

## Country Updates

### Philippines

#### 1. Tax Reform Program

Government is embarking on a massive tax reform program, consisting of four (4) packages. Each package will be presented as a bill to be filed in Congress over a period of time. These packages consist of:

- Personal Income Tax and Consumption Tax
- Corporate Income Tax
- Donors' and Estate Taxes
- Capital Income Tax

##### 1.1 Personal Income Tax and Consumption Tax

The first package has been submitted to Congress. Essentially, it seeks to lower the income tax rate on the current highest income brackets, from 32% to 25%, but created new income brackets, with the highest bracket taxed at 35%. At the same time, the first package seeks (a) to broaden the VAT base by lessening the VAT exemptions, and (b) to adjust excise taxes.

The relaxation of bank deposit secrecy laws, and an absolute tax amnesty (discussed separately) are also being proposed and is expected to accompany this package. A tax amnesty bill has been filed in the Senate (Senate Bill No. 920).

##### 1.1.1 Individual Income Tax

The current individual income tax table is as follows:

Not over P10,000 .....	5%
Over P10,000 but not over P30,000 .....	P500 + 10% of the excess over P10,000
Over P30,000 but not over P70,000 .....	P2,500 + 15% of the excess over P30,000
Over P70,000 but not over P140,000 .....	P8,500 + 20% of the excess over P70,000
Over P140,000 but not over P250,000 .....	P22,500 + 25% of the excess over P140,000
Over P250,000 but not over P500,000 .....	P50,000 + 30% of the excess over P250,000

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Over P500,000.....P125,000+32% of the  
excess overP500,000

The lowest bracket is an annual income of PhP10,000 (approximately USD208), which is exempt from income tax. The highest bracket is an annual income of over PhP500,000 (approx. USD10,416), with a tax of PhP125,000 plus 32% of excess over PhP500,000. The above table is outdated and is no longer reflective of present day income levels. It has remained the same, with relatively very slight changes, over the last 4 or 5 decades.

House Bill No. 920 seeks to revise the income tax table to:

*Year 2018*

Not over P250,000 .....0%

Over P250,000 but not over P400,000 ..... 20% of the excess over  
P250,000

Over P400,000 but not over P800,000 .....P30,000 + 25% of the  
excess over P400,000

Over P800,000 but not over P2,000,000.....P130,000 + 30% of the  
excess over P800,000

Over P2,000,000 but not over P5,000,000 ...P490,000 + 32% of the  
excess over P2,000,000

Over P5,000,000 .....P1,450,000 + 35% of  
the excess over P5,000,000

*Year 2019*

Not over P250,000 ..... 0%

Over P250,000 but not over P400,000 .....15% of the excess over  
P250,000

Over P400,000 but not over P800,000 .....P22,500 + 20% of the  
excess over P400,000

Over P800,000 but not over P2,000,000 .....P102,500 + 25% of the  
excess over P800,000

Over P2,000,000 but not over P5,000,000 .....P402,500 + 30% of the  
excess over P2,000,000

Over P5,000,000 .....P1,302,500 + 35% of  
the excess over P5,000,000

For perspective, note that PhP5,000,000 is approximately USD104,000.

The proposed law also includes a clause that authorizes the Secretary of Finance to adjust the taxable income levels once every five (5) years.

In addition to the adjustment of income brackets, the proposed law seeks to remove the preferential tax rate (15%) on the compensation of alien individuals employed by RHQs, ROHQs, OBUs, and petroleum service contractors and subcontractors.

### 1.1.2 Value Added Tax

The VAT rate remains the same at 12%, but certain transactions that are currently either zero-rated or VAT exempt have been deleted. For instance, the supply of goods and service to enterprises located at economic zones and businesses engaged in international shipping and air transport, will no longer be VAT zero-rated.

Another interesting feature of the proposed law is that excess or unutilized input VAT credits at the end of the year may no longer be carried over to the succeeding year, but may be claimed as refund.

### 1.1.3 Excise Taxes

Under the proposed law, the excise taxes on various petroleum products and on automobiles would be increased.

The Government has also announced that it will seek to increase the excise taxes on alcohol and tobacco products.

## 1.2 Corporate Income Tax

To date, no bill has been filed in Congress relating to corporate taxation. However, the Department of Finance (DOF) has announced that it will seek the reduction of the corporate income tax rate to 25% (from 30%) and simplify certain corporate income tax provisions to improve compliance.

Another key feature of the tax reform program is the rationalization of fiscal incentives granted to certain businesses. Government wants to make the fiscal incentives transparent, targeted, performance-based and time-bound.

The DOF will also seek to replace the current special tax regime of economic zone locators, which is currently 5% of gross income (after direct costs), to 15% of net income.

## 1.3 Donor's and Estate Taxes

Government will also reduce the rates of donor's tax (currently, the top rate is 15%) and estate tax (currently, the top rate is 20%). In an interview, the Secretary of Finance stated that he would like to see the estate tax rate reduced to 6%.

Furthermore, government intends to reduce the stamp duty, local transfer tax and registration fees on land transactions.

## 1.4 Capital Income Tax

The government will also seek to reduce the tax on interest income from peso bank deposits from 20% to 10%. However, it intends to increase the tax on interest income from dollar deposits to 10% (from 7.5%), and the stock transaction tax on stock market trades from 1/2% to 1% of gross selling price.

## 2. Tax Amnesty

On 16 August 2016, a tax amnesty bill (Senate Bill 920) was filed in the Senate. The salient features of the bill are:

- Filing of an Amnesty Return, accompanied by a Statement of Assets, Liabilities and Networth as of December 31, 2015 (SALN)

- SALN shall include assets within and without the Philippines
- Property other than money shall be valued at cost
- Foreign currency assets / securities shall be valued at prevailing rate of exchange as of date of SALN
- The SALN shall include existing legitimate and enforceable liabilities
- The amnesty tax shall be 5% of networth, or whichever is higher of:
  - PhP50,000 (approx. US\$1,031), in case of individuals
  - PhP500,000 (approx. US\$10,310), in case of corporations with subscribed capital of PhP50M or more
  - PhP50,000, in case of other juridical entities
- Amnesty shall not apply if networth is found to be understated by 30% or more.
- The SALN shall be presumed to be correct, unless the networth is proven to be understated by 30% or more, in proceedings initiated by parties other than the BIR or its agents, within one year of filing of SALN.

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