

## Unity Statement on Income Tax Reform

The undersigned broad-based coalition of employees, employers, trade groups, chambers of commerce and professional organizations hereby voice our support for various income tax reform measures pending in Congress to restore fairness in the Philippine tax system and make it competitive with our ASEAN neighbors.

Specifically, we urge legislators from the Lower House and the Senate to immediately pass the following measures:

- Adjust and re-structure the income tax brackets for individuals;
- Index the income tax brackets on the basis of Consumer Price Index (CPI) every three (3) years; and
- Reduce the personal and corporate income tax rates

The inherent inequity in the tax system is brought about by the fact that the top bracket of P500,000 has remained unchanged since 1986. Meanwhile, inflation has pushed up consumer prices by more than 300% resulting to the so-called “bracket creep”. Inflation has pushed up nominal wages and salaries into higher tax brackets causing increases in income taxes but no increase in purchasing power. Effectively, the government has been unjustly relying on inflation to collect more taxes from salaried workers, who bear the bulk of the tax burden among individual taxpayers, rather than through efficient tax administration.

In place of manually adjusting tax brackets (which the government has not done in nearly 20 years), “bracket creep” can easily be countered by a system of index-linked tax brackets. Therefore, automatic indexing every three (3) years of tax brackets on the basis of CPI will ensure that taxes will increase only as the real income of salaried individuals increase.

Meanwhile, the Philippines effectively imposes the highest personal income tax rate on the same taxable income of P500,000 (or its equivalent)<sup>1</sup> and the highest corporate income tax rate among the ASEAN-6 countries.

COMPARATIVE EFFECTIVE TAX RATES FOR 2015		
PERSONAL INCOME TAX		
ASEAN Country	Taxable Income (Php or its equivalent)	Applicable Effective Tax Rate
<b>Philippines</b>	<b>P500,000</b>	<b>25%</b>
Vietnam	P500,000	20%
Indonesia	P500,000	15%
Thailand	P500,000	10%
Malaysia	P500,000	4.3%
Singapore	P500,000	0%

<sup>1</sup> The applicable top marginal rate on the top taxable base for the following ASEAN-6 countries are: (i) Philippines: 32% on taxable income of P500,000 or more; (ii) Vietnam: 35% on over equivalent of P2 million; (iii) Indonesia: 30% on over equivalent of P1.6 million; (iv) Thailand: 35% on over equivalent of P5.2 million; (v) Singapore: 20% on over equivalent of P10.6 million; and (vi) Malaysia: 25% on over equivalent of P4.3 million.

<b>COMPARATIVE CORPORATE INCOME TAX RATES FOR 2015</b>	
<b>ASEAN Country</b>	<b>Corporate Tax Rate</b>
<b>Philippines</b>	<b>30%</b>
Indonesia	25%
Malaysia	25%
Vietnam	22%
Thailand	20%
Singapore	17%

Reducing the personal and corporate income tax rates will make the Philippine workforce and corporations doing business in the Philippines competitive with their ASEAN neighbors.

Contrary to the view that reducing personal and corporate income tax rates will increase the budgetary deficit due to a reduction of tax revenues, studies have shown that a reduction in tax rates, together with the simplification of the tax system, will help spur tax compliance and, thus, broaden the tax base and improve tax effort. A reduction in the rates will also increase disposable income for domestic purchases of goods and services that will, in turn, increase the government's tax take of consumption taxes.

While Congress considers other revenue raising measures and contemplates lifting the secrecy of bank deposits to combat tax evasion, these proposals should not be pre-conditions to immediately enacting pending measures in Congress that will correct the inherent inequity in the personal income tax system. In reducing tax rates, however, the Government may simultaneously consider compensating revenue measures that would not adversely impact the poor and marginalized sectors of society, such as imposing additional excise tax on gasoline as fuel prices are expected to stay very low for at least several years.

With this, we appeal to President Benigno S. Aquino III to reconsider his position and heed the voice of various sectors clamoring for income tax reform. Restoring fairness in the tax system and making it competitive with ASEAN neighbors will help ensure inclusive economic growth for our country and our people.