

Sen. Pia S. Cayetano  
Chairperson, Senate Committee on Ways and Means  
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## The Committee Secretary Speaks

### Tax Laws Enacted in the 18th Congress

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As the curtain falls for the eighteenth (18<sup>th</sup>) Congress, let's take a look at the legislative milestones of the Committee on Ways and Means, headed by our Chairperson, Senator Pia S. Cayetano.

On July 23, 2019 when I was still on my maternity leave, the news broke out that my former boss, Senator Pia, would Chair the Committee on Ways and Means. At that time, I knew we are in for a productive Congress as the Senator can be likened to a student who works diligently and patiently on her assignments. True enough, in a span of three (3) years from July 2019 to June 2022, the Committee

conducted sixteen (16) public hearings, two (2) technical working group (TWG) meetings, six (6) technical briefings, and two (2) bicameral conference committee meetings with virtual meetings conducted during the Covid-19 pandemic.

All these hearings and meetings resulted to the enactment of a multitude of tax laws, most of which are deemed complicated, controversial and very difficult to pass. Fortunately, all the stars aligned, so to speak. Coupled with hard work and cooperation, these measures that seemed difficult to enact were all laws now.

The first tax measure enacted into law in the 18<sup>th</sup> Congress was R.A. No. 11467 which was signed by President Rodrigo Roa Duterte on January 22, 2020. This is a cost-effective health measure envisioned to reduce smoking and alcohol consumption among Filipinos. The measure imposed higher excise tax on alcohol products, electronic cigarettes (e-cigarettes), and heated tobacco products (HTPs). This also introduced regulation of e-cigarettes and HTPs by the Food and Drug Administration (FDA), and exemption of sale or importation of prescription drugs and medicines for diabetes, high cholesterol, and hypertension from value-added tax (VAT) beginning January 1, 2020. The law also provided for the expansion of VAT exemptions on the sale and importation of prescription drugs for cancer, mental illness, tuberculosis, and kidney diseases beginning January 1, 2023.

One of the landmark legislations enacted in this Congress, which is also considered one of the centerpieces of the Duterte administration's tax reform program, is R.A. No. 11534 signed on March 26, 2021. This is the "Corporate Recovery and Tax Incentives for Enterprises" or the (CREATE) Act. This law is considered "the largest fiscal stimulus for businesses in our recent history." The law's main feature is the reduction of corporate income tax (CIT) rate which at 30-percent, is the highest in the Southeast Asian region. The CREATE law reduced the CIT rate of large enterprises from 30% to 25%, and from 30% to 20% for micro, small, and medium enterprises (MSMEs).

CREATE also provides for a generous and flexible tax incentive system that is performance-based, time-bound, targeted, and transparent. Efforts to rationalize the fiscal incentives in the country have been in existence for almost two (2) decades already. This tax reform proposal is present in the tax reform agenda of every administration since the Ramos administration but never reached enactment stage until the law's passage in 2021. It is indeed a major accomplishment by this Congress.

The pandemic made it difficult for our countrymen to avail of the tax amnesty, particularly the estate tax amnesty, as provided in R.A. No. 11213 or the "Tax Amnesty Act". Thus, our legislators worked on the passage of R.A. No. 11569, and it was signed by President Duterte on June 30, 2021. It extends by two (2) years the period of availment of the estate tax amnesty. Under the previous tax amnesty law, the estate tax amnesty can be availed of until June 14, 2021 only. With the passage of this law, heirs and estate administrators will have ample time to comply with the requirements and to take advantage of the amnesty.

Considered a "major win" for the country is the passage of R.A. No. 11590 or the tax on Philippine Offshore Gaming Operations (POGOs) on September 22, 2021. This law established the tax regime of POGO and their employees.

The law imposes a 5% gaming tax on the entire gross gaming revenue (GGR) or receipts or the

agreed predetermined minimum monthly revenue or receipts from gaming, whichever is higher, on all offshore gaming licensees, regardless of whether they are Philippine- or foreign-based. This gaming tax is in lieu of all other direct and indirect internal revenue taxes, and local taxes. Furthermore, it subjects alien individuals employed by offshore gaming and service providers to the 25% withholding tax rate considering they do not engage in trade or business within the country.

Another landmark legislation has provided clarity on the tax regime of proprietary educational institutions. This is R.A. No. 11635 which was enacted on December 10, 2021. Prior to its passage, confusion arose when the BIR issued RR 5-2021 on April 7, 2021 to implement the provisions of R.A. No. 11534 or the CREATE Law on the new income tax rates. The BIR issuance, in effect, excluded for-profit proprietary educational institutions from availing of lower tax rates, and effectively increasing their tax rates from ten percent (10%) to the regular corporate income tax rate of twenty-five percent (25%). Never in our history that private schools were treated as the same footing as that of regular corporations. Educational institutions – for profit or non-profit- were always accorded special tax rates given their very nature. To make it worse, this was issued during the midst of the pandemic – where a number of private schools closed or struggled to survive. Thus, the enactment of this law not only gave clarity but relief to our severely affected proprietary educational institutions.

As of this writing, another tax measure has been approved by both Houses of Congress and is scheduled for enrollment to the Office of the President. This is the bill providing income tax exemption on the election honoraria, allowances, and other financial benefits of persons rendering service during an election period starting this May 9, 2022 national and local elections.

Historically, there is no tax imposed on election honoraria and other benefits. It is only in 2018 when the BIR ruled that a 5% (professional fee) withholding tax shall be imposed. What is worse is that in this 2022 elections, the BIR imposed a 20% withholding tax on compensation since teachers are not practicing their profession in their election duties. Thus, this piece of legislation will serve as incentive, if not relief, to our overburdened teachers and other individuals who were tapped to serve our country in the recently concluded elections and to those who will serve in the future.

This 18<sup>th</sup> Congress is indeed a productive three years for the Committee on Ways and Means. Major tax legislations which seemed challenging and grueling to enact were now officially Republic Acts and serving their purpose to benefit the country and the Filipino people, in general.



## What Lies Ahead? Potential Tax Legislative Agenda in the 19th Congress

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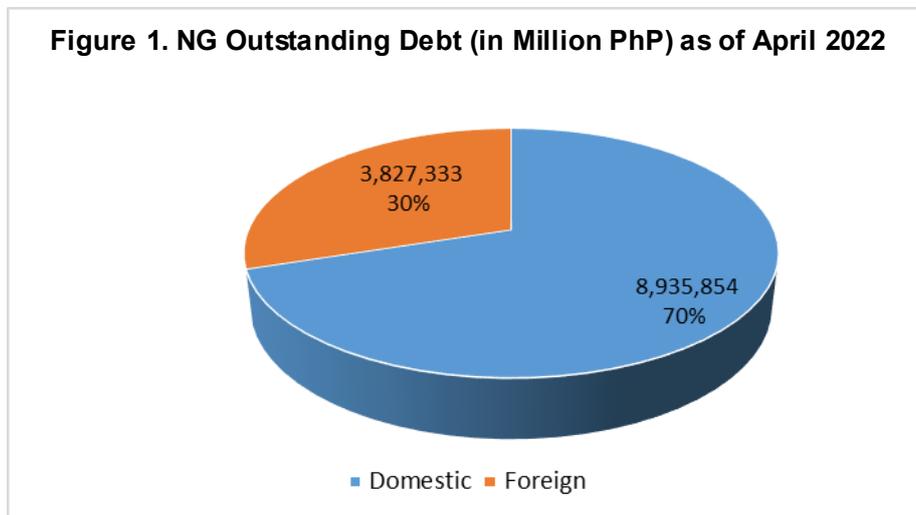
On July 25, 2022, the 19<sup>th</sup> Congress will be officially opened with the joint session of the Senate and the House of Representatives. In this Congress, substantive laws will be enacted to usher the country on the road to economic recovery despite its continuing battle with the Covid-19 pandemic.

### Situationer

Based on the Bureau of Treasury (BTr) data, the national government’s outstanding debt reached PhP12.76 trillion, as of April 2022. Of the total debt,

PhP8.94 trillion or 70 percent accounted for domestic borrowings while the remaining PhP3.83 or 30 percent came from foreign loans (Figure 1). As of March 2022, debt-to-GDP ratio<sup>1</sup> was recorded at 63.5 percent, the highest since 2005.

**Figure 1. NG Outstanding Debt (in Million PhP) as of April 2022**

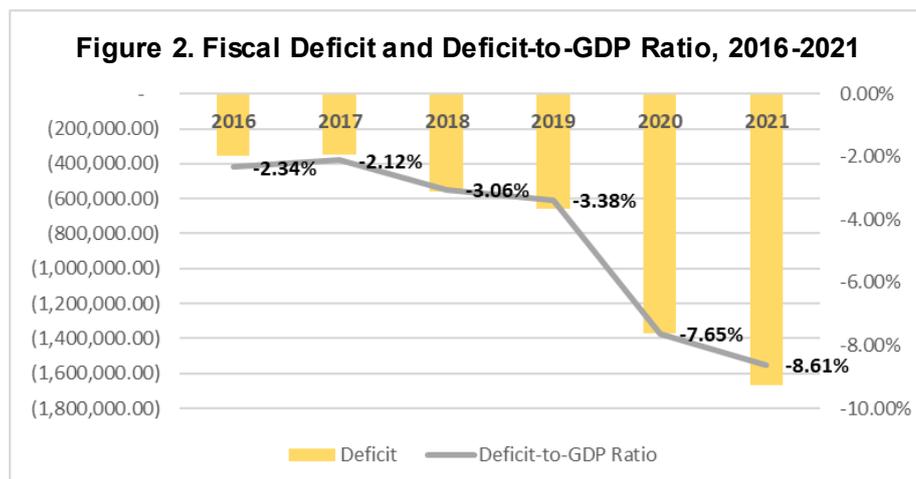


Source of basic data: National Government Debt, Bureau of Treasury (BTr)

Furthermore, fiscal deficit continued to grow from 2016 to 2021. The deficit-to-GDP ratio also followed the same trend (Figure 2). The burgeoning fiscal gap was attributed to huge spending by the national government to address the health and socio-

economic impacts of the COVID-19 virus which was primarily financed through borrowings. This was worsened by the sudden drop in government revenue following several lockdowns due to the pandemic.

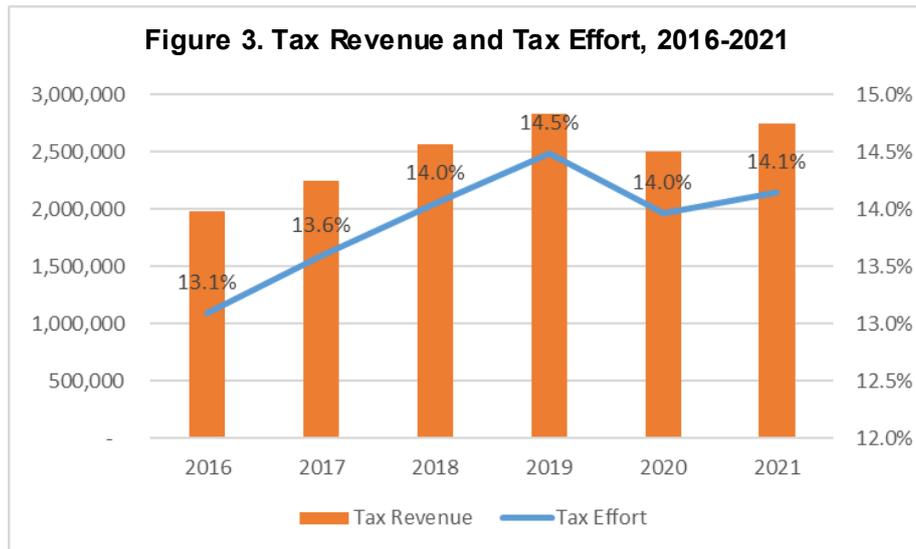
**Figure 2. Fiscal Deficit and Deficit-to-GDP Ratio, 2016-2021**



Source of basic data: Cash Operations Report, BTr

As mentioned, tax collection was affected by the advent of the pandemic. During its height in 2020, tax revenue was posted only at PhP2.5 trillion from PhP2.8 trillion in 2019. It bounced back slowly in 2021

with PhP2.7 trillion. In turn, tax effort was slightly recovering from a huge drop in 2020 at 14.0% to 14.1% in 2021 (Figure 3).



Source of basic data: Annual Cash Operations Report of BTr and Philippines Statistics Authority

With the current fiscal state of government coffers, revenue measures that will be pushed by the incoming administration are crucial. However, incoming Department of Finance (DOF) Secretary Benjamin Diokno expressed that the Marcos government will not focus on raising taxes but on improving efficiency in tax administration through digitalization. He also stressed on prioritizing VAT since this is easy to collect.<sup>2</sup>

Incoming Senate Committee on Ways and Means Chairperson, reelected Senator Win Gatchalian, is also singing the same tune. In his recent interview, he opined that the payment of the country's huge debt cannot be remedied by raising taxes or imposing new ones. Efficient collection and curbing corruption can help bolster tax revenue.<sup>3</sup>

### Pending Tax Bills

The following tax bills, which were left pending in the Committee on Ways and Means at the close of the 18<sup>th</sup> Congress, may merit consideration in the forthcoming Congress:

#### 1. Imposition of VAT on Digital Transactions

The proposed imposition of VAT on digital transactions will broaden the VAT base to include sale of digital goods and services. This, in effect, will amend the National Internal Revenue Code (NIRC) provision on the coverage of the 12% VAT. Following the equity principle of taxation, this proposal will level the playing field between the brick and mortar transactions and digital ones. The DOF estimated that this would generate PhP10.66 billion in tax revenue annually.

However, it is necessary to further evaluate the complexities of taxing digital transactions as these

may hinder its effective and efficient administration. For instance, the situs of the tax should be clear at the outset to avoid confusion and contention in the future. The proposed bill underwent one public hearing in the Senate.

#### 2. Real Property Valuation and Assessment Reform Act (RPVARA)

Real property tax (RPT) is considered the most stable and productive source of revenue for local government units (LGUs). However, LGUs cannot maximize their revenue potential since valuation and/or revision of property values lies in the power of the local chief executive. This dilemma will be solved by the proposed property valuation reform since valuation as a technical function will be given to a single valuation agency separate from LGUs. In this regard, LGUs will have updated values which will be used as tax base for RPT.

The proposed property valuation system in the country will also address problems on the existence of multiple valuations by various government agencies and the lack of a real property electronic database. This unified system of valuation is envisioned to make RPT the main source of revenue and to address Internal Revenue Allotment (IRA) dependency of LGUs. Aside from boosting LGU revenue source, the establishment of a single valuation base will also fast-track right-of-way issues of the government's infrastructure projects. However, property owners need to be assured that gradual increases in property values will be implemented to cushion the impact of the tax raise just like the case of Naga City in 2009.

The RPVARA bill underwent one public hearing in the Senate during the last Congress.

3. Passive Income and Financial Intermediary Taxation Act (PIFITA)

Harmonization of tax rates on passive income and financial intermediaries is the main objective of the proposed PIFITA bill. It would reduce the number of tax rates from 80 to 36. This would make the administration of the tax imposed on the financial sector simpler, fairer, more efficient, and more regionally competitive. It is expected that this proposal is revenue-neutral given that it would only simplify the tax structure.<sup>4</sup> It underwent two public hearings in the Senate.

4. Imposition of Excise Tax on Plastic Bags

With climate change and destructive floods every year, the government spent substantial amounts on prevention and mitigation annually. It was also estimated that the Philippines produces around 1.88 metric tons of plastic garbage every year and ranked third among countries with the highest source of plastic ocean pollution.<sup>5</sup> In this regard, it was proposed to impose excise tax on plastic bags. This will abate the use of single use plastic which will eventually reduce its production and consumption. In return, it will minimize clogging of floodways as well as ocean pollution.

The proposed bill sought to impose Php20 per kilo on single-use plastic bags from the place of production or released from the Bureau of Customs. Per DOF's estimates<sup>6</sup>, the proposed imposition will generate around Php923 million in 2023 and the proceeds will be utilized solely for the implementation of solid waste management plans of LGUs.

The bill underwent one public hearing in the Senate.

5. Rewards to Informers

The proposed bill sought to grant reward to informants, amounting to ten percent (10%) of the revenues, surcharges or fees recovered and/or fine or penalty imposed and collected or PhP10 million per case, whichever is lower. The proposed raise in the amount of the reward will incentivize reporting of fraud which will eventually lead to increased tax collection.

The bill went through one public hearing in the Senate.

**Conclusion**

Revenue-raising measures that will be enacted in the 19<sup>th</sup> Congress will define the country's fiscal state in the next six years. Hence, Congress would play a huge role in shaping the national government's fiscal stance. Meanwhile, the executive branch should complement this function by giving priority on productive spending and bring back the ideal fiscal space we had before.

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# STSTRO

## Soaring into the Challenges of the 19th Congress



As we celebrate STSRO's anniversary and the culmination of the 18th Congress, the officers and staff of STSRO had a rare chance to enjoy the gardens of the GSIS Building, which served as a background for STSRO's pictorial last 27 April 2022. The people of STSRO were in their new white shirts to symbolize purity and to signify their readiness to soar in the 19th Congress. The STSRO shirt bears the new STSRO logo, which suggests community among and cooperation between the four branches of STSRO, bound by the guidance of the Office of the Director General. The new logo evokes the warmth, enthusiasm, and excitement of STSRO in serving the Filipino people.

# Where We Are Is Who We Are

Thankful for the leadership and service of Senate's intellectual giants, officers and staff of STSRO visited Senate President Vicente C. Sotto III and Senators Ralph G. Recto, Franklin M. Drilon, Panfilo "Ping" M. Lacson, and Emmanuel "Manny" D. Pacquiao as a way to give honor to these noble men who shepherded vital reforms in the 17th and 18th Congresses. By living examples of professionalism, excellence, and hard work, the graduating Senators continue to motivate Senate employees to always perform at their best.



Senate President Vicente C. Sotto III  
 May 30 at 4:23 PM · 🌐

Salamat sa inyong pagbati, SENATE TAX STUDY AND RESEARCH OFFICE headed by DG RODELIO DASCIL 🙏

May 30, 2022

Honorable Senate President  
Vicente C. Sotto III

*Thank you for your leadership and service!*

A true leader has the confidence to stand alone, the courage to make tough decisions, and the compassion to listen to the needs of others. He does not set out to be a leader, but becomes one by the equality of his actions and the integrity of his intent.




# Working as a Well-Oiled Machine

Crucial to the mandate of STSRO is its role in assisting the Senate Committee on Ways and Means in the latter's conduct of inquiries or public hearings. The technical and administrative assistance of STSRO are essential in achieving efficient and effective scrutiny of bills and resolutions that are referred to the Committee on Ways and Means, in preparation for plenary deliberations and their consequent enactment as tax laws.





## Blessed to See Another Year

STSRO celebrated its 33rd Anniversary on 04 May 2022 with a Holy Mass celebrated by Fr. Godwin Tatlonghari inside the STSRO premises. In his homily, Fr. Godwin emphasized Jesus Christ's role in nourishing us totally – physically, emotionally, and spiritually. He likewise reminded us that anyone who accepts Jesus and the Way of the Father shall never be lost. A small salu-salo followed.



# Leadership and Learning

Officers and employees of STSRO attended a seminar-workshop entitled, “Gender Perspective Leadership and Gender Dynamics in the Office” on 15 to 16 June 2022 at Club Balai Isabel in Talisay, Batangas. The seminar-workshop was facilitated by the Senate Human Resources Management Service (HRMS), and was supported by the Office of the Senate Secretary, and the Senate Gender and Development Office. The people of STSRO likewise took this opportunity to rest and recharge, in preparation for the 19th Congress.

