

ECCP ADVOCACY PAPERS 2019

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# TAX AND FINANCIAL SERVICES ADVOCACY PAPER 2019



# ABOUT ECCP

The **European Chamber of Commerce of the Philippines** (ECCP) is a service-oriented organization whose main goal is to foster close economic ties and business relations between the Philippines and Europe. The ECCP does this by providing a wide range of consultancy services and by creating linkages between companies, organizations, and individuals with existing or potential business interests in Europe and the Philippines. It is also at the forefront of pro-business, pro-growth advocacy in the Philippines, representing European business interests for increased market access and trade facilitation, at the highest level of Philippine political discussions.

The ECCP sees itself as the stepping stone for Europeans into the Philippine market and for Filipinos into the European market.



# TAX AND FINANCIAL SERVICES ADVOCACY PAPER 2019



**EUROPEAN CHAMBER OF COMMERCE OF THE PHILIPPINES**

19th Floor, Philippine AXA Life Center Bldg.,  
Sen. Gil Puyat Ave. cor. Tindalo Street,  
Makati City, Metro Manila, Philippines, 1200

*Positions expressed in the advocacy papers are the result of the activities of the Sector Committees working under the ECCP.*

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## METHODOLOGY

The 2019 edition of the ECCP Advocacy Papers features issues and recommendations formed after extensive discussions between members of the ECCP sector committees, dialogues and meetings with representatives from the Philippine Government, and other stakeholders. The ECCP has also taken into consideration the information gathered from organizing different events, participating in numerous hearings and committee meetings in both chambers of the Philippine Congress, as well as in private sector consultations held by several government agencies.

Further, the recommendations provided in each paper were primarily based on the discussions during the quarterly sector committee meetings. In close cooperation with the sector committee leaders and members, the ECCP Advocacy Team thoroughly analyzed every issue and advocacy recommendation to ensure that they are in line with European business interests and priorities. Once the Advocacy Team has finalized the first draft of each sector paper, it was then circulated to the Committee members and other stakeholders for consultation and subsequently, gathered inputs to be included in the final draft of the papers.

The assessment of the status of each recommendation included in 2018 Advocacy Papers were examined under the following criteria:

**Completed/Substantial Progress:** Recommended action has either been completed or there has been significant progress towards the realization of the recommendation.

**Some Progress:** Movement towards realizing the recommendation has been made, but substantial work still needs to be done to fully achieve and complete the proposed measure.

**No Progress/Retrogression:** Minimal progress or no movement towards attaining the recommended reforms were done, or the status of the issue has worsened and has evolved to an even bigger bottleneck for European businesses.

# MESSAGE FROM ECCP PRESIDENT



2019 has truly been a year of opportunities for the European-Philippine business community. This year, we welcome the implementation of the landmark Ease of Doing Business Act as well as the 18th Congress, with its list of legislative economic priorities. We also acknowledge the enactment of laws on Universal Health Care, Tax Amnesty, Energy Efficiency and Conservation, amongst other measures. Steady macroeconomic fundamentals as well as the administration's plans and pronouncements concerning economic reforms also open opportunities for further trade and investments. Furthermore, the ECCP aims to build upon the achievements of the past years in making the Philippine business environment friendlier for European companies and ensuring that these businesses can make the most of these exciting developments.

To further build on such success, several matters need to be addressed in order to fully realize the potential of the European-Philippine economic ties and the Philippine economic growth. It becomes increasingly important for the Philippines to improve global market integration, enhance its competitiveness as a Foreign Direct Investment (FDI) destination, and accelerate infrastructure development in order to achieve much needed sustainable and inclusive growth.

It is in this context that we are pleased to present the 2019 ECCP Advocacy Papers. The ECCP Advocacy Papers include suggested reforms on priority sectors identified by the Chamber and its members. As an advocate of economic liberalization and sustainable economic growth, the ECCP stands ready to support the Philippines in making these much needed changes for the mutual benefit of Europe and the Philippines.

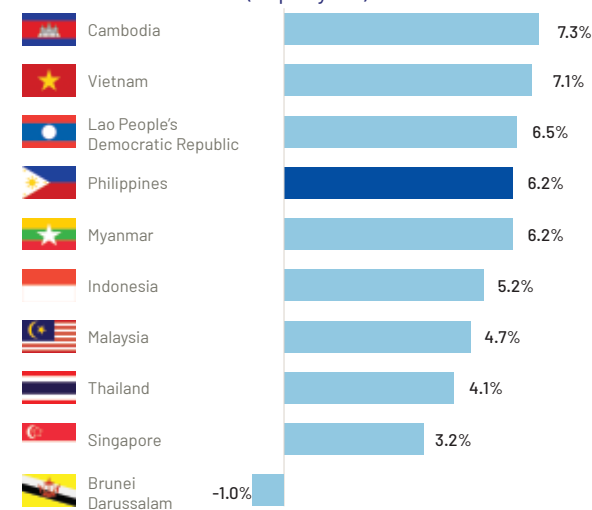
**Mr. Nabil Francis**  
ECCP President

# WHERE ARE WE NOW?

## THE PHILIPPINES

The Philippines strives to maintain its robust economic performance amidst several challenges. Though the GDP posted a decelerated growth of 6.2% in 2018, it is still considered as one of the fastest-growing countries in the Association of Southeast Asian Nations (ASEAN). With a 10-year average annual GDP growth of 5.4%,<sup>1</sup> the Organisation for Economic Co-operation and Development (OECD) recognizes the Philippines as one of the countries, along with Vietnam, who are expected to lead the ASEAN-5 in terms of economic growth.<sup>2</sup>

GDP Growth Rate, 2018  
(% per year)



Source: Asian Development Bank. *Asian Development Outlook 2019*

The GDP was mainly driven by manufacturing, trade and repair of motor vehicles, motorcycles, personal and household goods, and construction. Services accounted for the biggest share with 57.8%, followed by Industry with 34.1%, and Agriculture, Hunting, Forestry and Fishing (AHFF) with 8.1%.<sup>3</sup> The steady flow of remittances from Overseas Filipino Workers (OFWs), the ambitious *Build Build Build* Program, and resilience of the business and knowledge outsourcing industry are anticipated to keep the momentum going in the upcoming years.<sup>4</sup> The GDP Per Capita posted a decelerated growth of 0.5% from 2017, placing the Philippines 5<sup>th</sup> in rank amongst the ASEAN.<sup>5</sup>

<sup>1</sup> World Economic Forum. (2018) *The Global Competitiveness Report*. Retrieved 15 September 2019 from [www3.weforum.org/docs/GCR2018/05FullReport/TheGlobalCompetitivenessReport2018.pdf](http://www3.weforum.org/docs/GCR2018/05FullReport/TheGlobalCompetitivenessReport2018.pdf).

<sup>2</sup> OECD. (2018) *Economic Outlook for Southeast Asia, China and India 2018: Fostering Growth Through Digitalisation*. Retrieved 14 September 2019 from [dx.doi.org/9789264286184-en](http://dx.doi.org/9789264286184-en).

<sup>3</sup> Philippine Statistics Authority. (2019). *Gross Domestic Product of the Philippines Highlights for 2018*. Accessed 14 September 2019 from [psa.gov.ph/regional-accounts/grdp/highlights](http://psa.gov.ph/regional-accounts/grdp/highlights).

<sup>4</sup> OECD. (2018) *Economic Outlook for Southeast Asia, China and India 2018: Fostering Growth Through Digitalisation*.

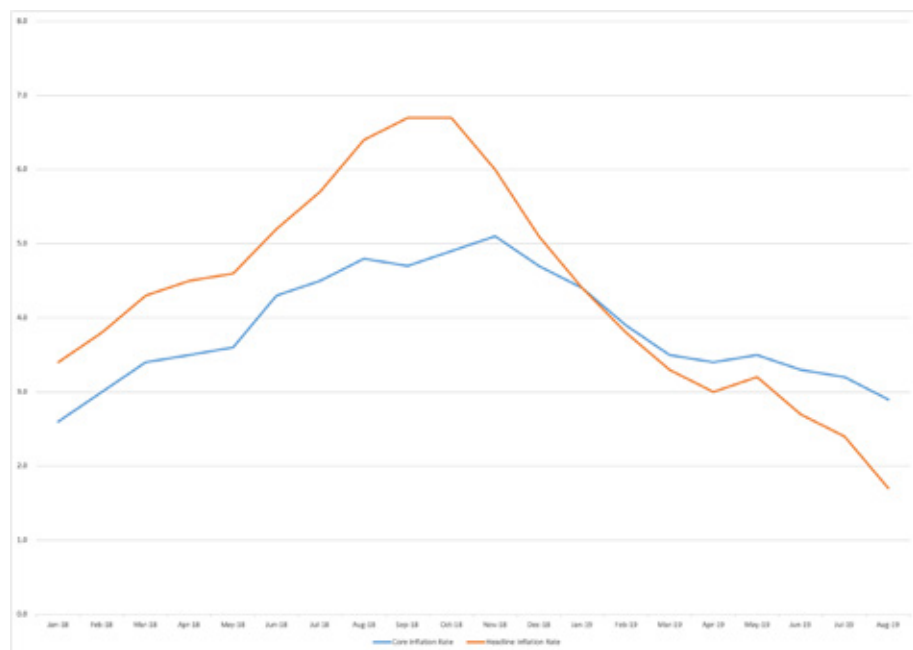
<sup>5</sup> Asian Development Bank. (n.d.) *Economic indicators for the Philippines*. Retrieved 16 September 2019 from [adb.org/countries/philippines/economy](http://adb.org/countries/philippines/economy).



The inflation rate for 2018 steadily rose throughout the year. The headline inflation rate increased from 2.9% in 2017 to 5.2% in 2018. Inflation peaked at 6.7% in the third quarter of 2018, and only decreased during the last two months of the said year. The drastic increase in prices was primarily attributed to the tight domestic supply, impact of natural calamities, and the rising global crude oil rates.<sup>6</sup>

The average core inflation rate reached 4.1% in 2018 – a 2.5% increase from 2017, that could be linked to the impact of fiscal expansion as well as the pass-through effect of a weaker peso.<sup>7</sup> The full year average inflation was brought up to 5.2%, which is above the National Government's announced target range for 2018.<sup>8</sup> However, as of August 2019, the headline inflation rate decelerated to 1.7%, the lowest rate achieved since October 2016 which was at 1.8%. The deceleration was brought about by the slower annual increase in prices of food and non-alcoholic beverages.<sup>9</sup>

### Philippines: Inflation Rate, January 2018 – August 2019



Source: PSA and BSP

6 World Bank. (2019) *Philippines Economic Update April 2019: Safeguarding Stability, Investing in the Filipino*. Retrieved 16 September 2019 from documents.worldbank.org/curated/en/442801553879554971/pdf/Philippines-Economic-Update-Safeguarding-Stability-Investing-in-the-Filipino.pdf

7 Ibid.

8 Bangko Sentral ng Pilipinas. (2018) *Inflation Report Q4 2018*. Retrieved 15 September 2019 from bsp.gov.ph/downloads/Publications/2018/IR4qtr\_2018.pdf.

9 Philippine Statistics Authority. (2019). *Summary Inflation Report Consumer Price Index (2012=100): August 2019*. Accessed 27 September 2019 from psa.gov.ph/statistics/survey/price/summary-inflation-report-consumer-price-index-2012100-august-2019.

The country's credit rating over the past year proves itself to be stable according to Moody's Investor Service.<sup>10</sup> The table below shows ratings from various agencies throughout the year:

2018 Philippine Credit Ratings		
Date	Agency	Rating
26 April	S&P	BBB Positive
20 July	Moody's	Baa2 Stable
19 December	Fitch	BBB

Source: Standard and Poor's, Moody's, Fitch.

The demographics for 2018 puts the country's economy at a prime advantage. A population of 106.60 million,<sup>11</sup> with a median age of 23.7,<sup>12</sup> adds a young, dynamic and competitive workforce to the country's competitive advantages including its strategic business location in the region and a pursuit for developing infrastructure for global growth,<sup>13</sup> among others.

A 2018 Philippine Statistics Authority (PSA) Survey records the employment rate at 94.7%. Categorically, the Services sector had the biggest share with 56.6%, followed by the Agriculture sector with 24.3%, and the Industry sector with 19.1%.<sup>14</sup> This leaves the unemployment rate at 5.3% and the underemployment rate with 16.4%. Though the statistics on employment displayed a positive growth of approximately 0.3-0.4% from 2017, high levels of unemployment remain to be a recurring challenge for the Philippines.

For international rankings, the 2018 Global Competitiveness Report ranks the Philippines 56<sup>th</sup> out of 140 countries, with a score of 52.1.<sup>15</sup> The report highlighted the country's Macroeconomic Stability as its strongest pillar, ranking 43<sup>rd</sup> with a score of 90. However, Innovation Capability was noted as the country's weakest, ranking 67<sup>th</sup> with a score of 37.2.<sup>16</sup> As for the World Bank Doing Business 2018 Report, the Philippines was given an overall ranking of 113<sup>th</sup> out of 190 countries. The country's factor of Getting Electricity is ranked best at 31<sup>st</sup>, while Starting a Business is ranked the worst at 173<sup>rd</sup>.<sup>17</sup>

10 Moody's Investors Service. (2018) *Announcement: Moody's: Philippines' credit profile supported by strong growth and progress on reform*. Retrieved 16 September 2019 from moody.com/research/Moody's-Philippines-credit-profile-supported-by-strong-growth-and-progress-PR\_387103.

11 Asian Development Bank. (2018) *Philippines: By the Numbers*. Retrieved 16 September 2019 from data.adb.org/dashboard/philippines-numbers.

12 Central Intelligence Agency. (2018). *The World Factbook: Philippines*. Retrieved 15 September 2019 from cia.gov/library/publications/the-world-factbook/geos/rp.html.

13 Philippine Consulate General. (n.d.) *The Philippines possesses several competitive advantages*. Retrieved 18 September 2019 from vancouverpcg.org/trade-01.html.

14 Philippine Statistics Authority. (2018). *2018 Annual Labor and Employment Status*. Accessed 15 September 2019 from psa.gov.ph/content/2018-annual-labor-and-employment-status.

15 World Economic Forum. (2018) *The Global Competitiveness Report*.

16 Ibid.

17 World Bank. (2018). *Doing Business 2018: Reforming to Create Jobs*. Retrieved 16 September 2019 from doingbusiness.org/content/dam/doingBusiness/media/Annual-Reports/English/DB2018-Full-Report.pdf.

With regard to Foreign Direct Investments (FDIs), the Bangko Sentral ng Pilipinas officially registered USD 9.8 Billion in net inflows for 2018, down by 4.4% from the USD 10.3 billion record from 2017.<sup>18</sup> Majority of equity capital placements were mainly channeled to manufacturing, financial and insurance activities, and real estate activities with Singapore, Hong Kong, and Japan as the top partners.<sup>19</sup> With the country's relations with the European Union, three member states ranked in the top ten with Netherlands, Luxembourg, and Germany placing 7<sup>th</sup>, 8<sup>th</sup>, and 10<sup>th</sup>, respectively.<sup>20</sup>



Total external trade amounted to USD 182.15 billion in 2018. The top three major trading partners for the year were People's Republic of China, Japan, and the United States of America.<sup>21</sup> The European Union (EU) immediately followed with a 9.6% share in total trade, valued at USD 17.49 billion. Germany ranked the highest as the Philippines' top trading partner in the EU, followed by the Netherlands, and France. Alternatively, the Philippines is the EU's 41<sup>st</sup> largest trading partner globally, accounting for only 0.4% of the EU's total trade.<sup>22</sup>



Indeed, the Philippines has made notable progress in recent years. However, much work still needs to be done in order to improve the country's global competitiveness. Substantial economic reforms, especially concerning the ease of doing business as well as the creation of a level playing field have yet to be realized to capitalize on the substantive gains of the Philippines. Furthermore, boosting the Philippine manufacturing sector, deepening the ASEAN integration, and enhancing trade facilitation are all imperative to take the Philippine economy to greater heights.



18 Bangko Sentral ng Pilipinas. (2019). *FDI Registers US\$677 million in December 2018; Full-Year Reaches US\$9.8 Billion in 2018*. Retrieved 14 September 2019 from [bsp.gov.ph/publications/media.asp?id=4967&yr=2019](http://bsp.gov.ph/publications/media.asp?id=4967&yr=2019).

19 Ibid.

20 Department of Trade and Industry. (2018) *NET FOREIGN DIRECT INVESTMENTS REPORT*. Retrieved 16 September 2019 from [dti.gov.ph/resources/statistics/net-foreign-direct-investments-fdi#graph](http://dti.gov.ph/resources/statistics/net-foreign-direct-investments-fdi#graph).

21 Philippine Statistics Authority. (2019). *Highlights of the 2018 Annual Report on International Merchandise Trade Statistics of the Philippines (Preliminary)*. Accessed 15 September 2019 from [psa.gov.ph/content/highlights-2018-annual-report-international-merchandise-trade-statistics-philippines](http://psa.gov.ph/content/highlights-2018-annual-report-international-merchandise-trade-statistics-philippines).

22 European Commission. (2019). *Countries and Regions: The Philippines*. Retrieved 16 September 2019 from [ec.europa.eu/trade/policy/countries-and-regions/countries/philippines/](http://ec.europa.eu/trade/policy/countries-and-regions/countries/philippines/).

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# INTRODUCTION

The financial and fiscal sectors play a key role in helping ensure sustainable economic growth and development. Subsequently, the implementation of suitable policies can help facilitate improved generation of funds as well as adequate allocation of resources.

It is in this context that the Duterte administration has maintained tax reform and monetary policy high on its agenda. Against this background, several measures have been introduced and are being discussed by the country's decision-makers from both executive and legislative branches.

The ECCP remains committed to working with the Philippine government in advancing policy reforms that will yield the best possible outcome for all stakeholders. In this context, the following advocacy recommendations are being presented:

- Fast-track Senate concurrence of the Foreign Account Tax Compliance Act
- Lift or amend the Bank Secrecy Law
- Enact the Tax Amnesty Package
- Establish a different tax treatment for metallic and non-metallic minerals and activities
- Faster reduction of the corporate income tax rate and retention of incentives



The Philippine **financial sector** has continued to strengthen this 2019, with the steady growth in assets and deposits, as well as stability in asset quality. The number of banking institutions (head offices) in 2018 totaled to 571 offices, while total resources of the banking system reached PHP17 trillion as of end-March 2019.<sup>1</sup> Banks remain to dominate the sector, with universal and commercial banks covering about 90% of total bank resources.<sup>2</sup>

In relation to the Central Bank's financial stability mandate, there was an ease in overall inflation in the Philippines from 5.2% in end-2018,<sup>3</sup> to 1.7% in August 2019.<sup>4</sup> On the other hand, in line with its financial inclusion advocacy, the Bangko Sentral ng Pilipinas (BSP) perceives that the use of technological innovations is the way to achieve greater access to financial services by the Filipino people.<sup>5</sup>

In the **insurance sector**, most recent data reflect that total assets increased by 8.41%, from PHP1.55 trillion in the first quarter (Q1) of 2018 to PHP1.68 trillion during the same period this 2019.<sup>6</sup> Life insurance companies maintains its position as the sector's top contributor, with a PHP1.36 trillion share in assets.<sup>7</sup> In addition to this, total investments increased by 13.01%, while total net income also raised by 45.77%. Insurance penetration or the premium volume as a share of the country's GDP was at 1.68% for January-March 2019,<sup>8</sup> a decrease from the 1.96% share in Q1 2018.



1 Bangko Sentral ng Pilipinas (BSP). (2019). Report on Economic and Financial Developments First Quarter 2019. Retrieved from [http://www.bsp.gov.ph/downloads/Publications/2019/LTP\\_1qtr2019.pdf](http://www.bsp.gov.ph/downloads/Publications/2019/LTP_1qtr2019.pdf).

2 8.3% higher than last year's resources

3 Philippine Statistics Authority (PSA). (2019). Summary Inflation Report Consumer Price Index (2012=100): December 2018. Retrieved from <https://psa.gov.ph/price-indices/cpi-ir/title/Summary%20Inflation%20Report%20Consumer%20Price%20Index%20%282012%3D100%29%3A%20December%202018>

4 PSA. (2019). Summary Inflation Report Consumer Price Index (2012=100): August 2019. Retrieved from <https://psa.gov.ph/price-indices/cpi-ir/title/Summary%20Inflation%20Report%20Consumer%20Price%20Index%20%282012%3D100%29%3A%20August%202019>

5 BSP. (2018). Financial Inclusion in the Philippines. Retrieved from [http://www.bsp.gov.ph/downloads/Publications/2018/FIP\\_1Sem2018.pdf](http://www.bsp.gov.ph/downloads/Publications/2018/FIP_1Sem2018.pdf)

6 Insurance Commission (IC). (2019). Insurance Industry Performance. Retrieved from <https://www.insurance.gov.ph/wp-content/uploads/2019/07/Insurance-Industry-Performance-as-of-Qtr-Ending-March-31-Life-NonLife-MBAs.pdf>

7 IC. (2019). Insurance Industry Performance Report: Life Insurance Companies. Retrieved from <https://www.insurance.gov.ph/wp-content/uploads/2019/07/Insurance-Industry-Performance-as-of-Qtr-Ending-March-31-Life.pdf>

8 IC. (2019). Insurance Industry Performance.

Finally, the country's **fiscal sector** continues to be one of the key priority areas of the Duterte administration. Accompanying the legislative proposals and deliberations on tax reform policies are a number of other relevant developments in the sector, including tax collection, tax-to-GDP ratio, and VAT refund.

From January to March 2019, the Bureau of Internal Revenue (BIR) was able to collect a total of PHP469 billion,<sup>9</sup> higher than the PHP423 billion from the same period last year.<sup>10</sup> Also following upward trends are the reported tax and revenue efforts from 2017 to 2018, at 14.2% to 14.7%, and 15.6% to 16.4%, respectively.<sup>11</sup>

Furthermore, the Philippine's 2017 tax-to-GDP ratio was recorded at 17.5%.<sup>12</sup> This is lower than Thailand's 17.6%, but higher than those of Singapore (14.1%), Malaysia (13.6%), and Indonesia (11.5%).<sup>13</sup> With the highest share in tax revenues was value added and goods and services tax at 27%, followed by corporate income tax at 25%.<sup>14</sup>

In terms of value-added tax (VAT) refund applications, according to the Department of Finance (DOF), all files claimed in 2018 were processed within 90 days from application with the BIR. From January to July 2019, 261 VAT refund applications were received by the BIR, of which 195 were paid or denied, and 66 are pending.<sup>15</sup>

9 Bureau of Internal Revenue (BIR). (2019). Revenue Collection January to March 2019. Retrieved from [https://www.bir.gov.ph/images/bir\\_files/research\\_and\\_statistics/Coll%20per%20PSA%20Region.1st%20Quarter%202019%20BTr.pdf](https://www.bir.gov.ph/images/bir_files/research_and_statistics/Coll%20per%20PSA%20Region.1st%20Quarter%202019%20BTr.pdf)

10 BIR. (n.d.). Revenue Collection CY 2018. Retrieved from [https://www.bir.gov.ph/images/bir\\_files/research\\_and\\_statistics/Coll%20per%20NSCB%20Region\\_CY%202018.pdf](https://www.bir.gov.ph/images/bir_files/research_and_statistics/Coll%20per%20NSCB%20Region_CY%202018.pdf)

11 Department of Finance (DOF). (2019). Revenue & Tax Effort. Retrieved from <https://docs.google.com/viewerng/viewer?url=https://www.dof.gov.ph/wp-content/uploads/2019/03/Tax-Effort.pdf&hl=en>

12 Higher than the 17% recorded tax-to-GDP ratio in 2016. Also recorded lower than the Organization for Economic Cooperation and Development (OECD) average of average of 34.2%.

13 Organisation for Economic Co-operation and Development (OECD). (2019). Revenue Statistics in Asian and Pacific Economies 2019. Retrieved from <http://www.oecd.org/tax/tax-policy/revenue-statistics-asia-pacific-brochure.pdf>.

14 OECD. (2018). Revenue Statistics in Asian and Pacific Economies 2019 - The Philippines. Retrieved from <http://www.oecd.org/tax/tax-policy/revenue-statistics-asia-and-pacific-philippines.pdf>.

15 Chua, K. (2019). Speech delivered at the Senate Committee on Ways and Means 18th Congress Hearing on Tax Reform Packages.

## RECENT REFORMS AND INDUSTRY DEVELOPMENTS

- The Bangko Sentral ng Pilipinas (BSP) issued **Circular No 1033 Series of 2019**<sup>16</sup> last 22 February 2019, which stipulates amendments to regulations on electronic banking services and other electronic operations. According to the BSP, "the amendments mainly take into account the developments in the electronic payment and financial services.
- The BSP also released **Circular No. 1038, Series of 2019**<sup>17</sup> last 22 April 2019. This allows for the membership of non-Filipino citizens in the board of directors of BSP-supervised financial institutions, provided that it is consistent with existing relevant laws.
- Meanwhile, BSP **Circular No. 1048, Series of 2019**,<sup>18</sup> signed last 6 September, covers regulations on financial consumer protection; guidelines and procedures on consumer assistance and management system of BSP-supervised financial institutions; and amendments to the manual of regulations for banks and non-bank financial institutions.
- The Bureau of Internal Revenue (BIR), through **Revenue Memorandum Circular (RMC) No. 5-2019**,<sup>19</sup> laid out its priority programs<sup>20</sup> for 2019.
- On 10 January 2019, through **Revenue Memorandum Circular (RMC) No. 3-2019**,<sup>21</sup> the BIR published the Joint Circular (JC) No. 001-2018 of the Department of Finance, Department of Budget and Management, Bureau of Treasury, BIR, Bureau of Customs, and Commission on Audit. JC No 001-2018 pertains to the rules and procedures relative to VAT refund claims.
- Through **RMC No. 4-2019**<sup>22</sup> dated 15 January 2019, the BIR released the full text from the Food and Drug Administration containing the "List of VAT-Exempt Diabetes, High-Cholesterol, and Hypertension Drugs", a provision that is specified in the TRAIN Law or Republic Act No. 10963.<sup>23</sup>

16 BSP. (2019). Circular No. 1033 Series of 2019. Retrieved from <http://www.bsp.gov.ph/downloads/regulations/attachments/2019/c1033.pdf>

17 BSP. (2019). Circular No. 1038 Series of 2019. Retrieved from <http://www.bsp.gov.ph/downloads/regulations/attachments/2019/c1038.pdf>

18 BSP. (2019). Circular No. 1048 Series of 2019. Retrieved from <http://www.bsp.gov.ph/downloads/regulations/attachments/2019/c1048.pdf>

19 BIR. (2019). Revenue Memorandum Circular (RMC) No. 5-2019. Retrieved from [https://www.bir.gov.ph/images/bir\\_files/internal\\_communications\\_2/RMCs/RMC%20Full%20Text%202019/RMC%20No%205-2019.pdf](https://www.bir.gov.ph/images/bir_files/internal_communications_2/RMCs/RMC%20Full%20Text%202019/RMC%20No%205-2019.pdf)

20 BIR. (2019). CY 2019 Priority Programs. Retrieved from [https://www.bir.gov.ph/images/bir\\_files/internal\\_communications\\_2/RMCs/RMC%20Full%20Text%202019/Programs.pdf](https://www.bir.gov.ph/images/bir_files/internal_communications_2/RMCs/RMC%20Full%20Text%202019/Programs.pdf)

21 BIR. (2019). RMC No. 3-2019. Retrieved from [https://www.bir.gov.ph/images/bir\\_files/internal\\_communications\\_2/RMCs/RMC%20Full%20Text%202019/RMC%20No%203-2019.pdf](https://www.bir.gov.ph/images/bir_files/internal_communications_2/RMCs/RMC%20Full%20Text%202019/RMC%20No%203-2019.pdf)

22 BIR. (2019). RMC No. 4-2019. Retrieved from [https://www.bir.gov.ph/images/bir\\_files/internal\\_communications\\_2/RMCs/RMC%20Full%20Text%202019/RMC%20No%204-2019.pdf](https://www.bir.gov.ph/images/bir_files/internal_communications_2/RMCs/RMC%20Full%20Text%202019/RMC%20No%204-2019.pdf)

23 The Official Gazette. (2019). Retrieved from <http://www.officialgazette.gov.ph/downloads/2017/12dec/20171219-RA-10963-RRD.pdf>



- Likewise pursuant to the TRAIN Law, the BIR released **Revenue Regulations (RR) No. 2-2019**<sup>24</sup> last 20 February 2019. This RR refers to the imposition of excise tax on non-essential services.<sup>25</sup> It also contains provisions on the coverage, nature, basis, and rate of excise tax.
- BIR issued **Revenue Regulations (RR) No. 9-2019**<sup>26</sup> last 27 August 2019, amending RR No. 05-2017. This RR revised the list of basic necessities and prime commodities eligible for discount upon purchase by persons with disability (PWD). The RR also stipulates rules on granting PWDs special discount and exemption from value-added tax.
- President Rodrigo Duterte signed the **National Systems Payment Act or Republic Act (RA) No. 11127**<sup>27</sup> in October 2018, which requires all payment systems operators to register with the BSP. Moreover, this law provides a framework on payment system, including the adoption of e-receipts, documents, tax-related documents, digital signatures, and e-notaries, among others. The first tranche of its Implementing Rules and Regulations (IRR) was released by the BSP last April 2019.<sup>28</sup>
- **RA No. 11211 or The New Central Bank Act**<sup>29</sup> was signed into law last 14 February 2019. This revised BSP Charter increases the Central Bank's capitalization to PHP200 billion from PHP50 billion, expands BSP's supervisory powers, and restores its authority to issue debt papers. With the passage of this law, the BSP sees a strengthened capacity to pursue its price and financial stability mandate.<sup>30</sup>
- **The Tax Amnesty Act or RA No. 11213**<sup>31</sup> was approved by President Duterte also on 14 February 2019. This measure is under Package 1B of the government's Comprehensive Tax Reform Program (CTRP), which allows errant taxpayers to settle their outstanding tax liabilities, and signals the start of a more aggressive tax enforcement campaign by tax authorities. The law covers general tax amnesty, estate tax amnesty, and tax amnesty on delinquencies, among others.<sup>32</sup> President Duterte vetoed a number of provisions in the enrolled bill, specifically on: the grant of general tax amnesty; one-time declaration and settlement of estate taxes on properties subject to multiple settled estates; as well as presumption of correctness of the estate tax amnesty returns.<sup>33</sup> The law's IRR was released last 05 April.<sup>34</sup>

24 BIR. (2019). Revenue Regulations (RR) No. 2-2019. Retrieved from [https://www.bir.gov.ph/images/bir\\_files/internal\\_communications\\_1/Full%20Text%20RR%202019/RR%20No%202-2019.pdf](https://www.bir.gov.ph/images/bir_files/internal_communications_1/Full%20Text%20RR%202019/RR%20No%202-2019.pdf)

25 Plastic, cosmetic, reconstructive surgeries; invasive and non-invasive cosmetic procedures

26 BIR. (2019). Revenue Regulations (RR) No. 9-2019. Retrieved from [https://www.bir.gov.ph/images/bir\\_files/internal\\_communications\\_1/Full%20Text%20RR%202019/RR%20No%209-2019.pdf](https://www.bir.gov.ph/images/bir_files/internal_communications_1/Full%20Text%20RR%202019/RR%20No%209-2019.pdf)

27 BSP. (2018). Republic Act (RA) No. 11127. Retrieved from <http://www.bsp.gov.ph/downloads/laws/RA11127.pdf>.

28 BSP. (2019). Bangko Sentral Releases the First Tranche of the National Payment Systems Act (NPSA) Implementing Rules and Regulations (IRR). Retrieved from <http://www.bsp.gov.ph/publications/media.asp?id=5004>.

29 BSP. (2019). RA No. 11211. Retrieved from <http://www.bsp.gov.ph/downloads/regs/RA11211.pdf>.

30 Dr. Diokno, B. (2019). Email interview.

31 The Official Gazette. (2019). RA No. 11213. Retrieved from <https://www.officialgazette.gov.ph/downloads/2019/02feb/20190214-RA-11213-RRD.pdf>

32 Atty. Asuncion, N. (2019). Speech delivered at the ECCP Tax and Financial Services Committee Meeting.

33 The Official Gazette. (2019). Direct Veto of the President to Republic Act No. 11213, s. 2019. Retrieved from <https://www.officialgazette.gov.ph/downloads/2019/02feb/20190214-VETO-RA-11213-RRD.pdf>

34 BIR. (2019). Revenue Regulations 4-2019. Retrieved from [https://www.bir.gov.ph/images/bir\\_files/internal\\_communications\\_1/Full%20Text%20RR%202019/RR%20No.%204-2019.pdf](https://www.bir.gov.ph/images/bir_files/internal_communications_1/Full%20Text%20RR%202019/RR%20No.%204-2019.pdf)

- **RA No. 11346**,<sup>35</sup> which imposes increased excise tax on tobacco products has been signed into law last 25 July 2019. This law also earmarks a portion of the excise tax collection from sugar-sweetened beverages, alcohol, and tobacco products for the implementation of the Universal Health Care Act, as well as medical assistance and health facilities enhancement programs.
- Further into the **CTRP Packages** that are being proposed and deliberated by relevant government decision-makers are the following proposals and their corresponding legislative status:

CTRP Package	Overview / Salient Points	Legislative Status*
<b>Package 2</b> CORPORATE INCOME TAX AND INCENTIVES RATIONALIZATION	<ul style="list-style-type: none"> <li>• Gradually reduces corporate income tax rate from 30% to 20%</li> <li>• Provides a revised incentives scheme that is based on the following principles: performance-based, time-bound, targeted, and transparent.</li> </ul>	<p><b>House Bill (HB) No. 4157</b><sup>36</sup></p> <p>Approved on 3rd reading on 13 September 2019; Transmitted to and received by the Senate on 16 September 2019</p> <p><b>Senate Bill (SB) No. 535</b><sup>37</sup></p> <p><b>SB No. 595</b><sup>38</sup></p> <p><b>SB No. 702</b><sup>39</sup></p> <p>Pending with the Committee on Ways and Means</p>
<b>Package 2+</b> SIN TAXES	<ul style="list-style-type: none"> <li>• Imposes increased excise tax on alcoholic and cigarette products</li> <li>• Funds collected from the excise tax will be utilized to support the implementation of the Universal Health Care Act and other health programs</li> </ul>	<p><b>HB No. 1026</b><sup>40</sup></p> <p>Approved on 3rd reading on 20 August 2019; Transmitted to and received by the Senate on 22 August 2019</p> <p><b>SB No. 1074</b><sup>41</sup></p> <p>Pending Second Reading, Special Order</p>

35 The Official Gazette. (2019). Ra No. 11346. Retrieved from <https://www.officialgazette.gov.ph/downloads/2019/07jul/20190725-RA-11346-RRD.pdf>

36 House of Representatives. (2019). House Bill (HB) No. 4157. Retrieved from [http://www.congress.gov.ph/legisdocs/third\\_18/HBT4157.pdf](http://www.congress.gov.ph/legisdocs/third_18/HBT4157.pdf)

37 Philippine Senate. (2019). Senate Bill (SB) No. 535. Retrieved from <https://www.senate.gov.ph/lisdata/3091827779!.pdf>

38 Philippine Senate. (2019). SB No. 595. Retrieved from <http://senate.gov.ph/lisdata/3087927871!.pdf>

39 Philippine Senate. (2019). SB No. 702. Retrieved from <https://www.senate.gov.ph/lisdata/3101727916!.pdf>

40 House of Representatives. (2019). HB No. 1026. Retrieved from [http://www.congress.gov.ph/legisdocs/third\\_18/HBT1026.pdf](http://www.congress.gov.ph/legisdocs/third_18/HBT1026.pdf)

41 Philippine Senate. (2019) SB No. 1074 (per Ctte. Rpt. No. 6). Retrieved from <http://senate.gov.ph/lisdata/3160028445!.pdf>

<b>Package 2+</b> MINING TAXES	<ul style="list-style-type: none"> <li>Establishes a fiscal regime for mining activities and products, comprised of royalty tax and windfall profits tax</li> <li>Covers large metallic, non-metallic, as well as both large- and small-scale mines</li> </ul>	<b>HB No. 288</b> <sup>42</sup> <b>HB No. 560</b> <sup>43</sup> <b>HB No. 2557</b> <sup>44</sup> Pending with the Committee on Ways and Means <b>SB No. 313</b> <sup>45</sup> Pending with the Committee on Ways and Means
<b>Package 3</b> REAL PROPERTY VALUATION	<ul style="list-style-type: none"> <li>Adopts a single market-based schedule of market values (SMV) that will serve as basis for real property taxation.</li> <li>Establishes an electronic database of all real property transactions</li> </ul>	<b>HB No. 4664</b> <sup>47</sup> Unfinished business (Period of Interpellation) <b>SB No. 246</b> <sup>48</sup> <b>SB No. 519</b> <sup>49</sup> <b>SB No. 894</b> <sup>50</sup> Pending with the Ways and Means Committee
<b>Package 4</b> PASSIVE INCOME AND FINANCIAL TAXES	<ul style="list-style-type: none"> <li>Imposes a uniform tax rate of 15% on most types of passive income</li> <li>Reduces stock transaction tax as well as tax on health insurance organizations, pension, and pre-need insurance.</li> <li>Exempts non-monetary documents<sup>51</sup> from document stamp tax</li> </ul>	<b>HB No. 304</b> <sup>52</sup> Approved on 3rd reading on 9 September 2019; Transmitted to and received by the Senate on 10 September 2019

42 House of Representatives. (2019). HB No. 288. Retrieved from [http://www.congress.gov.ph/legisdocs/basic\\_18/HB00288.pdf](http://www.congress.gov.ph/legisdocs/basic_18/HB00288.pdf)

43 House of Representatives. (2019). HB No. 560. Retrieved from [http://www.congress.gov.ph/legisdocs/basic\\_18/HB00560.pdf](http://www.congress.gov.ph/legisdocs/basic_18/HB00560.pdf)

44 House of Representatives. (2019). HB No. 2557. Retrieved from [http://www.congress.gov.ph/legisdocs/basic\\_18/HB02557.pdf](http://www.congress.gov.ph/legisdocs/basic_18/HB02557.pdf)

45 Philippine Senate. (2019). Senate Bill (SB) No. 313. Retrieved from <http://senate.gov.ph/lisdata/30595274541.pdf>

46 Refers to a table of base unit market values for all kinds of real property, except machinery within a local government unit prepared by assessors pursuant to existing laws, rules, and regulations (HB No. 305)

47 House of Representatives. (2019). Committee Report No. 21. Retrieved from [http://congress.gov.ph/legisdocs/first\\_18/CR00021.pdf](http://congress.gov.ph/legisdocs/first_18/CR00021.pdf)

48 Philippine Senate. (2019). Senate Bill (SB) No. 246. Retrieved from <http://senate.gov.ph/lisdata/30510273851.pdf>

49 Philippine Senate. (2019). SB No. 519. Retrieved from <http://senate.gov.ph/lisdata/30510273851.pdf>

50 Philippine Senate. (2019). SB No. 894. Retrieved from <http://senate.gov.ph/lisdata/31267281661.pdf>

51 e.g. transcript of records, diplomas, affidavits, proxies, baptismal and marriage certificates

52 House of Representatives. (2019). HB No. 304. Retrieved from [http://www.congress.gov.ph/legisdocs/third\\_18/HBT0304.pdf](http://www.congress.gov.ph/legisdocs/third_18/HBT0304.pdf)

<b>MOTOR VEHICLE USER'S CHARGE</b>	<ul style="list-style-type: none"> <li>Increases tax being collected from motor vehicle owners, referred to as motor vehicle user's charge (MVUC).</li> <li>Additional revenue collected from this tax hike will be used to help fund road infrastructure projects.</li> </ul>	<b>HB No. 1294</b> <sup>53</sup> Pending with the Committee on Public Works and Highways
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\* As of 12 October 2019

## ADVOCACY RECOMMENDATIONS

### 1. Fast-track Senate Concurrence of the Foreign Account Tax Compliance Act (FATCA)

In the face of globalization, emerging markets, as well as interconnectivity of the world economy, international tax compliance and global tax transformation are vital measures in coping with the complex challenges encountered by financial institutions all over the world. These factors also underpin the call to have a clearer perception of tax laws in foreign jurisdictions.

In this context, the ECCP advocates for the Senate concurrence of the Foreign Account Tax Compliance Act (FATCA) in the soonest possible time. This will reaffirm the Philippines' commitment to counter financial crimes, at the same time, promote a transparent and effective fiscal reporting system.

In connection to this, the ECCP acclaims the employment of the reciprocal Inter-Governmental Agreement 1A<sup>54</sup> last 2015, which allows for the reporting of accounts information to the Bureau of Internal Revenue; and looks forward to its effective implementation.

### 2. Lift or Amend the Bank Secrecy Law

The liberalization of the banking sector requires measures that will safeguard against financial crimes such as money laundering, fraud, and tax evasion. It is in this light that the ECCP has long advocated for lifting or amending the Republic Act (RA) No. 1405 or the Bank Secrecy Law.<sup>55</sup>

Towards this objective, the ECCP acknowledges the recognition of President Duterte of the importance of implementing reforms that lift bank secrecy especially for fraudulent cases, facilitate the automatic exchange of information, as well as carrying out safeguards to ensure transparency in declaring assets or networth.<sup>56</sup> We likewise recognize the support of the Department of Finance<sup>57</sup> and Bangko Sentral ng Pilipinas<sup>58</sup> to this proposed course of action.

53 House of Representatives. (2019). HB No. 1294. Retrieved from [http://www.congress.gov.ph/legisdocs/basic\\_18/HB01294.pdf](http://www.congress.gov.ph/legisdocs/basic_18/HB01294.pdf)

54 Bureau of Treasury. (2013). Philippine-United States Agreement on Improving International Tax Compliance and Implement FATCA. Retrieved from <https://www.treasury.gov/resource-center/tax-policy/treaties/Documents/FATCA-Agreement-Philippines-7-13-2015.pdf>

55 Philippine Deposit Insurance Corporation. (n.d.). RA No. 1405. Retrieved from <http://www.pdic.gov.ph/files/ra1405.pdf>

56 The Official Gazette. (2019). Direct Veto of the President to Republic Act No. 11213, s. 2019.

While it is of our principal recommendation to lift the Bank Secrecy Law, should the Philippine government opt to amend the measure, we implore that the following be included:

- (1) Adding exceptions to the rule on confidentiality of bank accounts; and
- (2) Easing of requirements for the current exceptions to the disclosure of information.

The ECCP looks forward to the implementation of this policy reform that will strengthen the country's capability to fight against financial crimes, and establish a deeper sense of trust in the Philippine banking sector from individuals and businesses.

### **3. Enact the Tax Amnesty Package**

As one of its long-standing advocacies, the ECCP lauds the recent enactment of the Tax Amnesty Act or RA No. 11213. It has been our view that the implementation of such legislation will help broaden the tax base, ease tax administration, as well as promote better economic use of properties of taxpayers. To this end, we eagerly await the law's effective implementation, especially its provisions on general tax amnesty, estate tax amnesty, and amnesty on delinquencies.

Moreover, to reap the full benefits of this law by both the government and taxpayers, it is likewise of our interest to work with the administration in its efforts to increase the level of public tax consciousness and encourage everyone to pay the right taxes.

### **4. Establish a different tax treatment for metallic and non-metallic minerals**

The ECCP recognizes that the TRAIN Law imposed increased excise tax on non-metallic materials. Moreover, the Philippine Mining Act<sup>57</sup> requires companies to allocate a certain amount of mining companies' operating costs in support to the country's Social Development and Management Program.

With the Philippine government's thrust towards improving and boosting the country's infrastructure system, cement has become an increasingly valuable commodity.

In connection to this, the ECCP views that the imposition of royalty rates on non-metallic mining operations, of which cement is one of the by-products, will lead to negative implications not only on the said industry but also on the government's *Build, Build, Build* program. At the same time, this will hinder the local mining industry, as well as conceivably contribute to inflation in local cement prices.

To this end, while we are highly supportive of the administration's infrastructure thrust, we implore the Philippine government to create a clear distinction of tax treatments for metallic and non-metallic mining operations. Among the factors that shall be looked into in doing so are the nature, use, importance, and end-consumers of minerals produced.

### **5. Faster reduction of the Corporate Income Tax and retention of incentives**

One of ECCP's key objectives is to contribute to providing a level playing field for local and foreign investors in the Philippines, as well as boosting the country's competitiveness. Concurrently, we are greatly supportive of the government's intention to broaden the tax base which will help fund its *Build, Build, Build*, as well as social and development programs.

This having said, the ECCP welcomes the proposal to reduce the corporate income tax (CIT) rate in the Philippines from 30% to 20%. Currently having the highest CIT rate in the ASEAN region,<sup>60</sup> cutting down the rate to 20% – at par with Cambodia, Thailand, and Vietnam, will improve the country's competitiveness in the region. However, to expeditiously reap the benefits of this reform, we highly recommend the CIT rate to be scaled down at a faster rate, specifically by 5% at the onset, and further reduced by 1% annually until the 20% rate is achieved.

On the other hand, the ECCP upholds that the presence of a competitive incentives regime is one of the fundamental factors that make a country more attractive to investors.

In connection to this, the ECCP highly recommends for the prospective application of the proposed incentives scheme, and preservation of contracts made between established businesses in the country and the Philippine government. Concurrently, as for the proposal on time-bound incentives such as income tax holidays, we look forward to the imposition of a longer sunset period which will allow for the necessary transition for investors in the country.

To this end, the ECCP continues to look forward to closely collaborating with the Philippine government in instigating fiscal policy reforms that will increase the country's competitiveness in the region and attractiveness to investors. This will eventually lead to better employment opportunities, knowledge and technology transfer, and overall economic development.

57 Villanueva, J. (2018). *Infra, tax reform programs to continue*: Dominguez. Retrieved from <https://www.pna.gov.ph/articles/1075681>

58 Dr. Diokno, B. (2019). Email interview.

59 Mines and Geosciences Bureau. (n.d.). Republic Act No. 7924. Retrieved from [mgb.gov.ph/images/stories/RA\\_7942.pdf](http://mgb.gov.ph/images/stories/RA_7942.pdf)

60 Singapore 17%; Cambodia 20%; Thailand 20%; Vietnam 20%; Lao PDR 24%; Malaysia 24%; Indonesia 25%; Philippines 30%




# ASSESSMENT OF 2018 RECOMMENDATIONS


RECOMMENDATIONS	COMPLETED / SUBSTANTIAL PROGRESS
Amendment of the Bank Secrecy Law	
Fast-track FATCA Senate Concurrence and Implementation	
Ensure effective implementation of the current VAT refund procedure	The Department of Finance reported that the VAT refund procedure is being fully implemented, with its backlogs resolved.
Enact the Amnesty Package together with the amendments to the Bank Secrecy Law to ensure the efficiency of the first measure and ratify the Common Reporting Standards (CRS) In support of the amnesty package	The Tax Amnesty Act was signed into law in February 2019.
Retain incentives for investment promotion agencies	
CIT reduction should be competitive	


SOME PROGRESS	NO PROGRESS / RETROGRESSION
A number of legislative proposals on amendments to the Bank Secrecy Law are being deliberated on. This was also recognized by President Duterte as one of his administration's priorities.	
	∅
Both Chambers of Congress are under deliberations on legislative proposals reducing the Corporate Income Tax. These are bundled with the review and modification of incentives packages.	



## EUROPEAN CHAMBER OF COMMERCE OF THE PHILIPPINES

 19<sup>th</sup> Floor, Philippine AXA Life Center Bldg.,  
Sen. Gil Puyat Ave. cor. Tindalo Street,  
Makati City, Metro Manila, Philippines, 1200

 8845-1324 to 26

 [info@eccp.com](mailto:info@eccp.com)

 [www.eccp.com](http://www.eccp.com)

