

I. COUNTRY REFORM PROGRESS

The Philippines continues to work towards improving their revenue mobilization. The recently revised medium term fiscal framework envisages increasing the country's tax-to-GDP ratio by 2.2 percentage points—from the current level of 14.1 to 16.3 percent of GDP in 2028. The focus has been on improving the policy design, especially through rationalizing tax expenditures and modernizing the value added tax (VAT), but also through critical tax administration reforms. The 2024 Tax Administration Diagnostic Assessment Tool (TADAT) assessment highlighted some strengths, mainly around digitalization, and several systemic weaknesses in the tax system. However, a key retrograde step noted was the removal of the nascent compliance risk management (CRM) system in 2017 and absence of robust data analytics. The TADAT assessment (and the planned medium-term revenue strategy (MTRS) engagement workshop) provide a baseline for prioritizing tax reforms and, potentially, developing an updated multi-year capacity development (CD) support program (under the GPFP Project). The tax administration has signaled initial reform steps by indicating that CRM would be restarted.

In providing CD support, the IMF's Fiscal Affairs Department (FAD) has coordinated closely with the IMF's Asia and Pacific Department (APD) and development partners, including Asian Development Bank (ADB) and the World Bank. The risks to the project remain largely unchanged.

II. PROJECT DELIVERY HIGHLIGHTS

RM I: Revenue Module I – Tax Policy

Key Progress in FY25: The tax policy module of the project is on track, benefiting from close engagement with the authorities. Pre-GPFP VAT advice, endorsed by the APD country team, has gained traction with the authorities, now committed to modernizing their VAT law, including adopting some base-broadening measures. The most recent focus has been on improving the overall strategy for revenue mobilization and tax expenditure assessment, resulting in early engagement on and building awareness of the MTRS and initial support on tax expenditure identification.

Next Steps: Work on tax expenditures assessment will continue in the second half of FY25; an MTRS engagement workshop (focused on gap analysis) will also be delivered in mid-November 2024. Depending on the workshop discussion's outcome and available resources, support on excise tax policy, requested during the 2024 Annual Meetings, might be provided in the remainder of FY25.

RM II: Revenue Module II – Revenue Administration

Key Progress in FY25: The TADAT assessment completed in June 2024 provided the authorities with a critical tool for evaluating and improving the tax administration system in the Philippines. The collaborative effort between the IMF, World Bank, ADB, and Philippines Department of Finance / Bureau of Internal Revenue (BIR) reflects a joint commitment to enhance tax compliance and administration.

Next steps: A proactive approach to reforming the tax system will continue, with a focus on short-term wins in improving tax compliance and alignment with strategic planning, including a joint tax policy/revenue administration MTRS workshop (mid-November). Planned follow-up CD initiatives with BIR on CRM and data analytics have the potential to significantly enhance the efficiency and effectiveness of tax collection processes.

III. LOGICAL FRAMEWORK

Country – Philippines		
RM I: Objective - Improve Tax Policy Design – TPD		Rating - 2
Outcome	Rating	Narrative
Increased/decreased revenue quantity	1 Not Achieved	The authorities are currently considering various approaches to revenue mobilization, hoping to improve the design and implementation of their Comprehensive Tax Reform Plan. Several tax reforms are being considered, including streamlining tax expenditures, modernization and base broadening of the VAT, and improving excise taxes and wealth taxation. These have, however, not yet had any material impact on the tax-to-GDP ratio.
Increased economic efficiency by minimizing economic distortions or addressing externalities or market failures	2 Partially Achieved	Following FAD's advice, the authorities are now committed to recasting the VAT law to reduce distortions and improve compliance. Work on VAT amendments is likely to commence in 2025.
RM I: Objective - Strengthen Policy Monitoring, Evaluation, and Institutions – TPM		Rating - 2
Outcome	Rating	Narrative
Improved transparency and outreach	2 Partially Achieved	The first CD engagement took place in October 2024, focusing on building tax expenditure inventory and initiating the overall tax expenditure assessment. The next engagement--focused on costing and evaluating tax expenditures--is planned for the first quarter of 2025.
Improved structures (e.g., tax policy units) or capacity (e.g., models and tools) related to tax policy advice and analysis.	2 Partially Achieved	Following FAD's 2023 mission on revenue forecasting, authorities have a better understanding of revenue forecasting techniques and various models employed in tax policy analysis. Tax expenditure costing models will be developed as part of the tax expenditures assessment CD planned for the first quarter of 2025.
RM II: Objective - Strengthened revenue administration management and governance arrangements (SDG 17.1) - RAM		Rating - 3
Outcome	Rating	Narrative
Authorities have a baseline understanding of the current state of the government's revenue administration, management, and governance arrangements and core revenue administration operations	3 Largely Achieved	A repeat TADAT assessment of the Philippines tax administration system was carried out in May-June 2024 by the IMF-led team which had members from the World Bank and ADB. Pre-TADAT preparations coordinated with the TADAT Secretariat included: (i) online orientation to introduce senior officials to the TADAT methodology; (ii) online workshop over four days to provide training for technical and operational staff of BIR; (iii) BIR officials appeared for the TADAT Assessors accreditation examination; (iv) formation of a core team by BIR to liaise with the IMF team and coordinate preparatory activities. These contributed to building of technical skills among personnel and also enhancing organizational readiness for reforms. Based on

Country – Philippines		
RM I: Objective - Improve Tax Policy Design – TPD		Rating - 2
Outcome	Rating	Narrative
		the draft Performance Assessment Report (PAR), the BIR requested a follow-up visit to help prioritize and sequence quick wins and longer-term reforms aligning with their 2024-28 strategic plan. The TADAT results were also presented to the DoF Secretary during the 2024 Annual Meetings. This resulted in BIR's requests for CD on CRM and data analytics.

IV. RISK ASSESSMENT

Description	Rating	Mitigation Measures
External/Climate Conditions		
RM I - Risk that external events create a more challenging environment to implement reforms.	Low	Ensure sufficient flexibility in program execution across countries and allow for ability to adjust activities in the case of adverse events.
RM II - Risk that external events create a more challenging environment to implement reforms. This includes natural disasters such as tropical storms.	Medium	Ensure sufficient flexibility in program execution across countries and allow for ability to adjust activities in the case of adverse events.
Political Support		
RM I - Lack of political support for reforms inhibits required actions or resources allocated. Resistance to revenue mobilization through tax reforms--preference for non-tax revenue measures and improvements to tax administration	Medium	Early on engagement; close coordination with and leverage of advice through APD
RM II - Lack of political support for reforms inhibits required actions or resources being allocated that are needed to enhancements to fiscal risk management institutions and practices.	Low	Ensure fiscal risk CD is focused on priority areas and engage regularly with ministers and senior management to ensure government ownership of reforms. APD colleagues could be leveraged enhance traction at higher political levels.
Management and Technical Staff Support and Commitment		
RM I - Low commitment of management and staff in finance and other ministries to adopt and implement tax policy reform measures.	Low	Engage with senior management and technical staff pro-actively and explain the importance of strengthening tax systems.
RM II - DoF push for the post-TADAT reforms may not be reflected in the commitment of BIR senior management.	Medium	Enhance virtual and in-person discussions with BIR management and staff to assuage concerns and address questions.
Resource Adequacy		
RM I - Insufficient technical capacity and human resources necessary to implement reforms are limited.	Low	Ensure CD plans include sufficient capacity building and training elements and prioritize CD to priority or highest risk areas where resources are limited.

Description	Rating	Mitigation Measures
RM II - Inadequate technical capacity, organizational structures, and human resources to effectively provide data and information.	Medium	Strong preparatory online workshops and discussion of mission schedules to ensure BIR readiness.
Other Risks		
RM I - Multiple donors are providing CD; gaps, or overlaps may arise as a result.	Low	Take an active role in engaging with other donors to ensure support is well coordinated.
RM II - Multiple development partners may be involved in the BIR's reform program leading to possible CD overlaps.	Low	In keeping with the MTRS process, other interested development partners will be kept informed.

V. PROJECT MANAGERS CONTACT INFORMATION

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