

Methodology and assumptions on Estate and Donor's tax revenue impact estimation
as of 29 May 2017

A. Estimating the revenue impact of the proposed adjustment in estate tax

Data from the Bureau of Internal Revenue on 2015 estate tax collection and 2015 sample data on estate tax filers, both in cumulative and total per bracket, were used to estimate the revenue impact of imposing a flat tax rate of 6 percent on net estate.

Since the 2015 estate filers is a sample data, an adjustment factor should be derived to generate an aggregate revenue impact. This was estimated using the formula:

$$\frac{\text{2015 BIR Estate Tax Collection}}{\text{Total Revenue Collection from the Sample Data}} = \frac{3,341,250,000}{564,011,288} = 5.92$$

The total computed tax due under the current and proposed system by bracket must be first estimated. In doing so, the computed tax due under the current system is derived by multiplying the average net estates to the corresponding estate tax rate schedule and sample filers, by bracket. Same method will be applied in estimating the computed tax due for the proposed system by applying the proposed rate of 6 percent. Then add all the computed tax due of each bracket for both current and proposed system.

In computing for the revenue impact, compute for the difference of the total computed tax due of the present system and the proposed system and apply the adjustment factor.

B. Estimating the revenue impact of the proposed adjustment in donor's tax

The BIR 2015 sample data on donor's tax was used to estimate the proposed flat tax rate of 8 percent on donations to both relatives and strangers. The revenue impact of this proposal is essentially determined by the difference between the proposed and current tax due.

To estimate for the total tax due, the present total net gifts is computed by multiplying the proposed rate of 6 percent to the total net gifts subject to tax for relatives and the total net gifts subject to tax for strangers.

Next, is to determine the total tax due under the current tax regime by adding the total tax due from donations to relatives, and the total tax due from donations to strangers.

1. On the tax due from donations to relatives

The net gifts subject to tax for relatives per taxpayer per taxable bracket is first estimated. This is computed by dividing net gifts subject to tax for relatives by the number of filers. Then compute the tax due from donations to relatives per taxpayer per taxable bracket by applying the present tax schedule on donations to relatives:

Table 1. Current donor's tax

Amount of net gifts		Amount of tax
Over	but not over	
PHP 100,000	PHP 200,000	2% of the excess over PHP 100,000
PHP 200,000	PHP 500,000	2,000 + 4% of the excess over PHP 200,000
PHP 500,000	PHP 1,000,000	14,000 + 6% of the excess over PHP 500,000
PHP 1,000,000	PHP 3,000,000	44,000 + 8% of the excess over PHP 1,000,000
PHP 3,000,000	PHP 5,000,000	204,000 + 10% of the excess over PHP 3,000,000
PHP 5,000,000	PHP 10,000,000	404,000 + 12% of the excess over PHP 5,000,000
PHP 10,000,000	and over	1,004,000 + 15% of the excess over PHP 10,000,000

Then, compute the tax due from donations to relatives per taxable bracket by multiplying the tax due from donations to relatives per taxpayer (as computed in the previous step) to the number of filers within the bracket. Finally, simply get the total current tax due by adding the computed tax due from donations to relatives from all brackets.

II. On the tax due from donations to strangers

To compute the total tax due from donations to strangers, the present tax rate, which is 30 percent, was applied on the total net gifts subject to tax for strangers.

The revenue loss is determined by the difference between the total tax due under the current tax regime and the total tax due under the proposed flat rate of 6 percent.

Since the sample data on donor's tax was used, a scaling factor should be derived to generate an aggregate revenue impact. This was estimated using the formula:

$$\text{Scaling factor} = \frac{\text{2015 BIR collection from donations}}{\text{Tax due from donations in sample data}} = \frac{2,294,280,000}{661,134,025.87} = 3.47$$

$$\text{Revenue loss scaled up to 2015 values} = (260,653,319.82) \times 3.47 = (904,524,158.78)$$

The final step is to compute for the estimated revenue loss for years 2018 to 2022 by applying the estimated nominal GDP growth for the said years.¹ For example, in computing the 2018 whole-year revenue loss, multiply 2015 revenue loss with the following factor:

$$\frac{\text{2018 GDP}}{\text{2015 GDP}} = \frac{17,517,235,475,366.00}{13,307,357,227,512.00} = 1.32$$

¹ Based on Medium Term Fiscal Program, FY 2017-2022