The Philippine Review of Business and Economics Vol. XII No. 2 December 1975

RECENT FISCAL REFORMS IN THE PHILIPPINES

By

Dr. Agustin Kintanar, Jr.*

Introduction

One area where significant reforms have been achieved under the New Society is in the area of fiscal reforms. These fundamental changes in Philippine society will have long lasting effects even though it is not receiving the fanfare of other social reforms such as, for instance, the land reform, the Masagana 99, and the Barangay or the Samahang Nayon programs. The area of fiscal policy is considered by many as a dry and arid field of study, so much so, that the various mass media seldom give reforms in this area the exposure that they deserve. And if ever they do, the implicit view is that "all taxes are evil, and the least of them the better." Unfortunately, this is the traditional and still the prevalent viewpoint.

It was much heralded a few months after Proclamation 1081 that tax reforms which never could have been instituted under the previous socio-political arrangements were finally adopted through Presidential Decrees under the new dispensation. These reforms, such as the revision of the Customs and Tariff Code (P.D. 34) and the revision of the National Internal Revenue Code (P.D. 69), were, by no means, instant suggestions for tax reforms. In fact the substance of these decrees were presented to the Congress of the Philippines for enactment several years back but most of the bills remained pending in the several committees of Congress with very little support from the elected representatives of the people. This lack of support can easily be understood because the obvious groups that would be affected by any tax reform as suggested by students of taxation and public finance would be the wealthier and richer classes of the society — the landowning class, the industrialists, and commercial interests — who were very heavily represented in both Houses of the Congress of the Philippines. Therefore, it would have been the height of altruism, if not unrealism, to hope at the outset that these same

*DBP Professor of Development Finance, University of the Philippines. This paper was originally a Professional Chair Lecture delivered on July 14, 1975.

representatives would in fact voluntarily pass laws that would tax themselves heavily. Understandably, under those circumstances, only very few tax measures could ever be passed — often watered down versions of bills recommended by tax reform groups or by the Joint Legislative-Executive Tax Commission (now the National Tax Research Center). Of course, one exception that proves the rule were the reforms of 1969 which surprisingly passed Congress during an election year.[1]

On the whole, however, most of the tax measures passed by the Congress then, were mere pleadings for special treatment — usually tax exemptions under the guise of encouraging "new and necessary industries", so much so, that instead of expanding the coverage of the National Internal Revenue Code and the Customs Code, the taxable bases were slowly but surely being eroded away.[2] The life of a tax reformer in those days must have been frustrating, indeed. So, for that one reason alone, many tax reformers would probably justify the proclamation of Martial Law on September 21, 1972 just for the greater opportunity to change the tax structure. In fact, the spate of Presidential Decrees which followed immediately after the Proclamation included several tax reforms which significantly broadened the coverage of internal revenue taxes, increased the tax rates, and improved overall tax administration, although at the same time, some tax measures provided additional incentives. On the whole, however, these tax reforms gladdened the hearts of many a social reformer.

This paper will not enumerate in detail all of the numerous presidential decrees. I will, therefore, dwell only on some of the highlights which I believe, among others, will have significant long range effects on Philippine society. In addition, I will dwell on public expenditure — another area of fiscal reform — lest certain changes in that area go unnoticed.

Increased Tax Revenue

Of course, the most obvious impact of fiscal reforms since 1972 has been the unprecedented increase in tax revenue — an increase which could not have come only through increases in marginal tax

---

[1] R.A. 6110

[2] Bascos A. *Some Aspects of Tax Exemption under the Basic Industries Act* (R.A. 3127) unpublished master's thesis (Department of Economics, U.P.) 1969.

rates, since in fact there were no radical upward changes above those already passed in 1969. A substantial portion of the additional tax revenue was in fact due to stricter administration of existing taxes and duties. The initial revolutionary fervor that the Proclamation of Martial Law had inspired in many sectors of Philippine society (including the fear that tax evaders would be dealt with more strictly) prompted an unprecedented response to the government's exhortations to pay one's taxes. Television and other mass media warned that tax evasion is a crime punishable by imprisonment. This response is evidenced by the quadrupling of the number of people who filed their income tax returns in 1973 as compared to income tax filers before 1972. The increase far exceeded any of the projections based on past Philippine experience.

Tax Amnesties

One brilliant stroke in this regard was the granting of several tax amnesties which allowed much lower tax liability for voluntary disclosure of previously undeclared income or wealth.[3] The grant of tax amnesties was a pragmatic approach to a very difficult administrative problem. Apparently, Philippine culture does not give strong support for the payment of taxes as a civic duty, and conversely, tax evasion was sometimes considered a game one plays with the tax collectors of the Spanish, American or Japanese occupation. For a while, at least, the grant of amnesties and the concomitant increased fear of being caught as a tax evader jointly encouraged, on the one hand, and pressured, on the other, potential or actual taxpayers to start anew with a clean slate as far as their tax liability with the government was concerned.

The various tax amnesties collected for the government tax revenue in amounts which were never dreamed of by the original designer of tax amnesty, whoever he may be. Several hundred million pesos (finally exceeding one billion pesos when cumulated) were collected through the various tax amnesties where at the outset even

[3] A tax of 10% on such previously untaxed income or wealth was imposed in lieu of actual internal revenue taxes due which include penalties, interest and all other civil, criminal, or administrative liabilities incident to such disclosures. However the amnesty as amended by P.D. 67 limited the coverage to untaxed income or wealth earned or realized prior to 1972 in addition to other provisions requiring repatriation of those funds to the Philippines. There were other presidential decrees which extended or expanded the coverage of the several tax amnesties.

the most optimistic estimates placed the amount at only P200M to P300M. Incidentally, the huge amount of taxes collected through the various tax amnesties, could be taken as an indirect reflection of the probable huge amounts of non-declared incomes, as well as the huge amount of tax obligations actually due the government considering that under these tax amnesties one got a bargain discount as to his accumulated tax liabilities. It must be pointed out, however, that the collectible amount is substantially a one-shot deal because it is a payment for back taxes accumulated as arrears in tax liability. However, as some officials of the Bureau of Internal Revenue (BIR) indicated privately, they expect that subsequent collections from internal revenue taxes, especially from income taxes, will be substantially greater because of the much enlarged tax rolls; the presumption being that once a taxpayer is listed in the tax roll, it will be foolhardy for him not to continue to pay his taxes.

Revision of the Tariff and Custom Code (P.D. 34)

The promulgation of P.D. 34 similarly effected changes in the Customs Code which were long pending in Congress before Proclamation 1081 Considering the dynamic nature of the Philippine economy and the rapid changes in the composition of imports and exports of the Philippines, the Customs Code which was originally passed in 1939 and modified in 1957 was long overdue for drastic changes. P.D. 34 simplified not only the system of classification[4] but also the structure of rates. It reduced the number of classifications as well as the rates to be applied on them. These simplifications reduced the possible areas of conflict and, therefore, facilitated effective administration. Moreover, P.D. 34 reduced the catch-all category of "others" which was abused by many importers as a loophole to avoid or evade the much higher rates which applied to the specified categories. On the whole P.D. 34 reduced the ares of discretion of Customs Examiners and, therefore, reduced the opportunity for graft under the convenient guise of "compromise" usually resulting in substantial losses of potential tariff revenue to the government.

Taxes on Exports

Taxes on certain exports euphemistically labelled as "stabilization

---

[4]The classification followed in general the 1972 edition of the Brussels Nomenclature.

tax" have become one of the most lucrative sources of tax revenue. In the face of record world prices in copper, sugar, coconut and wood products in 1973, the collection of export taxes was some 7 — 8% of total tax revenue. The imposition of additional premium tax based on benchmark periods allowed the government to siphon substantial portions of the windfall from the production of traditional exports which would otherwise accrue to the producers who were favored by unusually high world prices of their exports. Unfortunately, the turn of events since 1973 when the industrialized countries began to suffer a deep recession following the oil crisis of 1973, have somewhat softened the export prices of traditional Philippine exports, resulting in reduced profits — if not losses — to certain industries. Considering that the prices of their inputs as well as their labor costs have also risen with worldwide inflation [in the face of recession in many industrial countries], several industries were adversely affected. If present trends in declining world prices of these exports do not reverse, the government might have to use some of the accumulated funds to stabilize prices of these exports. In other words, the very lucrative export taxes might have been a short lived phenomenon, after all. Government funds will now have to be utilized to support and stabilize prices of these commodities as it was originally supposed to do, i.e. become a real stabilization tax.[5]

These developments in the export area have dimmed a little the otherwise rosy picture that improved tax collection has painted for the Philippines in the last few years. But still, the situation tax revenue-wise is very much better than before Proclamation 1081.

Again, it has to be pointed out that these reforms merely gave a more efficient structure for customs administration. It will still require a change in the moral character of the government officials who will be implementing these provisions to make these reforms effective. In the final analysis, it will depend upon the will of the Filipino people to administer an affective tax and tariff system.

The Real Property Tax (P.D. 76)

Another significant area of tax reform is in real property taxation.[6] Under Presidential Decree 76, the Government required

[5] Most recent developments show improvements in the world price of Philippine exports such as copper and sugar.

[6] In fact, there were a whole set of Presidential Decrees affecting real property, e.g. P.D. 76, P.D. 379, P.D. 464, etc.

the filing of self assessments by owners of land and other real properties, the idea being that self assessment will enable the government to get an updated listing of property as well as an indication of the value of these properties from the viewpoint of the owners. Of course it was not intended that the self assessment will become outright the actual basis for the real property tax assessment. The various assessors were instructed at the same time to update their own assessments, considering also the declaration of owners.

As a further effort to improve tax administration, another Presidential Decree (P.D. 379) required the filing of statements of assets and liabilities which, according to some BIR officials, would provide them in subsequent years with a basis for assessing more accurately income and other taxes.

An interesting innovation is the introduction of some progressivity in real property taxation by providing graduated levels of assessment relative to current and fair market value. For instance, P.D. 76 provides a minimum assessment level of 15% if the market value of houses used as residences by the owners themselves is P30,000 or less; increasing to 80% assessment level if the current and fair market value of the residence exceeded P500,000. So, depending upon whether they live in chartered cities (which normally has its own real property tax rate as stipulated in its charter) or in municipalities (within provinces) which will have a uniform real property tax rate for the entire Philippines, the tax rate of real property remained the same for all taxpayers. But the tax liability could still be progressive depending upon the value of the taxpayer's residence, the assessment level being only 15% of current and fair market value if he lives in a modest house of P30,000 or less, rising to 45% for a house P100,000-P150,000 and the highest assessment level of 80% for houses the current and fair market value of which is P500,000 and

Another important development in this area is the codification of a real property tax code (P.D. 464). This reform has been discussed among proponents and objectors for decades but for reasons previously suggested could not be passed under the old society. It required a change in the legislative procedure for such a reform to be promulgated because the duly elected representatives of the people were heavily representing landowners, industrialists and commercial interests who could not be expected to tax themselves willingly.

The whole complex of reforms including the expansion of coverage, the raising of tax rates, the grant of amnesties and the filing of the declaration of real properties, and the filing of statements of assets and liabilities has provided the government with substantial additional information which could easily lead to the improvement of tax administration. These additional information, if properly cross-tabulated by electronic data processing, will of course lead to a corresponding increase in collectible taxes, provided that the society in general and the tax collectors in particular have the will to follow through with the tax reforms so auspiciously launched at the advent of the New Society.

Greater Local Autonomy

Another area of significant reforms which should not be missed is the transfer of substantial taxing power to local governments. This transfer was advocated by the so-called Local Autonomy Movement in previous years but it took the passage of P.D. 231 to make the local governments much stronger in terms of taxing powers.

In the past, most local governments failed to avail of the taxing powers given to them by previous Republic Acts. Several studies have shown that, but for a few exceptions, barrios, municipalities and cities seldom raise the rates or impose taxes which are empowered to do under existing laws. Sometimes this failure is due to ignorance of the existing powers, but more often, local officials did not want to impose additional taxes on their constituency for fear of antagonizing them prior to the next election. Certain tax jurisdictions did not levy the tax in order not to prejudice their relative position vis-a-vis other competing possible domiciles for business and industries.

With P.D. 231, there has been more local tax jurisdictions availing of the newly granted powers. But due to certain weaknesses in the provisions of the code (which was hurriedly put together in a couple of weeks), there have been instances of unintended pyramiding of taxes and excessive compliance costs imposed on certain firms which have extensive if not nationwide marketing systems. To keep a record of sales in countless taxing jurisdictions would be a Herculean accounting task and a very costly exercise.

There is now a clamor from the corporations to rationalize the provisions of the local tax code in order to avoid competition among taxing jurisdictions and to minimize compliance costs to taxpayers.

Public Expenditure

There are many subtle changes in the fiscal field other than just promulgation of more presidential decrees. In the area of public expenditure, there has been a conscious effort to correct wide disparities in income and wealth — a disparity which has been observed to be widening in recent years.

Dispersal of Public Infrastructure

Recently there has been a conscious effort to disperse public works on infrastructure over a wider area of the Philippines instead of concentrating these improvements in the Greater Manila Area and a few other urban centers.

> It is within this context that the government is decidedly redirecting the flow of its resources to regions on a more equitable basis. By maintaining or even lessening the level of project commitments in relatively more advanced regions, such as Southern Luzon and Metro-Manila, and increasing it in regions considered as lagging but with vast potentials for development, like Central Luzon and Mindanao, the government aims to effect a well-balanced regional growth and thereby promote income redistribution and productivity gains.
>
> To initiate and sustain regional growth, priority in the allocation of resources among development projects has been altered to conform with development requirements of regions lagging behind. A development project in this case is taken as a public capital investment generally made in infrastructure facilities like transportation, water supply, electrification and telecommunication. They provide basic support for industrial and agricultural growth and as such, are indispensable to long-term development of regional economies.[7]

It has been correctly analyzed that the heavy concentration of government infrastructure in urban centers contributed, if not exacerbated, regional disparities, including, of course, urban/rural and other sectoral disparities. Efforts to improve the highway system by building not only national highways but also feeder roads or

---

[7] *National Economic Development Authority (NEDA) Development Digest*, Vol. II No. 22, p. 2.

farm-to-market roads will eventually pay off in terms of higher income of rural folks, thereby reducing urban/rural disparities. By opening this area through communication links, whatever surplus production there might be can be marketed and, therefore, this will encourage further production in rural areas. In the final analysis, income can only be increased if the productivity of people is raised by improving farm practices and providing ready markets for these surpluses.

The whole thrust of the regional development program of the National Government is to provide greater opportunities for some 70 to 80% of the people who are residing in rural areas. Without the basic physical infrastructure as well as social amenities, these rural folks will have little opportunity to improve themselves and will only lag further behind their brothers who live in the few urban centers of the Philippines.

On the whole, the Public Sector has succeeded in allocating a greater share of GNP to capital formation. There is now greater emphasis on irrigation facilities such as the Upper Pampanga River Project (Pantabangan Dam) in Nueva Ecija and the Magat Dam in the Cagayan Valley. Similarly the National Government is pursuing a massive highways improvement program such as the Pan Philippine Highway connecting Luzon, Visayas and Mindanao, with financing support from the Japanese Government, and several highways opening up vast areas in Mindanao through Asian Development Bank and World Bank loans.

The above projects have been made possible by the increased capacity of the Philippine Government to borrow from a consortium of international lenders because of the impressive increases in the tax revenue collections in recent years.

Subsidy Program

Another area of fiscal reform is in the subsidy program of the National Government. The most obvious manifestation of this is the price support program. Major staples such as rice, sugar, and cooking oil are in fact sold to the consuming public at prices much lower than their international prices. This means a substantial transfer to millions of consumers who otherwise would find these staples prohibitive at world prices (except, of course, the very rich who would not mind the difference). The subsidy program of the government, according to a recent statement by the Secretary of Finance, amounted to some two billion pesos in 1974.[8] Likewise, the subsidy has taken the form of subsidized inputs such as chemical fertilizers for certain industries, thus lowering the cost of inputs to certain producers (rice farmers). Profit margins to farmers will be that much higher because of farm support prices. Consequently, consumers of these products can also share in the lower prices which the farm subsidy program has made possible.

Socialized Medical Services

Another area where the narrowing of income gaps in real terms has been made possible is in the provision of medical services. The Medicare Program of the government may be looked upon as a fiscal reform providing medical services to a wider sector of Philippine society, many of whom have gone without these services if not for the program of socialized medicine of the Government. Given the difficulties of initial funding, the National Government will have to shoulder a large share in funding such socialized medical programs through the Department of Health and through the Medicare Programs. Again, the redistributive impact of this type of public expenditure has yet to be appreciated. These reforms are significant for their redistributive impact as well as for humanitarian reasons.

Improvements in the Budgetary Process

Whatever one might feel about the right in a democracy to elect one's parliamentary representatives, one has to admit that the relationship between the Chief Executive and the Congress of the Philippines as it was constituted was not a very efficient device for allocating government funds to accelerate economic development and to reduce some inequalities in the distribution of income and wealth. Political considerations assuring the reelection of a party or a particular elected representative were often given primary importance, relegating to the background economic considerations for greater efficiency in the utilization of scarce government resources.

Presidential Decree No. 1 reorganized the executive branch of the government, making it a tighter administrative organization. In particular, the creation of the NEDA Board elevated economic and

[8] In a lecture to the participants of the Eleventh Session of the U.P. Program in Development Economics on June 24, 1975.

social development objectives to higher levels of policy making and made national planning a much more meaningful exercise. A much smaller committee of the NEDA Board now sets up the overall ceiling of the national government budget, as well as the allocation among major governmental functions. The creation of the NEDA Board, therefore, with the Chief Executive as Chairman, ensures closer coordination not only in national planning but also in the implementation of those plans. Since the members of the Presidential Development Budget Committee are not running for any public office they are more likely to give greater weight to economic considerations rather than political considerations which do not lead to efficient allocation of resources. Even more important, the bargaining that went on between the Chief Executive and the Congress of the Philippines, in particular, with the House Committees on Appropriations and Ways and Means and the Senate Committee on Finance was removed by Proclamation 1081 and subsequent proclamations which postponed the convening of the National Assembly to a later time. These developments have made the present administration a much stronger government in contrast to the usual "soft state" present in most underdeveloped countries which Gunnar Myrdal had emphasized in his treatise, *The Asian Drama*.[9] These improvements in the budgetary process of the Philippines which substantially shortened the time and reduced the costly bargaining between divergent political factions and vested economic groupings have, on the whole, led to the more efficient and rational allocation of scarce government resources. These improvements in the budgetary process gain greater significance considering that the absolute amount of government resources, as well as the share of the government sector in gross national product has been increasing substantially since 1972.

In closing, I would like to summarize a few points. Fiscal reforms in the past few years have been instituted at a much faster rate than in preceding decades — in fact at a rate that could not have been dreamed of as possible under the parliamentary procedures before 1972. Some of these tax reforms were in fact pending in Congress but could not be passed because of the heavy representation of landowners, industrialists and commercial interests in the Congress of the Philippines.

The tax measures that were passed recently resulted in big

[9](New York: Twentieth Century Fund, 1966).

increases in tax revenue enabling the National Government to find or to finance by borrowing a higher level of public expenditures, including subsidy programs for staples and basic inputs of rice farmers.

There is now a much greater emphasis on the dispersal of public works to rural areas in order to open these areas to productive activities. It has to be pointed out that the redistributive impact of these types of public expenditures is expected to reduce substantially the existing disparity of income between urban centers such as Manila and the rest of the country. Further, it is hoped that the rapid influx of migrants will be slowed down if the physical infrastructure and social amenities of the rural areas are improved relative to that of urban centers.

The provision of socialized medical services has a similar effect of reducing the disparity between the richer and poorer sectors of society in terms of this basic humanitarian form of service.

But the real fiscal dividend, which a much improved tax administration has brought to our fiscal system, is not just the additional tax revenue. These reforms will have a much longer lasting effect on tax revenue capability of the Philippines. So, it is not only in the number of tax measures that have been passed [and there have been many] but also in the administrative improvements concomitant with these measures that the Philippine society has gained. The improvement in the budgetary process is a good example. A few decades from now, the developments of this period which I have described and analyzed today might well be remembered as among the few hallmarks of success of the Filipino people trying to engineer revolutionary changes under the New Society.

SELECTED BIBLIOGRAPHY

Master's Thesis

Caballes, Aida. *A Study of Philippine Tax Performance* (Quezon City: UP School of Economics, 1975), Unpublished M.A. Thesis.

Discussion Paper

Riha, Tomas J.F. *An Evaluation of Fiscal Performance*, Discussion Paper # 75-7 (Quezon City: UP School of Economics, June 1975), mimeographed.

Periodicals

Abrahan, Lauro D. "Highlights of Philippine Taxes," From: *Papers on Taxation: Concepts, Policies, Practices and Problems* (Makati: Tax and Tariff Center of the Philippines, 1974).

Republic of the Philippines. "Regional Distribution of Public Investments," *NEDA Development Digest* (Manila: National Economic & Development Authority, April 1975), Vol. II, No. 22, p. 2.

Trinidad, Ruben F. "Statistics for Tax Policy and Administration in the Philippines," *The Tax Monthly* (Manila: National Tax Research Center, October 1974) Vol. XV, No. 10, pp. 7-22.

Virata, Cesar E. "Fiscal Policies Affecting Investments in the Philippines," *The Tax Monthly* (Manila: National Tax Research Center, October 1974) Vol. XV, No. 10, pp. 1-6.

Public Documents

Republic of the Philippines, *Four Year Development Plan*, FY 1974-77 (Manila: 1973).

Occasional Papers

"Highlights of Presidential Decrees on Taxation with Tax Implications and Other Economic Implications," (Manila: National Tax Research Center, May 1973).

"Assessment of Tax Reforms in the Philippines," September 21, 1972 to December 31, 1973 (Manila: National Tax Research Center, January 1974).

"Assessment of Tax Reforms in the Philippines — Supplement I," January 1, 1974 to May 15, 1974 (Manila: National Tax Research Center, 1974).