

**[BIR REVENUE MEMORANDUM CIRCULAR NO. 18-
2011, April 12, 2011]**

**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**

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 four (4) years – 12%; and
Less than three (3) years – 20%

From the foregoing, the following characteristics/conditions should be present to enjoy the 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;