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TRAIN a win for the majority

LAST December 19, President Rodrigo R. Duterte signed into law the Tax Reform for Acceleration and Inclusion Act (TRAIN), the Department of Finance's (DOF) first of the five packages, that took effect on January 1 this year and is now benefiting over four million above-minimum wage salaried employees in the form of exemptions from personal income taxation.

The TRAIN is a landmark measure for two reasons. First, it's the first time the government had enacted a tax reform measure that was not in response to a crisis, or to a condition set by a multilateral financial institution such as the International Monetary Fund to secure a loan. This tax reform was done to help attack poverty and correct income inequality. Second, it is also the first time personal income tax rates, which have long been the bane of many low- and middle-income taxpayers, were adjusted to reflect current inflation rates and provide Filipinos with greater purchasing power.

The TRAIN, the first package under the Duterte administration's Comprehensive Tax Reform Program (CTRP), exempts compensation earners and self-employed individuals with annual taxable income of P250,000 and below from paying the personal income tax. The 13th month pay and other bonuses not exceeding a total of P90,000 are also non-taxable under the TRAIN.

This tax reform law also contains revenue-enhancing provisions to (1) offset the estimated revenue loss from the personal income tax cuts and (2) support the government's increased spending on infrastructure and human capital development. These include the removal of certain exemptions to the value-added tax (VAT); adjusted tax rates for fuel, automobiles, tobacco, coal, minerals, documentary stamps, foreign currency deposit units, capital gains for stocks not traded in the stock exchange, and stock transactions; and new taxes for sugar-sweetened beverages (SSBs) and non-essential cosmetic procedures; and cuts in the estate and donor's taxes.

Finance Secretary Carlos G. Dominguez III

has pointed out that 99 percent of the country's individual taxpayers would benefit from TRAIN, owing to hefty cuts in the personal income tax rates. In effect, Dominguez said, those with a taxable annual income of P250,000, on average, would be able to take home an extra income equivalent to a substantial one-month's pay per year.

Under the TRAIN, which aims to make the tax system fairer, simpler and more efficient, a clerk in a government office or an entry-level worker in the private sector with a monthly pay of about P15,000 a month will be exempted from paying income tax. This means that the worker now gets to take home the tax of P18,457 that he or she used to pay annually under the old tax law, which, in effect, translates into a pay raise of P1,538 per month.

Even if one adds the impact of the other TRAIN provisions on expanding the VAT base, the increase in fuel excise tax and tobacco excise tax, the SSB tax, and the overall inflationary effect, he or she still gets to take home a net of P1,700 a month on average based on well-studied computations done by the DOF.

According to the DOF, for those earning P250,000 and above, the tax brackets have also been adjusted so that those with taxable income of more than P250,000 but not above P2 million pay only between 20 and 30 percent income tax.

As an example, a doctor working at a government hospital with two dependents and earns, say, P73,299 a month, will take home around P58,484 more per year starting this year because of the adjustments in the income tax brackets and rates, the DOF said.

Those earning P2 million annually but not above P8 million are taxed 32 percent. The hefty tax of 35 percent are reserved for those earning P8 million taxable income and above, the department said.

The Duterte administration's inclusive growth agenda can't happen with the government under a state of inertia. It should seize the opportunities available at this time to carry out sweeping reforms, such as the TRAIN, to achieve its goal of high and inclusive growth.

* TAX Reform For Acceleration
And Inclusion (TRAIN)