



Tax reform for acceleration and inclusion (TRAIN) RA 10963

Key provisions and fiscal impact

May 11, 2018

Key messages

- **The tax reform package 1 is an important milestone in our history.**
- **It is the first of five packages that will once and for all correct the structural problems of the tax system that has made it unfair, complex, and inefficient.**
- **Goal: low rate and broad base.**

Key messages

- **Package 1...**
 - Corrects a longstanding inequity of the tax system
 - Broadens the consumption tax base.
 - Raises significant revenues

Key provisions

Simplifying the Tax System

We are simplifying the income tax brackets by decreasing it to six (6) brackets. Effective tax rates will be lowered for 99% of taxpayers, except the richest.

Bonuses up to 90,000 are exempt. These include 13th month pay and other benefits such as productivity incentives and Christmas bonus.

Those with an annual taxable income of around ₱500,000 are currently taxed with a 32% rate. With the new brackets, their tax rate will now be reduced to 20% by 2023.

CURRENT TAX SCHEDULE

Annual Taxable Income	Tax Rate
0 - 10,000	5%
Over 10,000 - 30,000	500 + 10% of the excess over 10,000
Over 30,000 - 70,000	2,500 + 15% of the excess over 30,000
Over 70,000 - 140,000	8,500 + 20% of the excess over 70,000
Over 140,000 - 250,000	22,500 + 25% of the excess over 140,000
Over 250,000 - 500,000	50,000 + 30% of the excess over 250,000
Over 500,000	125,000 + 32% of the excess over 500,000

PIT SCHEDULE 1 (2018-2022)

Annual Taxable Income	Tax Rate	Percent of Taxpayers
0 - 250,000	0%	83%
Over 250,000 - 400,000	20% of the excess over 250,000	8%
Over 400,000 - 800,000	30,000 + 25% of the excess over 400,000	6%
Over 800,000 - 2,000,000	130,000 + 30% of the excess over 800,000	2%
Over 2,000,000 - 8,000,000	490,000 + 32% of the excess over 2,000,000	1%
Over 8,000,000	2,410,000 + 35% of the excess over 8,000,000	0.1%

PIT SCHEDULE 2 (2023 ONWARDS)

Annual Taxable Income	Tax Rate
0 - 250,000	0%
Over 250,000 - 400,000	15% of the excess over 250,000
Over 400,000 - 800,000	22,500 + 20% of the excess over 400,000
Over 800,000 - 2,000,000	102,500 + 25% of the excess over 800,000
Over 2,000,000 - 8,000,000	402,500 + 30% of the excess over 2,000,000
Over 8,000,000	2,202,500 + 35% of the excess over 8,000,000

The simplified tax system will increase the take-home pay of most individuals thereby putting more money in people's pockets. This will make the system fairer and more equitable.

Estate tax and donor's tax

- **Estate tax** – Lowered from the highest 20% rate to a single rate of 6% for net estate with standard deduction of PHP 5 million to simplify the system as well as exemption for the first PHP 10 million for the family home.
- **Donor's tax** – Lowered from the highest 15% rate to a single rate of 6% of net donations above PHP 250,000 yearly.

Oil Excise Rates

One of the major provisions of the tax reform is the staggered increase in oil excise. The current rates have been unadjusted since 1997, draining some P145 billion of government revenues annually.

Under TRAIN, rates will be adjusted gradually between 2018 and 2020.

Excise tax on oil products

Pesos per liter	1997 - 2017	2018	2019	2020	2021 onwards
Diesel	Php 0.00	Php 2.50	Php 4.50	Php 6.00	Php 6.00
Gas	Php 4.35	Php 7.00	Php 9.00	Php 10.00	Php 10.00

* The scheduled increase in the the Excise Tax on fuel as impose in this section shall be suspended when the average Dubai crude oil price based on Mean of Platts Singapore (MOPS) for three (3) months prior to the scheduled increase of the month reaches or exceeds eighty dollars (USD 80) per barrel.

Indicative pump prices and effective tax rates

	Dec 2017	Jan 2018	Jan 2019	Jan 2020
Diesel (PHP per L)	36.35	39.15	41.39	43.07
Diesel (ETR, percent)	0.0	7.2	12.2	15.6
Gasoline (PHP per L)	47.85	50.65	52.89	54.57
Gasoline (ETR, percent)	10.1	15.5	19.1	20.5

Sources: DOE and DOF staff estimates

Note: Dec 2017 prices are based on mid-December common prices of diesel and gasoline from the DOE. The data is available at: https://www.doe.gov.ph/sites/default/files/pdf/price_watch/petro_mm_2017_december_19.pdf

Price effect of excise on inflation 2018 (maximum effect)

Commodity	Share of CPI (%)	CPI 2016	Share of petroleum products as input (%) ¹	Net impact of excise to prices (%) ^{2,3}				Inflation rate (%) ^{4,5,6}
				Diesel	Gasoline	LPG	Kerosene	
Food	36	163	10	0.9	0.6	0.2	0.9	0.3
Transportation	6	128	30	2.8	1.8	0.5	2.7	0.1
Electricity	7	124	7	0.7	0.4	0.1	0.6	0.0
Others	51	135	6	0.6	0.4%	0.1	0.6	0.3
Total	100	144						0.7

Notes:

1. Transportation share is the daily average of jeepney and bus operation in Metro Manila based on the National Tax Research Center computation. Electricity share is based on the Department of Energy power statistics.
2. The net impact of the excise is obtained by multiplying the share of oil as input and the price increase as a result of the excise.
3. The increase in the price of the petro products as a result of an increase in excise tax using the petro prices in Metro Manila in 2016
4. Weighted net impact of the increase in excise tax on each commodity computed based on weights below using HECS 2011
5. Overall inflation computed from the weighted average of commodity inflation based on the share of CPI
6. Percentage point on top of the BSP projected inflation.

Main causes of inflation

1. External factors

- Lower supply that led to **higher world oil prices** from 60.9 to 73.4 dollars per barrel.
- Increase in US interest rates that led to **peso depreciation** from 50.3 to 52.2 pesos per dollar.

Date	USD per barrel	PHP/USD
Jan 2017 TRAIN bill filed	53.37	49.74
May 2017 House passed TRAIN	49.91	49.86
Dec 2017 TRAIN law signed.	60.91	50.30
May 2018	73.49	52.19

Main causes of inflation

2. Tax reform

- Higher taxes on oil, cigarettes, and sweetened beverages.
- **But TRAIN contributed little to inflation.**
 - Contribution to inflation is 0.4 out of the 4.6 percent inflation in May.
 - In other words, for every 100 pesos in additional spending, only 8.7 pesos is due to TRAIN.
 - Of the 12.2 pesos per liter increase in gasoline, only 3.0 pesos is due to TRAIN.
 - Of the 11.6 pesos per liter increase in diesel, only 2.8 pesos is due to TRAIN.

Main causes of inflation

3. More money to the people

- We are giving **32.5 billion pesos per month in additional income** to the people.
- Around 90 percent is spent and this is inflationary.

Increase in disposable income	Additional amount per month (PHP billion)
Personal income tax reduction	12.0
Unconditional cash transfer (UCT)	2.0
Wages from more jobs in infrastructure/1	15.0
Free college tuition effect	3.5
Total	32.5

Note: 1/ 30 percent of the government infrastructure spending of PHP 50 billion is labor cost.

Main causes of inflation

4. Rice supply

- NFA did not buy enough palay during harvest season.
- NFA imported to fill the gap but importation is delayed.
- These reflect underlying issues in rice policy.

Main causes of inflation

5. Better tobacco compliance

- Of the 28.3 percent inflation of tobacco products:
 - One-fifth is due to TRAIN.
 - Four-fifths is due to better tax compliance.
- Mighty under Japan Tobacco is paying higher taxes from around 1.5 billion per month to around 3.5 billion per month.
- This translates to higher cigarette prices of around 60-80 pesos per pack or around 5-6 pesos per stick from as low as 3 pesos per stick last year.

Coal excise tax

- **Coal excise tax**

- Increase the rate from PHP 10 per metric ton to PHP 50, PHP 100, and PHP 150, respectively, in 2018, 2019, and 2020, covering both domestic and imported coal.
- Domestic coal remains VAT exempt.

Impact on electricity

Estimated monthly increase in cost at 100 kWh monthly consumption level, various cases

All figures in PHP	kWh consumption	Current cost per kWh	Current total cost	Additional cost						Estimated new total cost	Percent increase
				Generation		Transmission	Distribution	UCME	Total		
				Coal	Diesel/Bunker						
Grid (Meralco)	100	7.80	780.00	2.00	4.40	8.18	0.00	0.38	14.96	794.96	1.92
Grid (non-Meralco, NEA)	100	8.80	880.00	2.00	4.40	5.91	0.00	0.38	12.69	892.69	1.44
Grid (non-Meralco, CDA)	100	8.80	880.00	2.00	4.40	5.91	7.18	0.38	19.87	899.87	2.26
SPUG (NEA, coal powered)	100	11.30	1130.00	4.00	0.00	0.00	0.00	0.38	4.38	1134.38	0.39
SPUG (CDA, coal powered)	100	11.30	1130.00	4.00	0.00	0.00	10.17	0.38	14.55	1144.55	1.29
SPUG (NEA, diesel/bunker powered, full pass-through)	100	11.30	1130.00	0.00	71.00	0.00	0.00	0.00	71.00	1201.00	6.28
SPUG (CDA, diesel/bunker powered, full pass-through)	100	11.30	1130.00	0.00	71.00	0.00	10.17	0.00	81.17	1211.17	7.18
SPUG (NEA, diesel/bunker powered, subsidized)	100	11.30	1130.00	0.00	0.00	0.00	0.00	0.38	0.38	1130.38	0.03
SPUG (CDA, diesel/bunker powered, subsidized)	100	11.30	1130.00	0.00	0.00	0.00	10.17	0.38	10.55	1140.55	0.93

Sources: DOE, Kuryente.org, and DOF staff estimates

Notes: Estimates are based on the following assumptions:

- i) An additional PHP 2.50 per liter increase in the excise tax of diesel and bunker fuel.
- ii) An average increase to PHP 100 in excise tax per MT of coal.
- iii) Removal of VAT exemptions on transmission charges and CDA-registered cooperatives.

Auto excise

- Adjustment of tax rates based on net manufacturing or importer's price.
- Pick-ups and purely electric vehicles will be fully exempt; while hybrid cars will be taxed at half the rate of the equivalent automobile.

Price range	Rates
PHP 600,000 below	4%
Over PHP 600,000 to PHP 1,000,000	10%
Over PHP 1,000,000 to PHP 4,000,000	20%
PHP 4,000,000 above	50%

Sweetened beverages

Excise Tax on Sugar-Sweetened Beverages (SSB)

The tax on SSBs is a health measure meant to discourage the consumption of sugar-sweetened beverages due to their high-sugar content, while encouraging industry players to develop healthier product alternatives.

SSB EXCISE TAX



P6 per liter of volume capacity for SSBs using purely caloric, and purely non-caloric, or a mix of both

P12 per liter of volume capacity for others using purely HFCS or in combination w/ any caloric or non-caloric sweeteners

Products covered by SSB excise tax under TRAIN:



Sweetened juice drinks



Sweetened tea

Other beverages:

All carbonated beverages with added sugar, including those with caloric and non-caloric sweeteners



Flavored water

Energy drinks



Sports drinks

Other powdered drinks not classified as milk.

Cereal and other grain beverages



Other non-alcoholic beverages that contain added sugar

KEY EXEMPTIONS: 3-in-1 coffee, milk, 100% natural juice

Value added tax

- Repeal of **54** out of **61** special laws with non-essential VAT exemptions, thereby making the VAT system fairer.
 - Exceptions in tax code: cooperatives (except electric coops), and condo and association dues. VAT on medicines for diabetes, high cholesterol, and hypertension exempted starting 2019.
 - Exceptions in special laws: domestic coal, renewable energy, countryside barangay business enterprise, mini-hydro, and tourism.
- Purchases of senior citizens and people with disability continue to be exempted from the VAT.
- **For the average Filipino, this will not have an impact as the VAT exemption removal will only affect groups enjoying exemptions.**

Removing VAT exemption of electric coops

- **Section 33 of the TRAIN law amended**
Section 108 (A) of the NIRC of 1997, as amended.

Sales of electricity by generation companies, transmission by any entity, and distribution companies, **including electric cooperatives** shall be subject to 12% VAT

Electric cooperatives registered with the CDA and NEA (both VATable now)

Type of registration	No. of electric cooperatives	Share to total (%)	VAT treatment
Cooperative Development Authority (CDA) registered	13	10	VATable
National Electrification Administration (NEA) registered	119	90	VATable
Total	132	100	

Sources: CDA and NEA

Other taxes: excises

- **Mining excise tax** – double the rates from 2% to 4%.
- **Cosmetic excise tax** – a new tax at 5% of gross receipts.
- **Tobacco excise tax** – increase the rate from PHP 31.2 per pack in 2018 to
 - PHP 32.5 between January to June 2018,
 - PHP 35 per pack from July 2018 to December 2019,
 - PHP 37.5 per pack in 2020 and 2021, and
 - PHP 40 per pack in 2022 and 2023, followed by annual indexation of 4%.

Other taxes: financial taxes

- **Documentary stamp tax** – 100% increase except for loans (50%), and property, savings, and non-life insurance (no change).
- **Foreign currency deposit unit (FCDU)** – increased from 7.5% to 15% final tax on interest income.
- **Capital gains of non-traded stock** – increased from 5-10% to 15% final tax on net gains.
- **Stock transaction tax** – Increase from 0.5% to 0.6% of the transaction value.

Tax administration measures

1. Mandatory fuel marking and metering.

- BOC to submit MYOA to DBM.
- Signing of MOA between BOC and PS in 2017 to obligate funds.
- Advertisement within 2017.
- Award in March 2018.

2. Mandatory e-invoicing, e-sales reporting, and connectivity.

- For large taxpayers and exporters, especially those claiming a VAT refund.

3. Mandatory max of 4 page tax return.

Earmarking

- **70% to fund infrastructure projects**
- **30% to fund social services**

Revenue and deficit impact

5-year summary with veto

Provisions	RA 10963					
	2018	2019	2020	2021	2022	Total
Personal Income Tax	-146.6	-161.0	-177.1	-195.0	-214.4	-894.2
Corporate Income Tax (PCSO)	0.5	0.5	0.6	0.7	0.7	3.0
Estate Tax	-2.1	-2.1	-2.1	-2.1	-2.1	-10.5
Donors' Tax	-1.7	-1.8	-2.0	-2.2	-2.4	-10.0
VAT	39.2	48.7	58.1	58.4	45.8	250.3
Oil Excise	60.2	101.8	131.9	134.4	136.6	564.8
Automobile Excise	14.4	15.3	16.2	17.2	18.2	81.3
Sugar-sweetened Beverage Tax	54.5	58.2	61.5	65.1	68.8	308.1
Tax Administration	26.6	35.0	42.3	50.7	60.4	215.1
Others	44.9	49.6	58.2	59.5	66.3	278.5
Subtotal (tax policy)	63.3	109.2	145.4	136.0	117.4	571.3
Subtotal (legislated tax admin)	26.6	35.0	42.3	50.7	60.4	215.1
Total (tax policy and admin)	89.9	144.2	187.7	186.8	177.8	786.4
Total as percent of GDP	0.5	0.8	0.9	0.8	0.7	NA
Deficit	3.3	3.5	3.5	3.4	3.4	NA
Package 1B	38.9	30.9	34.0	37.5	41.4	182.7
Subtotal (additional revenues)	38.9	30.9	34.0	37.5	41.4	182.7
Grand Total	128.8	175.1	221.7	224.3	219.2	969.2
Total as percent of GDP	0.7	0.9	1.1	1.0	0.9	NA
Deficit	3.0	3.4	3.3	3.2	3.3	NA

Next steps...

- **Package 1B**
 - Amnesty, Bank Secrecy and MVUC
- **Package 2**
 - Corporate income tax reform and fiscal incentives
- **Package 2+**
 - Sin taxes and mining fiscal regime
- **Package 3**
 - Property taxation
- **Package 4**
 - Passive income and financial taxes

A young girl with long dark hair, wearing a pink shirt, is smiling warmly while holding a baby. The baby is wearing a white sleeveless top with a red stripe on the bottom. The background is slightly blurred, showing what appears to be a wooden structure. A semi-transparent pink banner is overlaid across the middle of the image, containing the text.

This administration can make a lasting difference in each Filipino's life.

Let's be partners for change!

For more information, please visit:



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dof.gov.ph/taxreform

For questions, you may directly email us at:

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Thank you.