Fiscal consolidation and resource mobilization plan

As of June 7, 2022

Outline

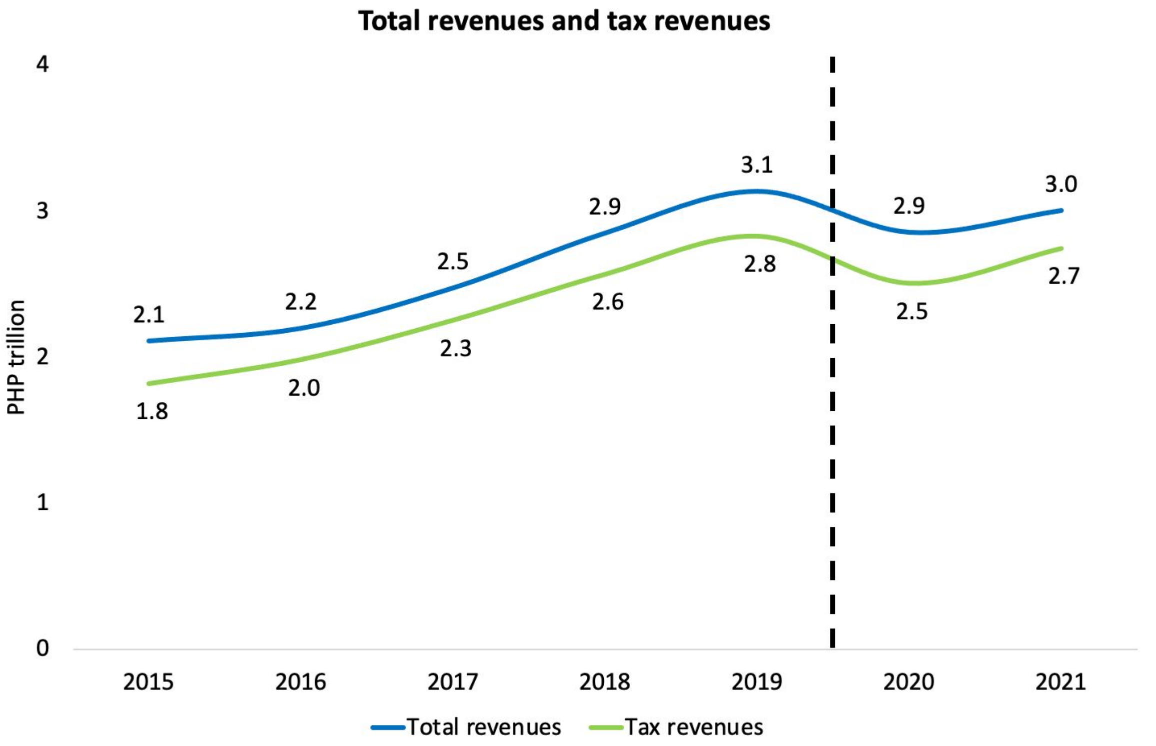
1. Overcoming the COVID-19 health emergency
2. The need for fiscal consolidation and resource mobilization
3. Proposed fiscal consolidation and resource mobilization measures
4. Consequences of not pursuing a fiscal consolidation and resource mobilization plan

Overcoming the COVID-19 health emergency

Like the Filipino family, the Philippine government did what was needed for the country to survive the COVID-19 pandemic.

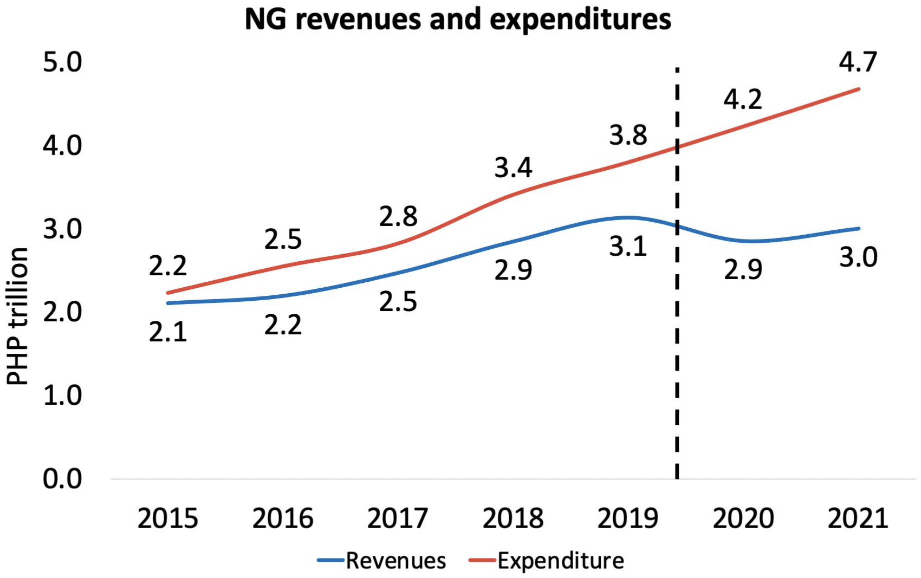
Filipino family	Philippine government
Temporarily lost employment or earned less due to work restrictions and businesses cutting labor costs	Lower revenues due to slower economic activity
Increased spending for healthcare (PPE, tests, hospitalization), education (distance learning, internet, electricity), etc.	Increased spending for *ayuda*, healthcare capacity, vaccines and boosters, etc.
May have borrowed from family members or lenders to fund increased spending despite less earnings	Borrowed more than initially planned to fund the budget deficit

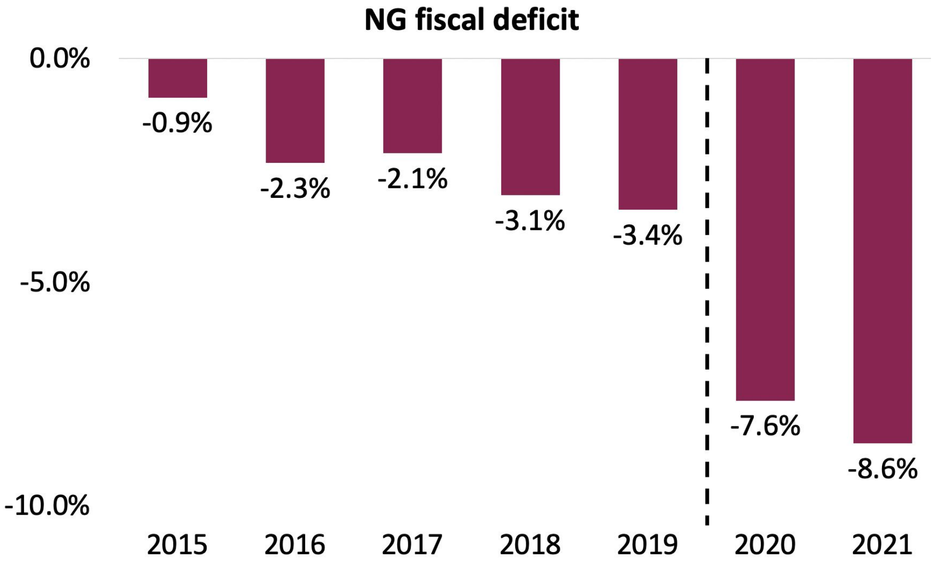
The COVID-19 pandemic brought down economic activity, resulting in lower government revenues in 2020.



Source: Bureau of the Treasury (BTr)

With **increased spending and lower revenues due to the lockdown during the pandemic** and **increased spending due to increased national tax allotments and block grants to LGUs**, the government had to incur a larger deficit and increase borrowings to cover the shortfall.



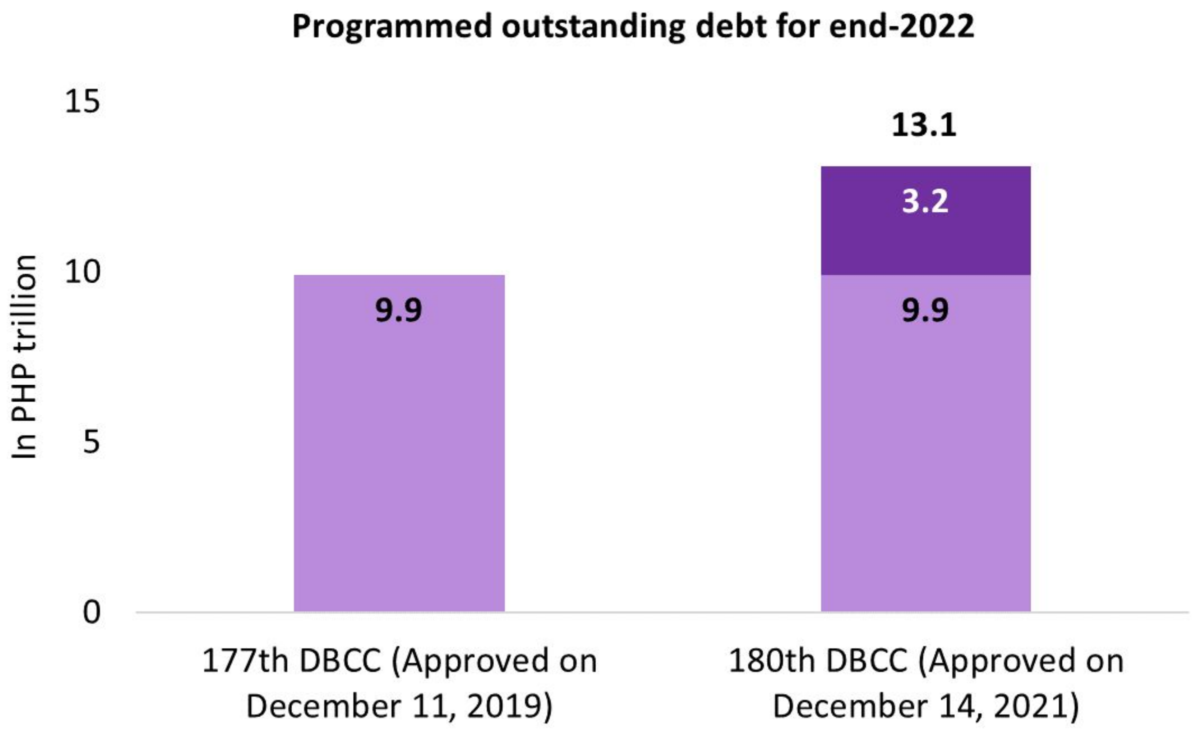


These borrowings allowed us to **fund the Bayanihan laws and other economic measures**, purchase **vaccines and boosters**, increase our **healthcare capacity**, provide ***ayuda*** and other **support to vulnerable sectors**, and keep the economy afloat during the most critical periods of the pandemic.

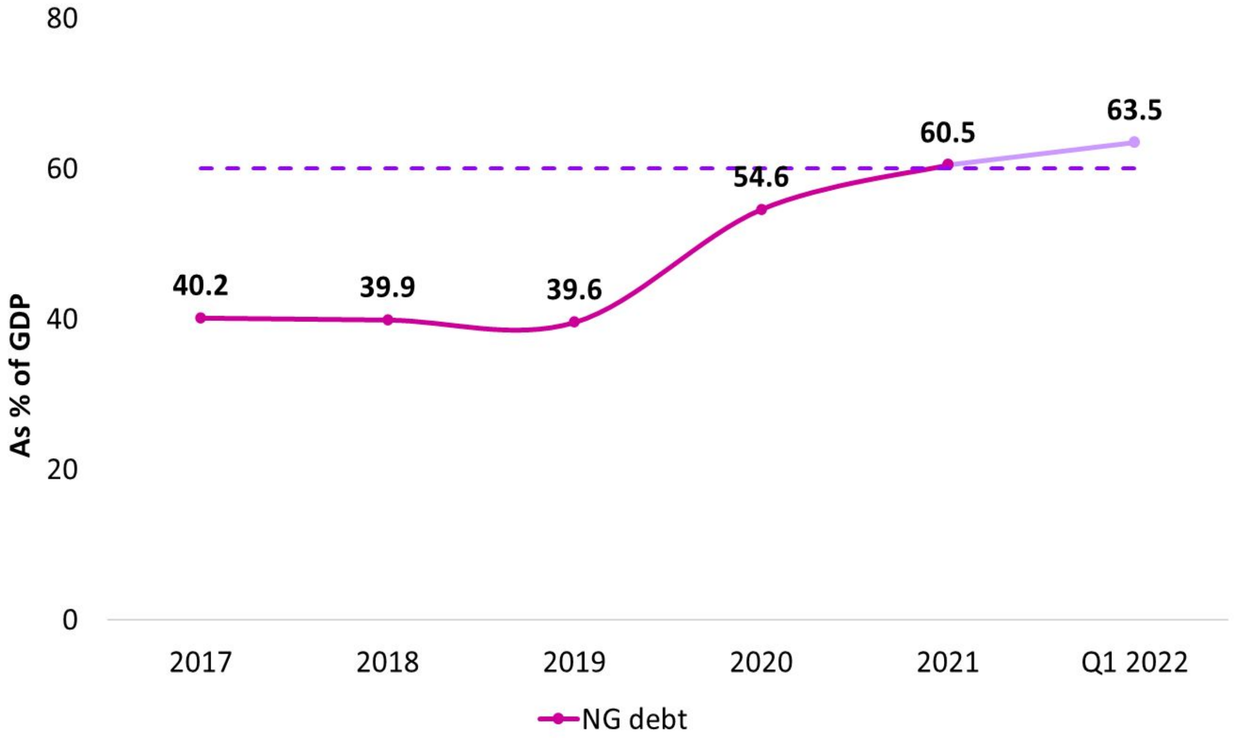
Supplementing spending with additional borrowings allowed the government to continue the **Build Build Build program**, providing jobs to Filipinos and laying the foundation for economic recovery.

We also funded other government programs, such as the implementation of **distance learning** for public school learners, and **special risk allowance** and **libreng sakay** for our frontliners.

These borrowings brought our debt to higher levels than originally planned by **P3.2 trillion.**



Our debt-to-GDP level currently stands at 63.5 percent, slightly higher than the internationally prescribed best practice of 60 percent of GDP.



Source: BTr

COVID-19 debts will fall due, with earliest principal payment in 2023. We need to fund payments to maintain our credit-worthiness.

R&I	Affirmation of BBB+, Stable Outlook (April 2022)
Fitch Ratings	Affirmation of BBB rating, Affirmed Negative Outlook (Feb 2022)
Lianhe Credit Rating Co., Ltd.	Affirmation of AAA, Stable Outlook (July 2021)
S&P Global Rating	Affirmation of BBB+ rating, Stable Outlook (May 2021)
Moody's	Affirmation of Baa2 rating, Stable Outlook (July 2020)
Japan Credit Rating Agency	Upgrade from BBB+ to A-, Stable Outlook (June 2020)

The need for fiscal consolidation and resource mobilization

According to the Bureau of the Treasury, to prevent having to use borrowings to pay P3.2 trillion in incremental debt, we need to raise at least **P249 billion every year in incremental revenues**.

Given this requirement, we have the following options:

Borrow more to cover existing debt, causing our debt levels to grow higher and risking our credit ratings

Cut productive spending by an equivalent amount, risking our economic recovery and sacrificing key socio-economic priorities

Raise revenues, improve tax administration, and cut unnecessary spending with fiscal reforms

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Sustaining government spending on **infrastructure, education, healthcare, and other critical socioeconomic programs** is **necessary** for economic recovery and inclusive growth.

A cut in spending of P249 billion is equivalent to forgoing the following:

143,876 public school classrooms

8,174 kms of paved roads

Free irrigation for 609,645 hectares of land

179,845 kms of temporary bridge upgrades

13,832 rural health units

110,672 barangay health stations

302 provincial hospitals

Our best option is to **expand fiscal space through new taxes and improve tax administration and enforcement.**

Borrow more to cover existing debt, causing our debt levels to grow higher and risking our credit ratings

Cut productive spending by an equivalent amount, risking our economic recovery and sacrificing key socio-economic priorities

Raise revenues, improve tax administration, and cut unnecessary spending with fiscal reforms

Mindful of the impact of COVID-19 on Filipino households, we propose packages of tax reform measures that are:

FAIR

A broad-based tax system where all Filipinos contribute their fair share

EFFICIENT

Covering areas that should be taxed anyway, such as the digital space, where tax laws still need to catch up

CORRECTIVE

Where revenue measures will result in improved social outcomes (e.g., ‘sin’ taxes and gambling taxes)

Proposed measures under the fiscal consolidation and resource mobilization plan

Proposed fiscal consolidation and resource mobilization plan

Package 1: 2023 implementation

- Deferment of TRAIN personal income tax reduction
- Expansion of the VAT base and possible VAT rate reduction
- Repeal of the immediate expending of input VAT on capital goods
- Imposition of VAT on digital service providers
- Reform on the Motor Vehicle Users' Charge (MVUC)
- Repeal of the excise tax exemption of pick-ups and imposition of excise tax on motorcycles
- Rationalization of the mining fiscal regime
- Imposition of taxes and charges on gaming
- Excise tax on single-use plastics
- Excise tax on luxury goods
- Real Property Valuation and Assessment Reform Act
- Passive Income and Financial Intermediary Taxation Act
- Strengthening of tax administration for income tax on social media influencers (administrative issuance)

Package 2: 2024 implementation

- Reform on health taxes (Alcopops, cigarettes, e-cigarettes, sweetened beverages, and non-nutritious food)
- Indexation of the petroleum excise tax and excise tax reform on coal and repeal PD 972
- Tax on cryptocurrencies
- Transfer pricing (administrative issuance)

Package 3: 2025 implementation

- Carbon tax

Key features of Package 1 (2023 implementation)

Proposals	Details of the proposal	Estimated average revenue impact per year, in PHP billion
• Deferment of TRAIN personal income tax reduction	3-year deferment from 2023 to 2025	97.7*
• Expansion of the VAT base and possible VAT rate reduction	Repeal exemptions but retain for sectors such as education, agricultural products, health, financial sector, and raw food	142.5
• Repeal of the immediate expending of input VAT on capital goods	Reimpose the 60 months amortization period of input VAT on capital goods	TBD
• Imposition of VAT on digital service providers	Impose 12% VAT on online advertisement services, digital services, and supply of other electronic and online services	13.2
• Reform on the Motor Vehicle Users' Charge (MVUC)	Impose a single and unitary rate based on the gross vehicle weight of all motor vehicles	38.3
• Repeal of excise tax exemption of pickups and imposition of excise tax on motorcycles	Impose an excise tax on pickups and motorcycles	19.2
• Rationalization of the mining fiscal regime	Establish a single and rationalized fiscal regime applicable to all mining agreements	11.4

Note: *3-year average

Key features of Package 1 (2023 implementation)

Proposals	Details of the proposal	Estimated average revenue impact per year, in PHP billion
• Imposition of taxes and charges on gaming	Impose (1) a mandatory casino admissions charge at a flat rate of P3,500, and (2) a 5% tax on gross gaming revenues (gross bets less payouts) of electronic betting activities	13.1
• Excise tax on single-use plastics	Impose a P20 excise tax per kilogram of single-use plastic bag	1.0
• Excise tax on luxury goods	Expansion of the coverage of the tax on non-essential and semi-essential goods	TBD
• Passive Income and Financial Intermediary Taxation Act	Simplify and harmonize the taxation of passive income, financial services, and transactions	TBD
• Real Property Valuation and Assessment Reform Act	Adopt internationally accepted valuation standards and professionalize real property valuation	TBD
• Strengthening of tax administration for income tax on social media influencers (administrative issuance)	Intensified implementation and clear monitoring guidelines of tax collections	N/A
Estimated average revenue impact per year for Package 1		**247.8**

Key features of Packages 2 and 3 (2024 implementation)

Proposals	Details of the proposal	Estimated average revenue impact per year, in PHP billion
• Reform on health taxes (alcopops, cigarettes, e-cigarettes, sweetened beverages, and non-nutritious food)	Tax alcopops the same as fermented liquors; Increase excise tax on cigarettes and e-cigarettes; Impose a unitary rate of P12 per liter volume on sweetened beverage	91.4
• Indexation of the petroleum excise tax and excise tax reform on coal and repeal of PD No. 972	Increase petroleum excise by P1 per liter for a minimum of 3 years; Repeal PD 972 and impose excise tax on domestic coal; Increase excise tax on domestic and imported coal	35.4
• Tax on cryptocurrencies	Clarifying the tax treatment of cryptocurrency transactions	TBD
• Transfer pricing (administrative issuance)	Strengthen the capacity of the BIR to perform transfer pricing audit to address emerging audit requirements; extended audit period for transfer pricing	N/A
Estimated average revenue impact per year for Package 2		**126.8**
Carbon tax	Impose a tax on carbon emissions	TBD
Estimated average revenue impact per year for all proposals with revenue estimates		**349.3**

Note: Preliminary estimates as of May 24, 2022.

Projected revenue impact (In PHP billion)

Particulars	2023	2024	2025	2026	2027	Annual average
Package 1	272.0	309.0	350.0	147.6	160.7	**247.8**
Package 2	-	85.6	114.1	143.1	164.3	**126.8**
Package 3	-	-	TBD	TBD	TBD	**TBD**
Total estimated revenues	**272.0**	**394.5**	**464.1**	**290.8**	**325.0**	**349.3**
As percent of GDP	*1.1%*	*1.5%*	*1.6%*	*0.9%*	*1.0%*	
Less: Allocations from mining and sin tax revenues	4.4	38.2	46.4	54.7	64.2	41.6
Balance revenues for NG	**267.5**	**356.3**	**417.7**	**236.0**	**260.8**	**307.7**
As percent of GDP	*1.1%*	*1.4%*	*1.5%*	*0.8%*	*0.8%*	

Notes: Preliminary estimates as of May 24, 2022. Totals may not add up due to rounding.

Source: DBCC projections and DOF staff estimates

We also propose an approach similar to the TRAIN Law earmarking provisions.

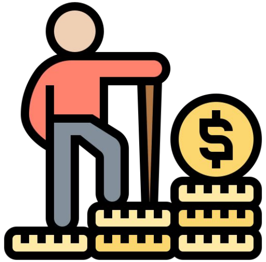
The earmarking provisions will keep the incremental revenues within the fiscal space of the national government.

We propose pursuing these packages in addition to the following reforms:

Further improvements in tax administration

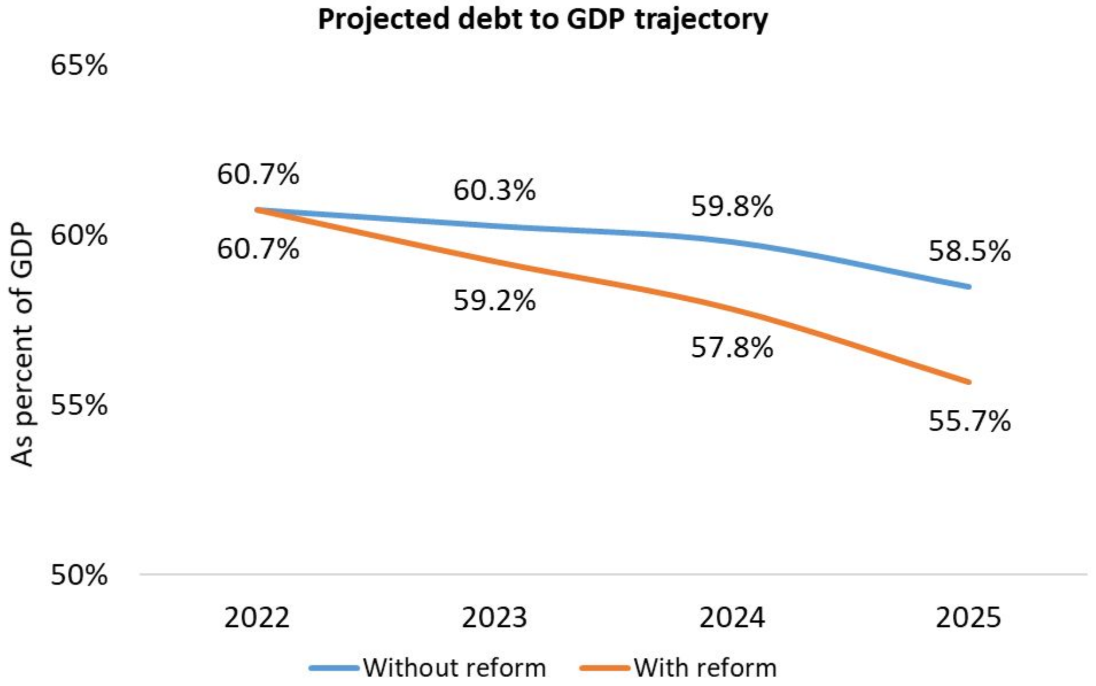
Government reengineering/ rightsizing

Military and Uniformed Personnel (MUP) pension reform



Capital market reform (corporate pension)

Implementing the fiscal consolidation and resource mobilization plan will help the country grow out of our debt.

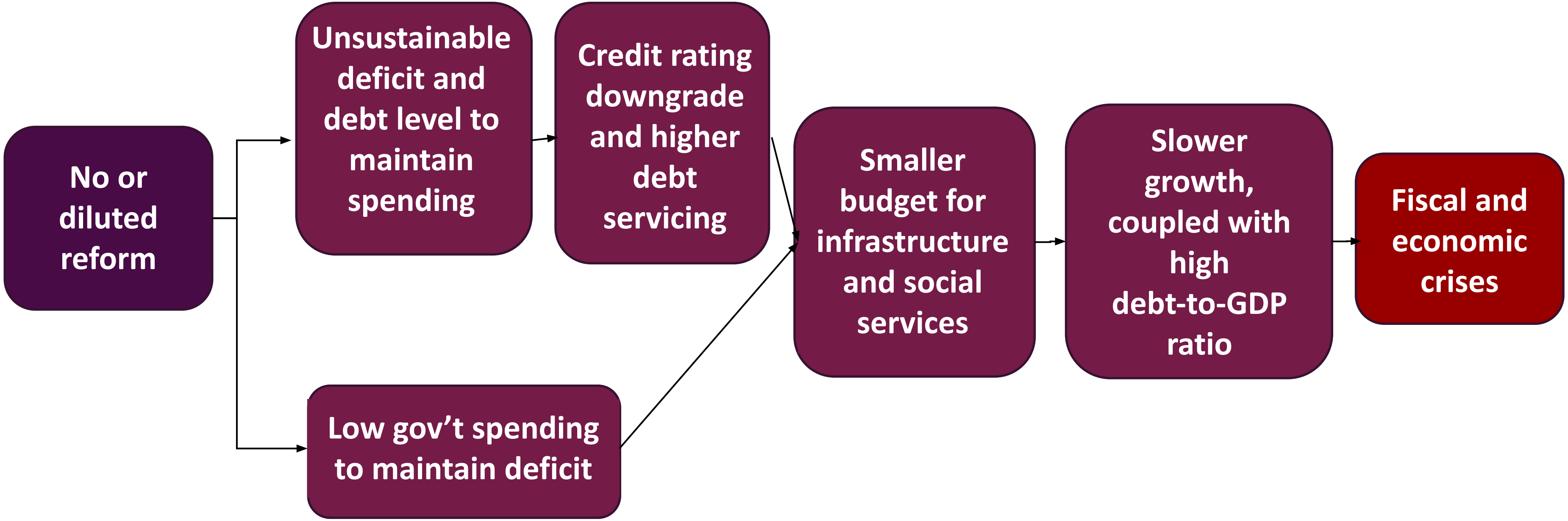


Note: Based on the May 24, 2022 approved DBCC levels

Source: BTr and DOF staff estimates

Consequences of not pursuing fiscal consolidation and resource mobilization

Without tax reform, there are only two choices that will lead to the same outcome.



Pursuing the fiscal consolidation and resource mobilization program as proposed will help us

Continue our productive spending

Grow out of our pandemic-induced debt

Provide substantial buffers to respond to lingering and future economic shocks

Taking action now is our responsibility to future generations.

Photo: UNICEF Philippines

Fiscal consolidation and resource mobilization plan

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