

The Business Sector View

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PCCI and MAP supports the DOF Reform Package

Specifically, we agree with the following:

1. Restructuring PIT to improve progressivity
2. Adopting an across the board exemption base to level taxation of income from employment vis-à-vis self-employed
3. Widening the VAT base by removing exemptions, limiting it only to food, health and education
5. Indexing Excise Tax
6. Rebalancing inequity caused by removal of certain exemptions and higher taxes on consumption thru targeted transfers and subsidies
7. Twin measure to reform tax administration

Still needed to be addressed are:

1. Simplification of the tax system especially for MSMEs
2. Efficient tax refund mechanism
3. Removal of anti-business provisions that are unfair

The Clamor for Simplification

SIMPLIFIED vs. EQUITABLE TAXATION

Complications in the tax system is driven by a desire to have an equitable taxation, one that captures and taxes real income.

Simplicity is driven by practicality with the use of presumptive income approach.

How do ordinary businessmen describe our tax system?

**DIFFICULT, COMPLICATED AND
COSTLY TO COMPLY
+
TOO HIGH AND UNFAIR**

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Ease of Doing Business

Economy	Ease of Doing Business (Overall Ranking)	Starting a Business (East Asia and Pacific Ranking)	Paying Taxes (East Asia and Pacific Ranking)
Singapore	1	2	2
Malaysia	18	3	5
Thailand	49	11	10
Brunei Darussalam	84	9	3
Vietnam	90	14	25
Philippines	103	22	20
Indonesia	109	24	24
Cambodia	127	25	14

Rankings benchmarked to June 2015. <http://www.doingbusiness.org/rankings>

ASEAN Tax Compliance

Economy	Paying Taxes (Overall Ranking)	Payments (number per year)	Time (hours per year)	Total tax rate (% of profit)
Singapore	5	6	83.5	18.4
Brunei Darussalam	16	18	89	8.7
Malaysia	31	13	118	40
Thailand	70	22	264	27.5
Cambodia	95	40	173	21
Philippines	126	36	193	42.9
Indonesia	148	54	234	29.7
Vietnam	168	30	770	39.4

Rankings are benchmarked to June 2015. <http://www.doingbusiness.org/data/exploretopics/paying-taxes>

Basic characteristics of the Philippine tax environment:

1. Complicated tax laws, complicated further by complicated regulations
2. Unfair tax structure
3. Convoluted processes
4. Difficult compliance requirements
5. “one size fits all” policies and regulations
6. Unfriendly tax administration
7. Big chunk of tax administration work pushed to the private sector

Sources of Complication and Unfairness

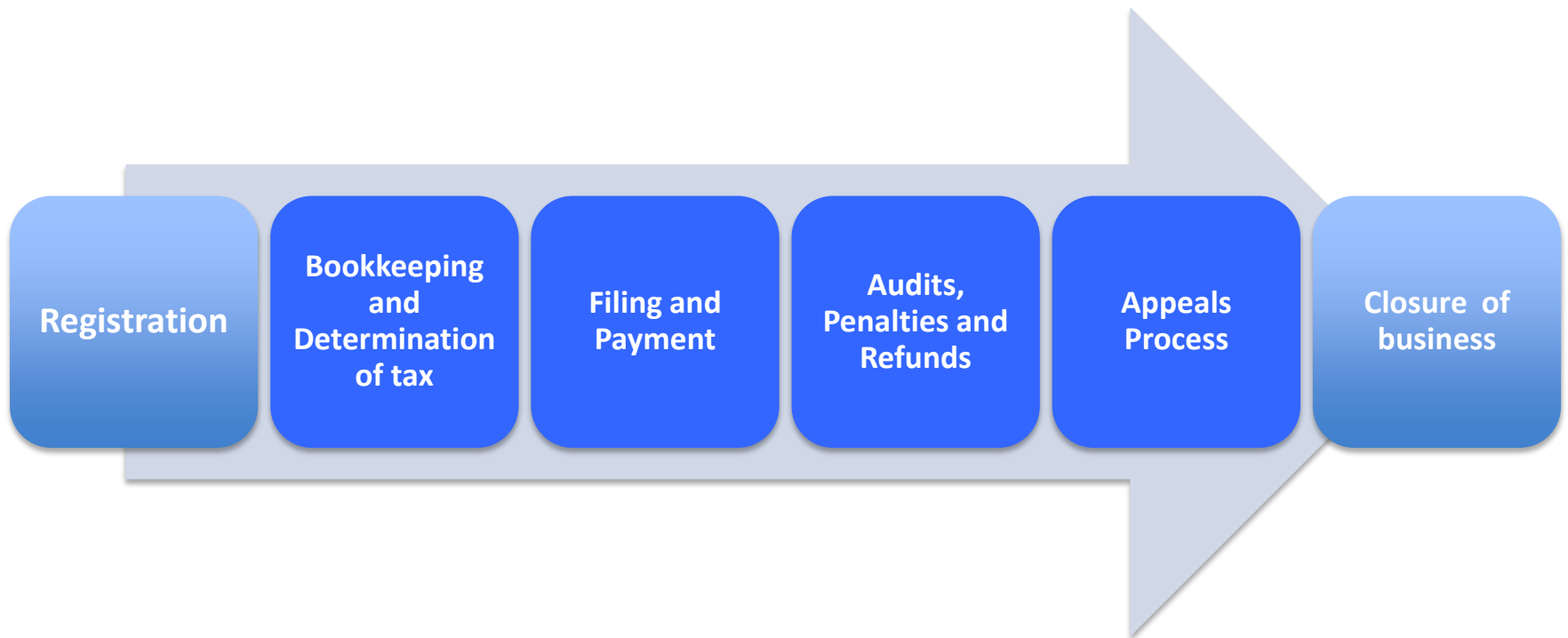
TAX STRUCTURE (POLICY)

+

TAX ADMINISTRATION

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Tax Compliance Cycle



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Determination of the Tax

TAXATION DIFFERENTIATED DEPENDING ON THE NATURE OF INCOME (Schedular Type)

Active vs. Passive Income
Ordinary income vs. Capital Gains
Business Income vs. Compensation

Example: For Financial products – tax depends on the transacting financial institution, term of instrument, currency transaction

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Determination of the Tax

TAX DEDUCTIONS SUSCEPTIBLE TO SUBJECTIVE INTERPRETATION

Source of Conflict

Difficult and unclear requirements

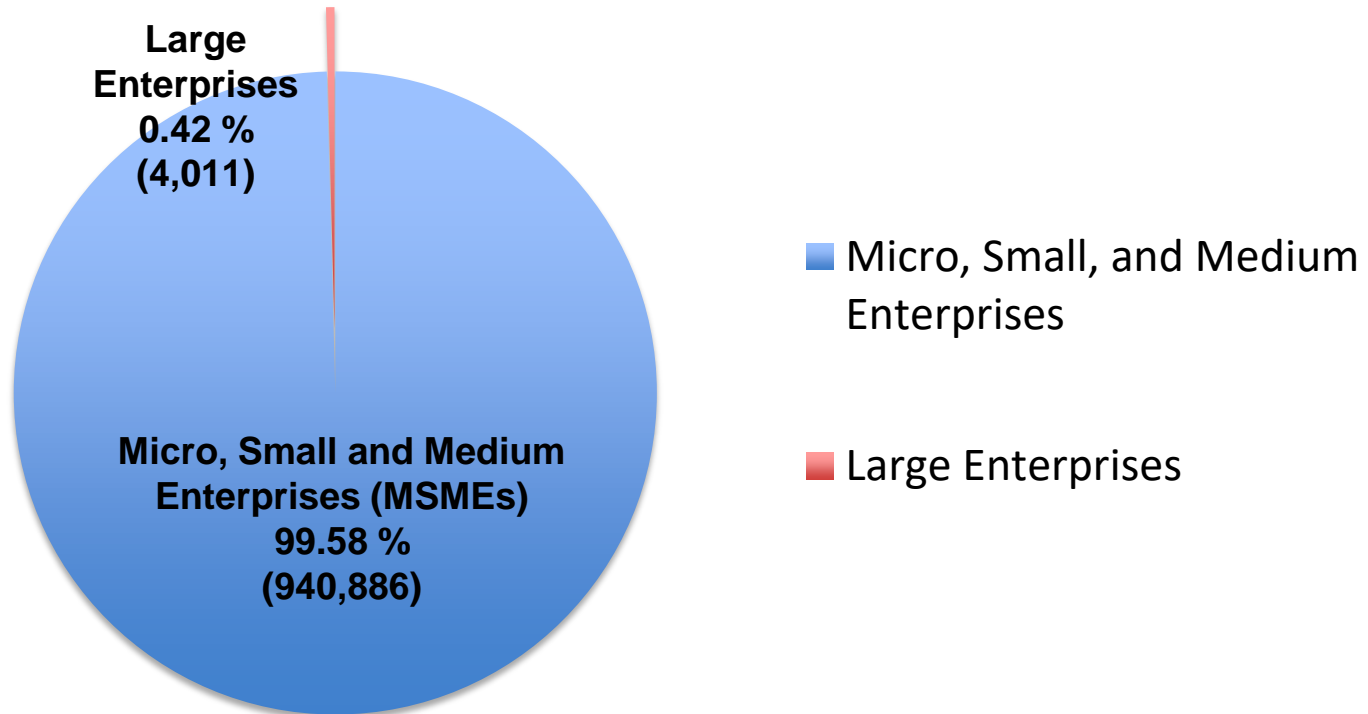
Subject to discretion

Recommended Structure for Simplification

TAXPAYER SEGMENTATION TO AVOID “ONE SIZE FITS ALL” RULES

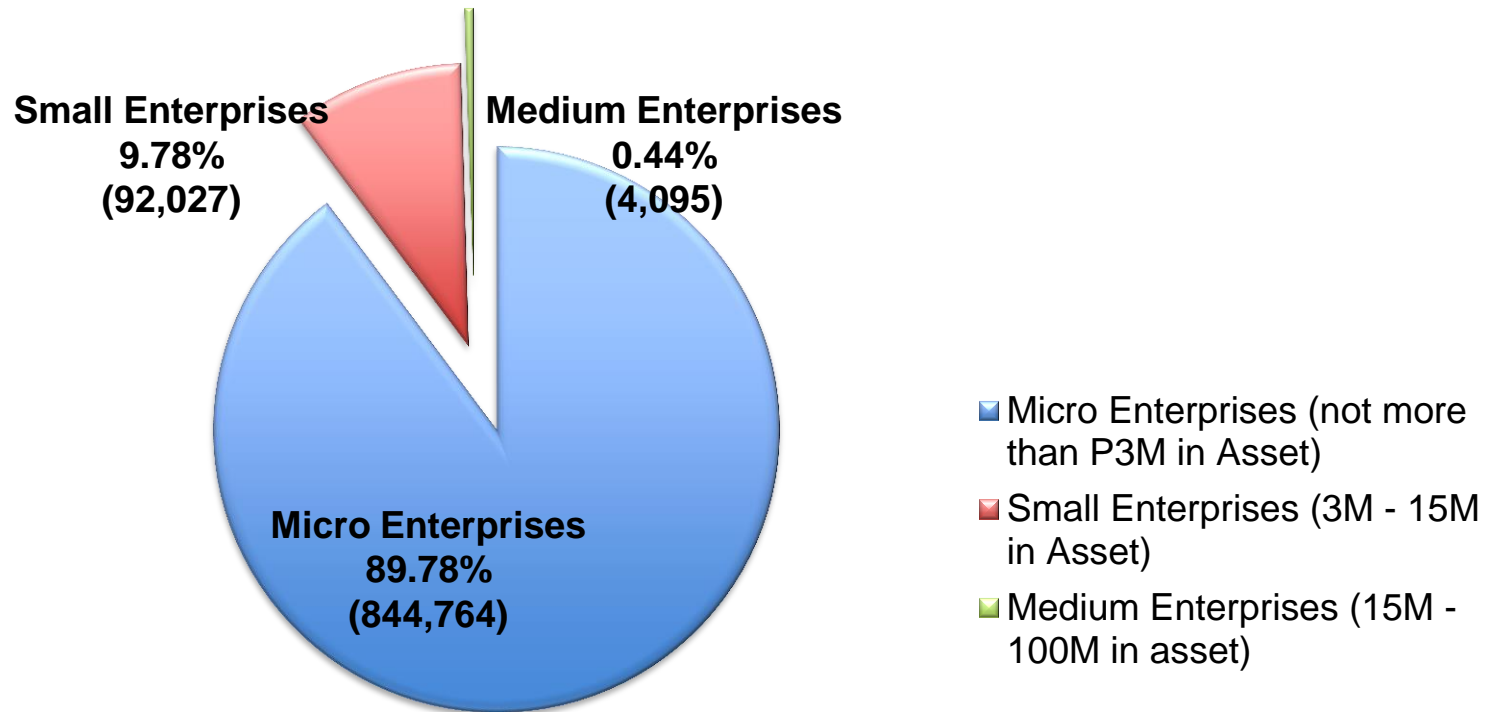
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Business Enterprises in the Philippines



As of 2012, DTI Report (www.dti.gov.ph), 944,897 total enterprises

Total Number of MSMEs



As of 2012, DTI Report (www.dti.gov.ph)

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TAXPAYER SEGMENTATION

THE TAX SYSTEM MUST BE CUSTOMIZED TO THE PROFILE AND BEHAVIOR OF ITS TAXPAYERS

Medium and Large taxpayers are ready for a more equitable income-based taxation

Small and Micro Enterprises who cannot keep up with the requirements of an income-based taxation may be more comfortable with a simplified 'presumptive' taxation

EXAMPLES of SEGMENTATION APPROACH:

1. Large Taxpayers Group in BIR is anchored on taxpayer segmentation based on size of tax payment and operation
2. The lower tax rates and preferential tax treatment of MSMEs in Vietnam, Malaysia and Thailand is segmentation based on size of business

PCCI advocates for:

**A SPECIAL SIMPLIFIED TAX REGIME
FOR MSMEs**

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Features:

Current	Recommended
Difficult/complicated determination of tax base	Simplified taxation for MSMEs, such as: <ol style="list-style-type: none">1. Presumptive income taxation such as a flat tax or gross income taxation2. A withholding final tax3. A withholding final VAT4. Increase threshold of vatable income

Filing and Payment

Current	Recommended
Frequency of filing - quarterly (income); Monthly (VAT) and withholding	<ol style="list-style-type: none">1. Reduce frequency of filing to Annual Returns (remove monthly and quarterly)2. Simplified Tax Forms3. Simplified Bookkeeping (Cash or modified cash basis)4. Simple/Minimal/if not NIL reportorial requirement5. CPA Certification not required or increase threshold for CPA Cert.

Filing and Payment

Current	Recommended
Reporting requirements	Remove redundant requirements Remove submission of information which the BIR do not use

TAX STRUCTURE FOR MICRO AND SMALL

	Recommended
Tax Rate	Consider a lower rate of tax (examples are: Vietnam, Malaysia, Thailand)

TAX STRUCTURE FOR MICRO AND SMALL

	Recommended
Administration	Special Department in BIR to handle and craft policies for micro and small (similar to large taxpayers department)

NO EFFECTIVE REFUND MECHANISM

Convolutted processes

Unfair rules

High penalty rates

No timelines for approval

High Cost to refund

Manner of Collection

**MOST REFUND CLAIMS ARE DUE TO
DEFECT IN THE TAX SYSTEM**

1. Excess Withholding Tax
2. Excess Input VAT payments

EXCESSIVE TAXES COLLECTED THRU THE WITHHOLDING TAX SYSTEM

Rates too high resulting to excessive payments
Varied rates confusing as to its applicability
Stiff penalties for failure to withhold not commensurate

PAY FIRST, REFUND LATER FOR ZERO-RATED SALES

Costly and convoluted process
Inefficient

DAYTIME ROBBERY

COLLECTING TAXES MORE THAN WHAT IS DUE IS UNFAIR TO BUSINESS

Deprives taxpayer of rightful use of its capital
Costly and inefficient
BIR inaction results to denial is most unfair

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Recommended Structure for Simplification

REASONABLE LIMITATIONS ON RATES OF
WITHHOLDING TAX

AUTOMATIC ZERO-RATING FOR INPUTS OF
ZERO-RATED TRANSACTIONS

ANTI-BUSINESS AND UNFAIR PROVISIONS TO BE REMOVED/IMPROVED

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Examples:

1. Too stiff penalties for simple failure to withhold
2. Imposition of donor's tax on legitimate business transactions
3. Imposition of deficiency and delinquency interests to as high as 40% per annum
4. VAT imposed on transactions not involving transfer of equity ownership such as tax free exchanges

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