REPUBLIC OF THE PHILIPPINES
DEPARTMENT OF FINANCE
BUREAU OF INTERNAL REVENUE
Quezon City

March 6, 2015

REVENUE MEMORANDUM CIRCULAR NO. 7-2015

SUBJECT	:	Reiterating the Tax Treatment of Interest Income Derived from Long-Term Deposits or Investments Certificates as Described in Revenue Regulations No. 14-2012 and Clarified in Revenue Memorandum Circular Nos. 77-2012 and 81-2012
TO	:	All Internal Revenue Officers and Others Concerned

For information and guidance of all concerned, this Circular is being issued to reiterate the tax treatment of interest income derived from Long-Term Deposits or Investment Certificates as described in Section 3 of Revenue Regulations (RR) No. 14-2012 dated November 7, 2012 as clarified in Revenue Memorandum Circular (RMC) Nos. 77-2012 and 81-2012 dated November 22, 2012 and December 10, 2012, respectively.

Tax Treatment:

Interest income derived from Long-Term Deposits or Investment Certificates as defined in Section 22 (FF) of the National Internal Revenue Code (NIRC) of 1997, as amended, are subject to tax unless the requisites under Sections 24(B)(1) and 25(A)(2) NIRC of 1997, as amended, are complied with.

In order for the interest income from long-term deposit or investment in the form of savings, common or individual trust funds, deposit substitutes, investment management accounts and other investments evidenced by certificates in such form prescribed by the Bangko Sentral ng Pilipinas (BSP) to be exempted from income tax, the following characteristics/conditions must be present:

1. The depositor or investor is an individual citizen (resident or non-resident) or resident alien or non-resident alien engaged in trade or business in the Philippines;

2. The long-term deposits or investment certificates should be under the name of the individual and not under the name of the corporation or the bank or the trust department/unit of the bank;

3. The long-term deposits or investments must be in the form of savings, common or individual trust funds, deposit substitutes, investment management accounts and other investments evidenced by certificates in such form prescribed by the Bangko Sentral ng Pilipinas (BSP);

4. The long-term deposits or investments must be issued by banks only and not by other entities or individuals;

5. The long-term deposits or investments *must have a maturity period of not less than five (5) years*;

6. The long-term deposits or investments must be in denominations of Ten Thousand Pesos (P10,000) and other denominations as may be prescribed by the BSP;

7. *The long-term deposits or investments should not be terminated by the original investor before the fifth (5th) year, otherwise they shall be subjected to the graduated rates of 5%, 12% or 20% on interest income earnings*; and

8. Except those specifically exempted by law or regulations, any other income such as gains from trading, foreign exchange gain shall not be covered by income tax exemption.

Provided, that for interest income derived by individuals investing in common or individual trust funds or investment management accounts to be exempt from income tax, the following additional characteristics/conditions must ALL be present:

1. The investment of the individual investor in the common or individual trust fund or investment management account must be *actually held/managed* by the bank for the named individual at least five (5) years *without interruption*. The term "bank" referred to herein are banks duly licensed as such by the Bangko Sentral ng Pilipinas;

2. The underlying investments of the common or individual trust account or investment management accounts must comply with the requirements of Section 22(FF) of the NIRC of 1997, as amended, as well as the requirements mentioned above;

3. The common or individual trust account or investment management account must hold on to such underlying investment *in continuous and uninterrupted period* for at least five (5) years.

In case of pre-termination, transfer or negotiation of said long-term deposit or investment by the depositor or investor before the fifth (5th) year, the interest income shall be subject to the following graduated rates of Final Withholding Tax (FWT) on the entire income and shall be deducted and withheld by the depository bank from the proceeds of the long-term deposit or investment certificate based on the remaining maturity thereof as follows:

Four (4) years to less than five (5) years —	5%;
Three (3) years to less than four (4) years —	12%; and
Less than three (3) years —	20%.

For nonresident alien not engaged in trade or business in the Philippines, interest income received from long-term deposit or investment shall be subject to a Final Withholding Tax (FWT) at the rate of twenty five percent (25%) pursuant to Section 25 (B) of the NIRC of 1997, as amended.

For nonresident foreign corporation, interest income received from long-term deposit or investment shall be subject to a Final Withholding Tax (FWT) at the rate of thirty percent (30%) pursuant to Section 28 (B) (1) of the NIRC of 1997, as amended. However, interest income from long-term deposit or investment shall be subject to regular income tax at the rate of thirty percent (30%) if received by a domestic corporation and resident foreign corporation pursuant to Sections 27 (A) and 28 (A) (1) of the NIRC of 1997, as amended.

Illustrations:

1. An instrument with a maturity period of 10 years was held by Mr. X (a resident citizen) for 2 years and was transferred to Mr. Y (a resident alien), who, in turn, held it for 8 years. The FWT due are as follows:

Mr. X	2 years	20% FWT
Mr. Y	8 years	Exempt

2. An instrument with maturity period of 10 years was held by Mr. X (a nonresident citizen) for 3 years and transferred it to Mr. Y (a resident alien). Mr. Y held it for 2 years before subsequently transferring it to Mr. Z (a resident citizen), who held it until the day of maturity or for 5 years. The FWT due are as follows:

Mr. X	3 years	12% FWT
Mr. Y	2 years	20% FWT
Mr. Z	5 years	Exempt

3. An instrument with maturity period of 10 years held by Mr. X (a nonresident alien engaged in trade or business in the Philippines) for 3 years and transferred it to Mr. Y (a resident citizen). Mr. Y held it for 2 years before subsequently transferring it to Mr. Z (a resident alien), who pre-terminated it after 4 years. The FWT due are as follows:

Mr. X	3 years	12% FWT
Mr. Y	2 years	20% FWT
Mr. Z	4 years	5% FWT

In sum, pre-termination, transfer or negotiation of long-term deposit or investment certificate held by the depositor or investor for less than five (5) years even if such long-term deposit or investment certificate has a maturity period of five (5) years or more shall be subject to appropriate income tax rate pursuant to Sections 24 (B) (1), 25 (A) (2), 27 (D) (1) and 28 (A) (7) (a) of the NIRC of 1997, as amended.

4. Mr. X (a resident citizen) appoints Bank A — Trust Department to manage his money created through a trust agreement. Bank A — Trust Department then invests said money in a 5-year corporate bond.

   i) Even if Mr. X does not withdraw his money from such trust agreement for at least five (5) years, his interest income from the trust agreement will NOT be exempt from the final withholding tax (FWT) as the underlying investment is a corporate bond, even if such corporate bond has a maturity period of five (5) years. The underlying instrument needs to comply with the requirements of Section 22(FF) of the NIRC of 1997, as amended, as well as the requirements mentioned in A1 above. A bond, promissory note or any other type of debt instrument issued by a non-bank corporation as an underlying instrument will not meet the requirements of Section 22(FF) as it is not issued by a bank.

   ii) If Bank A — Trust Department in its own name without mentioning the particular individual for whom the investment is being made invests the fund instead in a 10-year long-term deposit or investment certificate, the long-term deposits and investments made in the name of a trust department of a bank are not exempted from the twenty percent (20%) final withholding tax (FWT). Only those made specifically "in trust for the name of specific and qualified individual investors" may be exempted from income tax under Sections 24(B)(1) and 25(A)(2) of the NIRC of 1997, as amended, provided they comply with Section 22(FF) of the NIRC of 1997.

iii) If Bank A — Trust Department in the name of Mr. X invests the fund instead in a 10-year long-term deposit or investment certificate as defined under Section 22(FF) of the NIRC of 1997, as amended, Mr. X's interest income derived from the trust agreement shall be exempt from income tax provided that Bank A — Trust Department in behalf of Mr. X will hold such deposit or investment *in continuous and uninterrupted period* for at least five (5) years. The holding period for both the individual investor in the trust agreement and the trust in the underlying instrument must both be at least five (5) years.

All concerned are hereby enjoined to be guided accordingly and give this Circular as wide a publicity as possible.

This Circular shall take effect immediately.

(Original Signed)
KIM S. JACINTO-HENARES
Commissioner of Internal Revenue