

## OUR TAX SYSTEM: ITS IMPLEMENTATION AND NEEDED REFORMS\*

AMBROSIO M. LINA\*\*

May I first commend the Philippine Statistical Association, Inc. for choosing the subject "Fiscal Reforms in the Seventies" as their theme in this Annual Conference. This indicates a growing concern of the Philippine statisticians of the problem that is plaguing our country.

Yes, there seems to be no doubt that the only salvation of our country is to effect not only immediate fiscal reforms but overall reforms. The present illness of our society can be diagnosed as an accumulation of years and years of malpractices pursued by unscrupulous individuals, both in the government and business, and countenanced by our people. It has already grown into a terrible conflagration that it is threatening the structure of our society. The discussion of financial reforms is, therefore, very timely.

Statisticians play a major role in any government and business undertaking, especially so in the B.I.R. The keeping of correct and up-to-date statistics of collection, the number of taxpayers, the kind of businesses, statistics of potential taxpayers and other important data are most important to determine how effectively we are administering the revenue laws. In determining the annual budget estimates, financial experts have to rely on data compiled by the B.I.R. Statistical figures is the compass of policy makers in programming the activities of the future. They are also the basis of determining failures

---

\* Paper presented during the 1971 Annual Conference of the Philippine Statistical Association, Inc.

\*\* Deputy Commissioner, Bureau of Internal Revenue

and success of the past. The importance of the job of statisticians cannot, therefore, be underestimated. In fact they are now becoming to be recognized as indispensable in any government and business undertaking.

The collection of taxes is one of the vital functions of any government. No government can exist without the collection of taxes. The birth of nations carries with it the power of taxation. It is an attribute of sovereignty. Taxes are the life-blood of any government. It sustains the continuity and stability of all governments. It is the price we pay for civilization and progress. All nations must maintain a tax system if it has to perform the functions of the government.

The Philippine tax system may be classified into direct and indirect. To the category of direct taxes belong income tax, both corporate and individual, estate and inheritance taxes, donor and donees taxes and residence tax. They are the direct liability of the taxpayers and directly paid by them.

To the category of indirect taxes belong the business taxes, specific taxes, documentary stamp taxes, mining taxes and all other miscellaneous taxes. They are paid by certain taxpayers but actually they are shifted and charged against consumers.

Internal Revenue collection accounts for about 60% of the income of the government and defrays the substantial portion of our yearly budget. For the fiscal year ending June 30, 1970, we have the following collections:

Gross revenue collections ..... P2,488,394,645.13

*Classification of collections*

Income tax .....	P944,469,512.89
Individual .....	P266,254,667.93
Corporate .....	678,214,844.96
Business Taxes .....	835,538,131.84
Specific Taxes .....	561,841,571.89
Documentary Stamp Taxes ....	28,411,752.59

Science Stamp Taxes .....	26,802,837.88
Franchise Taxes .....	20,529,611.93
Estate, Inheritance & Gift Taxes .....	17,074,888.73
Residence Taxes .....	15,676,334.00
Public Forest .....	22,628,851.50
Fines and Forfeitures .....	3,884,573.03
Miscellaneous Taxes .....	11,536,578.85

You will note from the above figures that collection from income taxes represents 38% of the overall collections. Our income tax law is based on the theory of ability to pay, that is, the greater your income, the bigger is your tax liability. Our rate of income tax on corporations is 25% on net income of ₱100,000.00 or less and 35% in excess thereof. Individual rates range from 3% on the first ₱2,000 net income up to 60% in excess of ₱500,000.00. Business tax collections which include percentage taxes, sales taxes and privilege taxes represent 30% of the total gross collections, while specific taxes on alcohol and tobacco represent 23% of the gross collections. Income taxes, business taxes and specific taxes are the main bulk of revenue collections, representing 91% and the rest 9% only. Almost 85% of the collections are collected in Manila and suburbs. For the last ten years, there has been an average increase of tax collection of about 15% over the preceding years.

The disposition of gross revenue collections is as follows:

Gross collections .....	₱2,488,394,645.13
Less Special Funds created by special laws like highway, sugar, bond, educational, tobacco, science, textile and others .....	320,123,404.34

(These special funds are revenue from special laws intended for certain specific purposes and cannot be appropriated by Congress. They are appropri-

ations by themselves until revoked by Congress.)	
Gross General Fund .....	₱2,168,271,240.79
Less allotments to local governments such as regular, excess income tax, residence taxes, franchise taxes, estate and inheritance taxes and others .....	493,985,555.71
(These are the regular and special allotments)	
Net accruing to the National Government	₱1,674,285,685.08

Special funds, special and regular allotments amount to ₱813 million which is 30% of gross collections. There may be some wisdom in the enactment of special funds. For one, it cannot be touched by politicians as they are automatically appropriated for certain purposes. Special Highway Fund may be justified, due to the unlimited need for more roads and bridges. But certain special funds like the Sugar Fund which goes to Philsugin and the PVTA fund from specific tax on virginia type of cigarettes are sometimes much in excess of their needs and may not well be justified as the excess may be vested.

The last amount of ₱1.6 billion general fund is the amount subject to appropriation by Congress. From this amount, in addition to the other income of the government are appropriated the operational expenses of the government, as well as other public expenditures including pork barrel. From 1961 to 1970 government expenditures always exceeded income and there has been a deficit from year to year, the deficit being financed by borrowing. For 1970, government expenditure was about ₱3.4 billions, while income was only ₱2.4 billion, leaving a deficit of about a billion. While deficit spending finds justification by the demands for economic development occasioned by increased population, the situation demands drastic fiscal reforms. There is a limit to borrowing.

The B.I.R. is the one charged with the gigantic task of collecting internal revenue taxes. It has a total personnel complement of 7,000 scattered through the length and breadth of the

country. It is one of the biggest agencies undertaking the biggest volume of business of collecting taxes of ₱2.4 billion. The average cost of collecting ₱100.00 tax for the last five years is ₱1.90. The B.I.R. had an appropriation of ₱46 billion for the last fiscal year.

Our tax system has still the 1939 vintage, the year it was codified. Its amendment to cope with the present demands is very slow. We are, I believe, one of the lowest taxed people of the world. In fact, our per capita tax is only ₱67. It is very regrettable that since liberation there were more tax exemption laws (92) enacted, than new tax laws. Most of the exemption laws were designed to develop new industries. It has been advanced that tax exemption laws pampered taxpayers and that it has not exposed them into the competitive field of business, and that in many cases, they cannot stand on their own feet after the withdrawal of tax exemptions. It has also been argued that tax exemptions in certain cases are discriminatory and against the principle of uniformity of taxation, as certain sectors don't share the burden of taxation. However, it must be admitted that some tax exemption laws have enhanced the development of necessary industries, like the exemption on new and necessary industries. Some tax exemption laws were much abused, like the NACIDA law and the exemptions on donations to religious and charitable institutions from abroad.

On the whole, the structure of our tax system while needing reforms to cope with the present demand, could still be managed to substantially defray government expenditures. As statistics have shown, where expenditures exceeded income from year to year, drastic reforms must be instituted so that income could catch up with expenditures, or that expenditures should be kept at the level of income. If the present financial policy of deficit spending will continue, I am alarmed of the financial future of our country, especially considering the need for economic development and meeting our huge internal and external indebtedness. The only alternative for our government is to increase its financial resources to partially solve our economic difficulties.

It is said that a tax system is only as good as its administrative machinery. No matter how perfect a tax system is, if its implementing officials are not good, the expected revenues may not be realized. In revenue collection, human factor has to play an important role. How does the present administration rate?

There may not be a standard measure to gauge BIR performance or any government agency for that matter. Based on yearly increases of collections, it may be rated highly. However, the criterion for rating revenue administration performance is to find the difference between what is expected to be rightly collected and the amount actually collected. Again the amount that should have been collected is not determinate as they are also estimate. It must, however, be admitted that if every thing is on the level, we could have collected more.

It has been aired very often that if all taxes due the government are collected, there will be no need for enacting new tax laws or increasing the rates of existing ones. It has been charged that substantial amount goes to the pocket of tax collectors and that graft and corruption is rampant. The Philippine tax administration cannot claim perfection and cannot totally free itself from such accusation. It is ironic not to admit that there are venalities in the B.I.R., but it should not be deprived of getting credit for what it had accomplished. The continuous operation of our government sustained from year to year by revenue collections could very well attest to the role played by the B.I.R. Records will show that revenue collections continually increase from year to year, reaching a peak of ₱3 billion for the last fiscal year, 1970-1971. We can assure you that although there are some inefficient and corrupt officials, there are still a number of upright, honest and dedicated employees in our rank and file. In such a big organization consisting of more than 7,000 employees whose sphere of operation embraces the whole country, to maintain a 100% honesty in the midst of great wave of moral decadence sweeping the country would be an impossibility. Graft and corruption is an acute social malady that had engulfed our nation in all levels, not only in government offices, but in all segments of society,

and unless we awaken to its evil effects and collectively fight it, we may find our nation in the verge of collapse. We in the revenue service have been very much maligned and cursed. For the misdeeds of some, the whole organization had been condemned.

But, my friends, let us not be so sweepingly cruel to all the men in the revenue service. I assure you there are still in our organization men who will rather live in abject poverty and suffering rather than go down in dishonor. There are still men loyal to their trust. But there is the threat of extinction of the few remaining honest men for their ranks and file are thinning from day to day. Their morale is being eroded from day to day. By our nature, we are honest and law-abiding. But, my friends, the strongest of buildings even with reinforced concrete shall shatter down at the impact of earthquakes and typhoons. When the mighty forces of evil unite together as what is happening within our midst, no honest man can withstand its onslaught.

What are these evils that throw public officials into corruption?

Graft and corruption cannot be committed by one person alone. It is committed by the giver and the receiver, to the prejudice of the government. On the part of the public official, the factors that drive him to corruption are: lack of interest of the government in the welfare of employees; low salary in the face of high cost of living; demoralization in the service for flagrant disregard of the merit system; political interference and the "padrino" system where you will not get promoted or get good assignment without political connection. But foremost among all is the natural craving for material things — happiness, comfort, luxury and all the good things in life. These are the weak foundations on which our public official stands.

On the part of the taxpayer the factors that contribute to corruption are: dishonesty, disregard for law and public welfare, greed for wealth, lack of civic spirit, and diminishing

faith in our government. Foremost also is the unsatisfiable craving for wealth and for all good things of the material world.

My friends, when these mighty factors prevailing among public officials and the taxpayers are combined together in the midst of the weakening moral fiber, don't tell me that any public official can withstand the impact of its terrific force. You will find him slumped down and succumbed to the onslaught of graft and corruption.

While I should not come to the defense of a crooked official, I would point more an accusing and censuring finger on the dishonest taxpayer. A taxpayer would not be giving bribe money if he is not cheating the government. He gives the bribe money on the belief that he gets better on the deal than paying his due obligation to the government. Tax evaders should be treated the worst enemy of the state.

No individual or sector of society should give sanctuary to tax evaders if we are to eliminate graft and corruption in the government service. All citizens must take a united stand in fighting the common enemy, instead of accepting them as successful men in society. There should be a reformation of both the government officials for more dedication and honesty in the service, and the taxpayers, for more civic consciousness.

In the midst of these monumental problems confronting the Bureau of Internal Revenue, we have instituted measures designed to minimize, if not altogether eliminate, these evils. We have instituted an effective audit and tax investigation program to ferret out tax evaders. We have organized a Tax Fraud Division to go after all forms of tax evaders and the personnel of this division were especially trained for gathering evidence for possible criminal prosecutions.

We have vigorously embarked on a tax consciousness campaign, arousing the citizenry to their civic obligations to the government. We have adopted an administrative program in the Bureau of Internal Revenue to improve the image of the organization, impressing upon the people that it is an instrumentality of service and not as a means of harrassment and re-



pression. Stringent laws were enacted to impose more severe criminal and civil penalties on tax dodgers. We have, in cooperation with the Joint Legislative Executive Tax Commission, instituted the teaching of taxation in High Schools to prepare the minds of the future generation for an aroused civic obligation to the government. A nationwide tax information campaign has been launched to arouse tax consciousness among taxpayers. Seminars and other public forums are being conducted by our field offices in their respective territorial jurisdictions to emphasize the importance of paying taxes. The training program for our personnel has been strengthened and is continuously conducted so as to afford every employee a chance to undergo academic training.

To keep vital statistics and to keep our accounts in order, we have installed one of the biggest computerized machines in the B.I.R., which is expected to revolutionize the antiquated record-keeping of statistics. Officials who will man these computerized machines have been sent to Japan for extensive training.

Taking cognizance of the clamor for reforms by student demonstrations, we have issued a manifesto of reforms in the B.I.R. and, in fact, staff officials have been going from office to office preaching for reforms. Since 1965, we have filed 332 administrative cases against B.I.R. employees who have committed various forms of venalities like malversation of public funds, extortions, bribery and other violations of existing rules and regulations. As a consequence thereof, we have dropped, dismissed, demoted, suspended, imposed fines or compelled to resign 141 of our employees. Malversation cases have mounted to a staggering amount of not less than ₱8 million.

As an incentive for everyone, we have enacted a law giving rewards — 25% of the taxes and penalties collected, to any informer who could give information on any tax evader. Unfortunately, there has been little response from the public. We have also filed so many criminal cases against tax evaders and erring employees, but then we have been frustrated with the slow process of justice.

We are not relenting in our efforts to find solution to these perennial problems in the Bureau of Internal Revenue, but all of these efforts will be frustrated unless there is full cooperation from every citizen of this country. There has yet to be instilled among our people the virtue of national discipline as a prerequisite to the solution of all of these problems besetting our country.

Above all, in the collection of taxes, the most important factor is the maintenance of the full faith of the people in our government. Once their faith is shakened, then tax collection would, indeed, be a difficult task.

The present unrest of our people, their impatience for positive reforms may portray ominous signs of the impending upheavals that may yet uproot our social, economic and political institutions. The present-day happenings call for a serious re-examination of our attitudes, of our actuations, and that we be active vigilants and participants in government activities, for each and everyone of us has much to stake. We are called upon to get involved because we have a responsibility to build a better future for this country.

These are the thoughts that I leave for you to ponder upon this morning.