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Reforms needed to streamline tax incentive framework — DOF

By MARY GRACE PADIN

There is a need to streamline the current framework followed by investment promotion agencies (IPA) in granting tax incentives to corporations, according to Finance Undersecretary Karl Kendrick Chua.

Chua said the current tax incentive system in the country has been suffering from a "policy overload" due to the implementation of many incentives laws that do not complement each other.

Chua said there are now 14 IPA in the country which are authorized to grant incentives, with no clear coordination among them and the tax administration authority.

This, he said, results in "forum-shopping" wherein investors choose better incentive packages, and in some cases, "double-dipping" to avail themselves of more than one set of tax perks.

"The present fiscal incentives system has been suffering from policy overload such that there is now a proliferation of incentives laws granting tax and duty exemption privileges. This results in forum-shopping where investors compare various laws and choose the better package, or double-dipping where investors avail themselves of tax incentives in more than one law," Chua said.

As such, Chua said there is a need to institute policy reforms to fix the system and streamline the framework and the guidelines for the grant of incentives to enterprises.

According to Chua, other countries mostly have only one or two investment promotion agency.

He also said the system has become unfair, as those enjoying fiscal incentives are the big corporations, while small and medium-enterprises continue to be subject to the 30-percent corporate income tax rate.

Among the 14 IPA, Chua said the Philippine Economic Zone Authority accounted for the bulk of tax perks given in 2015 at P66 billion.

This was followed by the Bureau of Investments with P29 billion, while the remaining 12 IPA accounted for P9.4 billion.

In total, this means the government gave P104.40 billion worth of incentives in 2015.

In terms of sector, the bulk of the incentives went to electronic manufacturing, fol-

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* INVESTMENT PROMOTION AGENCIES (IPA)

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lowed by BPO services and logistics, Chua said.

Following the enactment of the Tax Reform for Acceleration and Inclusion Act, the DOF has now submitted to Congress the second package of the Comprehensive Tax Reform Program, which focuses on the reduction of corporate income tax rates, while rationalizing fiscal incentives.

Chua said this package proposes to lower the corporate income tax rate to 25 percent, while rationalizing incentives for companies to make these "performance-based, targeted, time-bound, and transparent."

He said through this measure, the government would be able to ensure that incentives granted to businesses generate jobs, stimulate the economy in the countryside, promote research and development.