



# **Tax Reform for Acceleration and Inclusion**

**(Medium Term Revenue Strategy of the Philippines)**

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# Background



- I. Conditions that made tax reform necessary
- II. Tax Reform at the Center of Socio-Economic Objectives
- III. Comprehensive Tax Reform Program

# Growth momentum in the Philippines



## The Philippine **ECONOMY**

**An Overview**

# Challenges and Set-Backs Despite a Strong Economy

- Poverty
- Poor Job Creation
- Deficits in education and health
- Lack of Competitiveness
- Lack of Infrastructure



# To Resolve Challenges and Set-Backs:

# 10 Point Socio- Economic Agenda

# Tax Reform is Central to the Socio-Economic Agenda

## The 10-point Socioeconomic Agenda

1



Continue and maintain current macroeconomic policies, including fiscal, monetary, and trade policies.

2



Institute progressive tax reform and more effective tax collection, indexing taxes to inflation.

*Be our partner for change.*

### ★ Your taxes will fund better services. ★



3



Increase competitiveness and the ease of doing business.



4



Accelerate annual infrastructure spending to account for 5% of GDP, with public-private partnerships playing a key role.



5



Promote rural and value chain development toward increasing agricultural and rural enterprise productivity and rural tourism.



6



Ensure security of land tenure to encourage investments, and address bottlenecks in land management and titling agencies.



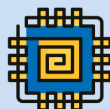
7



Invest in human capital development, including health and education systems, and match skills and training.



8



Promote science, technology, and the creative arts to enhance innovation and creative capacity.



9



Improve social protection programs, including the government's Conditional Cash Transfer program.



10



Strengthen implementation of the Responsible Parenthood and Reproductive Health Law.

# Eradication of Poverty

## By 2022

(6 years from now)

**21.6%** → **13-15%**

Poverty rate reduced  
*(6 million Filipinos uplifted)*

**3,500** → **5,000**  
USD USD

Increase in Gross National Income  
(GNI)  
*(Achieve upper-middle income status  
where Thailand and China are today)*

## By 2040

(23 years or one generation  
from now)

**Extreme poverty  
eradicating**

**3,500** → **11,000**  
USD USD  
at least

Increase in Gross National Income  
(GNI)  
*(Achieve high income status where  
Malaysia and South Korea are today)*

# Better Education

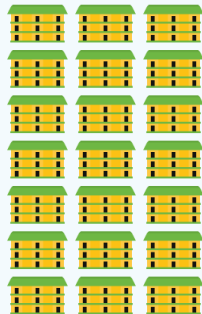
# Better Health

## Vision for the Philippines

The tax reform proposal will be able to fund investments in education, achieving a more conducive learning environment with the ideal teacher-to-student ratio and classroom-to-student ratio:



Achieve 100% **enrollment and completion rates**



Build 113,553 more **classrooms**



Hire 181,980 more **teachers** between 2017 and 2020

## Vision for the Philippines

With tax reform, we can invest more in our country's healthcare by providing better services and facilities:



Upgrade 704 **local hospitals**  
Establish 25 local hospitals



Achieve 100% **PhilHealth** coverage at higher quality of services



Upgrade and/or relocate 263 **rural and urban health units** to disaster-resilient facilities  
Build 15,988 **new barangay health stations**  
Build 2,424 **new rural health units and urban health centers**



Between 2017 and 2022, hire an additional **176,922 health professionals**:  
4,824 doctors  
104,629 nurses  
16,300 midwives  
51,169 dentists, pharmacists, medical technologists, and public health associates



# Massive Infrastructure Build-Up

**More Railways,  
Urban Mass Transport,  
Airports & Seaports**

**More Bridges & Roads**

**New & Better Cities**

東涌綫 / 迪士尼綫  
Tung Chung Line / Disneyland Resort Line

BCDA



# Funding the Socio-Economic Strategy

# Investments necessary to attain strategy objectives

- Investment-led growth of 7 to 10 percent
- Over the long-term, all these investments require additional funds of around 1 trillion pesos (*19.190 billion USD*) per year in 2016 prices on top of the current 1.7 trillion pesos (*32.623 billion USD*).
- Over the medium term, the government will need to raise some 366 billion (*7 million USD*) per year between 2016 and 2022 or 2.2 trillion pesos (*42.218 billion USD*) in total.

## Current and additional investment needed per year

Investment Category	2016	2022 target	Additional over the next 6 years*
Infrastructure	P759 billion	P1.8 trillion	P1.1 trillion
Education and training	P551 billion	P1.3 trillion	P718 billion
Health	P133 billion	P272 billion	P139 billion
Social protection, welfare, and employment	P242 billion	P509 billion	P267 billion
<b>Total**</b>	<b>P1.7 trillion</b>	<b>P3.9 trillion</b>	<b>P2.2 trillion /USD42.218B</b>

**USD32.623B**

**USD74.841B**

Source: Department of Budget and Management

\*Indicative and subject to change

\*\*Total does not add up due to rounding off

# Political Feasibility of Tax Reform

To increase the likelihood of success of tax reform:

1. Market tax reform as a means to improve equity/efficiency/simplicity, not just as a way to improve a fiscal problem;
2. Include tax reform in the President's social contract;
3. Support reform coalitions around the social contract; and
4. Innovation in communicating tax reform to the general public.



# Comprehensive Tax Reform Program

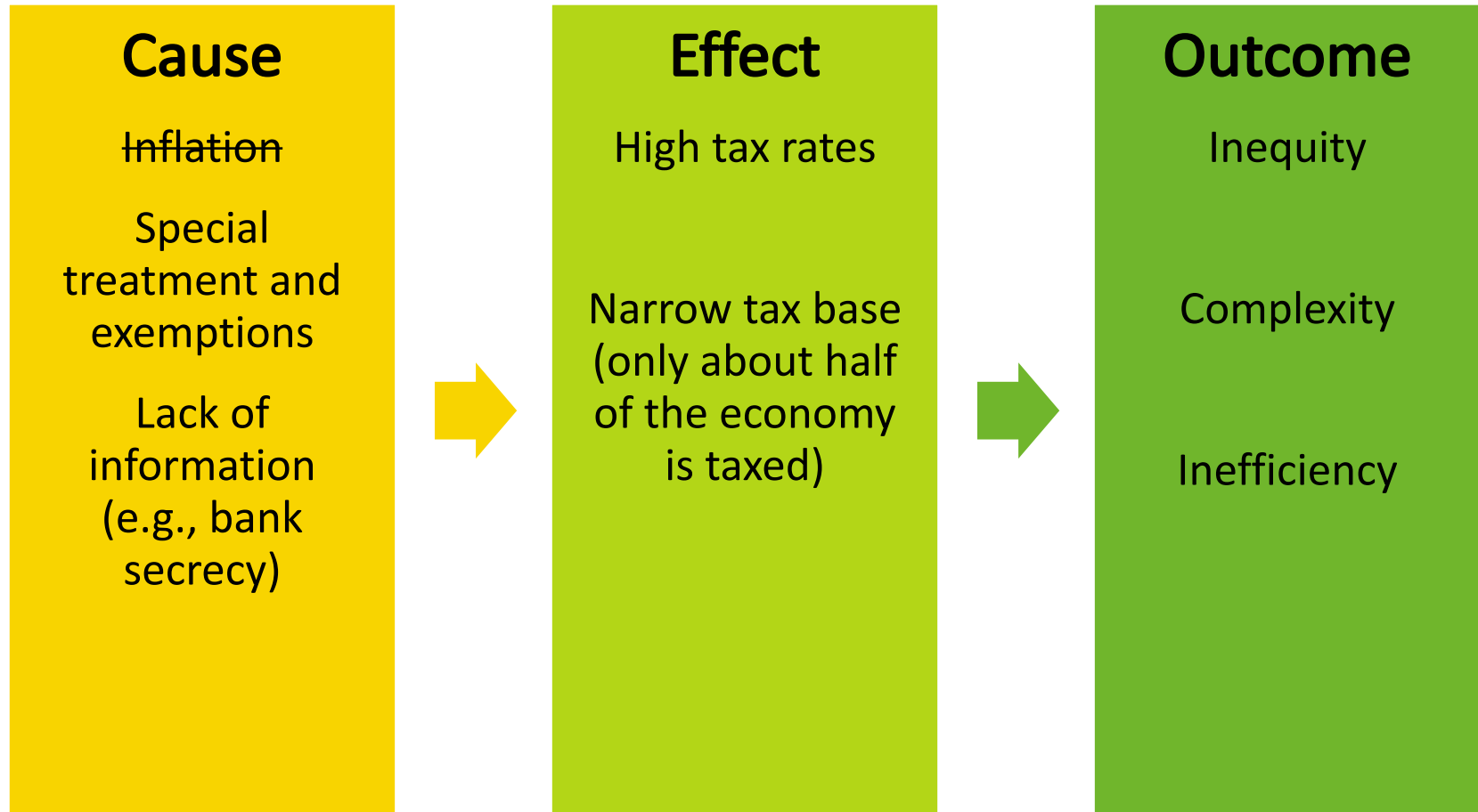
- I. Tax Policy Reform
- II. Tax Administration Reform
- III. Budget Reform



# Key tax policy issues

Problems and Solutions

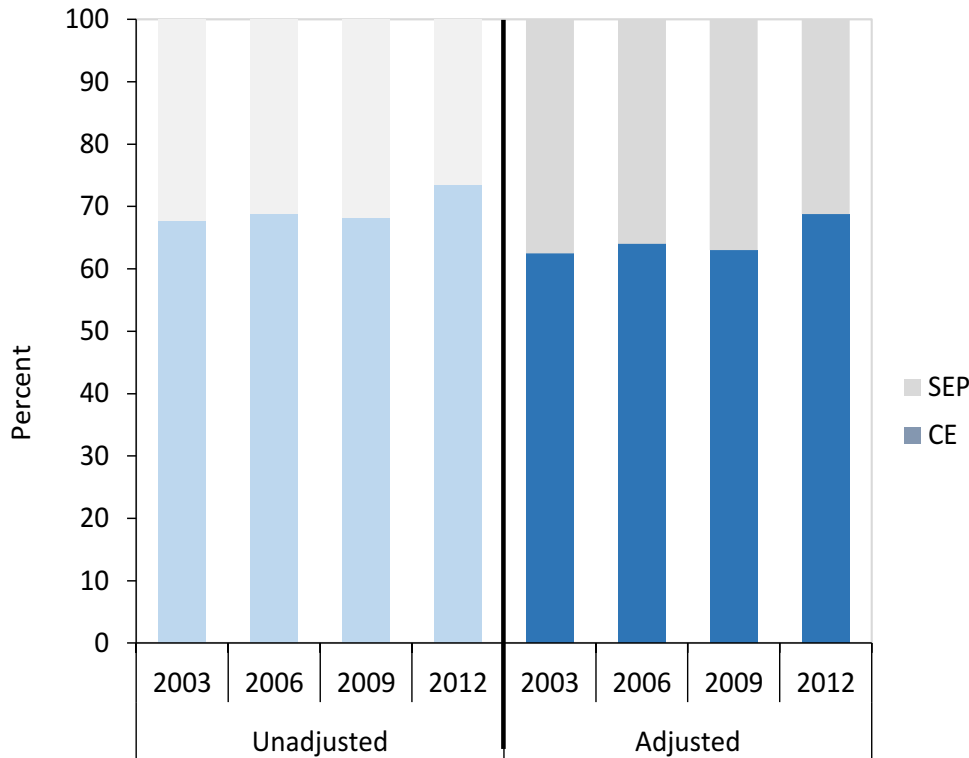
# Why tax policy reform is needed: A deficient tax system



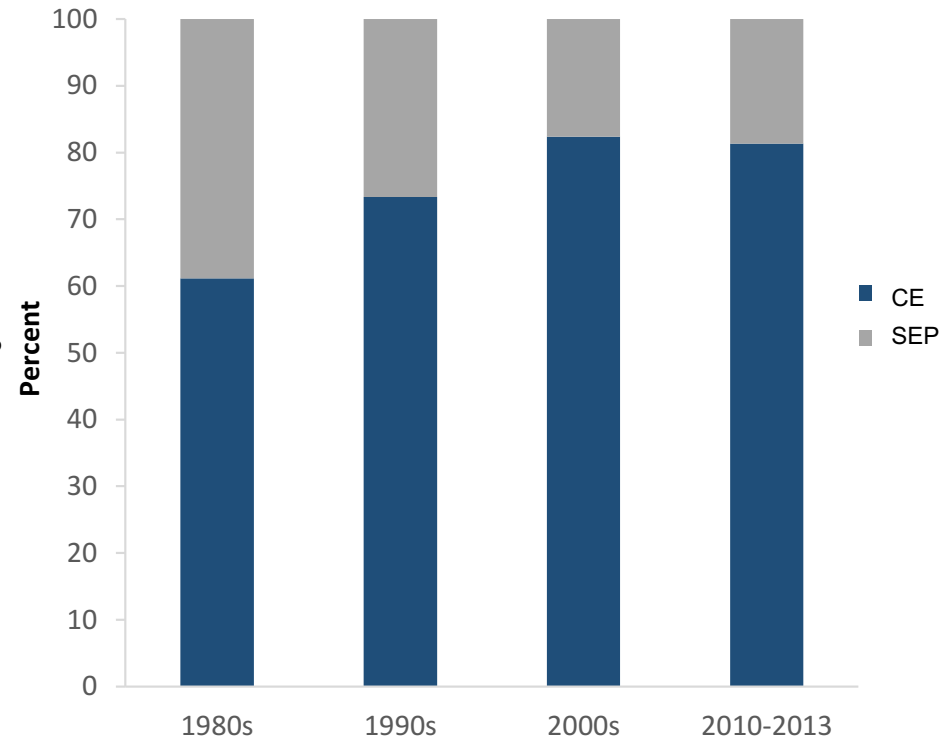
# Personal income tax: high rates yet very narrow base among self-employed and professionals.

40% of income comes from self-employed and professionals, but they pay only 20% of income taxes, and BIR cannot fully audit them due to bank secrecy.

Unincorporated income breakdown



Share contributions in taxes



Source: Family Income and Expenditure Survey-Labor Force Survey (FIES-LFS)

Note: FIES-LFS suffers from severe under-reporting. Incomes are adjusted as a remedy.

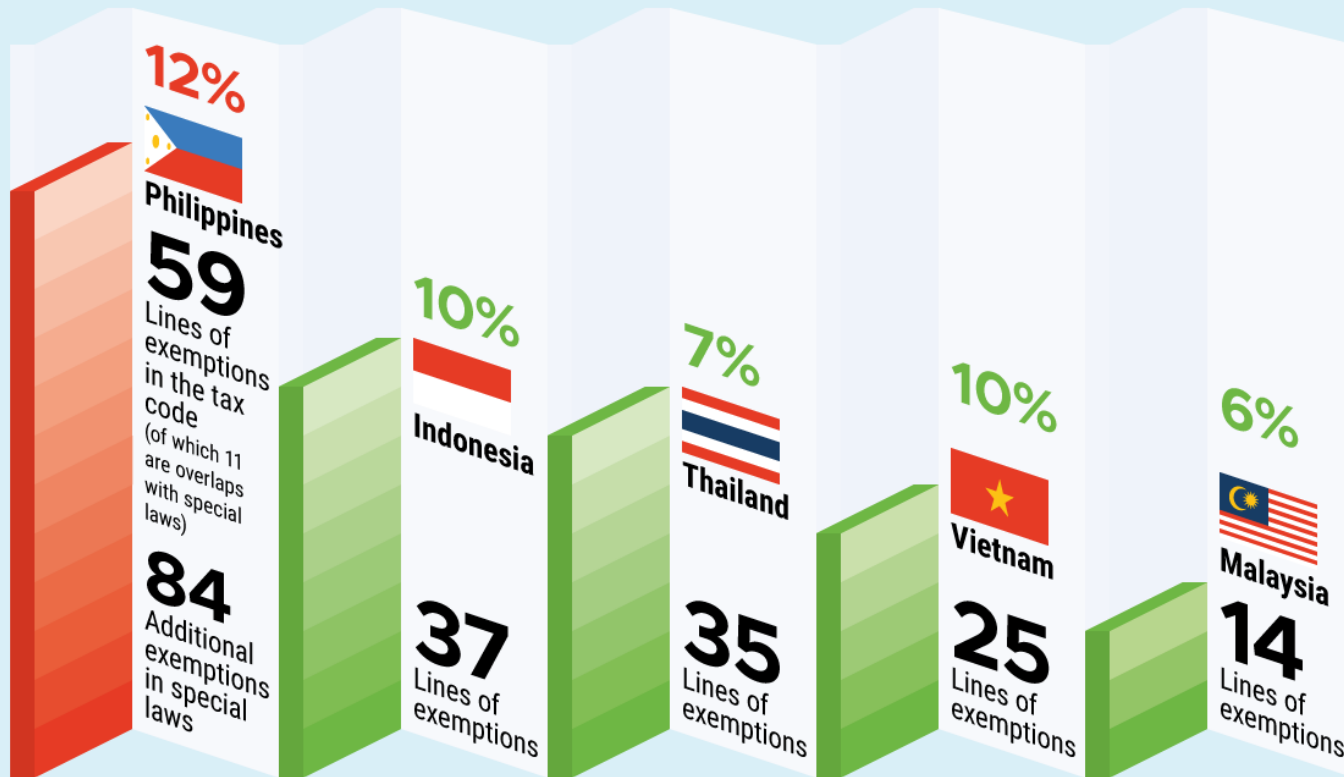
Source: WB staff estimates using BIR data

CE: compensation earners; SEP: self-employed and professionals



# VAT Comparison with Other Countries

A fair VAT system is one with a low rate and exemptions limited to raw food, health and education.

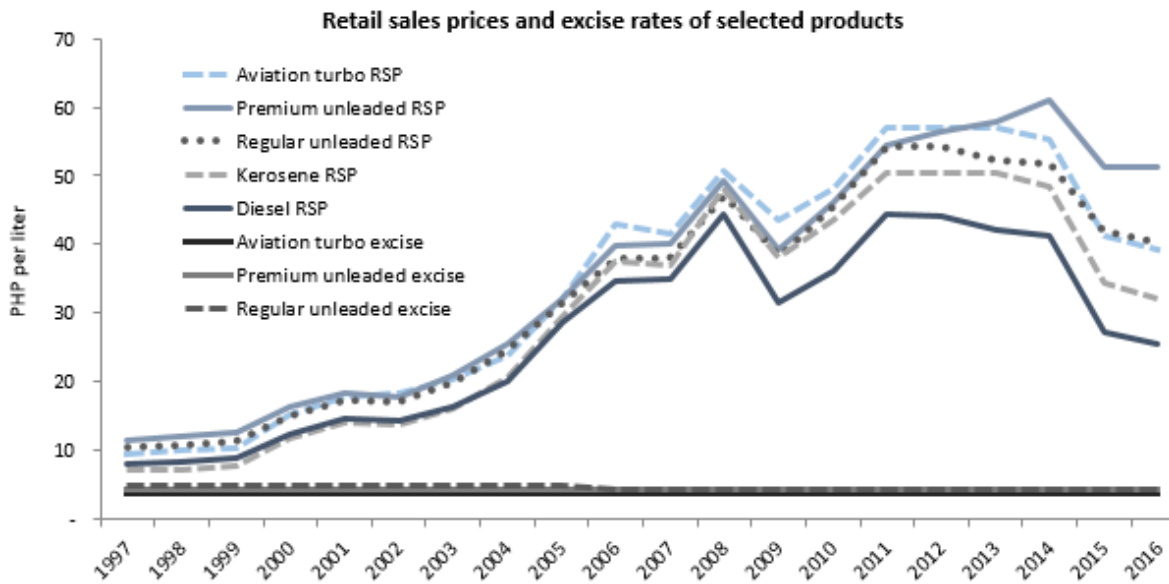


In the Philippines, we have a VAT system with numerous exemptions leading to large leakages as people take advantage of the VAT system to pay less tax.

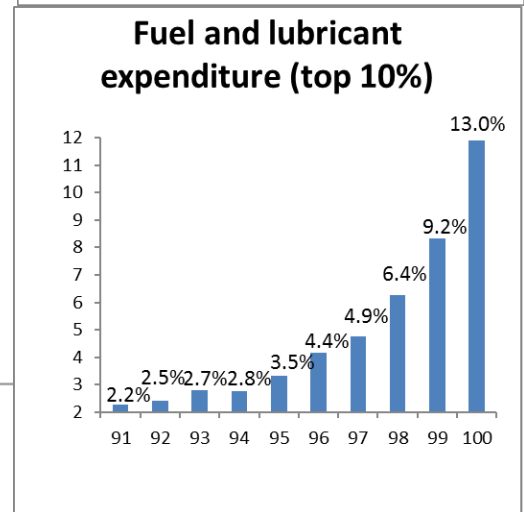
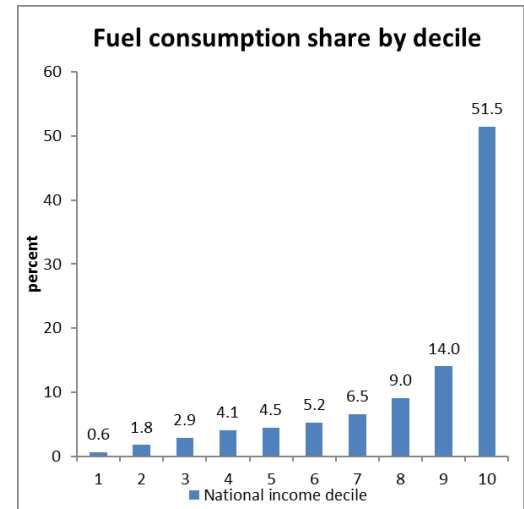


# Petroleum excise tax: not increased since 1997 despite high progressivity

- Of 20 million households, the top 2 million households (richest 10%) consume around 50 percent of petroleum products.
- The richest 200,000 households (richest 1%) consume around 13 percent of petroleum products.
- This is tantamount to at least a 50% leakage.



Source: Department of Energy



Source: FIES 2015

# Corporate income tax: significant forgone revenues from perpetual incentives

Country	Maximum years of incentives
Philippines	4 + 8 extension + GIE in perpetuity
Brunei Darussalam	20
Cambodia	9
Indonesia	20
Lao PDR	20
Malaysia	5 + 5 extension
Myanmar	5 to 7
Singapore	3
Thailand	8
Vietnam	2 to 4



# Tax Reform for Acceleration and Inclusion (TRAIN) to Raise Revenues and Address Tax Gaps

# Revenue Impact of Package 1

Provisions	RA 10963					
	2018	2019	2020	2021	2022	Total
Personal income tax	-146.6	-161.0	-177.1	-195.0	-214.4	-894.2
Corporate income tax (PCSO)	0.5	0.5	0.6	0.7	0.7	3.0
Estate tax	-2.1	-2.1	-2.1	-2.1	-2.1	-10.5
Donors' tax	-1.7	-1.8	-2.0	-2.2	-2.4	-10.0
VAT	39.2	48.7	58.1	58.4	45.8	250.3
Oil excise	60.2	101.8	131.9	134.4	136.6	564.8
Automobile excise	14.4	15.3	16.2	17.2	18.2	81.3
Sugar-sweetened beverage tax	54.5	58.2	61.5	65.1	68.8	308.1
Tax administration	26.6	35.0	42.3	50.7	60.4	215.1
Others	44.9	49.6	58.2	59.5	66.3	278.5
<b>Subtotal (tax policy)</b>	<b>63.3</b>	<b>109.2</b>	<b>145.4</b>	<b>136.0</b>	<b>117.4</b>	<b>571.3</b>
<b>Subtotal (legislated tax admin)</b>	<b>26.6</b>	<b>35.0</b>	<b>42.3</b>	<b>50.7</b>	<b>60.4</b>	<b>215.1</b>
<b>Total (tax policy and admin)</b>	<b>89.9</b>	<b>144.2</b>	<b>187.7</b>	<b>186.8</b>	<b>177.8</b>	<b>786.4</b>
<i>Total as percent of GDP</i>	<b>0.5</b>	<b>0.8</b>	<b>0.9</b>	<b>0.8</b>	<b>0.7</b>	<b>NA</b>
<i>Deficit</i>	<b>3.3</b>	<b>3.5</b>	<b>3.5</b>	<b>3.4</b>	<b>3.4</b>	<b>NA</b>

# Revenue Impact of Package 1B

- Estate tax amnesty
- General amnesty
- Motor vehicle user tax
- Relaxation of bank secrecy
- Automatic exchange of information

Provisions	RA 10963					
	2018	2019	2020	2021	2022	Total
<b>Package 1B</b>	38.9	30.9	34.0	37.5	41.4	182.7
<b>Subtotal (additional revenues)</b>	<b>38.9</b>	<b>30.9</b>	<b>34.0</b>	<b>37.5</b>	<b>41.4</b>	<b>182.7</b>
<b>Grand total</b>	<b>128.8</b>	<b>175.1</b>	<b>221.7</b>	<b>224.3</b>	<b>219.2</b>	<b>969.2</b>
<i>Total as percent of GDP</i>	0.7	0.9	1.1	1.0	0.9	NA
<i>Deficit</i>	3.0	3.4	3.3	3.2	3.3	NA

# Estimated Revenue Impact of Package 2+

- Corporate income tax
- Fiscal incentives

<b>Tax package</b>	<b>Loss</b>	<b>Gain</b>	<b>Net</b>
<b>Package 2: CIT and incentives</b>	<b>-34.8</b>	<b>33.8</b>	<b>-1.0</b>
Lower CIT rate and remove OSD	-34.8		
Fiscal incentives rationalization		33.8	
Full VAT refund			

# Estimated Revenue Impact of Packages 3 and 4

<b>Tax package</b>	<b>Loss</b>	<b>Gain</b>	<b>Net</b>
<b>Package 3: property tax</b>	<b>-3.5</b>	<b>43.5</b>	<b>40.0</b>
Centralize and increase valuation		43.5	
Reduce estate and donor tax	-3.5		
<b>Package 4: capital income tax</b>	<b>-1.0</b>	<b>0.0</b>	<b>-1.0</b>
Harmonize rates for all assets	-1.0		





# Administrative Reforms

# Tax administration and tax policy reforms are both needed for the BIR and BOC to succeed

Since 2016, the government has been prioritizing improvements in the Bureau of Internal Revenue (BIR) and the Bureau of Customs (BOC).



**Mandatory fuel marking** to curb oil smuggling

Provision for use of **electronic receipts**

Cash registers/point of sale machines shall be connected to BIR systems for **real-time reporting of sales and purchase data**

**Bank secrecy relaxation** for criminal cases



# Budget and Other Legal Reforms

# Complementary Reforms requiring further legislation

- Relaxation of bank secrecy laws
- Tax evasion as a predicate crime to money laundering
- Final tax amnesty
- TIMTA amendments
- Investment assistance and facilitation

# Summary: Key messages

1. Despite strong economic growth, the Philippines still faces challenges and set-backs that prevent people from feeling positive change.
2. Tax Reform is necessary for positive change to be felt.
3. The TRAIN is expected to generate revenue to address the country's long-standing problems of poverty, weak human capital, and lack of infrastructure.



*This administration can make a lasting difference in each Filipino's life.*

**Thank you.**