

# **A Review of the Impact of the COVID-19 Pandemic on the Stock Transaction Tax Collection of the Government\***

## **I. INTRODUCTION**

The Coronavirus Disease 2019 (COVID-19) pandemic is a devastating health crisis that hit the majority of the nations in the early part of 2020. Its negative impact created a domino effect on human lives, economic activities, trade, and investments. During the height of the pandemic, the stability of the country's stock market was challenged as uncertainty and risks are important aspects of the process of decision-making in the financial markets. Accordingly, the stock market's performance is greatly influenced by any economic shock, and the potential effect on investors will be to reduce the value and number of transactions in the stock market and then the stock returns, especially when the news contains risks on a global scale.

This paper examines the impact of the COVID-19 pandemic on the Stock Transaction Tax (STT) collection of the government. It also discusses the performance of select ASEAN stock markets during the pandemic, as well as the taxes imposed thereon.

## **II. BACKGROUND INFORMATION**

The STT is a percentage tax imposed on every sale, barter, or exchange of shares of stock listed or traded through the local stock exchange. It is collected by the stock broker from the seller/transferor upon confirmation of the sale and remitted to the Bureau of Internal Revenue (BIR) within five banking days from the date of collection thereof. Prior to its present rate, the STT had undergone several amendments.

The STT was first imposed in 1970 via Republic Act (RA) No. 6141<sup>1</sup> at the rate of 2% of the gross selling price (GSP) or gross value (GV) in money of shares of stock, exchanged, or transferred primarily to support the creation of a Peace and Order Special Account in the

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<sup>1</sup> Entitled, "An Act to Create a Peace and Order Special Account in the General Fund to Finance the Activities and Functions of the Police Commission as Defined in the Police Act of 1966 and Certain Police Activities of the National Bureau of Investigation and for Other Purposes", (November 4, 1970).



General Fund to finance the activities and functions of the then Police Commission (now known as the National Police Commission or NAPOLCOM) and certain police activities of the National Bureau of Investigation. It was imposed on both stocks traded and not traded through a stock exchange. For stocks traded through a stock exchange, the stock broker was mandated to collect, on behalf of the government, the tax due from the seller or transferor upon the issuance of the confirmation of sale. On the other hand, for stocks not traded through a stock exchange, the stock transfer agent or the secretary of the corporation collected the tax due before recording the transfer of stock in the stock and transfer book.

As gathered, the imposition of a 2% tax on stock transactions had adversely affected trades in stocks and consequently slowed down operations of various industries. Hence, the percentage tax imposed on stock transactions was reduced to a more reasonable rate of 1/4 of 1% or 0.25% via the issuance of Presidential Decree (PD) No. 10<sup>2</sup> in 1972.

Beginning January 1, 1976, capital gains arising from the sale, barter, or exchange of shares of stock derived from sources within the Philippines were subjected to the graduated capital gains tax from 10% to 25%, depending on the amount of gain therefrom as provided under PD 779.<sup>3</sup> However, non-resident investors buying and/or selling shares of stock of Philippine corporations listed in the dollar or any acceptable foreign currency board of any stock exchange were still liable to the 0.25% STT. A year after, PD 1116<sup>4</sup> indefinitely suspended the effectivity of PD 779 to generate more capital for economic development, and it was effective retroactively from January 1, 1976.

With the codification of all internal revenue laws under PD 1158<sup>5</sup> in 1977, the 0.25% STT under PD 10 was reinstated. The same rate was reiterated under Batas Pambansa Bilang (BP Blg.) 221<sup>6</sup> in 1982 and Executive Order (EO) No. 37<sup>7</sup> in 1986. In 1994, in view of the need to generate more revenues, RA 7717<sup>8</sup> increased the STT on a staggered basis from 0.25%

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<sup>2</sup> Entitled, "Reducing the Percentage Tax on Stock Transactions", (October 2, 1972).

<sup>3</sup> Entitled, "Amending Sec. 34 and Inserting Sub-Sec. 34 (g) of the National Internal Revenue Code, as Amended, by Imposing a Capital Gains Tax on Stock Transactions and Extending the Deadline of the Stock Transaction Tax to December 31, 1975, Under Republic Act No. 6141, as Amended by Presidential Decree No. 10", (August 25, 1975).

<sup>4</sup> Entitled, "Indefinitely Suspending the Effectivity of Presidential Decree No. 779 Which Imposes a Schedular Capital Gains Tax on Stock Transactions", (April 15, 1977).

<sup>5</sup> Entitled, "A Decree to Consolidate and Codify All the Internal Revenue Laws of the Philippines", (June 3, 1977).

<sup>6</sup> Entitled, "An Act Revising the Rates of Capital Gains Tax on Certain Sales of Shares of Stock and the Manner of Assessing and Collecting the Same, Further Amending for the Purpose of the National Internal Revenue Code of 1977, as Amended", (March 25, 1982).

<sup>7</sup> Entitled, "Further Amending Certain Provisions of the National Internal Revenue Code, as Amended", (July 31, 1986).

<sup>8</sup> Entitled, "An Act Imposing a Tax on the Sale, Barter or Exchange of Shares of Stock Listed and Traded through the Local Stock Exchange or through Initial Public Offering, Amending for the Purpose the National Internal Revenue Code, As Amended, by Inserting a New Section and Repealing Certain Subsections Thereof", (May 5, 1994).



to 0.375% for one year and 0.50% thereafter. The 0.50% STT was carried over under RA 8424,<sup>9</sup> otherwise known as the “National Internal Revenue Code (NIRC) of 1997.”

After two decades, the STT rate was adjusted to 0.60% under RA 10963,<sup>10</sup> otherwise known as the Tax Reform for Acceleration and Inclusion (TRAIN) law. In hindsight, the STT was not originally included in the original TRAIN law bill. As legislators adopted a different version of the TRAIN law bill, the STT increase was among the “offsetting” measures included in the TRAIN law to meet the revenue goal of the government after the personal income tax rate was lowered to boost the net take-home pay of the average Filipino. The STT increase was necessary to raise significant revenue to support the government’s priority social and infrastructure programs. (See Table 1.)

**Table 1**

*Laws on STT*

Law/Year	Tax rate/tax base
RA 6141 (1970)	2% of GSP or GV in money of shares of stock, exchanged or transferred
PD 10 (1972)	1/4 of 1% or 0.25% of GSP or GV in money of shares of stock, exchanged or transferred
PD 779 (1975)	The STT rate of ¼ of 1% was extended until December 31, 1975. Beginning January 1, 1976, capital gains from the sale, barter, or exchange of shares of stock derived from sources within the Philippines was subjected to schedular rates of 10%-25%.  However, the ¼ of 1% STT continued to be collected on non-resident investors.
PD 1158 (1977)	1/4 of 1% or 0.25% of GSP or GV in money of shares of stock, exchanged or transferred
BP Blg. 221 (1982)	1/4 of 1% or 0.25% of GSP or GV in money of shares of stock, exchanged or transferred
EO 37 (1986)	1/4 of 1% or 0.25% of GSP or GV in money of shares of stock, exchanged or transferred

<sup>9</sup> Entitled, “An Act Amending the National Internal Revenue Code, as Amended, and for Other Purposes”, (January 1, 1998).

<sup>10</sup> Entitled, “An Act Amending Sections 5, 6, 24, 25, 27, 31, 32, 33, 34, 51, 52, 56, 57, 58, 74, 79, 84, 86, 90, 91, 97, 99, 100, 101, 106, 107, 108, 109, 110, 112, 114, 116, 127, 128, 129, 145, 148, 149, 151, 155, 171, 174, 175, 177, 178, 179, 180, 181, 182, 183, 186, 188, 189, 190, 191, 192, 193, 194, 195, 196, 197, 232, 236, 237, 249, 254, 264, 269, and 288; Creating New Sections 51-A, 148-A, 150-A, 150-B, 237-A, 264-A, 264-B, and 265-A; and Repealing Sections 35, 62, and 89; All Under Republic Act No. 8424, Otherwise Known as the National Internal Revenue Code of 1997, as Amended, and for Other Purposes”, (January 1, 2018).

Law/Year	Tax rate/tax base
RA 7717 (1994)	3/8 of 1% or 0.375% for a period of one year (1994 – 1995), and ½ of 1% or 0.50% thereafter of GSP or GV in money of shares of stock, exchanged or transferred
RA 8424 (1997)	½ of 1% or 0.50% of GSP or GV in money of shares of stock, exchanged or transferred
RA 10963 (2018)	6/10 of 1% or 0.60% of GSP or GV in money of shares of stock, exchanged or transferred

*Note.* In 1977, PD 1116 suspended indefinitely the imposition of the scheduler capital gains tax under PD 779 as it adversely affected trading in shares of stock in order to encourage transactions in shares of stock to generate more capital for economic development.

### III. IMPACT OF COVID-19 ON THE LOCAL STOCK MARKET

The government has implemented community quarantine measures beginning March 17, 2020 to control the increasing COVID-19 infections in the country. These temporarily halted almost all economic activities resulting in an unexpected loss of income for the majority of Filipinos and disrupted the economy through a number of channels such as labor markets, consumption behaviors, and capital markets.

The operation of the Philippine Stock Exchange (PSE) was initially suspended due to the lockdown imposed in Metro Manila. However, under Resolution No. 13<sup>11</sup> issued by the Inter-Agency Task Force for the Management of Emerging Infectious Diseases on March 17, 2020, capital markets, including the PSE, were allowed to operate effective March 18, 2020, subject to the qualification of establishing skeletal workforces in their respective establishments. However, trading hours were shortened from 9:00 am - 3:30 pm to 9:00 am - 1:00 pm in order to help mitigate the spread of the virus. The Securities and Exchange Commission (SEC) also approved the offsite trading protocols that the PSE adopted during the Enhanced Community Quarantine (SEC, 2020a). On May 14, 2020, the PSE announced that it would continue to implement indefinitely the current shortened trading hours (Global Exchanges, 2020).

#### A. Stock market composite index

The COVID-19 pandemic caused a severe drop in stock prices and enlarged price fluctuations in the stock market. The uncertainty brought about by the spread of the virus dampened investors' confidence in the future performance of the local stock market. The impact was so sudden that the PSE's circuit breaker<sup>12</sup> was

<sup>11</sup> Entitled, "Recommendations for the Management of the Coronavirus Disease 2019 (COVID-19) Situation".



triggered three times within just a single month. The market was first halted on March 12, 2020, when the PSE composite index (PSEi)<sup>13</sup> breached the 10% threshold, and again on the following day when the index fell by 10.43% upon opening amidst fear of the pandemic's economic impact. The last trigger was pulled on March 19, two days after the government imposed a nationwide lockdown. The local stock market crashed to an 8-year-low, declining by 24.30% to a level last seen during the global financial crisis in 2008 (SEC, 2020a).

Moreover, the average composite index in March and April 2020 declined by 26.50% and 29.02%, respectively, compared with the same period in 2019. However, the monthly composite index gradually recovered in the following months and reached 7,188.83 in December 2020, but still lower by 7.58% compared to what was recorded in the previous year. The gradual recovery of the stock market was due to the country's continued monetary and fiscal stimulus, pick-up in consumer spending throughout the Christmas Season, COVID-19-related improvements, and positive macroeconomic developments in the country, which helped lift investor sentiment [Bangko Sentral ng Pilipinas (BSP), n.d.]. (See Table 2.)

**Table 2**

*Monthly Average Composite Index, 2019 and 2020*

Month	2019	2020	% Increase/ (Decrease)
January	7,923.74	7,628.80	(3.72)
February	7,971.94	7,281.66	(8.66)
March	7,820.50	5,749.01	(26.50)
April	7,877.00	5,590.86	(29.02)
May	7,775.61	5,604.80	(27.92)
June	8,010.22	6,287.87	(21.50)
July	8,164.01	6,131.02	(24.90)
August	7,888.08	5,949.21	(24.58)
September	7,903.30	5,892.32	(25.44)
October	7,842.65	6,102.50	(22.19)
November	7,921.81	6,886.11	(13.07)
December	7,778.29	7,188.83	(7.58)

Note. BSP. (n.d.). *Philippines stock market transactions* [Data Set]. Retrieved from <https://www.bsp.gov.ph/statistics/OtherRealSectorAccounts/stockmarkettransactions.xls>.

<sup>12</sup> A mechanism that halts trading in individual securities or in certain market indices when certain thresholds are met.

<sup>13</sup> A fixed basket of thirty (30) common stocks of listed companies, carefully selected to represent the general movement of the stock market. In other words, it is the benchmark measuring the performance of the Philippine stock market.



The PSE also implemented a new circuit breaker mechanism under Memorandum CN - No. 2020 – 0044 dated April 29, 2020, which was approved by the SEC to protect the investors and maintain order in the market while the country battles the pandemic. The trigger and duration of the market halt is shown in Table 3 (SEC, 2020b).

**Table 3**

*PSE New Circuit Breaker Mechanism Schedule*

Decrease in PSEi	Duration of market halt
At least 10%	15 minutes
At least 15%	30 minutes
At least 20%	1 hour

*Note.* Philippine Stock Exchange, Amendment of Circuit Breaker Rules, PSE Memorandum CN - No. 2020 – 0044, item B(1), (April 29, 2020).

On the other hand, according to the PSE, more Filipinos actually started participating in the stock market since the beginning of the pandemic as most of the working population were forced to operate on a work-from-home setup. As technology made investing more accessible to the general public, many people turned to the stock market for entertainment and extra income. The total number of stock market accounts increased from 1.23 million in 2019 to 1.40 million in 2020 or by 13.90%.

The total number of online accounts increased to 936,200 in 2020 from 782,118 in 2019. By type of investor, the number of retail accounts shared 97.86% of the total accounts in 2020, while the remaining 2.14% were institutional accounts (PSE, 2021). Individual investors kept the market afloat throughout the pandemic while huge investors, specifically foreign investors, fled due to uncertainty. (See Table 4.)



**Table 4***Number of Stock Accounts by Type, 2019 and 2020*

Year	Total accounts	Type of investor				Number of online accounts*
		Number		% Share		
		Retail	Institutional	Retail	Institutional	
2019	1,228,038	1,199,565	28,473	97.68	2.32	782,118
2020	1,396,753	1,366,855	29,898	97.86	2.14	936,200

Notes. Philippine Stock Exchange. (2020, July). *Stock market investor profile 2019*. Retrieved June 18, 2021, from [https://documents.pse.com.ph/wp-content/uploads/sites/15/2021/05/Stock\\_Market\\_Investor\\_Profile\\_2019\\_final.pdf](https://documents.pse.com.ph/wp-content/uploads/sites/15/2021/05/Stock_Market_Investor_Profile_2019_final.pdf).

Philippine Stock Exchange. (2021, May). *Stock market investor profile 2020*. Retrieved June 18, 2021, from <https://documents.pse.com.ph/wp-content/uploads/sites/15/2021/05/Stock-Market-Investor-Profile-2020.pdf>.

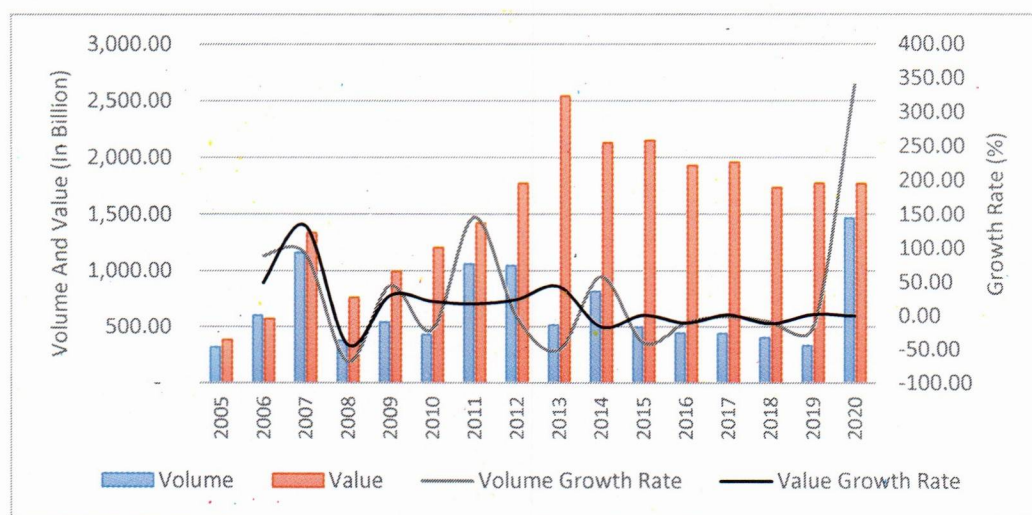
\*Based on the data provided by 32 trading partners.

#### *B. Volume and value of shares of stock traded*

Prior to the COVID-19 pandemic, the local bourse had experienced adverse international and domestic shocks since 2005. For instance, the sudden decline in the volume and value of shares of stock traded by 67.78% and 42.92%, respectively, in 2008 was due to the global financial crisis, slowdown in the US economy, the bankruptcy of Lehman Brothers, and high inflation rate, among others (PSE, 2008). Another slump in the volume of traded stocks was observed in 2013 when it dwindled by 50.62% due to the impact of Typhoon Yolanda, which devastated the country during the said year, coupled with the crisis in the Eurozone, which haunted the global economy around the same time (PSE, 2013). (See Figure 1 and Table 5.)

However, a surge in the volume of shares of stock traded was observed in 2020 when it increased to 1.46 trillion shares from 332.30 billion shares in 2019 or by 340.12%. The sudden influx of retail traders in the local stock market could be the reason behind the vast growth in the volume of shares of stock traded. When the pandemic started, retail investor participation expanded. It was responsible for 26.9% of value traded from 18.2% in 2019 (Rivas, 2021). Another factor that may have contributed to the sudden increase in the trading volume in 2020 was the exodus of foreign funds from the local bourse or when foreign investors pulled their money out of the PSE by selling all their stockholdings at once because of the global impact of the pandemic (Lucas, 2021). In fact, in 2020, the net outflows from PSE-listed shares amounted to US\$3.3 billion (BSP, 2021). Despite the significant increase in the trading volume, the value of shares of stock in 2020 reached only P1.77 trillion, which was lower than the 0.09% in 2019 when the trading volume was only 332 million shares. The value of stocks declined because more people sold their stocks than those who bought. Thus, the supply was greater than the demand.



**Figure 1.***Total Volume and Value of Shares of Stock Traded and Listed at the PSE, 2005 – 2020*

Note. BSP. (n.d.). *Philippines stock market transactions* [Data Set]. Retrieved from <https://www.bsp.gov.ph/statistics/Other RealSectorAccounts/stockmarkettransactions.xls>.

**Table 5**

*Volume and Value of Shares of Stock Traded and Listed at the PSE*  
(Volume in billion shares, value in billion pesos)

Year	Amount		Growth Rate (%)	
	Volume	Value	Volume	Value
2005	317.64	383.52	-	-
2006	601.09	572.63	89.24	49.31
2007	1,157.83	1,338.25	92.62	133.70
2008	373.01	763.90	(67.78)	(42.92)
2009	540.82	994.16	44.99	30.14
2010	429.57	1,207.38	(20.57)	21.45
2011	1,056.60	1,422.59	145.97	17.82
2012	1,043.12	1,771.71	(1.28)	24.54
2013	515.13	2,546.18	(50.62)	43.71
2014	815.19	2,130.12	58.25	(16.34)
2015	493.26	2,151.41	(39.49)	1.00
2016	442.27	1,929.50	(10.34)	(10.31)
2017	440.55	1,958.36	(0.39)	1.50
2018	403.85	1,736.82	(8.33)	(11.31)
2019	332.30	1,772.58	(17.72)	2.06
2020	1,462.52	1,770.90	340.12	(0.09)

Note. BSP. (n.d.). *Philippines stock market transactions* [Data Set]. Retrieved from <https://www.bsp.gov.ph/statistics/Other RealSectorAccounts/stockmarkettransactions.xls>.



Amid the escalating concerns about the impact of the pandemic and global lockdown measures to contain the virus, the average value and volume of shares of stock in the PSE declined significantly by 45.38% and 16.36%, respectively, in the first quarter of 2020. The biggest drop in the value of traded shares was recorded in May 2020 when it declined to P106.88 billion from P167.66 billion or 36.26%. In the last quarter of the year, the average volume and value of shares of stock traded rose significantly to 370.48 billion shares and P195.05 billion, respectively. The sudden improvement in the last quarter, as mentioned earlier, may be attributed to the continued monetary and fiscal stimulus, pick-up consumer spending throughout the Christmas Season, COVID-19-related improvements, and positive macroeconomic developments in the country, which boosted investors' renewed appetite for stocks (BSP, n.d.). (See Table 6.)

**Table 6**

*Monthly Volume and Value of Shares of Stock Traded, 2019 – 2020*  
(Volume in Billion Shares, Value in Billion Pesos)

Month	2019		2020		% Increase/(Decrease)	
	Volume	Value	Volume	Value	Volume	Value
January	42.19	190.85	22.28	128.76	(47.19)	(32.53)
February	46.40	158.77	27.85	132.56	(39.98)	(16.51)
March	29.85	139.32	15.23	139.27	(48.96)	(0.04)
April	22.02	124.15	13.34	114.36	(39.44)	(7.89)
May	23.19	167.66	15.64	106.88	(32.56)	(36.26)
June	23.08	152.18	29.33	169.36	27.08	11.29
July	31.55	148.39	47.81	124.81	51.56	(15.89)
August	31.39	153.65	149.38	155.49	375.84	1.20
September	31.78	140.15	30.20	114.24	(4.97)	(18.49)
October	17.47	139.08	71.73	187.17	310.72	34.58
November	18.61	130.94	119.22	227.85	540.75	74.02
December	14.78	127.44	920.50	170.14	6,128.64	33.51
<b>Total</b>	<b>332.30</b>	<b>1,772.58</b>	<b>1,462.52</b>	<b>1,770.90</b>	-	-

Note. BSP. (n.d.). *Philippines stock market transactions* [Data Set]. Retrieved from <https://www.bsp.gov.ph/statistics/Other RealSectorAccounts/stockmarkettransactions.xls>.

#### IV. IMPACT OF COVID-19 ON STT COLLECTION

The annual collection from the STT collection increased from P8.79 billion in 2016 to P10.10 billion in 2019 or by an average of 4.78%. Due to the uncertainties brought about by the pandemic, the annual value of shares of stock traded at the PSE declined by 0.09% thereby, the collection from the STT plummeted by 7.08% from P10.10 billion in 2019 to P9.38 billion in 2020. (See Table 7.)

**Table 7**

*Stock Transaction Taxes Collected, CYs 2016 – 2020 (Amounts in Million Pesos)*

Year	STT Collection	Growth Rate (%)
2016	8,792	-
2017	8,880	1.01
2018	9,744	9.73
2019	10,095	3.60
2020	9,380	(7.08)

*Notes.* Bureau of Internal Revenue (official communication, various years).

No breakdown is available for STT and IPO tax collections.

Taxes collected on stock transactions recorded in 2020 were lower compared with the same months in 2019. The largest monthly drop in the collection was recorded in May 2020 at P492 million or 45.10% compared with P896 million in May 2019. During the said month, the value of shares of stock traded declined significantly by 36.26% compared with the same month in the previous year. On the other hand, as the value of shares of stock traded improved during the end of the year, the STT collections recorded in December 2020 reached P1.04 billion or 80.04% higher compared with the collection in December 2019. Although there was a tremendous increase in the volume of stock transactions in 2020, the value declined by 0.09%, which is the basis of the STT. (See Table 8.)



**Table 8***Monthly STT Collection, CYs 2019 and 2020 (Amounts in Million Pesos)*

Month	2019	2020	% Increase/ (Decrease)
January	946.36	794.13	(16.09)
February	801.41	571.30	(28.71)
March	849.47	715.08	(15.82)
April	664.97	625.29	(5.97)
May	896.06	491.96	(45.10)
June	741.07	958.91	29.40
July	878.55	755.61	(13.99)
August	785.92	782.77	(0.40)
September	764.50	686.65	(10.18)
October	936.49	967.12	3.27
November	1,254.21	994.34	(20.72)
December	576.13	1,037.27	80.04
Total	10,095.14	9,380.43	(7.08)

*Note.* Bureau of Internal Revenue (official communication, 2020 - 2021)

## V. MOVING FORWARD AMIDST THE PANDEMIC

The PSE expanded its digital presence by increasing the frequency of its stock market webinars in lieu of physical ones. Several initiatives geared toward improving a stakeholder's end-to-end digital experience, particularly the implementation of PSE Electronic Allocation System (EASy)<sup>14</sup> Phase 2, were also underway. In addition, an e-know your customer (KYC) platform that will enable KYC process via an app instead of a face-to-face interaction with a broker and a data analytics platform that will let investors learn and analyze data on their own were expected to be developed in 2021 (PSE, 2020).

The initiatives of the PSE are expected to help in improving the performance of the local bourse in the future. It also appears that the vaccination rollout of the government made investors more optimistic about the country's improving COVID-19 situation during the first semester of 2021. As compared to the first semester of 2020, the average volume and value of stocks traded increased significantly by 1,931.47% and 38.46%, respectively, in the first semester of 2021. (See Table 9.) There were other factors that may contribute to the significant improvement of the local bourse in the first quarter of 2021, e.g., the approval of several policy laws (e.g., CREATE Act and FIST Act) and the rally in the US stock market.

<sup>14</sup> PSE EASy was first introduced by the PSE in June 2019 to increase participation of Local Small Investors ("LSI") in IPO. This shift to an online platform enabled investors from different provinces and countries, beyond the previous geographic scope of physical kiosks in Metro Manila, to subscribe to the LSI tranche of IPOs.

**Table 9**

*First Semester Stock Market Performance, 2020-2021*  
*(Volume in billion shares, value in billion pesos)*

Month	2020		2021		% Increase/ (Decrease)	
	Volume	Value	Volume	Value	Volume	Value
January	22.28	128.76	1,426.64	220.85	6,303.23	71.52
February	27.85	132.56	476.34	222.23	1,610.38	67.64
March	15.23	139.27	442.30	227.29	2,804.14	63.20
April	13.34	114.36	69.91	106.12	424.06	(7.21)
May	15.64	106.88	66.10	141.10	322.63	32.02
June	29.33	169.36	65.82	175.44	124.38	3.59
<b>Average</b>	<b>20.61</b>	<b>131.87</b>	<b>424.52</b>	<b>182.17</b>	<b>1,931.47</b>	<b>38.46</b>

*Note.* BSP. (n.d.). *Philippines stock market transactions* [Data Set]. Retrieved from <https://www.bsp.gov.ph/statistics/Other RealSectorAccounts/stockmarkettransactions.xls>.

Moving forward, sustaining the local stock exchange's upward trajectory is crucial. Long before the pandemic, the government has been pushing for the passage of Package 4 of the Comprehensive Tax Reform Program (CTRP) otherwise known as the "Passive Income and Financial Intermediary Taxation Act (PIFITA)", which aims to make the taxation of passive income and financial intermediary simpler, fairer, more efficient and regionally more competitive. Package 4 covers, among others, the gradual reduction of the STT rate from the current 0.60% every year for five years in order to promote capital market development and tax competitiveness within the context of globalization and increased capital capability. This proposal will help significantly in maintaining the increasing trajectory of the local bourse as lower transaction costs encourages increased market participation and greater volume of transactions.

Also, the DST which is based on value, is proposed to be rationalized by expressing all DST in percent instead of differentiated tax bases and tax rates, which are not readily comparable; equalize DST on debt and equity; and remove provisions with low revenue take, among others.

## VII. ASEAN STOCK MARKET PERFORMANCE

All ASEAN member countries, except Brunei Darussalam, have stock markets that facilitate capital formation and the development of more investment avenues. Like the Philippines, the stock markets of ASEAN member-countries were affected by the uncertainty brought by the pandemic. However, in terms of the annual value of stock traded, the five major ASEAN stock exchanges generally experienced significant growth in 2020. Bursa Malaysia had



the highest growth in the value of stock traded at 129.36%, while the PSE had the lowest at 9.14%. Most of the exchanges in the ASEAN region experienced a decline in terms of market capitalization. Only Hochiminh Stock Exchange and Bursa Malaysia experienced positive growth rates in market capitalization at 24.93% and 8.07%, respectively. (See Table 10.)

**Table 10**

*Volume and Value of Stocks Traded on Major ASEAN Stock Exchanges (in Million US Dollar)*

Stock Exchange	Market Capitalization			Value Traded		
	2019	2020	% Increase/ Decrease	2019	2020	% Increase/ Decrease
Bursa Malaysia	403,957.38	436,537.87	8.07	108,711.5	249,335.66	129.36
Hochiminh Stock Exchange	141,530.32	176,809.23	24.93	31,559.71	56,858.82	80.16
Indonesia Stock Exchange	523,321.86	496,086.05	(5.20)	117,889.02	131,144.74	11.24
Philippine Stock Exchange	275,366.71	272,790.29	(0.94)	30,017.06	32,761.87	9.14
Singapore Exchange	697,271.33	652,614.66	(6.40)	197,213.29	270,970.77	37.40
The Stock Exchange of Thailand	569,228.32	543,164.60	(4.58)	367,105.83	481,299.00	31.11

*Note.* World Federation of Exchanges. (n.d.). *Statistics portal report generator* [Data Set]. Retrieved from <https://statistics.world-exchanges.org/ReportGenerator/Generator>.

In terms of broad stock index, major ASEAN stock exchanges experienced a decline in 2020. Singapore Exchange had the largest decline at 11.76% in the broad stock index value in 2020 as compared to 2019; it was followed by The Stock Exchange of Thailand (-8.26%), the PSE (-8.11%), and the Indonesia Stock Exchange (-5.09%). (See Table 11.)

**Table 11**

*Broad Stock Index Value of Major ASEAN Stock Exchanges, 2019 and 2020*

Stock Exchange	2019	2020	% Increase/ (Decrease)
Bursa Malaysia	11,323.49	11,761.93	3.87
Hochiminh Stock Exchange	960.99	1,103.87	14.87
Indonesia Stock Exchange	6,299.54	5,979.07	(5.09)
<b>Philippine Stock Exchange</b>	<b>4,649.67</b>	<b>4,272.61</b>	<b>(8.11)</b>
Singapore Exchange	3,222.83	2,843.81	(11.76)
The Stock Exchange of Thailand	1,579.84	1,449.35	(8.26)

*Note.* World Federation of Exchanges. (n.d.). *Statistics portal report generator* [Data Set]. Retrieved from <https://statistics.world-exchanges.org/ReportGenerator/Generator>.

Taxation of stock transactions made in an exchange varies from country to country. In Indonesia, a 0.1% tax on the sale of stock listed in the Indonesia Stock Exchange is imposed (Deloitte, 2020b). On the other hand, Cambodia imposes a capital gains tax (CGT) at a flat rate of 20% on the profit realized by the seller from the sale of capital assets. Likewise, in Myanmar and Vietnam, a CGT at the rate of 10% and 20%, respectively, is levied on the gains from the sale, exchange, or transfer of capital assets. Gains from stock transactions are not taxed in Brunei Darussalam, Malaysia, Singapore, and Thailand, while shares listed on the securities exchange in Lao PDR are exempt from capital gains tax. (Deloitte, 2020a; EY, 2020). Table 12 summarizes the taxation of stock transactions in the ASEAN region.

**Table 12**

*Summary of the Taxation of Stock Transactions in the ASEAN Region*

Country	Tax and rate
Philippines	0.6% STT
Brunei Darussalam	n.a.
Cambodia	20% CGT
Indonesia	0.1% STT
Lao PDR	Exempt from CGT
Malaysia	n.a.
Myanmar	10% CGT
Singapore	n.a.
Thailand	n.a.
Vietnam	20% CGT

*Note.* Deloitte. (2020a). *Guide to Taxation in Southeast Asia - 2020*. Retrieved from <https://www2.deloitte.com/id/en/pages/tax/articles/guide-to-taxation-in-sea-2020.html>.

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n.a. - not applicable.

## VIII. CONCLUSION

The COVID-19 pandemic had created uncertainty not only in the country's stock market, but also worldwide. It is a good thing the PSE was quick enough to respond accordingly to address market volatility by generally enhancing its online services and capitalizing on the latest technology, which made investing more accessible to investors. As a result, more retail traders participated in the stock market. Thus, keeping the PSE afloat in the middle of a global health crisis.



Moreover, stock investors' confidence further improved during the last quarter of 2020 because of the monetary and fiscal stimulus packages introduced by the government, the effective implementation of COVID-19-related measures, as well as the country's positive macroeconomic developments.

To complement all of these, the government's proposed tax reform under Package 4 of the CTRP offers tax measures that aim to develop the country's capital market and become regionally more competitive. Thus, its immediate passage is necessary in order to sustain the positive momentum the PSE is now slowly gaining and to bring back investors' confidence in the local stock exchange.

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