

# FROM STABILITY TO PROSPERITY:

TRANSFORMING THE PHILIPPINES THROUGH RAPID AND  
SUSTAINED GROWTH, FASTER POVERTY REDUCTION,  
AND MORE OPPORTUNITIES FOR ALL

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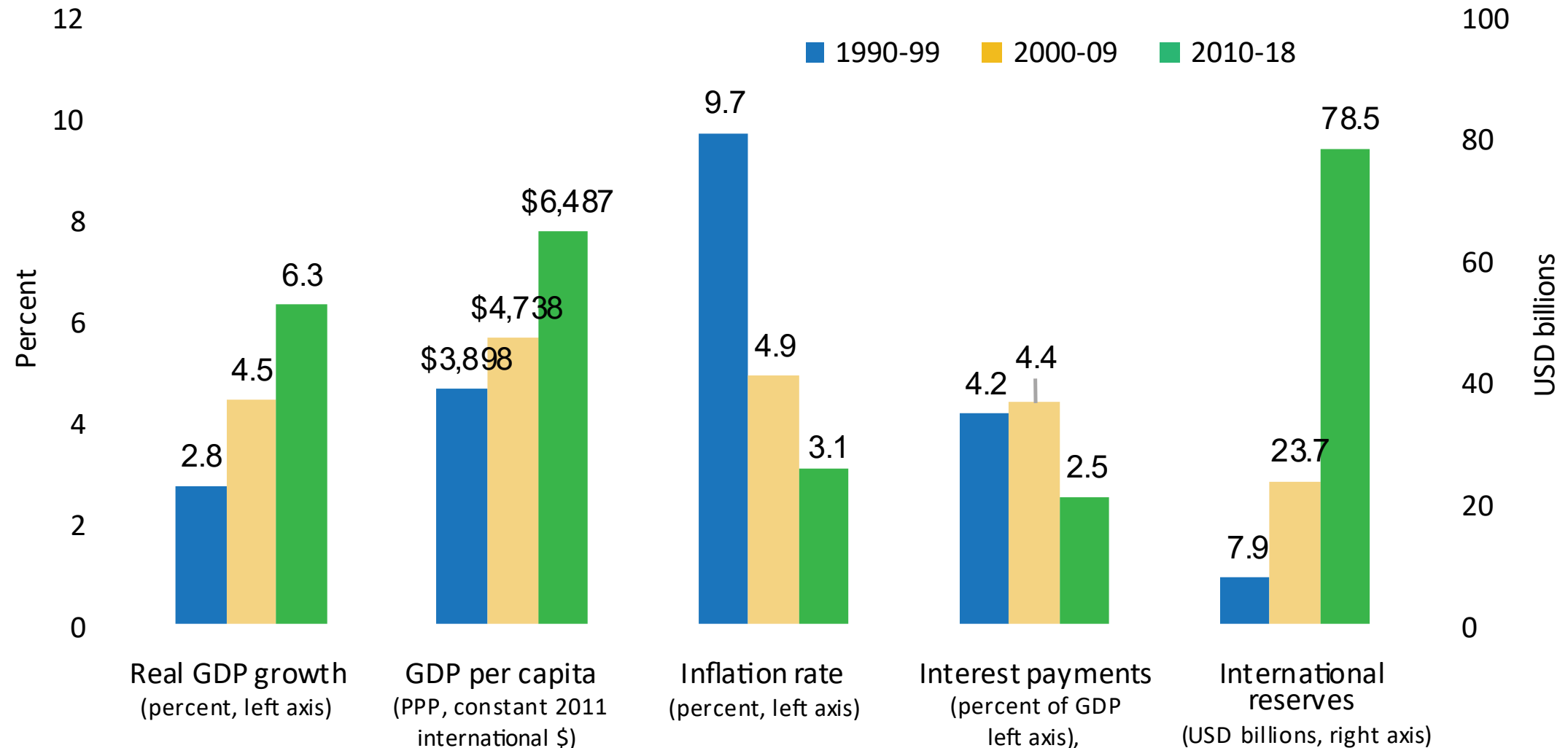
## Manufacturing Summit

3 December 2019



# Strong macroeconomic fundamentals underpin solid growth.

## Selected macroeconomic indicators



# Vision for the Philippines

By 2022



21.6% ➔ 14%  
poverty rate reduced  
(6 million Filipinos uplifted)

Extreme poverty eradicated

3,500 ➔ <sup>at least</sup> 3,996  
USD USD

increase in Gross  
National Income (GNI)  
(achieve upper-middle income status  
where Thailand and China are today)

3,500 ➔ <sup>at least</sup> 12,376  
USD USD

increase in Gross  
National Income (GNI)  
(achieve high income status  
where Japan and South Korea are today)

# Progress in achieving the 10-point socioeconomic agenda is advancing strongly.

<b>The 10-point Socioeconomic Agenda</b>		<b>Macroeconomic Policies 1</b>  Continue and maintain current macroeconomic policies, including fiscal, monetary, and trade policies.	<b>Tax Reform 2</b>  Institute progressive tax reform and more effective tax collection, indexing taxes to inflation.
<b>Ease of Doing Business 3</b>  Increase competitiveness and the ease of doing business.	<b>Infrastructure Spending 4</b>  Accelerate annual infrastructure spending to account for 5% of GDP, with public-private partnerships playing a key role.	<b>Rural Development 5</b>  Promote rural and value chain development toward increasing agricultural and rural enterprise productivity and rural tourism.	<b>Land Management 6</b>  Ensure security of land tenure to encourage investments, and address bottlenecks in land management and titling agencies.
<b>Human Capital Development 7</b>  Invest in human capital development, including health and education systems, and match skills and training.	<b>Science and the Arts 8</b>  Promote science, technology, and the creative arts to enhance innovation and creative capacity.	<b>Social Protection programs 9</b>  Improve social protection programs, including the government's Conditional Cash Transfer program.	<b>Reproductive Health Law 10</b>  Strengthen implementation of the Responsible Parenthood and Reproductive Health Law.

# Duterte Administration's Comprehensive Tax Reform Program

## Package 1



### Package 1A: TRAIN

Personal income tax,  
consumption tax, and  
transaction taxes (RA 10963)

### Package 1B: Tax amnesty

Estate and delinquency  
tax amnesty (RA 11213)

## Package 2



Corporate income tax  
and fiscal incentives

## Package 2+



- A. Tobacco excise (RA 11346)
- B. Alcohol and e-cigarette

## Package 3



Property valuation reform

## Package 4



Passive income  
and financial tax

## Others

1. Motor Vehicle Users charge
2. General amnesty with lifting of bank secrecy for fraud cases and automatic exchange of information.
3. Mining tax regime



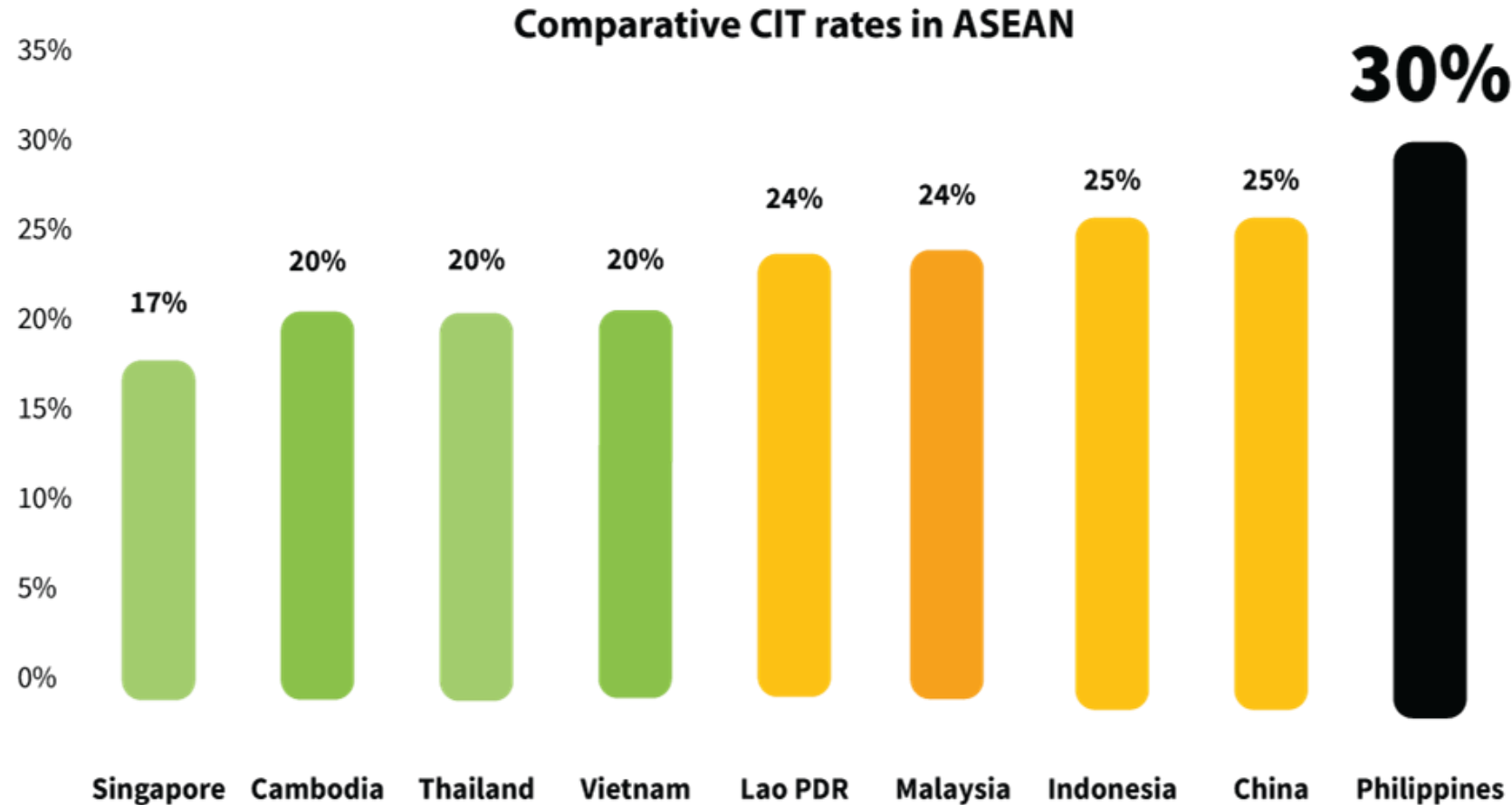
A group of young children, likely of Southeast Asian descent, are gathered together, smiling and waving their hands towards the camera. They are wearing white school uniforms with dark collars. The background is slightly blurred, showing more children and an outdoor setting.

***Tax reform is about INVESTING  
in our country's FUTURE.***

# **Package 2**

## **Corporate income tax and incentives reform**

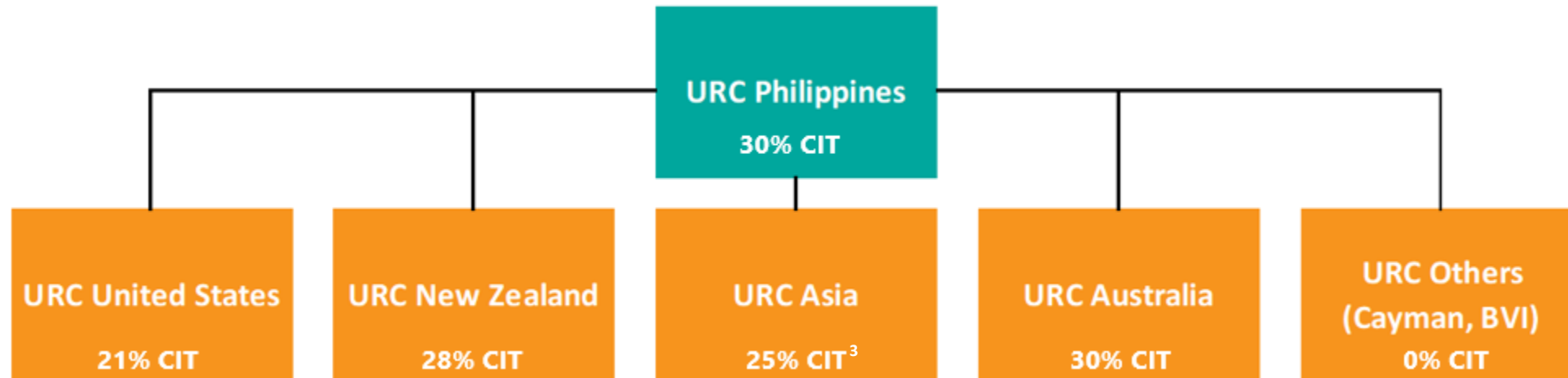
# The Philippines has the highest corporate income tax rate in the ASEAN region.



Source: Asian Development Bank and PWC



**Due to lower CIT rates in the region, companies expand invest most of their capital assets abroad. This means lost job opportunities here.**



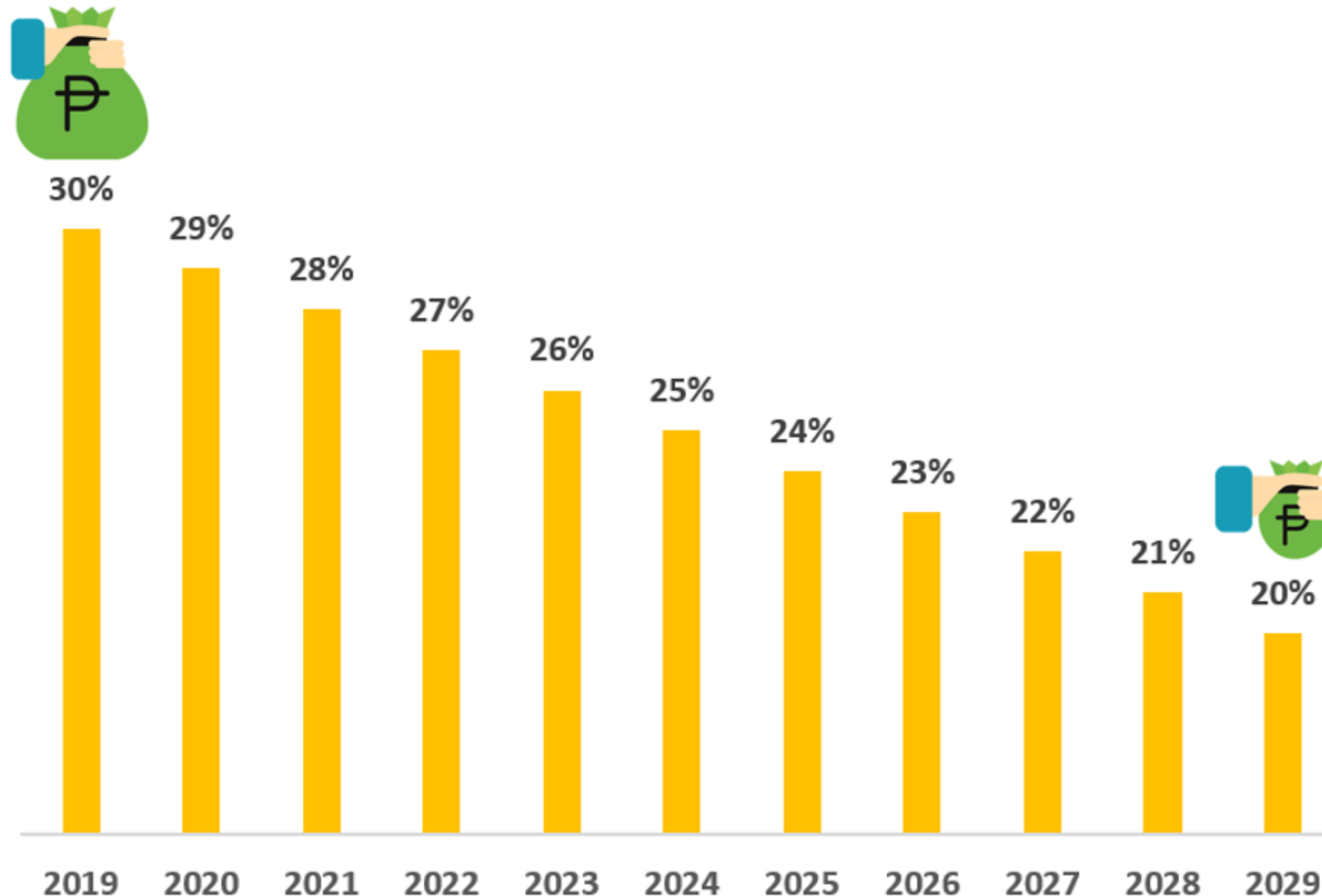
Location	Revenue <sup>1</sup>		Capital assets <sup>2</sup>	
	PHP billions	Percent share	PHP billions	Percent share
Philippines	84.6	66	33.5	34
Foreign	43.2	34	63.8	66

**Note:**

1. Revenues are from external customers by geographical market.
2. Capital assets refer to non-current assets excluding financial, deferred tax and pension assets.
3. Most of URC subsidiaries in Asia are located in China, with a 25% CIT rate.

**Source:** 2018 audited financial statements 2018

# Gradually lower the corporate income tax rate to make it regionally competitive and bring back jobs.



# Supporting industrialization through tax incentive reform



**One menu of incentives**  
applicable to IPAs



**More competitive incentives** menu that rewards performance



**Investment  
Priority Plan**

Domestic firms allowed if included in the **strategic investment priority plan**



**Additional incentives** for firms moving out of Metro Manila and adjacent areas

# Fair and accountable tax incentives system

Every peso granted as tax incentive is a peso off the budget that could have been spent for infrastructure, health, education, and social protection that benefit all, and not only a few.



**Performance-based**



**Targeted**



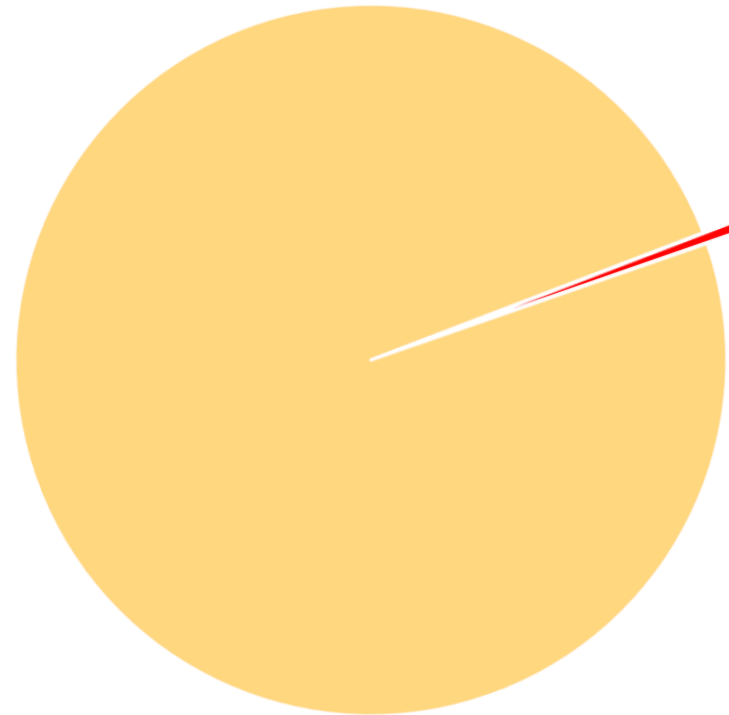
**Time-bound**



**Transparent**

# PHP 441 billion in foregone revenue in 2017 from tax incentives, many of which are unnecessary incentives.

1. Firms with no incentives pay the regular rate of **30%** of net taxable income.
2. For example, almost all of the **90,000 SMEs** pay the regular 30% rate.
3. Firms with incentives pay between **6% and 13% effective tax**.



In 2017, **989,166** registered firms, most of which pay the regular tax rate.

In 2017, over **PHP 441 billion** (2.8% of GDP) was granted to **3,150** firms.

In addition, PHP 63 billion (0.4% of GDP) was lost due to possible abuse of transfer pricing.

**Total: PHP 504 billion**  
(3.2% of 2017 GDP)



# Incentives are not timebound.

Number of firms enjoying incentives for more than:

A. 10 years - **1,169**

B. 15 years - **627**

*"Perhaps, it is time for them to help the country after being helped by the government for 2 to 3 decades...."*

Time, in years	Years	AFAB	BCDA	BOI	CDC	CEZA	PEZA	PPMC	SBMA	Total
40-45	1972-1976						1			1
36-40	1977-1981						5			5
31-35	1982-1986						4			4
26-30	1987-1991						45			45
21-25	1992-1996						207		32	239
16-20	1997-2001			1	2		272		58	333
11-15	2002-2006			1			434		107	542
6-10	2007-2011	2		378	3	31	783		161	1,358
0-5	2012-2017	96	6	845	506	189	1,353	5	394	3,394
Total		98	6	1,225	511	220	3,104	5	752	5,921

627

1,169

Source: 2017 masterlist of registered enterprises, TIMTA

Approved standard activities shall be given incentives for a 5, 7, or 10 year period, renewable if they meet the criteria.

### Income tax holiday

Up to 3, 4, or 6 years, depending on the location plus 2 year extension each if i) investing in agribusiness, or ii) investing in areas recovering from armed conflict or major disaster, or iii) if relocating outside Metro Manila and adjacent urban areas.

### Special rate

Special rate on net taxable income after ITH for up to 2, 3 or 4 years depending on the location.

- 1.5% to province
- 1.5% to municipality

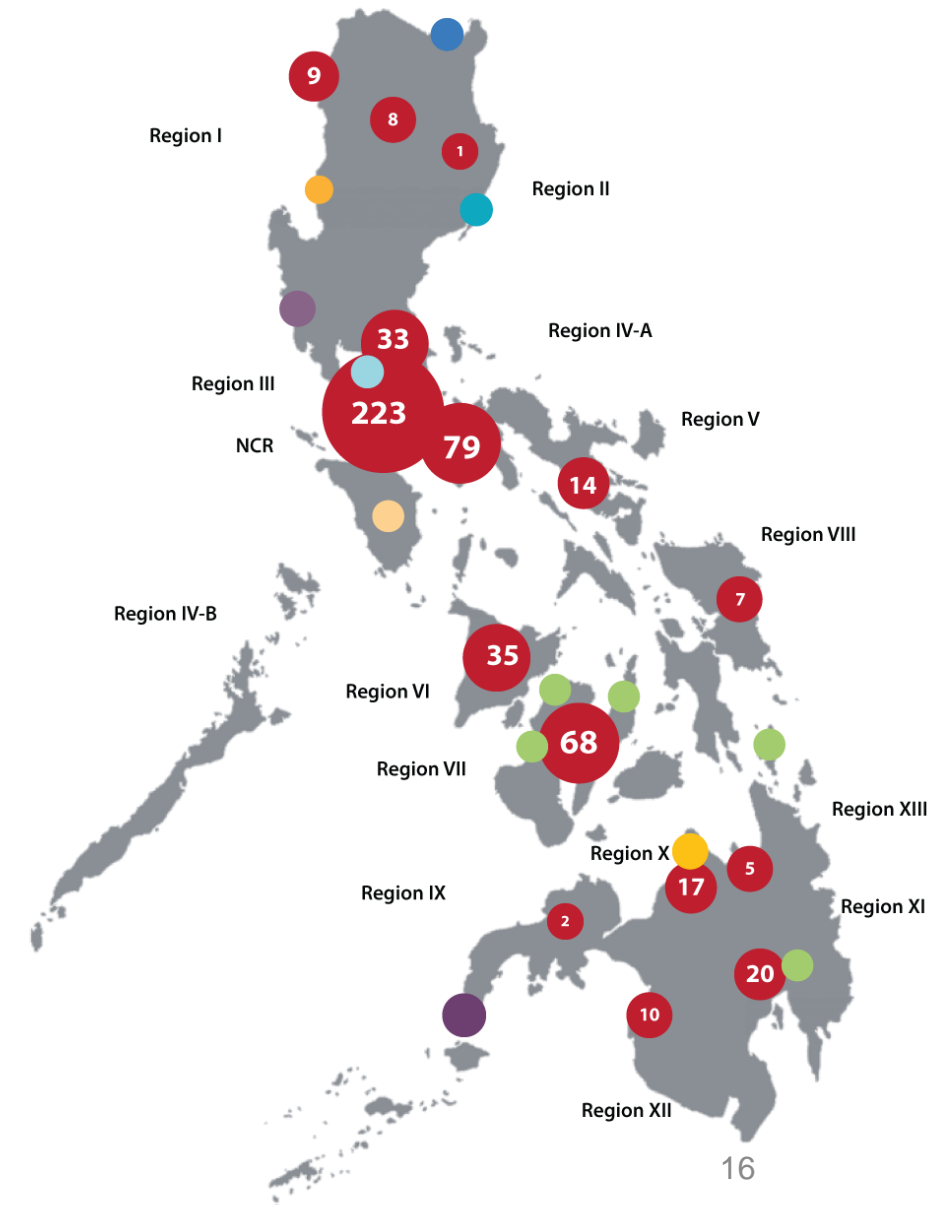
Year	Special rate (%)	National government (%)	Province (%)	Municipality (%)
2020	18	15	1.5	1.5
2022	17	14	1.5	1.5
2024	16	13	1.5	1.5
2026	15	12	1.5	1.5
2028	14	11	1.5	1.5
2030	13	10	1.5	1.5

# Incentives are not targeted by area.

As of 2018, there are **544 ecozones**, all of them are separate customs territory, meaning they are exempt from all taxes.

Moreover, **223** or **41 percent** of these ecozones are in Metro Manila alone, and **82** or **15 percent** are in areas around NCR,\* for a total of **305** or **56 percent**.

IPA	No. of ecozones
AFAB	1
APECO	1
BCDA	-
BOI	-
CDC	1
CEZA	1
PEZA	531
PIA	1
PPMC	1
TIEZA	5
SBMA	1
RBOI-ARMM	-
ZCSEZA	1
<b>TOTAL</b>	<b>544</b>



Source: PEZA, IPAs, and DOF staff calculations

Note: The provinces of Batangas, Bulacan, Cavite, Laguna, and Rizal were the provinces considered to be around NCR.

## Indonesia



## Thailand



## Chile



Closest economic zone to each country's capital

Capital	Economic zone	Distance, in kilometers
Jakarta (Indonesia)	Tan Jung <u>Lesung</u>	181km
Bangkok (Thailand)	Sa <u>Kaeo</u>	197km
Santiago (Chile)	Free Zone of Punta Arenas	3,022km

Notes: Distances were estimated using Google Maps and the location of the capital is denoted by ★

In other countries, poorer areas are where the ecozones are located.

# CITIRA offers a more competitive incentives menu that rewards performance with more incentives.

	Under Package 2
Direct labor expense	Up to 150% deduction
Training expense	Up to 200% deduction
Domestic inputs purchased	Up to 150% deduction
R&D costs	Up to 200% deduction
Depreciation allowance	10% for buildings, 20% for machinery
Reinvestment allowance for manufacturing	Up to 50% of reinvested profit (within 5 years from time of reinvestment)
Infrastructure development	Up to 200% deduction
Net operating loss carry-over	Incurred during first 3 years carried over next 5 years



# A sunset provision shall be given to existing incentives. After the period ends, they can reapply again for the new incentives.

## Sunset provision for existing incentives For RBEs enjoying existing 5% GIE:

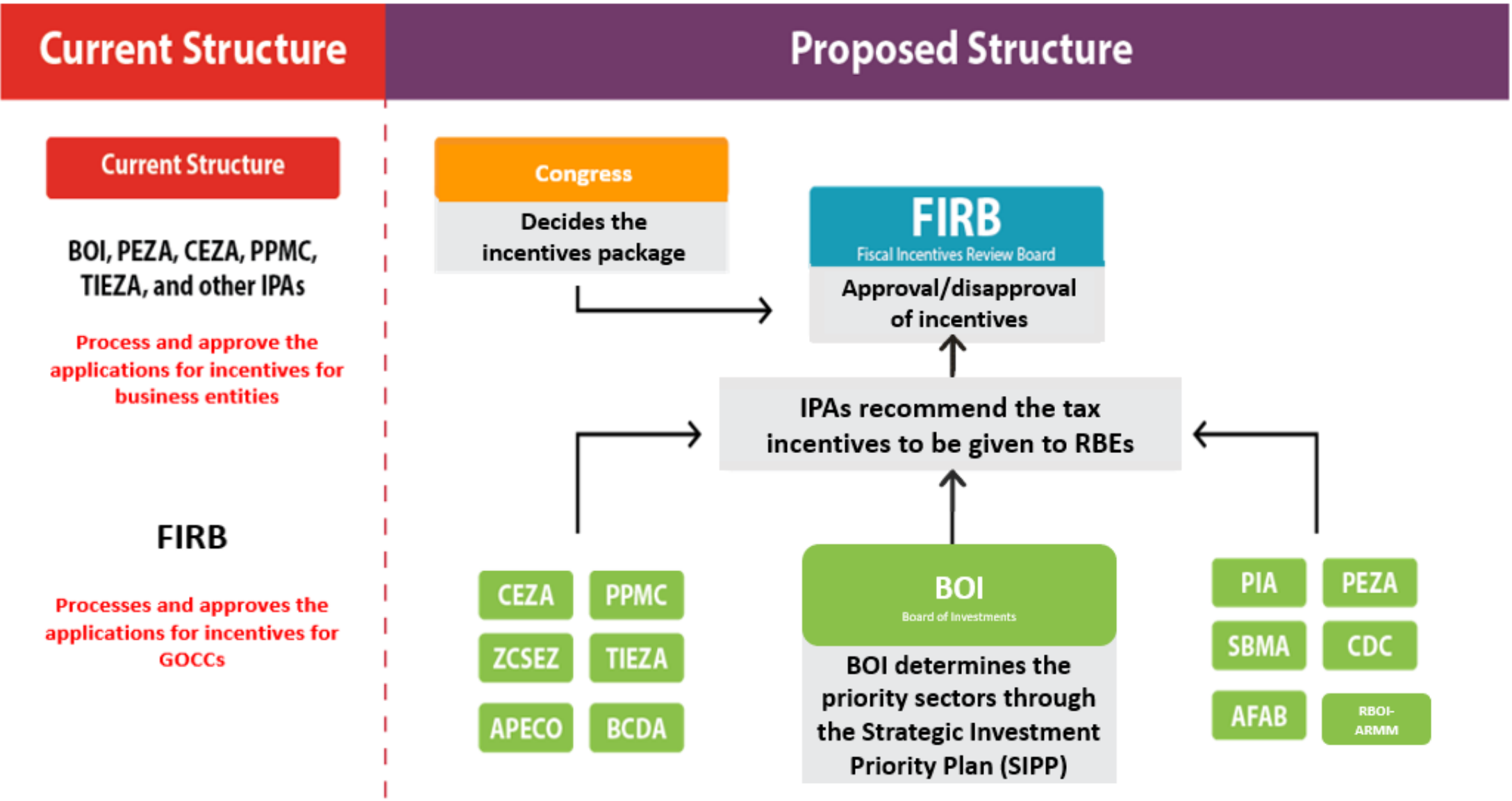
**For RBEs which availed of ITH:** Continue until remaining period ends or for a period of 5 years, whichever comes first. If the remaining ITH period is less than 5 years, firms can enjoy the GIE for the remainder of the 5 year period.

Number of years enjoying 5% GIE	Number of years allowed to continue
5 years below	5
5 to 10 years	3
Above 10 years	2

### Notes:

- A. Firms have the option to immediately shift to the new package during the transition phase.**
- B. After the sunset, firms can apply again for the new package of incentives if they qualify.**

# The FIRB will have oversight function over all IPAs and approve all incentives. The DOF secretary chairs the FIRB.



# Package 2 promotes a fair and accountable tax incentives system

1

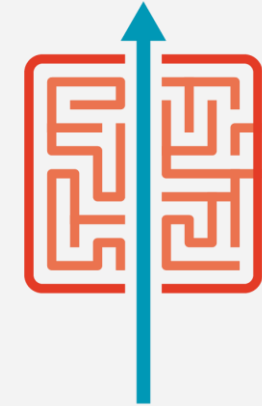
Lower the corporate income tax rate from 30 to 20 percent by 2029.



Year	2019	2020	2021	2022	2023
CIT rate	30	29	28	27	26
2024	2025	2026	2027	2028	2029
25	24	23	22	21	20

2

Simplification and rationalization of tax incentives system by repealing and amending some 87 special laws, and putting those qualified in the SIPP.



3

Fair and accountable tax incentives system with enhanced FIRB functions including regular CBA, IPA oversight, and incentives approval.



4

Provide incentives to attract industries consistent with development priorities through additional deductions and a more targeted SIPP.



# Thank you!

For more information, please visit:



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