# Economic Relief in the Time of COVID-19: Rationale, Mechanics, Costing, and Prospective Impact of Temporary Value-Added Tax (VAT) Suspension and Income Tax Waiver in the Philippines

David Michael M. San Juan
*De La Salle University-Manila*
*david.sanjuan@dlsu.edu.ph*

**Abstract:** As a response to the economic crisis brought by COVID-19, the Philippine government has implemented its Social Amelioration Program (SAP) which disbursed a monthly cash aid worth 5,000 to 8,000 Philippine pesos (US$ 99.08 to 158.53 at the exchange rate of US$ 1 = 50.46 pesos) to each of the target households pegged at 18 million, for an initial period of two months. Beneficiaries complain that the amount will not be enough for all their needs, while non-beneficiaries and even local government officials clamor for a more broad-based aid scheme. To help provide a feasible solution, this paper tackles the rationale, mechanics, costing, and prospective impact of temporary Value-Added Tax (VAT) suspension and income tax waiver for the poor and the middle class in the Philippines, through the analysis of publicly-available statistics. International benchmarking and funding options for these proposals have also been explored. This paper asserts that VAT suspension and income tax waiver will greatly help the poor and the middle class, and both schemes are feasible and will not be detrimental to the country's financial situation. The paper concludes that all options to help the poor and the middle class must be on the table in times like these.
**Key Words:** economic relief; pandemic response; value-added tax (VAT) moratorium; income tax waiver; Keynesianism

## 1. INTRODUCTION

Writing to Philippine President Rodrigo Duterte, Governor Jonvic Remulla (2020) of the Province of Cavite (a populous province south of Manila), voiced out a popular clamor for financial aid to a broader segment of households, when he appealed for the inclusion of middle class families into the Philippine government's Social Amelioration Program (SAP) which was crafted in response to the crisis brought by the COVID-19 pandemic. Beyond the SAP, this paper proposes at least a six-month break for poor and middle-class workers, through a Value-Added Tax (VAT) moratorium on food, medicine, basic commodities, & utilities, and an income tax waiver.

According to an official Philippine Department of Social Welfare and Development/DSWD infographic (DSWD Region V, 2020), only households with at least one member from any of the vulnerable or disadvantaged sectors are qualified to receive the Social Amelioration Card (SAC) through which a monthly cash aid amounting to 5,000 to 8,000 pesos (per household) will be deposited for at least two months. Cash aid through SAP is being disbursed through a process supervised by the DSWD, which automatically disqualifies many citizens (Parrocha, 2020).

While the poorest of the poor are rightfully prioritized in the implementation of SAP, the not-so poor and the middle class would seem to be left to fend for themselves in this time of crisis. It is now necessary to quickly review the government's definition of the poverty threshold, which also determines who's officially classified as "poor," "low income but not poor," "lower middle income," "middle middle income," "upper middle income," "upper income but not rich," and "rich" (Albert et al., 2018), vis-à-vis a labor group's (Defend Jobs Philippines, 2018) and a think tank's (IBON Foundation, 2020) estimates.

The PSA (2019) still uses 10,727 pesos – "on average, for a family of five per month in 2018" – as the official poverty threshold. This means that, officially, only families with an income lower than 10,727 pesos monthly are considered poor. As **Supplementary Table No. 1** shows (**note on ALL supplementary files after the References on p.6**), using more realistic ranges for income clusters will yield the fact that a good number of those who are excluded from SAP would still be in fact poor, based on actual, ground-based statistics. Academic critiques of official poverty statistics in the Philippines are also instructive (see Mangahas, 2011 and 2018; Chossudovsky, 2018).

Using 31,089 pesos (computed using IBON Think Tank's data on family living wage as of 2020) as the poverty threshold, households relying on just one income of any typical pensioners/daily wage workers or entry-level professionals, would have to be considered as poor and hence, must be given some aid. Setting such a higher poverty threshold is actually still on the safe side, as even then National Economic Development Authority (NEDA) Director General Ernesto Pernia was quoted as saying he thinks "roughly P42,000 a month would be a more decent income, at least to live above the poverty line" (see Cordero, 2018).

# 2. METHODOLOGY

## *2.1 Subsection*

This paper partly subscribes to Keynesianism – asserting that tax cuts "would put more disposable income in the wallets of consumers," which directly boosts over-all demand (Nelson, 2006) – and to Alejandro Lichauco's idea of a nurturing, economically interventionist State (1986), which all the more becomes applicable as the pandemic's economic impact becomes too big a challenge for the private sector and the country's citizens to bear alone. State inaction would only mean further economic downturns if not semi-permanent recession. Even in neoliberal bastions such as the United States, "expansionary fiscal policy (an increase in spending or a reduction in taxes to expand aggregate demand)" (Gravelle and Marples, 2021) are favored as a pandemic response. Within these contexts, the rationale, mechanics, costing, and prospective impact of temporary Value-Added Tax (VAT) suspension and income tax waiver for the poor and the middle class in the Philippines, through the analysis of and projections made from publicly-available statistics.

# 3. RESULTS AND DISCUSSION

For those categorized as "low income but not poor," and as belonging to any of the middle classes, it must be emphasized that the pandemic has hiked expenses for many families (2,448 to 5,988 pesos monthly as per author's estimates based on statistics from Rivas, 2018; Maynilad, 2020; IBON Foundation, 2020; see **Supplementary Table No. 2**). Within the context of the documented increase in expenses, some families who are yet to receive government aid (or are disqualified from receiving it) are resorting to either loans or dipping into whatever little savings they have (ABS-CBN News, 2020). According to the Consumer Expectations Survey of the Bangko Sentral ng Pilipinas/Central Bank of the Philippines (BSP) for the last quarter of 2019, "the percentage of households with savings at present went down to 36.3 percent from an all-time high of 37.5 percent in the previous quarter." Almost 64% of households in the country have no savings at all. According to the PIDS (2019), 1.4% of Philippine households are "rich"; 40.2% are part of the "middle-income class," and 58.4% belong to the "low-income class."

Assuming that all low-income households have no savings, linking the Central Bank of the Philippines statistics on savings with PIDS statistics on class composition of Philippine households, it's clear that certain segments of the middle class households (representing around 5.3% of the total households in the country) have no savings too. The number of middle-class households with no savings could be theoretically higher, as some low-income households could theoretically have savings. Thus, there is a need to expand the coverage of financial aid and/or propose ways to implement new supplementary economic relief for both poor and middle-class citizens. Expanding the coverage of SAP – considering the tedious process of application and verification (see Aceron, 2020; Chiu, 2020) – will not be practical.

Partial VAT suspension and income tax waiver are simpler, cheaper, and less bureaucratic.

Implementing VAT moratorium will only involve receipt-issuing stores, pharmacies, groceries, fast food chains, and supermarkets (for VAT suspension), and payroll managers of firms/companies (for income tax waiver). The proposed moratorium on VAT collection shall apply to food, medicine, and other basic and prime commodities. At the minimum, items covered by a prize freeze triggered by Presidential Proclamation 922 on COVID-19 as a national public health emergency (Department of Trade and Industry, 2020) – should be VAT-free for at least six months (canned fish, locally manufactured instant noodles, bottled water, bread, processed milk, coffee, laundry soap, detergent, cooking oil, LPG, kerosene etc.). Canned meat, processed meat, fast food, flour, condiments etc. should also be covered by this scheme. To expand the items covered by the proposed six-month VAT moratorium, Republic Act No. 9994 or the "Expanded Senior Citizens Act of 2010," and the Bureau of Internal Revenue's (BIR) Revenue Regulations (RR) No. 9-2019 could provide additional insights. The former lists some VAT exemptions for senior citizens, while the latter enumerates "VATable" items – such as basic and prime commodities – for which Persons With Disability (PWDs) are given a 5% discount (albeit, while still not exempt from VAT). With regard to medicines, as of this writing, as per Republic Act 10963 ("Tax Reform for Acceleration and Inclusion (TRAIN) Law"), only "medicines prescribed for diabetes, high cholesterol, and hypertension" are covered by VAT exemption. Alcohol, disinfectants, and similar germ-fighting essentials should be also exempted from VAT, at least for six months. Furthermore, this proposed six-month VAT suspension shall also apply to household utilities such as electricity, water, and communications (phone and/or internet services).

Considering that in 2019, 42.2% of the total expenditure of Philippine households go to "Food and Non-alcoholic Beverages," while 12.1% goes to "Housing, Water, Electricity, Gas and Other Fuels" (PSA, 2020a), suspending VAT collection on many food items and on utilities would certainly be beneficial to many citizens. This will benefit both poor, low-income, and middle-income households as the bulk of these households' expenditures are spent for such items (PSA, 2020b). As **Supplementary Figure No. 1** shows, the top-income class (those earning 500,000 pesos and above, spend more on other items **and less** on food, water, electricity, gas etc. Thus, expenditure-wise, VAT suspension will benefit the low-income brackets more. To further minimize the possible "leakage problem," certain food brands which the rich typically consume (the pricier brands, gourmet food etc.) could be excluded from VAT exemption. For water & electricity bills, the VAT exemption could be capped at a certain consumption level per household – say 7.74 $m^3$ (mean monthly water consumption of low-income households; see Palanca-Tan, 2018) & 600 kWh (the middle level in MERALCO's "typical consumption levels" supplied in **Supplementary Figure No. 2**), beyond which, the portion of the bill would still be VATable. For internet services, two options could be considered: 1) suspend VAT for prepaid internet services only; or 2) suspend VAT for prepaid internet services & for household internet services capped at 1,500 pesos per month (CONVERGE ICT's cheapest Fiber internet at 25 mbps), beyond which the portion of the bill will still be VATable. The findings of a European-wide study on VAT reduction (Copenhagen Economics, 2007) offers applicable insights that favor the temporary, crisis-bound elimination of VAT in the Philippine situation.

Temporarily suspending the collection of VAT can also potentially boost the economy through anticipated additional spending as people are expected to use temporary VAT "savings" to buy more necessities (based on their historical consumption patterns discussed and shown above). Such grassroots spending empowerment will be necessary if we are to quickly recover economically-speaking, from the impact of the COVID-19 pandemic.

Income tax waiver shall cover all employees both in the public and private sectors. This could be easily implemented by payroll managers who would only adjust their data to have zero income tax deductions from wages/salaries for at least six months. In almost all companies, such process is a purely electronic one. Hence, unlike in the implementation of SAP, for this scheme, there will be no long queues or tiresome submission of documents. The Philippine government could easily get the old employment records in the employers' databases, and the displaced workers would instantly receive cash aid. Topping up the proceeds of the proposed tax waiver and the tax reimbursement is also desirable for workers in the low-tier tax brackets. For purposes of economic justice, those who have a net annual taxable income of above 2,000,000 pesos, could be excluded from this income tax waiver, and to help shoulder the cost of the income tax waiver, the Philippine should also consider imposing a special income tax rate – similar to United Kingdom's 50% levy on "discretionary bonuses" in banks (see Radulescu, 2012) – for corporate bonuses, especially for top executives in firms where the pandemic years seem to be so profitable (see **Supplementary Table No. 3**).

As prices are generally higher in 2020 than in 2018, it is clear that the "savings" computed using NEDA's and Defend Jobs Philippines' data would be on the lower limits of actual savings, while those computed using IBON Foundation's data would be closer to current realities. Based on NEDA's data, Filipino families will each save at least 2,723.76 pesos if VAT on certain products is suspended for 6 months. Based on Defend Jobs Philippines' data, Filipino families will each save at least 4,788 pesos. Meanwhile, using IBON Foundation's data, Filipino families will each save at least 14,729.04 pesos. Actual family savings will be definitely higher for most families, as the proposed VAT suspension is intended to cover ALL medicines, vitamins, and alcohol too (which are absent in the consumer baskets/budget breakdowns of NEDA, IBON Foundation, and Defend Jobs Philippines). Such savings will definitely empower both poor and middle-class households to buy more necessities in a time of crisis, and hence not only help themselves but also the national economy in the process.

Many countries of the world are "turning to emergency tax breaks to support their stuttering economies under the coronavirus (COVID-19) threat" (Asquith, 2020). Paraguay has also reduced VAT rates on certain products (Deloitte, 2020). Meanwhile, Indonesia has also waived "10% consumption taxes on hotels and restaurants in Bali and nine other tourist destinations for the next three months" (Asquith, 2020).

Similarly, the feasibility of the proposed income tax waiver in the Philippines is boosted by the fact it will not be the first to implement it. In response to the crisis caused by COVID-19, Indonesia has recently announced that it will waive the personal income tax of employees/workers, and the income tax of entrepreneurs in the manufacturing sectors, for six months (Baskoro, 2020; Salna & Aditya, 2020)." PricewaterhouseCoopers/PWC (2020) notes that such move is expected "to boost" the Indonesian people's "purchasing power. Furthermore, in the same compilation, PWC lists various schemes that favor many individual taxpayers: in China, "(w)here enterprises or individuals donate cash or articles to cope with the epidemic situation caused by pneumonia infected with the new-type coronavirus through non-profit social organizations, the people's governments at or above the county level and their departments or other state organs, such donations are allowed to be fully deducted from taxable income,"; in South Korea "income tax deductions on individual spending between 1 March - 30 June 2020" have been increased for items such as "credit card spending: from 15% to 30%, cash receipts/debit cards: from 30% to 60%, traditional market/public transport: from 40% to 80%"; in Thailand, "withholding tax" for "service income" is reduced from 3% to 1.5%; in Uzbekistan, "from 1 April to 1 October 2020, the minimal social tax charge for individual entrepreneurs is reduced by 50%." The Tax Foundation, an "independent tax policy nonprofit" also provides international data on COVID-19-related tax reliefs (see Enache et al., 2020).

Fiscal conservatives in the government might be lukewarm to any prospective loss of revenue in a time of crisis, but feasible financing options exist if policymakers are willing to be creative and innovative enough in responding to this unprecedented public emergency that is already slowing down (if not entirely halting) the country's economic growth. The Asian Development Bank's/ADB's (2020) forecast for the Philippine GDP growth is bleak (**Supplementary Figure No. 3**) and Fitch Solutions (2020) says "we…forecast the Philippines' current account deficit to widen, as a collapse in external demand outweighs the impact of softer domestic consumption amid the Covid-19 (coronavirus) outbreak." The Philippine government's own economic agency, NEDA (2020) provides a negative preliminary assessment of the country's COVID-19-era economy: "…given the simultaneous adverse effects on the supply and the demand side of the economy, we expect a cumulative loss of PHP428.7 to PHP1,355.6 billion in gross value added (in current prices), equivalent to 2.1 to 6.6 percent of nominal GDP in 2020. Without mitigating measures, this would imply a reduction in the Philippine's real GDP growth to -0.6 to 4.3 percent in 2020." This is a time when inaction will not be an option, as the national economy – just like the global economy – needs urgent and massive intervention, without which, long-term downturn and/or stagnation looks imminent.

To effectively intervene in the economy, the Philippine government must be willing to utilize all its available resources in helping its people be financially empowered to keep domestic demand going if not rising. This is parallel with NEDA's own prescription (2020) for the Philippine government to have a "swift and appropriate response" aimed at "softening the blow of COVID-19, particularly on the most vulnerable members of our society." A quick review of past tax revenues and Central Bank of the Philippines records will shed light on how to finance VAT suspension and income tax waiver to put money on the pockets of both poor and middle-class households. Based on the author's estimates using Department of Finance/DOF and National Tax Research Center/NTRC data (2018) a six-month VAT suspension on items discussed in this paper would thus cost only around 113.67 billion pesos and the actual cost could be lower. Meanwhile, based on BIR statistics for 2018, a 6-month waiver of income tax collection would cost only around 115.518 billion[1].

This paper's main proposals – a 6-month VAT moratorium on certain vital goods, and income tax waiver on wages/salaries – would cost only an estimated 229.188 billion pesos, an amount 70.812 billion less than the Central Bank of the Philippines' 300 billion-peso "additional support to the National Government to fight COVID-19" (Central Bank of the Philippines, 2020a). The Central Bank of the Philippines' "additional support" could thus be used to offset "revenue losses" from temporary VAT suspension and income tax waiver. It could be compelled to shell out more money – the way they provide virtually free money to private banks through their Term Deposit Facility/TDF (Central Bank of the Philippines, 2020c) – if needed. This is part of the process which mainstream progressive economist Ann Pettifor (2017) describes as reclaiming democratic control over money production. Other financing options for such supplementary aid programs include budget realignment, solidarity financing, and reverting to higher estate and donor taxes (Africa, 2020). This is a time for big ideas. No option should be taken off the tables, and options that favor people over profits, and communities over corporations, should certainly be prioritized.

## 4. CONCLUSIONS

The government's low poverty threshold means that there are many citizens who were not covered by the SAP despite their actual poverty under higher poverty thresholds set by NGOs and think tanks. Because of pandemic-related additional expenses, aid for the poor and the middle class becomes all the more urgent and necessary. This paper asserts that VAT suspension and income tax waiver will greatly help the poor and the middle class, and both schemes

---

[1] *According to BIR statistics for 2018, a total of 231,036,000,000 pesos were collected from "Withholding on Wages." Assuming a flat monthly average collection of 19.253 billion pesos from such "withholding on wages," a 6-month waiver of income tax collection would cost only around 115.518 billion. Under Republic Act/RA 10653 & RA 10963, most employees' 13th month pay is technically non-taxable, as the amount of non-taxable 13th month pay and de minimis benefits has been raised to 90,000 pesos. Hence, the author opted for a simplified 12-month computation for this paper. Better statistics could be produced if there is public data on how much of the "withholding on wages" is from the taxable portion of 13th month pay and de minimis benefits above the 90,000-peso threshold for exemption. But, there's no public data available on this, at this time.*

are feasible and will not be detrimental to the country's financial situation. Moreover, practical proposals to minimize if not totally solve "leakage problems" and ensure that only those who need help will benefit from VAT suspension and income tax waiver, were also put forward in this paper. All options to help the poor and the middle class must be on the table in times like these.

## 5. ACKNOWLEDGMENTS

N/A

## 6. REFERENCES

ABS-CBN News. (2020, April 8). 'Ubos na ipon': Mga kabilang sa 'middle class' umapela ng tulong sa gitna ng lockdown. https://news.abs-cbn.com/news/04/08/20/ubos-na-ipon-mga-kabilang-sa-middle-class-umapela-ng-tulong-sa-gitna-ng-lockdown

Aceron, J. (2020, April 2). [ANALYSIS] Challenges facing social amelioration for the coronavirus." *Rappler*. https://www.rappler.com/thought-leaders/256782-analysis-challenges-government-social-amelioration-coronavirus

Africa, S. (2020, April 9). There's funding to respond to COVID-19 – the problem is at the top. *Ibon Foundation*. https://www.ibon.org/theres-funding-to-respond-to-covid-19-the-problem-is-at-the-top/

Albert, J.R. et al. (2018). Profile and Determinants of the Middle-Income Class in the Philippines. *Philippine Institute for Development Studies DISCUSSION PAPER SERIES* NO. 2018-20. https://pidswebs.pids.gov.ph/CDN/PUBLICATIONS/pidsdps1820.pdf

Asian Development Bank. (2020). Philippine GDP Growth to Slide in 2020 Due to COVID-19, Strong Rebound Seen in 2021 — ADB. https://www.adb.org/news/philippine-gdp-growth-slide-2020-due-covid-19-strong-rebound-seen-2021-adb

________________________. (2021, April 28). Philippine Economy Seen Recovering in 2021, with Stronger Growth in 2022 — ADB. https://www.adb.org/news/philippine-economy-seen-recovering-2021-stronger-growth-2022-adb

Asquith, R. (2020, April 19). World turns to VAT cuts on coronavirus COVID-19 threat. *Avalara*. https://www.avalara.com/vatlive/en/vat-news/world-turns-to-vat-cuts-on-coronavirus-threat.html

Baskoro, F. M. (2020, March 11). Gov't to Waive Income Taxes for Six Months to Prop Up Economy Amid Covid-19 Outbreak. *Jakarta Globe*. https://jakartaglobe.id/business/govt-to-waive-income-taxes-for-six-months-to-prop-up-economy-amid-covid19-outbreak

Bureau of Internal Revenue. (2019). Revenue Regulations No. 09-2019. https://www.bir.gov.ph/images/bir_files/internal_communications_1/Full%20Text%20RR%202019/RR%20No%209-2019.pdf?platform=hootsuite

________________________. (2018). *INTERNAL REVENUE COLLECTIONS from INCOME TAXES*. https://www.foi.gov.ph/requests/aglzfmVmb2ktcGhyHQsSB0NvbnRlbnQiEEJJUi0yNjcyOTk5NzIzNjkM

Central Bank of the Philippines. (2019). Consumer Expectations Survey Fourth Quarter 2019. http://www.bsp.gov.ph/downloads/Publications/2019/CES_4qtr2019.pdf

________________________. 2020a. Monetary Board approves additional Php 300 billion support to the National Government to fight COVID-19. http://www.bsp.gov.ph/publications/media.asp?id=5329

***List of references in this full paper has been truncated because of the 6-page maximum set by DLSU Research Congress organizers. FULL list of REFERENCES and ALL Supplementary Tables & Figures mentioned in the full paper are available in the SUPPLEMENTARY FILES:***

**San Juan, D.M.M. (2021). Supplementary Files for the paper Economic Relief in the Time of COVID-19: Rationale, Mechanics, Costing, and Prospective Impact of Temporary Value-Added Tax (VAT) Suspension and Income Tax Waiver in the Philippines.** ***Researchgate.*** **https://www.researchgate.net/publication/352166822**