SECRETARY

THIRTEENTH CONGRESS OF THE REPUBLIC)
OF THE PHILIPPINES)
Third Regular Session)

P5 :03

SENATE
P. S. R. No. 52!

Introduced by Senator Miriam Defensor Santiago

RESOLUTION
DIRECTING AN INQUIRY, IN AID OF LEGISLATION,
ON THE ALLEGED REDUNDANCY OF THE GRANT OF FISCAL INCENTIVES
BY THE GOVERNMENT TO CERTAIN ENTERPRISES

WHEREAS, the Constitution, Article 2, Section 20 states that "The State recognizes the indispensable role of the private sector, encourages private enterprise, and provides incentives to needed investments";

WHEREAS, according to the 17 April 2006 issue of the *Philippine Daily Inquirer*, a total of ₱175 billion annually in potential tax revenues is given up by the government through the grant of fiscal incentives to stimulate more investments in the country;

WHEREAS, fiscal incentives are said to have the same effect as giving the recipients outright cash; this results to lost revenues that could have financed government services and infrastructure;

WHEREAS, the biggest beneficiary of fiscal incentives are firms in export-processing zones which receive an estimated amount of ₱152 billion worth of tax and duty exemptions and ₱5 billion worth of income tax holidays;

WHEREAS, government corporations such as the National Food Authority and the Light Rail Transit Authority also receive tax subsidies amounting to ₱9.7 billion and ₱639 million, respectively; tax incentives are also granted to the National Broadcasting Network, the Philippine Amusement and Gaming Corporation, the National Museum, and the National Dairy Authority;

WHEREAS, Dr. Renato Reside of the UP School of Economics and the Ateneo Economic Policy Reform and Advocacy project conducted a study to determine the redundancy rate of fiscal incentives granted by the government;

WHEREAS, an incentive is considered redundant when there will be investments even without the incentive; fiscal incentives granted to projects with high financial returns are considered redundant since they are attractive enough even without the incentives;

WHEREAS, if a firm decides to invest in the country primarily because of the incentive, the cost to government is zero; that is, without the incentive, there would have been nothing to tax anyway;

WHEREAS, according to Dr. Reside, the screening and approval procedure of the investment promotion agencies, particularly the Board of Investments (BOI), reinforces the redundancy of fiscal incentives by screening projects based on financial viability;

because projects that are already financially viable are granted incentives, the implied redundancy rate becomes very high;

WHEREAS, Dr. Reside also used the industrial organization theory in his study; the theory states that investment motivations may be classified into three categories, namely: market-seeking (targeting a large domestic market); resource-seeking (accessing an input available in the host country); and efficiency-seeking (gaining cost advantage due to lower input costs, higher productivity, superior facilities; and policies in the host country);

WHEREAS, incentives for efficiency-seeking investors are necessary, while those granted to market-seeking and resource-seeking investors are considered redundant;

WHEREAS, an examination of all grantees of BOI incentives reveals that only 16.8 percent are efficiency-seeking; therefore, the redundancy rate for BOI incentives is at least 83.2 percent;

WHEREAS, it is the duty of the government to ensure that fiscal incentives yield additional economic benefits for the country; now be it

RESOLVED, that the proper Senate committee shall conduct an inquiry, in aid of legislation, on the alleged redundancy of the grant of fiscal incentives by the government to certain enterprises.

Adopted,

MIRIAM DEFENSOR SANTIAGO

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