



Estimating Revenue Foregone In the context of the Philippines

Follow-up Technical Meeting on Tax Expenditures with a focus on Asia

Kathmandu, Nepal



The Philippines has
240 Non-Investment
and **92 Investment**
incentive-related laws.
(inventory as of April 2022)

The CREATE Act codified fiscal prudence and enacted an effective and transparent framework for tax incentives.

- 1** Provide tax incentives **through tax laws only**.
(Title 13 of the Tax Code)
- 2** Consolidate all tax incentives under the authority of **one government body**.
(Through the expanded functions of the Fiscal Incentives Review Board)
- 3** Grant tax incentives in a **transparent manner, including the calculation of the amount of revenue foregone**. (Through an ex-ante cost benefit analysis)
- 4** Carry out **periodic review** by assessing the extent to which tax incentives meet stated objectives.
(Through the monitoring of performance commitments)
- 5** Collect data systematically and **monitor the overall effects and effectiveness of tax incentives**. (Through the submission of tax incentives and benefits data)



**Performance
based**



Targeted



**Time-
bound**



Transparent

Total approved investments under the CREATE Act

AS OF FEBRUARY 2024

1,073

**APPROVED
APPLICATIONS**

**USD 19.13
BILLION
(₱1.10 TRILLION)**

**TOTAL COMMITTED
INVESTMENT
CAPITAL**

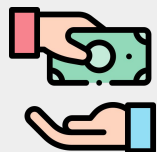
128,593

**EXPECTED JOB
GENERATION**

Note: USD 1.00 = PHP 57.514 using truncated PHP values

We now have more data to support policy evaluation.

ANNUAL TAX INCENTIVES REPORT AND ANNUAL BENEFITS REPORT



Income tax waived
Exempt import VAT
Customs duties waived



Taxes paid
Capital invested
Employment generated

PERFORMANCE MONITORING



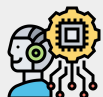
Job generation



Investment commitment



Export requirement



Innovation and use of new
technology



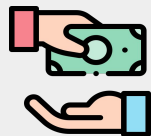
Minimum level of domestic
purchases



Other sector-specific
performance commitments

Two-year data will not provide conclusive results. However, compared to pre-CREATE benchmarks, initial figures have shown improvements.

ANNUAL TAX INCENTIVES REPORT AND ANNUAL BENEFITS REPORT



Implicit Labor Subsidy

2021

USD 1.73 K
P 0.1 million

2022

USD 12.17 K
P 0.7 million



Net Revenue Foregone

2021

USD 182.56 M
P10.5 billion

2022

USD 212.12 M
P 12.2 billion

PERFORMANCE MONITORING

of projects which started commercial operations



14,245 jobs generated
of the 7,727 target jobs

**Employment generation excludes the 7,748 jobs that are generated by projects that did not indicate their actual or scheduled SCO date*



USD 628.37 million (PHP 36.14 b)
actual investment of the
USD 1.69 billion (PHP 97.35 b) **target**

**Six projects with total of USD 703.65 million (P40.47 b) investment target did not report any actual data*

***The investment capital commitment excludes the USD 22.08 million (P1.27 b) investment reported by those projects that did not indicate their actual or scheduled SCO date.*

Note: USD 1.00 = PHP 57.514 using truncated PHP values

1. For the purpose of computing the implicit labor subsidy and net revenue foregone, enterprises with at least one CREATE project are considered.
2. Given the lack of comparative data from the previous year, the 2021 implicit labor subsidy is computed based on total tax foregone divided by the number of Filipino employees. The 2022 implicit labor subsidy is computed as total tax foregone divided by the increase in number of Filipino employees. Data used are still preliminary and subject to changes.
3. Net revenue collection (foregone) is computed as total tax revenues paid or to be paid, less total tax foregone, as reported by the RBEs.
4. Commitments for the projects approved by the IPAs and FIRB are those outstanding as of 2022 and 2023, respectively. Kindly note that the monitoring of performance commitments for FIRB-approved projects is performed at least twice a year. Thus, updates on FIRB-approved performance commitments are more recent (as of 9 August 2023) compared to the IPA-approved projects (as of 31 December 2022).
5. Images are sourced from flaticon.com. Due attribution was made upon download.

Challenges in estimating tax expenditures



Data validation at the point of data capture



Data integrity and completeness of data submissions



Timeliness of data submissions



Ability to capture project-level data using firm-level databases

Fiscal Incentives Registration and Monitoring System (FIRMS)

The screenshot displays the FIRMS web application interface. On the left is a dark blue sidebar with the 'FIRMS' logo at the top. Below the logo, the sidebar contains a list of menu items: 'Home' (with a house icon), 'Registration' (with a person icon), 'Activity/Project' (with a document icon), 'Apply for CETI' (with a magnifying glass icon), 'Pre-CREATE Activities/Projects' (with a calendar icon), 'ATIR-ABR' (with a document icon), and 'Templates & Requirements' (with a folder icon). The main content area has a light gray header with a hamburger menu icon, a 'Home' link, and a 'Welcome' message. Below the header, a white box contains the text 'Welcome to the Fiscal Incentives Registration and Monitoring System (FIRMS)!'. This is followed by a paragraph explaining that FIRMS is an online portal for investors to submit and monitor applications for incentives. Below this, a section titled 'Before proceeding to the application of incentives, please see the list of Documentary Requirements to be uploaded in FIRMS as you go through the different Forms:' lists several forms: 'FORM A' (General Information Sheet, SEC or DTI Certificate of Registration, BIR Certificate of Registration, Sworn declaration), 'FORM B' (Certificate of IPA Registration), 'FORM C.2' (Projected production and sales schedule), and 'FORM C.5' (Certification or Proof of Loan Obtained, Latest Audited Financial Statements, Notarized Activity/ Project Undertaking). A disclaimer at the bottom states that the list of requirements is not exclusive and that the Investment Promotion Agency and the Fiscal Incentives Review Board may require additional documents.

FIRMS

Home

Registration

Activity/Project

Apply for CETI

Pre-CREATE Activities/Projects

ATIR-ABR

Templates & Requirements

Home

Welcome

Welcome to the Fiscal Incentives Registration and Monitoring System (FIRMS)!

FIRMS is an online registration and incentives application portal for investors or enterprises to submit and monitor applications for incentives in any of the investment promotion agencies.

Before proceeding to the application of incentives, please see the list of Documentary Requirements to be uploaded in FIRMS as you go through the different Forms:

FORM A

1. General Information Sheet (if SEC registered)
2. SEC or DTI Certificate of Registration
3. BIR Certificate of Registration
4. Sworn declaration of authenticity and validity of submitted information

FORM B

1. Certificate of IPA Registration (As applicable)

FORM C.2

1. Projected production and sales schedule of products/services related to activity being registered

FORM C.5

1. Certification or Proof of Loan Obtained (As applicable)
2. Latest Audited Financial Statements (As applicable)
3. Notarized Activity/ Project Undertaking

Disclaimer: The list of documentary requirements provided above is not exclusive. The Investment Promotion Agency concerned and/or the Fiscal Incentives Review Board may require the submission of additional documents (other than those listed above) as may be necessary in the course of their evaluation.

The system is being designed to become a **centralized portal** for **tax incentives application and administration.**

With a focus on **data validation**, FIRMS is **purpose-built to reinforce data quality** and support seamless data navigation.

Target Metrics to Assess the Impact of Tax Incentives



**Gestation period
of investments**



**Quality of jobs
generated**



**Countryside
development**



**Inclusive
growth**



Value addition



**Labor
Productivity**

The Philippine government is reviewing its current tax incentives system, as a response to the global minimum tax.

Improve Enhanced Deductions Regime

HB No. 9794 (CREATE MORE)

Reduction of CIT rate for ED regime from 25% to 20%

Additional deduction on power expenses, reinvestment allowance and trade fair-related expenses

Change of date of reckoning point for enhanced Net Operating Loss Carry Over (NOLCO)



Provide **option** for foreign corporations in-scope of the GMT to **shift** from 5% special corporate tax on gross profits **to the Enhanced Deductions Regime**

Estimating tax expenditures: Our Way Forward

- 1 Continue the development of the system to enhance stakeholder experience and improve data capture and data quality.
- 2 Improve data-sharing initiatives among government agencies to support automatic cross-matching and validation across various datasets.
- 3 Explore more quantitative models to determine the effectiveness and efficiency of our incentive system.



Thank you!

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