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RAISING PUBLIC RESOURCES FOR DEVELOPMENT*

By

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In the light of the development priorities for the New Society, the question of resource generation in the public sector to finance this expenditure program becomes very important.

"They are helped, if they help themselves," so the saying goes. In resource generation, the most basic principle is for the public sector to first raise enough resources. Such resource generation can be undertaken with the aid of the most basic tool of any government — taxation.

Studies of taxation in the Philippines indicate the relatively low performance of the government in this area. A comparison of the Philippines with various countries within the Asian region indicates that the Philippines is under-performing in various categories of taxation...whether in the form of income taxes, taxation on trade or indirect taxation.[1]

Measures of Tax Performance

This underperformance is measured by what is normally known as the tax effort ratio which is computed as follows:

Revenue effort equals total revenues from taxation including non-tax revenues plus involuntary contributions to social security, plus net profits of public corporations divided by the gross national product.

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*Paper based on chapter 6 of the author's forthcoming book, *Economic Directions of the New Society*.

[1] A more detailed statement of this is contained in the monogram by the author called "Taxation and Progress" published by the National Economic Council wherein the general presentation of the relatively low effort in taxation is compared with other countries especially those within the Asian region.

The revenue effort has been fairly constant although in 1971 a high level of 12.3 % was observed as compared with 11.6% in 1970. In the light, however, of other revenue efforts in the earlier years, this 12.3% is still much lower than the 13.5 per cent obtained in FY 1955.

Another measure involves purely national government tax collection. Only the revenue collections of the government are used as a measure of the gross national product. This would be more meaningfully called a "tax effort" rather than the broader revenue effort.

The National Tax Efforts

In accordance with certain definitions used, the national tax effort has varied over the years. It has, to some extent, been fairly constant; however in recent years, a relatively improved performance has been noted.

For instance, in FY 1965, the tax effort was only in the vicinity of 9.7 per cent. Then it rose to about 10% in 1962 and to 11.8% of the gross national product in 1971.

Tax effort consists of tapping several kinds of sources. In most cases, it relies heavily on indirect taxes or taxes on commodities (either imported or commodities and services sold directly). For instance, the total amount of indirect tax items entering the total tax effort in 1971 was 9.3%. About 2.65% of this was in the form of taxation on business; 1.9% in the form of import duties; .41% in real property taxes; and 1.27% in stabilization taxes. The latter registered the highest revenue collected in terms of export tax. With the deceleration of the export tax, though, the stabilization tax level declined. Thus, a recent law was passed making the export tax a permanent feature of the Internal Revenue.

At any rate, no matter what measure is used, the performance of the Philippines in the area of tax efforts is still very low. There are many areas for improvement. This chapter, therefore, will discuss all these, namely: (1) revenue administration; (2) examination of new tax sources; (3) rationalization of the tax system by the removal of tax exemptions; and (4) raising the rate of taxation on existing taxes.

Revenue Administration

Revenue administration is very important; it can make the difference between tax collected and tax evaded.

Efforts for improved revenue administration began immediately after the establishment of martial law through the removal of corrupt public revenue collectors. Rules and regulations within the framework of the lower bureaucracy in tax collection were also properly implemented. The efforts along this line have been momentous; it would have been very difficult to implement these rules under any other setup, since the revenue administration machinery was politics-ridden in the old society.

Changes in the area of tax administration especially on fixed and percentage taxes were also instituted in the internal revenue system. The time for filing returns and for payment of percentage taxes was changed to a quarterly basis. Filing of fixed taxes was changed to an annual basis. In the linkage of taxation with the industrialization program, the Board of Investments was given certain powers by law to induce the promotion of investments and industry in our country. This was done so that the Board may determine, as in the case of the car manufacturing program, the number and types of commodities and intermediate components that would comprise a product for the purpose of determining the percentage taxes on sales of certain products. In the Tariff and Customs Code, the limitation in the value and amount of articles brought in tax free by returning residents was also regulated.

The improvement in individual income tax administration had been effected through the increase of the amount of withholding on tax returns. The new provision allows the President to withhold for tax liability purposes, incomes from royalties, dividends and interests. These may be credited later on as the tax liabilities of the individual in the same manner as wage earners are subject to tax withholdings.

Documentation has also been reduced to the minimum. This is true for either customs administration or internal revenue administration. However, the most important area for customs or internal revenue administration was not in the elimination of too much documentation but in the declaration of tax amnesty.

Tax Amnesty

The tax amnesty is premised on the fact that taxpayers must start with a "clean book" so that if they will ever be subject to any government tax litigation, the process could be made much simpler. It would also be one of the best methods of exposing hidden wealth and income, which, under the old society's conditions, would have remained undeclared.

There were several tax amnesties undertaken. Some were addressed to owners of undeclared wealth (P.D. Nos. 23 and 67); some to owners of untaxed motor vehicles (imported into the country under tax exemption sources like military bases) as found in P.D. No. 52; others to possessors and holders of untaxed or improperly taxed goods (P.D. No. 53); and others to people with delinquent tax accounts (P.D. No. 68).

The tax amnesty would have a one-shot effect on raising revenues for the government. The undeclared wealth or the tax item that would be subject to declaration will be given a very low rate of taxation. In the case of undeclared wealth, it is 10%; whereas if such things were subjected to long-term tax litigation, it would have meant a drain of resources to either the taxpayer or the government depending on the circumstances of the case.

The tax amnesty law on hidden wealth and income had been responsible in erasing the huge number of litigation proceedings that have mounted in the internal revenue office. It also removed a great source of corruption in the internal revenue service.

To illustrate the powerful effect of the tax amnesty, the total amount of collection from tax amnesty alone in FY 1973 has been estimated to be around P750 million out of the total of P1,376 million of new taxes collected after martial law. In short, tax amnesty collections alone account for something like 67% of the total new tax collections.

Moreover, due to the "clean-slate" implications of the tax amnesty, items that had previously been out of reach in the taxation system now became part of the usual tax base, thereby, providing additional revenues to the economy.

Tax Number System

To facilitate the computerization of tax returns and the reconciliation of various sources of income for particular individuals, the use of tax numbers has been intensified. Thus, it is now possible to link particular income recipients to various income payments made by different companies and other sources of transactions.

Tax Violation Penalties

Penalties on tax violation have also been introduced. Thus, tax violators or tax delinquents now have to undergo heavier penalties. Penalty rates on delinquency of payments of fixed taxes have been raised to 14%. In addition, a surcharge of 50% is levied in cases where business, financial and insurance companies failed to file their returns within the prescribed period. Interest penalties for income tax payments, and estate and donor taxes were also raised to 14%. These are in consonance with the provision on interest rates in the usury law before its revision.

In the past, the penalty rates on delinquent taxes had been so low that it paid better to be delinquent in order to use what should have been paid as tax to earn better through higher interest earnings in other activities. Thus, poor revenue collection was a consequence. Of course, poor collection performance was also due to the poor administration of revenues. To offset this practice, a new code of discipline was introduced to the government service resulting in a speedier and more efficient revenue collection system.

Improvement of the Tax Base

The expansion of the tax base via the declaration of a tax amnesty is, however, not the only method to increase the tax base. There are many other methods. For instance, there is the case of the Tariff and Customs Code. In the adoption of a new Tariff and Customs Code, a very significant provision on the improvement of the tax base was 10% ad valorem. This tariff embraced items that were normally not part of the coverage of taxation as seen from the fact that the Tariff Code used to contain tariff-free importations.

The expansion of the coverage of indirect taxes has also brought into the fold of taxation receipts from games like jai alai. It also imposed a five per cent tax on the gross receipts of financial intermediaries engaged in quasi-banking activities. At the same time, a 15% tax was levied on the gross incomes of film owners, lessors and distributors.

Another important matter related to the expansion of the tax base is the removal of tax exemptions or at least the narrowing down of the tax exemption privileges.

Tax Exemption

Tax exemption privileges have formerly existed in many laws. Studies on tax exemption made by the National Tax Research Center have indicated that the losses of the government from tax exemption activities have been extensive. Many of the tax exemption laws should have been made solely in areas related to the promotion of industries. However, the coverage of tax exemption also included wider areas aside from those being encouraged by industrial policy. A fine example can be cited in the procedure where almost any new activity in a government corporation was subject to tax exemption. exemption.

To make matters worse, the losses due to tax exemption could not be quantified because the items concerned would enter the accounts of the government books as tax payments before they are exempted. In fact, the tax exemption mentality in the country had reached a point where the tax base was already being eroded. What is not collected is not revealed; therefore, it would seem that the tax exemption privilege would not show itself as measurable.[2]

Minimization of Tax Exemption Privileges

With the adoption of certain provisions in the Internal Revenue Code and the Tariff and Customs Code, tax exemption privileges have been narrowed down. Of course, the problem of tax exemption does not end there. It would still be a continuing debate in the future. The principle which seems to be the most important in relation to tax exemption privileges is that they be paid in terms of actual governmental income. When tax exemption is undertaken, the direct cost of the economic activity is not shown. By virtue of this, the tax exemptions cannot appropriately be the subject of critical evaluation especially by the citizenry. If outright subsidies rather than tax exemptions were imposed, in the first place, in such kind of activity, then the subsidies could easily be determined as being either advantageous for progress or not inasmuch as they are more easily quantified.

This outright imposition of direct subsidies, if at all, is a new principle being undertaken by the government in place of tax

[2] G.P. Sicat, "Transition to Decontrol and the Imports of the New and Necessary Industries, 1959-1961", *The Philippine Review of Business and Economics*, December 1968, vol. v, no. 2, pp. 24-25.

exemption privileges. Of course, there is still an area wherein tax exemption privileges can be properly applied. This area is related to industrial promotion wherein enormous tax exemption privileges are given for industries being set up in the Philippines either for domestic or export purposes. These industries are administered either by the Board of Investments or the Export Processing Zone Authority and are the only institutions that are supposed to enjoy outright privilege of tax exemption.

Meanwhile, government institutions and departments are now being placed under the coverage of tax laws so that their activities should no longer be tax exempt. By doing this, the appropriate cost of the tax-exempt activities even of governmental corporations has now become more easily quantifiable. In any case, when governmental corporations and agencies import, the payment of the duties are to be taken from their own respective budgets, subsequently allowing the government coffers to increase.

It is logical to expect that the removal of tax exemptions would mean a most significant effort in increasing the ratio of government taxes to total gross national product. Some estimates would reflect an increase of the ratio of the tax effort to the GNP perhaps by 1 to 1 1/2%. The battle against tax exemptions is not yet won. The principle of tax exemption is one of "least resistance" and it is a habit of thought and of doing which has a very big and long history in the country. As against such history and pressures, there is the principle of direct subsidy.

In the meantime, another effort in the area of taxation is the reduction of the amount of exemptions in the personal income tax rate. One of the most important principles incorporated here is the limitation of the number of tax exempted children and dependents to only four. This new provision will start with children who will be born after the year that the promulgation was adopted. This is an explicit recognition by the government that the number of children should only be of optional use.

Raising the Rates of Taxes on Existing Taxes

After Proclamation 1081 was made, many tax reforms were made in the area of raising the rates on some existing taxes.

The tariff reforms of 1972 under Presidential Decree No. 34 constitute, in general, a raising of the tax levels of imported goods.

With the new Tariff and Customs Code and the improved administration of the Customs, the former basic collection rate on imports could go up to 15%. This will then essentially raise the level of customs duties on imports even if the imports were to remain the same.

In making this adjustment, the consideration of the basic revenue duty is naturally very important. Before Presidential Decree No. 34 was instituted, there were many import items taxed by less than 10% in addition to those items that came in duty free. The raising of the level to 10%, therefore, will increase the level of taxes on these commodities.

Another point to be made in this area is the need to rationalize the level of tax with the products of the industry. With the new tariff rates and the simplified administration of taxes, the total effect of the Tariff Code would be to produce more revenues for the same amount of imports as before.

In the National Internal Revenue Code, initial improvements were also made in the efforts to raise revenues from existing taxes. For instance, taxes on items of luxury consumption have been raised. These are taxes on distilled spirits, wine, films, cigarettes and fire crackers. Documentary taxes on foreign bills and on life insurance companies were also increased. The same goes for the tobacco inspection fees.

Some Tax Reductions

Not all efforts at rationalizing are, however, in terms of tax increases. One kind of tax that was reduced in application was the rate on the turn-over of stock ownership. This was designed as a means of raising funds for peace and order. Originally, the rate was 2%. However, it had little effect on the volume of stock market transactions, bringing about a depression to the stock market exchange operation.

The presidential effort at reducing the tax to 1/4 of 1% was an effort to induce the stock market transaction to flourish again. The stock market showed an unprecedented boom in the early part of 1973. Whether this was due to this tax or to some other factors (as stock market operations are oftentimes very tricky and highly sensitive to so many developments, speculative or not) is a matter that cannot be fully appreciated. Nevertheless, if indeed the rate of taxation or stock turn-over has an effect on the volume of transaction, the reduction of the tax from 2% to 1/4 of 1% is a step toward the encouragement of a very important barometer of investment activity in the country.

Meanwhile, the tax system, in connection with certain important commodities, must also be rationalized through a reduction of their manufacturing taxation rates. Thus, food products have now been subjected to a lower rate of taxation. The miller's tax had been reduced. The same is true for the wheat miller's tax rate. These are major concessions in favor of wage goods industries. What, in general, becomes the object of increase in tax rates refers to the items on luxury consumption? The tax rates, for instance, on the receipts of companies engaged in financing luxury consumption goods were increased from 1% to 5% per year.

The Estate and Donor's Taxes

An integration of the estate and inheritance taxes into an estate tax, and of the donor's and donee's taxes into a donor's tax was also instituted. The taxes on donation and on receipt of the donation have been combined into one.

Estate or death taxes have been rationalized in relation to donor's taxes. These important taxes have been readjusted in line with the principle of redistributing incomes properly and of reducing income inequalities through inheritance and receipts of gifts. One of the principles adopted was the encouragement of donation "while alive and kicking" by taxing more heavily the transfers of wealth after death. In the determination of the rates of donor's taxes as against the estate taxes for the same amount of incremental incomes received, the donor tax rates were lower by 40% than the estate tax. This is an immediate recognition of the principle of favoring income redistribution while the principal donor is alive. These tax rates were adjusted from relatively low tax rates in the area of estate and donor's taxes. Rates used to be quite low but now they are more progressively in line with the personal income tax progressive rates.

Export Tax

The export tax is due to decelerate by the end of fiscal year 1974. It was set up as a counter inflationary measure from the export sector when the floating rate was instituted in 1970. In view of its capacity to induce large revenues for the government and to raise the level of government resources for development by at least P300 to P400 million per year, the export tax was very recently incorporated as a permanent feature of the Tariff Code through Presidential Decree No. 230. The export tax is deemed as a good countercheck measure especially if a sliding tax schedule is incorporated within it. It is a measure which is necessary for industrial development in order to create differential treatment of taxes for different types of activities.

The interim measure was to hold the export duties as they were prior to June 30, 1973 when they would have decelerated by 2% less as originally provided for by law. The principle of tax rate freeze was applied to all, with the exception of logs, which was subjected to a 10% ad valorem tax rather than 6%. Through the provision of a flexible clause, however, the National Economic and Development Authority may recommend to the President changes in tax rates or even the imposition of quota restrictions on any exports under conditions warranted. The guidelines for rate changes take into account such dynamic conditions as price changes, degrees of processing, trade negotiations, and domestic needs.

Immediately, some of the issues at stake relate to changes in export taxes as between, for instance, copra and coconut oil. Taxing copra at a much higher rate as against coconut oil export would give the necessary inducement for copra to undergo processing first before it is exported. The same would be true in the case of copper concentrates so that copper smelting could be locally encouraged. The export tax coverage would not include all exports inasmuch as it is a major incentive toward the balancing of a new product composition in the export sector.

With all these tax reforms made, the four-year development plan for FY 1974-77 estimates that new revenue resources will raise the tax income of the national government by at least a billion pesos.

In addition, there would be other increases in revenue to be experienced even without any change in the new taxes. Government revenue income is projected to increase by about 13% per year.

Figure Directions in Taxation

Of course, many commodities in the Tariff and Customs Code had been examined with the view of reducing some excessive tariff rates. This was especially conceived in relation to basic industrialization and trade policies. The excessive tariff rates in the Tariff and Customs Code -- those in excess of 100% -- have now been reduced to 100%. In addition, some commodities that used to be taxed at excessive rates had been rationalized with other requirements such as those of simplicity and of the recognition that some of these commodities were requisites of other types of well-favored activities in the country like industry.

To some extent, although efforts at taxation had already been made to rationalize the rates of tariff on some of these commodities, the efforts at allowing raw materials to enter at slightly lower tariff rates (except if their local potential production strongly compete with importation) require adjustments or even a downward revision of the tariff rates.

Other Tax Rationalization Efforts

Other types of rationalization in taxes are still being thought of in relation to future proposals of tax changes. Some of these include not only the anticipated views that they ought to be raised but also that they be reduced. One particular example would be the treatment of wage-goods industries which ought to be encouraged for domestic activities. This was already mentioned earlier in this chapter. A reduction of high sales taxes on some of these commodities would improve the incentives for domestic production of mass consumption or wage goods industries.

There are also other areas of debate and discussion on the question of tax proposals.

Rationalizing Local Government Tax Powers (also decreed)

A question of great importance is related to the sharing of national governmental tax powers with local governments. This is related to questions of autonomy and efficiency as well as governmental decentralization. Which revenues can be transferred to local governments and what type of sharing formula can be undertaken in terms of revenue-sharing are important questions to be considered in this matter.

These are matters to be covered by the new local government code. Among these are those on the fixed tax on business and occupation, taxes on admission in entertainment houses, the residence tax, the fees for sealing and the licensing of weights and measures. In addition, the improved administration of local taxes especially in relation to the administration of property taxes is an important item of consideration.

Another issue is the standardization of the rates of taxes by local governments. A study of local tax administration by the National Tax Research Center (formerly the Joint Legislative-Executive Tax Commission) had indicated that local governments have not been using their taxing powers properly. This was due to many factors one of which was a cutthroat competition among some local governments in attracting businesses to their localities. The more important factor though was either the ignorance of the local executives on the merits of further taxation or their fear that the tax capability of the local governments could not be undertaken fully with the use of the tax powers given them by law.

It is essential to note that, perhaps, recent local taxes collected on a nation-wide basis and standardized for purposes of greater regulation would be far better than allowing the local government boards to simply judge what would be the reasonable taxes to impose. This setup would then improve the level of revenues among the local governments. The problem, however, would be in the manner of standardization in the implementation of the tax laws. To help solve this, local governments must have tax administrative efficiency.

The principle of sharing national taxes with local governments is also important. As a rule, the improvement of local taxation will lessen the dependence of local governments on the national government. However, biases have been observed in the sharing formula so that richer municipalities get a bigger share of the national budget than poorer muncipalities. The original formula for sharing taxes based on the level of tax receipts of the communities for 1959 was revised by R.A. 6110 into that for tenth fiscal year immediately preceding. Under P.D. 144, sharing system was then changed to 20% of net collection of the BIR and Bureau of Customs. Still though, the formula favored the rich municipalities like those in the Province of Rizal to the detriment of the development of the lower-income municipalities.

In view of the presence of the national government in each municipality and the expansion of infrastructure at national government expense, one can argue that the redistribution of tax resources between the national and local governments can be more equitably shared with other regions.

Corporate Income Tax Reforms

Other significant items of taxation that are currently being studied include corporate income taxation. The question involved is the determination of the upper rate of income taxation to corporations. The present corporate structure is based on a 25% tax rate on the first 100,000 peso-income of corporations and 35% tax rate on any income above this first level.

The corporate tax is one of the taxes adjusted upward in the late 1960's. At any rate, despite such upward adjustment, the current rates are said to be low when compared to other countries. If such tax rates are further hiked, they will not necessarily affect investment attraction adversely since there are various types of incentives available for the attraction of industries.

The Philippines has a lower corporate tax rate based in a comparable income bracket compared to other countries. In Malaysia, it is 40%; in Korea, it is 49.5% for taxable income exceeding 5 million won; in the United States, 48%; in the United Kingdom, 42.5%; in Indonesia, 25% for taxable profits exceeding 5 million Rp and in Thailand, 25% for the next 500,000 Baht tax net profit.

Another proposal in terms of corporate income tax refers to the uniform treatment of partnerships and associations no matter how organized they are. This proposal aims to have the same tax treatment for all forms of business organizations.

Since it is a national policy to encourage corporate bodies as a means of business organization, it would seem awkward to treat partnerships and other associations in another light. Besides, some partnerships tend to have excessive profits and, if not distributed, these profits would not be subject to any form of income taxation. To prevent the unreasonable accumulation of partnership profits, the surtax of 25% rate was applied to partnerships. However, in the case of single proprietorship, the treatment would be subject to the usual income taxation.

Tax on Educational Institutions

In the area of taxation on educational institutions, on the other hand, the issue on hand is the removal of the tax exemption on non-stock institutions and the subsequent application of tax on both stock and non-stock educational institutions. The principle of equal treatment of institutions of learning is a sound principle. Although the taxation rate proposed is 10%, it is still much lower than the actual rate of taxation applied to other types of institutions. This, therefore, shows that the role of schools in development and culture is readily recognized by many through this difference in taxation. The proposal, in fact, is one way of reducing the discriminatory treatment of various types of institutions in terms of taxation.

Reforms in Natural Resource Exploration

There are other areas of tax reforms. One area affects natural resource exploitation. Here, the issue involved is the phasing out of the percentage depletion allowances for mining companies and its replacement by actual depletion. Percentage depletion allowance is defined as a reasonable allowance for the exhaustion, wear and tear of property arising out of each use or employment in the business not to exceed, in the case of mines, 5% of the gross value of the output for the year for which the computation is made. This is a touchy issue for the mining companies since such allowance has been the basis of their attainment of a much larger income tax deduction than would normally be accorded them.

The argument states that this was helpful in encouraging mineral exploration and that it is fair to reward those who are engaged in a risky enterprise like the mineral industry.

The counter-argument to this is that the mineral industry is using a depletable natural resource -- a cost which is obviously to be shouldered by future generations. Therefore, a second look on the privileges given to the mining industry must be made. To date, the depletion allowance has been so favorable to mining companies that if one takes note of the effective rate of taxation of mineral companies as well as the tax exemption that they already enjoy in accordance with mineral development laws, the net effective tax rate of such companies would prove to be much less than the ordinary rate applied to other corporations.

Since these are highly productive enterprises that are utilizing a depletable natural resource, the argument that a fair treatment of mineral companies, in accordance with the ordinary laws on corporate taxation, should also be given attention.

Effects of Tax Reforms

All these issues concern the total tax effort of the country to increase government revenue. Tax reforms concern the much greater effort now on the part of the government to reexamine the total tax structure from the standpoint of: (1) its contribution to total revenue; (2) its contribution to the attainment of other social and national goals; and (3) its capability as a means of channeling resources to the government from some sector of the economy. In this particular case, the income redistribution mechanism is most important.

Raising revenues implies raising tax effort; and raising the national tax effort as defined in a way it is being defined from 11 to about 16% in the next few years is a major objective of developing planning.

It is necessary to raise taxation to enable the government to finance the expenditure programs and to allow the government to carry more effectively its task of promoting a far greater development orientation in the country.

No government becomes development-oriented without being able to help itself first through the use of several supporting means like the raising of the tax effort.

Raising taxation level is also an additional leverage for obtaining far bigger sources of financing that will supplement the ordinary revenues of the government. To be able to do this, therefore, would imply the expansion of capability to raise domestic financing for development projects. Foreign loans of easier terms, known in other parlance as official development assistance, can only be achieved more appropriately if efforts of raising one's own resources are shown. This will indicate the capability of the government to undergo further activity.

Taxation and the Distribution of Income

At this stage, it would be useful to cite the income distribution aspects of tax changes. In an earlier chapter, it was mentioned that the overall tax system in the past had very little distribution effect. Thus, the tax reforms recently made in line with the full force of administrative control on taxes, the proper tax investment and the removal of tax delinquencies especially in income taxes were geared not only toward the attainment of increased revenues but also toward the redistribution of incomes among different income-class groups.

Many of the tax proposals suggested have been in the direction of taxing the richer individuals and companies which have better ability to pay and of reducing the tax burden, as much as possible, on the relatively poor people. One of the tax reforms proposed was the increase in rate of the percentage taxes on sales of commodities that are usually consumed by the higher-income groups. It is believed that the total tax revenues of the Philippines come largely from indirect taxes or commodity taxes. Evidence shows that these indirect commodity taxes are mostly applied to commodities that enter the consumption bracket of the higher income classes.

Since the percentage taxes on commodity sale is said to constitute the greater bulk of the tax revenues, and since such commodities, as shown, are often consumed by the better-off members of the community, then it would be logical to raise the rates on this kind of taxes inasmuch as the consumers of the affected commodities or goods are the ones with the greater capacity to pay the burden.

The efforts to consolidate and make more "progressive" such tax rates is an indication that the tax system is going to be more progressive than before. This "progressive" movement of indirect tax rates as well as the recent changes in the tariff aims to achieve a more equal redistributive effect.

Another area being changed in order to have a better income redistribution mechanism is related to the reduction of tax exemption privileges so as to equalize the opportunities for everyone and eliminate the differential tax treatment in favor of special activities, institutions or individuals.

While many of the tax incentives introduced are designed to improve the investment climate, efforts at re-examining and narrowing down these incentives are also aimed at increasing the redistributive effect of the tax system.

Net Effect of Fiscal Policy on Income Redistribution

Statements about the net effects on income redistribution of expenditure and tax policies are enunciated in the objectives of the New Society. It is clear that redistribution toward greater income equality of income is stronger after the reforms of the New Society.

Taxation takes away income while expenditure spreads it among different activities. In view of the decidedly more redistributive direction of the tax system now in favor of the lower income strata and in view of the fact that public expenditure and priorities of the development program are taking on the redistributive element in favor of the poorer people in rural areas and new settlement areas, public financial policy can be said to help in the generation of a better income distribution.

However, income inequality will still persist in our society due to the very nature of the economic system. Nonetheless, the income inequality, now that it is being solved by a set of policies that would tend to liberalize investments, promote job opportunities in labor-intensive and export industries and adopt a new outlook in our labor laws, will start to taper down as the decade of the 1970's continues.