

04 September 2019

SENATOR AQUILINO PIMENTEL III

Chairperson

Committee on Trade, Commerce and Entrepreneurship
Senate of the Philippines
Roxas Blvd., Pasay City

Dear **Senator Pimentel**:

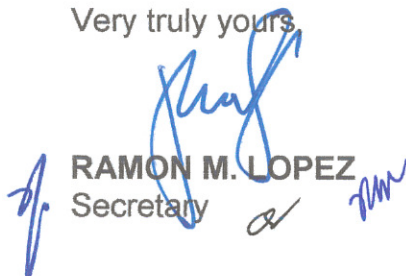
We are pleased to submit the Department's position on the unnumbered bill amending the Special Economic Zone Act, as inquired by your office, provisionally entitled:

“An Act Strengthening the Powers and Functions of the Philippine Economic Zone Authority (PEZA) to Accelerate Rural Progress and Inclusive Growth through Robust Development of Special Economic Zones in the Countryside, Enhancing the Incentives Thereof and Amending for this Purpose, Republic Act No. 7916, Otherwise Known as ‘the Special Economic Zone Act of 1995’, as Amended by RA 8748”

This is without prejudice to the Department's submission of additional inputs.

With my best regards.

Very truly yours,


RAMON M. LOPEZ
Secretary



OFFICE OF THE SECRETARY

DTI Position on

Unnumbered Bill Amending the Special Economic Zone Act

“An Act Strengthening the Powers and Functions of the Philippine Economic Zone Authority (PEZA) to Accelerate Rural Progress and Inclusive Growth through Robust Development of Special Economic Zones in the Countryside, Enhancing the Incentives Thereof and Amending for this Purpose, Republic Act No. 7916, Otherwise Known as the Special Economic Zone Act of 1995, as Amended by RA 8748”

The Department is supportive of initiatives to spread inclusive wealth and promote industrialization throughout the country with the use of foreign investments and incentive packages. In this regard, the DTI is able to implement its objectives of proliferating economic development through its regional offices and attached agencies, one of which is the Philippine Economic Zone Authority (PEZA). PEZA oversees the establishment and operation of special economic zones, and the granting of incentives to locator enterprises as provided for in Republic Act No. 7916, otherwise known as the Special Economic Zone Act of 1995, and following the current incentives menu set by the Omnibus Investments Code of 1987 which is primarily handled by the Board of Investments (BOI), another attached agency of DTI.

The Department notes that the proposed bill's amendments to the Special Economic Zone Act would sever this crucial linkage between DTI and PEZA that provides a whole-of-government approach towards industry development and entrepreneurship. The DTI is recognized as the national agency responsible for enabling businesses in the country which involves planning for and implementing various sector roadmaps and facilitating the growth of enterprises in every region. Following this, the Department undertakes several initiatives and strategies which the PEZA references for its own guidelines, operations, and granting of applications. PEZA's promotion of priority industries and areas is then an actualization of DTI's directional thrusts and in supplement to the Department's other programs and arms. The departure of PEZA from DTI would therefore only limit both agencies' capacity to deliver on their respective mandates. The Department highly recommends for the retention of PEZA as an attached agency of DTI as it would be able to serve best and more consistently under the general scope of the latter's responsibilities.

Moreover, the Department reiterates its support to the Comprehensive Tax Reform Program (CTRP), as part of the government's vision of modernizing the present tax regime. In particular, we concur with the staggered transition towards an overall 20% corporate income tax (CIT) coverage and the rationalization of fiscal incentives into a harmonized system; the Department submitted a favorable position to the text of the 17th Congress' House Bill No. 8083, otherwise known as the *TRABAHO* bill. Consistent with this, we similarly expressed support to HBNs 176, 313, 1042, 1909, 2084, and 2554 – collectively known as the CTRP 2 bills or *CITIRA* – which retains the provisions of *TRABAHO*.

We are cognizant of PEZA's dissatisfaction that the perpetual 5% tax on gross income earned (GIE) in lieu of all national and local taxes, which is a primary incentive feature of PEZA, would be removed by CTRP. However, the DTI still emphasizes that the new menu of incentives would balance foregone revenue, which could fund the government's various socio-economic development programs, while still maintaining a competitive tax regime for foreign locators and investors. Moreover, CTRP 2 seeks to harmonize the different investment regimes administered by various unique investment promotion agencies (IPAs) which is complicating the country's fiscal policy. Harmonization entails streamlining and simplification of procedures for investment applications and approvals; this is practiced by our ASEAN neighbors through their respective lead agencies such as Singapore's Economic Development Board, Thailand's Board of Investment, Indonesian Investment Coordinating Board, Vietnam's Ministry of Planning and Investment, and the Lao Development Promotion Department. The Department reiterates that the Philippines needs to reform its current investment program to be more competitive vis-à-vis other countries by instituting a more comprehensive and harmonized set of incentives which all IPAs should follow. The DTI believes that IPAs should not compete on the basis of fiscal incentives but rather differentiate themselves in terms of facilities, services, and streamlined procedures.

The Department reiterates its firm position to the effective changes brought by the proposed bill with consideration of its views. The Department emphasizes that it conducted consultations with various business groups and stakeholders before expressing support to the provisions of CTRP 2. We recommend for all legislations involving fiscal incentives to be aligned with CTRP or, better yet, to be consolidated with the current *CITIRA* bills into one version.



Bureau of Trade and Industrial Policy Research

04 September 2019

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