



# Tax Reform for Acceleration and Inclusion Revised package 1 (Amended DOF bill)

As of 04 September, 2017 9:59 AM

(Full presentation)

# Vision for the Philippines

**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  
eradicated**

**3,500** ➡ **11,000**  
**USD** **USD** <sup>at least</sup>

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

# How to achieve the vision

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

*\*Indicative and subject to change*

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

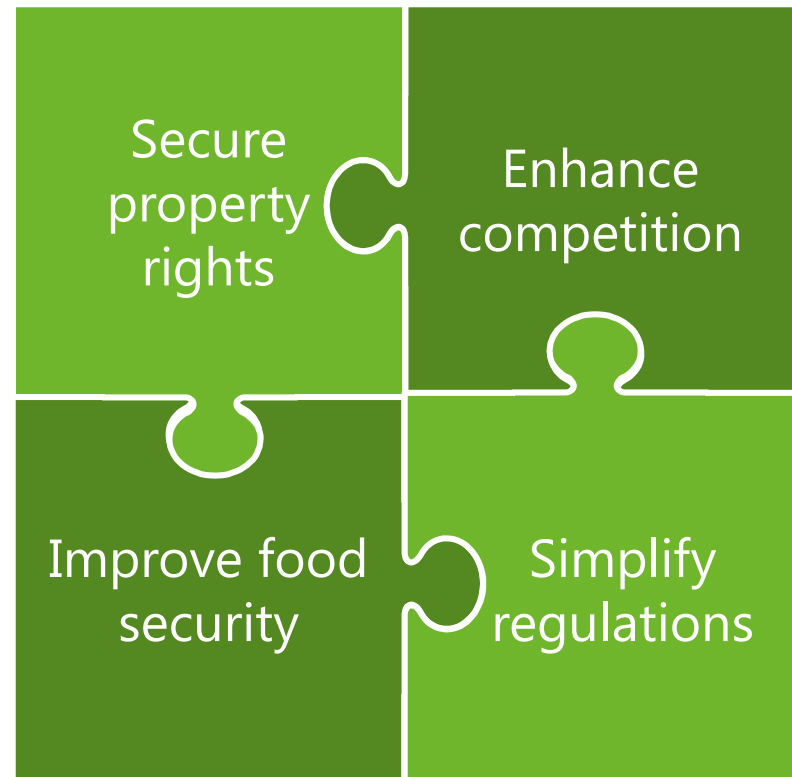
*Source: Department of Budget and Management*

# How to achieve the vision

## Ways to raise additional investments

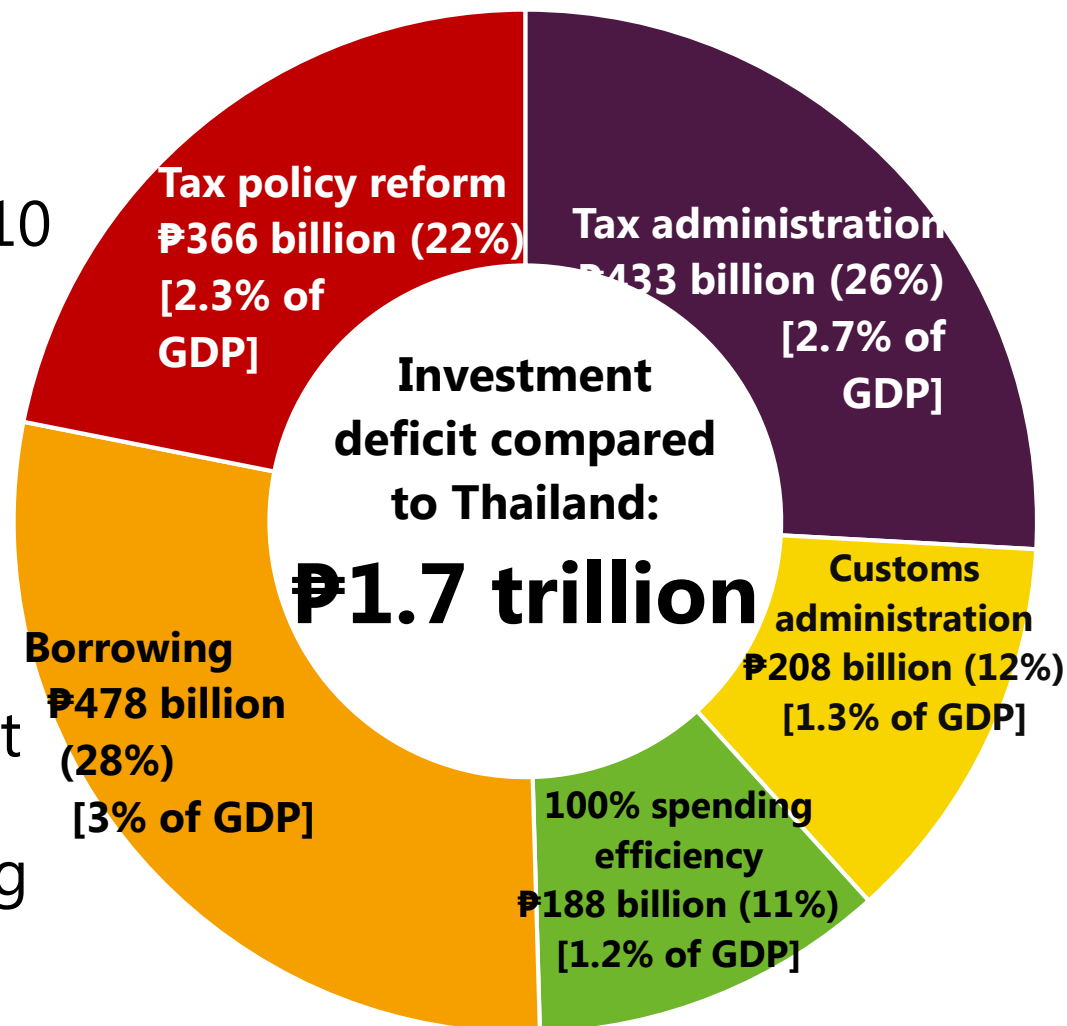


## Complementary economic reforms



# How to fund the investment deficit

- Compared to Thailand or Vietnam, the Philippines is underinvesting by around 10 percent of GDP annually.
- Even with substantial improvements in tax and customs administration, underspending addressed, and sustainable borrowing, PHP 366 billion (2.3 percent of GDP) annually is still needed to catch-up starting 2017.



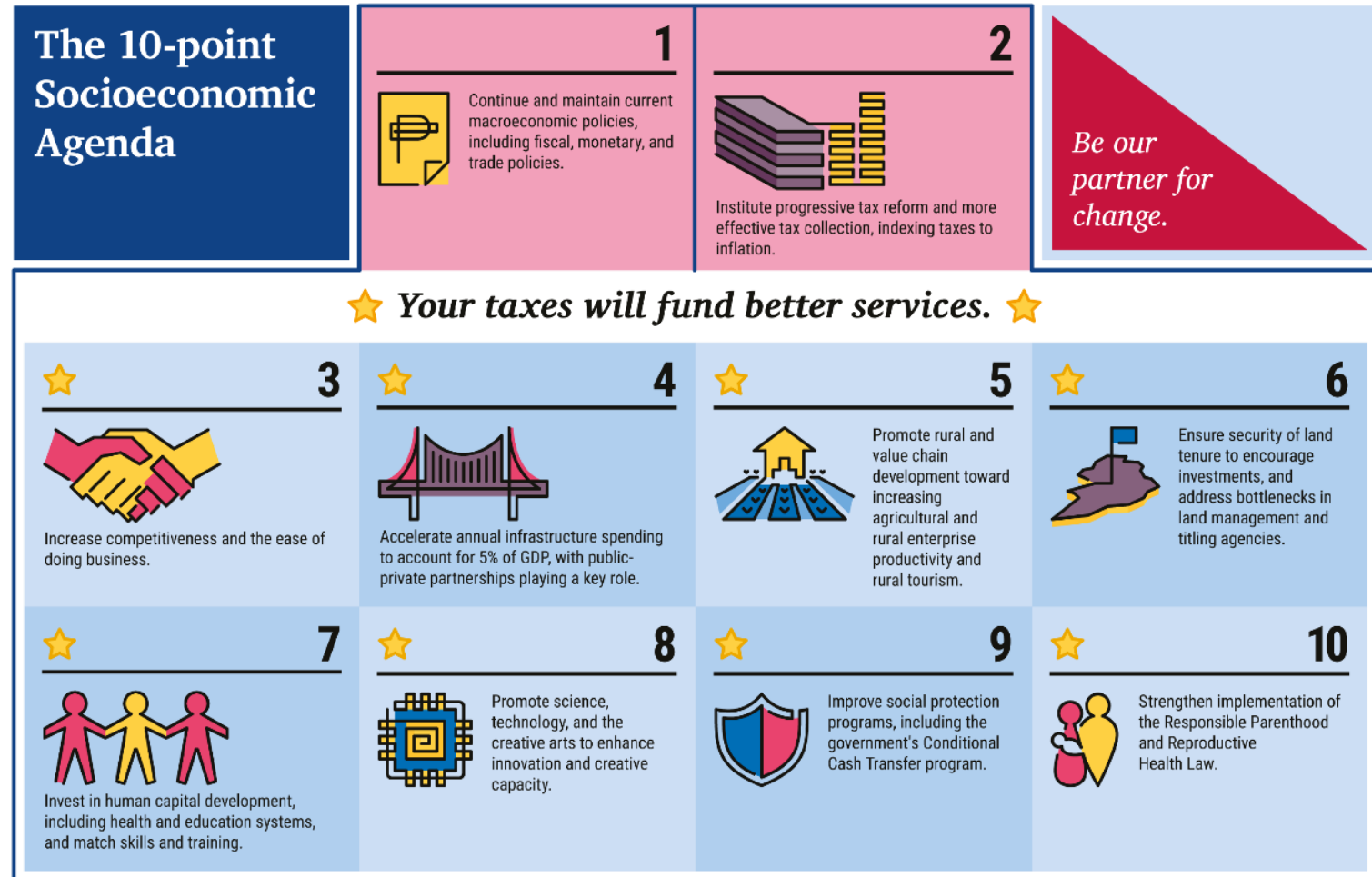
Sources: DBM, PSA, DOF staff estimates

Note: The investment deficit was estimated as the difference between the investment levels of the Philippines and a benchmark country (Thailand). The difference of around 10 percent of GDP, which is equivalent to 1.7 trillion in 2017, can be funded by improvements in tax and customs administration, spending efficiency, and borrowing. However, these are not enough. The country needs an additional PHP 366 billion or 2.3 percent of GDP from tax policy reform to fully fund the gap.

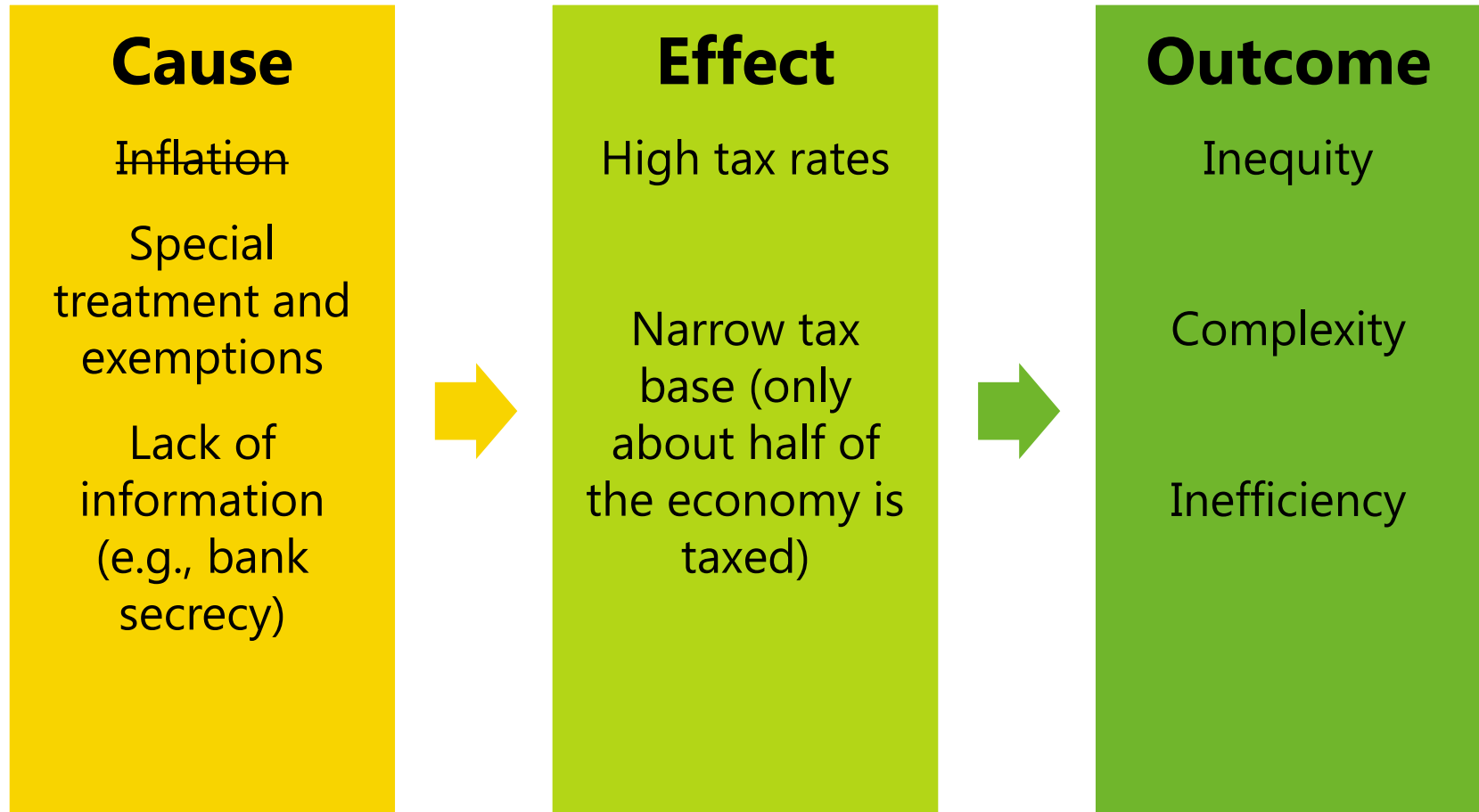
# This is what we stand to lose without tax reform...

- 108,000 public school classrooms, or
- 460,947 public school teachers, or
- 10,383 rural health units, or
- 83,143 barangay health stations, or
- 227 provincial hospitals, or
- 6,136 kms of paved roads, or
- 135,000 kms of temporary bridge upgrades, or
- 457,627 hectares of irrigated land

# In summary, tax reform is needed to fund the ten-point socioeconomic agenda



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





# Tax Reform for Acceleration and Inclusion

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

**Our goal is to correct our tax system's problems to become:**



The diagram consists of three light blue circles arranged horizontally, connected by a thick blue line. Each circle contains a red icon and a red banner with white text. The first circle has a red maze icon and the word 'SIMPLER'. The second circle has a red icon of three people standing on a bar chart and the word 'FAIRER'. The third circle has a red checkmark icon and the words 'MORE EFFICIENT'. Arrows point from the first circle to the second, and from the second to the third.

**SIMPLER**

**FAIRER**

**MORE EFFICIENT**

*We will lessen the overall tax burden of the poor and the middle class.*



# 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 next few years of implementation.

*Exemption of bonuses below ₱82,000 will be retained. These include 13<sup>th</sup> month pay and other benefits such as productivity incentives and Christmas bonus.*

*Those with an annual taxable income of around ₱500,000 are currently taxed with a 32% rate. With the proposed brackets, their tax rate will now be reduced to 20%.*

## CURRENT TAX SCHEDULE

Annual Taxable Income	Tax Rate
0 - 10,000	5%
Over 10,000 - 30,000	500 + 10% of the excess over 10,000
Over 30,000 - 70,000	2,500 + 15% of the excess over 30,000
Over 70,000 - 140,000	8,500 + 20% of the excess over 70,000
Over 140,000 - 250,000	22,500 + 25% of the excess over 140,000
Over 250,000 - 500,000	50,000 + 30% of the excess over 250,000
Over 500,000	125,000 + 32% of the excess over 500,000

## PROPOSED TAX SCHEDULE (2018)

Annual Taxable Income	Tax Rate	Percent of Taxpayers
0 - 250,000	0%	83%
Over 250,000 - 400,000	20% of the excess over 250,000	8%
Over 400,000 - 800,000	30,000 + 25% of the excess over 400,000	6%
Over 800,000 - 2,000,000	130,000 + 30% of the excess over 800,000	2%
Over 2,000,000 - 5,000,000	490,000 + 32% of the excess over 2,000,000	1%
Over 5,000,000	1,450,000 + 35% of the excess over 5,000,000	0.1%

## PROPOSED TAX SCHEDULE (2021 onwards)

Annual Taxable Income	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 thereby putting more money in people's pockets. This will make the system fairer and more equitable.*

Updated as of 05/08/2017

# Tax Reform Program: Package 1

We are putting more money in people's pockets



We want to fund investments for our people for a more inclusive growth



Shift to a simplified Personal Income Tax (PIT) system by adjusting brackets to correct *income creeping*, and reducing the max rate to 25% over time, except for the highest income earners to maintain progressivity.



Restructure the tax for micro businesses to a flat rate of 8% (in lieu of income and VAT, or percentage taxes) for businesses with gross sales below ₱3 million.



Reduce and restructure the donor's tax to a single tax rate of 6% on net donations for gifts exceeding ₱100,000 annually, regardless of relationship between donor and donee.



Reduce and restructure the estate tax to a single tax rate of 6% based on the net value of the estate. Standard deduction of ₱1 million and up to ₱3 million for family homes is exempted.



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



Staggered increase of excise tax on all petroleum products and index to inflation.



Update excise tax on automobiles.



Introduce a ₱10 per liter tax on sugar-sweetened beverages (SSB) containing purely locally produced sugar and ₱20 per liter for others with adjustment every three years based on cumulative inflation (House Bill 5636).

*We are committed to uplift the poor and the vulnerable through a progressive social protection using targeted cash transfers and public transport subsidies.*



# 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.



# Oil Excise Rates

One of the major provisions of the tax reform proposal is the staggered increase in oil excise. The current rates have been unadjusted since 1997, draining some ₱145 billion annually.

Under the proposal, rates will be adjusted gradually starting the second half of 2017 to 2019, and will be indexed annually in the succeeding years.

## Proposed excise tax on oil products

Pesos per liter	1997 - 2017	2018	2019	2020	2021*
Diesel and essentials	Php 0.00	Php 3.00	Php 5.00	Php 6.00	Php 6.24
Gas and non-essentials	Php 4.35	Php 7.00	Php 9.00	Php 10.00	Php 10.40

\* Annual indexation by 4% starting 2021

\*\* There shall be no indexation for the year if the average Dubai crude oil price in the month preceding the scheduled indexation exceeds 100 USD per barrel.

\*\*\* Essentials include processed gas, kerosene, diesel fuel oil, liquefied petroleum gas, asphalt, and bunker fuel oil. Non-essentials include lubricating oils and greases, naphtha, regular gasoline, premium gasoline, and aviation turbo jet fuel.

## Indicative pump price based on USD 53.72 per barrel

Pesos per liter	Jan 2017	2018	2019	2020	2021
Diesel	32	35	37	38	39.52
Gasoline	46	49	51	52	54.08

# Automobile Excise Rates

In the proposed system, basic cars will be taxed at lower rates while more expensive cars will be taxed at higher rates. These revised rates are considerably lower than the original proposal.

## Proposed excise tax on automobiles

Net manufacturing/ importation price in pesos	Current rates	Avg. effective tax rate	Proposed rates	Avg. effective tax rate
Up to 600,000	2%	2%	4%	3%
Over 600,000 to 1.1 million	12,000 + 20% in excess of 600,000	5%	24,000 + 40% in excess of 600,000	10%
Over 1.1 million to 2.1 million	112,000 + 40% in excess of 1.1 million	15%	224,000 + 80% in excess of 1.1 million	31%
Over 2.1 million	512,000 + 60% in excess of 2.1 million	22%	1,024,000 + 120% in excess of 2.1 million	45%

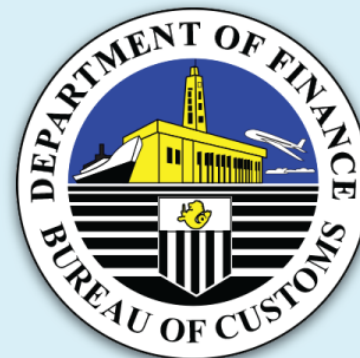
as of 05/08/2017





# 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

# High end revenue impact in 2018

DOF amended

DOF amended (in billion pesos)	Loss	Gain	Net
<b>Package 1: PIT and consumption</b>			<b>157.2</b>
<b>Tax policy measures</b>	<b>-140.1</b>	<b>187.7</b>	<b>47.6</b>
Lower personal income tax rate	-137.0		
Estate and donor tax	-3.1		
VAT base expansion		89.3	
Automobile excise		24.0	
Petroleum excise		74.4	
<b>Tax administration measures</b>		<b>43.8</b>	<b>43.8</b>
<b>Complementary measures</b>		<b>65.8</b>	<b>65.8</b>
DOF amended (% of GDP)	Loss	Gain	Net
<b>Package 1: PIT and consumption</b>			<b>0.9</b>
<b>Tax policy measures</b>	<b>-0.8</b>	<b>1.1</b>	<b>0.3</b>
Lower personal income tax rate	-0.8		
Estate and donor tax	0.0		
VAT base expansion		0.5	
Automobile excise		0.1	
Petroleum excise		0.4	
<b>Tax administration measures</b>		<b>0.3</b>	<b>0.3</b>
<b>Complementary measures</b>		<b>0.4</b>	<b>0.4</b>

Note: 40% of the first year incremental revenue from oil will be earmarked to mitigating measures such as targeted cash transfers, and PUV modernization, and the rest will be allocated only to investment, education, health, and social protection.



# Is the tax reform anti-poor?

## Two key concerns

- Tax reform and the economy (**deficit impact**)
  - A deficit above 3% courts a credit downgrade and will ultimately impoverish the people.
- Tax reform and the people (**price impact**)
  - Price impact is small to moderate.

A photograph of a crowd at night, likely at a political event or rally. In the center, a man in a red shirt is speaking into a microphone. He is surrounded by other people, some of whom are looking at their phones. The background is dark, and there is a lot of red and blue confetti falling from above. A Philippine flag is visible on the left side of the image.

*Tax reform is really about **INVESTING**  
in every Filipino's **FUTURE**.*

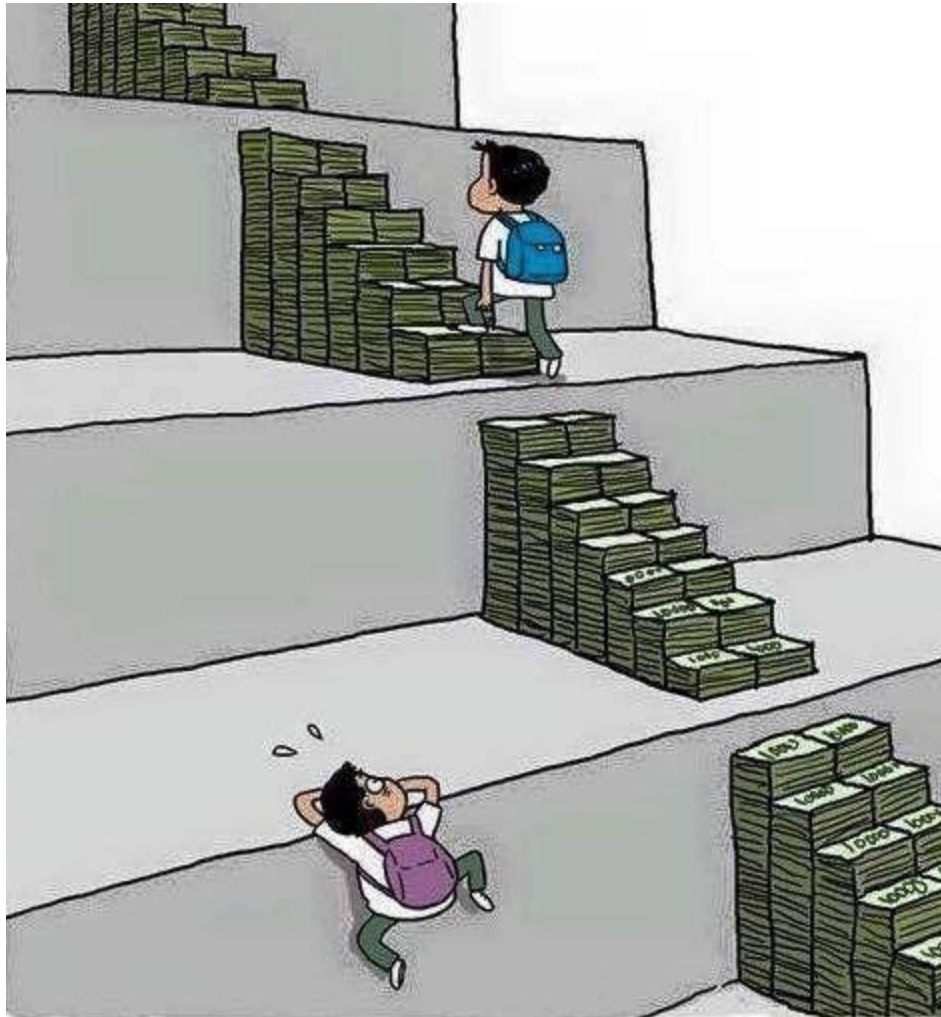
*It is crucial for the success of the  
“golden age of infrastructure”.*



# Key messages

1. Tax reform when seen as a **package** provides benefits to 99% of Filipinos.
2. More important than the tax is how we spend the money to **benefit poor Filipinos**.
3. The tax reform is an **investment in our future**. No investment is easy. There are short term challenges but everyone benefits in the long term.

# Tax reform as bridging the future



Source: <https://www.pinterest.com/explore/social-stratification/>

THANK YOU.