NAST POSITION ON TRAIN

(Tax Reform for Acceleration and Inclusion)

National Academy of Science and Technology, Philippines

Package 1 of TRAIN (Tax Reform for Acceleration and Inclusion) with target revenue of PHP162B passed the Lower House. The Senate version (Senate Bill No. 1592) of TRAIN Package 1 has been approved with an estimated revenue of PHP120B. Both are a far cry from the PHP200B incremental revenue targeted by the deeply studied and consultation-heavy original Department of Finance (DOF) TRAIN. The bills now move to the bicameral committee for reconciliation. The business-as-usual ethic of "me first before the country," which has mired the Philippines in the mudflats of development, has shown its hand in the two approved bills. Interest groups have dug in to defend their own VAT exemptions and/or to defeat the tax adjustments that affect their interests. It is time we think of the country and the future in the bicameral committee deliberations.

Why the DOF TRAIN?

One spectacle that a local or foreign arrival in Metro Manila confronts upon debarking is the sad state of our air transport: one's plane can get delayed an hour waiting for a clearance in NAIA; NAIA Terminal 1 is pathetic and 20 years behind competing hubs like Changi Airport. Leaving the NAIA, the roadways are narrow, substandard and jammed, and public transport at East Asian level hardly exists, a rude awakening from the investor and tourist come-on "It's more fun in the Philippines." Welcome to the Philippines' infrastructure deficit.

The infrastructure deficit is just the tip of the iceberg of the encompassing poverty of public goods. A similarly harrowing if less tangible deficit exists in our soft infrastructure—our innovation, technical and research infrastructure—are just as primitive. This silent deficit is more insidious as it perpetuates and exacerbates the malaise from the tip; it reduces our human capital capacity to rebound and catch up. The proposed 'Science for Progress' bill will help close this gap if enacted and, more importantly, if there is money to backstop. It is a canon of economic development that the poverty of public goods is the flip side of income and nutritional poverty which feeds the cycle of economic and social stagnation. The consequent harvest of social squalor visible in our streets and poorer neighborhoods diminishes the science community, not to say the Filipino people.

But whence is this deficit? Decades of government infrastructure spending of 2–2.5% of GDP when our Asian neighbors were doing 5–8% of GDP is a prime reason. In turn, the government neglect came about because of our inability to rally around large future-nurturing projects and our penchant for the 'divide-by-N' rule which drains the national treasury in pursuit of numberless small vote-motivated projects.

The economic cluster of the Duterte administration seeks to stop the rut once and for all. It targets an infrastructure spending of 5% of GDP in 2017 rising to 8% of GDP in 2022. But there is no free lunch and this envisioned bold future too has to be financed. Thus, the DOF TRAIN.

DOF TRAIN is a comprehensive, courageous but also a compassionate program. To finance a brave future, it abandons the complex corruption-prone tax system and embraces a simpler and fairer system.

Four Features of DOF TRAIN

A. Inclusion: How the poor will be benefited
   1. Tax exemption for the lowest income (PHP 0 to PHP250,000);
   2. Lower tax and fewer tax brackets for the middle class to redress the bracket creep;
   3. Higher tax for the very rich. All these gives will cost the Philippine government.

B. Financing Inclusion and Growth
   1. Higher tax for petroleum products (diesel and gasoline): these products are mostly consumed by the rich and also inflation-adjusted to guard against erosion;
   2. Increasing the tax base by abolishing numerous and whimsical VAT exemptions;

3. Higher excise taxes for sugar-based beverages and cars.

C. Compassion

To redress the pain from higher excise tax and loss of purchasing power from inflation:

1. Income transfers to be granted to affected lowest income groups making them overall gainers from TRAIN;
2. VAT exemption for sari-sari stores and small businesses with sales less than PHP3M (from PHP1.9M);
3. Pantawid pasada and transport modernization programs.

The cost to the Treasury of these vent for compassion is worth its weight in inclusion.

D. Anti-Corruption

Corruption is a blight in the Philippines. TRAIN will harvest some corruption proofing as by-product:

1. Reduction of the donors' and inheritance tax to 6% to reduce rampant tax avoidance;
2. The use of science in the form of chemical marking of petroleum products will reduce the massive technical smuggling in the imports of petroleum products;
3. Fewer tax brackets will reduce discretion on the part of tax collectors.

As NAST sees the TRAIN Debate

Of the three programs now going under the name TRAIN, only the DOF TRAIN holds the promise for a brighter future. NAST however feels that:

A. The DOF TRAIN itself could be more ambitious in its inclusion, viz., health impact for the poor, not to say its revenue target. As with the consolidation worked out in the Lower House, TRAIN could be made to encompass the pending upward adjustment bill in sin taxes in the Senate. The status quo in the sin tax will still see an increase in smoker population by over a million in 2022. We must set the sin tax to a level that avoids the additional deaths while also resulting in additional revenue for the Universal Health Insurance Program, urgently needed school feeding programs and to finance our MDG goals.

B. NAST likewise feels that to re-assure the tax paying public that the additional resources are properly spent, more credible commitment devices (e.g., "earmarking" though less efficient under strong institutions can be gainfully employed under weak institutions) should be put in place to reassure the public that "business as usual" does not rule the deployment of the resource gain of TRAIN.

C. Of the TRAIN in the two legislative bills, NAST considers as especially dangerous the those insertions into and deletions which did not have the benefit of consultation and intensive study, e.g.,
    1. the imposition of a PHP300 tax per metric ton coal which would raise the price per kWh of electricity by PHP0.07 which would exacerbate energy poverty, reduce investment and job creation in a country whose carbon footprint is microscopic and whose renewable energy share in its energy mix is 32%, one of the highest in the world;
    2. the retaining of the VAT-exempt status for many activities that have become covers for smuggling such as for cooperatives and economic zones and have served as major leakages of fiscal resources.

We implore the bicameral deliberators to reject these and other insertions and deletions.

CONCLUSION

The analysis supporting DOF TRAIN is unprecedented in its thoroughness and sensitivity to the cost of change, especially for the poor. It is consistent with the canon that a simpler tax system is fairer and also leads to reduced corruption. It is a program consistent with the goals of growth and inclusion for which it was conceived. If accompanied by additional safeguards, DOF TRAIN does its promulgators and the DOF proud. If enacted into law with its revenue targets intact or even raised, it can make the country a template to the global community for "doing reform without a crisis"; more importantly, it will open up a proud future of inclusive growth for the Philippines. If, God forbid, the DOF TRAIN is transfigured into a gravy train en-route to enactment, the country faces a future conceived in the womb of a bleak and troubled past.

NAST supports the original DOF TRAIN and rejects the slapdash insertions and deletions.

CONTACT PERSON:
NATIONAL SCIENTIST RAUL V. FABELLA

National Academy of Science and Technology, Philippines
3rd Level, Science Heritage Building, DOST Complex, Bicutan, Taguig City, 1631

Email: secretariat@nast.ph; nastphlsecretariat@gmail.com
Website: www.nast.ph