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DOF sets conditions for lower corporate income tax rate

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Businesses and corporations will only enjoy lower corporate income taxes under the second tax reform bill once the government successfully reduces the fiscal incentives granted to certain enterprises, the Department of Finance (DOF) said over the weekend.

According to Finance Secretary Carlos Dominguez, the second package of the Comprehensive Tax Reform Program (CTRP) seeks to cut corporate income tax to 25 percent from the current 30 percent rate, but only if there is a corresponding correction in country's fiscal incentive system.

"Our plan is to lower the tax rate for corporations from 30 percent to 25 percent. But our proposal to Congress is to allow us to do that only if there's a reduction in the amount that we provide for incentives," Dominguez said.

As such, Finance Undersecretary Karl Kendrick Chua said the DOF is proposing for a conditional cut in corporate income taxes, wherein every one percentage point reduction in the tax rate would only be applied if the government generates P26 billion – equivalent to 0.15 percent of the gross domestic product – by rationalizing fiscal incentives.

"We will propose (this) method to ensure that this tax reform, which is Package Two of the CTRP (Comprehensive Tax Reform Program), will be revenue neutral. Every one percent reduction requires P26 billion in counterpart revenues to keep revenue neutrality," Chua said during a thanksgiving lunch for supporters of the Tax Reform for Acceleration and Inclusion Act.

The proposed second package of the CTRP, which seeks to reduce the corporate income tax while rationalizing fiscal incentives and tax perks enjoyed by certain business sectors, was submitted to the House of Representatives last Jan. 15.

In terms of fiscal incentives, Chua said the DOF would ask Congress to modernize the country's fiscal incentives system to ensure that these are performance-based, time-bound, targeted and transparent.

The agency will also ask Congress to repeal 150 special laws that complicate the grant of fiscal incentives to businesses, and replace it instead with an omnibus law that would provide a single list of incentives applicable to all investment promotion agencies (IPAs).

He said there should be clear measures of a firm's actual investment, job creation, countryside development, exports, and research and development to ensure that incentives are given based on their performance.

Incentives should also be targeted to minimize leakages and distortions in the tax system, and be time-bound so that tax perks are not granted forever to businesses, Chua said.

For companies enjoying incentives for more than 10 years, the DOF is proposing a grandfather provision of two years, which means firms will continue to enjoy incentives for two more years once the second CTRP package is enacted into law.

Businesses enjoying incentives for five to 10 years will continue receiving incentives for three more years, while those with incentives for less than five years will continue to enjoy them for five more years.

* TAXATION
* DEPT. OF FINANCE