

INVESTMENT TAX EXPENDITURES 2019-2021

As defined in Republic Act (RA) 10708 or the Tax Incentives Management and Transparency Act (TIMTA), tax incentives (also known as investment tax expenditures) refer to fiscal incentives in the form of income tax holidays (ITH) and special income tax rate, exemptions such as on imports (i.e., customs duty and VAT exemptions), deductions, credits or exclusions from the tax base to registered business entities (RBEs). Registered members of the Cooperative Development Authority (CDA) also enjoy incentives on income tax, local VAT, and percentage tax as provided under RA 6938, as amended by RA 9520 or Philippine Cooperative Code. Moreover, RA 11534 or the Corporate Recovery and Tax Incentives for Enterprises Act (CREATE) provides for rationalization of fiscal incentives.

TABLE 1
INVESTMENT TAX EXPENDITURES,
(IN BILLION PESOS), 2019-2021

Types of Tax Incentives	2019	2020	2021*
Income Tax Incentives	134.8	66.6	66.7
<i>Income Tax Holiday</i>	68.4	20.0	20.0
<i>Special Income Tax Rate</i>	66.4	46.6	46.7
Customs Duties	314.7	365.1	365.8
<i>Duty exemptions</i>	47.6	71.9	72.1
<i>Import VAT (gross)</i>	267.1	293.1	293.7
Total Tax Incentives	449.5	431.7	432.5
CDA Incentives	32.2	22.2	22.2
<i>Income Tax Incentives</i>	14.5	3.4	3.4
<i>Local VAT</i>	16.3	17.4	17.4
<i>Percentage Tax</i>	1.4	1.4	1.4
Total (Including CDA)	481.7	453.9	454.7

*Estimates

Source: Budget of Expenditures and Sources of Financing (BESF) 2023

In 2019, total investment tax expenditures amounted to P481.7 billion and went down to P453.9 billion in the following year. In 2021, it was projected to reach P454.7 billion. Of this amount, about P66.7 billion is from income tax incentives, P365.8 billion on customs duties incentives inclusive of import VAT exemptions, and P22.2 billion from CDA incentives (Table 1).

The significant drop in income tax incentives in 2020 was brought about by the ITH reduction from P68.4 billion in 2019 to P20 billion in 2020. Likewise, special income tax incentives decreased from P66.4 billion in 2019 to P46.6 billion in 2020. The same levels

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are projected in 2021. On the other hand, customs duty exemptions and import VAT incentives are projected to reach P72.1 billion and P293.7 billion, respectively, (both projections are higher than the 2019 and 2020 actual data). Registered cooperatives also enjoyed income tax incentives in the amount of P14.5 billion, local VAT exemptions at P16.3 billion, and percentage tax exemption of P1.4 billion based on 2019 actual data. Like on RBEs, there was also a significant reduction in income tax incentives on CDA.

TABLE 2
INVESTMENT TAX EXPENDITURES, BY SECTOR, 2019-2021
(IN BILLION PESOS), 2019-2021

Sector (Average Share)	2019	2020	2021*
Manufacturing (75.6%)	321.3	363.6	364.3
<i>Electronics, electrical products, semiconductors</i>	205.3	284.1	284.7
Services (18.6%)	114.8	72.7	72.8
<i>Warehousing, logistics, utilities, operator of sea ports and airports</i>	25.5	22.9	23.0
<i>BPO - non-voice, software development, IT-related services, customer support</i>	20.9	21.6	21.6
Energy (3.6%)	26.4	12.1	12.1
<i>Coal, Diesel, etc.</i>	17.9	3.1	3.1
Tourism (1.1%)	14.0	0.9	0.9
<i>Accommodation, hotels, resort, etc.</i>	4.8	0.7	0.8
<i>Medical tourism, other tourism-related services, etc.</i>	9.2	0.1	0.1
Economic and Low-Cost Housing (0.2%)	3.1	0.1	0.1
Agriculture and Fishery (0.2%)	1.5	0.4	0.4
<i>Livestock, poultry, production of animal feeds</i>	0.5	0.1	0.1
<i>Seed production, growing of plants, etc.</i>	0.9	0.2	0.2
PPP Projects (0.0%)	0.2	0.0	0.0
Mining and Quarrying (0.0%)	0.0	0.0	0.0
Unfilled/Unspecified Registered Activity (0.6%)	0.3	4.1	4.1
Total (100%)	481.7	453.9	454.7

*Estimates **Data include CDA Incentives ***0=amount below P1 Billion
Source: BESF 2023

Both manufacturing and services sectors accounted for the bulk of the incentives with 75.6% and 18.6% average shares, respectively (Table 2). The remaining 5.7% was shared by energy, tourism, economic and low-cost housing, agriculture and fishery, PPP projects, mining and quarrying, and unfilled/unspecified registered activity. Due to the pandemic, there were notable decreases in the amounts of incentives in almost all sectors, except for manufacturing. Among the sectors with big losses in incentives were the services, tourism and energy sectors.

TABLE 3
INVESTMENT TAX EXPENDITURES, BY IPA AND CDA
(IN BILLION PESOS), 2019-2021

IPA	2019	2020	2021*
PEZA	342.9	374.5	375.2
CDC	61.7	35.6	35.6
BOI	28.1	10.4	10.5
AFAB	10.1	5.5	5.5
SBMA	6.5	5.6	5.6
CEZA	0.1	0.1	0.1
PPMC	0.1	0.0	0.0
Others	0.0	0.0	0.0
Total	449.5	431.7	432.5
CDA	32.2	22.2	22.2
Total (including CDA)	481.7	453.9	454.7

*Estimates

**Philippine Economic Zone Authority (PEZA); Clark Development Corporation (CDC); Board of Investments (BOI); Authority of the Freeport Area of Bataan (AFAB); Subic Bay Metropolitan Authority (SBMA); Cagayan Economic Zone Authority (CEZA); and Poro Point Management Corporation (PPMC). Others include: Aurora Pacific Economic Zone and Freeport Authority (APECO), Bases Conversion and Development Authority (BCDA), Tourism Infrastructure and Enterprise Zone Authority (TIEZA), and Zamboanga City Special Economic Zone Authority (ZCSEZA) but exclude PHIVIDEC Industrial Authority (PIA) and Regional Board of Investments (RBOI) in the ARMM.

Source: BESF 2023

Among the Investment Promotion Agencies (IPAs), the PEZA administered the highest fiscal incentives which have been increasing. In 2021, PEZA-granted incentives to RBEs are projected to reach P375.2 billion (Table 3). This is higher than the 2019 and 2020

actual data. Meanwhile, the CDC reported P61.7 billion incentives in 2019 which was projected to drop to P35.6 billion in 2021. On the other hand, the BOI reported a total of P28.1 billion incentives granted in 2019. This slid to P10.4 billion in 2020 and is projected to maintain the same level in 2021. The AFAB is estimated to provide a total of P5.5 billion of incentives in 2021, while the SBMA is projected to provide P5.6 billion incentives. Both projections are below the 2019 levels. Note the steady decline in the amounts of incentives provided per IPA during the three-year period, except for PEZA.

The CDA granted a total of P22.2 billion of incentives to its members in 2020 (with same level projected in 2021). This was P10 billion below the 2019 level recorded at P32.2 billion. While the CDA is not an IPA, the TRAIN Law (RA 10963), however, mandates it to consolidate and submit to the Bureau of Internal Revenue the annual tax incentive reports of registered cooperatives.

Table 4 presents the tax incentives provided by IPAs. There was a notable decrease in income tax incentives from 2019 to 2020 i.e., for ITH from P68.4 billion to P20 billion (70.8% decrease), and for Special Income Tax Rate from P66.4 billion to P46.6 billion (29.8% decrease), while it is projected to maintain the 2020 level for 2021. On the other hand, on import-related incentives (i.e., customs duties and VAT exemptions), there has been a significant increase in the provision of incentives. On customs duties exemption, from P47.6 billion in 2019, it rose to P71.9 billion in 2020 (51.1% increase) and is projected to slightly increase to P72.1 billion in 2021. Meanwhile, import VAT exemption increased from an amount of P267.1 billion in 2019 to P293.1 billion in 2020 (9.7% increase) and is expected to maintain almost the same level in 2021.

TABLE 4
INVESTMENT TAX EXPENDITURES, BY INVESTMENT PROMOTION AGENCY (IPA)
BY TYPE OF TAX INCENTIVES, (IN BILLION PESOS), 2019-2021

IPA	Income Tax Holiday (ITH)			Special Income Tax Rate			Customs Duties			Import VAT (gross)		
	2019	2020	2021*	2019	2020	2021*	2019	2020	2021*	2019	2020	2021*
PEZA	31.8	12.7	12.7	46.4	33.5	33.5	41.6	67.2	67.3	223.1	261.2	261.7
CDC	12.7	5.5	5.5	12.9	2.5	2.5	2.8	2.2	2.2	33.3	25.4	25.5
BOI	23.0	1.4	1.4	4.3	8.6	8.6	0.4	0.4	0.4	0.4	0.1	0.1
AFAB	0.2	0.0	0.0	0.2	0.3	0.3	2.3	1.6	1.6	7.4	3.5	3.5
SBMA	0.7	0.4	0.4	2.4	1.6	1.6	0.5	0.5	0.5	2.8	3.0	3.0
CEZA	0.0	-	-	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
PPMC	-	-	-	0.1	-	-	-	0.0	0.0	-	0.0	0.0
Others	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total	68.4	20.0	20.0	66.4	46.6	46.7	47.6	71.9	72.1	267.1	293.1	293.7

*Estimates

Source: BESF 2023