



PRIMER ON REFORMS IN PERSONAL AND CORPORATE INCOME TAX

Instituting Progressive Tax Reform and More Effective Tax Collection, Indexing Taxes to Inflation

Prepared by:

Direct Taxes Branch

Senate Tax Study and Research Office

August 2016



Bank Agency	Number	Date (MM/DD/YYYY)



TABLE OF CONTENTS

• Term of Reference	3
• Amending the Individual Income Tax Schedule: Unfinished Business in the 16 th Congress	3
• Present Tax Code Provision	5
• Survey of Tax Regimes in ASEAN Countries	6
• Reducing the Corporate Income Tax Rate	10
• Legal Bases of Taxation	11
• Some Related Literature	12
• Some Numbers to Ponder	14
• Direction in the 17 th Congress	15
• Sample Amendment : Simple Indexation to CPI	15
• Revenue Implication of Indexation	17
• Some Unsolicited Advice	17

Term of Reference

Upon his election as the 16th President of the Republic of the Philippines, President Rodrigo Duterte and his economic team came up with the so-called 10-Point Economic Agenda which includes:

“institute progressive tax reform and more effective tax collection, indexing taxes to inflation”

President Duterte's incoming economic managers said a review of the country's tax system was needed to ensure a rightful level for all. "We wish to see our workers having more disposable income to do as they wish," incoming Finance Secretary Carlos Dominguez said during the consultative workshop called "Sulong Pilipinas: Hakbang Tungo sa Kaunlaran" held in Davao City on June 20-21, 2016.

According to Prof. Emmanuel J. Lopez¹, more than any other policy, a tax reform package should have been given top priority and serious attention. "While the tax system has been progressive in scope, tax bracket should have been lowered to provide relief because real income has already depreciated through the years. Existing tax structures, policies and laws were implemented about 20 years ago, when the value of the peso against the US dollar was still P15 to \$1 and the minimum wage was approximately P200. Back then, an annual income above P500,000 was exclusive to top executives of companies. It is about time adjustments are made, since average earners now fall under this income category. Moreover, the value of the peso vis-a-vis the US dollar has multiplied by three-folds."

This Primer is prepared by the Direct Taxes Branch of the Senate Tax Study and Research Office (STSRO) pursuant to its mandate of undertaking research and studies as inputs to tax legislation.

Amending the Individual Income Tax Schedule: Unfinished Business in the 16th Congress

In the Sixteenth Congress, the proposal to revise the individual income tax schedule gained pervasive support from legislators, government and private sector workers, and the civil society at-large. The call to adjust the rates of personal income tax come nineteen (19) years after the amendments were last introduced in 1997. Between the years, we saw the consumer price index (CPI) steadily moving upward. It is worthwhile to note that absent a CPI-adjusted tax levels and rates, the increases in income enjoyed by salaried individuals to keep

¹ <http://www.philstar.com/business/2016/07/05/1599792/commentary-10-point-economic-agenda-right-track>

them in step with inflation every year push these taxpayers into higher tax brackets, leading them to paying more taxes than they should have. This is called "bracket creep" which is a result of income taxes growing faster than income does despite the fact that Congress has not legislated laws increasing income taxes, and despite the fact that Congress has even enacted a law in favor of minimum wage earners.

The objective of the proposals (SBN 3003, SBN 2994, SBN 2970, SBN 2149, SBN 1942, and SBN 716) to amend the individual income tax schedule is to effectively lower the tax burden on the Filipino working class which number around 15.35 million of the Philippine population as of 2014, allowing them to enjoy a higher net income, take-home pay, and increasing their purchasing power. The proposals also sought to inject a more just tax system which will serve to encourage citizens to declare their true income and pay their taxes.

Likewise, the proposals aimed to create a more economically productive work force and to deter them from migrating to other ASEAN countries arising from the establishment of the ASEAN common market in January 2016. Under the One ASEAN set up, there will be (i) free flow of goods; (ii) free flow of services; (iii) free flow of investment; (iv) freer flow of capital; and (v) free flow of skilled labor among the ten (10) member countries.

While the ASEAN Economic Community Blueprint does not actually prescribe a common income tax regime, the proposal to adjust the Philippine income tax schedule is a move that naturally responds to the "race to the bottom" scenario that our ASEAN neighbors have already taken when the Blueprint was signed in 2007.

Our legislators were bullish about heeding the call to amend the individual income tax schedule; however, President Benigno Simeon C. Aquino was equally unyielding, saying "*xxx kapag binawasan natin 'yung income tax, mababawasan 'yung revenue, lalaki 'yung deficit. Iyong paglaki ba ng deficit magiging negative factor kapag ni-rate sa atin o ni-rate tayo nitong mga credit ratings agencies?*" (The question is, if we lower the income tax rate, revenue would decrease and deficit would increase. If the deficit increases, would this be a negative factor once these credit rating agencies begin to rate us?).

Hence, with President Duterte laying the royal carpet for the overhaul of the income tax system, Senator Sonny Angara, chairperson of the Committee on Ways and Means is optimistic that the measure will become law in this administration.²

² <http://news.abs-cbn.com/business/05/30/16/why-angara-is-bullish-on-income-tax-reform-under-duterte>

Present Tax Code Provision

Under Section 24(A)(2) of the National Internal Revenue Code (NIRC) of 1997, as amended, individual citizens and individual resident aliens, **except** minimum wage earners, deriving income from all sources within and outside the Philippines, are taxed as follows:

Taxable Income	Tax Rates
Not over ₱10,000	5%
Over ₱10,000 but not over ₱30,000	₱500 + 10% of the excess over ₱10,000
Over ₱30,000 but not over ₱70,000	₱2,500 + 15% of the excess over ₱30,000
Over ₱70,000 but not over ₱140,000	₱8,500 + 20% of the excess over ₱70,000
Over ₱140,000 but not over ₱250,000	₱22,500 + 25% of the excess over ₱140,000
Over ₱250,000 but not over ₱500,000	₱50,000 + 30% of the excess over ₱250,000
Over ₱500,000	₱125,000 + 32% of the excess over ₱500,000

Under Sec. 25(A) and (B) of the Tax Code, individual taxpayers are allowed personal exemption of ₱50,000 each and ₱25,000 for every qualified dependent, not exceeding four (4).

These rates were legislated in 1997 when the monthly salary of the President of the Philippines was P50,000³ (gross annual P600,000), the minimum daily wage was P185⁴ in the National Capital Region, the peso to US dollar exchange rate was P39.97⁵, and the CPI was at 62.

Fast-forward to May 2016, the President of the Philippines has a monthly salary of P160,924 (gross annual P1,931,088)⁶, daily minimum wage is P491⁷, peso-dollar exchange rate is P47.39⁸, and CPI at 143.4.

³ Executive Order 389 (issued on December 28, 1996)

⁴ http://www.nwpc.dole.gov.ph/pages/statistics/stat_wage%20rates1989-present_non-agri.html

⁵ http://www.bsp.gov.ph/dbank_reports/ExchangeRates_1.asp

⁶ Executive Order 201 (effective January 1, 2016)

⁷ <http://www.nwpc.dole.gov.ph/pages/ncr/cmwr.html>

⁸ <http://www.bsp.gov.ph/statistics/sdds/exchrates.htm>

In short, assuming an individual earning purely compensation income was never promoted at work but whose net taxable income increased as a result of wage increases in the private and public sectors (and assuming further his/her tax status remains the same), his/her income tax bracket is pushed higher, as a result of or giving rise to the so-called *bracket creep*.

Survey of Tax Regimes in ASEAN Countries

A survey of individual income tax schedules among ASEAN shows that all member countries (except Brunei Darussalam which does not impose income tax on individuals) have multiple progressive rates as follows:

Cambodia	5 tiers
Indonesia	4
Lao PDR	7
Malaysia	10
Myanmar	5
Philippines	7
Singapore	9
Thailand	8
Vietnam	7

The following figures provide a glimpse of the member countries' present tax schedules:

Taxable Income Bracket		Total Tax on Income Below Bracket	Tax Rate on Income in Bracket
From	To	Amount	Percent
0	5,711.70	0	0
5,711.71	14,279.24	428.38	5
14,279.25	97,098.86	8,710.34	10
97,098.87	142,792.45	15,564.38	15
142,792.46	Over	0	20

Sources of basic data: http://www.rd.go.th/publish/fileadmin/user_upload/AEC/AseanTax-Cambodia.pdf
and [https://www.google.com.ph/#q=1 KHR to PHP](https://www.google.com.ph/#q=1+KHR+to+PHP)

Table 2. Indonesia Individual Income Tax Rates Year 2012 Onwards (In Philippine Peso Equivalent)		
Taxable Income	Rate	Amount
On the first 173,547.35	5%	8,677.37
On the next 694,189.40	15%	104,128.41
On the next 867,736.75	25%	216,934.19
On the next amount of over 1,735,473.50	30%	30% of the relevant amount

Sources of basic data: http://www.rd.go.th/publish/fileadmin/user_upload/AEC/AseanTax-Indonesia.pdf and
<https://www.google.com.ph/#q=1362500 IDR to PHP>

Table 3. Lao PDR Individual Income Tax Rates Year 2012 Onwards (In Philippine Peso Equivalent)					
Level	Monthly Income Threshold	Basis of Calculation	Tax Rates	Tax of Each Threshold	Total Tax Payable
1	5,752.83 and below	5,752.83	0%	0	0
2	5,752.82 to 17,258.50	11,505.67	5%	575.28	575.28
3	17,258.51 to 34,517.00	17,258.50	10%	1,725.85	2,301.13
4	34,517.01 to 69,033.99	34,517.00	12%	4,142.04	6,443.17
5	69,034.00 to 138,067.98	69,033.99	15%	10,355.10	16,798.27
6	138,067.99 to 230,113.30	92,045.32	20%	18,409.06	35,207.33
7	230,113.31 and above	Actual amount of monthly income	24%	N/A	24% x amount of monthly income

Sources of basic data: http://pwccn.com/webmedia/doc/635361944709086416_aptn_2014_laos.pdf and
<http://themoneyconverter.com/LAK/PHP.aspx>

Table 4. Malaysia Individual Income Tax Rates Year 2016 Onwards (In Philippine Peso Equivalent)			
	Chargeable Income	Tax Rate	Tax Payable
On the first	57,210.26		0
On the next	171,630.78	1%	1,716.31
On the first	228,841.05		1,716.31
On the next	171,630.78	5%	8,581.54
On the first	400,471.83		10,297.85
On the next	171,630.78	10%	17,163.08
On the first	572,102.61		27,460.93
On the next	228,841.05	16%	36,614.57
On the first	800,943.66		64,075.49
On the next	343,261.57	21%	72,084.93
On the first	1,144,205.23		136,160.42
On the next	1,716,307.84	24%	411,913.88
On the first	2,860,513.07		548,074.31
On the next	1,716,307.84	24.5%	420,495.42
On the first	4,576,820.92		968,569.73
On the next	2,288,410.46	25%	572,102.61
On the first	6,865,231.38		1,540,672.34
On the next	4,576,820.92	26%	1,189,973.44
On the first	11,442,052.30		2,730,645.78
On the next	11,442,052.30	28%	

Sources of basic data: <http://www.pwc.com/my/en/assets/publications/2016-malaysian-tax-business-booklet.pdf> and <https://www.google.com.ph/#q=1 MYR to PHP>

Table 5. Myanmar Individual Income Tax Rates Year 2016 Onwards (In Philippine Peso Equivalent)	
Unreported Income	Tax Rate
0.039 to 3,907,178.66	3%
3,907,178.67 to 19,535,893.30	5%
19,535,893.31 to 39,071,786.60	10%
39,071,786.61 to 58,607,679.90	20%
58,607,679.91 and above	30%

Sources of basic data: <http://www.aaptaxlaw.com/World-Taxes/Myamar-Burma-Income-Tax-Rates-2014-2015-Corporation-Tax-Rate-Individual-Income-Tax-in-Burma-Myanmar.html> and <https://www.google.com.ph/#q=1 MMK to PHP>

Table 6. Singapore Individual Income Tax Rates Year 2016 Onwards (In Philippine Peso Equivalent)		
Chargeable Income	Tax Rate	Gross Tax Payable
First 691,370.84	0%	0
Next 345,685.42	2%	6,913.71
First 1,037,056.26	--	6,913.71
Next 345,685.42	3.5%	12,098.99
First 1,382,741.69	--	19,012.70
Next 1,382,741.69	7%	96,791.92
First 2,763,423.90	--	115,718.38
Next 1,381,711.95	11.5%	158,896.87
First 4,145,135.85	--	274,615.25
Next 1,381,711.95	15%	274,615.25
First 5,526,847.80	--	481,872.04
Next 1,381,711.95	17%	234,891.03
First 6,908,559.75	--	716,763.07
Next 4,145,135.85	18%	746,124.45
First 11,053,695.59	--	1,462,887.53
Above 11,053,695.59	20%	

Sources of basic data: <http://www.guidemesingapore.com/taxation/personal-tax/singapore-personal-tax-guide>
and <https://www.google.com.ph/#q=1+SGD+to+PHP>

Table 7. Thailand Individual Income Tax Rates Year 2016 Onwards (In Philippine Peso Equivalent)		
Taxable Income Bracket	Tax Rate	Amount of Tax
0 to 197,442.65	0%	0
197,442.66 to 394,885.29	5%	9,872.13
394,885.30 to 658,142.15	10%	26,325.69
658,142.16 to 987,213.23	15%	49,360.66
987,213.24 to 1,316,284.30	20%	65,814.22
1,316,284.31 to 2,632,568.61	25%	329,071.08
2,632,568.62 to 5,265,137.22	30%	789,770.58
5,265,137.22 and over	35%	

Sources of basic data: <https://home.kpmg.com/xx/en/home/insights/2011/12/thailand-income-tax.html#02>
and <https://www.google.com.ph/#q=1 THB to PHP>

Table 8. Vietnam Individual Income Tax Rates Year 2016 Onwards (In Philippine Peso Equivalent)	
Annual Taxable Income	Tax Rate
0 to 124,534.80	5%
124,534.81 to 249,069.60	10%
249,069.61 to 448,325.28	15%
448,325.29 to 797,022.72	20%
797,022.73 to 1,295,161.92	25%
1,295,161.93 to 1,992,556.80	30%
Above 1,992,556.80	35%

Sources of basic data: http://www.rd.go.th/publish/fileadmin/user_upload/AEC/AseanTax-Vietnam.pdf and <https://www.google.com.ph/#q=1 VND to PHP>

Reducing the Corporate Income Tax Rate

A reading of the AEC Blueprint shows that while there is a long list of things to-do in the areas of legislation and policy, the Blueprint is relatively silent in the matter of tax regimes. This could be justified by the Declaration whereby the heads of States recognize that the “different levels of development within ASEAN require some flexibility as ASEAN moves towards a more integrated and interdependent future”.⁹

It bears stressing that aside from the existence of reasonable levels of taxation and the overall stability of the tax regime, the most frequently cited reasons for multinational investments are the market size and growth prospects of the host country, the availability of infrastructure, stable political environment, conditions that support physical and personal security, legal framework, rule of law, corruption and governance concerns.¹⁰

Moreover, the European Union which existed since 1993 has skirted the issue on a uniform tax system among member-States. The EU website publishes that “National governments are responsible for raising taxes and setting tax rates. The amount of tax you pay is therefore decided by your national government, not the EU”.¹¹

⁹ Association of South East Asian Nations (2007). Declaration on the ASEAN Economic Community Blueprint. Viewed at asean.org.

¹⁰ Capital Markets Consultative Group (2003). Foreign Direct Investment In Emerging Market Countries. Viewed at <https://www.imf.org/external/np/cm/cg/2003/eng/091803.pdf>

¹¹ European Union. Taxation. Viewed at https://europa.eu/european-union/topics/taxation_en

However, since harmonization is both a model and requisite for regional integration, differences in the corporate income taxation regimes would swing the pendulum as investors and taxpayers shift from a high-tax jurisdiction to a low-tax jurisdiction.

Quoting from a paper published by Atty. Benedicta Du-Baladad, a tax war is now apparent in the region. In preparation for ASEAN integration, Malaysia and Thailand already reduced their corporate income taxes beginning 2016, the official start of ASEAN economic integration. Malaysia reduced the rate from 25% to 24% while Vietnam reduced it from 22% to 20%.¹²

The present rates of corporate income tax in the ASEAN member countries are as follows:

Philippines	30%
Indonesia	25%
Malaysia	24%
Vietnam	20%
Thailand	20%
Singapore	17%
Brunei	20%
Cambodia	20%
Laos	24%
Myanmar	25% corporation 35% branch

Unless the Philippines reduces the corporate income tax rate, it will remain the odd-man-out in ASEAN.

Legal Bases of Taxation

The 1987 Philippine Constitution sets limitations on the exercise of the power to tax.

The rule of taxation shall be uniform and equitable. The Congress shall evolve a progressive system of taxation. (Article VI, Section 28, paragraph 1)

All money collected on any tax levied for a special purpose shall be treated as a special fund and paid out for such purpose only. If the purpose for which a special fund was created has been fulfilled or abandoned, the balance, if any,

¹² Baladad, B.D. (2016). MAPping the Future Asean integration, will it lead to a tax war in the region?. Viewed at <http://business.inquirer.net/206109/asean-integration-will-it-lead-to-a-tax-war-in-the-region>

shall be transferred to the general funds of the Government. (Article VI, Section 29, paragraph 3)

The Congress may, by law, authorize the President to fix within specified limits, and subject to such limitations and restriction as it may impose, tariff rates, import and export quotas, tonnage and wharfage dues, and other duties or imposts within the framework of the national development program of the Government (Art. VI, Sec. 28, par. 2) The President shall have the power to veto any particular item or items in an appropriation, revenue or tariff bill, but the veto shall not affect the item or items to which he does not object. (Art. VI, Sec. 27, par. 2)

The Supreme Court shall have the power to review, revise, reverse, modify or affirm on appeal or certiorari, as the law or the Rules of Court may provide, final judgments and orders of lower courts in x x x all cases involving the legality of any tax, impost, assessment, or toll or any penalty imposed in relation thereto. (Art. VIII, Sec. 5, par. 2(b))

Tax exemptions are limited to those granted by law. However, no law granting any tax exemption shall be passed without the concurrence of a majority of all the members of the Congress (Art. VI, Sec. 28, par. 4). The Constitution expressly grants tax exemption on certain entities/institutions such as (1) charitable institutions, churches, parsonages or convents appurtenant thereto, mosques, and nonprofit cemeteries and all lands, buildings and improvements actually, directly and exclusively used for religious, charitable or educational purposes (Art. VI, Sec. 28, par. 3); (2) non-stock non-profit educational institutions used actually, directly and exclusively for educational purposes. (Art. XIV, Sec. 4, par. 3)

Some Related Literature

As gleaned from the *Prof. Louis Post lectures on taxation*¹³, direct taxes fall into two general classes: (1) taxes that are levied upon men in proportion to their ability to pay, and (2) taxes that are levied in proportion to the benefits received by the taxpayer from the public. The income tax falls under the first category.

A progressive tax means that it takes a larger percentage from the income of high-income earners than it does from low-income individuals. It is accomplished mainly through the provision of tax brackets with increasing rates and/or amounts as the bracket goes up the chart.

As Adam Smith has put forth in his book *The Wealth of Nations*, one of the

¹³ http://www.wealthandwant.com/docs/Post_Lectures.htm

Canons of Taxation states that “the subjects of every state ought to contribute towards the support of the government, as nearly as possible, in proportion to their respective abilities; that is, in proportion to the revenue which they respectively enjoy under the protection of the state¹⁴”.

The number of tiers and rates which a taxing regime imposes follows no hard and fast rule. It basically depends upon the domestic situation that normally encompasses the economic, social and political dimensions of development.

According to the 19th century political economist, Henry George¹⁵, it is considered ideal if the taxes

“bear equally — so as to give no citizen an advantage or put any at a disadvantage, as compared with others”. He posits that “taxation that falls upon labor as it is exerted xxx tends to discourage production much more powerfully than taxation to the same amount levied upon laborers whether they work or play xxx.”

In a book released by the Organization for Economic Co-Operation and Development (OECD)¹⁶, the progressivity of the personal income tax depends very strongly on the level of the tax threshold (the level of income at which an individual starts paying personal income tax). Thus, it is impossible to broaden the base of the tax by reducing the tax threshold without reducing the progressivity of the income tax.

It also cited that increasing marginal rates is another feature that influences the progressivity of income taxation whereby highly progressive income tax rates reduce incentives to work and to invest in human capital. Lower innovative activity and productivity may also be the result of migration of high-skilled and high-income earners to avoid increased average tax rates resulting from excessive high top marginal rates (OECD, citing Johansson et al., 2008). The OECD cautioned that incentives for tax avoidance and tax evasion may also be increased with high progressivity and high tax levels, contributing to a larger informal economy, which may eventually reduce tax revenues and undermine the fairness of the system.

These two elements of progressivity (the personal threshold and the marginal tax rate schedule) are generally considered as structural components of the tax system, because they reflect the ability to pay of individuals; i.e., societal preferences about how tax liability should vary according to taxable income.

¹⁴ Mueller, Pau (2016). Adam Smith on Public Policy: Four Maxims of Taxation. Viewed at <http://www.libertarianism.org/columns/adam-smith-public-policy-four-maxims-taxation>

¹⁵ <http://www.henrygeorge.org/pchp33.htm>

¹⁶ OECD (2010), Choosing a Broad Base - Low Rate Approach to Taxation, OECD Tax Policy Studies, No. 19, OECD Publishing. <http://dx.doi.org/10.1787/9789264091320-en>

Gloria, Mendoza and Peña-Reyes (2014)¹⁷ noted there were indeed signs of possible “bracket creep”. For example, data from the International Labour Organization (ILO) show that average nominal wages in the Philippines have been increasing from 2001 to 2011, but average real wages have been declining over the same span of time.

In another example, their analysis of gross annual wages for 2008 to 2012 covering 362 occupations in 41 industries showed that 299 or 83% showed higher gross annual incomes (in nominal terms); 101 occupations (28%) showed higher applicable marginal tax rates in 2012, implying that more taxpayers may have shifted to higher income tax brackets since 2008. They noted that 361 of 362 belong to the middle-income class.

Some Numbers to Ponder

Table 9. Revenue Collection, 2009 - 2015							
	2015	2014	2013	2012	2011	2010	2009
CORPORATIONS	489,761.60	455,098.60	424,496.73	370,125.37	337,442.69	280,043.78	254,372.17
Income tax	206,928.42	187,018.39	174,918.04	154,742.86	150,421.52	120,694.77	113,504.50
Withholding tax at source	282,833.158	268,080.21	249,578.69	215,382.51	187,021.17	159,349.01	140,867.67
INDIVIDUALS	309,206.33	283,589.04	246,580.39	222,723.58	193,524.54	167,110.36	136,691.76
Income tax	16,012.94	14,835.40	14,308.68	12,947.78	10,188.46	7,391.66	7,329.54
Withholding on wages	252,877.04	232,430.23	200,776.05	181,624.96	158,856.43	135,153.38	111,813.37
Capital gains tax	13,741.58	12,479.93	10,702.27	9,453.05	8,642.87	7,396.76	6,109.02
Withholding tax at source	26,574.79	23,843.48	20,793.39	18,697.79	15,836.78	17,168.56	11,439.83
OTHERS	47,233.31	46,068.80	47,283.50	49,652.39	40,929.57	42,145.44	44,307.77
Tax on bank deposits	14,002.10	12,493.73	13,301.68	14,500.34	14,978.80	15,253.89	17,253.70
Tax on government securities	33,231.22	33,575.07	33,981.82	35,152.05	25,950.77	26,891.55	27,054.07
TOTAL	846,201.24	784,756.44	718,360.62	642,501.34	571,896.80	489,299.58	435,371.70

Source of basic data: BIR

¹⁷ Gloria, E.V., Mendoza, R.U. & Peña-Reyes, S.P.K. (2014). An Analysis of Philippine Income Tax Reforms. Working Paper 14-018. Asian Institute of Management.

¹⁸ As of August 1, 2016

¹⁹ SBN 67 (Sen. Recto) and SBN 147 (Sen. Villar), HBN 20 (Rep. Quimbo et al.)

²⁰ SBN 121 (Sen. Zubiri), SBN 129 (Sen. Angara), SBN 130 (Sen. Angara) and SBN 179 (Sen. Binay), SBN 267 (Sen. Recto), HBN 39 (Rep. Yap)

Table 10. The Taxes' Share in the Total Pie							
	2014	2013	2012	2011	2010	2009	2008
Total BIR Collection	1,334,762	1,216,661	1,057,916	924,146	822,624	750,288	778,581
Share of							
Individual inc. tax	21.25%	20.27%	21.05%	20.94%	20.31%	18.22%	19.39%
Corporate inc. tax	34.10%	34.89%	34.99%	36.51%	34.04%	33.90%	36.64%
Other taxes on net Income	3.45%	3.89%	4.69%	4.43%	5.12%	5.91%	5.91%
Gross Domestic Product	12,642,736	11,542,286	10,561,089	9,708,332	9,003,480	8,026,143	7,720,903
Total Tax Effort	10.56%	10.54%	10.02%	9.52%	9.14%	9.35%	10.08%
Individual income tax	2.24%	2.14%	2.11%	1.99%	1.86%	1.70%	1.95%
Corporate income tax	3.60%	3.68%	3.50%	3.48%	3.11%	3.17%	3.69%
Tax effort from other Taxes on net profit	0.36%	0.41%	0.47%	0.42%	0.47%	0.55%	0.60%

Source of basic data: BIR

Direction in the 17th Congress

Following the Duterte administration's 10-Point Economic Agenda, several Senators and Congressmen have filed bills¹⁸ seeking to amend the 19-year old individual income tax schedule. The proposals range from indexing the personal income thresholds to CPI¹⁹ to reductions in the number and level of tax rates.²⁰

The proposals favor the working class numbering close to 15.35 million registered individual taxpayers as of December 2014, 84.60 percent of which are purely compensation income earners.

For the corporate income tax, as of August 1, 2016, SBN 125 (Sen. Zubiri) was filed seeking to reduce the rate from 30% to 25%.

Sample Amendment : Simple Indexation to CPI

This version simply adjusts the existing nominal amounts to their present value as of May 2016 using the CPI published by the Philippine Statistical Authority (PSA).

Taxable Income	Tax Rates
Not over ₱21,000	5%
Over ₱21,000 but not over ₱63,000	₱1,000 + 10% of the excess over ₱21,000
Over ₱63,000 but not over ₱148,000	₱5,200 + 15% of the excess over ₱63,000
Over ₱148,000 but not over ₱296,000	₱18,000 + 20% of the excess over ₱148,000
Over ₱296,000 but not over ₱529,000	₱48,000 + 25% of the excess over ₱296,000
Over ₱529,000 but not over ₱1,058,000	₱106,000 + 30% of the excess over ₱529,000
Over ₱1,058,000	₱265,000 + 32% of the excess over ₱1,058,000

The indexation proposes to simply adjust the taxable income and thresholds to their May 2016 values based on the CPI. It does not reduce the number or revise the rates of income tax. The advantage of this version is its downright *simplicity and the easiest to argue in favor of since it only involves revaluing the amounts indicated in the tax table.*

Between the years 1997 and 2016, the CPI moved upward as shown in Table 11 below.

YEAR	CPI (2006 = 100)	YEAR	CPI (2006 = 100)
2016 May	143.4	2004	89.0
2015	141.5	2003	84.9
2014	139.5	2002	83.0
2013	134.0	2001	80.8
2012	130.1	2000	76.7
2011	126.1	1999	71.9
2010	120.5	1998	67.8
2009	116.1	1997	62.0
2008	111.4	1996	58.6
2007	102.9	1995	54.1
2006	100.0	1994	50.7
2005	94.8		

Source of basic data: <https://psa.gov.ph>

Revenue Implication of Indexation

Using the entry level position of a technical staff in the Senate (SG-14, basic annual salary of P289,692) and assuming the single/married with zero-to-four qualified dependents scenario, simple indexation will approximately result to tax savings in that class of taxpayer with downgrading of tax rate, as follows:

	Taxable Income				
	0 Dependent	1 Dependent	2 Dependents	3 Dependents	4 Dependents
Net taxable income	190,444.36	165,444.36	140,444.36	115,444.36	90,444.36
Present Tax Due					
25%	35,111.09	28,861.09	22,611.09	-0-	-0-
20%	-0-	-0-	-0-	17,588.87	12,588.87
New Tax Due					
20%	26,488.87	21,488.87	16,488.87	-0-	-0-
15%	-0-	-0-	-0-	13,066.65	9,316.65
Tax Savings	(8,622.22)	(7,372.22)	(6,122.22)	(4,522.22)	(3,272.22)
Number of taxpayers (2012)	19,273	7,690	8,016	4,821	2,299
Estimated revenue loss	166.17 million	56.69 million	64.26 million	23.24 million	5.28 million

Some Unsolicited Advice

BDB Law:

The tax will remain a powerful tool for each ASEAN member country to attract investments. As each member country tries to grab a bigger share of the so called "investment pie," the ASEAN member countries will use taxation as leverage and this will eventually lead to the lowering of taxes in the region.

Isla Lipana & Co.:

The reduction in corporate income tax rate will be an opportunity to boost the Philippine economy. It would place the Philippines at par with other

ASEAN countries in terms of economic benefits, higher profitability for Philippine companies and their investors.

Punongbayan & Araullo:

Lowering the corporate income tax rate is a way of supporting the local industries and corporations to compete against their foreign counterparts. It will also attract more foreign direct investment into the country.

Tax Management Association of the Philippines (TMAP):

The relaxation of the bank secrecy law, and the simplification and improvement in the tax system will increase voluntary compliance by taxpayers, widen the tax base and ultimately boost revenue collections. With the lowering of the income tax rates, which will result in revenue erosion, the need to significantly increase the tax base and improve voluntary compliance cannot be overemphasized.



*This Briefer was prepared by the
Direct Taxes Branch
of the
Senate Tax Study and Research Office*

Maria Lucrecia R. Mir, PhD, MNSA
Director III, Service Chief

Elvira P. Crudo
Director II, Assistant Service Chief

Marvee Anne C. Felipe
Supervising Legislative Staff Officer II

Joan Karen DP. Coronel
Legislative Staff Assistant II

Bonifacio R. Joson
Layout and Design

Under the supervision of:

Atty. Rodelio T. Dascil, MNSA
Director General



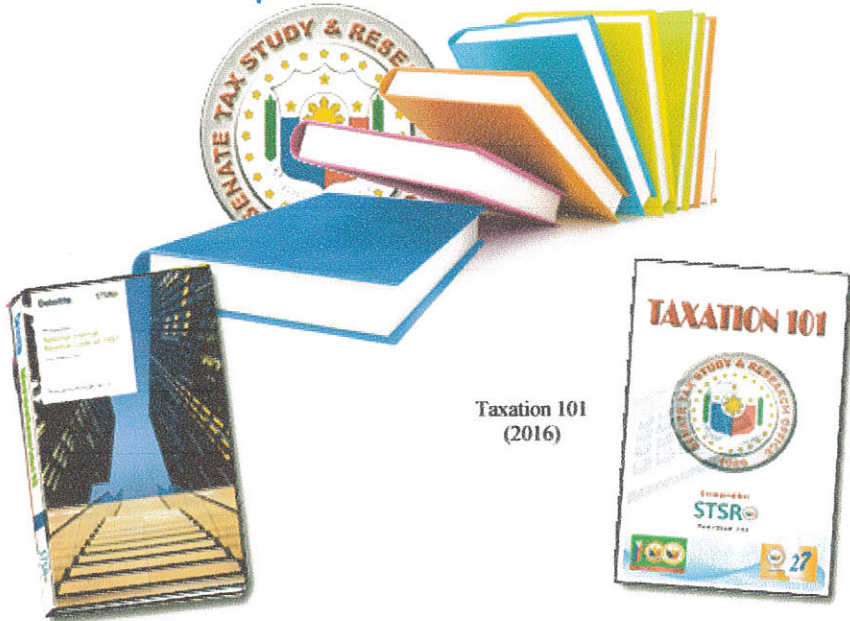
Direct Taxes Branch

Marvee Anne C. Felipe, Dir. Maria Lucrecia R. Mir, Dir. Elvira P. Crudo and Joan Karen DP. Coronel



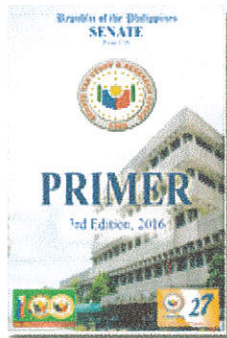
SENATE TAX STUDY AND RESEARCH OFFICE (STSRO)

Other publication of STSRO

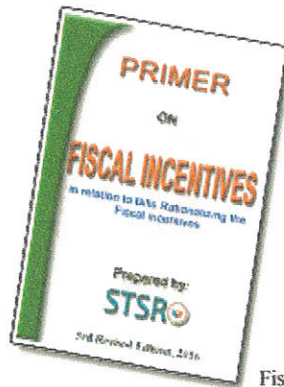


Taxation 101
(2016)

The National Internal Revenue Code
of 1997, as amended (2015)



STSRO Primer
3rd Edition, 2016



Primer on
Fiscal Incentives (2016)



STSRO Taxbits