



MATA-PEREZ & FRANCISCO
ATTORNEYS AT LAW

Why Tax Reform

By Euney Marie J. Mata-Perez

Managing Partner, Mata-Perez & Francisco

July 22, 2016

The Present Situation



MPF
&

MATA-PEREZ & FRANCISCO
ATTORNEYS AT LAW

Complicated System

- May sub-systems with complex rules.
- Various taxes, with different tax rates and different tax treatments
- Interplay of these rules lead to absurd results, which impede economic activity, give room for tax arbitrage, and give the BIR leeway in interpretation, and promote evasion and corruption.



MPF
&

MATA-PEREZ & FRANCISCO
ATTORNEYS AT LAW

High Rates

- Second to the highest individual income tax rate at 32%, next to Vietnam with 35%, while Brunei has zero tax rate on incomes;
- Singapore imposes 20% income tax rate on gross income above SG\$320,000 (or P11.3 million) while the Philippines imposes its highest tax rate at 32% on gross income above P500,000.
- Highest corporate income tax rate (CIT) at 30% while Singapore has the lowest CIT rate at 17% among the ASEAN countries;
- Highest indirect tax (VAT) of 12%;
- High withholding tax rates on dividends, interest income and royalty.

STANDARD TAX RATES – ASEAN COUNTRIES

INDIVIDUAL INCOME TAX				CORPORATE INCOME TAX	INDIRECT TAX (VAT)	WIT
EXEMPT	MIN.	MAX.	CEILING			DIV.
-	0%	0%	-	20%	0%	0%
KHR 500,000.00	20%	20%	KHR 12,500,00.00	25%	10%	14%
IDR 50,000,000.00	5%	30%	IDR 500,000,000.00	25%	10%	20%
LAK 1,000,000.00	0%	24%	LAK 40,000,000.00	24%	10%	5%
MYR 5,000.00	0%	26%	MYR 100,000.00	25%	5% - 10%*	0%
PHP 10,000.00	5%	32%	PHP 500,000.00	30%	12%	10%**
SGD 20,000.00	0%	20%	SGD 320,000.00	17%	7%*	0%
THB 150,000.00	5%	37%	THB 4,000,000.00	20%	7%	10%
VND 5,000.00	5%	35%	VND 80,000.00	25%	10%	0%

*cash dividend payments by domestic corporation to citizens and resident alien (15%, 20%, 30%) ***On interest income from long-term deposit in the form of savings t
which was pre-terminated by the holder before the 5th year - indi*



MPF
&

MATA-PEREZ & FRANCISCO
ATTORNEYS AT LAW

System is not equitable

- Overall tax system is not progressive (and is thus unfair), has an eroded tax and narrow base.
- Salaried individuals are taxed at gross; Professionals and businesspersons are taxed on net basis.
- The overall tax burden is unevenly distributed
- For individuals, Php500,000 highest income bracket has been there since 1977; last amendment was the 1997 Tax Code.

Taxes not Efficiently Collected



MPF
&

ATA-PEREZ & FRANCISCO
ATTORNEYS AT LAW

- Inadequate revenues collected
- Tax rates are high compared to our regional peers, BUT our tax revenues as a percentage of GDP are among the lowest.
- Narrow tax base – approx. 25 million registered taxpayers only
 - 753k corporate taxpayers
 - 15.3million individual taxpayers – 13 million compensation income earners; 264k professionals, 2 million sole proprietorship

Taxes not Efficiently Collected



MPF
&

ATA-PEREZ & FRANCISCO
ATTORNEYS AT LAW

- 25,000 taxpayers that account for as much as 80% of all tax revenues, while close to 20 million more account for the rest. Php791 billion or 60% from Large Taxpayers
- 98+%, are currently collected through voluntary compliance; only less than 2% coming from BIR enforcement actions.

- 2014 Total Collect of 1.334 Trillion
 - Php785 (59%) Billion from income tax
 - Php14.8 Billion from individual income tax (self-employed) (1%)
 - Php232B (17%) from Withholding Tax on Wages
 - Php135 (10%) billion from excise taxes
 - Php279 (20%) billion from VAT
 - Php56 (4%) billion from percentage tax
 - Php70 (5%) billion from others (Tax on property, DST)



MPF
&

MATA-PEREZ & FRANCISCO
ATTORNEYS AT LAW

Compliance is difficult

- Cost of tax compliance is high: out of 189 countries Philippines went down
 - Ease of doing business from #97 in 2015 to #105 in 2016
 - Starting a business #157 in 2015 to #165 in 2016
 - Ease in paying taxes #125 in 2015 and #126 in 2016 out of 189 countries accordingly.
- There is basically no distinction on requirements imposed on large, small and medium-sized industries



MPF
&

MATA-PEREZ & FRANCISCO
ATTORNEYS AT LAW

RECOMMENDATIONS



MPF
&

MATA-PEREZ & FRANCISCO
ATTORNEYS AT LAW

Improve Fairness

- Adjust personal income tax brackets for inflation (at the least) and index going forward
- Modify bank secrecy rules to allow revenue authorities to combat tax evasion, consistent with international practice.
- Review VAT exemptions, and eliminate those that do not efficiently achieve clear social and economic objectives.
- Adjust excise tax for inflation to restore overall petroleum tax to 1997 levels

Make System Competitive

- Lower the corporate income tax rate, closer to the ASEAN average
- Eliminate “nuisance” taxes – those which produce little revenue but high compliance costs for taxpayers and make no economic sense
- Limit fiscal incentives to those where benefits are greater than costs, and provide to only those investments that actually need them
- Compensate revenue loss by maximizing tax revenues from buoyant sources

Simplify

- Tax system and processes must be simplified
- Tax compliance (and tax administration) should be simplified, processes automated, and procedures strictly time-bound procedures.
- Tax base should be simplified (use of OSD)
- Provide less burdensome compliance options for smaller taxpayers
- Simplify bookkeeping, invoicing and receipting requirements
- Grant of amnesty

A comprehensive tax reform must be holistic, comprehensive, and coherent – one that seeks or aims to address all iniquities and inefficiencies in our tax system and promotes growth.

The key to revenue growth is tax reform that closes loopholes and that is pro-growth. Then with a growing economy, that's where your revenue growth comes in, not from higher taxes.

John Hoeven

We all want a simpler code, but tax reform is about much more. It is about ensuring that everyone pays their fair share. The tax code is also used to promote behavior that we as a nation support, such as home ownership or charitable contributions.

Charles B. Rangel

Thank you

Euney Marie J. Mata-Perez

Managing Partner

Mata-Perez & Francisco

euney.mata-perez@mpfcounsel.com