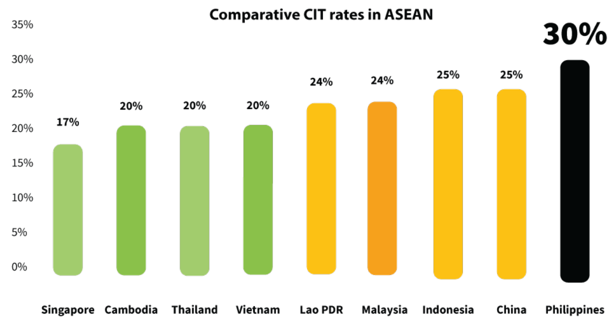
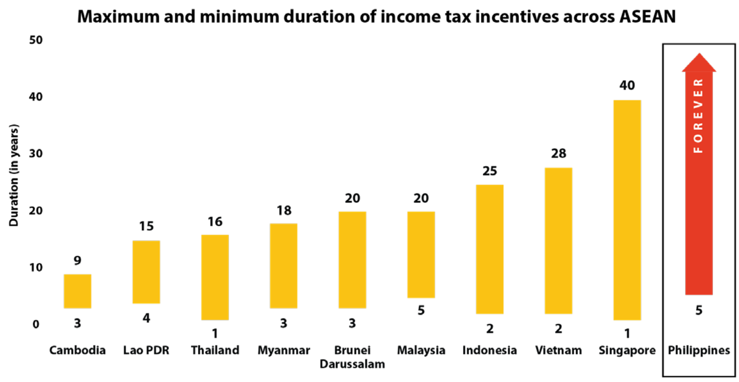
Package 2: Corporate Income Tax and Incentives Reform Act (CITIRA)

Package 2 of the Comprehensive Tax Reform Program (CTRP), or CITIRA, seeks to make the Philippines more competitive and level the playing field for businesses, through a reduction of the corporate income tax (CIT) rate and the modernization and improvement of the fiscal incentive system. CITIRA will help create an enabling environment for businesses, generate quality jobs, and spur growth that is felt throughout the entire archipelago.

The Philippines has the highest corporate income tax rate among ASEAN countries, putting the country at a disadvantage against our neighbors with regard to domestic and foreign investments.



Despite the high rate paid by our businesses, most of which are micro, small, and medium enterprises, efficiency (CIT revenues as percentage of GDP) remains very low due to leakages brought about by our outdated and complex tax incentive system.



For decades, the Philippines has been too generous in granting incentives to a few investors, in perpetuity, and without regular and in-depth review of the costs and benefits of doing so. We give away some of the most, if not the most, generous incentives in the region via a special rate of 5 percent on gross income earned (GIE) that is in lieu of all taxes, both local and national, and with no time limit.

While these companies are subjected to discounted tax rates equivalent to 6 to 13 percent CIT, most other companies—including 90,000 small and medium enterprises (SMEs)—pay the regular rate of 30 percent.

A recent study conducted by the Department of Finance (DOF) revealed that the Philippines granted an estimated P441.1 billion in tax incentives to a select group of 3,150 companies in 2017, a 15.9 percent increase from the P380.7 billion in tax breaks granted to them in 2016. This is just a fifth below the annual budget of the Department of Education (DepEd) and roughly four times bigger than that of the Department of Health (DOH). The amount could have been used to build around 33,000 public markets, 46,000 kilometers of roads, 130,000 daycare centers, or 450,000 classrooms.

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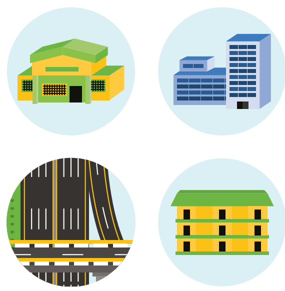

In principle, granting incentives is justifiable if the recipients generate a net benefit to society, such as the creation of good jobs, investing in less developed areas, and if incentives are given for a reasonable amount of time — not forever.

Modernizing the fiscal incentive system will allow the government to provide superior incentives that are performance-based, tightly targeted, time-bound, and fully transparent. It will encourage businesses to invest in industries and sectors aligned with the Philippine development agenda; create higher-value jobs; incentivize upskilling and employee training; and promote investments in less-developed areas, and areas recovering from calamities or armed conflict.

By lowering the CIT rate from 30 to 20 percent over the span of a decade, or by 1 percent every year, CITIRA will bring the Philippine CIT rates closer to the tax rates of our ASEAN neighbors and help businesses—especially small and medium enterprises (SMEs)—to become more competitive. It will also encourage robust business activity, investments, and tax compliance.

Under CITIRA, incentives will be granted to investors who:

1. Encourage upskilling
2. Create more and better jobs
3. Promote research and development
4. Encourage innovation
5. Stimulate domestic industries
6. Diversify our product base to higher-value exports
7. Reinvest their capital
8. Invest in less-developed areas

New incentives scheme under CITIRA (Senate Bill 1357):

Corporations registered for incentives have the option to avail of an income tax holiday (ITH) for 2 to 4 years, followed by a special tax rate on gross income for 3 to 4 years. The special rate will be increased from the current 5 percent of gross income to 8 percent in 2020, 9 percent in 2021, and 10 percent in 2022 and onwards. In total, enjoyment of the ITH and special rate will initially be granted for 5 to 8 years, and can be extended by up to 12 years total.

The second option for investors is to avail of the regular corporate income tax (CIT) rate with generous enhanced deductions for 5 to 8 years, which may be extended by 3 or 4 years at a time for a total duration of 12 years. The enhanced deductions include:

1. Up to 50 percent additional deduction on power expense;
2. Up to 50 percent additional deduction on labor expense to promote job creation;
3. Up to 100 percent additional deduction on research and development (R&D) to promote innovation;
4. Up to 50 percent additional deduction on domestic input expense to promote domestic supply chains;
5. Additional deduction for reinvestment allowance to the manufacturing industry (up to 50 percent of reinvestment) to promote quicker expansion and job creation;
6. Depreciation allowance of the assets acquired for the entity's production of goods and services (additional 10 percent for buildings and 20 percent for machinery), and
7. Enhanced net operating loss carry over (NOLCO).

CITIRA is pro-investment and pro-incentives. It will level the playing field and make sure that, when the Philippines grants incentives, it does so for the right reasons and the right investments.

The following organizations support CITIRA: The Philippine Chamber of Commerce and Industry (PCCI), Management Association of the Philippines (MAP), Financial Executives of the Philippines (FINEX), Bankers Association of the Philippines (BAP), Foundation for Economic Freedom (FEF), Philippine Franchise Association (PFA), Tax Management Association of the Philippines (TMAP), UP School of Economics Alumni Association (UPSEAA), Women's Business Council Philippines (WBCP), Federation of Filipino Chinese Chambers of Commerce and Industry, Inc. (FFCCCII), and more. CITIRA is also supported by former Secretaries of the Department of Finance, captains of industry, and the country's eminent economists.