Facts in Figures

Congressional Policy and Budget Research Department
House of Representatives
September 2022 (No. 56)

Financial Sector Tax Collections, 2019-2021

The financial sector is composed of banks, non-bank financial intermediaries, life insurances, health maintenance organizations (HMOs) and other pre-need companies (PIDS 2018). Tax sources from the financial sector may be broadly categorized into passive income, financial intermediation, and documentary stamp tax (DST).

Tax collections from the financial sector declined by 6.0% in 2019 and further by 10.5% in 2020 *(Table 1).* From P186.4 billion in 2019, collections dropped to P166.8 billion in 2020. However, collections from this source grew by 216.5% in 2021 to P527.9 billion. In particular, passive income grew by P338.3 billion in 2021 from only P66.3 billion in 2020. On average (2019-2021), 52.9% of the financial sector tax collections are from passive income. About 37.7% of the bulk of collections are from DSTs and the remaining 9.4% are from financial intermediaries.

Table 1
Financial Sector Tax Collection, 2019-2021
(In Billion Pesos And %)

Particulars	2019	2020	2021
Nominal (In Billions)			
Passive Income	79.0	66.3	404.6
Financial Intermediaries	17.5	19.6	37.6
Documentary Stamp Tax (DST) on Financial Transactions	89.9	80.9	85.7
Total	**186.4**	**166.8**	**527.9**
Growth Rate (in %)			
Passive Income	(12.2)	(16.1)	510.3
Financial Intermediaries	(28.9)	12.0	91.8
Documentary Stamp Tax (DST) on Financial Transactions	7.3	(10.0)	5.9
Total	**(6.0)**	**(10.5)**	**216.5**
% to Gross Value Added in Financial Sector			
Passive Income	0.90	0.72	4.28
Financial Intermediaries	0.20	0.21	0.40
Documentary Stamp Tax (DST) on Financial Transactions	1.03	0.88	0.91
Total	**2.13**	**1.82**	**5.59**

Source of basic data: Bureau of Internal Revenue (BIR); and Philippine Statistics Authority (PSA)

Tax to GVA ratio may be taken as the government's ability to capture its share in the economic activities arising from the financial sector.

In 2020, the ratio of taxes on financial sector to gross value added (GVA) declined – from 2.13% in 2019 to 1.82%. In 2021, ratio to GVA improved to 5.59% following a substantial increase in collection in passive income.

Tax on passive income refers to final taxes levied on income resulting from cash flows received from interest, dividends, stock transactions, and initial public offerings (IPO), among others. These incomes require minimal to no effort by the recipient to maintain and/or earn.

Table 2
Passive Income Tax Collection, 2019-2021
(In Billion Pesos and %)

Particulars	2019	2020	2021
Nominal (In Billions)			
Interest income	**14.1**	**10.5**	**48.4**
Savings/Time Deposit	2.7	2.2	2.6
Government Securities	1.8	–	–
Long-term Deposits/Investments	0.2	0.2	0.1
Foreign Currency Deposits	–	0.1	0.2
Others	9.4	8.0	45.5
Dividends	**41.4**	**36.6**	**258.6**
Cash	20.1	16.6	140.9
Property	21.3	20.0	117.7
STT, IPO Tax	**10.0**	**9.4**	**9.4**
Others	**13.5**	**9.8**	**88.2**
Total	**79.0**	**66.3**	**404.6**
Growth Rate (in %)			
Interest income	**(55.9)**	**(25.5)**	**361.0**
Savings/Time Deposit	(87.6)	(18.5)	18.2
Government Securities	–	(100.0)	–
Long-term Deposits/Investments	–	–	(50.0)
Foreign Currency Deposits	(100.0)	–	100.0
Others	3.3	(14.9)	468.8
Dividends	**16.9**	**(11.6)**	**606.6**
Cash	13.6	(17.4)	748.8
Property	20.3	(6.1)	488.5
STT, IPO Tax	8.7	(6.0)	–
Others	0.7	(27.4)	800.0
Total	(12.2)	(16.1)	510.3

Source of basic data: BIR

Taxes imposed on interest income refer to the final taxes paid on earnings generated by investments such as savings accounts and certificates of deposits. Taxes from these sources constitute, on average, around 15.2% of total passive income tax collections in 2019-2021 followed by dividends at an average of 57.2% *(Table 2).* The remaining 27.6% can be attributed to Stock Transactions Tax (STT), IPO tax and other passive income.

Taxes on dividends, which pertains to final taxes on the distribution of accumulated earnings of an existing entity, increased from P36.6 billion in 2020 to P258.6 billion in 2021. In particular, taxes on cash dividends increased by 748.8% in 2021 from P16.6 billion in 2020. Similarly, taxes on property dividends amounted to P117.7 billion in 2021, which was P97.7 billion higher than the 2020 collection.

It is worth noting that in 2020, Republic Act 11494 or the Bayanihan II repealed taxes on IPO of shares of stocks. Specifically, Section 6 of the law removed the 1%, 2% or 4% tax rates under Section 127 (B) of the National Internal Revenue Code on the sale, barter, exchange or other disposition of shares of stock through IPO, in closely held corporations.

Tax on financial intermediaries (FIT) refers to taxes paid by financial intermediaries that serve as middlemen among diverse parties on financial transactions. Unlike capital markets where investors are in direct contact with corporations which create or issue marketable securities, financial intermediaries borrow from lenders for subsequent lending.

Table 3
Financial Intermediaries Tax Collection, 2019-2021, (In Billion Pesos and %)

Particulars	2019	2020	2021
Nominal (In Billions)			
Gross Receipts	0.6	0.4	19.7
VAT	15.2	17.7	15.6
Premiums Tax	1.7	1.5	2.3
Total	**17.5**	**19.6**	**37.6**
Growth Rate (in %)			
Gross Receipts	(85.4)	(33.3)	4,825.0
VAT	(19.1)	16.4	(11.9)
Premiums Tax	–	(11.8)	53.3
Total	**(28.9)**	**12.0**	**91.8**

Source of basic data: BIR

Total revenues from FIT increased from P17.5 billion in 2019 to P19.6 billion in 2020 or by 12%. Collections in 2021 further increased by 91.8% to P37.6 billion *(Table 3).*

Gross receipts tax is charged on bank and non-bank financial intermediaries performing quasi-banking transactions on interest, commissions and discount on lending activities, dividends and royalties. Between 2019-2020, gross receipts tax accounted for 2.7% of the total FIT receipts with collections amounting to only P0.6 billion and P0.4 billion in 2019 and 2020, respectively. In 2021, collections increased to P19.7 billion (or 4,825%) which accounted for more than half of FIT collections due to higher deposits recorded that year. This enabled banks and other FITs to continue extending credit support. Meanwhile, VAT performance posted higher collections in 2020 at 16.4%, but faltered in 2021 with 11.9% reduction in collections. VAT is imposed on non-life insurance, pre-need plans, pension, and security dealers/lending investors.

Table 4
DST Collections, 2019-2021
(In Billion Pesos and %)

Particulars	2019	2020	2021
Nominal (In Billions)			
General	69.0	62.0	65.4
Shares of Stock	4.3	3.0	4.20
Debt Instruments	8.2	8.2	8.4
Policies of Insurance on Property	4.0	4.1	4.9
Mortgages, Pledges and Deed of Trust	1.3	0.8	1.0
Others	3.1	2.8	1.8
Total	**89.9**	**80.9**	**85.7**
Growth Rate (in %)			
General	9.5	(10.1)	5.5
Shares of Stock	(27.1)	(30.2)	40.0
Debt Instruments	15.5	–	2.4
Policies of Insurance on Property	5.3	2.5	19.5
Mortgages, Pledges and Deed of Trust	–	(38.5)	25.0
Others	14.8	(9.7)	(35.7)
Total	**7.3**	**(10.0)**	**5.9**

Source of basic data: BIR

DST is a tax levied on documents, instruments, loan agreements and papers evidencing the acceptance, sale or transfer of an obligation, right or property. As shown in Table 4, DST collections increased from P80.9 billion in 2020 to P85.7 billion in 2021. Note that the *Bayanihan II*—through Revenue Memorandum Circular No. 22-2021 of the Bureau of Internal Revenue—exempted DST for loans extended or credits restructured granted by covered institutions for loans falling due on or before December 31, 2020.