Foundation for Economic Freedom

FEF Appeals to Senate to Preserve the Revenue Goals for TRAIN

We, the Foundation for Economic Freedom, an advocacy group for good economic governance and market-friendly reforms, support the passage of Package 1 of the Tax Reform for Acceleration and Inclusion (TRAIN). It will enable the government to finance our growing needs as a developing country such as accelerating infrastructure development and improving cash transfer programs for the poor and marginalized.

We commend the work that the Department of Finance and both Houses of Congress have put into this endeavor over the past several months. However, we believe that some provisions in the Senate version need to be reviewed further.

We understand that the revenue projection of the Senate version, which is still under deliberation, is less than the overall goal to raise around P134 billion to fund key programs in infrastructure, education, and health while improving social protection programs to mitigate the adverse effects of higher consumption taxes.

The Senate bill's lower fuel tax, at PhP 1.75 per liter versus the House-approved PhP 3.00 per liter, understandably looks more favorable to the poor. However, this would translate to a corresponding reduction of revenues, from PhP 73 billion (House) to PhP 40 billion (Senate). Therefore, the expected revenue from fuel tax under the Senate bill would likely be insufficient to fund proposed programs such as the targeted cash transfers and public utility vehicle (PUV) modernization. Adopting the PhP 3-2-1 yearly increase in the fuel excise tax starting 2018 will help ensure the revenues needed to fund these proposed earmarked programs are generated.

Of the 70 exemptions the DOF proposed to be removed, only 37 have so far been repealed in Senate bill. This will yield around PhP 10 billion versus the estimated PhP 61 billion if all 70 lines of exemptions are repealed. The existing VAT exemptions should be given another review to further clean up the list.

Revenue generated from tax reform is also urgent as the government faces new spending mandated by Congress such as free tuition in state universities and colleges, free irrigation, and increases in social pension benefits. Unfortunately, the incremental yield of the present Senate bill will barely cover the estimated cost of these public services and the requirements of the government's infrastructure program, Build, Build, Build.

As we move closer to the bicameral conference committee that will determine the final version of the package 1, we would encourage legislators to strive for a Package 1 that will give the country a fighting chance to fund and implement key programs while still staying within a manageable deficit level of not more than 3% of the GDP.

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The long term gains from the new taxes being proposed should outweigh the concern regarding political backlash. The TRAIN as proposed by the Duterte administration is a combination of pain (e.g., higher excise tax on oil, automobiles, and sweetened beverages) and gain (e.g., lower personal and corporate income taxes, better social protection, PUV modernization) that will benefit the poor and the middle class. In contrast, the expanded value added tax (or E-VAT) under former President Gloria Macapagal-Arroyo could be considered purely pain. The pain in this case is temporary and minimal compared to our prolonged suffering from poor infrastructure and inequitable tax rates.

We urge the Senate to consider these points mentioned in their version of the TRAIN to support the infrastructure and social programs of the Government.

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