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Lower revenues projected from approved sin tax bill

The government expects lower incremental revenue from higher excise taxes on alcohol, heated tobacco and vapor products due to the projected losses from the exemption of certain imported medicines from the value-added tax (VAT), the Department of Finance (DOF) said yesterday.

Finance Undersecretary Kendrick Karl Chua said the net incremental revenue of the sin tax bill may reach P17.1 billion next year and P102.1 billion by 2024.

The ratified bill also includes a provision that would exempt the sale and importation of all prescription medicines for high cholesterol, diabetes and hypertension from VAT.

The VAT exemption would then be extended to include medicines for mental illness, cancer, kidney diseases and tuberculosis by 2023.

Chua said the DOF is studying the revenue impact of the VAT exemptions as preliminary figures suggest the projected revenue loss from the tax break would reach P5.2 billion on the first year of implementation or about P35.1 billion by the end of 2024.

Under the reconciled bill approved by the bicameral conference committee, 60 percent of revenues collected from the excise taxes on alcohol products and e-cigarettes, such as heated tobacco and vapor products, would go to the implementation of the Universal Health Care (UHC) Law, while 20 percent would be spent for medical assistance and health facilities.

The remaining 20 percent will go to programs that will help the government fulfill its commitments under the United Nations' Sustainable Development Goals (SDGs).

Chua said the ratified bill is estimated to raise an initial P22.2 billion in the first year of implementation. Over a five-year period from 2020 to 2024, the DOF estimates revenues amounting to P137.2 billion.

For fermented liquors, a specific tax of P35 per liter would be imposed in 2020, which would subsequently increase by P2 per liter per year until it reaches P43 per liter in 2024. Thereafter, the rate would increase by six percent every year.

Distilled spirits would be taxed with a 22 percent ad valorem tax on top of a specific tax of P42 per proof liter in 2020, which will increase to P47 per proof liter in 2021, P52 per proof liter in 2022, P59 per proof liter in 2023 and P66 per proof liter in 2024. Thereafter, the rate will increase by six percent every year.

Alcopops will be taxed similar to the rates for distilled spirits. For wines, both still and sparkling, the specific tax is at P50 per liter in 2020, and will increase by six percent yearly thereafter.

Heated tobacco products would be charged with new rates of P25 per pack in 2020, P27.50 in 2021, P30 in 2022, P32.50 in 2023, and five percent yearly thereafter.

A tax of P45 per 10 milliliter of conventional freebase vapor products will be imposed in 2020, P50 in 2021, P55 in 2022, P60 in 2023. Thereafter, the rate will increase by five percent every year.

For salt nicotine vapor products, the tax of P37 per millimeter will be imposed on the first year, and additional P5 per ml per year until the rate reaches P52 per ml in 2024. Thereafter, the tax will be increased by five percent every year.

Meanwhile, the revenues from the newly-approved excise tax on alcoholic drinks, heated tobacco and vaping products may not be enough to implement the Universal Health Care Law, according to Finance Secretary Carlos Dominguez.

Dominguez told reporters the excise tax rates on alcohol and e-cigarettes approved by Congress were lower than originally proposed by the DOF.

The version passed by the two houses of Congress last Wednesday would only generate between P22 billion and P24 billion in fresh revenues next year, lower than the P36.5 billion projection set by the DOF.

"When you go into the legislative process, you don't get everything you want, but it's certainly better than the alternative of doing nothing. People say, 'I'm not going to get what I want, so I'll not do it' – that's not the right attitude. The attitude is, we go and do our best. Maybe it's not exactly what we want, but the wisdom of the legislature is to be respected," Dominguez said.

He said the economic team remains appreciative of the efforts or legislators in enacting the much needed comprehensive tax reform program (CTRP).

"We appreciate the understanding and the actions the legislature has taken, because these actions are certainly a lot better than past legislatures. So I want to thank them, both houses, for their wisdom and their support for the program to improve the standard of living of Filipinos in the long term," he said.

The DOF chief said the lower revenue projections could result into a funding gap for the universal health care program.

"I think, just from my opinion, most likely we will not quite hit the total amount that will be required. But again, we're just talking about estimates now – we have to look at how it will actually work out," he said. **– Lawrence Agcaoili**