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The Philippine Sin Tax Reform: Reforming Tobacco and Alcohol Taxation for Inclusive Growth

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**Workshop on Fiscal Management Through
Transparency and Reforms
Bagac, Philippines
9-10 June 2015**

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THE PHILIPPINE SIN TAX REFORM: Reforming Tobacco and Alcohol Taxation for Inclusive Growth



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Outline of Presentation

I. Background

II. The PH Sin Tax Reform

Rationale, Design, Issues

Wins of the Reform

III. Conclusion

Gains for Inclusive Growth



BACKGROUND

“The single overall lesson is that fiscal policy can be a powerful instrument for tackling inequality and creating a more equitable economy”

(Hesmati, Kim, and Park. Fiscal Policy and Inclusive Growth in Advanced Countries: Their Experience and Implications for Asia.)



BACKGROUND

- Addressing income inequality has become one of the central issues of public debate in many countries, including the Philippines.
- The Department of Finance has sought to address inequality through fiscal policy measures under the Aquino Administration's inclusive growth agenda.
- Recent PH experience shows that fiscal policy can be an effective tool in the pursuit of inclusive growth.



BACKGROUND

PH fiscal policy initiatives with implications for inclusive growth

- ❑ Better governance and enhanced public financial management
- ❑ Prudent debt management
- ❑ Restructuring Excise Taxes on Tobacco and Alcohol Products
- ❑ Rationalizing Fiscal Incentives
- ❑ Promoting the Transparency of Tax Expenditures
- ❑ Reforming Fiscal Regime on Mining

In Focus:

**The Philippine
SIN TAX REFORM**



Passage of Republic Act No. 10351



- ***An Act Restructuring the Excise Tax on Alcohol and Tobacco Products*** (19 December 2012)
- **Landmark Legislation under the Aquino Administration**
- **Fundamentally a good governance measure with positive impact on both public health and fiscal health**



Rationale for the Reform

- ❑ Help finance Universal Health Care (UHC)
- ❑ Address public health issues relating to alcohol and tobacco consumption
- ❑ Simplify the current excise tax system on alcohol and tobacco products and fix long-standing structural weaknesses:
 - ✓ Remove price/brand classification freeze.
 - ✓ Level the playing field.
 - ✓ Reduce number of tiers.
 - ✓ Make tax system more buoyant by indexing tax rates to inflation.



Main Design Considerations

- ❑ Simple to implement
- ❑ Tax rates indexed to inflation
- ❑ Rate increase enough to achieve health objectives
- ❑ Remove price/brand classification freeze and level the playing field
- ❑ Aligned with international commitments under WHO FCTC
- ❑ Generate substantial revenues to finance Universal Health Care (UHC)
- ❑ Provide social safety nets to those affected



At a glance

Before RA 10351

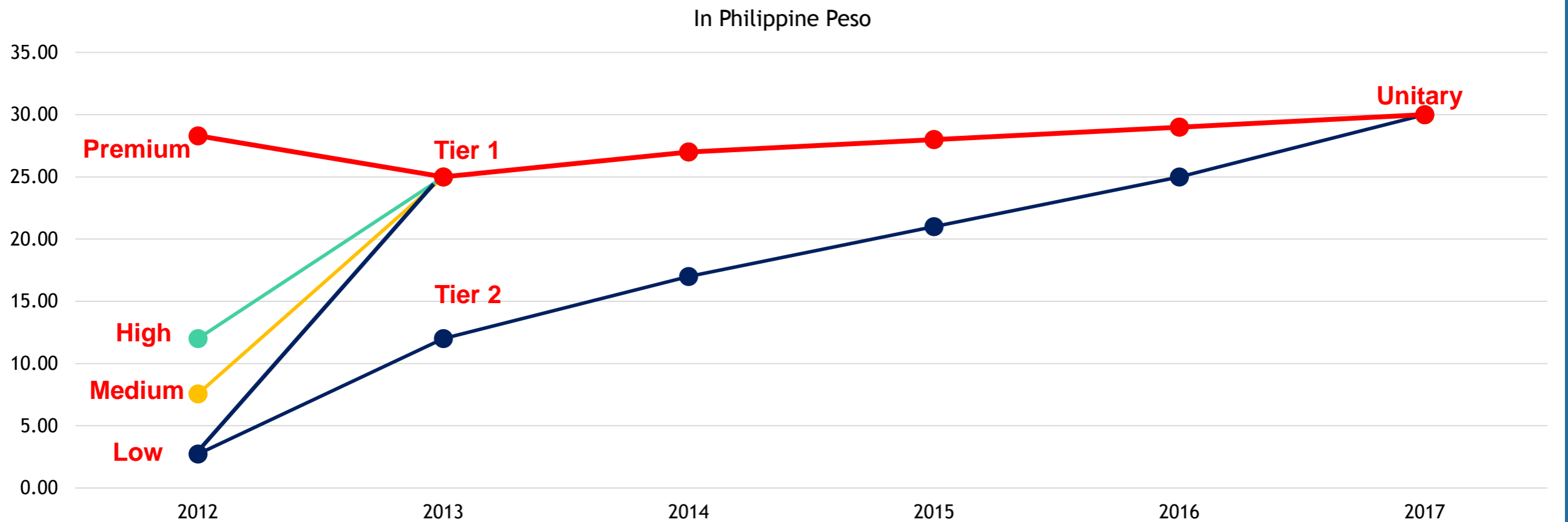
- ▶ Taxation based on 1996 net retail prices (“price/brand classification freeze”)
- ▶ Multi-tiered system
- ▶ Lack of price indexation
- ▶ Non-compliant with WTO rules (for distilled spirits)

After RA 10351

- ▶ Removal of price/brand classification freeze
- ▶ Gradual shift to unitary taxation
- ▶ Annual indexation of tax rates
- ▶ WTO compliance for distilled spirits
- ▶ Generation of additional revenues for government (especially for UHC)



Reformed Tax Structure for Cigarettes

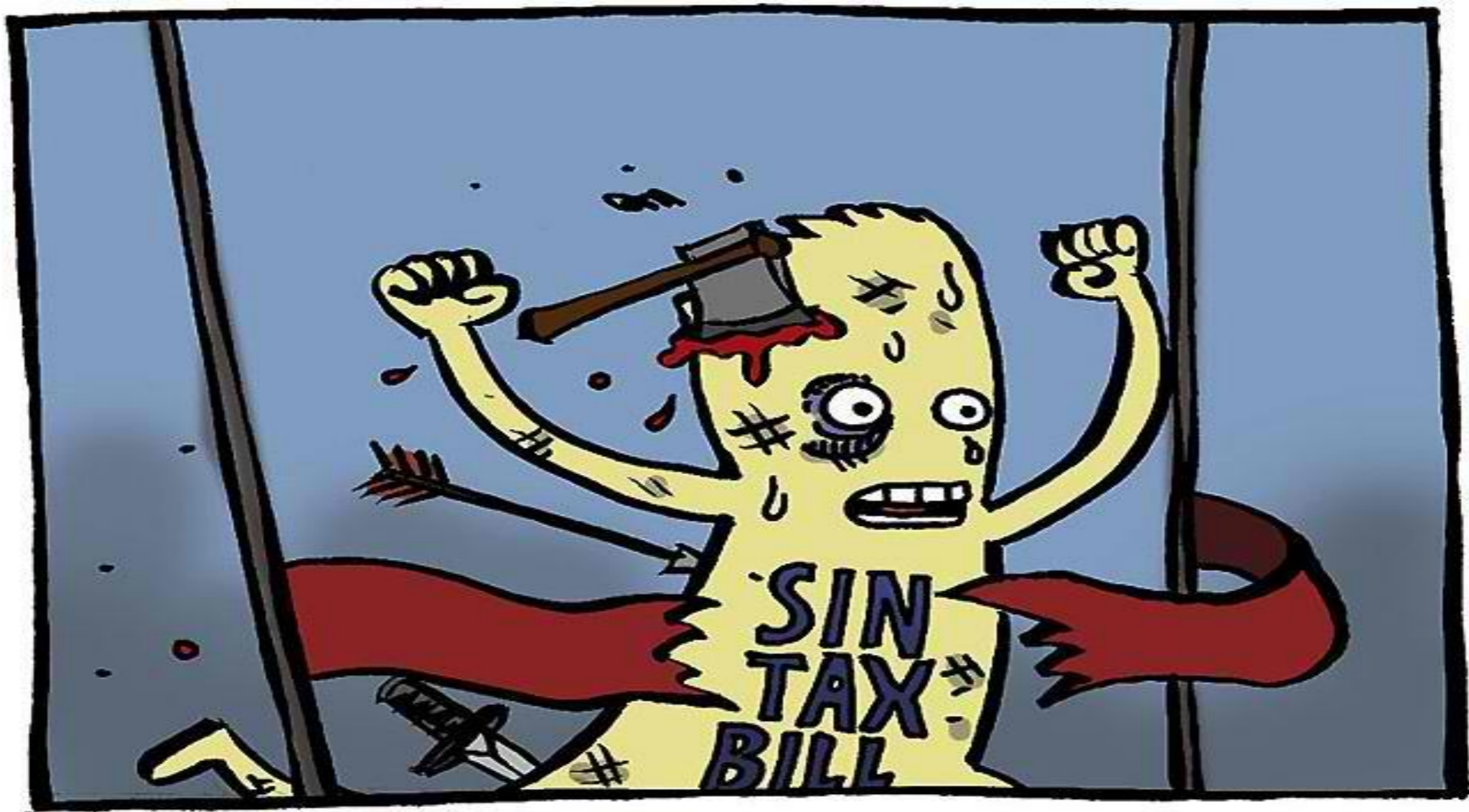


Prior to Reform		2012
Low	In Php	2.72
	In US \$	0.06
Medium	In Php	7.56
	In US \$	0.18
High	In Php	12.00
	In US \$	0.28
*Premium	In Php	28.30
	In US \$	0.67

After the Reform		2013	2014	2015	2016	2017	
Tier 1	In PhP	12.00	17.00	21.00	25.00	Unitary	PhP30.00
	In US \$	0.28	0.38	0.50	0.60		
Tier 2	In PhP	25.00	27.00	28.00	29.00	Unitary	US\$0.71
	In US \$	0.59	0.61	0.67	0.69		

*Tier 4 no production

WINS OF THE SIN TAX REFORM



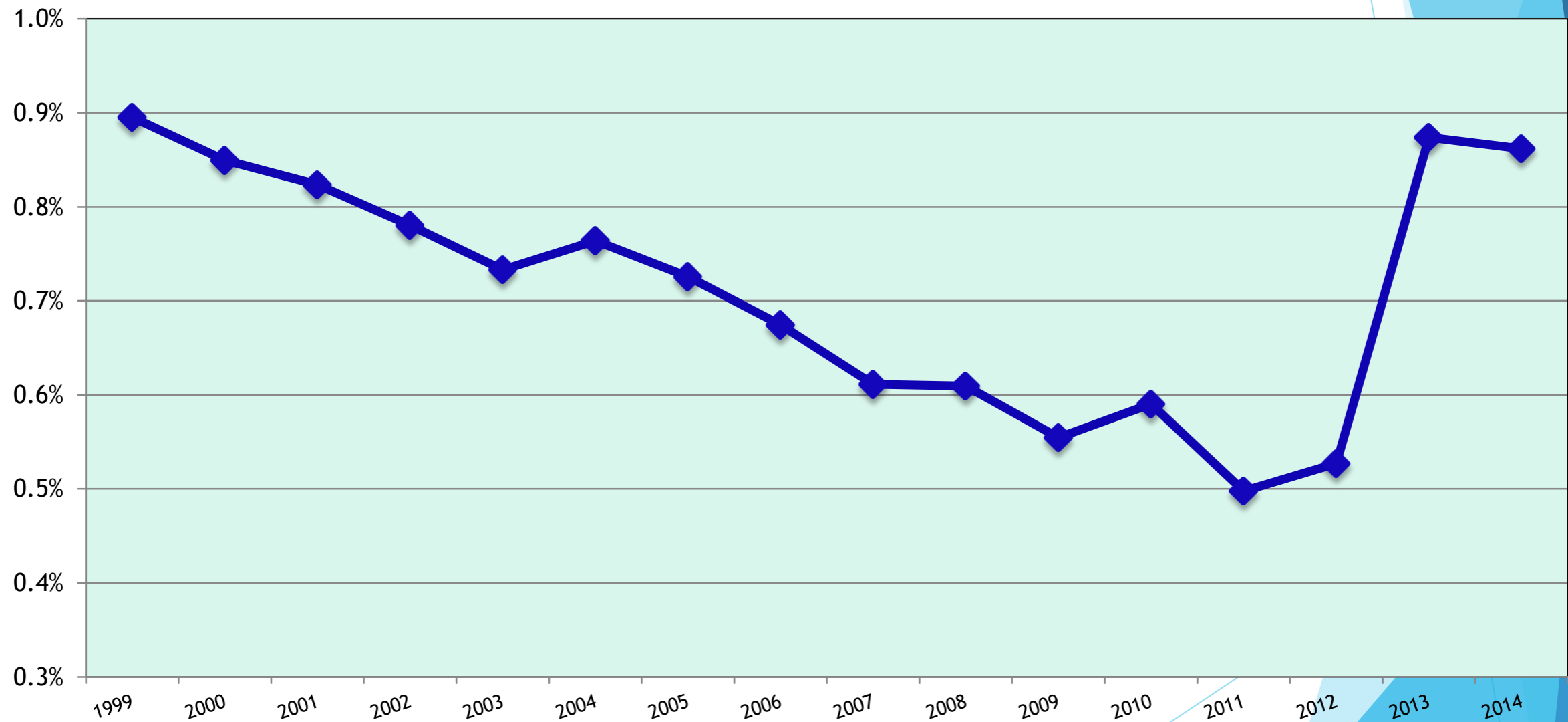
Credits to: Manix Abrera, GMA News Online



Win for Fiscal Health

Share of tobacco and alcohol excise collections to GDP in 2013 highest since 2000.

Tobacco & Alcohol Excise Collections as % of GDP



Source: BIR and NSCB
Prelim data for 2014

◆ Tobacco & Alcohol Excise Collection

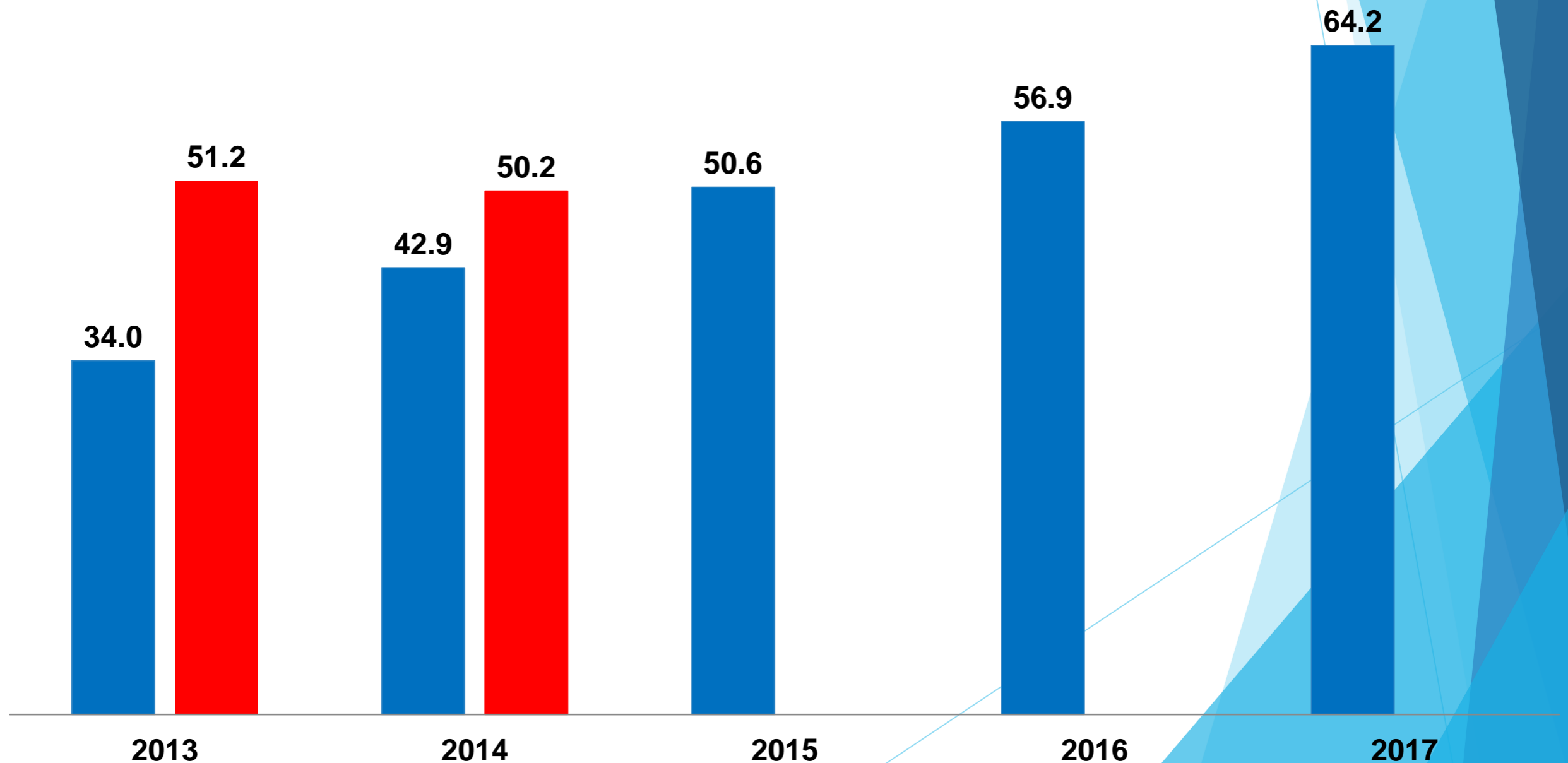


Win for Fiscal Health

Higher than projected incremental revenue collections

Projected vs Actual Incremental Revenue from RA 10351
(In Billion Pesos)

■ Projected ■ Actual





Win for Fiscal Health

MOODY'S

**Baa3 Positive
Investment Grade (Oct. 3, 2013)**

FITCH RATINGS

**Upgraded to BBB- /Stable from BBB+; Investment Grade
(March 27, 2013)
[Affirmation](#) (March 25, 2014)**

STANDARD & POOR'S

**Upgraded to BBB-/Stable from BB+/Stable; Investment Grade
(May 2, 2013)
Upgraded to BBB /Stable from BBB- /Stable; Investment Grade
(May 8, 2014)**

**JAPAN CREDIT RATING AGENCY
(JCRA)**

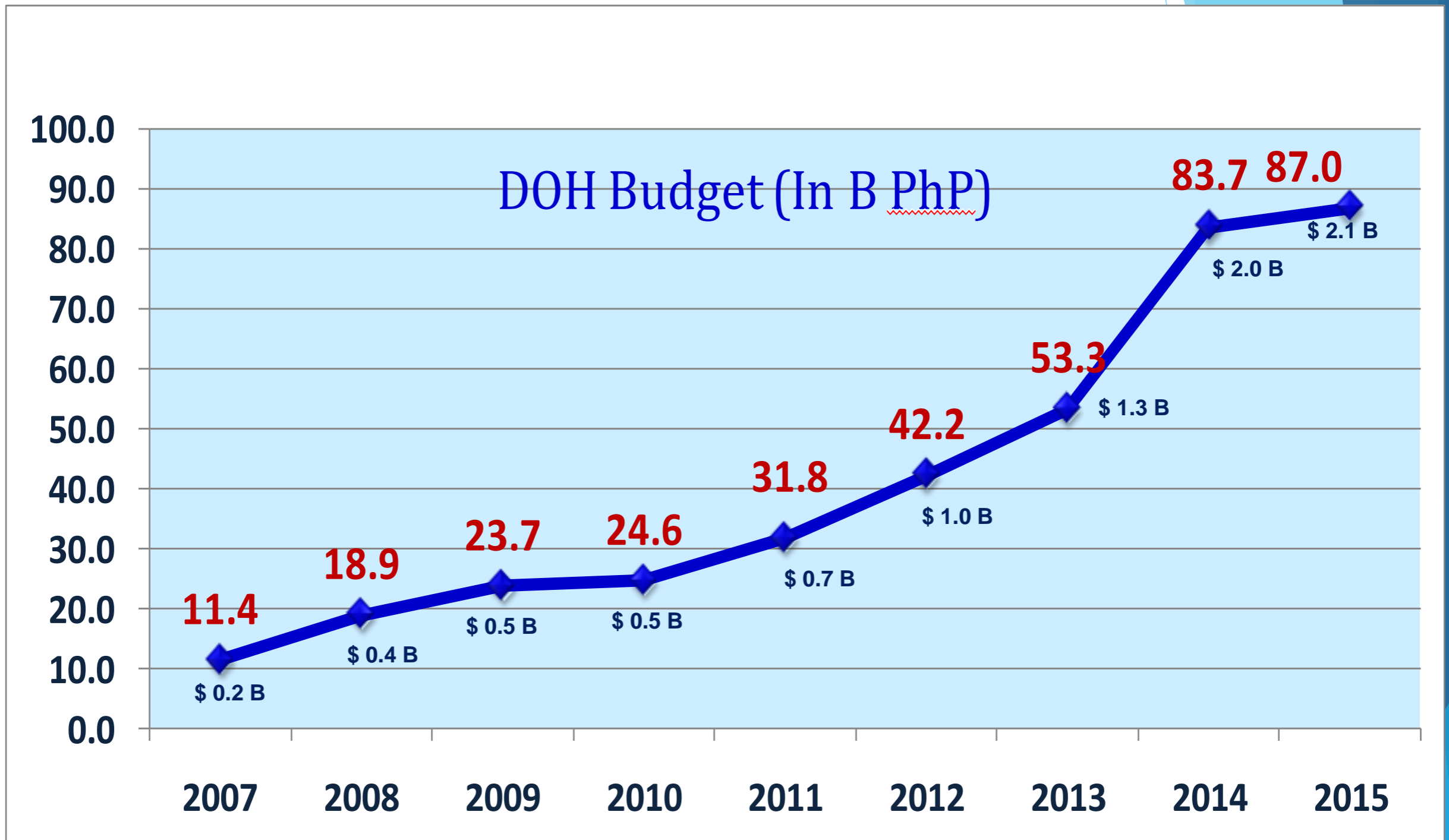
**Upgraded to BBB /Stable from BBB- /Positive; Investment Grade
(May 7, 2013)
[Affirmation](#) (May 30, 2014)**

**RATING & INVESTMENT (R&I)
INFORMATION, INC.**

**Upgraded to BBB /Stable from BBB- /Positive; Investment Grade
(July 9, 2014)**



Win for Public Health

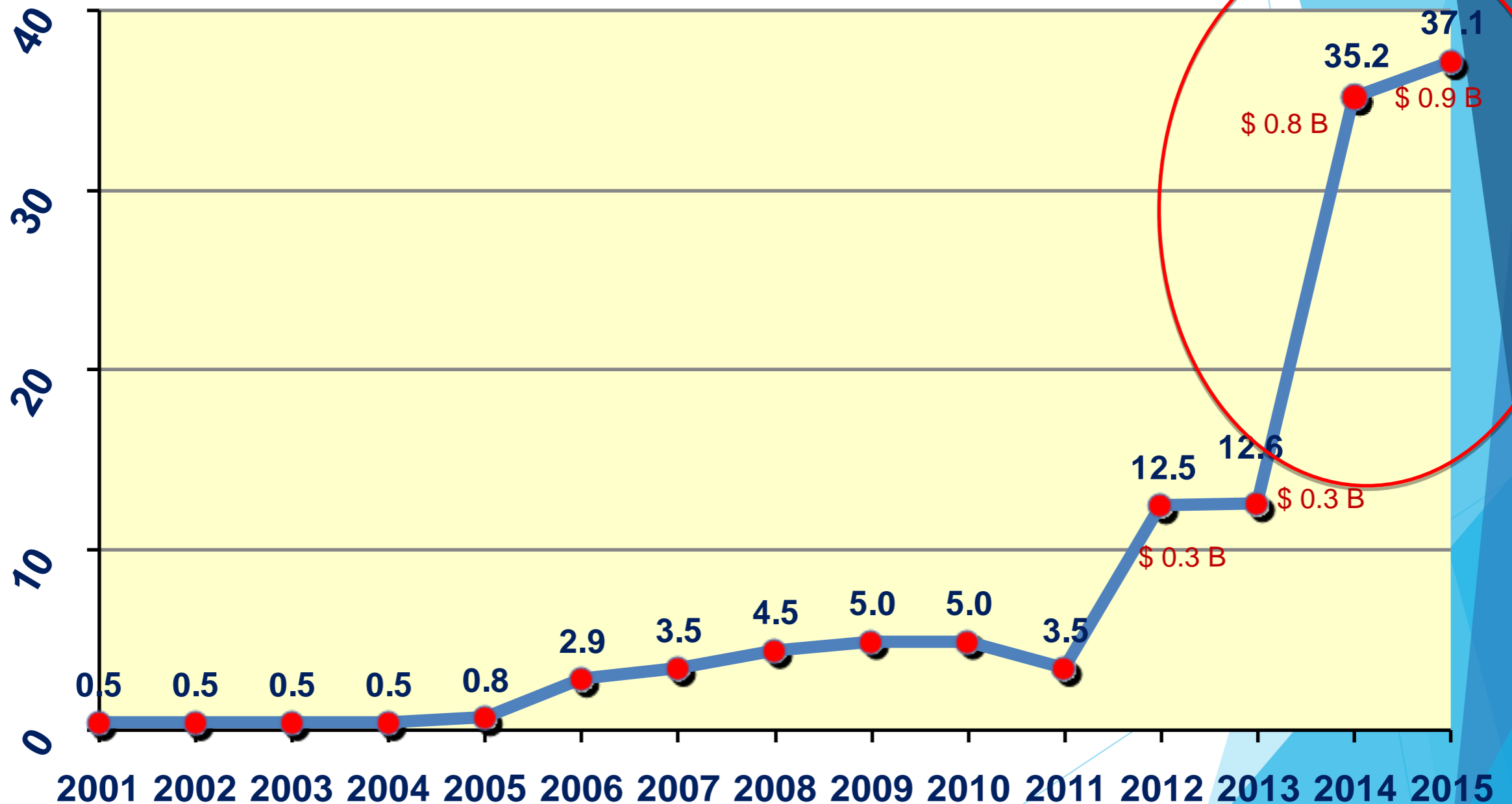


Source: GAA, DBM



Win for the Poor

National Government Allocation for Health Insurance Premiums for the Poor



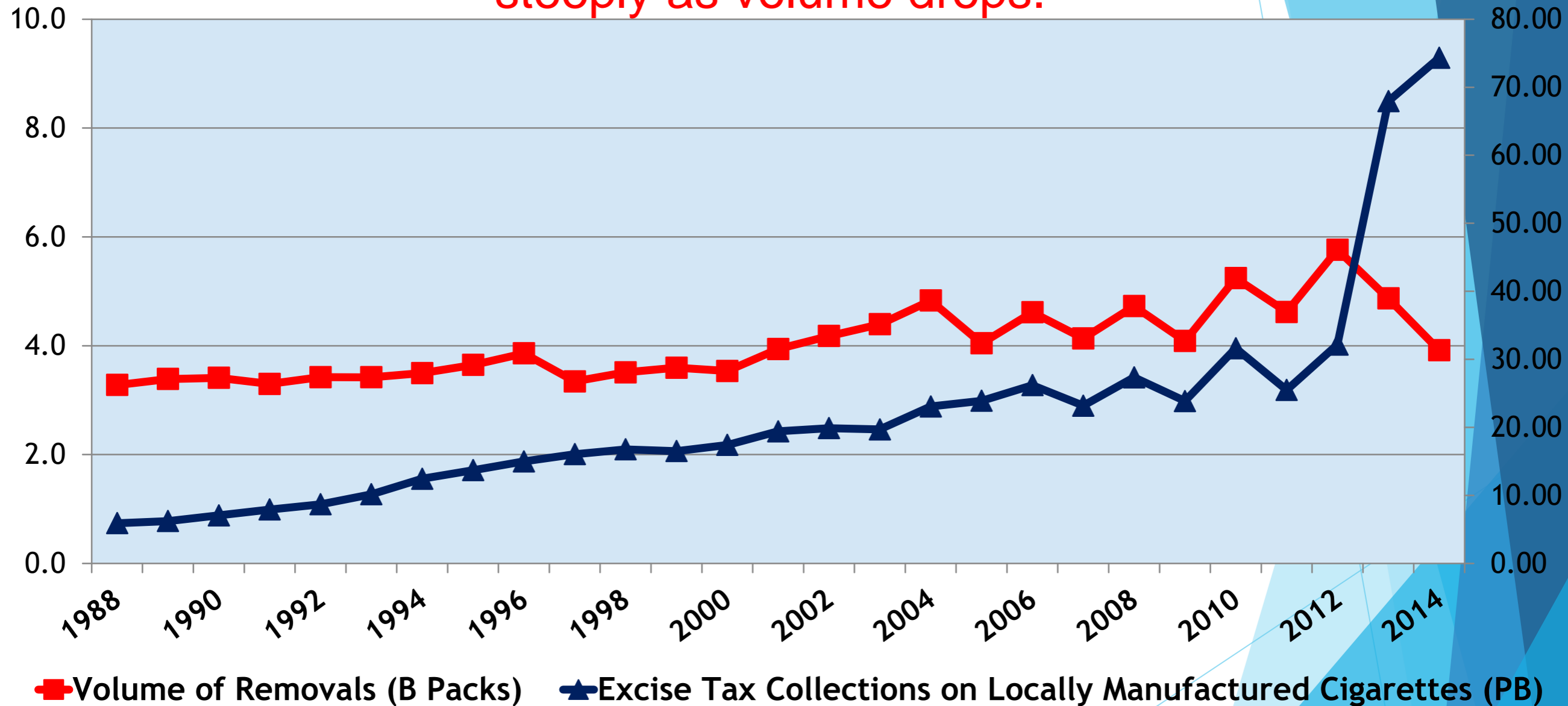
Source: PhilHealth, DOH
2015 based on NEP

In Billion Pesos



Win for Fiscal & Public Health

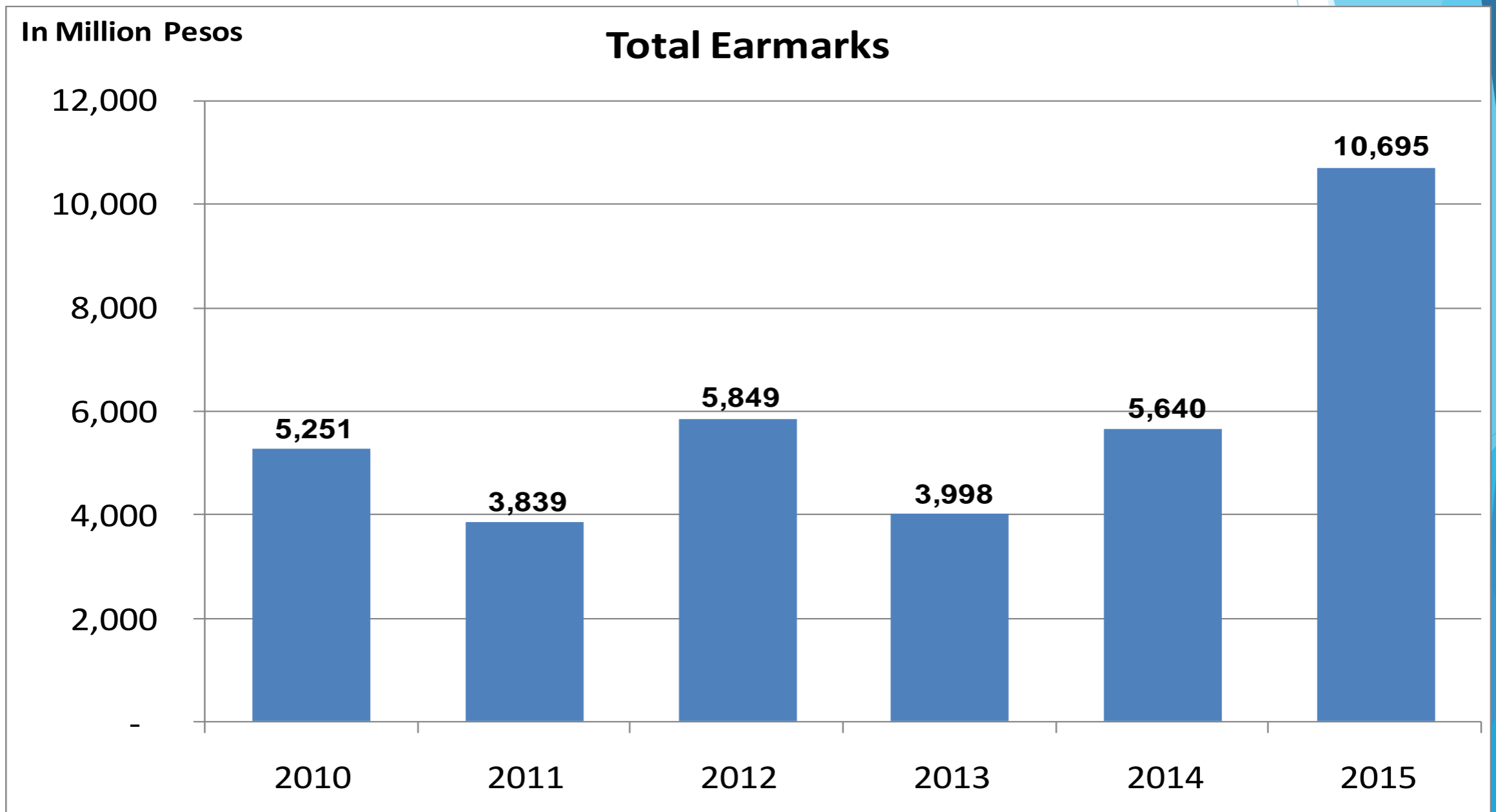
Excise tax collections from locally manufactured cigarettes rise steeply as volume drops.





Win for the Farmers

Significant increase in earmarks for tobacco growing regions.





CONCLUSION

- **EQUITY PROMOTION.** By properly taxing products and behavior detrimental to health, the PH Sin Tax Reform redistributed profits from a rich industry to government enabling it to protect and support the more vulnerable sectors of society - the poor, the young, rural folk.
- **From Both Sides.** From the revenue side (higher taxes to curb harmful behavior) to the spending side (earmarking for Universal Health Care), the Sin Tax Reform has shown reforming taxation of tobacco and alcohol products is good for both fiscal and public health.



CONCLUSION

- **Plus Efficiency.** The reform also made revenue administration with respect to tobacco and alcohol excise taxes simpler and less costly because it restructured the system from multi-tiered to two-tiered and eventually to a single uniform rate in 2017.
- As such, the Sin Tax Reform has resulted in concrete **GAINS FOR INCLUSIVE GROWTH.**



CONCLUSION

- **Challenges remain.** Increasing domestic sources of financing is a necessary but not sufficient condition for higher and more inclusive expenditures. Efficiency, effectiveness, and execution capacity are key to delivering the services on the ground and to the people.

Continuing vigilance in implementation will ultimately spell taxation's success as a tool for inclusive growth.

THANK YOU