Lights, camera…taxes

Debit Credit Business Mirror

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The controversy in the recent Metro Manila Film Festival (MMFF) disqualification case against Erik Matti's *Honor Thy Father* put the spotlight in the film and movie industry. Are the producers of "quality film" making money? Do they get tax incentives for producing films like *Heneral Luna*, *Honor Thy Father*, and the like? I guess not.

As the saying goes, "the show must go on" even if the profit is gone! This is probably the most challenging role to portray for taxpayers in the show business whether in theater, film or TV productions. The only difference is losses are real for contractors,
producers and investors.

Below is a detailed summary of the taxes and mandatory contributions that a medium-sized company must pay or withhold in a given year, as well as administrative burden in paying taxes.

Comparing the Philippines to 188 other economies, we ranked 126th in the ease of paying taxes with a total tax rate (percent of profit) of 42.9 percent. Unfortunately, there's one more local tax collected from the proprietors, lessees or operators of theaters, cinemas, concert halls and other places of amusement or entertainment at a rate of not more than 10 percent of the gross receipts from admission fees.

Like other local companies, the upcoming and much-anticipated Asean integration has caused more anxiety than excitement when talking about the impact of our tax system in
doing business in the Philippines.

As a tax advocate, we have been publishing articles to educate not just the public, but more important, our legislators and tax administrators about the outdated and overly burdensome tax rates, coupled with too much bureaucracy and costly tax compliance.

The promise of Asean Economic Community (AEC) includes a competitive economic region, an equitable economic development and a fully integrated global economy—transforming Asean into the world's next economic powerhouse. However, a *sari-sari*store owner in the Philippines who hardly understands any of these might ask, "What's in it for me?"

If our government wants to maximize the opportunities that the Asean integration may bring, overhauling our tax system is inevitably a priority to make our country competitive in the region and more attractive to foreign investors compared with other Asean member-states. We need to ensure inclusive growth in all tax rules and regulations—empowering the 99.6-percent micro, small and medium enterprises, while disengaging the underground economy.

Among the extensive to-do lists in preparation for AEC 2015, Asean governments must outline legislative and policy reforms from the taxation standpoint. The table below shows an overview of the Asean taxation.

Here are some observations on our tax rates vis-à-vis our Asean neighbors:

1. The Philippines has second to the highest individual income-tax rate at 32 percent, next to Vietnam with 35 percent, while Brunei Darussalam has zero tax rate on incomes;
2. Singapore imposes 20-percent income-tax rate on gross income above S$320,000 (or P11.3 million), while the Philippines imposes its highest tax rate at 32 percent on gross income above P500,000.

3. The Philippines has the highest corporate income tax rate (CIT) at 30 percent, while Singapore has the lowest CIT rate at 17 percent among the Asean countries;
4. The Philippines has the highest indirect tax (value added tax);
5. The Philippines requires relatively high withholding tax rates on dividends, interest income and royalty. This is inconsistent with the AEC Blueprint position that free flow of trade and capital requires the elimination of withholding taxes.

Of course, the issue is not just the rates. Equally important concerns of foreign investors in the context of Asean are simplicity and predictability of tax system, bureaucracy, processing time and corruption, among others.

Aside from making it easy and convenient to pay taxes, the government must put a premium on ethical business practice and must provide incentives to promote honesty and integrity in doing business in our country. This is the most palatable solution to address tax evasion and corruption both in the government and the business sector.

Our agenda is to promote a tax-free lifestyle for entrepreneurs and businessmen who want to make a profit while being a responsible taxpayer. A tax-free lifestyle is not a lifestyle free from taxes, but from the unnecessary burden of deficiency taxes, penalties and compromises.

Here's the summary of taxes investors, producers and contractors need to know to avoid tax problems:

Films which have obtained an "A" or "B" grading from the council pursuant to Sections 11 and 12 of Republic Act (RA) 9167 shall be entitled to the amusement tax reward. A grade "A" or "B" film shall entitle its producer to an incentive equivalent to the amusement tax imposed and collected on the graded films by cities and municipalities in Metro Manila and other highly urbanized and independent component cities in the Philippines pursuant to Sections 140 and 151 of RA 7160 at the following rates:

For grade “A” films–100 percent of the amusement tax collected on such films; and,

For grade “B” films–65 percent of the amusement tax collected on such films. The remaining 35 percent shall accrue to the funds of the council.

Like other industries, those in the film and movie industry must actively participate in pushing for a genuine tax reform. Tax awareness must not remain an exclusive advocacy for those who know our tax system. It must encourage everyone to understand the basic taxes we need to pay and how to comply with the regulations of the Bureau of Internal Revenue (BIR).

Remember, it is more costly to pay taxes if assessed by the BIR as it is increased by the onerous penalties: 25-percent surcharge, 20-percent interest and up to P50,000 compromise penalty. Unlike in a film or show where the director can just shout “cut!”, penalties to be incurred will continue to accumulate unless you pay the right taxes and on time.

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