NATIONAL TAX RESEARCH CENTER

BAGONG PILIPINAS

Mitigating Negative Social Impacts in the Philippines

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THE 2017 TAX REFORM

The 2017 Tax Reform: The TRAIN Law

On December 19, 2017, **Package 1 of the Comprehensive Tax Reform Program** (CTRP) also known as the **Tax Reform for Acceleration and Inclusion (TRAIN) or Republic Act (RA) No. 10963** was signed into law and took effect on January 1, 2018.

It aims to make the Philippine Tax System **simpler, fairer, and more efficient** to **promote investments, create jobs and reduce poverty.**

Reducing the Personal Income Tax (PIT)

Simplifying the Estate and Donor's Tax

Broadening the Value-Added Tax (VAT) Base

Restructuring the Excise Tax on Automobiles

Increasing the Excise Tax on Petroleum Products

Introducing the Excise Tax on Sweetened Beverages

Increasing the Excise Tax on Mineral Products

Restructuring the Personal Income Tax Schedule

Increased disposable income due to the tax cut will induce demand for some goods

- **Except for individuals in the first and second per capita income deciles**
- **Poverty Threshold in 2018 is at Php 10,755 for a family of five (per capita equivalent of Php 2,151)**
- **The restructured Income Tax Schedule did not benefit poor households**

2018 Average Income by Per Capita Income Decile in the Philippines

Per Capita Income Decile	Average Income (Annual)	Average Income (Monthly)
First Decile	113,453	9,454
Second Decile	144,294	12,025
Third Decile	168,064	14,005
Fourth Decile	196,992	16,416
Fifth Decile	225,249	18,771
Sixth Decile	262,583	21,882
Seventh Decile	309,045	25,754
Eighth Decile	370,468	30,872
Ninth Decile	475,909	39,659
Tenth Decile	867,461	72,288

Old

New

Increasing the Excise Tax on Petroleum Products

Petroleum Products	Old Tax Rates (Per liter/kg)	New Tax Rates (Per liter/kg)		
		2018	2019	2020
Lubricating oils and greases	4.50	8.00	9.00	10.00
Processed gas	0.05	8.00	9.00	10.00
Waxes and petrolatum	3.50	8.00	9.00	10.00
Denatured alcohol used for motive power	0.05	8.00	9.00	10.00
Naphtha and regular gasoline	4.35	7.00	9.00	10.00
Leaded gasoline	5.35	-	-	-
Unleaded gasoline	4.35	7.00	9.00	10.00
Aviation turbo jet fuel	3.67	4.00	4.00	4.00
Kerosene	-	3.00	4.00	5.00
Diesel fuel oil	-	2.50	4.50	6.00
Liquefied petroleum gas (LPG)	-	1.00	2.00	3.00
Asphalts	0.56	8.00	9.00	10.00
Bunker fuel oil	-	2.50	4.50	6.00
Petroleum coke	-	2.50	4.50	6.00

This excise tax helps Internalize the social cost associated with the consumption of petroleum products. However, price increase will not just affect the taxed commodity but also other goods and services depending on it.

Increasing the Excise Tax on Mineral Products

Reduce reliance on coal, promote sustainable energy and reduce carbon emission

However, aside from its positive environmental impacts, increasing the excise taxes on coal and coke translates to:

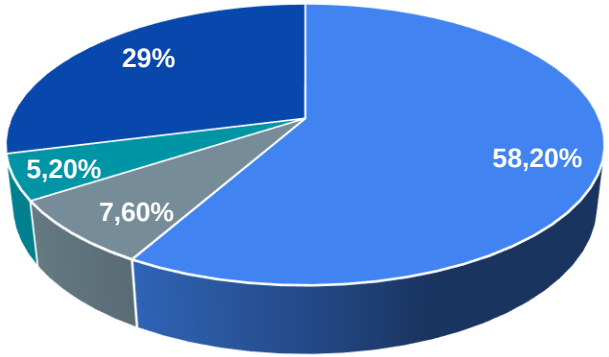
- **Higher prices for energy-intensive industries**
- **Higher prices of energy-intensive goods and services**

Mineral Product	Old Tax Rates (Per metric ton)	New Tax Rates (Per metric ton)		
		2018	2019	2020
Coal and coke	P10.00	P50.00	P100.00	P150.00
All metallic minerals and quarry resources	2%		4%	
Copper and other metallic minerals	2%		4%	
Gold and chromite	2%		4%	
Indigenous petroleum	3%		6%	

SOCIAL IMPACTS OF THE REFORM

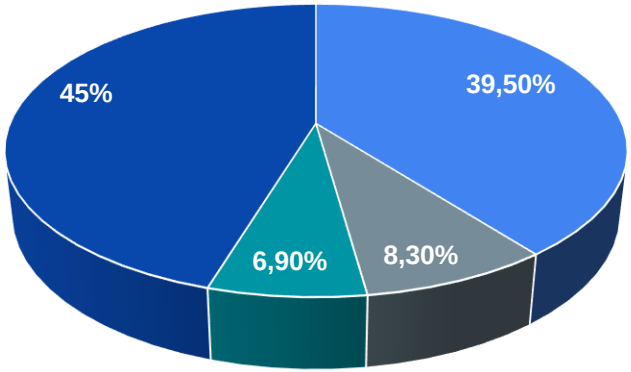
Expenditure Pattern in 2018

Bottom 30% Income Households

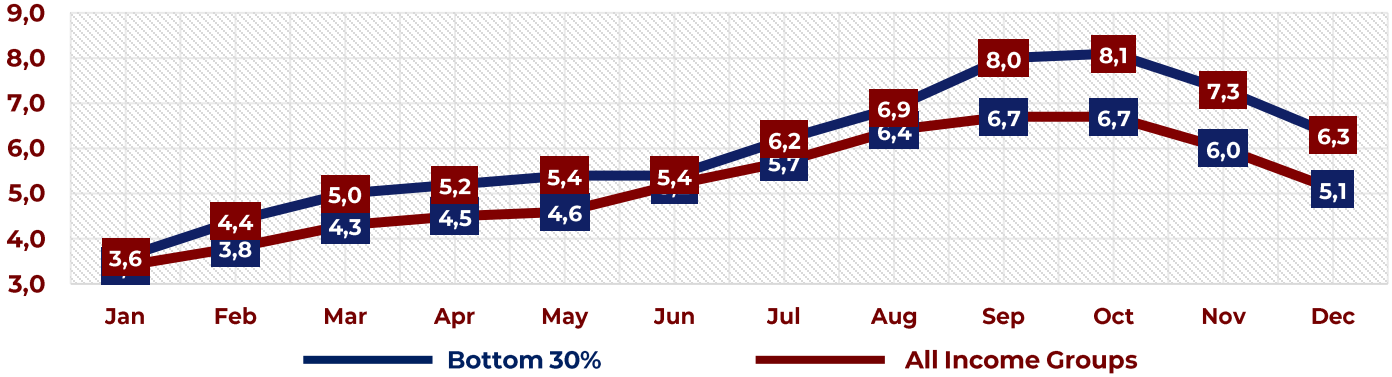


- Food
- Water, Electricity, Gas & other fuels
- Transport
- Others

Upper 70% Income Households



2018 Inflation Rates



Tax Reform: Social Impact

2018 Average Income by Per Capita Income Decile in the Philippines			Transfer needed to maintain Purchasing Power
Per Capita Income Decile	Average Income (Annual)	Average Income (Monthly)	
First Decile	113,453	9,454	603
Second Decile	144,294	12,025	768
Third Decile	168,064	14,005	894
Fourth Decile	196,992	16,416	900
Fifth Decile	225,249	18,771	1,030
Sixth Decile	262,583	21,882	1,200
Seventh Decile	309,045	25,754	1,413
Eighth Decile	370,468	30,872	1,693
Ninth Decile	475,909	39,659	2,175
Tenth Decile	867,461	72,288	3,965

The Unconditional Cash Transfer (UCT) Program

The **Unconditional Cash Transfer (UCT) Program** is the **biggest social mitigation program** under the Tax Reform for Acceleration and Inclusion (TRAIN) Law. It seeks to **provide cash grants to poor households** who **may not benefit from the tax cuts** provided by TRAIN but **may be affected by rising prices**.

- **Amount: Php 200 per month**
- **Beneficiaries: Pantawid Pamilyang Pilipino Program Households**
- **Beneficiaries: Social Pension Program for Indigent Senior Citizens**
- **Beneficiaries: Other Poor Households included in the 1st to 7th deciles based on the National Household Targeting System for Poverty Reduction (NHTS-PR)**

Social Welfare and Benefits Program

Qualified beneficiaries shall be provided with a **social benefits card** to avail of the following:

For minimum wage earners, unemployed, and the poorest fifty percent (50%) of the population.

- **Fare discount from all public utility vehicles (except trucks for hire and school transport service) in the amount equivalent to ten percent (10%) of the authorized fare**
- **Discounted purchase of National Food Authority (NFA) rice from accredited retail stores in the amount equivalent to ten percent (10%) of the net retail prices, up to a maximum of twenty (20) kilos per month**
- **Free skills training under a program implemented by the Technical Skills and Development Authority (TESDA)**
- **Other social benefits programs to be developed and implemented by the government**

Fuel Subsidy Program: Pantawid Pasada Program

The **Pantawid Pasada Program (PPP)** is one of the **social mitigating measures** under the Tax Reform for Acceleration and Inclusion (TRAIN) Law. It aims to **lessen the impact of higher fuel prices on Public Utility Jeepney (PUJ) franchise holders** brought about by the **additional excise taxes on fuel** and subsequently temper the increase in transport fares.

- **Amount: Php 5,000 per year in 2018**
- **Amount: Php 20,000 per year in 2019**
- **Beneficiaries: 180,000 Jeepney Operators and Drivers**
- **Cover Potential loss of income from providing fare discounts to the riding public**

Mitigating Negative Social Impact

Poverty Incidence by Scenarios				
Sector	Computed Baseline	Change from baseline		
		PCEX	TRAIN 1	TRAIN 1 + UCT
Households	16.48	+0.16	+1.72	+0.26

*PCEX = Petroleum and Coal Excise Tax; TRAIN = Tax Reform for Acceleration and Inclusion; UCT = Unconditional Cash Transfer
*Source: Philippine Institute for Development Studies

Full Year Poverty Thresholds, Incidences and Magnitude of Poor: 2015, 2018, and 2021			
Statistics	Estimate		
	2015	2018	2021
Monthly Poverty Threshold for a Family of Five (Php)	9,478	10,756	12,030
Poverty Incidence or Proportion of Poor Among Population (%)	23.5	16.7	18.1
Magnitude of Poor Among Population (in million)	23.68	17.67	19.99

*Source: Philippine Statistics Authority

Thank you.

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