The Comprehensive Tax Reform Program:
Package One

TAX REFORM FOR ACCELERATION AND INCLUSION (TRAIN)

DEPARTMENT OF FINANCE
REPUBLIC OF THE PHILIPPINES

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Produced by the Republic of the Philippines - Department of Finance, January 2018

For questions, request for copies, comments and suggestions, please message us on Facebook (@DOFPH).

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Foreword

The Filipino people have entrusted President Rodrigo Duterte to deliver his promise of *malasakit at tunay na pagbabago*. In grateful recognition of this trust, this Administration is committed to invest massively in infrastructure, to alleviate extreme poverty, to develop human resources, and to provide a comfortable life to each and every Filipino.

The Tax Reform for Acceleration and Inclusion (TRAIN) is the first package of a broader comprehensive tax reform program envisioned by this Administration to make the tax system simpler, fairer, and more efficient. By enhancing both tax policy and administration, the reform will yield additional and reliable source of revenues to help fund the Administration's 10-point Socioeconomic Agenda.

A meaningful tax reform—one that provides the most benefit to the people while ensuring fiscal sustainability—is a challenging but necessary action that we must pursue to break the cycle of stagnation and achieve a sustained high level of progress, fuelled by investment and a highly productive workforce.

Let us leverage on the trust and the strong mandate the people have bestowed on President Duterte and his Administration to institute bold reforms the country needs to accelerate development towards inclusive growth.

On behalf of the Department of Finance, we encourage you to support TRAIN and continue to be our partners for change.

CARLOS G. DOMINGUEZ

SECRETARY

DEPARTMENT OF FINANCE

"A simpler, fairer, and more efficient tax system is needed to promote investment, create jobs, and reduce poverty. Not reforming the tax system will deprive the poor of the necessary social services and infrastructure that can lift them out of poverty and make them more productive contributors to society."

CARLOS G. DOMINGUEZ
SECRETARY OF FINANCE

"I think if people will realize that the money will be put into good use, and really spent for the purpose it is envisioned to be collected, and then they would give us time. *Kasi, may mga pangako nga ako na dapat matupad*. Government runs on taxes. *'Yan ang gasolina ng gobyerno.*"

PRESIDENT RODRIGO ROA DUTERTE
REPUBLIC OF THE PHILIPPINES

Tax reform for change

Vision for the Philippines

Why is tax reform necessary?

Fixing the current system

Funding the investment gap

Vision for the Philippines

President Rodrigo Roa Duterte took his oath as the 16th President of the Republic of the Philippines on 30 June 2016 devoting his presidency to one mission: to deliver positive change or *tunay na pagbabago* to the Filipino people. This promise of real change can be realized by promoting inclusive growth through improved and adequate public services—safe, healthy, and peaceful communities—more money in people's pockets, and a more comfortable life for all. With a solid mandate from the people, President Duterte and his administration are in the perfect position to enact bold reforms and to lead the country towards progress.

The Duterte administration envisions a Philippines where everyone is accorded with equal economic opportunities and with purchasing power catching up with that of our richer neighbors in the region towards Ambisyon Natin 2040. By 2022, we hope to see the poverty rate reduced to 14% from 21.6%, uplifting some six million Filipinos from poverty. We want our country to graduate to upper middle-income country status from the current low middle-income country status where Thailand and China are today. In one generation, or by 2040, we want to eradicate extreme poverty and become a high-income country like where South Korea is today.

BY 2022

21.6% → 13-15%

Poverty rate reduced

(6 million Filipinos uplifted from poverty)

3,500 USD → 5,000 USD

Increase in Gross National Income (GNI)

(Achieve upper-middle income status where Thailand and China are today)

BY 2040

Extreme poverty eradicated

3,500 USD → at least 11,000 USD

Increase in Gross National Income (GNI)

(Achieve high income status where Malaysia and South Korea are today)

DID YOU KNOW?

There are two common indicators used to measure a country's economic activity: the GNI and the GDP.

The **Gross National Income (GNI)** is the measure of the total value of all final goods and services produced nationwide in a given year. It takes into account everything produced by Philippine nationals or companies both within and outside of the country; it also include remittances of overseas Filipino workers (OFWs). (Source: Department of Budget Management)

The **Gross Domestic Product (GDP)** measures the total output within the geographic boundaries of the country, regardless of the nationality of the entities producing the output. (Source: Bangko Sentral ng Pilipinas)

This vision of a prosperous Philippines, however, will not come instantaneously. Our economy needs to expand steadily, at least 7% every year, for one generation. This is not an easy feat but it can be achieved if we invest significantly more in infrastructure, in research and development, and in our people—health, education, life-long training, and social protection.

We need to invest an additional P1 trillion every year over the long term, on top of the P1.7 trillion we are currently spending, to match the level of investment of our neighbors and to significantly improve the productive capacity of the economy. Thus, the aim of the Duterte administration is to raise some P366 billion every year, mostly from the tax reform.

The comprehensive tax reform program (CTRP) is among a number of bold reforms needed to accelerate poverty reduction and to sustainably address inequality in order attain the President's promise of *tunay na pagbabago*. By making the tax system simpler, fairer, and more efficient, additional streams of revenues that are sustainable can be generated and used to invest massively in our people and infrastructure to achieve our vision for the Philippines.

Why is tax reform necessary?

Fixing the current tax system

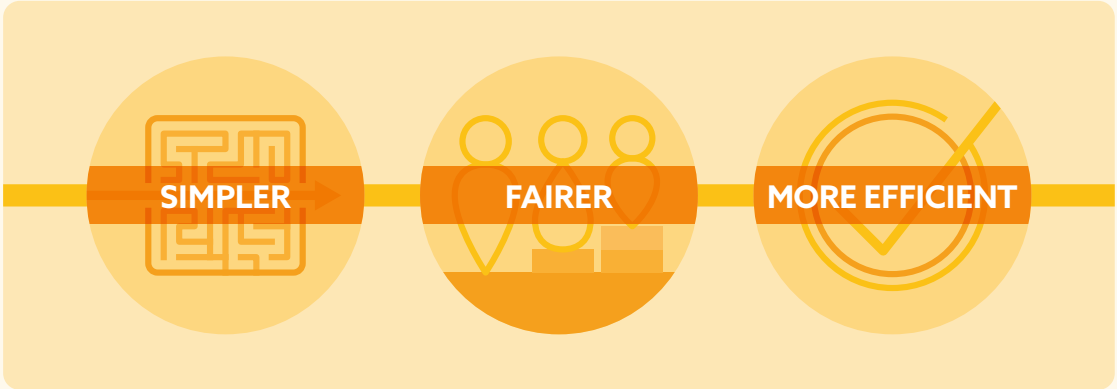
The current tax system is inequitable, complex, and inefficient. Numerous exemptions and other special treatments that are sources of leakages have opened doors for negotiation, discretion, corruption, and tax evasion. A comprehensive tax reform is needed to veer away from the business-as-usual and finally set the stage for the country to unlock its full economic potential. The CTRP is urgently needed now to modernize a tax system that, to put gently, is inefficient and non-responsive to the needs of Filipino taxpayers and the country.

The structural weakness of the current tax system are mainly due to:

- **First,** several tax rates or tax bases are not indexed to inflation and have eroded the value of the government's collections.
- **Second,** the government grants excessive exemptions and special treatments, many of which are without good basis.
- **Third,** highly restrictive bank secrecy laws prevent revenue agencies from fully auditing and enforcing tax laws due to lack of information. For instance, the Philippines is one of only two countries in the world with absolute bank secrecy laws for tax agencies. The other country is Lebanon.

The effect is the classic textbook case where tax rates are high but the tax base is narrow. The Philippines has some of the highest tax rates in Asia, but collects a smaller amount compared to other countries given the narrow base where some 50% of the economy enjoys some form of tax incentives.

Republic Act No. 10963 or the Tax Reform for Acceleration and Inclusion (TRAIN), and the CTRP in general, is a package of tax measures that seek to correct a number of deficiencies in the tax system to make it simpler, fairer, and more efficient; a package of mitigating measures that are designed to redistribute some of the gains to the poor; and a package of investments in infrastructure and social services to achieve our vision for the Philippines. It aims to redistribute the tax burden to become more equitable and progressive.



Funding the investment gap

The Philippines is underinvesting by around 10% of GDP, or P1.7 trillion (in 2017 prices), relative to its Southeast Asian neighbors such as Thailand and Vietnam. The country needs P366 billion (2.3% of GDP) annually to catch-up even after substantial improvements in tax administration, breaking out of underspending, and sustainable borrowing.

Investment category	2016	2022 target	Additional investment over the next six years*
Infrastructure	P759 billion	P1.8 trillion	P1.1 trillion
Education and training	P551 billion	P1.3 trillion	P718 billion
Health	P133 billion	P272 billion	P139 billion
Social protection, welfare, and employment	P242 billion	P509 billion	P267 billion
Total**	**P1.7 trillion**	**P3.9 trillion**	**P2.2 trillion**

**Indicative and subject to change*
***Total may not match due to rounding off*

Based on data from the Department of Budget and Management

While the government will continue to borrow to take advantage of the favorable interest rate regime, it would need a more sustainable source of funds for investments without causing undue burden to future generations with unnecessary and excessively high interest and debt payments.

By making the tax system simpler, fairer, and more efficient, the CTRP will generate additional and more reliable revenue streams to fund the investment gap. This administration will also pursue complementary budget reforms to improve spending efficiency and administrative reforms to ensure more efficient collection from the Bureau of Internal Revenue (BIR) and Bureau of Customs (BOC).

Poor infrastructure has long been identified as one of the country's foremost binding constraint to growth by limiting investment flows and therefore limiting employment generation. CTRP supports the realization of the administration's Build, Build, Build program, an ambitious P8 trillion infrastructure program envisioned to increase the productive capacity of the economy, thereby creating more and better jobs, not only in the cities but also in the countryside.

In addition to hard infrastructure, additional revenues will be invested in the people—health, education, and social protection programs that directly benefit the poor who rely mainly on publicly provided services.

Revenues raised from the tax reform will help fund the creation of new road networks and upgrade of existing ones, especially in rural areas. This will improve productivity and allow farmers, fishermen, and other businesses to more easily transport their produce from farm to market, potentially increasing profitability. It will also help fund the creation of more classrooms, hospitals, rural health units, and barangay health stations, and the hiring of more teachers, doctors, nurses, midwives, and other health professionals.

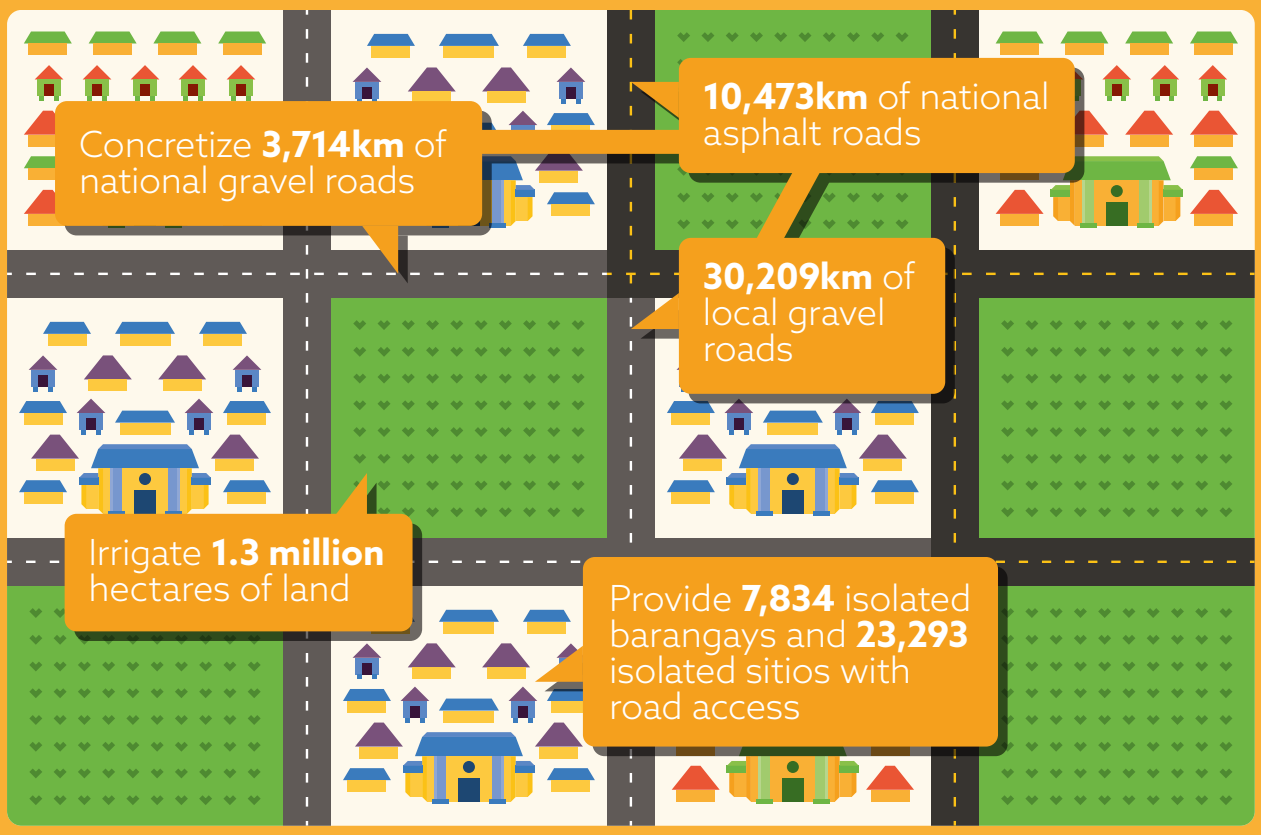
"*Dapat magbayad ng* tax, *malaki man o maliit ang* income. *Iyan din kasi ang gagamitin ng gobyerno para sa mga* infrastructure, *paaralan, ospital, at mga serbisyo sa mamamayan.* Positive *din kami sa* tax reform *na ito dahil 'yung* government *pala natin ay may pagtanaw sa mga* marginalized."

JOY CACHERO
URBAN POOR AND SENIOR CITIZEN SECTOR REPRESENTATIVE
(OPEN GOVERNMENT DIALOGUES IN CEBU CITY, 26 APRIL 2017)

Funds will be raised for major infrastructure projects, including:

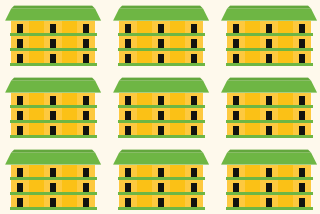
- Bonifacio Global City-Ortigas Center Link Road
- UP-Miriam-Ateneo Viaduct along C-5/Katipunan
- Camarines Sur/Albay Diversion Road
- Pulilan-Baliuag Diversion Road
- Maasin City Coastal Bypass Road cum Sea Wall
- Tacloban City By-Pass Road
- Panay East-West Road
- Daang Maharlika (Alternate Route) (NRJ-Mayor Democrito D. Plaza II Avenue-Las Nieves-Sibagat), (Mandamo-Las Nieves Section)
- Cagayan De Oro Diversion Road, Cagayan de Oro City
- Valencia City-Pangantucan Diversion Road

Source: Department of Transportation



Sources: Philippine Statistics Authority, Department of Public Works and Highways, and DOF staff estimates

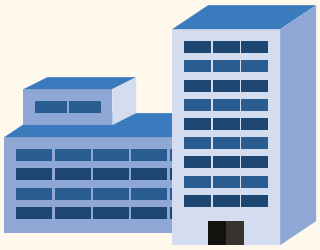
100% enrollment and completion rates



113,553 classrooms

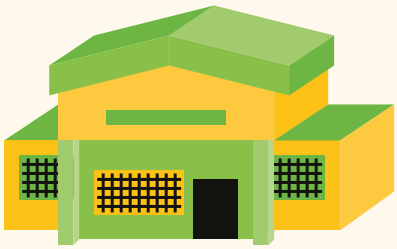
Additional **181,980** teachers from 2017 to 2020

Source: Department of Education



Establish **25** and upgrade **704** local hospitals

100% PhilHealth coverage with better services



Upgrade and/or relocate **263** rural and urban health units to disaster-resilient facilities

Build **15,988** new barangay health stations

Build **2,424** new rural and urban health centers

Hire **176,922** more health professionals from 2017 to 2020:

4,824 doctors

104,629 nurses

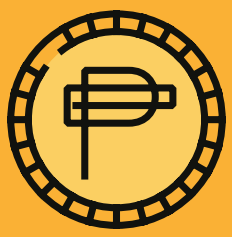
16,300 midwives

51,169 dentists, pharmacists, medical technologists, and public health associates

Source: Department of Health

The 10-point socioeconomic agenda

Macroeconomic policies

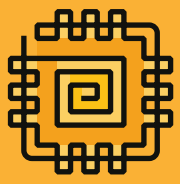


Tax reform

Land administration and management

Ease of doing business

Rural development



Science and the arts

Reproductive Health Law

Social protection programs

Human capital development

Infrastructure spending

"I like this tax reform. *Magiging* progressive *siya* as long as *mapatupad ito nang husto. Nakikita ko* beneficial *siya* someday *dahil nakalaan talaga* (*ang* revenue) *para maiangat ang* marginalized sector—*iyan ay kung mabubuting kamay din ang mapupuntahan hanggang sa* grassroots level."

DOLLY LAUDENERIO
PWD COUNCIL MEMBER OF NATIONAL ANTI-POVERTY COMMISSION
(OPEN GOVERNMENT DIALOGUES IN CEBU CITY, 26 APRIL 2017)

What is TRAIN (RA 10963)?

The Tax Reform for Acceleration and Inclusion (TRAIN) is the first package of the comprehensive tax reform program (CTRP) envisioned by President Duterte's administration, which seeks to correct a number of deficiencies in the tax system to make it simpler, fairer, and more efficient. It also includes mitigating measures equitably designed to redistribute some of the gains to the poor.

Through TRAIN, every Filipino contributes in funding more infrastructure and social services to eradicate extreme poverty and reduce inequality towards prosperity for all. TRAIN addresses several weaknesses in the current tax system by lowering and simplifying personal income taxes, simplifying estate and donor's taxes, expanding the value-added tax (VAT) base, adjusting oil and automobile excise taxes, and introducing excise tax on sweetened beverages, among others.

Personal Income Tax (PIT)

Simplifying the donor and estate tax

Improving the VAT system

Adjusting fuel excise tax

Simplifying automobile excise tax

Sweetened beverages excise tax

Introducing and updating taxes on cosmetic procedures, coal excise, mining, and tobacco

Adjusting financial taxes

Simplifying personal income tax (PIT)

TRAIN lowers personal income tax (PIT) for all taxpayers except the richest. Under TRAIN, those with annual taxable income below P250,000 are exempt from paying PIT, while the rest of taxpayers, except the richest, will see lower tax rates ranging from 15% to 30% by 2023. To maintain progressivity, the top individual taxpayers whose annual taxable income exceeds P8 million, face a higher tax rate of 35% from the current 32%.

Husbands and wives who are both working can benefit from a total of up to P500,000 in exemptions. In addition, the first P90,000 of the 13th month pay and other bonuses will be exempt from income tax. Overall, the effective tax rates will be lowered for 99% of tax payers.

Upon implementation of TRAIN (2018-2022)

Annual taxable income	Tax rate
0 - 250,000	0%
Over 250,000 - 400,000	20% of the excess over 250,000
Over 400,000 - 800,000	30,000 + 25% of the excess over 400,000
Over 800,000 - 2,000,000	130,000 + 30% of the excess over 800,000
Over 2,000,000 - 8,000,000	490,000 + 32% of the excess over 2,000,000
Over 8,000,000	2,410,000 + 35% of the excess over 8,000,000

2023 onwards

Annual taxable income	Tax rate
0 - 250,000	0%
Over 250,000 - 400,000	15% of the excess over 250,000
Over 400,000 - 800,000	22,500 + 20% of the excess over 400,000
Over 800,000 - 2,000,000	102,500 + 25% of the excess over 800,000
Over 2,000,000 - 8,000,000	402,500 + 30% of the excess over 2,000,000
Over 8,000,000	2,202,500 + 35% of the excess over 8,000,000

Currently, a person who has a taxable income of P500,000 annually is taxed at 32% at the margin. TRAIN will bring this down to 25% in 2018, and will be further brought down 20% after five years.

Minimum wage earners will continue to be exempted from income taxes as their income falls below P250,000. In addition, the new tax structure will address the current problem wherein going a peso above the minimum wage will result in a lower effective take home pay, thereby discouraging minimum wage earners to accept incremental wage increases and keeping them in an artificial minimum wage trap.

The simplified tax system will increase the take home pay of most individuals and encourage compliance. Self-employed and professionals (SEPs) with gross sales below the VAT threshold now have the option to pay a simpler 8% flat tax in lieu of income and percentage tax, while those above the VAT threshold of P3 million will follow the PIT schedule.

Minimum Wage Earner (Monthly income: **P12,488**)

A Annual basic salary: **P149,856**

B 13th month pay and other benefits: **P34,976**

C Mandatory contributions (GSIS/SSS, Pag-IBIG, PhilHealth): **P 18,284**

Current tax system

Annual gross income: **A+B**	**184,832**
Net taxable income:	**0**

Exempted from income taxation

Tax due: **P0**

Under TRAIN

Annual gross income: **A+B**	**184,832**
Deductions and exemptions: **B+C**	53,260
Net taxable income:	**131,572**

Income bracket: **0 - 250,000 (0%)**

Tax due: **P0**

Additional take-home pay: **P0**

Know your new personal income tax using the DOF income tax calculator!
Visit taxcalculator.ph!

Meet John Cruz, a call center agent with a family of three. He commutes from Montalban, Rizal to his office in Makati and leaves the house at 4:00 AM to avoid heavy traffic. His spends daily on fare to and from work, and on food for the family, and monthly on household expenses such as electricity, water, and internet connection. On top of these expenses, a huge chunk is also deducted from his salary for taxes. This makes saving for the family difficult for John.

Call Center Agent (Monthly income: **P21,000**)

A Annual basic salary: **P252,000**

B 13th month pay and other benefits: **P21,000**

C Mandatory contributions (GSIS/SSS, Pag-IBIG, PhilHealth): **P15,166**

D Personal exemption: **P50,000**

E Allowance for dependents (two children): **P50,000**

Current tax system

Annual gross income: **A+B**	**273,000**
Deductions and exemptions: **B+C+D+E**	136,166
Net taxable income:	**136,834**

Income bracket: **Over 70,000 - 140,000 (8,500 + 20% of the excess over 70,000)**

Tax due: **P21,867**

TRAIN

Annual gross income: **A+B**	**273,000**
Deductions and exemptions: **B+C**	36,166
Net taxable income:	**236,834**

Income bracket: **0 - 250,000 (0%)**

Tax due: **P0**

Additional take-home pay: **P21,867**

John receives a monthly salary of P21,000 or P252,000 annually. At present, P21,867 is deducted from his annual salary under the current personal income tax rates. With TRAIN, John will be among the many hardworking Filipinos who will be exempted from paying personal income tax. Tax reform will increase John's take-home pay, helping him and his family save and giving him more financial freedom. This will be a great help for John!

Know your new personal income tax using the DOF income tax calculator! Visit taxcalculator.ph!

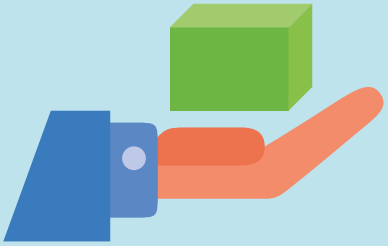
Simplifying the estate and donor's tax

In the current system, the tax rates can reach up to 20% of the net estate value and up to 15% on net donations. TRAIN seeks to simplify this. Estate and donor's tax will be lowered and harmonized so it does not matter if the person passed away, donated a property, or simply wants to transfer a property. This will result in loss revenues but the key here is to make the land market more efficient so that the land will go to its best use.

Estate tax

Instead of having a complicated tax schedule with different rates, TRAIN reduces and restructures the estate tax to a low and single tax rate of 6% based on the net value of the estate with a standard deduction of P5 million and exemption for the first P10 million for the family home.

Donor's tax



TRAIN also simplifies the payment of donor's taxes to a single tax rate of 6% of net donations is imposed for gifts above P250,000 yearly regardless of relationship to the donor.

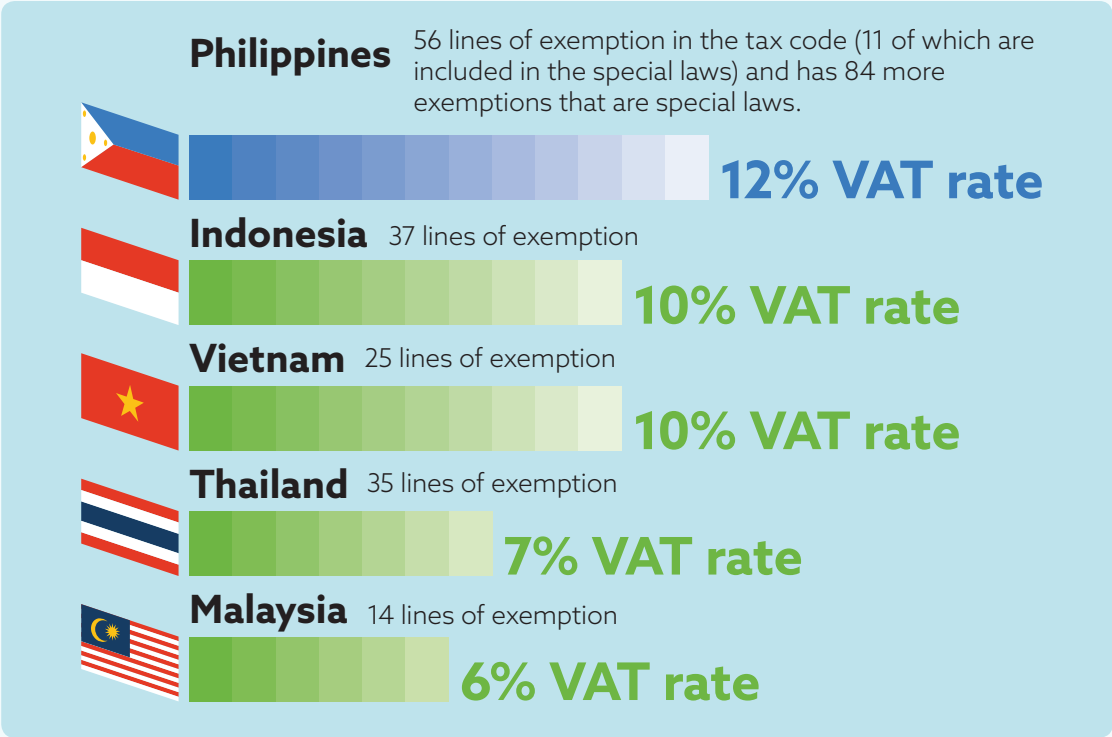
Improving the value-added tax (VAT) system

The Philippines has one of the highest VAT rates but also the highest number of exemptions in the Southeast Asian region. Consequently, the Philippines collects the same amount of VAT revenues as a percentage of the economy as that of Thailand despite the Philippines imposing a 12% VAT rate versus Thailand's 7%.

These tax exemptions have been given to many sectors and were supposedly very well meaning. However, these exemptions have also created much confusion, complexity, and discretion in our tax system resulting in leakages and opening doors for negotiation, corruption, and tax evasion.

The truth is, these exemptions are not free and someone pays for them; it is often the poor who pays as they are deprived of quality public service necessary to accelerate their graduation out of poverty.

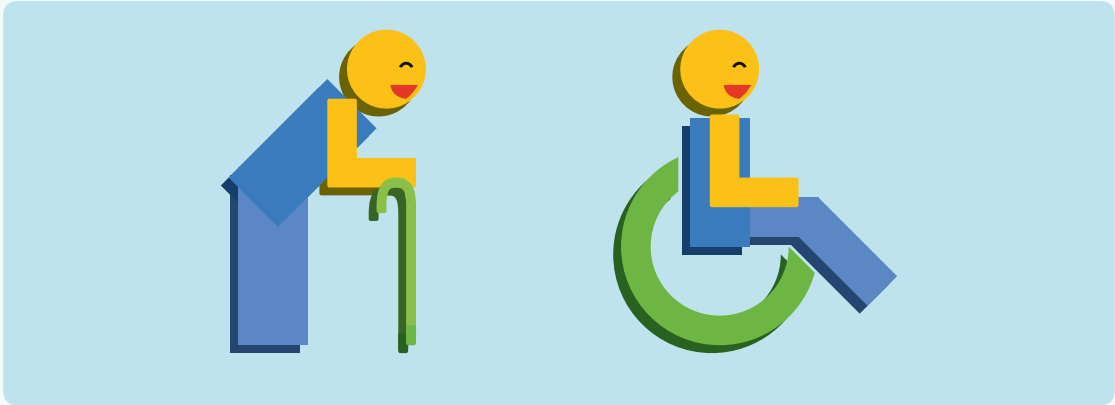
This does not mean that the benefits the poor rightly deserve will be removed. The Duterte administration commits to use the budget to provide targeted transfers and programs that are more transparent and more accountable.



Sources: Department of Finance and National Tax Research Center

Rather than blindly granting inefficient tax exemptions and blind subsidies that are largely beneficial only to the rich since they have higher purchasing power, the administration will direct the way to protect the poor and vulnerable

TRAIN repeals 54 out of 61 special laws with non-essential VAT exemptions to make the system fairer. Purchases of senior citizens and persons with disabilities, however, will continue to be exempt from VAT. Housing that cost below P2 million will be exempt from VAT beginning in 2021, while medicines for diabetes, high cholesterol, and hypertension will be exempt beginning 2019.



The reform also aims to limit the VAT zero-rating to direct exporters who actually export goods out of the country. This will be implemented together with an enhanced VAT refund system that will provide timely cash refunds to exporters.

The VAT threshold is increased to P3 million from P1.9 million to protect the poor and low-income Filipinos and small and micro businesses and for manageable administration. This effectively exempts the sale of goods and services of marginal establishments from VAT. Under TRAIN, VAT exempt taxpayers will have the following options:

- Follow the PIT schedule with 40% OSD (Optional Standard Deductions) on gross receipts or gross sales plus 3% percentage tax;
- Follow the PIT schedule with itemized deductions plus 3% percentage tax; or
- Follow the flat tax of 8% on gross sales or gross revenues in lieu of percentage tax and personal income tax

Adjusting fuel excise tax

An **excise tax** is an indirect tax on selected goods that have negative externalities or are non-essentials. This is a measure used to discourage too much consumption of scarce resources to limit the bad effects of some products such as pollution and congestion. It is a progressive form of taxation since those who consume more will pay more.

TRAIN increases the excise of petroleum products, which has not been adjusted since 1997. The non-indexation of fuel excise tax to inflation has eroded the revenues collected by P140 billion per year in 2016 prices.

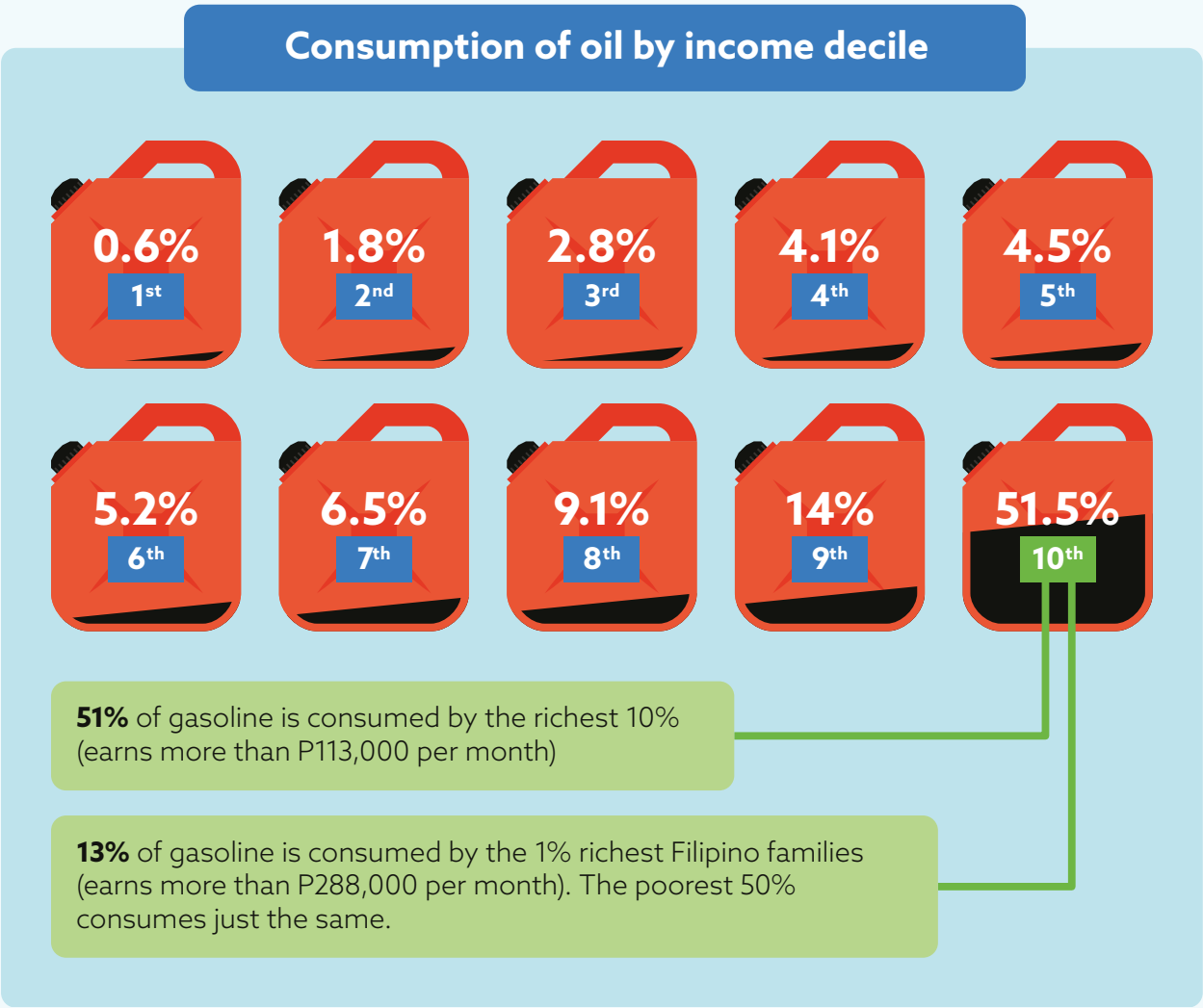
Fuel excise is wrongly perceived to be anti-poor. Based on the 2015 Family Income and Expenditure Survey (FIES), the top 10% richest households consume 51% of total fuel consumption. Meanwhile, the top 1% richest households consume 13%, which is equivalent to the aggregate consumption of the bottom 50% of households.

Price per liter	1997-2017	2018	2019	2020 onwards
Diesel	P0.00	P2.50	P4.50	P6.00
Gasoline	P4.35	P7.00	P9.00	P10.00
Lubricating oil and grease	P4.50	P8.00	P9.00	P10.00
Processed gas	P0.05	P8.00	P9.00	P10.00
Waxes and petrolatum	P3.50	P8.00	P9.00	P10.00
Denatured alcohol for motive power	P0.05	P8.00	P9.00	P10.00
Naphtha, unleaded premium gasoline	P4.35	P7.00	P9.00	P10.00
Aviation turbo	P3.67	P4.00	P4.00	P4.00
Asphalts	P0.56	P8.00	P9.00	P10.00
Kerosene	P0	P3.00	P4.00	P5.00
Pet coke	P0.56	P2.50	P4.50	P6.00
Bunker fuel oil	P0.00	P2.50	P4.50	P6.00
LPG	P0.00	P1.00	P2.00	P3.00

Clearly, this is a tax that will affect the rich far more than the poor, given their greater oil consumption than the poor.

The Duterte administration is also doing this to address environmental and health concerns. By taxing dirty fuel correctly, we are also investing in a more sustainable future for our country.

One consequence of exempting diesel from excise is the shift from gasoline to diesel automobiles. For instance, prior to exempting diesel in 2005, there was slightly more gasoline sport utility vehicles than diesel SUVs. Over time, with cheaper diesel prices, consumers shifted to diesel SUVs. As of 2013, some 72% of newly registered SUVs are diesel-powered compared to 28% of gasoline. This is basically giving tax breaks to rich people who can afford to buy SUVs.

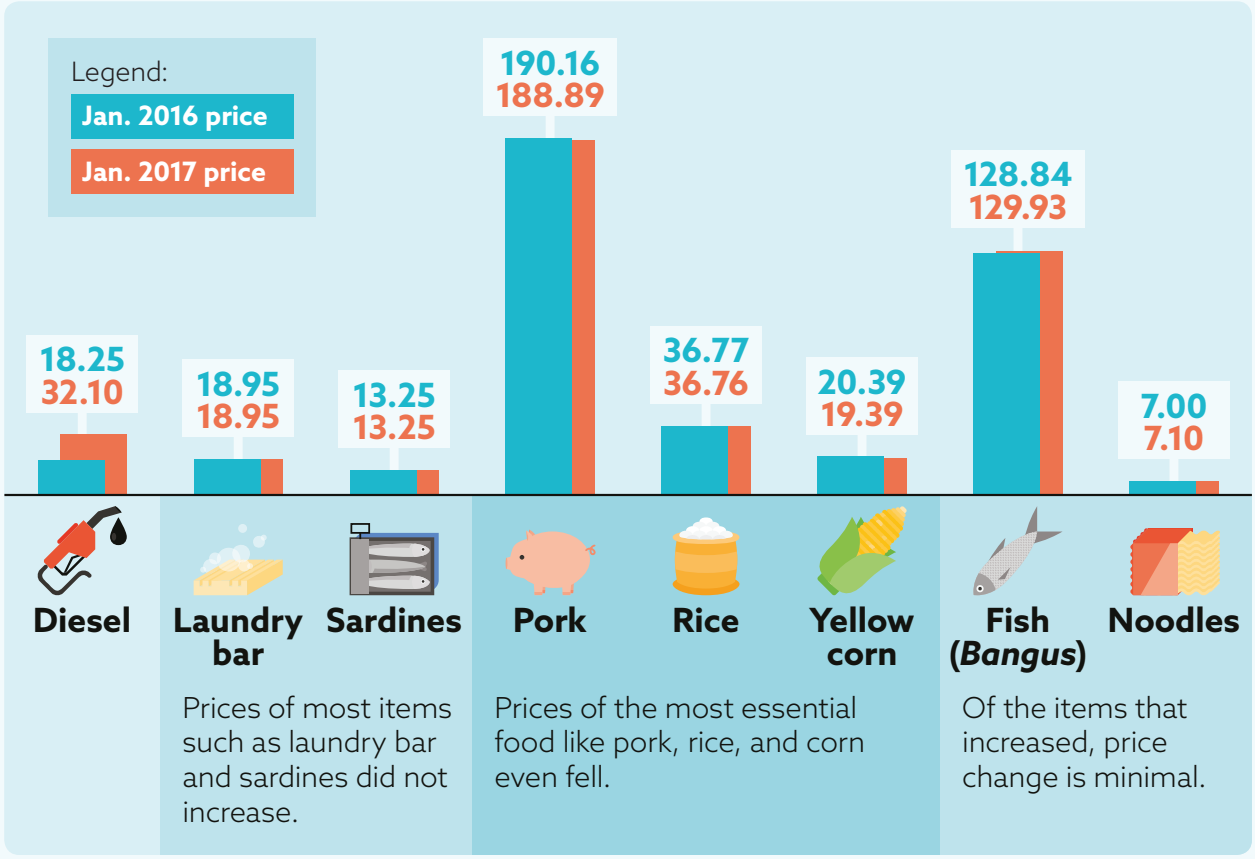


Sources: 2015 Family Income and Expenditure Survey, and DOF staff estimates

Expanding the VAT base and adjusting excise taxes would raise prices of some commodities faced by consumers, but this will be minimal or moderate and only temporary. DOF estimates around 0.73 percentage point increase in inflation during the first year of implementation with the impact tapering off over time. Food prices may increase by up to 0.73 percentage point, transportation up to 2.8 percentage points, and electricity up to 0.7 percentage point.

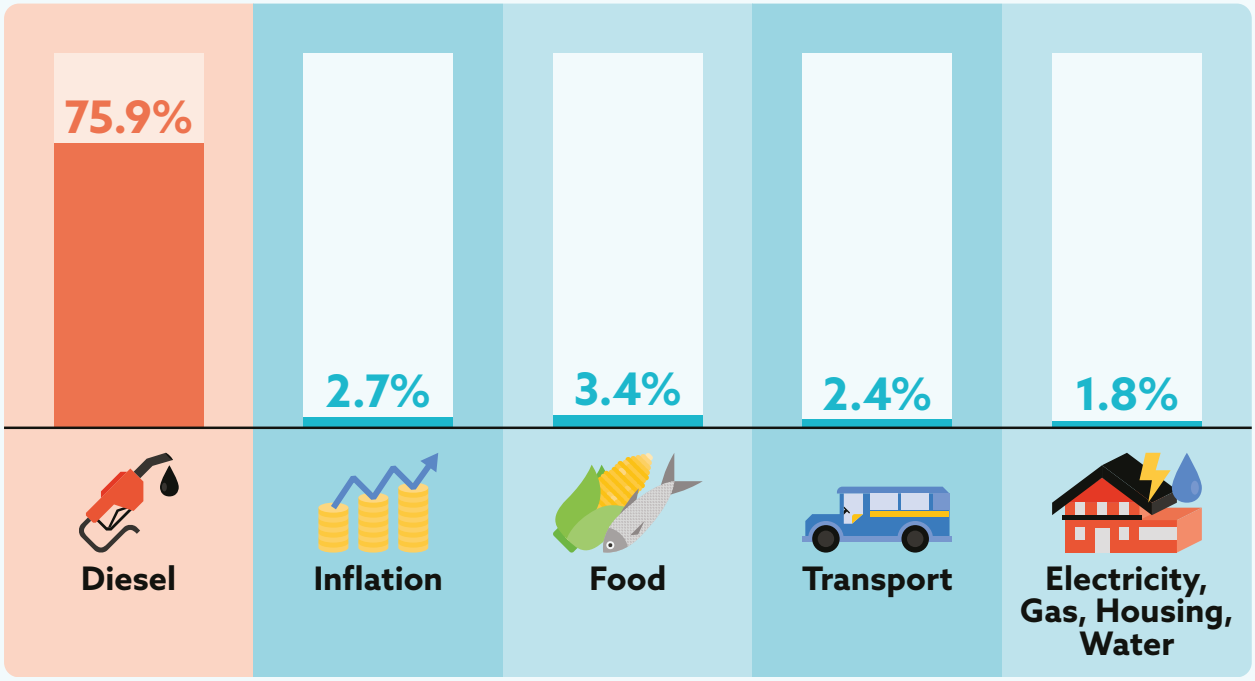
In 2016, despite a P14 increase in diesel oil prices from P18.25 to P32.10, inflation still remained low and stable. Prices of food, transportation, electricity, gas, housing, and water increased only by 2% to 3%. The prices of basic commodities did not increase despite the 75% increase in diesel price. Unlike in the 1970s and 1980s, our economy today is much stronger, diversified, and resilient.

In the recent past, the Philippines had two major economic shocks—one is the VAT reform of 2005, the other is the global oil price hike in 2011. Both events significantly raised fuel prices. Despite concerns then that higher taxes or higher prices would lead to devastating economic growth and skyrocketing inflation, history shows that the economy has weathered these shocks quite well even when the economy then was not in the best of shape.



Sources: Philippine Statistics Authority, Department of Trade and Industry, and Department of Energy

January 2017 year-on-year inflation rates



Sources: Philippine Statistics Authority, Department of Energy, and DOF staff estimates

In the aftermath of the VAT reform in 2005, GDP growth slowed as consumption slowed down and inflation temporarily increased, but the economy did not collapse and inflation was manageable. On the contrary, the VAT reform significantly improved the fiscal position of the government and buoyed the economy, and is partly credited for the stronger and more resilient economy we enjoy today.

The global oil price shock in 2011 is similar. Though oil prices increased to a peak of $130 per barrel from $61 per barrel, inflation was managed well by the central bank and kept at below 5%, and the economy continued to grow.

Despite concerns then that higher taxes or higher prices would lead to devastating economic slowdown and skyrocketing inflation, history shows that the economy has been resilient despite headwinds.

Today, with a smaller increase in fuel cost due to the excise reform, the administration is certain that the economy can, like before, manage growth and inflation well and can even do better.

Simplifying automobile excise tax

TRAIN simplifies the excise tax on automobiles. Lower-priced cars continue to be taxed at lower rates while more expensive cars are taxed at higher rates. This excise will raise revenue in a very progressive manner as the richer buyers tend to own more and more expensive cars compared to those who earn less.

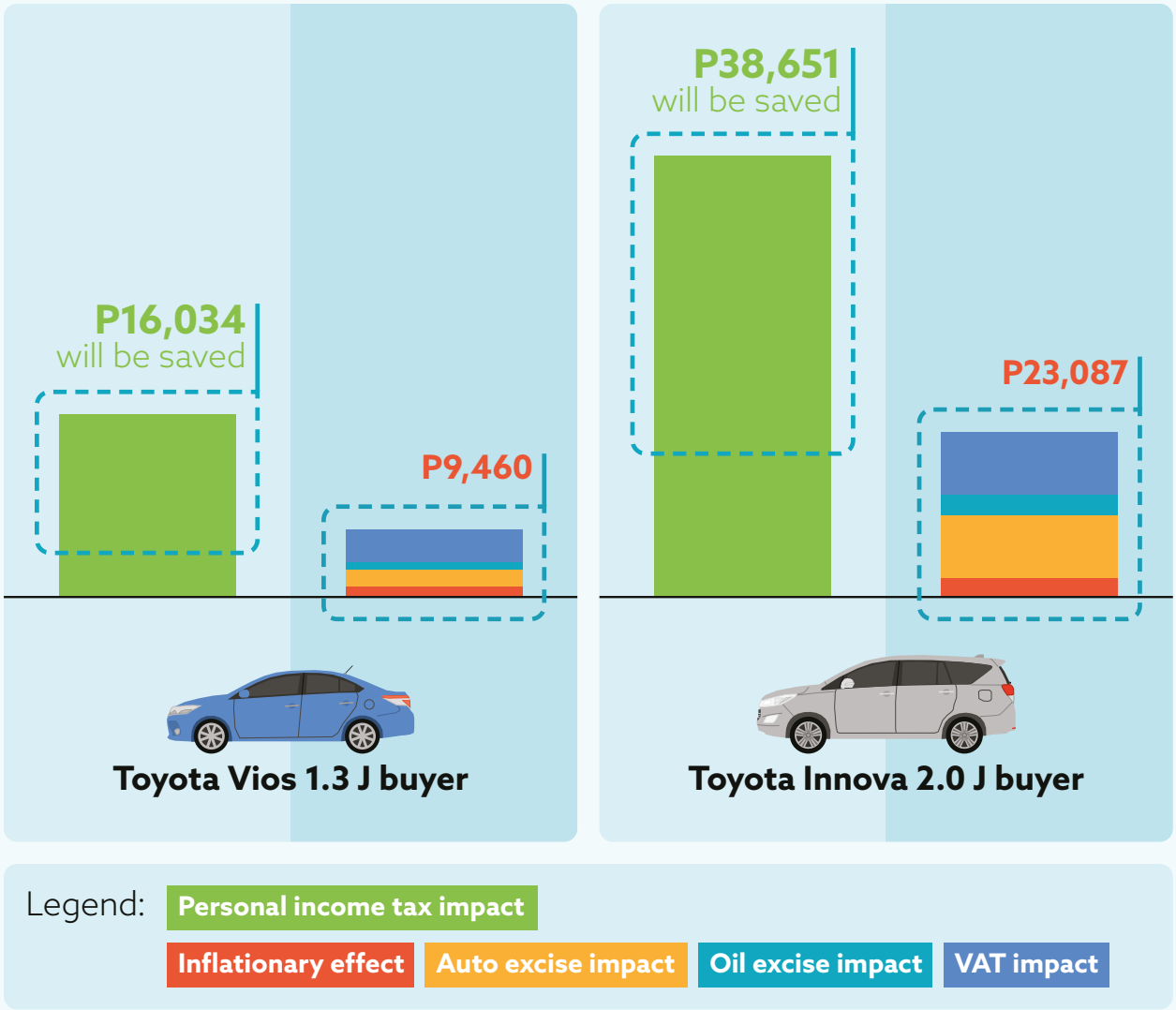
Old rates		Average effective tax rate	Under TRAIN		Average effective tax rate
Up to 600,000	2%	2%	P600,00 and below	4%	3%
Over 600,000 to 1.1 million	2%	5%	P600,000 to P1,000,000	10%	8%
Over 1.1 million to 2.1 million	112,000 + 40% in excess of 1.1 million	15%	P1,000,000 to P4,000,000	20%	15%
Over 2.1 million	512,000 + 60% in excess of 2.1 million	22%	P4,000,000 and above	50%	30%

When we consider the TRAIN as a package, the increase in take home pay from the personal income tax reduction will be more than enough to offset the increase in prices resulting from adjustments in excise taxes.

Brand and Model	Current SRP	Estimated new SRP	Change in SRP
Toyota Vios 1.3 Base	599,000 2%	609,734 4%	10,734
Mitsubishi Mirage G4 GLX	700,000 2%	712,544 4%	12,544
Toyota Innova 2.0 J	919,000 12,000 + 20% in excess of 600,000	957,618 10%	38,618
Ford Everest Titanium 2.2 4x2	1,739,000 112,000 + 40% in excess of 1.1 million	1,794,731 20%	55,731
BMW 740Li Essential	7,240,000 512,000 + 60% in excess of 2.1 million	7,591,232 50%	351,232

For example, those who will purchase a Vios will be able to save P16,122 despite the increases in taxes, and those who buy an Innova will save around P29,923 even if they buy a car with the new rates. For a Vios, this translates to only an additional P183 in monthly amortization assuming a standard loan term of five years. This implies that for a typical buyer, the additional take home pay from the PIT reform will more than fully offset the increase in amortization.

Overall impact of excise in vehicles on the consumer



Sources: Philippine Statistics Authority, carguide.ph, Department of Energy, and DOF staff estimates

Sweetened beverages excise tax

The sweetened beverages excise tax will help promote a healthier Philippines. Along with the Department of Health (DOH), DOF supports this as part of a comprehensive health measure aimed to curb the consumption of sweetened beveragess and address the worsening number of diabetes and obesity cases in the country, while raising revenue for complementary health programs that address these problems. This is a measure that is meant to encourage consumption of healthier products, to raise public awareness of the harms of sweetened beveragess, and to help incentivize the industry to develop healthier products and complements.

Why impose a tax on Sweetened Beveragess?

- Most of the sweetened beverages, with some notable exceptions provide unnecessary or empty calories with little or no nutrition. Sweetened beveragess are not a substitute for healthy foods such as fruits and rice.
- Sweetened beveragess are relatively affordable especially to children and the poor who are the most vulnerable to its negative effects on health.
- Sweetened beverages products are easily accessible and can be found in almost any store, unlike other sweetened products. Most often, the poor and the children are not aware of their consequences.

Common examples of sweetened beverages products include carbonated beverages, sports and energy drinks, and sweetened juice drinks. Under TRAIN, an excise rate of P6 per liter will be taxed on drinks containing caloric or non-caloric sweetener, and P12 per liter on drinks containing high-fructose corn syrup. Exempt from this tax are 3-in-1 coffee and milk, among others.

Consumption of sweetened beveragess is significantly linked to high incidences of overweight, obesity, and diabetes worldwide, including in low and middle-income countries.[1]

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[1] Basu, S., Yoffe, P., Hills, N., and RH. Lustig (2013). The relationship of sugar to population-level diabetes prevalence: An econometric analysis of repeated cross-sectional data. PLOS ONE 8(2): e57873. https://doi.org/10.1371/journal.pone.0057873

The National Nutrition Survey (2003-2015) indicates an increasing trend of overweight or obese Filipinos through the years and across age groups, especially among the poor.

In addition, habitual consumption of sweetened beverages is associated with greater incidence of Type 2 diabetes.[2] According to the International Diabetes Foundation, there are around 3.5 million cases of diabetes in the Philippines. In 2015, government reimbursements on hemodialysis totaled to about P7.4 billion covering 1.1 million patients. This is considerably high spending for PhilHealth especially on benefit payout for diseases that are preventable with evidence-based and recommended public policy interventions. In total, around P300 billion is spent annually by diabetic patients on maintenance medicine and operations. The government needs sufficient revenues to fund diabetes treatment as inaction will worsen these problems.

The sweetened beverages excise tax, as a health measure, will encourage individuals and families to make healthy choices to ensure a healthier and more productive population. To complement the sweetened beverages excise tax, there are also non-tax measures organized around the Health in All Policies approach. This strategy is envisioned to include regulatory measures on marketing, mandatory labeling, information and advocacy measures for health promotion, and improved nutrition literacy among Filipinos.

SWEETENED BEVERAGES EXCISE TAX

P6 per liter of volume capacity for sweetened beverages using purely caloric, and purely non-caloric, or a mix of both

P12 per liter of volume capacity for others using purely HFCS or in combination w/ any caloric or non-caloric sweeteners

Products covered by sweetened beverages excise tax under TRAIN:

Sweetened juice drinks

Sweetened tea

Other beverages:

All carbonated beverages with added sugar, including those with caloric and non-caloric sweeteners

Flavored water

Energy drinks

Sports drinks

Other powdered drinks not classified as milk

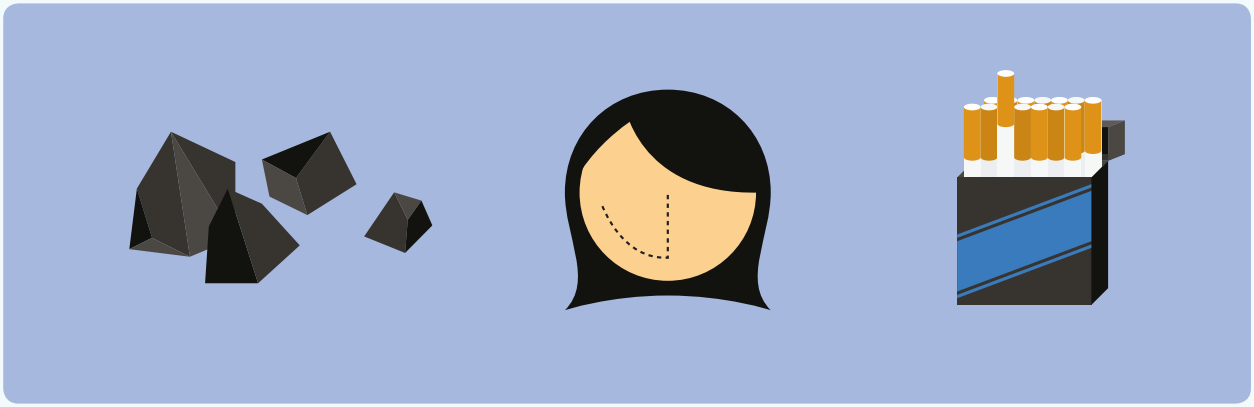
Cereal and other grain beverages

Other non-alcoholic beverages that contain added sugar

KEY EXEMPTIONS: 3-in-1 coffee, milk, 100% natural juice

[2] Imamura, F., O'Connor, L., Ye, Z., Mursu, J., Hayashino, Y., Bhupathiraju, S., and N. Forouhi (2015). Consumption of sugar sweetened beverages, artificially sweetened beverages, and fruit juice and incidence of type 2 diabetes: systematic review, meta-analysis, and estimation of population attributable fraction. BMJ 2015; 351 :h3576.

Updating the coal and tobacco excise tax, and introducing tax on cosmetic surgeries



Coal excise tax

Coal, while remaining to be cheap fuel for power generation, is also a major source of air pollution. The tax on coal and additional oil excise will help promote the shift towards renewable energy sources, while generating revenue for the much-needed infrastructure and social services.

Beginning January 1, 2018, a tax of P50.00 per metric ton will be imposed on both domestic and imported coal. The tax will be increased by P50.00 per metric ton every year until January 1, 2020, when the rate reaches P150.00 per metric ton.

Tobacco excise tax

The increase in excise tax for cigarettes will help discourage the habit of smoking, while generating incremental revenues for health programs and services. Smoking remains a serious health concern and directly increases a wide range of health risks, such as various cardiovascular and respiratory diseases[1]. While smoking incidence has declined in the country, from 17 million in 2009 to 15.9 million in 2015 according to the Global Adults' Tobaccos Survey, failure to increase taxes on cigarettes may result to an increase in the number of smokers in the coming years.

Beginning January 1, 2018, the excise tax on cigarettes will be increased from P30.00 to P32.50; to P35.00 beginning July 1, 2018; to P37.50 beginning January 1, 2020; and to P40.00 beginning January 1, 2022. After January 1, 2024, the rates will be increased annually by 4%.

Cosmetics excise tax

Under TRAIN, a 5% tax will be imposed on gross receipts of non-essential cosmetic surgery intended for aesthetic purposes only. As cosmetic surgeries for purely aesthetic purposes are non-essential and tend to be expensive, patients also tend to become from higher-income groups. This makes the measure more progressive.

To protect the poor and the vulnerable, procedures covered by the National Health Insurance Program will not be taxed. Cosmetic procedures needed to correct deformities from accidents, disease, or congenital and developmental defects will also be exempt from this tax.

[1] U.S. Department of Health and Human Services. The Health Consequences of Smoking—50 Years of Progress: A Report of the Surgeon General. Atlanta: U.S. Department of Health and Human Services, Centers for Disease Control and Prevention, National Center for Chronic Disease Prevention and Health Promotion, Office on Smoking and Health, 2014 [accessed 2017 Dec18].

Adjusting financial taxes

The Congress has also adjusted the following financial taxes:

Documentary stamp tax

A 100% increase, except on loans with only 50% increase. DST rates for property, savings, and non-life insurance transactions were not changed.

Foreign currency deposit unit (FCDU)

Increased from 7.5% to 15% final tax on interest income.

Capital gains of non-traded stock

Increased from 5 to 10%-15% final tax on net gains.

Stock transaction tax

Increased from 0.5% to 0.6% of the transaction value.

"More than a tax reform package, it is one of the healthy policies for our built environment because it will help us to reduce or manage the number of automobiles on the roads and the carbon emissions."

DR. LILIBETH DAVID
UNDERSECRETARY, DEPARTMENT OF HEALTH

"Promising at tama 'yung sinabi ni Usec. Karl Chua na huwag tingnan ang isang bahagi ng tax reform kasi kung hindi nga iyon ang interest ng sector mo, hindi mo ma-appreciate. Pero kung titingnan mo sa pangkabuuan, saka mo makikita 'yung benefits nito."

EFREN HIPE
EXECUTIVE DIRECTOR OF EASTERN SAMAR INITIATIVE
FOR EMPOWERMENT AND DEVELOPMENT, INC.
(OPEN GOVERNMENT DIALOGUES IN CEBU CITY, 26 APRIL 2017)

Complementary measures

For 5 years, revenues generated from TRAIN will only be used for specific programs. Not more than 70% will be used to fund infrastructure projects, such as the Build, Build, Build program and other projects that address road congestion through mass transportation and the creation of road networks.

Part of the 70% will fund the upgrading of existing military infrastructure, the creation of sports facilities in public schools, and help increase access of potable water in all public places.

The remaining 30% of TRAIN revenue will be used for the targeted cash transfer (TCT) program as well as other programs that invest in education, health, employment, social protection, and housing.

Tax administration

Social protection programs

1. Tax administration

TRAIN includes tax administration measures to complement reforms in tax policy:

- Fuel marking to curb oil smuggling;
- Fuel metering to accurately record volume;
- Mandatory e-invoicing, e-sales reporting, and connectivity for large taxpayers and exporters; and
- Simplified income and corporate tax returns and streamlined filing and payment processes

Indeed, tax administration agencies need to be modernized and major reforms are needed. While much is still needed to be done, BIR has been developing and continually improving its e-systems, such as eBIRForms, Electronic Filing and Payment System (EFPS), and mobile payments to provide better services to the public and to minimize human intervention in tax collection. BIR also commits to simplify tax forms and processes to encourage taxpayer compliance.

2. Social Protection Programs

Targeted Unconditional Cash Transfer (TUCT)

Explicitly included in TRAIN is a time-bound earmarking of some of the gains from fuel excise tax for targeted unconditional cash transfers (TUCT) to provide immediate and sufficient relief to poor families and help them adjust smoothly to the temporary shock introduced by the new tax regime. The fund will come from a portion of the incremental revenues generated from fuel excise tax.

The transfers aims to protect low-income households in the short term. This will be added on top of the current transfers being received by beneficiaries of the Conditional Cash Transfers program.

Under TUCT, beneficiaries will receive P200 per month on the first year of TRAIN implementation while P300 per month will be given for the next two years.

A social welfare card will also be given to the poorest households to ensure proper targeting of future cash subsidies and other benefits provided by the national government such as discounts on medicine, transportation, rice, and vocational trainings.

Earmarking

For 5 years, revenues generated from TRAIN are earmarked for specific programs. 70% will be used to fund infrastructure projects and 30% will fund social services.

Infrastructure projects include, but are not limited to:

- The Build, Build, Build program and other projects that address road congestion through mass transportation and the creation of road networks;
- Funding the upgrading of existing military infrastructure;
- Creating sports facilities in public schools; and
- Supplying potable water in all public places.

Social services include:

- Programs for sugar farmers to increase productivity, provide livelihood opportunities, develop alternative farming systems, and enhance farmer's income.
- Social mitigating measures and investments in education, health, social protection, employment, and housing for poor and near-poor households.
- Targeted nconditional cash transfer to the poorest 10 million households.
- Social benefits card to determine qualified beneficiaries
    - Fuel vouchers to qualified franchise holders of public utility jeepneys (PUJs);
    - Fare discount from all public utility vehicles (except trucks for hire and school transport service) in the amount equivalent to ten percent (10%) of the authorized fare;
    - Discounted purchase of National Food Authority (NFA) rice from accredited retail stores in the amount equivalent to 10% of the net retail prices, up to a maximum of twenty kilos per month; and
    - Free skills training under a program implemented by the Technical Skills and Development Authority (TESDA).

"These reforms are designed to be pro-poor, especially when the people understand how the revenues will be spent... The poor and vulnerable are at the heart of my tax reform. Your full support will ensure that the benefits of the tax reform can be felt immediately by Filipinos [them]."

RODRIGO ROA DUTERTE
PRESIDENT, REPUBLIC OF THE PHILIPPINES

Conclusion

TRAIN, and the CTRP in general, is a package of tax measures that seek to correct a number of deficiencies in the tax system to make it simpler, fairer, and more efficient; of mitigating measures that are designed to redistribute some of the gains to the poor; and of investment in infrastructure and social services to achieve our vision for the Philippines.

TRAIN is first in a series of tax reform proposals that aim to correct the tax system. Other packages will cover corporate income taxation and fiscal incentives modernization; property taxation and capital income taxation.

We need a comprehensive tax reform that will bring the most benefit to the people while ensuring fiscal sustainability. If the tax reform is not pursued fully or is diluted, the government will be forced to either breach the deficit target and finance the gap with debt or cut spending. These scenarios will undermine the progress our country has made over the last decade and will not bring in the investments the country needs to accelerate progress and achieve inclusive growth. The Philippines cannot afford to just muddle through if it were to catch up with its more successful neighbors and achieve its vision for the people.

For tax reform to be meaningful, we must make a difficult decision to stop doing what we have been for so long—because it has not worked—and to reform the system so that it truly supports progress and serves the needs of each and every Filipino.

Tulong-sulong sa tax reform tungo sa tunay na pagbabago.

Frequently asked questions

Who will benefit from the adjustments in PIT?

The first P250,000 of income will now be tax-exempt. Overall, the adjustments in brackets and lower rates will increase the take-home pay of 99.9% of taxpayers. The richest 0.1% of taxpayers, meanwhile, will face a higher tax rate of 35%, maintaining the progressivity of the tax system.

What about our bonuses and other benefits, will they be exempt from taxes?

Bonuses up toP 90,000 (increased from P82,000) will continue to be exempt from income tax. In line with simplifying the tax system, the current personal exemption and exemption for dependents are subsumed in the higher exemption threshold of P250,000. Also, de minimis benefits will continue to be exempt. Tax on fringe benefits, meanwhile, will be raised to 35% to align with the top marginal tax rate of the PIT.

Why do we need to impose additional fuel excise tax?

Petroleum excise taxes have not been adjusted for 20 years since 1997. Inflation has eroded the value of these, thereby depressing revenue collection and limiting our ability to mitigate environmental and health impact of pollution and internalize the costs of climate change-induced calamities. In addition, raising the fuel excises will stop subsidizing the consumption of the rich who consume most of the fuels, and will generate more funds to support building infrastructure that will address congestion and raise productivity.

Why can't the VAT rate be lowered?

Currently, the Philippines has one of the highest VAT rates in the Southeast Asian region. The 143 exemptions complicate our VAT system, make tax administration more difficult, and are sources of massive leakages. Addressing these leakages would allow us to reduce the VAT rate in the future. TRAIN has repealed 54 of these provisions, thereby making the VAT system fairer. Purchases of senior citizens and persons with disability continue to be exempted from the VAT.

Why do we need to adjust automobile excise?

TRAIN simplifies the automobile excise and encourages the use of more efficient and environment-friendly alternatives. Purely electric cars will now be exempt from automobile excise, and hybrid cars will be taxed 50% of the adjusted excise tax rates.

Why tax sweetened beveragess and not sugar broadly?

The sweetened beverages excise tax, as a health measure, encourages individuals to make healthy choices to ensure a more productive population. Sweetened beveragess contain empty calories and has little or no nutritional value. Consumers, however, are often unaware of the long-term health consequences of frequent Sweetened Beverages intake. These products are affordable and conveniently available in almost every corner making it easier for the public to purchase.

DOF Bldg., BSP Complex, Roxas Blvd., Malate, Manila

www.dof.gov.ph/taxreform

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