REPUBLIC OF THE PHILIPPINES

NATIONAL ECONOMIC AND DEVELOPMENT AUTHORITY

NEDA Report Pursuant to Republic Act 10708:

Tax Incentives Management and Transparency Act (TIMTA)

I. INTRODUCTION

There are many possible reasons for offering incentives to businesses. Clark (2007)[1] has enumerated several reasons: (1) to encourage certain industries that can catalyze faster growth, in pursuit of an industrial policy; (2) to promote transfer of technology; (3) to create jobs, as certain industries are labor-intensive; (4) to encourage training and human capital development; (5) to promote economic diversification; (6) to allow access to overseas markets particularly through global value chains; and (7) to promote growth in a specific region or location.

For nearly five decades, the government has been giving fiscal incentives to various firms. Various investment promotion agencies (IPAs) are authorized to grant tax incentives to registered business enterprises (RBEs) within their respective jurisdictions. Since 1969, however, no mechanism has been set in place to study the economic impact of these tax incentives.

In 2015, Republic Act (R.A.) No. 10708 or the Tax Incentives Management and Transparency Act (TIMTA) was enacted to enable government to monitor, review, and analyze the economic impact of tax incentives. It aims to promote fiscal accountability and transparency in the grant and management of tax incentives[2] by developing the means to promptly measure the government's fiscal exposure. Under the law, the NEDA shall conduct a cost-benefit analysis on investment incentives to determine the impact of such incentives on the Philippine economy based on the aggregate annual tax incentives reports, as well as aggregate investment-related data (on sectoral or industry basis) submitted by IPAs to the NEDA.

This report covers taxable year 2015 and uses information/data submitted by the RBEs to the following IPAs[3]: Board of Investments (BOI), Philippine Economic Zone Authority (PEZA), Clark Freeport Zone (CFZ), Subic Bay Metropolitan Authority (SBMA), Authority of the Freeport Area of Bataan (AFAB), Poro Point Freeport Zone (PPFZ), Bases Conversion and Development Authority (BCDA) and Zamboanga City Special Economic Zone Authority and Freeport (ZCSEZA).

[1] Clark (2007). Tax Incentives for Investment – A Global Perspective: experiences in MENA and non-MENA countries

[2] Tax incentives as defined in the law shall refer to fiscal incentives such as those which come in the form of income tax holidays, exemptions, deductions, credits or exclusions from the tax base, as provided by law, to registered business entities.

[3] TIEZA's submission was supposed to be included in this report. However, no registered tourism enterprises have been able to avail of any fiscal incentives under Republic Act 9593 (Tourism Act of 2009) in 2015 as Revenue Regulation No. 7-2016, which provides for the rules and regulations for the availment of incentives for registered tourism enterprises under TIEZA, was only issued by the Bureau of Internal Revenue last 15 November 2016.

The following IPAs are not included in this report:

- John Hay Special Economic Zone (JHSEZ), which is under BCDA, since it no longer administers tax and duty incentives inside its zone;
- PHIVIDEC Industrial Authority (PIA), since it has been declared as part of PEZA; incentives are being administered by either BOI or PEZA covering their respective RBEs; and
- All business enterprises registered with the Aurora Pacific Economic Zone and Freeport (APECO) were not yet in commercial operation as of February 17, 2017.

II. LIMITATIONS

This brief report is the very first in compliance with the provisions of the TIMTA. The depth and breadth of the analysis have been constrained by various problems:

(1) Data collection from the RBEs remains a prime challenge for IPAs. The IRR of TIMTA explicitly laid down forms to fill and how these should be filled using specific formula for calculations. However, discrepancies in the figures were observed under each item of Forms A.1 and A.2 of the tax incentives for each IPA. Furthermore, some of the forms do not bear the necessary certifications as required in the IRR. Slight adjustments have been made to ensure internal consistency of the data.

(2) IPAs find it hard to collect the appropriate data on investments as there is no official operational definition of investments. The Interagency Committee on Investment Statistics (IACIS) is currently discussing the issue and hopefully an official definition will be adopted within 2018.

(3) Data submitted by the RBEs are first aggregated by the IPAs, and are classified according to the Philippine Standard Industry Classification (PSIC). However, most IPAs are unfamiliar with the PSIC, and at the same time, could not submit RBE-specific data. This then slowed down the processing of data by the IPAs.

(4) Late and varying dates of submissions, including several data revisions, have pushed back the preparation of this report.

(5) Some IPAs do not have supervisory capacity nor an auditing facility to countercheck the submissions of each RBE. This could put into question the integrity of the figures being compiled.

III. PROFILE OF RBEs IN THE IPAs AND TAX INCENTIVE CLAIMS

In 2015, the seven (7) IPAs reported 4,393 RBEs, constituting 0.45 percent of the total establishments reported by PSA in its 2015 Updated List of Establishments. Table 1 shows that majority of RBEs in the reporting IPAs are owned by Filipinos. In particular, BOI reports that 87 percent of its RBEs are actually Filipino-owned firms. It is only in SBMA where the number of foreign-owned firms is slightly higher than that of Filipino-owned firms. On the one hand, the fact that there are more Filipino-owned RBEs may be taken positively since Filipinos are also the ones benefitting from the incentives. On the other hand, this may also be interpreted negatively since the investment did not come from outside sources and could have been made even without the incentives.

Table 1: Ownership of RBEs per IPA in 2015 (% share)

IPA	Number of RBEs	Filipino-owned Firms[4]	Foreign-owned Firms[5]
BOI	650	87	13
PEZA	3,266	NDP	NDP
CFZ	NDP	NDP	NDP
SBMA	361	49	51
AFAB	96	66	34
PPFZ	6	83	17
BCDA	1	100	0
ZCSEZA	13	70	30

Source: computed from IPAs submission
NDP= no data provided

Note, however, that PEZA did not provide data on the nationality of the firms' owners while CFZ did not provide data at all on the number of its RBEs. The information from PEZA is particularly important as it has the most number of RBEs at 3,266.

A substantial proportion of RBEs are in manufacturing (35.9%), followed by real estate activities (22.8%). There is also a sizable percentage (16.1%) providing administrative and support services to the other RBEs. Only 0.4 percent are in agriculture.

Table 2: Number of RBEs by Industry Classification[6]

Industry Classification	Number	%
1. Agriculture, forestry, and fishing	19	0.4
2. Mining and quarrying	21	0.5
3. Manufacturing	1576	35.9
4. Construction	18	0.4
5. Electricity, gas, and water	147	3.3
6. Transportation, storage, and communication	628	14.3
7. Wholesale and retail trade; repair of motor vehicles and motorcycles	53	1.2
8. Real Estate and renting	1710	38.9
9. Financial and insurance activities	0	0
10. Public administration and defense; compulsory social security	0	0
11. Other services	221	5
Total	4,393	100.0

[4] Percent of total number of registered firms at least 60 percent owned by Filipinos
[5] Percent of total number of registered firms with more than 40 percent equity owned by foreigners
[6] CFZ did not provide details on its RBEs.

Tax Incentives Availed

Tax incentives in the country can be divided into two: (a) 123 investment laws[7] generally covering 26 sectors and (b) 192 non-investment laws. The significant ones are the income tax holidays (ITH), the 5 percent gross income earned (GIE) and customs duty exemption. Other incentives include tax investment allowances, deductions for research and development and manpower development, accelerated depreciation, net operating loss carryover and export subsidies. Moreover, the GIE incentive does not seem to be time-bound and is given instead of holidays in income, VAT, and local taxes. Because of the indefiniteness of the GIE, plus the occasional extension of the existing income tax holiday, the Philippines has the longest-running implementation of incentives within the ASEAN. Latest data show that 654 RBEs have been availing of tax incentives for at least 15 years.

In 2015, total tax incentives claimed for the taxable year totaled ₱91.3 billion, representing firms' claims for income tax holidays, gross income tax (GIT) and other income tax incentives. This is equivalent to 18.6 percent in the corporate income tax recorded in 2015.

Table 3: Total Tax Incentives Claimed and Availed by IPAs in 2015

IPA	Total Tax Incentives Claimed (in ₱ billion)	Share-to-Corporate Income Tax[8] of Tax Incentives Claimed (in %)	Total Tax Incentives Availed (in ₱ billion)	Share-to-Corporate Income Tax of Tax Incentives Availed (%)
BOI	43.7	8.9	24.4	5.0
PEZA	40.2	8.2	NDP	NDP
CFZ	4.2[9]	0.9	NDP	NDP
SBMA	2.8	0.6	NDP	NDP
AFAB	0.3[10]	0.06	NDP	NDP
PPFZ	0.1	0.020	NDP	NDP
BCDA	0.002	0.0004	NDP	NDP
ZCSEZA	-[11]	-	NDP	NDP
TOTAL	91.28	18.6	NDP	NDP

Source: IPA submission

Tax incentives claimed by BOI-registered business enterprises covering 650 projects amounted to ₱43.7 billion. Mining of metal ores (₱12.9 billion), real estate activities (₱8.9 billion), and electricity, gas, steam and air conditioning supply (₱6.5 billion) cornered the lion's share of tax incentives granted by the BOI in 2015. However, the actual amount of tax incentives granted to the BOI RBEs amounted to only ₱24. 4 billion after evaluation of the tax claims.

Claims for tax incentives of PEZA-registered enterprises amounted to a total of ₱40.2 billion, with manufacturing, and administrative and support activities accounting for 82.5 percent of total tax incentives claimed. Meanwhile, SBMA- and CFZ-registered business enterprises claimed a total of ₱2.8 billion and ₱4.2 billion in tax incentives in 2015, respectively, with manufacturing activities accounting for a major share of their tax claims. AFAB, PPFZ, and BCDA combined for a total of ₱415.0 million in tax incentives claims. Meanwhile, ZCSEZA reported a negative tax claim of ₱ 24.0 million.

[7] Three (3) from the National Internal Revenue Code (NIRC), 69 special laws and 51 franchise-related laws
[8] In 2015, total Corporate Income Tax collections of BIR was ₱ 489.761 billion
[9] Based on Clark Development's Corporation's (CDC) submitted report for CY 2015, total tax incentives claimed by CFZ locators amounted to ₱4.56 billion. There are 61 RBEs that availed of the 5 percent GIT special tax but paid at rates between 2 percent to 11 percent; there are another 154 RBEs that have no tax incentive and another 74 RBEs that are without data entry.
[10] Using 30 percent ITH for 10 RBEs and 5 percent GIT for 20 RBEs results to a figure of ₱290.696 million instead of ₱250.609 million as reported. Based on AFAB's submitted report, there are 7 RBEs that availed the 5 percent GIT special tax but paid at rates between 4 percent to 6 percent; there are another 30 RBEs that did not claim tax incentive and 48 RBEs that are without data entry.
[11] Income tax paid (₱1,632,394) was greater than total income tax due (₱1,388,438).

Tax incentives result in an unequal tax schedule across sectors, perhaps as a way of implementing an industrial policy. Under the regular regime, the effective tax rates (ETR) of major sectors are all at 30 percent. However, the ETR of tax incentive recipients are generally less than a third of the regular ones, to wit: (a) 6.3 percent for agriculture and fishery; (b) 9.1 percent for economic and low-cost housing; (b) 9.6 percent for tourism; (d) 10.0 percent for energy; (e)10.2 percent for manufacturing, and (f) 12.0 percent for services. Note that the lower ETR implies that the sector is more favored than the rest.

IV. BENEFITS TO THE ECONOMY

The operations of the RBEs working within the respective jurisdictions of the various IPAs have contributed to the domestic economy through investments, jobs generated, exports and domestic sales. Moreover, exports would have boosted the country's current account, though the amount of imports would offset these gains.

Investments Generated

There is no uniform operational definition of investments yet. [12] Nonetheless, conventionally, investment covers equity participation in any enterprise organized or existing under the laws of the Philippines. [13] It includes both original and additional investments whether made directly, as in stock subscription, or indirectly through the transfer of equity of one investor to another, as in stock purchase. These could take the form of either acquisition of fixed assets, additions to inventories, capital transfers or the acquisition of financial assets. [14]

Table 4 shows the aggregate balance sheet of RBEs in each IPA in 2015.

Assets. The values of assets are subdivided into current assets and non-current assets. Current assets consist of items that can be converted to cash or its equivalent in less than one year and encompass cash, accounts payable and inventories. Non-current assets, also called as fixed assets, are generally permanent and take time to convert to cash. These include land, buildings, factory machinery, office equipment, and automobiles.

[12] The Small Working Group on Investment Statistics was created by the Interagency Committee on Investment Statistics in February 2017 to formulate a framework for the compilation of realized or actual investments including a glossary of investment related concepts and definitions.
[13] As defined under Republic Act No. 7042 (As amended by RA 8179) or the "Foreign Investments Act of 1991
[14] As proposed by the Small Working Group on Statistics.

Table 4. Aggregate Balance Sheet of RBEs per IPAs in 2015 (in ₱ billion, except for the number of RBEs)

IPA	Current Assets	Non-Current Assets	Total Assets	Total Liability	Stockholder's Equity[15]	Average Stockholder's Equity per RBE	Total Liability and Stockholders' Equity
BOI	671.23	1,045.17	1,716.40	612.13	1,104.26	1.699	1,716.40
PEZA	944.51	1,040.04	1,984.55	636.69	1,347.87	0.413	1,984.55
CFZ	NDP	NDP	NDP	NDP	NDP	NDP	NDP
SBMA	8.76	8.78	17.54	10.42	7.13	0.020	17.54
AFAB	9.25	11.69	20.94	18.22	2.71	0.028	20.94
PPFZ	0.06	0.19	0.26	0.15	0.11	0.018	0.26
BCDA	0.00	0.04	0.05	0.01	0.03	0.030	0.05
ZCSEZA	2.53	1.17	3.70	4.22	(0.52)	-0.040	3.70
Total	1,636.34	2,107.09	3,743.43	1,281.83	2,461.60	0.560	3,743.43

Source: computed from IPAs submission
*NDP= no data provided

PEZA provided additional details of its non-current assets by reporting its property, plant and equipment (PPE) valued at ₱743.97 billion. The value of the PPE was highest in hotel accommodation (₱195.58 billion); manufacture of computer, electronic, and optical products (₱145.08 billion); and electricity, gas, steam and air-conditioning supply (₱143.14 billion).

Liabilities and Stockholders' Equity. Meanwhile, the claims against assets are of two types: liabilities and stockholders' equity. Liabilities cover debts that must be paid in the near future along with bonds, mortgages, and long-term notes. Stockholders' equity represents the amount that is available to the owners after all debts have been paid. Looking again into Table 4, the chunks of debts were within the RBEs under the purview of BOI and PEZA, although the corresponding shareholders' equity remain positive and healthy. The average stockholders' equity among all reporting RBEs was estimated at ₱0.560 billion, the largest of which came from BOI at ₱1.699 billion, followed by PEZA at ₱0.413 billion.

While the total shareholders' equity in 2015 remained positive, it must be noted that more than half of total assets are tied up in non-current assets. The situation in ZCSEZA, in particular, warrants further attention given the negative shareholders' equity recorded in 2015.

Total stockholders' equity can be disaggregated into **contributed capital** and **retained earnings**. Contributed capital consists of common stock and other paid-in capital (otherwise known as par value of stock and additional paid-in capital). Contributed capital represents the proceeds realized from the sale of the stock to the public, whereas retained earnings represent the buildup of equity of profits given back to the firm. Even without the issuance of new equity, book value usually will increase every year due to reinvested earnings. Based on the data (Table 5), all the reporting IPAs demonstrate a higher share of contributed capital compared to retained earnings.

[15] The difference between the assets and liabilities is the net worth, otherwise known as the shareholders' equity or stockholders' equity.

Table 5: Decomposition of Aggregate Stockholders' Equity of RBEs per IPA in 2015

IPA	Contributed Capital		Retained Earnings		Stockholders' Equity		
	₱ billion	Share-to-total contributed capital (%)	₱ billion	Share-to-total retained earnings (%)	₱ billion	Share-to-total stockholders' equity (%)	Share-to-market capitalization (%)
BOI	774.22	51.10	330.05	34.87	1,104.27	44.9	8.20
PEZA	731.62	48.29	616.25	65.10	1,347.87	54.8	10.01
CFZ	NDP	NDP	NDP	NDP	NDP	NDP	NDP
SBMA	5.93	0.39	1.2	0.13	7.13	0.3	0.05
AFAB	3.61	0.24	-0.89	-0.09	2.72	0.1	0.02
PPFZ	0.11	0.01	0.002	0.000	0.11	0.004	0.001
BCDA	0.02	0.001	0.01	0.001	0.03	0.00	0.0002
ZCSEZA	-0.47	-0.03	-0.05	-0.01	-0.52	-0.02	-0.004
TOTAL	1,515.03	100	946.57	100	2,461.60	100	18.28

Source: IPAs submissions

Total stockholders' equity of all reporting IPAs for 2015 is estimated at ₱2,462 billion, equivalent to 18.3 percent of the entire market capitalization of the equity market in 2015. RBEs in BOI and PEZA had stockholders' equity equivalent to 10.0 and 8.2 percent of the equity market, respectively. These numbers are indicative of the amount of additional investments generated, possibly because of the incentive regime.

PEZA remained on top in terms of total stockholders' equity, with an equivalent share of 54.8 percent of the entire pie of the eight IPAs. When decomposed, 54.3 percent of PEZA's total stockholders' equity belongs to contributed capital. A major portion of the contributed capital of the 3,263 RBEs were driven by three industries: hotel accommodation (20.15%); manufacture of computer, electronic, and optical products (18.8%); office administrative, office support and other business support activities which covers business process outsourcing operations (14.91%). Retained earnings for PEZA RBEs were highest in the manufacture of computer, electronic, and optical products (31.4%); office administrative, office support and other business support activities (13.8%); electricity, gas, steam and air-conditioning supply (10.5%), and manufacture of electrical equipment (10.1%). These industries cover almost two-thirds of the entire retained earnings.

Business enterprises registered with BOI RBEs total stockholders' equity was 44.9 percent of the grand total stockholders' equity of the reporting IPAs. Contributed capital (54.3%) took more than half of the share of total stockholders' equity relative to retained earnings (45.7%). Though distinctions in the balance sheet were not indicated in its report, the BOI investments reached ₱278.25 billion in 2015 with air transport; electricity, gas, steam and air-conditioning supply; real estate activities, manufacture of chemicals and chemical products, accommodation, and mining of metal ores accounting for the bulk of investments.

Meanwhile, SBMA reported ₱5.93 billion of contributed capital and ₱1.20 billion retained earnings of RBEs, which constituted 0.3 percent of the reporting IPAs total stockholders' equity. About 48 percent of the contributed capital were accounted for by wholesale and retail trade; repair of motor vehicles and motorcycles; manufacturing; hotel accommodation and food service activities; and administrative and support service activities.

For AFAB's 96 registered enterprises, total stockholders' equity totaled ₱ 2.72 billion or 0.1 percent of the grand sum of shareholder's equity, with manufacturing primarily boosting its contributed capital. Retained earnings, however, posted a contraction for the year. Basically, a negative stockholders' equity means the stockholders are in debt. In reality, however, it is usually affected by accounting procedures that deal with cumulative losses in prior periods and hence can be treated as liabilities until they are cancelled. Other causes of negative shareholders' equity are major adjustments to intangibles, depreciation in currency positions and leveraged buyouts.

Meager contributors to the stockholders' equity were BCDA, PPFZ and ZCSEZA. Under BCDA, there is only one RBE in operation within the Morong Special Economic Zone in Bataan Technology Park as of end of taxable year 2015 with contributed capital of ₱20.3 million. PPFZ reported contributed capital of ₱105.89 million, 63.0 percent of which is accounted for by education. ZCSEZA's report reflected negative values of ₱469.71 million and ₱49.920 million in contributed and retained earnings. Negative values were posted in stock equity and retained earnings for the operation of a coal powered plant and the processing and manufacture of rubber. As a side note, CFZ reported a preliminary figure of ₱182 billion[16] in actual investments in 2015. But no details of the figures have been provided in their letter.

Jobs Generated and Wage Bill

At the outset, the difference between the number of jobs and the number of persons employed should be clarified. A job is a set of tasks and duties executed, or meant to be executed, by one person; there is no consideration for job duration. In contrast, employment is tagged per person over a specific period of time. It is possible for one employed person to perform two or several jobs over a period of time.

Jobs generated. Based on data submissions, given in Table 6, the RBEs were able to generate close to 2.5 million jobs in 2015. PEZA and SBMA, which generated approximately close to 2.2 million jobs, accounted for 89.4 percent of jobs generated in 2015. Direct labor[17] accounted for 72.0 percent of total jobs by PEZA's RBEs, while outsourced labor,[18] constituted 89 percent of workers in SBMA's RBEs. BOI's RBEs hired more indirect labor[19] compared to the other labor categories, while ZCSEZA's RBEs were dependent on outsourced labor. PEZA hired the largest number of expatriates, followed by SBMA and BOI. Other IPAs did not report hiring any expatriate. Data are not available in case of the CFZ.

Table 6. Jobs Generated and Decomposition in 2015

IPA	Total Jobs Generated (no. of persons)	Share-to-Total Jobs Generated by All Reporting IPAs (%)	Share-to-Total Jobs Generated Per IPA (%)				
			Direct labor	Indirect labor	Outsourced Labor	Management	Expatriates
BOI	154,887	6.2	25.0	58.2	3.3	13.3%	0.3
PEZA	1,026,832	41.1	71.9	12.2	13.3	2%	0.4
CFZ[20]	82,382	3.3	NDP	NDP	NDP	NDP	NDP
SBMA	1,204,447	48.3	4.1	0.4	89.2	6.3	0.1
AFAB	26,200	1.0	66.2	0.0	33.8	0.0	0.0
PPFZ	159	0.006	30.2	15.1	50.3	4.4	0.0
BCDA	16	0.001	87.5	6.3	0.0	6.3	0.0
ZCSEZA	1,042	0.04	22.5	10.6	56.1	10.7	0.0
Grand Total	2,495,965	100	33.8	8.9	49.1	4.8	0.2

Source: IPAs submission

[16] Total investments of operational Clark Freeport Zone locators/RBEs amounted to ₱182 billion (tentative) based on letter of CDC dated December 27, 2016.
[17] Direct labor is the labor that is involved in the active conversion of materials into finished products of a firm.
[18] Outsourcing is the modern firm practice of hiring workforce to perform services and create goods that traditionally were performed within the company's own employees and staff. Usually done as a cost-cutting measure, it can affect jobs ranging from customer support and back office work.
[19] Indirect labor is the labor that only supports the production process of a firm. Examples of indirect labor positions are janitors, security guards and purchasing staff. Although the efforts of these workers are essential to production, the cost of these types of indirect hence are considered overhead costs and ends up in either ending inventory or the cost of goods sold.
[20] Disaggregated data are not available since CDC contracts and business policies do not require them;
Total jobs figure based on letter dated December 27, 2016

Wage bill. Given the difference in definition between job and employment generation, the data above could not be compared against official employment statistics. In its stead, the amount of wage bill paid by the RBEs can be compared against the estimated Compensation of Employees based on the Consolidated Income and Outlay accounts in 2015.

The total wage bill amounted to ₱296 billion (Table 7). Most of these were paid to direct labor in the case of PEZA (67.7%), SBMA (56.7%), PPFZ (72.3%) and BCDA (73.4%). On the other hand, BOI (51.1%) and ZCSEZA (66.0%) were paying more for indirect labor and outsourced labor, respectively.

Table 7. Decomposition of Wage Bill per IPAs in 2015

	BOI	PEZA	CFZ	SBMA	AFAB	PPFZ	BCDA	ZCSEZA	Total
Total Wages paid by IPAs (in ₱ million)	24,151.89	268,793.43	NDP	1,179.43	2,362.18	9.87	3.38	87.31	296,587.49
Percent Share from Total Wages (%)									
➢ Direct Labor	33.6	67.7	NDP	56.7	NDP	72.3	73.4	19.0	64.3
➢ Indirect Labor	51.1	13.6	NDP	16.3	NDP	17.4	12.4	4.6	16.5
➢ Outsourced Labor	8.6	7.7	NDP	15.5	NDP	NDP	0.0	66.0	7.7
➢ Management	5.2	7.8	NDP	10.2	NDP	10.4	14.2	1.8	7.5
➢ Expatriates	1.6	3.2	NDP	1.4	NDP	0.0	0.0	8.7	3.1

Source: computed from IPAs submission

The total wage bill reported by the RBEs comprise 6.3 percent of total Compensation of Employees paid in 2015. The top three contributors (Table 8) were RBEs in manufacturing (2.4%); real estate, renting and business activities (3.2%), and other services (0.3%). Among the IPAs, PEZA had the largest share in total compensation of employees (5.72%), followed by BOI (0.51%). The rest had a combined share of less than 1.0 percent in the aforesaid ratio.

Table 8. Wage Bill and Share-to-Total Compensation of Employees[21] of RBEs Aggregated by Major Industries in 2015

Industry	Total Wage Bill (all IPAs, ₱ million)	Share-to-Total Compensation (%)
1. Agriculture, forestry, and fishing	574	0.01
2. Mining and quarrying	173	0.004
3. Manufacturing	110,612	2.4
4. Construction	961	0.02
5. Electricity, gas, and water	2,951	0.06
6. Transportation, storage, and communication	20,112	0.4
7. Wholesale and retail trade; repair of motor vehicles and motorcycles	126	0.003
8. Real estate, renting and business activities	149,166	3.2
9. Financial and insurance activities	-	0.00
10. Public administration and defense; compulsory social security	-	0.00
11. Other services	11,908	0.3
TOTAL	296,584	6.3

Source: IPA submissions

[21] Compensation of employee includes salaries and wages and employer's contributions to Social Security System (SSS), Government Service Insurance System (GSIS), PhilHealth, PAG- IBIG and the like

Export and Domestic Sales

Exports perform a crucial role in influencing growth, industry development, employment and the current account. Data show that among the IPAs, the bulk of the exports and domestic sales originated from BOI and PEZA. Business enterprises registered with the BOI generated export sales of US$1,505.0 million and domestic sales of ₱227,490.8 million. Meanwhile, PEZA registered enterprises posted a total of US$16,803.0 million in export earnings for 2015 and generated domestic sales of ₱64,163.9 million. Sales of ZCSEZA RBEs to the domestic market amounted to only ₱15.27 million while exports were valued at US$ 8.74 million.

Table 9. Export and Domestic Sales of RBEs per IPA in 2015

IPA	Export Sales (US$ million)	Share-to-Export Sales of IPAs (%)	Domestic Sales (₱ million)	Share-to- Domestic Sales of IPAs (%)
BOI[22]	1,505.0	8.2	227,490.82	77.9
PEZA	16,803.0	91.1	64,163.86	22.0
CFZ[23]	26.2	0.1	90.59	0.0
SBMA	NDP	NDP	NDP	NDP
AFAB	96.5	0.5	306.28	0.1
PPFZ	0.2	0.001	28.48	0.01
BCDA	0	0.0	27.76	0.01
ZCSEZA	8.7[24]	0.05	15.27	0.01
TOTAL	18,439.6	100	292,123.06	100

Source: IPAs submission

Table 10. Export and Domestic Sales of RBEs Aggregated by Major Industries in 2015

Industry	Export Sales (All IPAs)		Domestic Sales (al IPAs, in ₱ million)	Share of Sum of Export and Domestic Sales to GDP (%)
	Export Sales (in US$ million)	Share-to-Total Exports (%)		
1. Agriculture, forestry, and fishing	3.1	0.003	5,290.2	0.04
2. Mining & quarrying	377.3	0.4	32,622.3	0.4
3. Manufacturing	12,336.6	11.7	58,631.4	4.7
4. Construction	0	0	7,419.9	0.06
5. Electricity, gas, and water	23.7	0.02	58,403.6	0.5
6. Transportation, storage, and communication	935.7	0.9	72,845.2	0.9
7. Wholesale and retail trade; repair of motor vehicles and motorcycles	0.1	0.0001	190.4	0.001
8. Real estate, renting and business activities	4,728.3	4.5	50,306.3	2.0
9. Financial and insurance activities	0	0	0	0
10. Public administration and defense; compulsory social security	0	0	0	0
11. Other services	8.7	0.01	6,323.1	0.1
TOTAL	18,413.43	17.4	292,032.47	8.5

Source: computed from IPAs submission

[22] Data/information based on BOI submissions dated December 29, 2016, April 12, June 28, and August 29, 2017.
[23] Based on CDC's letter dated December 27, 2016.
[24] Value of VAT zero rated exports.

By industry cluster, two-thirds of the export sales of IPAs RBEs came from manufacturing and the remaining one-third was shared by real estate, renting and business activities; mining and quarrying, and transportation, storage and communication. On the other hand, the bulk of domestic sales (93.4%) originated from transportation, storage and communication (24.9%); manufacturing (20.1%); electricity, gas and water (20.0%); real estate, renting and business activities (17.2%), and mining and quarrying (11.2%).

The share to total exports of all IPAs in 2015 was at 17.4 percent; domestic sales, on the other hand, was worth 2.19 percent of GDP. The combined exports and domestic sales was equivalent to 8.5 percent to GDP, assuming that domestic sales are in the form of final consumption goods.

Value of Imports

RBEs within PEZA required the most in imports, with 99.7 percent share. However, no report on importation was received from the RBEs operating within the BOI, ZCSEZA and BCDA.

Table 11. Value of Imports per IPA Aggregated by Major Industry (in US$ million) in 2015

Industry	PEZA	AFAB	PPFZ	BOI	ZCSEZA	BCDA	Total
1. Agriculture, forestry, and fishing	-	-	-	-	-	-	-
2. Mining & quarrying	-	-	-	-	-	-	-
3. Manufacturing	86,973.6	256	0.01	-	-	-	87,229.6
4. Construction	-	-	0.03	-	-	-	0.03
5. Electricity, gas, and water	12.9	-	-	-	-	-	12.9
6. Transportation, storage, and communication	896.6	-	-	-	-	-	896.6
7. Wholesale and retail trade; repair of motor vehicles and motorcycles	-	3.4	2.2	-	-	-	5.6
8. Real estate, renting and business activities	103.8	-	-	-	-	-	103.8
9. Financial and insurance activities	-	-	-	-	-	-	-
10. Public administration and defense; compulsory social security	-	-	-	-	-	-	-
11. Other services	8.7	-	1.4	-	-	-	10.1
TOTAL	87,995.6	259.4	3.7	-	-	-	88,258.7

Source: IPAs submissions

Table 11 confirms the heavy dependency of imports, particularly, manufactured exports. RBEs engaged in manufacturing had the highest import bill, at 98.83 percent of total imports of RBEs, followed by transportation, storage and communication at 1.02 percent. All the RBEs posted a sizeable share of 89.53 percent relative to the total imports of the country.

The value of net exports resulting from the operation of the RBEs amount to negative ₱3.2 trillion in 2015. For the entire economy, net exports was valued at less than negative ₱780 billion. This means that it was the operation of the other export-oriented enterprises not registered with the IPAs that helped reduce the trade deficit.

Table 12. Value of Imports and Shares of RBEs Aggregated by Major Industry in 2015

Industry	Value of Imports (All IPAs)	
	Value of Imports (in US$ million)	Share-to-Total Imports (%)
1. Agriculture, forestry, and fishing	-	0.00
2. Mining and quarrying	-	0.00
3. Manufacturing	87,229.62	88.48
4. Construction	0.03	0.00
5. Electricity, gas, and water	12.87	0.01
6. Transportation, storage, and communication	896.57	0.91
7. Wholesale and retail trade; repair of motor vehicles and motorcycles	5.64	0.006
8. Real estate, renting and business activities	103.84	0.11
9. Financial and insurance activities	-	0.00
10. Public administration and defense; compulsory social security	-	0.00
11. Other services	10.12	0.01
TOTAL	88,258.69	89.53

Source: IPAs submissions

Higher imports of the RBEs from the zones is not necessarily harmful for the economy. But extended reliance on import content and technology over the long run could work against the economy as the zones are eventually decoupled from the domestic economy. This implies weak backward linkage and therefore, lower multiplier effect. It is important to examine carefully how the regulatory framework contributed to such profile, and more importantly, how this import dependence can be reversed.

V. CONCLUSION

The regulatory framework governing tax incentives clearly needs to be carefully evaluated and modified so that the incentives deliver the best returns—the so-called value-for-money.

This brief report for 2015 covered the consolidated data submission of RBEs through the IPAs. The report has been constrained by the late and incomplete submission of the IPAs, which will need to be addressed in the next round. Table 13 summarizes the findings of the report.
Henceforth, all RBEs will be required to submit annual reports (through their respective IPAs, if there would still be more than one) – by the middle of the first quarter following the end of each calendar year – accounting for their performance vis-à-vis the rationale and objectives of the government's grant of fiscal incentives. Such accounting of performance must include the data and information needed for an objective and complete cost-benefit analysis to be undertaken by NEDA, a member of the Foreign Investment Review Board (FIRB).

Except for the RBEs in ZCSEZA, enterprises receiving tax incentives appear to be well-capitalized. The aggregate of contributed capital and retained earnings is equivalent to 18.3 percent of the capitalization of the equity market in 2015.

Perhaps, the significant contribution of the RBEs is in terms of job generation and even wages paid. It paid out an equivalent of 6.3 percent of the economy's total wage bill even though the number of establishments made up only 0.45 percent of all establishments in the country in 2015.

The contribution of RBEs to the trade balance is negated by their heavy import dependence. In 2015, ₱780 billion trade deficit would have widened to at least ₱3.2 trillion were it not for the impressive performance of the other export industries not receiving incentives. This gross trade deficit makes it difficult to ascertain if the impact of these RBEs on GDP is positive.

Table 13. Summary of Findings

Variable of Interest	2015 Value	As percent of	%
Number of RBEs reporting	4,393.00	Total Establishments	0.45
Tax Incentive Claims (₱ M)	91,280.00	Revenues from CIT	18.6
Stockholders' equity (₱ M)	2,461,600.00	Total Stock Capitalization	18.3
Wage bill (₱ M)	296,587.49	Total Compensation	6.3
Export earnings (₱ M)	848,221.60	Total Exports	17.4
Import bill (₱ M)	4,059,899.74	Total Imports	89.5
Export + Domestic Sales (₱ M)	1,140,344.66	GDP	8.5
Net Exports (₱ M)	-3,211,678.14	Net Exports	408.7

While the Philippines is one of the early adopters of special economic zones (SEZs), its potential has not been realized due to the weak backward and forward linkages in the domestic economy. It must also be remembered that at the time the SEZs were established, it was to address gross inadequacies in infrastructure and human capital. It was understood that the SEZs were temporary solutions.

Furthermore, it is apparent that the incentive regime has not conformed to the industrial policy as implied by the differential effective tax rate. One may recall that agriculture enterprises are awarded the lowest effective tax rate, yet the sector has the least number of RBEs. Clearly, tax incentive is but one of the many factors being considered in the investment decision.

One of the bold and major steps to maximize the gains from the SEZs is to revisit and overhaul the current fragmented tax incentive regime from the different IPAs. It is critical that the framework of reforms be clearly charted first within the bounds of transparency, performance, targets and time frame. Reforms should proceed with prudence, adopting a systems approach among stakeholders.

While there are myriad of solutions to move forward, the reforms could cover the following:

(a) lowering of the corporate income tax rate such that the regular regime tax rate should converge and become indistinguishable from the special income tax rates;
(b) simplifying a common set of menu of incentives across IPAs;
(c) setting of conditions when granting incentives;
(d) defining the appropriate lifespan of the incentives;
(e) considering the spatial externalities generated by the incentives (e.g. locators in poorer regions/provinces receiving higher incentives);
(f) strengthening of facilitation mandate and investment assistance of IPAs;
(g) identifying the overall administrator of IPAs;
(h) defining the transition mechanism to facilitate the shift to the new investment regime;
(i) choosing the best practices and organizational processes from the consistently outstanding IPA; and
(j) tapping the active participation of local government units to align their Local Investments and Incentives Code with the objective of creating ancillary industries.