A Review of the Taxation of Philippine Debt Instruments*

I. INTRODUCTION

As the present administration embarks on an infrastructure development program to boost economic growth, funding sources are needed in order to realize the massive investment under its Build, Build, Build (BBB) program. To mobilize the required funds, the government is committed to undertake various reforms in the capital market, specifically to broaden and deepen the market for both government and private debt instruments.

In view thereof, this paper provides basic information on the country's debt instruments and the taxes imposed thereon. This will serve as an invaluable input to fiscal policymakers in their review of Package 4 which deals with the country's capital market taxation of the Department of Finance's (DOF) Comprehensive Tax Reform Program.

II. BACKGROUND INFORMATION

The role of the debt market has received increased attention in the aftermath of the Asian financial crisis in 1997. A common view shared and advocated by Asian policymakers, is the need to promote the development of local as well as regional debt markets as part of the response to the crisis. This view is based on the belief that the crisis was caused in part by the over-reliance of Asian corporations on the banking system for short-term and often foreign currency denominated funding. Such capital flows were highly volatile, and led to currency and financial sector crises when large inflows suddenly reversed.[1]

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[1] Bank for International Settlements, "The costs and benefits of developing debt markets: Hong Kong's experience", Guorong Jiang, et. al.

The debt market is the market where debt instruments are traded. Debt instruments refer to instruments representing borrowing and lending transactions including but not limited to debentures, certificates of indebtedness, due bills, bonds, loan agreements, instruments and securities issued by the government or any of its instrumentalities, deposit substitute debt instruments, certificates or other evidences of deposits, promissory notes, whether negotiable or non-negotiable, other similar instruments, and other instruments as may be determined by appropriate government agencies[2]. These are contractual obligations issued by borrowers to obtain cash or capital for either short-term or long-term financial needs.

A. Regulatory Agencies

The Bureau of the Treasury (BTr) and the Securities and Exchange Commission (SEC) are the two major government agencies tasked with the management and regulation of debt instruments in the country. The BTr manages government securities for the account of the national government, while the SEC formulates policies and recommendations on issues concerning the securities market.

Previously, the fiscal function of issuing treasury bills (T-bills) and bonds was held by the Bangko Sentral ng Pilipinas (BSP). However, in 1993, Republic Act (RA) No. 7653[3] transferred the said function to the DOF within a transitory period of three years but in no case more than five years from the approval of the Act[4]. The transfer of said fiscal function was made effective in 1995 as implemented by DOF Order No. 141–95[5]. The Secretary of Finance, with the approval of the President of the Philippines, and after consultation with the Monetary Board, is authorized to borrow from time to time on the credit of the Republic of the Philippines such sum(s) as in his judgement may be necessary to meet public expenditures authorized by law or to provide for the purchase, redemption or refund of any obligation, either direct or guaranteed by the Philippine government, and to issue thereof T-bills and bonds which may be payable in Philippine currency or in any readily convertible foreign currency under RA 245[6], as amended, and RA 1000[7], as amended.

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[2] Section 179, NIRC, as amended.

[3] Entitled "The New Central Bank Act", 14 June 1993.

[4] Section 129, RA 7563.

[5] Entitled "Revised Rules and Regulations for the Issuance, Placement, Sale, Service and Redemption of Treasury Bills and Bonds Under RA No. 245, as Amended", 14 November 1995.

[6] Entitled "An Act Authorizing the Secretary of Finance to Borrow to Meet Public Expenditures Authorized by Law, And For Other Purposes", 12 June 1948.

[7] Entitled "An Act Authorizing the President of the Philippines to Issue Bonds to Finance Public Works and Projects for Economic Development, Authorized by Law, and For Other Purposes", 12 June 1954.

The Secretary of Finance may, from time to time, by public notice offer T-bills and bonds for sale and invite tenders, therefore, through the BTr[8]. Under Executive Order (EO) 449[9], the BTr is mandated to issue, service and redeem government securities for the account of the national government as may be authorized by the President pursuant to the law. It also administers the Securitization Stabilization Fund by purchase and sale in the open market of government bills and bonds to increase the liquidity and stabilize the value of said securities in order to promote private investment in government securities. The BTr auctions are open to government securities eligible dealers (GSEDs), which bridge the issuances from the government to public investors.

On the other hand, the SEC, as a collegial body, administers the country's Securities Regulation Code (SRC). For equity and debt instruments, the Markets and Securities Regulation Department of the SEC registers said instruments or recommends their exemption from the registration, before they are sold, offered for sale, or distributed to the public. It ensures that full, timely and accurate information is available about said securities[10]. Securities without a registration statement duly filed with and approved by the SEC are not allowed to be sold for sale or distribution in the country[11].

Meanwhile, local government units (LGUs), i.e. provinces, cities and municipalities are likewise authorized to issue bonds, debentures, securities, collaterals, notes and other obligations to finance self-liquidating, income–producing development or livelihood projects pursuant to priorities established in the approved local development plan or the public investment program subject to the existing rules and regulations of the BSP and the SEC[12]. The sanggunian concerned shall, through an ordinance approved by a majority of all its members, declare and state the terms and conditions of the bonds and the purpose for which the proposed indebtedness is to be incurred. Under the implementing rules and regulations (IRR)[13] of the Local Government Code (LGC) of 1991, as amended, in case where the bond issue will bear the guarantee of the national government, the approval of Secretary of Finance will be required[14].

[8] Sec. 9, DO No 141-95, as amended.

[9] Entitled "Realigning the Organization of the Bureau of Treasury", 17 October 1997.

[10] Article 4.2.1, "2015 Implementing Rules and Regulations of the Securities Code (Republic Act 8799)", 4 August 2015.

[11] SEC, "Registration of Securities", SRC Rule 8 and 13, http://www.sec.gov.ph/wp-content/uploads/2015/08/Securities_PublicCos.pdf.

[12] Sec. 299, RA 7160 Entitled "Local Government Code of 1991, as amended", 10 October 1991.

[13] Administrative Order (AO) No. 270 Entitled "Prescribing the Implementing Rules and Regulations of the Local Government Code of 1991", 21 February 1992.

[14] Article 397(b), AO 270.

Similarly, government-owned and controlled corporations (GOCCs) are also authorized to issue debt securities subject to their statutes or charters, and to presidential full powers or special authority whenever a sovereign guarantee is required, executed by the President of the Philippines.[15]

Overall, before undertaking any credit operation abroad, the Government, through the Secretary of Finance, shall request the opinion, in writing, of the Monetary Board (MB) on the monetary implications of the contemplated action. Such opinions must necessarily be requested by all political subdivisions and instrumentalities of the Government before any credit operation abroad is undertaken by them. In the case of borrowing within the Philippines, the prior opinion of the MB shall likewise be requested in order that the Board may render an opinion on the probable effects of the proposed operation on monetary aggregates, price level and balance of payments pursuant to Section 123 of RA 7653.

B. Classification of Debt Instruments

By Maturity Period

A fixed income (FI) instrument that matures in one year or less is called a bill. A popular example is the short-term debt obligation of the government called T-bills with available tenors of 91 days, 182 days and 364 days. On the other hand, a FI instrument that matures beyond one year is called treasury bonds (T-bonds) with available tenors of two years, five years, seven years, 10 years and 20 years[16].

By Issuer

FI instruments issued by the national government through the BTr are called treasury securities. Depending on the maturity period, these may be T-bills or T-bonds. Government securities are no longer certificated ("scripless") and are recorded under the BTr's Registry of Scripless Securities (ROSS). In the Philippines, the BTr sells securities to investing public through GSEDs. Meanwhile, LGUs sometimes also use debt instruments to acquire funds. Municipal bonds, backed by full taxing power of the municipality, are called general obligation bonds. Bonds issued by the municipality to finance a government project whose interest and principal payments are dependent on the income of that project are called revenue bonds. Examples of municipal bonds are the Puerto Princesa Green Bonds, Boracay-Aklan Provincial Bonds, and Tagaytay City Tourism Bonds. In the same vein, GOCCs likewise issue bonds depending on their charters. Lastly, securities issued by a business entity are called corporate securities (CS).

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[15] Asian Development Bank "Philippine Bond Market Guide", ASEAN+3 Bond Market Guide, Volume 1, Part 2, February 2012.

[16] BTr, "Government Securities", http://www.treasury.gov.ph/?page_id=138.

By Interest Coupon Structure

A bond investor earns interest from the regular coupon. However, not all bonds pay regular interest. Bonds that do not pay any interest are called zero-coupon bonds. Since investors do not receive interest payments, the only way for them to earn is to buy these bonds at discounts so they can profit afterwards when the bonds are redeemed at their par value. On the other hand, bonds with a stated interest rate but are not paid until maturity are called accrual bonds. Investors do not receive interest prior to maturity but they accrue and compound and are paid during the maturity period. On the other hand, bonds that pay an initial interest rate for the first period then a higher rate after that period are called step-up bonds. For example, a 10-year maturity bond may offer 5% fixed interest for the first four years and then 7% starting on the fifth year. Floating rate bonds are bonds whose coupon rate is linked to a benchmark rate. This benchmark rate may be the country's inflation rate, the London Interbank Offered Rate (LIBOR) or other rates. For example, a floating-rate bond that pays a coupon rate equal to 2% plus the inflation rate will pay 5% if the inflation rate is 3%. If the bond pays a coupon rate of 2% plus interest rate, the bond will pay 7% if the interest rate is 5%.

By Listing Status

Debt instruments may either be listed and traded through local exchange or unlisted and traded over-the-counter (OTC). The Philippine Dealing and Exchange (PDEx) is the local exchange for debt instruments that operates organized secondary market for the trading of FI securities which include both government and corporate securities. On the other hand, unlisted debt instruments and traded OTC are those that are traded through a dealer network and does not take place in the local exchange.

C. Players in the Philippine Debt Market

Players in the debt market consist of issuers, financial intermediaries, and investors. The issuers sell bonds or other debt instruments in the bond market to fund the operations of their organizations. This area of the market is mostly made up of the national government, its agencies, banks, and corporations. The financial intermediaries, or the underwriting segment of the bond market, are traditionally made up of investment banks and other financial institutions that help the issuer sell the bonds in the market. The final players in the bond market are the investors who buy the debt that is being issued in the market. They basically include individuals and governments which play major roles in the bond market because they borrow and lend money to other governments and banks. Furthermore, governments often purchase debt from other countries if they have excess reserves of that country's money as a result of trade between countries. (Table 1)

Table 1. SUMMARY OF PLAYERS IN THE DEBT MARKET

Issuers	Financial Intermediaries	Investors
Nat'l. Government & its Agencies	Investment Banks	Government & Sovereign Wealth Funds
States and Municipalities	Commercial Banks	Pension Funds
Corporations	Dealers	Insurance Companies
Commercial Banks	Primary Dealers	Mutual Funds
Special-Purpose Vehicles (SPVs)	Interdealer Brokers	Commercial Banks
Foreign Institutions	Credit-Rating Agencies	Asset Management Firms Households

Source: Suresh Sundaresan, "Fixed Income Markets and Their Derivatives"

II. PROFILE OF PHILIPPINE DEBT MARKET

A. Depth of the Philippine Debt Market

Over the years, GS continually dominated the local currency (LCY) bond market, while issuance of CS remained low. From 2012 to 2017, the total debt issued securities amounted to PhP6.2 trillion or averaged to PhP1.0 trillion annually. Of that amount, GS accounted for about 84% of the total debt securities issued while CS shared 15% of the market. The highest growth in the issuances of CS was seen in 2014 while GS was in 2017, when they grew by 27% and 72%, respectively. (Table 2)

Table 2. ISSUANCE VOLUME OF LCY BOND MARKET, 2012-2017
(In Billion PhP)

Year	Government Securities*			Corporate Securities			Total
	Amount	Growth rate (%)	% Share to Total	Amount	Growth rate (%)	% Share to Total	
2012	772.10	-	83.03	157.84	-	16.97	929.95
2013	799.59	3.56	86.21	127.90	13.79	13.79	927.49
2014	733.51	(8.26)	73.02	271.04	26.98	26.98	1,004.56
2015	769.33	4.88	88.11	103.79	11.89	11.89	873.13
2016	810.47	5.35	85.61	136.27	14.39	14.39	946.74
2017	1,394.46	72.06	88.16	187.27	11.84	11.84	1,581.73
Total	5,279.47	-	84.29	984.12	-	15.71	6,263.60
Average	879.91	15.52	84.02	164.02	19.99	15.98	1,043.93

* Include bonds issued by the national government, BSP, LGUs, and GOCCs.

Source of basic data: AsianBondsOnline

The total outstanding or absolute amount of LCY bond market has been increasing over the years, the bulk of which came from GS. The total outstanding amount of bonds increased from PhP4.0 trillion in 2012 to PhP5.5 trillion in 2017 with average growth rate of 6% annually. During the same period, the amount of outstanding GS averaged PhP3.9 trillion, of which T-bonds had the highest share at PhP3.6 trillion; followed by T-bills and other bonds at PhP290.7 billion and PhP88.0 billion, respectively. Meanwhile, the outstanding volume of corporate bonds remained minimal, though improving from PhP526.0 billion in 2012 to PhP1.0 trillion in 2017, or an average of PhP769.2 billion annually. (Table 3)

Table 3. OUTSTANDING VOLUME OF LCY BOND MARKET, 2012 – 2017
(In Billion PhP)

Type of Instruments	As of 4th Quarter						Average	Average % Share to Total
	2012	2013	2014	2015	2016	2017		
Government Securities	3,538.33	3,819.97	3,894.74	3,946.27	3,977.85	4,455.53	**3,938.78**	**83.66**
Treasury Bills	274.87	320.92	281.74	264.44	287.94	314.37	**290.71**	**6.17**
Treasury Bonds	3,149.99	3,383.20	3,509.62	3,595.77	3,620.68	4,100.96	**3,560.04**	**75.62**
Others	113.48	115.85	103.38	86.06	69.24	40.20	**88.04**	**1.87**
Corporate Bonds	526.07	596.54	767.90	813.72	891.19	1,019.72	**769.19**	**16.34**
Total	**4,064.40**	**4,416.51**	**4,662.64**	**4,759.99**	**4,869.04**	**5,475.25**	**4,707.97**	**100.00**
Growth Rate (%)	**-**	**8.66**	**5.57**	**2.09**	**2.29**	**12.45**	**6.21**	**-**

Source of basic data: AsianBondsOnline

B. The Secondary Market of Debt Instruments

The PDEX provides the country's trading platform for debt instruments or FI securities. It is registered as a self-regulation organization (SRO) in the SEC. As an SRO, it has the authority to enforce its own rules; monitor and enforce compliance with securities laws and regulations; and enforce fair, ethical and efficient practices with a primary objective of investor protection. The SEC has the power to monitor and supervise a SRO like the PDEx, and to enforce sanctions for violation of laws, rules and regulations and order pursuant thereto.

Trading participants in the secondary debt market include dealers, brokers, and qualified institutional buyers (QIBs). Under the "PDEx Rules for Fixed Securities Market, as amended", there are qualifications which trading participants have to comply with before they are allowed to use its trading platform. In 2017, there were 41 dealers, 31 brokers and 52 firms engaged in FI trading. By type of traders, dealers consistently contributed the highest volume of FI securities traded that averaged PhP2.3 trillion annually or 56% thereof from 2012 to 2017; followed by brokers with PhP1.2 trillion (30%), and QIBs with PhP572.2 billion (14%). (Table 4)

Table 4. VOLUME OF TRADED FI SECURITIES AT THE PDEx BY TYPE OF TRADER 2012 - 2017 (In Billion PhP)

Types of Trader	2012	2013	2014	2015	2016	2017	Average	Average % Share to Total
Dealers	2,944.92	3,175.03	2,693.33	1,922.83	1,568.61	1,274.09	2,263.14	55.95
Brokers	1,422.43	1,814.06	1,079.09	1,016.50	894.19	1,030.57	1,209.47	29.90
QIBs	689.95	742.91	676.90	484.04	467.47	372.08	572.23	14.15
Total	**5,057.30**	**5,732.00**	**4,449.32**	**3,423.37**	**2,930.27**	**2,676.74**	**4,044.83**	**100.00**

Source of basic data: PDS Annual Reports 2012 to 2017.

As of November 7, 2017, available data show that the total number of traded CS reached 124, while traded GS totaled 104 including one-dollar bond. In terms of value, GS amounted to PhP4.0 trillion as compared to the PhP750.0 billion of CS. (Table 5)

Table 5. NUMBER AND VALUE OF TRADED FI SECURITIES AT THE PDEX AS OF NOVEMBER 7, 2017

Particulars	Number of FI securities	Value of Outstanding Listed FI securities (In Billion PhP)
A. Government Securities		
1. T Bills and Bonds	103	3,959.66
2. Dollar Bond*	1	25.20
B. Corporate Securities	124	750.02
Total	**227**	**4,734.88**

* Dollar bond totaled to US$0.50 billion converted to 2017 average annual exchange rate of US$1: PhP50.4037.
Source of basic data: PDEx

Majority of listed and traded GS at the PDEx had maturity of less than five years. As of July 23, 2018, the number of listed GS with maturity of less than five years was 74 with a total daily volume of PhP5.6 billion. On the other hand, 40 GS with maturity of more than five years were listed with a total daily volume of PhP2.4 billion. (Table 6)

Table 6. NUMBER AND VOLUME OF TRADED GOVERNMENT SECURITIES AT THE PDEX, AS OF JULY 23, 2018 (10:00AM)

Maturity	Number	Daily Volume (In Billion PhP)
Less than five years	74	5.63
More than five years	40	2.38
Total	**114**	**8.00**

Source of basic data: PDEx

Meanwhile, the bulk of listed CS listed and traded at the PDEx have maturity of more than five years at 129 with total outstanding issue amount of PhP788.7 billion, while there were only 14 CS with maturity of less than five years amounting to PhP92.3 billion. (Table 7)

Table 7. NUMBER AND ISSUE AMOUNT OF TRADED CORPORATE SECURITIES AT THE PDEX, AS OF JULY 4, 2018

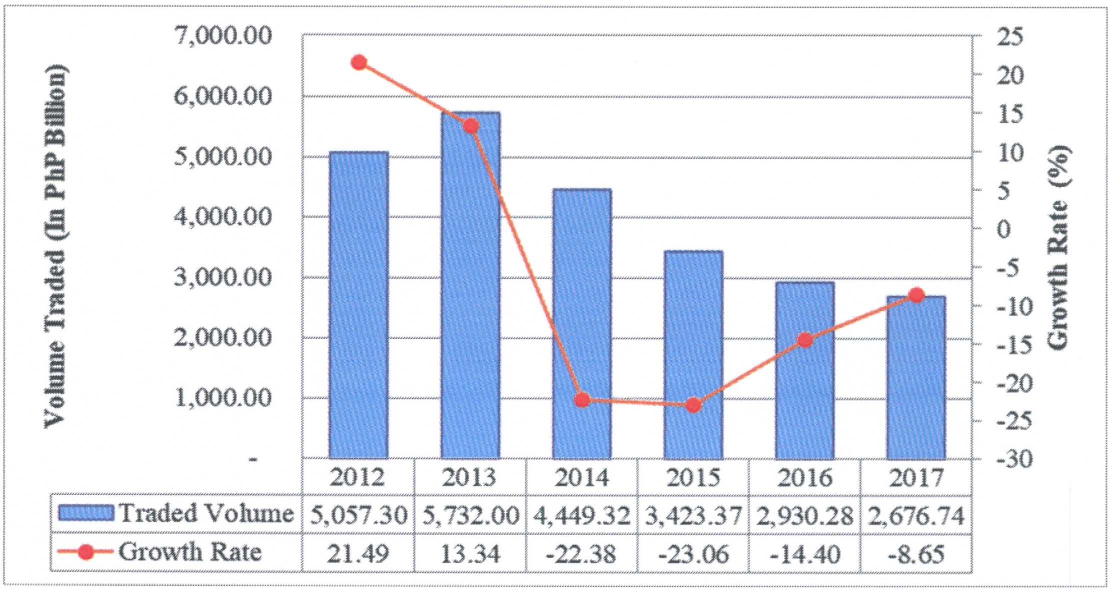
Maturity	Number	Outstanding Issue Amount (In Billion PhP)
Less than five years	14	92.31
More than five years	129	788.67
Total	**143**	**880.98**

Source of basic data: PDEx

From 2012 to 2013, there were positive growths in the volume of traded FI securities. However, it performed sluggishly starting 2014 when the volume of traded FI securities dropped to PhP4.4 trillion from PhP5.7 trillion in 2013. During this year, the pressure was brought about by erratic expectations on interest rate during the first three quarters and subdued performance of FI securities in the secondary market as investors and traders waited for clearer directions of interest rates from the USA and other developed countries[17]. The poor market performance continued in succeeding years until the volume of FI securities reached PhP2.7 trillion in 2017, posting a -9% growth rate as compared with -14% in 2016. (Figure 1)

[17] PDS Annual Report 2014, p. 8.

Figure 1. TOTAL VOLUME OF TRADED FI SECURITIES, 2012 – 2017
(In Billion PhP)



Source of basic data: PDEx

III. TAXES IMPOSED ON DEBT INSTRUMENTS

Debt instruments are subject to the following taxes under the National Internal Revenue Code (NIRC) of 1997, as amended by RA 10963 or the Tax Reform for Acceleration and Inclusion (TRAIN) law:

A. On Interest Income

Bonds are issued in the primary market at face value. If the bonds are issued to 20 or more lenders and are in the nature of deposit substitutes, the interest paid by the issuer is subject to the final withholding tax (FWT) at varying rates. For individuals, interest income from bonds earned by citizens and resident aliens, and non-resident aliens engaged in trade and business (NRAETB) in the Philippines is subject to 20% FWT, while a 25% final tax (FT) is imposed on non-resident aliens not engaged in trade or business (NRANETB). For corporations, interest income earned by domestic and resident foreign corporations is subject to 20% FWT, while a 30% FT is imposed on non-resident foreign corporations. The issuer is required to withhold the tax at every interest payment.

In the case of zero-coupon bond, the interest (in the form of discount) is deemed to be received by the holder upfront upon purchase of the bond and not upon maturity. The issuer is required to withhold the same tax as above on the discount upon issuance of the bond.

B. On Trading Gains

Gains or losses may be realized when bonds are traded in the secondary market. In the case of interest-bearing instruments, the gain is determined as the difference between the selling price in the secondary market and the price at which the same bonds are purchased from the secondary market after taking into consideration the interest accruing to the seller if the bond is sold in between payment dates. The "accrued interest" component paid by the buyer to the seller is taxed similarly as an interest income, that is, subject to the rules applicable to interest income. Trading gains are subject to regular income tax applicable to individuals at the rates ranging from 0% to 35%, or to corporations at the rate of 30%. On the other hand, Section 32(B)(7)(g) of the Tax Code provides that gains realized from the sale or exchange or retirement of bonds, debentures or other certificates of indebtedness with maturity of more than five years are excluded from the gross income and are therefore exempt from income tax.

C. On the Sale, Exchange, or Trading

A documentary stamp tax (DST) is also imposed on all debt instruments under Section 179 of the NIRC of 1997, as amended by RA 10963. On every original issue of debt instruments, a DST of PhP1.50 on each PhP200 or equivalent to 0.75% or fractional part thereof, of the issue price of such debt instruments is imposed; provided, that for debt instruments with term of less than one year, the DST is a proportional amount in accordance with the ratio of its term in number of days to 365 days. Likewise, bonds, notes and other instruments issued by entities organized under foreign laws but floated in the Philippines are subject to the DST similar to those sold or floated in the Philippines as provided under Section 176 of the same Tax Code. Similarly, debt securities issued by foreign countries in the Philippines are subject to the DST imposed on similar instruments when floated in the Philippines[18].

Meanwhile, the sale, exchange or trading of FI and other securities in the secondary market or through an exchange is not subject to the DST pursuant to Section 199(g) of the NIRC, as amended. Likewise, the renewal of the debt instruments is not subject to the DST if there is no change in the maturity date or in the remaining period of coverage from that of the original instrument as prescribed under Section 199(f) of the same Tax Code. If, on the other hand, there is an alteration of the maturity date or remaining term, it shall be subject to the same DST imposed on the original document per Section 198 of the Tax Code.

[18] BIR Ruling No. 052-99, 19 April 1999.

D. Tax Contribution of Debt Instruments

Total collections from debt instruments on FWT and DST have been increasing through the years from PhP60.9 billion in 2012 to PhP74.2 billion in 2017 except in 2014 when total collections dropped to PhP60.4 billion from PhP63.5 billion in 2013 due to lower issuances of GS during the year. (Table 8)

Table 8. TAX COLLECTIONS FROM DEBT INSTRUMENTS (In Billion PhP)

Year	Withholding Tax on GS Interest Income	DST	Total
2012	35.22	25.66	60.88
2013	34.03	29.51	63.54
2014	33.62	26.80	60.42
2015	33.31	35.06	68.37
2016	31.40	41.63	73.03
2017	31.70	42.50	74.20
Total	**199.28**	**201.16**	**400.44**
Average	**33.21**	**33.53**	**66.74**

No available data on collections from CS as of this writing.
Source of basic data: BIR

E. Taxation of Equities vs. Debt Instruments

The capital market is a market in which debt and equity securities are traded. Equity securities represent an ownership claim to the assets of a company. They have no maturity and they do not oblige the issuer to pay dividends at regular intervals. Debt securities, in contrast to equity securities, accrue interest and are redeemed on a set maturity date. The investor into a debt security becomes a lender and creditor to the issuer. (Table 9)

Table 9. DEBT SECURITIES AND EQUITIES COMPARED

Particulars	Debt Instruments	Equities
Term	Fixed term	No term
Relationship to Holder and Issuer	Creditor	Owner
Type of Income	Interest income	Dividends
Return	Specified rate of return on agreed schedule of interest payments for the term of the investment	No specified rate of return; no promise to pay dividends or agreed schedule of dividend payments

Particulars	Debt Instruments	Equities
Capital	Full capital repayment at the end of the investment term (subject to the borrower's ability to meet its obligations). If debt securities are sold prior to maturity, a capital gain or loss may be realized	Investors receive the market value of the shares when sold which may realize a gain or a loss on the initial investment.

Source: NAB Income and Investment Solutions, "An Investor's Guide to Debt Securities".

Different taxation between debt instrument and equity may arise due to certain investment parameters. Investors of equities look primarily on the appreciation of the price whenever they make decisions, while maximizing dividends remains secondary factor. However, investors of debt instruments mainly look on the interest income, while possible price appreciation remains secondary factor.

As discussed above, for income tax, trading gains from debt instruments with maturity of more than five years are exempt. Those with less than five years are subject to 0-35% personal income tax (PIT) for citizens, resident aliens and NRAETB in the Philippines while 30% corporate income tax (CIT) for domestic and resident foreign corporations. For NRANETB, the final tax is 25% and for nonresident foreign corporations, 30%. For corporations, the declared trading gains could be verified from their books of accounts while, in the case of individuals, the government relies on the truthful declaration of their gains.

In contrast, trading gains from equities are subject to 15% capital gains tax (CGT) if not traded through the local stock exchange regardless of the recipient, except resident foreign corporations and non-resident foreign corporations which are still subject to 5% or 10% CGT,[19] while the final tax of 0.6% stock transaction tax (STT) is levied on shares traded in the local exchange.

Given the above discussion, there is clear distinction between the taxation of equities and debt instruments with respect to the treatment of trading gains. The former is subject to 15% CGT and 0.6% final stock transaction tax, while the latter is subject to regular income tax for those with maturity of less than five years and exempt for more than five years. Disparity can also be observed with regard to the FWT on capital income. In general, a 10% FWT is levied on dividends which is relatively lower than the 20% FWT on interest income. However, the DST on original issuance of debt instruments is lower at 0.75% compared with the DST levied on original issuance of shares of stock at 1%. Also, while secondary transfer of debt instruments is exempt from the DST, transfer of shares of stock is subject to DST of 0.75%, except those listed and traded in the local exchange. (Table 10)

[19] It may be noted that RA 10963 misses to amend accordingly the CGT provision on resident and non-resident foreign corporations unlike for other recipients.

With this reality, tax neutrality between the two investments products should be promoted, that is, investors' decisions should be intrinsically based on investment parameters and not on the basis of net of tax income. The differentiated taxation may affect the competitiveness of one over the other. This disparity distorts investment decisions such that tax considerations tend to overshadow all other factors affecting such decision. Therefore, there is a need to harmonize the tax treatment between equity and debt to avoid tax arbitrage by adopting a single rate to be imposed on interest income, dividends, and capital gains.

Table 10. COMPARATIVE TAXES IMPOSED ON DEBT INSTRUMENTS AND EQUITIES

Type of Income	Type of Passive Income	Philippine Citizens		Aliens			Corporations		
				Resident	Non-Resident		Domestic	Foreign	
		Resident	Non-Resident		Engaged in Business	Not Engaged in Business		Resident	Non-Resident
A. INTEREST INCOME/DIVIDEND INCOME									
Debt instrument	Interest (any currency bank, deposit, yield on deposit substitutes, from trust fund or similar arrangement)	20% FT	20% FT	20% FT	20% FT	25% FT	20% FT	20% FT	30% FT
Shares of Stock	Dividends: cash or property from a domestic corp, after-tax net income distribution of a partnership (except general professional partnership), association, joint account, joint venture, or consortium taxable as corporation	10% FT	10% FT	10% FT	20% FT	25% FT	Exempt	Exempt	30% FT/ 15% FWT
B. TRADING GAINS									
Debt instrument	On FI securities with less than five years maturity (regardless traded or not traded through PDEx)	0 – 35% PIT	0 – 35% PIT	0 – 35% PIT	0 – 35% PIT	25% FT	30% CIT	30% CIT	30% FT
	On FI securities with more than five years maturity	Exempt	Exempt	Exempt	Exempt	Exempt	Exempt	Exempt	Exempt

Type of Income	Type of Passive Income	Philippine Citizens		Aliens			Corporations		
				Resident	Non-Resident		Domestic	Foreign	
		Resident	Non-Resident		Engaged in Business	Not Engaged in Business		Resident	Non-Resident
Shares of Stock	On domestic shares of stock not traded through local stock exchange	15% FT	15% FT	15% FT	15% FT	15% FT	15% FT	5 – 10% FT	5 – 10% FT
	On shares of stock traded through local stock exchange (based on gross selling price)	0.60% FT	0.60% FT	0.60% FT	0.60% FT	0.60% FT	0.60% FT	0.60% FT	0.60% FT

C. DOCUMENTARY STAMP TAXES			
		Tax Rate/Tax Base	Equivalent Ad Valorem Tax
1. **On original issuance**			
Debt instrument	All debt instruments	PhP1.50 on each PhP200 or fractional part thereof, of the face value[20]	0.75%
Shares of Stock	Original issue of shares of stock	PhP2.00 on each PhP200 or fractional part thereof, of the par value	1.00%
2. **On secondary transfer**			
Debt instrument	Assignment or transfer of any evidence of obligation or indebtedness by altering or otherwise	Same rate as that imposed on original instrument	---
	FI and other securities traded in the secondary market or through an exchange	Exempt	---
Shares of Stock	Sales, agreements to sell, memoranda of sales, deliveries or transfer of shares or certificates of stock	PhP1.50 on each PhP200 or fractional part thereof, of the par value	0.75%
		If without par value, 50% DST paid upon the original issue of said stock	50%

[20] If term is less than one year, a proportional amount based in a ratio of its term to 365 days.

		Tax Rate/Tax Base	Equivalent Ad Valorem Tax
Shares of Stock	Sale, barter or exchange of stock listed and traded through the local stock exchange	Exempt	---
3. On instruments issued abroad			
Debt instrument & Shares of Stock	Bonds, debentures, certificates of stocks or indebtedness issued in foreign countries	Tax as is required by law on similar instruments when issued, sold or transferred in the Philippines.	---

IV. COMPARATIVE TAXATION OF DEBT INSTRUMENTS IN THE ASEAN REGION[21]

A. Brunei Darussalam

The country has no available securities exchange to date, but it is currently preparing to establish the Brunei Securities Exchange that envisages a common trading platform for securities in the next few years[22]. Despite its absence, trading of securities can still be done through primary market participants via phone, or Bloomberg, among others. Any earnings coming from debt securities (sukuk) are exempt from the CIT. In addition, no CGT is levied on any earnings attributable to debt securities. In the case of stamp duty (SD), no exemption is provided under the country's Stamp Duty Law; however, under the country's Securities Markets Order (SMO) of 2013, SD is not chargeable on instruments relating to transfers of any property to or by any collective investment schemes (CIS), to transactions in respect of any CIS interest, and in any way to the assets or activities of a CIS.

B. Cambodia[23]

Cambodia has no separate tax treatment on capital gains from the sale of fixed assets/shares as they are included in the taxable income, and subject to the

[21] Refer to Annex A for the summary of taxes imposed on debt instruments in the ASEAN region.

[22] Asian Development Bank (ADB), "ASEAN+3 Bond Market Guide 2017: Brunei Darussalam", 2017, https://www.adb.org/sites/default/files/publication/371561/asean3-bond-market-bru-2017.pdf.

[23] ADB "ASEAN +3 Bond Market Guide 2018: Cambodia", https://www.adb.org/sites/default/files/publication/395856/asean3-bond-market-cambodia-2018.pdf.

20% profit tax, which is the equivalent of the CIT. In the case of listed companies, they are provided 10% concessionary rate for three years incentive period. The FWT on interest income is 15% for residents and 14% for non-residents[24]. Presently, no SD is imposed on the securities sector.

C. Indonesia

In the case of domestic investor in Indonesia[25], capital gains are part of regular income and are taxed at 25% CIT for corporations and institutions or 5% to 30% for individuals, as the case may be. Foreign/non-resident investors are subject to 5% CGT. On the other hand, companies issuing securities through the Indonesia Stock Exchange (IDX) have a concessionary CIT rate of 20%, provided that the issued securities amount to at least 40% of the company's paid-in capital. Interests on bonds are subject to 15% FWT for residents, and 20% FWT for non-residents[26]. At the same time, transfer of securities with nominal value of IDR1 million (PhP3,800) or below is subject to IDR3,000 (PhP11) SD, while transfer of securities with more than IDR1 million (PhP3,800) nominal value is subject to IDR6,000 (PhP23) SD.

D. Lao PDR

The revenue authority of Lao PDR[27] has no separate tax treatment for capital gains. Listed securities at the Lao Securities Exchange (LSX) are exempted from the income tax. Interest income is subject to 10% tax[28]. Presently, no SD is levied on the sale of debt securities in the country.

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[24] Deloitte, "International Tax: Cambodia Highlights 2018", https://www2.deloitte.com/content/dam/Deloitte/global/Documents/Tax/dttl-tax-cambodiahighlights-2018.pdf.

[25] ADB "ASEAN +3 Bond Market Guide 2017: Indonesia", https://www.adb.org/sites/default/files/publication/350016/asean3-bond-market-indo-2017.pdf.

[26] PWC, "Indonesia Pocket Tax Book 2017", p. 28. https://www.pwc.com/id/en/pocket-tax-book/english/ptb-2017.pdf.

[27] ADB "ASEAN +3 Bond Market Guide 2017: Lao PDR", https://asianbondsonline.adb.org/documents/abmf_lao_bond_market_guide_2017.pdf?src=spotlight.

[28] VDB-LOI, "Laos Tax Booklet 2016"", p. 3. http://www.vdb-loi.com/wp-content/uploads/2017/04/Lao-Tax-Booklet-2016.pdf.

E. Malaysia

Malaysia[29] has no applicable CGT on the sale of debt securities (sukuk). At the same time, debt securities approved or authorized by, or lodged with the Securities Commission are exempt from the SD.

F. Myanmar

Myanmar's[30] revenue authority collects a 10% CGT on debt instruments on all investors. However, no income tax is imposed on one or more capital asset sold, exchange, or transferred by any other means if its total value within a year does not exceed MMK10 million (PhP390,040). In addition to the CGT, the transfer of debentures, being marketable securities, is subject to a 0.1% SD; however, bonds, debentures or other securities issued on loans under the Local Authorities Loan Act are exempt from the SD.

G. Singapore

Singapore[31] has no applicable CGT treatment on the sale of securities; however, gains from certain sale of securities are deemed as ordinary income and are subject to 17% standard CIT. Meanwhile, financial institutions may opt to enjoy concessionary income tax rates on income derived from the sale of securities, and fees for providing services relating to qualifying debt securities (QDS). The concessionary income tax rates are part of Singapore's financial sector incentive (FSI) scheme that aims to enhance the country's financial intermediation[32]. For bond trading activities, awards under the FSI scheme are FSI Standard Tier (FSI-ST) and FSI – Capital Market (FSI-CM). All FSI-CM awardees are subject to 5% concessionary tax rate, while FSI-ST awardees may enjoy a 12% concessionary tax rate on their income from bond trading activities. However, income derived by primary dealers from the trading of Singaporean government securities is exempt from tax, while nonresident individuals are subject to a 10% tax.

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[29] ADB, "ASEAN +3 Bond Market Guide 2016: Malaysia", https://www.adb.org/sites/default/files/publication/198601/asean3-bond-market-guide-2016-mal.pdf.

[30] ADB "ASEAN +3 Bond Market Guide 2018: Myanmar" https://www.adb.org/sites/default/files/publication/392696/asean3-bond-market-myanmar-2018.pdf.

[31] ADB, "ASEAN +3 Bond Market Guide 2016: Singapore", p. 94. https://www.adb.org/sites/default/files/publication/204336/asean3-bond-market-guide-sin.pdf.

[32] KPMG, "Revisions to the Financial Sector Incentive Schemes", June 2017, https://home.kpmg.com/content/dam/kpmg/sg/pdf/2017/06/taxalert-201727.pdf.

Interest income from debt securities is not taxable unless it is derived from a partnership in Singapore or from the carrying on of a trade in debt securities[33]. Interest paid to nonresidents are subject to a 15% withholding tax. However, Singapore government securities (SGS) issued during the period 28 February 1998 to 31 December 2018 are exempt from the withholding tax. Moreover, no SD is imposed on debt securities transactions in Singapore.

H. Thailand

In Thailand[34], capital gains from the sale of debt securities are treated as ordinary income, and are subject to the withholding tax ranging from 0%–15%. However, exemptions may apply to gains derived by investors coming from Thailand's tax treaty countries. At the taxpayer's selection, interest income from bonds may be excluded from computation of his/her PIT provided that a 15% withholding tax is already withheld[35]. However, a 1% withholding tax is applied to interest payments made by a corporation to another corporation carrying business in Thailand, or by a corporation to a financial institution for interest on debentures or bonds[36]. Interest income of associations and foundations in Thailand is subject to a 10% advance withholding tax[37]. Non-listed securities are subject to the SD that is applied on physical certificates at THB1.00 (PhP1.70) for every THB1,000 (PhP1,655) of the actual value. Additionally, a specific business tax (SBT) of 0.1% is imposed on the sale of securities in a securities market[38]. However, there are some transactions or entities exempt from the SBT such as sale of securities in stock exchange of Thailand, and its Debt Restructuring and Domestic Bond Market Development Fund, among others[39].

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[33] IRAS, "Taxes on Investments in Singapore", https://www.iras.gov.sg/irashome/Individuals/Locals/Learning-the-basics/Individuals-Required-to-Pay-Income-Tax/Taxes-on-Investments-in-Singapore/.

[34] ADB "ASEAN +3 Bond Guide 2016: Thailand", https://www.adb.org/sites/default/files/publication/198606/asean3-bond-market-guide-2016-tha.pdf.

[35] Thailand Revenue Department, "Personal Income Tax", 13 March 2014, http://www.rd.go.th/publish/6045.0.html.

[36] Deloitte, "Taxation and Investment in Thailand 2017", p. 20. https://www2.deloitte.com/content/dam/Deloitte/cn/Documents/international-business-support/deloitte-cn-ibs-thailand-tax-invest-en-2017.pdf.

[37] Ibid.

[38] Thailand Revenue Department, "Specific Business Tax", http://www.rd.go.th/publish/6042.0.html

[39] Thailand Royal Decree BE 2534, "Regarding Designation of Businesses Exempted from Specific Business Tax (SBT) (240)", http://www.rd.go.th/publish/fileadmin/user_upload/kormor/eng/RD_240.pdf.

I. Vietnam

Vietnam has no separate tax treatment on capital gains[40]. In the case of corporations, these are treated as ordinary income and are subject to a 20% CIT[41]. For resident and nonresident individuals, gains from securities trading are subject to a 0.1% tax on gross sale[42]. Moreover, interest payments to resident and nonresident individuals are subject to a 5% tax[43].

V. PROPOSED TAX REFORMS ON DEBT INSTRUMENTS

The financial transaction tax (FTT) has been a common policy tool employed by countries throughout the world to generate additional revenues. The tax applies to the value of trades in stocks, bonds, derivative instruments, mutual funds, and other securities. Aside from being a potential source of revenues, the imposition of an FTT aims to curb instability caused by speculative trading by traders, arbitrageurs and big operators as each transaction would be taxed and thereby reduce volatility. It is easier and more efficient to implement as the collection is centralized through the stock exchange. In the Philippines, an STT is imposed on shares of stock traded and listed at the Philippine Stock Exchange (PSE). However, it is not imposed on dealers pursuant to Section 127 (A) of the Tax Code[44]. Meanwhile, no transaction tax (TT) is imposed on debt instruments traded and listed at the PDEx.

Ideally, a TT should be imposed on all types of transactions in order to minimize tax avoidance and tax arbitrage by switching to other untaxed securities or those with lower tax in order to pay the least amount of tax. This would offer a broader tax base, and a lower tax rate that could possibly yield high revenues with lower welfare losses[45].

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[40] Deloitte, "International Tax: Vietnam Highlights 2017", 2017, https://www2.deloitte.com/content/dam/Deloitte/cn/Documents/international-business-support/deloitte-cn-ibs-vietnam-int-tax-en-2017.pdf.

[41] Ibid.

[42] Ibid.

[43] KPMG, "Vietnam-Income Tax", 1 April 2018, https://home.kpmg.com/xx/en/home/insights/2011/12/vietnam-income-tax.html#02.

[44] "FEB Stockbrokers, Inc. Vs CIR, CTA Case No. 6181", 17 December 2003.

[45] European Parliament – Directorate General for External Policies, Policy Department, "The Rationale for a Financial Transaction Tax", November 2010, p. 1, http://www.europarl.europa.eu/RegData/etudes/etudes/join/2010/433663/EXPO-DEVE_ET(2010)433663_EN.pdf.

Government representatives from Germany, France, Spain, Austria and Belgium favor an FTT rate of 0.01%[46]. However, international coalitions and national networks, e.g., Association for the Taxation of Financial Transactions and for Citizen's Actions (ATTAC) and Make Finance Work, usually favor a tax rate between 0.05% to 0.10%[47]. Nevertheless, the ATTAC emphasizes that the TT should not pursue revenue measures as its main objective, but to be a part of a new global tax system for financing global common goods as regulatory, distributive and penalizing tool against financial speculation[48].

A number of countries impose an FTT on the transfer of bonds at rates ranging from 0.10% to 0.15%. Thailand imposes a 0.10% SBT on the sale of securities in a securities market but exemptions are applied on certain transactions such as sale of securities in its stock exchange, among others. Vietnam imposes a 0.10% tax of gross sale on resident and nonresident individuals, while Switzerland imposes a 0.15% tax on corporate and government bonds[49].

Assuming a TT of either 0.10% (low), 0.30% (mid) or 0.60% (high) will be imposed in the country, based on the PDEx data on the average traded volume of PhP1.8 trillion annually from 2013 to 2017, excluding trading of dealers, the estimated revenue to be generated could range from PhP1.8 billion to PhP10.7 billion assuming that there will be no consequent reduction in trading volume. (Table 11)

Table 11. ESTIMATED REVENUES FROM TRANSACTION TAX ON FI TRADING (In Billion PhP)

Proposed Rates		Average Transaction Volume*	Assumed Reduction in Trading Volume/Estimated Revenue		
			0%	25%	50%
High	0.60%	1,781.70	10.69	8.02	5.35
Mid	0.30%		5.34	4.00	2.67
Low	0.10%		1.78	1.34	0.89

* PDEx average FI trading made by brokers and QIBs for five years from 2012 – 2017. Dealers are exempt from the proposed TT as they will be subject to regular income tax.

Note: The estimates are overstated since collections from trading gains from those with less than five-year maturity, which are subject to the regular income tax, are not deducted due to unavailability of data.

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[46] Ibid.

[47] Ibid.

[48] ATTAC, "Financial Transaction Tax moving forward", 22 January 2013, https://www.attac.org/en/Stories/financial-transaction-tax-moving-forward.

[49] PWC, "Switzerland Corporate – Other Taxes", 21 June 2018. http://taxsummaries.pwc.com/ID/Switzerland-Corporate-Other-taxes

Some studies, however, show that the imposition of an FTT could have detrimental impact on trading activities. Based on existing literature (Schulmeister, et. al., 2008), when a 0.10% FTT is introduced, trading volume of bonds may decline by 3% to 10%. Likewise, when a 0.05% FTT is imposed, trading volume will be reduced by 0% to 6%, while a 0.01% FTT would lower bond trading volume between 0% to 3%. Hence, imposing a low FTT rate has minimal effect on the volume of traded bonds[50].

It may be noted that the proposed TT will not be an additional tax on the current taxation of debt instruments. The proposal is to shift the taxation on trading gains on debt instruments from regular income tax to FWT. The current tax system subjects investors to a tedious process of compliance to pay the income tax for trading gains. This shift will simplify the tax system since there will be only two tax rates, a 0.1% final TT for listed debt instruments and a 15% CGT based on net gain for unlisted debt instruments regardless of the recipient of income. Thus, it will benefit both investors and tax authorities because of lower administration and compliance cost.

The proposal is also meant to capture any unreported taxable gains arising from trading debt securities which could be more pronounced with the proposed removal of the income tax exemption on secondary trades with tenors longer than five years. Moreover, the proposed imposition of a TT on FI trading is in line with the principle of neutrality of taxation of all forms of investment instruments particularly under common circumstances such as listing in an organized exchange. Amidst the underlying differences between equity and debt, the current uneven tax treatment between debt instrument and equities somehow influence investor's behavior that create bias towards investment subject to lower taxes.

It is worth mentioning that while the proposed TT on traded FI securities can help achieve fairer competition in the capital market, it will not solve the problem unilaterally. Instead, the proposed TT should form part of a larger tax policy effort to address uneven tax treatment in the capital market, and to support capital market development.

Aside from the proposed 0.1% transaction tax, a 15% CGT based on net gain may also be adopted on unlisted debt instruments similar to equities. The relatively lower taxation of listed debt instruments may help in the government's effort to encourage listing to promote greater market transparency. At the same time, like the dealers of equities, trading of debt instruments by registered dealers shall not be subject to the proposed TT but their trading income shall be subject to regular income tax.

Further, the potential revenues from the imposition of the proposed TT on debt instruments may be used as a compensating measure to the proposed abolition of the initial public offering (IPO) tax and the gradual reduction of the STT rate by one percentage point until it reaches 0.1% by 2024 and other proposed amendments under Package 4. Said proposal will likewise align the rate of TTs between equities and debt instruments to equalize the distribution of tax burden.

[50] European Parliament - Directorate-General for External Policies, "The Rationale for a Financial Transaction Tax", 2010. http://www.europarl.europa.eu/RegData/etudes/etudes/join/2010/433663/EXPO-DEVE_ET(2010)433663_EN.pdf.

Moreover, there is a need to align the DST structure of shares of stock with debt instruments by reducing the DST rate on original issue of shares of stock from 1% to 0.75%, and removing the DST on secondary transfer or sales of shares of stock.

Table 12. PROPOSED REFORMS ON THE TAXATION ON DEBT INSTRUMENTS AND EQUITIES UNDER PACKAGE 4 OF THE CTRP

	Proposed Tax Reforms
A. Interest Income	15% FWT
B. Trading Gains	• 0.1% TT for listed debt instruments • 15% CGT for unlisted debt instruments based on net gain • Remove exemption on FI securities with more than five years maturity • Gradual reduction of 0.6% STT (shares of stock) by one percentage point until it reaches 0.1% to equate it with the proposed 0.1% TT for debt instruments.
C. DST	• Retain current DST of 0.75% on debt instruments • Remove DST on secondary transfer of shares of stock to align with those listed and traded at the PSE • Reduce DST on original shares of stock to 0.75% to align it with DST on debt instruments

VI. CONCLUSION AND RECOMMENDATION

The current policy of the Philippine government is to develop the capital market by providing an efficient regulatory framework, and creating a favorable market environment among its participants. In terms of taxation, there is a need to harmonize taxes on interest, dividends, capital gains and transactions to make the taxation of capital income simpler, fairer, and more efficient.

In particular, the proposal to impose a TT on debt instruments aims to equate it with the STT on shares of stock. The proposal will benefit both investors and tax authorities in terms of lower administrative and compliance cost. The potential revenue from the proposed tax may also be considered as a compensating revenue measure for the proposed abolition of the IPO tax and the gradual reduction of the STT from 0.6% to 0.1% by 2024, among others.

The unification of FWT on dividend, interest income, and capital gains on unlisted shares of stock and debt instruments along with the imposition of harmonized transaction tax and DST on both instruments will greatly simplify the capital income tax system.

ANNEX A. SUMMARY OF TAXES IMPOSED ON DEBT INSTRUMENTS IN THE ASEAN REGION

Country	Tax on Interest Income	Tax on Trading Gains	DST/Stamp Duty
Brunei Darussalam	Exempt	1. CGT – n.a.; 2. CIT - Exempt	Exempt[1]
Cambodia	1. Resident – 15% FWT 2. Nonresident – 14% FWT	Corporate bonds – 20% (standard rate) or 10% concessionary rate for listed issuers for three years	n.a.
Indonesia	1. Resident - 15% FWT 2. Nonresident – 20% FWT	1. Resident Investors - 25% CIT or 20% concessionary rate/ 5% - 35% PIT 2. Foreign/nonresident investors – 5% CGT	1. Nominal value of securities up to IDR1 million – IDR3,000 2. Nominal value of securities above IDR1 million – IDR6,000
Lao PDR	10% Tax	Traded in LSX – Exempt	n.a.
Malaysia	Exempt	n.a	n.a
Myanmar	1. Resident – no tax is withheld 2. Nonresident – 15% FWT	10%[2]	0.1%

[1] SD is not chargeable into instruments relating to transfers of any property to or by any CIS; to transactions in respect of any CIS interest; and in any way to the assets or activities of a CIS.

[2] No income tax is imposed on one or more capital asset sold, exchange, or transferred by any other means if its total value within a year does not exceed MMK10 million (PhP354,697).

Country	Tax on Interest Income	Tax on Trading Gains	DST/Stamp Duty
Philippines	20% FWT (except nonresident not engaged to business and nonresident foreign corporation subject to 25% and 30% FT, respectively)	1. Exempt (if maturity is more than 5 years) 2. 0-35% PIT/30% CIT (if maturity is less than 5 years)	Exempt
Singapore	1. Exempt if it is not derived from a partnership in Singapore; or from the carrying on of a trade in debt securities. 2. 15% WHT on nonresidents not engaged in Singapore or having permanent establishment in Singapore. 3. Singapore government securities (SGS) during the period 28 February 1998 to 31 December 2018 are exempt.	1. CIT (In general) – 17% 2. CIT (from bond trading activities) a. Government Securities: i. Primary Dealers – Exempt ii. Financial Sector Incentives – Capital Award (FCI-CM) award holders – 5% iii. Resident non-individuals - 10% iv. FSI – Standard Tier award (FSI-ST) award holders – 12% b. Corporate Securities: i. In general – 17% ii. FSI-CM award holders – 5% iii. FSI-ST award holders – 12%	n.a.

Country	Tax on Interest Income	Tax on Trading Gains	DST/Stamp Duty
Thailand	1. Individuals – 5- 35% PIT/ 15% FWT 2. Corporations – 1% withholding tax on interest payments made by corporations to a coloration carrying on business, or by corporation to a financial institution on debentures or bonds 3. Foundation /Association – 10% withholding tax	15%[3] (Withholding Tax) 0.1% SBT/ Exempt[4]	1. If listed – Exempt 2. If not listed – THB1 for every THB1,000 of the actual value of debt securities certificates.
Vietnam	5% tax on resident and nonresident individuals	1. 20% CIT for corporations 2. 0.1% tax on gross sales for resident and nonresident individuals	n.a.

[3] Applies only to domestic individual, foreign individual and foreign corporates. The following are exempt from the CGT:

a. Capital gains from bonds issued by the government, state agencies, or financial institutions specified by legislation to promote agriculture, commerce, and industry;
b. Mutual Funds;
c. Non-interest-bearing government bonds; and
d. Capital gains from zero-coupon bonds which are taxed at first holder

[4] Sale of securities in a securities market under the law governing Stock Exchange of Thailand; and The Business of Public Debt Restructuring and Domestic Bond Market Development Fund under the law governing Public Debt Management (Amended by the Revenue Code Amendment Royal Decree (No.511) B.E. 2554 which has come into force as from 16 February B.E. 2554) (http://www.rd.go.th/publish/fileadmin/user_upload/kormor/eng/RD_240.pdf)