

PRESIDENTIAL COMMUNICATIONS OFFICE
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PRESS BRIEFING OF MS. DAPHNE OSEÑA-PAEZ
WITH DEPARTMENT OF FINANCE SECRETARY BENJAMIN DIOKNO
MAY 30, 2023 [11:10 A.M. – 11:35 A.M.]

MS. OSEÑA-PAEZ: Magandang umaga, Malacañang Press Corps, and welcome sa ating press briefing ngayong araw, May 30th.

During the sectoral meeting with President Ferdinand R. Marcos Jr., the fiscal incentives for export and domestic market-oriented enterprises were discussed following calls to review the current tax framework and to find ways to level the playing field between local and foreign business.

To give us more details on this, we are joined by Finance Secretary Benjamin Diokno. Good morning, Secretary Diokno.

DOF SEC. DIOKNO: Good morning. So let me start by talking about the current tax system. The tax system that we inherited from President Duterte is much better than what he inherited from President Aquino, ok. So that is really because he passed tax measures that actually are real reforms because if you look at, say, I think slide number three. Do you have a copy?

So the tax reform packages were designed to provide income tax relief to the majority of the tax paying community while generating revenues by increasing the tax on lifestyle products and services consumed by the top one percent of wealthiest individuals.

So the first line there, if you notice, there is a ... it's a real tax reform because we cut, number one, we cut personal income tax, okay, cut by 458.1 billion. So that translates into a ... if you look at your paycheck, that is almost equivalent to one-month salary. And then, we also cut, mayroon ding -148.4 billion there, we cut corporate income tax, okay, that is to make our corporate income tax competitive with our ASEAN neighbors.

And also, we also gave schools and hospitals a break, so there's a cut there. But at the same time we have to collect more revenues, so we imposed excise and VAT on lifestyle products and services, so diyan na pumasok iyong tax on sweetened beverages, 'di ba, tobacco, cosmetic procedures and automobile among others.

So we were able to collect 1.1 trillion out of those new taxes. And then, of course, we also increased documentary stamp tax; provided tax amnesty on estate taxes which we recently extended to 2025; fuel marking also, we impose that and; financial tax among others. So that resulted in a 212.2 billion tax intake. And so, therefore, the tax system as a result, we were able to collect an additional 709.9 billion. So that is the kind of tax system that we inherited from the previous administration.

Now, this morning, we were looking at what are the types of incentives that we continue to provide to industries who would like to locate in the Philippines.

Now, prior to CREATE, at least 1,000 projects have enjoyed incentives for at least 20 years – this is Table 4. Still, a 10-year transition period was provided to all existing projects. So this is to make sure—if you look at the count of projects, incentive availment, zero to nine – 6,152; 10 to 19 years—tapos mayroon diyang forever iyong kaniyang tax incentives, hindi puwede iyon 'di ba, tax incentives forever. So we rationalized it 'no, but we provided a transition period for many of these.

So prior to CREATE, tax incentives were granted without systematic assessment of fiscal costs and benefits. So there were a lot of EPZAs and other investment giving agencies that if

you ask the government, how much taxes are foregone as a result of this, nobody can give you an answer because there are so many and nobody is keeping track of the incentives.

So that's the first thing that was addressed by the CREATE law. But at the same time, we provided a 10-year transition period for those who are already enjoying some form of incentives. So iyong mga forever, kinat [cut] na namin na ten. You can continue to enjoy incentives pero maximum of ten.

And then the CREATE law also mandated the conduct of cost-benefit analysis prior to the approval of tax incentives. And this is to ensure that the fiscal and economic costs and benefits are carefully considered before granting incentives.

Now, CREATE was designed to modernize our fiscal incentives regime by enacting a performance-based – this is slide number five – performance-based, targeted, time-bound and transparent. So because as I said, prior to this CREATE law, we have no way of estimating magkano talaga iyong nawawala sa atin.

But from 2015 to 2020, we have granted approximately 2.4 trillion in tax incentives or an average of 407 billion per year without a cost-benefit analysis to guide the incentives.

So let's go to the next slide. So we would like to highlight that CREATE is based on internationally recognized standards in the design of tax framework for incentives. And the least of key recommendations presented and provided by the OECD – this is an organization of economic cooperation countries and there's something like 38 countries which are democratic and market-oriented, and this is based in Paris. And these are some of the advantages of the CREATE modernized—which modernized our tax code and follows the OECD guidelines,

Now, why is the global policy trajectory shifting from consumption-based to income-based? In taxation, you have a choice of taxing income or taxing consumption, okay. So you ask yourself: Which is better, you tax income more or you tax consumption more? Anong sagot? This is parang class. Personally, I prefer to tax consumption because consumption is what you take away from society, okay. Kasi for example, you are independently wealthy. You got your money from your grandpa or your dad, you don't work, wala kang income, so wala kang binabayaran income tax. But you spend all day sa mall o kaya sa 5-star hotel consuming, dapat tina-tax ka 'di ba. So that's what you take away from society.

Samantalang iyong income, that is your contribution to society, 'di ba, kaya ka binabayaran, that's your value to society. Iyong pay mo is your value to society, your contribution. So to me, it's fairer that we tax consumption rather than income. Hindi ba kayo dapat matuwa noon? Kaya nga binaba namin iyong personal income tax eh. In fact, this year, nagkaroon na naman kayo ng additional benefit, additional cut in personal income tax.

Iyon ang basic, iyon na ngayon ang trajectory ng mga reforms. So these are the arguments: Consumption taxes. Sasabihin ninyo, pero bakit kung consumption tax, like the Value-Added Tax is a tax on consumption 'di ba. So hindi ba unfair iyon sa mga mahihirap? Unfair iyon 'di ba? But our VAT system is pro-poor in the following sense: Food in its original state is VAT-free. So kapag bumili ka sa palengke, walang VAT doon eh. Even sa grocery, if you buy rice or meat in the grocery, walang VAT iyon, okay.

So in the Philippines, our VAT system is food in its original state is VAT-free. In other countries, mayroong discrimination – for example: the VAT in general is 7%, kapag food 4%. In our case, zero talaga. In fact, maski iyong litsong manok is VAT-free. Do you notice that? VAT-free iyon! Litsong manok is VAT-free, yeah, you can check that, okay? Noong niri-revise iyong VAT, nag-lobby iyong gumagawa noong litsong manok, so nag-freeze din siya 'no.

So, our VAT system is actually pro-poor. So in the study of the OECD, consumption taxes are less vulnerable to the effects of globalization. In a study by OECD, it highlighted the need to shift the tax mix away from the income taxes toward taxes that have less negative impact on economic growth including taxes on consumption.

The second argument is that consumption taxes are more progressive. This indicates that as income increases, households tend to spend a smaller proportion of their income on goods and services from the informal sector. Consumption taxes are also more neutral than income taxes since consumption taxes are based on spending rather than income or wealth.

Lastly, based on OECD consumption tax trends in 2022, there is a consistent increase in the number of countries adopting the VAT, okay. The share of general consumption taxes especially VAT in total revenue in OECD countries almost doubled. So iyong VAT as a percent of total tax collection increased from 12% in 1965 to 21% in 2021.

Now, in the Philippines prior to the passage of the reforms, our tax code contains many exemptions – there are 56 lines of exemptions and 84 additional exemptions in special laws. So from 2016 to 2020, the Philippines collected an average P723 billion from VAT which is 40% of the expected VAT collections.

So while we, the Philippines, has the highest VAT rate compared to the other countries in this part of the world, iyong ating VAT collection is the most inefficient – only 40% 'no. So if perfect, it should be 100%; tayo ang kinukolekta lang natin is 40% and that's because of a lot of exemptions.

So, the various incentives and exemptions granted outside the Philippine Tax Code erodes the revenue base and requires the establishment of safeguards in tax administration to prevent abuse which further inflates the true cost of granting incentives.

So, based on a study by the World Bank, the policy gap – meaning what is supposed to be collected and what is actually collected, that's the gap – could reach as high as 539 billion. And as I said earlier, even with the highest VAT rate compared with other countries – ours is 12% VAT rate – our VAT efficiency is only 40%. So, then we made the distinction between export and domestic market enterprises and, the most recent reform favors giving incentives to export-oriented firms and the reason being that if you are export-oriented firm, you are competing with the rest of the world and therefore they should not be put at disadvantage. Whereas, if you are locally-based, then you are competing with other local domestic industries and therefore you should not be given a lot of incentives.

So to sum up, the distinction between registered exporters and domestic market-oriented enterprises must remain to preserve the integrity of our tax framework. So, ito iyong arguments why we need to help those who are export-oriented and why we need to tax the domestic firms.

So the revenue impact is significant with an annual average of P34 billion or P409 billion in one incentive cycle – these are the incentives that we are giving away. So, because we really want to maintain fiscal discipline and we want to consolidate until 2028, there is reason to believe that we need to preserve the existing tax system. It's not perfect but we continue to review it – if there are some areas we can improve on it, we will improve on it.

So, that's the end of my statement, any questions?

MS. OSEÑA-PAEZ: Okay. Any questions from the press corps? I think they're thinking of the lechon manok *[laughs]*. Okay, Ivan Mayrina, GMA-7.

IVAN MAYRINA/GMA7: Secretary, what do we intend to do with the low VAT efficiency?

DOF SEC. DIOKNO: Yeah. We actually talked with the International Monetary Fund and we asked them to conduct a study on where we can improve on broadening the tax base. Meaning, maybe find areas where we can recover iyong mga too much exemptions 'no. For example: One exemption talaga is the cooperatives – iyon, madami talagang hindi nagbabayad ng VAT because of the cooperatives 'no. So the IMF study will tell us how do we recover kasi 0.4, that's really poor 'di ba, poor performance. But you know, the value added tax is the best tax in the world. I think it's being imposed in 90% of the countries in the world. So it is our interest to improve on the efficiency of the VAT.

EDEN SANTOS/NET25: Secretary, medyo na-nosebleed daw po iyong iba nating kasama *[laughs]*. In layman's term lang po, paki-explain na lang pong mabuti ano po. Iyong ating existing po na tax system ngayon, you're planning to change it sana. Ano po ba iyong nakikita ninyo, from the DOF, na maganda pong sistema ng pagbibigay ng tax incentives? Although sabi ninyo may mga ilang kumpanya na po na mayroong 'forever' na ini-enjoy na tax incentives pero kinut *[cut]* ninyo na into ten.

Ano po iyong magandang design po o ng tax system na puwede sa Pilipinas na both are fair for the middle class and upper class saka ho iyong pinaka-lower class? And then, sinu-sino po o ilan po iyong mga kumpanyang sinasabi ninyo na nag-enjoy ng mahabang panahon ng kanilang forever na tax incentives at papaano po ito makatutulong sa revenue generation ng ating gobyerno?

DOF SEC. DIOKNO: Okay. Let me admit that I'm the father of VAT in this country. Ako ang nag-umpisa noong VAT – 1986 pa iyong VAT 'no. We adopted VAT in 1986, Cory iyon, Cory. But we implemented it in 1988 because we need time to really study it from other countries and so constantly we try to improve on it 'no, iyong VAT. It replaced close to a hundred different taxes 'no, napaka-complicated, hard to track and so I think it simplified the whole tax system.

Ngayon, ito namang incentives, 'di ba I'm sure naririnig ninyo iyong mga EPZA – Export Processing Zone – that's usually used by countries to attract foreign investors. Kasi kapag nag-locate ka sa EPZA, then you cut the bureaucracy so madaling makakuha ng permit, ganoon... the power is there, ganoon and then madali mong ma-monitor iyong mga importation ng mga inputs for the firms 'no. Ang kaso sa atin, naabuso iyong concept ng EPZA. Kasi alam ninyo may mga buildings sa Makati EPZA, 'di ba Export Processing Zone sila 'di ba, category. So, there are close to a hundred Export Processing Zones all over, so we have to put order kasi nga naabuso. And I said earlier na it's really difficult to track how much taxes we are foregoing, so iyon.

So, we changed it so that now if you want to avail of incentives you go through a body called Fiscal Incentives Review Board which is an office under the Department of Finance which I chair and co-chair ko diyan si DTI Secretary Pascual. So Finance, co-chair DTI; mga members niyan DBM, NEDA at saka Office of the President.

So, iyan if you want to apply for incentives doon ka pupunta, if it's more than two billion worth of investment – two billion, may cutoff; so, iyong maliliit na investment pupunta ka na lang sa EPZA – they will take care of that or the Board of Investments. So, iyon ang bagong system ngayon na we have better handle of the amount of money that we are giving away in terms of incentives. And usually fixed din iyong term kaya nga nakalagay doon sa ano it's transparent, you are entitled to income tax holiday, you are entitled to free importation of the machineries, etc. – may mga ganoon.

MS. OSEÑA-PAEZ: Okay. Job Manahan. Sorry.

EDEN SANTOS/NET 25: Hello. Opo. So, close to hundred po iyong mga company na nag-enjoy before?

DOF SEC. DIOKNO: No. More than a hundred! Thousands of firms – they are located right now in many EPZAs and there are new investments coming in, and niri-review namin iyan. So, for example if you are bringing in new technology mas mahaba iyong incentives na ibinibigay namin ‘di ba. Kapag iyong mga tawag na, well, some new companies binibigyan din namin ng incentives – let’s say seven years of income tax holidays, mga free importation of machinery; but iyong really innovative investments mas mahaba ang incentives noon.

EDEN SANTOS/NET 25: So, expected po na kapag naisagawa na po natin iyan ay tataas iyong mga presyo ng mga produkto nila, in-example ninyo po kanina iyong lechon manok sabi ninyo walang VAT iyon. Actually, may VAT po iyon kapag nailipat na sa ano, ano ang tawag doon iyong hindi lang po masyadong alam dahil pinapatungan na rin ang presyo noong mga negosyante.

DOF SEC. DIOKNO: Hindi VAT iyon, patong na lang nila iyon. Baka kinokolektahan nila kayo ng VAT pero hindi nila binabayad iyong VAT, sasabihin nila may VAT pero walang VAT ang lechon manok ha.

MS. OSEÑA-PAEZ: Okay. Job Manahan, ABS-CBN.

JOB MANAHAN/ABS-CBN: Hello, sir. Hello po. Good morning po, sir. Sir, kanina po ba, na-discuss ito sa Cabinet meeting with the president and ano po ang reaksiyon niya?

DOF SEC. DIOKNO: Na-discuss namin ito kay presidente and sabi niya continue to look into it kasi alam mo, binabalanse namin. Mayroon kasi tayong tinatawag na fiscal program na hanggang 2028 and right now marami ring demands sa, on the spending side so kung mamimigay ng mga incentives ay mawawalan ka ng koleksiyon – so we are studying it. It’s not a perfect system so we will look for improvements but right now our revenue system is doing well, okay. So, sabi ko nga iyong namana namin kay Presidente Duterte na tax system is much, much better than the tax system that he inherited from the previous administration.

JOB MANAHAN/ABS-CBN: Sir, usapang tax pa rin, may nakita po iyong BIR na parang tax deficiency sa PSE – around 189 million po and gusto po itong i-challenge ng PSE. Any reaction po sa side ng DOF?

DOF SEC. DIOKNO: Well, ginagawa lang naman ng BIR iyong trabaho niya – that’s really their job, ang Customs ganoon din. So, we are putting pressure on both collecting agency; mayroon kaming program revenues nila for this year, next year hanggang 2028 – so they are just doing their job, okay.

MS. OSEÑA-PAEZ: Okay. Any other questions? I think we’re good. You have the slides to mull it over.

DOF SEC. DIOKNO: Nosebleed, ano.

MS. OSEÑA-PAEZ: Thank you very much, Malacañang Press Corps. And thank you, Secretary Diokno.

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