



WASTEFUL TAX INCENTIVES

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Outline of Presentation



1. Philippine Fiscal Incentives (FI) System
2. Issues Facing the FI System
3. Proposed Reforms
4. Pending Legislative Measures

I. Philippine Fiscal Incentives System



FI System is governed by multiple agencies and multiple laws

- Around **211 special laws** that provide tax incentives
- Around **14 Investment Promotion Agencies (IPAs)**
- Differing tax regimes per IPA

I. Philippine Fiscal Incentives System



Tax incentives provided to qualified enterprises include:

- Income tax holiday (ITH)
- Five percent (5%) tax on gross income earned (GIE)
- Reduced income tax rates
- Exemption from taxes and duties on imported capital equipment, spare parts, materials and supplies
- VAT zero-rating of sales of goods and services by local suppliers
- Research and development incentives

II. Issues Facing the Fiscal Incentive System



Poor Governance

- Limited role of the Department of Finance in the policy formulation and grant of incentives

- Winners and losers are based on the Investments Priority Plan (IPP) which has been in existence for close to 50 years

II. Issues Facing the Fiscal Incentive System



Hodge-podge of Incentives Available

- Numerous IPAs granting incentives

- Numerous laws governing the grant of incentives

- No new investments coming in (recycled investments)

- Invites tax avoidance through shifting of profits and indefinite extension of grant of incentives

- Grant of redundant incentives

II. Issues Facing the Fiscal Incentive System



Lack of Transparency

- Data on IPA-registered enterprises/investors and cost of incentives are not publicly available
- No tax incentives monitoring and evaluation system

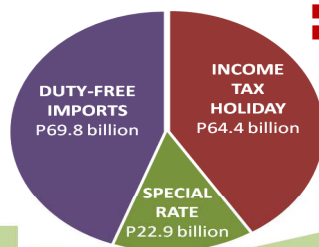
II. Issues Facing the Fiscal Incentive System



Estimated Revenue Foregone of the Present FI System

2012

= ₱157B



- 1.49% of 2012 GDP
- 10.23% of 2012 Government Revenues
- 8.84% of 2012 Government Expenditures

2011

= ₱144B



- 1.49% of 2011 GDP
 - 10.61% of 2011 Government Revenues
 - 9.26% of 2011 Government Expenditures
- cost of tax incentives, 2011*

II. Issues Facing the Fiscal Incentive System



Other Issues

- Benefits investors with early and high profits
- Provides strong incentives for tax avoidance
- Tend to attract short-run projects which are less beneficial to the economy

III. Proposed Reforms



Present	Proposed
4-8 years of ITH; as long as 20 years	Ideally, no ITH
Long list of industries in the IPP	Focused IPP
Different IPAs competing on the basis of incentives	IPAs should be rationalized; ideally, only one granting tax incentives

III. Proposed Reforms



Present	Proposed
Numerous tax incentives law	All tax incentives should be provided under one law
IPAs incentives administration and oversight	Department of Finance and the National Economic Development Authority
Data on incentives are not publicly available	Transparency and accountability should be institutionalized

IV. Pending Legislative Measures



Tax Incentives Management and Transparency Bill

- Fosters transparency and accountability in the grant of tax incentives.
- Institutionalizes a system of monitoring and reporting tax incentives as governmental expenditure.

IV. Pending Legislative Measures



Tax Incentives Management and Transparency Bill

Salient Features

- Creates the "Tax Expenditure Account" in the National Budget
- IPAs and other government agencies dealing with incentives must submit to the Department of Finance annual tax expenditure reports
- Tax authorities to establish a single database of all incentives

IV. Pending Legislative Measures



Fiscal Incentives Rationalization Bill

- Adopts a strategic approach to investment and growth through a fiscal incentives policy that promotes competitiveness and at the same time ensures cost-efficiency and fiscal sustainability

IV. Pending Legislative Measures



Fiscal Incentives Rationalization Bill

Salient Features

- Time-bound incentives; provides for a sunset provision on tax incentives
- Provides for a uniform set of investment incentives by registered activity
- Department of Finance (DOF), Department of Trade and Industry (DTI) and National Economic and Development Authority (NEDA) will be members of the Boards governing the IPAs
- Provides for stricter penalties for violations

Thank you