Package 4: Passive Income and Financial Intermediary Taxation Act (PIFITA)

Package 4 of the Comprehensive Tax Reform Program (CTRP) complements the recently-passed Tax Reform for Acceleration and Inclusion Act (R.A. No. 10963) by making passive income and financial intermediary taxes simpler, fairer, more efficient, and more regionally competitive.

PIFITA, as passed in third and final reading of the lower house, focuses on the financial sector to increase and direct the movement of capital to where it is most needed, so that higher, sustainable, and more inclusive growth can be achieved.

This reform package will simplify the taxation of passive income, financial services and transactions by reducing the number of combinations of tax bases and rates from 80 to 36. PIFITA will also harmonize tax rates on interest, dividends and capital gains, and business taxes imposed on financial intermediaries, as well as rationalize the Documentary Stamp Tax (DST) on financial transactions to lessen friction cost and enhance taxpayer compliance.

Through PIFITA, the country can be more competitive in attracting capital and investments, which are urgently needed to finance large-scale infrastructure, projects including those under the Build, Build, Build (BBB) program, create more and better jobs, and boost the growth of the economy.

"(When the Asec. announced that they were reducing the stock transaction tax)...that they're going to reduce it from (about) half a percent down to 0.1 percent, I was about to stand up and applaud him...

[The reduction of stock transaction tax would be] very helpful to the investor community."

COL Chief Financial Analyst
Juanis G. Barredo

Simplication of tax rates and bases

Type of income/financial intermediaries/transactions	Current number of unique rates and bases	Proposed number of unique rates and bases
TOTAL	**80**	**36**
Tax on capital income	52	20
1. Interest	22	9
2. Dividends	13	8
3. Capital gains/STT	17	3
Tax on financial intermediaries (FIs)	**8**	**5**
1. GRT on banks and non-banks	5	2
2. Premium tax on FIs	1	1
3. VAT on other FIs	2	2
DST on financial transactions	**20**	**11**

Proposed reforms under Package 4:

- 15% uniform tax rate on most types of passive income
- Reduction of Stock Transaction Tax from 0.6% to 0%
- Removal of Initial Public Offering (IPO) Tax
- 5% uniform gross receipt tax on banks and other financial intermediaries
- HMO, pension and pre-need insurance from **12% VAT to 2% premium tax**
- Reduction of rates and bases of financial transactions subject to DST from 20 to 11
- Removal of DST on non-monetary documents

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as of October 10, 2019 (HB 304 as passed in third in the House of Representatives)