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TRAIN 2 seen to lessen Phl competitiveness

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The second package of the government's tax reform program is seen to make the country less competitive resulting to a slowdown in investments over the near term, BMI Research said.

In its latest economic analysis, the research arm of the Fitch Group said the second of the five packages under the comprehensive tax reform program (CTRP) includes the removal of fiscal incentives.

"While the proposed tax reforms may be fiscally prudent, it will likely make the Philippines less competitive versus its regional peers. Investment could slow over the near-term as the proposed conditional corporate tax reduction and repealing of fiscal incentives create uncertainties for businesses," it said.

Last Dec. 19, President Duterte signed Republic Act 10963 or the Tax Reform for Acceleration and Inclusion (TRAIN) law reducing personal income tax rates, but raising the excise tax on fuel, motor vehicles, and sweetened beverages.

The Department of Finance (DOF) has submitted the second package which is now under deliberation at the House of Representatives. It aims to lower corporate income taxes and reduce fiscal incentives to investors to achieve the government's objective of making the tax system fairer and more efficient.

Under the proposal, the corporate income tax rate would be reduced gradually to no less than 25 percent from 30 percent, while modifying tax incentives for companies to make these 'performance-based, targeted, time-bound, and transparent.'

"While the proposed tax reforms in the second package will streamline the complex tax system, we believe it will likely weigh on the country's competitiveness, and create uncertainty for investors in the near-term," BMI Research said.

At present, the Philippine Economic Zone Authority (PEZA) grants an attractive package of incentives including income tax holiday for a maximum of eight years, followed by a perpetual five percent tax on gross income earned, and zero value added tax (VAT) on local purchases and up to 30 percent of local sales, among others.

There are also 14 investment promotion agencies, more than 200 laws granting various types of investment and non-investment tax incentives. The Tax Code also provides several tax benefits.

BMI Research said the latest draft of the DOF's TRAIN 2 has called for an overhaul and streamlining of these incentives to make tax perks more equitable and effective in creating jobs, developing industries, and attracting more foreign direct investment, as well as generate more revenues to fund the government's P8 trillion Build Build Build infrastructure program.

As part of the proposal, the government is asking for a limit on PEZA incentives to a maximum of 10 years and to change the five percent tax on gross income earned to 15 percent tax on net income.

The bill also calls for the repeal of more than 30 special laws that grant incentives to investors and for PEZA registered enterprises to export 90 percent of total sales, up from the current requirement of 70 percent.

"Despite the proposed corporate income tax cut, we note that tax rates in the Philippines will still be one of the highest and least competitive in the region, and the repealing of tax incentives to investors will likely make it worse," it said.

According to BMI Research, the proposal comes at a time when other countries in the region are trying to offer more tax incentives in order to attract foreign direct investments.

"Although the quid pro quo approach may be fiscally prudent, it creates more uncertainty for businesses. We believe that this could weigh on investment over the near-term as investors adopt a wait-and-see approach," BMI Research said.

The Bangko Sentral ng Pilipinas reported on Monday foreign direct investment inflows reached a record $10.05 billion last year, up 21.4 percent from 2016.

* TAX REFORM FOR ACCELERATION AND INCLUSION