

Revenue Mobilization and Current Tax Issues: The Case of the Philippines

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Outline of Presentation

I. Background

II. Issues & Challenges

III. Current Reform Efforts

IV. Concluding Remarks

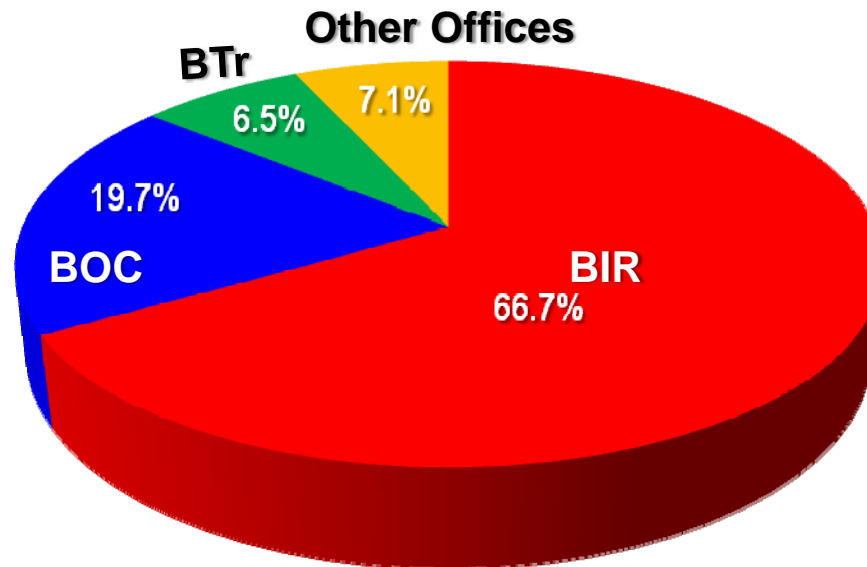
Background

- BIR and BOC are the main revenue generating agencies.
- Bulk of revenues collected by the Bureau of Internal Revenue (BIR).
- Income Taxes and VAT account for bulk of taxes and increasing annually. But as a % of GDP, revenue performance relatively flat. Excise tax as % of GDP declining due to non-indexation.
- Need to improve revenue performance. Tax effort below historical high of 17% in 1997.
- Low tax base constrains revenue growth.

Background

Two-thirds of total revenues collected by the BIR

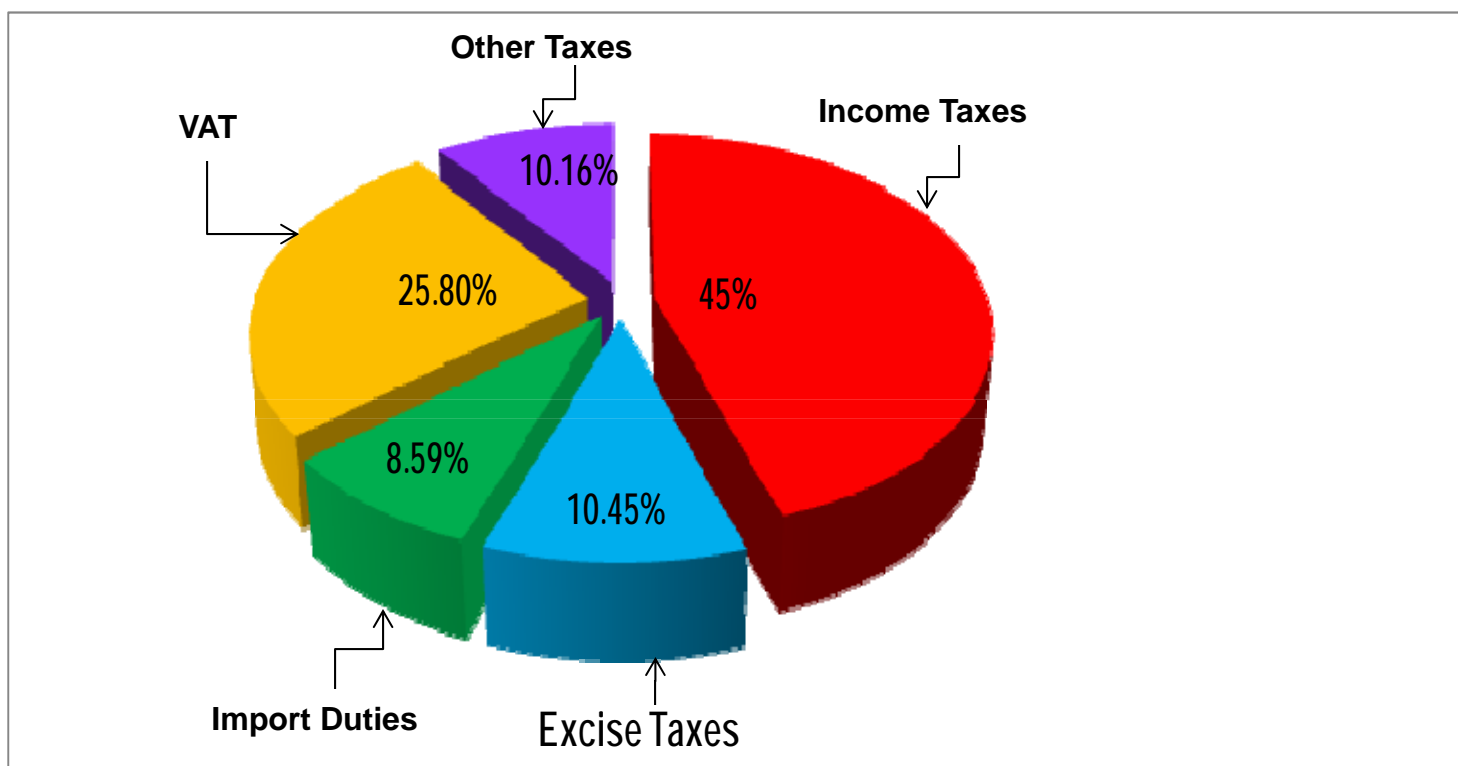
Percent Share to Total Revenue
By Collecting Agency
(Average 2000-2010)



Background

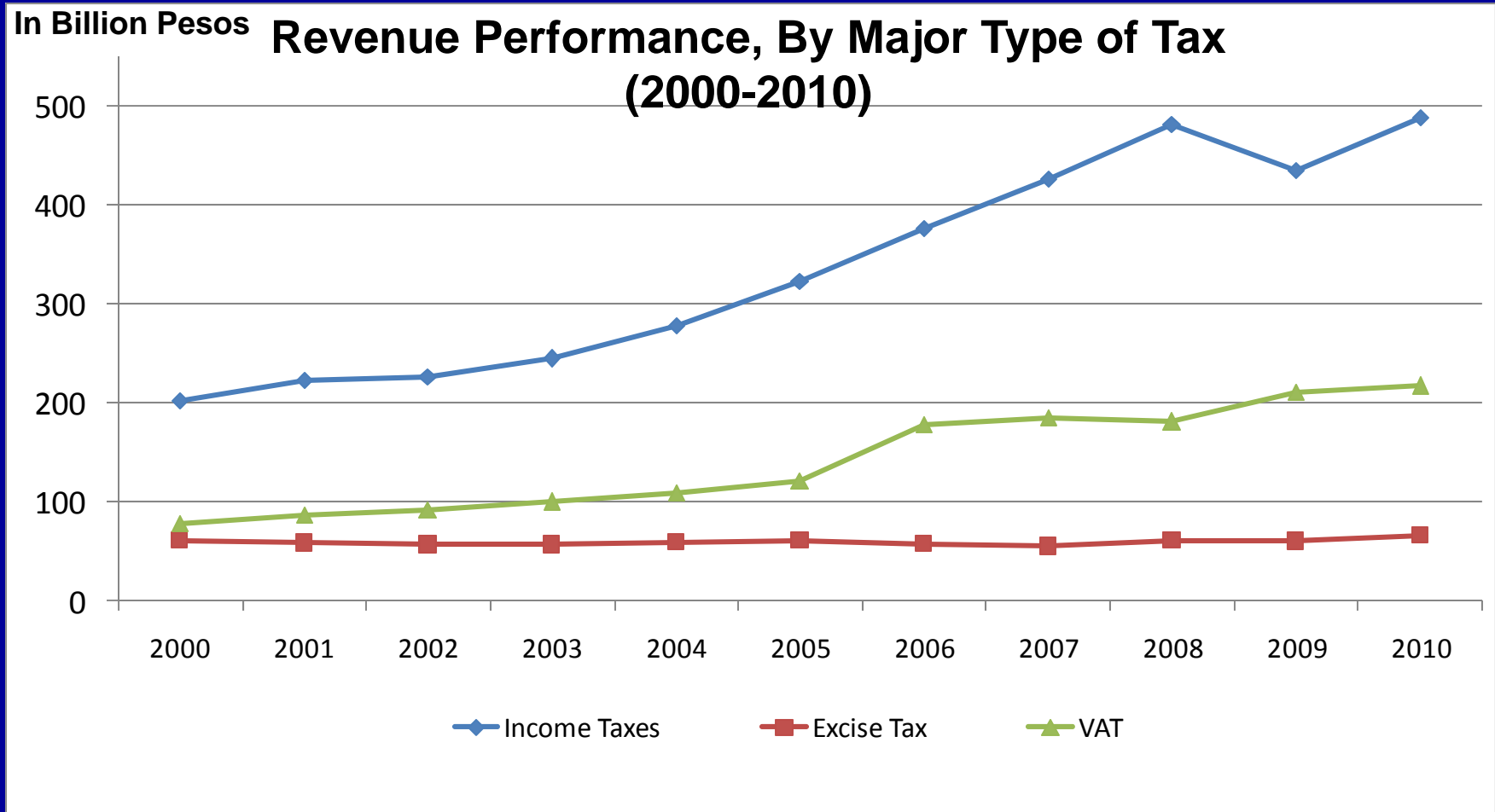
Income Taxes and VAT account for bulk of taxes ...

Percent Share to Total Tax Revenue
By Tax Category
(Average 2000-2010)



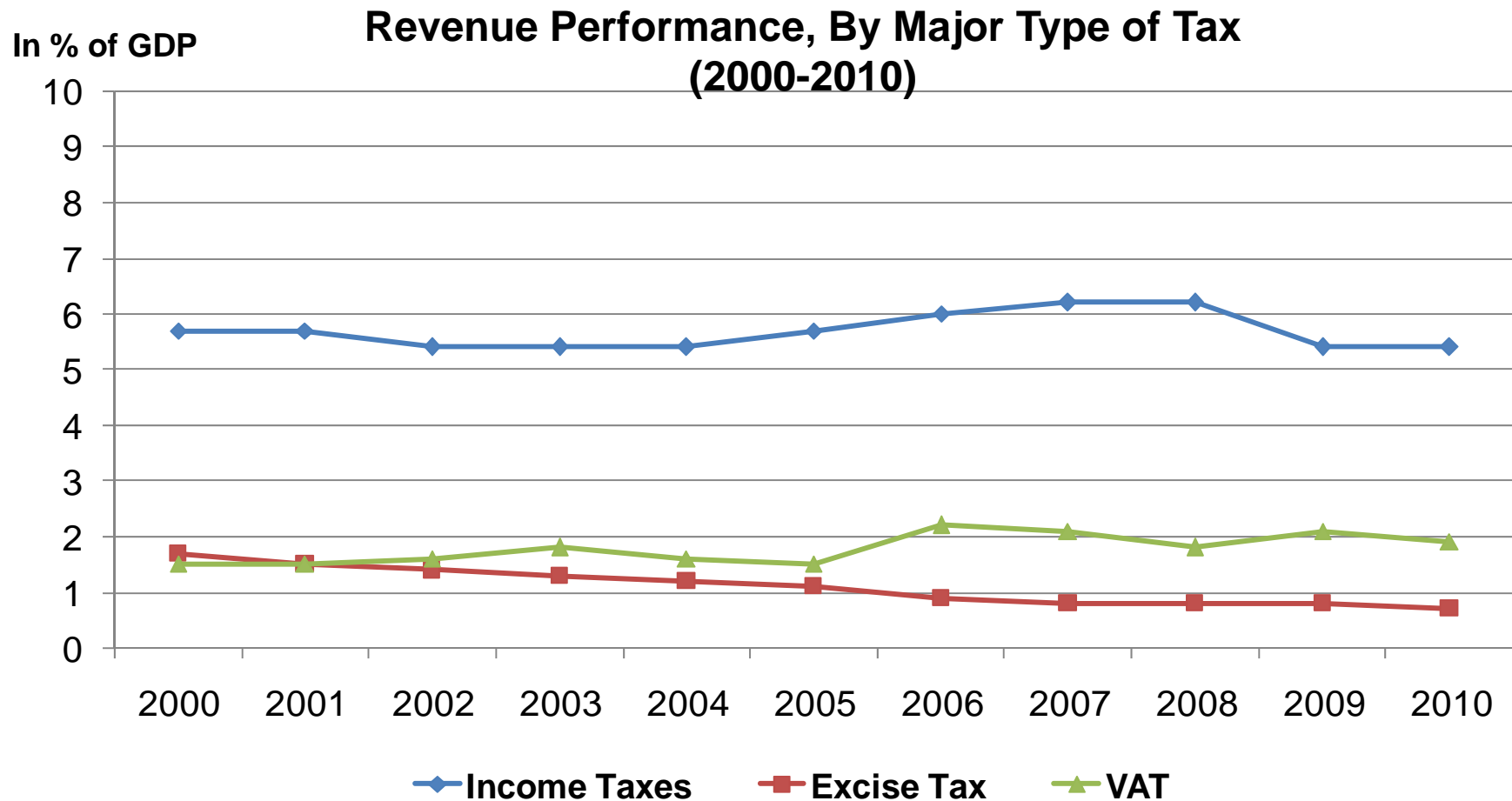
Background

Income Taxes and VAT collections increasing ...



Background

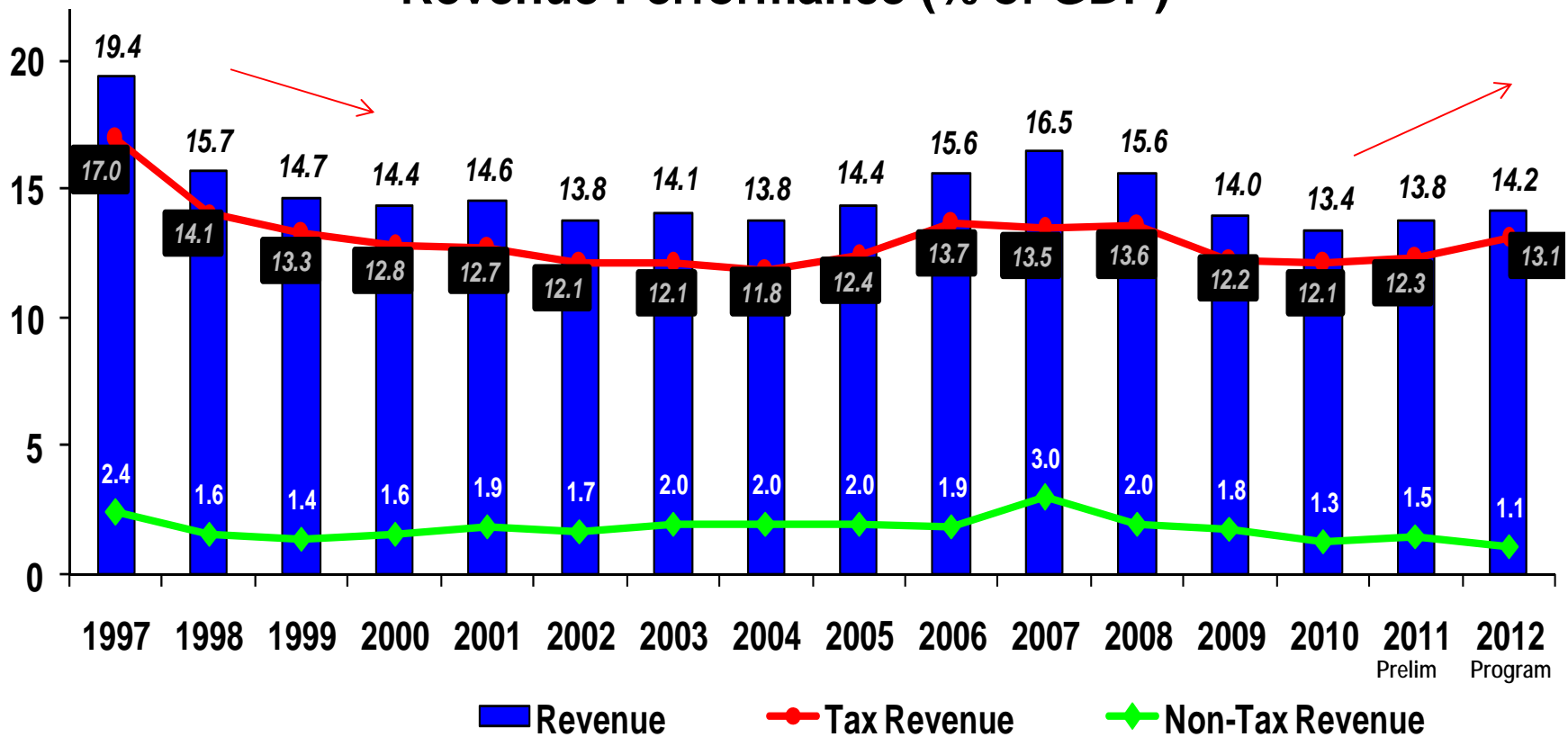
... but as percent of GDP, revenue performance relatively flat



Background

Need to Improve Revenue Performance

Revenue Performance (% of GDP)



Background

Low Tax Base Constrains Revenue Growth

- **Laws with revenue eroding provisions**
- **Redundant fiscal incentives granted to investors**
- **Some growth sectors are not taxable or enjoy tax incentives:**
 - **Exports from the Demand side (44% of GDP – average share from 1998-2010)**
 - **BPO sector – with Income Tax holidays**
 - **Agriculture, Fishery and Forestry from the Supply side (13% of GDP-average share from 1998-2010)**

Issues and Challenges

- **Addressing structural weaknesses in tax system**
 - **Excise taxes as percent of GDP declining due to non-indexation.**
 - **Plug leakages (tax evasion, smuggling)**
 - **Reduce distortions (less of redundant incentives or unproductive government subsidies).**
 - **Exacerbated by the series of revenue eroding measures passed in 14th Congress.**
 - **Anticipated decline in BOC revenues due to**

Issues and Challenges

- **Providing fiscal support while ensuring fiscal sustainability ...**
 - **Imperative of building a stronger and more robust economy**
 - **Enhance international competitiveness and attract investments**
 - **Step up infrastructure development and social spending to achieve inclusive growth**

Issues and Challenges

- **Close monitoring of continuing threats to growth**
 - **Monitor developments that may affect growth prospects**
 - **Global developments**
 - **Climate change and disaster mitigation**
 - **Volatile commodity price movements**

Issues and Challenges

- **Other issues identified by WB and IMF**
 - **Reviewing CIT and PIT to align with international practice.**
 - **Mining/petroleum taxation regime**
 - **Excise taxation of telecommunications services**
 - **Reforming real property taxation**
 - **Transfer pricing issues**

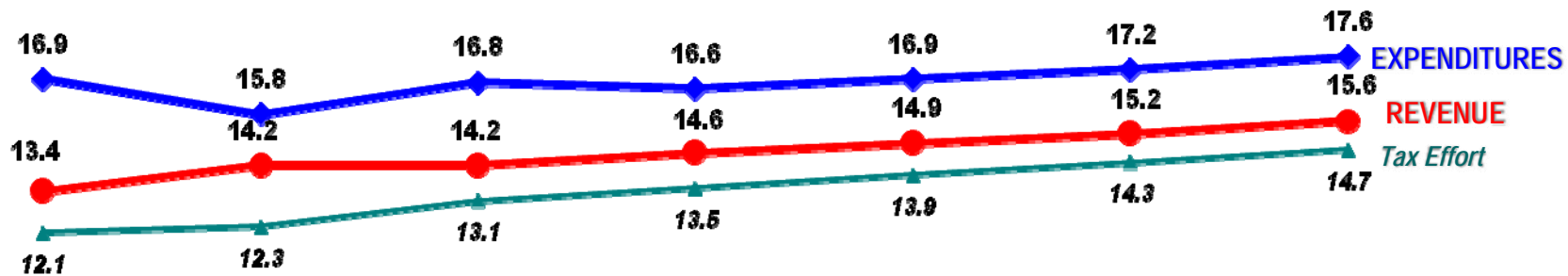
Current Reform Efforts

- **Achieve medium term fiscal program.**
- **Intensify implementation of tax and other administrative measures.**
- **Push for passage of laws rationalizing fiscal incentives as well as simplifying taxation on alcohol and tobacco.**
- **Increase non-tax revenues.**

Current Reform Efforts

Achieve medium term fiscal program

GDP



2010 2011 2012 2013 2014 2015 2016

Current Reform Efforts

Intensify Tax Administration Measures

- **Step-up the fear factor (i.e. move from filing of cases to prosecution and conviction)**
 - **Run After Tax Evaders (RATE)**
 - **Run After The Smugglers (RATS)**
 - **Lifestyle check under the Revenue Intensity Drive for the Quality (RIDQ)**

Current Reform Efforts

Intensify Tax Administration Measures

- **Enhance collection efficiencies**
 - > **Lateral Attrition Law**
 - > **Expanded third party information**
 - > **Anti-smuggling campaign**
 - > **Improved taxpayer service**

Current Reform Efforts

Intensify other Administrative Reforms

- Continue privatization program.**
- Intensify collection of non-tax revenues including dividends from GOCCs and GFIs.**
- Tighten implementing rules and regulations of enacted revenue eroding measures to avoid leakages and curb abuse.**

Current Reform Efforts

Push for passage of revenue enhancing laws

■ Sin Tax Restructuring

- Seeks to simplify and restructure the excise tax system on alcohol and tobacco products to address inherent weakness in the current tax structure.
- to improve the buoyancy of tax revenues;
- to finance the President's Universal Health Care Program.

Current Reform Efforts

Push for passage of revenue enhancing laws

■ Rationalization of Fiscal Incentives

- Intended to remove redundant incentives to reduce the fiscal costs and ensure that incentives will be given only to those who need them.

■ Others

- Customs Modernization Law
- Tax regime for the mining industry
- Addressing tax issues identified by WB/IMF

Concluding Remarks

- **Increasing revenue mobilization is critical to achieving inclusive growth.**
- **Administrative reforms are important and given priority in boosting revenues. Issues that will make the tax system simple, more effective and fair will also be addressed.**
- **Revenue and expenditures policy reforms go hand in hand. To be credible to the markets, the Philippines must remain steadfast in the achievement of its medium term fiscal program.**

**THANK
YOU!**