

## The Implementation of TRAIN Law: Awareness and Perception of Employees in the Local Automotive Industry to the Adjusted Automobile Excise Tax

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**Abstract** - The TRAIN Law is the initial package of tax reform programs under the Duterte Administration. The package implemented changes in estate tax, personal income tax, donor's tax, documentary stamp tax, value added tax, and excise tax on sweetened beverages, automobiles, mineral and petroleum products, tobacco products and cosmetic procedures. This study aimed to understand the level of awareness and the extent of implementation of the Tax Reform for Acceleration and Inclusion (TRAIN) Law as perceived by the employees of car manufacturing companies. The study involved one hundred forty-four employees of car companies in the Greater Manila Area. Based on the results of the study, the employees are found to be Moderately Aware of the provisions of TRAIN Law. They found to have the highest awareness in terms of the purpose of the TRAIN Law and its impact to industries. On the other hand, the employees were found that TRAIN Law provisions are Moderately Implemented with highest implementation in terms of automobiles rate and base of tax and the significant changes in reduced, increased and new taxes.

**Keywords** – TRAIN Law, automobile industry, tax reform, car companies

### INTRODUCTION

The structure of a country's tax code is an important determinant of its economic performance. Taxation is by and large the most important source in nearly all countries. According to the most recent estimates from the International Centre for Tax and Development, total tax revenues account for more than 80% of total government revenue in about half of the countries in the world – and more than 50% in almost every country.[1] From a historical standpoint, the expansion of governments and the extent to which they can collect revenue from their citizens has been a prominent economic feature of the last two centuries. [2] Taxation patterns around the world today reveal large cross-country differences, especially between developed and developing countries.[2][3] In particular, developed countries today collect a much larger share of their national output in

taxes than do developing countries; and they tend to rely more on income taxation to do so. Developing countries, in contrast, rely more heavily on trade taxes, as well as taxes on consumption.[3][4]

Signed by President Rodrigo Duterte into law, Republic Act No. 10963 or the Tax Reform for Acceleration and Inclusion (TRAIN) Act, is the first among the Comprehensive Tax Reform Program (CTRP) when it became law in December 2017. [5] The law took effect on January 1, 2018. As national policy, the Bureau of Internal Revenue or BIR, an agency under the Department of Finance, has been tasked to make an assessment and collection of all national tax revenues, charges and fees and to implement all penalties, forfeitures and fines under the TRAIN Law. [6]The law has 6 main key provisions and 4 financial taxes.[5][7] As first of the packages under the CTRP, it introduced amendments in

estate tax, personal income tax, donor's tax, documentary stamp tax, value added tax, and excise tax on sweetened beverages, automobiles, mineral and petroleum products, tobacco products and cosmetic procedures.[8] It also reformed the VAT base when it repealed exemption provisions in several special laws. [9]

The most familiar elements of the tax reform is the higher consumption tax and lower personal income tax. [9]Those who are earning income not more than P 250,000 annually are excluded from paying their income tax. [7]Also, the exemption among those who are earning minimum wage is maintained in the new law. TRAIN Law will still adhere to the progressive tax system with minim rates of 20% (for years 2018-2022), 15% (for 2023 onwards), and a maximum rate of 35%. [5]

In this study, the researcher's focus is on the provisions of excise taxes. According to the Bureau of Internal Revenue, excise tax is a tax on the production, sale, or consumption of a commodity in a country. Excise taxes are internal taxes that are levied on the sale of specific goods and services, such as alcohol, fuel, and tobacco. An excise tax is an indirect tax that is not paid by the customers directly — instead, the excise tax is imposed on the supplier or the producer, who then includes it in the product price. Further, an excise tax is considered an indirect tax, meaning that the service provider who is the statutory bearer of the said excise tax is expected to shift the tax by billing the same to the customer-client (BIR). Among the excise tax included in the Package 1 of the TRAIN Law is the adjusted automobile excise tax Adjustment of automobile tax rates is based on the net manufacturing or importer's price, which is as follows: four percent (for automobiles up to PHP 600,000); 10 percent (for

automobiles above PHP 600,000 to 1 million); and 20 percent (for automobiles above PHP 1 million to 4 million). Pick-ups and purely electric vehicles are fully exempt, while hybrid cars are taxed at 50 percent of the equivalent automobile. [5]

Before implementing TRAIN law, the total sales volume of vehicles in the Philippines in 2016 amounted to about 402.54 thousand units and 467.2 thousand units in 2017. [10]The leading automotive company in the Philippines was Toyota, with approximately 182.7 thousand units sold in 2017. However, the domestic motor vehicle industry's sales dropped by 16% in 2018, the worst performance since the Asian financial crisis. [11]The anticipated increase in automotive taxes in 2018 sparked a veritable buying spree as people purchased ahead to avoid paying higher taxes.[12] This shows that the implementation of TRAIN Law has an effect on the buying behavior of consumers. [13]

While there is a wealth of study focusing on TRAIN Law, studies focusing on the adjusted automobile excise tax is non-existent despite its huge impact on the Philippine automobile industry. The said tax upon its implementation will cause adjustments to the prices of cars and will have a significant impact to the demand of cars imported and sold in the country. The local automotive industry will need to address this expected decrease in demand and formulate plans to mitigate expected losses. Thus, in order to understand the sentiment of key players in the local car industry, this study will seek to understand the extent of implementation of the excise tax on automobiles under the TRAIN Law from the perspective of the employees working in the local automotive industry.

## OBJECTIVES OF THE STUDY

This study aims to understand the level of awareness and the extent of implementation of the Tax Reform for Acceleration and Inclusion (TRAIN) Law as perceived by the employees of car manufacturing companies operating locally. Specifically, it aims to fulfill its objectives by providing answer to the following questions:

1. What is the profile of the employees of selected car manufacturing companies?
2. What is the level of awareness of the respondents to the Tax Reform for Acceleration and Inclusion (TRAIN) Law?
3. What is the perceived level of implementation of the respondents on the Tax Reform for Acceleration and Inclusion (TRAIN) Law?

## METHODOLOGY

This study employed a descriptive research design. The respondents of the study are one hundred forty-four (144) employees of car companies in the National Capital Region and surrounding areas. Purposive sampling was used for the selection of respondents in the study. The researchers used a survey questionnaire for gathering data from the respondents. The questionnaire has constructed by the researchers. The questions were modified and contextualized to fit the target respondents for them to provide appropriate responses relating to their awareness and perception on the level of implementation of TRAIN Law. [5] A Likert-scale rating was used to gauge the awareness and the perceived level of implementation of TRAIN Law among the respondents. The questionnaire was distributed to selected car companies and asked to be distributed to their employees. The car companies were given two weeks to accomplish the instrument and was retrieved by the respondents for encoding. The data was encoded

into Microsoft Excel. Erroneous and incomplete data entries invalidated some responses and were removed from the final sample. The cleaned data was encoded and imported into IBM SPSS for analysis. Frequency, average weighted mean (AWM), and ranks were employed in the analysis of data.

## RESULTS AND DISCUSSION

This section presents and discusses the results of the analysis conducted on the data collected from the employees of car companies. Table 1 presents the profile of the respondents which includes the variables of age, gender, marital status, years of professional experience, monthly salary, and nature of appointment. Based on the results, it shows that a large number of the employees are aged 31-40 years old with 64 or 44.44% of them falling under that age category. In terms of gender, the employees are disproportionately Male with a large majority of 104 or 72.22% of the employees. In terms of marital status, most of the employees are already Married with 88 or 61.11% of them identifying as such. The employees have mostly worked for the car companies at least 10-19 years with 85 or 59.03% of the employees having stayed with their respective employers for that amount of time. A sizable majority of the employees receive a monthly salary of less than 20,000 with 70.83% of them declaring that they receive said amount of compensation for the work they do. Employees are mostly already permanently employed at the car companies with 78 or 54.17% of them declaring themselves to be permanently employed. This demographics in the local automotive industry aligned with the study conducted by De Dios, et. al. (2021) which found that car companies are dominated by middle-aged male employees. [13]

Table 1. Profile of the Respondents

<b>Variable</b>	<b>Category</b>	<b>Frequency</b>	<b>%</b>
Age	21-30 years old	40	27.78%
	31-40 years old	64	44.44%
	41-50 years old	38	26.39%
	51+ years old	2	1.39%
Gender	Male	104	72.22%
	Female	40	27.78%
Marital Status	Single	46	31.94%
	Married	88	61.11%
	Widowed	10	6.94%
Years of Professional Experience	0-9 years	11	7.64%
	10-19 years	85	59.03%
	20-29 years	22	15.28%
	30-39 years	11	7.64%
	40+ years	15	10.42%
Monthly Salary	<20,000	102	70.83%
	20,000-29,000	15	10.42%
	30,000-39,000	11	7.64%
	>39,000	16	11.11%
Appointment	Permanent/Regular	78	54.17%
	Contractual/Temporary	54	37.50%
	Project-based	12	8.33%

Table 2 presents the level of awareness of the respondents on different provisions of the TRAIN Law. Based on the results, the overall AWM on the level of awareness at 3.63 indicates that the car employees are Moderately Aware of the provisions of the said law. Of the 12 items, 9 items incurred AWMs which can be interpreted as Moderately Aware while the remaining 3 incurred AWMs which can only be interpreted as Aware. The items “Purpose of TRAIN Law” and “Impact to industries” clinched the highest AWMs of 3.87 and 3.86 respectively, indicating Moderately Aware. On the other hand, the items “excise tax on automobiles”, and “nature of TRAIN Law”, incurred the lowest AWMs with 3.32 and 3.27 respectively interpreted as Aware. Employees of car companies are well aware that the TRAIN Law has been passed primarily for

the purpose of funding the Build, Build, Build program of the Duterte administration. The Duterte administration’s twin pillars for economic inclusion – the Comprehensive Tax Reform Program and massive infrastructure build up under its “Build, Build, Build” initiative – will produce an insurgency in the nation's financial improvement and raise per-capita salary to the dimension of high-center pay economies by 2021. [14]

Further, the employees are also most aware that industries will be affected by the tax package. Most of the industries will experience increase in prices which has already been uncovered among merchandising businesses and among car companies operating in the Philippines. The increase in the former is due to an increase in

taxes on goods such as gasoline and sweetened products, which is affected by the TRAIN Law. The excise tax on gasoline and automobiles is expected to have a negative impact on car demand because consumers will be discouraged if prices rise. Companies must provide additional training for employees, particularly in sales, and innovate toward greener alternatives in order to adapt to the changes. [15] [16] Additional training for employees particularly in sales and innovations towards greener alternatives must be made by companies

in order to cope with the changes. It is expected that TRAIN Law will have impact on consumers’ preferences which has also been observed in countries which has implemented similar tax policies like Ireland and China. [17] This level of awareness on the excise tax on automobiles is similar to the study of Baja, et. al. (2021) which found that public school teachers have moderate awareness. This can be quite concerning for the car employees as they have similar level of awareness with employees who are less likely to own cars. [18]

**Table 2. Level of Awareness of Tax Reform for Acceleration and Inclusion (TRAIN) Law (n=144)**

Items	AWM	Descriptive Equivalent	Rank
Nature of TRAIN Law	3.27	A	12
Purpose of TRAIN Law	3.87	MA	1
Significant changes in reduced, increased and new taxes	3.72	MA	6
Impact to industries	3.86	MA	2
Impact to national economy	3.79	MA	3
Territorial extent	3.64	MA	7
Automobile goods and services subject to excise taxes	3.36	A	10
Excise taxes on automobiles	3.32	A	11
Automobiles rate and base of tax	3.76	MA	5
Filing of return and payment of excise tax and penalty on automobiles	3.63	MA	8
Manufacturers and/or importers to provide themselves with counting or metering devices to determine volume of production and importation	3.58	MA	9
Authority of internal revenue officer in searching for and testing taxable articles.	3.77	MA	4
<b>Overall AWM</b>	<b>3.63</b>	<b>MA</b>	

**LEGEND:** 4.21-5.00 – Highly Aware (HA); 3.41-4.20 – Moderately Aware (MA); 2.61-3.40 – Aware (A); 1.81-2.60 - Slightly Aware (SA); 1.00-1.80 – Not Aware (NA)

Table 3 presents the results of the level of implementation of TRAIN Law as perceived by the employees of car companies. Based on the results, the overall AWM for the level of implementation of TRAIN Law is at 3.62 or Moderately Implemented as perceived by the respondents. Among the 12 items to gauge the overall perception on the level of implementation, 10 incurred AWMs that can be

interpreted as Moderately Implemented while 2 incurred AWMs interpreted as Implemented. It also showed that respondents have a higher perceived level of implementation in terms “automobiles rate and base of tax” and “Significant changes in reduced, increased and new taxes: with AWMs of 3.98 and 3.90 respectively, while the items “Excise taxes on automobiles” and “Territorial extent” have

incurred lowest AWMs with 3.39 and 3.29 respectively. The results reflect that the employees of car companies know that the implementation of the increased tax rates for products will immediately take effect upon the president’s approval. The employees also know that upon implementation of the significant changes in reduced and increased tax rates, businesses will be affected both positively and negatively. According to Manasan (2018), the TRAIN Law benefited small businesses in the country as well, because the VAT threshold was raised from 1.9 million to 3 million. Those who were VAT registered prior to TRAIN law but did

not exceed the 3 million thresholds have the option of being taxed at 8% instead of the graduated income tax and percentage tax. [19] Under the TRAIN Law, changes were made in the compliance requirement which mandated easier filing of taxes through online means. However, this does not seem to have been disseminated as much to the car employees as they do not perceive the change in filing to be well-implemented compared to the other mandated changes. Thus, these results reecho the need mentioned in Dimalanta, et. al. [16]

**Table 3. Level of Implementation of Tax Reform for Acceleration and Inclusion (TRAIN) Law (n=144)**

Items	AWM	Descriptive Equivalent	Rank
Nature of TRAIN Law	3.49	MI	10
Purpose of TRAIN Law	3.70	MI	3.5
Significant changes in reduced, increased and new taxes	3.90	MI	2
Impact to industries	3.70	MI	3.5
Impact to national economy	3.69	MI	5
Territorial extent	3.29	I	12
Automobile goods and services subject to excise taxes	3.50	MI	8.5
Excise taxes on automobiles	3.39	I	11
Automobiles rate and base of tax	3.98	MI	1
Filing of return and payment of excise tax and penalty on automobiles	3.51	MI	7
Manufacturers and/or importers to provide themselves with counting or metering devices to determine volume of production and importation	3.61	MI	6
Authority of internal revenue officer in searching for and testing taxable articles.	3.50	MI	8.5
<b>Overall AWM</b>	<b>3.62</b>	<b>MI</b>	

**LEGEND:** 4.21-5.00 – Highly Implemented (HI); 3.41-4.20 – Moderately Implemented (MI); 2.61-3.40 – Implemented (I); 1.81-2.60 - Slightly Implemented (SI); 1.00-1.80 – Not Implemented (NI)

## CONCLUSION AND RECOMMENDATION

Based on the results of the study, an employee in a car company in the country is typically a Male, aged 31-40 years old. Married, and permanently working for the company for at least 10 years.

Most of the employees are aware of TRAIN Law particularly of its purpose and impact to industries. Similarly, this label of awareness is associated with an above-average perception of the law's level of implementation, particularly with regard to the automobile excise tax and the



tax reductions and increases mandated by the law. This study sheds light on the necessary training required among car company employees in relation to the implementation of TRAIN Law in order to assist the automobile industry in protecting itself from the effects of the law. The knowledge derived from this study can counter the effect of declining car sales that has started since TRAIN Law was implemented. Highly competitive environment in the local car manufacturing industry is also a result of the implementation of TRAIN Law due to their tendency to reduce price of cars sold to be able to increase their sales and achieve growth amidst the increased retail price upon TRAIN Law's implementation. Competition benefits from the high level of awareness of the employees as well as their knowledge of the extent of implementation of TRAIN Law as they can add more value to their participation as employees in the local automotive industry.

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