



2013 **Tax Reforms** **and Developments**

41st NTRC ANNUAL REPORT

NATIONAL TAX RESEARCH CENTER
Department of Finance
2014



HON. CESAR V. PURISIMA
Secretary
Department of Finance



TRINIDAD A. RODRIGUEZ
OIC-Executive Director



TERESITA L. SOLOMON
OIC-Deputy Director



MARLENE L. CALUBAG
Chief, Indirect Taxes Branch

TERESITA L. SOLOMON
Chief, Local Finance Branch



EMELITA A. TENA
Chief, Special Research and
Technical Services Branch

DEBBIE F. ASISTIO-SY
Chief, Fiscal Incentives Branch



TRINIDAD A. RODRIGUEZ
Chief, Tax Statistics Branch

JOSEPHINE B. TRILLANA
Chief, Planning and
Coordinating Branch



DONALDO M. BOO
Chief, Direct Taxes Branch

MONICA G. REMPILLO
Chief, Economics Branch



LUNINGNING D. FABILA
Chief, Administrative and
Financial Branch



REPUBLIC OF THE PHILIPPINES
DEPARTMENT OF FINANCE
NATIONAL TAX RESEARCH CENTER
HARBOR CENTER II, 23RD ST. COR. DELGADO ST.
PORT AREA, MANILA



HIS EXCELLENCY
THE PRESIDENT OF THE REPUBLIC
OF THE PHILIPPINES
MALACAÑANG, MANILA

THRU: THE SECRETARY OF FINANCE

SIR:

I HAVE THE HONOR TO SUBMIT THE 2013 ANNUAL REPORT OF THE NATIONAL TAX RESEARCH CENTER (NTRC). THIS REPORT BRIEFLY PRESENTS THE MAJOR PROJECTS AND STUDIES CONDUCTED BY THE NTRC, AS WELL AS THE VARIOUS TECHNICAL ASSISTANCE RENDERED BY THIS OFFICE TO DIFFERENT GOVERNMENT AND PRIVATE ENTITIES INCLUDING SOME INTERNATIONAL BODIES. A BRIEF DESCRIPTION OF THE TRAINING PROGRAMS AND ACTIVITIES OF THE STAFF DURING THE YEAR IS ALSO PRESENTED.

VERY TRULY YOURS,

Trinidad A. Rodriguez
TRINIDAD A. RODRIGUEZ
OIC-EXECUTIVE DIRECTOR

TABLE OF CONTENTS

i-vi	INTRODUCTION
1 - 17	IMPLICATIONS OF TAX LEGISLATION AND ISSUANCES PROMULGATED IN 2013
18- 66	MAJOR STUDIES AND OTHER RESEARCHES
67 - 107	TECHNICAL ASSISTANCE TO CONGRESS AND VARIOUS AGENCIES/ INTER-AGENCY GROUPS
108 - 118	STAFF DEVELOPMENT AND OTHER ACTIVITIES
119 - 121	ANNEX A

For 2013, the economy proved once again to be resilient despite the destruction brought about by the natural calamities in the latter part of the year as Gross Domestic Product (GDP) further improved by 7.2% during the year, from a 6.8% growth in 2012. The sustained consumer and government spending for the whole year coupled with increased investments in fixed capital formation, particularly in durable equipment contributed to the GDP growth. The positive growth of the GDP was manifested in the performance of the Gross National Income (GNI) as it climbed to 7.5% from the previous year's 6.5%, the highest for the last decade since the 8.5% growth in 2003.

The service sector which consistently made up the majority of GDP shared 47.7% of the total, but slid to 7.1% growth from last year's 7.6% growth. The boost of the sector could partly be traced from the positive performance of trade and real estate, renting and business activities. On the other hand, the industry sector which shared 27.5% of the total GDP performed vibrantly as it grew by 9.5% from 6.8% in 2012 due to the accelerated growth of the manufacturing subsector. Meanwhile, agriculture, fishery and forestry (AFF) sector which shared 9.0% to total GDP slid to 1.1% from its previous growth of 2.8% in 2012. The decline can be attributed to the damages caused by the series of natural calamities that hit the country in the fourth quarter of 2013, particularly the storm surge brought about by typhoon Yolanda in the Visayas region and typhoons Maring, Labuyo, Santi and Odette which hit most parts of Northern and Central Luzon. The Net Factor Income from Abroad (NFIA) performed well as its growth almost doubled to 9.4% from its recorded growth of 4.8% in 2012 and yielded 16.1% of total GNI.

Due to the vibrant performance of the economy coupled with the sustained revenue enhancement measures implemented by the government's collecting agencies, total revenue grew by 11.8% in 2013, from PhP1.5

trillion to PhP1.7 trillion during the period. Taxes remained to be the major contributor to the government coffer yielding a share of 89.5% of total revenue. It increased by 12.8% from almost PhP1.4 trillion in 2012 to more than PhP1.5 trillion in 2013. On the other hand, non-tax sources grew from PhP173.9 billion to PhP180.5 billion during the period. Its share narrowed down to 10.5% from the previous year's 11.3% share and grew by 3.9% from the 10.1% growth. The healthy growth of the economy was manifested in the continuous expansion of the revenue and tax efforts from 14.5% in 2012 to 14.9% in 2013 and from 12.9% to 13.3%, respectively.

The Bureau of Internal Revenue (BIR) maintained its topnotch position as the premier revenue generating agency of the government yielding in a total of PhP 1.2 trillion in 2013 from PhP1.1 trillion in 2012 or an increase of 15.0% and recording the lion share of 79.3% of the government's total tax take. The Bureau of Customs (BOC), on the other hand, recorded a decelerated growth of 5.1% from the 9.3% growth or from PhP289.9 billion to PhP304.5 billion during the same period. As a consequence, its share to total tax revenue declined to 19.8% from the 21.3% share in 2012. The remaining 1% was contributed by other government collecting agencies such as the Bureau of Immigration and Deportation (BID); Bureau of Fire Protection (BFP); Department of Environment and Natural Resources (DENR) and the Land Transportation Office (LTO), among others.

The strong performance of the economy was not able to buoy up the collection from non-tax revenues which comprised the Bureau of the Treasury (BTr) income, collections from fees and charges, privatization proceeds and other non-tax sources. The growth rate of the collection from non-tax revenues dipped to 3.9% from the 10% growth the other year. The measly growth was mainly attributed to the positive performance of fees and charges in view of the compliance of some national government agencies (NGAs) to Administrative Order (AO) No. 31 directing heads of departments, bureaus, agencies, offices and instrumentalities of the national government to rationalize their fees and charges, increase in existing rates, if necessary, and/or impose new fees and charges. On the other hand, proceeds from privatization of government assets nosedived to negative

64.8% from its tremendous growth of 797.6% in 2012. The BTr income likewise showed a lackluster performance as it registered negative 3.7% collection growth rate.

For 2013, the **National Tax Research Center (NTRC)** continued to function in accordance with its mandate to conduct continuing research on taxation as a basis for tax policy formulation/legislation aligned with the key result area (KRA) of Rapid, Inclusive and Sustained Economic Growth of President Aquino's Social Contract with the Filipino People. In the preparation of studies, the NTRC took into consideration the macro-economic goals and objectives of the government enunciated in the Philippine Development Plan 2011-2016 and other policy pronouncements of the Aquino Administration.

For the year under review, the NTRC conducted basic studies on taxation supportive of national goals and priorities, to wit: revenue enhancement; improvement in tax structure; promotion of equity; improvement in taxpayers' compliance; and efficiency in tax administration. The major studies include, among others, Estimates of Individual Income Tax Gap, CY 2010-2012 and Estimates of Value Added Tax (VAT) Gap, CY 2011-2012; Revenue Performance of the National Government, CY 2012; Top Corporate Taxpayers in the Philippines for Taxable Years 2009-2011; Enforcement Trends and Compliance Challenges; Performance Indicators for Tax Administration; Reforms on Real Property Taxation; General Anti-Avoidance Rules (GAAR), Legal Provisions, Case Laws, International Experience on GAAR; Local Government Credit Financing; Profile and Taxation of the Philippine Jewelry Industry; Profile Study on the Philippine Fast Food Industry and Its Taxation; Taxation of Micro, Small and Medium Enterprises; Procedures on the Grant of Tax Subsidy; Tax Legislation in the Philippines: 1996-Present; Basic Facts and Figures: Corporate Income Taxation; Evaluation of Proposals Concerning Estate and Donor's Tax; Information on Tax Treaty Vis-à-Vis Foreign Direct Investment of Selected ASEAN Countries; Mineral Taxation in Selected Asian Countries; Community Tax: An Update; The Resibo Programs of the Bureau of Internal Revenue; Taxation and Incentives of the Philippine Electronics Industry; Digest of CTA Decisions, January – June 2013; and Basic Tax Statistics, CY 2000 – 2013.

INTRODUCTION

The NTRC assessed laws and issuances that comprise tax, tariff, grant of fiscal incentives and administrative reforms promulgated in 2013.

The NTRC evaluated 49 Senate and House Bills and other tax proposals coming from Congress as well as from other government agencies and the private sector.

The NTRC provided technical inputs and support to the Department of Finance (DOF) Proposed Legislative Agenda as well as to Congress through the preparation of concept papers, notes, revenue estimation/simulations on various priority revenue measures.

The NTRC also rendered technical assistance to DOF thru monitoring/analysis of the tax collection performances of BIR Revenue District Offices (RDO), BIR Revenue Regions (RR) and BOC District Ports.

As Secretariat to the Task Force on Revision of Fees and Charges, the NTRC monitored compliance of the national government agencies (NGAs) in the revision of their fees and charges pursuant to Administrative Order (AO) No. 31. It prepared Status Report on the Revision of Fees and Charges of NGAs and analyze the revenue performance of Top Fee Collecting Agencies; and assisted in TESDA's Rationalization of Fees.

As Secretariat to the Fiscal Incentives Review Board (FIRB), the NTRC processed and evaluated applications for tax subsidy by government owned and controlled corporations (GOCCs) for consideration of the FIRB Technical Committee and the Board Proper. A total of twenty two (22) Certificates of Entitlement to Subsidy (CES) and nine (9) FIRB Resolutions were issued by the Board.

The NTRC also provided technical support to the Working Group of the Development Budget Coordinating Committee/Executive Technical Board and DOF Gender and Development (GAD). It also served as consultant to the Executive Committee on Real Property Valuation (ECRPV) and Technical Committee on Real Property Valuation (TCRPV) pursuant to Department Order No. 6-2010 (March 12, 2010) and Revenue Memorandum Order (RMO) No. 41-2010 (April 23, 2010). As regards GAD commitment, the

INTRODUCTION

NTRC prepared a study on the Tax Contribution of Women on Wage Employment; GAD Plans and Budget and Accomplishment Report; and undertook GAD activities.

In support of its tax information and taxpayers' awareness program, the NTRC published the NTRC Tax Research Journal (Bimonthly) – January–February Issue, March–April Issue, May–June Issue, July–August Issue, September–October Issue and November–December Issue of 2013; 2012 NTRC Annual Report; A Compilation of 2012 BIR Revenue Regulations; Various Public Finance and Other Related Statistics, 2000–2012; Historical Development of Philippine Taxes, 1997–2013; and Basic Facts and Figures on VAT.

Furthermore, the NTRC continued its computerization program aimed at improving its administrative support and service delivery.

The NTRC is a national government agency (NGA) with an approved budgetary appropriation for FY 2013 under the General Appropriations Act (GAA) in the amount of PhP45.82 million.

As part of its mission to provide continuing staff development, selected NTRC officials and employees were sent to seminars/conferences abroad. Also, the NTRC officials and staff attended local seminars/workshops conducted by various government agencies.

This annual report summarizes the work undertaken by the NTRC during the year under review in its effort to make the tax system a more effective tool for economic development, viz:

- Chapter I** - discusses the implications of tax, tariff and other reform measures legislated and adopted during the year.
- Chapter II** - presents the highlights of studies undertaken during the year, together with their objectives, findings and recommendations.

INTRODUCTION

- Chapter III** - describes the various technical assistance rendered in the form of researches, studies, comment and similar undertakings to Congress and other government agencies, regional and international bodies, and the private sector.
- Chapter IV** - dwells on staff development and similar activities through participation of NTRC officials and employees in study grants, seminars, conferences and other activities here and abroad



Implications of
TAX LEGISLATION
and ISSUANCES
Promulgated in 2013

Presented in this Chapter are the salient features and implications of the laws and issuances that comprise tax, tariff and administrative reforms legislated and/or adopted during the period under review.

RA 10378

Recognizing the Principle of Reciprocity as Basis for the Grant of Income Tax Exemptions to International Carriers and Rationalizing Other Taxes Imposed Thereon by Amending Sections 28(A)(3)(a), 109, 118 and 236 of the National Internal Revenue Code (NIRC), as Amended, and for other Purposes", (approved March 7, 2013 and effective March 29, 2013)

A. Features

RA 10378 rationalized the tax treatment of international air carriers having landing rights in the Philippines. The new law specifically amended Sections 28(A)(3)(a), 109, 118 and 236 of the Tax Code.

Under Sections 28(A)(3)(a) as amended by RA 10378, a new provision was added, to wit:

"Provided, That international carriers doing business in the Philippines may avail of a preferential rate or exemption

from the tax herein imposed on their gross revenue derived from the carriage of persons and their excess baggage on the basis of an applicable tax treaty or international agreement to which the Philippines is a signatory on the basis of reciprocity¹ such that an international carrier, whose home country grants income tax exemption to Philippine carriers, shall likewise be exempt from the tax imposed under this provision.”

From the foregoing, international carriers are not automatically exempt or entitled to a lower income tax rate from the current 2.5 % of Gross Philippine Billing (GPB) imposed on them. The exemption or lowered tax rate depends on the existence of a treaty agreement or reciprocity between the Philippines and the international carrier’s home country.

The law also provided for the exemption of the international carriers from both the value-added tax (VAT) and the 3% common carriers tax (CCT) on receipts and income from transporting passengers (Sections 109 and 118 of the Tax Code, as amended, respectively). However, the imposition of the 3% CCT based on gross receipts is limited to the transport of cargo from the Philippines to another country.

On September 30, 2013, Revenue Regulations (RR) No. 15-2013 was issued by the Bureau of Internal Revenue (BIR) which sets the guidelines in granting the tax incentives to the international carriers.

As stated in RR 15-2013, the rationale behind the exemption from taxes of international carriers is to improve the competitiveness of the Philippine tourism industry by encouraging more international carriers to maintain flight and shipping operations in the country and eventually reduce international plane and ship fares. Moreover, the law intends to facilitate the movement of goods and services and to attract more foreign tourists and investments.

¹ This may be invoked by an international carrier as basis for Gross Philippine Billings Tax exemption when its Home Country grants income tax exemption to Philippine carriers.

At present, there are six (6) Philippine-based airlines and three (3) Philippine affiliated airlines in the country. Of the nine (9) airlines, five (5) have both domestic and foreign destination direct flight services, three (3) have domestic but no foreign destination direct flight services and one (1) operating exclusive foreign destination direct flight services.

**Table 1. LOCAL AIR PASSENGER CARRIERS
IN THE PHILIPPINES, 2013**

Airlines	Domestic Destinations	Foreign Destinations
AirAsia Philippines ^{1/}	Yes	No
Air Asia Zest ^{2/}	Yes	Yes
Cebu Pacific Air Inc.	Yes	Yes
Island Transvoyager Inc.	Yes	No
Magnum Air (Skyjet) Inc.	Yes	No
Philippine Airlines, Inc. (PAL)	Yes	Yes
PAL Express	Yes	No
Spirit of Manila Airlines Corporation ^{3/}	No	Yes
Tiger Air Philippines ^{4/}	Yes	Yes

^{1/} Philippine affiliate of AirAsia, an airline based in Malaysia

^{2/} Formerly Asian Spirit and Zest Air which became an affiliate of AirAsia Philippines in 2013.

^{3/} A Filipino-owned airline company offering scheduled international and regional passenger services from Manila/Clark to key Asian and Middle Eastern countries.

^{4/} Philippine affiliate of Tigerair, a Singapore-based air carrier

Source: Civil Aeronautics Board (CAB) and websites of the different airlines.

The following are the countries to which these local airlines offer direct flight services, viz.;

- | | |
|--------------------------------------|------------------------------------|
| 1. Australia | 11. Saudi Arabia |
| 2. Brunei Darussalam | 12. Singapore |
| 3. Cambodia | 13. South Korea |
| 4. Canada | 14. Taiwan |
| 5. Hong Kong | 15. Thailand |
| 6. Indonesia | 16. United Arab Emirates (UAE) |
| 7. Japan | 17. United Kingdom |
| 8. Macau | 18. United States of America (USA) |
| 9. Malaysia | 19. Vietnam |
| 10. People's Republic of China (PRC) | |

Source: Websites of the local airlines (as of January 23, 2014)

At present, PAL is the only local airline operating in 17 out of the 19 foreign countries and the only one with direct flight services to Australia, Canada, Saudi Arabia, United Kingdom and the USA. On the other hand, Cebu Pacific is the only one with direct flight services to Brunei Darussalam and Cambodia.

It is noted that in 2013, European authorities lifted the ban preventing PAL and other Philippine carriers from mounting flights to Europe. The direct air service between the Philippines and Europe was restored and PAL returned to its non-stop service to London after fifteen (15) years of absence.

On the other hand, as of 2013 there were 34 international air carriers² with landing rights in the Philippines, viz.:

- | | |
|------------------------|-------------------------------------|
| 1. Air Asia Berhad | 4. Air Macau |
| 2. Air Busan Co., Ltd. | 5. Air Micronesia (United Airlines) |
| 3. Air China Limited | 6. All Nippon Airways Co., Ltd. |

² International air carriers are foreign airline corporations doing business in the Philippines having been granted landing rights in any Philippine port to perform international air transportation services/activities or flight operations anywhere in the world. [Sec. 2(a), Revenue Regulation (RR) No. 15-2002]

- | | |
|------------------------------------|-------------------------------------|
| 7. Air Niugini | 21. Jeju Air |
| 8. Atlanta Airlines | 22. Jetstar Asia Airways Pte., Ltd. |
| 9. Cathay Pacific | 23. Jin Air |
| 10. China Airlines | 24. KLM Royal Dutch Airlines |
| 11. China Southern Airlines | 25. Korean Air |
| 12. Continental Micronesia | 26. Kuwait Airways |
| 13. Delta Airlines/Northwest | 27. Malaysia Airlines |
| 14. Dragon Air | 28. Qantas |
| 15. Emirates | 29. Qatar Airways |
| 16. Etihad Airways | 30. Royal Brunei |
| 17. Eva Air | 31. Saudi Arabian Airlines |
| 18. Gulf Air | 32. Silkair |
| 19. Hawaiian Airlines, Inc. | 33. Singapore Airlines |
| 20. Japan Airlines Int'l Co., Ltd. | 34. Thai Airways |

Source: CAB

Based on data gathered from the Civil Aeronautics Board (CAB), gross receipts of selected international air carriers with landing rights in the Philippines for the period 2011-2013 ranged from PhP29.4 billion to PhP31.5 billion with an average annual collection of PhP30.4 billion. (Table 2)

Table 2. GROSS RECEIPTS OF INTERNATIONAL AIR CARRIERS WITH LANDING RIGHTS IN THE PHILIPPINES, 2011 – 2013
(Amounts in Billion PhP)

Particulars	Total Gross Receipts			
	2011	2012	2013	Average
1 st Quarter	6.89	7.38	7.48	7.25
2 nd Quarter	8.19	8.62	8.86	8.56
3 rd Quarter	6.58	7.63	6.15	6.79
4 th Quarter	7.74	7.89	7.81*	7.81
Total	29.40	31.52	30.30	30.41

*No data available. Figure is an estimate.

Source of basic data: CAB

B. Implications

On Visitor and Tourist Arrivals in the Philippines

Based on a study of the International Air Transport Association (IATA), it was estimated that the number of international arrivals and departures would increase by 230,000 passengers or a growth of 1.9% on the first year of the elimination of CCT and tax on GPB. The number of international visitors was also expected to rise by 70,000 with potential gain of about \$45 million for the national economy from increased tourism activity. Subsequently, the increase in tourist arrivals would create an additional 70,000 jobs, \$214 million in employee compensation and \$5.40 million in tourism tax revenues. Likewise, lower cargo transport costs were expected to boost export earnings by \$1 billion.³

In relation to this, Table 3 shows that after the passage of RA 10378 on March 29, 2013, there was indeed an increase in visitor arrivals on a monthly basis as compared to the previous year when the law was not yet in place. In particular, in June 2013, the number of visitor arrivals was 14.89% higher than in June 2012, while an 8.86% nominal increase was recorded in April 2013 as compared to the same period of the previous year.

Table 3. COMPARATIVE VISITOR ARRIVALS IN THE PHILIPPINES PRIOR TO AND AFTER RA 10378 (APRIL – OCTOBER 2012 VS. APRIL – OCTOBER 2013)

Month	No. of Visitor Arrivals		Growth Rate (%)
	2012	2013	
April	328,109	357,175	8.86%
May	303,190	344,083	13.49%
June	306,836	352,538	14.89%
July	353,766	396,904	12.19%
August	322,766	368,136	14.06%
September	281,492	318,383	13.11%
October	315,656	345,824	9.56%

Source: Department of Tourism (DOT)

³ Explanatory Note on Senate Bill No. 3065, Introduced by Senator Ralph G. Recto.

The increase in visitor arrivals may be attributed to the rationalization of tax incentives provided under RA 10378 which improves or enhances the country's competitiveness in tourism.

On the Revenue Foregone from the CCT and VAT Exemption on Transport of Passengers by International Carriers

RA 10378 abolished the 3% CCT on the gross quarterly receipts derived from transport of passengers by international air and shipping carriers doing business in the Philippines. However, as mentioned earlier, the gross quarterly receipts derived from the transport of cargo from the Philippines to another country by an international air and shipping carrier are still subject to 3% CCT as provided by the law.

Based on available data from the BIR for the period 2008-2012, the CCT collection from international carriers under Sec. 118 of the NIRC, as amended, ranged from PhP335 million in 2008 to PhP549 million in 2012, although lumped with the percentage tax collection on domestic carriers and keepers of garages under Sec. 117.

Table 4. BIR REVENUE COLLECTION ON PERCENTAGE TAX ON CARRIERS/KEEPERS OF GARAGES, 2008 – 2012
(Amount in Million PhP)

Year	Tax Collection	Growth Rate
2008	334.88	
2009	411.44	22.86%
2010	896.88	117.99%
2011	540.71	-39.71%
2012	548.71	1.48%
Average	546.52	25.65%

Note: No available data yet for 2013, hence the impact on collection of RA 10378 could not be analyzed.

Source of basic data: Research & Statistics Division, BIR

The decrease in collection in 2011 could be attributable to the request of the Board of Airline Representatives (BAR) for the suspension of the implementation of RR 11-2011⁴ and its strong opposition against the CCT and the GPBT imposed on foreign airlines operating in the Philippines⁵.

It is pointed out that while there is an outright loss in revenue due to the abolition of the CCT imposed on foreign international carriers estimated to be around PhP508 million, in the long term this will be recovered from subsequent increase of tourist arrivals in the country and employment generation provided that there shall be improved airport facilities, political stability and a number of programs to help boost the tourism industry in the country.

A recent development in the airline industry is the acquisition of budget carrier Cebu Pacific of Tiger Air Philippines.⁶ This strategic alliance will limit competition in the industry to three (3) major players namely: Cebu Pacific, PAL and AirAsia Zest.

It is anticipated that the said reduced competition will have a positive result in easing the problems of “overcapacity” and the “irrational competition” in the market. According to the Center for Asia Pacific Aviation (CAPA), the acquisition of Tiger Air will result in Cebu Pacific’s increase in the share of scheduled commercial aircraft slots to about 38% which is higher than the 35% share of PAL.

⁴ Defining gross receipts for common carriers’ tax for international carriers pursuant to Section 118 of the Tax Code, amending Section 10 of RR 15-2002.

⁵ Letter of the Board of Airline Representatives (BAR) to Department of Finance Secretary Cesar Purisima re Urgent Request for the Suspension of the Implementation of RR 11-2011, 27 July 2011. <http://www.investphilippines.info/arangkada/wp-content/uploads/2011/08/Letter-to-Sec-Purisima-dated-27-July-2011-re-RR-11-2011.pdf> (viewed February 17, 2014).

⁶ <http://business.inquirer.net/159289/cebu-pac-acquires-tigerair-philippines#ixzz2pn5ZJ6J5>

Finally, the abolition of taxes is seen to reduce fares which will consequently lead to increased demand for air travel. This will encourage more investments in the aviation and tourism industries which will further stimulate the country's economic growth.



RA 10633
2014 General
Appropriations Act
(GAA)
(January 1, 2014)

A. Features

Section 15 (c) of RA 10633 indicates the funding source for tax expenditure subsidy pursuant to Executive Order (EO) No. 93, to wit:

“SEC. 15. National Internal Revenue Taxes and Import Duties. The amounts pertaining to the following taxes and duties shall be considered as both revenue and expenditure of the government, and are deemed automatically appropriated:

- (a) x x x
- (b) x x x
- (c) Tax expenditure subsidies granted by the Fiscal Incentives Review Board (FIRB) to government-owned and/or-controlled corporations (GOCCs), the Armed Forces of the Philippines Commissary and Exchange Service (AFPCES), the Philippine National Police Service Store System (PNPSSS), and the Procurement Service Exchange Marts or PX Marts, in accordance with EO 93, s. 1986, as amended, including those for tax obligations assumed by GOCCs pursuant to a valid agreement.

Implementation of this section shall be subject to the guidelines to be jointly issued by DOF and DBM.

B. Implications

Section 15 (c) of RA 10633 serves as the basis of appropriation for the grant of tax subsidy to GOCCs and Commissaries by the FIRB. The tax subsidies covering tax and duty obligations of concerned government entities are availed through the Tax Expenditure Fund (TEF) automatically appropriated in the GAA.

The tax subsidy provision in the GAA emphasizes the preference of the government to provide support to the said entities through tax subsidy over outright tax exemption or cash subsidy for transparency and monitoring purposes.



RA 10368

Providing for Reparation and Recognition of Victims of Human Rights Violations During the Marcos Regime, Documentation of Said Violations, Appropriating Funds Therefor and for Other Purposes (February 25, 2013)

A. Features

Section 4 of RA 10368, otherwise known as the “Human Rights Victims Reparation and Recognition Act of 2013” provides that any Human Rights Violation Victim (HRVV) qualified under the Act shall receive reparation from the State, free of tax. In the case of a HRVV who is already deceased or who involuntary disappeared, his/her legal heirs as provided for in the Civil Code of the Philippines, or such other

person named by the executor or administrator of the HRRV’s estate in that order, shall be entitled to receive the reparation.

The Human Rights Victims’ Claims Board (HRVCB), an independent and quasi-judicial body composed of nine (9) members which shall be attached but not be under the Commission on Human Rights (CHR), is tasked to review human rights violation cases during the Marcos regime and will decide on the compensation for the martial law victims, survivors and their relatives.

B. Implications

In reality, no amount can equate and compensate for the sufferings and damages inflicted to any victim including his/her family of human rights violation. The law only seeks to recognize the heroism and sacrifices of many Filipinos who endured various forms of gross violation of their human rights during the regime of former President Marcos through the grant of reparation to them or their families. Hence, it is only fitting that they be able to receive the full amount of the reparation through exemption of the same from tax.

On February 13, 2014, the HRVCB was created and its members were named by President Benigno S. Aquino III. Per inquiry with a staff of the Martial Law Files Project Division of the CHR, the Implementing Rules and Regulations (IRR) of the Act is yet to be finalized by the Board and is targeted to be published before the end of April 2014. The same inquiry revealed that the period for the filing of claims with the HRVCB will be from May 12 to November 10, 2014.



**RA 10583, 10584,
10585, 10594, 10595,
10596, 10597,
10598, 10599, 10600,
10604 and 10605**

Creating State
Colleges and
Converting State
Colleges to State
Universities and
Providing Incentives
Therefor (See Annex
A for complete title of
RAs and respective
dates of approval)

A. Features

The above stated laws provide, among others, for the exemption from the donor's tax of donations in any form to newly created/converted state colleges and universities and the deductibility of the same from the gross income in the computation of the income tax of the donor.

B. Implications

The income tax provisions of the abovementioned laws are consistent with the 1987 Philippine Constitution which provides for the exemption from tax of all grants, endowments, donations, or contributions which shall be

used actually, directly and exclusively for educational purposes. [Section 4(4), Article XIV] Section 101(A)(3) of the NIRC of 1997, as amended, also provides for the exemption from tax of gifts in favour of an educational and/or charitable, religious, cultural or social welfare corporation, institution or organization, provided that not more than thirty percent (30%) of said gifts shall be used by such donee for administrative purposes. Likewise, Section 34(H)(2)(a) of the NIRC provides for the full deductibility from the gross income of the donor of donations to the government of the Philippines or to any of its agencies or political subdivisions, including fully-owned government corporations, exclusively to finance, to provide for, or to be used in undertaking priority activities in education, health, youth and sports development, human settlements, science and culture, and in economic development according to a National Priority Plan determined by the National Economic and Development Authority. Moreover, existing state colleges and universities have in their respective charters a provision which exempts gifts and donations from the donor's tax and allows its deductibility from the gross income of donors.

**RA 10629**

Providing for the Retention by
the Protected Area
Management Board of
Seventy-Five Percent (75%)
of the Revenues Accruing to
the Integrated Protected
Areas Fund (IPAF),
Amending for the Purpose
Section 16 of RA 7586,
Otherwise Known as the
"National Protected Areas
System Act of 1992"
(September 26, 2013)

A. Features

RA 10629 amends Section 16 of RA 7586, otherwise known as the "National Protected Areas System Act of 1992" by providing that seventy-five percent (75%) of all incomes generated from the National Integrated Protected Areas System (NIPAS) or management of wild *flora* and *fauna* shall be retained by the Protected Area Management Board (PAMB)⁷ of each protected area. Such incomes shall be derived from the following:

- a. Taxes from the permitted sale and export of flora and fauna and other resources from protected areas;
- b. Proceeds from lease of multiple-use areas;
- c. Contributions from industries and facilities directly benefiting from the protected area; and
- d. Such other fees and incomes derived from the operation of the protected area.

The Integrated Protected Areas Fund (IPAF), the trust fund established under RA 7586 for purposes of financing the projects of the NIPAS, may solicit and receive donations, endowments, and grants in the form of contributions, and such endowments shall be exempted from income or gift taxes and all other taxes, charges or fees imposed by the Government or any political subdivision or instrumentality thereof.

B. Implications

The amendment introduced by RA 10629 to RA 7586 is only meant to expedite the process by which funds will be made available to concerned PAMBs. As contended by the authors of the reference bill (House Bill No. 5996) of the Act, the whole process from the request up to the withdrawal of funds takes several months of waiting which makes it difficult for the PAMB to work as scheduled on their projects and undertakings in their respective protected areas due to the unavailability of funds. The retention of the funds to the PAMB of the protected area will make such undertakings more feasible to manage and develop.

As regards the tax provisions of the law, which refers to the exemption from income or gift taxes and all other taxes, charges or fees imposed by the

⁷ The PAMB is a multi-sectoral body vested with powers to decide the allocations for budget, approve proposals for funding and decide matters relating to planning, peripheral protection and general administration of the protected area in accordance with the general management strategy, among others.

Government or any political subdivision or instrumentality thereof, of donations, endowments, and grants in the form of contributions to the Integrated Protected Areas Fund (IPAF), the same are only a reiteration of those provided under Section 16 of RA 7586 and are likewise consistent with Section 101(A)(2) of the NIRC of 1997, as amended.



A. Features

EO 148
Amending Section 1
of EO 214 (s. 2003)
and Imposing the
Applicable Tariff
Rates Under the
ASEAN Trade in
Goods Agreement on
Qualified Imports from
Special Economic
and/or Freeport
Zones
(November 26, 2013)

EO 148 introduced amendments to Section 1 of EO 214, s. 2003 by providing that products manufactured in qualified special economic and/or freeport zones entering the Philippine customs territory and qualifying under ASEAN Trade in Goods Agreement (ATIGA) Rules of Origin shall be entitled to the preferential rate of duty under ATIGA applicable to its raw materials based on the value of such raw materials, subject to applicable provisions of the laws governing such special economic and/or freeport zones.

B. Implications

This issuance of EO 148 is in order as it updates the relevant provision with the latest developments in the ASEAN trade agreements. This in turn harmonizes the present directives of the government with that of the provisions under the ATIGA. It may be noted that under EO 214, s. 2003, products manufactured in ecozones with at least 40% of their product content being sourced from any ASEAN member state and sold within the Philippines' customs territory are levied the applicable Common Effective Preferential Tariff (CEPT) rates on condition that they qualify under the ASEAN Free Trade Area (AFTA) Rules of Origin. EO 148 reiterates the entitlement of products entering the Philippine customs territory that are manufactured in qualified special economic or Freeport zones to the preferential rates of duty now under the

ATIGA which replaced the CEPT, provided the raw materials of said products qualify under the ATIGA Rules of Origin and with the governing laws of the special economic or Freeport zone.

It may be recalled that the AFTA was initiated in 1992 to create an integrated market among ASEAN countries and enhance its competitive edge as a product base for the world market through trade liberalization by eliminating intra-regional tariffs and non-tariff barriers.

The main instrument in liberalizing trade in the ASEAN is originally the CEPT scheme. The scheme is a cooperative arrangement among the ASEAN Member States with the end goal of gradually lowering tariffs to 0-5% on all manufactured goods over a 10-year period. Apart from lowering of tariff rates, the CEPT scheme also provides for the phase out of quantitative restrictions (QRs) e.g. quotas and other non-tariff barriers (NTBs) e.g. licenses to further promote free trade within ASEAN. Thus, under the AFTA, member countries are accorded preferential tariffs as prescribed under the CEPT Scheme and under applicable Rules of Origin.

As gathered, the Rules of Origin compose a set of criteria used to determine the country or customs territory of origin of a good or service in international trade. This is used to determine the eligibility of a product to receive concessions. It serves as a crucial component of any regional trading arrangement and an essential feature of any Free Trade Area (FTA) as it determines which products can qualify for tariff concessions and helps prevent non-members of a free trade area from taking advantage of the different external tariff rates imposed by individual member countries.

Rules of Origin rest on the concept of either “wholly obtained or produced” or has undergone “substantial transformation” so that origin is assigned to the source or exporting country. “Wholly obtained and produced” goods refer to those made entirely by the exporting country from materials produced by them. Goods which have undergone “substantial transformation”, on the other hand, refer to products which contain raw or intermediate materials that originate from non-FTA countries that have undergone sufficient transformation in the exporting country. Substantial transformation may be defined on the basis of a change in tariff heading, achieving a threshold proportion of value-added, or on the basis of certain manufacturing processes.

In the case of the AFTA, the rule of origin is based on the value-added with the threshold level set at 40% of the value of the product.

The initial program of tariff reduction under the CEPT was accelerated and broadened to include other trade facilitating measures. The ATIGA was signed on 26 February 2009 at the 14th ASEAN Summit in Thailand and subsequently entered into force on 17 May 2010. The ATIGA replaces the CEPT Agreement and provides for broader coverage with the inclusion of provisions on trade facilitation, customs, sanitary and phytosanitary measures and technical barriers to trade. The Philippine Schedule of Tariff Concessions under the ATIGA for the AFTA is being implemented by the Philippines under EO 850 (issued 23 December 2009). As with the CEPT Scheme, the Rules of Origin provision is likewise a basic component of the ATIGA. Similar to the provisions under the CEPT Rules of Origin, the ATIGA provides that the ASEAN Value Content or the Regional Value Content (RVC) of the goods originating in the Member State where working or processing of goods has taken place shall not be less than 40%. Thus, for a processed or manufactured good to be considered originating from one of the ASEAN Member States, raw materials used for its manufacture shall be at least 40%.

The difference with the criteria on the rules of origin of the CEPT for the AFTA compared with the ATIGA for the AFTA, as clarified by the Tariff Commission (TC), is on the additional criteria of origin as set out in Article 28 1(a)(ii) of the ATIGA which states that goods shall likewise be deemed originating in the Member States where working or processing of goods has taken place if all non-originating materials used in the production of goods have undergone a change in tariff classification (CTC) at four-digit level (i.e. change in tariff heading) of the Harmonized System. In this case, the Member State shall permit the exporter of the good to decide whether to use 1(a)(i) (RVC-based) or 1(a)(ii) (CTC-based) in determining whether the goods qualify as originating goods of the Member State.

EO 148 only reiterates what was already provided under the previous directive (EO 214, s. 2003) with regard to the entitlement of products entering Philippine customs territory which are manufactured in qualified special economic and/or freeport zones which are considered separate customs territory, to preferential rate of duty on condition that

they qualify with the Rules of Origin under the ATIGA and no longer under CEPT and the laws governing the particular special economic or freeport zone.

Since the said imported raw materials for the manufacture of products in the ecozones are accorded the preferential rates under the ATIGA as compared to other raw materials imported from other countries, the ASEAN member countries including the Philippines are at an advantage as this would mean lower importation costs. While it may seem that according preferential tariffs (i.e., lower import duties) to these goods may affect revenue collection, it is envisioned that the amount saved by these importers/manufacturers in the said economic zones and freeports will redound to the benefit of consumers in terms of lower prices of finished products as primary and/or intermediate input products used are sourced at cheaper prices as against those sourced outside the ASEAN community, which may even lead to growth and expansion in business thereby creating more jobs. Moreover, Philippine raw and/or intermediate products shall enjoy greater market access and substantial margin of preference as against non-ASEAN goods for use in the manufacture of goods within the said freeport and/or ecozones.

In general, with the broadened coverage of the ATIGA with the inclusion not only of programs on tariff reduction but also provisions on facilitation of trade, customs, sanitary and phytosanitary measures and program to eliminate non-tariff barriers, it is expected that trading within and outside ASEAN will be greatly enhanced.

The observance of the country's commitments to trade agreements such as the ATIGA strengthens the government's ties with its neighboring countries thereby paving the way for deeper economic integrations and linkages within the ASEAN community. This further minimizes trade barriers, increases intra-regional trade and investment as well as economic efficiency, and thus creates a larger market for the Philippine economy with greater opportunities.



Chapter 2

MAJOR STUDIES

and Other Researches

1. Revenue Performance of the National Government: CY 2012

The Philippine economy's performance has improved as Gross Domestic Product (GDP) rose from 3.6% in 2011 to 6.8% in 2012. All sectors displayed better performances with the Services Sector on the lead posting a 7.6% growth, followed by the Industry Sector showing a 6.8% growth and Agriculture, Fishery, and Forestry (AFF) Sector with a 2.8% growth. The net primary income (NPI) from the rest of the world recovered from a negative growth of 1.6% in 2011 to a positive growth of 4.8% in 2012. All these developments resulted in a 6.5% growth in the Gross National Income (GNI) in real terms. The bulk of the GNI came from the service sector, (47.9%); followed by the industry sector, (27%); and the AFF sector, (9.3%); while the remaining 15.8% was shared by the NPI from abroad.

National government (NG) revenue posted a growth of 12.9% in 2012, a little bit higher than the 12.7% recorded in 2011. The total NG revenue in 2012 amounted to PhP1.53 trillion, 88.7% or PhP1.36 trillion of which was tax revenue and the rest, non-tax revenue. The tax effort or the ratio of tax revenue to GDP at current prices slightly increased from 12.4% in 2011 to 12.9% in 2012. Likewise, the revenue effort or the ratio of total revenue to GDP at current prices increased from 14% in 2011 to 14.5% in 2012.

Of the total tax revenue in 2012, direct taxes shared 48.4% or PhP658.2 billion while indirect taxes, 51.6% or PhP702.8 billion. The bulk

(97.6%) of the collection from direct taxes came from income taxes, distributed as follows: corporate income tax, 56.2%; individual income tax, 33.8%; and tax on interest income, 7.5%. The remaining 2.4% came from transfer taxes (0.6%) and other direct taxes (1.8%) consisting of motor vehicle user's charge (MVUC), immigration tax and travel tax. On the other hand, 71% of total indirect taxes collection came from license and business taxes; excise taxes, 14%; import duties, 6%; and other indirect taxes, which include documentary stamp tax (DST), forest charges, fire code tax and other miscellaneous taxes, 9%.

By agency, collection of the BIR in 2012 reached a PhP1.06 trillion mark, representing 78% of the total NG tax collection, which is higher by 14.5% than the 2011 collection. The positive performance of the BIR was the result of the Bureau's priority programs such as the enhancement of voluntary compliance among taxpayers, Run After Tax Evaders (RATE) and "Oplan Kandado". The Bureau of Customs (BOC) which contributed PhP289.9 billion or 21% to NG tax revenue exceeded its previous year's collection by 9.3%. This increase was due to the utmost effort of the BOC to restrain smuggling through the continuous implementation of the "Run After the Smugglers" (RATS) program. However, the BIR, the BOC and other offices were not able to meet their target collection for the year. Meanwhile, the 2012 combined collections of other collecting offices, namely, the Land Transportation Office (LTO), Department of Environment and Natural Resources (DENR), Bureau of Immigration and Deportation (BID), Bureau of Fire Protection (BFP) and Tourism Infrastructure and Enterprise Zone Authority (TIEZA) was PhP13.3 billion, representing only 1% of the total NG tax revenue.

With regard non-tax revenues, the Bureau of the Treasury (BTr) remained the major contributor as its income amounted to PhP84.1 billion, almost half of the total non-tax revenue collection of PhP173.9 billion in 2012. Fees and charges and proceeds from privatization shared 16% and 4.8%, respectively; while other non-tax revenues which include grants contributed 31% of the non-tax revenue pie. Growth-wise, government collection from non-tax sources increased by 10.1% from its collection of PhP157.9 billion in 2011.

2. Update of the Value Added Tax Gap: 2011 – 2012

The paper updates the VAT gap/leakage for the years 2011 and 2012 using the gap approach similar to previous estimates. Results of the study may be used as inputs to policy makers in the formulation of fiscal policy reforms.

In 2011, total collection from VAT rose to PhP383.31 billion with a 15.9% margin over the 2010 record of PhP330.79 billion. Both domestic and import VAT contributed to the increase with import VAT posting a remarkable growth of 27.1%. In 2012, total VAT collection further went up to PhP450.59 billion posting a 17.6% growth over the previous year's record. Import VAT increased by 10.4% (i.e., from PhP200.2 billion in 2011 to PhP221.0 billion in 2012), despite the decline in the value of imports associated with the appreciation of the peso. Domestic VAT, on the other hand, grew drastically by 25.4% due to the increase in GDP, particularly construction, utilities, trade and private services sectors. The utmost efforts of the BIR and the BOC in improving VAT collection should be given due recognition in this respect. As a result, the ratio to GDP (or VAT effort) escalated from 3.67% in 2010 to 3.95% in 2011 and 4.26% in 2012 due to reasons stated above.

The potential VAT revenue in 2012 was estimated at PhP596.01 billion, higher than the 2011 estimate of PhP538.62 billion by PhP57 billion or by 10.66%. After deducting the estimated presumptive input tax credit (PITC) allowed to certain subsectors (such as milk processing, fish canning, cooking oil, refined sugar, etc.) amounting to PhP1.09 billion in 2011 and PhP1.16 billion in 2012, net potential VAT revenue was posted at PhP537.53 billion and PhP594.85 billion, respectively.

With actual VAT collection of PhP383.31 billion in 2011, the VAT gap or leakage was estimated at PhP154.22 billion, representing 28.7% of potential VAT revenue. This indicates that tax authorities were able to capture 71.3% of the potential VAT revenue. In 2012, the VAT gap amounted to PhP144.27 billion or 24.25% of potential VAT revenue. Stated differently, the effective VAT rate (EVR) or the ratio of actual collection to VAT base was 5.77% in 2011 which was lower compared to the EVR of 6.16% in 2012.

While the VAT gap/leakage substantially declined, the tax authorities should continue to be vigilant on possible abuses of tax subjects particularly in the claims of tax credits and cases of under-declaration associated with non-issuance of invoices/receipts or issuance of fake invoices/receipts.

3. Estimate of the Individual Income Tax Gap: 2010 – 2012

The paper estimates the tax gaps or leakages between compensation income earners and those engaged in business and practice of profession from 2010 to 2012 using the “tax gap approach”. This entails a calculation of potential tax revenue and compare it against actual collection to determine how much of potential tax revenue is not collected.

For over a decade, the individual income tax contributed an average of about 21% of the total revenue collection of the BIR. In 2012, the total individual income tax collection amounted to PhP213 billion, of which 85% was contributed by compensation income earners and 15% by businessmen, professionals and self-employed individuals.

The estimated individual income tax gap from 2010-2012 averaged PhP42.5 billion of which PhP29.3 billion came from business owners/professionals and the remaining PhP13.2 billion from compensation income earners. On an annual basis, the tax gap/leakage among compensation income earners stood at PhP13.1 billion or 8.8% of the potential revenue in 2010, PhP11.7 billion or 6.9% in 2011 and PhP14.7 billion or 7.5% in 2012. In the case of business/professional income earners, the tax gaps stood at PhP24.1 billion in 2010, PhP30.6 billion in 2011 and PhP33.1 billion in 2012, translated into 49.6%, 54.0%, and 51.2% of the potential revenue, respectively.

The expansive tax gap from business/professional income implies that despite the rigorous effort of the BIR to fully capture this so-called “hard-to-tax” group in the tax net through its various programs such as “Oplan Kandado” project; the Run After Tax Evaders (RATE) program; the Enhanced Audit Program and the Tax Compliance Verification Drive (TCVD), among others, many self-employed and professionals are still able to avoid paying the correct amount of tax by under declaring their income and/or overstating their expenses, or by other means.

Unlike compensation income earners who are allowed only the personal and additional exemptions as deductions from their gross income, businessmen/professionals are allowed to deduct from their gross income certain expenses arising from their business activities in addition to personal and additional exemptions. Hence, the tax collection as a percent of income is higher for compensation income than for business/professional income. Moreover, the withholding tax on wages proved to be a very effective system in capturing the tax and it is the reason why the tax gap/leakage on compensation income remained lower than on business and professional income.

The paper suggests introducing structural reforms on the taxation of professionals and self-employed individuals by developing an electronic database on professionals and self-employed individuals for more effective tax enforcement and for the conduct of comprehensive tax policy studies, use of third party information and “name and shame” tax ad campaign.

4. Review of the Philippine Debt Profile: 2000 - 2011

The paper reviews the Philippines’ debt profile from 2000-2011 and the prevailing issues and concerns surrounding the country’s debt management to serve as input to fiscal policymakers.

The country, like any other developing countries, has relied mostly on borrowings to augment its meager resources. The country’s total national government (NG) debt denotes all debts incurred not only by the NG but also by government owned and controlled corporations (GOCCs) wherein the government guarantees or assumes their liabilities which are known as contingency liabilities. It also includes all debt instruments (treasury bills/bonds and notes) issued by the Bureau of Treasury (BTr) and the Bangko Sentral ng Pilipinas (BSP) as well as loans in the form of Official Development Assistance (ODA) entered into by the Philippine government composed of domestic and foreign borrowings with short, medium and long-term maturities.

The NG debt portfolio was mainly long-term in tenor. The shift from short and medium term debts to longer maturities helped the government managed the country’s debt payments. Foreign debt which is mainly composed of debt securities, like bonds and notes, had an average annual share of 54%

of total foreign loans from 2000-2011. These foreign debt securities were solely utilized for budgetary support while loans borrowed from multilateral, bilateral and commercial lending institutions were used for the implementation of programs of leading national government agencies.

Debt indicators are important tools to generally determine the impact of government borrowing on its budget and expenditures. Examples of these indicators are the ratio of debt- to-Gross Domestic Product (GDP), relationship between debt and revenue, and debt service as a percentage of revenue or expenditure, debt service ratios, among others. **Debt-to-GDP ratio** measures the indebtedness level that indicates the country's ability to pay back its debt. On the other hand, **debt-to-revenue** ratio is an important calculation in evaluating the government's ability to manage its debt.

It may be worth mentioning that based on the report made by the Central Intelligence Agency (CIA) in 2011, the Philippines ranked number 55 out of 145 countries in terms of debt-to-GDP ratio. Many of the countries with the highest ratios are considered to be developed countries that have viable plans to address a high debt-to-GDP ratio and the capability to lower its debt-to-GDP ratio. It must be noted that a high debt-to-GDP ratio is not necessarily bad as long as the country's economy is growing, since it is a way to use leverage to enhance long-term growth.

The average annual debt-to-revenue ratio of the country from 2000-2011 was 462% which means that the country's debt was almost five times its revenue which may result in problems of intergenerational equity as future generation will bear the burden of today's debt. With the constant increase in the debt-to-revenue ratio, it becomes more difficult to handle the national debt. Moreover, as national debt increases, interest payments also grow, putting an increasingly greater pressure on government's income and worsening the fiscal deficit.

Debt service is cash required over a given period for the repayment of interest and principal of debt. The country's debt service-to-GDP ratio grew from a low of 6.4% in 2000 and reached its peak in 2006 at 13.6%, the time when debt payment grew by 25.8%. Since then, the country's debt payments slowly moved downwards from 8.9% in 2007 to 7.4% in 2011. The debt service-to-revenue refers to the ratio between the annual debt service

and tax revenues during the same year. The country's debt service moved on an erratic trend from 2000-2011 but remained manageable. For the period under review, the country's debt payments shared an annual average of 62.85% of the total NG revenue. The debt service-to-expenditure measures the burden of the debt service in relation to the country's total expenditure. With the exception of 2008, the country's debt service and expenditure moved in the same manner.

There have been concerns with respect to the Philippines' swelling debts, one of which is whether or not the country is within an acceptable level of *debt sustainability*. Credit rating agencies stress the need for every country to have an appropriate system of debt sustainability assessment that serves as an important tool to efficient public debt management and building financing strategy, aligned to economic growth of a country. The Debt Sustainability Analysis (DSA) is a study of a country's medium-to-long-term debt situation, jointly undertaken by the International Monetary Fund (IMF), the World Bank (WB), and the country concerned and is used as the basis for a country's eligibility for support.

Based on the report of the IMF on the country's projected public sector debt sustainability for 2012-2016, the outlook is favorable with debt-to-GDP and debt-to-revenue ratios consistently showing improvements. It is said that a high debt level could be perceived as sustainable by investors if it is decreasing. The country's projected debt sustainability from 2012-2016 depicts downward sloping trends in debt indicators of debt-to-GDP and debt-to-revenue that lead to further improvement in market perceptions. However, although the country's debts for 2012-2016 are predicted to be sustainable, it is still fundamental for the government to practice proper debt management by ensuring that public debt programs are neither bunched-up by spreading/lengthening the maturity profile of debts of the government, both domestic and foreign, to avoid illiquidity nor being excessive, thus, the need for debt ceiling to avoid insolvency. It is also important to consider other economic factors such as a stable exchange rate, a well planned debt payment profile, among others, in order to maintain a manageable debt level.

The Philippines religiously abides by the policy on *automatic appropriation* for debt and other debt guarantees contracted by the government from international financial institutions. The provision of law on the automatic

appropriation of debts in the Philippines is embodied under Section 31(B) of Presidential Decree (PD) No. 1177, or the “Budget Reform Decree of 1977”, which dates back to the Marcos regime. Said debt service feature was reiterated by President Corazon C. Aquino when she issued Executive Order (EO) No. 292, or the “Administrative Code of 1987”, which grants the President the power to realign the budget and provide for automatic appropriation for debt services without the need of approval from Congress. There have been initiatives in the past to amend PD 1177 particularly on the grant of automatic appropriations on debt servicing. Several legislators went to the Supreme Court (SC) to question the executive department’s continuing enforcement of PD 1177 and other related decrees issued during the former President Marcos’ time on automatic foreign debt servicing. The SC ruled that unless Congress repeals the laws pertaining to the automatic appropriation of debt service, the executive department could continue to implement them.

Automatic debt payment takes precedence over all other government expenditures. The statutory debt appropriation is necessary so that the country will not incur defaults in payment which could mean accumulation of interests. Also, automatic debt servicing not only sends positive signal to credit rating agencies but also restores confidence of international creditors on the Philippines’ capacity to pay its financial obligations and to make sure that the country’s credit standing is always preserved and protected.

Debt cap is an arbitrary limit set by Congress on the amount of money that a government can borrow. It is believed that having a limit on government borrowings will prevent excessive debts. Excessive borrowing hinders economic growth and poses undue disadvantage to the future generations as they will be made to pay for today’s government expenditures. The setting of a debt cap is to encourage the practice of prudent spending by the government and to ensure that the proceeds of the debt are effectively allotted to the country’s economic development. It likewise prevents excessive contracting of loans and expenditures over and above the government revenues.

In the Philippines, Section 2 of RA 4860 (authorizing the President of the Philippines to obtain foreign loans and credits to finance approved economic development projects) provides for a limit on the amount of foreign loans that the President may contract which should not exceed US\$10 billion or its equivalent in other foreign currencies at the exchange rate prevailing at the time

the loans, credits or indebtedness are incurred. However, with regard to domestic borrowings, there is no statutory limit provided under the Philippine laws. There have been proposals in the past that debt ceiling should be imposed in the country but the same has failed to materialize. It is also believed that the imposition of a ceiling on public sector indebtedness will force the government to constrict spending instead of having the flexibility in managing the country's finances to stimulate economic growth.

Almost all countries resort to borrowings either to finance government activities or to pay its debts. When revenue is not enough to cover the expenditures, then borrowing becomes a viable activity, provided the government has the ability to pay. Debt service actually does not pose a serious burden to NG's revenue as long as enough new money goes to the government budget to pay for it. Thus, the government should provide impetus to bring the economy to a higher level of income so as to shield the country from debt trap. Proper debt management should also be in place in order to avoid payment defaults and/or debt service eating up much of the revenues of the government (debt overhang). This notwithstanding, the preservation of the good credit standing of the country is of greater significance in order to protect the economy and encourage foreign investors to put up their businesses and resources in the Philippines thereby, producing more economic activity and higher revenues that would eventually lead to the country's less dependence on borrowings.

5. Taxation and Incentives of the Philippine Electronics Industry

The paper provides a profile of the country's electronics industry and its contribution to the Philippine economy. It discusses and examines the taxation of the industry. It also assesses and compares the incentives granted to industry players with those available in other neighboring countries.

The Philippine electronics industry began in the 1960s when electronics companies from the United States and other liberalized countries located their subsidiaries in the country primarily due to rising labor costs. From then on, the Philippine electronics industry has expanded and has become an import-export base of electronic products. In fact, in the mid-1990s, agricultural products were overtaken by electronic products as the leading

exported products of the country. In 2011, electronic products shared almost half of the total exports of the Philippines. Moreover, the electronics industry contributed significantly to the manufacturing sector's total output, investments, as well as employment generation.

It is worthy to note that the industry is dominated by multinational companies. Among the 936 major players in the country, 72% or 674 companies are foreign-owned while the remaining 28% or 262 companies are locally-owned.

The Philippine electronics industry is both highly export-oriented and import-reliant industry. Also, the industry is considered a highly technical labor-intensive business since it mainly involves activities like assembly and testing. In order to be globally competitive, industry players operate with international standards (ISO) and conduct regular and timely in-house training programs for their employees. They also practice the best known methods in manufacturing such as the 5S method.

Due to the impressive contribution of the electronics industry to the country's total exports and the economy as a whole, the government deems it proper to extend tax incentives to the sector in order to provide assistance as well as to encourage more international electronic companies to locate their subsidiaries in the country. Electronic and semiconductor enterprises locate their businesses in economic zones (ECOZONES) and register with the Philippine Economic Zone Authority (PEZA) to be entitled to a wide array of incentives. However, the mere grant of tax incentives to investors is not enough to entice them to invest in the country. According to literatures, investors give more emphasis on having a sound investment climate, political and economic stability, provision of infrastructure and a stable financial system. It is also alleged that tax incentives are used by many governments to make up for its inability to provide adequate infrastructure, deficiencies in skilled labor, and scarcity in raw materials.

Fiscal incentives extended to investors entail cost to the government in the form of foregone revenue. Since the Philippines, like any other economies, offers fiscal incentives to attract investments, it is imperative that these are properly designed, administered and are ultimately able to achieve the ends for which they are extended. The main rationale for the grant of tax

incentives is to forego revenue for a limited period of time so as to attract investments that will in turn spur employment, exports, upstream and downstream linkages, and economic growth.

The country's tax incentives package to electronic manufacturers are comparable with other neighboring countries. In fact, the Philippines is even more liberal as it offers income tax holiday (ITH) unlike Korea, Thailand and Malaysia. However, it cannot be denied that the Philippines is not at par with the said countries when it comes to attracting investments.

While the importance of providing adequate tax incentives is emphasized, the provision of a good investment climate (peace and order, adequate infrastructure and sound macroeconomic policies, among others) is deemed equally significant. A sound investment climate coupled with tax incentives would offset foregone revenues via expanded tax base created by such investments, providing government with array of economic activities that it can tax.

There are problems which are not only peculiar to the electronics industry but are nonetheless considered obstacles that hamper the industry's growth and global competitiveness such as scarcity of raw materials and low investments in research and development (R&D) in the country. Addressing these issues would lower the import requirements of the electronic companies which would consequently translate to higher net income for the industry and higher revenue collection for the government.

6. Profile and Taxation of the Philippine Fast Food Industry

The paper examines the contribution of the country's fast food industry to the economy as well as the taxes imposed thereon. It also identifies opportunities for growth and the challenges that fast food chain owners face to further improve the industry performance.

"Fast foods" refer to types of food that can be prepared and served very quickly. They are characterized as easy to prepare, accessible and cheap alternatives to home-cooked meals. Fastfood chains, also known as "quick service restaurants", serve these types of food to customers packaged

for immediate consumption, either on or off the eating premises. Fast food customers normally order at the counter and pay before eating.

Based on the 2009 Survey of Tourism Establishments in the Philippines (STEP) conducted by the National Statistics Office (NSO), the country had a total of 13,119 establishments engaged in food and beverage service activities while data from the Euromonitor International, the world leader in strategy research for consumer markets, shows that there was a total of 160,263 food service units/outlets in the Philippines in 2010, of which 5,411 were in the fast food sector.

Based on NSO data, the entire food and beverage service activities generated a total employment of 230,914 in 2009, of which 91,240 were employed by fast food chains. Among the popular fast food chains in the country are Jollibee, McDonald's, Chowking, Mang Inasal, KFC and Greenwich. They hold, on the average, about 80% share in the total market value of the entire fast food industry.

A number of factors and strategies, both external and internal to the fast food industry, are contributing to its continuing growth. The demand side drivers of the fast food industry, such as growing population, economic growth, fast changing lifestyle, among others, push the fast food sector to bigger opportunities and greater heights. On the other hand, although the fast food industry is robust as well as fast developing, it is not without problems and challenges. Economic downturn, increasing commodity prices, stiff competition, and customers' move to healthier lifestyles are some of the threats facing the industry today.

As of December 2012, there were 32,689 BIR-registered restaurants, cafes and fast food centers in the country. However, it can be noted that not all of these BIR-registered restaurants, cafes and fast food centers paid taxes to the BIR from 2007-2012. In fact, out of 32,689 registered establishments in 2012, only 10,512 establishments or less than one-third actually paid income tax and almost the same number paid business tax (either VAT or the percentage tax, whichever is applicable) and other taxes. The low number of BIR-registered restaurants, cafes and fast food centers with tax payments was because some establishments only achieved a "break-even" or ended up with net losses, while some had no recorded operation/transaction during a specific year.

Moreover, the number of BIR-registered food establishments was scant when compared to the count of Euromonitor International on the number of food service establishments in the country which means that many are escaping the ambit of taxation. It is also noted that there are food establishments that are consistently included in the Top 1,000 Corporation and yet are not among the Top Taxpayers of the BIR. Thus, despite the continuous increase in gross revenue and net income and high gross profit margins, the effective tax rates (ETRs) of some fast food establishments remained low. In particular, the ETR ranged from 0.9% to 3.8% even if they belong to the same line of business. This only implies that some fast food establishments were able to evade taxes and may therefore be flagged for audit by the BIR.

There is worldwide awareness and concern on the ill effect of eating fast food to the body. While personal responsibility for maintaining a healthy and active lifestyle is important, the government and the consumer industries must also play a significant role in balancing the promotion and development of the fast food industry without compromising the health of the citizenry. The Department of Health (DOH) and the Food and Drug Administration (FDA) should strictly monitor/regulate the quality of food that fast food stores are producing and make sure that these are safe for human consumption. The government may also explore the possibility of imposing a “fat tax” on fast food similar to the tax being charged by many European countries like Denmark, Romania, Hungary, Finland, France, Great Britain and Scotland and some States in America like New York and Alabama. The revenue that shall be collected therefrom may be exclusively used for the provision of health care services.

7. The “Resibo” Programs of the Bureau of Internal Revenue

The paper assesses the “resibo” programs undertaken by the Bureau of Internal Revenue (BIR) to determine their effectiveness in running after unscrupulous businessmen, professionals and self-employed individuals.

The monitoring of the issuance of receipts by business establishments is an essential aspect of effective tax administration. To emphasize its importance, the BIR has undertaken series of raffle programs to encourage

the taxpaying public to demand for receipts of their purchases of goods and services, thereby compelling business establishments to issue official receipts (OR) or sales invoices. Among the raffle programs conducted by the BIR were the “Humingi ng Resibo, Manalo ng Libo-Libo”, “Humingi ng Resibo, Milyun-Milyong Panalo” and “Humingi ng Resibo, Milyun-Milyon Pa Rin and Panalo” conducted in 1998, 1999 and 2000, respectively, “Bayan I-Txt ang Resibo” in 2003 and 2004 and the most recent is the “Premyo sa Resibo” which was launched in June 2006.

Considering the positive impact of the “resibo” programs of the BIR in revenue collections, the BIR and the Department of Finance (DOF) together with the Philippine Amusement and Gaming Corporation (PAGCOR) and PhilWeb Corporation (PhilWeb) entered into an agreement in 2006 to undertake another nationwide electronic raffle called “Premyo sa Resibo (PSR)” program. The PSR is an incentive and reward program to support the BIR in its effort to plug leakages in the collection of proper taxes from business establishments due to non-issuance of appropriate receipts or failure to declare correct receipts in selling of goods or services to the public. Like the previous raffle programs, the PSR program also gives away cash and non-cash prizes which totaled to more than PhP190 million from June 2006 – September 2013.

Entries to the PSR raffle are sent through the SMS indicating the TIN of the issuer of the OR, receipt number and receipt amount. Each valid SMS entry is issued an Entry Confirmation Number (ECN) while invalid SMS entries are sent corresponding error messages. Valid entries qualify for a free prepaid load prize of PhP30 in a daily raffle. Each SMS entry is charged PhP2.50. Non-winning entries still have a chance to win PhP1 million in the grand draw. The PhilWeb takes charge of prizes. A prize check is prepared by the PhilWeb upon submission by the winner of the required validation documents. The cash prizes involved in the PSR are sourced from the money earned out of the SMS entries and are given to participating taxpayers only.

Since the PSR aims to raise public awareness on the importance of asking for receipts/invoices, the BIR provides the consumers a medium to report non-issuers of receipts through the establishment of the “No Official Receipt (No OR)” reporting facilities that are intended to accept complaints

or reports against individuals or business establishments for not issuing OR/sales invoices.

A similar proposal, HB 2266, otherwise known as the “Voluntary Tax Compliance Incentives Act of 2013” seeks to conduct a quarterly raffle of ORs and grant incentives in the form of cash prizes to be given to both the buyers of goods and services and issuers of ORs or sales invoices. Also, there is no additional cost on the part of the participating taxpayers as the ORs are the ones to be raffled. The cash prizes will be taken out of the Priority Development Assistance Fund (PDAF) of the participating Member of the House of Representatives.

Considering the success of the existing “resibo” programs of the BIR and the knowledge and capability of the said agency in implementing the same, another resibo-related proposal is no longer necessary. The good features of the proposed raffle activity may, however, be incorporated in the existing PSR to further improve the latter. For one, the BIR may, on its own, undertake the PSR program just as it did in the previous “resibo” programs of the government so as not to pass its implementation to a private corporation. Also, the BIR should consider the possibility of devising a mechanism wherein the senders will not be charged so as not to impose additional cost to the participating taxpayers in sending raffle entries through SMS. The PSR program should likewise grant cash incentives to business establishments to motivate them to issue receipts/invoices. In addition, the BIR should intensify its promotion of the PSR so that more people would know about the objective of the said program and entice them to join the same. The PSR does not only give chance to people to win prizes but also educates the public regarding the importance of the issuance of BIR-authorized or registered receipts/invoices in tax administration.

Along with the grant of raffle cash prizes to promote tax consciousness and encourage tax compliance, the BIR should likewise continuously and rigorously implement its 26-point program which include among others, the Run After Tax Evaders (RATE), Oplan Kandado, Tax Mapping and TCVD, the use and matching of third party data and information of systems and processes. More importantly, the BIR should maintain its high quality service to ensure taxpayer satisfaction that will enhance voluntary tax compliance and improve tax collection.

8. Top Corporate Taxpayers in the Philippines for Taxable Years 2009-2011

The paper examines the country's top 500 non-individual taxpayers for taxable years 2009-2011. It also analyzes the profile of the top taxpayers as well as their effective tax rates (ETR) and identifies the top corporations which are consistently included in the Business World (BW) ranking of top corporations but not listed among the BIR's 500 top taxpayers.

The top 500 corporate taxpayers in 2011 were engaged in various activities, majority (25%) of which belong to the manufacturing industry, followed by wholesale and retail trade, 15%; financial and insurance activities, 14%; real estate activities, 11%; and electricity, gas and water, 7%. The remaining top taxpayers were engaged in transportation and storage, information and communication and administrative support activities, among others. A more or less similar distribution of top taxpayers, by industry is observed in 2009 and 2010.

In terms of income tax paid, the top 500 corporate taxpayers paid a total income tax amounting to PhP144.5 billion in 2011 which accounted for 43% of the corporate income tax (CIT) collection of the BIR during the year. Of the amount paid in 2011, the top taxpayers in manufacturing sector contributed 28%; electricity, gas and water, 15%; information and communication, 13%; real estate activities, 8%; mining, 7%; wholesale and retail trade, 7%; financial and insurance activities, 6%; and other industries, 16%. The same industries contributed the bulk of the income tax collections in 2009-2010.

On the other hand, the Top 10 corporate taxpayers paid a total income tax amounting to PhP53.98 billion in 2011, up from over PhP40 billion in 2009 and 2010. Their income tax payments in 2011 accounted for 37% of the total income tax paid by the Top 500 Corporate Taxpayers or 16% of the total CIT collection during the same period. The ETR or ratio of income tax paid to gross revenue in 2011 of the Top 10 Corporate Taxpayers are as follows: Shell Phils Exploration, 25%; Chevron Malampaya LLC, 24%; Smart Communications, Inc., 12%; SM Prime Holdings, Inc., 11%; Petron, 1%; MERALCO, 3%; San Miguel Brewery, Inc. and Globe Telecom, Inc., 8%; and PMFTC, Inc., 5%. These imply

that while some top taxpayers contributed as much as a quarter of their gross sales receipts as income tax in 2011, others shared only 1-3%.

It may be worth mentioning that corporations registered with the country's Investment Promotion Agencies (IPAs), specifically the Board of Investments (BOI) and the Philippine Economic Zone Authority (PEZA) may have low ETRs due to the fact that they enjoyed ITH and/or were subject to the 5% special tax on gross income in lieu of national and local taxes. Also, a comparison of ETRs among top corporations engaged in similar activities shows that the ETRs varied and each taxpayer registered erratic ETR year by year. Therefore, it is recommended that top revenue grosser with very low ETRs and corporations engaged in the same line of business with incomparable ETRs be flagged for audit by the BIR.

9. Major Developments on the Excise Taxation on Distilled Spirits in the Philippines

The paper presents the historical development of distilled spirits in the Philippines and discusses the implications of the newly enacted RA 10351 (Restructuring the Excise Tax on Alcohol and Tobacco Products, January 1, 2013) in relation to the requirements of the World Trade Organization (WTO).

The imposition of an excise tax on certain goods is a policy instrument aimed at achieving two objectives, i.e., to influence the behavior of consumers of certain goods and to generate government revenue. In the Philippines, an excise tax is levied on alcohol and tobacco products, also referred to as sin products, non-essential articles, and on products that usually produce negative externalities, e.g., petroleum and automobiles.

Act No. 1189 or the first Internal Revenue law enacted in 1904 listed down the tax on distilled spirits as one among the thirteen (13) revenue sources of government. During the early years, a uniform excise tax of PhP0.20 per proof liter was imposed on distilled spirits. Subsequently, Act No. 2339, which was approved on February 27, 1914, introduced the differential tax rates on distilled spirits based on raw materials. Since then, several laws were subsequently enacted raising the rates of tax on

distilled spirits, i.e., Act No. 2711, Commonwealth Act (CA) No. 466, and RAs 56, 219, 589, 592 and 2258.

The approval of RA 5449 on September 25, 1968 distinguished manufacturers of distilled spirits into big and small distillers and provided for lower specific tax rates as an incentive to encourage small distillers to register with the BIR and pay the specific tax. Congress took note of the fact that small distillers and their patrons generally belong to the low-income group and that small distillers cannot compete with big distillers.

On January 1, 1973, Presidential Decree (PD) No. 69 revised the tax base by differentiating between distilled spirits produced domestically from locally produced raw materials vis-à-vis imported distilled spirits or distilled spirits produced from imported raw materials. This was intended to protect the domestic industry from foreign competition. However, it maintained the proviso on small distillers.

On December 1, 1983, EO 923 reverted to the use of the phrase “If produced from the sap of nipa, x x x” and added the phrase “Provided such materials are grown commercially in the country where the distilled spirits are produced”. It maintained the provisos on small and big distillers and importers in spite of the Philippine commitment to the General Agreement on Tariffs and Trade (GATT) on January 1, 1980. On the other hand, EO 947 (issued on March 29, 1984) abandoned the reference to locally produced and imported raw materials in adherence to the country’s GATT commitment. This was carried over under the provisions of PD 1959 (issued on October 10, 1980).

On January 1, 1986, PD 1994 introduced the taxation of medicinal preparations, flavoring extracts, and all other preparations, except toilet preparations. It also imposed a 4% excise tax on compounded liquors. However, the effectivity of EO 273 on January 1, 1988 repealed the 4% tax on compounded liquors and in lieu thereof, a 10% value-added tax (VAT) was imposed. It also lowered the tax rate imposed under PD 1994. Effective January 1, 1990, RA 6956 raised the tax rates again to their PD 1994 tax levels.

On January 1, 1997, RA 8240 was enacted introducing the three-tiered excise taxation based on net retail price (NRP) on distilled spirits produced

from raw materials other than the sap of the nipa, etc. It also introduced Annex A that listed the brands and its tax classification based on the NRP as of October 1, 1996. RA 8240 expressly provided that the brands listed in Annex A will remain in their tax classification unless revised by Congress while new brands will be classified according to their current NRPs. These provisions were carried under Sec. 141 of the NIRC of 1997 via RA 8424 or the Tax Reform Act of 1997.

Effective January 1, 2005, amendments on the tax on distilled spirits were provided under RA 9334, otherwise known as the Sin Tax Law. It removed the big and small distiller classifications on distilled spirits. It also provided for an automatic 8% increase on the excise tax rates every two years starting January 1, 2007 until January 1, 2011. Likewise, it maintained the classification of brands for the same products which, although not set forth in Annex A, were registered and were being commercially produced and marketed on or after October 1, 1996.

In 2009 and 2010, the European Union (EU) and the United States of America (USA), respectively, filed a complaint relative to the Philippines excise taxation of distilled spirits. In particular, the EU stressed that the Philippines violated GATT 1994 III:1 and III:2 while the USA cited GATT III:2. It was argued that the Philippines' taxes on distilled spirits discriminate against imported distilled spirits by taxing them at substantially higher rates than domestic spirits which were inconsistent with Article III:2 of the GATT 1994. In August 2011, the Panel found that because imported spirits are taxed less favorably than domestic spirits, the Philippine measure is discriminatory and thus, violates the obligations under the first and second sentences of Article III:2 of the GATT 1994.

In response to these complaints, the Philippine government zealously pushed for the restructuring of the taxation of sin products, particularly on distilled spirits, through RA 10351 which was enacted and became effective on January 1, 2013. RA 10351 restructured the taxation of distilled spirits based on raw materials including the three-tiered specific tax rates by shifting to a compound or a combination of ad valorem and specific tax. It also abolished the provision on the prohibition on tax reclassification of distilled spirit brands provided under Annex A of RAs 8240, 8424 and 9334. Under this new regime, distilled spirits will be taxed in two stages, the first tax is based on NRP

and the second is based on per proof liter. The passage of RA 10351 addressed the complaints of the EU and USA by abandoning the use of raw materials as basis for taxation and by imposing a compound tax of ad valorem based on NRP per proof and specific tax per proof liter. Hence, all distilled spirits whether imported or locally produced are now subject to the same excise tax rates.

10. Deadweight Loss and Taxation

The paper introduces the basic concept of deadweight loss and its relevance in taxation. The term deadweight loss also known as the Harberger triangle is an economic concept that shows the excess burden to taxpayers resulting from the imposition of taxes. It is used to calculate the efficiency cost of taxes, government regulations and other market distortions. In addition, other basic economic concepts necessary to understand the concept of deadweight loss such as markets, supply and demand, elasticity and tax incidence are also discussed.

Deadweight loss is a loss to the economy with no offsetting gain because the overall deadweight loss reduces production, investment, and economic growth. It generates neither revenue nor gains for any other party. Simply put, it is composed of both welfare losses to buyers and sellers. Thus, it is often referred to as the excess burden of taxation. Also, the deadweight cost measures the value of the opportunities that are lost when taxes or regulations divert labor, land and capital from their best uses.

The size of deadweight losses is likely to be greatest where the actions of producers and consumers are highly responsive to after-tax prices. Hence, its size depends on the price elasticities of supply and demand. It is noted that elasticities of supply and demand measure how much sellers and buyers respond to the changes in the price and therefore, determine how much a tax distorts the market outcome. Thus, the greater the elasticities of supply and demand, the greater the deadweight loss from a tax while the smaller the elasticities of supply and demand, the smaller the deadweight loss from a tax.

Primarily, calculating deadweight loss is important because it measures the value of the opportunities that are lost when taxes divert resources from their best uses. In addition, understanding the magnitude and nature of the

deadweight loss is important in assessing the true cost of increased government spending and for shaping the appropriate structure of taxes. Moreover, any sensible policy analysis of alternative tax structures should involve comparing the revenue, deadweight loss and distributional consequences of the alternative tax options.

The idea that a tax base should be as broad as possible has its origin in the observation that the deadweight loss increases with higher tax rates, at an increasing rate. Thus, the broader the tax base, the lower the tax rate and the lower the deadweight loss in the aggregate.

Another important role of deadweight loss in tax studies is to determine the total cost of tax policy to taxpayers and its effects on the behavior of people which will be useful in revenue estimation of proposed tax bills. At present, the most common method of estimating tax revenue or loss is the static revenue estimate that assumes no behavioral response. In contrast, dynamic revenue estimates recognize the impact of tax rates on taxpayers' behavior even when they do not take into account any long term effects. This reflects the changes in behavior of people due to tax induced distortion that will provide a better estimate of revenue or loss from a change in tax policy.

The deadweight loss concept provides a measurement of the economic inefficiency due to the imposition of taxes. Making it a part of the revenue estimation process increases the accuracy of revenue estimates as compared to the use of static revenue estimate. In this regard, the revenue estimates of any proposed tax measure should include as much as possible the computation of deadweight loss to provide more accurate revenue estimates that consider the effect of taxes on the behavior of people and to enlighten fiscal policy makers about the real cost to taxpayers of any proposed tax and how to respond to such changes in behavior.

11. Profile and Taxation of the Philippine Jewelry Industry

The study provides an overview of the Philippine jewelry industry and its taxation including tax incentives and other benefits under RA 8502 (Jewelry Industry Development Act of 1998). It also assesses how well the said law meets its objectives and identifies issues that hinder the growth of the industry.

The findings of the study may serve as inputs in the formulation of a national program or a roadmap in developing the country's jewelry industry.

The operation of the industry is allegedly largely informal or underground which results in its marketing strategy being mostly limited to agents better known as *'kumares and suking alahera'* which later evolved as a local jewelry industry. In the 1990s, however, some industry players started to bring their operations to the open when they found a niche in the export arena.

In 1998, the government took a major step to promote and encourage the growth and development of the jewelry industry through the enactment of RA 8502. In recognition of the industry's potential to generate employment, enhance tax collection, increase the industry linkages to other sectors of the economy and encourage exports, certain tax incentives were granted to encourage local jewelers to join the formal sector and register with the Board of Investments (BOI).

The Philippine jewelry industry is composed of two sectors, namely: fine jewelry and costume jewelry sectors. Fine jewelry industry uses precious metals and stones in the manufacture of their finished products. In case of precious metals, gold and silver are at the top of the list while in the case of precious stones, diamonds and colored stones are the top choices.

About 80% of the players in the fine jewelry industry are small firms, 10% are medium enterprises and the last 10% are large companies. The small firms usually cater to the local market; medium firms may be engaged in both local and export markets, and large firms, mostly export oriented. The Department of Trade and Industry (DTI) estimates that there are about 10,000 cottage-type firms engaged in fine jewelry scattered all over the country.

The fine jewelry sector is divided into two markets: local and international. The local jewelry business consists of independent jewelers and chain jewelry stores. The independent jewelers offer fashion jewelry items while chain jewelry stores focus on several product categories such as diamonds and usually cater to the bridal market.

On the other hand, costume jewelry is categorized by the DTI as fashion accessories. Like fine jewelry, it is also an export-oriented industry.

Fashion jewelry items are considered seasonal as the demand changes according to fashion trends. The costume jewelry industry is heavily dependent on local raw materials, which are sourced from coastal provinces such as Samar, Leyte, Bohol and Panay Islands.

It is estimated that there are about 2,000 firms in the costume jewelry of which only about 100 are engaged in both manufacture and export. The industry is composed of gatherers, assemblers, exporters and other related suppliers. Costume jewelers cater to both local and export markets. DTI data reveals that fine jewelry export is a promising industry as indicated by the continuous growth from a total of US\$36.91 million (PhP1.52 billion) worth of fine jewelry export in 2006 to US\$95.73 million (PhP3.93 billion) in 2012.

At present, the governing law on the taxation of the jewelry industry is the NIRC as amended by RA 8502 issued in 1998. Section 150(a) of the NIRC, categorized jewelries as non-essential goods with an excise tax rate of 20% based on the wholesale price if locally produced or the value used by the Bureau of Customs (BOC) in determining tariff and customs duties, if imported. However, for the so-called qualified jewelry enterprises (QJEs) or those which are duly registered with the BOI, there are various tax incentives and benefits that may be availed of pursuant to RA 8502. To avail of the incentives and assistance, the jewelry enterprises must register with the BOI and apply for accreditation under RA 8502.

There were approximately 262 identified jewelry enterprises as gathered from the different jewelry industry associations and from PhilExport as of 2011. Out of the total number of firms, only 100 registered as QJEs with the BOI between 1998 and 2011. During such period, on the average, only about 25 firms registered either as new registrants or renewed their accreditation. It was also gathered that only one firm consistently registered for 11 years since RA 8502 has been implemented.

It can be said that the benefits under RA 8502 have not yet been fully availed of by the jewelry industry. Most of its members opted not to register due to perceived difficulties in the registration. It is gathered from industry players that the procedures for registration and renewal are tedious and repetitive and that the fees are cumbersome. According to them, there

are voluminous documents required in order to be accredited and in the annual renewal of accreditation, the set of documents previously submitted are required to be re-submitted. The compilation of such documents is costly as each requirement needs either to be authenticated or notarized. There is therefore a need to streamline the registration and accreditation procedures. A 3-5 year renewal period may be considered in lieu of the yearly renewal of accreditation. The long list of documentary requirements may be shortened to the most important documents only.

Despite the non-registration as QJEs, excise tax collection on jewelry is still low, which means that most of the jewelry enterprises either operate underground or do not properly pay the tax. The BIR should therefore focus its tax mapping activities in known places where most local jewelers operate. There is also a need to monitor domestic sales of jewelry manufacturers and intensify campaign against smuggling. This can be done by strictly requiring the issuance of official receipts and the corresponding sanctions/penalties to those who fail to comply be applied.

The jewelry industry provides a window of opportunity. As can be gleaned from the DTI data on jewelry export, the industry has a great potential. At present, tax concessions and incentives are already in place such as incentives under RA 8502 and trainings offered by the Technical Education and Skills Development Authority (TESDA) and other jewelry institutions. What the jewelry enterprises need now is a massive promotion of their products in the international market.

12. Real Property Taxation Reforms in the Philippines

The paper discusses the reforms initiated on the taxation of real properties under the National Internal Revenue Code (NIRC) of 1997 and Local Government Code (LGC) of 1991. It also reviews the revenue performance of national and local real property related taxes from 2007 up to 2011 to provide insights on how these taxes fared during the said period.

Real property taxation in the Philippines is done both at the national and at the local level. National property-related taxes include the capital gains tax (CGT), and value-added tax (VAT) on the sale or transfer of real property,

estate tax, donor's tax, and documentary stamp tax (DST). At the local level, the taxes include basic real property tax (RPT), special education fund (SEF) tax, socialized housing tax, special levy, transfer tax and the idle land tax.

National real property-related taxes are based on whichever is the higher between the values as determined by the BIR Commissioner and assessors of the LGUs. The problem with the use of these values is that both are not regularly updated or revised and therefore do not reflect the current market prices. This undermines the collection of the taxes on real property at the national and local levels. The differences in the values used for taxation purposes are the result of differences in the valuation methodologies and procedures adopted by the BIR and the LGUs which was also compounded by the infrequency or differences in the dates of revision or adjustment of values. Also, the absence of an adequate technical supervision on valuation matters prompts local assessors to operate independently thereby spawning multiple systems and methods of property appraisal among different provinces and cities. This in turn creates confusion in the public mind and a lack of confidence in the valuation system especially when different values are attributed to the same property. Thus, it is recommended that a single valuation base for all taxes on real property and uniform valuation standards be adopted. These will eliminate the current duplication of efforts involved in applying different valuation methodologies at the national and local levels and ensure that a nationally consistent, equitable, and impartial valuation system for real property is put in place.

While the adoption of a single valuation base is a long-term policy reform objective, the DOF and the BIR have embarked on the revision/ updating of zonal values to increase the collection of national internal revenue taxes that use zonal value as base thereof. On the other hand, to improve the collection of real property taxes at the local level, the DOF and the Department of Interior and Local Government (DILG) issued Joint Circular 2010-01 reiterating the LGC provision on the revision of property assessments every three (3) years.

To promote integrity and confidence in the property valuation and appraisal practices in the country, the DOF issued Department Order No. 37-09, prescribing the Philippines Valuation Standards. This is a major change in the valuation system under the Land Administration and Management Project

Phase 2 (LAMP2), a program undertaken by the government to introduce reforms in the land administration system and enable land resources to contribute more meaningfully to the socio-economic development goals of the country. For purposes of property taxation, the implementation of these standards is mandatory to all local government assessors and other concerned DOF agencies. The private sector valuers are also required to comply with these standards when undertaking valuations for non-taxation purposes on behalf of LGUs, NGAs or other public or private sector clients.

To improve the capacity of local assessors in the performance of their duties and responsibilities, the LAMP-BLGF also developed and issued the Mass Appraisal Guidebook and is conducting enhancement workshops on Basic Course on Mass Appraisal.

One of the significant issues against the present system of property valuation in the country is the appointment of local assessors with insufficient or inappropriate qualifications. The NTRC study in local finance notes that the LGC provision giving Local Chief Executives the authority to appoint local assessors largely contributed to the problem as it made the valuation process vulnerable to political influence and direction. To address this problem, RA 9649 (Real Estate Service Act) was enacted into law in 2009. This professionalizes the real estate service practice and transfers the regulatory function of the Department of Trade and Industry (DTI) to the Professional Regulation Commission (PRC). Through the Professional Board of Real Estate Services (PBRES) it has direct supervision and regulatory control over the real estate service practice, which include adherence to a professional code of ethics of real estate service practitioners. Also, for the first time both the public and private sectors become unified under a single integrated association.

Another step towards the professionalization of valuation practice in the country is the offering in academic institutions of formal courses in land management and valuation practices.

The reforms undertaken by the government will definitely contribute towards improved and enhanced revenue productivity of property-related taxes. The national and local governments should continue their efforts to improve property taxation in the Philippines, viz: (1) continue pursuing

activities in support of the Valuation Reform Act (VRA); (2) harmonize the property classification by the BIR as per schedule of zonal values and LGUs' SMV; (3) encourage local chief executives to enforce the civil remedies for the collection of delinquent taxes which is largely a matter of political will; (4) create a delinquent accounts section in the Treasurer's Office; (5) establish a complete and accurate real property database in LGUs; (6) synchronize assessment records with the collection records of Individual taxpayers; and, (7) strengthen linkages with other officials and agencies such as the Register of Deeds and real estate dealers who are sources of property information.

13. Local Government Credit Financing

The study provides alternative sources that LGUs with limited funds can tap to finance local infrastructure and other socio-economic development projects. It describes local credit financing as a non-traditional source of funding these projects.

Local credit financing refers to the power of LGUs to create indebtedness and to enter into credit and other financial transactions. It allows LGUs to accomplish development projects and gain benefits, at current prices, with the cost of the projects being paid later.

The legal basis authorizing LGUs to create indebtedness and avail of credit facilities to finance local infrastructure and other socio-economic development projects in accordance with the approved local development plan and public investment program is provided in Book II, Title IV of the LGC of 1991. LGUs may also avail of credit lines from government or private banks and lending institutions for the purpose of stabilizing local finances.

Prior to the LGC of 1991, Presidential Decree (PD) No. 752 (Decree on Credit Financial for Local Governments) was issued to answer the increasing demands for additional sources of LGUs' financing. However, said law provides that, LGUs may incur loans only with government financial institutions (GFIs). Since the GFIs could not provide them enough program loans, LGUs continued to deal with insufficient funds. Moreover, PD 752

required unwarranted control on the credit transactions of LGUs and strictly limit the amount LGUs may borrow. The restrictions enforced evidently served as deterrents for LGUs to borrow.

The passage of the LGC of 1991 broadens the power of the LGUs to create indebtedness and to enter into credit and other financial transactions. Under the LGC, LGUs are authorized to create indebtedness and avail of credit facilities not only with GFIs but also from domestic private banks. LGUs are also authorized to acquire property, plants, machinery, equipment, and such necessary accessories under a supplier's credit, deferred payment plan, or other financial scheme. Under the LGC, the issuance of bonds, debentures, securities and other long term securities is also allowed subject to the rules and regulations of the Bangko Sentral ng Pilipinas (BSP) and Securities and Exchange Commission (SEC). Bonds issuances are used to finance self-liquidating, income-producing development and livelihood projects pursuant to the local development plan or the public investment program. The LGC also incorporates relevant provisions of RA 6957 (Authorizing the Financing, Construction, Operation and Maintenance of Infrastructure Projects by the Private Sector) on the build-operate-and-transfer (BOT) and build-and-transfer schemes. The BOT scheme is primarily a financing scheme where through contractual agreement, a contractor undertakes the financing of an infrastructure facility and turns this over to the LGU based on an arranged schedule.

Credit financing offers a number of benefits to LGU financial operations, among others: (1) LGUs can have a ready source of funds during low revenue collection periods; (2) they can attain flexible financial capabilities without having to wait for sufficient funds to accumulate from their savings; (3) with the participation of the private sectors, LGUs can augment quality investments with consistent and viable yields to investors and LGUs; (4) LGUs can promote early cost-recovery types of projects, thus crafting a faster and quicker way in processing local development and service delivery; (5) having access to private loan sources and investor markets benefits the LGUs as creditworthiness standards applied permit only the most viable commissions to be financed; and (6) private loan and investor market potential sources are relatively large compared to what might be available through central government-operated firms and institutions of subsidized credit.

14. Community Tax: An Update

The study assesses the revenue performance of the tax over the years and the issues affecting its growth to serve as basis in recommending reform measures that should be undertaken for this purpose.

The community tax is one of the oldest sources of revenue of local governments. The enactment of the 1991 LGC has transformed it into a local imposition to buoy up local revenues and enhance the financial capacity of LGUs. However, decades later, the community tax remains as one of the poorly administered local taxes. The various issues confronting the administration of the tax has slowed down its growth and prevented it from becoming an important local revenue source.

The LGC authorized the imposition and collection of the community tax by cities and municipalities in lieu of the residence tax, thus, transferring the taxing authority to local units. Basically, the community tax is similar to the former residence tax as to tax base and purpose, differing only to a certain extent in the tax rates but largely in the accrual of proceeds. Both individuals and corporations are subject to the tax.

The tax is levied on every inhabitant of the country, 18 years of age, or over who has been regularly employed on a wage or salary basis for at least one month during any calendar year or who is engaged in any business or occupation, or who owns real property with total assessed value of at least PhP1,000.00, or who is required by law to file an income tax return.

The community tax is paid in the place of residence of the individual or in the place where the principal office of the juridical entity is located. A Community Tax Certificate (CTC) is issued to every person or corporation upon payment of the tax.

The tax is primarily collected by the City or Municipal Treasurer. The Barangay Treasurer may be deputized by the local treasurer to collect the community tax in his/her jurisdiction, provided, that the collection shall be limited to the tax payable by individuals only and that the former is properly bonded. The proceeds of the tax accrue to the general fund of the city or municipality concerned. However, the proceeds of the community tax

collected by barangay treasurers are apportioned equally between the barangay and the city or municipality. The BIR is responsible for the printing and distribution of CTC to cities and municipalities. A portion of the collected amount from the tax is remitted by the city and municipal treasurer concerned to the national government to cover the cost and printing of the CTC.

The importance of the CTC as identification document has progressively diminished through the years. Save for the purpose of authenticating certain legal documents, the CTC is no longer solely relied upon for identification purposes in transactions with both public and private sectors. This is further amplified by claims that a syndicate has been producing fake certificates and selling it nationwide. This may be attributed, among others, to the failure of most LGUs to strictly enforce sanctions against falsification, altering or counterfeiting of the CTC.

Payment of the tax is mostly done on a voluntary basis. Because of this, some LGUs often resort to the setting of arbitrary levels of income for purposes of the tax. Moreover, the practice among treasurers of accepting information supplied by the taxpayers without verifying or cross-checking is quite prevalent. The present system does not provide for a way to check whether the taxpayer is paying the true amount of the tax. The non-payment of the true amount of the tax due has effectively deprived the LGUs with much needed revenues.

Despite its weaknesses, the revenue importance of the community tax cannot be ignored. It is considered as one of the stable sources of tax revenue of local governments. The nationwide collection from the tax averaged PhP1.37 billion, which is almost 2% of the total tax revenues of LGUs for CYs 2008 to 2012.

Presently, there is a bill pending at the Senate which seeks to scrap the use of the CTC. The proponent contends that the CTC has lost its significance and value, since other proofs of identification are already available. Hence, it has become an unnecessary burden imposed on the people who are required to present it when doing public transactions. The intent and purpose of the proposal is recognized, however, this may generate resistance on the part of LGUs unless it will be replaced by an alternative revenue source.

15. Tax Contribution of Women on Wage Employment

The study examines the participation of men and women in wage employment and determine their contribution to income tax collection.

To uphold the State's recognition of the role of women in nation building, the government embarked on gender and development (GAD) as one of its priority programs. The principle that development is for all and that everyone in society, female or male, has the right to equal opportunities to achieve a full and satisfying life to be able to contribute to development is the very heart of GAD. To support this principle, the Philippine Commission on Women (PCW) (formerly National Commission on the Role of Filipino Women-NCRFW), formulated the 1995-2020 Philippine Plan for Gender-Responsive Development (PPGD) which was approved by the President via EO 273 on September 8, 1995. Accordingly, all agencies are mandated to institutionalize GAD in government by incorporating the GAD concerns spelled out in the PPGD in their planning, programming and budgeting processes. To carry out and implement the programs outlined in the PPGD, the General Appropriations Act (GAA) since then allotted annually at least 5% of government agencies' total budget appropriation for the cost of implementing their respective GAD Plans.

In 2000, the government, along with other member countries of United Nations (UN), adopted the Millenium Declaration which brought forth eight (8) Millenium Development Goals (MDGs). The third MDG centers on the promotion of gender equality and women empowerment the target of which is to increase the share of women in wage employment in the non-agricultural sector.

Based on the data from the Bureau of Labor and Employment Statistics (BLES), there were a total of 37.6 million employed persons in 2012 of whom, 22.8 million male and 14.8 million female, or a share of 61% and 39% to total employment, respectively. During the same period, wage and salary workers represented more than half of the country's total employed persons. Of the total wage and salary earners, about 62% were male and 38% were female. In the non-agricultural sector, about 58% are men and 42%, women.

By industry (excluding agriculture, hunting and forestry and fishing), men dominated construction (98%); mining and quarrying (94%); transport,

storage and communication sectors (90%). On the other hand, women took the lead in private households (85%); education (75%); and health and social work (72%). It was only in hotels and restaurants that men and women had an almost equal share in the number of employment.

Based on 3,150,596 sample compensation income tax filers gathered from the BIR which represented about 28% of the total BIR-registered compensation income earners as of December 2012, male tax filers outnumbered women in case of single and married tax filers. Also, the number of dependents of male tax filers exceeded those of female tax filers. There were more married men with dependents possibly due to the fact that husbands are deemed the proper claimants of the additional exemption in respect to dependent children, unless he explicitly waives his right in favor of his wife in claiming the additional exemption.

As pointed out in a previous gender-related NTRC study conducted in 2000, it is believed that it was never the intention of the Tax Code to put women taxpayers in unequal footing with men taxpayers with regard to the claim for additional exemption for qualified dependents. The exclusive right to claim the additional exemption was given to the husbands since they are the usual claimants of the additional exemptions. Moreover, it was made in an effort to eliminate the malpractice of some employed husband and wives where both claim additional exemption allowances for their dependents in their respective income tax returns. However, it is still acknowledged that there is a need to eliminate this form of gender bias in the income tax provision of the Tax Code.

The total income tax collection from wage and salary earners amounted to PhP181.6 billion in 2012. Based on the sample compensation income tax filers, it is estimated that men contributed 60% and women, 40% to the total tax collection. By status, 51% of the collections from single tax filers were from male and 49% were from female single tax filers; 44% from male heads of family and 56% from female heads of family tax filers; 59% from male married tax filers and 41% from female married tax filers; and 56% from male with zero exemption and 44% from female tax filers.

The figures reveal the gap between male and female share in employment and tax contribution. The continuous collection of gender statistics by the

NSO/BLES is supported in order to monitor the progress in achieving the goal of promoting gender equality. It is also recommended that sex-disaggregated data on tax collection be regularly produced and collected by the BIR to be used in studies not only on personal income tax, but also on other types of taxes.

16. General Anti-Avoidance Rules (GAAR), Legal Provisions, Case Laws and International Experiences on GAAR

The paper discusses tax avoidance and the means employed by the government to minimize if not totally eliminate it.

Tax avoidance is defined as an attempt to minimize the payment or altogether eliminate tax liability by lawful means. It is considered as one of the forms of escape from taxation along with shifting, capitalization, transformation, evasion and exemption. Often called “tax planning” or more politely termed as “tax minimization”, it is used by the taxpayer of legally permissible alternative tax rates or methods of assessing taxable property or income, in order to avoid or reduce tax liability. The taxpayer uses tax saving device or means sanctioned or allowed by law, hence, the law is said to be not violated in any way.

Since it is technically a legal form of escape from taxation, it is not punishable by law. However, the use and abuse of the same have been recognized internationally as an area of concern primarily because of its detrimental effects on the revenue collection and other fiscal issues of the government. As such, this has been a major concern of tax authorities worldwide.

The GAAR is a set of broad and general principles-based rules enacted in the Tax Code aimed at counteracting avoidance of tax. It provides for statutory rule empowering revenue authorities to deny taxpayers the benefit of an arrangement that they have entered into for an impermissible tax-related purpose.

At present, the Philippines does not have a GAAR in its Tax Code. However, the Tax Code of 1997, as amended, imposes a number of sanctions and penalties to persons who shall avoid or evade the payment of taxes. There are also other administrative provisions and issuances which specifically impose

a penalty or fine on violators or persons who avoid or evade the payment of tax.

The Internal Chamber of Commerce (ICC), on the other hand, deems that the use of anti-avoidance rules on taxation is counterproductive and should be stopped as such establishes barriers to free cross-borders business. In a policy statement released by the ICC, it recognizes that tax authorities are entitled to curtail the deliberate avoidance of tax and to take measures they consider appropriate within the applicable legal systems, however, such rules must be reasonable and equitable, and respect at all times the fundamental principle of legal certainty essential for businesses. The ICC conveys its recommendations and urges governments to respect the principles they enumerated as follows: (1) tax authorities should respect the form of a legitimate business transaction even where such a form allows a reduction of overall tax costs; (2) specific anti-avoidance rules must be sufficiently clear and precise so that the taxpayer may be certain that a transaction which is in strict accordance with the law will not be put into question; and (3) to the extent that GAAR are adopted (abuse of law or its equivalent), the same need for legal certainty requires the observance of a number of principles.

17. Performance Indicators for Tax Administration

The paper focuses on the BIR's implementation of its Performance Governance Systems (PGS) as a performance indicator in assessing and evaluating how well it is doing in meeting its mandate as the country's tax collecting agency and achieving the desired outcomes. It also highlights the BIR's programs and projects that help achieve its goals and objectives in meeting the vision and commitments laid out in its PGS.

Internal tracking of a tax agency's performance is an important management practice and because of this, performance indicators are developed. Performance indicators involve the continuous collection of data on the operations of the organization in order to measure the extent to which objectives are met or desired outcomes are achieved.

The BIR's PGS was implemented through the issuance of Revenue Memorandum Order (RMO) No. 23-2011 on June 3, 2011 which outlines

the objectives that the BIR shall be focusing on in order to achieve its desired outcomes and align all resources and efforts to further improve the BIR's performance from 2011-2016. In the same vein, RMO 31 -2011 issued on July 27, 2011 prescribes the BIR's Key Performance Indicators (KPIs) for calendar year (CY) 2011-2016 to measure the performance of the BIR. Subsequently, RMO 24-2012 was issued on September 27, 2012, which prescribes the operational KPIs, Performance Monitoring and Performance Evaluation for the Revenue Regions (RRs), Revenue District Offices (RDOs), Large Taxpayers Service (LTS) and Large Taxpayers District Offices (LTDOs) for CY 2012.

The BIR PGS spells out the agency's perspectives and strategic objectives from 2011 to 2016. It is a management tool for tracking performance and enables the BIR to align its mission with its goals to further improve performance and strengthen governance in the bureaucracy. It has proven to be an effective performance indicator for the BIR for an effective tax administration.

Under the BIR PGS, outcomes are being achieved in the form of taxpayer satisfaction, quality of services to the taxpayers, and taxpayer compliance rate while organizational drivers to bring out the outcomes are geared towards strengthening good governance, improving assistance, compliance, and enforcement process as well as the development and satisfaction of human resources and the optimal management of resources. All of the four PGS perspectives (revenue, taxpayers, process and organization) are of equal importance to the BIR because anything with underwhelming performance would render any operation reforms ineffective.

The implementation of the BIR of its PGS has addressed key concerns on how the tax system could function optimally, particularly on instituting good governance and fighting corruption. Overall, the adoption of a more systematic procedure to efficiently identify and handle instances of noncompliance of the taxpayers by the BIR as logically laid out in its PGS is expected to further enhance revenue growth. Also, the continuing programs and projects of the BIR aimed at making it more responsive to the needs of the taxpaying public and in empowering its revenue personnel in the performance of their functions will likewise strengthen tax administration.

18. Information on Tax Treaty Vis-à-Vis Foreign Direct Investment of Selected ASEAN Countries and Revenue Collection in the Philippines

The paper provides background information on tax treaties which includes, among others, their brief histories and objectives. It presents some related literature on their effect/s on foreign direct investment (FDIs) and the level of investments of selected countries from the Association of South East Asian Nations (ASEAN) with which the Philippines has tax treaties. The study also presents the amount of revenue foregone from preferential tax treatment accorded to Philippine tax treaty partners.

A tax treaty is a colloquial term to denote an agreement between two (or more) countries for the avoidance of double taxation. It is the result of negotiation between the respective countries and is ratified by each country according to its domestic law. Double taxation treaties have a multitude of different names such as double taxation agreements, capital tax treaties, tax treaties, or treaties covering the taxation of investment and income.

There are two (2) broad categories of double taxation treaty. The primary type of tax treaty which is usually known as a comprehensive income tax treaty, covers income and (sometimes) capital gains. The second type of tax treaty which is usually referred to as a limited tax treaty covers inheritance (or estate) and gift taxes. Other limited tax treaties cover only particular types of income, such as shipping and air transport, or a treaty which only covers a particular tax. Further, some countries have concluded agreements on mutual assistance in collecting taxes.

The history of tax treaties goes back to the League of Nations, an international organization tasked to deal with the problem of double taxation after income taxes became important during the First World War and which developed a number of models for use in negotiation of bilateral tax treaties. The major modern successor to these models is the Organization for Economic Cooperation and Development's (OECD) Model Tax Convention on Income and on Capital (the OECD Model), which itself has gone through various versions. Of special interest to developing and transition countries is the 1980 United Nations (UN) Model Double Taxation Convention (the

UN Model), which was based on the 1977 OECD Model but designed to take into account the special interests of developing countries.

The purpose of bilateral tax treaties is typically expressed in their preamble to be “the avoidance of double taxation and the prevention of fiscal evasion.” In a book written by Peter H. Blessings entitled, *Income Tax Treaties of the United States*, he states that in broad terms, the two purposes of income tax treaties are to promote international trade and investment in several ways, the most important of which is by allocating taxing jurisdiction between the Contracting States in order to minimize the double taxation of income; and to permit Contracting States to better enforce their domestic tax laws in order to reduce tax evasion.

Latest data from the BIR reveal that the Philippines have thirty-seven (37) effective tax treaties. On January 22, 2013, the tax treaty with Qatar and Kuwait has been signed and ratified while that with Turkey and Sri Lanka are still pending Senate ratification.

Philippine tax treaties generally follow the OECD and UN Models but said to have unique provisions dealing with taxing fees for technical services (which is not adopted in actual Philippine tax treaties) and taxing profits from international air and shipping operations at source. Taxes that are covered under Philippine tax treaties include income taxes imposed by the domestic laws of the Contracting States, including substantially similar taxes that may be imposed later, in addition to, or in place, are covered by the tax treaties. Philippine tax treaties are generally limited to Title II (Tax on Income) of the NIRC of 1997, as amended.

Over the years, there have been a number of studies that look into the effect of tax treaties, double tax treaties (DTT) in particular, on FDIs. It is to be noted, however, that the results of these studies differ from each other, that is, it is either DTTs have negative effect, no effect, or a positive effect on FDIs.

In a study conducted by Blonigen and Davies in 2002, the authors found out that recent treaty formation does not promote new investments, contrary to the common expectation. In fact, they have noted that under certain specifications, treaty formation may actually reduce investment as predicted by arguments suggesting treaties are intended to reduce tax evasion rather than

promote foreign investment. The authors thought that DTTs inhibit the potential for tax avoidance by multinational enterprises (MNEs) which in turn discourages FDI and therefore, is a possible explanation for the negative effect that they found.

Another study conducted by Neumayer in 2007 which used a fixed effects model in analyzing the effect of DTTs on FDI between the US and developing countries, the author concluded that DTTs fulfill the purpose of attracting FDI and that those developing countries that have signed more DTTs with major capital exporting developed countries are likely to have received more FDIs in return. Another study conducted by Barthel et. al. in 2010 which use a sample of both developed and less developed country (LDC) economies showed that DTT are positively associated with foreign investments in the host country and that policy makers have resorted to an effective means to promote FDI by concluding DTTs.

Another study conducted by Taro Ohno, an economist at the Policy Research Institute of the Ministry of Finance of Japan in 2010, which did an empirical analysis as to how the tax treaties Japan executed influenced Japan's FDIs covering 13 Asian countries between 1981 and 2003. It revealed that among the tax treaties that Japan executed in the recent 20 years, newly concluded treaties had a statistically significant long-term positive effects on the investment scale, while tax treaties revised during the same period showed no significant effects on investment scale.

A study in 2012 entitled, *An Analysis of Double Taxation Treaties and Their Effect on Foreign Direct Investment*, conducted by Paul L. Baker, he concluded that there is very weak evidence of positive effect of DTTs on FDI. In fact, his more conservative interpretation of the evidence is that DTTs do not have any effect on FDI. According to Baker, as he looked at the top 10 developed country exporters, which account for 83% of the total developed country annual outward FDI flows, each one of them has a foreign tax credit or exemption mechanism (or some combination of the two) in place that unilaterally relieves double taxation regardless of whether it occurs in a treaty-partner country or not. If there is exposure therefore, to double taxation, a DTT is not needed to be in place to eliminate it; domestic provisions are present which achieve the same result. He further noted that to the extent that withholding taxes have the potential to affect FDI, because DTTs include negotiated caps

on the withholding taxes that the host country can impose, FDI will be encouraged. He mentioned the findings of Christians in 2005 that LDCs are increasingly unilaterally reducing their statutory withholding tax rates to make themselves a more attractive location to FDI regardless of a treaty.

As per available data, the bulk of total Investment Promotion Agency (IPA)-approved foreign investments from the four (4) ASEAN countries came from Singapore which averaged PhP7.1 billion annually in the last 16 years. This is followed by Malaysia and Thailand at PhP2.0 billion and PhP1.3 billion annually, respectively. In the case of Indonesia, its average foreign investments of PhP740.5 million in the last 16 years was attributed mainly to investments made in 1996 which amounted to PhP2.9 billion. After the year 1998, the next and last investments made by Indonesia in the country for the period was in the year 2006. The average percent share of each country during the 16 year period is as follows: Singapore's share is 68.9%; Malaysia, 19.8%; Thailand, 9.5%; and Indonesia, 1.8%. Considering the irregularity in the trend of the level of investments of the four (4) ASEAN countries in the country in the last 16 years, it may be logical to assume that there are a number of other factors which affect their decisions to invest in the country aside from the preferential tax rates accorded to the income derived by their investing firms or establishments by virtue of their tax treaty with the Philippines.

The BIR computed for the tax foregone from the grant of relief by getting the difference between the tax due that should have been paid by the foreign domestic corporation if it were to apply the tax rate as contained in the NIRC of 1997, as amended, and the tax as provided for under the tax treaty. Of the three (3) ASEAN countries, it is from Singapore that the biggest amounts of foregone revenues are posted, amounting to PhP4.6 billion or about 97% of the total. This may be explained by the fact that Singapore has the biggest percentage share in the level of investments in the country.

The total foregone tax revenue amounts to more than PhP4.7 billion but this is limited to three (3) countries only and covers only a number of years. The figure would be higher if all the other countries to which the Philippines have effective tax treaties will be considered. On the other hand, however, revenue foregone may not necessarily be considered foregone if Filipino investors in these countries, in return, are able to avail of the same amounts of incentives for their earned income. It may also be worth mentioning that said

foregone revenue may not necessarily be considered as foregone if it will be treated as the country's investment to create employment, acquire new technologies, and increase competitiveness in the domestic industry, among others, which in turn, generate taxable activities.

19. Comments on the IATA Letter on Restoring the Tax Exemption of Jet Fuel for International Flights as Required Under ICAO Policies and Bilateral Air Service Agreements

The paper is in reply to the letter dated September 23, 2013 of the International Air Transport Association (IATA) to Secretary of Finance Cesar V. Purisima requesting the Philippine government to urgently intervene on the issue of the passing on of excise and value added taxes (VAT) on jet fuel by local fuel suppliers to international air carriers. The IATA is requesting for the issuance of an administrative regulation or a directive to ensure that international airlines operating in the Philippines are not subjected to higher fuel prices on account of a pass-on of excise tax and VAT on jet fuel by fuel suppliers which is in violation of international treaty commitments that guarantee tax exemptions of jet fuel for international flights.

International carriers are important in the development of the economy since they provide a convenient and effective mode of transporting people and cargoes from one country to another. Aside from linking the Philippines to global export markets, they also help in the creation of local employment as well as the development of tourism industries. It is in this context that RA 10378 was passed by Congress last March 7, 2011. Under the law, the 3% common carriers tax (CCT) on international transport of passengers was abolished and made exempt from the 12% VAT. Likewise, it recognizes the principle of reciprocity as basis in granting exemption from the 2.5% gross Philippine billings (GPB) tax or preferential tax treatment to international carriers. Moreover, the law was enacted in recognition of the Philippine government's commitment to tax treaties and international agreements related to international carriers to which the Philippines is a signatory.

However, the issue is not the failure of the Philippine government to recognize its commitment to the aforementioned agreement due to the lack of supporting laws but the higher fuel prices brought about by the passing on of

the excise tax and VAT of local fuel suppliers to international air carriers on their local purchase of jet fuel for their international flights. The said issue arose from a Supreme Court (SC) decision denying the claim for refund of excess excise taxes paid on petroleum sold to international carriers. The SC decision on the matter suggests that to be able to avail of the excise tax exemption, international airlines must submit a valid exemption certificate to the fuel supplier in order that the excise tax will not be passed on to them. Likewise, the fuel supplier must make sure that the petroleum products sold to these international carriers shall be stored in a bonded storage tank and may be disposed of only in accordance with the rules and regulations to be prescribed by the Secretary of Finance, upon recommendation of the BIR Commissioner. If this can be done, administrative regulation prohibiting the passing on of the taxes may no longer be necessary.

With regard to the VAT, direct importation of fuel by an air transportation company exclusively engaged in international operations is considered VAT exempt. However, the importer has to secure a VAT-exempt Authority to Release Imported Goods (ATRIG) from the appropriate BIR office prior to the release of the imported fuel from custody of the Bureau of Customs (BOC). With respect to its domestic purchases of fuel, considering that the same are normally loaded directly to the international carrier, the sales thereof by its suppliers are zero-rated. The seller of the fuel must issue a zero-rated VAT invoice in the name of the international carrier and the same must be supported by Delivery Receipt or any document, evidencing the actual loading of the fuel to the international carrier/vessel duly acknowledged by its captain or duly authorized representative.

On the other hand, the VAT treatment of petroleum products imported by/directly sold to air transportation companies that are engaged in both domestic and international operations will depend on the nature of procurement of petroleum products by these air transport operators.

20. Taxation of Mining Industry

RA 7942, otherwise known as the Mining Act of 1995, laid down the different types of mining rights that may be acquired by the mining contractor, namely: exploration permit; mineral agreements; Financial or Technical

Assistance Agreement (FTAA); and Mineral Processing Permit. Presidential Decree (PD) No. 1899 and RA 7076, on the other hand, created and established the development of small-scale mining in the country.

Around the world, governments are using different tax instruments on their mining industries. In general, mining taxation instruments used by governments can be categorized into profit based and production based taxation. It is noted that both types of mining tax instruments have their advantages and disadvantages to the government and mining contractors. Thus, striking a balance between the two opposing interests is important to optimize government revenue and at the same time encourage development and utilization of minerals. In this regard, most governments around the world are imposing a hybrid or a combination of profit based and production based mining tax instruments.

The Philippines' mining fiscal regime can be said to be a combination of profit and production based tax instruments levied at different levels since it imposes an excise tax and if applicable, royalty, based on the value of production and at the same time exacting an income tax based on the net taxable income.

The government must be cautious in determining the type of royalty to be imposed considering the different objectives of both the government and investors. The government favors schemes that will produce stable, transparent, equitable and continual revenues and are easy to administer, and amenable to distribution to a variety of government entities and stakeholders. On the other hand, companies prefer royalty approaches that are stable and predictable, based on the ability to pay, allow early recovery of capital, respond to downturns in market prices, do not distort production decisions such as cut-off grade or mine life, can be deducted from taxable income for the general income tax, do not add significantly to operating costs, and amenable to distribution directly to affected stakeholders.

Hence, identifying the right type of tax and rate, and a balance between the desired revenue of the government and acceptable return to the investor is important in choosing or designing a new mining taxation/regime. Removing the unnecessary incentives such as income tax holiday that deprive the government of its needed revenue may also be considered, as well as stricter rule on allowable interest expense, monitoring of tax compliance, ring fencing, and proper valuation of mineral products for tax purposes.

21. Procedures on the Grant of Tax Subsidy by the Fiscal Incentives Review Board (FIRB)

The paper intends to assist concerned readers in having a better handle of the procedures/ mechanisms involved in the grant of tax subsidy by the FIRB, thereby avoiding or minimizing any form of miscommunication or misinformation between and among the FIRB, its clients and other concerned individuals/institutions about the provision of tax subsidy. It would also help increase the awareness on the provision of tax subsidy in the country, highlighting its role and significance in instituting fiscal transparency and discipline.

Tax subsidy is a form of fiscal privilege under which taxes and duties due from an entity are assumed by the government through budgetary appropriation, pursuant to the provision of the General Appropriations Act (GAA), enacted on an annual basis by the Congress and administered by the Department of Budget and Management (DBM). As a rule, entities eligible for tax subsidy may be a national government agency (NGA) or a government-owned and/or-controlled corporation (GOCC).

The grant of tax subsidy is intended to enable government entities to have enough financial flexibility by relieving them of the burden of taxes and duties so that they can concentrate their resources on other activities that will achieve their socio-development objectives. It is also made to augment the operational needs of certain government entities whose operations have significant contribution to economic growth and development.

Presently, only GOCCs and the commissaries of the Armed Forces of the Philippines (AFP), Philippine National Police (PNP) and the Procurement Service Exchange Marts or PC-Marts of the DBM are eligible to apply for tax subsidy that is being implemented by the FIRB, as provided under Executive Order (EO) No. 93 (withdrawing all tax and duty incentives, subject to certain exceptions, expanding the powers of the FIRB and for other purposes). One of the significant features of EO 93 is the institutionalization of the grant of tax subsidy as a more effective system of assistance to deserving government entities in lieu of outright tax and duty exemptions.

The tax subsidy provisions to NGAs cover national internal revenue taxes and import duties payable or assumed by departments, bureaus and

offices, including State Colleges and Universities (SUCs) to the government arising from foreign donations, grants and loans. For GOCCs, on the other hand, this is distributed to cover income tax, premium tax, VAT and excise taxes and taxes and duties on importations of equipment, materials, spare parts, supplies, etc. The importations of NGAs and GOCCs are usually acquired through grants, donations, loan proceeds or commercial importation. The taxes and duties arising from such importations are generally the subject of application for tax subsidy.

Tax subsidy applications of GOCCs filed with the FIRB undergo a rigorous three-tiered review process at the: (1) Secretariat level; (2) Technical Committee level; and (3) Board Proper level, which has the final say on whether tax subsidy will be granted or not. The FIRB review approach which uses criteria that conforms with prevailing policy thrusts also enables the formulation of an inter-agency perspective because of the different representation in the Board.

Pursuant to Section 13 of RA 10155 or the 2012 GAA, the implementation of the tax expenditure subsidy under the GAA shall be in accordance with Joint Circular No. 7-2012 jointly issued by the DOF and the DBM. The said circular provides the rules, guidelines and procedures in implementing the tax expenditure subsidy. Taking into consideration that the provisions of Section 13 of the 2013 GAA (RA 10352) are basically the same as those provided under Section 13 of the 2012 GAA, the FIRB, per FIRB Resolution No. 1-13 decided to formally adopt Joint Circular No. 7-2012 as the Implementing Guidelines for purposes of implementing the tax subsidy provisions under the 2013 GAA.

To preclude abuses/leakages in the availment of tax subsidy, the FIRB also imposes conditionalities which require compliance from the applicants and/or the submission of additional documents and certain restrictions on importations, among others.

Requests for tax subsidy shall be initiated by the concerned GOCC or Commissary applicant with the Head of Office or any of its authorized official submitting a letter-request together with the required documents/information/certification, etc.

The evaluation of the application for tax subsidy shall be made within ten (10) working days from the receipt of the complete documentation requirements. The draft evaluation paper shall be reviewed by NTRC Directors within two (2) working days before being elevated either to the FIRB Technical Committee for its initial evaluation and recommendation and subsequently to the Board Proper for its final decision; or a joint FIRB-Technical Committee meeting for referendum purposes.

If the application is approved, the applicant, now the grantee, receives a FIRB Resolution and Certificate of Entitlement to Subsidy (CES) if any, within ten (10) working days. The CES is a pre-numbered accountable form issued on quadruplicate copies that serves as the security and control measure. The CES issued by the FIRB shall be valid and effective until December 15 of the current year and in some special cases as warranted, the validity may be extended to December 31 of the current year.

If the application is not approved, the applicant will be correspondingly notified in writing by the FIRB.

After a CES is issued by the FIRB, and copies thereof have been distributed, the revenue collecting agency (RCA) Collection Unit, on the basis of the CES, shall prepare within five (5) working days the Tax Subsidy Availment Certificate (TSAC) of Statement of Accounts for customs duties and taxes payable in four (4) copies. Within ten (10) working days after the end of each quarter, the Grantee shall prepare the Quarterly Report of Taxes and Duties Availments (QRTDA). Upon completion of the QRTDA, the Grantee shall submit to the DBM within fifteen (15) working days prior to the lapse of the effectivity date of the CES, the request for the issuance of Special Allotment Release Order (SARO), supported by the original and triplicate copy of the QRTDA, original copy of the CES and the compilation of original copies of Payment Compliance Certificates, TSAC, Statement of Accounts, Assessment Notices issued by the BOC and the BIR. The SARO which the DBM will issue shall serve as the basis for recording both the obligation and liquidation of the tax expenditure. The amount of the SARO shall correspond to the verified amount indicated in the QRTDA. The importing agency (IA)/grantee, upon receipt of the SARO, shall forward a copy of the same to the BOC or BIR.

The IA/grantee, based on the DBM SARO, shall prepare the Journal Voucher (JV) to liquidate the obligation within ten (10) working days, copy furnished the Bureau of the Treasury (BTr) National Cash Accounting Division (NCAD). Within ten (10) working days upon receipt of a copy of the agency JV, the BTr NCAD shall issue a JV debiting the account of the IA and crediting the account of the RCA. Upon receipt of the NCAD JV, the RCA Chief Accountant shall record the income in the RCA's books.

22. Basic Facts and Figures: Corporate Income Taxation

The paper discusses the different facets of corporate income taxation and its contribution to the revenue generation efforts of the government.

Corporate taxation generally adopts the net income tax system where corporate taxpayers are entitled to claim deductions against their gross income before being subject to the tax. However, under certain laws, other corporations like those operating in special economic zones are taxed on their gross income.

Under Section 22(B) of the NIRC, the term "corporation" includes partnerships no matter how created or organized, joint stock companies, joint accounts, associations, or insurance companies but does not include general professional partnerships and a joint venture or consortium formed for the purpose of undertaking construction projects or engaging in petroleum, coal, geothermal and other energy operations pursuant to an operating or consortium agreement under a service contract with the government.

For income tax purposes, corporate taxpayers are classified as follows: domestic corporations, or those incorporated under Philippines laws; foreign corporations, or those incorporated under the laws of their country of origin and either engaged in trade or business within the Philippines (resident) or not engaged (nonresident); and exempt corporations. The income of whatever kind and character of the foregoing organizations from any of their properties, real or personal, or from any of their activities conducted for profit regardless of the disposition made of such income, shall be subject to tax imposed under the NIRC, as amended.

Domestic corporations are taxable on all income derived from sources within and without the Philippines. Foreign corporations, whether engaged or not in trade or business in the Philippines, are taxable only on income derived from sources within the Philippines. Effective January 1, 2009, domestic and resident corporations are subject to a tax rate of 30% applied on their net income. Similarly, nonresident foreign corporations not engaged in trade or business in the Philippines are imposed a 30% tax on gross income from sources within the Philippines only.

Gross income derived from whatever sources of the corporations includes (but not limited to) the following: gross income derived from the conduct of trade or business, gains derived from dealings in property, interest, rents, royalties and dividends. The NIRC excludes the following items from the scope of gross income: amount received by insured as return of premium, gifts, bequests and devised, income exempt under treaty, and other miscellaneous items.

The deductions that a corporation may be allowed to claim are: ordinary and necessary business expenses paid or incurred in carrying on or directly attributable to the development, management, operation of the business or trade; interests (paid or incurred on indebtedness); taxes paid (except certain taxes like income tax and transfer taxes); losses actually sustained during the taxable year and not compensated for by insurance or other forms of indemnity; bad debts; depreciation of property; depletion of natural resources; charitable and other contributions; research and development expenditures; and employer's contribution to pensions trusts. These deductions are however, not applicable to offshore banking units (OBUs), petroleum service contractors and subcontractors and nonresident foreign corporations.

In lieu of the allowable deductions, domestic and resident foreign corporations subject to income tax may select an optional standard deduction (OSD) in an amount not exceeding 40% of its gross income. The choice for an OSD when made in the return shall be irrevocable for the taxable year for which the return is made.

Corporations may also be subject to the following taxes whenever applicable: minimum corporate income tax (MCIT); fringe benefits tax (FBT); improperly accumulated earnings tax (IAET); and branch profit remittance

tax. Also, like individual taxpayers, domestic and foreign corporations are also subject to a final tax on their passive incomes.

Corporations no matter how created or organized are required to file income tax returns. A corporate quarterly income tax return declaring the cumulative taxable income and deductible expenses must be filed with or without payment within sixty (60) days following the close of each of the first three (3) quarters of the taxable year whether calendar or fiscal year.

For “with payment” ITRs, the return is filed in triplicate with the authorized agent bank (AAB) in the place where the taxpayer is registered or required to be registered. In places where there are no AABs, the return will be filed directly with the Revenue Collection Officer or duly authorized Treasurer of the city or municipality in which the corporation has its principal place of business in the Philippines, or if there is none, filing of the return will be at the Office of the Commissioner. For “no payment” ITRs, the return is filed with the concerned Revenue District Office (RDO) where the corporation is registered. However, late payment returns filed will not be accepted by the RDO but instead will be filed with an AAB or Collection Officer/Deputized Municipal Treasurer (in places where there are no AABs), for payment of necessary penalties.

Some corporations are considered as large taxpayers (LTs) if they satisfy the criteria set by the BIR. Taxpayers already classified and notified as LTs by the BIR Commissioner are mandatorily covered by the Electronic Filing and Payment System (EFPS) in filing and paying their internal revenue tax liabilities, including the accompanying schedules and attachments as specified under existing revenue issuances. All existing LTs must adopt, and maintain a working and duly-accredited Computerized Accounting System (CAS). Newly identified LTs must also adopt and secure the accreditation of the required CAS within six (6) months after having been officially notified of their status as LTs.

The CIT represented on the average 3.43% of Gross Domestic Product (GDP) from 2006 to 2011. It is also a significant part of the NG tax revenue, total BIR collection, and total income tax collection. On the average, CIT is about 25.98% of the NG tax revenue; 34.25% of the total BIR tax collection; and 58.73% of the total income tax collection from 2006 to 2011. The BIR

credited the positive performance of the corporate income tax collection to significant increases in income tax payments from selected sectors such as banks and other financial institutions, manufacturing, utilities and transportation, real estate, trade, communications, and other services which sustained growths in gross value added and, increase in net income of selected companies.

According to the Securities and Exchange Commission (SEC), there were 757,027 registered firms as of December 31, 2011, which includes domestic corporations, partnerships and foreign companies licensed to do business in the Philippines.

The number of BIR registered corporate taxpayers and the number of annual income tax returns filed progressively increased from 427,796 to 615,734 from 2006 to 2011. However, while there was a continuous rise on the number of registered corporations, income tax returns filed was relatively low at 130,915 returns in 2006 and 172,391 returns in 2011 or about 30% of registered corporations. In relation to SEC-registered firms, only about 23% filed returns in 2011.



Technical Assistance to
CONGRESS
*and Various Agencies/
Inter-Agency Groups*

Congress of the Philippines

The NTRC provides technical assistance to both houses of Congress by evaluating tax bills and other fiscal proposals referred to it, preparing draft bills and revenue estimates, and rendering technical support during meetings, public hearings and other deliberations on Senate and House Bills.

Among the major proposals with revenue implications referred to and evaluated by the NTRC were:

Senate Bill (SB) Nos. 35 and 987

House Bill (HB) Nos. 130, 302 and 1788

The Investments and Incentives Code of the Philippines

SBs 35 and 987 and HBS 130, 302 and 1788 aim to improve the investments incentives system in the country by amending Executive Order (EO) 226 or the Omnibus Investments Code of 1987, as amended.

SB 35 and HBs 130, 302 and 1788 propose to strengthen the Board of Investments (BOI) and rationalize the type of incentives granted to investors and repeal a number of incentive laws. Under the bills, the enactment of a new Investments and Incentives Code that would harmonize and simplify the government's administration of programs and policies on the grant of fiscal and non-fiscal incentives in order to better promote and attract foreign and domestic investments in the country is proposed. The BOI shall implement the provisions of the bills. Investment Promotion Agencies (IPAs) shall maintain their functions as provided for in their respective charters except to the extent modified by the provisions of the new Code. For purposes of maintaining an efficient database on investment statistics and other investment-related data, all IPAs shall be required to submit to the BOI such data semi-annually or as often as may be required.

SB 987, on the other hand, proposes the creation of the Philippine Investment Promotion Administration (PIPA), wherein the BOI created under EO 226, series of 1987, as amended, and the Philippine Economic Zone Authority (PEZA) created under Republic Act (RA) No. 7916, as amended shall be merged, renamed and reorganized as the PIPA. The newly created PIPA shall be attached to the Department of Trade and Industry (DTI) and shall implement the provisions of the bill.

The intention of the bills to rationalize the grant of incentives in the country is commendable. The passage of a law that shall harmonize the grant of fiscal incentives in the country would help avoid or minimize undue revenue losses to the government and ensure that the incentives offered are actually necessary to attract investments.

The proposed creation of PIPA under SB 987, as a new investment promotion agency with 13 Board members representing various government agencies will ensure that the policies and decisions taken will be in line with the overall economic thrusts of the government. Moreover, the proposed creation of PIPA is more practical as only one agency will supervise and regulate registered enterprises and the economic zones and freeports as well as administer the available incentives under this bill. This would not only reduce competition between the BOI and PEZA but would also integrate the best practices among the two agencies in investment promotion.

On the other hand, under SB 35 and HBs 130, 302 and 1788, it shall be the BOI that will implement the provisions of the bill. These also provided that all existing and future IPAs vested with the power to confer and administer incentives shall offer the incentives as proposed in the bills. It is noted, however, that HBs 302 and 1788 do not include the Zamboanga City Special Economic Zone (ZAMBOECOZONE), Cagayan Special Economic Zone (CSEZ), Freeport Area of Bataan (FAB), the Aurora Pacific Economic Zone and Freeport (APECO), and the PHIVIDEDEC Industrial Authority (PIA) while HB 130 does not include FAB and Tourism Infrastructure and Enterprise Zone Authority (TIEZA) among the IPAs enumerated therein. The omission might lead to some uncertainty and confusion as to what laws will govern/prevail on the IPAs and/or what type of incentives will be granted or made available to their respective investors.

Currently, the Investment Priorities Plan (IPP) being implemented by the BOI is enacted on a yearly basis. SB 35 intends to expand the validity of the IPP to three (3) years. This would make the IPP more stable, realistic and would adhere more to the needs of the investors.

The tax treatment and other incentives for registered enterprises in ecozones and freeport zones are generally the same as the one being granted or implemented by the BOI, PEZA and the other IPAs. For parity reason, the same tax treatment and incentives should be granted under the proposed bill.

The proposal to limit the grant of income tax holiday (ITH) to certain number of years is supported given its direct impact on government revenues. The possibility of phasing out the ITH would be ideal.

As to the proposed tax incentives, it should be noted that in general, a set of simple and straightforward tax incentives is easier to administer and comply with and avoids/minimizes opportunities for leakages/abuses. The numerous classifications and varying investment packages might lead to a more complicated mechanism of tax administration that is aimed by the government to do away with.

The proposal on the vested right provision shall be necessary to protect the credibility of the government to investors and to maintain a stable investment climate while reforms are taking place.

The inclusion of the DOF and NEDA in the BOI Board of Governors is also a welcome initiative. The mandatory inclusion of the DOF and the NEDA would help ensure that the grant and administration of investment incentives will be in accordance with the country's medium-term economic development plan, contribute to the growth and competitiveness of industries and are fiscally sustainable.

Lastly, the proposed measures should also take into consideration the need to promote fiscal prudence and transparency in the system of tax incentives. Thus, the current proposal to rationalize the investments incentives system should be harmonized with the other legislative initiatives such as HB 2942 or the Tax Incentives Management and Transparency Act (TIMTA) that also aims to improve the fiscal environment by instituting sound fiscal mechanism for the monitoring and accounting of tax incentives.

SB 48

Expanding and Maximizing the Scholarship Grants Extended to the Family Members of Personnel of the PNP, AFP, BFP and BJMP, Amending for this Purpose Certain Provisions of RA 6963

Section 10 of SB 48 seeks to create the Uniformed-Personnel Scholarship Board, herein referred to as the Board, which shall be composed of the Secretary of the Department of Interior and Local Government (DILG) and Secretary of the Department of National Defense (DND) as co-chairmen, and four (4) members representing the Philippine National Police (PNP), Armed Forces of the Philippines (AFP), Bureau of Fire Protection (BFP), and Bureau of Jail Management and Penology (BJMP). The Board shall manage and administer the Scholarship Fund intended to support the scholarship assistance for the children of deceased or permanently incapacitated police or military personnel or firemen.

Section 10 of the bill also provides that the Board shall have the authority to accept donations, contributions, grants in cash or in kind, from various sources, whether domestic or foreign. Said donations shall be used exclusively to complement the funding requirements of the scholarship

program subject to the existing government accounting and auditing rules and regulations. The bill further provides that any donation, contribution or financial aid which may be made to the Board shall be exempt from taxes of any kind and shall constitute allowable deductions in full from the income of the donors, contributors or givers for income tax purposes.

The proposed Board is considered an agency of the government as the same will be created by law and will be performing specific functions in pursuance of the policy of the government to provide scholarship to children of deceased or permanently incapacitated police or military personnel or firemen.

The proposed tax exemption and full deductibility of donations, contributions, or grants to the Board are supported for being consistent with Sections 34(H)(2)(a) and 101(A)(2) of the National Internal Revenue Code (NIRC) of 1997, as amended.

SBs 335 and 731

Exempting the Bank Deposits of Senior Citizens from the 20% Withholding Tax on Interest Income, Amending RA 7432

SBs 335 and 731 seek to amend Section 4 of RA 7432, as amended by RAs 9257 and 9994 by exempting senior citizens from paying the 20% final withholding tax (FWT) on interest income derived from bank deposits, provided that:

1. The exemption should not exceed PhP600,000.00; and
2. The senior citizen should present to the manager of the bank his/her senior citizen's ID and a certification from the chief of the agency or firm from which he or she retired.

It is noted that the wordings of the first condition of the proposed tax exemption is quite ambiguous. It is not clear if the amount of PhP600,000.00 refers to the deposit or exempt interest income. For this purpose, it will be assumed that the amount of PhP600,000.00 refers to deposits.

It is worth to mention that senior citizens for the most part are already in their retirement and non-productive years and would therefore be without much/any capacity to save. Also, if ever senior citizens place their extra money in banks, it is mainly for safekeeping purposes or to meet their day-to-day requirements and not to accumulate interest. As such, they are expected to withdraw their deposits frequently. Thus, their savings do not substantially earn interest income considering the small amount involved and the relatively short span of time the money is entrusted to the bank.

The proposal is likewise open to abuse and circumvention. In order to avail of the FWT exemption, unscrupulous senior citizens could easily avoid the savings limit of PHP600,000.00 by creating several accounts with different banks. The BIR may also encounter administrative difficulty in verifying the bank deposits of senior citizens. There is also a possibility that the proposed tax exemption may provide opportunity for a senior citizen's family members to avoid the 20% FWT themselves by depositing their savings under the senior citizen's name. In the long run, those who may benefit from the proposal are not the senior citizens but those who are capable of saving and taking advantage of the facility of the senior citizens.

The provision which requires a senior citizen to present to the manager of the bank a certificate from the chief of the agency or firm from which he/she retired implies that only previously employed senior citizens are exempt from the payment of FWT. This limitation is not categorically stated in the bill but may only be inferred from its explanatory notes that mention bank deposits of senior citizens out of retirement benefits. If the proposed tax exemption will be limited to previously employed senior citizens, the same will be discriminatory against self-employed senior citizens or those who did not work for a firm or a company.

Based on the abovementioned observations and considering the very recent upgrade of the privileges and incentives of senior citizens, the tax exemption proposal of SBs 335 and 731 is not endorsed.

SB 806

**Granting Financial Assistance and Benefits to the Family
or Beneficiary of any Barangay Officer, Barangay Tanod
or Volunteer and Members of the Sangguniang Kabataan Council
Killed or Permanently Incapacitated While on Duty or by Reason
of His or Her Office or Position and For Other Purposes**

SB 806 seeks to provide a special financial assistance to the Barangay Chairman, Barangay Kagawad, Barangay Tanod, Sanggunian Kabataan (SK) Chairman, SK Kagawad, SK officer or to his/her family or beneficiaries, who is permanently incapacitated, injured or wounded, or killed while in the performance of his/her duty or by reason of his/her position or office.

The bill provides that the special financial assistance shall be equivalent to six (6) months salaries, honoraria and allowances of the Barangay Chairman, Barangay Kagawad, Barangay Tanod, Sanggunian Kabataan (SK) Chairman, SK Kagawad. For this purpose, a Special Financial Assistance Fund is proposed to be created which shall be funded by a two percent (2%) increase in the internal revenue allotment (IRA) of the barangay to be set aside as a trust fund to be solely administered by the Sangguniang Barangay.

The bill is anchored on the proposition that no amount of recognition can commensurate to the dedication, sacrifice and heroic deeds of barangay officers and youth leaders and is aimed at extending financial assistance to them and their families during the time of their greater need.

The bill's intent to give due recognition to the sacrifices and heroic deeds of the barangay officers is laudable and supported. It is noted, however, that the bill is silent as to where the increase in the IRA share of barangay will come from. If the incremental share of the barangay will come from the national government (NG), it will have an impact on national programs and projects. On the other hand, if the incremental share will be sourced from the IRA share of the other levels of LGUs, this will result in the diminution of IRA share of these LGUs. Considering the financial needs of various levels of LGUs, giving out such significant amounts may not be a prudent action.

It may be worth mentioning that Barangay Officials, including Barangay Tanods and members of the Lupong Tagapamayapa are entitled to some benefits such as honoraria, allowances and such other emoluments as may be authorized by law or barangay, municipal or city ordinance in accordance with the provisions of the Local Government Code (LGC) of 1991, but in no case shall it be less than PhP1,000.00 per month per punong barangay and PhP600.00 per month for the Sangguniang Barangay members, barangay treasurer and barangay secretary. Moreover, during their incumbency, they are entitled to insurance coverage which includes, but not limited to temporary and permanent disability, double indemnity, accident insurance, death and burial benefits. Further, the Punong Barangay and Sangguniang Barangay members are also entitled to, among others, free medical care including subsistence, medicines, and medical attendance in any government hospital or institution. In case of extreme urgency where there is no available government hospital or institution, the barangay official concerned may submit himself for immediate medical attention to the nearest private clinic, hospital or institution and the expenses not exceeding PhP5,000.00 that may be incurred therein may be chargeable against the funds of the barangay concerned.

On the other hand, the SK Chairman has the same privileges being enjoyed by other Sangguniang Barangay officials as provided for in the LGC. Also, during their incumbency, SK officials are exempt from payment of tuition and matriculation fees while enrolled in public tertiary schools, including state colleges and universities. The national government shall reimburse said college or university the amount of the tuition and matriculation fees.

SB 1750

Providing Incentives to All Barangay Officials, Including Barangay Tanods and Members of the Lupong Tagapamayapa and Barangay Employees

SB 1750 seeks to give due recognition to the important role being played by barangay officials in the community and the country. Barangay officials are government workers who make democracy work at the grassroots level and are tasked among others to maintain peace and order in the community. Compared to other government employees in local government units (LGUs),

barangay officials and employees are the lowest paid and the least benefitted in terms of government employment benefits and privileges.

The bill seeks to provide among others, income tax exemption on their salaries, wages, compensation, remuneration and other emoluments, such as honoraria and allowances. It also seeks to exempt from capital gains tax and transfer taxes and fees the disposition of real property of the said barangay officials and employees subject to the condition that the proceeds thereof will be used to purchase a house and lot, not exceeding 500 square meters, for family dwelling.

The intention of the bill to give due recognition to the important role of barangay officials in the community and the nation as a whole is commendable. Cognizant of the important role of the barangay officials as partners in the attainment of national goals, the government specifically provides therein a list of benefits under the LGC of 1991, some of which are not usually accorded to other local or national government employees. These are honoraria, allowances, and other emoluments as may be authorized by law, insurance coverage, free medical care including subsistence, medicines, and medical attendance in any government hospital or institution, exemption from paying tuition and matriculation fees for their legitimate dependent children attending state colleges or universities during their incumbency, and appropriate civil service eligibility on the basis of the number of years of service to the barangay. Thus, it cannot be said that they are the least benefitted in terms of government employment benefits and privileges. If income tax exemption privilege is granted to the said barangay officials, it may create a precedent for other government employees at the local level who are likewise involved in the direct delivery of services to the people to clamor for the same tax exemption. It is likewise worth mentioning that a barangay official may still be exempt from income tax if he/she is considered a minimum wage earner pursuant to the NIRC of 1997, as amended.

With respect to the proposal to exempt the sale, exchange or disposition of real property of the barangay officials from the payment of capital gains tax and other national taxes that may arise therefrom, the NIRC of 1997 already provides for such tax exemption subject to certain conditions. It provides that the capital gains presumed to have been realized from the sale or disposition of principal residence by natural persons, the proceeds of

which is fully utilized in acquiring or constructing a new principal residence within eighteen (18) calendar months from the sale or disposition, are exempt from the capital gains tax. Hence, the proposal is no longer necessary.

SB 3313

Expanding and Strengthening the Cash and Other Non-Monetary Benefits and Incentives for National Athletes, National Athletes with Disability or Differently-Abled Athletes, Coaches and Trainers, Amending for the Purpose Certain Provisions of RA 9064, Otherwise Known as "National Athletes, Coaches and Trainers Benefits Act of 2001" and For Other Purposes

SB 3313 seeks to amend RA 9064, otherwise known as the "National Athletes, Coaches and Trainers Benefits and Incentives Act of 2001" by:

1. Expanding and strengthening the cash and other non-monetary benefits and incentives for the country's national athletes, coaches and trainers;
2. Redefining (a) the term 'national athletes' to include athletes with disabilities (AWDs) who are recognized and accredited by the National Paralympic Committee Philippines (NPC PHIL) and the Philippine Sports Commission (PSC) and who have represented the country in international competitions and to athletes who are not members of the national training pool but who have otherwise represented the country in international competitions; and (b) the term 'national coaches and trainers' to include members of the national coaches and trainers pool accredited by the PSC or Philippine Olympic Committee (POC) or the PSC and NPC PHIL in case of AWD coaches and trainers;
3. Granting to a winning Filipino Olympian the privilege of being a "tax-free citizen for life" or being exempt from paying income and all other taxes that may be imposed relevant to the sports he/she represented including the campaign to popularize said sports in addition to the tax incentives currently provided to athletes in local

and international tournaments and competitions as provided under RAs 9064 and 7549 which exempt all prizes and awards gained from local and international sports tournaments and competitions from the payment of income and other forms of taxes; and

4. Allowing privately-owned establishments granting the 20% discount to national athletes, coaches and trainers relative to the utilization of transportation services, hotels and other lodging establishments, restaurants and recreation centers, purchase of medicine, admission fees charged by theaters, cinema houses, among others, to claim the cost of the discount as tax deduction instead of tax credit.

There are at present two (2) laws which grant cash and non-cash benefits and incentives to national athletes, coaches and trainers. RA 7549 provides that all prizes and awards granted to athletes in local and international sports tournaments and competitions held in the Philippines or abroad and sanctioned by their respective National Sports Association (NSAs) are exempt from income tax. Such prizes and awards given to athletes are also be deductible in full from the gross income of the donor who are exempt from the payment of the donor's tax.

The other law, RA 9064, also known as the "Sports Benefits and Incentives Act of 2001" provides a significant number of benefits and privileges to national athletes, coaches and trainers such as twenty percent (20%) discount on transport services, hotels, restaurants, theatres, purchase of medicine and sport equipment, free medical and dental consultation, medical insurance and social security programs, priority in government livelihood and housing programs; scholarship incentives; retirement benefits; death benefits; cash incentives for national athletes; benefits, privileges and incentives for past achievers; and adjustment of cash incentives without diminution.

Other than these benefits, the bill proposes to grant a Filipino Olympian the distinction of being a "tax-free citizen for life". As a general principle, the use of taxation to help ease the burden of a certain group of taxpayers is

discouraged since it will be inequitable to similarly situated taxpayers. Public servants like soldiers, policemen and teachers whose jobs are equally noble and important to nation-building are subject to income tax. The proposal will serve as precedent for other sectors similarly situated to clamor for similar tax exemption privileges. In addition, it will violate the ability-to-pay principle of taxation which states that those who have the capacity to pay (measured through earnings) should be subject to tax. There are athletes who are employed or operate their own recreational and training centers, among other business endeavors.

Considering the numerous benefits, privileges and incentives accorded at present to national athletes including their coaches and trainers, the proposal may be deemed overly generous and is therefore not supported.

The proposal that privately-owned establishments granting a 20% discount to national athletes, coaches and trainers relative to the utilization of transportation services, lodging, purchase of medicine, admission fees in places of entertainment or leisure, among others, may claim the costs of the discount as tax deduction instead of claiming them as tax credit is supported. This is also the manner by which private establishments granting the 20% discount to persons with disability (PWDs) and senior citizens treat the cost of the discount, that is, as tax deduction from gross income.

The proposed inclusion of a clarificatory provision that the grant of 20% discount on certain goods and services shall be for the actual and exclusive use or enjoyment of the national athletes, coaches and trainers is likewise supported.

The proposal to also entitle AWDs who are recognized and accredited by the NPC PHIL and the PSC and athletes who are not members of the national training pool, but who have otherwise represented the country in international competitions and AWD coaches and trainers accredited by the POC or the PSC and NPC PHIL, to the existing privileges and incentives provided under RA 9064 is laudable and supported since these individuals/teams have also brought honor and prestige to the country by winning in their respective sports.

SB 3378

**Establishing a System for Tax Incentives Management and
Transparency, and for Other Purposes**

SB 3378 which shall be known as the Tax Incentives Management and Transparency Act, proposes the creation of the Tax Expenditure Account (TEA) in the General Appropriations Act (GAA) from which tax incentives, as may be determined by the Investment Promotions Agencies (IPAs) and other government agencies in accordance with law, shall be accounted for. In addition, notwithstanding the provisions of their respective charters, IPAs and other government agencies concerned shall also account in the TEA all tax incentives that they grant. The bill also provides that the amounts pertaining to tax incentives administered by the IPAs and other government agencies to private individuals and corporations, and specified in accordance with a schedule to be prepared by the Department of Finance (DOF), shall be treated as both revenue and expenditure of the General Fund.

Tax expenditures for purposes of the bill are deemed automatically appropriated, provided, that no obligations shall be incurred or payments made from the TEA except as issued in the form of regular budgetary allotments. Revenues accounted for by way of the TEA under the Act shall not be included in the base for computation of any other budget appropriation such as those for the internal revenue allotment (IRA) of the LGUs under the LGC of 1991 (RA 7160) and for the rewards and incentives under the Attrition Act of 2005 (RA 9335).

The bill also provides that the IPAs and other government agencies responsible for the administration and implementation of tax incentives to registered enterprises shall submit to the DOF their respective annual tax expenditures based on computed cost in terms of revenue foregone on the tax incentives granted to their registered enterprises or to special groups, as the case may be, and other data related to the grant of such incentives as may be required by the DOF. The DOF, together with the BIR and the BOC, shall create a single database of all tax incentives granted by the IPAs and other government agencies, monitor the incentives granted, and submit an annual Tax Expenditure Report to the President and to the

Chairman of the Committee on Appropriations/Finance of both houses of Congress as part of the annual GAA.

The bill points out that the present system of accounting for tax expenditures in the annual budget only includes tax incentives granted to national government agencies (NGAs) and government-owned or – controlled corporations (GOCCs) while the bulk of tax incentives which are granted to private individuals and corporations, are not accounted for. Hence, the magnitude of these incentives remains largely unknown. To fill this gap, the bill proposes the creation of the TEA in the annual GAA from which tax incentives, as may be determined by the IPAs and other government agencies in accordance with law, are to be accounted.

The intention of the bill to promote fiscal prudence and transparency in the system of tax incentives is commendable and is, therefore supported. This intent is in harmony with the objectives of the present administration for transparency, accountability and good governance.

The proposal that tax incentives administered shall be treated as both revenue and expenditure of the General Fund is an innovation in the current practice of recording, monitoring and accounting of tax incentives. Tax incentives granted by the IPAs generally escape the rigors and thoroughness of the budgetary procedure as these are granted and governed by special laws. Thus, to include said incentives in the annual budget would provide additional check and balance as the government will be able to analyze the benefit incidence, the economic impact and the fiscal cost of these incentives. The procedural and administrative aspects of the TEA should be carefully designed.

The proposal that revenues accounted for by way of the TEA shall not be included in the base for computation of any other budget appropriation such as those for the IRA of LGUs under the LGC of 1991 and for the rewards and incentives under the Attrition Act of 2005 is supported as this is in accordance with the existing provisions governing IRA of LGUs and the rewards/incentives provided under the Attrition Act.

The provision for the IPAs and other government agencies responsible for the implementation of tax incentives to submit to the DOF

their respective annual tax expenditures as well as the creation of a single database of all tax incentives granted by the IPAs and other government agencies is supported. The provision on the administration, implementation and monitoring of the availment of tax incentives is necessary to ensure a better review and evaluation of government's tax incentives policy and the formulation of reforms, if needed, to make tax incentives a more useful tool for growth and development.

HB 346

Classifying Services Rendered by Tollway Operators as Value-Added Tax Exempt Transactions, Amending for the Purpose Section 109 (1) of the National Internal Revenue Code, as Amended by RA 9337, and for Other Purposes

HB 346 seeks to exempt tollway services and fees collected by tollway operators from the coverage of the value-added tax (VAT). The objective of the bill is to ease the burden of the public with regard to increases in transport fares and prices of basic goods and services due to the increase in toll fees brought about by the imposition of the VAT on toll.

In 2010, the Bureau of Internal Revenue (BIR) started implementing the VAT on tollway operators with the issuance of Revenue Memorandum Circular (RMC) No. 63-2010. Under the said circular, the VAT was supposed to be imposed on the gross receipts of tollway operators from all types of vehicles starting August 16, 2010. However, two days prior to its implementation, the Supreme Court (SC) issued a temporary restraining order (TRO) on the imposition of VAT on toll fees. On July 19, 2011, the SC upheld RMC 63-2010. The Court ruled that tollway operators are not among the franchise grantees subject to franchise tax under Section 119 of the Tax Code. Neither are their services among the VAT-exempt transactions under Section 109 of the same Code. Thus, the VAT on tollway operators was finally implemented on October 1, 2011 with the issuance of RMC 39-2011.

The imposition of the 12% VAT on toll fees should not necessarily mean an outright increase of 12% in toll fees since tollway operators can now make use of their input VAT as against their output VAT. Based on data from the BIR, the ratio of VAT payment to gross sales/receipts from "Other

Supporting Land Transport Activities” to which tollway services are categorized for year 2012 was only at 2.7%. Besides, motorists have the option to pass through non-toll routes instead of passing through toll ways if they want to be spared from the burden of paying toll fees.

Other countries also impose VAT or VAT-like rates on toll way operators. In European countries, toll roads and bridges are imposed standard VAT rates ranging from 18% to 25%; Australia (GST of 10%); New Zealand (GST of 15%) and South Africa (VAT at 14%).

HB 376

Amending Certain Provisions of RA 7621, Otherwise Known as “An Act Creating the Cebu Port Authority Defining its Powers and Functions, Providing Appropriation Therefor and for Other Purposes

HB 376 seeks to amend certain provisions of RA 7621 to strengthen the operational, financial, and administrative capabilities of Cebu Port Authority (CPA). The bill seeks to exempt the CPA from the payment of corporate income taxes and realty taxes imposed by the national government or any of its political subsidiary.

The CPA was created pursuant to RA 7621 as a public-benefit corporation under the supervision of the Department of Transportation and Communications for purposes of policy coordination. The territorial jurisdiction of the CPA includes all seas, lakes, rivers and all other navigable inland waterways within the Province of Cebu, including waterways within the Province of Cebu, the City of Cebu and all other highly urbanized cities in Cebu which may hereafter be created therein.

A parallel organization of the CPA at the national level is the Philippine Ports Authority (PPA) created under Presidential Decree (PD) No. 505 which was subsequently amended by PD 857. It broadened the scope and functions of the PPA to facilitate the implementation of an integrated program for the planning, development, financing, operation and maintenance of ports or port districts for the entire country. The PPA was also vested with the function of

undertaking all port construction projects under its port system pursuant to EO 159. The EO also granted PPA financial autonomy.

It may be relevant to mention that the PPA, the duties and responsibilities of which are akin to that of the CPA is not exempt from income tax. Based on PPA's 2011 Annual Report, it paid PhP476.54 million and PhP770.14 million as income tax for the years 2010 and 2011, respectively. If the PPA was able to generate income during the said years without tax exemption, there is no reason why the CPA cannot do the same. Moreover, if the proposed tax exemption is pushed through, it may set a precedent for the PPA to clamor for the same. The proposed tax exemption of the CPA may also be viewed as inconsistent with the overall thrust of the government to broaden its tax base in order to generate more revenue. It should also be noted that the government is pushing for the rationalization of fiscal incentives and privileges granted to taxpayers for better fiscal management and transparency. In this connection, it is more reasonable if the proposal be aligned with this effort.

As regards the proposal to exempt the CPA from realty taxes, it should be mentioned that the real property tax is one of the major sources of revenue of local government units (LGUs). Therefore, the proposed realty taxes exemption should be left to the discretion of the LGUs pursuant to the policy of local autonomy.

HB 482

Exempting from Tax All Allowances and Benefits Granted to Public School Teachers, Including Those in the State Colleges and Universities

HB 482 which shall be known as "The Public School Teachers' Tax Incentives Act" seeks to exempt from income tax all allowances and benefits granted to public school teachers including those in state colleges and universities. It aims to encourage more teachers to accept teaching jobs in remote areas where vacancies of temporary nature usually exist. It will also encourage them to stay in the public school system as the proposal would mean extra money for them which they can use to finance their other necessities.

As a general rule, all allowances and benefits derived by an individual taxpayer, in addition to compensation fixed by the position or office, are part of compensation subject to income tax. It may be noted that while the said provisions of the NIRC explicitly provide that such allowances are taxable, the same allowances may be considered tax-exempt depending on the amount, purpose, and nature of the allowance given. Revenue Regulation (RR) No. 8-2000, as amended by RR 8-2012, provides that the following allowances received by all employees both in the government and private sectors are exempt from income tax and consequently from withholding tax: de minimis benefits, 13th month pay, Christmas bonus, productivity incentives, loyalty award, additional compensation allowance (ACA), gift in cash or in kind and other benefits of similar nature provided the total benefits do not exceed PhP30,000.00 as well as the representation and transportation allowance (RATA) granted to public officers and employees under the General Appropriations Act (GAA) and the Personnel Economic Relief Allowances (PERA) which essentially constitute reimbursement for expenses incurred in the performance of government personnel's official duties.

From the foregoing, public school teachers, just like any wage earner, are already enjoying substantial incentives since most of the allowances granted to them are exempt from tax. Public school teachers who are exposed to hardship or extreme difficulty in their place of work and those assigned to handle multigrade classes, receive in addition to their basic salary and allowances, a special hardship allowance equivalent to not more than 25% of their basic pay. A more effective enforcement of this incentive is likely to take care of the objective of the bill to encourage more teachers to accept teaching jobs in remote areas.

The use of taxation to help ease the burden of a certain group of taxpayers may not be a prudent option since this constitutes "class legislation" and runs counter to the policy of taxing similarly situated taxpayers equally. The proposal is biased against those teaching in private schools and individuals whose jobs are deemed equally noble like health workers who are also in great demand in far-flung areas, and those who fall below the poverty line whose need for financial assistance is perhaps even more pressing than that of the teachers.

In view of the foregoing observations, the proposal to exempt from income tax the allowances and benefits received by public school teachers may no longer be necessary.

HB 738

Providing Provisional Relief to Certain Victims of Typhoons, Earthquakes, Volcanic Eruptions or Other Similar Disasters by Granting Special Deductions from Income and Real Property Taxes in their Favor

HB 738 seeks to allow any person, natural or juridical, whose immovable property was lost, totally or partially destroyed by a typhoon, earthquake, volcanic eruption or similar natural calamities, to deduct from his/her or its income and real property tax liabilities the total amount of the loss or destruction for a period of up to five (5) years from the time of the loss or destruction. The proposed grant of the above tax relief aims to alleviate the adverse economic conditions of those affected by natural calamities and accelerate the pace of their economic rehabilitation.

The proposed income tax relief is no longer necessary as Section 34 (D) of the NIRC of 1997 already provides for the deductibility of losses from gross income of businesses, professionals, and self-employed individuals. On the other hand, for compensation income earners, the proposal would only pose administrative difficulties for the BIR in verifying the accuracy of the amounts of calamity losses to be claimed as deduction from gross income and for employers in adjusting the withholding taxes of concerned employees.

As regards the relief from RPT liabilities, the provision of Section 276 of the LGC can already address the proposal pertaining to real property taxation of lost or destroyed properties. Moreover, the amount of loss which shall be credited against the RPT could be too huge that practically all the RPT of the property owner including the RPT for property not destroyed by natural calamities shall be wiped out.

HB 747

**Granting Tax Incentives to Corporations, Partnerships,
Organizations, and Other Juridical Entities for Using and Promoting
the Use of Environment-Friendly Bags, Supporting Such Efforts
and for Other Purposes**

HB 747 seeks to grant tax incentives to corporations, partnerships, organizations, and other juridical entities which use, promote, and support the use of environment-friendly bags by allowing the said entities to claim as deduction from their gross income expenses in producing, procuring, or purchasing environment-friendly bags during the taxable year. The bill likewise seeks to exempt from VAT newly created juridical entities on the production, procurement or purchase of environment-friendly bags within three (3) years from their incorporation. The tax incentives shall not be applicable to existing businesses engaged in the production, manufacture and distribution of said bags. The bill aims to recognize the indispensable role of the private sector in supporting the use of environment-friendly bags as well as to encourage their full participation and cooperation in achieving the goal of environmental protection and preservation.

Under Section 34 of the NIRC of 1997, as amended, the expenses in producing, procuring or purchasing environment-friendly bags are already deductible as business expenses, hence, the proposal is no longer necessary. Moreover, the use, purchase, or promotion of environment-friendly bags should be treated as part of corporate social responsibility and efforts towards this end need not be done because of tax incentives but because every responsible member of community has the duty to protect the environment. Also, there are many more direct ways to protect the environment. Thus, to grant tax incentives to a group of taxpayers using and promoting the use of environment-friendly bags is discriminating against others which is inconsistent with the uniformity principle of taxation as prescribed in the 1987 Philippine Constitution.

The proposed VAT exemption for newly created juridical entities within three (3) years from incorporation will be unfair for existing establishments which have long been supporting the advocacy to protect the environment through the use of environment-friendly bags and yet will not be

accorded the same tax exemption. It is noted that the environment-friendly bags are being sold to shoppers and consumers and only given free if they meet a certain minimum purchase amount, thus, there is no point of giving these establishments tax exemption if they are profiting from their promotion of environment-friendly bags. Moreover, the proposed exemption will go against the well-settled principle that for VAT to be effective, it should be broad-based and with limited exemptions.

HB 824

Increasing the Share of Local Government Units from 40% of the National Internal Revenue Taxes to 50% Share in All National Taxes, to Include All the National Taxes Collected by the Bureau of Internal Revenue, Bureau of Customs, Philippine Ports Authority, Department of Environment and Natural Resources, the Department of Foreign Affairs and Such Other Government Agencies Deputized by the Bureau of Internal Revenue to Collect National Taxes, and the Value-Added Tax Collected by the Bureau of Customs (BOC), Amending for this Purpose Section 284 of RA 7160, Otherwise Known as the Local Government Code of 1991

HB 1648

Including the Value-Added Tax Being Collected by the Bureau of Customs in the Computation of the Share of Local Government Units in the National Internal Revenue Taxes Pursuant to the Formula Enshrined Under Section 285 of RA 7160, as Amended Otherwise Known as the Local Government Code of 1991

HB 824 seeks to amend Section 284 of RA 7160, otherwise known as the Local Government Code (LGC) of 1991, by increasing the share of local government units (LGUs) from forty percent (40%) to fifty percent (50%) of all national taxes collected by the BIR, BOC and other government agencies instead of the present internal revenue taxes collected solely by the BIR based on the collection of the third fiscal year preceding the current fiscal year.

HB 1648, on the other hand, seeks to include the value-added tax (VAT) being collected by the BOC in the computation of national internal revenue

taxes under Section 285 of RA 7160. The bill contends that the non-inclusion of the VAT collected by the BOC effectively deprived the LGUs of their just shares in national internal revenue taxes amounting to billions of pesos. In addition, the inclusion of the VAT being collected by the BOC in the computation of the Internal Revenue Allotment (IRA) will help local governments in pursuing much needed programs and projects of their localities.

The objective of the bill to promote and enhance local fiscal autonomy is recognized. However, the proposed increase in the IRA from 40% to 50% and the inclusion of the VAT being collected by the BOC in the computation of the IRA will significantly impact on the national budget. To accommodate the increase in the IRA, some components of the national government (NG) expenditures will have to be reduced which will adversely affect the NG's capacity to accelerate completion of priority programs and development projects.

While the IRA correspondingly enables LGUs to finance basic services and socioeconomic projects, it also has a negative effect on LGUs as it triggers them to be more dependent on the allotment. The LGU's heavy dependence on externally sourced revenues serves as a disincentive for them to use their revenue-generating powers under the LGC to the fullest and improve their tax collection efforts.

In addition, LGUs have a share in the proceeds from the development and utilization of the national wealth as provided under Section 290 of the LGC.

The collection of taxes upon which the IRA is based entails costs to the NG not to mention the fact that the increases in the IRA through the years can be accredited to the unflagging efforts of the NG, specifically the BIR, to progressively improve collection of internal revenue taxes. Hence, it is only rational that the NG gets a higher share than the LGUs which are, in due course, benefited by the projects undertaken by the NG.

The proposal to broaden the sources of the IRA to "national taxes" including tariffs, dues and fees being collected by specific NG agencies other than the BIR may no longer be necessary since aside from the IRA, LGUs also share from other government revenues under the LGC and other special laws.

Moreover, the proposed inclusion of the proceeds of fees and charges collected by the government agencies in the IRA base is not supported. Fees and charges are collected to recover the cost of services rendered by such agencies and not to raise revenue.

HB 911 **Creating a Value Added Tax Free Weekend** **for Certain Covered Items**

HB 911 seeks to create a holiday from paying the Value-Added Tax (VAT) on school supplies and apparels that are for personal use, purchased every first Friday of May and ends first Sunday of May of every year. Covered items include, but are not limited to, school bags, art supplies, instructional materials, school clothing materials, ready-made uniforms, shoes and school Physical Education (PE) and sports kits with each item not exceeding one thousand pesos (PhP1,000.00) and subject to maximum total amount of ten thousand pesos (PhP10,000.00). The bill also proposes a penalty and fine for adjusting date of sale of covered items to make it appear to qualify for the VAT-free weekend. The bill aims to give working families a break on spending in preparation for the opening of the school year that can also help retailers boost their sales during the VAT-free weekend.

The projected foregone revenue from the proposal is high and could be higher due to possible leakages that the proposal may create. The bill did not specifically mention that only *bonafide* students are eligible to avail of the incentives provided during the VAT-free weekend. It is also possible that business establishments and retailers also avail of the said incentive that may further increase forgone revenue from the proposal. The “for personal use” provision will be difficult to monitor and the maximum limit of PhP10,000 per receipt is vague, that one may avail of the VAT-free purchases for more than PhP10,000 if one will purchase from different stores or break down big purchases into several individual receipts. Moreover, monitoring of the input VAT paid on the goods sold during the VAT-free weekend may prove to be difficult.

In addition, the VAT-free weekend may discriminate against non-VAT registered retailers of school supplies and apparels since they are subject to

the three percentage (3%) tax and not to VAT. Moreover, families with meager budgets for school supplies and apparels tend to buy from *tiangges* that are mostly not VAT registered. Hence, the intention of the proposal may only favor those who have money.

In view of the above observations, the proposal to create a VAT-free weekend is not supported. The adverse effect on government revenue may outweigh its good intention since losses may not only come from the legitimate beneficiaries but also from the possible leakages that it may create.

HB 1144

Promoting Local Arts and Entertainment Industry by Providing the Local Movie and Film Industry Corporate Tax Breaks and Exempting Venue Operators from the Payment of Amusement Tax When Showing Locally-Produced Films and Music Events Featuring Filipino Artists

HB 1144 seeks to promote the local arts and entertainment industry by providing the local movie and film industry the necessary corporate income tax breaks, value added tax (VAT) exemption on importation; and amusement tax exemption of venue operators showing local film and music events featuring local artists to make them more competitive in the international marketplace.

Section 3 of the bill needs clarification as to the tax incentive it seeks to accord to local film or movie producers. It speaks of the claim for “exemption” of the total expenses incurred in execution, production and showing of the film and at the same time as “tax deduction”. *Tax exemption* refers to the grant of immunity to particular persons or corporations or to persons or corporations of a particular class from a tax which others generally within the same taxing district are obliged to pay, while *deduction*, in an income tax context, denotes an item which is subtracted from gross income to arrive at the taxable income. If the proposal is for the expenses incurred by local producers of movies or films in the execution, production and showing of their materials to be allowed as deduction from the company’s gross income, the proposal is no longer necessary as the same are already deductible from their gross income pursuant to Section 34(A)(1) of the NIRC.

As to the proposed VAT exemption on imported raw materials and equipment, the same is inconsistent with the well-settled principle that for VAT to be effective, it should be broad-based and with limited exemptions.

The proposed exemption of the film and movie industry from the payment of amusement tax will constitute “class legislation” and will be iniquitous to other amusement places.

Since the collection from this tax is an additional source of revenue for the LGUs, it is deemed appropriate that the proposal be left to the discretion of the LGUs concerned as they are in the best position to know the condition prevailing in their localities. Furthermore, under Section 13 of RA 9167 [creating the Film Development Council of the Philippines (FDCP)], they are already entitled to amusement tax rebate. Thus, instead of the proposed tax relief, producers should strive to produce good quality films to attract moviegoers and avail of the incentives under RA 9167. Moreover, Filipino producers may opt to expand their operations to include international markets as the opportunities outside the Philippines are very promising and can generate big revenues for them.

HB 1254

**Granting Tax Deductions to Parents and Legal Guardians of
Children with Special Needs**

HB 2071

**Increasing the Additional Exemption for Taxpayers with Dependent
Incapable of Self-Support Because of Mental or Physical Defect or with
Disabilities and Both Spouses to Claim the Same, Amending for the
Purpose Section 35(B) of RA 8424, as Amended by RA 9504,
Otherwise Known as the National Internal Revenue
Code of the Philippines, and for Other Purposes**

HB 1254 seeks to grant parents and legal guardians of children with special needs a deduction from their taxable income equivalent to Fifty Thousand Pesos (PhP50,000.00) to help them deal with expenses incurred for the child's therapy, education and treatment. The bill, however, imposes a condition that

the parent or legal guardian must provide more than half of the total financial support for the child to qualify for the deduction.

HB 2071, on the other hand, seeks to amend Section 35(B) of the National Internal Revenue Code (NIRC) of 1997 by increasing the additional exemption allowance that may be claimed for each dependent incapable of self-support because of mental or physical defect or disability, from Twenty-Five Thousand Pesos (PhP25,000.00) to Thirty Thousand Pesos (PhP30,000.00). Such additional exemption may be claimed by both spouses.

HB 1254 is silent if the proposed PhP50,000.00 deduction from taxable income is on top of the PhP25,000.00 additional exemption allowance that a taxpayer with dependent child with special needs is already entitled to pursuant to Section 35(B) of the NIRC or to increase the amount of exemption allowance from PhP25,000.00 to PhP50,000.00. In either case, the proposal will result in revenue loss on the part of the government. Moreover, the proposal would only benefit parents or guardians of children with special needs who are filing income tax returns and earning more than the minimum wage. Administrative-wise, the proposal is difficult to implement as it would require concerned agencies proper screening of those who would claim for the proposed incentive. There has to be a mechanism that will ensure that the parent or guardian claiming the additional deduction is actually providing for more than half of the financial support for the child/children with special needs. Moreover, proper documentation and substantiation will be needed to verify whether or not the expenses are actually used for the welfare of the child or children with special needs and constitute more than half of the involved financial support.

On the other hand, the proposal under HB 2071 to increase the amount of additional exemption allowance that may be claimed for dependents incapable of self-support because of mental or physical defect or disability from PhP25,000.00 to PhP30,000.00 and to entitle both spouses to claim the same would certainly result in revenue loss on the part of the government.

The proposed entitlement of the other spouse to claim additional deduction for his/her incapable or disabled dependent who has already been claimed as such by his/her spouse for income tax purposes will effectively

double the amount of additional exemption allowance for the said dependent. This will distort the provision for a uniform amount of additional exemption allowance and on limiting the maximum number of dependents to not exceeding four (4). It should be noted that this limitation is adopted to minimize abuses in the claim for additional deduction which will erode the tax base.

It should also be pointed out that not all married couples are living together and jointly support their children. The proposal will give undue advantage to a spouse who does not have custody of the child nor lend support to the same and yet will be entitled to claim the additional exemption allowance and thereby reduce his/her taxable income.

HB 1547

**Amending Section 109(1) of RA 8424, Otherwise
Known as the Tax Reform Act of 1997, as Amended by RA 9337,
Exempting Oil and Other Basic Necessities from the Imposition
of the Value Added Tax (VAT), and for Other Purposes**

HB 1547 seeks to exempt from VAT the sale or importation of basic necessities consumed on a regular basis by poor families, which include bread, canned fish and other marine products, noodles, biscuits, sugar, cooking oil, salt, laundry soap, detergents, firewood, charcoal, candles, and drugs classified as essential by the Department of Health (DOH). The bill also seeks to exempt from the VAT the sale of oil, gasoline, liquefied petroleum gas (LPG), kerosene and other petroleum products.

The bill aims to lower the prices of these basic necessities and petroleum products to make them more affordable to poor families in the country and help alleviate poverty.

The intention of the bill to lower the cost of basic necessities and petroleum products for the benefit of poor Filipino families is recognized. It is for this reason that food products, such as rice, salt, meat, fruit, fish, vegetables, and other agricultural and marine food products in their original state are exempt from the imposition of the VAT under Sec. 109(A) of the NIRC, as amended. Moreover, the government already enacted several

laws and implemented certain programs to make medicines and health care affordable to the average consumers. The government also created the Botika ng Bayan and Botika ng Barangay to bring down the prices of medicines.

As to other VATable products, there is no assurance that exempting basic necessities and petroleum products from the VAT will lower their prices as well as the various commodities that use them. It is worth mentioning that prices of goods and services including basic necessities and petroleum products are also affected by various factors such as labor costs, exchange rates, and supply and demand. Thus, the abolition of taxes alone does not guarantee lower prices of these products.

In addition, VAT exemption would not actually work to benefit the consumers through lower prices of goods since the VAT passed on by suppliers shall form part of production cost, which in turn shall be used as the basis for the computation of the marked up selling price. While the selling price is proposed to be VAT-free or theoretically lowered for the consumer, the decrease shall be offset by any increase in the selling price caused by an increase in cost resulting from the non-recognition of the input tax.

It is also noted that VAT is not anti-poor as alleged by the bill. Since VAT is a consumption tax, those who consume more are taxed more. In the case of petroleum products, studies show that the higher income group allocates or spends a higher percentage of their annual income on petroleum products. Similarly, basic necessities that are consumed by the poor such as bread, canned fish and other marine products, noodles, sugar, cooking oil, laundry soap, detergent and candles are also consumed by higher income groups. Therefore, the removal of the VAT on basic necessities would benefit the rich more than the poor.

Moreover, the imposition of VAT on certain products such as petroleum helps regulate or lessen their use. This is good for the economy as the country is poised to benefit from foreign exchange savings because of less oil imports. It is also good for the environment as less consumption of petroleum means less pollution and improved health for the people.

In order to sustain the revenue productivity of VAT, the government should avoid proposals which seek to expand the coverage of VAT exempt

transactions because these break the VAT chain, which lead to higher costs and prices, and revenue losses to the government. The steady inflow of revenue from the VAT has proven to be effective in helping the government finance its basic social services including the implementation of its conditional cash transfer program to identified poor families, among others.

HB 1716

Declaring Certain Portions of the Welfareville Property Located in the City of Mandaluyong Open for Disposition to Bonafide Residents Without Public Bidding and for Other Purposes

HB 1716 seeks to sell certain portions of the Welfareville property owned by the national government in the City of Mandaluyong to bona fide residents therein without public bidding in pursuance of the Constitutional mandate to provide decent housing and basic services to homeless Filipinos in urban and resettlement areas. The bill also seeks to exempt from the payment of capital gains tax (CGT) all lands that will be disposed and/or sold by the national government pursuant to the proposed Act.

The liability to pay the CGT rests upon the seller of the real property as the one presumed to have realized gains thereon. The intended sale and disposal of Welfareville property as provided in the bill is not for profit or gain but in pursuance of the Constitutional mandate to provide access to affordable land and housing services to homeless Filipinos in urban and resettlement areas. Considering this, the proposed CGT exemption of the sale and disposition of Welfareville property is reasonable. Also, the government as owner and seller of real property is not among those liable to pay the CGT under Section 24(D) and Section 27 (D)(5) of the NIRC of 1997. Hence, it is exempt from the payment of CGT.

It should be noted that Section 20 of RA 7279 or the Urban Development and Housing Act of 1992 also exempts from CGT, among others, the sale, conveyance or transfer by private sector of raw land intended for socialized housing. A socialized housing program of the government may also take in the form of a community mortgage program (CMP). It is a mortgage financing program of the National Home Mortgage Finance Corporation

(NHMFC) which is also exempted from the payment of CGT. If a private entity which sells, conveys or transfers land for socialized housing purposes is exempt from CGT, there is more reason to exempt the government from the CGT.

HB 1971

Exempting from Estate Tax the Unpaid Balance of Just Compensation Due the Decedent Owner or His/Her Legal Heirs or Successors in Interest of Agricultural Land Acquired by the Government Under Presidential Decree (PD) No. 27, EOs 228 and 229, RAs 6657 and 9700 (Comprehensive Agrarian Reform Program), Amending for the Purpose Section 87 of the National Internal Revenue Code of 1997, as Amended

HB 1971 seeks to exempt from estate tax the unpaid balance of just compensation due the decedent owner or his/her legal heirs or successors in interest of agricultural land acquired by the government by virtue of PD 27, EOs 228 and 229, and RAs 6657 and 9700.

The value of the gross estate of the decedent, for estate tax purposes, is determined by including the value at the time of his/her death of all property, real or personal, tangible or intangible, wherever situated. The just compensation for agricultural land covered by the Comprehensive Agrarian Reform Program (CARP) including the unpaid balance, if any, forms part of his/her gross estate.

Having a high net estate is indicative that the decedent and his/her heirs have accumulated substantial amount of wealth and therefore are subject to a higher estate tax than one with a modest amount of net estate. This is consistent with the progressivity and equitability principles of taxation as provided in the 1987 Philippine Constitution.

The unpaid balance of just compensation varies among decedent landowners as it depends on the value or size of agrarian reform-covered landholdings. It could be a large or small amount depending on certain circumstances. The proposed estate tax exemption would result in inequity among concerned heirs of deceased landowners if the unpaid balance of just

compensation of one decedent is larger than the net taxable estate of another deceased person who will be required to pay estate tax thereon.

Moreover, the proposed estate tax exemption will not directly address the concerns of landowners with regard to the implementation of the agrarian reform program. As recognized in the explanatory note of the bill, valuation issues and delay in the payment of just compensation seem to be the more important concerns of affected landowners. Thus, if reforms would be made in these areas, the proposed estate tax exemption would be rendered irrelevant and unnecessary.

Lastly, it should be noted that recognizing the problems on tax payment faced by the heirs of a deceased landowner whose land has been covered by agrarian reform program, the government through Joint DAR-DOF-DOJ-LBP Administrative Order No. 1, series of 2012, streamlined the procedures on the payment of estate tax and real property tax due on agrarian reform-covered landholdings.

HB 2266

Promoting Tax Consciousness and Encouraging Voluntary Compliance of Tax Laws

HB 2266, otherwise known as the “Voluntary Tax Compliance Incentives Act of 2013”, seeks to promote tax consciousness and encourage voluntary compliance in the payment of taxes through the grant of incentive in the form of cash prizes to be given in quarterly raffles to winning taxpayers, buyers or payors of goods or services, business establishments issuing the duly registered sales invoices or official receipts and to barangays where the business establishments are actually located.

The cash prizes will be taken out of the Priority Development Assistance Fund (PDAF) of the participating member of the House of Representatives.

The bill also provides that the implementation of the program shall be delegated to the Bureau of Internal Revenue (BIR) which shall serve as the trustee of the Countryside Development Fund (CDF) or Congressional Initiative

Fund (CIF) released by the Department of Budget and Management (DBM). The BIR is likewise mandated to submit quarterly report within thirty (30) days after each raffle as well as year-end report to the respective participating member of the House of Representatives in accordance with the Commission on Audit (COA) rules and regulations.

The intention of the bill to create an atmosphere of voluntary tax compliance and consciousness among the taxpayers through the grant of cash prizes is recognized. However, the bill may no longer be necessary as there is already the so-called Premyo sa Resibo (PSR) program being implemented by the government through the services of PhilWeb Corporation (PhilWeb) since 2006 which is similar to the raffle activity being proposed under the bill. The PSR varies from the proposed raffle activity under HB 2266 in the sense that instead of a quarterly draw, the PSR has a daily draw where winning entries can win a Php30 prepaid load and weekly draw which is done every Friday with a cash prize of Php10,000. Non-winning entries still have a chance to win Php1 million in the grand draw. Also, while every SMS entry in the PSR is charged Php2.50, there is no additional cost on the part of the participating taxpayers in the raffle being proposed by HB 2266 as the official receipt (OR) of the taxpayers are the ones to be raffled. Moreover, the cash prizes involved in the PSR are sourced from the money earned out of the SMS entries whereas, under HB 2266, the cash prizes will be taken out of the Priority Development Assistance Fund (PDAF) of the participating Member of the House of Representatives.

The proposed raffle activity under HB 2266 has features which may be incorporated in the existing PSR to further improve the latter. For one, the BIR can, on its own, undertake the PSR program so as not to pass its implementation to a private corporation. Also, the PSR program may grant cash incentives to business establishments. Through this, the practice of non-issuance of OR/invoices or use of fake receipts by unscrupulous establishments will be minimized. It may likewise be suggested that the BIR intensify its promotion of the PSR so that more people would know about the objective of the said program and entice them to join the same.

Lastly, along with the grant of raffle cash prizes to promote tax consciousness and encourage tax compliance, the BIR should continuously and rigorously implement its 26-point program which include, among others,

the Run After Tax Evaders (RATE), Oplan Kandado, Tax Mapping and Tax Compliance Verification Drive (TCVD), the use and matching of third party data and automation of systems and processes. More importantly, the BIR should maintain its high quality service to ensure taxpayer satisfaction that will consequently lead to enhanced voluntary tax compliance and improved tax collection.

HB 2286

Amending Section 27 of the National Internal Revenue Code of 1997, as Amended by RA 9337, Expressly Including the Philippine Amusement and Gaming Corporation (PAGCOR) as One of the Government-Owned or Controlled Corporations Exempt from Income Tax

HB 2286 seeks to amend Section 27(C) of the National Internal Revenue Code (NIRC) of 1997, as amended by RA 9337, by expressly including the PAGCOR as one of the government-owned or controlled corporations (GOCCs) exempt from income tax, which exemption was previously enjoyed under RA 8424, otherwise known as the Tax Reform Act of 1997.

The proposal is based on the observation that subjecting the PAGCOR to the corporate income tax creates an absurd situation where the government is taxing itself and that the PAGCOR's exclusion from the class of GOCC's exempt from corporate income tax is violative of the equal protection clause.

The proposed inclusion of PAGCOR among the GOCCs explicitly exempted from paying the corporate income tax will in effect restore its tax exempt status which it previously enjoyed pursuant to Section 27(c) of the NIRC. With the enactment of RA 9337 on May 24, 2005, said law excluded PAGCOR from the enumeration of GOCCs that are exempt from payment of corporate income tax thereby relegating it to the status of an ordinary domestic corporation subject to income tax.

PAGCOR filed a Motion for Reconsideration regarding its exclusion from the list of GOCCs exempted from corporate income tax. However, in

its resolution dated May 31, 2011, the Supreme Court resolved to Deny with Finality the said Motion for Reconsideration. Since there is already a Supreme Court decision on the matter, the proposal is deemed moot and academic.

Unnumbered HB

Providing for the Creation and Organization of Credit Surety Fund Cooperatives to Manage and Administer Credit Surety Funds to Enhance the Accessibility of Micro, Small and Medium Entrepreneurs, Cooperatives and Non-Government Organizations to the Credit Facility of Banks and For Other Purposes

The Unnumbered HB seeks to encourage, promote and assist in the creation and organization of credit surety fund cooperatives (CSF Coop.). A CSF Coop shall be composed of cooperatives, non-government organizations (NGOs), government financial institutions (GFIs) and local government units (LGUs). The CSF Coop shall be registered with the Cooperative Development Authority (CDA) as a special cooperative enjoying all the rights and privileges of cooperatives as provided under RA 9520, otherwise known as the Cooperative Code of 2008.

The objective of the bill, among others, is to enhance the accessibility of micro, small and medium entrepreneurs (MSMEs), cooperatives and NGOs to the credit facility of banks for an enhanced sustainability and growth. As such, the bill provides for the establishment of a credit surety fund (CSF) which primarily consists of the initial contributions of its members and other qualified investors and donors, to provide alternative means of collateral cover for the loans or credit accommodation obtained by qualified borrowers from lending banks.

Section 20 of the bill proposes that all donations to, and income of the CSF shall be exempt from tax.

The creation of the CSF Coop is in accordance with the declared policy of the state to foster the creation and growth of cooperatives as a practical vehicle for promoting self-reliance and harnessing people power towards the

attainment of economic development and social justice, as provided under Article 2 of RA 9520. As such, CSF being a special cooperative, and is proposed to be governed by the provisions of RA 9520, shall be exempt from the payment of all internal revenue taxes and other taxes on income derived from members. The reiteration of such tax exemption privileges in the proposed bill will further strengthen it and is duly recognized. Thus, the proposal to exempt donations to and income of CSF derived from its members may be considered.

With respect to the income of CSF to be derived from non-members, the same may still be exempt from the payment of income tax if its accumulated reserves and undivided net savings is not more than Ten Million Pesos (PhP10,000,000.00), as provided under Article 61 (1) and (2)(a) of RA 9520.

It must be noted that the proposed tax incentives for CSF will effectively modify the tax exemption provisions under RA 9520 insofar as CSF is concerned in the sense that the bill does not qualify the financial status and nature of dealings of the CSF in order to be tax exempt. While it is recognized that Congress may always propose changes in the law, it is deemed reasonable to align the proposal with the tax exemption provisions of RA 9520 in order to maintain uniformity in the tax treatment of cooperatives. Considering also the current thrust of the government to enhance its revenue generation capacity, the proposal to exempt from tax donation to, and income of CSF from non-members is not supported.

Unnumbered HB

Providing for Pre-Employment Privilege to Indigents by Granting a Discount on Fees in Securing Pre-Employment Certifications and Clearances from Government Agencies

The Unnumbered HB dubbed as “Indigents Pre-Employment Privilege Act” seeks to entitle indigent job applicants to a twenty percent (20%) discount on fees charged by government agencies in processing pre-employment certifications and clearances. The said discount may be availed of once a year from each government agency by only one indigent job applicant per household and one of his dependents.

Fees and charges are generally imposed to recover the cost of services rendered by government agencies. However, some social services remain free and subsidized by the government especially the constitutionally mandated free and/or subsidized services like education and health. At present, aside from free health and education program of the government, it is only in the litigation process where exemptions from paying fees are extended to indigents.

The bill's intent to entitle indigents to 20% discount on fees and charges imposed and collected by certain government agencies on documentations/certifications for employment purposes e.g., birth certificates and clearances, adheres to the provisions in the Constitution. It may be noted that prior to securing employment opportunities, an employer requires applicants to submit necessary documentations which would establish his/her identification, state of health, and whether or not he/she has a history of criminal offenses. At present, an applicant/prospective employee would have to shell out about PhP1,000.00 to meet the abovementioned minimum requirements by an employer. As such, the cost of complying with the employment requirements would substantially impact on a family's income for the month, hence, affect the daily sustenance of the family. This then deprives indigents of opportunities to secure employment, thereby creating social injustice. The proposal would help indigent job applicants in securing said employment requirements which could hopefully encourage them to seek employment.

On the other hand, the proposed measure directly impacts on the operations of the concerned government agencies. This notwithstanding, the proposed discount on fees for certifications for employment purposes will be a big help to the poor sector of the society which may eventually redound to poverty alleviation.

There is, however, reservation with regard to the proposed discount entitlement being extended to one of the indigent's dependents as the same appears confusing given the purposes of the bill. It may be noted that the official working/employable ages are between 15 to 64 years. Hence, the implied dependents are those below 15 years and 65 years and older. The proposed discount may not be practical considering that said dependents are not of employable age.

As a safeguard, however, on the possible abuse of the privilege, close monitoring on the availment of the same should be ensured by the DSWD which will determine the list of indigent persons and issue certifications to those who may avail of said fee discounts. Strict monitoring is likewise necessary by the agencies involved to ensure that the same is availed of only once a year and to be used for employment purposes only.

OTHER BILLS

The following is an enumeration of Senate and House bills commented on and evaluated during the period under review which have similarities with bills filed in the previous Congress and were thus published in previous NTRC Annual Reports or were already passed into law:

1. Creating and Establishing the Philippine High School for Sports (SB 196)
2. Providing Incentives for the Manufacture, Assembly and Importation of Electric, Hybrid and Other Alternative Fuel Vehicles, and For Other Purposes (HBs 387, 483 and 2316)
3. Mandating the Tax-Free and Duty-Free Importation of Books and Selected Publications and Documents into the Philippines (HB 563)
4. Exempting Persons with Disability (PWDs) from the Value-Added Tax (VAT) on Certain Goods and Services, Amending for the Purpose RA 7277, as Amended, Otherwise Known as the "Magna Carta for Persons with Disability, and for Other Purposes (HB 1039)
5. Establishing a Voluntary Student Loan Program by Banks and Government Financial Institutions, Providing Incentives Therefore and for Other Purposes (HB 1289)

6. Exempting Contribution for the Government Service Insurance System (GSIS), Social Security System (SSS), the Philippine Health Insurance (PhilHealth) Corporation and the PAG-IBIG Fund from Taxation, Amending for the Purpose RA 8424, or "The National Internal Revenue Code" (HB 2612)

FISCAL INCENTIVES REVIEW BOARD

In accordance with EO 93, the NTRC continuously rendered assistance to the Fiscal Incentives Review Board (FIRB) as its Technical Secretariat. For 2013, the NTRC processed and evaluated application for tax subsidy of GOCCs and Commissaries and submitted the same to the members of the Technical Committee and subsequently to the Board Proper for their approval/disapproval.

For 2013, the FIRB granted tax subsidy to the following GOCCs and Commissaries: (1) Armed Forces of the Philippines Commissary and Exchange Service (AFPCES); (2) Millennium Challenge Account – Philippines (MCA-P); (3) National Food Authority (NFA); (4) Philippine Deposit Insurance Corporation (PDIC); (5) Philippine Postal Corporation (PhilPost); and (6) Power Sector Assets Liabilities Management Corporation (PSALM). In relation thereto, the NTRC prepared nine (9) FIRB Resolutions granting tax subsidy to GOCCs/Commissaries and issued 22 Certificates of Entitlement (CES) to subsidy.

The NTRC prepared quarterly, semestral and annual reports on the availment of tax subsidy by GOCCs and Commissaries and transmitted the same to the members of the Technical Committee and Board Proper for their information and guidance. It prepared letter-replies to queries and provided data on tax subsidy availment to requesting GOCCs, national government agencies (NGAs) and the legislature. It also served in meetings of the FIRB and its Technical Committee and prepared the agenda and minutes of such meetings. It also attended consultation meetings requested by various GOCCs/Commissaries on tax subsidy requests and other matters. Lastly, it provided estimates of the amounts of tax subsidy requirements of GOCCs/Commissaries to the DOF as inputs in the preparation of the country's 2014 revenue program.

TASK FORCE ON FEES AND CHARGES

The NTRC continuously served as Secretariat to the Task Force on Fees and Charges originally created under Administrative Order (AO) No. 255 (February 20, 1996) which was reactivated and reconstituted under EO 218 (March 15, 2000). As Secretariat to the Task Force, the NTRC monitored compliance of NGAs in the revision of fees and charges pursuant to AO 31 (October 1, 2012) as implemented by DOF-DBM-NEDA Joint Circular No. 1-2013 (January 30, 2013).

For 2013, the following agencies have revised their fees and charges in compliance with the said AO: (1) Manila International Airport Authority (MIAA); (2) Tariff Commission (TC); (3) Philippine Trade Training Center (PTTC); (4) Department of Budget and Management-Philippine Government Electronic Procurement System (DBM-PhilGEPS); (5) Bureau of Soils and Water Management (BSWM); (6) Philippine Racing Commission (PhilRaCom); and (7) Mines and Geosciences Bureau (MGB). Other agencies are in various stages of the revision of their fees and charges.

The NTRC also extended technical assistance to the following fee collecting government agencies pertaining to their revision of fees and charges: (1) Food and Drug Administration (FDA); (2) Bureau of Internal Revenue (BIR); (3) Movies and Television Review and Classification Board (MTRCB); and (4) Technical Education and Skills Development Authority (TESDA), among others.

TECHNICAL COMMITTEE ON REAL PROPERTY VALUATION

The NTRC continuously acted as consultant to both the Technical Committee on Real Property Valuation (TCRPV) and Executive Committee on Real Property Valuation (ECRPV) of some Revenue Regional and District Offices of the BIR and attended meetings and public hearings pertaining to

determination/revision of zonal values of various real properties, requests for revaluations and participated in ocular inspections of subject properties. For 2013, it reviewed the proposed zonal values in the following Revenue Regions (RRs)/Revenue District Office (RDOs): (1) RRs 6 (Manila); (2) RR 9 (San Pablo City); (3) RDO 30 (Binondo); (4) RDO 34 (Paco/Pandacan/Sta. Ana); and (5) RDO 54-A (Trece Martirez City).

DOF-NTRC GENDER AND DEVELOPMENT

As part of the NTRC commitments to its 2013 GAD Plan, the NTRC conducted a Study on the Tax Contribution of Women on Wage Employment and it was published in the NTRC Tax Research Journal, November – December Issue of 2013. It also prepared NTRC GAD Plan and Budget for 2013 and 2012 GAD Accomplishment Report.

The NTRC also attended DOF and attached agencies GAD Focal Points Planning Sessions/Seminars/Workshops, conducted tax fora and GAD related seminars/workshops; and rendered technical services to GAD related activities. Moreover, ten (10) NTRC representatives participated in the Walk to End Violence Against Women (VAW) held on November 24, 2013.

The NTRC also displayed streamers on the 18-Day Campaign to End VAW (November 25 – December 12, 2013) in the strategic location of NTRC; included it in the NTRC Tax Research Journal and posted it in the NTRC website.

OTHERS

In line with its tax information dissemination and taxpayers' awareness program, the NTRC published and sent tax guides and other information materials to officials of the executive and legislative branches of the government

as well as to the private sector and other requesting parties. The NTRC publications include the following:

1. NTRC Tax Research Journal (published bi-monthly)
2. NTRC Annual Report
3. Historical Development of Philippine Taxes, 1997 - 2013
4. Various Public Finance and Other Related Statistics, 2000 - 2012
5. Basic Facts and Figures on VAT

The NTRC also compiled the 2012 BIR Revenue Regulations.



Chapter 4

STAFF DEVELOPMENT

and Other Activities

A. Conferences, Seminars and Study Grants Abroad

1. **Trinidad A. Rodriguez**, OIC-Executive Director, attended the Fourth High Level Tax Conference for Asian Countries held at Tokyo, Japan on April 2-4, 2013.
2. **Mark Lester L. Aure**, Senior Tax Specialist, Indirect Taxes Branch, attended the International Training Programme on Capital Markets, Commodity and Investment Banking, held at EDI Campus, Ahmedabad, India on February 25 – April 5, 2013.
3. **Edrei Y. Udaundo**, Tax Specialist II, Tax Statistics Branch, attended the Seminar on Fiscal Analysis and Forecasting held at Singapore on July 15-26, 2013.
4. **Eva Marie T. Nejar**, Tax Specialist II, Economics Branch, attended the Course on Early Warning Exercise held at Singapore Regional Training Institute, Singapore on September 30 – October 11, 2013.
5. **Nedinia B. Mendiola**, Supervising Tax Specialist, Planning and Coordinating Branch, attended the Course on Inclusive Growth held at the IMF Institute, Washington DC, USA on October 21-25, 2013.

B. Local Conferences and Seminars

1. **Josephine B. Trillana**, Chief Tax Specialist, Planning and Coordinating Branch, **Luningning D. Fabila**, Chief Tax Specialist, Administrative and Financial Branch, **Cecilia V. Salvatierra**, OIC-Budget Officer, Budget and Cash Division, Administrative and Financial Branch, attended the FY 2014 National Budget Forum held at the AFP Commissioned Officers Country (AFPCOC), Camp Aguinaldo, Quezon City on January 11, 2013.
2. **Josephine B. Trillana**, Chief Tax Specialist, Planning and Coordinating Branch, **Cecilia V. Salvatierra**, OIC-Budget Officer, Budget and Cash Division, Administrative and Financial Branch, **Abraham P. Solomon**, Computer Maintenance Tech. III, Tax Statistics Branch, attended the First Plenary Conference of the Government-Wide Medium-Term Information and Communications Technology Harmonization Initiative (MITHI) held at the Multi-Purpose Hall, Boncodin Hall, DBM Complex, San Miguel, Manila on January 15, 2013.
3. **Marlene L. Calubag**, Chief Tax Specialist, Indirect Taxes Branch, attended the Dissemination Forum on Developing a Multi-Sectoral Strategy to Address the Determinants of Inequities in Non-communicable Diseases held at Dusit Thani Manila on January 16, 2013.
4. **Trinidad A. Rodriguez**, OIC-Executive Director, **Marlene L. Calubag**, Chief Tax Specialist, Indirect Taxes Branch, attended the Extractive Industries Transparency Initiative (EITI) Philippines National Planning Workshop held at Heritage Hotel, Roxas Blvd., corner EDSA, Pasay City on January 18-19, 2013.
5. **Trinidad A. Rodriguez**, OIC-Executive Director, **Gian Carlo D. Rodriguez**, Accountant III, Accounting Division, Administrative and Financial Branch, **Edrei Y. Udaundo**, Tax Specialist I, Tax Statistics Branch, attended the Presentation of the Property Tax Compliance Study of Legazpi City to the Mayor and Other City Officials held at Legazpi City on February 4-5, 2013.

6. **Josephine B. Trillana**, Chief Tax Specialist, Planning and Coordinating Branch, **Cecilia V. Salvatierra**, OIC-Budget Officer, Budget and Cash Division, Administrative and Financial Branch, attended the Forum on the Preparation of the GAD Plan and Budget for 2014 held at DOLE-OSHC Auditorium, DOLE North Avenue cor. Agham Road, Quezon City on February 7, 2013.
7. **Trinidad A. Rodriguez**, OIC-Executive Director, **Jonah P. Tibubos**, Statistician III, Tax Statistics Branch, **Maricar M. Pimentel**, Senior Tax Specialist, Local Finance Branch, attended the Presentation of the Property Tax Compliance Study of Bayawan City to the Mayor and Other City Officials held at Bayawan City on February 7-8, 2013.
8. **Gian Carlo D. Rodriguez**, Accountant III, **Margarita G. Aure**, Administrative Assistant III, Accounting Division, Administrative and Financial Branch, attended the Electronic Tax Remittance Advice (eTRA) Briefing held at the Conference Room, Bureau of Internal Revenue, Manila on February 13, 2013.
9. **Erlinda T. Ramos**, Administrative Officer V, Administrative and Financial Branch, attended the Competency-Based HR System Training Program held at the Civil Service Institute, CSC Main Building, Quezon City on February 19-20, 2013.
10. **Josephine B. Trillana**, Chief Tax Specialist, Planning and Coordinating Branch, **Erlinda T. Ramos**, Administrative Officer V, Administrative and Financial Branch, attended the Forum on GAD Planning and Budgeting held at Visayas Room, DOF Bldg., Roxas Blvd., Manila on February 20, 2013.
11. **Teresita L. Solomon**, OIC-Deputy Director, **Erlinda T. Ramos**, Administrative Officer V, Administrative and Financial Branch, attended Let's Talk: A Convergence of Stakeholders' Practitioner held at Bulwagang Serbisyo Sibil, CSC Central Office, Quezon City on February 27, 2013.
12. **Marlene L. Calubag**, Chief Tax Specialist, Indirect Taxes Branch, attended the Re-Entry Action Plan Conference (REAPCon) held at

the Ruby Function Hall, Crowne Plaza Manila Galleria, Ortigas Center, Pasig City on February 26 – March 1, 2013.

13. **Josephine B. Trillana**, Chief Tax Specialist, Planning and Coordinating Branch, **Cecilia V. Salvatierra**, OIC-Budget Officer, Budget and Cash Division, Administrative and Financial Branch, attended the FY 2014 Forum on New Budget (NEP/GAA) Structure held at the Tejeros Hall of AFP Commissioned Officer Country (AFPCOC), Camp Aguinaldo, Quezon City on March 5, 2013.
14. **Trinidad A. Rodriguez**, OIC-Executive Director, **Emelita A. Tena**, Chief Tax Specialist, Special Research and Technical Services Branch, attended Phase 2 Peer Review of the Philippines held at BIR Conference Room, BIR National Office, Quezon City on March 5 – 7, 2013.
15. **Cecilia V. Salvatierra**, OIC-Budget Officer, Budget and Cash Division, **Milagros G. Alvarez**, Administrative Officer II, Accounting Division, Administrative and Financial Branch, attended the Training Program on the Unified Accounts Code Structure (UACS) and Online Submission of Budget Proposal System (OSBPS) held at Linden Suites, Ortigas Center, Pasig City on March 7-8, 2013.
16. **Anna Catherine V. Reviles**, Administrative Assistant II, Administrative and Financial Branch, attended the Leave Administration Course for Effectiveness (LACE) held at the Civil Service Commission – NCR, Quezon City on March 14-15, 2013.
17. **All NTRC Officials and Employees** attended the Two-Day Seminar on NTRC Core Values, Strategic Priorities, and Strategic Performance Management System held at the NTRC Social Hall, Port Area, Manila on March 14-15, 2013.
18. **Josephine B. Trillana**, Chief Tax Specialist, Planning and Coordinating Branch, **Marcelino B. Obias, Jr.**, Statstician IV, Tax Statistics Branch, attended the Seminar on Magna Carta of Women (MCW) and Anti-Sexual Harrassment Act held at BLGF Training Room, EDPC Building, Roxas Blvd., Manila on March 21, 2013.

19. **Jonah P. Tibubos**, Statistician III, Tax Statistics Branch, attended the Public Financial Management Seminar held at the DOF Bldg., Roxas Blvd., Manila on March 22, 2013.
20. **Cecilia V. Salvatierra**, OIC-Budget Officer, Budget and Cash Division, Administrative and Financial Branch, **Abraham P. Solomon**, Computer Maintenance Tech. III, Tax Statistics Branch, attended the Medium-Term Information and Communications Technology Harmonization Initiative (MITHI) Workshop held at the Visayas Room, DOF Bldg., Roxas Blvd., Manila on April 2-5, 2013.
21. **Nedinia B. Mendiola**, Supervising Tax Specialist, Planning and Coordinating Branch, **Marilou D. Vilog**, Administrative Officer III, Budget and Cash Division, Administrative and Financial Branch, attended the New Cooperative Annual Performance Report (CAPR) and Performance Audit Orientation held at the Paco Soriano Pandacan Development Cooperative (PSPDC) Bldg., Paco, Manila on April 3, 2013.
22. **Erdie B. Ambrosio**, Tax Specialist II, Fiscal Incentives Branch, **Josefina Manuela A. Escuro**, Tax Specialist II, Economics Branch, **Madonna Claire V. Aguilar**, Tax Specialist I, Local Finance Branch, attended the PAHRODF Re-Entry Action Plan (REAP) Progress Workshop held at the SMX Convention Center, Pasay City on April 9-12, 2013.
23. **Cecilia V. Salvatierra**, OIC-Budget Officer, **Rita B. Par**, Administrative Assistant II, Budget and Cash Division, **Celestino M. dela Cruz**, Economist I, Administrative and Financial Branch, attended the Cooperative Orientation on Social Audit and Performance Audit held at 22nd Floor, Makati City Hall, Makati City on April 11, 2013.
24. **Jonah P. Tibubos**, Statistician III, **Edrei Y. Udaundo**, Tax Specialist II, Tax Statistics Branch, attended the Training on Introduction to STATA held at the DOF Bldg., Roxas Blvd., Manila on April 24, 25, 29 and August 12, 2013.

25. **All NTRC Officials and Employees** attended the Lecture on Real Property Tax Reforms in the Philippines held at the NTRC Social Hall, Port Area, Manila on April 25-26, 2013.
26. **Gian Carlo D. Rodriguez**, Accountant III, Accounting Division, **Cecilia V. Salvatierra**, OIC-Budget Officer, Budget and Cash Division, Administrative and Financial Branch, attended the Forum on Single Treasury Account held at Marble Hall, Ayuntamiento Bldg., Intramuros, Manila on April 29, 2013.
27. **All NTRC Officials and Employees** attended the General Anti-Avoidance Rules (Legal Provisions, Case Laws and International Experiences on GAAR) held at the NTRC Social Hall, Port Area, Manila on May 2-3, 2013.
28. **Nedinia B. Mendiola**, Supervising Tax Specialist, Planning and Coordinating Branch, **Marilou D. Vilog**, Administrative Officer III, Budget and Cash Division, Administrative and Financial Branch, attended the Records Management Seminar held at the Executive Lounge, New City Hall Building, Makati City on May 8, 2013.
29. **Jason P. Raposas**, Supervising Tax Specialist, Special Research and Technical Services Branch, **Roselyn C. Domo**, Senior Tax Specialist, Direct Taxes Branch, **Josefina Manuela A. Escuro**, Tax Specialist II, Economics Branch, attended the Conflict Management Seminar held at the Executive Lounge, New City Hall Building, Makati City on May 22-23, 2013.
30. **Donaldo M. Boo**, Chief Tax Specialist, Direct Taxes Branch, attended the Formal Labor and Migrant Workers Second Quarter Sectoral Council Meeting held at Balanga, Bataan on May 22-24, 2013.
31. **Erlinda T. Ramos**, Administrative Officer V, **Gian Carlo D. Rodriguez**, Accountant III, Accounting Division, Administrative and Financial Branch, attended the Trainings for Agency Authorized Officers (AAOs) and Remittance Officers held at the Narra Room, GSIS Bldg., Financial Center, Pasay City on May 23, 2013.

32. **Gian Carlo D. Rodriguez**, Accountant III, Accounting Division, Administrative and Financial Branch, attended the Sample Testimonial of the Philippine Government Electronic Procurement System (PhilGEPS) E-Payment held at the PhilGEPS Office, Raffles Corporate Center, Ortigas Center, Pasig City on May 29, 2013.
33. **All NTRC Officials and Employees** attended the Seminar on Input-Output Structure of Industries held at the NTRC Social Hall, Port Area, Manila on May 29-30 and June 3-4, 2013.
34. **NTRC Executive Staff** attended the 2013 Executive Staff's Strategic Planning Workshop held at Grande Island Resort, Subic, Zambales on May 31 – June 1, 2013.
35. **Erlinda T. Ramos**, Administrative Officer V, Administrative and Financial Branch, attended the Seminar on Strategic Role of Human Resource (HR) in Organizations held at the Civil Service Institute, CSC Main Bldg., Diliman, Quezon City on June 3-4, 2013.
36. **Maria Cecelia B. Bea**, Tax Specialist III, Special Research and Technical Services Branch, attended the Seminar on Time Series Analysis and Forecasting I – Single Equation Methods (Module II) held at the School of Statistics, University of the Philippines (UP), Diliman, Quezon City on June 25-28, 2013.
37. **Josefina Manuela A. Escuro**, Senior Tax Specialist, Economics Branch, attended the Philippine-Australian Alumni Networking Event held at the Dusit Thani Manila, Ayala Center, Makati City on June 26, 2013.
38. **Josephine B. Trillana**, Chief Tax Specialist, Planning and Coordinating Branch, **Cecilia V. Salvatierra**, Administrative Officer IV, Budget and Cash Division, Administrative and Financial Branch, attended the 2nd Philippine Association for Government Budget Administration (PAGBA) Quarterly Seminar and Meeting held at Bohol Tropics Hotel, Tagbilaran City, Bohol on July 2-6, 2013.

39. **Mark Lester L. Aure**, Economist III, Indirect Taxes Branch, **Jonah P. Tibubos**, Statistician III, Tax Statistics Branch, **Rita B. Par**, Administrative Assistant II, Budget and Cash Division, Administrative and Financial Branch, attended the Seminar on Internal Control held at the 22nd Floor, New Session Hall, Makati City Hall, Makati City on July 17-19, 2013.
40. **All NTRC Officials and Employees** attended the Seminar on Expanded Senior Citizens Act and Magna Carta for Disabled Persons held at the NTRC Social Hall, Port Area, Manila on July 24, 2013.
41. **Josephine B. Trillana**, Chief Tax Specialist, Planning and Coordinating Branch, **Cecilia V. Salvatierra**, Administrative Officer IV, Budget and Cash Division, Administrative and Financial Branch, attended the Workshop on the Formulation of Major Final Outputs (MFOs) and Performance Indicators (PIs) for CY 2013 Performance Based Bonus (PBB) held at the DOF Bldg., BSP Complex, Roxas Blvd., Manila on July 30, 2013.
42. **Teresita P. Villagonzalo**, Planning Officer II, **Lillian S. Flores**, Administrative Assistant V, Planning and Coordinating Branch, attended the Gender and Development (GAD) Seminar/Workshop on Psycho-Sexual Maturity held at Vismin Room, DOF Bldg., Roxas Blvd., Manila on July 31, 2013.
43. **Marcelino B. Obias, Jr.**, Statistician IV, **Edrei Y. Udaundo**, Tax Specialist II, Tax Statistics Branch, attended the Course Counseling of Australia Awards Scholarship Candidates for the Incoming 2014 Intake held at Crowne Plaza Manila Galleria Hotel, Quezon City on August 6-8, 2013.
44. **Cecilia V. Salvatierra**, Administrative Officer V, Budget and Cash Division, Administrative and Financial Branch, attended the Orientation on the Guidelines on the Grant of Performance Based Bonus (PBB) for FY 2013 under EO 80, series of 2012 held at the Multi-Purpose Hall, DBM Building, Manila on August 12, 2013.

45. **Edrei Y. Udaundo**, Tax Specialist II, Tax Statistics Branch, attended the Hands-on Customs Data Management Training held at Bonifacio Global City, Taguig City on August 14, -15, 2013.
46. **Edrei Y. Udaundo**, Tax Specialist II, Tax Statistics Branch, attended the Consultation Session and Training on Customs Operations held at the DOF Bldg., Roxas Blvd., Manila on August 23, 2013.
47. **Ma. Berlie L. Amurao**, Supervising Tax Specialist, **Mark Lester L. Aure**, Economist III, Indirect Taxes Branch, attended the FPPO Quarterly Lecture – “Sin Tax Law: Increasing Tax Revenues While Ensuring a Healthy Filipino Society” held at the DFG Conference Room, DOF Bldg., Roxas Blvd., Manila on August 28, 2013.
48. **Eva Marie T. Nejar**, Tax Specialist II, Economics Branch, attended the Japanese Grant Aid for Human Resource Development Scholarship (JDS) Promotion Seminar for 2014-2015 held at the Civil Service Commission, Quezon City on August 29, 2013.
49. **All NTRC Officials and Employees** attended the Tax Forum (Part III) - Fees and Charges Imposed by National Government Agencies (NGAs) held at the NTRC Social Hall, Port Area, Manila on August 29-30, 2013.
50. **Monica G. Rempillo**, Economist V, Economics Branch, **Nedinia B. Mendiola**, Supervising Tax Specialist, Planning and Coordinating Branch, attended the Entrepreneurial and Business Management Seminar held at the Executive Lounge 22nd Floor, New Sesison Hall, Makati City Hall, Makati City on September 17-19, 2013.
51. **Marlene L. Calubag**, Chief Tax Specialist, Indirect Taxes Branch, **Erdie D. Ambrosio**, Senior Tax Specialist, Fiscal Incentives Branch, **Josefina Manuela A. Escuro**, Senior Tax Specialist, Economics Branch, **Madonna Claire V. Aguilar**, Tax Specialist II, Local Finance Branch, attended the REAP Writeshop held at the SMS Convention Center, Davao City on October 8-9, 2013.

52. **Marcelino B. Obias, Jr.**, Statistician IV, **Jonah P. Tibubos**, Statistician III, Tax Statistics Branch, attended the Forum on Statistics that Matter to BIR (Economic Data and Tax Statistics) held at the BIR Training Room, BIR Bldg., Quezon City on October 22, 2013.
53. **Eva Marie T. Nejar**, Tax Specialist II, Economics Branch, attended the “Lecture on Poverty Statistics Focusing on Food Threshold” held at the DOF Bldg., Roxas Blvd., Manila on October 24, 2013.
54. **Marcelino B. Obias, Jr.**, Statistician IV, Tax Statistics Branch, **Monica G. Rempillo**, Economist V, **Josefina Manuela A. Escuro**, Senior Tax Specialist, Economics Branch, attended the Users’ Forum on BSP-Produced Statistics held at the Bangko Sentral ng Pilipinas (BSP), Roxas Blvd., Manila on October 25, 2013.
55. **Edrei Y. Udaundo**, Tax Specialist II, Tax Statistics Branch, attended the Training on Harmonized System Product Classification, Tariff Rules and Regulations and Recent Developments in Free Trade Agreements held at the Tariff Commission on November 7, 2013.
56. **Josephine B. Trillana**, Chief Tax Specialist, Planning and Coordinating Branch, attended the GAD Planning and Budgeting Forum for National Agencies, Attached Offices, Bureaus and Government-Owned and/or-Controlled Corporations (GOCCs) held at the Commission on Audit (COA) Auditorium, Commonwealth Avenue, Quezon City on November 8, 2013.
57. **Cecilia V. Salvatierra**, Administrative Officer V, **Marilou D. Vilog**, Administrative Officer IV, Budget and Cash Division, **Gian Carlo D. Rodriguez**, Accountant III, Accounting Division, Administrative and Financial Branch, attended the Briefing on the Guidelines in the Preparation and Submission of Budget Execution Documents (BEDs) for 2014 and Subsequent Years held at Heritage Hotel Manila, Roxas Blvd. corner EDSA, Pasay City on November 8, 2013.
58. **Edrei Y. Udaundo**, Tax Specialist II, Tax Statistics Branch, attended the Australia Awards Pre-Departure Briefing held at the Astoria Plaza, Escriva Drive, Pasig City on November 20-22, 2013.

59. **Marcelino B. Obias, Jr.**, Statistician IV, Tax Statistics Branch, attended the Workshop on “Monitoring for Excellence” held at the Astoria Plaza, Escriva Drive, Pasig City on November 21-22, 2013.
60. **Donaldo M. Boo**, Chief Tax Specialist, Direct Taxes Branch, attended the LAMP2 Workshop/Writeshop of the Project Completion Report held at Clarkfield, Pampanga on November 20-22, 2013.
61. **Donaldo M. Boo**, Chief Tax Specialist, Direct Taxes Branch, **Gian Carlo D. Rodriguez**, Accountant III, Accounting Division, **Venchito P. Salvador**, Senior Tax Specialist, Personnel Division, Administrative and Financial Branch, attended the National Convention of Government Employees held at Bayview Park Hotel, Roxas Blvd., Manila on December 4, 2013.
62. **Gian Carlo D. Rodriguez**, Accountant III, Accounting Division, **Cecilia V. Salvatierra**, Administrative Officer V, Budget and Cash Division, Administrative and Financial Branch, attended the Workshop on UACS Implications to IT Systems held at Heritage Hotel, Pasay City on December 11, 2013.
63. **Jason P. Raposas**, Supervising Tax Specialist, **Maria Cecelia B. Bea**, Senior Tax Specialist, Special Research and Technical Services Branch, **Jonah P. Tibubos**, Statistician III, Tax Statistics Branch, attended the FPPO Quarterly Lecture held at Visayas-Mindanao Room, DOF Bldg., Roxas Blvd., Manila on December 13, 2013.
64. **Edrei Y. Udaundo**, Tax Specialist II, Tax Statistics Branch, attended the Training on the Customs Post-Entry Audit Group (PEAG) held at the Mindanao Room, DOF Bldg., Roxas Blvd., Manila on December 18, 2013.



Annex A

1. **RA 10583** - Entitled, "An Act Converting The Mountain Province State Polytechnic College In The Municipality of Bontoc, Mountain Province Into a State University to be Known as The Mountain Province State University, with Campuses in the Municipalities of Tadian, Bauko, Paracelis and Barlig, All Located in Mountain Province and Appropriating Funds Therefor" (May 24, 2013)
2. **RA 10584** - Entitled, "An Act Converting the Kalinga-Apayao State College in the City of Tabuk, Province of Kalinga into a State University to be Known as the Kalinga State University and Appropriating Funds Therefor" (May 24, 2013)
3. **RA 10585** - Entitled, "An Act Converting the Cotabato City State Polytechnic College in Cotabato City into a State University to be Known as the Cotabato State University and Appropriating Funds Therefor" (May 24, 2013)
4. **RA 10594** - Entitled, "An Act Establishing a State College in the City of Talisay, Province Of Cebu to be known as the Talisay City State College and Appropriating Funds Therefor (June 4, 2013)
5. **RA 10595** - Entitled, "An Act Converting the Western Visayas College of Science and Technology (WVCST) in the City of Iloilo into a State University to be Known as the Iloilo Science and Technology University, with Campuses in the Municipalities of Barotac Nuevo, Dumangas, Leon and Miag-Ao, All Located in the Province of Iloilo, and Appropriating Funds Therefor." (June 4, 2013)
6. **RA 10596** - Entitled, "An Act Converting the Mindoro State College of Agriculture and Technology in the Municipality of Victoria, Province of Oriental Mindoro into a State University to be Known as the Mindoro State University (MINSU) and Appropriating Funds Therefor." (June 4, 2013)

7. **RA 10597** - Entitled, "An Act Establishing the Northern Iloilo State University in the Province of Iloilo by Integrating the Northern Iloilo Polytechnic State College (NIPSC) in the Municipality of Estancia, the NIPSC-Barotac Viejo Campus in the Municipality of Barotac Viejo, the Ajuy Polytechnic College in the Municipality of Ajuy, the Batad Polytechnic College in the Municipality of Batad, the Concepcion Polytechnic College in the Municipality of Concepcion, the Lemery Polytechnic College in the Municipality of Lemery and the Victorino Salcedo Polytechnic College in the Municipality of Sara, All Located in the Province of Iloilo and Appropriating Funds Therefor." (June 4, 2013)
8. **RA 10598** - Entitled, "An Act Establishing a State College in the Municipality of Compostela, Province of Compostela Valley to be Known as the Compostela Valley State College, Integrating Therewith as Regular Branches the Bukidnon State University External Studies Centers in the Municipalities of Monkayo, Maragusan, Montevista and New Bataan, All Located in the Province of Compostela Valley and Appropriating Funds Therefor." (June 4, 2013)
9. **RA 10599** – Entitled, "An Act Converting the Palompon Institute of Technology in the Municipality of Palompon, Province of Leyte into a State University to be known as the Palompon Polytechnic State University, Integrating Therewith the Marcelino R. Veloso National Polytechnic College in the Municipality of Tabango, Province of Leyte and Appropriating Funds Therefor" (June 4, 2013)
10. **RA 10600** – Entitled, "An Act Establishing the Surigao Del Norte State University in the Province of Surigao Del Norte by Integrating the Surigao State College of Technology In Surigao City, the Siargao National College of Science and Technology in the Municipality of Del Carmen and the Surigao Del Norte College of Agriculture and Technology in the Municipality of Mainit, All Located in the Province of Surigao Del Norte, and Appropriating Funds Therefor" (June 4, 2013)
11. **RA 10604** – Entitled, "An Act Converting the Iloilo State College of Fisheries in the Municipality of Barotac Nuevo, Province of Iloilo Into

a State University to be known as the Iloilo State University of Science and Technology, with Campuses in the Municipalities of San Enrique, Dingle and Dumangas, and Integrating Therewith the Barotac Nuevo Polytechnic Institute in the Municipality of Barotac Nuevo, All Located in the Province of Iloilo and Appropriating Funds Therefor” (June 11, 2013)

12. **RA 10605** – Entitled, “An Act Converting the Pampanga Agricultural College (PAC) in the Municipality of Magalang, Province of Pampanga into a State University to be known as the Pampanga State Agricultural University and Appropriating Funds Therefor” (June 11, 2013)



Republic of the Philippines
DEPARTMENT OF FINANCE
NATIONAL TAX RESEARCH CENTER
Harbor Centre Bldg. II
23rd St. cor. Delgado St., Port Area, Manila

Editorial Board

Trinidad A. Rodriguez
Teresita L. Solomon

Monica G. Rempillo
Debbie F. Asistio-Sy

Marlene L. Calubag
Emelita A. Tena

Donaldo M. Boo

Editor

Josephine B. Trillana

Publication Staff

Nedinia B. Mendiola
Lillian S. Flores
Teresita P. Villagonzalo
Evelyn V. Bendo



From left to right: Josephine, Lillian, Nedinia, Teresita & Evelyn