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**CESAR VIRATA at Finance:
Tax Collector and Reformer, 1970 to 1986**

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Abstract

Cesar Virata's tenure as secretary/ minister of Finance is the longest held by any head of department in Philippine history. This study reviews his contributions to the evolution and reform of the Philippine tax system which were significant, sustained and consistent. His contributions helped to bring the internal and customs revenues of the country toward their present state.

Key words: Tax reform, Tax administration, Income taxation, Sales taxation, Economic development, Customs administration, Smuggling, Protectionism, Cesar Virata, Philippine economic history

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INTRODUCTION

The reforms in taxation and the efforts to improve tax administration during Cesar Virata's time at the Department of Finance make up the focus of this paper. Much more could be said about his contributions in office at Finance, but this paper is restricted to the issues of reform and administration of tax laws. In the forthcoming biography of him, *Cesar Virata: His Life and Times*, I review his career and place in Philippine development. For reasons that the subject of taxation and its administration is often not the stuff that makes for easy or pleasant reading, I decided to review these issues briefly in a separate paper. Its aim is to give students of taxation a skeletal outline of the major tax issues confronted in those times.

What is written here is the broad sweep of tax reform problems that the 1970s to the 1980s experienced. My objective is to cover a discussion of specific topics without providing a consistent or exhaustive or even chronological structure. The only main subdivision is to separate internal revenue issues from the taxation of imports and external services.

The article is based on interviews with Cesar Virata and also on notes that he furnished me during the writing of the biography. The topics emphasized here arose from later interactions on the biography. Virata has a vivid mind for details. In the field of taxation, such grasp of detail is evident in this article which is based on his recollection, notes and our interactions.

There are areas that are not treated in this paper. I purposely avoided taking up those topics of taxation that I consider to be integrated with his biography where the matter was dealt with. For instance, I omit discussion of tax amnesty and the coconut levy. The matter of smuggling, however, is treated in this paper as well as in the biography repetition was avoided.

My knowledge of the topic at hand is connected to my work in the government which also covered tax and economic reform during the same period. One of my early works was *Taxation and Progress*, a short monograph that was published when I was Chairman of the National Economic Council. I also made assessments of tax reform issues years later in a paper I contributed to a conference on tax reform in Taiwan (edited by Richard Musgrave *et al*). Certainly, Virata's knowledge of the details was first hand and intimate; mine was general, less detailed and more detached. As secretary of Finance, he had mandate over the process. I was a bystander with the opportunity of making comments, assessment, as well as support of his exercise of the mandate. The main framework about raising government resources through taxation and improved economic efficiency on the ground were the objectives of national economic management. The tax reform issues – although widely shared – were in fact the main mandate of the man at Finance who also had a great deal of responsibility in national economic management.

I leave it to the economic historian and to other serious students of taxation to track some of these reforms in the documentations provided by the government. Some of these are detailed well in the annual reports of the bureaus and agencies concerned and in other public documents. Executive orders, presidential decrees, administrative notes, and so on could be retraced well enough with the historical chronology of the tax documents as printed in detailed announcements of government organs. In writing this piece, I depend mainly on interviews with the subject, including notes that he furnished me. I have also depended on my memory of the issues.

A researcher and specifically any graduate paper on taxation would not be exempted from having rigid documentation as I excuse myself. I essentially use the cover of a memoirist and biographer. In fact, part of the training for writing a graduate paper, or especially a Ph.D. thesis, is to back up the material with careful notes and documentation. I leave it to future tax historians to deal with these matters of professional discipline. But I leave a bibliographic postscript partly to guide the reader with materials that I am familiar with. I also give a lead to other materials that might constitute the initial foray of the serious scholar on the subject.

The reason I write bereft of detailed documentation is to make the presentation easier. I have benefited so much from direct interaction with Cesar Virata – through our years as colleagues in the government and through all the interviews that we have had dealing with many issues including the writing of these notes. I have also benefited from notes that he has written on his ideas of tax reform and tax administrative reform, to mention only those things that are relevant to the writing of this special paper on this topic. His biography is of course on the wider framework of history, the country's economy in his lifetime, which is quite longer than the period in which I write about.

In the end, this part of the work is better read by specialists among tax economists and among those seeking an understanding of fiscal history of the country rather than as an integral part of the biography.

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A LONG SERVING MINISTER/ SECRETARY OF FINANCE

Cesar Virata was the longest serving finance secretary. His total years of service began on the day he was appointed on February 9, 1970 and ended only on February 26, 1986 when Ferdinand Marcos was driven from political power during the EDSA revolution. When he was made prime minister of the country in 1981, he continued to hold the office of finance secretary. He had taken on a wider role in the nation's government, but he did not relinquish his decision-making power, although he relied more on his team of undersecretaries who by that time had been with him for years.

There were professionals who worked under him over the years who would continue in the task of running the ministry later on. Victor Macalincag was his long serving assistant, then assistant secretary, and then one of the deputy ministers of finance. Other deputies in place during that brief period continued with their careers and would play important roles in the future. Ernest Leung, Juanita Amatong, and Romeo Bernardo were talents who grew, recruited as young professionals under his tutelage and mentoring and who spent their careers in Finance beyond his term. They would eventually succeed to the top post or to that of deputy minister.

There were also colleagues who worked for him directly and helped him carry out his tasks of reform during his long tenure. The following list of deputies and bureau directors served ably with him in office: Efen Plana, Alfredo Pio de Roda, Pedro Almanzor, Ruben Ancheta, and Rolando Geotina, among others. These were his deputies, who also had time running some of the major bureaus of tax collections under him.

His service throughout this period covered many issues in taxation. No secretary of finance in the country's history had dealt with the tax system for as long as he had. He oversaw many tax changes and improvements and tax administrative reforms. The new amendments that he brought to the tax system helped the country catch up to the modern age.

During the period of his service at Finance, many aspects of his contributions to tax policy making and to his efforts to improve tax collections happened. When the 1973 Constitution took effect, all departments of government were renamed as ministries – to conform to the nomenclature used for departments in parliamentary systems. From the birth of the Republic to 1973, all major cabinet offices were known as Departments and their heads as Secretaries similar to the system in the United States. From 1973 until 1987 (when the current 1987 Constitution was adopted), the government departments were called Ministries and their heads Ministers. The 1987 Constitution restored most of the political institutions of the Republic and the previous nomenclatures were restored.

From the very start, Cesar Virata's outlook concerning the tax system was long term even though he understood that the tenure of a cabinet secretary/ minister was one that depended on the confidence of his superior, the President, who appointed him to the position. He was however ready to resign the post when the time appeared right.

When he took over the Finance portfolio, he became more conscious about the enormous backlog of tax legislative work in Congress and the difficulty of passing the new taxes. By the time he was three years in office, he had gained good experience in the rough and tumble of legislative work that often defined the tax legislation. When, finally, it was possible to pass many tax laws during the martial law period, he had the chance to undertake a consolidation of the Internal Revenue Code in which many of the tax laws could be imbedded. Thus, in preparation for the restoration of political normalcy through the empowerment of the Batasang Pambansa, the elected parliament, he maneuvered to get the major tax reforms adopted within the revised internal revenue code that was adopted in 1977.

As it turned out, his tenure at Finance was long. Therefore, he was rewarded with having to oversee an evolving tax system for the country that suited his thinking on various issues. In effect, the measures that he undertook during his watch were those of a visionary grounded on reality. Virata enjoyed high prestige within his government, he was a leader among his peers, and he was helped by his colleagues in the economic team to realize his recommendations and plans. Most of all, his ideas were accepted by his president who trusted him. In many respects, Virata succeeded very well in improving the government coffers because he paid attention to the tax issue. That many things somewhat unraveled after 1986 is however part of another story and it is told elsewhere – in the biography.

He covered all aspects of the tax system – national and local, and also international taxation. His contributions are beyond tax changes. Many of these were in the nature of administrative decisions as well as the infusion of delicate rules and protocols of tax reviews and investigations.

THE FLOW OF MONEY AND INCOME AND WHERE TAXATION BEGINS

Basic to taxation is to understand the flow of money, income and goods transactions in the economy. Virata had the advantage of knowledge of economics and business in dealing with these flows. As a young man, one of his early teaching assignments was the elementary course in economics to UP students when he joined the business faculty. As he matured into a business specialist, he mastered business income flows and their various branches. Money flows are in the nature of investment and expenditure. Such flows turn into income, profits, or losses affecting and altering assets, liabilities and the net worth of firms and individuals. These in turn give rise to tax consequences.

When he took over the Finance ministry, he felt that his mettle would be equally challenged by the new responsibility. He would apply himself to the task.

He was realistic enough to understand that laws and practice of the legal provisions defined what he could and could not do. This meant dealing with politicians and the bureaucracy that administered the tax laws. Politicians would determine the art of the possible. With them, he would interact to inform, suggest, and to show alternatives. The bureaucracy that collected the taxes was another thing. He would become a player in this drama of nation building. He would use the powers of his office: supervision, suasion, analytical work, and human relations. If all else failed, he had the recourse of office dicta – that of superior to inferior – a weapon he hardly used except in extreme cases.

TWO BUREAUS OF TAXATION

There were two bureaus that collected the taxes under his supervision and control – one for internal or domestic taxes and the other for taxes on international trade. These two bureaus had strong networks across the government – with the presidency, with other politicians, and with the private sector.

The Bureau of Internal Revenue and the Bureau of Customs were among the most corrupt in the government by reputation. The more corrupt an agency was, the less transparent were its processes. Also a corrupt agency had network of support and protection from outside the bureaucracy that could frustrate an incumbent secretary. There were networks that could be in the way of accomplishing the avowed objectives of improving the tax system.

Cesar Virata had to establish a line of responsibility on where he drew the line of action. His superior was the president of the country, and he made this clear at the earliest possible time. He was responsible for his actions only to the president. He knew that there were good people in these bureaus too as anywhere in the government despite their bad prestige. The challenge to him was to bring up the BIR and the Customs with him as he tried to improve the system and the tax laws that the bureaus implemented. The other challenge was to gain the respect of the bureaucracy and to make it perform its functions well.

Virata's mission as secretary of finance was to find the best ways to raise the needed financial resources for the government. Focus on the transaction flows within the economy was his starting vantage point. The most efficient of governments have taxes on a wide network of transactions flows within the economy. In his new mission, he had to strengthen areas where taxes produced the revenues and to identify new areas of taxation that he could find. This was a stark contrast to his immediate government job before: he was the chairman of the Board of Investments which gave tax exemptions and fiscal incentives to promote industry.

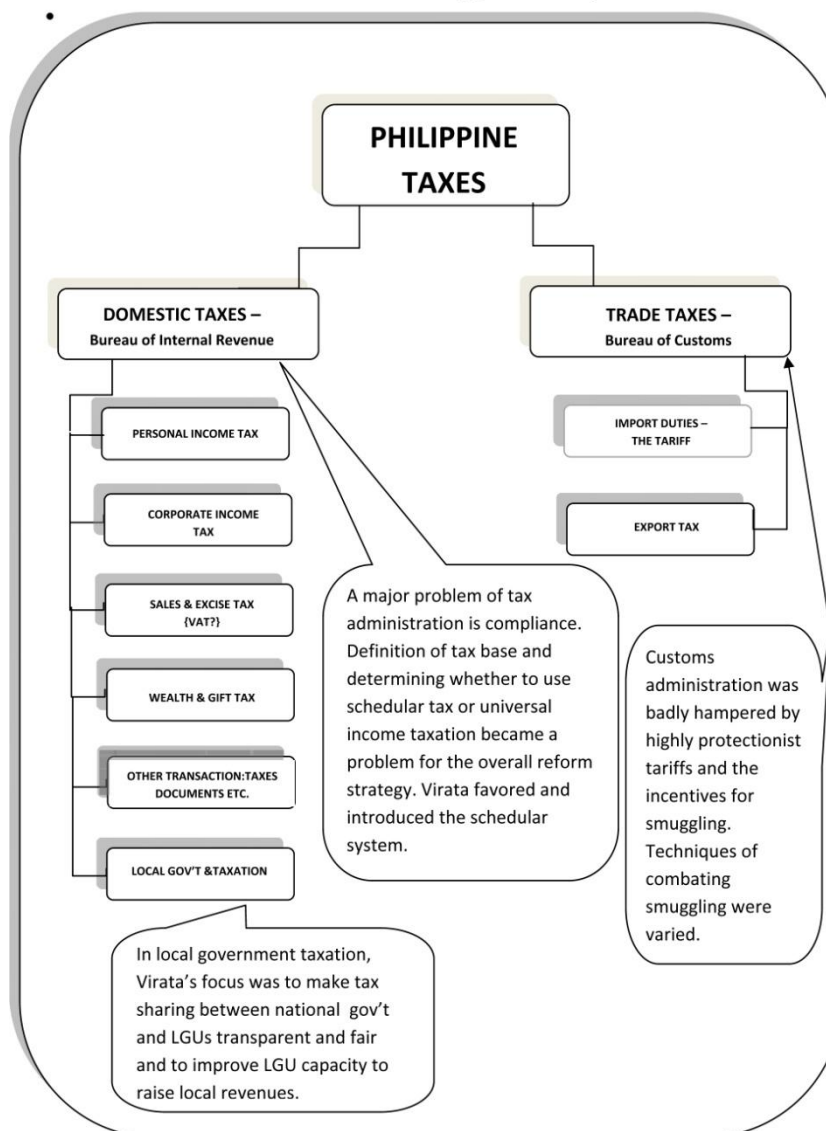
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AN OVERVIEW OF THE TAX SYSTEM

Figure 1 gives an overview of the tax system in the time that Cesar Virata was in office. It also describes for the most part today's tax system.

Figure 1.

An Outline of the Philippine Tax System



Such a framework covers a generic description of the way the tax systems of most countries look. The concept of taxation is that it is imposed on citizens and residents on their incomes and their wealth. This is the origin of the term direct and indirect taxation. Direct taxes are taxes mainly on incomes and wealth of those taxpayers who are immediately and ultimately the ones who bear the tax burden. Indirect taxes are paid on various types of trade transactions on goods and services (like sales taxes). Such taxes have their burdens fall on those who pay produce or buy the goods and who cannot pass on the burden to others.

On the other hand, from another classification, taxes are either on domestic economic activities or on goods that the country trades in with other countries. This is the rationale behind the distinction between domestic taxation and on traded goods. Domestic taxation covers both direct and indirect taxation of domestic economic transactions. Taxation of international trade covers that branch of taxation that taxes internationally traded goods and services.

Income taxation. The taxation of incomes of personal and corporate enterprises is the primary source of direct taxation. Philippine tax laws on personal incomes were based on a progressive rate system; The tax rate was lowest for persons with the lowest incomes but as the range of taxable incomes rose, the tax rate also increased. The corporate income tax was progressive but based only on a two-rate structure. The rate of progression of the tax rate was steeper for personal incomes than on corporate incomes.

Sales taxation. The taxation of domestically traded goods is the next group of taxes. The taxation of the sale of traded goods was the principal source of indirect taxation. The percentage sales tax was the prevalent form of taxation of sales transactions. It was a tax on retail sales that also included the manufacturer's sales tax.

The other group of indirect sales taxes is the excise tax on commonly consumed or used items on which the tax rate is based on physical volume rather than value. Examples are taxes on a variety of fuels, including gasoline and other essentials, and taxes on cigarettes and on other types of consumption of luxury goods like alcohol and other spirits.

Sales taxation is the foundation of the so-called value added taxation. In Virata's time, the value added tax as known today was then not yet in effect. But of course, the value added tax is conceptually sales taxation. The Philippine manufacturer's sales tax then in effect was in fact a one-step VAT. The base of the tax was gross profit, or sales minus the cost of goods sold.

Other transactions taxes. A variety of other forms of transactions represents other taxable income flows. There is no easy way to distinguish whether these types of transactions are directly on incomes received or indirectly on other types of transactions. The execution of private documents under recognition of public law for instance requires documentation fees, which constitute a form of taxation. The granting of franchises also requires some corresponding tax obligations.

Taxation of financial transactions represents another source of potential government incomes. Here the obvious point of taxation would be, as in sales taxation, the gross flows of transactions in operation. The effect, of course, is to add to the cost of the financial transaction.

Taxes on royalty payments and fee-based usage taxes arising from leasing contracts are another. Transactions involving trading operations of a financial nature – such as those in stock exchanges – are another form of transactions taxes. Here the idea is in part to capture the transaction for the active exchange of stocks of corporations that are traded in the stock market. This is separate from the idea of capital gains taxation, which is the increase in the valuation of stocks that are actively traded. This aspect of capital taxation could be viewed as part of income taxation or separately as the tax on increments in the value of a traded asset.

The taxation of land is yet another transaction flow. Since land is location specific, the venue of such taxation often falls on the local government where the land is located. Often therefore, taxes on land and on real property are taxes imposed by local government jurisdictions.

There are quite a number of fee-based transactions. Some government agencies or enterprises render a direct service to the general public who are made to pay a fee for the service rendered. Examples of these include the charges levied by government owned schools/ hospitals and judicial courts, the issuance of licenses and permits, postal services, and so on.

Often, the fee is based on cost recovery for the service. Many government agencies, not receiving sufficient budgetary allocations for their services have found it essential to charge some fees for their services. For instance, the consular offices of the government charge service fees for the passport service or for consular service, so that their maintenance was often financed from their revenues.

Other fee-based transactions are those by government monopolies required to charge fees for their business. In some sense, these government corporations are organs of the taxation function. Their taxable income is the net profits that they earn from their activities. Otherwise, their operations represent indirect subsidies to the government (which implies a net expense on the part of the government, which then further classifies it as expenditure, not tax). For instance, the fares charged against passengers for using railroad or the light rail transit (LRT) are not enough to cover costs.

Wealth and transfer taxes. Wealth and estate or gift taxation consists altogether different type of activities. These are taxes based on asset ownership or the transfer of assets or of wealth from one generation to the next (in the case of inheritance) and from one set of institutions (donors) to other income or wealth recipients.

Local government taxation and relations. Local government taxation is another part of the tax system. Although conceived of as being outside the national tax system, local government taxation is a field by itself. One aspect that is important, especially in the unitary system of government (in contrast with a federal form) in the Philippines, is how local governments are

allowed to have a share of national taxes collected by the central government. The national taxes of course includes income and sales taxes.

Administrative processes and problems. The Philippine tax system is complicated. It covers all internal revenue taxes which therefore requires good, strong and honest administrative supervision. The best tax is the one that can be collected with the simplest and least costly administrative support. The Philippine constitution requires that taxes be uniform, equitable, and progressive. These principles also require efficiency in collection of the tax. But such ideal tax hardly exists.

There are varieties of administrative possibilities, often creating space for differing degrees of tax evasions. When the taxpayer tries to evade taxation by non-declaration of incomes or wealth but some evidence is found to substantiate this non-disclosure, the situation becomes fertile ground for the tax collector to assess and to bargain. This is the root cause of corruption. Moreover, from the tax payer's viewpoint, the risk of being caught evading the tax opens the possibility that the tax liability could be bargained to a lower tax rate through a low rate of penalty. This practice of evasion could even be undertaken through the preparation of financial statements that are understated with the involvement and cooperation of the certifying CPAs (certified public accountants).

This constituted a strong argument for collecting some types of taxes at source. Sometimes, the required machinery for withholding the tax could be instituted as further aid in the administration of the tax. But most taxes involve provisions that allow the exercise of discretion. When discretion is available to the tax collector, the government's revenue from the tax could be compromised. This was the area where corruption permeated. This was an area where avoidance of the tax was possible through alternative tax routes.

Trade taxes: import tariffs. The tariff system was instituted in the late 1950s. This was a tariff system with a high rate of protection for most of the items produced in the country. Some tariffs were mainly for revenue and for these, rates were low. Rates of tariffs ranged from 0 percent to 500 percent of the value of the goods. There were in addition import quotas and variable rates of tariffs depending on whether the goods were produced within the country or not. A zero rate was imposed on many items especially if they were used as raw materials of "new and necessary" industries.

Taxes on exports. During the period in question, export taxation provided revenues for the state coffers. Thus, surveillance of exports was important not only to track trade volume but also to monitor potential tax income. This meant that aside from import surveillance, there was a corresponding effort to monitor exports on the part of the customs service. The ports of shipment were located mainly in the Visayas and in Mindanao.

Taxes on exports were mainly on natural resources exports and on the traditional agricultural products, sugar and coconut products. The taxes provided major revenues for the government. Since they were levied on crude levels of the products, raising their costs through taxation thus further providing justification to process the goods at home prior to export. Thus,

they were justified to create further processing at home of the traditional exports of agricultural products.

The export tax added a burden to domestic traditional agricultural export. The burden of tax however did not fall fully on domestic producers but also on the importers. The burden sharing depended in part on how the importers found substitutes for the Philippine exports. At that time, there was some degree of control of domestic supply of the exports as to enable the importers to pay for part of the tax burden. Further, the tax was justified as a counter-vailing power over the tendency of the importing nations to impose high tariffs on the domestically processed goods but none on the unprocessed agricultural products. Thus, the main reason for this strategy was to induce higher domestic value and content of the agricultural product prior to export.

In the case of natural resources exports, there was a stronger reason to impose the export taxes. They provided for a good source of revenues for exhaustible mineral resources. The export taxes also served to create a higher level of taxation for resources that would otherwise not fall on importers of the raw materials. Because of the scarcity of the mineral resources and their exhaustibility, there was a high premium to pay for a higher cost of the minerals. The argument applied with force especially on the exports of logs. When logs are taken out of forests, trees had to be replaced. Reforestation of logged areas was a long term proposition.

There was another strong reason for the imposition of export taxes. Most of the traditional exports of the country were subject to extreme commodity price swings in international trade. These commodity price movements had a large impact on domestic incomes, causing volatile income swings in the economy. Export taxes in this context produced two types of benefits: first, it helped the government to share in the windfalls from rising commodity prices and, second, the export taxes also played a modulating impact on the swings from booms to busts of the domestic economy. During periods of commodity booms these taxes provided a great supplement to government coffers.

Export taxes were discarded after the fall of Marcos by the successor government. The agricultural export sector rode on the argument that they were inimical to the country's effectiveness in promoting a competitive economy. But the main argument for export taxation in the case for the Philippine tax system was that they represented a special sector in which they could be justified. Applied to the natural resources sector, they represented a tax on depletion or on the utilization of replaceable resources. They also provided a good source of revenues for the government.

Such taxes were frowned upon by the international trading community leading up to the treaty to form the World Trade Organization (WTO) after the multilateral trading agreements. They could not have threatened Philippine entry into the organization. Although WTO prefers a purely no-export tax world, it recognizes the persistence of many raw material exporting countries to impose taxes on their exports of these products which many countries maintain to this day.

There are countries that are members of the WTO that continue to rely on export taxes as a tool for the taxation and as commodity price stabilization. But at the point of entry in the organization, the use of that tax instrument on specific natural resource and traditional exports of agricultural products would not have been a bar to entry into the WTO. To reimpose them however would be quite difficult.

Smuggling, surveillance and other measures. The protective trade regime placed enormous demand on administrative measures designed to monitor what was happening in terms of price and volume of trade. High tariffs created strong incentives to evade taxes as well as to bring into the country goods that could be sold at attractive prices, creating high profits for those who risked it. The idea that smuggling could be done reasonably well depended on the corruptibility of the customs service and even of police. Such acts begin often with the connivance of unscrupulous customs brokers and declarations of shippers and suppliers through bills of lading.

Thus, any efforts to improve administrative efforts required good surveillance mechanisms – both on the import side and also on the export side. They required different efforts. Surveillance often began with the port of initial shipment. Imports were shipped from foreign ports, so effective surveillance included knowing prices and other values in the exporting country.

In the case of exports, understanding the volume of shipments leaving the country was critical. This meant monitoring of export documents and actual shipments. The export of logs and of timber products especially posed a very challenging problem in the valuation of shipments.

In addition to this, the port handling processes and facilities within the country's ports implied attention to infrastructure and to those managing the process of moving goods as they arrive and move to the country's commercial centers.

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BUREAU OF INTERNAL REVENUE (BIR)

Early in his tenure as Secretary, Cesar Virata tried to look for ways to simplify the tax mechanism that would lead to effective methods of improving tax collections. He believed that one of the first tasks to improve was to get computerization established within the system. This would make possible quick data retrieval – both specific and macro views of the tax system. This was essential for the tax authorities to get to know tax information along specific details as well as getting an overall assessment of developments. He also focused on new ways of collecting taxes more quickly. For this reason, he zeroed in on the possibilities of improving the application of the tax withholding methods to institute an early capture of transactions that often escaped payment into the tax net. And another method was to introduce a simple gross tax on the transaction.

EFFECTIVE TAX WITHHOLDING MECHANISMS

One of the first measures that he saw was the need for an effective withholding tax mechanism so that salary and wage flows would be able to provide advance saving to personal income earners of tax their liabilities. This mechanism lightened the tax burden at the time of payment and also provided insurance that the tax bill was settled when tax became due giving the wage earner no option to leave his tax unpaid. Before, many wage earners simply spent what arrived as take home pay for their immediate needs.

Now, the withholding tax mechanism at least instituted a scheme that made it possible for the government to generate tax revenue streams from transactions that would otherwise be paid only during tax payment times. Government needs for revenues are quite regular, The running of government requires regularity of expenditure. The tax receipts of the government however tend to be governed by seasonal fluctuations. Tax revenues come in lumps for the government, the bulging in such incomes happening near the deadlines of tax payment.

He recommended the expansion of the withholding tax system to capture a wider range of transactions that before had escaped the tax net. The withholding tax scheme today covers all payments: royalties, stock market trades, dividends, interests, leases, and for a variety of transactions that could escape taxation. Thus he was keen on having a good picture of all payments and receipts transacted within the economy during current periods.

SIMPLIFIED GROSS TAX ON TRANSPORT COMPANIES

Early in his tenure as finance secretary, he noticed that teams of examiners were often sent abroad to examine the books of airlines and shipping companies that serviced the Philippines. This gave tax examiners a lot of time for travel as well as free tourism on government time. But he doubted that such work produced any good result. He was not convinced that tax examiners could effectively audit international income and expenses of these companies and determine the income that they derived from their Philippine operations.

To avoid embarrassments on this issue, he decided to introduce the gross income tax at 2.5 percent of gross income on both airline and shipping income. The tax was purely an estimate of 10 percent with an income tax of 25 percent. This was simpler with no questions asked except to determine the income from their Philippine operations. Such income was easily established as this is the report that they make to the government of their revenues from their country operations.

There were of course complaints from the transport companies. Virata told the firms that the BIR was not forcing them to lose money in their operations. Besides, it was up to them whether to continue their service operations in the country or not. After many years, even the United States – the country with the largest network of foreign airlines servicing its airports – decided to use this method of taxing the same transport companies to simplify their tax audits.

TAX TREATIES

Cesar Virata created a team to negotiate tax treaties to avoid double taxation and to create an amicable framework to exchange tax information with other countries. The major trading and investment partners of the country were the initial targets of this operation. It was important to have a number of major countries to negotiate and sign up with the Philippines. Other countries would find it easier to adopt what was already accepted in other countries. In this way, too, it was possible to detect the types of industries and services that are often the subject of protection by these countries.

THE ISSUE OF VAT IN SALES TAXATION: CASE OF THE MANUFACTURER'S SALES TAX

With respect to sales taxation, he was quite aware that the Philippines was a pioneer case on the subject of the value added tax (VAT). The Philippine manufacturer's retail sales tax utilized the VAT scheme. In fact, the tax expert from the University of Illinois, John F. Due, had referred to the country's retail sales tax as a case of the early value added tax model. The gross retail sales allowed the deduction of raw material costs at the point of sale in relation to the tax.

This was a model of a one-step VAT. The VAT is a fairer and more sophisticated sales tax system in which purchases of materials and services from other suppliers are deducted from the tax base. The VAT in reality would involve the deduction of all raw material purchases from firms in all stages of production. In such a system, the value added accruing to any firm would no longer contain any tax element that had been collected in earlier stages of production. This makes it possible to remove the distortions that arise from sales taxes in which the tax elements of previous sales taxation were included in the tax base.

Virata recognized the advantage of a reform toward the adoption of a comprehensive system of taxation based on the concept of the VAT. He was worried however about proceeding too fast. He decided that a pilot of such a system could be undertaken in one region. He chose Region VII, in central Visayas, which is one of the more developed regions of the country. The second major city, Cebu, is located there. A test would provide basis to determine whether the system could work in a setting that was characterized by poor invoicing of transaction tax accounting system that made tax audit difficult. After a year of piloting the system, the finance department concluded that it was not timely yet to adopt the VAT at that time.

He made room for any future move toward adoption of the VAT system by including the VAT changes in the NIRC of 1977 amendments. In so doing, he made it possible for authorities in the future to adopt the VAT system when they felt that it was warranted.

SALES TAX STRATEGY TO IMPROVE TAX ADMINISTRATION

Cesar Virata was aware however that tax revenues were inadequate under the system of internal taxation. The sales tax was a major source of internal revenues and he had wanted the basic rate of tax upgraded. He devised a system to make it more widely accepted to raise the

sales tax. He thought that the manufacturer's sales tax of 7 percent could be raised to 10 percent of sales value using other arguments. He therefore proposed an additional 3 percentage points that would be made to create two separate special funds, one for a teacher's welfare fund and the other as additional sales income destined for distribution to the local governments.

As a rule, he was averse to special funds. He always fought off suggestions that required special use of any tax but felt that special funds could be justified under certain circumstances. For instance, he never raised objection to the use of the fuel excise taxes for road repair and maintenance. It was one way of justifying tax collection that benefited the road user.

The two special funds could be justified because the two beneficiary sectors constituted two important segments of society. Moreover, he felt that he could utilize the beneficiaries in such a way that they contributed to improved tax administration. Teachers and local governments would split the incremental tax rate half-and-half. The first 1 ½ additional percentage point of the tax would be allotted to a teachers' welfare fund. Teachers could be helpful to the tax administration improvement program by taking advantage of their educational role within the nation – not only the classroom. He believed that he could enlist public school teachers in the campaign to improve tax compliance. They would help to propagate the idea that issuing receipts for cash and other transactions in the economy would yield positive outcomes in the tax collection program.

The other 1 ½ percentage point increase in the sales tax would go to the local governments to raise their total tax allotments. Local governments had the best incentive to raise collections for they would benefit from the additional share in the coverage. Likewise, the increase in revenues could help in the boosting of tax income for the whole of government even while putting more tax capacity to help local governments.

He wanted this measure to help strengthen the invoicing of transactions as a prelude to improved and verifiable increases in tax collections. Virata thought that if incentives were provided to local governments, they could provide a strong machinery for assuring that more national revenue incomes could be raised from sales taxation or VAT. Eventually, this would also improve collections from the income tax. Such a system however required proper accounting for collections through the use of official receipts that were properly registered with the BIR before they were printed.

THE INCOME TAX: UNIVERSAL INCOME VS. SCHEDULAR INCOME

To enable him to look at the tax system comprehensively and thereby get the reform process going forward, he asked the International Monetary Fund tax and fiscal unit to study the Philippine tax system. This was mainly done to generate new ideas from international sources incorporated within the Philippine tax system as the government was preparing to revise the Tax Code in 1977.

An expert panel headed by Canadian Professor of Economics Richard M. Bird was sent by the IMF to review the Philippine tax system. The panel included, among others, Richard

Goode, another tax expert based in Washington DC. The IMF team recommended several changes in the tax system. Cesar Virata agreed with most of the recommendations except for their most important recommendation – that of a universal income tax system. The IMF team had recommended that tax be imposed on consolidated income from all sources. The consolidated income was to be taxed according to a progressive rate schedule.

Cesar Virata did not agree with the recommendation for a tax system based on universal income taxation. His basic disagreement stemmed from his belief that various incomes derived from different sources in the country escaped the tax net.

In theory, the universal income tax concept is an ideal tax system. All incomes are consolidated to compute total income which is then made to pass through a single tax framework. In this way, it is fair. The system requires a high degree of commitment to disclosure and record keeping. Proper accounting systems have to be in place for each tax payer. This is fine in a well-developed tax system.

But in a country where consolidated incomes from domestic sources were difficult to obtain and to trace, estimating global income was difficult. Moreover, it was also very difficult to track down incomes from external sources, not to mention the earnings from secret bank accounts. The law on the secrecy of bank deposits prevented the tax bureaus from obtaining information and verifications from the bank accounts of suspected individuals.

Even if tax evasion did not exist, taxpayers could fail to undertake appropriate record keeping of their incomes. In this way, tax revenue would be lost. This was true in a country where the level of tax education – and educational achievement in general – is not as high as in more developed countries.

Ideally, Cesar Virata preferred a system of taxing income flows as they occurred. This is not of course possible all the time. But it is possible to devise a system that reduces the lag between income occurrence and tax collection. The solution therefore would still be through the system of taxation at the time of occurrence or through a withholding system that enables the government to use the money while awaiting final determination of the tax.

This was in part his disagreement with the universal income tax system. Some types of incomes would be best taxed at the source quickly but could be lost to avoidance or evasion or simple forgetfulness because of a poor recording system. Different incomes could be caught at the point of earning and tagged for payment of the appropriate tax through a system of withholding or one of instantaneous collection. This was already undertaken in the case of wage income through the withholding tax.

Stock transactions, royalties, financial transactions, interest incomes, dividend incomes and other forms of incomes like fees for consultancy are other incomes that were feasible for taxation under the withholding system. He also noted that a great bulk of income came from interest payments and he had wanted a major tax handle to deal with this sector. He had

experienced that the system allowed a large amount of business income, including interest income, to escape taxation due to the law on secrecy of bank deposits.

Thus he relied on a system of taxation based on different schedules of earned incomes. Principally, this system had the following major elements: (a) tax rates for business and compensation income; (b) a withholding income tax of 20 percent on interest earnings to be collected by banks on their payments of interest on deposits and loans; and (c) a final tax on dividend income of 10 percent. In addition, a final tax on stock transactions was imposed. But the lobby of stock brokers and the public campaign of the influential columnist and well-known public figure, Teodoro F. Valencia, won over the president against his recommendation on this case.

The disagreement on the universal as against schedular tax system might not have been as large as it would seem. Both approaches would in general almost appear close together, with the exception that some forms of taxes were subject to differing rates. In a progressive tax system – which is essentially the one applied to Philippine income taxation – the early base of incomes earned are subject to a lower rate of tax. But as income rises, specific increments of income would be subject to higher tax rates. Under a universal system, the progressivity would take care of the distributive aspects of the income tax – poorer income earners being subject to lower income taxes and the richer ones would be subject to higher rates of tax.

The schedular rates of taxes capture different taxable income transactions. And the withholding system is integrally part of the universal tax system. For instance, the wage withholding would be recalculated for proper incomes and then the tax liability would be calculated against the total taxable income. Under the schedular tax scheme, those final taxes already collected would be excluded from the tax base. If the bulk of the income of the taxpayer is from salaries and wages, then the universal income tax concept would be more appropriate. In this case, the universal tax system would appear to be almost the same as the schedular approach.

The schedular system in his view would capture more taxable returns from high wealth individuals whose incomes are not principally from salaries and wages but from capital income and other forms of incomes like royalties, stock market transactions, interest income, rental income, and dividends. In such cases, individual taxpayers might appear to pay low income taxes but may actually shoulder a higher tax burden from schedular sources. Low payments of the schedular taxes could happen in their case of certain income flows that enjoy tax and fiscal incentives because their activities are in tax-free or tax-deductible investment instruments. Even then, in the case of interest income, he surmised the difficulty of ascertaining their accuracy because of the secrecy of bank deposits under the law.

The problem was one of appropriate accounting of all the sources of incomes. If most taxpayers tracked their incomes properly and they did not evade any taxes, then the universal approach was definitely preferable. But in Cesar Virata's experience with the Filipino tax payer, there was rampant lack of reporting of taxable income flows. The best method in dealing with these was to capture the taxable return at the point of earnings when they occurred. This pointed to the advantage of the schedular system over the universal tax system in some situation.

One outcome of this debate is that, in due time, even Richard Bird would find merit in these arguments. He would therefore change his mind regarding the applicability of schedular taxation for developing countries as a practical approach to the improvement of tax collections. When I asked him about his views on this issue and writing back to this author in answer, Professor Bird said: “Virata was a most able [minister of finance], and I should perhaps have listened to him more closely at the time! Fortunately, we live and – if we are lucky – learn....”

Further, Bird enclosed his study of his journey of fifty years of research on taxation of developing countries (cited in the bibliographic notes at the end of this paper), which concludes with the following terse statement: “Unlike the earlier approaches [of tax reform for developing countries, the present] approach focuses on the need to ‘custom build’ the different components of the tax system as well as the system as a whole and emphasizes the extent to which sustainable reforms must be developed ‘in house’ by countries themselves.”

Balancing income tax inflows against income tax anticipations

Reference earlier was made on the problem of the seasonality of tax revenues caused by lumping of tax payments during certain periods coinciding with the cycles of tax payments. But the fiscal demand for expenditure follows a different pattern.

As finance secretary, he needed to stabilize the revenue receipts front given that expenditures of government are very regular. Payments for wages and salaries are on a daily basis. They ticked like the clock on the 15th and the 30th day of the month when the accumulated pay of salaries and wages were due. Good financial planning was required to match expenditure with tax revenues.

Also there were different types of expenditure with a high seasonal demand that were not necessarily in tune when the government was flush with tax receipts. For these types of activities – like public works construction, there was need to anticipate the expenditure during times when public works were picking up.

To him instituting a quarterly income tax payment system would help to smooth out the seasonal character of government revenues immensely. When he was new as secretary of Finance, he recommended to Congress to enact a law that would require quarterly tax payment. But the Senate President Gil Puyat at the time told him that it was not timely. Business had a lot of interest in keeping yearly tax payments.

One way of looking at the situation was that the taxpayer accumulated tax liability as at any time that taxable income was earned. The taxes owed to government are like money borrowed by the taxpayer until he paid the tax bill during tax period time. In short, it was like the government lending to the tax payer until it collected the tax due.

On the other hand, the government had to pay the bills on a current basis. In order to be liquid with cash during the lean revenue periods, it had to borrow from the public. This problem led him to issue tax anticipation bills and to develop the treasury bill market. This pattern of finance was part of the effort to raise resources so that the government would have a steady

source of cash. From the viewpoint of a balanced budget philosophy, the tax anticipation bills represent borrowing from the public to shore up the cash balances so that by tax payment time, the deficiency would be covered by the tax revenues collected. Of course, the treasury bills that are larger than this implies financing the budget deficits as they occurred.

ESTATE AND GIFT TAXES

Virata also focused on the estate tax to encourage early transfer of wealth among generations. There were two major reasons. He felt that wealth redistribution could occur sooner between the generations to encourage entrepreneurial motivations among the heirs. Although he had expected that there would be heirs who prematurely spent inherited wealth, some heirs would in fact find great use for capital that they could employ to undertake businesses.

As a result of this, various innovations regarding estate tax payments were introduced. The early distribution of estate wealth to heirs meant a lower tax rate for donations compared to distribution of wealth after death which was subject to the inheritance taxes.

OTHER ASPECTS OF TAX ADMINISTRATION

WHISTLEBLOWERS

In order to improve tax collections, he knew that he had to rely in part on providing an encouragement to those who could help in exposing tax anomalies, especially those guilty of tax evasion. The law already had provisions to encourage tax whistleblowers.

He encouraged informers to provide the BIR and the Department of Finance with tax information that would lead to the discovery of cases of tax evasion. When found correct, informers were awarded according to law, based on the collection due to the additional collections. The informer was rewarded with 25 percent of the amount collected from the successful conclusion or litigation of the tax case.

CPA PRACTICE AND TAXES

An aspect of the problem of tax evasion is the case of under reporting or non-disclosure of income from taxable transactions.

“Creative” or even “false” accounting practices rested on the doorstep of the certified public accountants (CPAs) that certified to the veracity of the business transactions. From the cases of tax evasions that were often unraveled, he suspected that there was much unscrupulous tax accounting. The other part of the problem was of course corruption within the tax services.

As part of his role, he often warned – in his public speeches before CPAs – that certifying to false information that was verified by tax audit could mean revocation of their license. He authorized the BIR to accredit CPAs even if the professional board objected to such a practice.

TAX EXEMPTIONS

Tax exemptions and fiscal incentives always fall under the responsibility of the finance secretary. And they mean potential erosion of the tax base. Proper implementation of the exemptions requires tight administrative regulations and processes/ In short, the tax exemptions, aside from reducing the tax base, also weaken the administrative budget to collect taxes from other sources. Why? Administrative resources are also spent to implement the tax and fiscal incentives. Thus, the potential leakage from fiscal incentives is even larger than the amounts lost directly from the exemptions themselves.

His government job before becoming secretary of Finance was that of chairman of the newly created Board of Investments. The main function of that office, aside from promoting new investments, was to provide fiscal incentives so that those investments could be given. But the field of tax exemptions and fiscal incentives covered a much wider field. Rules were needed so as to coordinate the process of availment of these tax exemptions and incentives.

One of the earliest efforts to deal with this problem was the creation of the Fiscal Incentives Review Board. He caused such a review board as an administrative committee of the government. It was created by executive order.

The committee set up rules to track down the tax exemptions enjoyed by various sectors. In this connection, he was wary of the abuse of the system. For instance, exemptions for books and publications under the UNESCO agreement tended to be abused. A lot of advertisements and commercial promotion work rode on this exemption route. He therefore tightened the rules on the blanket implementation of the tax exemption provisions of this agreement to see to it that they strictly referred to educational, scientific and cultural materials.

Diplomats and their tax exemptions. Tax administration is one of the most demanding of operations. The government employees involved are exposed to practices and legal provisions in which the parties to a case – or provision of law – attempt to exhaust the limits possible under the law. Sometimes when the practices are allowed too generously, they could lead to abuse.

The example of tax exemption to diplomats was a demonstration of this in his time. The tax privileges of diplomats are guaranteed by law or treaty, In the context especially of the highly protectionist industrial climate that was prevalent during the time, the goods that diplomats could bring into the country had exceptional value in the domestic market. Most of their personal effects could be bought cheaply abroad or from where they came. However such goods brought into the country were highly priced luxuries if they ever “leaked” into the domestic market.

Cesar Virata wanted to draw the line between standard international courtesy for diplomatic privileges and the possibility of abuse. By being conscious of that line, it was important for the government administrator to assess the limits of the regulation or privileges. Diplomats included the multilateral development institutions. This meant workers for the United Nations systems and bilateral development agencies. The setting up of the headquarters of the Asian Development Bank in the country further enlarged the number of foreigners enjoying

diplomatic privileges in the manner and limitation of importing personal effects. For instance, possession of a second car was no longer a personal privilege.

The rules for the importations of diplomats or officers of multilateral institutions therefore had to be tightened to minimize the possibility of abuse or unintended leakage. The government had to be sure that the courtesy tax exemptions to diplomats was observed but such observation was specifically limited within a framework that was mutually understood between the government and the foreign diplomats who enjoyed the privilege.

Even the country's returning diplomats posed challenging problems in this regard. When they went on extended home leave, when they returned to postings at the home headquarters, or, in a large number of cases, when they retired from the service and on their way to be resettled back at home, they had to bring their personal effects. These diplomats were allowed some allocations to bring home as their personal effects.

Oftentimes such imports that they brought home were highly taxable items. If they had had these goods for some time, then the imports often imposed no problems. But in general, most of the imports that they brought home were brand new. At other times, there were cases in which the imports brought home by the returning diplomat were not commensurate to their salaries or living standards within the ranks that they enjoyed as part of the diplomatic service. Such situations often lead to the suspicion that the imports were acquired for resale to other parties or that they were importing for private parties under cover of their diplomatic privileges.

Virata instituted greater clarity of tax administration rules in all these cases so that the government tax collector exercised little discretion in the allowance of importations. Surveillance measures were also instituted so that goods brought into the country by diplomats were also brought out and not resold when they got reposted. The tax element was not to be eliminated in such cases but properly calculated and reimbursed to the government.

COMPUTERIZATION IN TAX ADMINISTRATION

Even before he took over the Finance portfolio, Cesar Virata was keenly aware of the importance of automation and computerization of the tax system. So, on the first day of his assumption of office, he instructed the commissioner of Internal Revenue to adopt a system of tax account number (TAN) for all taxpayers. The system was required to be put in all transaction documents.

At that time, the government was using a punch card system that was acquired from the Japanese reparations payments. He was going to invest in more modern automation equipment that would be attuned with the needs and the times.

A good and up-to-date tax information system is an essential part of tax collection efforts. Tax information – and the retrieval of past tax data -- could ease the problems of tax administration immensely. Developments in computerization are helpful in this task. With the

advent of computers, improved telecommunications and the rapid growth in the use of computers made computerization an important part of the effort to collect taxes.

But there was a problem in Cesar Virata's time at Finance. Government rules, including salary standardization at a low level, made it difficult to hire information technology experts. The government could not attract computer experts to join its ranks at salaries that were out of line with private sector salaries. With growing computerization in the private sector, such salaries were even rising faster.

Virata solved the matter through a decision to set up a government corporation that handled the computerization problems of the Department of Finance. In consultation with Efren Plana, his commissioner of Internal Revenue, he incorporated the entity, with the Minister of Finance, the BIR commissioner and other BIR officials as directors of the board. Under the internal revenue code, secrecy of tax information was essential. So, a government corporation was required to solve the problem of tax secrecy. As a result of this rule, the computer experts that were hired by this government company also had to become eligible employees of the tax collection agency.

One day, Virata asked for a tabulation of business taxpayers in the province of Isabela. He found that so many logging companies paid one thousand to one thousand five hundred pesos in income taxes only. Considering the uniformity of their tax returns, he was quite sure that BIR officers in the area must have been feasting on these companies.

By comparing tax payments of companies in similar businesses, the tax administrator could direct efforts on where to concentrate the tax examination. By a proper allocation of effort, the tax agency was able to assess the proper taxes and the penalties that might be imposed against owners, officers, and public accountants when the evidence of tax fraud became palpably evident.

There were costs and benefits to the practice of issuing overstated assessments for bargaining purposes on the part of the tax bureaucracy. He suspected that such tactics often arose out of a motive to design a bargaining situation with the taxpayer in order to extract higher revenue for the government. But when employed by the unscrupulous official, it could lead to a side agreement with the tax payer for the reduction of the tax assessment in exchange for a bribe.

Virata was wary of this practice. He preferred that the assessment of tax not be abused. There was another important and pragmatic side to this. If the company disputed the tax assessments, then the issue went to court. At that point, the tax receivables and the tax delinquency statistics of the government could rise but actual tax collections would not. In fact there were many such cases that have been left undecided in the courts. So, he encouraged tax officials to practice proper examination of tax assessments.

TAX RESEARCH AND TAX PRACTICE

In order to coordinate tax studies that were brought into the legislative process, the government created a joint commission composed of the government executive body, and members both House of the Congress and of the Senate, and the private sector. Known as the Joint Legislative-Executive Tax Commission (JLETC), this body had a research staff that prepared staff papers on various proposals for tax legislation that reached Congress for possible enactment.

The JLETC was converted to the National Tax Research Center (NTRC) during the martial law period. Cesar Virata thought that he could deploy some of these key tax officers who were experienced in supporting tax research to become BIR officials. This would bring them enormous experience to appreciate the problems of tax administration and revenue collection.

He appreciated the work of tax research and the various proposals for new taxes or amendments to existing ones which contributed to the reform of the whole tax structure. He had often encountered proposals that increased tax receipts marginally but raised the cost of tax administration inordinately. He favored tax proposals that were more revenue productive. In the end, that was what the government wanted – improved revenues and less friction in the cost of tax administration.

Virata was wary about the politics of writing and rewriting tax laws. His experience before martial law made this patently clear. A number of proposed bills could produce some gains in tax collections. However, there were risks involved. In order to pass some provisions, the government could be placed into a bargaining situation that involved compromise of certain provisions of a tax law in order to amend other aspects of it. The danger was often via the route of tax exemptions and tax rate reduction. In such a case, the country could end up with less revenue rather than more.

When he made an offer to Vicente Quintos, the Deputy Executive Director of NTRC, to be a Deputy Commissioner of BIR, the latter declined. Quintos preferred to stay at NTRC until his retirement. Virata did not insist on going deeper in his reason. He understood that in the post of BIR, it was possible for a good man's reputation to be soiled in the tax services.

REGIONAL TAX INFORMATION EXCHANGE

Virata was grateful for the work of the JLETC/ later NTRC. Led by Angel Yoingco, a career man from the beginning of the JLETC, the staff prepared many tax studies for him. The Philippine JLETC was one of the established government tax research centers. Many agencies set up in other countries in the region were copied after its structure. He sought from JLETC/ NTRC studies and policy proposals that would enlarge the possibilities of tax cooperation among neighboring countries in Asia. The Study Group on Asian Tax Administration and Research (SGATAR) was such a group among Asian countries. It was an important forum for discussing country experiences and for comparing potential improvements in tax reform and administration, including exchange of information on various tax practices among countries in the region.

Virata often used the venue of the SGATAR which met regularly to make the point that countries in the region should learn from each other's experience. Also, it was important that the members not use competitive tax exemptions as a means of attracting foreign investments. He often stressed the point that host countries to foreign investment activities would be better off to negotiate tax sparing treaties with investor countries.

In addition to this, Virata proposed measures for better exchange of tax and price information among the members for the improvement of customs and tax administration purposes. He realized that national interest required that each country would always favor their own businessmen over those of other countries. This was practical nationalism applied to economic policy. But information exchange would benefit each country's efforts to stem smuggling and tax evasion, among others. So it was in each country's interest to work along this route of cooperation and exchange.

LOCAL GOVERNMENT TAXATION

Local government units (LGUs) within the Philippine political system derive the major source of their revenues from the share in national government taxation. They also have local sources of revenues. The latter are more limited to local property taxation and to regulation of local businesses.

On this topic, the principles related to the sharing of LGUs with national government taxation are taken up first. Then, the discussion shifts to the subject of local taxation and the methods by which it is enhanced further. In all these efforts, Cesar Virata tried to make sure that local government shares in revenues became predictable, transparent, and gave the local executives sufficient capability to increase and enhance their overall revenues.

On the basic sources of local taxation, the main principle is that the tax should be based on the assets that are under LGU control and supervision. Most notably, there are privately owned lands and real property. This was the philosophy of the system of a unitary or central government authority that the country had adopted. Local authorities were wary to impose and collect the real property taxes because the owners of the land and estates were influential in politics or they have themselves become persons of authority. Thus, the low revenues of LGU always depended on pork barrel, assistance from the national government and borrowing from government financial institutions.

To institute reform, the city and provincial treasurers and assessors were convened to find solutions to the taxation problems of the local authorities. Cesar Virata formed several committees composed of experienced and capable treasurers and assessors to formulate reforms on the Assessment and real property taxation. Additional tasks were included such as local business taxation, budgeting and availment of credit. These reforms were undertaken through presidential decrees.

THE LOCAL GOVERNMENT SHARE IN NATIONAL REVENUES

The national internal revenue code allowed local governments to have a share of the income tax derived from payments of the corporate or individual taxpayers in their locality. Even though this rule made some sense, he found out that there were possibilities that tilted the practice to favor specific local governments. It was important to find a more objective formula for tax sharing formula in view of the existence of many poor provinces and cities in the country.

Cesar Virata found major problems in the application of the tax shares among local governments. He wanted to institute a system that was based on greater transparency among the clientele LGUs and the politicians who were interested in their home communities. The fact was that there was no governing principle that led to the assistance of the poorer local communities. As a result, the share of local governments from national taxes was based on political factors and the impressions about community needs that national and local politicians made to the decision-makers. Influential government officials made trips to influence and channel tax payments to their favorite places.

Virata thought that this was an unfair process. Local governments themselves could help to monitor the system. He therefore suggested that the allotment of the internal revenues to the local governments could be based on a formula that everyone understood and could apply without any hidden features.

This specific formula would use the following objective metrics: the locality's population, land area, and contribution to the overall tax revenues. Population carried the biggest weight; then, the area of the region; and contribution to overhead was given 10 percent weight. This redistributed local government income more fairly on the basis of population and needs. The losers were those local governments that often had large incomes to begin with. Actually, since before they were getting a disproportionate share of the incomes from national taxes, they only relinquished part of what they were unfairly earning at the expense of the poorer localities.

These well to do local governments had strong clout within the government and the tax service because they brought in more revenues. He felt that a system that that paid attention also to the conditions of the poorer communities was more equitable. As a result of this effort, the formula that was devised altered the manner in which local governments shared with the national government on the tax earnings generated by the national tax income revenue system.

ASSESSMENT

Virata used his analytical instincts to understand the problems of local government taxation. He noticed that some local governments officials were not necessarily interested in raising their revenues but were more concerned about the impact of their tax measures on local concerns. For instance, tax assessments are the basis of the taxable values of assets on which existing taxes were levied. When upward reassessments were ordered, there were often many complaints. Local people as elsewhere wanted low tax valuations even when improvements were in ample evidence. Of course, most people hold on to their assets and it was natural to want to

pay only low taxes but there is also the corresponding rise in the commercial or resale value of such land assets. In many local governments, there was also the possibility of conflict of interest: most of the officials are the property owners and so the burden of additional taxation could fall on them.

Virata's proffered solution was a system of assessment valuation that was based on objective standards. He suggested the concept of zonal valuation of property which could be used as the basis for undertaking reviews for sales and for the determination of capital gains or for estimating income tax from a business when receipts and record keeping were not available. He also wanted that such a system of zonal valuation be periodically updated.

Initially, he helped to devise a system of such reviews every five years but eventually reduced to a cycle of every three years or as soon as a major improvement had been made in the zone. He also instructed the working committee that a Central Assessment Board be constituted that would review the problems and institute solutions when complaints and disputes arose.

REAL PROPERTY TAXATION

In tandem with the Assessment working group, Virata introduced some policy changes that the committee could undertake in regard to real property taxation. First, he moved away the basis of real property taxation from the concept of location to one involving the use of the property. For instance, if the house was located in a commercial area, the real property tax would be taxed on the basis of commercial rates. Public lands that were also used by private parties were to be taxed according to use.

Second, all activities related to residential properties which were devoted to educational and sports activities were also to be taxed at the same rate. Third, an idle lands tax was instituted in order to encourage the transformation of such properties for food production and other productive activities. Fourth, he also required that tax mapping be undertaken that would show how the law and regulations pertaining to taxation were being implemented.

In implementing such major changes in local government taxation, Virata encouraged major efforts to raise local government administration improvement programs. In particular, there was then a Provincial Development Assistance Program that was undertaken with the help of the USAID mission. This was undertaken for clusters of provinces that were part of a program of upgrading local government work improvements. In these programs – which later on – would also be extended to municipalities, various methods of local public fiscal administration improvements would be made. A large component of such projects included the upgrade of local taxation.

LOCAL BUSINESS TAXATION

The broader taxation of other activities under local governments was not directly encouraged during those years. The reason was that except for the registration and regulation of local businesses with their corresponding fees and the taxation of real property, all enterprises were already subjected to national taxation. From these national taxes, the local governments got their due share of revenues. There were reasons for this. Even as Cesar Virata had wanted to stimulate the enhancement of local taxing powers, the broader areas of taxation were reserved for the national government. This assured the uniformity of taxes so that no local jurisdictions could cause a distortion of the national tax rates.

Of course, there were always local government officials who were often very keen on raising taxes and so would wish to exercise such privilege, especially in the case of local taxation. Often this was linked to partisan politics at the local level. At times, there were tendencies to harass local investors with higher levels of taxation. For these reasons, the enactment of local tax ordinances was strictly put under the control of the Department of Finance.

There were reasons for this under the unitary system of government. The local governments shared with the central government the taxing powers of the state. It was for this reason that he tried to develop a system of revenue sharing that was fair to the local governments. Such a system gave the local governments a transparent method of calculating how much they were entitled to the tax receipts of the national government. For this reason too, he felt that local governments were not to be given excessive powers that gave them access to those tax streams that were better collected by the national government.

Along this line, he removed the power of the local government to modify sales taxes imposed by the national government by as much as 25 percent of the tax rate at the start of the reforms in local taxation that he carried out. He was concerned that some local governments might increase the sales tax especially in cases where shortages in revenues in other communities. He wanted these governments to maximize their use of their own taxing powers and to learn to devise methods of self-reliance along those routes that constituted the standard domain of local taxation.

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EXTERNAL TAXES - CUSTOMS

A BRIEF HISTORY OF PHILIPPINE TARIFF POLICY BEFORE THE 1960S

Before independence, the external tariff of the Philippines was the US tariff law. As a colonial territory, Philippine trade was determined by American economic policy and by extension, its colonial policy pertaining to economic and trade affecting the economy. US tariff protectionism which rose during the early part of the 20th century affected the Philippines. However, insofar as trade with the US economy, Philippine trade was essentially based on free trade with the colonial ruler. It was this open trade with the most prosperous of the post-World War I economies that induced high Philippine economic growth during this period.

With respect to external trade practices, Philippine tariffs were identical to the US tariffs applied to all imports. There was one difference, American producers had complete access to Philippine imports except those products on which it imposed taxes to raise the cost to American producers. This was mainly a protective measure against imports of Philippine made goods into the US markets. In the case of sugar, however, quantitative quotas were applied, so that free trade existed mainly up to a level of exports.

Thus, US goods entered freely into the Philippine market and, essentially, the domestic market was a domestic market for American goods, while the American external tariff placed a barrier against other foreign (non-American) imports.

After independence, this tariff situation continued and became the de facto framework. A major adjustment period of twenty years was conceived for the Philippines during the discussion of transition from Commonwealth to Republic. The trade agreement that came into place in 1946 as part of the Philippine program for rehabilitation and adjustment during independence introduced a bilateral preferential trade act in which Philippine and US trade had a scheduled gradual rise of mutual tariffs.

These rates were later amended to favor the graduation of preferential rates for Philippine products under the Laurel-Langley Trade Agreement that was concluded in 1955. Most of Philippine tariffs then were the image of American tariffs (which were relatively low), but with the preferential rates of tariff discounts as indicated in the adjustment schedule. But, of course, in view of major import and exchange controls which were instituted in 1949, such tariff rates schedules of bilateral trade hardly mattered.

In this set up, even the de facto tariff framework became irrelevant because import controls led to the abolition of most imports that were restricted due to quantitative controls or through exchange controls. What ruled the import system was the policy framework that classified imports by national necessity – goods that were marked “essential”, “semi-essential” and “non-essential”. Eventually, essentiality became a rule that favored domestic industries

importing “essential machinery and spare parts” and “raw materials” to their needs and most other goods became semi-essential, and non-essential.

Many consumer needs became semi-essential and non-essential in this type of classification systems. And “basic consumer goods” that were important for maintaining domestic price stability as well as the requirements of food policy were often imported free of tariffs through government trading corporations that were mandated to do this and resell at home at low prices.

This type of import policy encouraged the first round of import substitution industries to be set up. It meant tax free importation of machinery and the use of tax incentives for new domestic manufacturing industries. But foreign exchange reserves began to be very scarce and export industries also suffered as a result of unattractive exchange rate policy involving exports.

In 1957, the government adopted a tariff law that was essentially used to formally displace the de facto tariff policy thus described. But import and exchange controls continued until 1962. When the government under Diosdado Macapagal abolished import controls on the heels of his electoral victory in 1960, the tariff law, with very high protective tariffs favoring the domestic industries that had by now been established, became the dominant import tariff policy. The import tariff system was accompanied by a regime of import certification that domestic industries that produced the imported products were given additional protection – either through their continued importation of raw materials or through the extension of high tariffs for the competing imports of the industry. This highly protective industrial system characterized industrial development that became the dominant mode of domestic industrial policy inherited by the Marcos administration when it took over the government after 1965.

CUSTOMS BUREAU DURING THE PERIOD OF HIGH INDUSTRIAL PROTECTION

At the start of his work as secretary of the department of Finance, Cesar Virata knew more about the problems of the Bureau of Customs than those at the BIR. He had studied Customs problems as a management professional before the 1970s, first at the management consultancy firm of Lim and Borromeo where he initially worked and, later, when he was connected with the management services division of SGV. These two consulting firms had projects for the improvement of Customs administration in their contract work.

When he was appointed secretary of Finance, Juan Ponce Enrile was the undersecretary of Finance who was also concurrently Acting Commissioner of Customs. During the cabinet reshuffle of 1970 that placed Virata at Finance, Enrile was also elevated to secretary of Justice and Rolando Geotina was designated Acting Commissioner of Customs. Geotina was the management analyst who coordinated the study group on customs operations during his consultancy days.

THE PROBLEM OF SMUGGLING

PORT OPERATIONS IN MANILA

By the time that he had been serving at Finance, the port operations of the Manila South Harbor (the international port) were for several years already divided between two operators: one group operated under Enrique Razon and the other under Nemesio Yabut, a businessman who became Makati politician and later mayor. Cesar Virata found the latter's Customs operations unsatisfactory. He assessed from various reports in the field that of these two operators, the Razon group was the better operator. He also found out that the Yabut group was implicated in some cases of smuggling.

Portwork operations in Manila were most significant for the entry of imports. Because of this, it was the most sensitive of the ports for the surveillance of import smuggling. The country's other major ports were important as the ports of transshipments for export products which were then mainly agricultural and resource-based. In both exports and imports, the problem of smuggling was a big concern. Undervaluation of shipments of exports was the result of the exchange controls that tended to hold down the pesos received from export earnings. In the case of imports, under-declaration of the imports was a common problem. There was also under-valuation of the actual imports in the import documents.

Before martial law, it was difficult to make changes in the way the port works operations were undertaken. Often, this was because of the difficulty to make personnel changes. There were many factors taken into account in undertaking such changes since political influence was often involved in such moves. When martial law was imposed, it was easier to make some improvements in the reassignment of responsibilities that affected portwork operations.

Customs work depended a great deal on the examination of shipments and valuation of goods. This applied to both exports and imports. Virata mapped out a strategic plan with Commissioner Geotina on how to gather price and volume of shipment information. Their previous work together was useful direct experience in their new respective official capacities.

STAKE HOLDERS IN SMUGGLING

At that time, there were two distinct business groups that had great interest in Customs work: those involved in traditional importation of merchandise for sale and the new industrialists that supplied the domestic market with import substitutes. The latter products were highly protected by tariff duties and other quantitative quotas that effectively reduced the quantities of imported products in the home market and made their prices very high. But the same industrialists were also importing raw materials for their industries from abroad. They also bought equipment and spare parts to fill up their maintenance supplies. Because of the imposition of exchange and import controls, most of the import transactions were concentrated in the port of Manila.

Also at the time, the country's exports were mainly products from agriculture and natural resources. Ports in the Visayas and in Mindanao were significant as shipping out points for exports. During the 1970s, the major exports became a major source of taxation. At the height of the commodity boom of that period, the government managed to introduce a differentiated export tax on primary exports: copra, coconut oil, logs, lumber, raw sugar, abaca fibers, and copper concentrates. Thus, not only was it important to track down export earnings in dollars. Those values themselves yielded the base for determining the tax revenues from the differential export tax. It was therefore important to measure the volume of these export shipments and their declared contract prices.

An important feature of surveillance was the need to get the industries affected adversely by smuggling to be active in curtailing it. To this effect, he sought the assistance of the Philippine Chamber of Industries to create a team that would help to monitor and become watchdogs over under-declaration and smuggling in the major ports.

CONSULAR INVOICES AS INFORMATION

Smuggling and other practices were the consequences of high protection. To curtail and minimize under-declaration of imports, getting proper information on imports and their valuation was essential. In the case of exports, overvaluation of the currency and the presence of export taxes provided the incentives for smuggling.

The surveillance of prices of imports was a key element in the under-declaration and under-valuation of imports. To extend surveillance of import prices, Virata proposed to the department of Foreign Affairs that the declaration of the exporters should include a consular invoice declaring the quantity and price of what they were shipping to the Philippines. Foreign exporters of goods complained that this procedure was additional red tape to them. They also complained about the requirements to provide declared export prices.

In the US and in Europe, there were alternative sources of pricing information. There were at least catalogues of direct sellers. Blue and green books that showed list prices for new and used equipment were available. But in East Asia, the published information was scanty or not available at all. Perhaps, the language difficulty further contributed to the problem. So, Finance officials attached to consular offices and embassies located in key places were instructed to obtain indicative prices from wholesalers and or from exporters of similar products. In turn, the Commissioner of Customs issued Customs valuations guidelines based on these reports.

After several years of experience with the implementation of consular invoices as the basis for information for customs valuation, some of the exporters got wise to the system. It became difficult for Customs to prosecute under-declarations. The price information was approved by a consular officer and therefore Customs could not contravene the price since it became an official document of the government. The practice was therefore discontinued.

The department of Finance under Virata even considered suggesting the passage into law of a provision that would make it possible to buy the goods at the importer's declared price if the

Customs examiner considered the declaration to be severely understated. Of course, there were approved mechanics of disposal of such goods under government regulations.

Another method in dealing with smuggling was to include representatives of the industrial groups in the surveillance work undertaken by the Customs officials. The industrial groups were directly affected by smuggling because it ate into their domestic market for their products. They also understood much more the problem of import valuation from their viewpoint. At least, their pressure added greater intensity to the anti-smuggling efforts.

THE PRE-SHIPMENT INSPECTION SERVICE: SGS

Another scheme that could be used for import surveillance was the pre-shipment inspection service. This was a service offered by several private international companies. Countries that experienced high levels of smuggling have availed of it. Sometimes this was at the recommendation of the World Bank in its relations with the countries trying to fight smuggling. Indonesia had used such a service.

To make the pre-shipment service inspection to work effectively, the distance between ports of shipments and the port of destination had to be significant. A sufficient time lag was needed so that proper checking could be undertaken in advance. Distance meant longer shipping time and documentations could therefore be checked with the help of such inspection service. As a consequence, this meant that the pre-shipment service was of little value when the ports of shipments were much nearer.

Those ports that were nearer Manila from which substantial trade was conducted were more difficult to monitor. Shipments originating from Hong Kong, Taiwan, Singapore, Japan, Korea and Taiwan were short-distance shipments. It only took a few days for shipments to enter Philippine ports. In the case of air shipments, therefore, the inspection service was of little service for it was only a matter of hours in such cases.

Despite this setback, the pre-shipment inspection was a major weapon for improving revenue administration in Customs. When Virata proposed to use the Swiss company, SGS, for the inspection service for approval, President Marcos referred the matter to the Office of General Ver, the national security adviser, for comment. Ver objected to engaging SGS. According to him, SGS did not do well in Nigeria where it had a contract. SGS of course had to explain what had happened to them in Nigeria. Virata was convinced that the matter did not prove them incapable of doing a good job. The experience of the same company in Indonesia had been, to him, quite useful.

General Ver had become interested in matters involving Customs issues. His knowledge about such matters also proved more than simple knowledge about the business of importing. It was rumored that he was benefiting from the smuggling operations of some groups. It was interesting that Ver had proposed instead that the government hire a French company. Virata objected to the use of the company. The proposal to hire this company had originated from a

significant exporter to the Philippines. But most vexing to Virata was that Ver at this point had been suspected of heavily protecting some importers.

Sensing the hesitation of Virata toward his suggestion of the French company, Ver proposed another alternative: a Japanese surveillance company. Virata objected further to this suggestion. The Philippines had a large trade volume with Japan. It was difficult therefore to assume that a Japanese company would not have any conflict of interest in that job with the operations of “Japan, Inc.”

On previous occasions, the Philippine customs bureau requested for import data on logs exported into Japan by shipment and by company. The Japanese government did not release any data even though such a request was in accordance with the Philippine-Japan tax treaty. In his own examination of the problem, there was a huge discrepancy between Philippine export of logs to Japan against Japanese imports of logs coming from the Philippines. Under-declaration of exports was a major problem of the Philippine log exporters.

This led Virata to suspect that the log companies were hiding a lot of income from taxation. Virata wanted to get at the heart of the income tax returns of the logging companies. They did not declare their true incomes but he had need of incontrovertible data to prove under-reporting of income. He only asked a foreign government for data, not for investigative reports that affected Japanese importers of logs. He only wanted information on available data that would close his information chain pertaining to the level of incomes earned from exports of Philippine logs. That by itself also provided enormous information on the amount of actual foreign exchange also earned. And that could also help to correct any under-reporting of foreign exchange receipts earned from exports.

The issue of the SGS was left hanging in President Marcos’s office by the time the people power revolt toppled him. When he took over the portfolio of Finance under Mrs. Corazon Aquino, Jaime Ongpin (the brother of Marcos’s minister of Industry and Trade Roberto Ongpin) recommended the adoption of the SGS service contract which Mrs. Aquino approved.

This was part of the move toward reforming industry and trade through the reduction of tariffs – part of the major efforts being undertaken toward the 1980s. A lesson is further implied by this. When the VAT was finally implemented in the country, the efforts to collect the input VAT at the point of entry – like the presence of high tariffs – seemed to encourage smuggling and corruption.

PROHIBITED IMPORTS

Finally, one other important aspect of customs administration was with respect to smuggling of prohibited imports such as armaments and drugs. These matters were critical to national security and to the maintenance of peace and order. Most of the arms brought into the country were brought in from the United States. There, it was so easy to buy firearms. The US government intelligence service, the Federal Bureau of Investigation (FBI), tracks down any purchase of deadly weapons by individuals. This was undertaken at source where buyers

registered with the government their purchases. Of course, bulk purchases required more information relayed to the government. Buyers were required to give detailed information. He asked the Finance attaches in the consular and diplomatic services to be wary of developments and to seek and coordinate information with the FBI on such matters.

The Finance Department did not have any staff for surveillance operations and it had no police powers unlike the US Treasury. American cooperation in this matter was critical. To be effective in its work, the Finance department needed to know who bought the firearms and where they were bought. When there were larger quantities of firearms, it was important to know where the equipment was stored and when they were ready for shipment. It was further important to know to whom they were consigned. At home, it was important to know if the persons involved were well-known or influential parties.

In his time at Finance, the drug problem in the Philippines was predominantly home-grown marijuana production that sought a domestic market. There was also some problem of regional opium that sought US market. Thus, the problem in this case was the danger that Philippine ports would be used for transshipment. He created an ad hoc Finance intelligence group was under General Pelagio whose task was to be on the lookout for these types of movements. His operations on this front was hampered by the ineffectiveness of the BIR and Customs intelligence services for reasons already recounted. Cooperation with other government bureaus and with foreign attaches or with the Interpol was essential.

The archipelagic nature of Philippine geography exposed all the islands to the seas. This made smuggling especially easy in the absence of a good coast guard infrastructure. The archipelago is so disperse and the presence of many ports of entry makes enforcement more difficult and costly. One route toward dealing with corruption was to lower tariffs. That would reduce a major incentive to smuggling. Then the country's revenue patterns would have to shift toward the use of the consumption tax based on domestic sales.

Such geography presented a major challenge for enforcement of customs laws. The lack of reliable personnel to watch and protect the borders often meant that smuggling was inevitable. What was needed was to minimize it. Some of that required international cooperation.

Smuggling was a problem that would not go away. The highly protectionist industrial climate made that impossible. Reform of protection as a policy was also not the easiest policy change to institute. As long as smuggling constituted a practical problem for the government, he would have to think of ways to deal with that headache.

TAXATION OF FOREIGN-EARNED LABOR INCOME OF NATIONALS

Under his watch, the number of Filipinos working abroad multiplied. The world's merchant marine industry multiplied as the wages of mariners and the growth of trade unions in the Western countries made the wage rates of seamen rise. The response of the international marine industry was to look for alternative sources of good mariners. It turned out that Philippine seamen showed enormous aptitude for the job and they were available at more affordable wages.

Also, as the international demand for Filipino seamen grew, domestic training programs increased and the supply of seamen also grew.

Then the energy crisis made the Middle Eastern countries become the new areas for major investments in infrastructure and industry. Heavy investments in construction and in industry created enormous demand for Philippine contract labor. The Philippine government saw these new opportunities. Virata and his colleagues in the economic team and Secretary of Labor Blas Ople saw the enormous opportunities that were available to Filipinos in these changing times. The result was a turning point in the deployment of Philippine labor for job opportunities abroad. This was seen as a temporary measure as the government was trying to reform the highly protectionist domestic industries toward greater economic efficiency.

Thus, the government undertook a structuring of labor policies to help in enlarging the flow of new Filipino workers to foreign shores. Both developments made the Philippines organize the industry so that large numbers of Filipinos would become migrant contract labor in various world destinations. Filipinos worked abroad for many decades but now the flow of workers would become larger.

The implication however of rising Filipino workers earning incomes from foreign shores began to pose the issue of taxation. There were many arguments for the taxation of foreign incomes earned by Filipinos. All workers at home were subject to tax. Why should those working abroad be exempt from tax then? The other argument was that the export of labor meant the export of skilled manpower that was trained at home from resources expended in their training. Some amount of compensation was needed for this service especially since the skills went abroad and not to help domestic industry. Another argument was also used. The export of manpower and brainpower involved a brain drain that had to be compensated. Indeed, during this period there were ideas about taxing the brain drain internationally. Why should not the exporting country undertake the taxation?

There was a counter-argument to this. Workers in foreign countries were taxed by the jurisdictions in which they worked. It would involve some kind of double taxation to be taxed again at home. That was unfair to the workers. This was a powerful argument. The way out of it was to have double taxation treaties. But in general such treaties covered more the problem of capital income, not labor income.

A powerful argument for the domestic taxation of OFW incomes was to raise revenues within the country. This was one way of compensating the government partly for the expense of organizing the industry to help it find jobs abroad. Also, it was one way of Philippine workers to contribute to the development of their home country. These types of arguments won finally.

Cesar Virata was able to get the minimal gross income tax to be levied to workers abroad. Virata was keen on raising the budgetary support through taxation. The Philippine gross income tax law followed a US law that income tax was payable by citizens regardless where the income was earned. The rationale for this income tax was for the overseas Filipino worker to pay for services rendered to them by the Philippine government and to contribute to the revenues of the

government in maintaining the educational, health and security services for their families left behind.

Several Finance attaches posts were created and deployed in key ports. The Finance attaches also assisted the BIR attaches who were collecting income tax from Filipinos working abroad. Under the martial law tax reform, a gross income tax of 1 percent to 3 percent was levied on Filipinos working abroad. It was similar to the city or state income tax that was collected from them. This tax was beginning to be a useful source of tax income to support government finances. They would have helped enormously in raising revenues over time.

After the fall of Marcos, the Aquino government abolished this income tax on overseas workers. Instead of becoming net revenue earners for the coffers, services rendered to overseas workers were collected instead from a fund that is used to sustain their welfare as workers – the OWWA (Overseas Workers Welfare Administration) fund. This was a less effective tax in helping the government. But it has provided resources for the government so that problems related to Filipinos working abroad could be tapped to help them when in trouble.

The substitution of the tax reduced government flexibility. It could not derive tax revenues from a growing source of incomes of nationals. Thus, there was no direct lift to the country's taxable capacity and hence toward improving fiscal resources. The shift of taxation to OWWA helps partially in relieving the government toward financing the solution of problems related to workers in foreign countries. One other benefit, not immediately apparent during the 1980s, but significant now especially in the 2010s is the size of the remittances from abroad coming from foreign workers. This has strengthened the country's balance of payments position and moved it from a country with balance of payments deficits to one of surpluses.

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CONCLUSION

Cesar Virata's tenure as secretary/ minister of Finance is the longest held by any head of that department and perhaps of any department of government in the country's history. He was also one of the most dedicated in his field of work. His contributions toward the evolution of the tax system are significant in any evaluation of the country's fiscal system. This study, or rough sketch of such a study, is focused mainly on the tax issues pertaining to the function of the head of that office. It is not comprehensive and not even in depth with the appropriate documentations because the telling of it has been more along the style of a memoir.

During this period of evolution of the tax system, the Philippine economy also grew to its present level of sophistication and relative completeness. As this paper reveals, the contributions helped to bring the internal and customs revenues of the country toward their present state. Realizing that the country experienced the deepest economic crisis also during his tenure, one might speculate how much the tax system might have partly suffered some backward slide during the period. Perhaps it can be surmised that the general structure of the tax system, which owed a lot to his policy and administrative interventions during this long period had essentially

withstood the challenges of that crisis. The reason for this is that the structure did not unravel. It was mainly the total revenues and the temporary setbacks that suffered from the economic collapse.

Moreover, the Finance ministry, among all the ministries that were run during the transition government that followed was run by a successor who not only respected his overall management of the tax system but also retained all the principal deputies that Virata had appointed and who were serving at the time of his departure from office. This was very fortunate. The Finance ministry did not suffer the administrative and morale disarray that took place during the transition period after the forced departure of Marcos. But of course this additional fact is already going beyond the line of thought of tax reform – the limited topic of this paper – as stressed out at the beginning.

In a developing economy, the tax system and its evolution is as much the result of the responses to the new problems that challenge the work of policy makers and administrators as they perform their mandates.

This paper gives a bird's eye view of the many problems and opportunities for reform during his time. The tax administration aspects are often the result of the manner in which the provisions of the tax system grope with the reality of putting them into effect. Oftentimes, there are gaps between the promises of the tax change and what could be achieved. As demonstrated by many incidents and events recounted in this paper, the tax administration aspects were often as formidable as the need for instituting new reforms in the tax system.

The contribution of Cesar Virata to the evolution of the fiscal system is huge. In this paper, only his actions pertaining to the reform and administration of the tax system is recounted. The fiscal system is a huge topic. Some of that story is covered in the longer work of the author on the life and times of Cesar Virata.

Despite this, the country continues to suffer from a lack of revenue income. Revenues are the result of the rates of tax applied and the amount of tax that is not collected because of the prevalence of tax exemptions and the inadequacy of enforcement. In all three counts, the country continues to be challenged. To raise the country's tax effort, it is essential that the rates of taxes are sufficiently high to generate the required revenues. The level of tax enforcement also has to be high. The problems encountered by Cesar Virata during his time are still encountered today. The other source of the tax inadequacy story is related to the amount of tax exemptions and tax avoidance frameworks that are permitted in the country.

BIBLIOGRAPHIC NOTES

As stated in the beginning, a skeletal bibliography is offered as a guide for those undertaking research on Philippine tax history and analysis related to the issues touched in this paper. There have been few comprehensive tax histories or studies on public finance in the Philippines during the period. I include in this paper a few of the public finance papers that I have written during the period that comment or deal with Philippine tax issues.

Annual reports of government agencies contain enumerations of accomplishments, especially noting acts of government like laws, regulations, and major decisions. However, they seldom have in-depth of treatments of specific topics. Tracking their claims of achievements provide a basis for chronicling events and legal changes. One start with understanding the evolution of taxation during the period is to review the annual reports of the various agencies that undertook to a chronicling of government actions. The (Philippine) *Official Gazette* should be also a source of information. But I understand that there have been historical gaps in the chronicling of government actions during the discontinuities following the political changes in the country.

Official actions on tax matters are recorded in the Annual Reports of the Central Bank, especially the accompanying appendix of government actions. While the emphasis of the Central Bank bulletins are understandably all the policy actions of the Monetary Board circulars, it also detailed changes in tax laws when they occurred.

Another productive start is to review the reports and other works of the Legislative-Executive Tax Commission, which was created during the 1950s. This body was a veritable repository of commentary on various proposals for tax systems that ever were considered in the Philippine Congress. After 1973, this commission was reestablished as the National Tax Research Center. The amendments and changes in the internal revenue taxes were within the responsibility of Department of Finance and directly under the implementation of the Bureau of Internal Revenues.

As for the tariff and customs laws, the Tariff Commission is the government body that acts on tariff issues and processes, as found in the Tariff and Customs Code. After the creation of the Board of Investments, the BOI also had functions which had to do with tariff rate protection incentives that also amended tariff rates.

Studies of the tax system by scholars and by government reports are always useful resource materials. Reports of both the International Monetary Fund and the World Bank on tax issues, including those dealing with broader resource mobilization issues, are important. In the new era of openness of these multilateral institutions, their reports can be secured through the internet websites of these institutions. Relevant reports can be found in the economic reports of these agencies. But often, they deal specifically with tax or government resource raising policies.

The references to the Internal Revenue Tax Codes and Tejam's Tariff and Customs Code are mainly legal references and have no economic analysis content. The Power and Sicat volume provides a major critique of the industrial and trade policies. A train of Philippine literature on this topic can be subsequently referred to, beginning with the Bautista and Power book.

World Bank economic and sector reports on the Philippines are specific reports of focused or general issues of the economy. These are catalogued and can be retrieved from the website of this institution to those reports as early as 1962. Naturally, the relevant ones are on public expenditure and financing issues. Of the World Bank reports, the comprehensive study undertaken in 1976 is a three-volume economic report, entitled, Philippines - Priorities and prospects for development : basic economic report (Vol. 1 of 3) : Summary and conclusions, an

overview of development prospects in the Philippines, statistical appendix. That has since been published as Cheetham and Hawkins, cited in below.

Unfortunately at this point in time as I write, the IMF has not carried yet in its directory of fiscal studies about the Philippines the exact reference of the Bird study in the World Bank website so I am not able to include it in the references below. My latest review of IMF references of economic studies on the Philippines records only those staff studies undertaken only after the 1990s. The IMF study that the Bird mission made was tax reform made in the second half of the mid-1970s.

I list below some papers that I have written pertaining to tax and public finance issues that are related to this study. I also add a few books that dealt with taxation issues in developing countries. The books of Goode and the Oldman, Bird, and Musgrave *et al* books are on general tax issues, not directly specific to those of the Philippines. These are included in this bibliography as references on major issues of taxation touched in this paper.

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