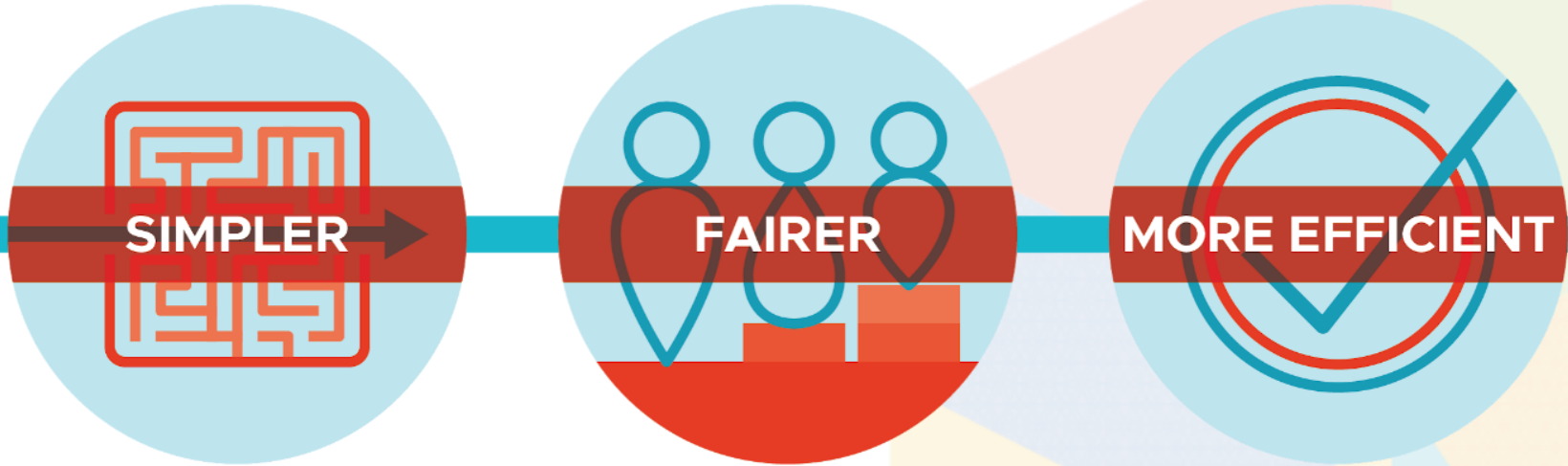


Comprehensive Tax Reform Program



Comprehensive Tax Reform Program

Package 1: TRAIN

Lowered personal income tax while broadening the consumption tax base



Package 2

Lower corporate income tax while broadening the tax base by rationalizing fiscal incentives



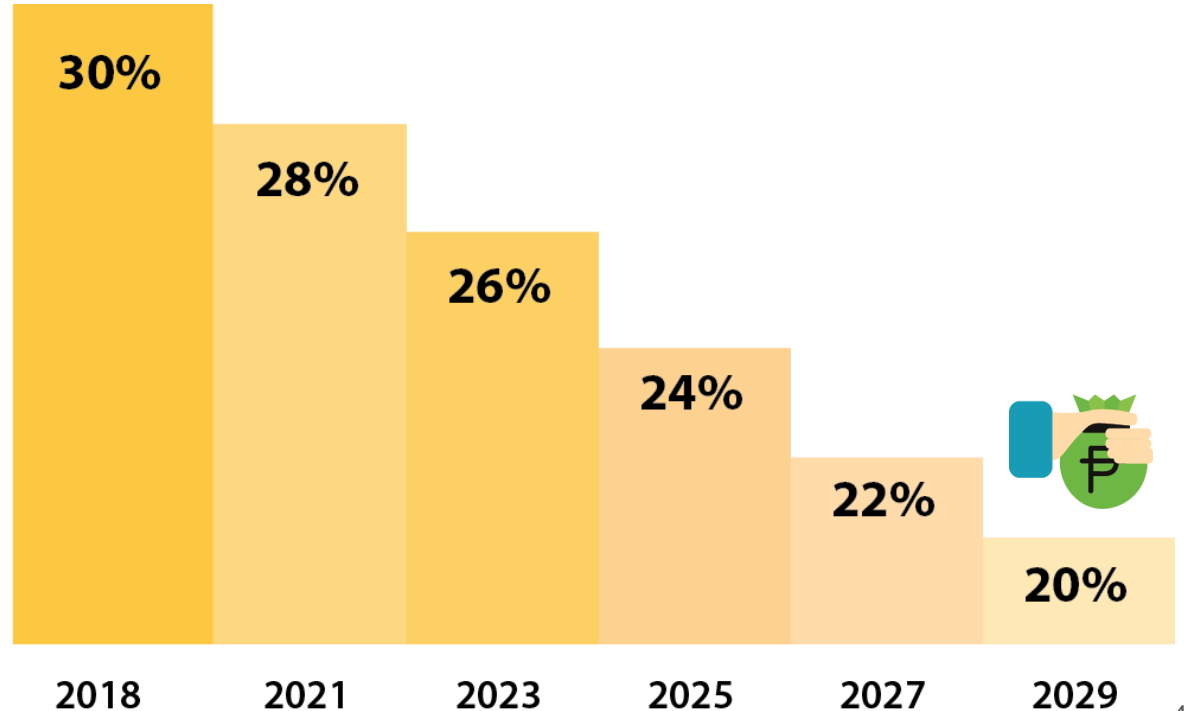
Administrative Order No. 13 s. 2018

Removing non-tariff barriers and streamlining administrative procedures on the importation of agricultural products

- Removal of non-tariff barriers and streamlining of administrative procedures
- Additional rice importation
- Importation of fishery products
- Expedite unloading of agricultural imports
- Other remedial measures to improve logistics, transport, distribution, and storage of agricultural products
- Creation of a surveillance team

Lower corporate income tax

Scheduled reduction may be advanced when adequate savings are realized from the rationalization of fiscal incentives



Incentives must be



Performance-based



Targeted



Transparent



Time-bound

Some incentives may be needed to attract investments that support our growth objectives.



Create more and better jobs



Promote research and development



Encourage innovation



Stimulate domestic industries

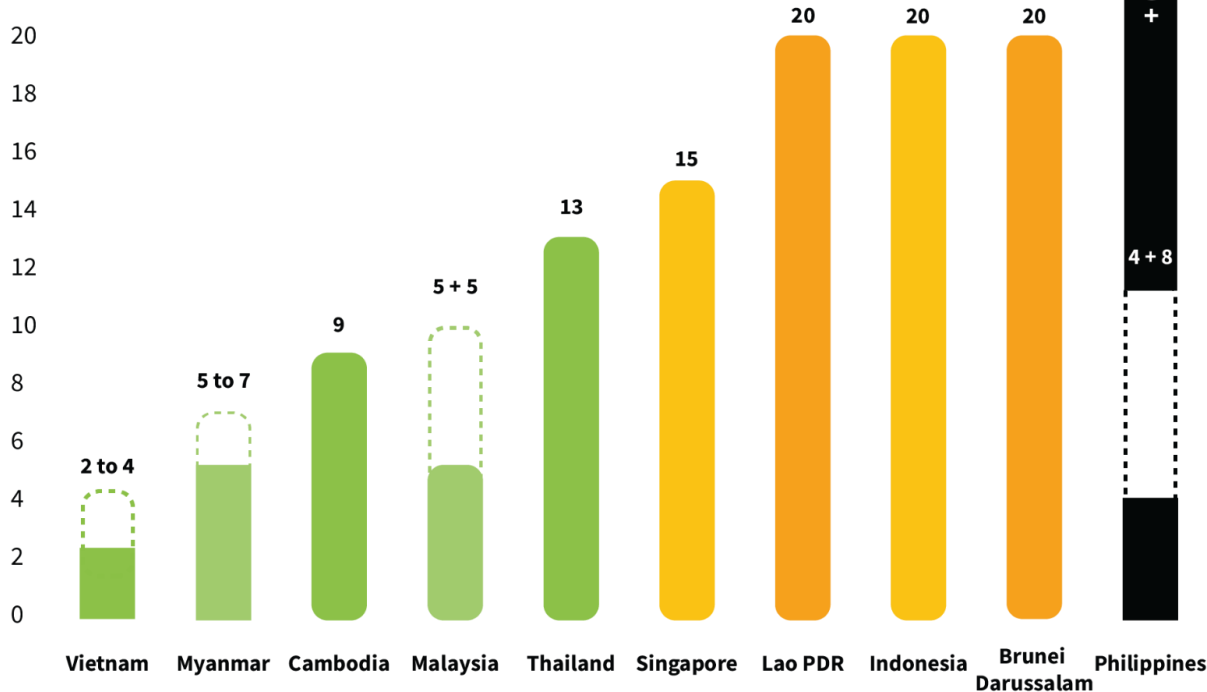


Diversify product space
(e.g., to higher value exports)

However, they must be performance-based, targeted, time-bound, and transparent.

We have a complex tax incentives system.

Maximum years of income tax holidays in selected Asian countries



We grant the most generous fiscal incentives since they are in lieu of all taxes and given forever.

- 14 IPAs
- 136 investment laws
- 200 non-investment laws
- 946 'ecozones' and freeports

Source: Individual country finance agencies and investment promotion offices.

Estimated forgone revenue due to tax incentives

Tax incentives in billion pesos

Type of tax	2015	2016
Income tax	86	121
Customs duties	18	57
Subtotal	104	179
Import VAT (gross)	160	TBD
Local VAT (gross)	37	TBD
Local business tax	TBD	TBD
Subtotal for incentives	301	TBD
Leakage	43	TBD
Total	344	TBD
No. of recipients	2,844	3,102

Source: TIMTA, DOF estimates.

Current Structure

Current Structure

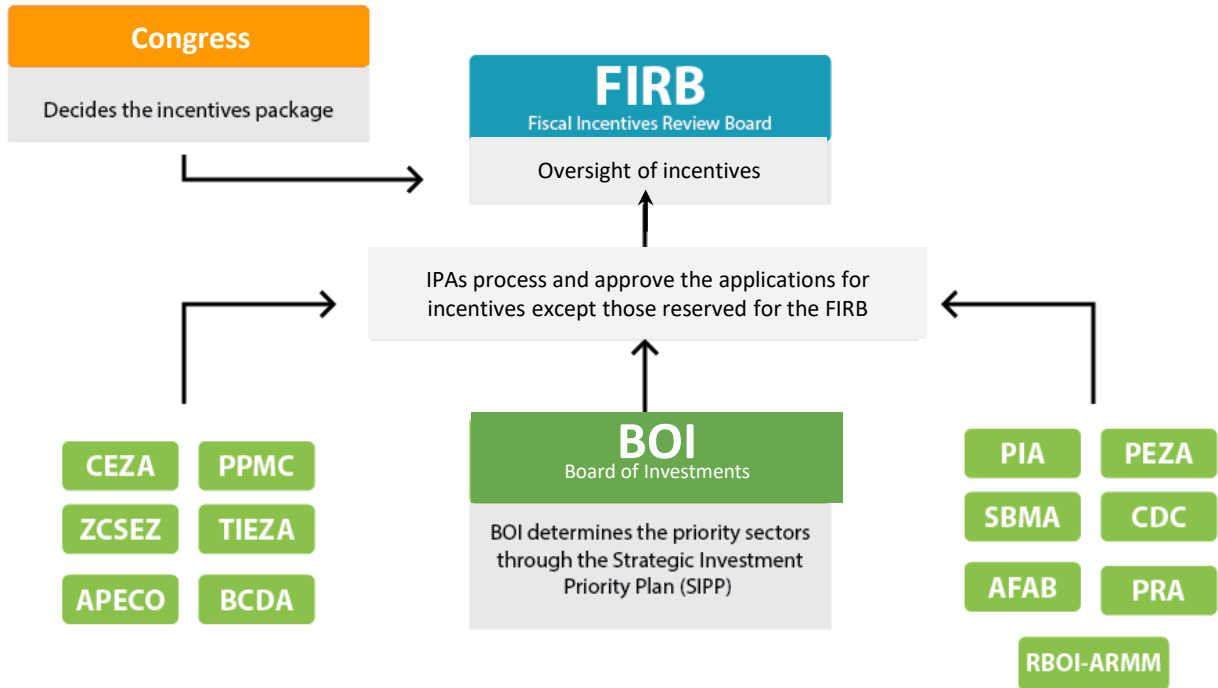
BOI, PEZA, CEZA, PPMC, TIEZA, and other IPAs

Processes and approves the applications for incentives for business entities

FIRB

Processes and approves the applications for incentives for GOCCs

Proposed Structure



Incentives menu

- Depreciation allowance of qualified capital expenditure:
 - 10% for buildings
 - 20% for machineries
- Additional deduction of up to:
 - 100% for research and development (R&D) and training
 - 50% for labor expense
 - 100% for country-wide infrastructure development
 - 50% for reinvestment allowance to manufacturing industry
 - 50% for domestic input expense
- Enhanced net operating loss carry-over (NOLCO) (5 years)
- Exemption from customs duty on imported capital equipment and raw materials



Cost-benefit analysis

Result #1

To create 1 job, it costs taxpayers at least P252,706.



Result #2

In general, registered firms do not perform better on employment, exports, and productivity compared to non-registered firms.



Result #3

For every peso we grant as incentive, we collect 34 cents in taxes.



Result #4

For every peso spent on incentive, between P0.63 and P1.20 comes back in benefits.



Top 10 abuses of tax incentive regimes

1. **Export zones** – leakages into domestic economy
2. **Regional investment incentives and enterprise zones** – diverting activities to outside the region or zone
3. **Transfer pricing schemes** with related entities (through sales, services, loans, royalties, and management contracts)
4. **Disguising or burying non-qualifying activities** into qualifying activities
5. Domestic firms **restructure as foreign investors**
6. Existing firms transform into **new entities to qualify for incentives**
7. **Churning or fictitious investments** (lack of recapture rules)
8. **Schemes to accelerate income** (or defer deductions) at the end of a tax holiday period
9. **Overvaluation of assets** for depreciation, tax credit, or other purposes
10. **Employment and training credits** – fictitious employees and phony training programs

More than tax incentives, we need...



Skilled and hardworking talent pool that needs sufficient human capital investments



Ambitious infrastructure development program that requires fiscal commitment



Sizeable small and medium enterprise community that deserves to be treated fairly

Thank you!