

DEPARTMENT OF FINANCE



Building Tax Capacity for Revenue Mobilization: The Philippine experience

February 28, 2024

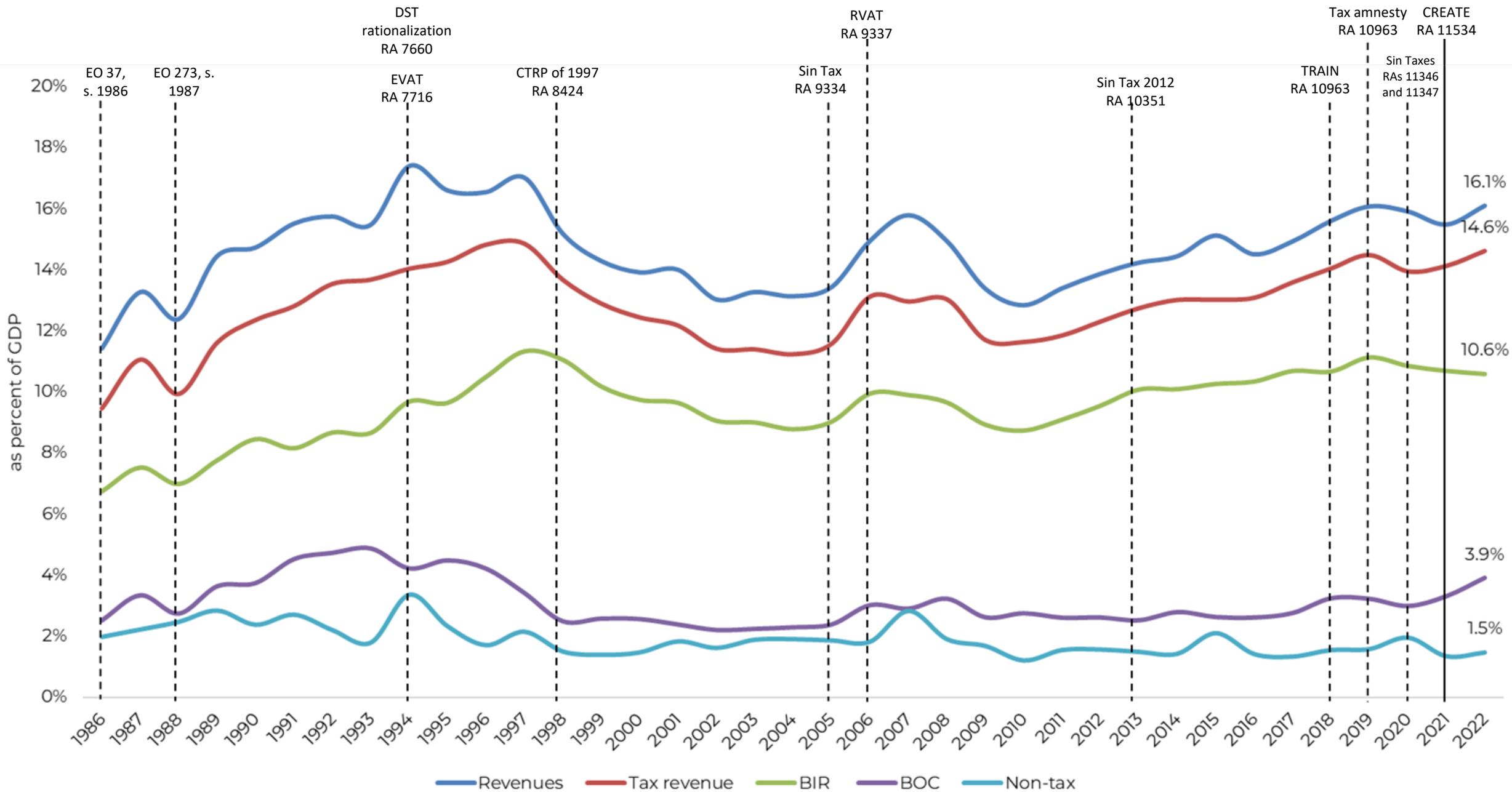
Outline of the Presentation

1. Tax reforms: the why and wherefore
2. Tax reforms in the Philippines
3. The Medium-Term Fiscal Framework

Tax reforms: the why and wherefore

What needs to be done? Why the need for reform?

1. Generate revenues
 - a. Fiscal consolidation
 - b. Reduction of poverty and inequality
2. Make the tax system equitable, efficient, and simple
3. Tackle externality/health measure
4. Make the system buoyant
5. Fund special projects/programs
6. Address inflation/bracket creep



Notes: Lines indicate the first year of implementation.
 Dotted lines indicate revenue generation reforms while the solid line indicates an economic recovery package.

Tax reforms in the Philippines

Key reforms

- The sin tax laws of 1997, 2005, 2012, 2018, and 2020
 - Shift from ad valorem to specific with indexation
 - Increase the rates, indexed to inflation, unitary rate
- VAT reforms
 - Shift from sales tax to VAT
 - Broaden the tax base (to include services and petroleum products)
 - Increase in tax rate from 10 to 12 percent
- TRAIN Law
 - Personal income tax rate reduction
- CREATE Act
 - Corporate income tax - rate reduction from 30 to 25 percent for large corporations, and from 30 to 20 percent for Micro Small and Medium Enterprises.

The TRAIN law

- **The TRAIN law package 1 is an important milestone in our history.**
 - First time a tax reform happened without a crisis
 - First time the main purpose is poverty and inequality reduction, and not deficit and debt reduction.
 - It is the first of five packages that corrected the structural problems of the tax system that has made it unfair, complex, and inefficient.
- **Goal: low rate and broad base.**

Combined tax-transfer effect, 2020*

Targeted transfers will be crucial in protecting the poor from shocks and can help improve the progressivity of the tax reform.

Decile/ percentile	Description (assumes a family of 5 members)	2020 projected monthly household total income*	Change in annual personal income tax	Change in annual VAT and excise taxes						Change in annual spending due to increase in prices***	Rice and transport subsidies	Transfer (full year)	Change in annual take home pay after transfers	Percentage change in annual household income
				Package 1 change in take home pay (in pesos)										
				Value-added tax	Fuel	Automobile**	SSB	Sin	Net tax due					
D1	Subsistence poor	9,393	90	-25	-150		-80	-6	-171	-220	548	3,600	3,757	3.3
D2	Subsistence poor	13,263	660	-36	-228		-99	-11	286	-313	616	3,600	4,189	2.6
D3	Poor	15,795	1,724	-48	-305		-136	-6	1,231	-372	648	3,600	5,107	2.7
D4	Near poor	18,555	3,409	-59	-376		-173	-5	2,795	-437	725	3,600	6,684	3.0
D5	Near poor	21,255	5,794	-70	-456		-194	-4	5,070	-503	846	3,600	9,013	3.5
D6	Unskilled	25,361	8,787	-91	-617		-228	-7	7,844	-583			7,261	2.4
D7	Partly skilled	29,320	12,558	-101	-694		-245	-6	11,510	-702			10,808	3.1
D8	Skilled	36,311	18,067	-128	-890		-304	-5	16,739	-853			15,887	3.6
D9	Professional	50,026	26,899	-1,156	-1,279	-9,149	-361	-4	14,950	-1,130			13,820	2.3
D10	Middle class	112,182	59,475	-843	-3,100	-4,331	-430	-5	50,767	-2,292			48,475	3.6
P100	Executive	272,119	102,846	-2,252	-5,756	-14,754	-492	-16	79,577	-4,142			75,435	2.3
T1000	CEO	531,446	121,100	-2,710	-4,042	-20,685	-413	-149	93,101	-5,066			88,035	1.4
	Top taxpayer A	1,635,000	-1,667,819	-6,739	-12,435	-112,024	-424	-914	-1,800,355	-15,587			-1,815,942	-9.3
	Top taxpayer B	3,270,000	-3,973,862	-11,518	-24,871	-188,547	-299	-1,290	-4,200,387	-31,174			-4,231,561	-10.8

Source: DOF staff estimates using the Family Income and Expenditure Survey - Labor Force Survey 2015

Notes:

This table is updated as of Dec. 21, 2017. Each household has about two income earners.

* Total household income includes compensation income, income from entrepreneurial activities (i.e. businesses), and other sources of income (i.e. cash transfers).

**Automobile excise tax impact were computed using car prices as of Dec. 1, 2017, assuming 1 to 5 years of amortization.

***The inflationary effect captures the increase in prices of food, transportation, and electricity due to higher fuel excise tax.

The Medium-Term Fiscal Framework

The Medium-Term Fiscal Framework proposes measures that will enhance the fairness and efficiency of our tax system

1. Promote efficient tax administration through digitalization



2. Put in place measures that will help our tax system catch up in the digital economy



3. Introduce tax measures that will promote environmental sustainability to address climate change



4. Pursue the remaining tax reform packages of the Duterte administration



PRIORITY OF THE DEPARTMENT:

Passage of the DBCC-approved Priority Legislative Measures in 2024.



VAT on Digital Services



Rationalization of Mining Fiscal Regime



Package 4 of the CTRP (PIFITA)



Motor Vehicle User's Charge



Excise Tax on Single-use Plastics

Why are we pushing for the passage of DOF tax reform measures?

Aside from the additional revenue that will support the MTF targets, we are pushing for the passage of the tax reform to:

1. Update the rates to make it more competitive with our peers
2. Level the playing field and make the tax system fairer or progressive
3. Simplify certain taxes
4. Utilize tax policies that correct externalities
5. Promote investment, capital market development, and financial inclusion
6. Promote higher economic growth

Tax administration measures could also provide additional tax collection every year as these continue to improve the collection efficiency.



**Ease of paying taxes;
Digital transformation roadmap;
Strengthening of income tax
administration on influencers**



**Intensify anti-corruption and
integrity development efforts;
Customs Modernization Program;
Intensify collection of lawful revenues
Enhance trade facilitation**

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