



# TAX MANAGEMENT ASSOCIATION OF THE PHILIPPINES, INC.



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September 8, 2014

**Honorable Senator Juan Edgardo “Sonny” M. Angara**  
**Chairman, Committee on Ways and Means**  
Senate of the Philippines  
GSIS Bldg., Financial Center, Roxas Boulevard  
Pasay City, Metro Manila

**Honorable Congressman Romero Federico S. Quimbo**  
**Chairman, Committee on Ways and Means**  
House of Representatives  
Batasan Complex, Quezon City, Metro Manila

Gentlemen:

In view of the recent public hearings conducted by the Ways and Means Committees of the House of Representatives and the Senate on various tax bills proposing changes to the Personal Income Taxation (PIT) system, the **Tax Management Association of the Philippines (TMAP)** respectfully submits this position paper which seeks to provide a priority framework that will help ensure the passage of much-needed tax reform laws.

Given the various proposals pending in both Houses of Congress, TMAP recommends the following measures **by order of priority** that will enable Congress to enact tax laws which will benefit most Filipino taxpayers:

### 1) **RECTIFY the Tax Base**

It has been recognized in the course of public hearings that there is an immediate need to update the tax base under the PIT system due to inflation. The Filipino people have been paying higher taxes on income, the value of which has significantly changed due to inflation compared to its value and purchasing power when these income tax brackets were first introduced. The same is true for tax-exemption thresholds. These outdated tax base and tax-exemption thresholds undoubtedly decrease the net home pay of Filipino taxpayers, most significantly those of low-income taxpayers, thereby depriving them of decent living standards.

The correction of personal income tax brackets is long overdue and TMAP believes that something needs to be done immediately. Notably, unlike other tax proposals, this correction or updating of the tax base and/or tax brackets will not require any further review or change in the current PIT system.

As such, TMAP supports the following tax proposals:

***(a) Increase the tax-exempt 13th month pay, bonuses and other benefits from P30,000 to P70,000***

The P30,000 threshold has remained unchanged since 1994, or for the past 20 years. Under Section 32(B)(7)(e) of the National Internal Revenue Code (NIRC), as amended, the ceiling of P30,000 may be increased by the Department of Finance (DOF), upon recommendation of the Commissioner of Internal Revenue (CIR), after considering the effect on the same of the inflation rate.

Based on the above provision of law, TMAP believes that an immediate increase in tax-exemption threshold from P30,000 to P70,000 only requires a recommendation from the Bureau of Internal Revenue (BIR), similar to the increase in the Value Added Tax-exemption threshold in 2012 based on changes in the Consumer Price Index (CPI).

The above notwithstanding, TMAP welcomes the passage of a law by Congress to update the tax-exempt value of such benefits starting this 2014 taxable year, or in taxable year 2015, at the latest.

***(b) Immediately enact a law to update income tax brackets and provide for automatic indexation mechanism***

The top tax bracket of P500,000 has remained unchanged since the 1977 NIRC. At the very least, it needs to be adjusted to consider the jump in CPI from the 1997 to the present.

With this, TMAP calls on our legislators in both Houses of Congress to immediately pass a law to update the income tax brackets, with an automatic *proviso* that will enable indexation against changes in the CPI every three (3) years.

This piece of legislation should be prioritized with urgency and be made to take effect by taxable year 2015. Otherwise, the Filipino people will continue to pay higher amount of taxes on their income, which would otherwise have been spent for their families and loved ones, as well as augment their livelihood, among other things. Failure to enact this new law at this time will make Filipino taxpayers suffer for another 2 to 3 years until a new Administration comes in.

**2) REDUCE the Tax Rates**

The Philippines has effectively the highest personal income taxes imposed in the ASEAN region. TMAP previously reported on this in its letter submitted to your Committees last August 12, 2014.



### ASEAN Top Tax Base and Tax Rates

ASEAN COUNTRY	TOP TAX BASE in excess of (in PHP equivalent)	TOP TAX RATE
<b>Philippines</b>	<b>500,000</b>	<b>32%</b>
<b>Myanmar</b>	<b>1,350,000</b>	<b>30%</b>
<b>Malaysia</b>	<b>1,380,000</b>	<b>26%</b>
<b>Cambodia</b>	<b>1,600,000</b>	<b>20%</b>
<b>Indonesia</b>	<b>1,870,000</b>	<b>30%</b>
<b>Vietnam</b>	<b>1,980,000</b>	<b>35%</b>
<b>Laos</b>	<b>2,600,000</b>	<b>24%</b>
<b>Thailand</b>	<b>5,500,000</b>	<b>35%</b>
<b>Singapore</b>	<b>11,200,000</b>	<b>20%</b>
<b>Brunei</b>	-	-

Aside from this, there is also inequity in the Philippine income tax system with corporations being taxed at a rate of 30%, while individuals are taxed at the maximum rate of 32%.

As such, TMAP supports legislative proposals which seek to lower the 32% top individual tax rate, including the underlying marginal tax rates. In connection therewith, TMAP recommends the lowering of the top individual tax rate from 32% to a rate between 20% to 30%. This will promote equity in the tax system and make the Philippine workforce competitive with its ASEAN neighbors. It will also help bridge the gap in the taxation of Overseas Filipino Workers (OFWs) who are tax exempt, *vis a vis* those who choose to stay and work in the country.

Similar with the adjustment of income tax brackets, TMAP calls for the immediate passage of this new law that will take effect by taxable year 2015.

### 3) REFORM the Tax Code

TMAP advocates a simplified and more equitable tax system that will help broaden the tax base, improve compliance and, consequently, increase tax collections.

In particular, the PIT system of the following sectors needs to be reviewed and simplified in order to facilitate greater equity and ease the burden of compliance:

- 1) Self-employed individuals and professionals; and
- 2) Marginal income earners.

In general, TMAP welcomes a comprehensive review of the NIRC, as amended, to clarify certain provisions therein which have given rise to taxpayer issues due to radical changes in interpretation.

We trust that our recommendations above – that is, to RECTIFY the Tax Base, REDUCE the Tax Rates, and REFORM the Tax System, or the 3Rs, will merit your utmost consideration.

TMAP also commits to submit supplemental position papers at a later date after it conducts a more detailed review of the PIT system, and the Philippine tax system, as a whole, with the objective of promoting a simplified and more equitable tax regime.

Thank you for giving us this opportunity to share our position regarding these important tax proposals. May we all work towards ensuring greater fairness in our income tax system.

Very truly yours,

(original signed)  
**Rina-Lorena R. Manuel**  
**President**

