

Republic of the Philippines
DEPARTMENT OF FINANCE
NATIONAL TAX RESEARCH CENTER
Harbor Center II, 23rd Street Cor. Delgado Street
Port Area, Manila



Tax Reform For Acceleration And Inclusion Package 1

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Crown Legacy Hotel, Baguio City
April 5, 2017

Philippine Association for Government Budget Administration (PAGBA)
2017 1st Quarterly Seminar & Meeting, April 5-8, 2017
Crown Legacy Hotel, Baguio City

Outline of Presentation



Vision for the Philippines



How to Achieve the Vision



Key Tax Policy Issues



Tax Reform for Acceleration and Inclusion

- Tax Policy Reforms

- Tax Administration Reforms



Key Messages

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President Duterte's promise to the Filipino people is

“Tunay na pagbabago”
Real positive change

More inclusive growth manifested by:

- ☞ A comfortable life for all
- ☞ Improved public services
- ☞ More and better jobs
- ☞ More money in the people's pockets
- ☞ Safe, healthy and peaceful communities



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Vision for the Philippines

By 2022 (6 years from now)

- Poverty rate reduced from 21.6% to 14% (or some 6 million Filipinos uplifted from poverty)
- Achieve upper- middle income status, where per capita gross national income (GNI) increases from USD 3,500 to at least USD 4,100 by 2022 in today's money (where Thailand and China are today)

By 2040 (24 years or one generation from now)

- Extreme poverty eradicated
- Achieve a high income status where per capita GNI increases to USD 3,500 to USD 12,000 by 2040 in today's money (where Malaysia and South Korea are today)

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How to Achieve the Vision

- Sustain a high growth of at least 7% every year for one generation;
- Shift the source of growth from consumption to investment; and
- Massively invest in infrastructure and in our people.

Additional Investments Needed

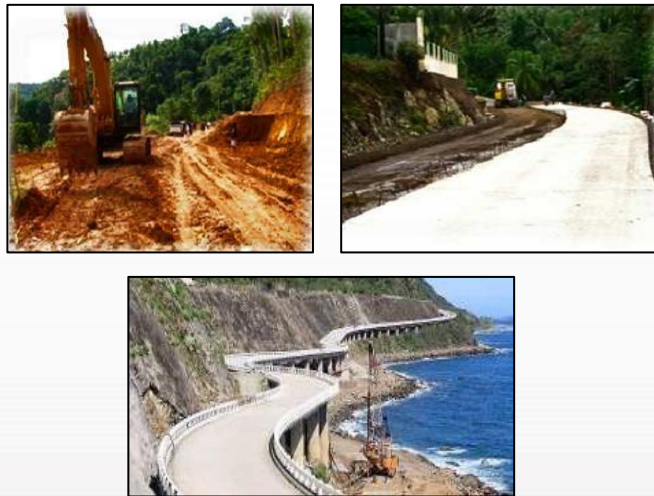
Investment Category	2016	2022 Target	Additional Over the Next 6 Years*
Infrastructure	P759 billion	P1.8 trillion	P1.1 trillion
Education and training	551 billion	1.3 trillion	718 billion
Health	133 billion	272 billion	139 billion
Social protection, welfare and employment	242 billion	509 billion	267 billion
Total	P1.7 trillion	P3.9 trillion	P2.2 trillion

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How to Achieve the Vision

Infrastructure



Education



Health and Nutrition



Social Services



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How to Achieve the Vision

Ten-Point Socioeconomic Agenda

The 10-point Socioeconomic Agenda

Be our partner for change.

1



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

2



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

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 and 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 Senior Citizens Conditional Cash Transfer program.

10



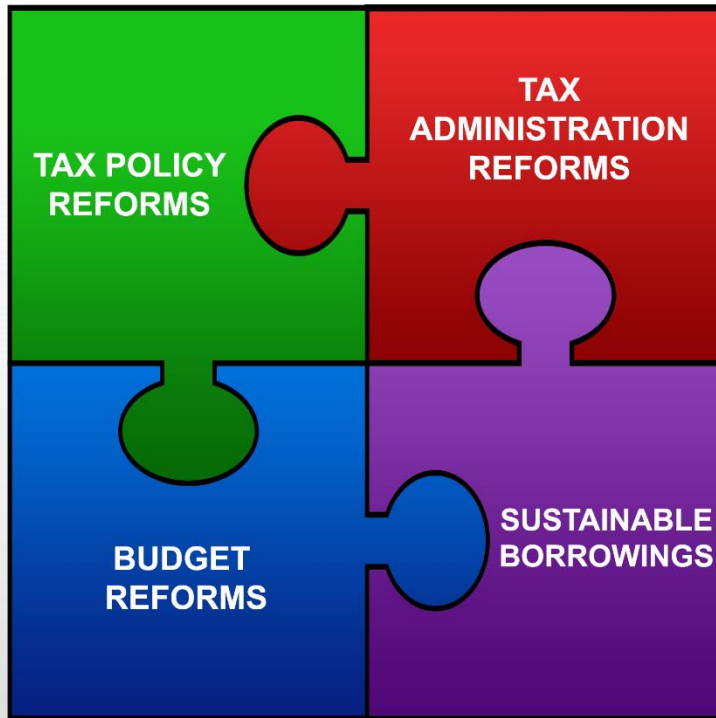
Strengthen implementation of the Responsible Parenthood and Reproductive Health Law.

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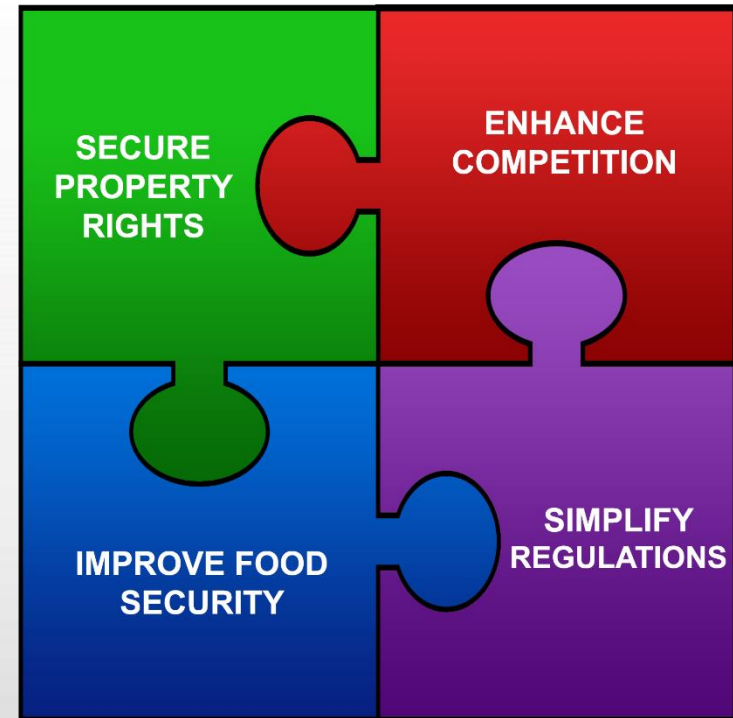


How to Achieve the Vision

Ways to Raise Additional Investments



Complementary Economic Reforms



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Key Tax Policy Issues

- High tax rates and narrow tax base
- Non-indexation of tax rates or tax base
- Not at par with the rates in the ASEAN
- Numerous exemptions and preferential rates to certain sectors
- Lack of information due to restrictive bank secrecy provisions

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Tax Reform for Acceleration and Inclusion (TRAIN)

We are redesigning our tax system to be simpler, fairer and more efficient for all while also raising revenue needed to invest in our infrastructure and our people.

Our goal is to correct our tax system's inequity.



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TRAIN Packages

Package	Revenue Eroding Measures	Offsetting Measures
1. Personal Income Tax and Transfer Taxes vs. Consumption Taxes	<ul style="list-style-type: none"> • Reduce PIT rates except for the rich • Simplify estate and donor's tax at a single rate 	<ul style="list-style-type: none"> • Expansion of VAT base • Increase in excise tax on petroleum products • Increase in excise tax on automobiles
2. Corporate Income Tax vs. Fiscal Incentives Rationalization	<ul style="list-style-type: none"> • Reduce corporate income tax 	<ul style="list-style-type: none"> • Rationalize fiscal incentive
3. Health Tax		
4. Capital Income Tax		
5. Other Tax Measures		

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Tax Reform for Acceleration and Inclusion (Package 1)



Restructuring the PIT



Simplifying the tax for micro businesses to 8% (in lieu of income, VAT and percentage tax) for those with gross sales/receipts of P3,000,000 and below



Reducing donor's tax at 6% of net gifts exceeding P100,000 annually regardless of relationship between donor and donee



Reducing estate tax at 6% of net value of the estate



Broadening the VAT system by limiting exemptions to raw food, and other necessities (e.g. education and health)



Staggered increase on oil excise tax and index to inflation

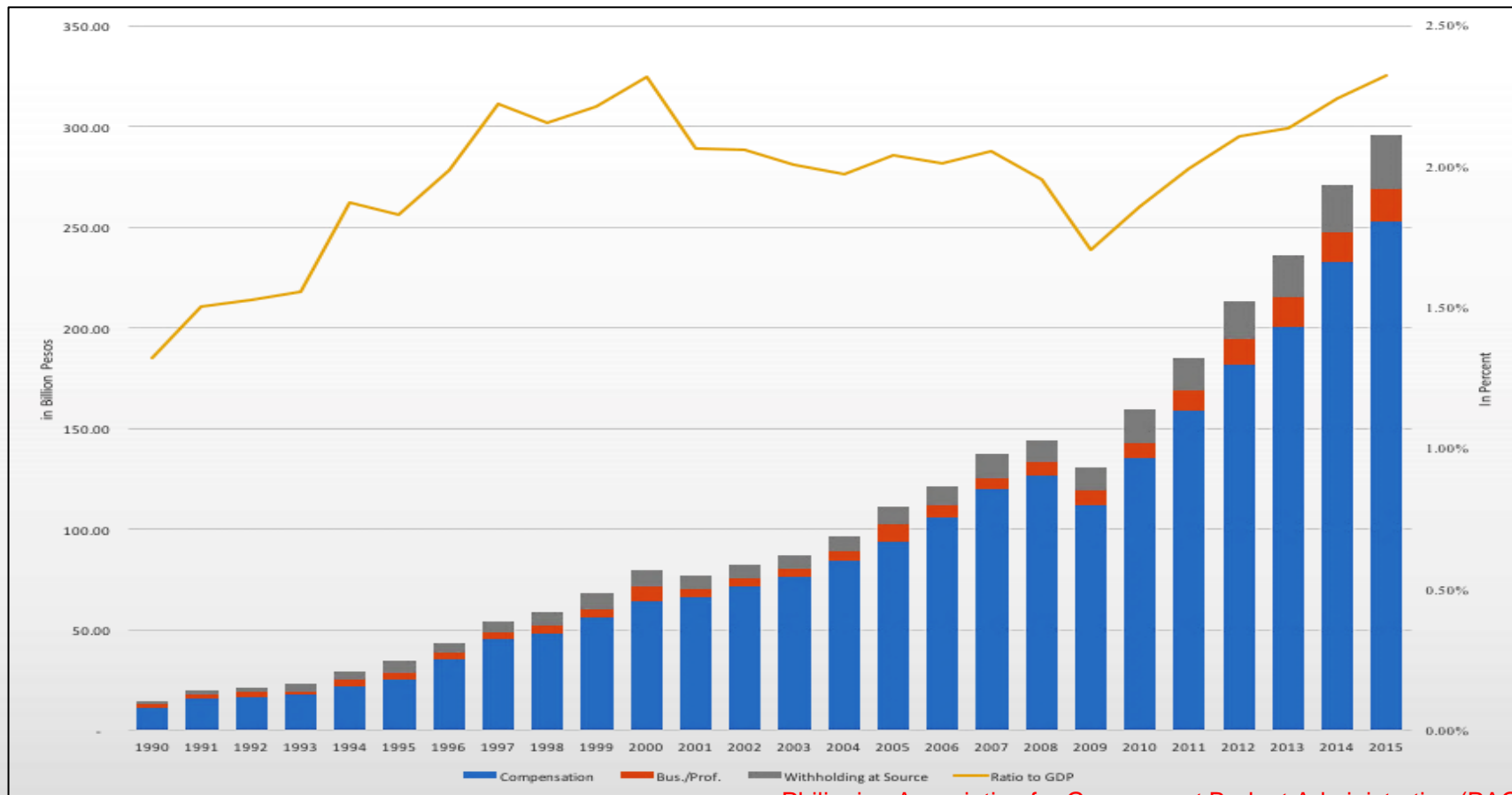


Increase excise tax on automobiles

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Personal Income Tax Collection: 1990 - 2015



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Personal Income Tax

PROPOSED TAX CHANGES UNDER HOUSE BILL NO. 4774 OR THE TAX REFORM FOR ACCELERATION AND INCLUSION (TRAIN) ACT



PRESENT

A. Compensation Income Earners

Income Bracket	Tax Rate
Not over 10,000	5%
10,000 – 30,000	500 + 10% of excess over 10,000
30,000 – 70,000	2,500 + 15% of excess over 30,000
70,000 – 140,000	8,500 + 20% of excess over 70,000
140,000 – 250,000	22,500 + 25% of excess over 140,000
250,000 – 500,000	50,000 + 30% of excess over 250,000
Over 500,000	125,500 + 32% of excess over 500,000

PROPOSED

Income Bracket	July 2017, 2018 & 2019	2020 Onwards
Not over 250,000	0%	0%
250,000 – 400,000	0 + 20% of excess over 250,000	0 + 15% of excess over 250,000
400,000 – 800,000	30,000 + 25% of excess over 400,000	22,500 + 20% of excess over 400,000
800,000 – 2,000,000	130,000 + 30% of excess over 800,000	102,500 + 25% of excess over 800,000
2,000,000 – 5,000,000	490,000 + 32% of excess over 2,000,000	402,500 + 30% of excess over 2,000,000
Over 5,000,000	1,450,000 + 35% of excess over 5,000,000	1,302,000 + 35% of excess over 5,000,000

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Personal Income Tax



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PRESENT

B. Self-employed and Professionals

Income Bracket	Tax Rate
Not over 10,000	5%
10,000 – 30,000	500 + 10% of excess over 10,000
30,000 – 70,000	2,500 + 15% of excess over 30,000
70,000 – 140,000	8,500 + 20% of excess over 70,000
140,000 – 250,000	22,500 + 25% of excess over 140,000
250,000 – 500,000	50,000 + 30% of excess over 250,000
Over 500,000	125,500 + 32% of excess over 500,000

PROPOSED

Amount of Gross Sales/Receipts	Tax Rate Beginning July 2017
Not exceeding VAT threshold of 3,000,000	8% of gross sales/revenues*
Above VAT threshold of 3,000,000	30% of net taxable income or 2% of gross income**

* This is in lieu of income tax, VAT and percentage tax

** Taxed in the same manner as corporations in terms of applicable tax rate, Minimum Income Tax and allowable deductions

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 2517 of applicable tax rate, Minimum Income Tax
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Personal Income Tax

PROPOSED TAX CHANGES UNDER HOUSE BILL NO. 4774 OR THE TAX REFORM FOR ACCELERATION AND INCLUSION (TRAIN) ACT



Highlights of the Proposed PIT System

- 1** Exempt annual taxable income of P250,000 and below
- 2** The top tax rate will be reduced from 32% to 25%, except for those with annual taxable income over P5 million, who will be taxed at 35% to maintain progressivity
- 3** Number of tax brackets will be reduced from 7 to 6 brackets
- 4** Integration of the exemption of minimum wage earners (MWEs) and basic personal and additional exemptions (PAEs) into the P250,000 exempt threshold
- 5** Mandatory contributions such as GSIS, SSS, Philhealth, Pag-IBIG and union dues will remain non-taxable
- 6** De minimis benefits will remain exempt from tax
- 7** 13th month pay and other benefits amounting to P82,000 and below will remain exempt from tax

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Personal Income Tax



PROPOSED TAX CHANGES UNDER HOUSE BILL NO. 4774 OR THE TAX REFORM FOR ACCELERATION AND INCLUSION (TRAIN) ACT

Highlights of the Proposed PIT System

- 8** Deductions under special laws will no longer be allowed in the computation of taxable income
- 9** Tax brackets will be adjusted to inflation every 5 years to address income creeping
- 10** Fringe benefits will be taxed at a lower rate of 30% beginning July 2017 to 2019 and shall form part of the gross income subject to regular income tax rates starting 2020
- 11** The optional standard deduction (OSD) for individuals will be reduced from 40% to 20% of gross sales/receipts
- 12** Philippine Charity Sweepstakes and Lotto winnings will no longer be exempted
- 13** The preferential rate (15%) for employees of regional headquarters, offshore banking units and petroleum service contractors will be removed in order to align them with other individual taxpayers

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Income Tax Calculator

Minimum Wage Earner			
A	Annual Basic Salary: P153,684	C	13th Month/Other Benefits: P12,807
B	Mandatory Contributions: P8,668	D	Exemptions: P75,000
		PRESENT	PROPOSED
Annual Gross Income (A+C):		P166,491	P166,491
Less:			
Non-taxable income (B+C)		P21,475	P21,475
Exemptions (D)		P75,000	n/a
Health Insurance		P0	n/a
Equals:			
Net taxable income		P70,016	P145,016
Estimated tax due:		P0	P0
Your additional take-home income per year:			
		P0	P0
or	P0 per month		

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Daily Minimum Wage: P491 or P12,807 per month with one (1) dependent



Income Tax Calculator

Budget and Management Analyst – SG 11

A Annual Basic Salary:
P235,440

C 13th Month/Other Benefits:
P39,240

B Mandatory Contributions:
P27,615

D Exemptions:
P75,000

	PRESENT	PROPOSED
Annual Gross Income (A+C):	P274,680	P274,680
Less:		
Non-taxable income (B+C)	P64,480	P64,480
Exemptions (D)	P75,000	n/a
Health Insurance	P0	n/a
Equals:		
Net taxable income	P135,200	P210,200

Estimated tax due:

P21,540

P0

Your additional take-home income per year:

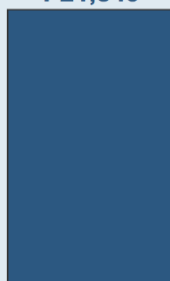
P21,540

or **P1,795** per month

Your tax will increase/decrease by:

-100.0%

P21,540



When you are currently paying

P0

What you will pay under the proposal

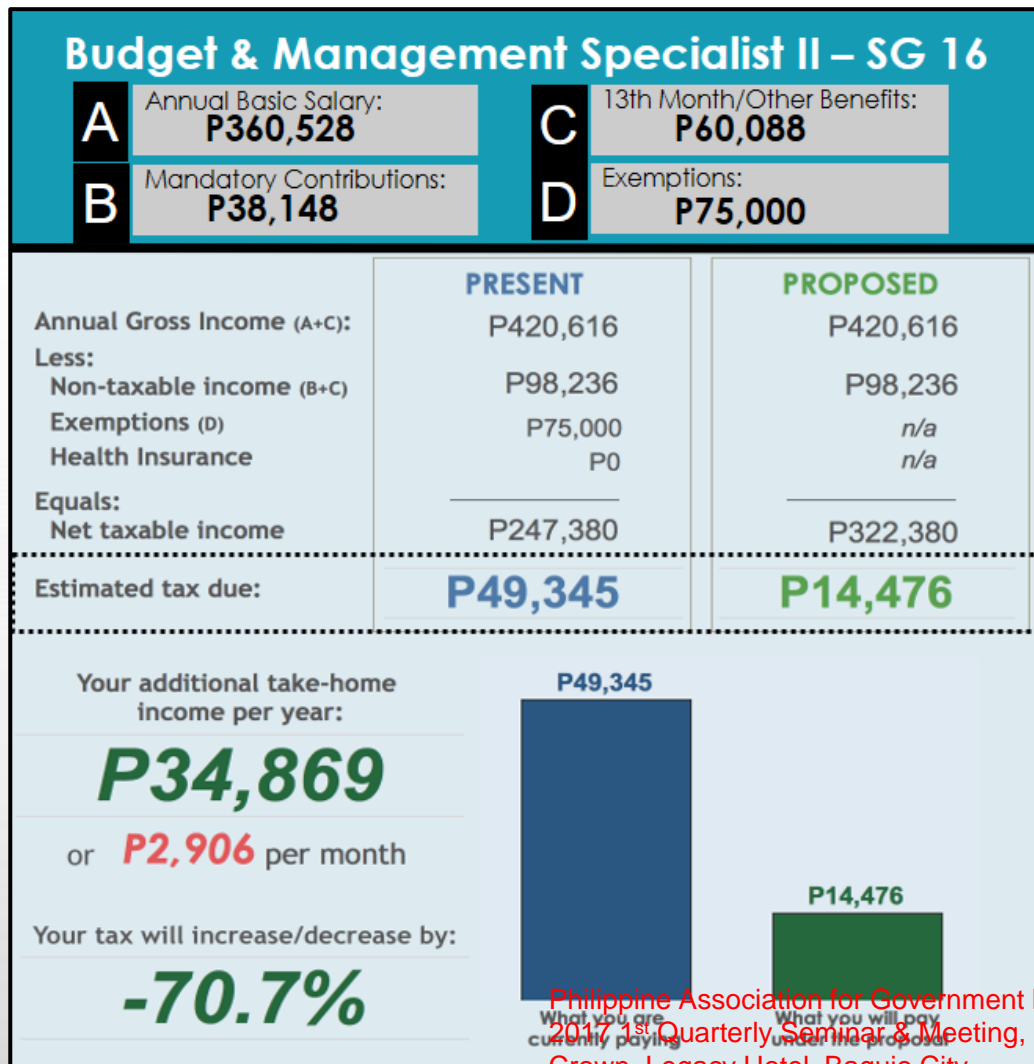
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Monthly Salary: P19,620 with one (1) dependent



Income Tax Calculator





Monthly Salary: P30,044 with one (1) dependent



Income Tax Calculator

Supervising Budget and Management Specialist – SG 22

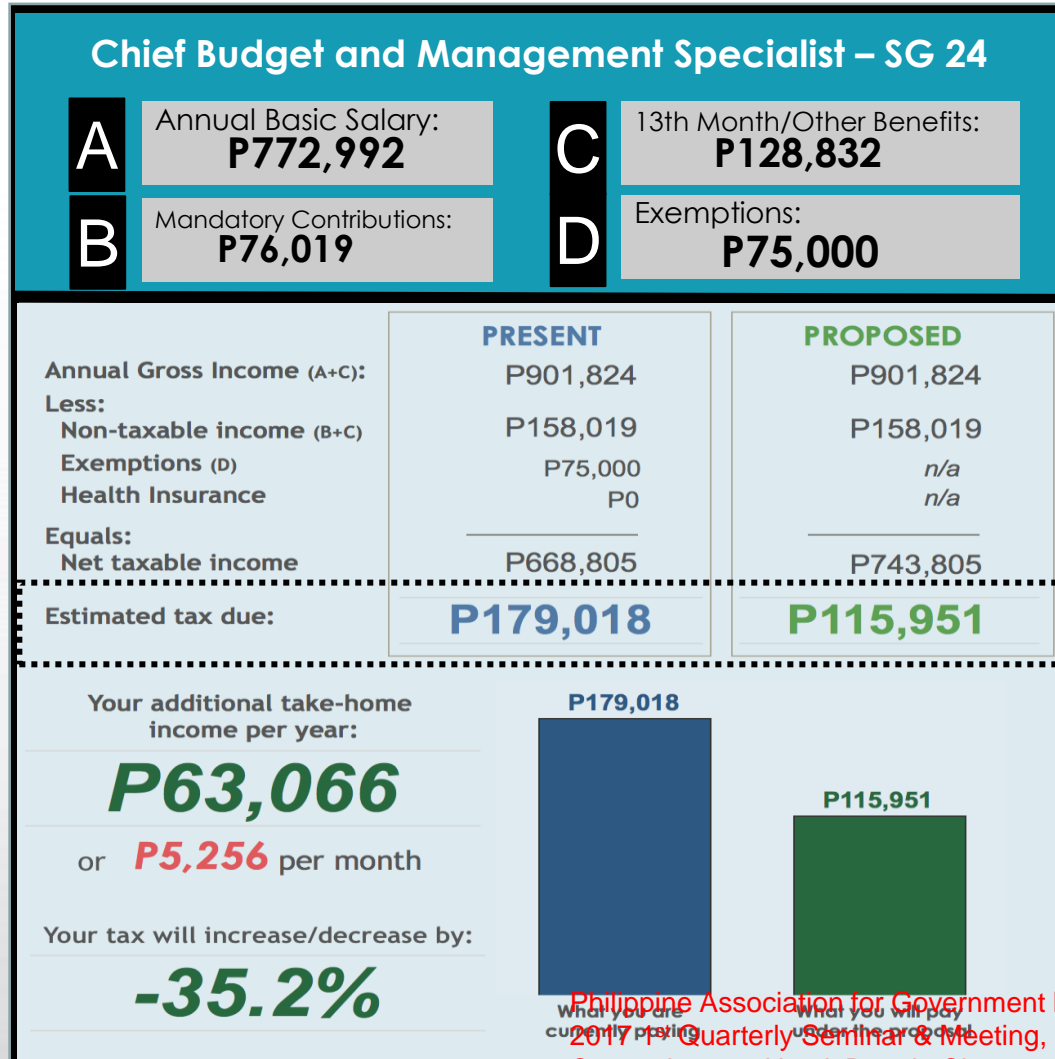
A	Annual Basic Salary: P633,396	C	13th Month/Other Benefits: P105,566
B	Mandatory Contributions: P63,456	D	Exemptions: P75,000

	PRESENT	PROPOSED
Annual Gross Income (A+C):	P738,962	P738,962
Less:		
Non-taxable income (B+C)	P145,456	P145,456
Exemptions (D)	P75,000	n/a
Health Insurance	P0	n/a
Equals:		
Net taxable income	P518,506	P593,506
Estimated tax due:	P130,922	P78,377
Your additional take-home income per year:	P130,922	
		
	What you are currently paying	What you will pay under the proposal
		P78,377
or P4,379 per month		
Your tax will increase/decrease by:		
-40.1%		

Monthly Salary: P52,783 with one (1) dependent



Income Tax Calculator

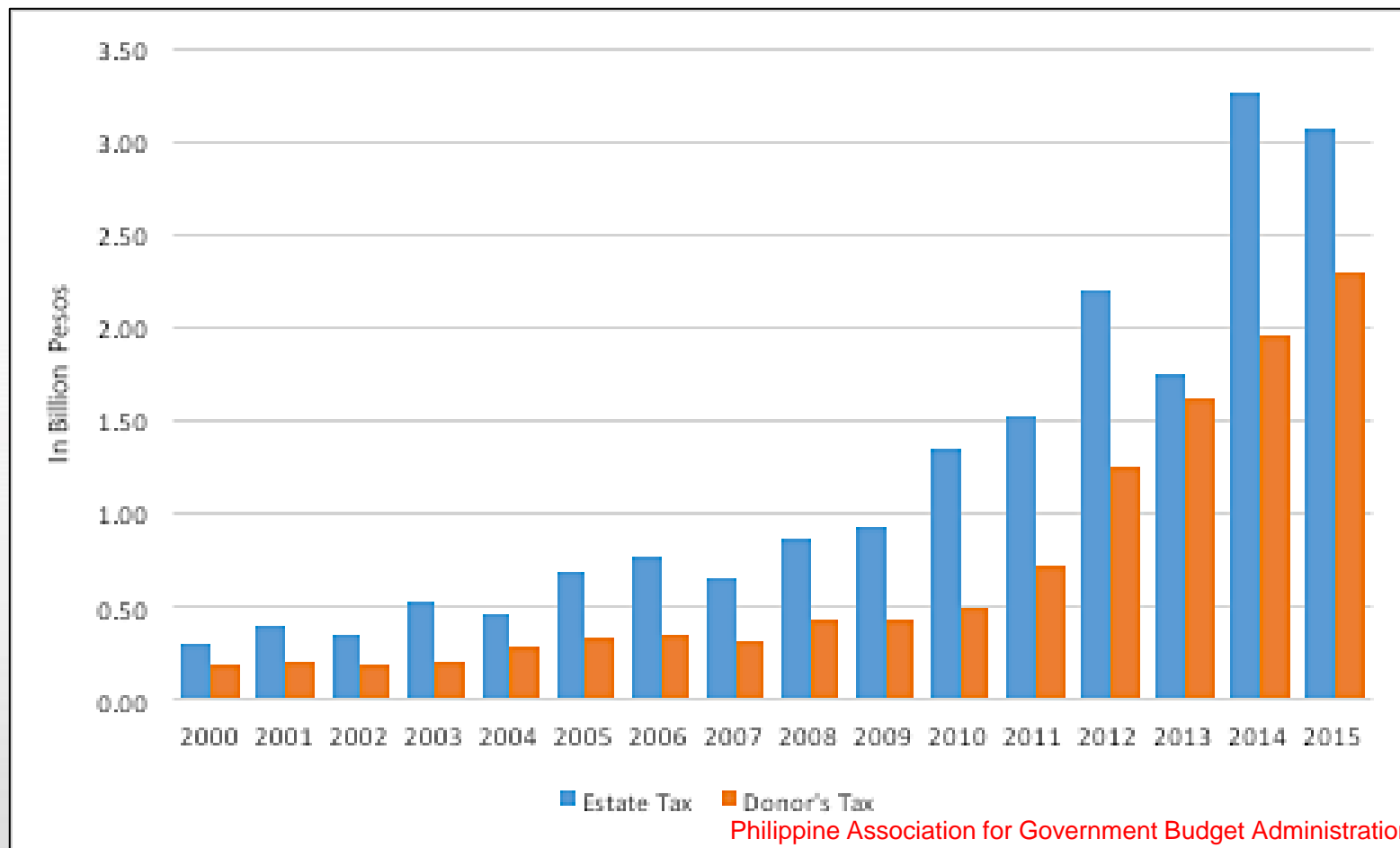


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Monthly Salary: P64,416 with one (1) dependent



Estate and Donor's Tax Collection: 2000 - 2015



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ESTATE TAX



PROPOSED TAX CHANGES UNDER HOUSE BILL NO. 4774 OR THE TAX REFORM FOR ACCELERATION AND INCLUSION TRAIN) ACT

PRESENT

Net Estate Bracket	Tax Rate
Not over 200,000	Exempt
200,000 to 500,000	0 + 5% of excess over 200,000
500,000 to 2,000,000	15,000 + 8% of excess over 500,000
2,000,000 to 5,000,000	135,000 + 11% of excess over 2,000,000
5,000,000 to 10,000,000	465,000 + 15% of excess over 5,000,000
Over 10,000,000	1,215,000 + 20% of excess over 10,000,000

PROPOSED

Tax Base	Tax Rate
Net value of estate*	6%

*Net value of estate = Value of gross estate less allowable deductions

Standard deduction amounting to Php1 M

Family home – increase in value from Php1 M to P5 M

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DONOR'S TAX



PROPOSED TAX CHANGES UNDER HOUSE BILL NO. 4774 OR THE TAX REFORM FOR ACCELERATION AND INCLUSION TRAIN) ACT

PRESENT

Net Gifts Bracket	Tax Rate
Not over 100,000	Exempt
100,000 to 200,000	0 + 2% of excess over 100,000
200,000 to 500,000	2,000 + 4% of excess over 200,000
500,000 to 1,000,000	14,000 + 6% of excess over 500,000
1,000,000 to 3,000,000	44,000 + 8% of excess over 1,000,000
3,000,000 to 5,000,000	204,000 + 10% of excess over 3,000,000
5,000,000 to 10,000,000	404,000 + 12% of excess over 5,000,000
Over 10,000,000	1,004,000 + 15% of excess over 10,000,000

When the donee or beneficiary is a stranger, the tax payable by the donor is 30% of the net gifts.

PROPOSED

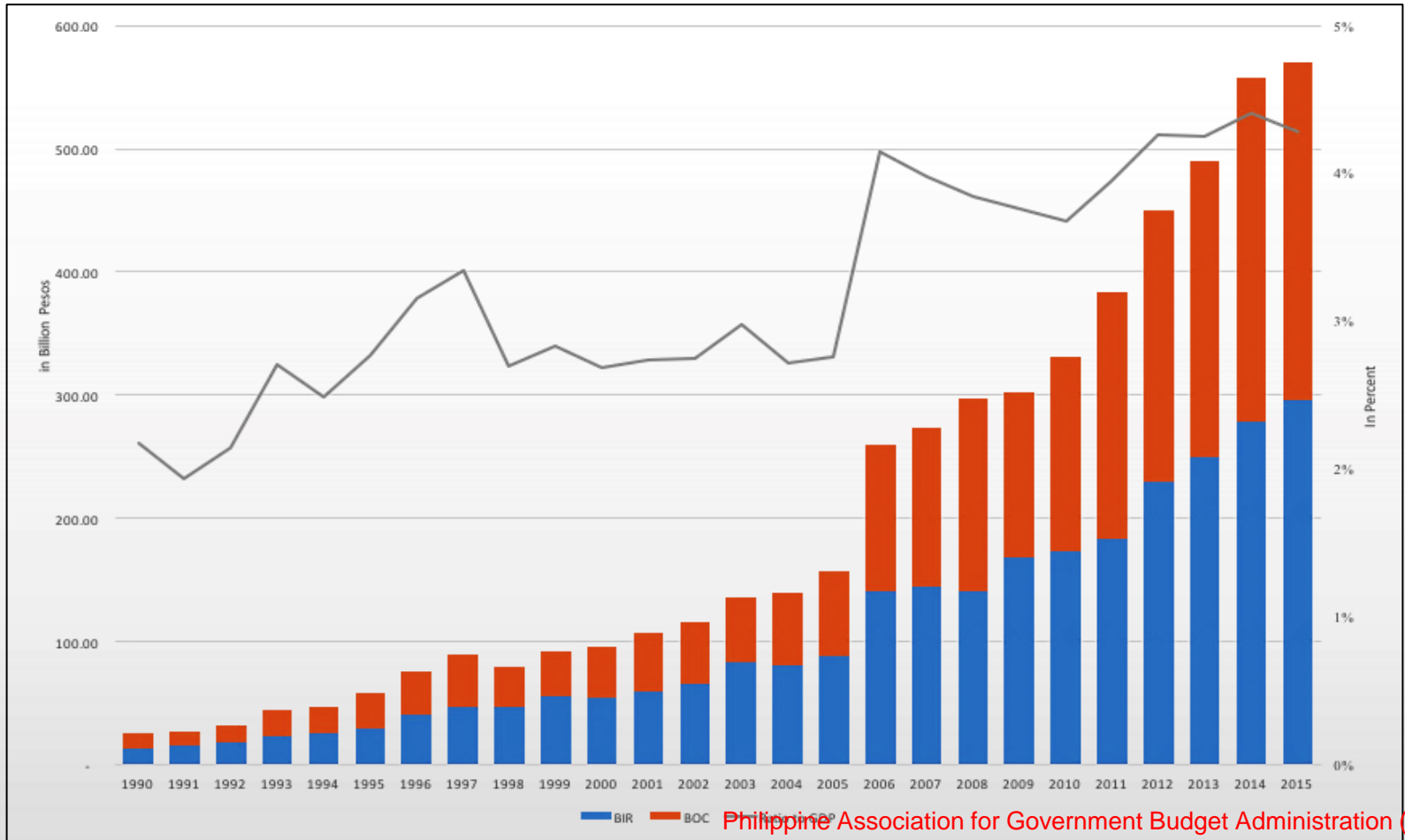
Tax Base	Tax Rate
Annual net gifts	6%

- Net gifts not exceeding P100,000 are exempt
- Uniforms rate for donations to strangers or relatives

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VAT Collection: 1990 - 2015



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Value-added Tax: 59 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 duly 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

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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 from people who take advantage of the VAT system to pay less tax.

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Value-added Tax (VAT)

PROPOSED TAX CHANGES UNDER HOUSE BILL NO. 4774 OR THE TAX REFORM FOR ACCELERATION AND INCLUSION (TRAIN) ACT

Retention of exemption of the following, among others:



Senior Citizens



Persons with Disabilities



Raw Food



Health Services



Education Services

Withdrawal of exemption of the following, among others:



Cooperatives, except selling raw agricultural products



Sale of Low-cost and Socialized Housing



Lease of Residential Units



Exemptions under Special Laws

Withdrawal of the following zero-rated transactions:



Indirect Exporters and Agents



Zero-rated under special laws

Transfer from zero-rated to exempt:



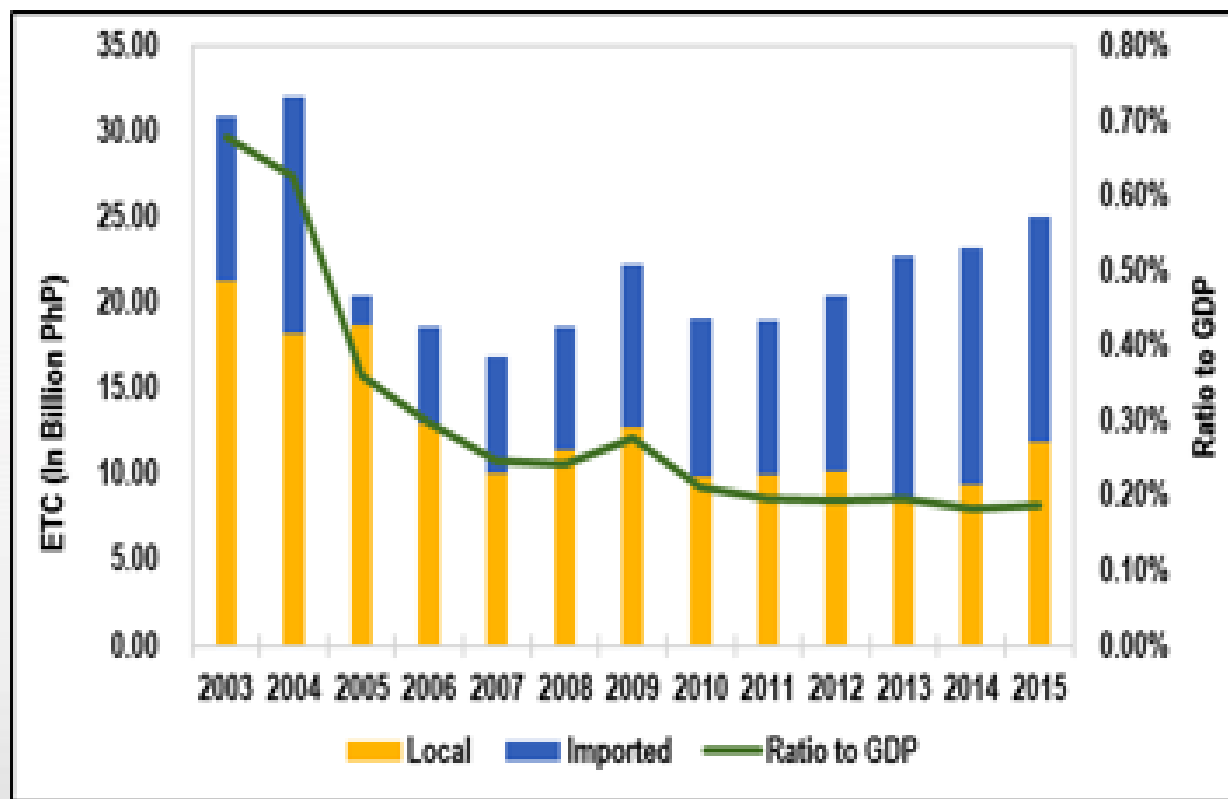
Renewable Energy

Increase in VAT exempt threshold from P1,919,500 to P3,000,000



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Excise Tax Collection on Petroleum: 2003 - 2015



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Excise Tax on Petroleum

PROPOSED TAX CHANGES UNDER HOUSE BILL NO. 4774 OR THE TAX REFORM FOR ACCELERATION AND INCLUSION (TRAIN) ACT

PRESENT

PROPOSED

Type	Tax rate per liter / kg
Leaded premium gasoline*	P5.35
Unleaded premium gasoline	P4.35
Lubricating Oils and Greases	P4.50
Naphtha/Regular Gasoline	P4.35
Aviation Turbo Jet Fuel	P3.67
Waxes and Petrolatum	P3.50
Asphalts	P0.56
Denatured Alcohol	P0.05
Processed Gas	P0.05
Bunker Fuel Oil	P0.00
Liquified Petroleum Gas	P0.00
Diesel Fuel Oil	P0.00
Kerosene	P0.00

Gasoline and others	July 2017	2018	2019	2020
Unleaded Premium Gasoline, Lubricating Oils and Greases, Naphtha/Regular Gasoline, Aviation Turbo Jet Fuel and Waxes and Petrolatum	P7.00	P9.00	P10.00	P10.40

Diesel and others	July 2017	2018	2019	2020
Asphalts, Denatured Alcohol, Processed Gas, Bunker Fuel Oil, Liquified Petroleum Gas, Diesel Fuel Oil and Kerosene	P3.00	P5.00	P6.00	P6.24

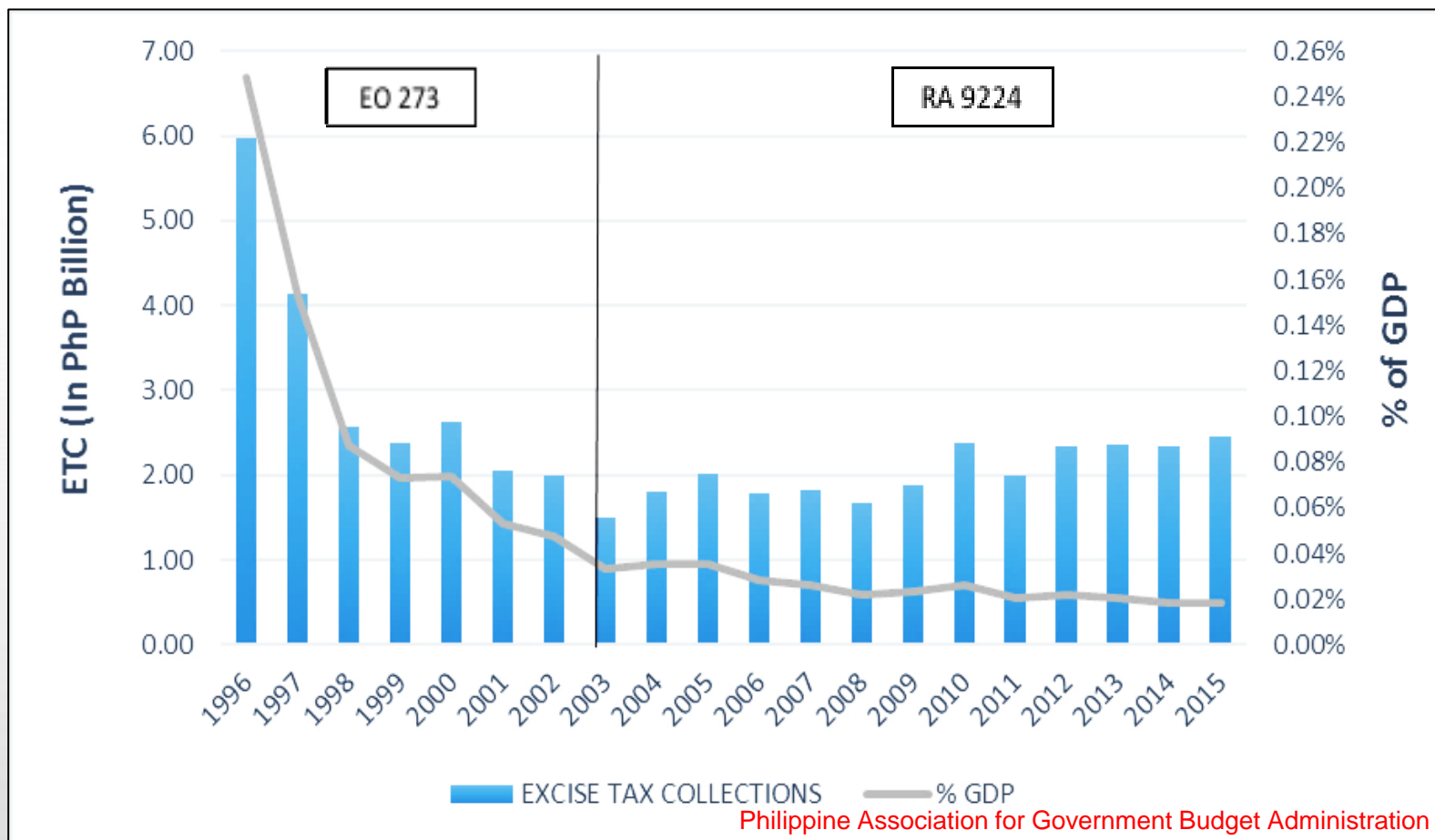
i The proposed tax rates shall be increased by 4% every year effective January 1, 2020 and thereafter unless the average Dubai crude oil price in the month preceding the scheduled indexation exceeds US\$100 per barrel.

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*Phased out



Excise Tax Collection on Automobiles: 1996 - 2015



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EXCISE TAX on Automobiles

PROPOSED TAX CHANGES UNDER HOUSE BILL NO. 4774 OR THE TAX REFORM FOR ACCELERATION AND INCLUSION (TRAIN) ACT

PRESENT

Net Manufacturer's Price/Importer's Selling Price	Tax Rate
Up to 600,000	2%
600,000 – 1,100,000	12,000 + 20% of value in excess of 600,000
1,100,000 – 2,100,000	112,000 + 40% of value in excess of 1,100,000
Over 2,100,000	512,000 + 60% of value in excess of 2,100,000

PROPOSED

Net Manufacturer's Price/Importer's Selling Price	Tax Rate
Up to 600,000	4%
600,000 – 1,100,000	24,000 + 40% of value in excess of 600,000
1,100,000 – 2,100,000	224,000 + 100% of value in excess of 1,100,000
Over 2,100,000	1,224,000 + 200% of value in excess of 2,100,000

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Exempt from Hotel & Resort City

Pick-ups shall be considered as trucks, hence, exempt from excise tax









Auto Excise Tax Rates

Net Manufacturer's / Importers Selling Price	Current		Proposed	
	Marginal Tax Rate	Average Effective Tax Rate	Marginal Tax Rate	Average Effective Tax Rate
Up to 600,000	2%	2%	4%	4%
Over 600,000 to 1,100,000	12,000 + 20% in excess of 600,000	5%	20,000 + 40% in excess of 600,000	11%
Over 1,100,000 to 2,100,000	112,000 + 40% in excess of 1,100,000	13%	224,000 + 100% in excess of 1,100,000	23%
Over 2,100,000	512,000 + 60% in excess of 2,100,000	31%	1,224,000 + 200% in excess of 2,100,000	41%

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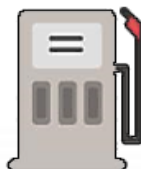
Changes in Suggested Retail Price of Selected Automobiles

Brand/Model	Current SRP	Proposed SRP	Change in SRP	Increase in Monthly Amortization
Hyundai EON GLX Navi 	525,000	535,294	10,294	187
Toyota Wigo 1.0 G 	561,000	572,000	11,000	200
Mitsubishi Adventure TX 	690,000	703,529	13,529	246
Toyota Avanza 1.3 E 	807,000	825,198	18,198	330
Honda City 1.5 VX Navi Mugen 	1,063,000	1,119,207	56,207	1,020
Isuzu Crosswind Sportivo X 	1,245,000	1,331,540	86,540	1,570

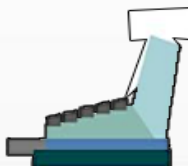
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Tax Administration Reforms

PROPOSED TAX ADMINISTRATION REFORMS UNDER HB NO. 4774 OR THE TAX REFORM FOR ACCELERATION AND INCLUSION (TRAIN) ACT



Mandatory marking of all petroleum products



Mandatory connection of cash register/point-of-sales machines (CRM/POS machines) to the BIR Servers



Use of electronic receipts or electronic sales or commercial invoices



Relaxation of bank secrecy provisions for tax fraud cases

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High End Revenue Impact in 2018 (Package 1)


Tax Package (in billion pesos)	Loss	Gain	Net
Package 1: PIT and Consumption Taxes	-139.6	302.2	162.5
Personal Income Tax	-137.9	92.5	
Estate and Donor's Tax	-1.7	31.3	
VAT Base Expansion		92.5	
Excise Tax on Automobiles		31.3	
Excise Tax on Petroleum		120.9	
Complementary Measures		57.4	
Tax Administration Measures		44.2	44.2
Total			206.8

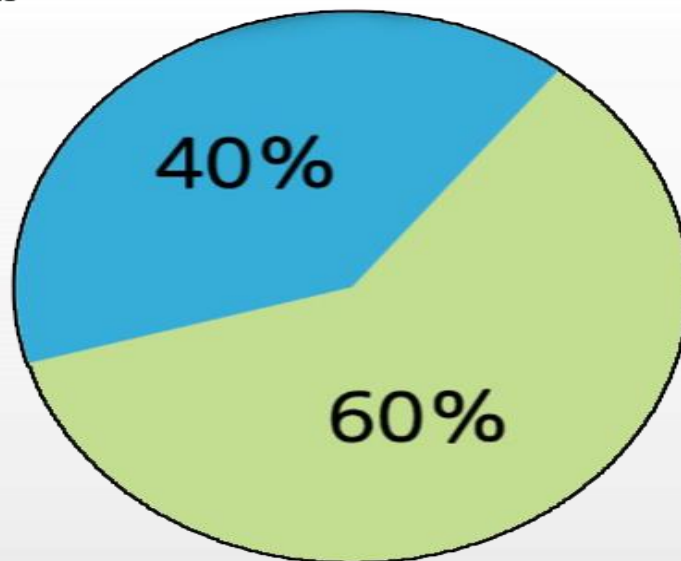
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Earmarking of Revenues from Tax Reform

INCREMENTAL REVENUES GENERATED FROM THE PETROLEUM EXCISE TAX WILL BE ALLOCATED AS FOLLOWS:

 40% of the first year incremental revenues will fund highly targeted transfer programs and subsidies to public utility vehicles (PUVs) for one year



 60% of the first year revenue and incremental revenues in succeeding years will fund investment needs for infrastructure, education, health and social protection

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Key Messages

- ❑ Tax reforms when taken as a package will provide benefits to 99% of Filipinos.
- ❑ The tax reform is an investment in our future. There are short term challenges but the long-term benefits are tremendous.
- ❑ If we do the tax reform now, in six years time or by 2022, six (6) million Filipinos will be lifted out of poverty and the Philippines will be where Thailand and China are today
- ❑ If we do the tax reform now, by 2040, extreme poverty will be eradicated and our country will be where Malaysia and South Korea are today.

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Status in Congress

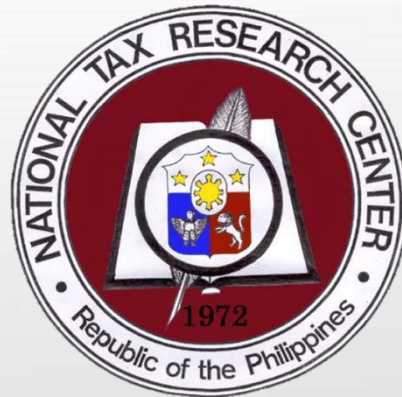
- ❑ Committee on Ways and Means approved HB 4774 in principle subject to the amendments of a Technical Working Group
- ❑ The bill enjoying complete support from various sectors
- ❑ Deliberations on the bill to resume in May 2017

Let us all be partners for change!

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THANK YOU!



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