PHILIPPINE ECONOMIC ZONE AUTHORITY

OFFICIAL POSITION OF PEZA ON CREATE BILL

27 May 2020

The Philippine Economic Zone Authority (PEZA) maintains its position that we have been advocating for the past three (3) years which is for **STATUS QUO** for five (5) years of the current tax regime that are being enjoyed by our registered enterprises. When PEZA decided to oppose in 2017 any amendment in the fiscal incentives provided under R.A. No. 7916 or The Special Economic Zone Act of 1995, we are not in the State of Public Health Emergency. Now more than ever, we reiterate our position for status quo in order to give our registered enterprises an opportunity to recover from the COVID-19 crisis. This is not the time for the government to experiment on new fiscal incentives but rather to extend all the necessary assistance to all companies which are adversely affected by this pandemic.

The incentives of PEZA are tried, proven, tested and globally competitive as shown by the track record of PEZA since its creation in 1995. PEZA economic zones generated ₱3.871 Trillion in investments from 1995-2019. Total exports from 1995-2019 amounted to US$815.102 Billion. PEZA also takes great pride that our PEZA Export Enterprises immensely contribute annually to the total Philippine Commodity Exports. In 2019, 58% of our country's total commodity exports came from our PEZA Export Enterprises. Not only this, the combined export revenues of our Export and IT Enterprises in 2019 of US$54.597 Billion constituted 15.49% of the Philippines total GDP in 2019. No other government agency aside from PEZA can contribute this huge export receipts for our country.

Aside from the outright 5% reduction of the Corporate Income Tax (CIT) from 30% to 25% and the additional two (2) years in the transition period of registered enterprises, the CREATE Bill does not really offer a concrete economic stimulus to affected companies. We fear that instead of assisting enterprises struggling from the effects of the community quarantine due to COVID-19, the CREATE Bill in its present form may actually cause companies to close their operations in the country and transfer their operations in our ASEAN neighbors as what some enterprises did already.

It is our view that the CREATE Bill should first be implemented for Domestic Enterprises as they will benefit the most from the reduction of the corporate income tax and enjoy for the first time incentives in rationalized manner thus, maximize the MSMEs production, manufacturing export capabilities, complete supply chain, and encourage exporters to minimize import dependence. Finally, the status quo shall afford stability and confidence among registered enterprises and sustain the reputation of the government that it honors and respects existing contracts and/or agreements.

In addition, a number of respected economists in the country have expressed their position on CREATE Bill which we fully support. We are quoting herein their statements in order to guide our esteemed senators and congressmen in crafting a law that will truly address the current needs of our ecozone locators especially during this challenging times.

> *"CITIRA, if passed by the Senate in the middle of the crisis, may just compel locators to re-assess their location decisions. Some important businesses, like electronics which take up about half of the country's merchandise exports, are portable. If the tax perks under this new reform are not those that would give the best return, they may just move somewhere else. Rather than help stimulate economic recovery, which is unlikely while COVID-19 is still around, the proposed law could cut down our export capacity in years to come and dampens economic growth."*
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> **Dr. Ramon L. Clarete**, Professor, School of Economics University of the Philippines

“The only strong and steady recovery will be an inclusive one. To the administration that passed the Universal Health Care Law and the 4Ps Law, please double down on these two reforms as your singular legacy. Settle the uncertainty faced by investors, workers, and the nation’s poor and low-income population by strengthening the safety nets and health system needed to weather this crisis. It is wiser course of action compared to introducing new complicated reforms (and new uncertainties) like TRAIN2/CITIRA/CREATE.”

Dr. Ronald U. Mendoza, Dean, School of Government Ateneo de Manila University

“Whatever else CREATE is, however, it is not a stimulus boost out of the COVID-19 morass. A reduction in CIT to 25% from 30% qualifies as a stimulus to business activity only if private businesses will be making a profit in the years subsequent and paying 25% instead of 30%. With a looming U-shaped recovery, private businesses will almost surely operate in the red instead of in the black in the next few years. If so, the corporate tax liability will surely go from 30% of nothing to 25% of nothing, meaning a stimulus boost of nothing!”

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“Since by the DoF’s own calculation, the CIT equivalence of the 5% GIT is about 17 % CIT, potential new foreign investors in PEZA in the next two years stand to pay a higher tax liability (25% GIT) than incumbents paying 5% GIT (17% CIT). Telling foreign investors how much you want them at the same time that you slap them with a higher tax liability does not make for “more fun in the Philippines.” COVID-19 has weakened our bargaining position; our vaunted fiscal health is leaking out fast.”

Professor Raul V. Fabella (Ret.), School of Economics University of the Philippines

BGen CHARITO B. PLAZA MNSA, PhD
Director General