Philippines' Tax Expenditure Reporting
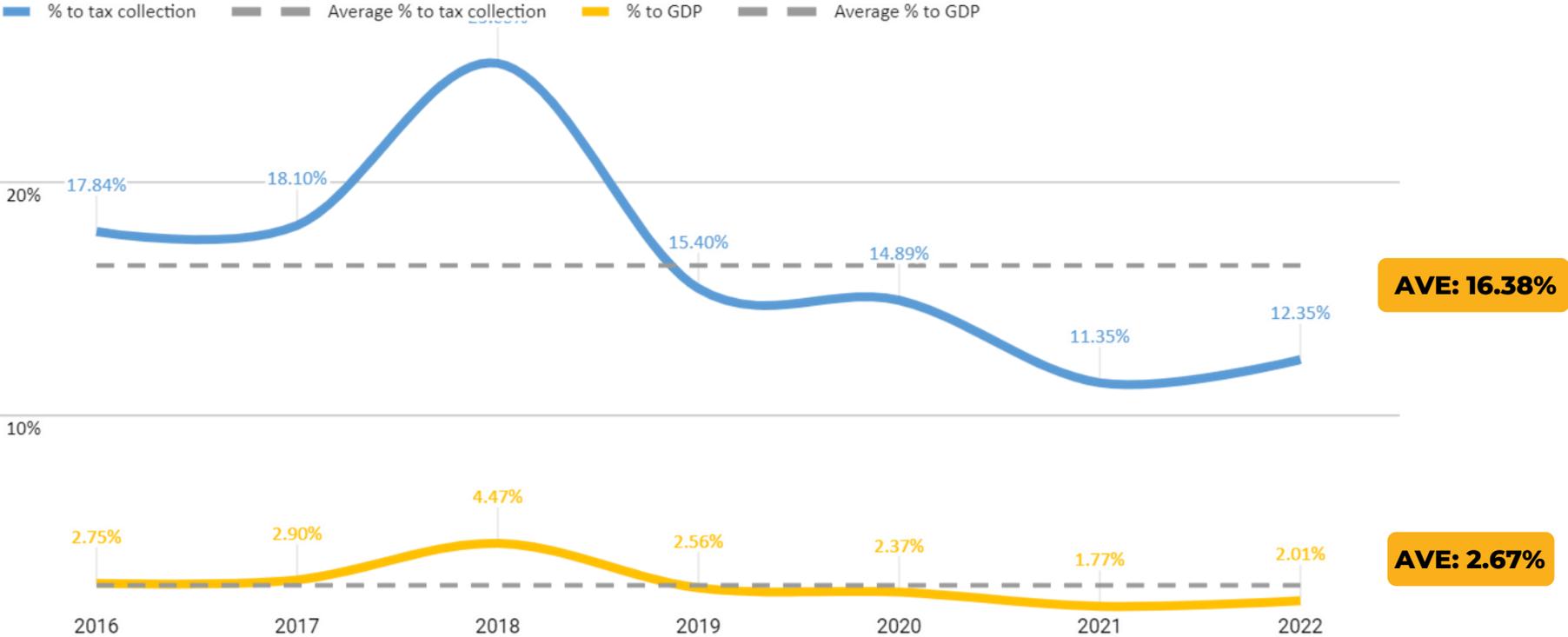
International Tax Forum

Bali, Indonesia

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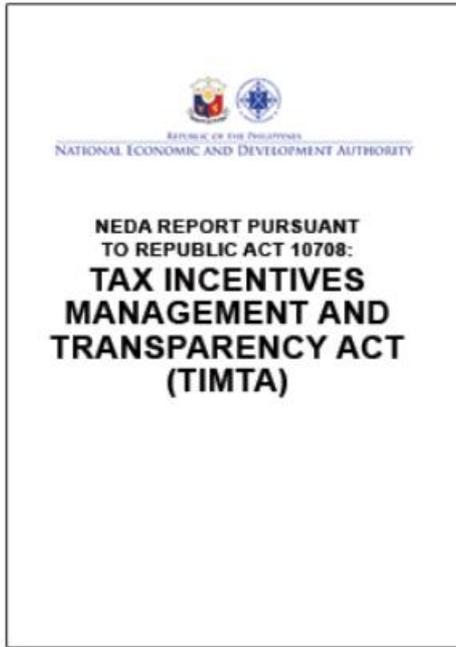*(inventory as of April 2022)*

Tax incentives account for 16.4% of tax collections and 2.7% of GDP

Tax Incentives as % of tax collections and GDP

Legend: ▬ % to tax collection ▭ Average % to tax collection ▬ % to GDP ▭ Average % to GDP

Year	% to tax collection	% to GDP
2016	17.84%	2.75%
2017	18.10%	2.90%
2018		4.47%
2019	15.40%	2.56%
2020	14.89%	2.37%
2021	11.35%	1.77%
2022	12.35%	2.01%

AVE: 16.38%

AVE: 2.67%

3

Tax Expenditure Reporting in the Philippines started in 2015 with TIMTA

REPUBLIC OF THE PHILIPPINES
NATIONAL ECONOMIC AND DEVELOPMENT AUTHORITY

NEDA REPORT PURSUANT TO REPUBLIC ACT 10708:
TAX INCENTIVES MANAGEMENT AND TRANSPARENCY ACT (TIMTA)

Covers **private investments entitled to tax incentives** and registered with investment promotion agencies (IPAs)

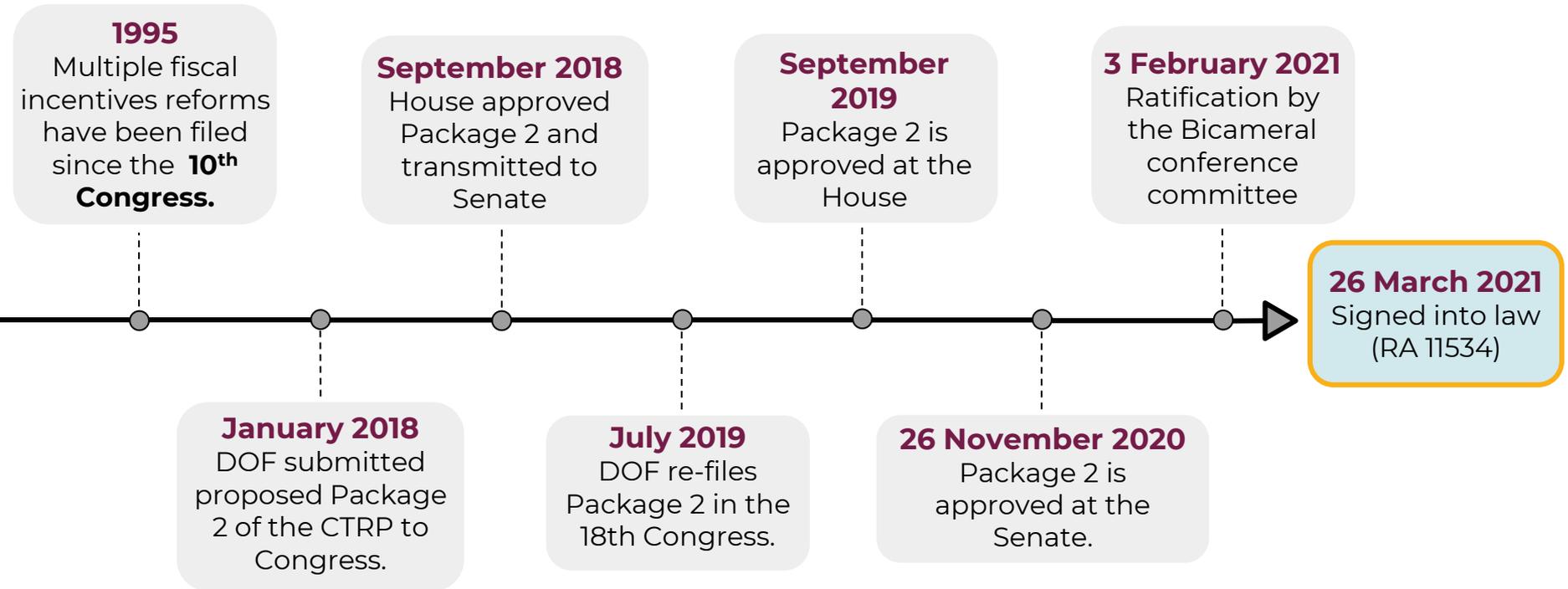Based on their submission of **Annual Tax Incentives Report**

Uses **Revenue Foregone Method** and covers **Corporate Income Tax, Import VAT and Customs Duties**

Submitted to the Department of Budget and Management and serves as **input to the annual Government Budget**

Used by the **National Economic and Development Authority** as input to determine the impact of tax incentives to the economy.

TIMTA enabled the government to partially analyze the impact of tax incentives and enact a law on its rationalization

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)

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

USD 22.73 BILLION

TOTAL COMMITTED INVESTMENT CAPITAL

163,944

EXPECTED JOB GENERATION

Note: USD 1.00 = PHP 56.179 using truncated PHP values

NCR
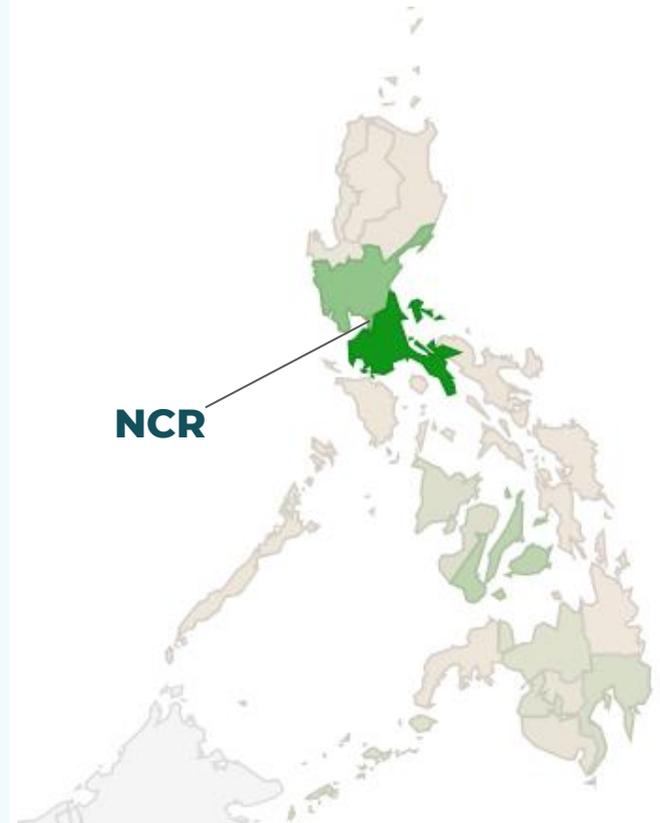
We now have more data to support policy evaluation.

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

8

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
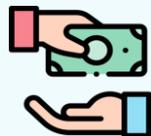
Implicit Labor Subsidy

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.

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

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 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.

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.**

There is a need to estimate the tax expenditure for all incentive-related laws

The Philippines has **240 Non-Investment and 92 Investment** incentive-related laws.

(inventory as of April 2022)

TE REPORTING COVERAGE

Private investments registered with investment promotion agencies

Thank you.

🌐 firb.gov.ph   ✉ firbsecretariat@ntrc.gov.ph   📞 5317-6363 loc. 6652