

I. COUNTRY REFORM PROGRESS

The Philippines continues to work towards fiscal consolidation. The fiscal deficit narrowed from 6.1 to 5.6 percent of GDP in 2024. However, further fiscal consolidation under the Medium-Term Fiscal Framework is needed to ensure debt sustainability (to reach the 3 percent deficit target in 2028 and to bring debt-to-GDP below 60 percent over the medium term). Tax revenues are relatively low at 14.6 percent of GDP in 2023. Priorities include additional avenues for revenue mobilization, improving expenditure efficiency, and curtailing contingent liabilities. Post-TADAT (Tax Administration Diagnostic Assessment Tool) evaluation follow up, sequencing of the Medium-Term Revenue Strategy (MTRS), VAT modernization, and follow-up on tax expenditure are major areas of focus on the revenue side.

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 are heightened due to global economic developments and country-specific political risk factors.

II. PROJECT DELIVERY HIGHLIGHTS

RM I: Revenue Module I – Tax Policy

Key Progress in FY25: A joint Tax Policy/Revenue Administration MTRS workshop (November 2024) provided authorities with guidance and a framework for using a structured approach to implementing tax reforms related to their Comprehensive Tax Reform Program (CTRP). Significant support on tax expenditures (TEs) assessment—inventory and costing of major TEs provided; the authorities now have a framework and tools for preparing their first TE report.

Previous Progress: 2024 value-added tax (VAT) diagnostic led to the authorities' commitment to modernize the Philippine VAT. During the 2025 Spring Meetings discussions, the authorities confirmed their readiness to engage on this work in FY26.

Next Steps: CD will focus on supporting authorities in their VAT modernization efforts (preparing a new VAT law) to reduce economic distortions, mobilize revenue and improve administrability of the VAT. Following up on the 2025 TE assessment, support on evaluating select TEs will also be provided.

RM II: Revenue Module II – Revenue Administration

Key Progress in FY25: A joint Tax Policy/Revenue Administration MTRS workshop (November 2024) provided authorities with guidance and a framework for using a structured approach to implementing tax reforms related to their CTRP.

Previous Progress: 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 Philippine Department of Finance / Bureau of Internal Revenue (BIR) reflected a joint commitment to enhance tax compliance and administration.

Next Steps: Follow up on the post-TADAT capacity development (CD) support related to Compliance Risk Management (CRM) and data analytics. In the medium term, the authorities have requested support on the MTRS including helping estimate the compliance gap. To examine the impact of tax reforms the authorities have also requested a future TADAT exercise in 2027–28.

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 FY26.
RM I: Objective – Strengthen Policy Monitoring, Evaluation, and Institutions - TPM		Rating - 3
Outcome	Rating	Narrative
Improved transparency and outreach	3 Largely Achieved	The first CD engagement took place in October 2024, focusing on building tax expenditure inventory and initiating the overall TE assessment. The February 2025 mission identified and costed major TEs in corporate income tax, personal income tax, and VAT.
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. TE costing models were developed as part of the Feb 2025 TEA CD. the authorities have access to microsimulation and RA-GAP VAT models.
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. Based on the draft TADAT 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 Department of Finance (DoF) Secretary during the 2024 Annual Meetings. This resulted in BIR's requests for CD on CRM and data analytics. Following a joint tax policy-revenue administration workshop in November 2024, DOF requested assistance on a phased MTRS approach to their CTRP. Lengthy delays with post-TADAT follow-up mission and assistance on CRM and data analytics awaiting confirmation by BIR.

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	Medium	Early on engagement; close coordination with and leverage of advice through APD.

Description	Rating	Mitigation Measures
for non-tax revenue measures and improvements to tax administration		
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.
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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