



Tax reform for acceleration and inclusion (TRAIN) (RA 10963)

Key provisions and fiscal impact

19 October 2018

Vision for the Philippines

By 2022
(6 years from now)

21.6% → **13-15%**

Poverty rate reduced
(6 million Filipinos uplifted)

3,500 → **5,000**
USD **USD**

**Increase in Gross National
Income (GNI)**
(Achieve upper-middle income status
where Thailand and China are today)

By 2040
(23 years or one
generation from now)

**Extreme poverty
eradicated**

3,500 → **11,000**
USD **USD**
at least

**Increase in Gross National
Income (GNI)**
(Achieve high income status where
Malaysia and South Korea are today)

How to achieve the vision

- Investment-led growth of 7 to 10 percent
- Over the long-term, all these investments require additional funds of around 1 trillion pesos per year in 2016 prices on top of the current 1.7 trillion pesos.
- Over the medium term, the government will need to raise some 366 billion per year between 2016 and 2022 (or 2.2 trillion pesos in total).

Current and additional investment needed per year

Investment Category	2016	2022 target	Additional over the next 6 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

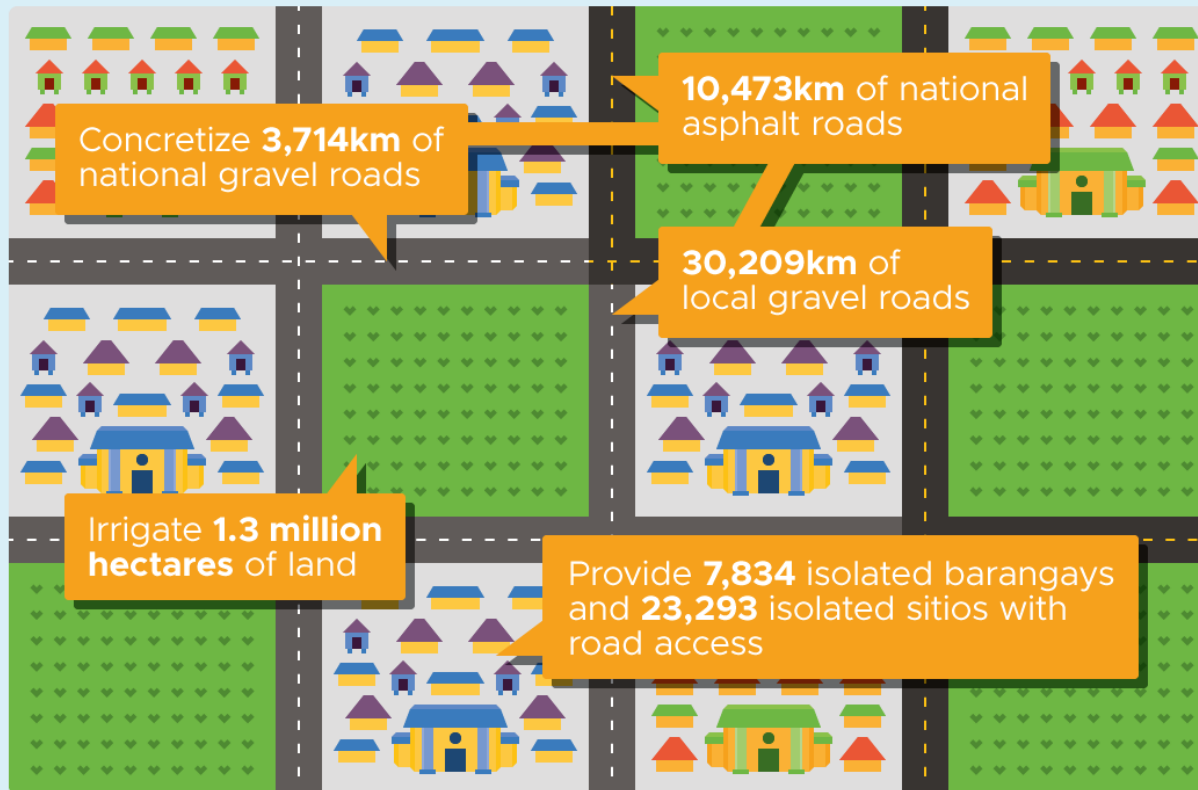
**Indicative and subject to change*

***Total does not add up due to rounding off*

Source: Department of Budget and Management

Vision for the Philippines

The proposed tax reform program aims to provide the needed additional revenues that would fund our country's investment needs, especially in rural areas, promoting better lives for Filipinos. For infrastructure, the following improvements can be funded:



Based on World Bank estimates

All these will further connect people, improve mobility across regions, and provide more opportunities for development if we have tax reform now.

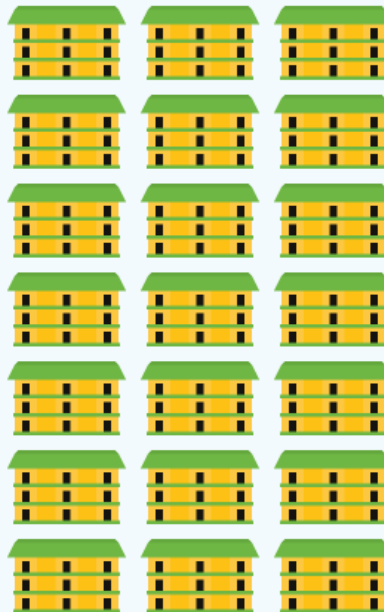


Vision for the Philippines

The tax reform proposal will be able to fund investments in education, achieving a more conducive learning environment with the ideal teacher-to-student ratio and classroom-to-student ratio:



Achieve 100%
**enrollment and
completion rates**



Build 113,553 more
classrooms



Hire 181,980 more
teachers between
2017 and 2020



Vision for the Philippines

With tax reform, we can invest more in our country's healthcare by providing better services and facilities:



Upgrade
704 **local hospitals**
Establish
25 local
hospitals



Achieve 100%
PhilHealth coverage
at higher quality of
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 health units and urban health centers**



Between 2017 and 2022,
hire an additional **176,922 health professionals:**
4,824 doctors
104,629 nurses
16,300 midwives
51,169 dentists, pharmacists,
medical technologists, and
public health associates

Updated as of March 13, 2017



Department of Finance



www.dof.gov.ph/taxreform













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#TaxReformNow

In summary, tax reform is needed to fund the ten-point socioeconomic agenda

<p>The 10-point Socioeconomic Agenda</p>	<p>1</p>  <p>Continue and maintain current macroeconomic policies, including fiscal, monetary, and trade policies.</p>	<p>2</p>  <p>Institute progressive tax reform and more effective tax collection, indexing taxes to inflation.</p>	<p><i>Be our partner for change.</i></p>
<p>★ <i>Your taxes will fund better services.</i> ★</p>			
<p>3</p>  <p>Increase competitiveness and the ease of doing business.</p>	<p>4</p>  <p>Accelerate annual infrastructure spending to account for 5% of GDP, with public-private partnerships playing a key role.</p>	<p>5</p>  <p>Promote rural and value chain development toward increasing agricultural and rural enterprise productivity and rural tourism.</p>	<p>6</p>  <p>Ensure security of land tenure to encourage investments, and address bottlenecks in land management and titling agencies.</p>
<p>7</p>  <p>Invest in human capital development, including health and education systems, and match skills and training.</p>	<p>8</p>  <p>Promote science, technology, and the creative arts to enhance innovation and creative capacity.</p>	<p>9</p>  <p>Improve social protection programs, including the government's Conditional Cash Transfer program.</p>	<p>10</p>  <p>Strengthen implementation of the Responsible Parenthood and Reproductive Health Law.</p>

Key messages

- **The tax reform package 1 is an important milestone in our history.**
 - First time a tax reform happened without a crisis and without an external force imposing.
 - First time the main purpose is poverty and inequality reduction, and not deficit and debt reduction.
- **It is the first of five packages that will once and for all correct the structural problems of the tax system that has made it unfair, complex, and inefficient.**
- **Goal: low rate and broad base.**

Key messages

- **Package 1...**

- Corrects a longstanding inequity of the tax system by reducing income taxes for 99 percent of income taxpayers, thereby giving them the much needed relief after 20 years of non-adjustment.
- Broadens the consumption tax base.
- Raises significant revenues (PHP 786 billion over 5 years) to fund the President's priority social and infrastructure programs.
- In Package 1, Congress passed the proposed reform to generate two-thirds of the needed revenue for 2018 and is expected to facilitate the balance early this year to help us achieve our revenue and deficit targets.

Key provisions

Personal income tax

- The first PHP 250,000 of annual taxable income will be exempt from income tax.
- In addition, the first PHP 90,000 of the 13th month pay and other bonuses will be exempt from income tax.
- Furthermore, the effective tax rates will be lowered for 99% taxpayers except the richest with taxable income above PHP 8 million, who will face a tax rate of 35%.

Tax Reform Program: Package 1

We are putting more money in people's pockets



We want to fund investments for our people for a more inclusive growth



Shift to a simplified Personal Income Tax (PIT) system by adjusting brackets to correct *bracket creeping*, and reducing the max rate to 30% over time, except for the highest income earners to maintain progressivity.



Restructure the tax for self-employed professionals to an optional flat tax of 8% (in lieu of income and VAT, or percentage taxes) for gross sales below ₱3 million.



Reduce and restructure the donor's tax to a single tax rate of 6% on net donations for gifts exceeding ₱250,000 annually, regardless of relationship between donor and donee.



Reduce and restructure the estate tax to a single tax rate of 6% based on the net value of the estate. Standard deduction of ₱5 million and up to ₱10 million for one family home is exempted.



Broaden the VAT system by reducing the number of exemptions.



Staggered increase of excise tax on petroleum products.



Simplify excise tax on automobiles.



Introduce a tax on sugar-sweetened beverages (SSB).



Introduce and update taxes on: cosmetic procedures, coal excise, mining, tobacco, foreign currency deposits, capital gains, stock transactions, and documentary stamp taxes.

We are committed to uplift the poor and the vulnerable through a progressive social protection using targeted cash transfers.



Oil Excise Rates

One of the major provisions of the tax reform is the staggered increase in oil excise. The current rates have been unadjusted since 1997, draining some P145 billion of government revenues annually.

Under TRAIN, rates will be adjusted gradually between 2018 and 2020.

Excise tax on oil products

Pesos per liter	1997 - 2017	2018	2019	2020	2021 onwards
Diesel	Php 0.00	Php 2.50	Php 4.50	Php 6.00	Php 6.00
Gas	Php 4.35	Php 7.00	Php 9.00	Php 10.00	Php 10.00

* The scheduled increase in the the Excise Tax on fuel as impose in this section shall be suspended when the average Dubai crude oil price based on Mean of Platts Singapore (MOPS) for three (3) months prior to the scheduled increase of the month reaches or exceeds eighty dollars (USD 80) per barrel.

Oil excise mitigating measure

- **Cash transfer**

- The poorest 10 million households will receive cash transfers of PHP 200 per month in 2018 and PHP 300 per month in 2019 and 2020.
- The amount is enough to offset the moderate but temporary increase in prices.
- DSWD to implement based on Listahanan, Pantawid Familyang Pilipino Program, and social pension beneficiaries as base.
- 2018 budget: PHP 24 billion + admin cost 7% = PHP 25.7 billion
- 2019 budget: PHP 36 billion + admin cost 7% = PHP 38.5 billion
- 2020 budget: PHP 36 billion + admin cost 7% = PHP 38.5 billion

Auto excise

- Adjustment of tax rates based on net manufacturing or importer's price.
- Pick-ups and purely electric vehicles will be fully exempt; while hybrid cars will be taxed at half the rate of the equivalent automobile.

Price range	Rates
PHP 600,000 below	4%
Over PHP 600,000 to PHP 1,000,000	10%
Over PHP 1,000,000 to PHP 4,000,000	20%
PHP 4,000,000 above	50%

Excise Tax on Sweetened Beverages

The tax on sweetened beverages is a health measure meant to discourage the consumption of sugar-sweetened beverages due to their high-sugar content, while encouraging industry players to develop healthier product alternatives.

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 and coffee



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 besides juice, tea, and coffee

Cereal and other grain beverages

Other non-alcoholic beverages that contain added sugar

Value added tax

- Repeal of **54** out of **61** special laws with non-essential VAT exemptions, thereby making the VAT system fairer.
 - Exceptions in tax code: cooperatives (except electric coops), and condo and association dues. VAT on medicines for diabetes, high cholesterol, and hypertension exempted starting 2019.
 - Exceptions in special laws: PAGCOR and casino, domestic coal, renewable energy, credit surety, countryside barangay business enterprise, mini-hydro, and tourism.
- Purchases of senior citizens and people with disability continue to be exempted from the VAT.
- **For the average Filipino, this will not have an impact as the VAT exemption removal will only affect groups enjoying exemptions.**

Tax administration measures

- 1. Mandatory fuel marking and metering.**
- 2. Mandatory e-invoicing, e-sales reporting, and connectivity.**
 - For large taxpayers and exporters, especially those claiming a VAT refund.
- 3. Mandatory max of 4 page tax return.**

Earmarking

- **70% to fund infrastructure projects such as, but not limited to:**
 - Build, Build, Build Program and provide infrastructure programs to address congestion through mass transport and new road networks,
 - Military infrastructure,
 - Sports facilities for public schools, and
 - Potable drinking water supply in all public places;

Earmarking

- **30% to fund social services:**
 - 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.
 - Unconditional cash transfer to the poorest 10 million households.

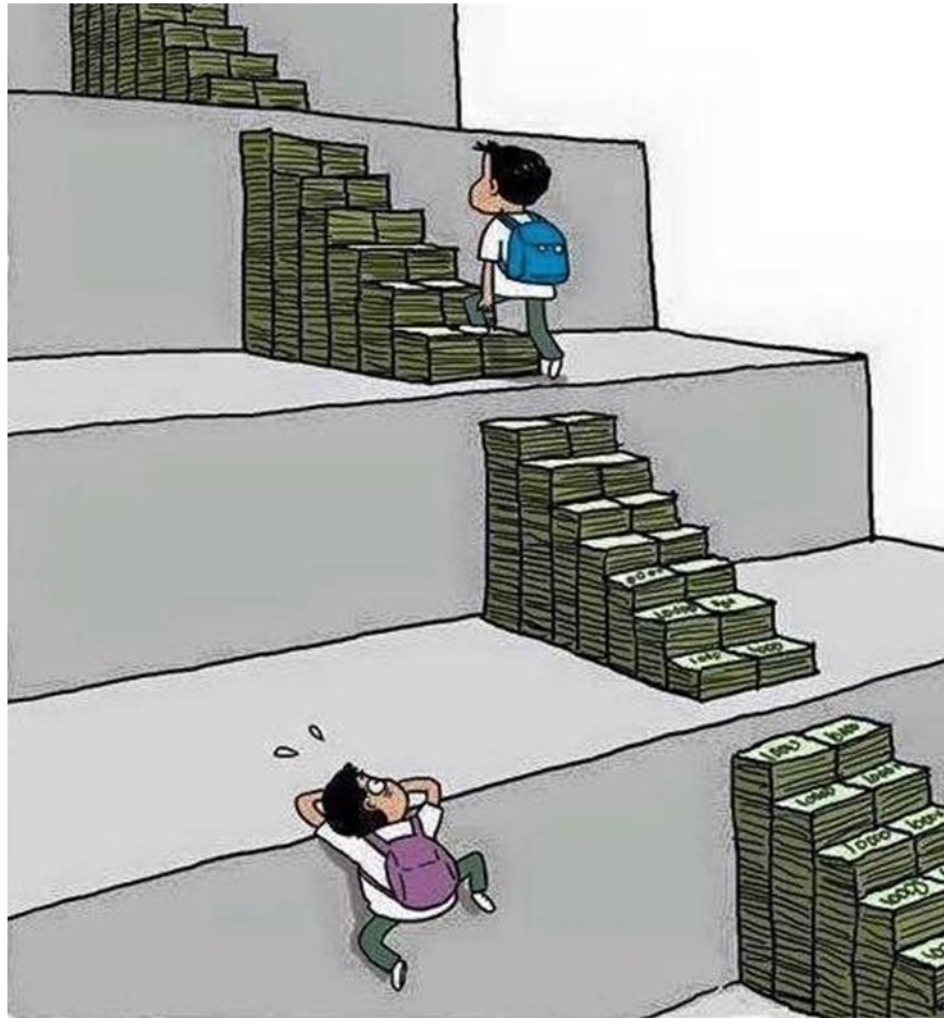
Key messages

1. Tax reform when seen as a **package** provides benefit to 99% of Filipinos.
2. More important than the tax is how we spend the money to **benefit poor Filipinos**.
3. The tax reform is an **investment in our future**. No investment is easy. There are short term challenges but everyone benefits in the long term.

A young girl with long dark hair, wearing a pink shirt, is smiling warmly while holding a baby. The baby is wearing a light-colored sleeveless top and looking towards the camera. The background is slightly blurred, showing what appears to be a wooden structure. A semi-transparent pink banner is overlaid across the middle of the image, containing the text.

This administration can make a lasting difference in each Filipino's life.

Tax reform as bridging the future



Source: <https://www.pinterest.com/explore/social-stratification/>

Let's be partners for change!

For more information, please visit:



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dof.gov.ph/taxreform

For questions, you may directly email us at:

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Thank you.