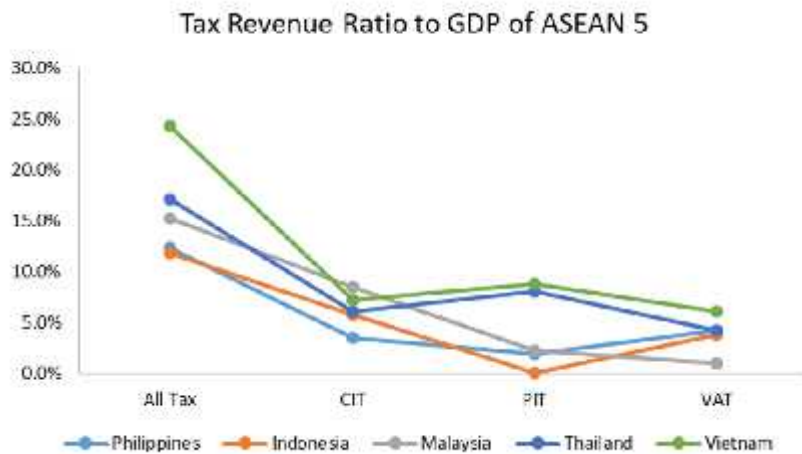


***Why do we need to reform the
tax system?***

The objectives of a CTRP now is the same as it was 20 years ago

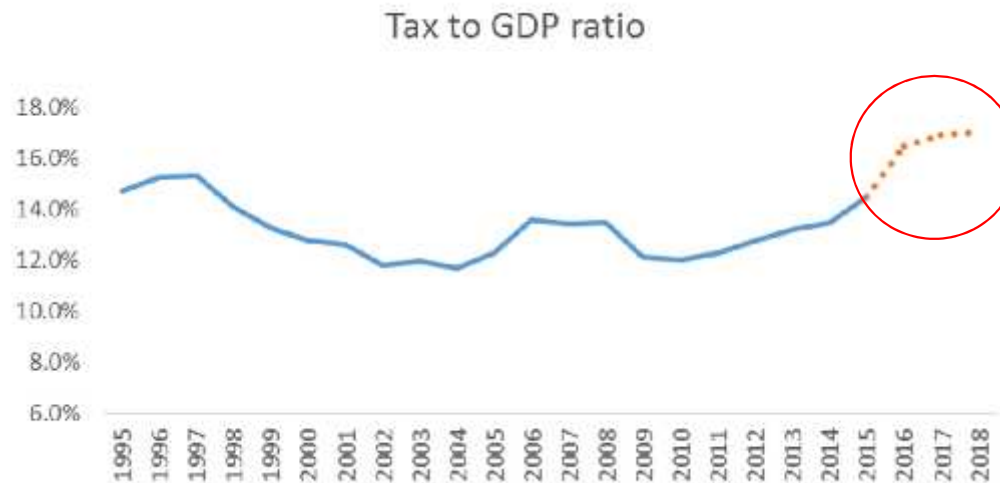
- ✓ To raise revenues
- ✓ To restore fairness
- ✓ To lower the cost of compliance

Philippines in the Region: *low tax effort with low tax productivity*



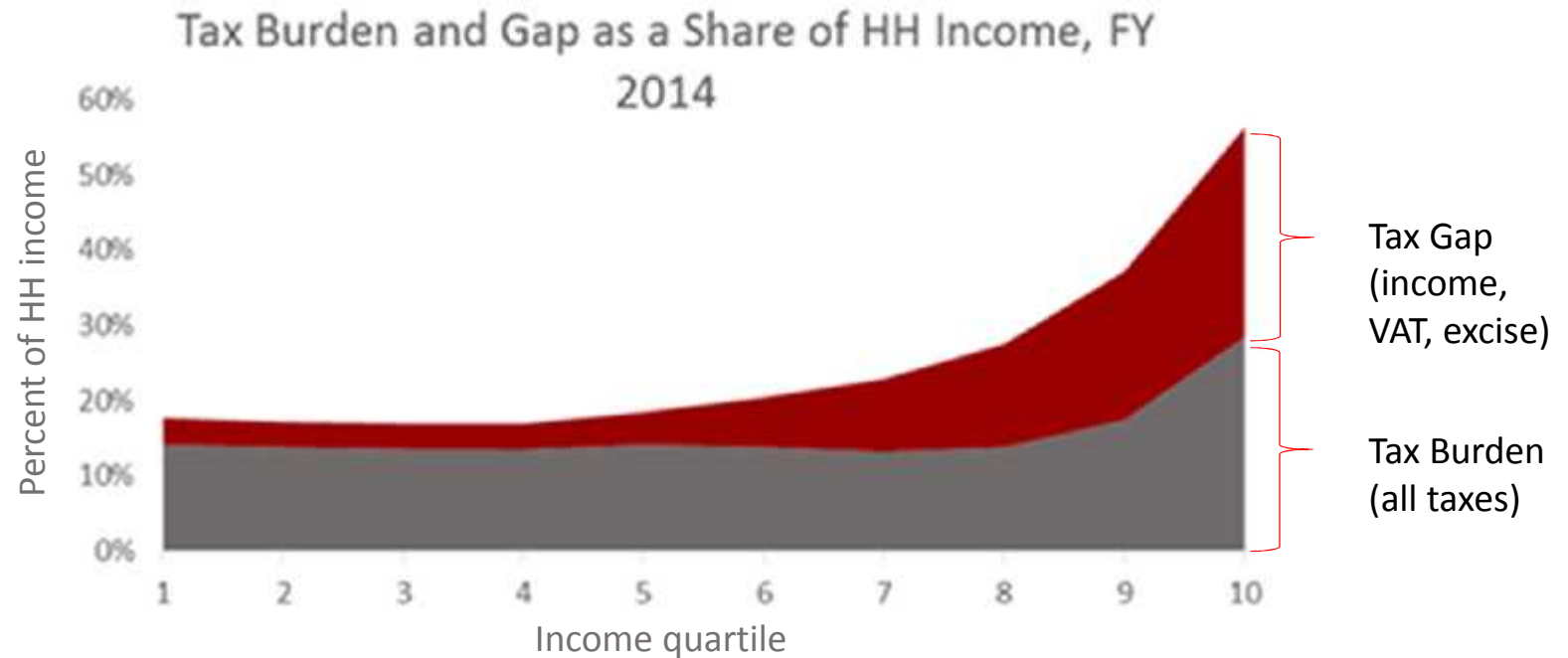
- The Philippines has the lowest tax to GDP ratio among its peers in the Region
- But more disturbingly, it raises tax revenues in a more “costly” manner

The tax system is incapable of raising enough to support a desired level of spending



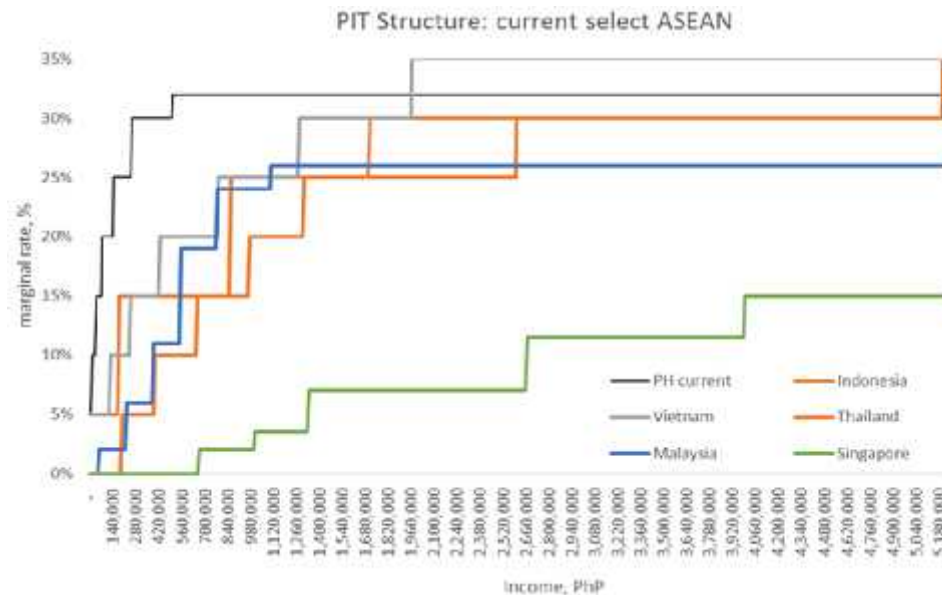
- To fund medium term budget expenditures, for increases in infrastructure, education, health, etc.
- The planned increase in tax effort is ambitious at 1.5% higher than 1997

The tax-gap limits progressivity of the tax system



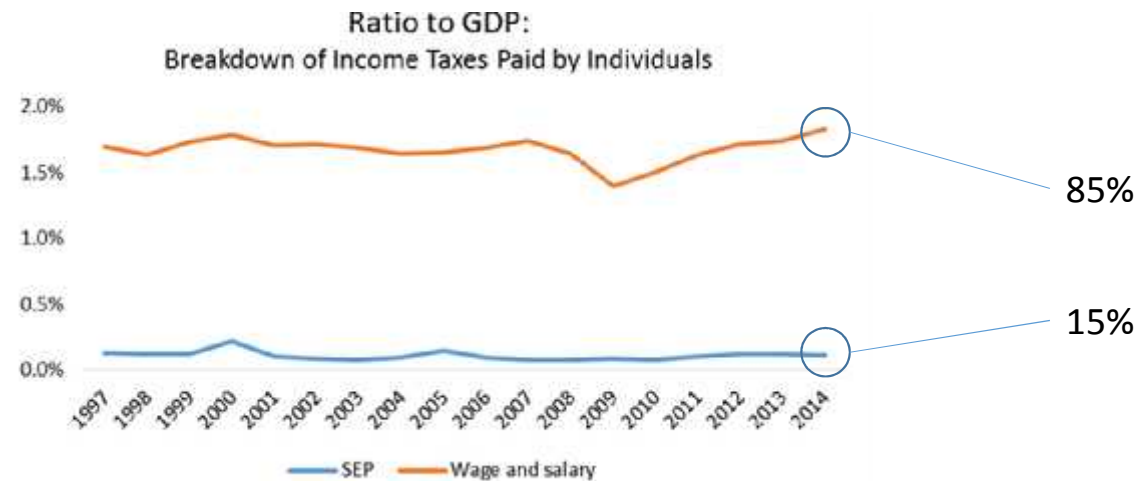
- Tax burden is slightly regressive at lower incomes
- The tax gap is coming mostly from higher incomes

Filipino workers are disadvantaged relative to ASEAN peers



- Filipinos are taxed with higher rates, at lower levels of income
- When compared to ASEAN structure, adjusting the tax bracket is more important than adjusting rates

An unfair distribution of the tax burden



- Improving fairness requires re-distributing some of the burden from those deemed “over-burdened” to those that should be paying more but manage to pay less
- The latter, enabled by provisions in the law that allow avoidance, as well as tax evasion

Uneven playing field brought about by the government's policy on investment tax incentives

- Few enjoy a sizeable amount in tax incentives (1,300 firms enjoyed PhP150 billion in tax incentives for 2011; or about 1.5% of GDP)
- The solution is not to grant more per se, but to find out if it was worthwhile to do so.
 1. Would the firm have invested anyway without the incentive?
 2. Did the economy benefit more than the cost?

A recent development:

- ✓ TIMTA, a transparency measure, was passed in December last year. It is a small step in the right direction.

Tax incentives are tax expenditures, but are conferred independent of the country's fiscal plan

- Fiscal responsibility dictates that ITI be a part of the budget process
- Is this a desired amount? Is this consistent with the fiscal program of government? ← The incentives regime sits outside the governments fiscal plan, but its asserted benefits must be scrutinized as are other items in the budget

Something to consider:

- ✓ We need a mechanism that ensures the granting of ITI is governed by a single/consistent policy across all 14 Investment Promotions Agencies scattered throughout PH

BIR operates within an environment that limits rather than enables better performance

- Excessive focus in meeting **revenue targets rather than performance metrics** as a tax administration
- Extremely **limited resources** to improve operational efficiency (0.6% of collections versus a 1-2% standard)
- Law that **limits access to bank transactions**
- Law is insufficient to control **abuse in related party transactions**

→ These, plus other reasons, have led to a relationship that is generally antagonistic towards taxpayers. A result of going after the same set of taxpayers every year.

Some notes on tax reforms

- True cost of VAT exemptions is the burden imposed on tax administration
- Current ITI practices “encourage” domestic transfer pricing
- Tax administration functions need to be modernized (e.g. 100% e-filing, risk-based, management flexibility, competency-based HRM, etc.)
- Pair-up: PIT bracket adjustment with removal of bank secrecy reforms; CIT reforms with ITI reforms (meaningful FIR)
- Pursue: tax admin and regulatory reforms; review of VAT exemptions; adjust fuel excise tax to 97 levels

If we do this right, the country can raise enough revenues in a desirable manner

Tax Reform Proposal	Estimated Impact
1. Improve the management of investment tax incentives (ITI)	+ 0.5% to 1.0% of GDP
2. Improve the system of taxation of individuals	- 0.1% to + 0.4% of GDP
3. Limit VAT exemptions	+ 0.8% of GDP
4. Raise and index Excise Tax on gasoline	+ 0.5% to + 1% of GDP
5. Other tax policy measures to support above	
6. Tax administration measures to support above	
Overall impact could be	+ 1.7% to 3.2% of GDP

Reforms (tax policy + tax administration) = CTRP

- ✓ To raise revenues
- ✓ To restore fairness
- ✓ To lower the cost of compliance

Thank you

The Business Sector View

Benedicta Du-Baladad
Co-Chair, Tax Committee, PCCI
Chair, Tax Committee, MAP

TAX LEGAL CONSULTING

How do ordinary businessmen describe our tax system?

**DIFFICULT, COMPLICATED AND
COSTLY TO COMPLY
+
TOO HIGH AND UNFAIR**

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Ease of Doing Business

Economy	Ease of Doing Business (Overall Ranking)	Starting a Business (East Asia and Pacific Ranking)	Paying Taxes (East Asia and Pacific Ranking)
Singapore	1	2	2
Malaysia	18	3	5
Thailand	49	11	10
Brunei Darussalam	84	9	3
Vietnam	90	14	25
Philippines	103	22	20
Indonesia	109	24	24
Cambodia	127	25	14

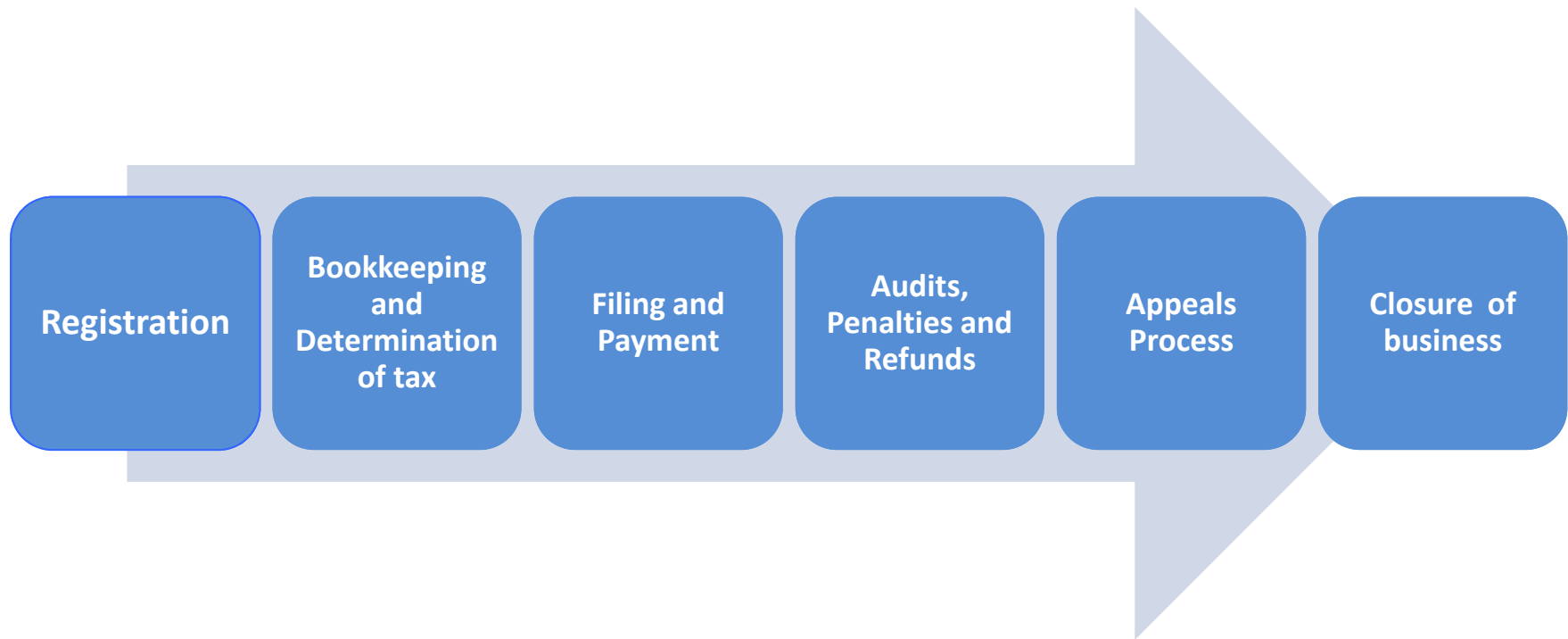
Rankings benchmarked to June 2015. <http://www.doingbusiness.org/rankings>

ASEAN Tax Compliance

Economy	Paying Taxes (Overall Ranking)	Payments (number per year)	Time (hours per year)	Total tax rate (% of profit)
Singapore	5	6	83.5	18.4
Brunei Darussalam	16	18	89	8.7
Malaysia	31	13	118	40
Thailand	70	22	264	27.5
Cambodia	95	40	173	21
Philippines	126	36	193	42.9
Indonesia	148	54	234	29.7
Vietnam	168	30	770	39.4

Rankings are benchmarked to June 2015. <http://www.doingbusiness.org/data/exploretopics/paying-taxes>

Tax Compliance Cycle



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Root Cause of Complication

TAX STRUCTURE (POLICY)

+

TAX ADMINISTRATION

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Complications in the tax system

DETERMINATION OF THE TAX BOOKKEEPING, AUDITS AND REFUNDS FILING AND PAYMENT PENALTIES

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Complicated Determination of Tax Applicable

TAX APPLICABLE DEPENDS ON THE NATURE OF INCOME (Schedular Type)

Active vs. Passive Income
Ordinary income vs. Capital Gains
Business Income vs. Compensation

Example: For Financial products – tax depends on the transacting financial institution, term of instrument, currency transaction

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Complicated Determination of Tax Base

TAX DEDUCTIONS SUSCEPTIBLE TO SUBJECTIVE INTERPRETATION

Source of Conflict

Difficult and unclear requirements

Wide discretion for both taxpayer and BIR

Too many special rules and exceptions

**SPECIAL RULES AND EXCEPTIONS
BOTH FOR INCOME AND DEDUCTIONS
COMPLICATE COMPLIANCE AND
A SOURCE OF CONFLICT**

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Difficult process for Filing and Payment

**TOO MANY TAX FILINGS AND ATTACHMENTS
DIFFICULT, REDUNDANT AND COSTLY REPORTS
COMPLICATED TAX FORMS
LIMITATIONS ON VENUE**

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Difficult and Unfair Process of Refunding

MOST REFUND CLAIMS ARE DUE TO A DEFECT in the TAX SYSTEM

1. Excessive Withholding Tax Collection
2. Excessive Input VAT payments

WITHHOLDING TAX ROBBERY

**WITHHOLDING TAX STRUCTURE IS NOT ONLY A
VEHICLE TO EXACT ADVANCE PAYMENT OF TAXES
BUT TO COLLECT MORE THAN WHAT IS DUE**

**Excessive withholding rates
Varied rates confusing as to its applicability
Penalties for failure to withhold not
commensurate to the offense**

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Excessive Input VAT Payments

PAY FIRST, REFUND LATER RULE FOR ZERO-RATED SALES

Costly and convoluted process
Inefficient

“Deemed Denial” rule for BIR inaction is unfair

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Evils of the TAX REFUND system

COLLECTING TAXES IN EXCESS OF WHAT IS DUE IS DAYLIGHT ROBBERY

Deprives businessmen rightful use of its money

Depletes Capital

Taxpayer not compensated for government's use of its money

Costly and inefficient for both the government and taxpayer

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SUGGESTIONS...RECOMMENDATIONS...

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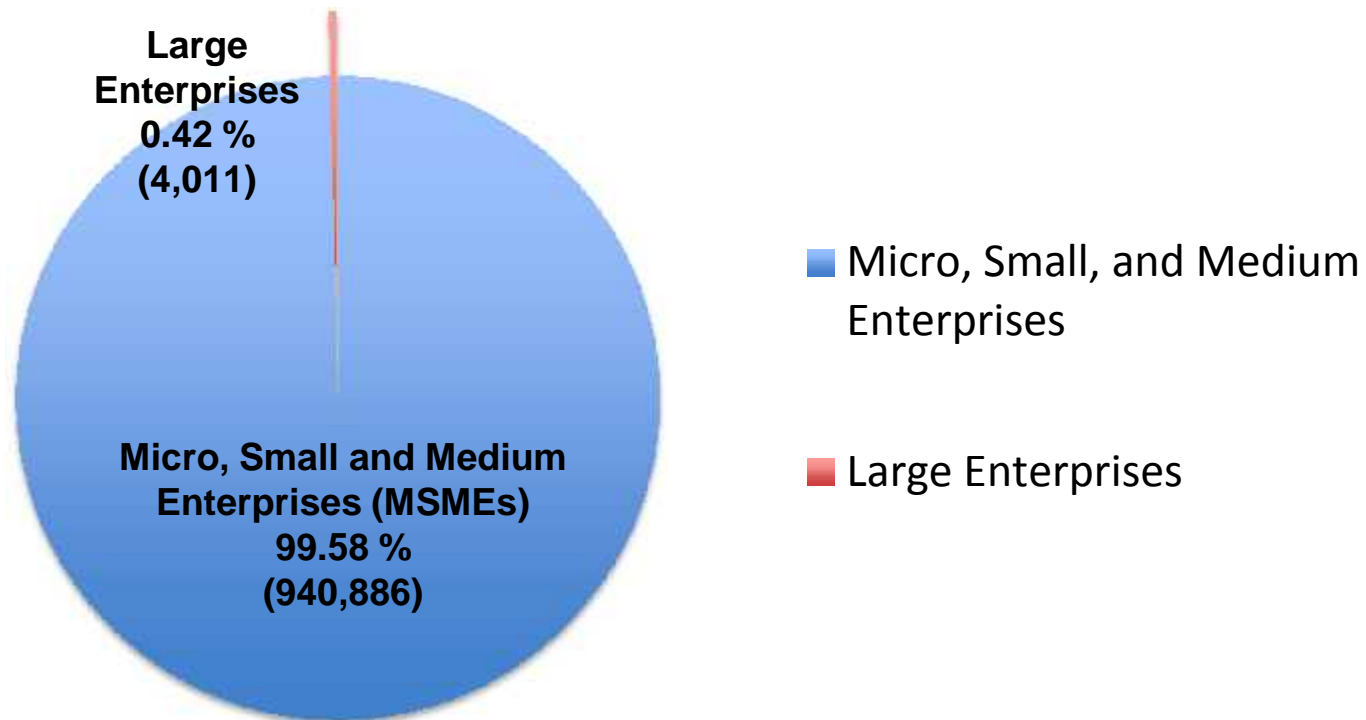
The Clamor for Simplification

SIMPLIFIED vs. EQUITABLE TAXATION

Complications in the tax system is driven by a desire to have an equitable taxation, one that captures and taxes real income.

Simplicity is driven by practicality with the use of presumptive income approach.

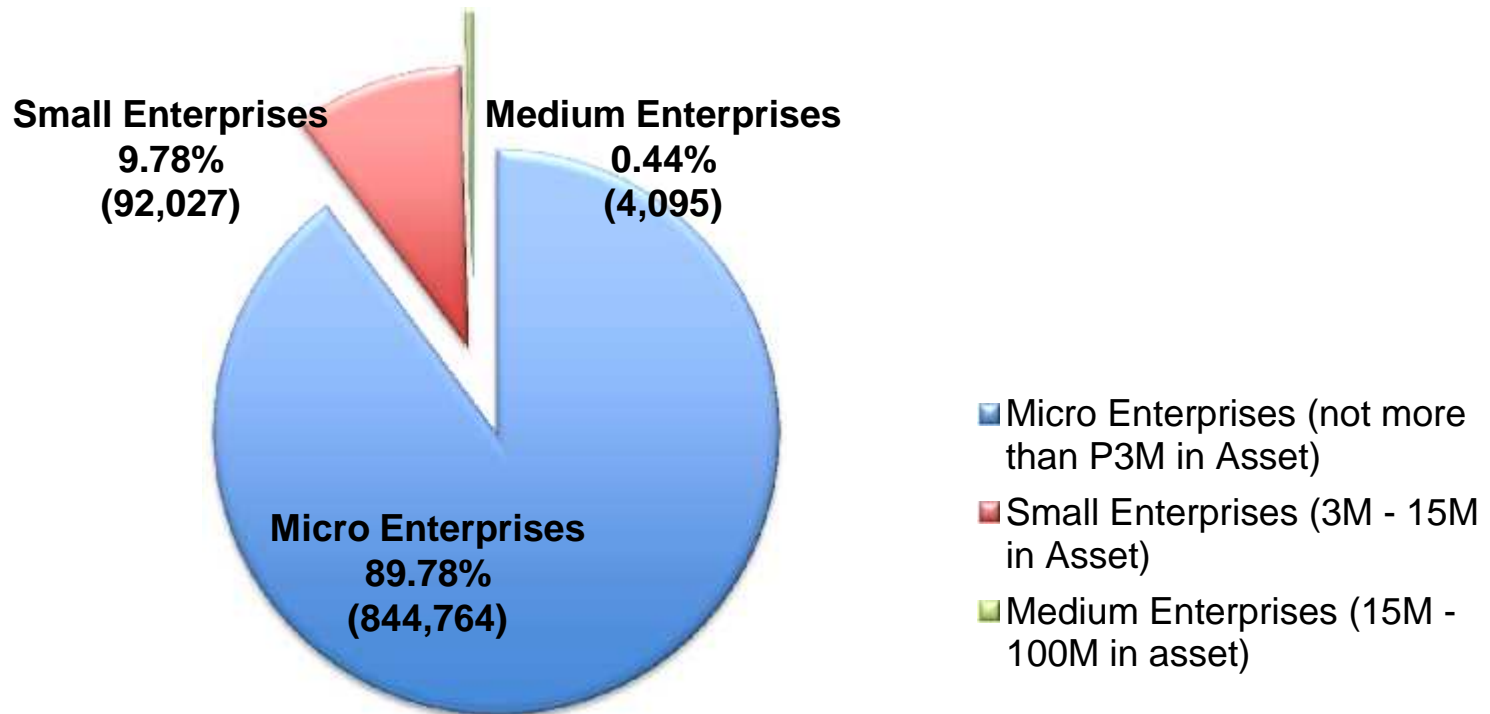
Business Enterprises in the Philippines



As of 2012, DTI Report (www.dti.gov.ph), 944,897 total enterprises

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Total Number of MSMEs



As of 2012, DTI Report (www.dti.gov.ph)

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SOLUTION: SEGMENTATION + SIMPLIFICATION

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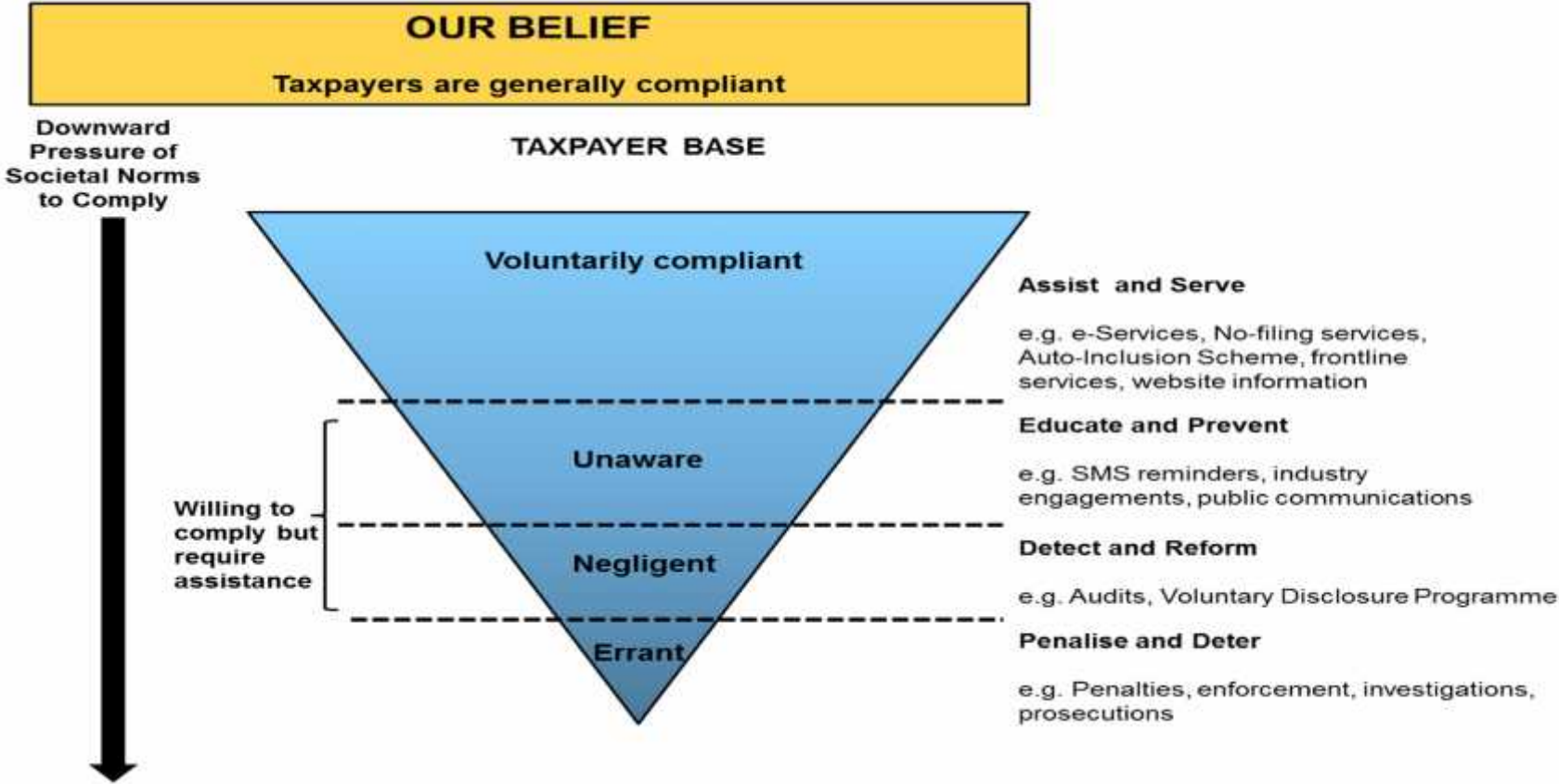
THE TAX SYSTEM MUST BE CUSTOMIZED TO THE PROFILE AND BEHAVIOR OF ITS TAXPAYERS

1. **Medium and Large taxpayers** are ready for a more equitable income-based taxation
2. **Small and Micro Enterprises** who cannot keep up with the requirements of an income-based taxation may be more comfortable with a simplified 'presumptive' taxation

SEGMENTATION APPROACH:

- 1. Large Taxpayers Group in BIR is anchored on taxpayer segmentation based on size of tax payment and operation**
- 2. The lower tax rates and preferential tax treatment of MSMEs in Vietnam, Malaysia and Thailand is segmentation based on size of business**

SEGMENTATION APPROACH: IRAS



SEGMENTATION APPROACH: IRAS

For Errant Taxpayers,

杀一儆百

KILL ONE TO WARN ONE HUNDRED

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SEGMENTATION APPROACH:

SMALL AND MICRO ENTERPRISES AS A SEPARATE TAXPAYER SEGMENT FOR SIMPLIFIED TAXATION

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TAX STRUCTURE FOR MICRO AND SMALL

	Recommended
INCOME TAX	<p>Simplified taxation (could be an option only):</p> <ol style="list-style-type: none"> 1. Presumptive income taxation such as a flat tax or gross taxation 2. Final withholding income tax (no need to file returns)
Business Tax (i.e. VAT or Percentage)	<p>Simplified VAT</p> <ol style="list-style-type: none"> 1. Final Withholding VAT 2. Final Percentage Tax <p>No need to file returns</p>

TAX STRUCTURE FOR MICRO AND SMALL

	Recommended
Filing and Payment	<p>Reduce frequency of filing</p> <p>Simplified Forms</p> <p>A final withholding system for both income and business tax to remove filing requirement</p> <p>Minimal if not NIL reportorial requirement</p>
Tax Rate	Consider a lower rate

Simplify Tax Determination and Application

A SHIFT FROM SCHEDULAR TO GLOBAL INCOME TAXATION

**A global-type of taxation taxes all income similarly
without distinction**

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Simple and Clear Rules

SIMPLIFY, CLARIFY RULES ON DEDUCTIONS
REMOVE, MINIMIZE AREAS FOR DISCRETION
MINIMIZE SPECIAL RULES AND EXCEPTIONS

TAX LEGAL CONSULTING

Improve Processes

**REASONABLE LIMITATIONS ON RATES OF
WITHHOLDING TAX**

**AUTOMATIC ZERO-RATING FOR INPUTS OF ZERO-
RATED TRANSACTIONS**

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Simplify Compliance

PAY AND FILE ANYWHERE
REDUCE FREQUENCY OF FILING
SIMPLIFY FORMS
SIMPLIFY REPORTORIAL REQUIREMENTS

TAX LEGAL CONSULTING

www:bdblaw.com.ph
info@bdblaw.com.ph

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Tax Reforms: Beyond Tax Rates (Practitioner's Perspective)

Presented by:

ATTY. BENEDICT R. TUGONON
President

Tax Management Association of the Philippines, Inc.

at the

2016 Mid-Year Tax Form
BDB Law wts

July 28, 2016
Dusit Thani Manila



Objectives of the Tax Reforms

- **Increase tax collection**
- **Simplify taxation rules to enhance the ease of doing business**
- **Encourage voluntary tax compliance**
- **Prevent corruption**



Tax Reforms Covered

- **Tax Audit Issue: Need to Incentivize Compliance**
- **VAT Refund: Reinstatement of Administrative Remedy**
- **Valuation of Shares: Adjusted BV Issue**
- **Donor's Tax Issue: No donative intent**
- **Low Level of Tax Compliance: Encourage voluntary payment**



TAX AUDIT: Incentivize Tax Compliance

Current Challenges in Tax Audit:

- No termination without any deficiency tax findings
 - * As if IMPOSSIBLE to be fully compliant
- Conflicting interests of the examiners
 - * Need to collect vs. Fairness to TP
- Arbitrary selection of subjects

AUDIT



TAX AUDIT: Incentivize Compliance

Proposed Reforms:

- Increase compensation & exemption from Salary Standardization Law
- Repeal of the Lateral Attrition Law to remove the pressure of examiners to collect deficiency taxes
- Automate or computerize the determination of taxpayers to be subjected to regular audit



VAT Refund: Reinstate Admin. Option

CTA APPEAL IS MADE MANDATORY BY BIR



VAT Refund: Reinstate Admin. Option

Proposed Reforms:

- Revoke or Amend RMC No. 54-2014
- Amend Tax Code provisions to clarify that an appeal to CTA is only an OPTION, not mandatory



Valuation of Shares: Simplify BV

Revoke RR 6-2013/Remove Adjusted BV



Donor's Tax Issue: No Donative Intent

Amend Sec. 100 to Admit Valid Exceptions

No Donative Intent



Valid Business Consideration



Low Level of Tax Compliance

**High Tax Rates & Penalties Not Encouraging
For Start-ups & SMEs to Register & Pay**



Other Tax Reform Initiatives of TMAP

List of Admin. Issuances for Revocation or Amendment

BusinessMirror

TMAP SENDS WISH LIST TO DOF

July 21, 2016

The Tax Management Association of the Philippines (TMAP) "wish list" of tax issuances it is recommending for revocation

These were issued by the Bureau of Internal Revenue (BIR) previous administrations.

"We do understand that the new administration has already administration," said Benedict Togonon, TMAP president.



Home > News > Top News > Ax 'antibusiness' tax rules-TMAP

Ax 'antibusiness' tax rules-TMAP

News Top News by David Cagahastian - July 20, 2016



The Tax Management Association of the Philippines (TMAP) has submitted a list of tax reforms to the newly seated officials of the Finance department, geared towards simplifying current rules while increasing revenue collections.

Duterte administration should be revoked for being

Tax advisers bat for simpler, fairer rules

Like 46 Share 49 Tweet 1 Google + 0 LinkedIn Share 1

Posted on July 21, 2016

THE TAX MANAGEMENT Association of the Philippines (TMAP) has submitted a host of tax reforms to the newly seated officials of the Finance department, geared towards simplifying current rules while increasing revenue collections.



Other Tax Reform Initiatives of TMAP

TMAP to Re-submit Tax Code Amendment Proposals to Congress Comprehensive tax reform pushed

P300,000 TAX-EXEMPT CAP, 30% MAXIMUM RATE



SHARES: **1271**
VIEW COMMENTS

By: Ben O. de Vera

@BenArnolddeVera

Philippine Daily Inquirer

07:42 AM January 12th, 2015

TMAP proposes fewer brackets, simpler taxes for business, self-employed

MANILA
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while al



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Posted on **January 12, 2015**

INCOME TAX brackets should be adjusted and the taxes imposed on businesses and self-employed professionals should be simplified to make the tax system fairer, the Tax Management Association of the Philippines (TMAP) said in its proposals to Congress.



End of Presentation

Thank you!

