A Review of the Taxation of Shares of Stock in the Philippines*

I. INTRODUCTION

The fourth package of the Comprehensive Tax Reform Program which is being pushed for legislation by the Duterte Administration seeks to complement the recently-passed Tax Reform for Acceleration and Inclusion (TRAIN) law. Package 4 aims to reform the taxation of capital income and financial sector to make it simpler, fairer and more efficient and consequently promote capital market development. The package covers, among others, taxes imposed on the issuance, sale, transfer, exchange or other disposition of shares of stock in the country.

In view thereof, this paper provides basic information on stock investments, stock exchanges and/or organized market place, stock market participants, and the taxes imposed thereon and how they compare with other ASEAN member-countries. The study would serve as valuable input to fiscal policymakers, stakeholders and the general public in the deliberation of Package 4 reforms in the Congress.

II. BACKGROUND INFORMATION

A. Investments in Shares of Stock

Shares of stock are shares of ownership in a corporation. These are also called "equity shares" or "shares". When individual and corporate investors buy shares of stock in a company, they automatically become shareholders or stockholders. As such, they participate in the company's growth and success by earning dividends and realizing gains on capital or stock price appreciation. Dividends that are paid out to the shareholders may be in cash or stock dividends. Cash dividends are earnings for every share of stock owned by the investors while stock dividends are additional shares given to shareholders at no cost. When cash dividends are declared, the shareholder's income is computed by multiplying the

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number of shares by the cash dividend rate. For instance, if a company declares a PhP0.25 per share cash dividend an investor with 10,000 shares will receive a cash dividend income of PhP2,500. On the other hand, stock dividends given to the shareholders instead of cash, are in the form of additional shares of stock. Hence, when a company declares a 25% stock dividend, a stockholder who owns 10,000 shares will receive additional 2,500 shares making a total of 12,500 shares.

On the other hand, capital or stock price appreciation is the increase in the market price of the stock. It is the difference between the amount paid for the stock when it was bought and the current market price of the stock. Through an increase in the stock price, investors realize capital gains. For example, if an investor buys stock at PhP100 per share and the price rises to PhP110, there will be a gain of PhP10. However, there may also be times when a company does not perform as expected thus, the stock price falls below the purchase price. For instance, when the price decreases from PhP100 to PhP90, the investor loses PhP10. Stock prices may fluctuate or change depending on the market environment and the price level of shares. This is the reason why stock investments may provide benefits in longer term because the gain or loss is realized only when one sells his/her share. Thus, the investor may choose to hold the stock because the price may further increase through time.

Generally, the principle of making profit in stock investment is “buy low, sell high” or buy when stock is inexpensive and wait until stock price increases before selling it. However, not all situations in which stock prices remarkably increase is the best time to sell one’s share. A sound strategy is for the investors to set objectives in terms of expected returns before selling their shares because in reality, it is difficult to foresee when the stock price has reached its top or desired level of expected gain.

B. Stock Exchange and Organized Market Place

The stock market is a place where shares of stock are bought and sold. The trading is done in an organized market place like a stock exchange or in the so-called “over-the-counter” market. A corporation that offers and lists its shares in the stock exchange is called a listed company or issuer. Once listed, the company is also known as a publicly-owned company in view of the fact that its shares are sold to the investing public. Through the sale of its ownership interest, a company is able to raise needed capital for its business. In the same manner, through buying and selling of shares of stock, the investors can generate savings and realize capital gains.

The stock exchange is more than a physical location. It sets institutional rules that govern trading and information flows about that trading. It is closely linked to a clearing facility through which post-trade activities are completed for stock traded on the exchange. An exchange centralizes the communication of bids and offer prices to all direct market participants who can respond by selling or buying at one of the quotes or by replying with a different quote. Depending on the exchange, the medium of communication can be voice, hand signal, a discrete electronic message, or computer-generated electronic commands. When two parties reach an agreement, the price at which the transaction is executed is communicated throughout the market. The result is a level playing field that allows any market participant to buy as low or sell as high as anyone else as long as the trader follows exchange rules.[1]

The Philippine Stock Exchange (PSE) is the national stock exchange of the country. The PSE was created in 1992 from the merger of the Manila Stock Exchange and the Makati Stock Exchange. Including its predecessors, the PSE has been in operation since 1927. Anybody can buy or purchase stocks of a company that participates in the PSE with the assistance of a broker or brokerage firm who will trade on his/her behalf. An investor can buy shares of stock in person or through phone call or open an account online to buy and sell stocks via an online broker. In the latter case, the funds and proceeds are transacted directly to the online bank account of the stockholder. At the same time, the stockholder can withdraw or fund his/her account anytime.

Meanwhile, shares of stock of corporations not listed and not traded in the stock exchange but registered and licensed by the SEC for sale to the public are available in over-the-counter (OTC) market. Shares of stock traded OTC may either be those that did not meet an exchange's requirements or the company issuing the stock wants to avoid the costs associated with meeting those requirements. OTC is the term used to refer to stock that is traded via dealer network and not in any centralized exchange. This is also known as unlisted stock where trading is done directly between two parties traded by a broker-dealer through direct negotiation and without the supervision of an exchange. This market is not a specific organization but another way of trading securities and transactions that are carried out by direct inquiries and negotiations among the buyers and sellers through the use of mail, telephone, telegraph, teletype, or other forms of communications.[2]

Unlike exchanges, the OTC market is less formal, although often well-organized, networks of trading relationships centered around one or more brokers. Brokers act as market makers by quoting prices at which they will sell (offer) or buy (bid) to other dealers and to their clients or customers. That does not mean that they quote the same prices to other dealers as they post to customers, and they do not necessarily quote the same prices to all customers. In an OTC trade, the price is not necessarily published for the public. Also, the lack of a clearing house or exchange results in increased credit or default risk associated with each OTC contract and the precise nature of risk and scope is unknown to regulators which leads to increased systemic risk. In sum, OTC markets are less transparent and operate with fewer rules than do exchanges.

[1] Randall Dodd, "Markets: Exchange or Over-the-Counter", International Monetary Fund.

[2] Jose Luis U. Yulo, Jr., "Knowing the Philippine Financial Market: A Guide for Investors", Philippine Stock Exchange, Inc.

C. Stock Market Participants

The PSE provides a centralized environment that brings market participants together and facilitates the sale and purchase of shares of stock. The market participants are as follows:

a. *Investors*, also referred to as stockholders or shareholders, are those who own shares of stock of a company. They may either be firms or individuals and local or foreign investors that buy and sell shares of stock;

b. A *broker-dealer* is a company, institution or other organization that trades securities for its own account or on behalf of its customers. When executing trade orders on behalf of a customer, the institution is said to be acting as a 'broker'. On the other hand, when executing trades for its own account, the institution is said to be acting as a "dealer";

c. *Issuing companies* or "issuers" are those whose shares of stock are traded on the exchange and have qualified with the stringent listing and reportorial requirements of the PSE, and gone through initial public offering (IPO) or listing by way of introduction. A company turns to the stock exchange when it needs to raise additional capital by selling additional shares to investors;

d. The Philippine Depository and Trust Corp. (PDTC) acts as s*ecurities depository or "custodian*" of listed shares of stock that are traded at the PSE. It was organized to establish a central depository in the Philippines and to implement scripless trading[3]. It performs book-entry transfer of securities from seller's to buyer's accounts during the settlement of exchange trades;

e. The Securities Clearing Corporation of the Philippines (SCCP), a wholly owned subsidiary of the PSE, acts as the "*clearing house"* that is tasked to ensure the orderly settlement of equity trades executed at the PSE. The SCCP is responsible for establishing the cash and securities liabilities and entitlements of its clearing members, synchronizing the settlement of funds and the transfer of securities based on the delivery-versus-payment model or multilateral net settlement; and guaranteeing the settlement of trades in the event of a trading participant's trade default in order to ensure the finality and irrevocability of all exchange trades;

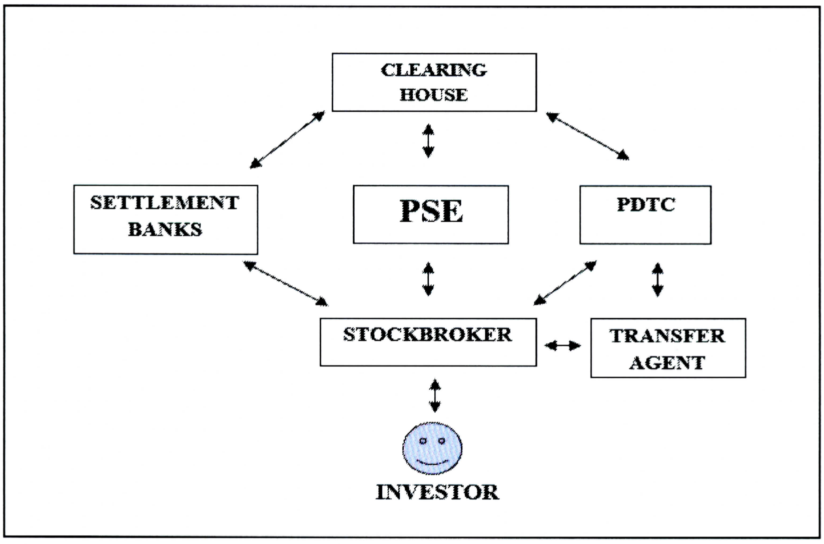
f. "*Settlement banks"* are accredited banking institutions that accept deposits of funds for payment of securities bought, confirm payments of due clearing obligations to the SCCP, debit buyer's cash account and credit seller's cash account during settlement, and receive and/or return cash collateral put up by clearing members to cover their daily trade negative exposures; and

[3] Scripless trading is the trading system where settlement is carried out via book-entries rather than by the movement of physical securities.

g. *"Transfer agent"* is considered as the "official keeper" of the corporate shareholder records. The stock transfer agents provide the issuer or the listed company with a list of holders of its securities. It effects the transfer of beneficial ownership and processes corporate actions like stock or cash dividends, stock rights, stock splits, and collation of proxy forms.

The interface of stock market participants is shown below (Figure 1)

Figure 1. STOCK MARKET PARTICIPANTS



D. PSE Trading Fees and Charges

There are accompanying fees and charges when trading at the PSE to be paid by both buyers and sellers of shares of stock, to wit:

a. Broker's commission - The fee charged by a stockbroker whenever a customer buys or sells stocks using its platform. A broker charges a fee for every trade made, regardless of whether the customer is making a profit or loss. Broker's commission varies per broker, but the maximum it can charge is 1.5% of the transaction amount or a fixed minimum fee of PhP20, whichever is higher. The transaction is also charged with 12% VAT;

b. SCCP or Clearing fee - The fee charged by the SCCP which facilitates clearing and settlement of stock transactions. The clearing fee is 0.01% of the transaction amount; and

c. Transaction fee - All stock trades that go through the PSE are charged 0.005% of the gross trade amount of every transaction.

Table 1. PSE TRADING FEES AND CHARGES

Fees & Charges	Rate Or Amount	Charged To
Broker's commission*	Maximum of 1.5% of gross trade amount or PhP20, whichever is higher	Buyers and sellers of stock
SCCP or clearing fee	0.01% of gross trade amount	Buyers and sellers of stock
PSE transaction fee	0.005% of gross trade amount	Buyers and sellers of stocks

* Depending on the stockbroker's fee structure. Commission ranges from 0.25% to 1.5% of transaction amount. A 12% VAT is imposed on broker's commission.

Given the above schedule of trading fees and charges, investors should make sure that they incorporate the fees and charges when they buy shares of stock and the fees they have to pay in selling them. Otherwise, even if the investors sell their shares of stock at a slightly higher price than the original price, it is possible that they might have booked a loss, instead of a gain.

E. SEC Supervision and Regulation

The Securities and Exchange Commission (SEC) is the national government agency charged with the supervision over the corporate sector, capital market participants, securities and investment instruments market, and the investing public. The SEC requires and approves the registration of securities before they can be sold or offered for sale or distribution in the Philippines. However, certain securities are exempt from such registration like those issued or guaranteed by the government or by any political subdivision or agency thereof, among others. Likewise, the SEC requires and approves the registration of securities market professionals such as brokers, dealers, salesmen and associated persons before they are allowed to engage in the business of buying and selling of securities in the country.

Exchanges, like the PSE, and OTC markets are likewise being regulated by the SEC. It is prohibited for a broker, dealer, salesman, associated person of a broker or dealer, or exchange, directly and indirectly, to make use of any facility of an exchange in the Philippines to effect any transaction in a security, or to report such transaction, unless such exchange is registered with the SEC[4]. Securities market professionals are also prohibited, singly or in concert with any other person, to make, create or operate, or enable to make, create or operate another, or any trading market, other than on a registered exchange, for the buying or selling of any security, except in accordance with prescribed rules and regulations of the SEC.[5]

[4] Section 32.1, RA 8799.

[5] Section 32.2, RA 8799.

Meanwhile, a person who wishes to trade in OTC market should register with the SEC as a broker, dealer or salesman. Brokers and dealers whose current registration allows them to trade only in an exchange or alternative trading system must amend their registration to specifically reflect their intention to trade securities in OTC market. Among those eligible to be traded in OTC market are registered securities, exempt securities, securities of public companies, and those securities declared by the SEC as qualified for trading in OTC market. Banks, investment houses, insurance companies, pension funds, investment companies or mutual funds are qualified to buy or sell securities in OTC market. Retail investors can also participate in OTC market through the service of a broker, investment house or bank.

The SEC also requires a minimum public ownership (MPO)[6] of at least 20% for companies applying for initial public offering (IPO) through its issuance of Memorandum Circular No. 13 series of 2017[7]. All companies that will file registration statements and with intention to list their shares for trading in an exchange shall apply for registration with a public float of at least 20%. The SEC deems it necessary to increase public ownership in order to enhance market depth which is essential for sustaining a continuous market for listed securities to provide liquidity which in turn attracts good quality and long-term investors. Also, the increase in MPO of publicly-listed companies is timely given the ongoing ASEAN integration where the average MPO in ASEAN member-countries is at 20-25%.

IV. PROFILE OF THE PHILIPPINE STOCK MARKETS

A. Investors

Based on available data, total number of registered accounts at the PSE increased from 585,562 in 2013 to 868,810 in 2017, the bulk of which were from retail investors (96%) and the rest were from institutional (corporate) investors. By nationality, majority (98%) were local investors with only a few foreign investors. **(Table 2)**

[6] The public float or free float represents the portion of outstanding stocks made available to public investors for stock trading. This refers to the shares that are freely bought and sold by the public, meaning those shares bought and sold to persons or organizations other than directors of the company and its subsidiaries and people connected to them.

[7] Entitled "Rules and Regulations on Minimum Public Ownership (MPO) on Initial Public Offerings", 1 December 2017.

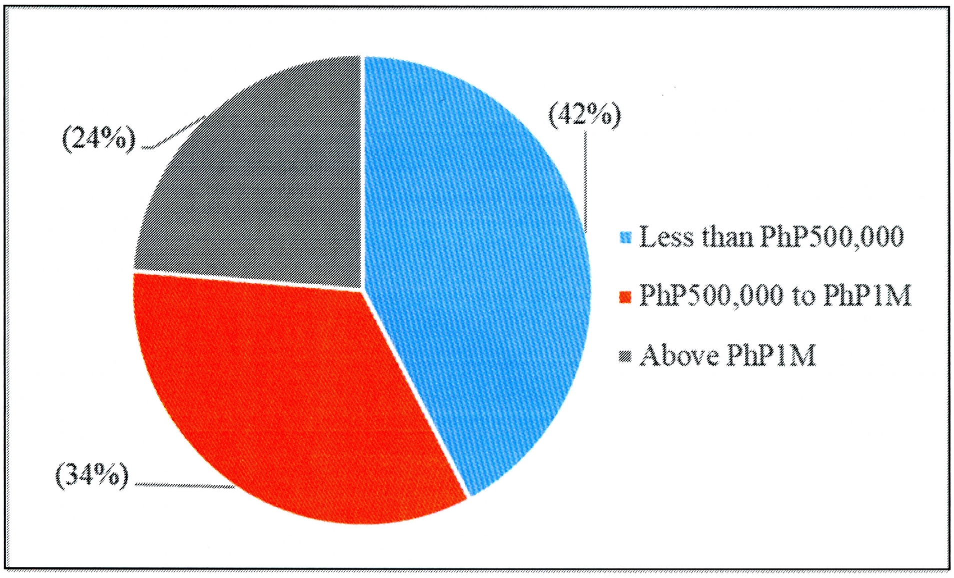
Table 2. TOTAL NUMBER OF REGISTERED ACCOUNTS AT PSE, 2013-2017

Year	Total Accounts	By Type of Investor				By Nationality			
		Retail	Institutional	% Share to Total		Local	Foreign	% Share to Total	
				Retail	Institutional			Local	Foreign
2013	585,562	563,311	22,251	96.2	3.8	576,779	8,783	98.5	1.5
2014	640,665	610,554	30,111	95.3	4.7	631,055	9,610	98.5	1.5
2015	712,549	678,347	34,202	95.2	4.8	701,861	10,688	98.5	1.5
2016	773,187	746,899	26,288	96.6	3.4	759,270	13,917	98.2	1.8
2017	868,810	841,877	26,933	96.9	3.1	854,040	14,770	98.3	1.7
Average	**716,155**	**688,197**	**27,957**	**96.0**	**4.0**	**704,601**	**11,554**	**98.0**	**2.0**

Source of basic data: PSE

In terms of income of the investors, 367,507 accounts (42%) had income of less than PhP500,000; 295,395 (34%) had more than PhP500,000 but less than PhP1 million; and 205,908 (24%) with above PhP1 million in 2017. **(Figure 2)**

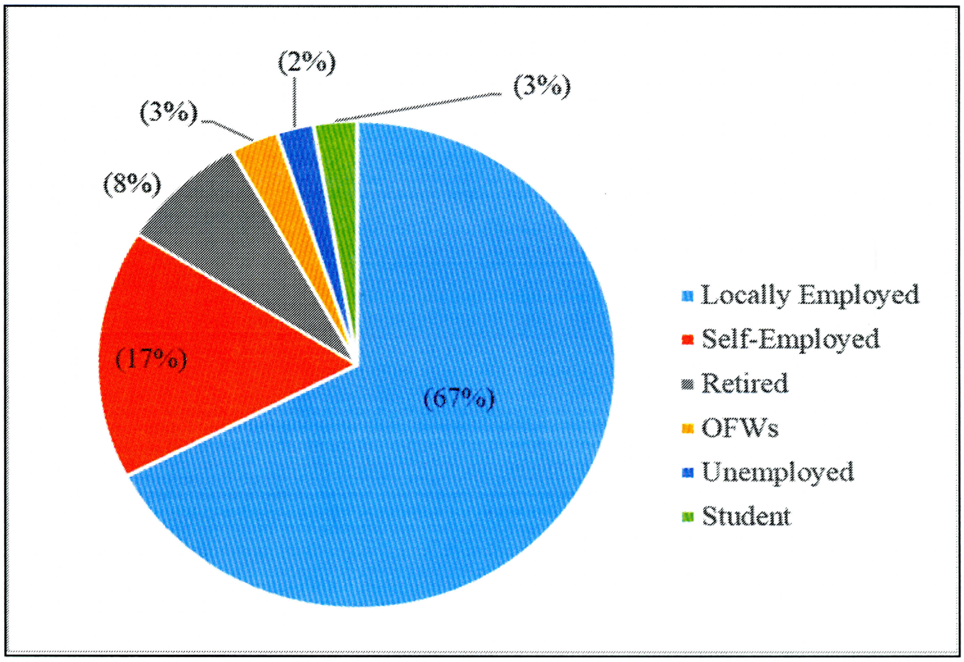
Figure 2. INCOME PROFILE OF STOCK MARKET INVESTORS, 2017



Source of basic data: PSE Market Profile 2017

By employment status of retail investors, 567,425 accounts (67%) were from locally employed investors; 139,752 (17%) from self-employed; 25,256 (3%) from overseas Filipinos workers (OFW); 67,350 (8%) from retirees; 22,731 (3%) from students; and 19,363 (2%) were from unemployed individuals. **(Figure 3)**

Figure 3. STOCK MARKET INVESTOR PROFILE BY EMPLOYMENT STATUS 2017



Source of basic data: PSE Market Profile 2017

B. Number of Securities Brokers and Dealers

As mentioned earlier, in order for investors to buy and sell shares of stock, whether it be through the PSE or OTC market, they have to course through a broker or dealer. The number of SEC licensed securities brokers and dealers increased from 146 in 2013 to 158 in 2017. Majority (92%) were PSE members while 8% were non-PSE members. **(Table 3)**

Table 3. SEC-MONITORED SECURITIES BROKERS AND DEALERS, 2013-2017

Year	PSE Members	Non-PSE Members	Total	% Share to Total	
				PSE Members	Non-PSE Members
2013	133	13	146	91.10	8.90
2014	134	13	147	91.16	8.84
2015	134	13	147	91.16	8.84
2016	138	10	148	93.67	6.33
2017	138	10	148	93.67	6.33
AVERAGE	**135**	**12**	**147**	**92.15**	**7.85**

Source of basic data: SEC

C. Number of Issuing Companies

Over the years, domestic companies continually dominated the listing in the PSE, with very few foreign companies. **(Table 4)**

Table 4. NUMBER OF LISTED COMPANIES IN THE PSE, 2013-2017

Year	Domestic	Foreign	Total	% Share to Total	
				Domestic	Foreign
2013	254	3	257	98.83	1.17
2014	260	3	263	98.86	1.14
2015	262	3	265	98.87	1.13
2016	262	3	265	98.87	1.13
2017	264	3	267	98.88	1.12
Average	**260**	**3**	**263**	**98.86**	**1.14**

Source of basic data: PSE Annual Reports 2017

Meanwhile, as of December 2017, there were only nine issuers of unlisted securities registered with the SEC.[8] **(Table 5)**

Table 5. SEC-REGISTERED ISSUERS OF UNLISTED SECURITIES (As of December 2017)

Company Name
1. Abacus Global Technovisions, Inc.
2. Camella Homes, Inc.
3. FMF Development Corporation
4. Medical Arts Tower, Inc.
5. Philippine Wireless, Inc.
6. Planters Products Inc.
7. Republic Cement Mindanao, Inc.
8. SLMC Bonifacio Global City MAB Corp.
9. STI Education Services Group, Inc. (Formerly Systems Technology Institute, Inc.)

Source: SEC

[8] SEC, "Corporate governance and finance department registered issuers (unlisted securities)", December 2017, http://www.sec.gov.ph/wp-content/uploads/2017/12/2017ListofRegisteredIssuers_UnlistedSecurities_asofDec.pdf.

D. Number of IPOs and Secondary Public Offerings (SPOs)

One way a company can raise equity capital through the local stock exchange (LSE) is by venturing into IPO. An IPO refers to the process through which a company is first introduced and listed on a stock exchange. Involved in the IPO is the offering of shares taken directly from unissued shares of the capital stock of the company. Being so, the proceeds from the sale of the stock offering will go to the company's coffer to serve as additional funds for its business. Another advantage of venturing into IPO is the increased public awareness about the company because IPOs often generate publicity by making the company's products known to a new group of potential customers that may subsequently lead to an increase in market share for the said company.[9]

Accompanying an IPO activity may likewise lead to a SPO or follow-on offering where an already publicly listed company again turns to the LSE to raise additional equity. It refers to an offer for sale to the investing public by existing shareholders of their securities, which is conducted during an IPO or a follow-on/follow-through offering.[10] In practice, a public equity offering may involve either a primary or secondary issue or a combination of both. An SPO occurs when current shares kept privately by the board of directors or founders are sold to the public. The proceeds of this subsequent stock offering are accumulated by the seller of the shares of stock. Thus, there is no issuance of new shares.

From 2013-2017, total number of IPOs issued ranged from four to eight annually while the number of SPOs ranged from one to four. Offer prices for IPOs ranged from PhP5 billion to over PhP61 billion annually while for SPOs, from less than PhP1 billion to over P20 billion annually. The average offering value per IPO moved erratically during the period. (Table 6)

Table 6. NUMBER OF IPOs AND SPOs IN THE PSE, 2013-2017

Year	Number			Offer Price (In Billion PhP)			Average Offering Value (In Billion PhP)	
	IPO	SPO	Total	IPO	SPO	Total	IPO	SPO
2013	8	1	9	60.98	1.95	62.93	7.62	1.95
2014	5	3	8	11.41	2.75	14.16	2.28	0.92
2015	4	1	5	5.20	0.36	5.56	1.30	0.36
2016	5	4	9	28.92	20.45	49.37	5.78	5.11
2017	4	3	7	22.53	1.88	24.41	5.63	0.63

Source of basic data: PSE Annual Reports 2013 to 2017

[9] Marc Adrian, "Initial Public Offerings (IPOs) in the Philippines 2017", October 3, 2017.

[10] Section 2(l), Revenue Regulations 6-2008 Entitled "Consolidated Regulations Prescribing the Rules on the Taxation of Sale, Barter, Exchange or Other Disposition of Shares of Stock Held as Capital Assets", April 22, 2008.

Table 7 presents the volume and value of shares of stock traded at the PSE from 2013-2017 where the data show erratic movement during the period under review. The highest volume of stock traded was recorded in 2014 although in terms of value, the amount was only PhP2.1 trillion which was lower than in 2013 and 2015. On the other hand, even with low volume of stock traded in 2013, it recorded the highest value of PhP2.5 trillion.

Meanwhile, the Philippine stock exchange composite index (PSEi) is the benchmark that measures the performance of the country's stock market[11]. It is a fixed basket of 30 common stock of listed companies that is carefully selected to represent the general movement of the stock market[12]. From 2013 to 2017, the yearend value of PSEi moved erratically ranging from 5,890 in 2013 to 8,558 in 2017. During the said period, the lowest decline in the PSEi value was recorded in 2015 when it dropped by 3.9%. On the other hand, the yearend value of PSEi improved significantly in 2017 when it reached 8,558 which was higher by 25% as compared to the previous year. (Table 7)

Table 7. PSE MARKET INDICATORS, 2013-2017

Year	Volume (In PhP Billion)	Value (In PhP Billion)	PSEi*	Growth Rate (%)		
				Volume	Value	PSEi
2013	515.13	2,546.18	5,889.83	-	-	-
2014	815.19	2,130.12	7,230.57	58.25	-16.34	22.76
2015	493.26	2,151.41	6,952.08	-39.49	1.00	-3.85
2016	442.27	1,929.50	6,840.64	-10.34	-10.31	-1.60
2017	440.55	1,958.36	8,558.42	-0.39	1.50	25.11

Note: *Yearend close
Source of basic data: PSE

V. TAXES IMPOSED ON STOCK INVESMENTS

Presently, shares of stock are subject to the following taxes under the National Internal Revenue Code (NIRC) of 1997, as amended by RA No. 10963 or the Tax Reform for Acceleration and Inclusion (TRAIN) law:

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[11] PSE Academy, "The PSE Composite Index (PSEi)", October 7, 2011, http://www.pseacademy.com.ph/LM/investors~details/id-1317988210702/The_PSE_Composite_Index_PSEi.html

[12] Ibid.

A. Taxes Imposed

1. Tax on Dividend Income

Dividend income paid to stockholders is subject to varying rates of final tax (FT) depending on whether the recipient is individual or corporate, resident or nonresident, and for non-resident alien, whether or not engaged in business in the Philippines. For individuals, cash dividend income earned by a citizen and resident alien is subject to 10% FT. For a non-resident alien engaged in trade and business (NRAETB), dividend income is subject to 20% FT while for a non-resident alien not engaged in trade or business (NRANETB), said dividend is levied 25% FT. For corporations, intercorporate dividends are exempt if paid to a domestic or a resident foreign corporation (RFC), while a 30% FT or applicable tax treaty rate (TTR) is imposed on non-resident foreign corporation (NRFC).

On the other hand, a stock dividend representing the transfer of surplus to capital account is not subject to tax. However, if a corporation cancels or redeems stock issued as a dividend at such time and in such manner as to make the distribution and cancellation or redemption, in whole or in part, essentially equivalent to the distribution of a taxable dividend, the amount so distributed in redemption or cancellation of the stock is considered as taxable income to the extent that it represents a distribution of earnings or profits[13].

The capital gain derived from liquidating dividends is subject to regular income tax rates imposed under the Tax Code, as amended, pursuant to Section 8 of BIR RR No. 6 - 2008[14].

2. Capital Gains/Transaction Taxes

A capital gains tax (CGT) is imposed on net capital gains realized by the seller from the sale, exchange, or other disposition of capital assets, including shares of stock, among others. The net capital gain is calculated by deducting the original cost of the shares from whichever is the higher of either the selling price of the shares or fair market value (FMV) of such shares. It may be noted that under RR No. 06-2013,[15] the BIR prescribed the use of the 'adjusted net asset method" in determining the fair value of the shares that are not listed in the LSE. The taxable gain from the sale is the excess of the amount realized therefrom[16] over the cost of the investment in such shares. A loss arises if there is an excess of the cost of the investment over the amount realized.

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[13] Section 73(B), NIRC of 1997, as amended.

[14] Entitled "Consolidates the regulations prescribing the rules on the taxation of sale, barter, exchange or other disposition of shares of stock held as capital assets", May 2, 2008.

[15] Entitled "Amending Certain Provision of Revenue Regulations No. 06-2008 Entitled Consolidated Regulations Prescribing the Rules on the Taxation of Sale, Barter, Exchange or Other Disposition of Shares of Stock Held as Capital Assets", April 11, 2013.

Pursuant to the NIRC of 1997, as amended by RA 10963, net capital gains of resident individuals, NRAETB, NRANETB and domestic corporations are subject to 15% CGT on their sale, transfer, exchange or other disposition of shares of stock not listed and traded through the LSE. Meanwhile, those earned by RFC and NRFC from the sale of shares of stock are subject to 5% CGT on the first PhP100,000, and 10% on the excess over PhP100,000 as provided under Section 28(A)(7)(c) and Section 28(B)(5)(c), respectively. On the other hand, NRAETB and NRFC may be entitled to the provisions of applicable tax treaty the Philippines has with other countries.

Meanwhile, in accordance with Section 127(A) of the Tax Code, as amended by RA 10963, the sale, transfer, exchange or other disposition of shares of stock listed and traded through the PSE is subject to a percentage tax in the form of the stock transaction tax (STT) at the rate of 0.6% of the gross selling price (GSP) or gross value (GV) in money thereof. The said tax is collected by the stockbroker from the seller/transferor upon confirmation of the sales and remitted to the BIR. The transaction tax is a proxy for the imposition of the CGT on the transaction.

However, the sale of a listed share may be liable to the CGT instead of the STT if the listed company fails to comply with the minimum amount of publicly traded shares. According to the BIR, all publicly-listed companies are required, at all times, to maintain a MPO as prescribed by the SEC or the PSE, whichever is higher pursuant to RR 16-2012.[17] For instance, with the 20% MPO set by the SEC, publicly-listed companies that fail to meet the MPO will be subject to the CGT instead of the 0.6% STT.

On the other hand, the sale of unlisted and listed shares of stock done by a dealer in securities is not subject to either the CGT (based on net gain) or STT, respectively, but rather to the regular income tax rates imposed under the Tax Code of 1997, as amended. If the dealer is a corporation, the gain realized from the sale or disposition of shares of stock is subject to 30% CIT, and if an individual, such gain is subject to 0-35% PIT.

With regard to the companies venturing into IPO and SPO, there is an IPO tax to be collected thereon as prescribed under Section 127(B) of the NIRC of 1997, as amended. Under IPO, the tax imposed shall be paid by the issuer corporation while for SPO, the tax shall be paid by the selling shareholder/s. The rate is 4% if the proportion of shares of stock sold through the IPO/SPO to total outstanding shares of stock is 25% or below; 2% if said proportion is over 25% but below 33 1/3%; and 1% if said proportion is over 33 1/3%.

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[16] The amount realized from the sale or other disposition of the shares is defined as the sum of money received plus the FMV of the property (other than money) received, if any.

[17] Entitled "Tax Treatment of Sales, Barters, Exchanges or Other Dispositions of Shares of Stock of Publicly-Listed Companies whose Public Ownership Levels Fall Below the Mandatory Minimum Public Ownership (MPO) Level, Monitoring of these Companies and their Stock Transactions, and Amending Revenue Regulations No. 06-08 for the Purpose", dated November 07, 2012.

3. Documentary Stamp Tax (DST) on the Issuance, Sale, Exchange, or Trading of Shares of Stock

Shares of stock are also subject to different DST rates depending on the type of transaction under Sections 174, 175, and 176 of the NIRC, as amended by RA 10963. On every original issue, whether on organization, reorganization or for any lawful purpose, of shares of stock by any association, company or corporation, a DST of PhP2.00 on each PhP200 or fractional part thereof or 1.0% of the par value is imposed under Section 174. In the case of original issue of shares of stock without par value, the amount of the DST is based on the actual consideration for the issuance of such shares of stock, and in the case of stock dividends, on the actual value represented per share. Also, it is worth mentioning that the sale, barter or exchange of shares of stock listed and traded through the LSE is exempt from the DST pursuant to RA 9648.[18]

Under Section 175, all sales, or agreements to sell or memoranda of sales, or deliveries, or transfer of shares or certificates of stock are liable to a DST of PhP1.50 on each PhP200 or fractional part thereof or 0.75% of the par value of such stock, provided that in the case of a stock without par value the amount of the DST is equivalent to 50% of the DST paid upon the original issuance of said stock. Likewise, certificate of stock issued in any foreign country is subject to the DST similar to those sold or floated in the Philippines from the person selling or transferring the same in the Philippines as provided under Section 176 of the Tax Code.

4. Value-Added Tax (VAT)

Dealers-in securities are subject to the VAT as they are considered as sellers of service and not as financial intermediaries. Stockbrokers are likewise subject to the VAT. For dealers in securities, Revenue Memorandum Circular (RMC) No. 13-96[19] lays down the rules in determining the gross receipts from sale of shares of stock that is subject to 12% VAT. The circular provides that for the sale of securities listed and traded in the LSE, the taxable base is the gross income[20] derived from the sale or exchange of the listed and traded securities, while for the sale of securities done OTC, the tax base is the gross income indicated in the VAT invoice. For brokers, the VAT is based on gross receipts from their management fees and other service fees.

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[18] Entitled "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 RA No. 9243, and for Other Purpose", signed June 30, 2009.

[19] Entitled "Clarification of Issues Affecting Dealers in Securities and Lending Investors Under Republic Act No. 7716, Otherwise Known as the "Expanded VAT Law", January 15, 1996.

[20] Gross income refers to total gross selling price less total acquisition cost of securities sold for the month or quarter plus incidental income.

Tables 8 and 9 summarize the taxes imposed on shares of stock in the country.

Table 8. SUMMARY OF TAXES IMPOSED ON SHARES OF STOCK

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. FINAL TAX ON DIVIDEND INCOME								
Dividends: cash or property from a domestic corporation, 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. CAPITAL GAINS TAX/STOCK TRANSACTION TAX								
1. Non-dealers Investors								
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
2. Dealers in securities								
On trading gains from domestic shares of stock traded through local stock exchange	0-35% PIT	0-35% PIT	0-35% PIT	0-35% PIT	n.a	30% CIT	30% CIT	n.a.
On trading gains from domestic shares of stock not traded through local stock exchange	15% FT	15% FT	15% FT	15% FT	n.a.	15% FT	5 – 10% FT	n.a.
3. Stockbrokers								
On commission or service fees	0-35% PIT	0-35% PIT	0-35% PIT	0-35% PIT	n.a.	30% CIT	30% CIT	n.a.
C. INITIAL PUBLIC OFFERING TAX								
Based on the proportion of shares of stock disposed of to total outstanding shares of stock after the listing in the local stock exchange:								
Up to 25%	n.a.	n.a.	n.a.	n.a.	n.a.	4%	4%	n.a.
Over 25% but not over 33 1/3%					2%	2%	2%	
Over 33 1/3%					1%	1%	1%	
D. VALUE-ADDED TAX								
Dealers in securities and stockbrokers	12%VAT	12%VAT	12%VAT	12%VAT	n.a.	12%VAT	12%VAT	n.a.

Table 9. DOCUMENTARY STAMP TAX IMPOSED ON SHARES OF STOCK

Particulars	Tax Rate/Tax Base	Equivalent Ad Valorem Tax
1. On original issuance	PhP2.00 on each PhP200 or fractional part thereof, of the par value	1.00%
2. On secondary transfer		
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	0.50%
Sale, barter or exchange of stock listed and traded through the local stock exchange	Exempt	---
3. On issued abroad		
Certificates of stock issued in foreign countries	Tax as is required by law on similar instruments when issued, sold or transferred in the Philippines.	---

D. Tax Collection from Sale of Shares of Stock

Total tax collection from shares of stock averaged PhP44.4 billion annually from 2013 to 2017. More than half of the collection came from the final tax on dividend income, 21.5%, from STT and IPO tax, 19.7%, from CGT, and 5.5% from the DST. The tax collection on shares of stock constituted an average share of 3% of total BIR tax collection during the period. **(Table 10)**

Table 10. BIR TAX COLLECTION FROM SALE OF SHARES OF STOCK, 2013-2017 (In PhP Million)

Year	STT & IPO	CGT	FWT on Dividends			DST			Grand Total	% Share to Total BIR Collections
			Individual	Corporation	Total FWT on Dividends	Original Issue of Shares of Stock	Sales, Agreements to Sell, Memo, etc.	Total DST		
2013	11,568	11,742	4,966	13,995	18,960	1,998	138	2,136	**44,406**	**3.65%**
2014	9,037	9,916	7,077	14,302	21,380	1,746	80	1,826	**42,159**	**3.16%**
2015	9,330	7,386	8,976	14,879	23,855	2,718	120	2,838	**43,409**	**3.01%**
2016	8,792	9,017	10,727	15,487	26,214	2,661	193	2,854	**46,877**	**2.97%**
2017	8,910	5,619	13,200	14,670	27,870	2,375	154	2,529	**44,928**	**2.52%**
Average	**9,527**	**8,736**	**8,989**	**14,667**	**23,656**	**2,300**	**137**	**2,437**	**44,356**	**3.02%**
% Share to Grand Total	**21.48**	**19.70**	**20.27**	**33.07**	**53.33**	**5.18**	**0.31**	**5.49**	**100.00**	-

Source of basic data: BIR.

VI. COMPARATIVE STOCK MARKET PROFILE AND TAXATION IN THE ASEAN REGION

A. Market Profile of ASEAN Stock Exchanges

All ASEAN member-countries, except Brunei Darussalam, have stock markets that facilitate capital formation and development of more investment avenues. Among ASEAN member-countries, Indonesia was the first to establish a stock exchange, followed by the Philippines, Malaysia, Singapore, and Thailand. Meanwhile, Vietnam, Lao PDR, Cambodia and Myanmar established their respective stock exchanges only recently. (Table 11)

In 2017, the Singapore Exchange (SGX) registered the highest market capitalization[21] among ASEAN member-countries amounting to US$787 billion, followed by the Stock Exchange of Thailand (SET) with US$549 billion, Indonesia Stock Exchange (IDX), and Bursa Malaysia (KLSE) with US$521 billion and US$453 billion, respectively. The PSE as well as Ho Chi Minh Stock Exchange (HOSE) lagged behind with market capitalization of US$290 billion and US$115 billion, respectively during the year.

In terms of the number of listed companies in the ASEAN stock exchanges in 2017, Malaysia had the highest number of 901 companies, followed by Singapore (750), Thailand (688), and Indonesia (566). Although Vietnam only established its stock exchange in 2000, it is noted that the number of listed companies already totaled 344, while the Philippines had only 267. On the other hand, Lao PDR[22] had only seven listed companies while Cambodia[23] and Myanmar[24] had both five each. In terms of the number of IPOs, Thailand registered 38 IPOs, followed by Indonesia (27), Singapore (24), Malaysia (15) and Philippines (4).

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[21] Market capitalization or market cap refers to the total value of all a company's shares of stock. It is calculated by multiplying the price of a stock by its total number of outstanding shares.

[22] Lao Securities Exchange, "Listed Company Information", http://www.lsx.com.la/info/stock/listedCompany.do?lang=en.

[23] Cambodia Securities Exchange, "Listed Companies", http://csx.com.kh/data/lstcom/listPosts.do?MNCD=5010.

[24] Yangon Stock Exchange, "Company List", https://ysx-mm.com/listing/company/.

Table 11. OVERVIEW OF ASEAN EXCHANGES, 2017

ASEAN	Symbol	Year Established/ Operated	Market Capitalization[1/] (Amount in Million US$)	No. of Listed Companies[2/]	No. of IPOs[1/]
Indonesia	IDX	1912	520,685.2	566	27
Philippines	PSE	1927	290,401.1	267	4
Malaysia	KLSE	1964	452,816.9	901	15
Singapore	SGX	1973	787,279.5	750	24
Thailand	SET	1975	548,795.6	688	38
Vietnam	HOSE	2000	115,464.5	344	n.a
Lao PDR	LSX	2011	n.a	7	n.a
Myanmar	YSX	2016	n.a	5	n.a
Cambodia	CSX	2012	n.a	5	n.a

Note: n.a – no available data.
Sources: [1/] - World Federation of Exchanges.
[2/] - World Federation of Exchanges except Cambodia, Lao PDR, and Myanmar.

Table 12 relates the above stock statistics to the countries' respective gross domestic product (GDP). The ratio of market capitalization to GDP was the highest in Singapore, followed by Malaysia, and Thailand compared to Indonesia, Vietnam, and Philippines. Market liquidity or the ratio of total value of shares traded to GDP was high in Thailand, Singapore, and Malaysia and low in Indonesia, Philippines, and Vietnam. The same scenario was recorded in terms of turnover ratio where Thailand, Vietnam and Malaysia posted higher ratios than the Philippines, Indonesia, and Singapore. (Table 12)

Table 12. ASEAN STOCK MARKET INDICATORS, 2017

Member-Country	Market Capitalization to GDP Ratio	Market Liquidity[1/]	Turnover Ratio[2/]
Indonesia	51.3	9.1	17.8
Malaysia	144.9	43.7	30.1
Philippines	92.6	10.8	11.6
Singapore	243.0	67.8	27.9
Thailand	120.6	74.6	61.9
Vietnam	52.1	17.0	32.6

Notes: 1/ Value of shares traded to GDP ratio
2/ Value of stocks traded to market capitalization ratio
Source: The World Bank

B. Taxation of Shares of Stock in the ASEAN Region[25]

As with most transactions, the sale, exchange or other disposition of shares of stock is a taxable event in the ASEAN region although they may differ on the tax treatment. Presently, ASEAN-member countries impose different tax rates on trading gains. Gains from the trading of shares either through the stock exchange or OTC are subject either to the CGT or income tax. On the other hand, the execution of document evidencing the transfer of listed and unlisted shares of stock is subject to the DST/stamp duty (SD). The following may be noted:

a. Brunei Darussalam

Dividend income earned by both individuals and corporations is tax-exempt in Brunei Darussalam. Gains derived from the sale, transfer, exchange or other disposition of shares is likewise not subject to any capital gains tax. However, such sale is subject to SD of BND0.10 (PhP3.91) for every BND100.00 (PhP3,906.36) or part thereof or 0.1% when the name of the transferee is filled in prior to the execution of the transfer; or BND0.30 (PhP11.72) for every BND100.00 or part thereof or 0.3%, when the name of the transferee is not filled in prior to the execution of the transfer (commonly called "a blank transfer").[26]

b. Cambodia

Dividend income of resident individuals and domestic corporations is exempt from tax, while that of nonresident individuals and corporations is subject to 14% withholding tax (WT)[27] in Cambodia. No tax is imposed on the gains derived from the transfer of shares listed and traded through the Cambodia Securities Exchange (CSX). However, all other gains including capital gains are treated as income, and therefore, subject to the regular income tax[28]. Sale of securities is subject to 0.1% registration tax (SD)[29], but it is not being levied on ownership transfer resulting from stock trading through the CSX[30].

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[25] Refer to Annex A for the comparative taxes imposed on equity in ASEAN-member countries.

[26] Ministry of Finance and Economy, "Stamp Duty", http://www.mof.gov.bn/Divisions/stamp-duty.aspx.

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

[28] KPMG, "Cambodia Tax Profile", August 2018, https://home.kpmg.com/content/dam/kpmg/xx/pdf/2018/08/cambodia-2018.pdf

[29] Ibid.

[30] CSQ, "Cambodia Stock Exchange – FAQ", http://csx.com.kh/news/faq/listPosts.do?MNCD=7070

c. Indonesia

In Indonesia, dividend income received by resident individuals is subject to a 10% final income tax, while that received by nonresident individuals is subject to a 20% FWT or TTR[31]. For domestic corporations, dividend income received is subject to a 15% withholding tax (WT) while for nonresident corporation[32], the same is subject to 20% FT or TTR[33]. Any capital gain from the disposal of shares is subject to the income tax at regular rates ranging from 5% to 30%. Also, shares of stock are subject to the SD at the rate of Rp. 6,000 (PhP22.20) when the money value stated in the document is more than Rp.1 million (PhP3,700.00); and Rp. 3,000 (PhP11.10) when the value is between Rp. 250,000 – Rp.1 million (PhP925.00 - PhP3,700.00). Shares of stock with value below Rp. 250,000 (PhP925.00) are exempt from the SD.[34]

On the other hand, shares of stock sold through the Indonesia Stock Exchange (IDX) are subject to a 0.1% final tax based on the transaction value to be withheld by the IDX. Also, a 0.6% tax applies to the share value of founder shares[35] at the time of an IPO. Moreover, a tax of 0.5% of the share value is levied on the sale of founder shares[36] associated with public offerings. Founder shareholders must pay the tax within one month after the shares are listed otherwise they will be subject to the income tax on the gains at the ordinary income tax rates[37].

d. Lao PDR

In Lao, regardless of the recipient, dividend income is subject to a 10% final tax. However, dividends paid to individuals or legal entities that are

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[31] PWC, "Indonesian Pocket Tax Book 2017", p.12, https://www.pwc.com/id/en/pocket-tax-book/english/ptb-2017.pdf.

[32] Dividends can be exempted from income tax if the dividends are paid out of retained earnings; and for PTs and state owned companies, the company earning the dividends holds at least 25% of the paid-in capital in the company distributing the dividends. (https://www.pwc.com/id/en/pocket-tax-book/english/ptb-2017.pdf)

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

[34] PWC, Indonesia Pocket Tax Book 2018, https://www.pwc.com/id/en/pocket-tax-book/english/ptb-2018-eng.pdf.

[35] Stock issued to the organizers of a public company or corporation.

[36] Founder share means share issued to the founders of a company. These shares may have preferential rights attached thereto. (Source: IBFD Tax Research Platform Database).

[37] Deloitte Touche Tohmatsu Limited Web site. "International Tax: Indonesia Highlights 2017". Source: <https://www2.deloitte.com/content/dam/Deloitte/global/Documents/Tax/dttl-tax-indonesiahighlights-2017.pdf>, viewed on March 30, 2017.

engaged abroad may be reduced under a tax treaty[38]. Gains from the sale of unlisted shares of stock is subject to the income tax at the rate of 10% on the difference between the purchase price and selling price if relevant supporting evidence can be provided; otherwise, a rate of 2% is imposed on the selling price.[39] However, profits from the sale of shares of stock listed in the Lao Securities Exchange (LSX) are exempt from tax.[40] Meanwhile, the sale of shares of stock is not subject to the SD but to document registration fee which is imposed depending on the value thereof. If the value of sale of shares of stock is LAK 10 million (PhP63,436.00) and below, it is subject to LAK 15,000 (PhP95.15); LAK 25,000 (PhP158.59) if the value is from LAK 10– LAK50 million (PhP63,436 – PhP317,180.00); LAK 50,000 (PhP317.18) if the value is from LAK 50 – LAK 100 million (PhP317,180.00 – PhP634,360.00); and LAK 100,000 (PhP634.36) if the value is more than LAK 100 million (PhP634,360.00).[41]

e. Malaysia

Dividend income received by both individuals and corporations is exempt from tax in Malaysia. The transfer of shares of stock is subject only to the SD as capital gains are not taxed in the country. It does not impose a transfer tax on shares of stock. Meanwhile, similar to other ASEAN member-countries, the transfer of unlisted shares of stock is subject to the SD at the rate of 0.3% on the consideration paid or market value of the shares of stock, whichever is higher. Meanwhile, the transfer of shares of stock listed at the Kuala Lumpur Stock Exchange (KLSE) is subject to a lower SD at the rate of 0.1% or RM1.00 (PhP13.20) for every RM1,000.00 (PhP13,204.53), or fractional part of the transaction value of securities.[42]

f. Myanmar

In Myanmar, dividends received by both individuals and corporations are exempt from the tax. Profits from the sale, exchange, or transfer of capitals assets which include shares are subject to the CGT at the rate of 10%. However, if the total value of the capital asset which was sold, exchanged, or transferred does not exceed MMK10 million (PhP377,000.00), it will not be subject to the CGT. Meanwhile, it can be noted that the SD imposed on the transfer of shares

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

[39] Section 3 Article 48 of Law on Tax No. 70/NA, dated December 15 2015.

[40] Section 3 Article 47 of Law on Tax No. 70/NA, dated December 15 2015.

[41] Executive Decree of the President of the LAO PDR on Fees and Services Charges (Amended 2012).

[42] Bursa Malaysia, "Transaction Costs", http://www.bursamalaysia.com/market/securities/equities/trading/transaction-costs/

of stock in Myanmar was reduced from 0.3% to of 0.1% on the value of share pursuant to Notification No. 146/2016 of the Ministry of Planning and Finance, which took effect in October 2016.

g. Singapore

In Singapore, dividend income received by both individuals and corporations is exempt from tax. Profits derived from buying and selling of shares of stock are viewed as personal investments and are not taxable.[43] However, the transfer thereof is subject to the SD at the rate of 0.2% of purchase price of the value of shares.[44] The SD both applies to transfer of shares listed on the Singapore Exchange (SGX) and transfer of shares in private companies.

h. Thailand

In Thailand, dividend income is subject to a 10% FT regardless of whether the recipient is an individual or a corporation, and a resident or nonresident. Taxable income includes investment income from gains realized from the transfer of shares of stock. Presently, the personal income tax (PIT) in Thailand ranges from 0% to 35%.[45] However, capital gains from the transfer of shares in the Stock Exchange of Thailand (SET) are exempt from tax for individuals. Meanwhile, only foreign companies abroad are subject to 15% final withholding tax on capital gains.[46].

Stock transfers by any company, association, body of persons or organization in Thailand is subject to the SD amounting to 1 Baht (PhP1.61) for every 1,000 Baht (PhP1,606.12) or fraction thereof of the paid up value of shares, or of the nominal value, whichever is higher.[47] However, the transfer of listed shares in the SET is exempt from the SD.[48]

[43] Inland Revenue Authority of Singapore (IRAS), "Gains from Sale of Property, Shares and Financial Instruments", https://www.iras.gov.sg/IRASHome/Individuals/Locals/Working-Out-Your-Taxes/What-is-Taxable-What-is-Not/Gains-from-Sale-of-Property--Shares-and-Financial-Instruments/.

[44] IRAS, "Buying or Acquiring Shares", https://www.iras.gov.sg/irashome/Other-Taxes/Stamp-Duty-for-Shares/Working-out-your-Stamp-Duty/Buying-or-Acquiring-Shares/.

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

[46] SET, "Taxation of Equities Investment", https://www.set.or.th/en/regulations/tax/tax_p1.html.

[47] Thailand Revenue Department, "Stamp Duty", http://www.rd.go.th/publish/21986.0.html.

[48] SET, op. cit.

i. Vietnam

Corporations, whether domestic or nonresident, are exempt from paying the tax on dividend income; however, dividend income earned by individual residents is subject to a 5% FT, while that of nonresidents is subject to a 5% WT or TTR. The transfer of securities such as shares of stock in Vietnam can be subject to a 20% tax on the annual taxable income or a 0.1% tax on gross sale proceeds, at the option the individual investor[49]. However, if the seller is a foreign corporation or individual, proceeds from the transfer of shares are subject to a flat CIT/PIT rate of 0.1%.[50] Meanwhile, the transfer of shares in Vietnam is not subject to the asset registration tax (akin to DST/SD).

The taxation of stock investments in the ASEAN region is summarized in Annex A.

VII. PROPOSED TAX REFORMS ON SALE OF SHARES OF STOCK

Package 4 proposes to adopt a uniform FT of 15% on interest income, dividends, and capital gains. This would effectively increase the FT on dividend income of citizens and resident aliens from its current rate of 10% to 15%. On the other hand, NRAETB as well as NRANETB will benefit from the proposal as it would lower their FT from the current 20% and 25%, respectively to 15%. Meanwhile, domestic corporations and RFC will remain exempt from the FT on dividend income, except sole corporations which will be liable to the proposed tax thereto. For NRFC, the FT on dividend income will be reduced from its current 30% FT to 15% FT once Package 4 takes effect. (Table 13)

It may be noted that the proposed 15% FT on dividend income is equated with the lowest tax rate on labor income. Also, based on Philippine tax treaties, the 15% FT rate is the dominant TTR in 33 out of 42 countries in which the country has tax treaties with. It is expected to remove the problematic application for tax treaty relief being experienced by nonresident investors. The adoption of a single rate on capital income including dividends would simplify the current complicated tax structure that is susceptible to tax arbitrage. It will create a more even playing field which will result in more equitable distribution of the tax burden.

Presently, the IPO tax is essentially a tax on capital, and does not take into consideration income generation. Such an imposition is viewed as a deterrent for private companies to go public. Only the Philippines and Indonesia collect a tax on IPO among the

[49] Hochimin Stock Exchange, "Q&A for Investors", https://www.hsx.vn/Modules/Cms/Web/ViewArticle/4847925c-8c99-4f12-998b-f96c5d62ae23.

[50] Clifford Chance, "Vietnam Investment Guide Capital Markets", VILAF, August 2013 https://financialmarketstoolkit.cliffordchance.com/content/micro-facm/en/financial-markets-resources/resources-by-type/guides/vietnam-investment-guide-capital-markets/_jcr_content/parsys/download/file.res

ASEAN member-countries[51]. This results in the PSE lagging behind other ASEAN member-countries in terms of number of publicly-listed companies as well as having a shallow market capitalization depth. Thus, Package 4 proposes to remove the IPO tax to encourage public listing in country's stock exchange.

Also, while most ASEAN member-countries do not impose a tax on secondary trading, the Philippines imposes a STT at a very high rate of 0.6%. Thus, it is proposed that it be gradually reduced by 0.1% or 0.1 percentage point every year starting from 2020 until it reaches 0.1% by 2024. This would align the country's STT with Indonesia and Vietnam. Further, the proposed reduction in the tax will encourage secondary trading that would eventually result in higher trading volume.

In the case of the DST, there are four varied rates imposed on the shares of stock. To simplify and reduce friction cost, Package 4 proposes that the sale or transfer of unlisted shares or certificates of stock be likewise exempt from the DST, similar to those traded at the PSE. The proposal is seen also to encourage trading activities which would spell positive economic growth for the country. It is also seen to enhance liquidity in the secondary trading of equity instruments. The move would also put unlisted shares of stock at par with DST exemption of fixed income and other securities traded in the secondary market or through an exchange. Moreover, the DST imposed on original issuance which is currently at 1.0% is proposed to be lowered to 0.75% to equate with debt instruments.

Table 13. PROPOSED REFORMS ON THE TAXATION OF SHARES OF STOCK UNDER PACKAGE 4 OF THE CTRP

Type of Tax	Package 4 Proposal
A. FT on dividend income	• Uniform rate of 15%FT for resident individuals and NRAETB; 15%FT or TTR for non-residents. • Retain exemptions of domestic and resident foreign corporations on intercorporate dividends except sole corporations which will be subject to 15%FT.
B. Capital gains tax	• Single rate of 15%FT for non-traded shares.
C. Stock transaction tax	• Gradual reduction by 0.1% or 0.1 percentage point every year until it reaches 0.1%. in 2024.
D. Initial public offering tax	• Remove.
E. Documentary stamp tax	
1. Original issue of shares of stock	• Reduce the rate from 1% to 0.75%
2. Sales, agreements to sell, memoranda of sales, deliveries, or transfer of shares or certificates of stock	• Remove.
3. If traded in the PSE	• Retain exemption.

[51] The Philippine SPO is seen as the equivalent of Indonesia's tax on founder's share.

From 2019 to 2022, the average net revenues from the proposed taxes on capital income, (excluding revenue losses from the reduction in FWT on interest income which is not part of this study), remains positive at PhP8.2 billion. Of said amount, PhP12 billion will be sourced from the increase in FWT on dividends, while a PhP3.8 revenue loss will come from the CGT, STT and IPO tax, on the average. On the DST, the revenue loss is estimated at PhP2.1 billion on the average in which the bulk is due to the reduction of the DST on original issuance of shares of stock. The total net revenues under the tax reforms on shares of stock averaged PhP6.1 billion. (Table 14)

Package 4 is anchored on a broadly revenue neutral framework. While the proposed tax reforms on the sale of shares of stock will result in revenue gain, this will compensate for the revenue losses in other proposals within the package such as the proposed reduction in the tax on interest income from 20% to 15% FT and reduction and/or removal of the DST in some financial transactions.

Table 14. ESTIMATED REVENUE IMPACT OF THE PROPOSED TAX REFORMS ON STOCK INVESTMENTS, 2019 – 2022
(In Billion PhP)

Particulars	2019	2020	2021	2022	Average
Tax on Capital	**9.1**	**8.4**	**7.8**	**7.4**	**8.2**
Dividends	9.1	10.8	12.8	15.3	12.0
CGT, STT and IPO Tax	0.0	-2.4	-5.0	-7.9	-3.8
DST	**-1.9**	**-2.1**	**-2.2**	**-2.3**	**-2.1**
Original issue of certificate of stocks	-1.5	-1.6	-1.7	-1.8	-1.7
Sales, agreements to sell, memo, etc.	-0.4	-0.5	-0.5	-0.5	-0.5
Net Amount	**7.2**	**6.3**	**5.6**	**5.1**	**6.1**

VIII. CONCLUSION

The taxation of stock investments is indeed ripe for reforms. The foregoing proposed reforms which form part of Package 4 will put the Philippines at par with its neighboring countries and would encourage stock market participation of both individual and corporate investors. With the tax reform proposals, the country can compete better for capital and investments which is urgently needed to finance infrastructure, create more and better jobs, and boost the inclusive and sustainable growth of the economy.

ANNEX A. COMPARATIVE TAXES IMPOSED ON IN THE ASEAN REGION

Country	Tax on Dividend	CGT/Tax on Profit	Transaction Tax	DST/SD
Philippines	Individuals • Resident – 10% FT • Nonresident – 20% FT if ETB or 25% FT if NETB Corporate • Domestic/RFC – Exempt • Nonresident FC – 30% FT or 15% under tax sparing rule	15% FT on unlisted for all except RFC and NRFC which are currently taxed at 5-10% CGT	• 0.6% STT on listed • 1%/2%/4% IPO tax	• Listed – Exempt • Unlisted – o With par value: PhP2.00 for every PhP200.00 or fractional part thereof o W/o par value: 50% of DST paid upon the original issue of said stock
Brunei Darussalam	Exempt for individuals and corporate	n.a	n.a	BND0.10 (PhP3.91) for every BND100.00 (PhP3,906.36) or part thereof when the name of transferee is filled, otherwise, BND0.30 (PhP11.72) for every BND100.00 (PhP3,906.36) or part thereof.
Cambodia	Individuals • Resident – Exempt • Nonresident – 14% WT Corporate • Domestic – Exempt • Nonresident – 14% WT	• Listed - Not taxable • Unlisted - 20% in the form of income tax	n.a.	• Listed – Exempt • Unlisted - 0.10% of the stock price (registration tax)

Country	Tax on Dividend	CGT/Tax on Profit	Transaction Tax	DST/SD
Indonesia	Individuals • Resident – 10% FT • Nonresident – 20% FWT or TTR Corporate • Domestic – 15% FWT • Nonresident – 20% FWT or TTR	Listed and unlisted - 5% - 30% Regular income tax	0.1% final tax on the proceeds of sale; 0.6% final tax on value of founder shares.	Listed and Unlisted - Exempt / Rp. 3,000 (PhP11.10)/ Rp. 6,000 (PhP22.20) depending on the value of shares of stock transferred
Lao PDR	Individuals • Resident – 10% FT • Nonresident – 10% FT or TTR Corporate • Domestic – 10% FT • Nonresident – 10% FT or TTR	• Listed – Exempt • Unlisted - 10% on net gain or 2% on selling price	n.a.	n.a.
Malaysia	Exempt for individuals and corporate	n.a.	n.a.	• Listed - RM1.00 (PhP13.20) for every RM 1,000 (PhP13,204.53) (or fractional part) of the transaction value of securities. • Unlisted - .30% on the consideration paid or market value of shares of stock, whichever is higher.

Country	Tax on Dividend	CGT/Tax on Profit	Transaction Tax	DST/SD
Myanmar	Exempt for individuals and corporate	Listed and unlisted - 10% if value of capital asset exceeds MMK10 million (PhP337,000.00), otherwise exempt	n.a.	Listed and unlisted - 0.10% on the value of share.
Singapore	Exempt for individuals and corporate	n.a.	n.a.	Listed and unlisted - 0.20% of the purchase price of the value of shares.
Thailand	Individuals • Resident – 10% FT • Nonresident – 10% FT or TTR Corporate • Domestic – 15% FT • Nonresident – 10% FT	• Listed – Exempt for individuals; CIT for juristic investor; 15% withholding tax on juristic investor (foreign investors not doing business in Thailand) • Unlisted - 0%-35% PIT	n.a.	• Listed – Exempt • Unlisted - 1 Baht (PhP1.61) for every 1,000 Baht (PhP1,606.12) or fraction thereof, of the paid up value of shares or of the nominal value, whichever is higher.
Vietnam	Individuals • Resident – 5% FWT • Nonresident – 5% WT; TTR Corporate • Domestic – Exempt • Nonresident – Exempt	• Listed and Unlisted - 20% on net gains or 0.1% of the gross sales proceeds for resident investors (at the option of investor). A flat 0.1% tax of the gross sales proceeds for foreign corporate investors.		• Listed – Exempt • Unlisted – n.a.