



Tax Reform Updates

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Inflation and TRAIN

Inflation update

- In May 2018...
 - Year-on-year inflation reached 4.6 percent.
 - However, month-on-month inflation or **the change in average price between April and May 2018 was close to zero**, indicating price stabilization.

- In the first five months of 2018...
 - Inflation averaged 4.1 percent.
 - This is just **slightly higher** than the BSP's target of 2 to 4 percent.
 - Inflation is moderate compared to historical average of 5 to 10 percent.

Top 10 items with highest inflation rate in May 2018

Top contributors to inflation	Price increase (%) between May 2017 and May 2018
Tobacco	28.3
Private vehicles	22.9
Corn	13.7
Fish	11.4
Non-alcoholic beverages	9.8
Vegetables	7.0
Alcoholic beverages	5.6
Fruit	5.5
Meat	4.8
Electricity, gas, and other fuels	4.7

Main causes of inflation

1. External factors in last five months

- US sanction on Iran, among others, that led to **higher world oil prices** from 60.9 to 73.4 dollars per barrel.
- Increase in US interest rates that led to **peso depreciation** from 50.3 to 52.2 pesos per dollar.

Date	USD per barrel	PHP/USD
Jan 2017 TRAIN bill filed	53.37	49.74
May 2017 House passed TRAIN	49.91	49.86
Dec 2017 TRAIN law signed.	60.91	50.30
May 2018	73.49	52.19

Main causes of inflation

2. Tax reform

- Higher taxes on oil, cigarettes, and sweetened beverages.
- **But TRAIN contributed little to inflation.**
 - Contribution to inflation is 0.4 out of the 4.6 percent inflation in May.
 - In other words, for every 100 pesos in additional spending, only 8.7 pesos is due to TRAIN.
 - Of the 12.2 pesos per liter increase in gasoline, only 3.0 pesos is due to TRAIN.
 - Of the 11.6 pesos per liter increase in diesel, only 2.8 pesos is due to TRAIN.

Main causes of inflation

3. More money to the people

- We are giving **32.5 billion pesos per month in additional income** to the people.
- Around 90 percent is spent and this is inflationary.

Increase in disposable income	Additional amount per month (PHP billion)
Personal income tax reduction	12.0
Unconditional cash transfer (UCT)	2.0
Wages from more jobs in infrastructure/1	15.0
Free college tuition effect	3.5
Total	32.5

Note: 1/ 30 percent of the government infrastructure spending of PHP 50 billion is labor cost.

Retail sales are still growing strong

Sales growth of selected retailers (2018 Q1)

Retailers	Sales growth (percent)
Restaurants	
McDonald's	40.6
Jolibee	18.8
Max's group	10.7
Stores and malls	
Century properties	104.5
711	25.8
Sta. Lucia land	25.3
Ayala land	18.8
SM prime	13.9
Star malls	12.9
Robinsons retail	12.6
Puregold price club	12.2
Megaworld	8.1
SSI (Rustan's)	7.8
Rockwell land	6.5

Source: Bloomberg

Main causes of inflation

4. Rice supply

- NFA did not buy enough palay during harvest season.
- NFA imported to fill the gap but importation is delayed.
- These reflect underlying issues in rice policy.

Key urgent reform: rice tariffication

- **Key provisions**

- NFA mandate limited to emergency buffer stocking.
- Convert quantitative restriction and minimum access volume into tariffs to allow freer importation of rice.
- Remove import licensing.
- Use tariff revenue to improve productivity of agriculture.

- **Impact**

- Inflation in 2018 can fall by 0.4 percentage points (from 4.1 percent in the first five months of 2018 to 3.7 percent for the whole year).
- **Rice price can fall between 4 to 7 pesos per kilo.**
- More competitive manufacturing as pressures to increase minimum wages fall.

Main causes of inflation

5. Better tobacco compliance

- Of the 28.3 percent inflation of tobacco products:
 - One-fifth is due to TRAIN.
 - Four-fifths is due to better tax compliance.
- Mighty under Japan Tobacco is paying higher taxes from around 1.5 billion per month to around 3.5 billion per month.
- This translates to higher cigarette prices of around 60-80 pesos per pack or around 5-6 pesos per stick from as low as 3 pesos per stick last year.

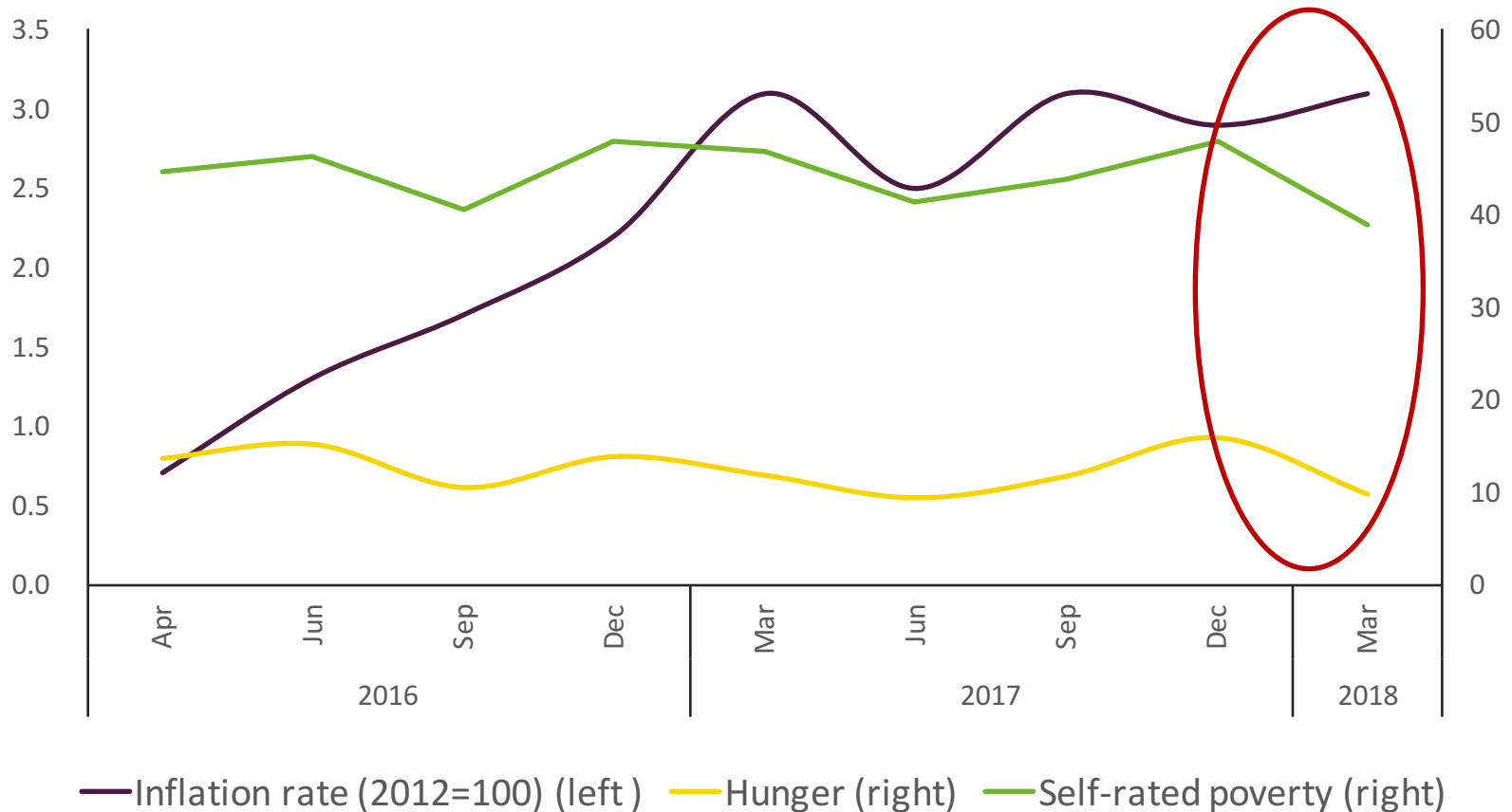
Suspending TRAIN means...

1. Inflation in May would be around 4.2 percent instead of 4.6 percent—but this is not much lower.
2. 99 percent of workers will lose some 12 billion monthly in additional take home pay.
3. Almost 90 billion pesos in tax revenues will not be generated.
4. 27 billion pesos less spending in social services.
5. 63 billion pesos less spending in infrastructure.
6. Loss of 93,195 jobs in infrastructure.

○ This assumes 500 peso daily wage, 30 percent more in benefits, and 312 days of work per year.

While inflation increased, hunger and self-rated poverty decreased, suggesting improvement in lives.

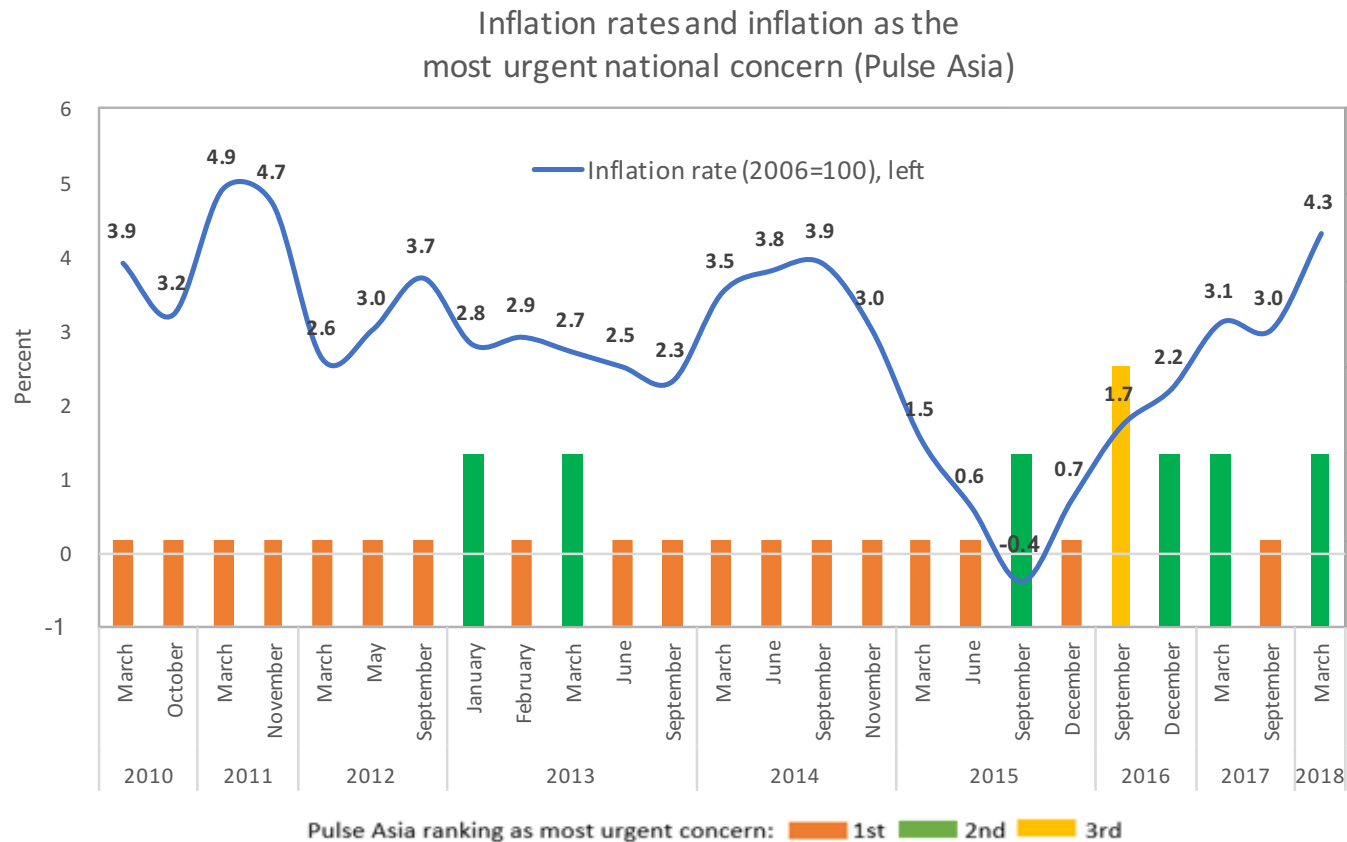
SWS self-rated poverty and hunger, and inflation rate



Source: PSA and SWS

Inflation has always been a concern in the midst of high or low inflation, so structural reforms needed.

Months when inflation was included in top three concerns in Pulse Asia Survey since 2010



Sources: PSA, BSP, and Pulse Asia

Note: Years 2010 to 2012 use the 2006 based inflation series, while years 2013 to 2018 use the 2012 based series.

Mitigating measures:

We will help the poor cope with higher prices regardless of the cause.

Social protection programs under TRAIN

We strongly believe that TRAIN should be implemented fully given its strong positive benefits to the people and the economy. To protect the poor and vulnerable, we shall implement the social mitigating measures while ensuring that they are well prepared and targeted so that only intended beneficiaries enjoy them.



Unconditional cash transfer

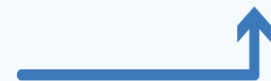


Fuel vouchers for PUJs



Social welfare programs thru the National ID

- Discounted purchase of rice from the National Food Authority (NFA)
- Free skills training from the Technical Skills and Development Authority (TESDA)
- Fare discount from public utility vehicles



Unconditional cash transfer



IMPLEMENTED BY THE DEPARTMENT OF SOCIAL WELFARE AND DEVELOPMENT

WHAT IS THE UNCONDITIONAL CASH TRANSFER?

The Unconditional Cash Transfer (UCT) program was introduced as the subsidy component of the TRAIN law to alleviate the impact of the tax reform on the poorest 10 million households and individuals identified using the National Household Targeting System for Poverty Reduction (NHTS-PR), Pantawid Pamilyang Pilipino Program (4Ps), and social pension program of the DSWD.

PROGRESS OF THE PROGRAM



March 2018

Disbursed cash to 41 percent of total CCT beneficiaries or around 1.8 million poor households

May 2018

Disbursed cash to 81 percent of total CCT beneficiaries or around 3.6 million poor households

June 2018

Disburse cash to 100 percent of the CCT beneficiaries
Roll out pilot programs for UCT cash distribution to social pension beneficiaries

July 2018

Disburse cash to 8 million UCT beneficiaries

September 2018

Disburse cash to the remaining 2 million UCT beneficiaries

Fuel vouchers for PUJs



IMPLEMENTED BY THE
DEPARTMENT OF TRANSPORTATION

WHAT ARE THE FUEL VOUCHERS FOR PUJs?

The fuel voucher is given to duly registered and franchised public utility vehicles to mitigate the impact of oil price increases.

PROGRESS OF THE PROGRAM



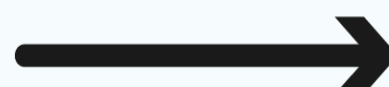
BUDGET

PHP 977 million already in the unprogrammed appropriations of the General Appropriations Act (GAA) 2018, under "Support for Infrastructure Projects and Social Programs"



May 22, 2018

DOTr is finalizing the guidelines for the subsidy program based on the last hearing



June 8, 2018

Guidelines proposed for inter-agency comments

Philippine National ID



IMPLEMENTED BY THE
PHILIPPINE STATISTICS AUTHORITY

WHAT IS THE PHILIPPINE NATIONAL ID?

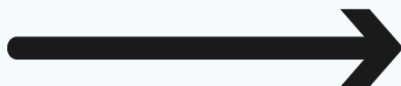
The National ID is a priority of the government to ensure that social programs are well targeted. Once the National ID system is in place, the subsidies mandated by the TRAIN can be distributed efficiently. As the TRAIN law provides, we intend to use the National ID as the social welfare card.

PROGRESS OF THE PROGRAM



May 30, 2018

Congress ratified the bicameral conference report



June 2018

Signing of the National ID into law
The Philippine Statistics Authority (PSA) has committed to implement the National ID on the poorest one million non-CCT households within 2018.

Thank you.