Mizuho Flash: Philippines

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Philippines: Tax Relief, Modest Fiscal Gains

In a nutshell:

- Measures announced during President Marcos' State of the Nation Address have since been consolidated into the ProGRESS Bill, **pairing personal income tax relief and minimum corporate income tax exemption for micro and small enterprises with offsetting revenue-raising measures, targeted for implementation from January 2027.**
- The package is expected to generate a net fiscal gain of PHP47.9bn (0.17% of GDP) annually**. While the fiscal impact is modest, it should provide some support to the government's fiscal consolidation trajectory**, helping to offset some slippage reflected in its recent medium-term fiscal plans.
- Revenue gains are centred on higher excise taxes on goods ranging from sweetened beverages to alcohol and tobacco products. **While inelastic demand props up revenues, implementation challenges and industry lobbying are likely to outweigh and result in collections potentially below official estimates.**
- On growth, **while tax relief could support household consumption, the boost is likely to be modest given the small impulse and the offsetting drag from higher excise taxes on consumption goods**.
- **The excise taxes could add around 0.5%-pt to headline inflation from January 2027 adding further impediments to dis-inflation.** With inflation already projected above the BSP's 2-4% target range in 2027, this could **reinforce a higher-for-longer policy stance.**
- **The PHP is unlikely to derive significant support from the package given its modest fiscal impact**, and will remain driven mainly by oil prices, UST yields and broader risk sentiments.

Of Relief and Necessary Evils

- President Marcos used his State of the Nation Address on 27 July to propose personal income tax relief and a minimum corporate income tax exemption for micro and small enterprises. These measures and a suite of offsetting revenue measures were consolidated into the ProGRESS bill targeted for **implementation from 1 January 2027.** The measures were approved by the House of Ways and Means on 10 August, setting it up for a second reading in the House of Representatives where they will be further debates.

- The **relief measures**[1] proposed by President Marcos are estimated to cost PHP326.9bn in revenue foregone over 2027–2030 (**0.29% GDP per year**). This comprises PHP300.3bn from the personal income tax adjustment and PHP26.6bn from exempting micro and small enterprises from the minimum corporate income tax.

- To offset the revenue foregone, the government has proposed **revenue raising measures** that includes higher excise taxes and on sweetened beverages, e-cigarettes and novel tobacco products, alcohol, plastics and luxury automobiles and higher motor vehicle user charges. The proposed offsetting measures are expected to raise PHP518.7bn over the same period, or about 0.46% of GDP per year. Overall, these changes would generate a net revenue gain of PHP191.8bn, averaging PHP47.9bn annually, or roughly 0.17% of GDP.

[1] The address also included a proposed tax amnesty covering income, estate, donor, and value-added tax liabilities, alongside a one-time abatement for micro-entrepreneurs.

Figure 1: Progress Bill, Measures and Proposed Rates

Measure	Proposed change	Cumulative FY27-30, PHP bn
Revenue forgone		
Personal income tax	Tax exemption threshold raised to PHP350,000 from PHP250,000, marginal tax rates remain unchanged.	(300.33)
Minimum corporate income tax for MSMEs	Micro and small enterprises exempted from 2% minimum income tax on gross income.	(26.60)
Subtotal		**(326.92)**
Revenue generating		
Sweetened beverages	PHP20 per litre for sugar sweetened drinks from PHP6, PHP40 per litre for high-fructose corn syrup from PHP12, coverage widened to include 100% natural fruit juices and edible ices	296.97
Motor vehicle user charge	Rates updated for cumulative inflation	89.58
Plastics	PHP150/kg, indexed 5% annually	52.19
E-cigarettes and novel tobacco	• Unified excise tax of 72.90 on e-cigarettes in 2027, with 5% tax indexation beginning 2028 • HTP vapes of novel tobacco with specific excise tax of PHP150 per unit of device, 5% indexation starting 2028 • Taxation of novel tobacco products at PHP72.9 per 2g or 2ml	33.06
Alcohol	Higher rates on distilled spirits, 6% indexation from 2031	31.26
Luxury automobiles	New 75% tier on vehicles priced above PHP8m	15.64
Subtotal		**518.71**
Net revenue impact		**191.77**

Broad-based PIT Relief

- The proposed personal income tax relief raises the tax-exempt threshold to PHP350,000 from PHP250,000, while leaving marginal tax rates for higher brackets unchanged.
- The largest cash benefit accrues to taxpayers earning above PHP350,000, who would receive a uniform annual tax saving of PHP15,000 while the savings for taxpayers earning between PHP250,000 and PHP3500,000 would depend on the income level.

- The government estimates that around 3.13m taxpayers would benefit from the measure, including about 1.2m who would not pay any personal income tax due to the higher threshold.
- This makes the relief broad-based, but only among individuals already paying personal income tax, with the benefits capped across income levels.
- While the proportional benefit is largest for lower-income taxpayers, supporting a relatively high consumption pass-through, the maximum impulse from PIT relief is capped by the size of the tax saving, the **estimated boost to growth is likely to fall below 0.25% of GDP as multipliers are unlikely to exceed 1.**

Figure 2: Personal Income Tax Schedule, Current and Proposed

Current band (PHP)	Tax due	Proposed band (PHP)	Tax due
Not over 250,000	Nil	Not over 350,000	Nil
250,000 to 400,000	15% of excess over 250,000	350,000 to 400,000	15% of excess over 350,000
400,000 to 800,000	22,500 + 20% of excess	400,000 to 800,000	7,500 + 20% of excess
800,000 to 2,000,000	102,500 + 25% of excess	800,000 to 2,000,000	87,500 + 25% of excess
2,000,000 to 8,000,000	402,500 + 30% of excess	2,000,000 to 8,000,000	387,500 + 30% of excess
Over 8,000,000	2,202,500 + 35% of excess	Over 8,000,000	2,187,500 + 35% of excess

Minimum Corporate Income Tax Exemption for MSMEs

- More than 78k tax-paying micro and small enterprises are expected to benefit from the proposed minimum corporate income tax exemption. Currently, MSMEs either pay a 2% minimum income tax based on gross income or the regular 20% corporate income tax based on net taxable income, whichever is higher.
- With this measure, MSMEs operating at a loss will no longer have to pay minimum corporate income tax.
- With MSMEs making up more than 99% of all businesses in the Philippines and employing around two-thirds of the workforce, this would likely help ease cash flow pressures for smaller firms, though any visible aggregate impact on growth would likely be modest.

Revenue Measures Supported by Inelastic Demand but Risks Remain

- To offset the revenue foregone from the tax relief measures, Philippines has proposed higher excise taxes on products associated with negative health outcomes, including sweetened beverages, e-cigarettes, tobacco products, alcohol and selected environmental levies.
- Given the relatively inelastic demand for many of these products, particularly alcohol and tobacco, revenue collections should remain reasonably resilient following the proposed tax increases.
- That said, these measures may prove to be an imperfect offset due to implementation challenges, raising the risk that fiscal consolidation ultimately falls short of expectations.
- Several of the proposed measures could face implementation issues:
    - The higher excise tax proposed on sweetened beverage alone accounts for more than 50% of the total revenue raised appear particularly vulnerable. Demand for these products is relatively price-sensitive, and

the final tax structure could be diluted by industry lobbying[2].

- Higher excise taxes on vape and novel tobacco products could further incentivise smuggling and illicit trade, resulting in leakages.
- The excise tax on plastic could be challenging to administer given the pervasiveness of plastics in its economy in both consumption and production.

Modest Fiscal Gains, Limited Macro Impact

- The package is expected to generate net additional revenue of PHP47.9bn annually from 2017, equivalent to around 0.17% of GDP. The additional revenue should provide a modest boost to government revenues and support ongoing fiscal consolidation efforts and help offset some of the weakening seen in recent medium-term fiscal plans.
- The proposed measures would help narrow the gap between the latest fiscal projections and the government's July 2025 medium-term fiscal path, with 2027's fiscal deficit potentially declining to an estimated 4.9% GDP.
- That said, its fiscal deficits are still expected to remain above pre-pandemic levels (2-3% range seen in 2015-2019) over the medium term.

Figure 3: Philippines' Medium Term Fiscal Targets

Fiscal Deficit, % of GDP (Date)	2024	2025	2026	2027	2028	2029	2030
(as at April 2024)	5.6	5.2	4.7	4.1	3.7		
(as at July 2025)	5.7*	5.5	5.3	4.8	4.3		
(as at July 2026)		5.6*	5.4	5.1	4.8	4.2	3.5

* Actual figures
Source: Philippines Department of Budget and Management, Mizuho

- On the demand side, the personal income tax relief measures could provide some support to household consumption, which deteriorated to its weakest pace since the pandemic for two consecutive quarters in 2026 amid weaker sentiment following the flood control projects corruption scandal and still-elevated inflation.
- That said, the aggregate boost is likely to be limited, averaging only around PHP75bn per year, equivalent to approximately 0.3% of private consumption expenditure (PHP22.2tn), before accounting for savings and import leakage effects.
- Additionally, part of the stimulus is offset by higher excise taxes that lands on the same household consumption basket for lower- and middle-income households.
- Overall, the net boost to household spending is expected to be modest.

Inflation Pass-Through Reinforces Higher-For-Longer BSP Stance

- The proposed excise tax increase, which are expected to take effect from January 2027, could **add up to an additional 0.5%-pt to headline inflation** upon implementation:

[2] This happened in 2016-2018 (as part of the TRAIN Law) when lobbying efforts resulted in lower tax of PHP6 per litre on sweetened beverages instead of PHP10 per litre originally proposed and a double excise tax of PHP12 on high fructose corn syrup to protect local sugarcane farmers.

- Sweetened beverages are likely to contribute the largest share of the increase given their 2.96% weight in the CPI basket. Based on the inflation impact observed following the introduction of the sweetened beverage tax in 2018, the proposed increase could add around 0.4%-pt to headline inflation.
- Excise taxes on e-cigarettes and novel tobacco products are expected to have a negligible direct impact on CPI. Despite the higher tax rates, these products account for only a small proportion of overall tobacco consumption (5% market share as of 2024).
- Alcohol excise taxes could contribute 0.1%-pt to headline inflation. This estimate is based on the inflation impact observed following the increase in excise taxes on distilled spirits in 2020 and reflects alcohol's relatively modest 0.88% weight in the CPI basket.
- The plastics excise tax is likely to have a more diffused impact as it is levied on packaging and intermediate inputs rather than final consumption goods. While the tax could affect a broad range of products, the pass-through to consumers is likely to be partial as producers and retailers absorb part of the additional costs.

- The upside to inflation further complicates the Philippines' inflation outlook, with price pressures already projected to remain above the BSP's target range of 2-4% into 2027. With inflation forecasted at 4.5% for 2027, the additional excise tax pass-through increases the likelihood that BSP will need to keep the policy rate restrictive for longer.
- The impact on PHP is likely to be limited given the modest size of the package. Instead, the PHP recovery is likely to remain restrained by negative real rates, and driven primarily by external factors, including oil prices, UST yields, and broader risk sentiment.

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