

REPUBLIC OF THE PHILIPPINES
DEPARTMENT OF FINANCE
BUREAU OF INTERNAL REVENUE

June 3, 2010

REVENUE MEMORANDUM CIRCULAR NO. 49-2010

Subject : Further Amending Certain Portions of Revenue Memorandum Circular No. 30-2008, as amended by Revenue Memorandum Circular No. 59-2008, on the Subject of the Taxability of Insurance Companies for Minimum Corporate Income Tax (MCIT), Business Tax and Documentary Stamp Tax Purposes.

To : All Internal Revenue Officers and Others Concerned.

This Circular is being issued to amend certain portions of Revenue Memorandum Circular No. (RMC) 30-2008, as amended by RMC 59-2008, in order to further harmonize the manner by which life insurance companies are imposed of business tax and documentary stamp tax on the other types of income they generate aside from the premiums they realize from their main activity of underwriting life insurance policies.

On the portion of RMC 30-2008, as amended by RMC 59-2008, relating to the taxability of the various business activities of life insurance companies for business tax and documentary stamp tax, the same is hereby amended to read as follows:

“Taxability of the Various Business Activities of Life Insurance Company for Business Tax and Documentary Stamp Tax.-

(a) Business Tax. - Under provisions of Title IV, Chapter III of the Presidential Decree No. 612, otherwise known as “The Insurance Code” (Insurance Code), and subject to the conditions prescribed therein and/or subject to the approval of the Insurance Commission, life insurance companies, aside from undertaking its principal business of underwriting life insurance contracts from which it generates premiums, are likewise authorized to engage in investment activities as well as acquire real properties for the production and generation of income. From these ancillary business activities, life insurance companies earn other types of revenue such as rental income, management fees, renewal and/or re-issuance fees, penalties, commission income, interest income, gains, and other investment income and the like.

Inasmuch as life insurance companies are allowed to pursue these ancillary business activities pursuant to the provisions of the Insurance Code, the same should be treated as a separate business independent from its main business activity of underwriting life insurance contracts.

“(1) Direct Writings/Premiums. - The main revenue generated by the life insurance companies from their principal activity of doing life insurance is the premiums received from their policyholders. For the premiums received, the same are subject to premium tax at the rate of five percent (5%) pursuant to Section 123 of the Tax Code, as amended as follows:

“Sec 123. Tax on Life Insurance Premiums. - There shall be collected from every person, xxx xxx xxx

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“It is to be emphasized, however, that premium on Health and Accident Insurance, whether received by a life or non-life insurance company, shall be considered as premium on life insurance and, therefore, likewise subject to Premium Tax and not Value-added Tax.

“(2) Management Fees, Rental Income, Commission Income, Re-issuance Fees, Renewal Fees, Other Income/Fees. - Management fees, rental income, or any other income earned by the life insurance company from services which can be pursued independently of the insurance business activity, are thus not subject to the 5% premium tax imposed under Section 123 above but, rather, the same are treated as income for services that are subject to the imposition of VAT pursuant to Section 108 of the Tax Code, as amended, or to the percentage tax imposed under Section 116 of the same Tax Code, as the case may be.

Re-issuance fees, reinstatement fees, renewal fees as well as penalties paid to the life insurance company which are incidental to or in connection with the insurance policy contracts issued are considered akin to premiums, thus, such types of income are covered by Section 123 of the Tax Code and are subject to the five percent (5%) premium tax for the gross amount received on such fees and/or penalties.

“(3) Investment Income.-

“(3.a) Investment Income Realized from the Investment of Premiums Earned. - The investment income earned by the life insurance companies from investing the premiums received in marketable securities, bonds and other financial instruments is considered exempt from the further imposition of business tax since the premiums which have been the source of the funds invested had already been subject to the imposition of the five percent (5%) premium tax imposed by Section 123 of the Tax Code, as amended.

“(3.b) Investment Income Realized from the Investment of Funds Obtained from Others. - If these investment activities have been allowed and approved by the Insurance Commission, the same are considered as incidental activities to the main activity and, therefore, are subject to the five percent (5%) premium tax pursuant to Section 123 of the Tax Code.

“(3.c) Manner of Apportionment to Determine Exempt Investment Income and Investment Income Subject to the Applicable Gross Receipts Tax. - xxx xxx xxx

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“(b) Documentary Stamp Tax. - With respect to life insurance policies xxx xxx xxx

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“Sec 183. Stamp Tax on Life Insurance Policies.- xxx xxx xxx

“For Certificates issued, documentary stamp tax is imposed as follows:

“Sec 188. Stamp Tax on Certificates. - xxx xxx xxx

“For group insurance policies issued, the premium collected therefrom shall be subject to Section 183 above. For individual certificates issued to each and every employee covered by the group insurance policy, considering that these individual certificates are separate and distinct from the issued group insurance policy, documentary stamp tax is imposed pursuant to Section 188 of the Tax Code, as amended.”

“Taxability of the Other Financial Services/Products Sold by the Life Insurance Company in Addition to the Life Insurance Policy Solicited as Allowed and/or Approved by the Insurance Commission. xxx xxx xxx

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“Premium Deposit Fund (PDF) - Another example xxx xxx xxx

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“Based on the aforementioned features, it would seem that a life insurance company, by carrying this product, is performing an activity similar to those performed by banks. For performing a quasi-banking activity similar to banks insofar as this product is concerned, life insurance companies should be subject to the gross receipts tax imposed under Section 121 of the Tax Code, as amended, on the income earned by the life insurance company in investing these deposits obtained from this type of product.

“However, a closer scrutiny of the features of the PDF shows its apparent distinction from the deposits normally obtained by the banks. For one, insurance companies have been authorized by the Insurance Commission to carry and market this product to its policyholders for the sheer purpose of ensuring that the insurance policies of these policyholders are intended to be applied to the future premium payments of the policyholders. Also, unlike banks which can accept unlimited amounts of deposits from their depositors, life insurance companies are restricted from accepting deposits from their policyholders in excess of the respective expected future premium payments of their policies.

“The tax consequences xxx xxx xxx

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- The investment income earned by the insurance company from the investment activities using the fund, being earned from an activity that has been authorized and approved by the Insurance Commission, in addition to the income tax imposed by Title II of the Tax Code, as amended, is subject to the business tax imposed on its main activity of life insurance business. Thus, such income is subject to the five percent (5%) premium tax imposed under Section 123 of the Tax Code, as amended.
- Having no fixed term or period, whereby these deposits can be withdrawn anytime at the option of the policyholder, the instrument issued to the policyholder evidencing such deposits is exempt from the imposition of documentary stamp tax.
- The interest earned by the policyholder from the premium deposit fund shall not be subject to the twenty percent (20%) final withholding tax as the same has already been subjected to final tax as part of investment.”

All internal revenue officers are hereby enjoined to give this Circular as wide a publicity as possible.

(Original Signed)
JOEL L. TAN-TORRES
Commissioner of Internal Revenue