



MALACAÑAN PALACE
MANILA

05 January 2024

THE HONORABLE SPEAKER
and Members of the House of Representatives
House of Representatives
Batasan Hills, Quezon City

Ladies and Gentlemen:

In accordance with my firm commitment to modernize and increase the efficiency and effectiveness of tax administration and to strengthen taxpayer rights, I sign into law Republic Act No. 11976, entitled "AN ACT INTRODUCING ADMINISTRATIVE TAX REFORMS, AMENDING SECTIONS 21, 22, 51, 57, 58, 76, 77, 81, 90, 91, 103, 106, 108, 109, 110, 112, 113, 114, 115, 116, 117, 118, 119, 120, 128, 200, 204, 229, 235, 256, 237, 238, 241, 242, 245, 248, AND 269; AND REPEALING SECTION 34 (K) OF THE NATIONAL INTERNAL REVENUE CODE OF 1997, AS AMENDED, AND FOR OTHER PURPOSES."

After the comprehensive amendments to tax policy introduced by the previous administration, we now focus our sights on tax administration with the passage of the Ease of Paying Taxes (EOPT) Act. Recognizing the importance of how the government collects taxes, this measure solidifies our commitment to our countrymen towards a dynamic and efficient tax administration which is responsive to the needs of our taxpayers, both individuals and those who are doing business, adapts to the changing times, and ultimately supports our recovery and growth objectives.

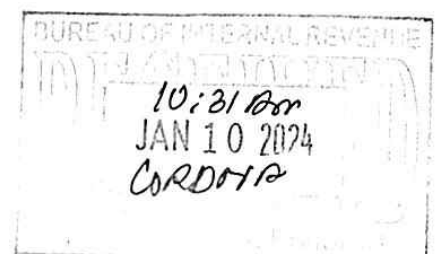
The EOPT Act will simplify tax filings for micro and small enterprises, allow most tax processes to be done online, shift to an invoice system to accelerate value-added tax (VAT) refunds, and create a special division in the Bureau of Internal Revenue (BIR) for small and medium taxpayers.

I thank the legislators of the 19th Congress, especially the leadership of both Houses and the Chairpersons of the Committees on Ways and Means, for this crucial and far-reaching Act.

However, I cannot fully support certain provisions of the measure that tend to defeat its very objectives and would not only pose a substantial fiscal risk but also reduce the efficiency of tax administration in the long run.

We seek a tax system that would alleviate the tax burden of our citizenry and support lasting economic development. It is crucial, therefore, to maintain a fiscally disciplined policy that will ultimately be favorable for everyone.

THE PRESIDENT OF THE PHILIPPINES



Exempting micro-enterprises from the obligation to withhold taxes

Under Section 27(2) of Article VI in the 1987 Constitution, the President may veto particular items in an appropriation, revenue, or tariff bill, but the veto shall not affect the item or items to which he does not object. This power covers items of appropriation, revenue, tariff, as well as inappropriate provisions in the measure. As such, I am constrained to veto **Section 8** of the Act, which exempts micro-enterprises from the obligation to withhold taxes under Section 57(b) of the Tax Code, to wit:

SEC. 8. Section 57 of the National Internal Revenue Code of 1997, as amended, is hereby further amended to read as follows:

“SEC. 57. *Withholding of Tax at Source.* –

(A) x x x

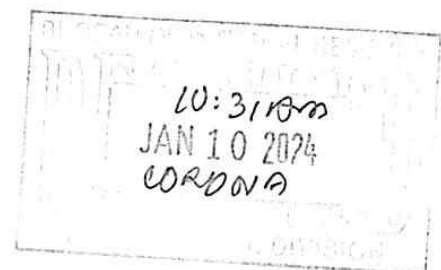
(B) x x x

(C) *Tax-free Covenants Bonds.* – x x x

The Department of Finance shall review, at least once every three (3) years, regulations and processes for the withholding of creditable tax under this Code, and direct the Bureau of Internal Revenue to amend rules and regulations for the same, should it be found during the review that the existing rules, regulations, and processes for the withholding of creditable tax under this Code adversely and materially impact the taxpayer: *Provided, That micro taxpayers shall not be required to withhold taxes under Subsection (B) of this Section.* [underscoring added]

The withholding tax system provides the benefit of collecting the seller's income taxes in advance. It also serves as an audit trail that mitigates underdeclaration of sales and income and underpayment of the corresponding value-added tax (VAT). If not vetoed, removing the withholding tax requirement for micro taxpayers will likely result in an understatement of tax obligations, negatively affecting the cash flow of the government.

Assuming a 50 percent non-compliance rate (based on a 2018 World Bank study placing the country's personal income tax gap at 53.4 percent), the exemption of micro taxpayers will cost the government P40.4 billion in 2024 alone, equivalent to 0.15 percent of GDP. The total estimated forgone revenues for 2024 to 2028 is approximately P206.4 billion. Even at a modest non-compliance rate of 25 percent, the estimated average annual revenue loss will still be at P25.8 billion or a total of P103.2 billion from 2024 to 2028. The government cannot afford to lose such considerable revenue amid limited fiscal space at a time when the country needs government support to maintain its economic growth momentum.



The aim of the EOPT Act to support micro and small enterprises must be fulfilled without impairing the government's tax administration capacities which are crucial to a responsive, effective, and sustainable implementation of fiscal policies. We have to strike a balance between providing relief to taxpayers, on the one hand, and maintaining administrative efficiency through the integrity of our tax collection and monitoring mechanisms, on the other. When we keep our reforms balanced and equitable, we ensure a resilient public financial management system that will facilitate stronger economic growth.

Very truly yours,



Copy furnished:

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