

# Profile and Taxation of Securities Brokers and Dealers in the Philippines<sup>\*</sup>

## I. INTRODUCTION

Securities brokers and dealers play a significant role in the financial industry. They act as intermediary between buyer and seller of securities and help investors to make financial decisions. In addition, they provide research and analysis and advisory services to their clients through seminars and market briefings.

The securities brokers and dealers industry can be considered as a lucrative business since billions of securities annually are being traded in the country. In 2018, the value of securities<sup>1</sup> traded in the country totaled P3.709 trillion. Thus, making the participation of securities brokers and dealers in the capital market development significant.

This paper provides a profile of securities brokers and dealers, their participation in the development of the country's financial markets and their contribution to the economy in terms of taxes paid. Moreover, this paper would serve as input to fiscal policymakers during congressional deliberations on Package 4 of the Comprehensive Tax Reform Program (CTRP).

## II. BACKGROUND INFORMATION

Securities brokers and dealers in the country are regulated by the Securities and Exchange Commission (SEC) pursuant to Republic Act (RA) No. 8799 or otherwise known

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<sup>1</sup> Securities are shares, participation or interests in a corporation or in a commercial enterprise or profit-making venture and evidenced by a certificate, contract, instrument, whether written or electronic in character. It includes (a) shares of stock, bonds, debentures, notes of evidences of indebtedness, asset-backed securities; (b) investment contracts, certificates of interest or participation in a profit sharing agreement, certificates of deposit for a future subscription; (c) fractional undivided interests in oil, gas or other mineral rights; (d) derivatives like option and warrants; (e) certificates of assignments, certificates of participation, trust certificates, voting trust certificates or similar instruments; (f) propriety or nonproprietary membership certificates in corporations; and (g) other instruments as may in the future be determined by the SEC (The Securities Regulation Code, 2000). Mainly, there are three types of securities in the country. These are equity securities, corporate securities and Government Securities (GS).

as “The Securities Regulation Code” (SRC). Section 28.1 thereof provides that, a person engaged in the business of buying and selling securities in the Philippines as a broker or dealer must be registered with the SEC.

The SRC defines a *securities dealer* (“dealer”) as a person who buys and sells securities for his/her own account in the ordinary course of business while a *securities broker* (“broker”) is engaged in the business of buying and selling securities for the account of others (SRC, 2000). One clear distinction between the two is that a dealer expects to make a profit by selling securities at a higher price or by correctly guessing future interest rate movements, while a broker earns income by way of commission or service fees (Du-Baladad, 2010). They can also act as both brokers and dealers at the same time.

The role of brokers has evolved through the years as compared to dealers. Brokers are not just engaged in the buying and selling of securities on behalf of their clients, but are also involved in helping investors wade through the whole investment process, e.g., providing research-based advice on stocks, helping clients invest in alternative assets, and subscribing to initial public offerings (IPOs) and mutual funds schemes. Some of the important roles the new age brokers play in a client’s investment journey are as follows (Kotak Securities, 2013):

- a. Buying and selling stocks – this is the primary function of a broker. They act as intermediaries for their client’s transaction on exchanges and buy and sell securities for individuals who have signed up with them as clients. With the onset of online trading facilities, investors could directly execute trades on the trading platform offered by the brokerage house;
- b. Research and advice – most of the brokerage houses now have set up in-house research team that scan companies and stocks as well as analyze the macro-economic scenario that impacts the stock market. With the inputs from the research team, brokerage house puts buy or sell recommendation on stocks while some also have technical analysts who would provide market trends and intra-day trading tips. They send out news and other alerts on a continuous basis. Brokers also conduct investor education programs to help improve their clients’ knowledge about investing in the markets;
- c. Personalized service – most brokerage houses assign a relationship manager who would act as an advisor to advice clients when to make transactions and guide them about what to look for in the market dealings; and
- d. Invest in other asset class – apart from investing in stocks, brokers also help investors invest in other assets classes like commodities, Exchange Traded Funds (ETFs)<sup>2</sup>, and mutual fund products. They also help investors to invest in IPOs of companies.

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<sup>2</sup> An ETF is an open-end investment company that trades its shares in the stock exchange. An ETF company issues its shares in blocks called “creation units” in exchange for a basket of securities comprising the index it wishes to track. Creation is normally done by institutional investors, who break down the block into smaller portions and sell to retail investors in the exchange (PSE Academy, 2013).

There are three categories of securities dealers and brokers in the country: (a) Philippine Stock Exchange (PSE) members/Trading Participants (TPs) - individuals and corporate members of the PSE who are granted trading rights at the exchange (PSE, Inc., 2000); (b) non-PSE members who are licensed by the SEC who deal only with proprietary shares<sup>3</sup> (International Monetary Fund, 2002); and (c) Government Securities Eligible Dealers (GSEDs) who are SEC-licensed securities dealers belonging to a service industry supervised/regulated by either the SEC, Bangko Sentral ng Pilipinas (BSP), or the Insurance Commission (IC) who have met the following requirements (Bureau of the Treasury (BTr), 2019):

- a. P100 million unimpaired capital and surplus account;
- b. Has the infrastructure for an electronic interface with the National Registry of Scripless Securities (NRoSS); and
- c. Acknowledged by the BTr as eligible to participate in the primary auction of government securities.

As of 2018, the SEC regulates 132 PSE members/TPs, 13 non-PSE members, and 47 GSEDs. (See Table 1.)

Table 1

*Number of Securities Brokers and Dealers in the Philippines, 2008-2018*

Year	PSE members/TPs	Non-PSE members	GSEDs
2008	132	17	62
2009	132	17	62
2010	133	12	60
2011	132	11	59
2012	134	13	52
2013	134	13	48
2014	134	13	48
2015	134	13	47
2016	137	11	47
2017	135	11	47
2018	132	13	47

*Notes.* Numbers per category are total as of end of period indicated.  
Data gathered from SEC.

Securities may be traded either at the local stock exchange or over-the-counter (OTC). An exchange is an organized market place or facility that brings together buyers and sellers

<sup>3</sup> Proprietary shares are evidence of interest or participation of or privilege in a corporation which not only entitles the holder to enjoy the use of a specific property but also to dividends or earnings of a company. Upon liquidation of the company, a holder of proprietary share or certificate shall have proportionate ownership right over its assets (SEC, 2015).

and executes trades of securities and/or commodities (SRC, 2000) while an OTC refers to the market created by the buying and selling of a security on bilateral basis between parties that takes place outside of an exchange or alternative trading system (SEC Memorandum Circular No. 14 s. 2006).

There are two exchanges in the country - the PSE and the Philippine Dealing and Exchange Corporation (PDEX). The SEC granted both exchanges a “Self-Regulatory Organization” status which means that they can create and implement their own rules among their players in the securities market. The PSE brings buyers and sellers together and facilitates the sale and purchase of shares of stock. The PDEX, on the other hand, operates the organized secondary market for the trading of fixed income securities which include both corporate and GS. As of February 2019, the PSE has a total of 323 listed companies while the PDEX has a total of 50 issuers of corporate securities and 119 listed and traded GS as of April 2019.

There are two types of brokers in the PSE, traditional and online. Traditional stockbrokers are those who assign a licensed salesman to handle a client’s account and to take orders via a written instruction or a phone call, while online stockbrokers are those whose main interface is the internet where clients execute their orders and access market information online (PSE Academy, 2019). The PSE originally issued 184 trading rights. As of March 2019, the PSE has 131 members/TPs, 102 are traditional stockbrokers and the rest (29) are online stockbrokers.

From the 131 active PSE members/TPs, 95 percent were licensed as broker-dealers while six as brokers only. Aside from being brokers, the PSE members/TPs also offer research services to their clients: (a) 49 percent are with research services; (b) 18 percent with online services; and (c) 4 percent offers both research and online services.

As to client type, the PSE members/TPs cater to retail and institutional investors. Retail investors are individuals who purchase securities for their own personal account rather than for an organization (Investing Answers, 2019) while institutional investors are organizations whose primary purpose is to invest their own assets or those entrusted to them by others. The most common institutional investors are employee pension funds, insurance companies, mutual funds, university endowments, and banks (PSE Academy, 2019). Majority or 51 percent of PSE members/TPs cater to retail investors; 28 percent cater to both retail and institutional investors; and 15 percent provide services to institutional investors only. (See Table 2.)

As of March 2019, there were 45 PDEX securities brokers and dealers members, 29 or 64 percent of which were licensed broker-dealer; 11 or 24 percent were dealers; three or 7 percent were voice brokers<sup>4</sup>; and two or 4 percent were licensed broker only. (See Table 3.)

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<sup>4</sup> Refer to as an interdealer broker who brokers derivatives transactions via telephone, instant message, or similar means of communication (U.S. Commodity Futures Trading Commission, 2019).

Table 2

*Profile of PSE Active Trading Participants (As of March 2019)*

Particulars	Number	% Share to total
<b>Total Number of PSE members/TPs</b>	<b>131</b>	<b>-</b>
LICENSE TYPE		
Broker	6	5
Broker-Dealer	125	95
SERVICES OFFERED		
Online	23	18
With Research	63	49
With Research, Online	6	4
Not specified	39	30
CLIENT SERVICE TYPE		
Institutional	21	16
Retail	67	51
Retail, Institutional	40	31
Not specified	3	2

*Note.* Data gathered from PSE.

Table 3

*Profile of PDEX Brokers and Dealers Members (As of March 2019)*

License type	Number	% Share to total
Broker	2	4
Voice Broker	3	7
Dealer	11	24
Broker-Dealer	29	64
<b>TOTAL</b>	<b>45</b>	<b>-</b>

*Note.* Data gathered from PDEX.

From 2008-2018, there were an average of P5.357 trillion securities traded annually, majority of which or 67.88 percent were GS amounting to P3.64 trillion. The shares of stock traded were valued at P1.69 trillion representing 31.58 percent of the total securities traded in the country while the remaining 0.54 percent were corporate securities totaling P28.73 billion. (See Table 4.)

Table 4

*Annual Value of Shares of Stock, Corporate and Government Securities Traded in the Philippines, 2008-2018 (Amounts in Billion Pesos)*

Year	Shares of stock	Corporate securities	Government securities	Total
2008	763.90	0.58	1,935.21	2,699.69
2009	994.15	2.21	2,579.41	3,575.76
2010	1,207.38	45.00	5,351.14	6,603.52
2011	1,422.59	11.13	4,151.51	5,585.24
2012	1,771.71	15.24	5,042.05	6,829.01
2013	2,546.18	40.34	5,691.66	8,278.18
2014	2,130.12	45.95	4,403.37	6,579.44
2015	2,151.41	39.97	3,383.40	5,574.78
2016	1,929.50	42.98	2,886.53	4,859.00
2017	1,958.36	45.18	2,631.56	4,635.10
2018	1,736.82	27.44	1,944.42	3,708.68
Average	1,692.01	28.73	3,636.39	5,357.13
Share	31.58%	0.54%	67.88%	100.00%

*Note.* Data on shares of stock gathered from PSE. Data on corporate and GS retrieved from PDEX.

### III. TAXATION OF SECURITIES BROKERS AND DEALERS IN THE PHILIPPINES

Securities brokers and dealers are subject to the following taxes in the same manner as other entities engaged in the business as sellers of service under the National Internal Revenue Code (NIRC) of 1997, as amended by RA 10963 or the “Tax Reform for Acceleration and Inclusion (TRAIN)” law.

Presently, under the Philippine Standard Industrial Classification (PSIC) of 1994, there are two classifications of activities in the country that are engaged in securities trading. These are security dealing activities (PSIC 6812) and securities dealership, own account (PSIC 6693). Security dealing activities include dealing in financial markets on behalf of others (e.g. stock broking) and related activities (National Statistical Coordination Board (NSCB), 1994) while securities dealership, own account are non-bank financial intermediation primarily concerned with investment in securities (e.g., shares, bonds, bills, unit trust units, etc.) including dealing for own account.

The current taxation of securities brokers and dealers are enumerated under the NIRC of 1997, as amended, to wit:

#### A. Income Tax

Income generated from activities as securities broker or dealer is subject to the 30 percent regular corporate income tax (RCIT) based on net income or

to 2 percent minimum corporate income tax (MCIT) based on gross income beginning the fourth taxable year immediately following the taxable year in which such corporation commences its business operations. The MCIT shall be imposed whenever such corporation has zero or negative taxable income or whenever the amount of MCIT is greater than the normal income tax due from such corporation. However, a deduction from taxable gross income is allowed for dealers in securities as regards losses sustained from wash sales<sup>5</sup> of stocks or securities (Section 38, NIRC of 1997, as amended).

From 2008 to 2018, there were a total of 1,643 tax filers of income tax engaged in securities trading or an average of 149 annually, majority or 62 percent of which or 1,017 corporations were engaged in security dealing activities, while 38 percent or 626 were into security dealership, own account. As to the amount of income taxes paid, the BIR collected a total of P7.176 billion for 2018 or an annual average of P652 million where 54 percent were paid by corporations with registered business of security dealership, own account and 46 percent paid by those engaged in security dealing activities. (See Table 5.)

Table 5

*Number and Income Tax Paid of Tax Filers Engaged in Securities Trading, 2008-2018  
(Amounts in Million Pesos)*

Year	Security dealing activities (PSIC 6812)		Security dealership own account (PSIC 6693)		Total	
	No. of tax filers	Income tax paid	No. of tax filers	Income tax paid	No. of tax filers	Income tax paid
2008	73	357.25	62	230.20	135	587.45
2009	64	109.78	49	126.38	113	236.16
2010	79	229.23	57	167.65	136	396.88
2011	87	298.93	67	406.83	154	705.76
2012	101	333.40	68	465.22	169	798.62
2013	100	559.89	66	671.88	166	1,231.77
2014	91	401.08	62	458.09	153	859.17
2015	103	314.52	57	402.37	160	716.89
2016	95	249.41	42	342.95	137	592.36
2017	106	222.01	46	335.14	152	557.15
2018	118	212.17	50	281.71	168	493.88
Total	1,017	3,287.67	626	3,888.42	1,643	7,176.09
Average	92	298.88	57	353.49	149	652.37

*Note.* Data gathered from the BIR Integrated Tax System (ITS). Number of tax filers refers to the count of tax filers of BIR Forms 1702 and 1702Q with distinct 9-digit tax identification number (TIN).

<sup>5</sup> Wash sale refers to the sale or other disposition of shares of stock or securities where it appears that within a period beginning 30 days before the date of such sale or disposition and ending 30 days after such date, the dealer has acquired (by purchase or by exchange upon which the entire amount of gain or loss was recognized by law), or has entered into a contract or option to acquire, substantially identical stock or securities (Du-Baladad, 2010).

## B. Value Added Tax (VAT)

Pursuant to Section 108, a 12 percent VAT is imposed on gross receipts derived from the sale or exchange of services. The sale or exchange of services means performance of all kinds of services in the Philippines for others for a fee, remuneration or consideration.

Sales, barter or exchanges, whether listed and traded through the local stock exchange or not, are subject to the VAT only if the seller is a dealer in securities otherwise exempt therefrom. Dealers in securities are considered as sellers of services and not as financial intermediaries, thus, they are under the VAT system. Revenue Memorandum Circular (RMC) No. 13-96<sup>6</sup> lays down the rules in determining the gross receipts from the sale of shares of stock that is subject to the 12 percent VAT. The circular provides that for the sale of securities listed and traded in the local stock exchange, the taxable base is the gross income<sup>7</sup> 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.

Securities brokers are also subject to 12 percent VAT based on gross receipts from their commissions and other service fees. Trading participants' commission vary per broker, but the maximum a broker can charge is 0.25 percent of the gross trade amount or a fixed minimum fee of P20.00, whichever is higher. Meanwhile, based on the PSE Interpretative Guidelines of the Rule on Minimum Commission, the minimum commission rates for trade transactions covering equity and equity related products are as follows:

<u>Transaction value</u>	<u>Minimum commission</u>
P100M and below	0.25%
More than P100M up to P500M	0.15% but not less than P250K
More than P500M up to P1B	0.125% but not less than P750K
More than 1B up to P5B	0.10% but not less than P1.25M
More than P5B up to P10B	0.075% but not less than P5M
More than P10B	0.05% but not less than P7.5M

The TP may apply either the percentage rate or the fixed peso rate, whichever is higher. The fixed peso rate is only intended to serve as the floor or minimum rate for a transaction bracket.

<sup>6</sup> 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 9243, and for Other Purpose", signed June 30, 2009.

<sup>7</sup> Gross income refers to total gross selling price less total acquisition cost of securities sold for the month or quarter plus incidental income.

On the other hand, under Rule 6.3.7 of PDEX Rules for the Fixed Income Securities Market, as amended, PDEX brokering participant imposes a fee depending on the tenor of securities. For securities with tenors of over one year, a minimum commission is a flat fee of 10 basis points (0.1%) of the face value while for securities with tenors of one year or less, the broker commission is 10 basis points of the face value computed based on the actual number of days/360.

From 2008 to 2018, there were a total of 2,735 VAT tax filers which translated to P9,989.70 billion VAT payments from businesses engaged in securities trading. There were 1,796 tax filers engaged in security dealing activities with total VAT payment amounting to P4,930 billion, and 939 VAT tax filers engaged in security dealership, own account with accumulated VAT payment of P5.06 billion. (See Table 6.)

Table 6

*Number and Amount of VAT Paid by Tax Filers Engaged in Securities Trading, 2008-2018 (Amounts in Million Pesos)*

Year	Security dealing activities (PSIC 6812)		Security dealership own account (PSIC 6693)		Total	
	No. of tax filers	VAT paid	No. of tax filers	VAT paid	No. of tax filers	VAT paid
2008	127	262.33	83	206.47	210	468.80
2009	133	245.07	82	209.83	215	454.90
2010	135	313.27	76	322.17	211	635.43
2011	144	358.32	85	429.93	229	788.25
2012	155	471.79	83	508.11	238	979.90
2013	156	619.74	89	719.76	245	1,339.49
2014	168	604.48	90	584.01	258	1,188.49
2015	172	560.13	92	541.71	264	1,101.85
2016	189	527.77	87	516.21	276	1,043.98
2017	208	496.87	89	546.28	297	1,043.15
2018	209	470.00	83	475.45	292	945.45
Total	1,796	4,929.76	939	5,059.93	2,735	9,989.70
Average	163	448.16	85	459.99	249	908.15

*Note.* Data gathered from the BIR ITS. Number of tax filers refer to the count of tax filers of BIR Forms 2550M and 2550Q with distinct 9-digit TIN.

### C. Stock Transaction Tax (STT)/Initial Public Offering (IPO) Tax

The STT is a percentage tax imposed on every sale, barter, exchange or other disposition of shares of stock listed and traded through the local stock exchange a tax at the rate of 0.6 percent of the gross selling price or gross value in money of the shares of stock sold, bartered, exchanged or otherwise disposed which shall be paid by the seller/transferor. The sale, barter or exchange of shares of stock listed and traded through the local stock exchange by a dealer in securities is not subject to the

STT (Section 127(A), NIRC of 1997, as amended) but to RCIT/MCIT as income gained therefrom are considered active/ordinary income. Any gain derived from the sale, barter, exchange or other disposition of shares of stock on which the STT has already been applied will no longer be subject to the income tax and is not deductible for income tax purposes (Section 127(D), NIRC of 1997, as amended).

On the other hand, a broker who effected a sale, barter, exchange or disposition through secondary public offering of shares of stock in closely-held corporations<sup>8</sup> is subject to the IPO tax based on the gross selling price or gross value in money of the shares of stock sold, bartered, exchanged or otherwise disposed. Section 2(l) of BIR Revenue Regulations (RR) No. 6-2008<sup>9</sup> defines secondary offering as an offer for sale to the investing public by the existing shareholders of their securities which is conducted during an IPO or a follow-on/follow-through offering (an offering of shares to the investing public subsequent to an IPO) (BIR Revenue Regulation No. 6-2008). The rate of IPO tax applicable is based on the proportion of shares of stock sold, bartered, exchanged or otherwise disposed to the outstanding shares of stock after listed in the local stock exchange at the following rates:

<u>Tax base</u>	<u>Tax rate (%)</u>
Up to 25%	4
Over 25% but not over 33 1/3%	2
Over 33 1/3%	1

The broker who effected the sale of shares of stock is required to collect the STT/IPO tax on said transaction and remit the same to the BIR within five banking days from the date of collection thereof and to submit on Mondays of each week to the secretary of the stock exchange, of which the stockbroker is a member, a true and complete return which shall contain a declaration of all the transactions effected through him/her during the preceding week and of taxes collected by him/her and turned over to the BIR (Section 127(C), NIRC of 1997, as amended).

From 2008-2018, the BIR collected a total of P80.84 billion STT/IPO tax from the 1,237 tax filers engaged in securities trading where P35 billion were collected from security dealing activities, and P46 billion from security dealership, own account for their brokering activity. (See Table 7.)

<sup>8</sup> A closely-held corporation means any corporation at least 50 percent in value of the outstanding capital stock or at least 50 percent of the total combined voting power of all classes of stock entitled to vote is owned directly or indirect by or for not more than 20 individuals.

<sup>9</sup> Entitled "Consolidated Regulations Prescribing the Rules on the Taxation of Sale, Barter, Exchange or Other Disposition of Shares of Stock Held as Capital Assets" issued April 22, 2008.

Table 7

*Number and Amount of STT/IPO Tax Paid by Tax Filers Engaged in Securities Trading, 2008-2018  
(Amounts in Million Pesos)*

Year	Security dealing activities (PSIC 6812)		Security dealership own account (PSIC 6693)		Total	
	No. of tax filers	STT/IPO collected	No. of tax filers	STT/IPO collected	No. of tax filers	STT/IPO collected
2008	43	1,414.82	54	1,529.87	97	2,944.69
2009	43	1,708.85	55	2,237.07	98	3,945.92
2010	45	2,253.98	57	2,556.02	102	4,810.00
2011	47	2,325.13	62	3,629.57	109	5,954.71
2012	53	3,394.65	67	4,349.52	120	7,744.16
2013	52	4,667.66	68	6,731.71	120	11,399.37
2014	52	3,976.02	68	4,854.16	120	8,830.18
2015	50	4,135.56	68	5,066.98	118	9,202.53
2016	50	3,951.60	67	4,667.07	117	8,618.67
2017	51	3,579.73	68	4,984.60	119	8,564.33
2018	50	3,431.13	67	5,396.85	117	8,827.98
Total	536	34,839.12	701	46,003.42	1,237	80,842.54
Average	49	3,167.19	64	4,182.13	112	7,349.32

*Note.* Data gathered from the BIR ITS. Number of tax filers refers to the count of tax filers of BIR Form 2552 with distinct 9-digit TIN.

#### D. Capital Gains Tax (CGT)

The sale, barter, and exchange of shares of stock held as a capital asset effected by a person other than dealer in securities is likewise subject to CGT. Similar to the STT/IPO tax, the 15 percent CGT is imposed as a final tax on net capital gain derived from the sale or disposition of the shares of stock in a domestic corporation except those disposed of through the local stock exchange.

The tax applies whether the seller is an individual or a corporation. In case the seller is a resident of a country with which the Philippines has a tax treaty and is not engaged in business in the Philippines, the tax treaty rate may apply if it is lower than the 15 percent CGT.

From 2008 to 2018, the BIR collected a total of P52.90 million CGT from 65 tax filers engaged in securities trading activities wherein P10.48 million came from 34 tax filers registered under security dealing activities, and P42.42 million paid by 31 tax filers engaged in security dealership, own account from their brokering activities. (See Table 8.)

Table 8

*Number and Amount of CGT Paid by Tax Filers Engaged in Securities Trading, 2008-2018*  
*(Amounts in Million Pesos)*

Year	Security dealing activities (PSIC 6812)		Security dealership own account (PSIC 6693)		Total	
	No. of tax filers	CGT collected	No. of tax filers	CGT collected	No. of tax filers	CGT collected
2008	1	0.12	2	0.06	3	0.17
2009	3	1.74	-	-	3	1.74
2010	4	0.08	4	1.13	8	1.21
2011	2	0.02	4	37.37	6	37.39
2012	2	0.08	6	0.04	8	0.12
2013	9	0.02	8	0.01	17	0.03
2014	5	0.73	2	3.15	7	3.88
2015	1	5.03	5	0.66	6	5.69
2016	4	2.64	-	-	4	2.64
2017	3	0.03	-	-	3	0.03
2018	-	-	-	-	-	-
Total	34	10.48	31	42.42	65	52.90
Average	3	0.95	3	3.86	6	4.81

*Note.* Data gathered from the BIR ITS. Number of tax filers refers to the count of tax filers of BIR Form 1707 with distinct 9-digit TIN.

### E. Documentary Stamp Tax (DST)

A dealer in securities is subject to the DST with respect to its own transactions or taxable documents issued by him/her as follows:

- a. On every original issue of shares of stock, a DST of P2.00 on each P200.00 or equivalent to 1 percent or fractional part thereof, on the par value of such shares of stock. Provided, that in the case of the original issue of shares of stock without par value, the amount of the DST shall be based upon the actual consideration for the issuance of such shares of stock. Further, in the case of stock dividends, on the actual value represented by each share;
- b. On all sales, or agreements to sell, or memoranda of sales, or deliveries, or transfer of shares of certificates of stock in any association, company, or corporation, or transfer of such securities by assignment in blank, or by delivery, or by any paper or agreement, or memorandum or other evidences of transfer or sale whether entitling the holder in any manner to the benefit of such stock, or to secure future payment of money, or for the future transfer of any stock, a DST of P1.50 on each P200.00 or equivalent to 0.75 percent, or fractional part thereof, of the par value of such stock. Provided, that only one tax shall be collected on each sale or transfer of stock from one person to another, regardless of whether or not a certificate of stock is issued, indorsed, or delivered in pursuance of such sale or transfer. Further, in the case of stock without par

value the amount of the DST imposed is equivalent to 50 percent of the DST paid upon the original issue of said stock; and

- c. On every original issue of debt instruments, a DST of P1.50 on each P200.00 or equivalent to 0.75 percent, or fractional part thereof, of the issue price of any such debt instruments: Provided, that for such debt instruments with terms of less than one year, the DST to be collected shall be of a proportional amount in accordance with the ratio of its term in number of days to 365 days: Provided, further, that only one DST is imposed on either loan agreement, or promissory note issued to secure such loan.

On the other hand, securities brokers, being merely an arranger for the sales and purchases of stocks to be made, are not liable to the DST on documents and transactions entered into by their principals (Du-Baladad, 2010). The person who sold/bought the shares of stock is the one liable to the DST. It is, however, the duty of the securities broker to withhold and remit to the BIR the DST on said transaction.

From 2008 to 2018, a total of 1,061 tax filers engaged in securities trading paid DST amounting to P226 million. Majority or 71 percent of total DST of P161.24 million came from security dealership, own account. On the other hand, there were 614 securities brokers tax filers with accumulated DST payment of P64 million for the period under review. (See Table 9.)

Table 9

*Number and Amount of DST Paid by Tax Filers Engaged in Securities Trading, 2008-2018*  
(Amounts in Million Pesos)

Year	Security dealing activities (PSIC 6812)		Security dealership own account (PSIC 6693)		Total	
	No. of tax filers	DST collected	No. of tax filers	DST collected	No. of tax filers	DST collected
2008	23	0.82	21	4.43	44	5.25
2009	51	4.20	42	13.97	93	18.17
2010	44	3.60	39	8.96	83	12.56
2011	53	3.58	45	17.07	98	20.66
2012	52	4.17	43	10.83	95	15.00
2013	62	8.56	46	16.22	108	24.78
2014	51	16.28	38	27.79	89	44.06
2015	66	2.58	38	22.16	104	24.74
2016	69	3.93	33	5.18	102	9.12
2017	82	4.68	44	15.66	126	20.34
2018	61	12.08	58	18.98	119	31.06
Total	614	64.49	447	161.24	1,061	225.73
Average	56	5.86	41	14.66	96	20.52

*Note.* Data gathered from the BIR ITS. Number of tax filers refers to the count of tax filers of BIR Forms 2000 and 2000-OT with distinct 9-digit TIN.

The sale, barter, or exchange of shares of stock listed and traded through the local stock exchange are exempted from the DST pursuant to Section 199(e) of the NIRC of 1997, as amended.

Table 10 summarizes the taxes imposed and/or withheld by securities brokers and dealers in the country.

Table 10

*Comparative Summary of Taxes Imposed on Securities Brokers and Dealers*

Type of tax	Brokers	Dealers
Corporate Income Tax	30% on net income generated from activities as broker (commissions and service fees)	30% on net income generated from activities as dealer (as active/ordinary income)
Value Added Tax	12% on commission and other service fees	12% on gross receipts from the sale of shares of stock
Stock Transaction Tax	0.6% on effected sale of shares of stock based on gross selling price/gross value in money	Not applicable
Initial Public Offering Tax	1%-4% on effected sale through secondary public offering of shares of stock based on GSP/GV in money	Not applicable.
Capital Gains Tax	15% final tax on effected sale of shares of stock not traded at the local stock exchange based on net capital gain	Not applicable.
Documentary Stamp Tax	Not applicable	0.75% -1% of taxable document/transaction

#### IV. PROPOSED REFORMS UNDER PACKAGE 4 OF THE CTRP

Package 4, also known as the Passive Income and Financial Intermediary Taxation Act (PIFITA) of the CTRP, amends certain sections of the NIRC of 1997, as amended, particularly the taxation of passive income and financial intermediaries to be simpler, fairer, more efficient, and more regionally competitive to allow the capital market to develop as

efficiently as possible, with the least intervention. The PIFITA bill or House Bill (HB) No. 304 authored by Congressman Joey Sarte Salceda was approved on third and final reading at the House of Representative on September 9, 2019 and is being deliberated at the Senate under the Committee on Ways and Means. Below are the proposals under HB 304.

#### **a. Dividend income**

Package 4 proposes to adopt a uniform final tax of 15 percent on interest income, dividends, and capital gains. This would effectively increase the tax on dividend income of citizens and resident aliens from its current rate of 10 percent. However, as brokers and dealers are corporate in structure, their intercorporate dividend income remains exempt like a domestic corporation and resident foreign corporation under Package 4. Meanwhile, dividends received by a domestic corporation from a foreign subsidiary can be exempted from income tax up to 95 percent subject to certain conditions<sup>10</sup>.

#### **b. Trading gains**

Amidst the competition in the ASEAN region and that most member-countries do not impose a tax on secondary trading, the Philippines is imposing a very high rate of STT of 0.6 percent. Thus, to encourage higher secondary market participation and trading higher volume, Package 4 proposes that the STT be reduced by one percentage point every year until it becomes zero by 2026. On the other hand, trading gains of dealers in securities will not be subject to the STT but to the regular income tax as ordinary income. Moreover, Package 4 transfers the STT provision from Title V (Other Percentage Taxes) to Title II (Income Tax) of the Tax Code to clarify its nature as a tax on income.

Also, Package 4 proposes to remove the IPO tax to encourage public listing in the country's stock exchange. Over the years, its imposition serves as a deterrent for private companies to go public. It is essentially a tax on capital, and does not take into consideration income generation. 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.

For debt instruments, Package 4 proposes to shift the taxation of its trading gains from the regular income tax to FT to lower administration and compliance cost. Specifically, the proposal is to impose a 0.1 percent final transaction tax for listed debt instruments for five years until it becomes zero by 2026, and a 15 percent CGT

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<sup>10</sup> The following are the conditions to be exempt from tax: (a) the domestic corporation holds directly or indirectly at least 20 percent shareholdings of the subsidiary company and has held the shareholdings for a minimum of two years at the time of the dividends distribution; (b) the subsidiary operating company is subject to at least 10 percent income tax and to withholding tax on the dividends distributed to the domestic corporation, unless otherwise exempt under local laws; and (c) the limitation under Section 34(C) (deduction from gross income) is not observed in connection with any taxes paid or accrued in any foreign country in respect to such dividends. (Section 6, HB 304 – amending Section 27(D) of the NIRC of 1997, as amended).

based on net gain for unlisted debt instruments regardless of the recipient of income. Further, with the thrust of Package 4 of simplifying tax rates, it also seeks the removal of the income tax exemption of debt instruments with tenors of more than five years.

### c. VAT

Under HB 304, securities brokers and dealers are included in the definition of the term ‘financial institution or financial intermediaries’ under Section 20(GG). However, regulatory government agencies including SEC are given the authority to classify other entities as financial institutions for tax purposes. Thus, in the event that they will be classified as financial institutions, income on the sale/exchange of securities by securities brokers and dealers, which is presently subject to 12 percent VAT, will be imposed five percent GRT under Section 122 of the Tax Code. Similarly, commissions earned by securities brokers will be subject to the five percent GRT.

### d. DST

There are three major categories of DST being imposed in the buying or selling of securities. To reduce friction cost and level the playing field, Package 4 proposes that the sale or transfer of unlisted shares or certificates of stock be likewise be exempt from the DST, similar to those traded at the PSE. It would also put unlisted shares of stock at par with the 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 percent, is proposed to be lowered to 0.75 percent to equate with debt instruments.

Table 11 summarizes the proposed taxation of securities brokers and dealers under Package 4 of the CTRP.

Table 11

*Proposed Reforms on the Taxation of Securities Brokers and Dealers Under Package 4 of the CTRP*

Type of tax	Present	Proposed
<b>A. Tax on dividend</b>	Exempt, 10%, 20%, 30%	15%, but intercorporate dividends exempt
<b>B. Value Added Tax</b>	12% VAT	5% GRT (if classified as financial institution); otherwise, retain 12% VAT

Type of tax	Present	Proposed
<b>C. Tax on trading gains</b>		
1. Shares of stock	1. 0.6% based on gross selling price /gross value in money on listed shares of stock	1. Gradual reduction by 0.1 percentage point every year until it becomes zero by 2026.
	2. 15% CGT on unlisted shares of stock	2. No change
2. Debt instruments	1. Maturity of less than five years – regular income tax	1. 0.1% transaction tax based on gross selling price or gross value in money for listed debt instruments
	2. Maturity of more than five years – exempt	2. 15% CGT on net gains for unlisted debt instruments
<b>D. Documentary Stamp Tax</b>		
1. Original issue of shares of stock	1%	Reduced to 0.75%
2. Sales, or agreements to sell, or memoranda of sales, or deliveries, or transfer of shares or certificates of stock	0.75%	Removed
3. Original issue of debt instruments	0.75%	No change

## V. CONCLUSION

Securities trading cannot be effected successfully without the aid of securities brokers and dealers especially since they now provide wider range of services to their clients. With the current policy of the government to develop the capital market by creating a favorable market environment among its participants, there will be increased capital mobility and greater financial inclusion via Package 4 of the CTRP. Hence, securities brokers and dealers are expected to contribute to financial goals and continuously hold a vital role in the country's capital market and economic development.



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