementing Rules and Regulations. — The Secretary of Finance shall  
11 promulgate and publish the necessary rules and regulations for the effective enforcement  
12 of this Act.

13 SECTION 3. Separability Clause. — If any provision of this Act is held  
14 unconstitutional or invalid, all other provisions not affected thereby shall remain valid.

15 SECTION 4. Repealing Clause. — All laws, decrees, executive orders, rules and  
16 regulations or parts thereof, which are inconsistent with this Act, are hereby repealed,  
17 amended or modified accordingly.

18 SECTION 5. Effectivity. — This Act shall take effect fifteen (15) days following its  
19 publication in the Official Gazette or in two (2) newspapers of general circulation.

20 Approved: