

TAX UPDATES:

Recent Tax Reform Laws





Recent Tax Reform Laws

- 1. Republic Act No. 12214**
Capital Markets Efficient Promotion Act (CMEPA)
- 2. Republic Act No. 12253**
Enhanced Fiscal Regime for Large-Scale Metallic Mining Act
- 3. Republic Act No. 12235**
Excise Tax Treatment of Denatured Ethyl Alcohol



Capital Markets Efficiency Promotion Act - CMEPA (RA No. 12214)



Effectivity Date

❖ July 1, 2025

- Effectivity of CMEPA, as expressly written in the law



Main Policy & Objective

- ❖ To have a simpler, fairer, more efficient and regionally competitive passive income tax system to encourage savings as well as develop and deepen capital markets



1. New Definition of Terms

Securities (Sec. 22[T]) - from Securities Regulation Code, RA 8799

shares, participation, or interest in a corporation, commercial enterprise, or profit-making venture evidenced by a certificate, contract, or instrument, whether written or electronic in character, which shall include:

1. shares of stock, bonds, debentures, notes, evidence of indebtedness, and asset-backed securities;
2. investment contracts, certificates of interest, or participation in a profit-sharing agreement, such as certificates of deposit for a future subscription;
3. fractional undivided interests in oil, gas, or other mineral rights;



New Definition of Terms

Securities (Sec. 22 [T])- from Securities Regulation Code, RA 8799

4. certificates of assignment, certificates of participation, trust certificates, voting trust certificates, or similar instruments;
5. proprietary or non-proprietary membership certificates in corporations; and
6. other similar instruments as may be determined by the Securities and Exchange Commission.



New Definition of Terms

“Deposit Substitute” (Sec. 22 [Y]) – excludes from covered instruments **reverse repurchase agreement entered into by and between BSP and any AAB.**

Tax Implication:

- ❖ Previously, interest income is generally subject to 20% final withholding tax
- ❖ With the exclusion from the coverage of “*deposit substitute*” – interest income is subject to ordinary income tax (see **RR No. 14-2012**, as amended by **RR No. 1-2019** imposing **CWT of 15%** on interest from any other debt instruments not within the coverage of “deposit substitutes”).



New Definition of Terms

Passive income (Section 22 [M])

Any income that is earned from sources that do not require a taxpayer's active pursuit and performance of trade or business and is not subject to value-added tax.

(Note: For VAT purposes, however, in the course of trade or business, includes **transaction incidental thereto**. Also, **the rule of regularity, to the contrary notwithstanding**, services rendered in the Philippines by nonresident foreign persons, including **digital services** supplied/delivered by nonresident digital service providers and **consumed in the Philippines**, shall be considered as being rendered in the course of trade or business in the Philippines and, thus, subject to VAT [Sec. 105, 114 (C) Tax Code], as amended by RA 12023 or VAT on Digital Services Law).



2. Adjustment of Rates on Certain Passive Income

❖ **Uniform tax rates of 20% on interest income** of individuals and corporations, **regardless of term, deposit and type of deposit, EXCEPT:**

- (i) nonresident aliens not engaged in trade or business (NRANETB) and nonresident foreign corporation (NRFC) which shall remain subject to **25%** or the **tax treaty rate**
- (i) interest income from **foreign currency loans** granted by **depository banks** under expanded foreign currency deposit system (EFCDS) to **residents**, which is subject to **10%**.



Adjustment of Rates on Certain Passive Income

❖ **CMEPA removes and subject to final 20% interest income the ff:**

- (i) 15% interest income derived by residents (individual or corporation) from depositary banks under the expanded foreign currency deposit system (EFCDS)
- (ii) exemption from income tax of long term deposits or investment as well as the graduated rates of 5%, 12% or 20% on interest income earnings of pre-terminated long term terms or investment



Adjustment of Rates on Certain Passive Income

Still exempt from income tax:

- i. interest income derived by depository banks under the EFCDS from foreign currency transactions with non-residents, **offshore banking units** and **local commercial banks**, including branches of foreign banks authorized by BSP to transact business with FCDS units and EFCDS

- ii. any income of non-residents, whether individuals or corporations, from any transactions with depository banks under the EFCDS (Note: the tax exemption was retained thru the veto message by PBBM)



Adjustment of Rates on Certain Passive Income

- ❖ **Uniform final tax rate of 15%, for both individuals and corporations, on capital gains from the sale, exchange or other disposition of shares of stocks of a domestic or foreign corporation not traded in a local or foreign stock exchange**
- ❖ **Lowering the stock transaction tax (STT), in lieu of capital gains tax, from 0.6% to 0.1%. The STT applies to shares of stock and other securities listed and traded in a local or foreign stock exchange**



3. Additional Item in the Gross Income

- ❖ Institutionalizing **equity-based compensation** as part of the gross income, such as stock options, restricted stock units, stock appreciation rights, and similar items: ***Provided***, that equity-based compensation shall be included in the gross income at the **time of exercise**.

(Note: tax treatment of equity-based compensation is found in **RR 13-2022** & **RMC 143-2022**, which are consistent with CMEPA provisions)



Additional Item in the Gross Income

- ❖ Gains from the sale or exchange or retirement of bonds, debentures or other certificate of indebtedness, including those with a maturity of more than five (5) years.

(Note: If traded thru a local or foreign stock exchange, subject to stock transaction tax [STT] under Sec 127, Tax Code; otherwise, subject to ordinary income tax [graduated rates] for individual and regular corporate income tax for corporation)



4. Excluded Item from the Gross Income

- ❖ Interest income from **specific bonds that are issued by the Republic of the Philippines** or any of its instrumentalities to finance capital expenditures or programs covered by the Philippine Development Plan or its equivalent and other high-level priority programs of the National Government, as determined by the Secretary of Finance
- ❖ Gains from redemption of shares or of **units of participation** in Mutual Fund and **Unit Investment Trust Fund: *Provided*** that prior to such redemption, final taxes due on realized gains have been previously withheld at the level of the underlying assets.



5. Additional Deduction from the Gross Income

- ❖ **Grants 50% additional deduction** of the employer's actual contributions made to **Personal Equity and Retirement Account (PERA)** under RA No. 9505 that at least equal to the contribution of their employees: *Provided* that only private employers that contribute to all of their employees' PERA shall be eligible to the additional allowable deduction



Additional Deduction from Gross Income

Conditions for private employer to qualify for the additional 50% deduction:

- a) Employer's contribution must be at least equal to the employee's contribution, subject to the maximum PERA contribution allowed under RR No. 17-2011, as amended
- b) Employer must contribute to all of their employees with PERA account; and,
- c) Employee must have made qualified contribution to PERA within the same calendar year



6. Harmonization of DST Rates

Uniform tax rate of seventy-five percent of one percent (75% of 1%) for the following:

- ❖ **Section 174.** Stamp Tax on Original Issue of Shares of Stock: 75% of 1% of the par value of the shares of stocks
- ❖ **Section 176.** Stamp Tax on Bonds, Debentures, Certificates of Stock or Indebtedness Issued in Foreign Countries: 75% of 1% of the value of the transaction.



Harmonization of DST Rates

❖ **Section 179.** Stamp Tax on All Debt Instruments: 75% of 1% of the issue price of any debt instrument. *Provided, further,* that only one DST shall be imposed on loan agreement and promissory notes, **mortgage, security interest over personal property, and other contracts** issued to secure such loan

(Note: Where a loan agreement and a promissory note, mortgage and other contracts to secure such loan are **simultaneously** issued and executed, only one DST shall be imposed on either loan agreement or promissory note, mortgage, etc., whichever will yield a higher tax; but if only **one instrument** was prepared, made, signed or executed to cover a loan agreement/promissory note/pledge/mortgage, the DST prescribed in **Sec. 195**, Tax Code, on *Stamp Tax on Mortgages, Pledges and Deeds of Trust*, shall be paid and computed on the full amount of the loan or credit granted, treated as covering **one taxable transaction**.



7. Additional DST Exemption

Additional documents exempt from DST under Section 199

- ❖ Sale, exchange, **redemption, or other disposition** of shares of stock listed and traded through a local or foreign stock exchange
- ❖ Original issuance, redemption, or other disposition of shares in a **mutual fund company**
- ❖ Issuance of certificate or other evidence of participation in **mutual fund or unit investment trust fund**



8. Transitory Provision

- ❖ Any tax exemption and preferential rate on financial instrument **issued** or **transacted** **prior** to July 1, 2025 shall be subject to the prevailing tax rate at the time of its issuance **for the remaining maturity of the relevant agreement.**

(Note: Prevailing rate or tax exemption prior to July 1 2025 shall apply only **for the remaining maturity of the relevant agreement.** Thus -

- ❖ financial instrument **issued** or **transacted** prior to July 1, 2025 as evidenced by the instrument itself or any other relevant agreement either in written or electronic format)
- ❖ the instrument itself or agreement provides for the maturity period of the financial instrument
- ❖ the maturity period agreed upon/stated in the instrument is beyond July 1, 2025
- ❖ **no** change in the maturity date or remaining period of coverage from that of the original instrument/agreement; and,
- ❖ **no** renewal or issuance of a new instrument to replace the old ones, **after July 1, 2025**



Enhanced Fiscal Regime for Large-Scale Metallic Mining Act (RA No. 12253)



Effectivity

- ✓ Took effect on September 20, 2025, 15 days from publication in the Official Gazette on September 5, 2025
- ✓ The DOF Secretary, upon recommendation of the BIR, shall issue the implementing Revenue Regulations within 90 days from effectivity of the law
- ✓ Large-scale metallic mining contractors and operators shall be subject to the new fiscal regime within 150 days from the effectivity of the law (i.e., **February 17, 2026**)



Main Policy & Objective

- ✓ Simplifies the mining fiscal regime by removing complex tax distinctions among different mining agreements, promoting a more transparent and equitable mining tax system, ensuring a fairer government share of natural resources revenue and safeguarding the country's natural resources



TITLE VI and CHAPTER VII of the National Internal Revenue Code of 1997, as amended

OLD TITLE	NEW TITLE
TITLE VI EXCISE TAXES ON CERTAIN GOODS AND SERVICES	TITLE VI EXCISE TAXES <u>AND OTHER IMPOSITIONS</u> ON CERTAIN GOODS AND SERVICES
CHAPTER VII EXCISE TAX ON MINERAL PRODUCTS	CHAPTER VII EXCISE TAX <u>AND OTHER IMPOSITIONS</u> <u>ON MINERAL AND MINERAL PRODUCTS</u>

Added "Other Impositions" to include the Royalties and Windfall Profit Tax



OLD REGIME –vs- NEW REGIME ON ROYALTIES

Item	Old Royalty Rate	New Royalty Rate
Mining operations within Mineral Reservations	5%	5%
Mining operations outside Mineral Reservations	0%	1% to 5% (margin-based with 5 tiers, minimum royalty of 1/10 of one 1% of the gross output if margin is less than or equal to 0%)



NEW IMPOSITIONS FOR LARGE-SCALE METALLIC MINING

Section 151-A. Royalty

☐ Levied on large-scale mining operations, development, and utilization of metallic mineral under a mineral agreement or financial or technical assistance

OPERATIONS WITHIN MINERAL RESERVATIONS	OPERATIONS OUTSIDE MINERAL RESERVATIONS
5% of the gross output of the minerals or mineral products extracted or produced	Margin-based royalty (1% to 5%) on income from metallic mining operations

- **Non-refundable and non-creditable, even when minerals are exported**
- **It will now be collected by the BIR (previously by Mines and Geosciences Bureau [MGB] of the DENR)**



MARGIN-BASED ROYALTY FOR OPERATIONS OUTSIDE MINERAL RESERVATIONS

MARGIN	RATE
Over 0% but not over 15%	1.0%
Over 15 but not over 30%	2.0%
Over 30% but not over 45%	3.0%
Over 45% but not over 60%	4.0%
Over 60%	5.0%

Note: If less than or equal to 0%, 1/10 of 1% of the gross output



Windfall Profit Tax:

Imposed when the net income from metallic mining operations is at least equal to 30% of its gross output

Item	Old	New
Windfall Profit Tax	0%	1% to 10% (margin-based with 5 tiers)

- **Designed to secure a fairer share of profits during commodity booms, metal prices are high, and above-normal returns**
- **Optional Standard Deduction (OSD) not allowed in the computation**



MARGIN-BASED WINDFALL PROFITS TAX ON NET INCOME FROM METALLIC MINING OPERATIONS

MARGIN	RATE
Equal to 30% but not over 40%	1.0%
Over 40% but not over 55%	3.0%
Over 55% but not over 65%	5.0%
Over 65% but not over 75%	7.0%
Over 75%	10%



THIN CAPITALIZATION RULE

Item	Old	New
Thin capitalization (applied on related-party debts)	No rule	Quarterly 2:1 debt-to-equity ratio (any interest on excess is disallowed)



**Amendment to
Section 34 of the
National Internal
Revenue Code of
1997, as amended
(Deductions from
Gross Income)**

**(B) Interest
(2) Exceptions**

(d) Interest incurred on related party debts of metallic mining contractors or operators, in excess of the allowable interest based on quarterly related-party debt to equity ratio of two (2) to one (1) at any given time during the taxable year.



OLD REGIME –vs- NEW REGIME ON RING FENCING

Item	Old	New
Ring-Fencing	No rule	Each mining contractor/operator shall be treated as separate taxable entity with respect to each and every mineral agreement it holds or operates (<u>for purposes of Royalties and Windfall Profit Tax only</u>)



RING FENCING OF LARGE-SCALE METALLIC MINING OPERATIONS

- For the reporting and payment of taxes under Sections 151-A (Royalty) and 151-B (Windfall Profit Tax) of the Tax Code, a metallic mining contractor or operator shall be treated as a **separate taxable entity** with respect to **each** mineral agreement or financial or technical assistance agreement that it holds and/or operates.
- As a separate taxable entity, each metallic mining contractor or operator shall be responsible for compliance with the corresponding reportorial and other requirements under applicable laws, rules and regulations.



Collection of Royalty

Section 151-A(E) - payment of the royalty due from mining operations under this Section and other royalties subject to the share accruing to the Mines and Geoscience Bureau (MGB) under Section 5 of Republic Act No. 7942, or "*The Philippine Mining Act of 1995*", shall be collected by the BIR.

Under RA 7942, MGC collects 5% of the market value of the gross output of non-metallic minerals and quarry resources



Exemption from Section 270 of the Tax Code

Businesses/activities engaged in the exploration, development, and utilization of minerals and other natural resources, being vested with public interest, shall be **exempt** from the application of confidentiality clauses in the Tax Code and Revised Corporation Code.

✓ **Tax Code: Section 270 in relation to Section 71**, on disposition of income tax returns and publication of lists of taxpayers

✓ **Hence, not covered by Sec. 270** - public disclosure of tax return information, assay reports, sales and marketing arrangements, and submission of other pertinent reportorial requirements pursuant to law and existing rules & regulations



Vested Rights

- Valid mineral agreements and FTAA's prior to the effectivity of RA No. 12253 shall continue to be governed by their respective terms and conditions until the expiration of their period.

EXCEPTIONS:

- ❖ Payment and collection of royalties from mining operations as imposed under RA 12253; collection by BIR;
- ❖ If the agreement provides that terms and conditions resulting from the amendment or enactment of new law/regulation are considered written into said agreements/FTAA's;
- ❖ Extension of the remaining period



Excise Tax Treatment of Denatured Ethyl Alcohol (RA No. 12235)



Effectivity

- ❖ Published in the Official Gazette on Aug 29, 2025
- ❖ Took effect 15 days following publication – **Sept 13, 2025**

- ❖ The DOF Secretary shall issue the implementing Revenue Regulations within 90 days from the effectivity of the law



Main Policy & Objective

- ❖ Rationalizes the excise tax treatment of all denatured ethyl alcohol – both domestic and imported – thereby creating a more level playing field by ensuring equal tax treatment



Section 134 on Denatured Alcohol

Ethyl alcohol of not less than one hundred eighty degrees (180°) proof (ninety percent (90%) alcohol by volume), **whether imported or locally manufactured**, shall **when suitably denatured and rendered unfit for oral intake, be exempt from the excise tax.**

- Still subject to VAT
- If used for motive power, it shall be taxed as motor fuel under Sec. 148, Tax Code— P8 per liter of volume capacity
- If subsequently rendered fit for oral intake, shall be taxed as distilled spirits under Sec. 141, Tax Code, to be paid by the possessor thereof



Section 168 on Denaturing Process

- ❖ The process of denaturing alcohol of not less than one hundred eighty degrees (180°) proof (ninety percent (90%) alcohol by volume) in the Philippines shall be effected prior to removal from the premises of **duly registered distilleries** (~~and compounding plants where the rectifying facilities are located [VETOED]~~)

Veto Message: Rationale

Extending the privilege to compounding plant may lead to revenue loss from possible misrepresentation of wastages to avoid excises tax on distilled spirits, allow production wastages to be converted to a tax-free product thereby rewarding a manufacturer's inefficiency at the expense of tax collections, and result in adverse fiscal consequences due to tax leakage in cases where the denatured alcohol is eventually reprocessed for mass consumption.



Denaturing Process

- ❖ The denaturing process shall be done in accordance with the rules and regulations to be issued by the BIR which shall include the denaturant formulations to be used, with BIR representatives to monitor the process
- ❖ BIR shall require a confirmatory testing prior to the removal of the denatured alcohol

THANK YOU

