VAT rate cut possible if exemptions curbed — DoF

FINANCE Secretary Frederick D. Go said his department is seeking to avoid revenue-eroding measures, but added that the proposed cut in the value-added tax (VAT) rate is possible if accompanied by the removal of VAT exemptions.

"The Department of Finance (DoF) is naturally predisposed not to want revenue-eroding measures. But of course, everything is possible," he told reporters on the sidelines of a Palace briefing on Monday.

"*Pwede naman* (It's possible). But we have to remove all the VAT exemptions," Mr. Go said when asked whether he supported a reduction of the current VAT rate.

VAT is a 12% tax imposed on sales, leases, barter, and imports of goods and services. VAT collections account for around a fifth of the BIR's total revenue.

House of Representatives and Senate legislators have floated a VAT rate of 10%, which could complicate government fiscal consolidation efforts.

Senator Erwin T. Tulfo's Senate Bill No. 1552 aims to return the VAT rate to the original 10%, aligning with the bill filed by Batangas Rep. Leandro Antonio L. Leviste last year.

"One of the reasons why we have a low VAT efficiency is that there are so many exemptions to VAT," Mr. Go said.

"Also, if that means reducing revenue for the country, we should also correspondingly reduce expenditures," he said.

In a 2022 report, the International Monetary Fund expressed support for the removal of Philippine exemptions and zero ratings to increase revenue, including those for senior citizens, who are entitled to a 12% VAT exemption under the Expanded Senior Citizens Act.

Mr. Go added that among the many targets the government monitors, the most important to him is the fiscal deficit target.

The government aims to bring down the deficit to P1.65 trillion, or 5.3% of gross domestic product, in 2026, and eventually to P1.55 trillion, equivalent to 4.3%, by 2028.

The Bureau of the Treasury reported that revenue collections stood at P4.15 trillion in the first 11 months, running ahead of the P4.1 trillion year-earlier pace.

At the same briefing, Executive Secretary and former Finance Secretary Ralph G. Recto said the government will issue a budget call soon to kick off the drafting of the 2027 budget.

"We'll make a budget call soon, so the government can start drafting the 2027 budget. But for the meantime, let us first focus on executing the 2026 budget," Mr. Recto told reporters.

President Ferdinand R. Marcos Jr. signed the record P6.792-trillion national budget for 2026 on Monday. — **Aubrey Rose A. Inosante**

Digitalization, engagement seen helping rebuild trust in Customs

By Aubrey Rose A. Inosante *Reporter*

THE Bureau of Customs (BoC) said digitalization and consistent engagement will be key to regaining the trust of businesses, which had been damaged by the alleged misuse of the tax audit process.

Customs Commissioner Ariel F. Nepomuceno told *BusinessWorld* in December that he is pursuing full automation to minimize opportunities for corruption.

"To regain the public trust, our services will be brought up to global standards, which means (BoC) should be fully automated," he told *BusinessWorld* in December.

Mr. Nepomuceno, appointed commissioner in late June, said restoring confidence also requires continuous outreach to stakeholders, apparently addressing the conclusions contained in a US State Department report.

In September 2025, the State Department Investment Climate Statements report said the BoC is "still considered one of the most corrupt agencies in the country," and noted that corruption remains a significant barrier to attracting investment.

The report added that the US embassy received multiple reports from US firms of overly invasive searches, inconsistent customs charges, and solicitations of "facilitation fees" from agency officials.

"We engaged with the American Chamber of Commerce even before the report was released. We reached out. When they were here, they raised no complaints, so we were puzzled," he said.

In a meeting, he said some of the issues were raised by the US Embassy attaché team. One complaint involved foreign vessels laying cables on the seabed, which were taxed even though they had no intention of operating in the Philippines.

"The issue was resolved even before that report came out. We had recommended that it should not be taxed since there was no intent to operate locally — although the vessels were in Philippine waters," Mr. Nepomuceno said.

Another concern involves Astrophysics, Inc., a supplier and maintainer of X-ray scanners to the BoC, which posted unpaid claims of about P54 million, he said.

"If the contract says you must pay, then you pay. Services rendered should be compensated. I will assume a presumption of regularity that the contract is valid, so we have to pay. But what can you do if there is no contract?" he said.

He noted that any services rendered must be filed formally as a money claim and approved by the Commission on Audit before Congress can allocate funds.

Mr. Nepomuceno said government funds cannot be disbursed without a valid contract authorizing payment for services. He added, however, that the claim should be given the benefit of the doubt and treated as a "challenge" for the agency.

The European Chamber of Commerce of the Philippines (ECCP) also released a report that said among companies engaged in trade, 18% described Customs procedures as speedy and efficient; 48% said they were acceptable but needed improvement, while 34% found them burdensome.

ECCP represents more than 900 member companies.

Expanded agri budget expected to support food security, productivity efforts as DA takes on farm road program

By Vonn Andrei E. Villamiel

THE Department of Agriculture (DA) said the P6.79-trillion 2026 national budget and its higher allocation for agriculture is expected to boost food production, rural development, and long-term food security.

In a statement, Agriculture Secretary Francisco P. Tiu Laurel, Jr. said the budget, signed into law on Monday, heralds increased spending on infrastructure, postharvest facilities, and other forms of support for farmers, likely leading to improved productivity, less waste, and stable supply.

Mr. Laurel, however, said that the actual funding will depend on the final details of the General Appropriations Act (GAA), which he has yet to review.

"I haven't seen the actual GAA in its entirety, so it's difficult to comment on all the details. We're happy that the budget has finally been released, but we still need to review what the final version entails," he was quoted as saying in a statement.

According to the ratified appropriations bill, the DA and its agencies will receive P185.77 billion, up 20.71% from the funding proposed in the National Expenditure Program (NEP), the document prepared by the executive branch that is sent to Congress to kick off the budget legislation process.

The DA will receive a P33-billion budget for the repair, rehabilitation and construction of farm-to-market road (FMR) projects in designated key production areas, a more than doubling the P16-billion NEP allocation.

The DA is set to take over the FMR programs from the Department of Public Works and Highways (DPWH) starting next year.

The budget for the Rice Competitiveness Enhancement Fund (RCEF) has also been tripled to P30 billion, following amendments to the Rice Tariffication Law.

The RCEF, which is financed by duties on imported rice, supports farmer benefits like seed, mechanization, credit and extension services.

A P20-billion allocation will also fund the new Animal Industry Competitiveness Act, which aims to modernize the livestock, poultry, and dairy industries.

Mr. Laurel said proper scrutiny is needed to ensure funds reach farmers, fisherfolk, and other participants in the value chain. He added that public spending needs to translate into tangible benefits on the ground.

The DA said it is focusing on post-harvest support to address losses from inadequate storage and logistics.

"The 2026 budget is expected to help the sector withstand climate risks, market volatility, and supply disruptions while supporting a more competitive and sustainable Philippine agriculture," the DA said.

While the DA welcomes the higher budget, an industry official said agriculture's long-standing priorities like border inspection need to be addressed.

Jayson H. Cainglet, executive director of the Samahang Industriya ng Agrikultura, told *BusinessWorld* that border inspection facilities "have long been requested by the industry and were subsequently mandated under the Food Safety Act of 2013. Since 2019, funds have been allocated for these, but they have never materialized," he said via Viber.

He added that farmers are also pushing for at least P50 billion in palay (unmilled rice) procurement to establish a significant government presence in the market, as well as programs that would incentivize millers to upgrade milling and other post-harvest facilities.

Mr. Cainglet said the higher budget should also be accompanied by to higher tariffs on imported rice, pork, and chicken imports, which have the potential to raise at least P50 billion in government revenue annually.

OPINION

Key tax reforms that shaped 2025

LET'S TALK TAX
MARGRETH P. VASQUEZ

As Heraclitus, the Greek philosopher, aptly observed, "There is nothing permanent except change." Whether in life or in our professional pursuits, we encounter change almost daily, and we adapt and overcome each one.

The year 2025, in particular, witnessed substantial and transformative developments in the field of taxation. As we start 2026, it is timely and fitting to look back on the significant changes implemented in Philippine tax laws over the past year.

THE CREATE MORE ACT

Signed into law in November 2024, Republic Act (RA) No. 12066, or the CREATE MORE Act, became fully operational in 2025. This legislation was introduced to improve the investment climate by enhancing incentives aimed at stimulating economic activity, supporting business growth, generating employment opportunities, and attracting greater foreign investment.

Among its key provisions are the lowering of corporate income tax from 25% to 20% for Registered Business Enterprises (RBEs) under the enhanced deduction regime; the extension of incentive periods; the codification of allowable deductions for input VAT paid on local purchases attributable to VAT-exempt sales; and the broadened coverage of VAT zero-rating to include goods and services deemed "directly attributable" to the Registered Export Enterprise's registered projects, among others.

While the law introduces clearer and more streamlined rules that are expected to benefit enterprises, it likewise imposes heightened responsibilities on taxpayers. The continued enjoyment of these incentives now demands strict adherence to the measures governing invoicing, reporting, and documentation standards, thereby emphasizing the need for businesses to be more diligent and proactive in maintaining their eligibility under this enhanced regulatory framework.

VAT ON DIGITAL SERVICES

With the full implementation of VAT on Digital Services under RA No. 12023, which took effect on Oct. 18, 2024, digital service providers (DSPs), including non-resident entities offering digital platforms, goods, and services in the Philippines, are now required to register with the Bureau of Internal Revenue (BIR) and remit VAT on their taxable transactions. This measure reflects the government's broader initiative to modernize the tax landscape by addressing the rapid expansion of the digital economy and reinforcing compliance among both local and foreign service providers. In effect, it promotes a more level playing field between traditional businesses operating in the Philippines and digital enterprises serving the same market. Notably, transactions of non-resident DSPs became subject to VAT beginning June 2, 2025, following the implementation schedule set under the rules.

Accordingly, foreign digital service providers, even those without any physical presence in the Philippines, are now subject to VAT and must comply with the corresponding registration, invoicing, and reporting requirements imposed by the BIR.

THE CAPITAL MARKETS EFFICIENCY PROMOTION ACT

RA No. 12214, or CMEPA, which took effect on July 1, 2025, was passed to streamline the taxation of passive income, promote transparency, and enhance the growth and global competitiveness of the Philippine capital markets. By modernizing the tax framework governing passive income, the law introduces a more competitive, regionally aligned, and investor-friendly regime. It also aims to encourage broader participation from ordinary Filipinos, thereby fostering a more inclusive and accessible investment environment.

Among its key reforms are the reduction of the stock transaction tax from 0.6% to 0.1%; the standardization of the final withholding tax on all interest income from peso and foreign currency bank deposits, trust funds, and similar instruments to 20%; the alignment of capital gains tax rates on the sale of unlisted domestic and foreign shares to 15%; and the reduction of the documentary stamp tax on the original issuance of shares from 1% to 0.75%. These measures collectively simplify compliance, lower investment costs, and harmonize the treatment of financial instruments.

Ultimately, CMEPA strengthens the foundation of the Philippine capital market, supports long-term savings and wealth-building opportunities, and enhances the country's attractiveness as a destination for sustainable investment and economic growth.

THE AUDIT SUSPENSION

In November and December, the BIR issued Revenue Memorandum Circular (RMC) Nos. 1072025 and 1092025, which indefinitely suspended all ongoing field audits and related field operations, including the issuance of Letters of Authority (LoA), Mission Orders (MO), and the conduct of examinations and verifications of taxpayers' books, records, and transactions, subject to specific exceptions outlined in the circulars.

This suspension was implemented to safeguard the integrity of audit operations by addressing systemic issues, protecting taxpayer rights, and developing a more transparent, standardized, and modernized audit framework. The issuance of these circulars was prompted by numerous complaints from taxpayers, stakeholders, and internal BIR units regarding alleged irregularities and inconsistencies in audit practices.

THE RULE ON DE MINIMIS BENEFITS

As the final tax issuance for 2025, Revenue Regulations (RR) No. 29-2025 was promulgated to further amend RR No. 2-98 by increasing the ceilings for non-taxable de minimis benefits. The updated thresholds are as follows:

- Monetized unused vacation leave credits of private employees not exceeding 12 days during the year;
- Monetized value of vacation and sick leave credits paid to government officials and employees;
- Medical cash allowance to dependents of employees not exceeding P2,000 per employee per semester or P333 per month;
- Rice subsidy of P2,500 or one sack of 50 kg rice per month amounting to not more than P2,500;
- Uniform and clothing allowance not exceeding P8,000 per annum;
- Actual medical assistance (e.g., medical allowance to cover medical and healthcare needs, annual medical/executive check-up, maternity assistance, and routine consultations) not exceeding P12,000 per annum;
- Laundry allowance not exceeding P400 per month;
- Employee achievement awards (e.g., for length of service or safety achievement) in any form, whether in cash, gift certificate, or any tangible personal property, with an annual monetary value not exceeding P12,000 received by the employee under an established written plan which does not discriminate in favor of highly paid employees;
- Gifts given during Christmas and major anniversary celebrations not exceeding P6,000 per employee per annum;
- Daily meal allowance for overtime work and night/graveyard shift not exceeding 30% of the basic minimum wage on a per region basis; and
- Benefits received by an employee by virtue of a collective bargaining agreement (CBA) and productivity incentive scheme provided that the total annual monetary value received from both CBA and productivity incentive schemes combined do not exceed P12,000 per employee per taxable year.

This issuance underscores the government's recognition of rising living costs and its intention to provide employees with more meaningful non-taxable benefits.

The regulation was published on Dec. 22, 2025 and will take effect 15 days after its publication in the *Official Gazette* or on the BIR website.

As we close the chapter on 2025, it becomes clear that the year marked a pivotal moment in the evolution of Philippine taxation. The numerous reforms reflect the government's commitment to fostering a fair, efficient, and forward-looking tax environment. These developments not only address long-standing systemic issues but also pave the way for a more transparent and investor-friendly landscape that supports business growth and economic resilience.

As 2026 unfolds, taxpayers and stakeholders alike are encouraged to remain vigilant, adaptable, and well-informed to fully maximize the benefits of these reforms and confidently navigate the continually evolving tax landscape. It is likewise hoped that the government will continue to introduce measures that promote a more equitable and progressive system of tax laws: one that supports sustainable development and contributes to a better Philippines.

Let's Talk Tax is a weekly newspaper column of P&A Grant Thornton that aims to keep the public informed of various developments in taxation. This article is not intended to be a substitute for competent professional advice.

MARGRETH P. VASQUEZ is an associate from the Tax Advisory & Compliance practice area of P&A Grant Thornton, the Philippine member firm of Grant Thornton International Ltd.
pagrantthornton@ph.gt.com