



TAXATION AND DEVELOPMENT IN THE PHILIPPINES

IBON FOUNDATION

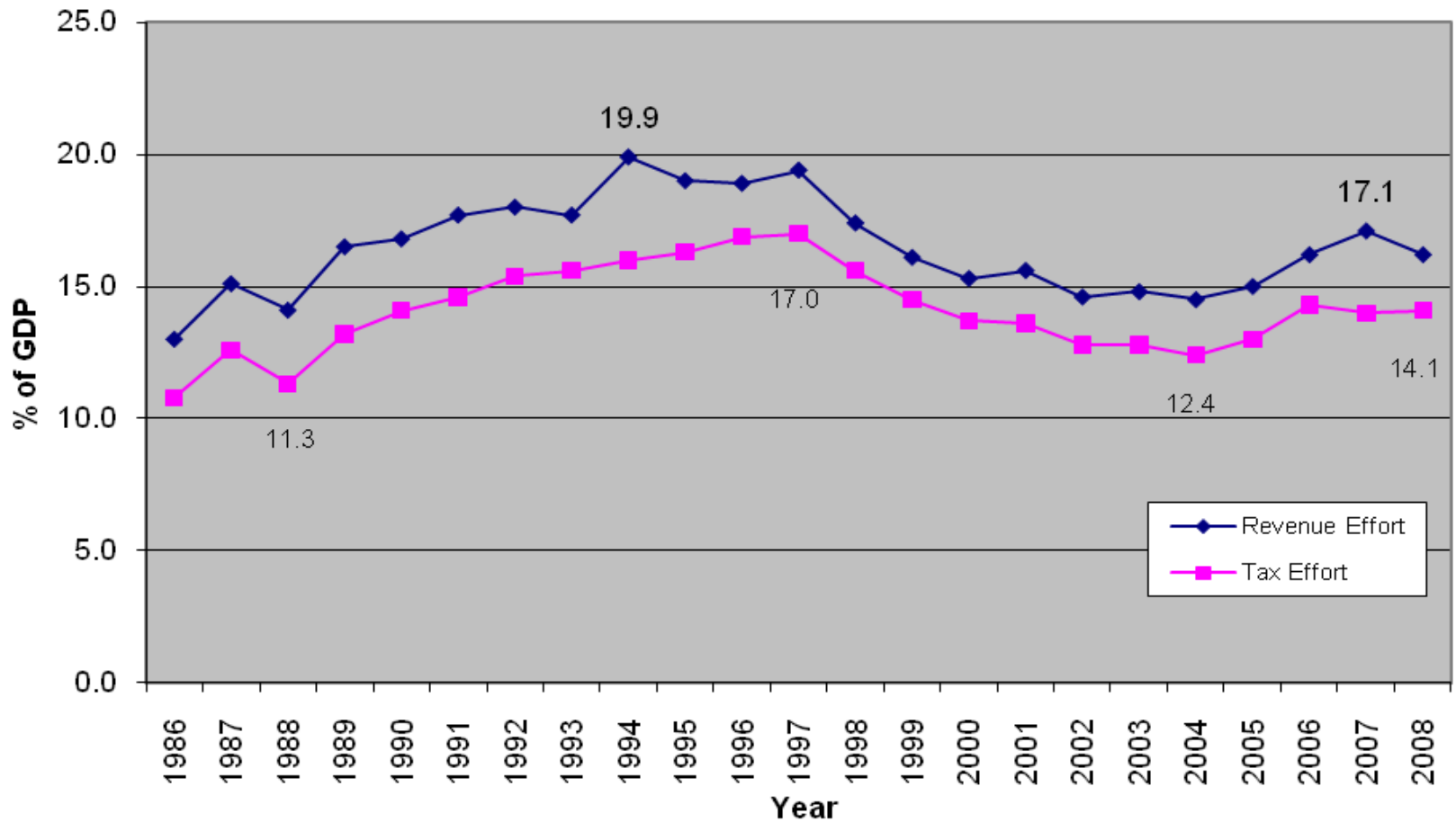
25 September 2009



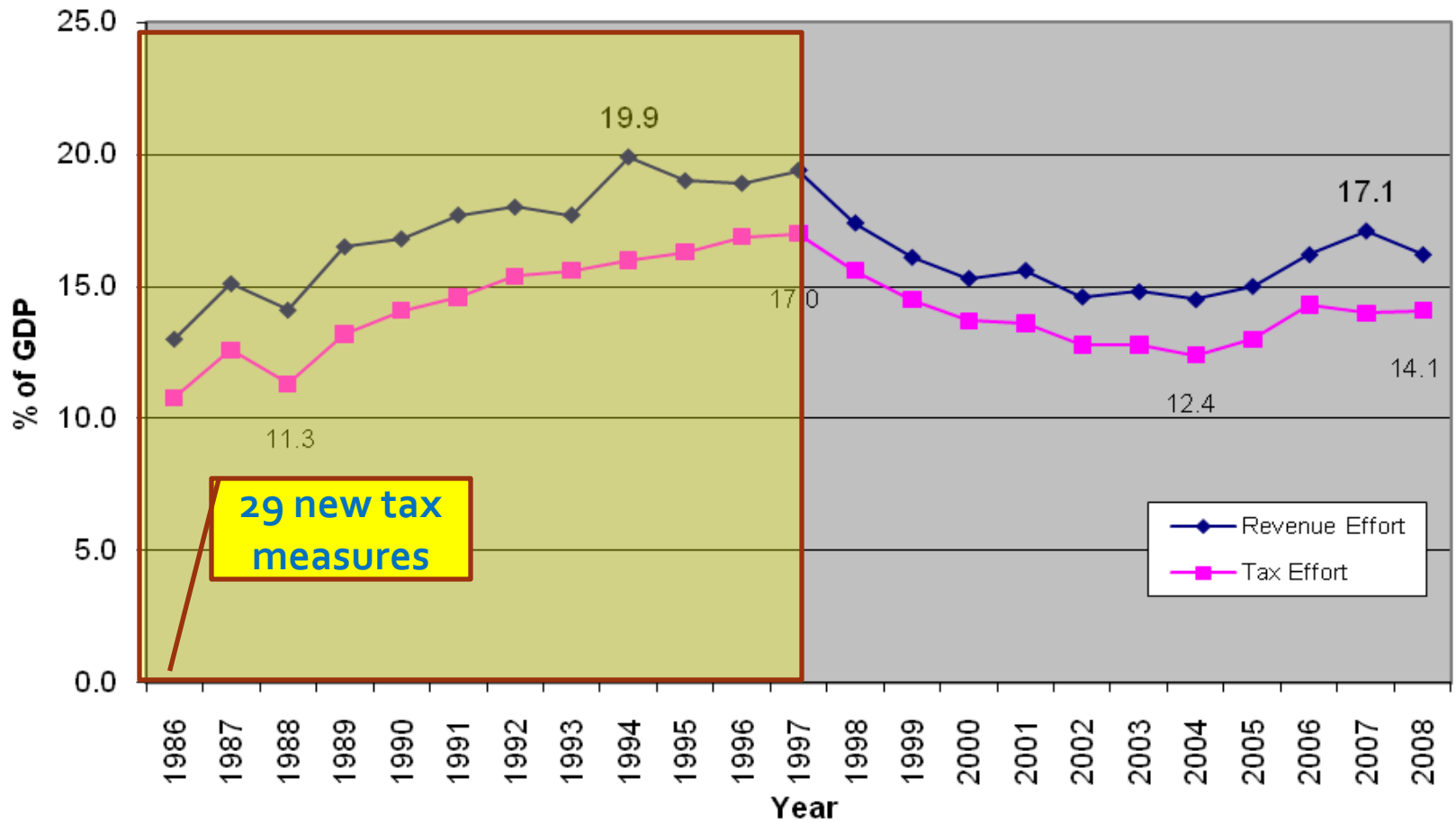
Outline

- Brief overview of Tax Reforms in the Philippines since 1986
- Major Leakages
- Policy Implications

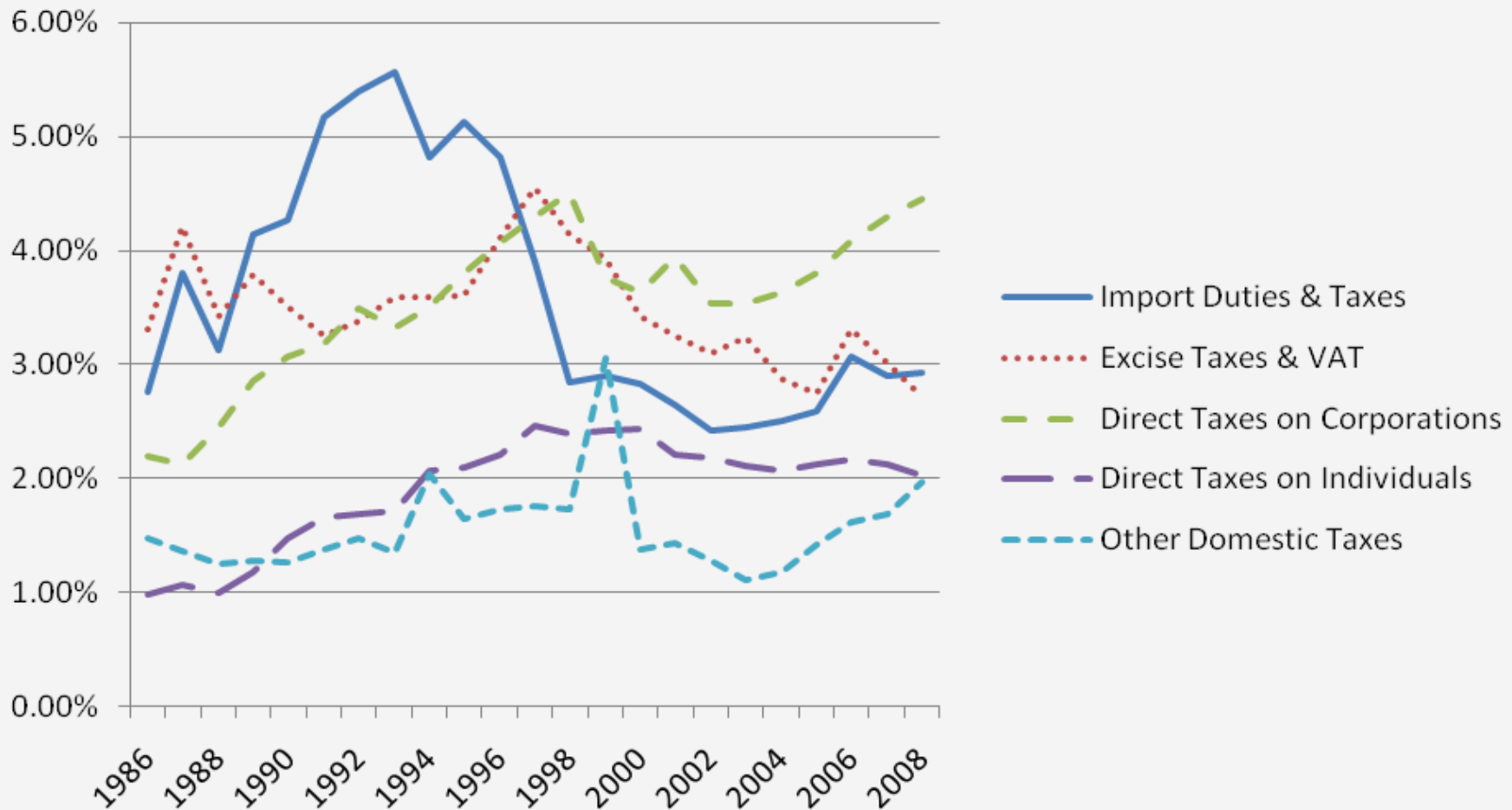
Revenue & Tax Effort, 1986-2008



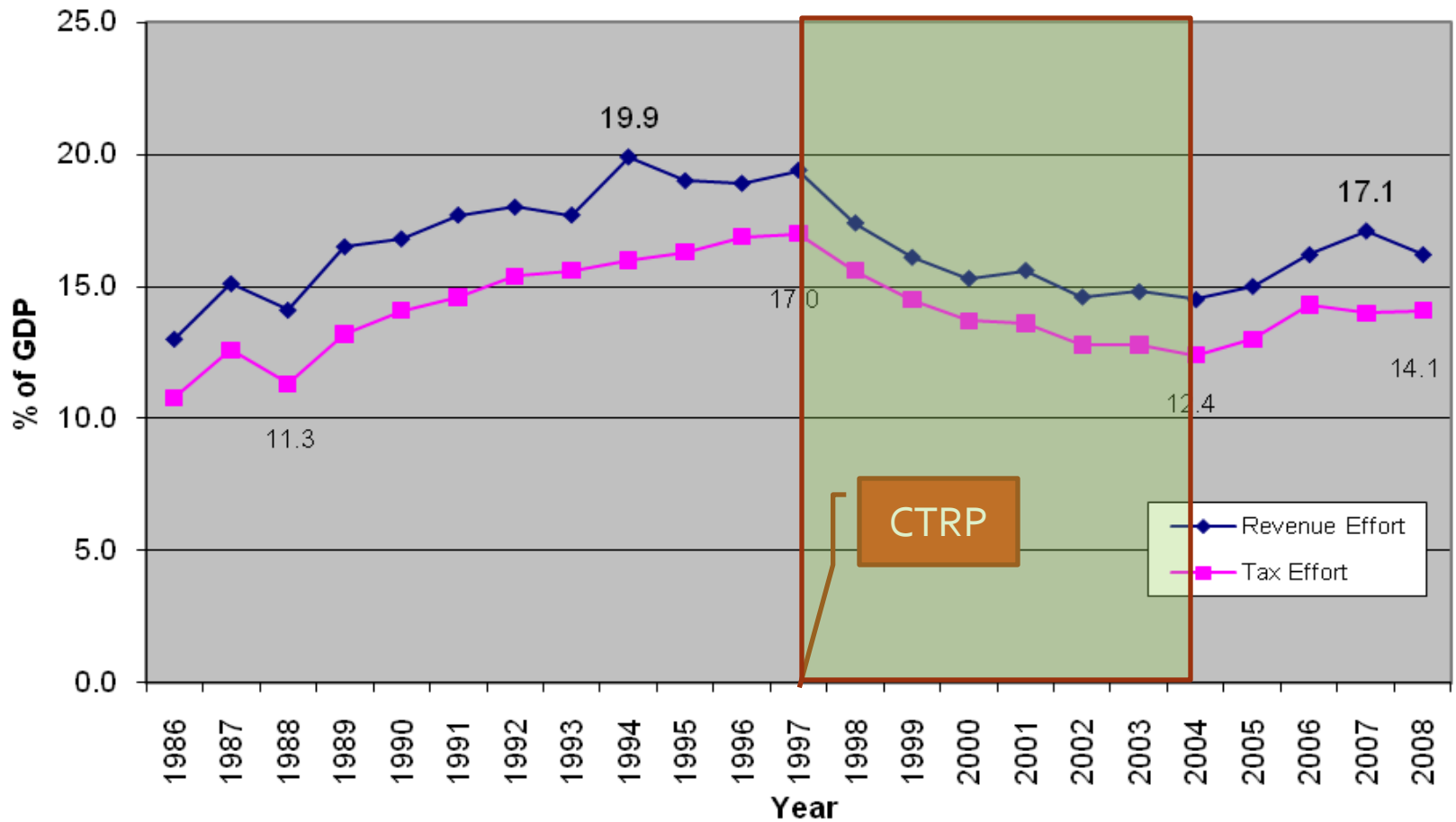
Revenue & Tax Effort, 1986-2008



Falling import duties, followed by domestic taxes (as % of GDP)



Revenue & Tax Effort, 1986-2008



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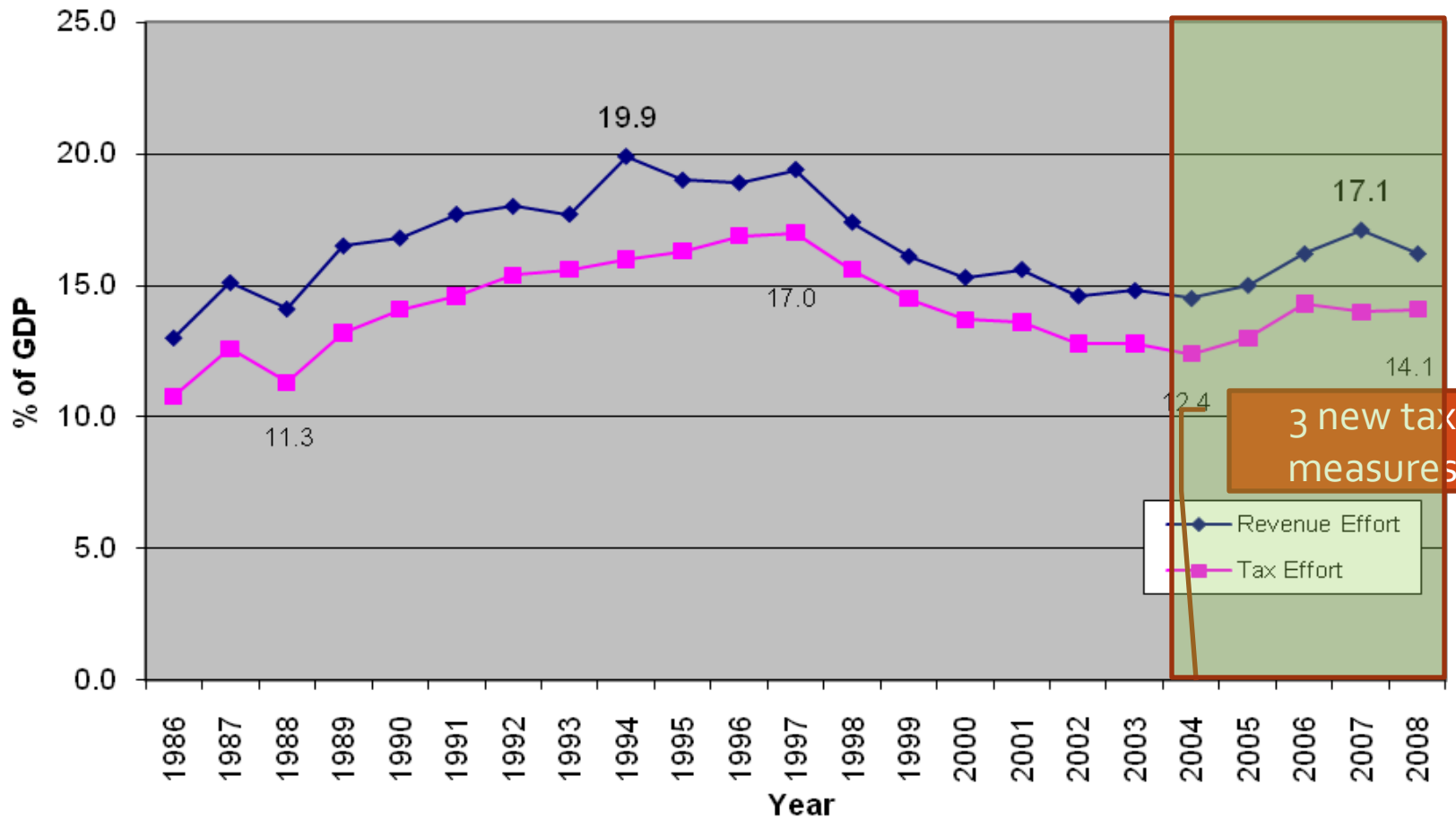


Table 1. Change in BIR Tax Effort and Tax Leakage relative to 2004 (as % of GDP)

	2005		2006		2007	
	Tax Effort	Tax Leakage	Tax Effort	Tax Leakage	Tax Effort	Tax Leakage
Value added tax	-0.03	-0.14	0.69	-0.02	0.53	-0.36
Excise tax on tobacco products	-0.04	-0.08	-0.03	-0.03	-0.12	-0.1
Excise tax on alcoholic products	-0.02	-0.06	-0.06	-0.1	-0.04	-0.18
Excise tax on petroleum products	-0.03	-0.04	-0.16	-0.04	-0.22	-0.09
Individual income tax	0.08	0.17	0.1	0.1	0.08	-0.12
Corporate income tax	0.15	-0.7	0.55	-0.2	0.93	0.18
Tax on interest income from bank deposits	0	0	0.02	0.02	-0.05	-0.01
Tax on interest income from T-bills	-0.01	-0.01	-0.12	-0.08	-0.23	-0.01
Tax on banks	0.02	0	0.07	-0.01	0.05	0
Other taxes	0.11	0.09	0.22	0.16	0.24	0.18
Total BIR taxes	0.23	-0.78	1.21	-0.22	1.12	-0.51

* change in tax effort measured relative to 2004

- negative number implies increase in tax leakage relative to 2004

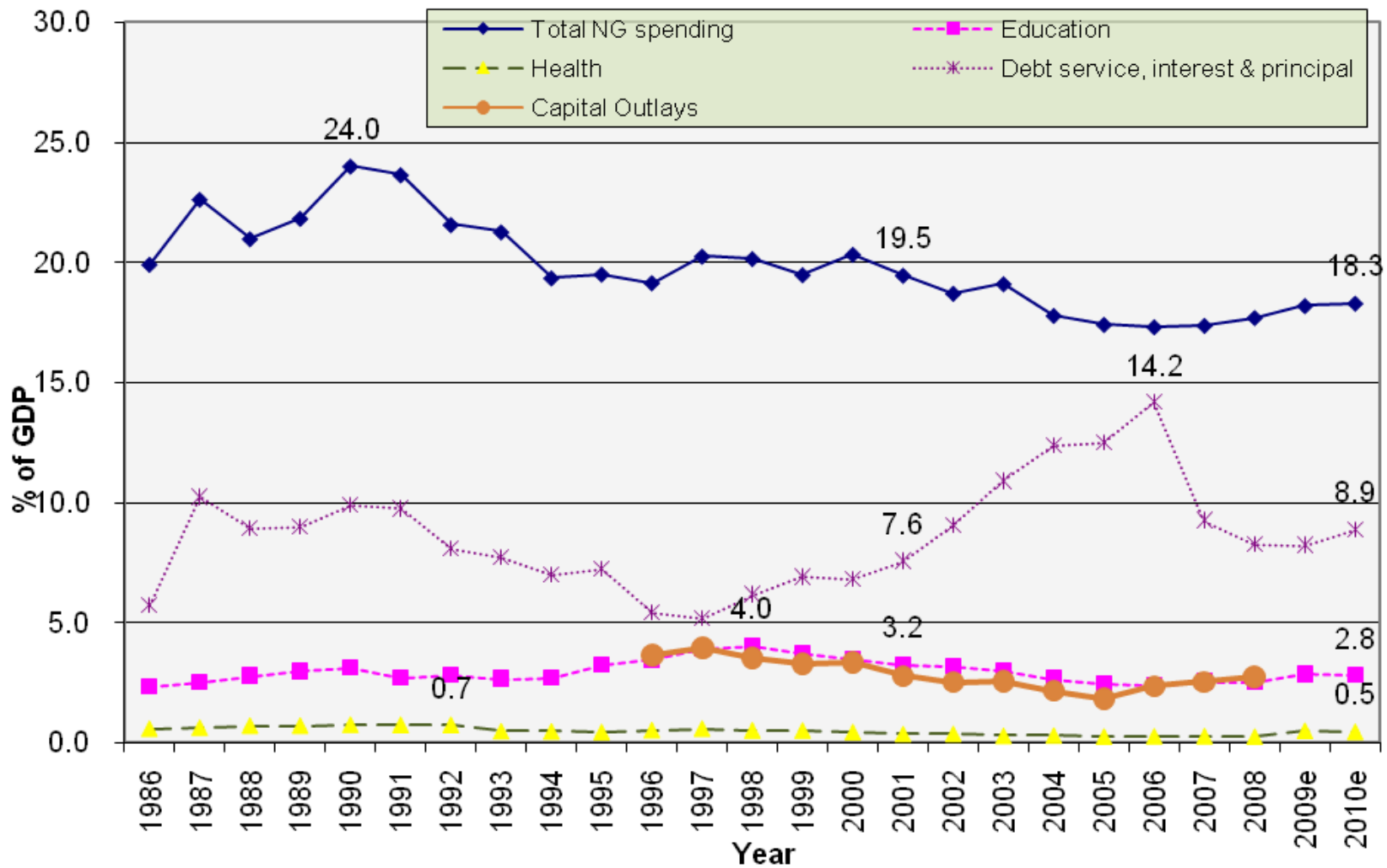
Source: Manasan (2008, p. 4)

The need to plug the leaks in the national treasury

Table 2. Major leaks in the National Government (NG) budget

Leakage	level (billion pesos)	As % of GDP	As % of NG Revenues	As % of NG Deficit	As % of 2009 MDG resource gap	Reference year	Reference
NG debt servicing (principal & interest)	612.7	8.3%	50.9%	899.5%	586.8%	2008	DBM 2009
Redundant fiscal incentives (Bureau of Investments)	43.2	0.9%	6.1%	23.1%	41.4%	2004	Reside 2006
BIR Tax Leakage	144.1	3.6%	24.9%	68.4%	138.0%	2002	CPBD 2004
of which corporate income	48	1.2%	8.3%	22.8%	46.0%	2002	NTRC 2004
of which professionals income	32.5	0.8%	5.6%	15.4%	31.1%	2002	NTRC 2005
of which salaried income	6.8	0.2%	1.2%	3.2%	6.5%	2002	NTRC 2006
of which VAT	56.9	1.4%	9.8%	27.0%	54.5%	2002	NTRC 2007
Lost revenues from technical smuggling	115.7	1.9%	11.8%	178.6%	110.8%	2006	FPI undated

Sources: data on GDP, revenues, and deficit from DBM; MDG resource gap for 2009 from Manasan (2007).



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Tax reforms should be part of comprehensive public sector reform program

1. More policy autonomy from international creditors
2. Claim more fiscal space by shifting away from prioritizing debt servicing and competing for foreign direct investment to active state promotion of the people's well-being above all.
3. Greater democratic ownership of the public purse