

THE HEART OF GOOD GOVERNANCE

FINANCE SECRETARY CARLOS G. DOMINGUEZ
ROTARY CLUB OF MAKATI WEST AND ROTARY CLUB OF MANILA
JOINT LUNCH MEETING
JANUARY 16, 2020



COMPREHENSIVE TAX REFORM PROGRAM

The tax reform program seeks to make the tax system



It also seeks to create a **LEVEL PLAYING FIELD FOR BUSINESS** and **GENERATE A RELIABLE REVENUE PROCESS** to support both economic investments and more robust social services.



The **COMPREHENSIVE TAX
REFORM PROGRAM**
is key to building a better future
for all law-abiding Filipinos.

Photo Source: Headwaters Relief Organization

THE COMPREHENSIVE TAX REFORM PROGRAM BENEFITS FROM THOROUGH STUDY



HIGHLIGHTS OF THE TAX REFORM FOR ACCELERATION AND INCLUSION LAW (TRAIN LAW-PACKAGE 1)

We are putting more money in people's pocket



- Shifted to a simplified Personal Income Tax (PIT) system, and reduces the max rate to 30% over time.
- Restructured the tax for micro enterprises/ self-employed to an optional flat tax rate of 8%
- Reduced and restructured the donor's tax to a single rate of 6%
- Reduced and restructured the estate tax to a single rate of 6%

HIGHLIGHTS OF THE TAX REFORM FOR ACCELERATION AND INCLUSION LAW (TRAIN LAW-PACKAGE 1)

We are funding investments for our people for a more inclusive growth



- Broadened the VAT system by reducing the number of unnecessary exemptions.
- Increased the excise tax on petroleum products gradually.
- Simplified excise tax on automobiles.
- Introduced a tax on sweetened beverages.
- Introduced and updated taxes on: cosmetic procedures, coal excise, mining, tobacco, foreign currency deposits, capital gains, stock transactions, and documentary stamp taxes.

WE ARE THE ONLY ADMINISTRATION THAT RAISED TOBACCO EXCISE TAXES TWICE



On July 25, 2019, President Duterte signed into law **Republic Act (RA) 11346**, which raised the excise tax on tobacco products to P45 per pack beginning in 2020, followed by a series of P5-per-pack increases until the rate reaches P60 in 2023. Thereafter, the tax rate will increase 5 percent every year.

It also includes a provision taxing e-cigarettes by at least P10 per millimeter.

A NEW SET OF SIN TAXES ON ELECTRONIC CIGARETTES (E-CIGARETTES) AND ALCOHOL WERE INTRODUCED TO DETER SMOKING AND BINGE DRINKING



The bicameral committee report for Package 2 plus or the new set of sin taxes on electronic cigarettes or vaping products and alcohol has been ratified on December 18, 2019. We expect this measure to be signed into law this month.

TRAIN REVENUES EXCEED JANUARY-SEPTEMBER 2019 ESTIMATES BY 18 PERCENT

TRAIN Law Revenue Collections from January to September
(in PHP Billion)

2018 ACTUAL

2019 PROGRAM

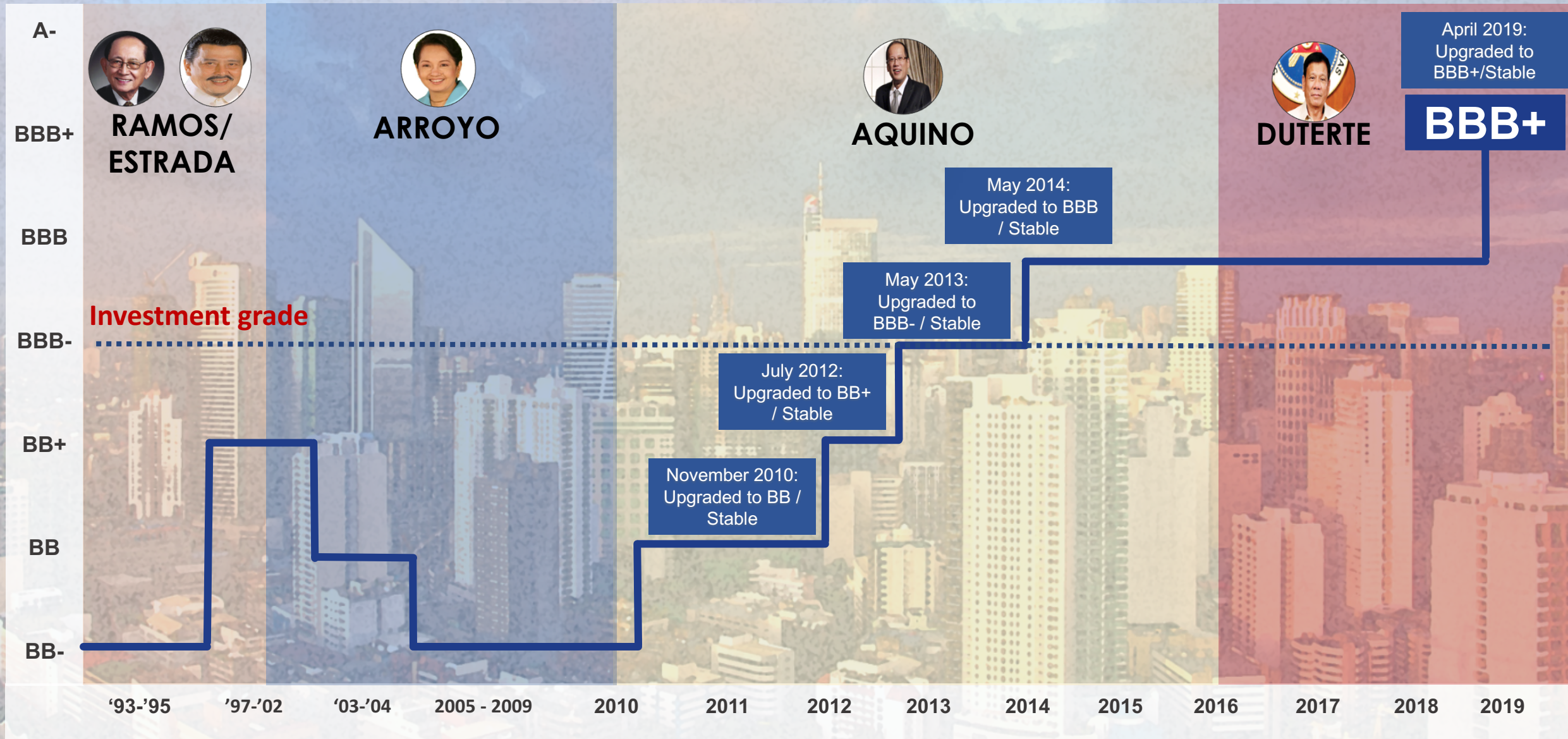
2019 ACTUAL

44.1

77.3

91.3

S&P RAISED OUR SOVEREIGN RISK RATING FROM BBB TO BBB PLUS



S&P RATINGS OF SELECTED COUNTRIES

AAA	Canada, Singapore
A-	Spain, Malaysia
BBB+	Philippines, Mexico, Peru, Thailand
BBB	Italy, Portugal
BBB-	Indonesia, India, Colombia
BB+ and below ("junk bond" status, below investment grade)	Vietnam (BB) Bangladesh, Brazil (BB-) Turkey, Greece (B+) Sri Lanka, Argentina, Egypt (B) Pakistan, Iraq, Ecuador (B-) Venezuela (selective default)

HIGHER CREDIT RATING IS ALSO ABOUT UPGRADING EVERYONE'S LIVES

This will translate into larger investments, as well as more jobs and a better quality of life for Filipino families.



For the private sector, the upgrade means being able to borrow at lower rates to finance their business expansions.



Ordinary Filipinos likewise benefit because banks would then be able to lend money to them at lower interest rates.

COMPLETING THE COMPREHENSIVE TAX REFORM PROGRAM WILL ENSURE FISCAL STABILITY LONG INTO THE FUTURE



Package 1 TRAIN



Package 2 CITIRA



Package 2+ Sin Taxes



Package 1B Tax Amnesty



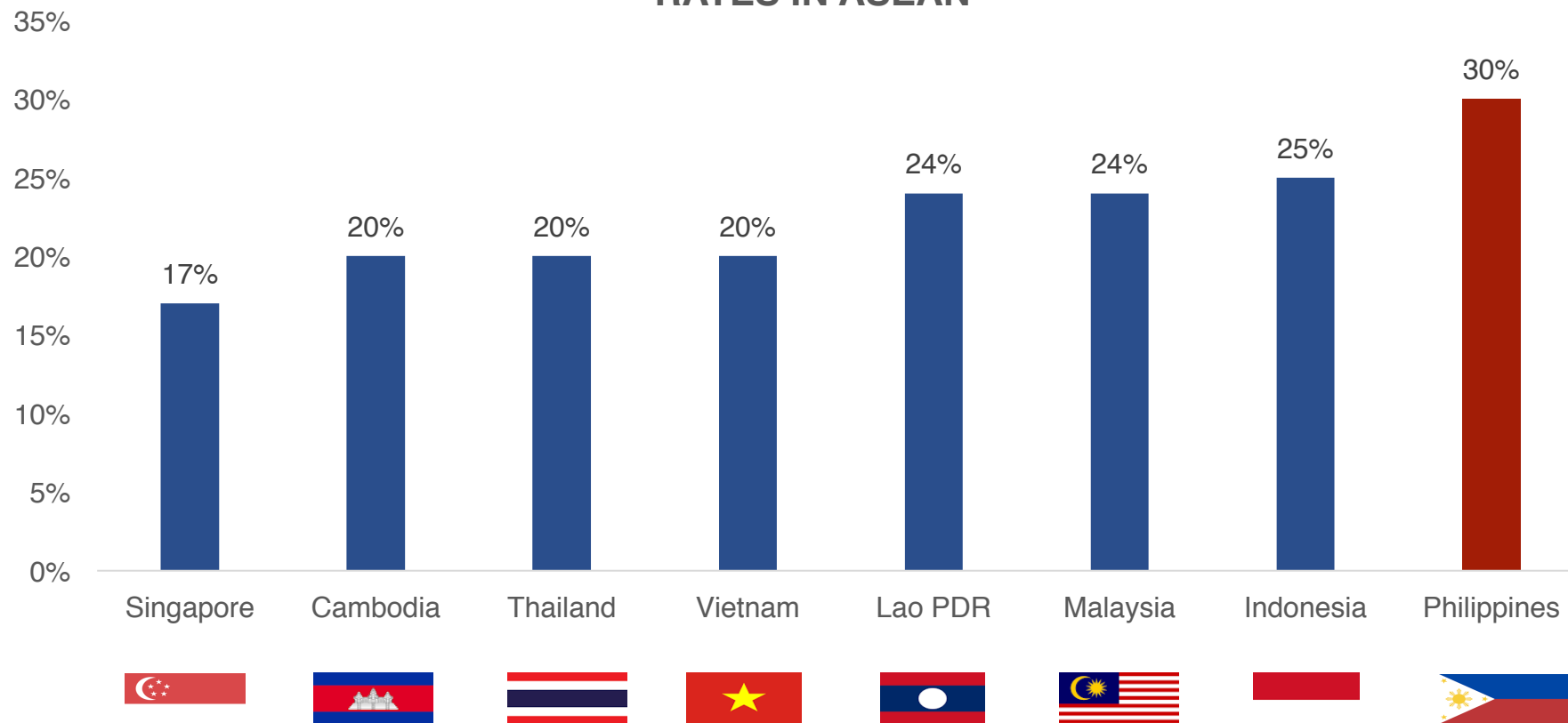
Package 3 Property
Valuation



Package 4 PIFITA

CITIRA WILL ENHANCE COMPETITIVENESS WITH ASEAN PEERS

COMPARATIVE CORPORATE INCOME TAX
RATES IN ASEAN



CITIRA WILL RATIONALIZE OUR BADLY TANGLED TAX INCENTIVES SYSTEM TO CREATE A LEVEL PLAYING FIELD FOR BUSINESS

Superior Menu of Tax Investments



The country seeks to attract investments that will **enhance domestic value chains**, drive research and development, as well as create quality jobs and upskill the workforce.

CITIRA WILL BRING HUGE BENEFITS TO OUR MSMES

More savings to grow your business!

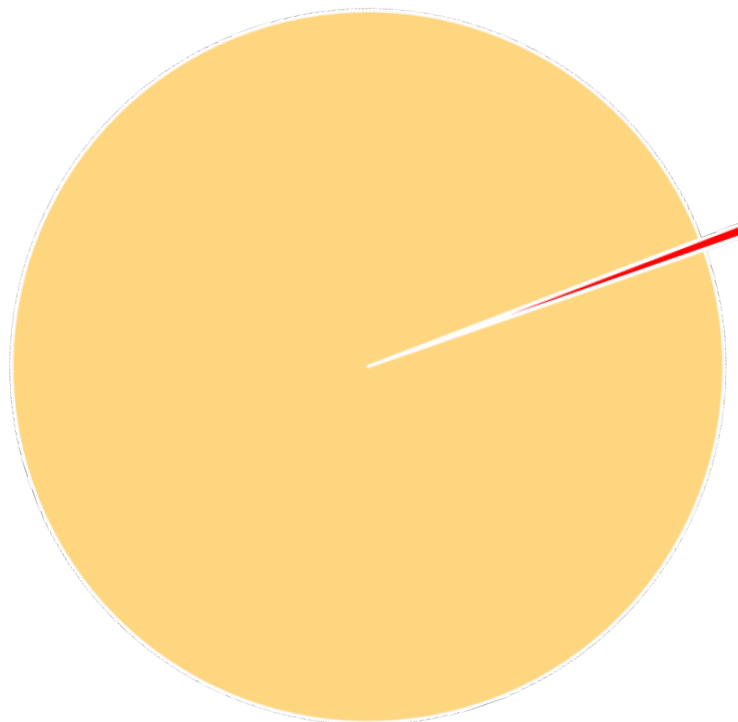


The reduction of the corporate income tax rate will allow businesses to reinvest more of their earnings, expand and create more jobs.

This will benefit more than 99% of companies, most of which are micro, small and medium enterprises or MSMEs, who employ the majority of Filipinos.

THE PHILIPPINES HAS A COMPLEX TAX INCENTIVES SYSTEM RESULTING IN MANY AND UNNECESSARY INCENTIVES

- Firms with no incentives pay the regular rate of **30%** of net taxable income
- Firms with incentives pay **between 6% and 13% effective tax**
- For example, almost all of the 90,000 Small Medium Enterprises pay the regular 30% rate.



In 2017, **989,166** registered firms

In 2017, over **PHP 441 billion** was granted to **3,150** firms

In addition, PHP 63 billion was lost due to possible abuse of transfer pricing

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

(Equivalent to 93% of the DepEd budget and more than 5 times that of DOH in 2017)

FOUR MAIN PRINCIPLES FOR TAX INCENTIVES



Performance-based



Time-bound



Targeted



Transparent

TIME-BOUND AND PERFORMANCE-BASED

Singapore's Tax Incentive System



- ① Incentives are given initially for five years and are renewed in five year tranches only after a **thorough review of performance on both quantitative and qualitative criteria.**
- ① Investment regulations require firms to **regularly submit progress reports** and any **breach of the performance contract** is subjected to revocation of the incentive.

TARGETED AND TRANSPARENT

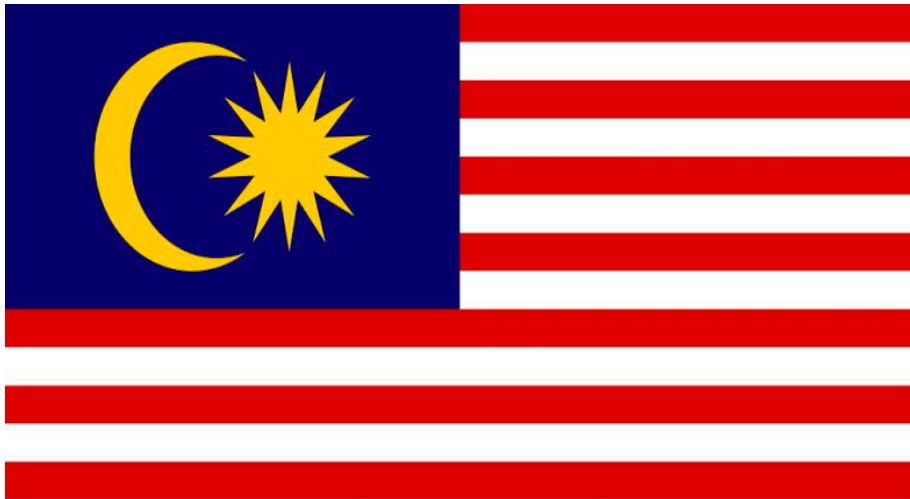
Thailand's Tax Incentive System



- ① Gives more tax incentives and longer availments to **high priority sectors that are pre-identified in its investment priority plan.**
- ① Publishes the names of recipients in its Board of Investment website.

CENTRALIZED APPROVAL OF INCENTIVES

Malaysia's Tax Incentive System



- Approval of incentives is **centralized in the National Committee on Investment** that is co-chaired by the Minister of Finance and the Minister of International Trade and Industry.

CITIRA WILL CREATE 1.5 MILLION JOBS

Jobs, Jobs, Jobs!



Under CITIRA, more jobs will be generated as we can reasonably expect companies to reinvest at least 50 percent of their additional money from the reduction of the corporate income tax rate toward growing their business.

A new menu of incentives for investors, as proposed in CITIRA, will encourage job creation, upskilling, and linking up SMEs into export value chains.

PACKAGE 3: PROPERTY VALUATION REFORM HIGHLIGHTS

Package 3 will adopt globally benchmarked valuation standards in real property valuation



- 🎯 Inculcates a **higher degree of professionalism** in real property valuation.
- 🎯 **Enhances the revenue-generating capacities** of our local governments.
- 🎯 **Helps clear right-of-way issues** currently inhibiting many key infrastructure projects.
- 🎯 **Reduces government costs** arising from the reduction of unnecessary expenses due to conflicting appraisals.

PACKAGE 4: PASSIVE INCOME AND FINANCIAL INTERMEDIARY TAXATION ACT (PIFITA) HIGHLIGHTS

PIFITA will make the Philippines more attractive for capital and investments



- **Simplifies the tax system on passive income and financial intermediaries** by reducing the number of unique rates and bases from 80 to 40.
- **Minimizes arbitrage opportunities.**
- **Provides neutrality in the tax treatment** across financial instruments and institutions.
- **Promotes capital market development and tax competitiveness** within the context of financial globalization, increased capital mobility, and financial inclusion.

THE COMPREHENSIVE TAX REFORM PROGRAM WILL DRAMATICALLY ALTER THE BUSINESS ENVIRONMENT IN THE COUNTRY



Package 1 TRAIN



Package 2 CITIRA



Package 2+ Sin Taxes



Package 1B Tax Amnesty

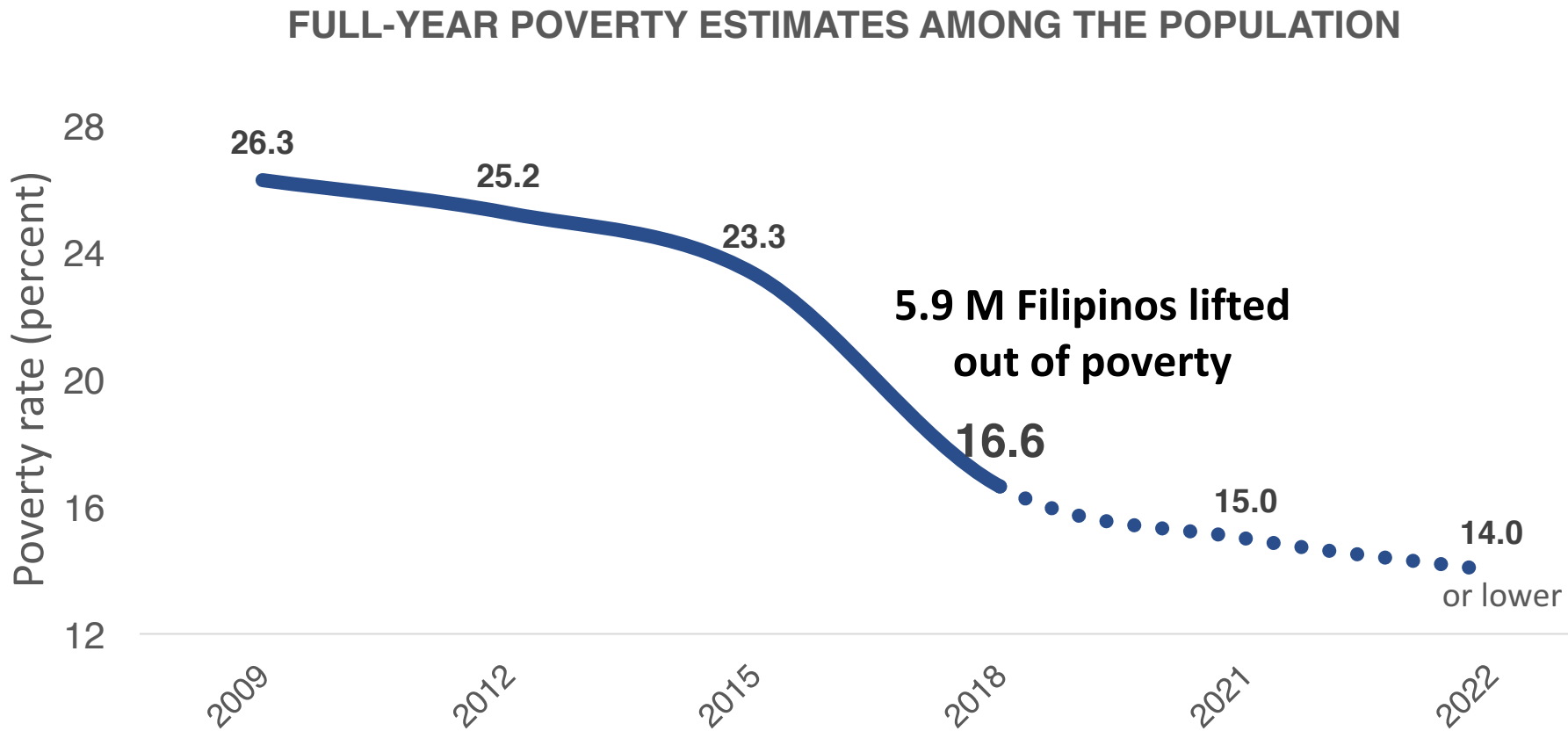


Package 3 Property
Valuation



Package 4 PIFITA

POVERTY INCIDENCE DECLINED TO 16.6 PERCENT IN 2018 FROM 23.3 PERCENT IN 2015




Source: PSA

Note: Poverty rates for 2021 to 2022 represent government targets.

**IN A RECENT OPINION
SURVEY CONDUCTED BY AN
INDEPENDENT RESEARCH
FIRM, PRESIDENT DUTERTE
RECEIVED AN **87 PERCENT**
APPROVAL RATING—
UNPRECEDENTED FOR A
HEAD OF STATE DURING
THE SECOND HALF OF HIS
OR HER TERM.**

Photo Source: Build, Build, Build Website



An aerial photograph of a city skyline, likely Manila, Philippines, featuring numerous high-rise buildings and a mix of urban development. The sky is a clear, bright blue with a few wispy white clouds. A white rectangular box is superimposed over the center of the image, containing bold black text.

The electoral triumph translates into a supermajority in both chambers of Congress and eventually to the passage of more pro-people reforms at the soonest possible time.

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