THE PHILIPPINE STAR
business

MONDAY | MARCH 19, 2018

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Tax reform will not drive away investors – DOF

By MARY GRACE PADIN

The Department of Finance (DOF) said the proposed reforms in the country's tax incentives system would not drive away investors, adding that the provision of tax perks is not the main consideration of businesses in putting up shop in the country.

While it is important to provide incentives to businesses, Finance undersecretary Karl Kendrick Chua said investors have listed more pressing concerns that need to be addressed for them to bring in more investments in the Philippines.

Citing a report by the 2017 World Economic Forum Survey, Chua said tax rates and incentives only ranked fifth among the concerns raised by investors.

The undersecretary said investors mentioned four more important issues that need to be fixed, such as the infrastructure gap, inefficiency of the government, corruption, and the high cost of doing business in the Philippines.

According to Chua, the government must tackle these issues raised by investors, along with improving human capital, investing in infrastructure, and relaxing foreign ownership restriction, to attract more investments.

"Rather than provide incentives in perpetuity to only a select set of industries without any accountability, the government must address the more urgent concerns of modernizing infrastructure and investing in education and health to give all businesses, whether local or foreign, and whether large or small, a level playing field," Chua said.

"Incentives should not be used as a bandaid solution. This is what the country has been doing for 50 years so it is high time to change this misguided policy," he said.

Chua said the Duterte administration remains keen on overhauling the current tax incentive regime in the country, as provided under the Package 2 of the Comprehensive Tax Reform Program (CTRP).

The official clarified the second package does not intend to remove all fiscal incentives, but would rather harmonize and modernize the system to ensure the perks are targeted, time-bound, transparent and performance-based.

"That the government will put a stop to current incentives is a misconception of the proposed modernization of fiscal incentives. This is simply not true," he said.

"Incentives will remain to be granted, but more judiciously this time so that there is a better balance between the investment and fiscal sustainability goals. The DOF recognizes the role of incentives to encourage investments," he added.

Chua said a cost benefit analysis is now being conducted by the government to determine the fiscal incentives that should be given to certain businesses.

He said incentives would still be provided as long as they qualify in the three-year Strategic Investment Priorities Plan (SIPP) and adhere to the key principles of being performance-based, time-bound, targeted, and transparent.

"This is to ensure that every peso spent from the national budget generates the desired outcome—investments must create jobs, meet export targets, or achieve countryside development, among others. The SIPP, not the law, will reevaluate priority industries every three years so that these priorities are aligned with changes in the economy," Chua said.

Chua said Package 2 of the CTRP would ensure the country's tax system becomes simpler and more equitable.

"Package 2 is all about fair and accountable tax incentives. The government is pro-investment to attain higher growth, and lower poverty and inequality."

Aside from modernizing the tax incentive regime in the country, the second tax reform package also aims to reduce corporate income tax rates to 25 percent by 2022 from the current rate of 30 percent.

* DEPT. OF FINANCE (DOF)
4 TAX REFORM FOR ACCELERATION AND INCLUSION (TRAIN)