TAX REFORM IS ECONOMIC REFORM

FINANCE SECRETARY CARLOS G. DOMINGUEZ III
EJAP ECONOMIC FORUM
AUGUST 28, 2018 | AYUNTAMIENTO MANILA

SHARE TO GDP BY EXPENDITURE (%)

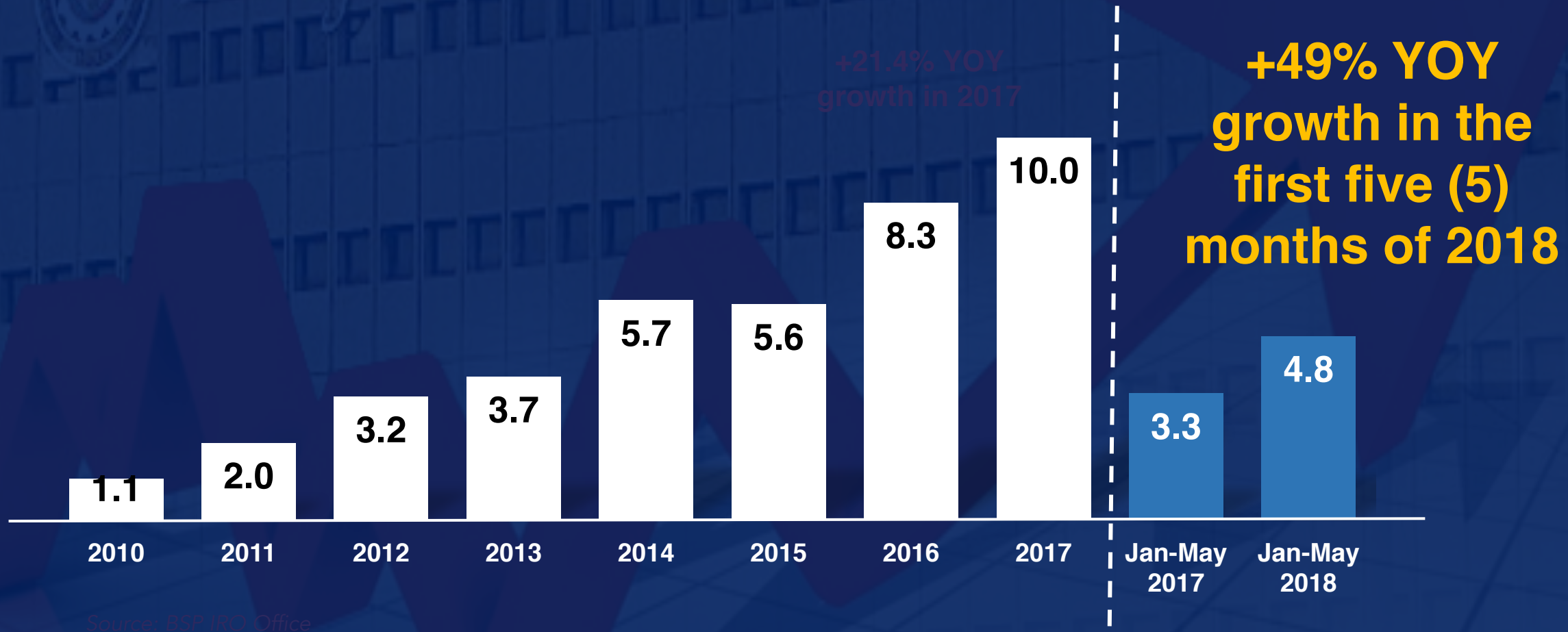
	Semestral		Average Share
	2017S1	2018S1	2010-2017
Capital Formation	25.4	27.4	21.3
A. Fixed Capital	25.5	27.2	21.5
a. Construction	12.8	13.6	11.1
Public Construction	4.0	4.6	2.7
Private Construction	8.9	9.0	8.4
b. Durable Equipment	10.7	11.6	8.4
c. Breeding Stock & Orchard Dev't	1.3	1.4	1.5
d. Intellectual Property Products	0.6	0.6	0.4
B. Changes in Inventories	(0.1)	0.1	(0.1)

GROWTH BY TYPE OF EXPENDITURE (%)

	Semestral		Average Share
	2017S1	2018S1	2010-2017
Capital Formation	9.5	16.4	14.3
A. Fixed Capital	10.4	14.8	12.4
a. Construction	7.5	11.6	9.4
Public Construction	9.3	22.1	7.9
Private Construction	6.8	7.3	10.8
b. Durable Equipment	11.0	17.1	16.0
c. Breeding Stock & Orchard Dev't	3.8	4.1	1.0
d. Intellectual Property Products	43.5	19.4	21.0
B. Changes in Inventories	(99.7)	64,610	421.6

RISING INVESTMENTS HIGHLIGHT CONFIDENCE IN PHILIPPINE GROWTH PROSPECTS

Net Foreign Direct Investment (FDI) Flows
(In USD Billion)



Source: BSP IRO Office

FISCAL PERFORMANCE

(From January to July 2018)

(In Billion Pesos)

Particulars	2017	2018	Difference	Year on Year
Revenues	**1,371.0**	**1,652.3**	**281.3**	**21%**
Tax Revenues	**1,243.6**	**1,472.5**	**229.0**	**18%**
BIR	986.1	1,128.5	142.4	14%
BOC	245.3	331.5	86.3	35%
Other Offices	12.2	12.5	0.3	2%
Non-Tax Revenues	**127.4**	**179.8**	**52.3**	**41%**
BTR	61.2	77.9	16.7	27%
Other Offices	66.2	101.9	35.6	54%
Expenditures	**1,576.0**	**1,931.7**	**355.7**	**23%**
Surplus/ (Deficit)	**(205.0)**	**(279.4)**	**(74.4)**	**36%**
Primary Surplus/ (Deficit)	**(8.8)**	**(69.0)**	**(60.3)**	**687%**

IMPACT OF TRAIN ON TAXPAYERS' PERSONAL INCOME

Call Center Agent (Monthly income: PHP 21,000)

A Annual basic salary: PHP **252,000**

B 13th month pay and other benefits: PHP **21,000**

C Mandatory contributions: PHP **15,166**

D Personal exemption: PHP **50,000**

E Allowance for dependents (two children): PHP **50,000**

Current Tax System

Annual gross income: A+B	**273,000**
Deductions and exemptions: B+C+D+E	136,166
Net taxable income:	**136,834**

Income bracket: **Over 70,000 - 140,000**
(8,500 + 20% of the excess over 70,000)

Tax due: PHP **21,867**

TRAIN*

Annual gross income: A+B	**273,000**
Deductions and exemptions: B+C	36,166
Net taxable income:	**236,834**

Income bracket: **Over 0 - 250,000 (0%)**

Tax due: PHP **0**

Tax savings: PHP 21,867

Medical Specialist III (Monthly income: PHP 56,610)

A Annual basic salary: PHP **679,320**

B 13th month pay and other benefits: PHP **123,220**
NOTE: 90,000 is the threshold for exemption. Excess over the threshold is taxable.

C Mandatory contributions: PHP **79,975**

D Personal exemption: PHP **50,000**

E Allowance for dependents (two children): PHP **50,000**

Current Tax System

Annual gross income: A+B	**802,540**
Deductions and exemptions: B [THRESHOLD] + C+D+E	261,975
Net taxable income:	**540,565**

Income bracket: **Over 500,000**
(125,000 + 32% of the excess over 500,000)

Tax due: PHP **137,981**

TRAIN*

Annual gross income: A+B	**802,540**
Deductions and exemptions: B [THRESHOLD] + C	161,975
Net taxable income:	**640,565**

Income bracket: **Over 400,000 - 800,000**
(30,000 + 25% of the excess over 400,000)

Tax due: PHP **90,000**

Tax savings: PHP 47,840

INCREASED RETAIL SALES PROVE FILIPINOS NOW HAVE MORE MONEY TO SPEND VIA TRAIN

ROBINSONS RETAIL HOLDINGS, INC.	Posted a 9.6 percent growth in its profits during the second quarter.
PUREGOLD	Net income grew by 25.6 percent in the first half of 2018.
7-ELEVEN	Posted a 19.2 percent growth in its revenues during the second quarter.
MAX'S GROUP	Net income in the second quarter rose to 34 percent
Jollibee	Reported 18.8 percent increase in sales in the first quarter.
McDonald's®	Reported 40.6 percent growth in sales in the first quarter.

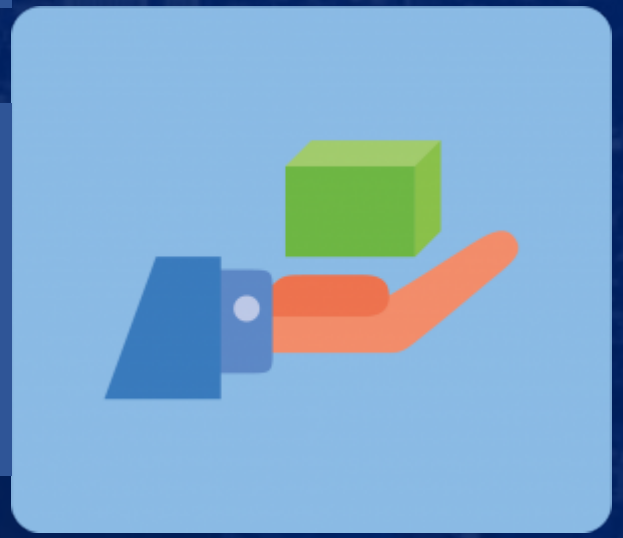
Source: Company disclosures and Bloomberg data

THE LOWER PERSONAL INCOME TAX RATE WILL HELP US BUILD A STRONGER MIDDLE CLASS

SIMPLIFIED THE ESTATE AND DONOR'S TAX

Estate Tax - Instead of having a complicated tax schedule with different rates, TRAIN reduces and restructures the estate tax to a low and single tax rate of 6% based on the net value of the estate with a standard deduction of P5 million and exemption for the first P10 million for the family home.

Donor Tax - TRAIN also simplifies the payment of donor's taxes to a single rate. Six (6) percent of net donations is imposed for gifts above P250,000 yearly regardless of relationship to the donor.



PACKAGE 1B HIGHLIGHTS

- **Proposed tax amnesty program** complemented by the lifting of bank secrecy laws in tax fraud cases;
- **Automatic exchange of information** between the Philippines and its treaty partners; and
- **Adjustments to the Motor Vehicle Users' Charge** (MVUC).

TAX AMNESTY PROGRAM

- **Estate tax amnesty** where the government collects only 6 percent of the net undeclared estate tax for those who died prior to January 1, 2018.
- **General tax amnesty** on all unpaid internal revenue taxes, excluding internal revenue taxes arising from importation and customs duties.
- **Amnesty on Delinquencies** by offering a rate of 50 percent on the basic tax only, excluding surcharges and interest charges. For those already facing criminal cases in court, we are proposing a rate of 80 percent of the basic tax only.

PACKAGE 2 HIGHLIGHTS

- **Lower corporate income tax** while reorienting the fiscal incentives regime.
- Propose **tax code amendments** to improve tax compliance.
- **Harmonize the governance of incentives** through the Fiscal Incentives Review Board or FIRB.
- **Improve TIMTA** to ensure transparency and accountability of incentives.
- **Repeal 123 special laws on investment incentives and consolidate them in one omnibus incentive law**.
- **Keep the income tax holiday and other income-based incentives**, while replacing 5% GIE tax in lieu of all taxes with a 15% tax on net taxable income

CONTINUED PURSUIT OF A SIMPLER, FAIRER, AND MORE EFFICIENT TAX SYSTEM FOR ALL

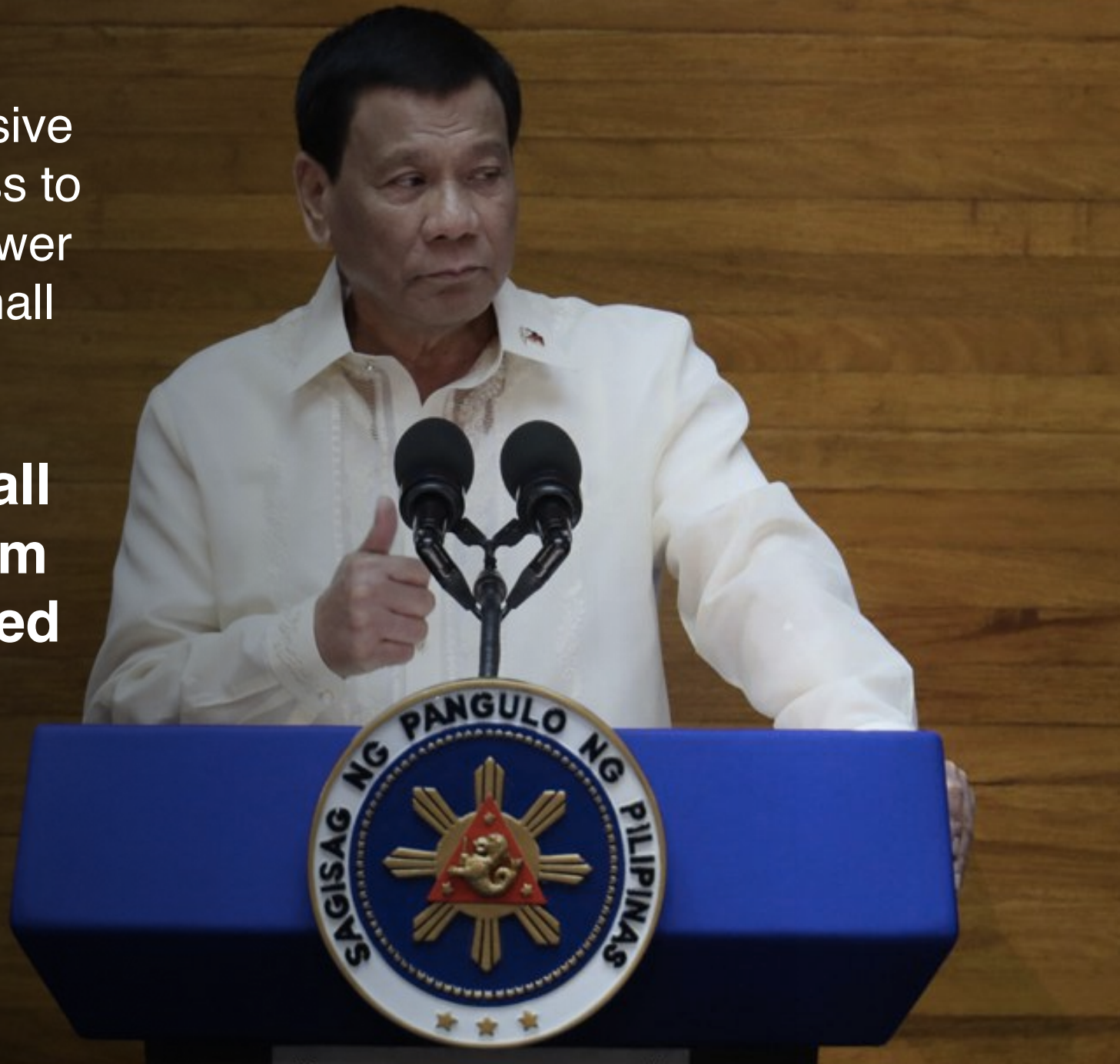
PACKAGE 2+	PACKAGE 3	PACKAGE 4
Additional excise taxes on tobacco and alcohol products as well as an increase in the government's share from mining	Reforms in property valuation to make the system more equitable, efficient and transparent	Rationalization of capital income taxation to address the multiple rates and different tax treatments and exemptions on capital income and other financial instruments

“The reform of our tax policy is meant not only to ensure government a reliable revenue base but, more importantly, to enhance the modernization of our economy.”

“I am committed to a comprehensive tax reform and I ask the Congress to continue the job. TRAIN 2 will lower the corporate income tax for small businesses.

By the end of July 2018, all packages of my tax reform would have been submitted to Congress.”

--PRESIDENT RODRIGO ROA DUTERTE
State of the Nation Address 2018



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