

REPUBLIC OF THE PHILIPPINES
DEPARTMENT OF FINANCE
BUREAU OF INTERNAL REVENUE

April 12, 2011

REVENUE MEMORANDUM CIRCULAR NO. 18-2011

SUBJECT: INCOME TAX EXEMPTION OF INTEREST INCOME EARNINGS FROM LONG TERM DEPOSITS OR INVESTMENT CERTIFICATES UNDER SEC 24(B)(1) & 25(A)(2) OF THE NATIONAL INTERNAL REVENUE CODE OF 1997, AS AMENDED

TO: All Revenue Officials, Employees and Others Concerned

This Circular is issued to clarify the income tax exemption of interest income earnings from long-term deposits or investments certificates.

The term '**long-term deposit or investment certificates**' shall refer to certificate of time deposit or investment in the form of savings, common or individual trust funds, deposit substitutes, investment management accounts and other investments with a maturity period of not less than five (5) years, the form of which shall be prescribed by the Bangko Sentral ng Pilipinas (BSP) and issued by banks only (not by nonbank financial intermediaries and finance companies) to individuals in denominations of Ten thousand pesos (P10,000) and other denominations as may be prescribed by the BSP [Section 22 (FF) of the National Internal Revenue Code of 1997 as amended].

Sections 24(B)(1) and 25(A)(2) of the National Internal Revenue Code of 1997 as amended provide that 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) shall be exempt from income tax. However, should the holder of the certificate pre-terminate the deposit or investment before the fifth (5th) year, a final tax shall be imposed 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:

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

From the foregoing, the following characteristics / conditions should be present to enjoy income tax exemption, to wit:

1. the depositor or investor is an individual citizen (resident or non-resident) or resident alien or nonresident alien engaged in trade or business in the Philippines and not a corporation;

2. the long-term deposits or investments 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 financial institutions;
5. the long-term deposits or investments must have a maturity period of not less than five 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. only the interest income from long-term deposits or investments certificates are covered by income tax exemption;
8. income tax exemption does not cover any other income such as gains from trading, foreign exchange gain;
9. the long-term deposits or investments should not be terminated by the investor before the fifth year, otherwise it shall be subjected to the graduated rates of 5%, 12% or 20% on interest income earnings.

All rulings and issuances inconsistent with the foregoing are considered void and of no legal effect for being contrary to law.

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

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