FISCAL INCENTIVES REVIEW BOARD

Estimating Revenue Foregone

In the context of the Philippines

1 March 2023

Content

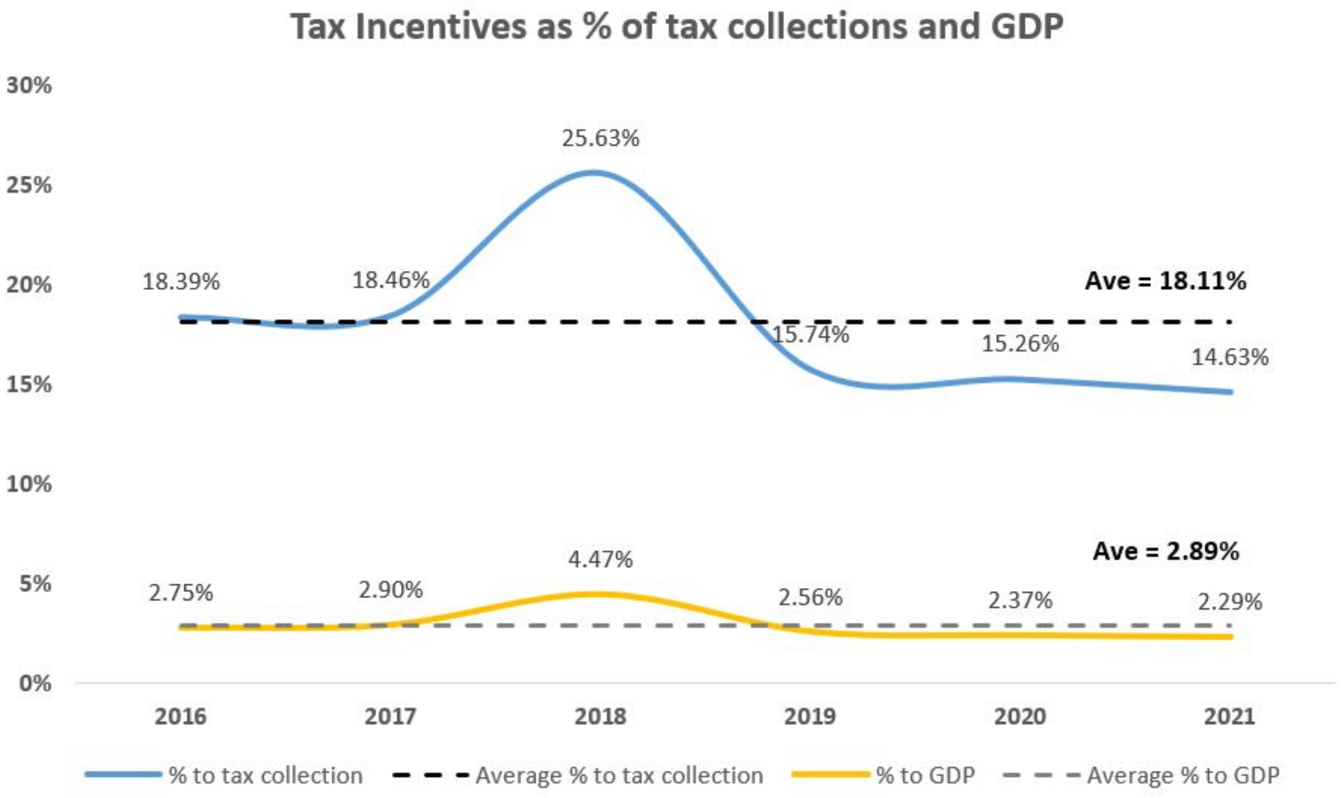
Why incentivize?

Promote Investment

Rural Development

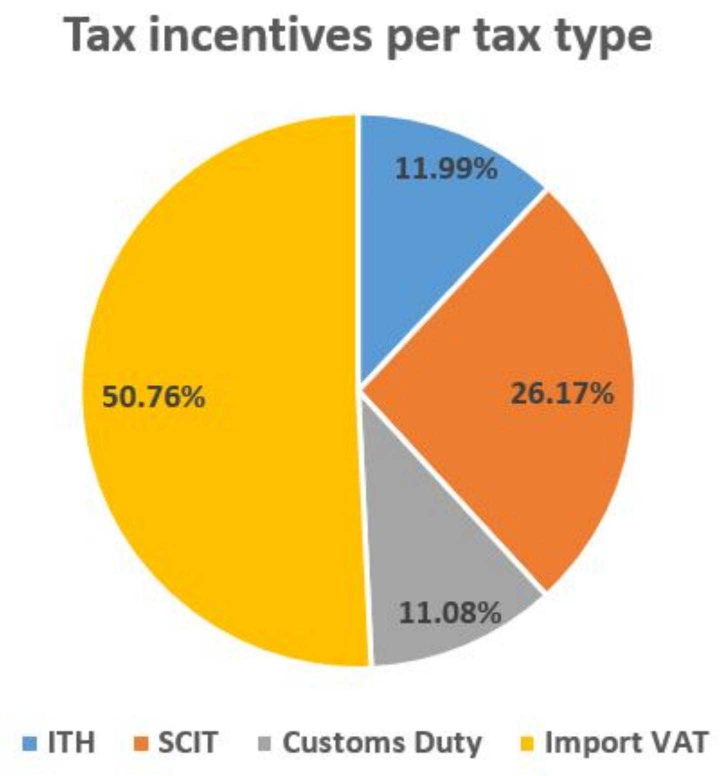
Economic Development

Tax incentives account for 18% of tax collections and 3% of GDP



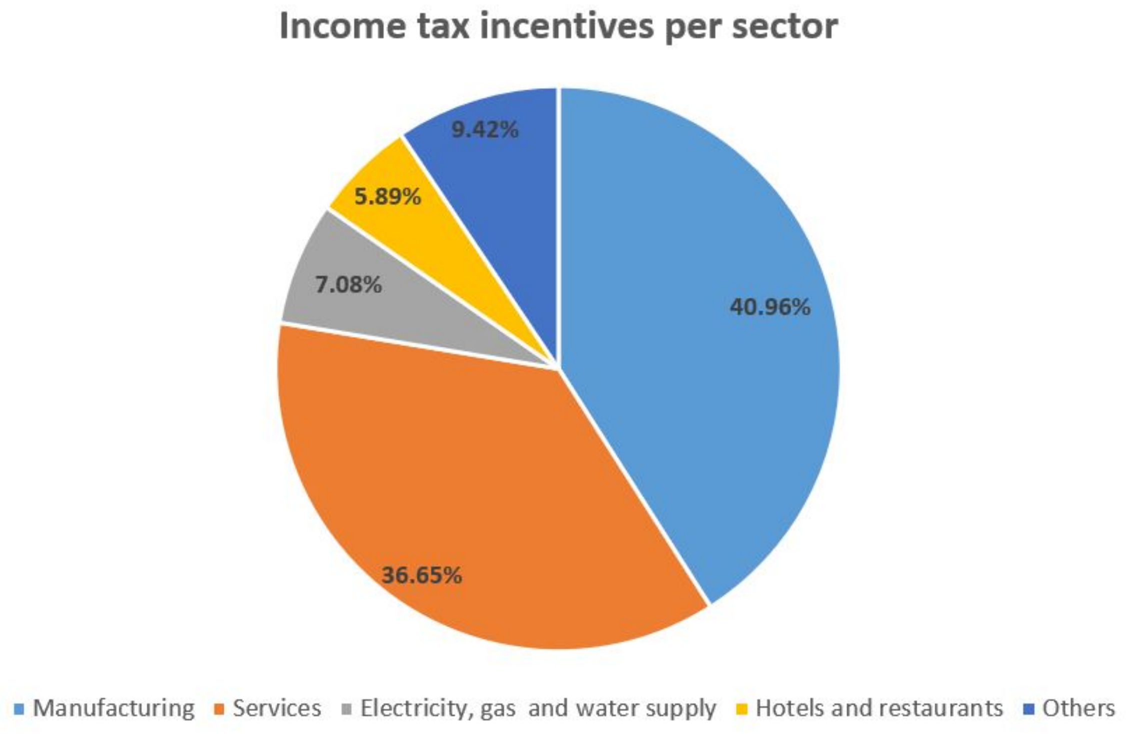
Source: 2016-2021 TIMTA, actual BOC and BIR collections, and PSA.

50% of tax expenditures are due from import VAT exemptions



Source: Average of 2016-2020 TIMTA and actual BOC and BIR collections.

76% of income tax expenditure are due from the tax incentives granted to the manufacturing and services industries



Source: Average of 2016-2020 TIMTA.

TIMTA enabled the government to partially analyze the impact of tax incentives

1. RBEs file and pay income tax returns
2. RBEs submit ATIR to IPAs
3. IPAs submit aggregated ATIRs to BIR and NEDA
4. BIR and BOC submit the tax incentives availed by RBEs to the DOF
5. DOF maintains a database for monitoring and analysis of incentives
6. DOF submits the aggregated tax incentives data to DBM, Congress and NEDA
7. NEDA determines the impact of tax incentives to the economy

Summary of ex-post CBA based on TIMTA

Result #1

To create 1 job, it costs taxpayers at least...

P2,822,088

Result #2

In general, registered firms do not perform better on employment, exports, and productivity compared to non-registered firms.

Result #3

For every peso we grant as incentive, we collect **28 cents** in taxes.

Result #4

For every peso spent on incentives,

0.50 to 1.01

come back in benefits.

Note: 2015 to 2017 averages

CREATE is 25 years in the making

1995
Multiple fiscal incentives reforms have been filed since the **10th Congress.**

January 2018
DOF submitted proposed Package 2 of the CTRP to Congress.

September 2018
House approved Package 2 and transmitted to Senate

July 2019
DOF re-files Package 2 in the 18th Congress.

September 2019
Package 2 is approved at the House

26 November 2020.
Package 2 is approved at the Senate.

3 February 2021.
Ratification by the Bicameral conference committee

26 March 2021
Signed into law (RA 11534)

CREATE reduced the headline CIT rate, and introduced a Time-bound and performance-based incentive package

NEW CORPORATE INCOME TAX RATES UNDER CREATE

BUSINESS		TAX RATES
Domestic corporations	With net taxable income of not more than P5 million and total assets of not more than P100 million	20%
	Other domestic corporations	25%
Foreign corporations		25%

DOING BUSINESS UNDER CREATE:

A modern incentive system that allows businesses to **do well** while **doing good for the country.**

Income Tax Holiday (ITH)

- ITH of 4 to 7 years, depending on the location and industry
- Relocation from NCR: additional ITH of 3 years
- Located in areas recovering from disaster/conflict: additional ITH of 2 years

Special Corporate Income Tax (SCIT)

- 5 percent SCIT for 10 years (only for export enterprises)

Duty exemption of up to 17 and 12 years for export and domestic enterprises from the date of registration, respectively, unless otherwise extended under the SIPP

Enhanced Deductions (ED)

- Depreciation allowance (10% for buildings, 20% for machinery)
- Labor expense (150%)
- Research and development (200%)
- Training expense (200%)
- Domestic input expense (150%)
- Power expense (150%)
- Reinvestment allowance to the manufacturing industry (Up to 50%)
- Enhanced NOLCO – losses during the first 3 years may be carried over within the next 5 consecutive years

Value-added tax (VAT) exemption and zero-rating of registered export enterprises of up to 17 years from the date of registration, unless otherwise extended under the SIPP

The direct and exclusive use for the registered project or activity was expanded to include packaging materials, services, including the provision of basic infrastructure and utilities.

The Fiscal Incentives Review Board (FIRB) is strengthened under CREATE

THE BOARD

CHAIR | CO-CHAIR | MEMBER | MEMBER | MEMBER

TECHNICAL COMMITTEE

DOF | DTI | DBM | NEDA | OP-OES

BIR | BOC | PCC | IPAs

SECRETARIAT

NTRC

Fiscal Incentives Management Group | Monitoring and Evaluation Group | Legal Group

Indicators of the fiscal CBA

Benefits	Costs
1. Corporate Income Tax (CIT) 2. Personal Income tax (PIT) 3. Other taxes applicable a. Duty b. Real property tax (RPT) c. Local business tax (LBT) d. VAT on domestic inputs e. Other tax applicable (e.g. DST, excise)	1. Tax expenditure (TE) on income (CIT) 2. TE on duties 3. TE on VAT (net) 4. TE on LBT 5. TE on RPT 6. Other TE applicable

Sample illustration

Sample illustration: Company A's income statement

Particulars	Amount (in Php millions)	
Revenues	250	
Less: Direct cost/cost of sales	100	
Gross Income	**150**	*Tax base of 5% SCIT*
Less: Indirect costs/operating expenses	50	
Net income before tax	**100**	*Tax base of 25% RCIT*
Less: Income tax	25	
Net income after tax	75	

Additional information:
Assessed value of PPE subject to RPT: P20 million
Total custom duties on importation: P100 thousand

Scenario 1: Tax foregone during ITH period

Particulars	Without incentives (in Php millions)	With incentives (in Php millions)	Tax foregone (in Php millions)
Corporate income tax	25	0	25
Custom duties	0.1	0	0.1
Local business tax (1% of gross receipts/sales)	2.5	2.5	0
Real property tax (2% of assessed value)	0.4	0.4	0

Note: A registered business enterprise is not exempt from LBT and RPT during ITH period.

Scenario 2: Tax foregone during SCIT period

Particulars	Without incentives (in Php millions)	With incentives (in Php millions)	Tax foregone (in Php millions)
Corporate income tax	25	7.5	17.5
Custom duties	0.1	0	0.1
Local business tax (1% of gross receipts/sales)	2.5	0	2.5
Real property tax (2% of assessed value)	0.4	0	0.4

Note: A registered business enterprise is exempt from LBT and RPT during SCIT period.

Scenario 3: Tax foregone during ED period (1 of 2)

Particulars	without ED (in Php millions	with ED (in Php millions)
Revenues	250	250
Less: Direct cost/cost of sales	**100**	**120**
Gross Income	150	130
Less: Indirect costs/operating expenses	50	50
Net taxable income	100	80
Multiply by: Income tax rate	25%	25%
Income tax due	**25**	**20**

Note: The 50% additional allowance on labor expense decreased the income tax due by 20%.

	Without ED (in Php millions)	With ED (in Php millions)
Labor expense	40	60
Other expenses	60	60
Total direct costs	**100**	**120**

Note: The 50% additional labor expense is allowed as deduction under CREATE

Scenario 3: Tax foregone during ED period (2 of 2)

Particulars	Without incentives (in Php millions)	With incentives (in Php millions)	Tax foregone (in Php millions)
Corporate income tax	25	20	5
Custom duties	0.1	0	0.1
Local business tax (1% of gross receipts/sales)	2.5	2.5	0
Real property tax (2% of assessed value)	0.4	0.4	0

Note: A registered business enterprise is not exempt from LBT and RPT during ITH period.

Economic CBA indicators

Benefits	Costs
1. Compensation and benefits 2. Domestic inputs 3. Industry and fiscal multiplier effect 4. Other economic benefits	1. Opportunity cost of tax expenditure 2. Other economic costs

Notes:

a. Other economic benefits and costs shall be quantifiable. Otherwise, these can be presented as qualitative externalities only.

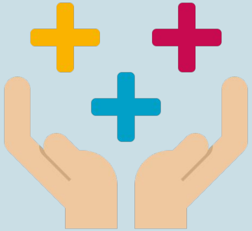
Transparent monitoring of costs and benefits

TIMTA

- Income Tax
- Import VAT
- Customs Duties

Tax Incentives and Benefits Report

- Income Tax
- Import VAT
- Customs Duties



- Taxes Paid
- Investment
- Employment

Conclusion

1. Evaluation of tax incentive applications have to undergo a CBA to ensure that the tax incentives granted are performance-based, targeted, time-bound and transparent.
2. With limited government resources, the allocation of tax expenditures should be done strategically so that the country can gain the maximum economic benefit.
3. Impact of tax incentives should be continuously monitored to assess the economic gains and to ensure good governance, which eventually feeds into future policy making decisions.

Thank you!

FISCAL INCENTIVES REVIEW BOARD

Contact Nos.: 02-5317-6363 local 8854 / 02-8527-2062

Website: www.firb.gov.ph

firbsecretariat@ntrc.gov.ph