



13 June 2017

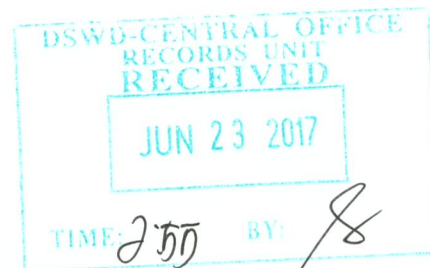
**HON. SONNY M. ANGARA**

Chairperson

Senate Committee on Ways and Means

Senate of the Philippines

Roxas Blvd., Pasay City



Attention: **ATTY. RODELIO T. DASCIL**  
Senate Tax Study and Research Office (STSRO)

Dear **Senator Angara**:

We respectfully submit our written position on Senate Bill No. 1408's (Comprehensive Tax Reform Package) earmarking provision and excise tax on petroleum products.

#### **On the Earmarking Provision**

DSWD participated in the Consultative Meeting on 18 May 2017 on the matter of earmarking of incremental revenues under the said Senate Bill. We have committed in the said meeting the submission of the payment system of Pantawid Pamilyang Pilipino Program. As such, may we share with you the Pantawid Pamilya Financial Management Sub-Manual, with the payment system covered from pages 13 to 31.

Related to this, may we provide with you the following comments particularly on Section 36 of SBN 1408:

1. Section 36 states that the National Household Targeting System for Poverty Reduction (NHTS-PR) will be used as the basis for the cash transfer program to mitigate, for one year, the impact of the excise tax adjustments. We wish to inform the Senate that the NHTS-PR assessed 15.2 million households or around 75 percent of the population. This leaves at least one-fourth of the population excluded. Unfortunately, those who were excluded potentially belong to the poorest of the poor - - the indigenous peoples located in far-flung communities who were not reached during the enumeration conducted for NHTS and itinerant urban and rural poor, among others.
2. We mentioned in our mother position paper that the Department of Finance (DOF) proposal assumed normal circumstances and failed to account disaster and other occurrence that have changed the situation of individuals, communities, provinces, and regions. The NHTS-PR, being a survey, took a snapshot of the lives of 15.1 million Filipino households within a specific period that is, a few weeks in 2015. It does not capture events that have happened post survey period.

The Marawi siege has displaced, to date, 300,000 individuals and has put socio-economic pressure to its nearby provinces. Typhoons Nina, Lawin, the monsoon, and other natural disasters have affected tens of thousands of families in 2016. These events and other circumstances are not included in the assumptions given by the DOF.

3. Out of the 10 million households being proposed for the Highly Targeted Cash Transfer Program, only around 4.4 million households are covered by the existing cash transfer platform of the DSWD under the Pantawid Pamilyang Pilipino Program. It must also be noted that Pantawid does not cover all poor families as it has a set of conditionalities and eligibilities.
  - a. Of the 4.4 million Pantawid Pamilyang Pilipino Program households, only 40 percent or **1,802,280** million HHs are covered by cash cards, while the **2,680,822** are cash payouts over-the-counter. Land Bank of the Philippines (LBP) does not cover Geographically Isolated and Disadvantaged Areas (GIDA). LBP contracts out conduits, such as rural banks, cooperatives, money couriers, for this purpose.
  - b. In our experience, there is difficulty getting eligible Cash Payment Service Providers/conduits who are willing to serve the Autonomous Region for Muslim Mindanao, particularly Lanao del Sur and Maguindanao. This is a continuing challenge for us in the implementation of Pantawid Program.
4. In our estimation and for reasons above-mentioned, the one-year cash transfer cannot cushion the undue burden being passed to the poorest of the poor who will bear the brunt of the excise tax adjustment.

### **On the Excise Tax on Petroleum Products**

DSWD also participated in the May 31, 2017 public hearing on the excise tax on petroleum products (Section 26 of SBN 1408). In this regard, we officially submit our specific comments on this matter.

1. The poor is at the losing end of the comprehensive tax reform package. DOF's own presentation shows this effect.<sup>1</sup> Note deciles one to four, in table below, with negative take home pay after tax reform package. Sans the cash transfer, deciles one to four who represent the poorest of the poor will have negative take home pay. It does not help, in their case, that income taxation is updated, because as minimum wage earners or below minimum wage earners, they are already exempt from paying income taxes.

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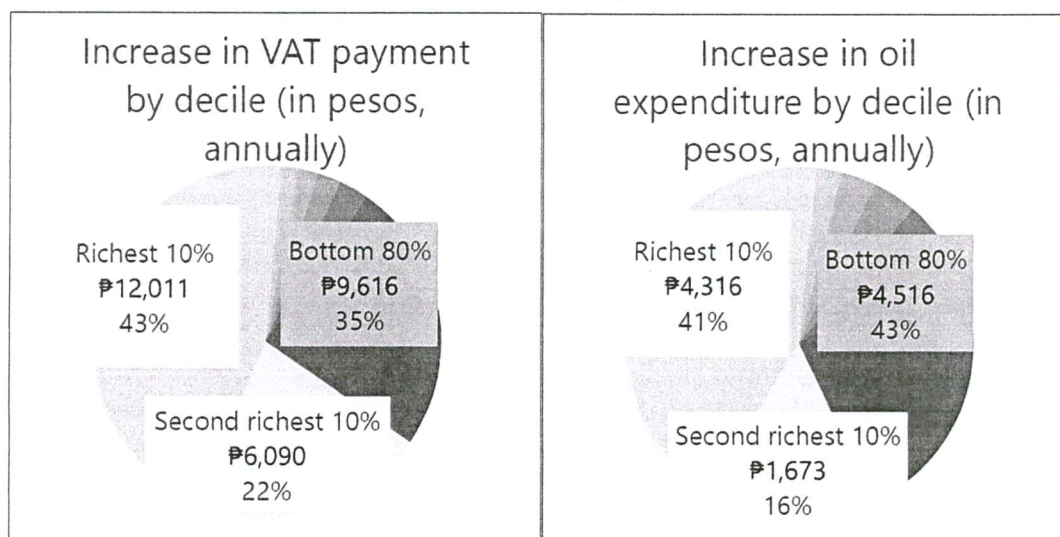
<sup>1</sup> <http://www.dof.gov.ph/taxreform/index.php/impact-on-the-people/>



Combined effect			Package 1 change in annual take home pay (in pesos)							Transfer (full year)	Change in take home pay after transfer
Decile/ percentile	Description (assumes a family of 5 members)	2018 projected monthly household total income*	Personal income tax	Value-added tax	Petrol and transportation	Automobile**	Net tax due	Inflationary effect***	Change in take home pay		
D1	Subsistence poor	5,214	2	-374	-59		-432	-304	-736	3,600	2,864
D2	Subsistence poor	8,315	82	-439	-82		-439	-459	-899	3,600	2,701
D3	Poor	10,691	393	-502	-104		-214	-557	-771	3,600	2,829
D4	Near poor	13,015	1,034	-603	-131		300	-640	-340	3,600	3,260
D5	Near poor	15,746	2,242	-767	-176		1,299	-744	555	3,600	4,155
D6	Informal worker	19,269	4,003	-1,024	-220		2,759	-844	1,916	1,500	3,416
D7	Minimum wage worker	24,355	7,443	-1,988	-283		5,171	-985	4,186	1,500	5,686
D8	Above minimum wage	32,295	13,465	-3,916	-364		9,185	-1,173	8,012	1,500	9,512
D9	Professional	47,131	24,975	-6,075	-496	-2,283	16,121	-1,450	14,671		14,671
D10	Middle class	111,380	59,139	-12,029	-1,042	-8,745	37,323	-2,528	34,794		34,794
P100	Executive	280,309	120,070	-23,536	-1,919	-37,990	56,624	-3,588	53,037		53,037
T1000	CEO	598,132	167,350	-30,535	-2,057	-78,920	55,838	-4,491	51,347		51,347
	Top taxpayer A	1,376,147	-325,459	-70,254	-4,733	-108,595	-509,041	-8,241	-517,281		-517,281
	Top taxpayer B	2,752,294	-862,156	-140,508	-9,465	-108,595	-1,120,725	-12,361	-1,133,086		-1,133,086

Source: DOF staff estimates using the preliminary Family Income and Expenditure Survey - Labor Force Survey 2015

## 2. DOF pits the poor vs the rich in justifying gasoline excise tax and VAT.<sup>2</sup>



Note: D1 refers to the first decile or the poorest 10% of households based on the preliminary 2015 Family Income and Expenditure Survey (FIES). Each succeeding decile consists of the next 10% of households based on total household income. Amounts above are averages for each decile.

- However, it fails to mention that the poor, accounts for at least one-fourth of our population – 5.2 million out of 20 million households, according to Listahanan 2015. If we will include the near-poor, the number would jump to 7.9 million households.
- Moreover, PSA data, in table below, shows that the poor are already in debt or have very little savings after expenditures.<sup>3</sup>

<sup>2</sup> <http://www.dof.gov.ph/taxreform/index.php/impact-on-the-people/>

<sup>3</sup> <https://psa.gov.ph/sites/default/files/attachments/ird/pressrelease/tab2.pdf>

Table 2a Average Income, Average Expenditure and Average Savings of Families, at Current Prices, by Per Capita Income Decile, Philippines : 2012 and 2015

Per Capita Income Decile	2015 (In thousand pesos)			2012 (In thousand pesos)		
	Income	Expenditure	Savings	Income	Expenditure	Savings
Philippines	267	215	52	235	193	42
First Decile	86	89	(3)	69	73	(4)
Second Decile	114	110	4	92	91	1
Third Decile	133	122	11	108	102	6
Fourth Decile	156	140	16	130	121	9
Fifth Decile	182	161	22	153	139	15
Sixth Decile	218	189	29	182	161	22
Seventh Decile	259	217	42	229	196	32
Eighth Decile	320	260	60	286	237	49
Ninth Decile	415	326	89	381	302	79
Tenth Decile	786	534	252	715	503	213
Ratio of Tenth Decile to First Decile	9.1	6.0		10.4	6.9	

Note:

Details may not add up to total due to rounding.

Source: Philippine Statistics Authority, 2012 and 2015 Family Income and Expenditure Survey

5. The Filipino poor, which is largely rural, will be doubly hit by the excise tax in gasoline. Farmers, which include fisherfolk, comprise 11.3 percent of our population (2015 Labor Force Survey). These sectors, where poverty is especially high, depend on gasoline as input to their production.
6. Hence, we implore the Senate's wisdom to protect and uplift the well-being of a quarter of our population. The gasoline excise tax is patently regressive.

### Focus on Tax Collection and Eradicating Corruption

We respectfully reiterate, thus, our recommendations below in lieu of additional taxes:

1. The Bureau of Internal Revenue recently ventured into shame campaign to address tax evasion. The underlying numbers presented to the public showed that the government loses at least 400 billion pesos due to tax evasion.<sup>4</sup>
2. Next to the war on drugs, President Duterte also declared war against corruption. We fully support this campaign of the President, as studies have shown that government loses around 350 billion pesos yearly because of corruption.<sup>5</sup>
3. We are willing to work together with the Senate and other government to fill these gaping holes. Without fixing these leakages, we fear that we will only sink

<sup>4</sup> <http://business.inquirer.net/132209/tax-evasion-cost-govt-at-least-p400b>

<sup>5</sup> <http://www.philstar.com/headlines/2014/02/04/1286575/p357-billion-lost-corruption-crime-yearly>

deeper into the vicious cycle of tax increases to fill the ever increasing public expenditure demands.

Thank you.

Very truly yours,

  
JUDY M. TAGUIWALO  
Secretary