



PUBLIC FINANCIAL MANAGEMENT

Fundamentals of PFM Relative to Revenue Policies and Procedures

Gil S. Beltran
Undersecretary and Chief Economist
Department of Finance
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DOF MANDATE

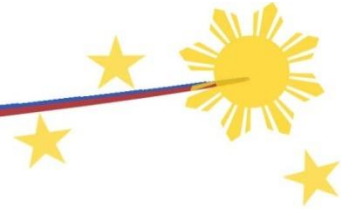


“Responsible for the **SOUND** and **EFFICIENT MANAGEMENT** of the financial resources of the National Government, its subdivisions, agencies, and instrumentalities.”

(Section 3, EO 127, s 1987)

DOF Functions

(Section 4, EO 127, s 1987)



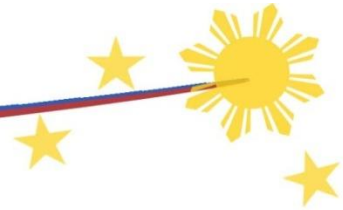
- *Formulate, institutionalize and administer fiscal (revenue and borrowing) policies in coordination with other concerned agencies and instrumentalities of the government.*
- *Generate and manage the financial resources of government.*
- *Supervise the revenue operations of all local government units.*
- *Review, approve and manage all public sector debt, domestic or foreign, ensuring that all borrowed funds are effectively utilized and all such obligations are promptly serviced by the government.*

GENERAL ROLE OF TAXATION AS THE MAIN GOVERNMENT TOOL FOR RESOURCE MOBILIZATION



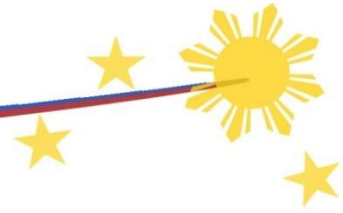
- Raising money for the budget.
- Imposing heavier tax burden on one group to fund services for another (*Income Distribution*).
- Imposing additional taxes to discourage activities with negative externalities (*Sumptuary*).

Guiding Principles of Taxation



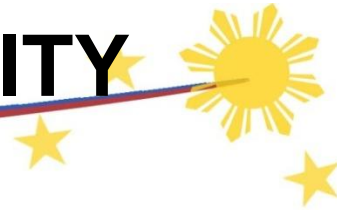
- Horizontal & Vertical Equity
- Neutrality
- Revenue Productivity
- Administrative Feasibility
- Broad Tax Base
- Promotion of Sound Macroeconomic Fundamentals

CHALLENGES



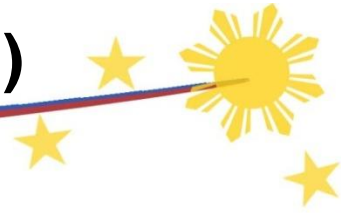
- Ensuring fiscal sustainability
 - Government spends within its means
- Enhancing fiscal space
 - Resources adequate covers priority plans and programs

ENSURING FISCAL SUSTAINABILITY



- Strengthen coordination with relevant government agencies in conducting **cost and benefit analysis for every fiscal incentive** granted.
- Develop indicators in monitoring the benefits of fiscal incentives granted.
- Conduct periodic review of the Tax Code to keep it in sync with both domestic and external developments and ensuring that the tax system is fair.

ENSURING Fiscal Sustainability (cont'd.)



- Strengthen the link between planning and budgeting to build a stronger case against legislative accommodations of expenditures outside government priorities.
- ✓ Support **deficit-neutral** measures to prevent the erosion of tax base and to avoid unfunded legislations.
- ✓ Continue publication of **Fiscal Risk Statement** to include, among others, all revenue eroding measures in the advance stages in Congress,
- ✓ Conduct periodic review of dividend policy for GOCCs to check if its continued imposition promotes efficiency and effectiveness of the government corporate sector.

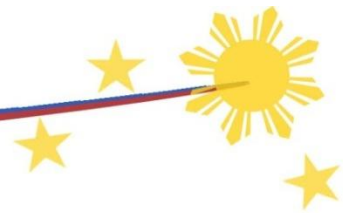
ENSURING Fiscal Sustainability (cont'd.)



- **One-fund Concept**

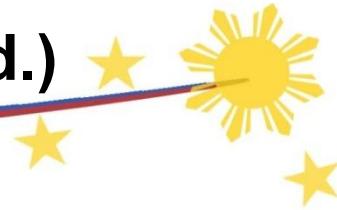
- ✓ Discourage earmarking of revenues to specific expenditures.
- ✓ If earmarking inevitable, **SUNSET CLAUSE MUST BE PROVIDED.**

ENHANCING FISCAL SPACE



- Institutionalize **disclosure of all foregone revenue** due to tax expenditure.
- Recognize **DOF as stakeholder** in the grant of incentives by having it sit in the Board of Investment along with NEDA and DBM
- **Rationalize** the granting of **tax breaks** by making them more transparent, performance-based, and temporary.

ENHANCING FISCAL SPACE (cont'd.)



- **Promote Fiscal Independence of Local Government Units (LGUs)**
 - *Develop LGUs capacity in revenue generation and revenue allocation of public funds and service delivery.*
 - Set clear delineation of public expenditure responsibilities between central and local governments.
 - Timely submission of Quarterly Financial Statements of all levels of LGUs.
 - *(Financial Statements should include Income, Expenditure and Liabilities.)*

REFORM INITIATIVES



- **TREASURY SINGLE ACCOUNT**
- **UNIFIED ACCOUNTS CODE STRUCTURE**
- **INTEGRATED FINANCIAL MANAGEMENT INFORMATION SYSTEM (IFMIS)**

REFORM INITIATIVES



TREASURY SINGLE ACCOUNT

- Unified structure of government bank accounts.
- Improves the government's cash management system by consolidating its cash resources and optimizing its use.
- Helps the government determine how much money it has in real time and on a daily basis.
- Aids the government to make sound decisions for the optimal use of cash (either for investment and/or managed borrowings).
- Enhances the overall effectiveness of a country's PFM system

REFORM INITIATIVES



UNIFIED ACCOUNTS CODE STRUCTURE

- Provides a framework for identifying, aggregating and reporting financial transactions in budget preparation, execution, accounting and auditing.
- Enables the timely and accurate reporting of actual revenue collections and expenditures against budgeted programmed revenues and expenditures.

REFORM INITIATIVES



INTEGRATED FINANCIAL MANAGEMENT INFORMATION SYSTEM (IFMIS)/initially, BUDGET AND TREASURY MANAGEMENT SYSTEM (BTMS)

- An IT system that can provide revenue, expenditure and debt information to support, at a minimum, treasury and budget execution.
- Should provide transaction-based, real time reports.
- Should allow DOF to conduct performance checks on its collectors and adopt measures to reduce leakages.
- Should allow DOF to manage its cash resources and minimize borrowings.

Financing the 10-Point Socio-Economic Agenda

- To sustain high and inclusive growth, over the long term we need one trillion pesos more in investment on top of the current 1.3 trillion pesos.
- Between 2016 and 2022, we need:

Investment category	Investment needed
Education	718 billion pesos
Health	139 billion pesos
Social protection, welfare, and employment	268 billion pesos
Urban and rural infrastructure	1,073 billion pesos
TOTAL	2,198 billion pesos

Fiscal Reforms

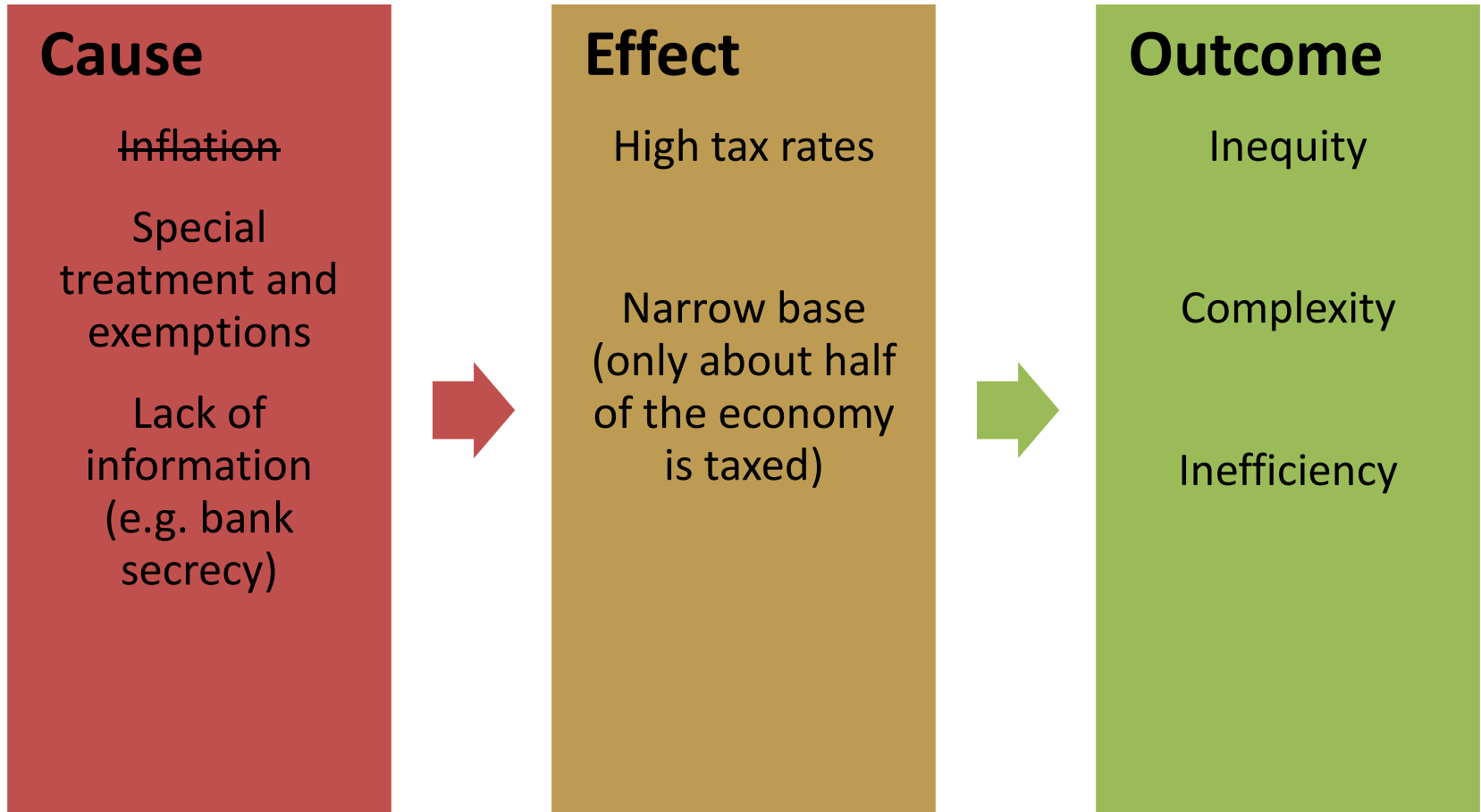


Strengthen tax administration

- Enhanced tax and customs administration is expected to contribute an additional 200 billion pesos (about 1% of GDP) over the next three years.

Bureau of Internal Revenue (BIR)	Bureau of Customs (BOC)
<ul style="list-style-type: none">• Focus on improving taxpayer satisfaction, protecting revenues and regaining the public's trust.• Expand BIR's Large Taxpayer Service to cover the top 3,000 corporations accounting for 75% of total tax revenues.• Simplify forms and procedures for small taxpayers to improve compliance and ease of payments.• Improve electronic payment systems and enforce risk-based audits.• Recruit 12,000 young people of integrity and competence.	<ul style="list-style-type: none">• Customs Modernization and Tariff Act IRR• Upgrading electronic systems for paperless transactions.• Deploy customs personnel to major trading partners.• Recruit 3,000 young and talented people.

Why tax policy reform is needed: An inefficient tax system



Proposed Tax Policy Package 1

Package	Revenue eroding measures	Offsetting measures	Passage
<p>1. Personal income tax (PIT) and consumption tax</p>	<ul style="list-style-type: none"> Adjust brackets to correct “income creeping” Reduce PIT max rate to 25% over time, except for the highest income earners to maintain progressivity Shift to a modified gross system to simplify PIT system 	<ul style="list-style-type: none"> Expand the VAT base by limiting exemptions to raw food and other necessities (e.g., education, health) Increase excise on all petroleum products & index to inflation (diesel and essentials from 0 to 6 pesos per liter; gasoline and non-essentials from around 4.35 to 10 pesos per liter). Increase excise on automobiles (progressive ad valorem system). <p>Mitigating measures</p> <ul style="list-style-type: none"> Low income consumers and businesses are already protected by the marginal threshold, which can be adjusted if needed. Use targeted programs to protect the poor and vulnerable. Benefits will not be reduced. 	<p>TBA</p>

Package 1: Simplifying the Tax System

We are simplifying the income tax brackets by decreasing it to six (6) brackets. Tax rates for 99% of taxpayers will gradually decrease over the first two years of implementation.

PROPOSED TAX SCHEDULE (YEAR 1)

Income Bracket	Tax Rate
0 - 250,000	0%
Over 250,000 - 400,000	20% of the excess over 250,000
Over 400,000 - 800,000	30,000 + 25% of the excess over 400,000
Over 800,000 - 2,000,000	130,000 + 30% of the excess over 800,000
Over 2,000,000 - 5,000,000	490,000 + 32% of the excess over 2,000,000
Over 5,000,000	1,450,000 + 35% of the excess over 5,000,000

PROPOSED TAX SCHEDULE (YEAR 2)

Income Bracket	Tax Rate
0 - 250,000	0%
Over 250,000 - 400,000	15% of the excess over 250,000
Over 400,000 - 800,000	22,500 + 20% of the excess over 400,000
Over 800,000 - 2,000,000	102,500 + 25% of the excess over 800,000
Over 2,000,000 - 5,000,000	402,500 + 30% of the excess over 2,000,000
Over 5,000,000	1,302,500 + 35% of the excess over 5,000,000

The simplified tax system will increase the take-home pay of most individuals. This will make the system fairer, putting more money in people's pockets.



Automobile and Oil Excise

- More expensive cars will be charged higher excise taxes to ensure the progressivity.
- Increasing excise on oil products is a progressive measure.
 - The top 200,000 households (1% of the total population) consume 20% of oil products.
 - The top 10% (2 million households) account for 60% of oil consumption.

**Based on 2012 FIES pending release of 2015 FIES*

Automobile and Oil Excise

- Excise on oil products have not been adjusted since 1997. Experience with the VAT reform and oil price shock proved that we can well manage the more moderate increase in oil prices.

Indicator	VAT reform			Oil price shock		
	2004	2005	2006	2010	2011	2012
Effective VAT rate	0	10	12	12	12	12
Dubai crude (USD)	34	49	61	78	106	109
GDP (%)	6.7	4.8	5.2	7.6	3.7	6.7
Consumption (%)	6.0	4.4	4.2	3.4	5.6	6.6
Overall Inflation (%)	4.8	6.5	5.5	3.8	4.6	3.2
Food inflation (%)	6.0	6.4	5.2	4.0	5.5	2.4
Transport inflation (%)	11.5	16.8	10.7	3.7	6.0	2.3
Electricity inflation (%)	3.8	7.5	5.9	5.1	5.2	4.6
Gasoline (PHP)	20.1	26.5	30.0	35.5	48.1	48.6
Diesel (PHP)	18.0	25.9	30.2	31.4	41.3	41.7

Value-Added Tax: 60 lines of exemptions that lead to large leakages

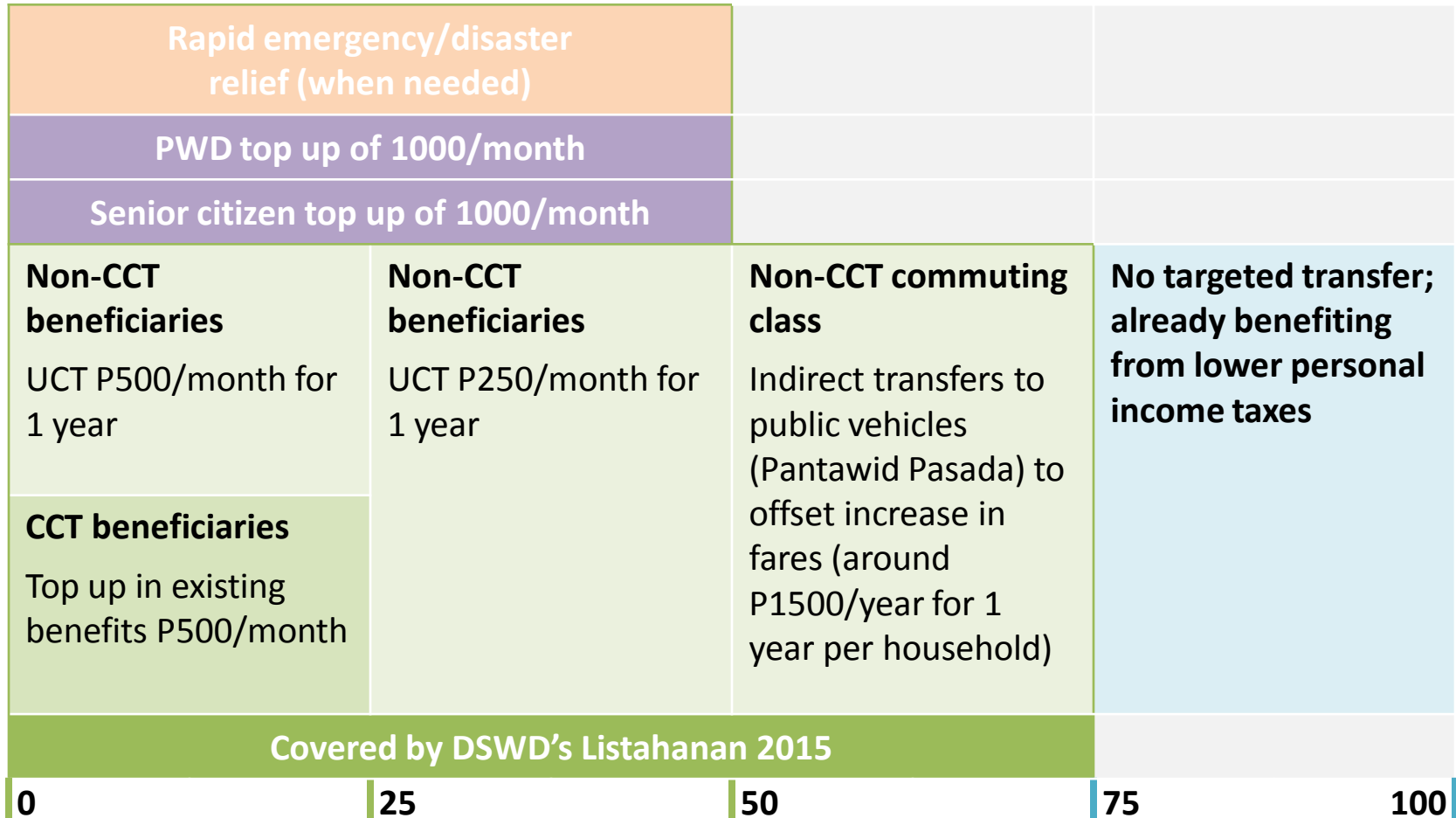
Examples of VAT-exempt transactions

- agricultural and marine food products in their original state
- livestock and poultry of a kind generally used as, or yielding or producing foods for human consumption;
- and breeding stock and genetic materials thereof;
- fertilizers;
- seeds, seedlings and fingerlings;
- fish, prawn, livestock and poultry feeds,
- ingredients, whether locally produced or imported, used in the manufacture of finished feeds
- Importation of personal and household effects belonging to residents of the Philippines returning from abroad and non-resident citizens coming to resettle in the Philippines
- Importation of professional instruments and implements,
- wearing apparel,
- domestic animals,
- Services by agricultural contract growers and milling for others of palay into rice, corn into grits, and sugar cane into raw sugar;
- Services rendered by regional or area headquarters established in the Philippines by multinational corporations which act as supervisory, communications and coordinating centers for their affiliates, subsidiaries or branches in the Asia Pacific Region and do not earn or derive income from the Philippines;
- Transactions which are exempt under international agreements to which the Philippines is a signatory or under special laws except those granted under P.D. No. 529
- Sales by agricultural cooperatives duly registered and in good standing with the Cooperative Development Authority (CDA) to their members, as well as of their produce, whether in its original state or processed form, to non-members,
- their importation of direct farm inputs,
- machineries and equipment, including spare parts thereof, to be used directly and exclusively in the production and/or processing of their produce;
- Gross receipts from lending activities by credit or multi-purpose cooperatives duly registered and in good standing with the Cooperative Development Authority;
- Sales by non-agricultural, non-electric and non-credit cooperatives duly registered with and in good standing with CDA;
- Export sales by persons who are not VAT-registered;
- Sale of real properties not primarily held for sale to customers or held for lease in the ordinary course of trade or business;
- Sale of real properties utilized for low-cost housing as defined by RA No. 7279, and other related laws
- Sale of real properties utilized for specialized housing as defined under RA No. 7279, and other related laws wherein price ceiling per unit is P225,000.00
- Sale of residential lot valued at One Million Five Hundred Thousand Pesos (P1,500,000.00) and below, or house and lot and other residential dwellings valued at Two Million Five Hundred Thousand Pesos (P2,500,000.00) and below
- where the instrument of sale/ transfer/ disposition was executed on or after July 1, 2005;
- Sale or lease of goods or properties or the performance of services other than the transactions mentioned in the preceding paragraphs, the gross annual sales and/or receipts do not exceed the amount of One Million Five Hundred Thousand Pesos (P1,500,000.00)
- Importation of fuel, goods and supplies engaged in international shipping or air transport operations;
- Services subject to percentage tax under Title V of the Code, as amended;
- Services of banks, non-bank financial intermediaries performing quasi-banking functions, and other non-bank financial intermediaries, such as money changers and pawnshops



The money we generate from the rich, who do not need exemptions and subsidies, will be transferred back to the poor and used to fund more and better services.

Targeted Transfer Program





Thank you!