



LEGISLATIVE RESEARCH SERVICE
QUICK NOTES
Second Regular Session, 19th Congress

3rd Public Hearing
Committee on Ways and Means

Chairperson: Sen. Win Gatchalian

12 February 2024, Monday, 10:00 AM, Laurel and Pecson Rooms, Senate

Re: Passive Income and Financial Intermediary Taxation Act (PIFITA)

- **S. No. 900—Sen. Pia S. Cayetano**
- **S. No. 1347—Sen. Win Gatchalian**
- **S. No. 1364—Sen. Jinggoy Ejercito Estrada**
- **S. No. 1848—Sen. Raffy T. Tulfo**
- **H. No. 4339—Reps. J. Salceda, M.A. Suansing, et.al.**

Background

- The Committee on Ways and Means conducted its second public hearing on January 29, 2024. The Committee discussed the effects of the proposed measure on various sectors and the overall economy of the country.
- Following the conclusion of the previous hearing, the Chairperson directed the different government agencies and stakeholders to submit their comments and position papers on the various issues raised during the hearing.

Highlights of the 2nd Public Hearing

- Chairperson Win Gatchalian pointed out that the goal of PIFITA is to simplify and grow the market size. Proponents of the measure believe that if the market size increases, there will be more revenues and, therefore, more taxes to be collected. This will offset the negative revenue impact of the proposal.¹
- The National Tax Research Center (NTRC) provided the Committee with an overview of the current status of the Philippine debt and equity markets, as well as the insurance industry, in comparison to neighboring countries. Additionally, they presented information on the country's existing tax rates on various

¹ Paraphrased from the TSN of the 2nd Public Hearing of the Committee on Ways and Means, January 29, 2024, p. 10

financial aspects, including interest income, dividends, royalties, stock transaction tax, life insurance products, documentary stamp tax, among others.²

- The NTRC also identified how PIFITA could help address the concerns of the industry players:
 - ⇒ Reduction of the stock transaction tax from 0.6% to 0.1%
 - ⇒ imposition of the lower stock transaction tax on double-listed domestic corporations rather than the 15% capital gains tax;
 - ⇒ reduction of the documentary stamp tax on the original issue of SOS from 1% to 0.75%;
 - ⇒ removal of DST on secondary transfers on unlisted SOS;
 - ⇒ exemption from the tax interest income and gains from project-specific bonds issued by the government;
 - ⇒ shifting the tax of pre-need, annuities, pension funds, and HMO products from the 12% VAT to 2% premium tax;
 - ⇒ retention of 12% VAT imposed on non-life insurance products; and
 - ⇒ gradually reduction by 1% the DST on all non-life insurance products from its current 12.5% to 7.5%³
- Responding to the Chairperson's inquiry, Finance Usec. Karlo Fermin Adriano said the government will gain an additional revenue of around P290 billion from 2024 to 2028.⁴
- Mr. Edwin Bustillos of the Philippine Cooperative Center requested that the cooperative banks be exempted in the proposal, justifying that financial intermediaries and cooperatives are already covered under the Revenue Code and the Local Government Code.⁵
- Atty. Eric Recalde of the Philippine Insurers and Reinsurers Association (PIRA) said that the imposition of premium tax on property insurers and reinsurers would be catastrophic for them. He believes that the VAT treatment of property insurers should remain and that the intended shift to premium tax, be limited to HMOs and pension/pre-need plans.⁶
- Mr. Rafael Amparo from the Rural Bankers Association of the Philippines (RBAP) pointed out that eliminating the preferential treatment of withholding taxes on interest for deposits and loans exceeding five years serves as a disincentive for banks to offer long-term loans. This, in turn, diminishes their inclination to provide more loans to the housing and real estate sectors.⁷
- Atty. Benjamin Gorospe III of the International Container Terminal Services believed that the withholding tax on dividends declared to individuals should be maintained at 10% instead of raising it to 15%; a reduction from 20% to 15% on

² Ibid., pp. 15-20

³ Paraphrased from the TSN of the 2nd Public Hearing of the Committee on Ways and Means, January 29, 2024, pp. 17-21

⁴ Ibid., p. 30

⁵ Ibid., p. 37

⁶ Ibid., pp. 43-44

⁷ Ibid., p. 49

the withholding tax on interest to foreign loans would be beneficial to banking and private sectors; and intercompany loans, especially funding coming from a parent company to its subsidiary, should not be subject to DST, or that the DST should be reduced to a considerable percentage.⁸

- Mr. Francisco Dizon of the Chamber of Thrift Banks pointed out that the 20% proposed tax on long-term deposits would significantly reduce the day-to-day expenses of retirees and senior citizens who rely on the income they get from long-term deposits.⁹
- Ms. Maria Luisa Tengco from the National Housing Authority emphasized that they should retain their exemption from DST. She argued that subjecting them to DST would result in additional expenses, ultimately reducing the number of planned housing units per project. Additionally, Tengco expressed concern that passing on the cost to NHA beneficiaries would impose an additional burden on them.¹⁰
- Regarding the proposed excise tax on pickup trucks, Mr. Adriano of the DOF clarified that the ‘single cab—single chassis’ would still be exempted from the excise tax.¹¹

Possible Points for Discussion

- Data on the number of senior citizens who put their money on long-term deposits;
- Simulation of the effects of tax on interest income, dividends, and capital gains on commuter fares;
- Simulation on the effect of the repealed exemptions on housing prices;
- Amount of branch profit remittance taxes that are exempted;
- Estimated revenue intake upon repeal of the exemptions;
- List of sanctions to be imposed by foreign economies about the automatic exchange of information;
- Simulation on how the removal of VAT and the imposition of the premium tax will affect the penetration and size of the insurance industry;
- List of countries that are members of the global forum on the free exchange of financial information; and
- Simulation on how the DST and STT will improve liquidity.

⁸ Paraphrased from the TSN of the 2nd Public Hearing of the Committee on Ways and Means, January 29, 2024, p. 57

⁹ Ibid., p. 58

¹⁰ Ibid., p. 85

¹¹ Ibid., p. 100