REVIEW OF PHILIPPINE TAX ADMINISTRATION AND PERFORMANCE

REVISED FINAL REPORT

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A

TABLE OF CONTENTS

LIST OF TABLES

LIST OF FIGURES

d

LIST OF APPENDIX TABLES

E

EXECUTIVE SUMMARY

While some gains in tax administration is still apparent in the mid-1990s, tax effort appears to have tapered off. Tax effort rose by a total of 3 percentage points of GNP in the four-year period between 186 and 1990. In contrast, it only increased by 1 percentage point of GNP in the period between 1992-1996. At the same time, tariff revenue is expected to contract as the government continues to lower import duties in line with its trade liberalization program. Also, the problem of weak revenue generation will become even more critical as revenue from sales of government-owned firms declines in the next few years. Consequently, the enhancement of the tax system persists to be a major area of concern.

High rates of evasion as well as the lower than expected revenue impact of the CTRP indicate that government cannot continue to rely on changes in tax structure to address fundamental problems in tax administration. In other words, they suggest the urgent need to provide what are essentially administrative solutions to inherently tax administration issues. In this regard, the following items appear to be the more important ones: improved monitoring of stopfilers, adoption of selective audit policy and installation of selective audit procedures, the more effective use of third party information, improved performance evaluation system for revenue officers, training front line personnel to prepare them for computerized regime, and the creation of data centers.

1. INTRODUCTION

Recent Philippine economic history provides compelling evidence that a poor or deteriorating fiscal position on the part of the public sector effectively constrains the government's options in support of economic recovery, sustainable growth and poverty alleviation. For instance, in the early 1980s, the government attempted to mitigate the effects of the second oil price shock by pursuing an expansionary expenditure program financed by foreign borrowing. As a consequence, the national government's fiscal deficit soared to 4.3 and 4.6 percent of GNP in 1981 and 1982, respectively, from an average of less than 1.5 percent in 1978-1980. However, this approach proved to be unsustainable for a number of reasons. First, the recession in the world economy took longer than expected. Second, foreign capital was not as accessible during this period (compared to the 1970s) so that the government did not have the wherewithal to weather the external imbalance. Third, the financial crisis of 1981 and severe political difficulties in 1983 led to massive capital flight that further exacerbated the situation.[1]

With external financing severely constrained, the government defaulted on its foreign obligations in October 1983 and it had no choice but to adopt a stringent stabilization program under the auspices of the International Monetary Fund (IMF). Government spending, particularly that on maintenance and investment, was cut deeply. The fiscal deficit was subsequently reduced but the toll on the economy was heavy and the economy contracted by 7.3 percent annually in two consecutive years: 1984 and 1985.

Similarly, after rebounding from the 1984-1985 recession with a creditable GDP growth rate of 3.4 percent in 1986 and an annual average rate of growth of 5.5 percent in 1987-1989, the economy faltered once again in 1990 when the growth rate of GDP decelerated to 2.4 percent. Moreover, GDP contracted by 0.5 percent in 1991 and was practically stagnant in 1992.

The unsustainable character of growth in 1986-1989 may be explained by a confluence of external and internal factors. First, anaemic growth in the developed countries dampened demand for the country's exports during the period. Second, the country was badly hit by a number of natural calamities that had deleterious effects on overall output growth and devastated huge amounts of government infrastructure. Third, incessant political instability led to a crisis in investor confidence. Fourth, the Gulf war led to a sharp rise in oil prices. Fifth, part of the deterioration in the economy's performance was policy-induced. *The government stalled too long in adjusting petroleum product prices and this resulted in huge consolidated public sector deficits (CPSD). Government owned/controlled corporations also contributed significantly to the CPSD. Thus, the CPSD ballooned from 3.1 percent of GNP in 1988 to 4.7 percent in 1990. Similarly, the national*

[1] In 1981, a rich financial tycoon fled the country with millions of dollars in debt, triggering a massive bank run and leaving the financial position of many banks and investment houses in a precarious state. In turn, given the high interest rate situation, many highly leveraged firms defaulted on their debts. Since government banks had substantial exposure in these firms, they ended up with numerous non-performing assets in their accounts.

government's fiscal deficit rose to 3.4 percent of GNP in 1990 from 2.2 percent in 1989 as the government allowed capital outlays to rise even as revenues remained stagnant after showing substantial expansion. Also, the failure of government to implement an adequate energy program earlier on resulted in severe power outages. In general, there was a delay in the implementation of policy reforms that were aimed at correcting the economy's structural weaknesses.

Once again, the government pursued an orthodox stabilization program consisting of tight monetary and fiscal policy. National government expenditure on capital and maintenance bore the brunt of the adjustment anew. Further improvements in tax effort were also put in place. Thus, the fiscal deficit was reined in once more such that in 1994 the national government posted a surplus (equal to 0.9 percent of GNP) for the first time in twenty years. Moreover, this experience was replicated in 1995 and 1996. In 1996, the consolidated public sector itself registered a surplus.

It should be emphasized, however, that the bulk of the fiscal adjustment in recent years (particularly in 1994 and 1995) is traceable to the large inflow of privatization proceeds (P29.9 billion or 1.7 percent of GNP in 1994 and P22.8 billion or 1.2 percent of GNP in 1995) into national government coffers. Without the revenue from the government divestment program, the national government's fiscal position would have been in deficit rather than in surplus in those years.

While some gains in tax revenue performance is still apparent in the mid-1990s, tax effort (the ratio of tax revenue to GNP) appears to have tapered off. Tax effort rose by a total of 3 percentage points of GNP in the four-year period between 1986 and 1990. In contrast, it only increased by 1 percentage point of GNP in the period between 1992 and 1996. At the same time, tariff revenue is expected to contract as the government continues to lower import duties in line with its trade liberalization program. Also, the problem of weak revenue generation will become more critical as revenue from sales of government-owned firms declines in the next few years. Consequently, the enhancement of the tax administration system persists as a major area of concern.

USAID has been supporting the Philippine government's effort to strengthen tax administration since 1993 by providing technical assistance through the Tax Administration Assistance Project (TAAP). The TAAP was recently extended and will continue till 1998. The TAAP is providing technical assistance - advice, training and equipment - to the Bureau of Internal Revenue (BIR) to improve its basic procedures in the areas of audit, collection, management, internal security and aspects of information management and information technology.

2. REVIEW OF LITERATURE

Manasan's(1994) study "Breaking Away from the Fiscal Bind" examined the overall fiscal performance in the mid-1980s up to 1992. In that study, trends in tax effort, tax structure, tax evasion and the state of the tax administration system were systematically assessed.

Taxes remain the government's principal source of income, accounting for 86 percent of national government revenues in 1992. The Tax Reform Package of 1986 resulted in significant improvements in the tax effort. Thus, the ratio of total tax revenue to GNP climbed from an average of 11.0 percent in 1985 to 15.2 percent in 1992. This development has allowed the Philippines to catch up somewhat with the tax effort of other Asian countries. However, despite this improvement, the country continues to lag behind the performance of Indonesia, Malaysia, South Korea and Thailand.

Hand in hand with enhanced revenue performance of the tax system, a notable change in the composition of national government taxes was also evident. The marked rise in the share of direct taxes to total taxes constitutes a positive development. The proportion of taxes on income and profits expanded dramatically from an average of 24.4 percent in 1975-1982 to 33.6 percent in 1992.

Concomitant with this progress, the buoyancy of the tax system with respect to GNP rose from 0.88 in 1976-1985 to 1.34 in 1986-1991. The improvement has been such that the tax buoyancy estimate in 1986-1991 did not only rise above the 1981-1985 level (0.92) but it has also surpassed the 1976-1980 level (1.09) significantly.

While changes in both structure and administration of the tax system in the last half of the 1980s and the early part of the 1990s greatly fortified the overall revenue performance of the government, estimates of tax evasion indicate the vast opportunities for collecting more revenues without the need to raise tax rates or to impose new taxes. It also showed that tax evasion weakens the progressivity of even the best-designed tax systems.

Table 1 indicates some improvement in the collection rate of the individual income tax, from 26.9 percent in 1985 to 34 percent in 1991. Similarly, tax evasion estimates for the VAT show that while the collection rate deteriorated from 31.8 percent in 1985 to 27.8 percent in 1989, it has recovered since then to reach 38.4 percent in 1992 (**Table 2**).

Table 1
Potential Revenue from the Individual Tax and the Level of Tax Evasion

Year	Potential Revenue (PM)	Actual Revenue (PM)	Difference (PM)	Evasion Rate (%)	Collection Rate (%)
1985	21949.60	5912.0	16037.6	73.1	26.9
1986	15504.74	5940.0	9564.74	61.7	38.3
1988	27887.30	7947.0	19940.3	71.5	28.5
1990	46200.30	16206.0	29994.3	64.9	35.1
1991	61112.10	20744.6	40367.5	66.0	34.0

Source: Manasan, 1994.

Tax evasion may take the following forms: (I) non- filing of tax

returns, (ii) overstatement of deductions, and (iii) non-reporting or understatement of income/sales. A comparison of the actual number with the potential number of individual income tax filers reveals that outright non-filing of tax returns was a major source of individual income tax evasion (**Table 3**).

Table 2
Potential Revenue from the VAT and the Level of Tax Evasion

Year	Potential Revenue (PM)	Potential Revenue % of GDP	Actual Revenue (PM)	Difference (PM)	Evasion Rate (%)	Collection Rate (%)
1985	9428.0	1.65	2996.0	6432.0	68.2	31.8
1989	36414.0	3.94	10134.5	26279.5	72.2	27.8
1990	39395.0	3.68	13079.3	26315.7	66.8	33.2
1991	45443.0	3.65	15095.7	30347.3	66.8	33.2
1992	47191.0	3.52	18112.9	29078.1	61.6	38.4

Source: Manasan, 1994.

The theoretical literature suggests that a high penalty rate and a high probability of detection can deter tax evasion In this context, the creation of special tax courts and the passage of a law imposing stiffer penalties on tax evasion in recent years are steps in the right direction.

Table 3
Potential and Actual Number of Individual Income Taxpayers, 1985 - 1990

Year	Potential Number of Individual Taxpayers	Actual Number of Individual Taxpayers	Actual/ Potential (%)
1985	10,074,039	2,336,337	23.19
1986	9,247,644	2,093,335	22.64
1988	10,544,154	2,434,520	23.09
1990	11,651,988	2,619,271	22.48

Source: Manasan, 1994.

Manasan (1994) also identified other weak points in the tax administration system which may encourage the non-payment or the under-payment of the true tax liability of individuals and firms: too much centralization at the BIR, poor systems and procedures, low level of computerization and low compensation of tax collection personnel.

Sunley et al. (1994) likewise observed that, compared to other ASEAN countries, the Philippines ranks below Malaysia, Singapore and Thailand in terms of central government revenue as a percent of GNP. They attributed the low tax ratio of the Philippines to the low reliance on the

corporate income tax and the low yield of the VAT. With regards to the VAT, they stressed the need to review administration procedures so that stop filers and non-payers receive priority attention. They also proposed a new criteria for the selection of VAT payers for audit. On the other hand, they recommended (I) the extension of the limitations on business deductions under the Simplified Net Income Tax System (SNITS) to the corporate income tax, (ii) the withdrawal of tax holidays and other tax incentives for investment promotion, and (iii) the introduction of a minimum corporate income tax collected on the basis of gross assets.

Meanwhile, Bahl and Wallace (1994) noted that while revenue from the individual income tax in the Philippines is not low by international standards, that from the corporate income tax is.[2] They traced the problem to poor administration, lack of compliance and substantial exemptions under the incentives legislation. They also observed that the broadening of the value added tax base will raise significant revenue and will make the system more fair by bringing hitherto excluded items of consumption into the tax net. At the same time, they pointed out that many of the reform proposals have been expressly designed to bypass a deficient administration, e.g., gross income tax, minimum corporate tax based on gross assets. However, they emphasized that the introduction of such tax changes will require administrative adjustments. In this regard, they noted that the task force on tax administration has focused more on improving the administration of existing taxes rather than on how to prepare for the implementation of any particular reform program.

3. OBJECTIVE AND SCOPE OF WORK

The principal objective of this study is to provide background analysis that will guide USAID/Manila in its implementation of the Tax Administration Assistance Project and to develop a methodology for measuring the TAAP Strategic Objective Two performance indicator- the tax participation ratio. The tax participation ratio is defined as the ratio of the actual to the total number of taxpayers (individual and corporate).

In line with this, the present study will focus on the following tasks:

(1) Update the author's earlier work "Breaking Away from the Fiscal Bind." The update will extend time series analyses and should reflect the current statutory situation to the extent possible. The study will review the growth in the size and the changing composition of national government revenues in 1986-1995 (with special focus on 1993-1995) and relate the changes thereto to modifications in tax structure and administration that were introduced during the period under study (e.g., the introduction of the EVAT and the expanded withholding tax system).

[2]In both cases, the nominal rate is comparable to those of other countries in the region.

(2) Re-estimate tax buoyancy coefficients to take into account additional data points that are now available since the completion of the earlier work.

(3) Update tax evasion estimates for the individual income tax and the VAT using more recent data. The new estimates will be derived using the 1994 Family Income and Expenditure Survey (FIES) as well as the 1988 Input-Output (I-O) Tables. The FIES and the I-O form the backbone of the tax evasion analysis. The wider coverage of the VAT under the EVAT law will also be taken into account.

(4) Estimate the potential number of potential individual income tax payers and compare this number with the actual number of taxfilers to arrive at the filing rate.

(5) Assess the extent of corporate income tax evasion. The study will also estimate the number of potential corporate income taxpayers and compare this with the actual number. This is important because some analysts have expressed concern about the poor performance of the corporate income tax.

(6) Compare the Philippine tax performance with those of other Asian economies.

(7) Review and evaluate recent changes in the tax administration system and identify areas for further improvements.

(8) Examine the following questions: (I) What is the size of revenue gains from improved tax administration relative to the size of revenue gains from changes in tax structure under the Comprehensive Tax Reform Package? (ii) Could improvements in tax administration alone enable the government to substantially increase its revenues? (iii) Have the DOF's tax collection targets in recent years been consistent with achieving the 22 percent tax effort goal or will special measures be required to increase tax effort at the last moment?

4. APPROACH AND METHODOLOGY

4.1. Overall Assessment

The overall revenue performance of the tax system will be gauged based on three measures: tax effort ratio, buoyancy coefficients and cross country comparison. Tax effort is defined as the ratio of tax revenue to GNP. As such, it compares the tax burden to the economy's ability to pay. On the other hand, the tax buoyancy coefficient is the ratio of the proportional change in tax revenue to the proportional change in the tax base.[3] It measures the responsiveness of the tax system to changes in the level of economic activity as well as changes in tax laws.

[3]In the aggregate, GNP is usually used as the proxy for the tax base.

The tax buoyancy coefficient for the various types of taxes may then be decomposed into its components: (1) the rate buoyancy (i.e., the buoyancy of the tax yield with respect to the tax base) and (2) the base buoyancy (i.e., the buoyancy of the tax base with respect to GNP). This becomes obvious from the following:

$$e_{tiGNP} = (dti/ti)/(dGNP/GNP) = [(dti/ti)/(dbi/bi)]*[(dbi/bi)/(dGNP/GNP)] = e_{tibi}*e_{biGNP}$$

where e_{tiGNP} refers to the overall buoyancy coefficient for tax I;
e_{tibi} refers to the rate buoyancy for tax I, i.e., the ratio of the proportional change in tax revenue to the proportional change in tax base;
e_{biGNP} refers to the base buoyancy for tax I, i.e., the ratio of the proportional change in tax base to the proportional change in GNP;
ti refers to revenue collections from tax I; and,
bi refers to the tax base specific to tax I.

At the same time, the study will also re-examine the trends in the size and composition of national government taxes. The pattern thus observed will be related with the introduction of new tax measures, including those that impact on structure as well as those that modify the tax administration system.

4.2. Tax Evasion

General Approaches

There are several approaches to the measurement of tax evasion: the gap approach, the tax elasticity approach and the tax audit approach, to name a few. In the gap approach, the "true" tax base is first determined. Thus, data on aggregate income/sales/receipts is obtained from sources independent of the tax returns. Most often data from the national income accounts (NIA) are used. The corresponding tax liability for the income/sales estimate thus derived is then computed and is equated to the potential tax revenue take. The difference between the potential tax revenue and the actual tax collection is then presumed to be the amount of taxes evaded.

The major difficulty with the gap approach is the absence of alternative data sources on the appropriate tax base. This is particularly true of capital gains. But where this type of information is available, the gap approach is deemed superior to the other procedures discussed below.

In the elasticity approach, the potential tax revenue is estimated based on some average tax function in which tax collection is regressed on various determinants like the tax base and changes in tax structure. The typical regression equation used is:

$$\ln T = a + \ln Y$$

where T is the tax revenue and Y is the appropriate tax base. The difference between the projected tax revenue derived from equation 2 above and actual tax collections may be used as a measure of tax evasion. This approach assumes that there is no significant change in the composition of the tax base and that there is no change in the tax rate. With either a tax rate increase/decrease or a change in the composition of the tax base that warrants a corresponding change in tax yield, this technique tends to underestimate tax evasion. Richupan (1984) asserts that this procedure does not measure total tax evasion but it does provide a good estimate of additional (lower) tax evasion and the deterioration (improvement) of tax administration valued in terms of the estimation period's mean level.

In contrast, the audit approach makes use of the additional taxes assessed on taxpayers who are subjected to tax audit. The weakness of this technique stems from the fact that the revenue agency's audit capability is typically limited and from the possibility that corruption in the ranks of the tax enforcers usually lead to lower audit assessments that warranted and, consequently, lower estimates of tax evasion.

In this paper, the gap approach will be used to estimate the level of evasion of the individual income tax, corporate income tax and the VAT. Detailed methodology for each of these taxes are discussed below.

Measuring Evasion of the Individual Income Tax

In this study, compensation of employees plus net operating surplus of households and unincorporated enterprises as reported in the NIA is used as the basis for computing the potential taxable base of the individual income tax.[4] However, it is adjusted by subtracting items that are included in the national accounts definition of personal income but which do not actually accrue to the household sector and items which are not taxable under the individual income tax provisions of the NIRC. The first list includes the net operating surplus of unincorporated (i.e., private non-profit) enterprises while the second list includes the employer's share of social security contribution. Time series data on these excluded items are not available.

The employers' share of social security contributions is approximated by taking half of the total social security contribution figures provided in the NIA. Thus, taxable compensation income of households (w) is derived as follows:

(I) compensation income as reported in the NIA;
less: (ii) 50 percent of social security contributions of households as reported in the NIA.

Income of unincorporated enterprises for 1991 and 1994 was estimated as equal to one-half of the difference between total net operating surplus of the household sector as reported in the NIA

[4]Property income which includes interest income, dividends and rents are taxed under the so-called passive income provisions of the NIRC.

(NOSHPDNIA) and income from entrepreneurial activity as reported in the FIES (NOSFIES).[5] The level of private non-profit enterprise income thus derived was subtracted from NIA's total net operating surplus of household sector to arrive at an estimate of net operating surplus of households net of unincorporated enterprises (NOSHLUEPD) in 1991/1994. The estimate of private non-profit enterprise income derived for 1991/1994 was also expressed as a proportion of NIA total net operating surplus. The resulting ratio was then used to calculate the level of income of private non-profit enterprises in other years. Thus, aggregate net operating surplus of households exclusive of net operating surplus of unincorporated enterprises (NOSHLUEPD) in 1991 and 1994 year was calculated as:

(I) aggregate net operating surplus of households and unincorporated enterprises in NIA grossed up for depreciation (NOSHPDNIA);

less: (ii) 50 percent of difference between NOSHPDNIA (gross of depreciation) and total FIES income from entrepreneurial activity (NOSFIES).

In other years, NOSHLUEPD was estimated as:

$$NOSHLUEPD_t = k_1 * NOSHPDNIA_t$$

where k_1 = NOSHLUEPD1991/NOSHPDNIA1991, and
t = an index for the time period.[6]

Total taxable income in year t ($TAXY_t$) is then derived as the sum of w_t and $NOSHLUEPD_t$. Subsequently, the estimate of total taxable income was then broken down into compensation income (COMPY) and entrepreneurial income (ENTREY) using the respective income shares in 1991/1994. That is, compensation income ($COMPY_t$) is calculated as:

$$COMPY_t = k_2 * TAXY_t; \text{ and}$$

$$ENTREY_t = (1 - k_2) * TAXY_t$$

where k_2 = wFIES1991/(wFIES1991 + ENTREYFIES1991).

[5]Entrepreneurial income as reported in the FIES refers to gross receipts from entrepreneurial activity less cost of goods sold. Thus, net operating surplus as reported in the NIA is conceptually comparable to entrepreneurial income in the FIES less depreciation. Experts attribute the difference between NIA and FIES estimates of net operating surplus to a combination of the following: (1) statistical discrepancy arising primarily from under-reporting of household income in the FIES, and (2) income of private non-profit enterprises. In this study, the difference was arbitrarily allocated equally to these two items.

[6]In computing NOSHNIA in 1991/1992, the income shares came from 1991 FIES while in estimating NOSHNIA for 1993-1996, the income share implied by the 1994 FIES were used.

At the same time, the 1991 and 1994 FIES data sets were further processed such that the decile distribution was disaggregated to show the number of dependent children (0, 1, 2, 3, 4, or 5), the number of income earners (0, 1, 2, 3, or 4), and the income source (compensation income, entrepreneurial income, dividends, interest income, imputed rent, and gifts).[7] That is, households in each income decile were further classified according to the said three variables.

The number of income earners determines (1) the potential number of income tax payers in the household and (2) the amount of personal exemption the tax filer can claim in his individual income tax return. In this paper, the first two income earners in each household were assumed to be married and were assumed to file a joint income tax return. However, the third (and fourth) income earner subject to tax was assumed to file a tax return on his own and was, thus, treated as an additional potential tax filer.

The number of dependent children defines the amount of additional exemption the tax filer can claim in his individual income tax return. In this study, if there were more than two income earners in a given household, the total number of dependent children in that household were assumed to belong to the "married couple" in the said household.

The income source of each income earner in any given household determines (1) whether the income source is subject to individual income tax,[8] and (2) if it is so determined, whether the compensation income tax rate schedule or the business/professional individual income tax rate schedule will be applicable. This distinction is important during the years when the schedular system was in place.

On the one hand, the number of households shown in the 1991/1994 FIES was made to grow at the same rate as the national average rate of population growth to arrive at the number of households in each sub-group in the decile distribution for the years 1991-1996. On the other hand, the estimate of aggregate entrepreneurial income (ENTREY) and compensation income (COMPY) for 1991-1992 was distributed to the different income groups using the decile distribution of entrepreneurial income and compensation income, respectively, in the 1991 FIES while ENTREY and COMPY for 1993-1996 was distributed using the decile distribution of entrepreneurial income and compensation income, respectively, in the 1994 FIES.

Following this, total household income subject to the individual income tax for each income sub-group was divided by the number of households and by the number of income earners in each household to arrive at the gross income of each representative income earner. Subsequently, a tax calculator model is developed to estimate potential individual income tax liability. The model works

[7]Entrepreneurial income as reported in the FIES refers to gross receipts from entrepreneurial activity net of cost of goods sold.

[8]Recall that dividends, interest income, imputed rent, and gifts are not subject to individual income tax. Thus, said sources of income are excluded from the total income of the decile sub-group when computing for the potential individual income tax liability.

as follows. First, the corresponding personal and additional exemptions for the representative income earner in each income sub-group were calculated using information on number of income earners and number of dependent children. Second, estimates of personal and additional exemptions were deducted from the total gross income of each representative income earner to obtain estimates of his/her legally taxable income. Third, the taxable income level of each representative income earner was multiplied by the corresponding tax rate using the tax schedules for compensation and business/professional income to estimate his/her potential tax liability. Fourth, the potential tax liability of each representative income earner was multiplied by the number of households in each income sub-group to yield total potential tax revenue from the individual income tax. (The tax calculator model thus developed is provided with this report in diskette form.)

In this study, it is assumed that the tax liability arising from compensation income earned in the current year is paid to the BIR in the same year. However, tax liability arising from business/professional income accrued in the current year is assumed to be paid to the BIR in the succeeding year.

On the other hand, the number of potential individual income taxpayers for each year was derived by counting the number of income earners who are required by law to file an income tax return and after making the adjustment for the fact that some households have more than two income earners.[9] Finally, the filing rate may be calculated as the ratio of the actual number of individual income taxfilers to the potential number of individual taxfilers. This measure provides some indication of the level of tax compliance.

Measuring Evasion of the Corporate Income Tax

The NIA estimate of net operating surplus of private and government corporations (NOSPCGCNIA) is the first candidate that comes to mind when searching for a measure of the corporate income tax base that is independent of information provided in the income tax returns. The potential revenue from the corporate income tax may be estimated as the product of 0.35 and NOSPCGCNIA.[10]

To derive the potential number of corporate income tax filers, the potential revenue from the corporate income tax may then be divided by the amount of actual corporate income tax paid on the average by corporations filing tax returns at the BIR to derive the potential number of corporate income taxpayers. The filing rate is then computed as the ratio of the actual number of corporate income tax filers to the potential number of corporate income tax filers.

[9]In this study, married couples are assumed to file a single return.

[10]The corporate income tax rate is 35 percent.

Measuring Evasion of the Value Added Tax

The Philippine value added tax (both the original 1988 version and the expanded version or EVAT) is a consumption type, destination principle VAT where tax liability is computed using the credit method. As such, in calculating a firm's value added, all business purchases, including those of capital assets, are deductible from its sales. At the same time, exports are zero-rated while imports are taxed. Also, tax liability of any given firm is computed as the difference between the tax on its sales and the tax on its purchases of taxable inputs. In addition, the Philippine VAT exempts sales and imports of agriculture, most inputs to agriculture, petroleum products, books and publications, utilities and many services.[11] At the same time, sales of small firms are also exempted from VAT.

Conceptually, the VAT base may, thus, be derived as follows:

	(I)	VAT-liable supply (sales of domestic producers plus imports less exports less sales of exempt sectors less sales of marginal firms)
less:	(ii)	creditable intermediate purchases or inputs to taxable supply
less:	(iii)	fixed capital formation
plus:	(iv)	VAT-liable purchases/inputs of exempt sectors
plus:	(v)	VAT-liable purchases/inputs of marginal firms
less:	(vi)	VAT-liable purchases/inputs of exports.

While exempt sectors and marginal firms do not pay taxes on their outputs, they are also not allowed to get credit for the taxes they paid on their intermediate and capital inputs. Thus, there is a need to add items (iv) and (v) in the computation of the VAT base. On the other hand, exports, being zero-rated, are also not required to pay tax on their output even as they are allowed to rebate the taxes levied on their intermediate purchases. Consequently, there is a need to subtract item (vi) in the computation of the VAT base.

In this study, the estimation of the VAT base is divided into two parts: the domestic sales component and the import component. The estimation procedure for the import component is fairly straightforward compared to that for domestic sales.

VAT Base for Imports

The Balance of Payments (BOP) provides data on value of imports of different commodity groups. The VAT base for imports is thus derived directly from this information source by subtracting imports of exempt goods from total merchandise imports.

[11] Both zero-rated and exempt goods do not pay taxes on their outputs. While zero-rated goods are given a rebate (or credit) for the taxes they paid on their inputs, exempt goods are not.

VAT Base for Domestic Sales

Annual data on domestic sales is typically not available.[12] However, data on gross value added (GVA) by sector is available from the National Income Accounts (NIA). Input-output coefficients and the value added ratios from the 1988 Input-Output Tables are then used to gross-up said GVA figures to arrive at estimates of domestic sales .[13] Thus, in this study, GVA adjusted for the presence of VAT-exempt inputs is taken as an estimate of domestic sales net of intermediate input purchases.

Appendix Table 1 is the pro-forma table used in the estimation of the VAT base for domestic sales. Entries in the first column correspond to estimates of sectoral GVA and were obtained from the NIA. Entries in the second column (GVA in exempt sectors) were derived by multiplying column (1) by the "exempt ratio" (i.e., ratio of GVA in exempt sub-sectors to total sectoral GVA). The "exempt ratios" were calculated from 1988 I-O table and are presented in **Appendix Table 2.** The list of VAT-exempt sectors in the 230 sector I-O table for the three different VAT regimes is given in **Appendix Table 3.**[14]

Entries in Column 3 (GVA of marginal firms) represent the product of column (1) less column (2) less column (5) and the "marginal ratios" (i.e., the ratio of GVA in the informal sector to total sectoral GVA). The "marginal ratios" were obtained from Arboleda (199x) and are presented in **Appendix Table 2.**

Entries in the fourth column (merchandise exports) were calculated as the product of the dollar value of exports of major commodity groups as reported in the BOP and the annual average peso-dollar exchange rate as reported by the Philippine Dealing System.

Column 5 represents the GVA contribution of exports. Entries in these column were obtained by multiplying column (4) by the corresponding value added ratio (i.e., ratio of sectoral GVA to sectoral output). The value added ratio were derived from the 1988 I-O table and are summarized in **Appendix Table 2.**

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[12]Years when the Census of Establishments are undertaken are exemptions to this rule.

[13]I-O tables are also available for 1990 and 1992. However, both were derived from the 1988 I-O table using the RAS adjustment. As such, both reflect the 1988 production cost structure. The 1990 I-O table is comprised of 177 sectors while the 1992 I-O table contains 58 sectors. In contrast, the 1988 I-O table has 230 sectors. Since we are more interested in the production structure rather than the nominal input or output values and because the finer disaggregation available in the 1988 table makes it easier to distinguish VAT-exempt from VAT-liable sectors, the 1988 I-O table was used in the analysis.

[14]The provisions of the 1988 VAT law were applicable rom 1988 to 1995, those of the Expanded Value Added Tax (EVAT) law were relevant for 1966 and the amended EVAT law is made effective in 1997.

Column (6) is the difference between column (1) and the sum of columns (2), (3) and (5). Entries in this column represent GVA (i.e., output less intermediate inputs) in VAT-liable sectors/transactions.

As noted earlier, VAT is levied, in principle, on the value added in VAT-liable sectors. In other words, the VAT base is akin to gross value added. However, in practice, some sectors are VAT-exempt. Thus, firms are not allowed to receive a refund of the taxes paid on purchased inputs from VAT-exempt sectors because no VAT is paid on the same to begin with. This implies that the actual VAT base for VAT-liable sectors is GVA adjusted for the presence of VAT-exempt inputs. Such an adjustment is carried out in column (7). Thus, entries in column (7) is the product of column (6) and the GVA adjustment factor. The GVA adjustment factor is the ratio of the sum of GVA and VAT-exempt inputs to GVA in VAT-liable sectors. The GVA adjustment factor is presented in **Appendix Table 2.**

Entries in columns (8), (9) and (10) represent VAT-liable inputs to exempt sectors, marginal firms and export sectors, respectively. Column (8) is obtained by multiplying column (2) by the ratio of VAT-liable inputs to GVA in exempt sectors. Columns (9) and (10) are analogously derived. Finally, column (11) is the sum of columns (7), (8) and (9).[15] The entry for the "total" row of Column (11) is the VAT base prior to the adjustment for capital formation while the entry for the "total" row of column (12) is VAT base after deducting capital formation. Note that portion of gross capital formation in the NIA that is allocable to government is not deducted from the VAT-base.

4.3. Qualitative Assessment of Tax Administration System

A qualitative assessment of recent reforms introduced in the tax administration system was undertaken based on interviews with key informants including officials of the BIR.

5. FINDINGS

5.1. Inventory of New Tax Measures

The government undertook an extensive restructuring of the tax system in 1986. While previous efforts to change tax policy were piecemeal in nature and generally concerned with revenue generation, the 1986 Tax Reform Package (TxRP) represented the first attempt at a comprehensive reform of the country's tax system. In line with articulated policy, the measures comprising the TxRP were not solely dictated by the need for government revenues. Equity and efficiency objectives received considerable weight in the design of this package.

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[15] In principle, column (10) should be subtracted from the sum of columns(7), (8) and (9) to arrive at an estimate of the VAT base prior to the capital formation adjustment. However, the amount of VAT collections reported by the BIR is gross of VAT credit for inputs to exports. Thus, our estimates of the VAT base reflect this practice.

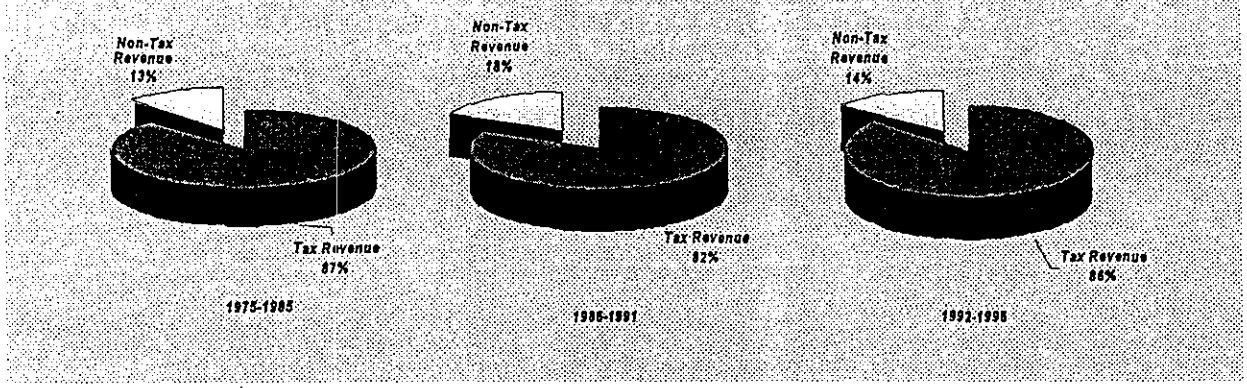
The following were the major components of the Tax Reform Package: (1) a shift from the schedular to a more global approach in taxing individual income from compensation, business, trade and exercise of profession; (2) increase in personal and additional exemptions; (3) separate treatment of income of spouses; (4) an increase in the final withholding tax rate on interest income (from 17.5 percent) and royalties (from 15 percent) to a uniform rate of 20 percent; (5) the phase-out of the final withholding tax previously levied on dividends; (6) the unification of the earlier dual tax rate (of 25 and 35 percent) levied on corporate income to 35 percent; (7) the introduction of the value added tax (VAT) in place of the sales/turnover tax and a host of other taxes; (8) the conversion of unit rates formerly used for excise taxes to *ad valorem* rates; (9) the abolition of export taxes; and (10) further reduction in tariff rates.[16]

From 1987 onwards, the government had to introduce more tax changes primarily to respond to the need to raise more revenues within the context of a series of fiscal adjustment programs. But not all were consistent with the spirit of the 1986 reform package. Some, like the import levy imposed in 1991, were put in place because they were administratively and politically convenient. Moreover, they were generally seen as highly distortionary and having a perverse effect on long-term growth. **Appendix Table 4** summarizes the more important tax measures put in place since 1986.

5.2. Trends in Size and Composition of National Government Revenue

Tax revenue is the most important source of income of the national government. It accounted for 86.2 percent of total central government revenue in 1992-1996 compared to 82.2 percent in 1986-1991 (**Figure 1**). Conversely, the share of non-tax revenue to total central government revenue declined from 17.8 percent in 1986-1991 to 13.8 percent on the average in 1992-1996. This occurred

FIGURE 1
DISTRIBUTION OF NATIONAL GOVERNMENT REVENUE BY SOURCE, 1975 - 1996



[16]The last item is not usually viewed as part of the TxRP but as the main element of the Tariff Reform Program (TfRP).

as grants as well as fees and charges collected by various government agencies contracted even as privatization proceeds expanded. In particular, while national government receipts from sales of assets increased from 0.5 percent to 0.7 percent of GNP, grants and income of the Bureau of Treasury inclusive of income from fees and charges declined from 0.5 percent and 1.9 percent, respectively, to 0.2 percent and 1.7 percent of GNP.

Non-tax revenue reached its peak at 3.7 percent of GNP in 1994 (**Table 4**). Of this amount, 1.7 percent of GNP came from privatization income. This figure likewise represents the highest revenue take from the government divestment program in any single year since the start of the said program in 1986. The privatization program also contributed a substantial amount (1.2 percent of GNP) to the national treasury in 1995. However, by 1996, government income from sale of assets was down to a mere 0.2 percent of GNP.

Table 4
Ratio of National Government Revenue to GNP, 1975-1996
(in percent)

	1975-1985	1986-1991	1992-1996	1986	1988	1990	1992	1994	1996
TOTAL REVENUE	12.90	15.97	18.18	13.29	14.25	16.71	17.52	19.36	18.01
TAX REVENUE	11.26	13.12	15.67	10.98	11.41	14.01	15.06	15.62	16.15
Income and Profits	2.85	4.07	5.45	3.21	3.46	4.56	5.06	5.29	5.98
Corporate	1.46	1.75	2.60	1.44	1.64	1.78	2.21	2.53	2.99
Individual	1.10	1.30	1.90	1.00	1.00	1.45	1.65	1.97	2.10
Others	0.23	1.02	0.94	0.78	0.82	1.33	1.20	0.79	0.90
Excise	2.02	2.59	2.11	2.75	2.47	2.67	1.99	2.28	2.12
Sales Tax/VAT and Licenses	2.31	2.76	3.61	2.17	2.48	2.98	3.02	3.33	4.07
Import Duties	2.91	3.08	3.57	2.21	2.24	3.13	4.25	3.47	3.00
NON-TAX REVENUE	1.64	2.84	2.50	2.31	2.84	2.70	2.45	3.74	1.84
of which:									
Collection from Other Offices	1.47	1.94	1.72	1.24	1.83	1.90	2.04	1.97	1.59
Grants	0.19	0.54	0.15	1.06	0.24	0.41	0.27	0.04	0.02
Sale of Assets		0.48	0.70		0.76	0.39	0.14	1.72	0.25

Source of basic data: Author's estimate using government revenue from Bureau of Treasury; GNP from National Statistical Coordination Board

The 1986 Tax Reform Package, together with the other tax measures put in place in the ensuing years, resulted in a significant improvement in the tax effort. Thus, the ratio of total tax revenue to GNP climbed from an average of 11.3 percent of GNP in 1975-1985 to 16.2 percent in 1996 (**Figure 2**). However, the improvement in Philippine tax effort appears to have tapered off in more recent years. For instance, while the tax effort increased by a hefty 3 percentage points in the 4-year period between 1986 and 1990, it rose by a mere 1 percentage point in the 4-year period between 1992 and 1996.

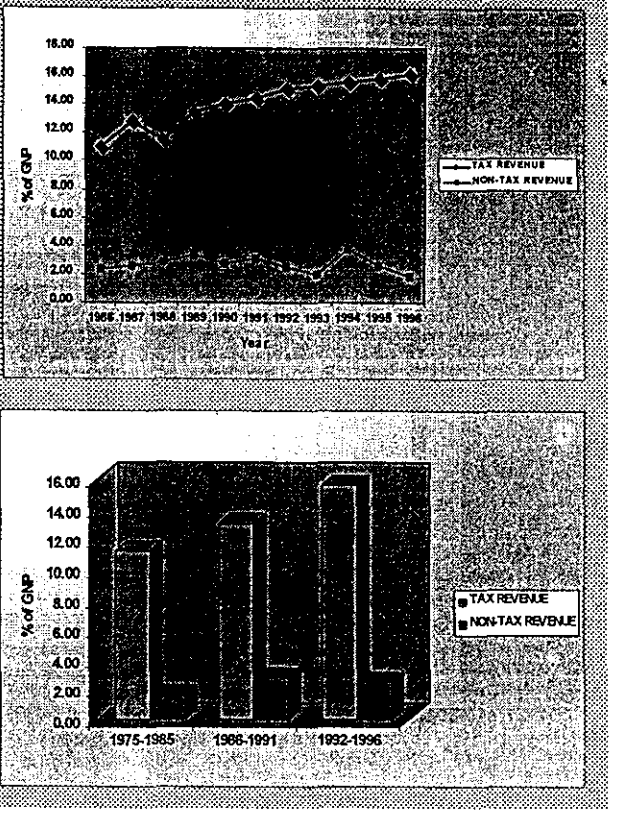
Nonetheless, these developments allowed the Philippines to catch up with the tax effort of other Asian countries. Despite this progress, the country continued to lag behind the performance of Malaysia, Singapore, South Korea and Thailand (**Table 5**). It is noteworthy, however, that the Philippine was able to overtake the tax effort of Indonesia in 1994.[17]

Table 5
Tax Effort in Selected Asian Countries, 1991/1994
(in percent of GDP)

	1991	1994
Indonesia	17.2	15.5
Malaysia	21.2	21.4
Philippines	**14.6**	**16.0**
Singapore	15.8	16.9
Thailand	17.6	16.8
South Korea	14.9	16.9

Source of basic data: Author's estimates using revenue data from the Government Finance Statistics and GDP data from the International Finance Statistics.

FIGURE 2
TAX AND NON-TAX EFFORT, 1975 - 1996



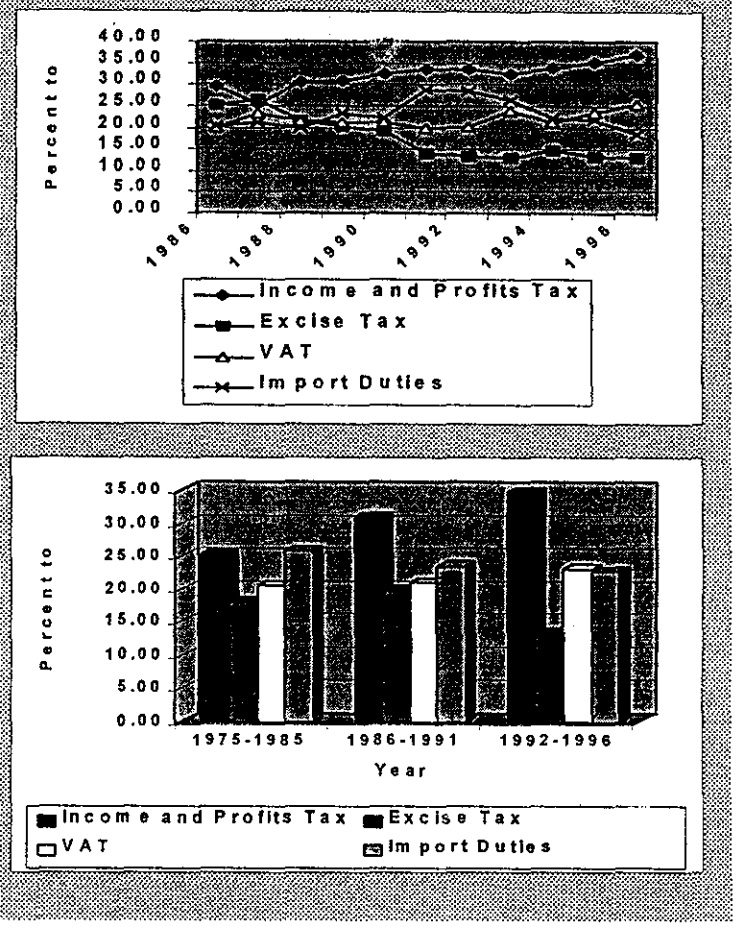
Concomitant with the gains in the revenue performance of the tax system, a marked change in the composition of national government taxes took place in the last decade. The share of taxes on income and profits (which comprise about 95 percent of direct taxes in the aggregate) registered a substantial expansion, from 25.2 percent on the average in 1975-1985 to 37.1 percent in 1996 (**Figure 3**). The increasing contribution of direct taxes to the national government's total tax take constitutes a positive development from the equity perspective.

Of the indirect tax sources, revenues from excise taxes and import duties posted the most significant contraction relative to total tax revenue. The share of excise taxes to total tax revenue declined from an average of 18.0 percent in 1975-1985 to 13.2 percent in 1996. In like manner, the contribution of import duties to total taxes of the national government dropped from an average of 25.7 percent in 1975-1985 to 18.6 percent in 1995 (**Figure 3**).

[17]It should be emphasized that this occurred partly because the Philippine tax effort is improving and partly because that of Indonesia is deteriorating.

More significant than changes in the relative importance of the different tax groups are changes in their levels when measured relative to GNP. The expansion of revenue from taxes on income and profits is even more dramatic when reckoned relative to GNP. Taxes from the said source more than doubled from 2.8 percent of GNP in 1975-1985 to 6.0 percent in 1996 (**Table 4**). Moreover, it is surprising that all major types of indirect taxes exhibited some growth relative to GNP, albeit at a slower pace than direct taxes. Revenue from sales tax/VAT showed the largest increase. Sales tax/VAT revenue grew from an average of 2.3 percent of GNP in 1975-1985 to 4.1 percent in 1996. On the other hand, tariff revenue posted a minimal increase from an average of 2.9 percent to 3.0 percent of GNP while excise taxes rose from 2.0 percent to 2.1 percent of GNP during the same period. It appears that the increased dependence on direct taxes in 1986-1995/6 did not result from the replacement of indirect taxes by direct taxes. Rather, it followed form the marked rise in the overall direct tax effort. In short, the yield of indirect taxes measured against GNP did not diminish while that of direct taxes increased significantly indicating the success of the new tax structure in exploiting the revenue possibilities of direct taxes.

FIGURE 3
DISTRIBUTION OF NATIONAL GOVERNMENT TAXES BY SOURCE, 1975 - 1996



5.3. Tax Buoyancy

Hand in hand with this progress, the buoyancy of the tax system with respect to GNP rose from an average of 0.93 in 1976-1986 to 1.31 in 1987-1996 (**Table 6**). However, it is worrisome that the overall tax buoyancy coefficient has deteriorated from 1.41 in 1987-1992 to 1.15 in 1993-1996. This development is largely driven by the sharp drop in the buoyancy of tariff revenues which continue to account for about one-fifth of total tax revenue. The buoyancy coefficient of the

individual income tax also declined but to a lesser degree. In contrast, some headway was achieved with respect to the buoyancy coefficients of excise taxes, the VAT and the corporate income tax.

Table 6
Overall Buoyancy Coefficients of Major Tax Groups, 1976-1996

	1976-1986	1987-1996	1987-1992	1993-1996
TOTAL TAX REVENUE	0.93	1.31	1.41	1.15
Individual Income Tax	0.62 a/	1.62	1.67	1.53
Corporate Income Tax	0.90a/	1.60	1.57	1.67
Sales Tax/VAT and Licenses	0.95	1.52	1.43	1.67
Excise Taxes	1.22	0.80	0.60	1.14
Import Duties	0.71	1.25	1.88	0.29

a/ refers to average for 1980-1986
Source: Author's estimates

5.4. Tax Structure

Individual Income Tax. Revenue from the individual income tax was the fastest growing item (increasing at an annual rate of 23.2 percent on the average) among the major tax groups in the period 1987-1996. The expansion was particularly rapid in 1987-1992 during which revenue from this source rose by 25.2 percent yearly on the average. The rate of increase has slowed down since then and has slipped to 20.3 percent per year on the average in 1993-1996. Nevertheless, individual income tax revenue continued to grow at a faster rate than total tax revenue and GNP. Consequently, significant gains have been achieved in terms of the revenue performance of the individual income tax. The individual income tax effort doubled from 1.0 percent of GNP in 1986 to 2.1 percent in 1996 (**Table 4**).

A comparison of the Philippine experience with those of other countries in the region shows that the Philippine individual tax effort is better than those of Indonesia and Thailand (**Table 7**). However, it is lower than those of South Korea and Malaysia during the period under study. Note that Malaysia and the Philippines have comparable statutory rate schedules but South Korea's rate schedule is generally higher than that of the Philippines.

In like manner, the buoyancy coefficient of the individual income tax improved substantially in 1987-1992. The buoyancy of the individual income tax with respect to GNP rose from an average of 0.62 in 1980-1986 to an average of 1.67 in 1987-1992. However, it declined to 1.53 in 1993-1996 (**Table 8**).

The decomposition of the overall buoyancy of the individual income tax shows that its movements were largely driven by movements in its rate buoyancy (i.e., buoyancy of individual income tax revenue with respect to compensation income and net operating surplus of households as reported in the NIA). To wit, its rate buoyancy rose from 0.59 in 1980-1986 to 1.93 in 1987-1992 but posted a slight deterioration to settle at 1.86 in 1993-1996 (**Table 8**). This indicates that while the effective tax rate increased dramatically from the period 1980-1986 to the period 1987-1992, it declined by a small amount in 1993-1996. In contrast, its base buoyancy (i.e., buoyancy of personal income with respect to GNP) decreased continuously from 1.05 in 1980-1986 to 0.86 in 1987-1992 to 0.83 in 1993-1996. This occurred as personal income grew at a slower pace than GNP in the late eighties to the first half of the nineties.

Table 7
Individual Income Tax Effort & Statutory Individual Income Tax Rates In Selected Asian Countries

	IIT Effort		Statutory IIT Rates	
	1991	1994	1985	1994
Indonesia	1.13	1.48	15-35	10-30
Malaysia	2.31	2.46	5-40	0-32
Philippines	1.67	2.02	3-70	0-35/3-30
Singapore	n.a.	n.a.	3.5-33	2.5-30
Thailand	1.89	1.80	7-55	5-37
South Korea	2.99	3.66	6-55	5-45

Source of basic data: Author's estimates revenue data from the Government Finance Statistics and GDP data from the International Finance Statistics. Statutory rates are from Yoingco 1996.

1986 Reform. The trends discussed above suggest that the modifications in the individual income tax under the 1986 Tax Reform Package has had significant positive impact on its revenue performance. It should be emphasized that the revenue impact of the various provisions of the TxRP were not unidirectional. First, it mandated a partial shift to the global approach in individual income taxation. Second, it increased the level of personal exemptions. Third, it reduced the income tax rates applicable to business/professional income. Fourth, it provided spouses the option to compute their tax liability separately.

Table 8
Decomposition of the Buoyancy Coefficient of the Individual Income Tax, 1980-1996

	1980-1986	1987-1996	1987-1992	1993-1996
Overall Buoyancy	0.62	1.62	1.67	1.53
Rate Buoyancy	0.59	1.90	1.93	1.86
Base Buoyancy	1.05	0.85	0.86	0.83

Source: Author's estimates

The first component was expected to lead to higher effective tax rates as taxpayers are made to add up their taxable income from different sources before applying the prescribed tax rate to arrive

at their tax liability.[18] In contrast, the last three tended to reduce the expected yield of the individual income tax. The second component did this by reducing the tax base. On the other hand, the third and the fourth component influenced the tax yield by effectively lowering the tax rate. On the whole, the impact of the first component appeared to have dominated those of the last three provisions of the 1986 TxRP.

Although the impact of some aspects of the 1986 reform was on the tax base, this is not reflected in our estimate of the base elasticity. This arises from the fact that the personal income data which was used as proxy tax base in this study is broader than the legal tax base because of the inclusion of personal exemptions in the former. As such, any broadening of the statutory base is translated to higher effective rates and, consequently, to higher rate buoyancy estimates.

SNITS. The Simplified Net Income Taxation Scheme (SNITS) was introduced in 1992. The SNITS (1) restricted deductions that can be claimed against gross income; (2) reverted the individual income tax system to the schedular approach; (3) increased the lowest marginal tax rate applicable to business/professional income from 0 percent to 3 percent while reducing the highest marginal tax rate from 35 percent to 30 percent. In that year, the BIR also expanded the coverage of the withholding tax system and increased the level of personal exemptions.

Limiting the items which can be charged against gross income to arrive at the taxable income broadens the tax base. The shift to the schedular approach reduces the effective tax rate by allowing allowing mixed income earners to use the lower tax brackets of each rate schedule in computing their tax liability while the impact of the compression of the rate schedule on the effective tax rate is not clear. On the one hand, the increase in the minimum marginal rate is expected to have a large weight because of the larger number of tax filers in the lower income bracket. On the other hand, the reduction in the top marginal tax rate might encourage more people to evade taxes less. In the aggregate, our findings tend to show that the SNITS has resulted in a mild deterioration of the rate buoyancy of the individual income tax system despite some concomitant improvement in the withholding tax scheme.

By disallowing taxpayers to claim certain types of expenditures as deductions from their gross income, the SNITS clearly sought to plug the leakages in the system arising from the overstatement of tax deductions, particularly those related to items where it is difficult to separate the business from the personal element as in transportation, representation and entertainment expenditures. However, using this criteria, it is not clear why certain items like property insurance, taxes on business properties, payments to independent contractors of services and the like should not

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[18]Under the schedular-type individual income tax system that was in place prior to 1986, the tax rate that was applied to business income is independent of the amount of compensation income that the taxpayer receives and vice versa. In other words, income from different sources (received by taxpayers with mixed income) were taxed starting from the bottom rates of each rate schedule. For example, a taxpayer which has taxable income amounting to P20,000 divided equally between compensation and business income will be taxed at the marginal rate of 3 percent for compensation income and 5 percent for business income under the schedular system rather than at the marginal rate of 7 percent under the global approach of the 1986 TxRP.

be included under allowable deductions under the SNITS. It has also been pointed out that the SNITS introduced certain uncertainties on what is and what is not deductible for income tax purposes. For instances, it is not clear whether the deduction for raw materials, supplies and direct labor under the SNITS encompasses all costs that would ordinarily be included in cost of goods sold or cost of sales (Sunley, et al. 1994).

Corporate Income Tax. Like the individual income tax, the corporate income tax revenue exhibited rapid growth in 1987-1996, increasing at an average yearly rate of 23.0 percent during said period compared to 14.4 percent in 1980-1986. It showed the same trend as the individual income tax - faster growth in 1987-1992 than in 1993-1996. However, its rate of increase continued to be higher than that of total tax revenue and that of GNP despite the observed deceleration. Thus, the corporate income tax effort rose from 1.4 percent of GNP in 1986 to 3.0 percent in 1996 (**Table 4**).

Meanwhile, the overall buoyancy of the corporate income tax improved significantly from 0.90 in 1980-1986 to 1.60 in 1987-1996. The bulk of the improvement occurred in 1987-1992 when the buoyancy coefficient averaged 1.57 although some incremental improvement in the buoyancy coefficient is also observable in 1992-1996 (**Table 9**).

Table 9
Decomposition of the Buoyancy Coefficient of the Corporate Income Tax
1980-1996

	1980-1986	1987-1996	1987-1992	1993-1996
Overall Buoyancy	0.90	1.60	1.57	1.67
Rate Buoyancy	1.50	0.88	0.82	1.00
Base Buoyancy	0.60	1.82	1.91	1.67

Source: Author's estimates

Partitioning the overall buoyancy of the corporate income tax shows that the rate buoyancy coefficient of the corporate income tax (with respect to the net operating surplus of private and government corporations as reported in the NIA) slid from 1.50 in 1980-1986 to 0.88 in 1987-1992 before recovering to 1.0 in 1993-1996. The 1986 TxRP effectively raised the corporate income tax rate when it abolished the dual rate schedule of 25 percent and 35 percent in favor of a unified rate set at 35 percent. However, EO 226 (Omnibus Investments Code of 1987) introduced the income tax holiday as a principal feature of the investment incentive package. This move led to a narrowing of the corporate income tax base.[19] In addition, other special laws providing for the special tax treatment of various sectors were passed in more recent years. Our tax buoyancy estimates thus indicate that these exemptions tended to dominate the effects of the higher tax rate.

[19]This contraction of the tax base is not captured by our estimate of the base elasticity.

On the other hand, the base buoyancy of the corporate income tax surged from 0.60 in 1980-1986 to 1.91 in 1987-1992 before declining to 1.67 in 1993-1996, showing movements in corporate income to be generally responsive to changes in GNP.

Moreover, cross country comparison confirms that the corporate income tax is one of the weakest points in the Philippine tax system. The Philippine statutory corporate income tax rate is generally higher than those of other countries in the region (**Table 10**). Despite this, the Philippine corporate income tax effort continues to be lower than those of Indonesia, Malaysia, and Thailand in the first half of the 1990s.[20] However, the Philippine did managed to overtake South Korea in terms of corporate income tax effort in 1994.

Table 10
Corporate Income Tax Effort & Statutory Corporate Income Tax Rate in Selected Asian Countries

	Corporate IT Effort		Statutory Corporate IT Rates	
	1991	1994	1985	1994
Indonesia	9.37	6.47	15/25/35	10/15/30
Malaysia	7.26	6.89	35	30
Philippines	1.94	2.60	25/35	35
Singapore	n.a.	n.a.	31	27
Thailand	2.91	2.64	35/45	30
South Korea	2.13	2.41	20/30	18/30

Source of basic data: Author's estimates using revenue data from the Government Finance Statistics and GDP data from the International Finance Statistics. Statutory rates are from Yoingco 1996.

Import Duties. Revenue from import duties showed a sharp expansion in 1987-1992, increasing at 28.3 percent per annum on the average compared to 12.0 percent in 1975-1986. (In fact, tariffs were the fastest growing source of revenue in 1987-1992.) However, the rate of growth of tariff revenue plunged to 3.8 percent yearly on the average in 1993-1996 making it the most sluggish moving revenue source during this period.

Consequently, import duties plummeted from 3.0 percent of GNP in 1980 to 2.2 percent in 1986. However, it recovered lost ground in 1987-1992. Thus, tariff revenue rose incessantly during that period to peak at 4.2 percent of GNP in 1992. But it suffered another reversal in 1993-1996 such that by 1996 tariff revenue amounted to only 3.0 percent of GNP (**Table 4**).

Reflecting the movements described above, the overall buoyancy of import duties posted a substantial improvement in 1987-1992. It rose from a low of 0.63 in 1980-1986 to a high of 1.88 in 1987-1992 (**Table 11**). However, the situation has worsened since then with the buoyancy coefficient dropping to 0.29 in 1993-1996.

[20]It should be pointed out that in both Indonesia and Malaysia corporate income tax revenue includes the government's share in the income of firms engaged in the extraction and developments of their oil reserves.

The trend in the overall buoyancy coefficient is largely determined by movements in its rate elasticity.[21] To wit, the rate elasticity (with respect to total imports) was enhanced from 0.85 in 1980-1986 to 1.28 in 1987-1992. But this development was reversed in 1993-1996 when the rate elasticity averaged a low of 0.14.

Table 11
Decomposition of the Buoyancy Coefficient of Import Duties, 1980-1996

	1980-1986	1987-1996	1987-1992	1993-1996
Overall Buoyancy	0.63	1.25	1.88	0.29
Rate Buoyancy	0.85	0.74	1.28	0.14
Base Buoyancy	0.74	1.69	1.46	2.08

Source: Author's estimates

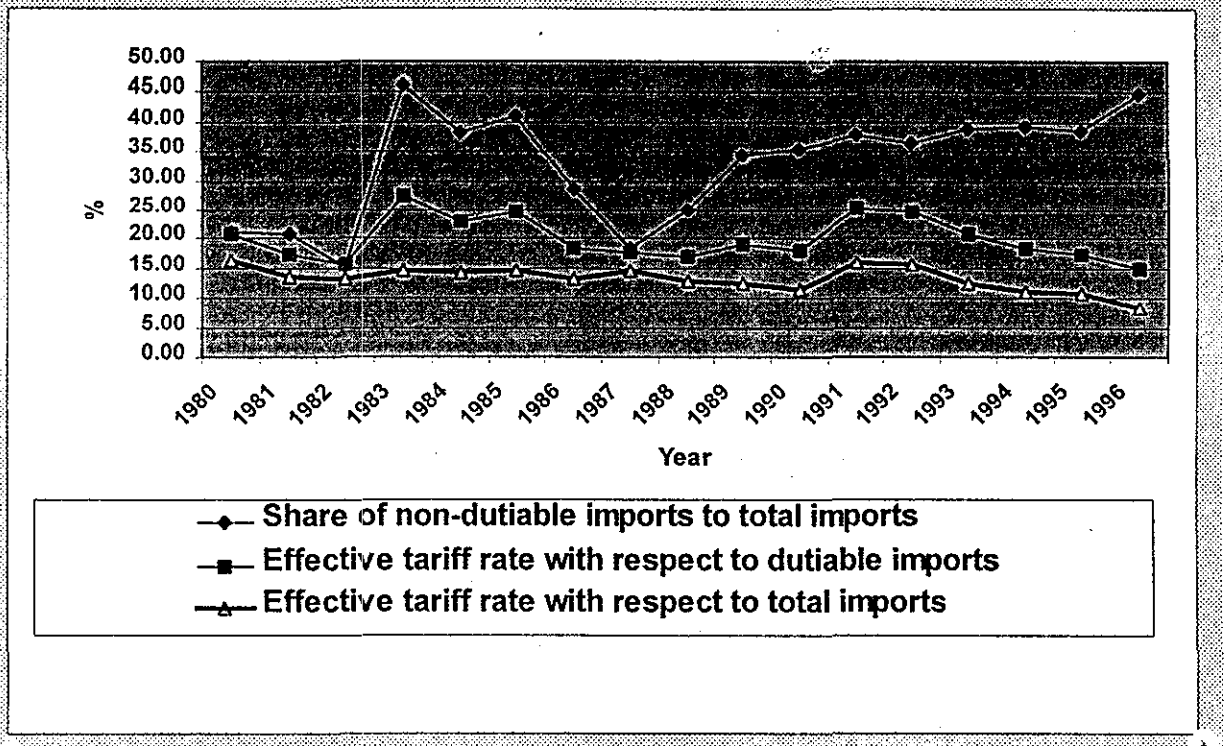
The low rate elasticity in 1981-1986 may be traced to the tariff reductions brought about by the implementation of the first phase of the Tariff Reform Program during that period. However, the negative revenue impact of this policy shift was moderated by the imposition of an import surcharge in 1983-1985 in response to the balance-of-payment crisis in that period. This is seen in the rise in the effective tariff rate in 1983-1985 after posting a decline in 1981/1982 (**Figure 4**). In contrast, the dramatic improvement in the rate buoyancy in 1987-1992 may be attributed to a number of factors. First, there were no significant reductions in tariff rates during this period. Second, the withdrawal of duty exemption privileges granted to GOCCs and private corporations under numerous special laws in 1985 led to a broadening of the tax base. **Figure 4** shows a decline in the share of non-dutiable imports to total imports in 1986-1990.[22] Third, the imposition of the import surcharge in 1990 through 1992 and the Estanislao peso (a levy equal to P1.00 per liter of crude oil/petroleum product importation) in 1991 effectively increased the tariff rate and enhanced the rate buoyancy in 1987-1992.

On the other hand, the imposition of the Leung peso (an additional imposition of P1.00 per liter of crude oil/petroleum product importation) in 1994 and the tariffication of the quantitative restrictions that were lifted in 1992/1993 under EO 8 were not enough to completely counteract the expected revenue loss from the implementation of the second round of tariff reductions under TfRPII (EO470) in 1991-1995. Consequently, **Figure 4** indicates that the effective tariff rate with respect to both dutiable imports and total imports dropped from 1993-1995 even as the share of dutiable imports to total imports remained constant.

[21] Its base elasticity increased continually from 0.74 in 1980-1986 to 2.08 in 1993-1996.

[22] Since the proxy tax base used in this study is total imports, this expansion in the statutory tax base is translated to a higher effective tariff rate.

FIGURE 4
EFFECTIVE TARIFF RATES[a/], 1980 - 1996



[a/] Effective tariff rate computed based on actual collection

Meanwhile, cross country comparison shows that the Philippines has the highest tariff revenue effort in the region indicating its continued heavy reliance on this revenue source (**Table 12**). While the gap in the Philippine tariff effort and those of its neighbors has narrowed down by 1994, the Philippine tariff effort continues to be the highest in the region. It is at least three times as large as those of Indonesia, South Korea and Singapore and is about 10 percent higher than those of Malaysia and Thailand. This suggests the extent of the adjustment that will be necessary as the Philippines moves into a more internationally competitive stance in the medium term.

Excise taxes.[23] Excise taxes proved to be the most resilient revenue source in 1980-1986. It posted the highest rate of growth amongst the major tax groups with its 22.5 percent average annual rate of increase during the period. In contrast, it exhibited the most sluggish growth (9.1 percent on the average) in 1987-1992. While the revenue yield of excise taxes picked up in 1993-1996 with an

[23]Excise taxes are imposed on petroleum products, alcoholic beverages, cigars and cigarettes, fireworks, cinematographic films, automobiles, and other products classified as non-essentials.

average annual growth rate of 15.0 percent, its rate of increase continued to lag behind those of all other taxes with the exception of tariffs.

Table 12
Tariff Effort in Selected Asian Countries, 1991/1994
(In percent of GDP)

	1991	1994
Indonesia	0.94	1.07
Malaysia	3.17	3.04
Philippines	**4.15**	**3.47**
Singapore	0.57	0.48
Thailand	3.59	3.16
South Korea	1.53	1.13

Source of basic data: Author's estimates using revenue data from the Government Finance Statistics and GDP data from International Finance Statistics.

Reflecting these movements, excise taxes amounted to 2.1 percent of GNP on the average in 1976-1986. After peaking at 3.4 percent in 1987, it contracted continuously to 2.0 percent in 1992. It then posted slight gains, reaching 2.1 percent in 1996 (**Table 4**).

In like manner, its overall buoyancy deteriorated from 1.40 in 1980-1986 to 0.60 in 1987-1992. It has recovered since then to settle at 1.14 in 1993-1996. The movement in the overall buoyancy coefficient of the excise tax coincided with that of its rate buoyancy (with respect to the gross value added of alcoholic products, tobacco products and petroleum products). Note that its base buoyancy has been declining monotonically since 1980 (**Table 13**).

Table 13
Decomposition of the Buoyancy Coefficient of Excise Taxes, 1980-1996

	1980-1986	1987-1996	1987-1992	1993-1996
Overall Buoyancy	1.40	0.80	0.60	1.14
Rate Buoyancy	1.32	1.07	0.66	2.48
Base Buoyancy	1.06	0.74	0.92	0.46

Source: Author's estimates

The low rate buoyancy of excise taxes in 1987-1992 may be attributed to a number of factors. First, the yield of excise tax on petroleum products was diminished when the excise tax on fuel oil was abolished in 1987 and the effective tax rates on other petroleum products were reduced in 1990 in an effort to cushion the economy from the surge in the world market price of crude oil during the Gulf war. Second, some cigarette manufacturers avoided paying the correct amount of taxes through transfer pricing and the misclassification of brands. Some analysts estimated the revenue loss at about P3 billion per year (Monsod 1993).

In contrast, the higher rate elasticity in 1993-1995 may be traced to the passage of Republic Act (RA) 7654 in 1993. RA 7654 effectively raised the excise tax on cigars and cigarettes by (1) increasing the *ad valorem* tax on cigars from 5 percent to 10 percent; (2) introducing a floor tax on

cigarettes (i.e., the imposition of a specific tax of P3.00/P5.00 per pack or 45/55 percent *ad valorem* tax, whichever is higher on Class A/B cigarettes); and (3) shifting from the manufacturer's (or importer's) registered wholesale price to the constructive or actual manufacturer's (or importer's) wholesale price (MWSP or IWSP), whichever is higher, as the basis of the *ad valorem* tax on cigars and cigarettes.[24] In effect, the use of the constructive price raises the revenue yield from the excise tax on cigars/cigarettes by 20 percent relative to the old system. The huge drop in the base buoyancy from 0.92 in 1987-1992 to 0.35in 1993-1995 may be indicative of the laggardly growth of the tax base relative to GNP during the latter period. This raises the issue of whether the present excise tax rates are too high such that they exert a negative impact on demand and, consequently, on tax revenues.

A comparison of the excise tax effort of the different countries in the region indicates that while the Philippine excise tax effort is higher than those of Indonesia, Singapore and South Korea, it is comparable to that of Malaysia and lower than that of Thailand (**Table 14**).

Table 14
Excise Tax Effort in Selected Asian Countries, 1991/1994
(in percent of GDP)

	1991	1994
Indonesia	0.98	0.82
Malaysia	2.20	2.32
Philippines	**2.04**	**2.34**
Singapore	1.05	0.95
Thailand	3.82	3.76
South Korea	1.57	2.11

Source of basic data: Author's estimates using revenue data from the Government Finance Statistics and GDP data from International Finance Statistics.

Sales Tax/VAT and Licenses. Sales tax and licenses consistently posted a laudable performance in 1987-1996. During this period, revenues from these taxes grew at a faster rate than GNP and total tax revenues of the central government. This represents a large improvement relative to the laggardly growth it exhibited in 1980-1986. As a result, revenues from sales tax and licenses rose from a low of 1.5 percent of GNP in 1984 to 2.2 percent in 1986 to 3.0 percent in 1992 to 4.1 percent in 1996 (**Table 4**).

The overall buoyancy coefficient of the sales tax/VAT/licenses also exhibited remarkable improvement in 1987-1992, increasing three-fold to 1.52 from 0.45 in 1980-1986. Moreover, it again registered an improvement in 1993-1996 when its buoyancy coefficient averaged 1.67 (**Table 15**). This occurred despite the deterioration in its base buoyancy in the late 1980s and early 1990s because of large positive increments in its rate buoyancy (with respect to GDP less exports) during the same period.

[24]Class A cigarettes are locally manufactured cigarettes bearing foreign brands while class B cigarettes are those that bear local brands. On the one hand, constructive MWSP/ISWP is defined as the price including the excise tax and VAT at which the locally manufacture or imported cigar/cigarettes are offered for sale to wholesalers or distributors as fixed by the manufacturer/importer and registered with the BIR plus a 20 percent mark-up on such price. On the other hand, the actual MWSP/ISWP means the price at which the purchaser actually pays or is obligated to pay the manufacturer/importer in consideration of the sale/barter/exchange of cigars/cigarettes.

The VAT's introduction in 1988 largely accounted for the creditable revenue performance of sales tax/VAT/licenses. Admittedly, the first two years of its implementation were problematic. The ratio of revenue from sales tax/VAT/licenses to GNP dropped from 2.9 percent of GNP in 1987 to 2.5 percent in 1988 and 2.8 percent in 1989. But it has risen consistently since then indicating that the VAT is a better revenue earner than the sales tax. Moreover, the implementation of the EVAT in 1996 is projected to be revenue enhancing.

Table 15
Decomposition of the Buoyancy Coefficient of Sales Tax/VAT, 1980-1996

	1980-1986	1987-1996	1987-1992	1993-1996
Overall Buoyancy	0.45	1.52	1.43	1.67
Rate Buoyancy	0.46	2.04	1.60	3.37
Base Buoyancy	0.98	0.74	0.89	0.50

Source: Author's estimates

Table 16 shows that the Philippines' sales tax/VAT rate is generally equal to those of other Asian countries. However, its sales tax/VAT effort is lower than those of Indonesia and South Korea. While the Philippine VAT effort is higher than that of Thailand, its statutory VAT rate is higher than the latter's. Consequently, the Philippines registers the lowest efficiency ratio (VAT effort ratio divided by the basic rate) amongst all the countries in the region.[25]

Table 16
Statutory VAT Rates, Sales Tax/VAT Effort & Efficiency Ratio in Selected Asian Countries, 1991/1994

	Statutory VAT Rates	VAT Effort		Efficiency Ratio	
		1991	1994	1991	1994
Indonesia	10	3.92	4.80	0.39	0.48
Malaysia	0	2.13	2.23		
Philippines	10	2.85	3.33	0.28	0.33
Singapore	3	n.a.	n.a.		
Thailand	7	4.05	3.18	0.59	0.45
South Korea	10	3.83	4.27	0.38	0.43

Source of basic data: Author's estimates using revenue data from the Government Finance Statistics and GDP data from the International Finance Statistics. Statutory rates are from Yoingco 1996.

5.5. Tax Evasion

The previous sections indicate that changes in both the structure of the tax system and its administration in 1986-1996 greatly improved the central government's revenue performance.

[25]The efficiency ratio measures the amount of tax revenue (as a proportion of GDP) raised per percentage point of the statutory basic rate.

However, estimates of tax evasion in recent years indicate that vast opportunities still exist for collecting more revenues, without the need to raise tax rates or to impose new taxes. It should also be emphasized that tax evasion weakens the progressivity of even the best-designed tax systems and, thus, discouraging taxpayers from paying correct taxes.

In recent years a number of measures aimed at improving tax administration have been put in place. These include: (1) expanded withholding tax coverage; (2) imposition of higher penalties for tax evasion; (3) publication of list of large tax payers; (4) creation of large taxpayers unit to improve monitoring; (5) and (6) streamlining of the BIR including the re-organization according to functions and the shift towards greater decentralization. However, the evasion estimates presented below tend to show that while the measures put in place in recent years clearly in the right direction, they have limited success in curbing evasion with the possible exemption of the expanded withholding tax system.

Evasion of the Individual Income Tax. **Table 17** presents revised and updated estimates of the potential revenue from the individual income tax. It shows a general downward trend in the individual income tax evasion rate in 1985-1996 despite some year to year fluctuations. The evasion rate fell from 73.1 percent in 1985 to 63.7 percent in 1992 to 52.6 percent in 1996.

Table 17
Level of Tax Evasion from the Individual Income Tax, 1985-1996

Year	Evaded Taxes			Collection Rate			Evasion Rate		
	Total (Pmillion)	Fr. Salaries (Pmillion)	Fr Bus/ Prof Inc (Pmillion)	Total %	Fr. Salaries %	Fr Bus/ Prof Inc %	Total %	Fr. Salaries %	Fr Bus/ Prof Inc %
1985	16037.6			26.9			73.1		
1986	9564.7			38.3			61.7		
1988	19940.3			28.5			71.5		
1990	29994.3			35.1			64.9		
1991	29599.46	9342.60	20256.86	39.96	62.78	16.28	60.04	37.22	83.72
1992	37108.14	5239.58	31868.56	36.29	75.84	12.82	63.71	24.16	87.18
1993	31743.61	9382.64	22360.97	42.38	65.32	20.24	57.62	34.68	79.76
1994	24529.98	6412.14	18117.84	53.80	77.05	27.95	46.20	22.95	72.05
1995	35651.09	18584.65	17066.44	48.26	56.76	34.19	51.74	43.24	65.81
1996	48510.09	19748.39	28761.70	47.38	64.23	22.23	52.62	35.77	77.77

Source : Actual Revenue from Bureau of Internal Revenue
Potential Revenue, author's estimates based on Appendix Table 5a-5f

note: nia income distributed according to breakdown between wages and nos in fies

The passage of the SNITS has had a positive impact on the collection efficiency of the business/professional individual income tax. Some 20.2 percent of the potential revenue from business/professional income tax was collected in 1993 compared to only 12.8 percent in 1992. (The

impact of the SNITS was first felt in 1993 although it was passed in 1992 yet. This is so because individual income tax payments arising from business/professional income are largely collected in the year after the income is earned.) Since then, this number has risen consistently to reach a peak of 34.2 percent in 1995 but it deteriorated to 22.2 percent in 1996. Despite these improvements, the evasion rate for business/professional income tax remains high -77.8 percent in 1996. This appears to confirm anecdotal evidence that under-reporting of income contributes more to tax evasion than excessive deductions.

In comparison, estimates of the collection rate for the individual income tax on compensation income are consistently higher - ranging from 56 percent to 77 percent. However, the collection rate for compensation income is quite erratic. Significant gains were made in 1992 when the collection rate rose to 75.8 percent from 62.8 percent in 1991. Subsequently, the collection rate declined to 65.3 percent in 1993 before peaking at 77.1 percent in 1994. Then it dipped to a low of 56.8 percent in 1995 but recovered somewhat to settle at 64.2 percent in 1996. It appears that the success of the implementation of the expanded withholding tax system is rather spotty. Moreover, its record in the last two years is lower than in that in the earlier years.

Uncollected revenue from the individual income tax amounted to P48.5 billion in 1996. This is equal to 13.2 percent of national government tax revenue for the year and 2.1 percent of GNP. This suggests that the potential revenue gains that are forthcoming from the enhancement of collection/enforcement mechanisms in the area of individual income taxation are substantial indeed.

On the other hand, the problem of evasion appears to be worse when it is viewed from in terms of the filing rate. **Table 18** shows that the actual number of individual income tax filers in 1991-1996 was about 20 percent of potential number of tax payers on the average. Moreover, a perceptible decline in the filing rate since 1992 is observed.

Table 18
Potential and Actual Number of Individual Income Tax Filers, 1991-1996

Year	Actual Number of Individual Income Taxfilers	Potential Number of Individual Income Taxfilers	Actual/ Potential (%)
1991	2,747,367	13,284,849	20.68
1992	2,647,583	11,247,211	23.54
1993	2,322,457	11,673,726	19.89
1994	2,557,797	11,978,132	21.35
1995	2,578,820	13,268,060	19.44
1996	2,668,806	13,874,439	19.23

Source: Potential number, Appendix Table 5a-5f
Actual number, BIR Annual Reports

Evasion of the Corporate Income Tax. Estimates of the evasion rate for the corporate income tax indicate no clear improvement in the period 1991-1996. The collection rate slid from 65.5 percent in 1991 to 56.9 percent in 1993 (**Table 19**). While the collection rate recovered slightly in more recent years, its 1996 level (61.2 percent) is still lower than its best record (65.5 percent) to date. Consequently, the level of corporate income tax evasion reached P43.1 billion (11.7 percent of national government revenue or 1.7 percent of GNP) in 1996.

Table 19
Potential Revenue from the Corporate Income Tax and the Level of Tax Evasion, 1991-1996

Year	Evaded Taxes (Pmillion)	Collection Rate %	Evasion Rate %
1991	12706.85	65.46	34.54
1992	20243.57	60.22	39.78
1993	27011.51	56.93	43.07
1994	31062.25	59.26	40.74
1995	35128.93	60.04	39.96
1996	43124.44	61.21	38.79

Source: Potential revenue, author's estimates
Actual revenue, BIR Annual Reports

In like manner, the filing rate dropped from 65.5 percent in 1991 to 61.2 percent in 1995 (**Table 20**).

It should be noted, however, that these estimates tend to be weak for two reasons. On the one hand, they tend to be on the low side because the corporate income estimates of the NIA were based on a benchmark ratios that date back to 1986. On the other hand, they tend to overestimate the evasion rate to the extent that no adjustment was made to account for the number of BOI-registered firms that enjoy the income tax holiday.

Table 20
Potential and Actual Number of Corporate Income Tax Filers, 1991-1996

Year	Actual Number of Corporate Income Taxfilers	Potential Number of Corporate Income Taxfilers	Actual/ Potential
1991	43685	66736	65.46
1992	49972	82982	60.22
1993	56277	98855	56.93
1994	65923	111243	59.26
1995	69414	115621	60.04
1996	71325	116522	61.21

Source: Potential number , author's estimates
Actual number, BIR Annual Reports

Evasion of the VAT. In contrast, estimates of potential revenue for the VAT indicate perceptible gains in the collection rate. Thus, the collection rate rose from 31.8 percent in 1985 to 40.8 percent in 1992 to 49.2 percent in 1996 - an increment of some 8 percentage points in the latter period (**Table 21**). Conversely, the evasion rate declined during the period. This improvement is largely driven by gains made in the administration

of VAT on domestic sales. Note that while the collection rate for the VAT on domestic sales is consistently lower than that on imports latter's record is erratic during the entire period under study.

Despite this, the potential gains from an administrative reform of the VAT system continue to be large. In 1996, the level of VAT evasion amounted to 21.6 percent of national government taxes or 3.4 percent of GNP.

Table 21
Level of Tax Evasion from VAT, 1985-1996

Year	Evaded Taxes			Collection Rate			Evasion Rate		
	Total (Pmillion)	Fr. Domestic Sales (Pmillion)	Fr. Imports (Pmillion)	Total %	Fr. Domestic Sales %	Fr. Imports %	Total %	Fr. Domestic Sales %	Fr. Imports %
1985	6432			31.80			68.20		
1989	26279.5			27.80			72.20		
1990	26315.7			33.20			66.80		
1991	30347.3			33.20			66.80		
1992	46574.91	30995.58	15579.33	40.80	36.88	47.30	59.20	63.12	52.70
1993	46708.10	28569.58	18138.52	47.11	41.41	54.14	52.89	58.59	45.86
1994	55299.97	28769.91	26530.06	45.81	46.95	44.52	54.19	53.05	55.48
1995	61623.49	33778.38	27845.11	48.94	46.68	51.43	51.06	53.32	48.57
1996	79710.98	45802.31	33908.67	49.17	47.19	51.62	50.83	52.81	48.38

Source: Author's estimates based on Appendix Table 6a-6e and Appendix Table 7

6. PROSPECTS

6.1. Consistency of Tax Effort Targets with 22% Goal for Year 2000

Table 22 presents the evolution of tax effort targets set by the GOP in 1992-1998. It shows that the tax projections used for budget presentation (i.e., targets set 6 months prior to the start of the reference year) were consistently higher than the revised targets (i.e., those set 6 months after the start of the reference year). Despite this downward adjustment in the tax effort goals during the projection period, the government exceeded its revised target in only 2 out of 6 years. Moreover, the government failed to reach its original projection in all 6 years.

Table 22
Comparison of Tax Effort Target, 1992-1998

	1992	1993	1994	1995	1996	1997	1998
Target							
Set 6 months prior to start of ref. year		16.3	16.2	15.8	16.2	17.4	17.6
Set 6 months after start of ref. year	15.6	14.8	15.9	15.6	16.3	16.8	
Actual	15.1	15.3	15.6	15.8	16.1	16.3	

Source: Department of Budget and Management, Budget of Expenditures and Sources of Financing, various years

It is also noteworthy that the tax effort target declined in 1994 and 1995. In contrast, tax effort was projected to increase by 1.2 percentage points in 1997 with the passage of the Comprehensive Tax Reform Package (CTRP). This was largest projected one-year increment in the tax effort. Given the benefit of 20/20 vision on hindsight, we know that only portions of the CTRP was legislated in 1997 making the original 1997 tax effort target the most optimistic or unrealistic (depending on one's persuasion).

The tax effort target was set to reach 17.6 percent of GNP in 1998. However, recent reports indicate that this figure did not take into account the probable perverse impact of the current economic turmoil in the region on tax mobilization. Thus, even if the on-going computerization efforts at the BIR and BOC result in a 2-percentage point rise in the tax effort[26] (clearly a record increment if achieved), the over-all tax effort target will barely touch the 20 percent watershed in year 2000. Moreover, a 20 percent tax effort is still 2 percentage points away from the DOF's 22 percent tax effort goal for the end of the millennium.[27] Undoubtedly, additional special efforts are needed for the GOP to meet its original tax effort target.

6.2. Comprehensive Tax Reform Program

Description. In 1996/7, the government embarked on another round of tax reform under the Comprehensive Tax Reform Program (CTRP). The principal objectives of the CTRP are: "(1) to widen the tax base; (2) to simplify the tax structure to minimize leakages from undeclared revenues, overstated deductions and corruption; and (3) to make the system more elastic and easier to administer to ensure adequate revenues in the future" (DBM 1996). It has three principal components, namely: income tax reform, excise tax reform, and fiscal incentives reform.

In the past year or so, Congress passed legislation putting in place some of the components of the CTRP. For instance, Republic Act (RA) 8184 which provided for the restructuring of the excise tax on petroleum products hand in hand with tariff restructuring in the sector was enacted into law in June 1996. Meanwhile, RA 8240 which reverted the excise tax on fermented liquor, distilled spirits and cigarettes back to the specific scheme from the *ad valorem* system took effect in January 1, 1997. The automatic inflation adjustment provision outlined in the original proposal prepared by the DOF and intended to make the tax more elastic was not included in RA 8240.

Another law (RA 8241 which also took effect in January 1, 1997), on the other hand, expanded the list of items that are exempted under the EVAT to include printing, publication, importation or sale of books , newspaper, magazine, review or bulletin, operators of taxicabs, rent-a-car companies, operators of tourist buses, small radio and television broadcasting franchise grantees, sale of real properties used for low-cost and socialized housing and lease of residential unit with a monthly rental not exceeding P8,000 per month. It also allows firms engaged in the processing of sardines, mackerel, milk, refined sugar, and cooking oil to claim a presumptive input tax credit

[26]If achieved, this is clearly a record increment. It represents roughly 35% of the amount of (individual income , corporate income and value added) taxes evaded.

[27]This figure was established in a policy dialogue between the USAID and DOF sometime in 1993.

(creditable against their output tax) equal 1.5 percent of the gross value of primary agricultural product inputs.

Then, towards the end of 1997, Congress passed a new income tax law. The new income tax package includes the following changes in the income tax structure: (1) increase in personal exemption levels from P9,000, P12,000 and P18,000 for single, head of family and married income earner, respectively, to P20,000, P25,000 and P32,000 an increase in the exemption for each dependent from P5,000 to P8,000; (2) compensation and business/profession income subjected to the same rate schedule; (3) restructuring of the rate schedule applicable to compensation income from one with 11 brackets with marginal rates ranging from 0 to 35 percent (and the rate schedule applicable to business/professional income from one with 5 brackets ranging from 3 to 30 percent) to one with 7 brackets with marginal rates ranging from 5 to 32 percent; (4) re-imposition of the 15 percent tax on dividends received by individuals from domestic corporations; (5) reduction of the corporate income tax rate from 35 percent to 32 percent; (6) introduction of a minimum corporate income tax equal to 2 percent of gross income; (7) adoption of a fringe benefit tax of 32 percent payable by the employer; and (8) imposition of a 20% tax on reverse repurchase agreements (**Appendix Table 8**).

Meanwhile, the fiscal incentive component of the CTRP has not yet been scheduled for discussion in Congress except to the extent that floor debate for the income tax component touched on income tax exemptions. The proposed rationalization of fiscal incentives calls for the (1) limiting in the grant of fiscal incentives to industries that are exporting, those with export potential (i.e., catalytic), and those that are to undergo industrial adjustment; (2) application of a budget ceiling for fiscal incentives; (3) provision of a more limited package of incentives for industries; (4) initial withdrawal of all fiscal incentives provided under special laws; and (5) universal application of accelerated depreciation and net operating loss carry-over to all firms.

Assessment of the Revenue Impact of CTRP. The restructuring of the excise tax on petroleum products which consolidated the oil levy and part of the tariff into the specific tax is expected to yield P410 million (or 0.02 percent of GNP) of incremental revenue in 1997 (DBM 1996). On the other hand, the modifications on the excise tax on cigarettes, fermented liquor and distilled spirits is expected to raise additional revenue amounting to P7 billion (0.27 percent of GNP) in 1997 (Senate Ways and Means Committee as reported in Business Daily, November 7, 1996). Of this amount, P4.2 billion will come from cigarettes, P1.2 billion from fermented liquor and P1.6 billion from distilled spirits.[28] Meanwhile, it is estimated that the amendments to the EVAT law will lead to a P1.52 billion (or 0.06 percent of GNP) reduction in national government revenues. However, actual tax collections totalled P412.2 billion in 1997 (roughly lower by 0.1 percent of GNP than the P414.4 billion one would expect if the new tax measures were not included and if a simple tax buoyancy model is used to project total tax take). Thus, the revenue gain from the first to measures appear to be over-rated.

[28]Note that the new excise tax law did not contain an automatic inflation adjustment mechanism that will allow the revenue yield to be indexed to changes in prices. Instead it allows for a one-time 12 percent increase in the specific tax rates after three years from date of its effectivity. As such, RA 8240 will tend to reduce the buoyancy of these taxes.

On the other hand, the new income tax law is projected to result in additional revenues equal to P8.5 billion (or 0.3 percent of GNP in 1998 (**Table 23**). However, **Table 24** shows that the new income tax law national government tax effort will reach 16.5 percent of GNP in 2000. Moreover, the withdrawal of the income tax holiday from the tax incentive statutes, the tax effort is calculated to increase by 0.3 percentage points of GNP, reaching 16.8 percent of GNP in that year. This figure is below the IMF target tax effort of 18 percent for said year.

Table 23
Revenue Gain from New Income Tax Law, 1998

	Bicam 1998
Interest on bank deposits	
ind	-202.27
corp	0.00
Interest on T-Bills	
ind	0.00
corp	0.00
Capital gains on real property	
ind	324.00
corp	583.20
Capital gains on unlisted stocks	
ind	-56.45
corp	-508.06
Capital gains on listed stocks	
ind	0.00
corp	0.00
Initial public offering	
ind	2.63
corp	23.68
Dividends	383.57
IIT	2211.96
housing loans	0.00
Interest on FCDU	1954.82
CIT	-2486.74
NOLCO	-700.00
Accelerated depreciation	0.00
Fringe benefit	2400.00
Tax on repo	1580.00
Tax arbitrage	3020.00
TOTAL	8530.33
REV LOSS	0.00
%GNP	

6.3. Need for Further Improvements in Tax Administration

High rates of tax evasion as well as the lower than expected revenue impact of the CTRP indicate that government cannot continue to rely on changes in tax structure to address fundamental problems in tax administration. In other words, they suggest the urgent need to provide what are essentially administrative solutions to tax administration issues. In this regard, the following items appear to be the more important ones.

Improved Monitoring of Stopfilers. Available data show that only 78 percent of all VAT registrants filed returns in 1994. While no comparable figures are available for other types of taxes, key informant interviews suggest that this is

Table 24
Revenue Projections Using Bicameral Version, 1997-2000 a/
(In million pesos)

	1997	1998	1999	2000
Tax Revenue Without New Measures	414371.67	470506.60	537370.88	613752.77
Revenue From New Measures in 1997	5840.34			
Oil Excise	410.00			
Beer/Cigarette Excise	7000.00			
Amended EVAT	-1569.66			
Total Tax Revenue With 1997 Measures	412165.00	468000.99	534509.20	610484.34
Percent of GNP	15.80	15.82		
Additional Revenue From Proposed New Measures in 1998		8530.32		
Individual Income Tax		2211.96		
interest deductibility of housing loans		0.00		
Tax on Interest Income		-202.27		
Tax on interest on FCDU deposits		1954.82		
Tax on Dividend		383.57		
Capital Gains Tax on real property		907.19		
Capital Gains Tax on stocks		-538.20		
Corporate Income Tax		-2486.74		
NOLCO		-700.00		
Accelerated Depreciation				
Fringe Benefit Tax		2400.00		
Tax on Repos		1580.00		
Correction for Interest Tax Arbitrage		3020.00		
Total Tax Revenue With 1998 Measures		476531.31	547083.40	628300.28
Percent of GNP		16.11	16.30	16.51
Withdrawal of Tax Holiday		903.00	4200.00	11140.00
Total Tax Revenue With 1998 Measures and W/drawal of Tax Holiday		477434.31	551283.40	639440.28
Percent of GNP		16.14	16.43	16.80

a/ assumes tax buoyancy of 1.15 based on historical level in 1993-1996 also assumes Bicameral version is followed.

a problem that is common to all types of taxes. The importance of and the inadequacy of the present system of monitoring stopfilers is exemplified by this story on how the highly-publicized tax diversion scam which occurred recently was uncovered. Apparently, the scam was first noted when one RDO which has a functioning manual taxpayer monitoring system in place noticed that some taxpayers have failed to pay their taxes. After follow-up calls were made on said taxpayers, the RDO was informed that the taxpayers already paid their taxes. And the rest is history. However, it is worth noting that the large amount involved in the scam indicate that it took a while before it was discovered. This implies that many RDOs have weak monitoring systems in place.

To enhance monitoring of stopfilers, it is critical for the BIR to have a taxpayer masterlist. The absence of such a list has been a persistent problem to date. The full implementation of the BIR computerization program (or the integrated tax system) in 1999 is expected to address this lack. However, the installation and use of manual systems in the meantime is imperative. Also, under the computerized regime, it is important that the RDOs learn how to use the system properly so that they can fully maximize its capabilities. Initial reports in the pilot roll-out areas show that some RDOs resort to requesting the Data Center to print out the list of stopfilers and generate reminder letter even if the system allows them to do these tasks themselves.

Installation of Selective Audit Policy and Procedures. In principle, the objective of tax audits is not so much to increase enforcement revenue as to improve voluntary compliance. The BIR's audit function is not only central to its effectiveness as an institution but also key to the poor public image of the BIR.

Within the BIR, the audit function is subject of great debate and some ambivalence even amongst its key officials. On the one hand, many revenue officers requests authority to examine all tax returns even if it is beyond their ability to complete, much less outside their capability to subject to quality audit (Deoferio 1997). At the same time, while some taxpayers have not been examined at all, many others have been subject to annual tax audits despite high tax compliance (UPEcon Foundation 1995). This has led to the widespread perception that tax audits are being used to systematically harass many taxpayers.

On the other hand, some key officials, from time to time, have tended to disregard this tool. Thus, one hears of protracted periods during which the issuance of Letter of Authority (for the conduct of audit) was suspended. While the BIR officially supports a program of selective audit (BIR Annual Report 1995), there appears to be some inconsistency between policy pronouncement and actual practice. For instance, Revenue Memorandum 26-94 prioritizes the audit of large taxpayers. "This not only prejudices said large taxpayers but also sends the wrong signal about being big and successful" (UPEcon 1995).

The experience in countries with modern tax administration tends to show that tax audit is not an all or nothing proposition. In fact, it is the opposite. One of the principal ingredients to enhancing the effectiveness of tax audits is the implementation of a selective audit program. The key to these programs is a means of selecting taxpayers who are shown to have the highest

probability of under-reporting their tax liability. Usually this procedure is aided by the use of statistical analysis. The computerized BIR tax system when it is fully implemented is expected to have this capability. However, it is one thing to know that there are provisions in the integrated tax system for the incorporation of a selective audit program, it is another thing to find out "whether the selection system fulfills the requirements of the Bureau before it becomes operational" (TAAP Memorandum May 30, 1997) or whether a methodical audit selection system has been put in place at all.[29]

Third Party Information (TPI). Evasion estimates of the income tax tend to show that the bulk of the problem stems from under-reporting of receipts/income. Third Party Information is one way of addressing this issue.

The collection and analysis of Third Party Information for oil/gas dealers under the TAAP has been well-received by BIR officials. It has also generated interest in extending its application to other sectors.

The Deputy Commissioner for Operations, however, disagrees with the TAAP advise that data from the TPI be used to assess additional taxes through the issuance of LAs as this may lead to harassment of taxpayers. She said she would rather encourage the taxpayers concerned to file amended returns. In either case, it is important that a good internal control system be put in place to keep track of how data gathered from the TPI are used and to ensure that the same are not used to harass taxpayers. Also, it is important that data generated from the TPI be used to develop audit procedures and techniques, standards and norms specific to the concerned sectors/industries.

Improved Performance Evaluation System for Revenue Officers. There is a general agreement that one of the most serious problems facing the BIR has to do with its personnel. For one, the public image of the BIR is one of inefficiency, if not corruption. Coupled with the low pay scale, this has resulted in the low morale of BIR personnel.

To deal with this problem, it is important that an appropriate performance evaluation system for revenue officers be developed and put in place. It is essential that good performance is rewarded in the same manner that bad performance is sanctioned. In this regard, it is noted that while the re-shuffling of revenue officers once every 3 years might be justified on the ground that it discourages special arrangements/relationships between revenue officers and taxpayers, the current practice of re-assigning revenue officers to far-away posts as "a disciplinary device only transfers inefficiencies from one place to another in the revenue service" (Deoferio 1997).

Training Front Line Personnel to Prepare Them for Computerized Regime. The on-going computerization program of the BIR has been vested with great expectations. It has been pointed

[29]This issue is something that is shared by other areas of improvement: while computerization will greatly enhance the implementation of certain procedures, it is essential that said procedures and systems (whether in the area of enforcement or collection) be adopted.

out that "automated systems do not collect taxes, they only provide the supporting framework which can maximize the productivity of people" (Westfall 1996). As such, it is essential that human aspects of the shift towards the more computerized regime be carefully managed.

In this regard, the very first step is to provide computer literacy training to front line personnel. Undeniably, the degree of computerization in the Bureau prior to this change is low. As such, revenue officers view computers and the accompanying system with some trepidation, if not resistance. It is essential that this problem be dealt with immediately even before training on the specifics of the new integrated tax system are conducted.

Creation of Data Centers. The creation of data centers is already proposed in the continuing streamlining effort at the BIR which is under review by the DBM. The Data Centers are important in ensuring timely and consistent data input. They also appear to be at the heart of computerized system's quality assurance system.

7. SUMMARY AND CONCLUSIONS

While some gains in tax administration is still apparent in the mid-1990s, tax effort appears to have tapered off. Tax effort rose by a total of 3 percentage points of GNP in the four-year period between 186 and 1990. In contrast, it only increased by 1 percentage point of GNP in the period between 1992-1996. At the same time, tariff revenue is expected to contract as the government continues to lower import duties in line with its trade liberalization program. Also, the problem of weak revenue generation will become even more critical as revenue from sales of government-owned firms declines in the next few years. Consequently, the enhancement of the tax system persists to be a major area of concern.

High rates of evasion as well as the lower than expected revenue impact of the CTRP indicate that government cannot continue to rely on changes in tax structure to address fundamental problems in tax administration. In other words, they suggest the urgent need to provide what are essentially administrative solutions to inherently tax administration issues. In this regard, the following items appear to be the more important ones: improved monitoring of stopfilers, adoption of selective audit policy and installation of selective audit procedures, the more effective use of third party information, improved performance evaluation system for revenue officers, training front line personnel to prepare them for computerized regime, and the creation of data centers.

In line with this, the evasion rate of the individual income tax is projected to decline from 52.6 percent in 1996 to 51 percent in 1997 to 48 in 1998 to 44 in 1999 while the filing rate will correspondingly rise from 19.2 percent in 1996 to 20 percent in 1997 to 22 percent in 1998 to 24 percent in 1999. On the other hand, the filing rate for the corporate income tax will rise from 61.2 percent in 1996 to 62 percent in 1997 to 64 percent in 1998 to 66 percent in 1999. In like manner, the VAT evasion rate is projected to decline from 50.8 percent in 1996 to 49 percent in 1997 to 46 percent in 1998 to 42 percent in 1999.

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Appendix Table 1
Pro-forma Table for the Computation of Potential Revenues from VAT on Domestic Sales
(In million pesos)

Sector	Sectoral GVA (1)	GVA of Exempt sectors (2)	GVA of Marginal sectors (3)	Merchandise exports 25.5125 (4)	GVA of exports (5)	1-2-3-5 (6)	Adjusted GVA (output) (7)	VATable inputs to exempt sec. (8)	VATable inputs to marg. sec. (9)	VATable inputs to exports (10)	7+8+9 (11)
Agriculture,											
Fishery, Forestry *(IO 1-27)*											
Mining and Quarrying *(IO 28-37)*											
Manufacturing											
Food *(IO 38-62)*											
Beverages *(IO 63-65)*											
Tobacco *(IO 66-68)*											
Textile *(IO 69-77)*											
Footwear, wearing apparel *(IO 78-81, 84)*											
Wood/ wood products *IO 85-92)*											
Furniture *(IO 93-95)*											
Paper/ paper products *(IO 96-98)*											
Publishing/ printing *(IO 99-101)*											
Leather/ leather products *(IO 82-83)*											
Rubber/ rubber products *(IO 113-116)*											
Chemicals/ chemicals products *(IO 102-110)*											
Petroleum *(IO 111-112)*											
Non-mettalic mineral products *(IO 117-124)*											
Basic metal *(IO 125-128)*											
Metal fabrication *(IO 129-136)*											
Machinery *(IO 137-142)*											
Electrical *(143-151)*											
Transport equipment *(IO 152-157)*											
Misc. manufactures *(IO 158-169)*											
Construction *(IO 170)*											
Electricity, gas and water *(IO 171-173)*											
Transportation, *(IO 175-185)*											
communication *(IO 188-190)*											
Storage *(IO 186-187)*											
Trade *(IO 174)*											
Finance, real estate *(IO 191-198)*											
Private services *(IO 199-226, 230)*											
Government services *(IO 270-229)*											
TOTAL											
GD Capital Formation											
A. Fixed Capital											
1. Construction											
2. Durable Equipment											
3. Breeding Stock & Orchard Dev't											
B. Changes in Stocks											

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Appendix Table 2.a
Selected Ratios Used in Computation of Potential VAT Revenue
(VAT-88)

	,Share of Exempt Sub-sectors to Sectoral GVA	Ratio of GVA to Total Output	Ratio of VAT-liable Inputs to GVA in Marginal Sectors	Ratio of VAT-liable Inputs to GVA in Exempt Sectors	VAT 1988 GVA Adjustment Factor
Agriculture,					
Fishery, Forestry	1	0.74252585		0.06523045	
Mining and Quarrying	0	0.51197889	0.69499921		1.25820632
Manufacturing					
Food	0.660044348	0.34052815	0.82426301	0.23309429	2.21159545
Beverages	0.000000000	0.49080930	0.63339902		1.40405218
Tobacco	0.000000000	0.44767836	1.01236572		1.22138083
Textile	0.000000000	0.29682309	1.96918382		1.39982628
Footwear, wearing apparel	0.000000000	0.36638607	1.46776326		1.26159812
Wood/ wood products	0.000000000	0.28351028	0.73000711		2.79720180
Furniture	0.000000000	0.37505949	1.10835644		1.55788725
Paper/ paper products	0.000000000	0.28539531	2.15466110		1.34925070
Publishing/ printing	0.429296488	0.31355849	2.05065651	1.74814324	1.31657701
Leather/ leather products	0.000000000	0.31640851	1.94635349		1.21411776
Rubber/ rubber products	0.000000000	0.30652783	1.83757933		1.42476714
Chemicals/ chemicals products	0.143198503	0.34068152	1.61156040	1.73010041	1.32858110
Petroleum	1.000000000	0.38245901		1.43099126	
Non-mettalic mineral products	0.000000000	0.35759274	0.96477901		1.83169835
Basic metal	0.000000000	0.24271335	2.80296843		1.31711805
Metal fabrication	0.000000000	0.34869552	1.74323558		1.12459594
Machinery	0.000000000	0.39567590	1.37786134		1.14945963
Electrical	0.000000000	0.12037123	2.67825477		1.16241538
Transport equipment	0.000000000	0.25364115	2.74144002		1.20113788
Misc. manufactures	0.000000000	0.46554375	0.94688544		1.20114041
Construction	0.000000000	0.50881080	0.76944506		1.19592201
Electricity, gas and water	1.000000000	0.61942666		0.13906993	
Transportation,					
communication	0.890365590	0.45194018	0.18623183	0.51556226	1.37823033
Storage	0.000000000	0.63088603	0.24984901		1.33522335
Trade	0.000000000	0.77601995	0.10549509		1.18313157
Finance, real estate	1.000000000	0.80745330		0.13305547	
Private services	0.525678791	0.56508361	0.30672383	0.51405957	1.24315382
Government services	1.000000000	0.69070014		0.23697492	

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Appendix Table 2.b
Selected Ratios Used in Computation of Potential VAT Revenue
(EVAT)

	Share of Exempt Sub-sectors to Sectoral GVA	Ratio of GVA to Total Output	Ratio of VAT-liable Inputs to GVA in Marginal Sectors	Ratio of VAT-liable Inputs to GVA in Exempt Sectors	VAT 1988 GVA Adjustment Factor
Agriculture,					
Fishery, Forestry	1	0.74252585		0.09143643	
Mining and Quarrying	0.062832932	0.51197889	0.77564085	0.183037199	1.224364077
Manufacturing					
Food	0.660044348	0.34052815	0.89876513	0.28671741	2.137093327
Beverages	0.000000000	0.49080930	0.67261752		1.364833675
Tobacco	0.000000000	0.44767836	1.05416010		1.179586453
Textile	0.000000000	0.29682309	2.07003038		1.298979719
Footwear, wearing apparel	0.000000000	0.36638607	1.57405182		1.155309558
Wood/ wood products	0.000000000	0.28351028	0.84493875		2.682270154
Furniture	0.000000000	0.37505949	1.17827895		1.487964732
Paper/ paper products	0.000000000	0.28539531	2.21908419		1.284827608
Publishing/ printing	0.000000000	0.31355849	1.99666227		1.192535402
Leather/ leather products	0.000000000	0.31640851	2.05565159		1.104819667
Rubber/ rubber products	0.000000000	0.30652783	1.90509174		1.357254737
Chemicals/ chemicals products	0.112830043	0.34068152	1.72031596	1.73761865	1.226488267
Petroleum	1.000000000	0.38245901		1.50769362	
Non-mettalic mineral products	0.000000000	0.35759274	1.02389137		1.772585987
Basic metal	0.000000000	0.24271335	2.86963125		1.250455233
Metal fabrication	0.000000000	0.34869552	1.79209686		1.075734665
Machinery	0.000000000	0.39567590	1.46390267		1.063418307
Electrical	0.000000000	0.12037123	2.75392736		1.086742796
Transport equipment	0.000000000	0.25364115	2.84239996		1.10017794
Misc. manufactures	0.000000000	0.46554375	1.02231255		1.125713302
Construction	0.000000000	0.50881080	0.81647236		1.148894715
Electricity, gas and water	1.000000000	0.61942666		0.16009286	
Transportation,					
communication	0.378909187	0.45194018	0.63622083	0.93743291	1.357187667
Storage	0.000000000	0.63088603	0.41370033		1.171372029
Trade	0.000000000	0.77601995	0.19269071		1.095935945
Finance, real estate	0.527109878	0.80745330	0.28007926	0.10765346	1.10104954
Private services	0.311008151	0.56508361	0.48071987	0.63780629	1.253889946
Government services	1.000000000	0.69070014	0.23697492	0.34069060	

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Appendix Table 2.c
Selected Ratios Used in Computation of Potential VAT Revenue
(EVATR)

	Share of Exempt Sub-sectors to Sectoral GVA	Ratio of GVA to Total Output	Ratio of VAT-liable Inputs to GVA in Marginal Sectors	Ratio of VAT-liable Inputs to GVA in Exempt Sectors	VAT 1988 GVA Adjustment Factor
Agriculture,					
Fishery, Forestry	1	0.74252585		0.09125610	
Mining and Quarrying	0.062832932	0.51197889	0.77457989	0.183010969	1.22542503578
Manufacturing					
Food	0.660044348	0.34052815	0.89580178	0.28487178	2.14005668301
Beverages	0.000000000	0.49080930	0.67023684		1.36721435332
Tobacco	0.000000000	0.44767836	1.05344039		1.18030616734
Textile	0.000000000	0.29682309	2.06738932		1.30162077915
Footwear, wearing apparel	0.000000000	0.36638607	1.56225468		1.16710670099
Wood/ wood products	0.000000000	0.28351028	0.84234885		2.68486005935
Furniture	0.000000000	0.37505949	1.17416678		1.49207690705
Paper/ paper products	0.000000000	0.28539531	2.21770741		1.28620437954
Publishing/ printing	0.429296488	0.31355849	2.11243593	1.83237665	1.25479759391
Leather/ leather products	0.000000000	0.31640851	2.05192538		1.10854588024
Rubber/ rubber products	0.000000000	0.30652783	1.89897869		1.36336778367
Chemicals/ chemicals products	0.112830043	0.34068152	1.71734950	1.73678253	1.22945473250
Petroleum	1.000000000	0.38245901		1.50720585	
Non-mettalic mineral products	0.000000000	0.35759274	1.01804211		1.77843524355
Basic metal	0.000000000	0.24271335	2.86927133		1.25081515429
Metal fabrication	0.000000000	0.34869552	1.78971363		1.07811788958
Machinery	0.000000000	0.39567590	1.45317738		1.07414359744
Electrical	0.000000000	0.12037123	2.74939741		1.09127274400
Transport equipment	0.000000000	0.25364115	2.84099537		1.10158253314
Misc. manufactures	0.000000000	0.46554375	1.01230893		1.13571692596
Construction	0.000000000	0.50881080	0.81368353		1.15168354317
Electricity, gas and water	1.000000000	0.61942666		0.16004178	
Transportation,					
communication	0.427396876	0.45194018	0.62870866	0.88390629	1.36827130074
Storage	0.000000000	0.63088603	0.39745028		1.18762207649
Trade	0.000000000	0.77601995	0.18086458		1.10776208275
Finance, real estate	0.590582687	0.80745330	0.23921349	0.13688896	1.12857779521
Private services	0.318446041	0.56508361	0.44000978	0.60379006	1.29682021528
Government services	1.000000000	0.69070014		0.32319218	

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Appendix Table 3
LIST OF VAT-EXEMPT SECTORS

IO Code	Description	1988 VAT	EVAT	EVAT_r	IO Code	Description	1988 VAT	EVAT	EVAT_r	IO Code	Description	1988 VAT	EVAT	EVAT_r	IO Code	Description	1988 VAT	EVAT	EVAT_r
1	Palay	/	/	/	36	Salt mining		/	/	71	Hosiery, underwear & outerwea knitting				106	Mfr. of paints, varnish & lacquers			
2	Corn	/	/	/	37	Other non-metallic mining an quarrying				72	Mfr of made-up textile goods exc wearing apparel				107	Mfr of drugs and medicines			
3	Other vegetables	/	/	/	38	Slaughtering & meat packing	/	/	/	73	Mfr of carpets and rugs				108	Mfr of soap and detergents			
4	Roots and tubers	/	/	/	39	Meat & meat products processing				74	Cordage, rope, twine and net mfg				109	Mfr of perfumes, cosmetics other toilet preparations			
5	Banana	/	/	/	40	Milk processing				75	Mfr of articles made of nativ materials				110	Mfr of misc chemical products			
6	Pineapple	/	/	/	41	Butter and cheese manufacturing				76	Mfr of artificial leather an impregnated & coated fabrics				111	Petroleum refineries	/	/	/
7	Mango	/	/	/	42	Ice cream, sherberts & othe flavored ices				77	Mfr of fiber batting, padding upholstery fillings incl coir,linoleum and other har surfaced floor coverings				112	Mfr of asphalt, lubricants and mis prods of petroleum and coal	/	/	/
8	Citrus fruits	/	/	/	43	Other dairy products				78	Custom tailoring & dressmakin shops				113	Rubber tire & tube mfg			
9	Fruits and nuts exc. coconut	/	/	/	44	Canning & preserving of fruits an vegetables				79	Mfr of ready-made clothing				114	Mfr of rubber footwear			
10	Coconut	/	/	/	45	Fish canning				80	Embroidery establishments				115	Mfr of other rubber products, n.e.c			
11	Sugarcane	/	/	/	46	Fish drying, smoking & mfg o other seafood products	/	/	/	81	Mfr of other wearing apparel ex footwear				116	Mfr of plastic furniture,plasti footwear & other fabricated plasti products			
12	Tobacco	/	/	/	47	Prod'n of crude coconut oil,copr cake and meal				82	Tanneries and leather finishing				117	Manufacture of pottery,china earthenware			
13	Abaca	/	/	/	48	Other crude vegetable oil ex coconut oil, fish and other marin oils and fats				83	Mfr of prods of leather and leathe substitutes, exc footwear an wearing apparel				118	Mfr of flat glass			
14	Other fiber crops	/	/	/	49	Manufacture of refined coconu and vegetable oil				84	Mfr of leather footwear & footwea parts				119	Mfr of glass container			
15	Coffee	/	/	/	50	Rice and corn milling	/	/	/	85	Sawmills and planing mills				120	Mfr of other glass and glas products			
16	Cacao	/	/	/	51	Flour, cassava & other grain milling				86	Mfr of veneer and plywood				121	Cement mfr			
17	Rubber	/	/	/	52	Mfr of bakery prods exc noodles				87	Mfr of hardboard and particl board				122	Mfr of structural clay products			
18	Other agricultural production n.e.c.	/	/	/	53	Noodles mfg				88	Wood drying and preservin plants				123	Mfr of structural concrete prods			
19	Hog	/	/	/	54	Sugar milling and refining	/	/		89	Millwork plants				124	Mfr of other non-metallic miners prods			
20	Cattle and other livestock	/	/	/	55	Mfr of cocoa, chocolate and suga confectionery				90	Mfr of wooden and can containers and small cane wares				125	Blast furnace and steel makin furnace, steel works and roll.in mills			
21	Chicken	/	/	/	56	Mfr of desiccated coconut				91	Mfr of wood carvings				126	Iron and steel foundries			
22	Hen's egg	/	/	/	57	Mfr of ice exc dry ice				92	Mfr of misc wood, cork & can prods.				127	Non-ferrous smelting & refinin plants, rolling,drawing an extrusion mills			
23	Other poultry and poultry products	/	/	/	58	Coffee roasting and processing				93	Mfr and repair of wooden furnitur incl upholstery				128	Non-ferrous foundries			
24	Agricultural services	/	/	/	59	Mfr of animal feeds	/	/	/	94	Mfr and repair of rattan furnitur incl upholstery				129	Cutlery, handtools, gen. hardware			
25	Ocean,coastal and inland fishing	/	/	/	60	Mfr of starch & starch prods				95	Mfr and repair of other furniture and fixtures				130	Structural metal prods			
26	Aquaculture and other fisher activities	/	/	/	61	Mfr of flavoring extracts mayonnaise and food colorin products				96	Pulp, paper and paperboard				131	Mfr of metal containers			
27	Forestry	/	/	/	62	Miscellaneous food prods				97	Paper and paperboard containers				132	Metal stamping, coating engraving mills			
28	Gold and silver mining				63	Alcoholic liquors and wine				98	Mfr of articles of paper an paperboard				133	Mfr of Wire nails			
29	Copper mining				64	Malt and malt liquors				99	Newspapers and periodicals	/		/	134	Mfr of other fabricated wire cable prods exc insulated wire cable			
30	Nickel mining				65	Softdrinks & carbonated water				100	Printing and publishing of book and pamphlets	/		/	135	Mfr of non-electric lighting an heating fixtures			
31	Chromite mining				66	Cigarette mfg				101	Commercial & job printing & othe allied industries				136	Mfr of fabricated metal prods ex mach'y & equipment			
32	Other metal mining				67	Cigar, chewing & smoking tobacco				102	Mfr of basic ind'l chemicals				137	Mfr of agricultural machinery an equipment			
33	Coal mining				68	Tobacco leaf flue-curing an redrying				103	Mfr of fertilizer	/	/	/	138	Mfr of metal and wood-workin mach'y			
34	Crude petroleum and natural gas				69	Textile, spinning, weaving texturizing and finishing				104	Mfr of synthetic resins , plasti materials & other man-mad fibers exc glass				139	Mfr of engines nd turbines exc. fo transport eq. & special ind. mach' and equipment			
35	Stone quarrying, clay and san pits				70	Febric knitting mills	—			105	Mfr of pesticides, insecticides,etc	/			140	Mfr, assembly & repair of office computing and acctg machines			

45

Appendix Table 3
LIST OF VAT-EXEMPT SECTORS

IO Code	Description	1988 VAT	EVAT	EVAT_r
141	Mfr of pumps, compressors blowers and airconditioners			
142	Machine shops & mfr of non electrical mach'y and eq, n.e.c.			
143	Mfr of electrical ind'l mach'y an apparatus			
144	Mfr of radio and TV receiving sets sound recording & reproducing eq incl records and tapes			
145	Mfr of communication an detection equipment			
146	Mfr of parts and supplies for radio TV & communication (semi conductors)			
147	Mfr of appliances and housewares			
148	Mfr of primary cells and batterie and electric accumulators			
149	Insulated wires and cables			
150	Mfr of current-carrying wirin devices, conduits & fittings			
151	Mfr of electrical lamps, fluorescen tubes and other electrica apparatus & supplies, n.e.c.			
152	Shipyards and boatyards			
153	Mfr and assembly of moto vehicles			
154	Rebuilding & major alteration o motor vehicles			
155	Mfr of motor vehicles parts an accessories			
156	Mfr, assembly of motorcycles bicycles			
157	Mfr, assembly, rebuilding & majo alteration of railroad equipment aircraft, and animal and hand drawn vehicle			
158	Mfr of professional, scientifi measuring a & controlling eq			
159	Mfr of photographic and optica instruments			
160	Mfr of watches and clocks			
161	Mfr & repair of furniture & fixtures made primarily of metal			
162	Mfr of jewelry & related articles			
163	Mfr of musical instruments			
164	Mfr of sporting and athletic goods			
165	Mfr of surgical,dental,medical an orthopedic supplies			
166	Mfr of optalmic goods			
167	Mfr of toys and dolls exc. rubbe and plastic toys			
168	Mfr of stationers', artists' an office supplies			
169	Misc. mfg			
170	Construction			
171	Electricity	/	/	/
172	Gas	/	/	/
173	Water	/	/	/
174	Wholesale trade & retail trade			
175	Railway transport services	/	/	/
176	Busline operators	/	/	/
177	Public utility cars and taxica operation	/		/
178	Jeepney and autocales operation, trycycle and other roa transport eq.	/	/	/
179	Operation of tourist bus and car and rent-a-car services	/		/
180	Road freight transport supporting services to lan transport	/		
181	Ocean passenger and freigh transport	/	/*	/*
182	Interisland shipping includin inland water	/	/*	/*
183	Stevedoring & other supportin services to water transport			
184	Air transport	/	/*	/*
185	Tour and travel agencies			
186	Customs brokers and othe services allied to transport			
187	Storage & warehousing			
188	Telephone	/		
189	Telegraph service	/		
190	Postal,Messengerial and othe comm services, n.e.c.			
191	Banking institutions	/		
192	Investment, financing cos. & othe non-banking inst'n exc pawnshops	/		
193	Pawnshops	/		
194	Life insurance	/	/	/
195	Non-life and other insuranc activities	/		
196	Real estate development	/		/*
197	Letting, operating real estate residential or non-residential,othe real estate activities	/		/*
198	Ownership of dwellings	/	/	/
199	Legal services			
200	Bookkeeping, acctg., and auditin services			
201	Engineering,architectural technical services			
202	Advertising services			
203	Machinery and equipment rentin and leasing			
204	Employment/recruitment agencies			
205	Business mgt & consultancy an market research services			
206	Detective & protective services			
207	Other business services			
208	Sanitary and similar services			
209	Private education services	/	/	/
210	Private hospitals, sanitaria similar institutions	/	/	/
211	Private medical,dental,veterinar & other health clinics an laboratories	/	/	/
212	Other social and relate community services			
213	Motion picture production	/	/	/
214	Motion picture distribution an projection			
215	Radio and TV programming	/		/
216	Theatrical production an entertainment			
217	Other recreational and cultura services			
218	Repair shops for motor vehicles			
219	Other repair shops, n.e.c.			
220	Laundry, dry cleaning and dyein plants			
221	Barber and beauty shops			
222	Photographic studios includin commercial photography an related services			
223	Other personal services, n.e.c.			
224	Restaurants, cafes & other eatin and drinking places	/		
225	Hotels and motels	/		
226	Other lodging places	/		
227	Public education services	/	/	/
228	Public health services	/	/	/
229	Public administration and defense	/	/	/
230	Unclassified	/	/	/

* IO 181, 182, 184 -- Non-Cargo
IO 196,197 -- Low Cost

Appendix Table 4
Summary of New Tax Measures, 1986-1996

Executive Order 21, June 19, 1986. Revised upward the specific tax rates on petroleum products.

Executive Order 22, July 1, 1986. Adopted a pure *ad valorem* tax scheme for fermented liquor, cigars and cigarettes.

Executive Order 26, July 1, 1986. Abolished export duties on all products, except logs.

Executive Order 37, July 31, 1986. Amended the income tax law by (1) reverting to global income taxation; (2) reducing the tax schedule applicable to business/professional income from 5-60 percent to 0-35 percent; (3) increasing personal exemptions; (4) introducing separate taxation of married couples; (5) increasing and making uniform the tax rates applicable to passive income; (6) phasing out of tax on dividends; and (7) adopting a unitary corporate income tax rate.

Executive Order 36, August 1, 1986. Simplified the sales tax structure by reducing the number of tax rates to three; sales tax base was also broadened.

Executive Order 41, August 22, 1986. Granted a one-time income tax amnesty.

Executive Order 72, November 25, 1986. Imposed a schedular franchise tax with varying rates for different activities; withdrew the income tax exemption of franchise holders.

Executive Order 93, December 17, 1986. Withdrew all tax and duty incentives granted to government and private entities except those granted by the Board of Investments, among others.

Executive Order 195, June 17, 1987. Adopted a pure *ad valorem* tax scheme for petroleum products.

EO 226, Otherwise known as the Omnibus Investments Code, 1987. Introduced the income tax holiday as a major investment incentive measure.

Executive Order 273, July 25, 1987. Instituted the value added tax in lieu of the sales tax.

Executive Order 303 and 306, August 25, 1987 and October 20, 1987. Reduced the import duty on crude oil from 20 percent to 15 percent to 10 percent.

Republic Act 6956, June 18, 1990. Modified the excise tax on distilled spirits, wines, fermented liquor and cigarettes.

Republic Act 6965, September 19, 1990. Revised the form of excise taxes on petroleum products from *ad valorem* to specific.

Executive Order 438, November 27, 1990. Imposed an import surcharge equal to 5 percent.

Executive Order 443, January 21, 1991. Increased the import surcharge to 9 percent.

Revenue Memorandum Order (RMO) 63-91 and 70-91, July 8, 1991 and August 29, 1991. Adoption and issuance of a new Taxpayer Identification Number.

Executive Order 470, July 20, 1991. Provided for the gradual reduction in tariff rates by stages over a 5 year period starting in August 21, 1991 and ending in July 1995.

Executive Order 478, August 23, 1991. Imposed an additional specific duty of P0.95 (P1.00) per liter on imported crude oil (imported oil products); sometimes referred to as the Estanislao peso.

Republic Act 7167, December 19, 1991. Increased the basic personal and additional exemptions allowable for individual income tax purposes.

Republic Act (RA) 7369, April 10, 1992. Amended Article 39c and (d) of Executive Order (EO) 226 by extending the December 31, 1994 coverage of capital equipment incentives (i.e., tax and duty exemption on imported capital equipment and equivalent tax credit on domestic capital equipment. Originally, said tax incentives lapses on August 12, 1992. Likewise, RA 7369 generally exempted from customs duties and other levies certain specified equipment importations for a period of 3 years starting January 1, 1995 to December 31, 1998.

Republic Act 7496, Otherwise known as the Simplified Net Income Tax Scheme (SNITS), May 15, 1992. Removed from the coverage of Sec. 21(a) of the Tax Code the taxable income received by self-employed individuals and professionals and made it subject to a new tax schedule with rates ranging from 3-30 percent.[1] Under this law, the allowable deductions of the aforesaid taxpayers were limited to the following direct cost items: (1) raw materials, supplies and direct labor; (2) salaries of employees directly engaged inactivities in the course of or pursuant to the business or practice of profession; (3) telecommunications, electricity, fuel, light and water; (4) business rental; (5) depreciation; (6) contributions made to government and accredited relief organizations; and (7) interest paid or accrued within a taxable year on loans contracted from accredited financial institutions.

[1] The rate schedule prescribed under Sec. 21(a) is now made applicable to compensation income earners

Appendix Table 4 (cont'd)

Republic Act 7497, May 15, 1992. Exempted individuals earning pure compensation income from sources within the Philippines, except those deriving compensation income from two or more sources and those whose pure compensation income exceeds P60,000 per year, from filing an income tax return. Increased the personal exemption allowed to each married individual from P9,000 each to P18,000 each. Relieved the BIR from the responsibility of refunding excess amounts withheld and shifting said responsibility to employers.

Republic Act 7499, Restructuring the Estate and Donor's Taxes, May 18, 1992. Raised the exemption level from P10,000 or less to P200,000. It also restructured the previous 15-rate schedule (that ranged from 3-60 percent) to a 5-rate schedule (that ranges from 5-35 percent).

Republic Act 7642, Increasing Penalties for Tax Evasion, December 28, 1992. Increased drastically the fines and terms of imprisonment for violators of tax laws and rulings. Moreover, the fines and imprisonment are to be imposed simultaneously in contrast to previous rulings where the judge was given the option to either impose a fine or to sentence the offender to a jail term.

Executive Order 52, Requiring the Indication of Taxpayers' Identification Number on Certain Documents, January 22, 1993. These documents include the following: sugar quedans, refined sugar release order or similar instruments; domestic bills of lading; documents registered with the Register of Deeds; registration certificates of owners of transportation equipment by land, sea or air; and building construction permits to reflect TINs of owners/contractors.

Executive Order 53, January 22, 1993. Directs all government agencies and instrumentalities to provide the BIR on a regular basis relevant information which can be effectively utilized by the BIR in tax law enforcement.

Executive Order 54, January 22, 1993. Directed the BIR to publish on an annual basis the list of: (1) top 4,000 corporations indicating their gross receipts and total taxes paid; (2) list of top government officials who have files income tax returns indicating the amount of income declared and income tax paid.

Republic Act 7646, Creation of Large Taxpayers Unit, February 24, 1993. For purposes of the Act, a large taxpayer is a corporate taxpayer satisfying the following criteria: (1) paid VAT of at least P100,000 for any quarter; (2) paid excise tax of at least P1 million a year; (3) paid corporate income tax of at least P1 million a year; and (4) remitted withholding tax for all kinds of at least P1 million a year. This law was aimed at improving the monitoring system for large taxpayers.

Appendix Table 4 (cont'd)

Republic Act 7649, April 16, 1993. Requires government agencies and government owned and controlled corporations (GOCCs) to deduct and withhold before making payment for its purchases the VAT due at the rate of 3 percent on gross payment for purchases of goods and 6 percent on gross receipts for services rendered by contractors.

Republic Act 7654, Revising Excise Tax on Tobacco Products, June 14, 1993. Revised the *ad valorem* tax (AVT) on cigars from 5 percent to 10 percent; subjects class A cigarettes packed by machine to 55 percent AVT or P5.00 per pack whichever is higher (previously these were subject to 55 percent AVT - thus, this law effectively introduces a floor tax); subjects class B cigarettes packed by machine to 45 percent AVT or P3.00 whichever is higher (previously these were subject to 45 percent AVT); subjects cigarettes class C cigarettes packed by machine to 20 percent AVT; subjects cigarettes packed by hand to 15 percent AVT; subjects imported cigarettes to 55 percent AVT. This law defines the tax base as the constructive manufacturer's or importer's wholesale price (CMWSP or CIWSP) or the actual manufacturer's or importer's wholesale price (AMWSP or AIWSP) whichever is higher. Previously, the tax base was the registered manufacturer's or importer's wholesale price (RMWSP or RIWSP). The "constructive wholesale price is defined under this law as the price including the excise tax and the VAT at which locally-manufactured or imported cigars/cigarettes are offered for sale to wholesalers/distributors as fixed by the manufacturer or importer and registered with the BIR plus a 20 percent mark-up of such price.

Executive Order 115, July 24, 1993. Increases the special duties imposed via EO 478 (August 23, 1991) on imported crude oil (imported petroleum products) from P0.95 (P1.00) to 1.90 (P2.00) per liter. Fuel oils, naphtha and low aromatic solvents are exempted from coverage of EO 115.

Executive Order 132, October 26, 1993. Streamlining of BIR.

Republic Act 7660, Rationalizing Documentary Stamp Tax (DST), December 23, 1993. Increased the rates (by some 17 percent to 900 percent over previous rates) of DST on 20 out of 25 general types of documents/instruments requiring payments. It also expands the coverage of the DST to include loan agreements, instruments and securities issued by the government or any of its instrumentalities, pre-need plans, and other authorized numbers game. It imposes the tax on documents regardless of place of signing provided that the documents concerned cover rights and obligations arising from Philippine sources. It changes the basis of the tax for certain documents, e.g., indemnity funds (from per transaction to a specific rate based value), leases and other hiring agreements (from annual basis to a specific rate based on value of transaction), charter parties (change in bracketing of weights of vessel covered by tax).

Executive Order 160, February 23, 1994. Reduction of the special import levy on oil products from P1.90/P2.00 to P0.95/P1.00.

Republic Act 7716, Expanded Value Added Tax (EVAT), May 5, 1994.[2] Widened the coverage of the VAT to include the following: (1) intangibles (e.g., patents, copyrights, trademarks, and other property rights); (2) sale of real property held primarily for sale of customers; (3) lease of real property held for lease in the ordinary course of trade or business; (4) certain items previously exempt (e.g., imported meat, pesticides, imported cane sugar and specialty feed); (5) proprietors, operators or keepers of hotels, motels, resthouses, pension houses, and resorts; (6) dealers in securities and lending investors; (7) franchise grantees of telephone, telegraph, radio and television broadcasting; (8) insurance premium with respect to services of non-life insurance companies (except crop insurance); (9) warehousing services; (10) printing, publication, importation or sale of books and any newspaper, magazine, review or bulletin; (11) proprietors/operators of restaurants, and other eating places; (12) cooperatives (except electric cooperatives); (13) operators of taxicabs, utility cars for rent or hire driven by lessee, tourist buses and other common carriers by land, air and sea; (14) certain services subject to EVAT only two years after affectivity of EVAT are: services of actors, actresses, singers, professional athletes, banks and non-bank financial intermediaries and finance companies, professional and registered professional partnership, international cargo vessels, airlines, and freight forwarders. EVAT exempts the following from the VAT: copra, ordinary salt, cotton and cotton seeds in their original state; sale of real property not held primarily for sale or lease or those for low-cost housing; prawn feed and ingredients used in fish, prawn, livestock and poultry feeds; and importation of passenger/cargo vessel of more than 5,000 tons.

Republic Act 7717, May 5, 1994. Increased the tax on the sale, barter, or exchange of shares of stock listed and traded through the local stock exchange or through initial public offerings.

Republic Act 7844, Export Development Act, December 31, 1994. Granted the following incentives to exporters in addition to those provided under EO 226: (1) exemption from PD 1853 (requiring deposits of duties at the time of opening of letter of credits covering imports); (2) zero percent duty for a period of 3 years (until 1997) on the importation of machinery and equipment; (3) tax credit for a period of 5 years on all imported input and raw materials not readily available locally; (4) tax credit for increase in current year export revenue; (5) for use of locally produced inputs/ equipment, tax credit equivalent to 25 percent of the duties that would have been paid had these inputs been imported.

[2] The affectivity of this law was postponed till January 1, 1996 by virtue of a Supreme Court order.

Appendix Table 4 (cont'd)

Republic Act 7916, Special Economic Zone Act, February 24, 1995. Entitles business establishments operating within the Ecozones to the fiscal incentives provided under PD 66, EO 226 and RA 7844.

Republic Act 7918, February 1995. Exempts firms registered with the BOI (on or before December 31, 1994) from taxes and duties on importations of machinery and equipment within the prescribed period under their law of registration or until December 31, 1997 whichever comes first. Enterprises which register after December 31, 1994 shall be subject to the provisions of RA 7716 and 3 percent customs duties up to December 31, 1997.

Executive Order 264, July 22, 1995. Reduces the rates of duty on industrial products following a phased schedule ending on January 1, 2003.

Executive Order 288, December 12, 1995. Reduces the rates of duty on non-sensitive agricultural products following a phased schedule ending on January 1, 2003.

Republic Act 8184, Restructuring of Excise Tax on Petroleum Products, June 11, 1996. Increased the excise tax on all petroleum products. Introduced a P1 per liter tax differential between leaded and unleaded gasoline.

Republic Act 8240, Restructures the Excise Tax on Alcoholic Beverages, July 22, 1996. Reverted excise tax on fermented liquor to specific scheme.

Republic Act 8241, Amends the EVAT, January 1, 1997. Introduced additional items that are exempted from the EVAT.

Appendix Table 5a. - TAX LIABILITY (In Thousand Pesos), 1991

SOURCES OF RECEIPT	NUMBER OF MEMBERS UNDER 15 YEARS OF AGE LIVING WITH THE FAMILY						TOTAL TAX LIABILITY	TOTAL NO. OF TAXPAYERS
	NONE	ONE	TWO	THREE	FOUR	5 OR MORE		
FIRST DECILE								
WAGES ONLY	0	94	0	0	0	0	94	401
ENTREPRENEURIAL ACTIVITIES ONLY	9,214	1,056	0	0	0	0	10,270	365,484
WAGES AND ENTREPRENEURIAL ACTIVITIES	16,626	1,109	125	0	0	5	17,865	344,269
SECOND DECILE								
WAGES ONLY	0	0	0	0	0	0	0	0
ENTREPRENEURIAL ACTIVITIES ONLY	80,951	27,409	8,714	2,969	70	105	120,218	461,469
WAGES AND ENTREPRENEURIAL ACTIVITIES	96,916	32,984	11,468	3,330	532	236	145,466	603,570
THIRD DECILE	—							
WAGES ONLY	2,701	0	0	217	0	0	2,918	2,085
ENTREPRENEURIAL ACTIVITIES ONLY	132,582	45,941	28,820	16,601	3,759	606	228,310	448,137
WAGES AND ENTREPRENEURIAL ACTIVITIES	177,819	63,184	42,582	16,784	4,217	233	304,820	756,594
FOURTH DECILE								
WAGES ONLY	8,210	1,579	1,704	180	0	0	11,672	7,437
ENTREPRENEURIAL ACTIVITIES ONLY	207,486	89,726	67,246	38,653	9,641	2,047	414,799	448,638
WAGES AND ENTREPRENEURIAL ACTIVITIES	265,142	136,995	97,718	54,552	13,404	1,749	569,559	855,650
FIFTH DECILE								
WAGES ONLY	23,040	2,939	2,916	0	0	0	28,895	9,087
ENTREPRENEURIAL ACTIVITIES ONLY	255,685	169,798	117,038	69,589	19,800	4,448	636,359	461,466
WAGES AND ENTREPRENEURIAL ACTIVITIES	450,265	214,927	161,894	91,790	24,808	6,410	950,093	932,862
SIXTH DECILE								
WAGES ONLY	41,946	4,558	3,023	1,562	683	0	51,772	12,691
ENTREPRENEURIAL ACTIVITIES ONLY	290,071	175,462	204,810	96,828	38,196	8,131	813,498	372,697
WAGES AND ENTREPRENEURIAL ACTIVITIES	665,478	366,082	329,464	187,067	56,516	9,039	1,613,645	1,004,795
SEVENTH DECILE								
WAGES ONLY	35,960	11,537	11,626	3,091	0	0	62,214	11,281
ENTREPRENEURIAL ACTIVITIES ONLY	291,411	207,349	133,139	105,415	54,271	13,483	805,068	266,933
WAGES AND ENTREPRENEURIAL ACTIVITIES	1,102,313	662,990	562,662	344,900	99,365	25,715	2,797,946	1,128,496
EIGHTH DECILE								
WAGES ONLY	55,375	29,600	15,146	6,281	5,055	0	111,458	14,935
ENTREPRENEURIAL ACTIVITIES ONLY	386,111	278,765	264,776	104,578	44,323	11,996	1,090,549	256,188
WAGES AND ENTREPRENEURIAL ACTIVITIES	1,873,078	1,027,712	776,297	478,275	161,055	22,229	4,338,647	1,214,434
NINTH DECILE								
WAGES ONLY	90,946	21,794	3,035	22,627	4,222	0	142,624	16,403
ENTREPRENEURIAL ACTIVITIES ONLY	602,805	386,992	356,602	228,925	47,454	33,622	1,656,399	246,276
WAGES AND ENTREPRENEURIAL ACTIVITIES	3,139,093	1,937,353	1,547,073	698,601	209,147	62,976	7,594,244	1,291,179
TENTH DECILE								
WAGES ONLY	106,522	113,555	40,666	0	0	0	260,743	12,882
ENTREPRENEURIAL ACTIVITIES ONLY	4,091,506	2,206,162	2,050,473	723,711	303,084	1,291	9,376,227	238,025
WAGES AND ENTREPRENEURIAL ACTIVITIES	12,532,569	6,070,989	6,544,076	1,662,872	508,797	180,587	27,499,891	1,480,433
TOTAL	27,031,823	14,288,640	13,383,094	4,959,398	1,608,398	384,907	61,656,260	13,284,849
WAGES ONLY	364,700	185,655	78,115	33,959	9,960	0	672,389	87,203
ENTREPRENEURIAL ACTIVITIES ONLY	6,347,822	3,588,660	3,231,620	1,387,268	520,597	75,729	15,151,696	3,585,364
WAGES AND ENTREPRENEURIAL ACTIVITIES	20,319,301	10,514,325	10,073,359	3,538,171	1,077,841	309,178	45,832,175	9,612,281

SumR2.xls, uses revised K's (Aug. 26, 1997)

Appendix Table 5b - TAX LIABILITY (In Thousand Pesos), 1992

SOURCES OF RECEIPT	NUMBER OF MEMBERS UNDER 15 YEARS OF AGE LIVING WITH THE FAMILY							TOTAL NO. OF TAXPAYERS
	NONE	ONE	TWO	THREE	FOUR	5 OR MORE	TOTAL	
FIRST DECILE								508,887
WAGES and SALARIES	0	0	0	0	0	0	0	
ENTREPRENEURIAL ACTIVITIES	64,865	0	0	0	0	0	64,865	
SECOND DECILE								584,335
WAGES and SALARIES	5,014	0	0	0	0	0	5,014	
ENTREPRENEURIAL ACTIVITIES	156,647	3,745	11	0	0	0	160,403	
THIRD DECILE								754,689
WAGES and SALARIES	33,187	0	0	0	0	0	33,187	
ENTREPRENEURIAL ACTIVITIES	249,950	28,162	7,724	56	34	19	285,945	
FOURTH DECILE								1,033,827
WAGES and SALARIES	82,729	381	563	16	0	0	83,689	
ENTREPRENEURIAL ACTIVITIES	331,664	86,958	38,250	17,396	983	104	475,355	
FIFTH DECILE								1,153,007
WAGES and SALARIES	282,841	13,331	4,756	0	70	25	301,023	
ENTREPRENEURIAL ACTIVITIES	382,400	162,787	93,710	47,439	7,723	2,609	696,668	
SIXTH DECILE								1,200,891
WAGES and SALARIES	423,106	73,636	49,921	9,618	454	980	557,715	
ENTREPRENEURIAL ACTIVITIES	494,443	201,200	206,671	89,583	39,696	3,466	1,035,059	
SEVENTH DECILE								1,241,430
WAGES and SALARIES	664,940	202,142	185,372	71,309	16,771	2,366	1,142,900	
ENTREPRENEURIAL ACTIVITIES	594,300	339,146	197,986	133,189	41,924	12,604	1,319,149	
EIGHTH DECILE								1,402,635
WAGES and SALARIES	970,764	393,702	283,103	135,510	51,798	6,219	1,841,096	
ENTREPRENEURIAL ACTIVITIES	857,595	489,329	395,701	214,140	67,500	12,910	2,037,174	
NINTH DECILE								1,592,073
WAGES and SALARIES	1,876,616	914,170	729,798	281,409	77,701	16,957	3,896,651	
ENTREPRENEURIAL ACTIVITIES	1,236,390	747,649	604,175	367,426	93,368	55,147	3,104,155	
TENTH DECILE								1,775,438
WAGES and SALARIES	7,444,545	3,289,793	2,146,966	647,772	240,754	57,055	13,826,884	
ENTREPRENEURIAL ACTIVITIES	7,648,632	3,975,658	5,349,282	1,338,694	442,783	100,116	18,855,166	
TOTAL	23,800,627	10,921,789	10,293,990	3,353,556	1,081,558	270,576	49,722,097	11,247,211
WAGES and SALARIES	11,783,741	4,887,155	3,400,480	1,145,633	387,548	83,601	21,688,158	
ENTREPRENEURIAL ACTIVITIES	12,016,886	6,034,634	6,893,511	2,207,923	694,010	186,975	28,033,939	

SumR2.xls, uses revised K's (Aug. 26, 1997)

Appendix Table 5c - TAX LIABILITY (In Thousand Pesos), 1993

SOURCES OF RECEIPT	NUMBER OF MEMBERS UNDER 15 YEARS OF AGE LIVING WITH THE FAMILY							TOTAL NO. OF TAXPAYERS
	NONE	ONE	TWO	THREE	FOUR	5 OR MORE	TOTAL	
FIRST DECILE								491,484
WAGES and SALARIES	37	0	0	0	0	0	37	
ENTREPRENEURIAL ACTIVITIES	76,514	0	0	0	0	0	76,514	
SECOND DECILE								637,228
WAGES and SALARIES	10,992	0	0	0	0	0	10,992	
ENTREPRENEURIAL ACTIVITIES	156,231	11,093	0	67	0	0	167,390	
THIRD DECILE								870,596
WAGES and SALARIES	54,203	0	0	0	0	0	54,203	
ENTREPRENEURIAL ACTIVITIES	239,874	48,551	25,138	4,567	107	5	318,243	
FOURTH DECILE								1,105,542
WAGES and SALARIES	112,025	3,143	41	203	0	0	115,413	
ENTREPRENEURIAL ACTIVITIES	308,697	135,464	93,496	23,679	2,905	97	564,337	
FIFTH DECILE								1,170,882
WAGES and SALARIES	272,096	44,326	12,623	3,342	0	31	332,419	
ENTREPRENEURIAL ACTIVITIES	426,693	180,470	141,467	95,724	20,611	4,304	869,269	
SIXTH DECILE								1,229,519
WAGES and SALARIES	463,930	149,037	81,528	36,761	3,198	1,168	735,623	
ENTREPRENEURIAL ACTIVITIES	523,134	277,336	199,470	108,415	41,565	1,963	1,151,883	
SEVENTH DECILE								1,299,981
WAGES and SALARIES	838,077	322,336	228,200	103,451	23,662	9,623	1,525,350	
ENTREPRENEURIAL ACTIVITIES	697,115	382,297	317,607	156,169	48,235	9,935	1,611,358	
EIGHTH DECILE								1,446,321
WAGES and SALARIES	1,229,775	556,856	349,289	163,623	66,010	17,147	2,382,699	
ENTREPRENEURIAL ACTIVITIES	915,106	598,255	521,804	221,886	81,962	19,992	2,359,004	
NINTH DECILE								1,625,700
WAGES and SALARIES	2,399,676	1,089,532	815,990	363,174	119,010	34,574	4,821,955	
ENTREPRENEURIAL ACTIVITIES	1,607,503	768,440	578,761	279,254	102,647	29,630	3,366,235	
TENTH DECILE								1,796,474
WAGES and SALARIES	8,796,719	4,262,124	2,768,209	977,146	201,789	71,783	17,077,770	
ENTREPRENEURIAL ACTIVITIES	6,396,021	3,653,851	2,813,122	1,203,631	528,307	68,026	14,662,959	
TOTAL	25,524,416	12,483,111	8,946,744	3,741,092	1,240,009	268,279	52,203,652	11,673,726
WAGES and SALARIES	14,177,529	6,427,354	4,255,879	1,647,701	413,670	134,327	27,056,460	
ENTREPRENEURIAL ACTIVITIES	11,346,887	6,055,757	4,690,865	2,093,392	826,340	133,952	25,147,192	

SumR2.xls, uses revised K's (Aug. 26, 1997)

Appendix Table 5d - TAX LIABILITY (In Thousand Pesos), 1994

SOURCES OF RECEIPT	NUMBER OF MEMBERS UNDER 15 YEARS OF AGE LIVING WITH THE FAMILY							TOTAL NO. OF TAXPAYERS
	NONE	ONE	TWO	THREE	FOUR	5 OR MORE	TOTAL	
FIRST DECILE								504,002
WAGES and SALARIES	38	0	0	0	0	0	38	
ENTREPRENEURIAL ACTIVITIES	79,145	0	0	0	0	0	79,145	
SECOND DECILE								653,458
WAGES and SALARIES	11,506	0	0	0	0	0	11,506	
ENTREPRENEURIAL ACTIVITIES	161,669	11,836	0	71	0	0	173,576	
THIRD DECILE								899,843
WAGES and SALARIES	56,322	0	0	0	0	0	56,322	
ENTREPRENEURIAL ACTIVITIES	247,880	50,447	26,266	4,998	114	7	329,712	
FOURTH DECILE								1,133,700
WAGES and SALARIES	115,751	3,297	43	213	0	0	119,305	
ENTREPRENEURIAL ACTIVITIES	319,134	140,409	98,013	24,682	3,104	103	585,445	
FIFTH DECILE								1,200,704
WAGES and SALARIES	281,039	46,228	13,250	3,507	0	33	344,056	
ENTREPRENEURIAL ACTIVITIES	441,424	187,128	146,524	99,288	21,612	4,489	900,465	
SIXTH DECILE								1,260,835
WAGES and SALARIES	479,363	154,516	85,095	39,421	3,399	1,220	763,014	
ENTREPRENEURIAL ACTIVITIES	540,112	287,536	207,332	112,686	43,065	2,069	1,192,802	
SEVENTH DECILE								1,333,092
WAGES and SALARIES	864,936	333,672	236,516	107,414	24,719	9,984	1,577,241	
ENTREPRENEURIAL ACTIVITIES	719,037	395,193	328,305	162,014	50,000	10,309	1,664,859	
EIGHTH DECILE								1,483,159
WAGES and SALARIES	1,272,450	576,286	362,142	169,653	68,440	17,751	2,466,722	
ENTREPRENEURIAL ACTIVITIES	943,080	617,058	538,645	229,058	85,001	20,679	2,433,521	
NINTH DECILE								1,667,107
WAGES and SALARIES	2,478,161	1,126,630	844,339	375,860	123,148	35,823	4,983,960	
ENTREPRENEURIAL ACTIVITIES	1,656,247	792,204	597,001	288,222	105,984	30,585	3,470,244	
TENTH DECILE								1,842,231
WAGES and SALARIES	9,076,112	4,398,349	2,856,480	1,008,894	208,452	74,114	17,622,401	
ENTREPRENEURIAL ACTIVITIES	6,586,365	3,763,109	2,897,772	1,239,801	544,012	70,123	15,101,182	
TOTAL	26,329,774	12,883,898	9,237,724	3,865,782	1,281,050	277,288	53,875,515	11,978,132
WAGES and SALARIES	14,635,678	6,638,977	4,397,865	1,704,962	428,158	138,925	27,944,565	
ENTREPRENEURIAL ACTIVITIES	11,694,096	6,244,920	4,839,859	2,160,820	852,892	138,364	25,930,951	

SumR2.xls, uses revised K's (Aug. 26, 1997)

Appendix Table 5e - TAX LIABILITY (In Thousand Pesos), 1995

SOURCES OF RECEIPT	NUMBER OF MEMBERS UNDER 15 YEARS OF AGE LIVING WITH THE FAMILY							TOTAL NO. OF TAXPAYERS
	NONE	ONE	TWO	THREE	FOUR	5 OR MORE	TOTAL	
FIRST DECILE								570,948
WAGES and SALARIES	90	0	0	0	0	0	90	
ENTREPRENEURIAL ACTIVITIES	125,100	0	0	0	0	0	125,100	
SECOND DECILE								848,897
WAGES and SALARIES	27,556	0	0	0	0	0	27,556	
ENTREPRENEURIAL ACTIVITIES	276,749	43,333	16,703	223	48	0	337,056	
THIRD DECILE								1,176,620
WAGES and SALARIES	107,340	0	0	0	0	28	107,368	
ENTREPRENEURIAL ACTIVITIES	392,704	152,650	89,205	26,827	5,001	407	666,795	
FOURTH DECILE								1,275,928
WAGES and SALARIES	207,129	13,931	4,729	2,065	126	0	227,980	
ENTREPRENEURIAL ACTIVITIES	555,664	262,348	207,853	84,146	14,115	858	1,124,985	
FIFTH DECILE								1,318,062
WAGES and SALARIES	425,088	109,408	58,166	22,551	775	711	616,699	
ENTREPRENEURIAL ACTIVITIES	706,650	361,102	279,445	183,147	54,855	10,163	1,595,360	
SIXTH DECILE								1,378,255
WAGES and SALARIES	740,029	281,111	192,117	105,210	16,421	2,816	1,337,703	
ENTREPRENEURIAL ACTIVITIES	802,328	494,186	412,100	237,823	79,893	6,758	2,033,088	
SEVENTH DECILE								1,493,631
WAGES and SALARIES	1,354,395	610,965	443,658	216,513	56,083	19,199	2,700,813	
ENTREPRENEURIAL ACTIVITIES	1,005,829	618,146	518,023	298,512	96,619	19,816	2,556,946	
EIGHTH DECILE								1,606,331
WAGES and SALARIES	2,087,705	1,003,353	676,241	322,343	125,984	33,672	4,249,297	
ENTREPRENEURIAL ACTIVITIES	1,319,856	910,946	825,341	342,527	141,502	32,850	3,573,021	
NINTH DECILE								1,709,569
WAGES and SALARIES	3,825,820	1,834,036	1,411,928	644,776	218,262	61,668	7,996,490	
ENTREPRENEURIAL ACTIVITIES	2,325,499	1,142,129	854,798	427,206	155,801	44,640	4,950,074	
TENTH DECILE								1,889,819
WAGES and SALARIES	13,148,792	6,423,429	4,170,144	1,527,696	327,974	114,016	25,712,051	
ENTREPRENEURIAL ACTIVITIES	8,634,018	4,978,622	3,851,383	1,643,507	726,153	96,403	19,930,085	
TOTAL	38,068,340	19,239,695	14,011,833	6,085,072	2,019,612	444,008	79,868,559	13,268,060
WAGES and SALARIES	21,923,942	10,276,233	6,956,982	2,841,154	745,625	232,111	42,976,048	
ENTREPRENEURIAL ACTIVITIES	16,144,397	8,963,462	7,054,851	3,243,918	1,273,987	211,896	36,892,511	

SumR2.xls, uses revised K's (Aug. 26, 1997)

57

Appendix Table 5f - TAX LIABILITY (In Thousand Pesos), 1996

SOURCES OF RECEIPT	NUMBER OF MEMBERS UNDER 15 YEARS OF AGE LIVING WITH THE FAMILY							TOTAL NO. OF TAXPAYERS
	NONE	ONE	TWO	THREE	FOUR	5 OR MORE	TOTAL	
FIRST DECILE								593,292
WAGES and SALARIES	171	0	0	0	0	0	171	
ENTREPRENEURIAL ACTIVITIES	154,183	0	6	0	0	0	154,189	
SECOND DECILE								1,029,794
WAGES and SALARIES	52,153	0	0	0	0	0	52,153	
ENTREPRENEURIAL ACTIVITIES	366,886	80,641	34,323	7,312	365	0	489,527	
THIRD DECILE								1,264,250
WAGES and SALARIES	146,434	4,460	0	0	0	90	150,984	
ENTREPRENEURIAL ACTIVITIES	532,959	216,600	169,697	68,597	10,999	635	999,487	
FOURTH DECILE								1,337,145
WAGES and SALARIES	275,534	36,175	13,295	5,434	192	0	330,630	
ENTREPRENEURIAL ACTIVITIES	737,232	370,768	289,111	126,193	32,561	2,356	1,558,220	
FIFTH DECILE								1,368,380
WAGES and SALARIES	549,578	172,734	99,149	48,325	2,828	1,951	874,564	
ENTREPRENEURIAL ACTIVITIES	906,125	508,903	411,668	278,737	79,194	17,640	2,202,267	
SIXTH DECILE								1,413,869
WAGES and SALARIES	941,172	398,991	276,054	161,363	30,682	4,437	1,812,699	
ENTREPRENEURIAL ACTIVITIES	1,006,246	638,960	561,868	338,922	118,941	9,338	2,674,275	
SEVENTH DECILE								1,540,376
WAGES and SALARIES	1,748,985	831,869	618,591	318,594	84,310	27,344	3,629,693	
ENTREPRENEURIAL ACTIVITIES	1,234,476	785,611	658,277	390,025	130,922	27,704	3,227,016	
EIGHTH DECILE								1,643,857
WAGES and SALARIES	2,705,140	1,370,590	948,111	454,326	176,334	47,653	5,702,152	
ENTREPRENEURIAL ACTIVITIES	1,609,824	1,147,278	1,047,947	439,744	178,441	42,752	4,465,987	
NINTH DECILE								1,749,507
WAGES and SALARIES	4,983,559	2,424,280	1,870,504	851,153	292,464	80,734	10,502,695	
ENTREPRENEURIAL ACTIVITIES	2,859,662	1,409,260	1,057,684	530,556	191,789	54,689	6,103,641	
TENTH DECILE								1,933,969
WAGES and SALARIES	16,354,112	8,064,937	5,228,085	1,929,929	422,686	146,593	32,146,342	
ENTREPRENEURIAL ACTIVITIES	10,177,606	5,887,589	4,554,794	1,959,376	884,043	115,665	23,579,073	
TOTAL	47,342,036	24,349,645	17,839,164	7,908,587	2,636,752	579,580	100,655,764	13,874,439
WAGES and SALARIES	27,756,836	13,304,035	9,053,789	3,769,125	1,009,496	308,801	55,202,083	
ENTREPRENEURIAL ACTIVITIES	19,585,200	11,045,610	8,785,376	4,139,462	1,627,255	270,779	45,453,681	

SumR2.xls, uses revised K's (Aug. 26, 1997)

Appendix Table 6a

Computation of Potential Revenues from VAT on Domestic Sales (Million Pesos), 1992

Sector	1992 Sectoral GVA (1)	GVA of Exempt sectors (2)	GVA of Marginal sectors (3)	Merchandise exports 25.5125 (4)	GVA of exports (5)	1-2-3-5 (6)	Adjusted GVA (output) (7)	VATable inputs to exempt sec. (8)	VATable inputs to marg. sec. (9)	VATable inputs to exports (10)	7+8+9 (11)	
Agriculture,												
Fishery, Forestry	294922	282286.56	0.00	17016.84	12635.44	0.00	0.00	18413.68	0.00	0.00	18413.68	
Mining and Quarrying	16263	0.00	167.89	16149.41	8268.16	7826.95	9847.92	0.00	116.68	5746.36	9964.60	
Manufacturing	326839	127498.06	16762.32	214151.93	63295.20	119283.42	194476.24	78747.45	22123.43	94360.89	295347.12	
Food	133274	87966.75	4466.67	28114.78	9573.87	31266.71	69149.30	20504.55	3681.71	7891.39	93335.56	
Beverages	15849	0.00	1970.17	178.59	87.65	13791.18	19363.54	0.00	1247.90	55.52	20611.44	
Tobacco	9360	0.00	1170.00	0.00	0.00	8190.00	10003.11	0.00	1184.47	0.00	11187.58	
Textile	10094	0.00	1147.21	3087.01	916.30	8030.49	11241.29	0.00	2259.07	1804.36	13500.36	
Footwear, wearing apparel	22071	0.00	90.19	58270.55	21349.52	631.30	796.44	0.00	132.37	31336.04	928.81	
Wood/ wood products	5926	0.00	466.80	7730.29	2191.62	3267.59	9140.10	0.00	340.77	1599.90	9480.86	
Furniture	4813	0.00	385.13	4617.76	1731.94	2695.93	4199.96	0.00	426.86	1919.60	4626.82	
Paper/ paper products	3040	0.00	380.00	0.00	0.00	2660.00	3589.01	0.00	818.77	0.00	4407.78	
Publishing/ printing	4306	1848.55	307.18	0.00	0.00	2150.27	2830.99	3231.53	629.92	0.00	6692.45	
Leather/ leather products	234	0.00	2.51	676.08	213.92	17.57	21.33	0.00	4.89	416.36	26.22	
Rubber/ rubber products	4191	0.00	346.68	4624.65	1417.58	2426.74	3457.54	0.00	637.05	2604.92	4094.58	
Chemicals/ chemicals products	25394	3636.38	2428.53	6837.35	2329.36	16999.73	22585.51	6291.31	3913.73	3753.90	32790.55	
Petroleum	35510	34046.38	0.00	3826.88	1463.62	0.00	0.00	48720.07	0.00	0.00	48720.07	
Non-mettallic mineral products	10182	0.00	1181.52	2041.00	729.85	8270.63	15149.31	0.00	1139.90	704.14	16289.21	
Basic metal	8120	0.00	997.20	586.79	142.42	6980.38	9193.99	0.00	2795.11	399.20	11989.10	
Metal fabrication	8007	0.00	828.77	3948.57	1376.85	5801.38	6524.21	0.00	1444.74	2400.17	7968.95	
Machinery	3464	0.00	69.59	7347.60	2907.27	487.14	559.95	0.00	95.89	4005.81	655.84	
Electrical	13211	0.00	0.00	70235.91	11263.82	1947.18	2263.43	0.00	0.00	30167.38	2263.43	
Transport equipment	3896	0.00	487.00	0.00	0.00	3409.00	4094.68	0.00	1335.08	0.00	5429.76	
Misc. manufactures	5897	0.00	37.17	12028.12	5599.62	260.21	312.55	0.00	35.20	5302.20	347.75	
Construction	67968	0.00	33032.45			34935.55	41780.20	0.00	25416.65		67196.85	
Electricity, gas and water	32743	32743.00	0.00			0.00	0.00	4553.57	0.00		4553.57	
Transportation, communication	68885	61332.83	4553.96			2998.21	4132.22	31620.89	848.09		36601.21	
Storage	7038	0.00	4243.91			2794.09	3730.73	0.00	1060.34		4791.07	
Trade	193573	0.00	110917.33			82655.67	97792.53	0.00	11701.23		109493.77	
Finance, real estate	139379	139379.00	0.00			0.00	0.00	18545.14	0.00		18545.14	
Private services	110325	57995.51	22972.64			29356.84	36495.07	29813.15	7046.26		73354.48	
Government services	93624	93624.00	0.00			0.00	0.00	22186.54	0.00		22186.54	
TOTAL	1351559	794858.97	192650.50			279850.73	388254.91	203880.42	68312.69	100107.25	660448.02	491084.3
										Potential VAT Revenue		49108.43
GD Capital Formation	288401											
A. Fixed Capital	282783											
1. Construction	132356	0.572297	% private	0.25	% non-housi	18936.75	private non-housing construction					
2. Durable Equipment	126430											
3. Breeding Stock & Orchard Dev't	23997											
B. Changes in Stocks	5618											

NIA, As of Jan 1995

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59

Appendix Table 6b
Computation of Potential Revenues from VAT on Domestic Sales (Million Pesos), 1993

Sector	1993 Sectoral GVA (1)	GVA of Exempt sectors (2)	GVA of Marginal sectors (3)	Merchandise exports 27.1198 (4)	GVA of exports (5)	1-2-3-5 (6)	Adjusted GVA (output) (7)	VATable inputs to exempt sec. (8)	VATable inputs to marg. sec. (9)	VATable inputs to exports (10)	7+8+9 (11)	
Agriculture,												
Fishery, Forestry	318546	302617.51	0.00	21451.76	15928.49	0.00	0.00	19739.88	0.00	0.00	19739.88	
Mining and Quarrying	16621	0.00	149.02	18604.18	9524.95	6947.03	8740.80	0.00	103.57	6619.83	8844.37	
Manufacturing	349595	131393.32	17718.21	262926.46	75879.16	124836.00	205698.41	78620.92	23559.97	117698.10	307879.30	
Food	140708	92873.52	4769.52	28421.55	9678.34	33386.62	73837.71	21648.29	3931.34	7977.50	99417.33	
Beverages	15732	0.00	1953.19	216.96	106.49	13672.33	19196.66	0.00	1237.15	67.45	20433.81	
Tobacco	9114	0.00	1139.25	0.00	0.00	7974.75	9740.21	0.00	1153.34	0.00	10893.54	
Textile	10468	0.00	1189.77	3200.14	949.87	8328.36	11658.26	0.00	2342.87	1870.48	14001.12	
Footwear, wearing apparel	25245	0.00	125.05	66172.31	24244.61	875.34	1104.32	0.00	183.54	35585.35	1287.87	
Wood/ wood products	6830	0.00	582.72	7647.78	2168.23	4079.05	11409.93	0.00	425.39	1582.82	11835.33	
Furniture	5228	0.00	395.40	5505.32	2064.82	2767.78	4311.89	0.00	438.24	2288.56	4750.13	
Paper/ paper products	2947	0.00	368.38	0.00	0.00	2578.63	3479.21	0.00	793.72	0.00	4272.93	
Publishing/ printing	4496	1930.12	320.74	0.00	0.00	2245.15	2955.91	3374.12	657.72	0.00	6987.75	
Leather/ leather products	237	0.00	0.66	732.23	231.69	236.34	286.94	0.00	1.29	450.94	288.23	
Rubber/ rubber products	3832	0.00	182.54	7737.28	2371.69	1277.77	1820.52	0.00	335.43	4358.17	2155.95	
Chemicals/ chemicals products	28927	4142.30	2795.50	7105.39	2420.67	19568.52	25998.37	7166.60	4505.12	3901.06	37670.09	
Petroleum	33858	32447.38	0.00	3688.29	1410.62	0.00	0.00	46431.92	0.00	0.00	46431.92	
Non-mettalic mineral products	11698	0.00	1356.79	2359.42	843.71	9497.50	17396.56	0.00	1309.00	814.00	18705.56	
Basic metal	9246	0.00	1114.61	1355.99	329.12	7802.27	10276.51	0.00	3124.22	922.50	13400.73	
Metal fabrication	8693	0.00	781.30	7005.04	2442.63	5469.08	6150.50	0.00	1361.98	4258.08	7512.48	
Machinery	3903	0.00	0.97	9844.49	3895.23	6.80	7.82	0.00	1.34	5367.08	9.16	
Electrical	16021	0.00	0.00	96302.41	15444.14	576.86	670.56	0.00	0.00	41363.33	670.56	
Transport equipment	5129	0.00	641.13	0.00	0.00	4487.88	5390.56	0.00	1757.61	0.00	7148.16	
Misc. manufactures	7283	0.00	0.71	15631.85	7277.31	4.98	5.98	0.00	0.67	6890.78	6.65	
Construction	79267	0.00	38523.76			40743.24	48725.74	0.00	29641.92		78367.65	
Electricity, gas and water	36417	36417.00	0.00			0.00	0.00	5064.51	0.00		5064.51	
Transportation,												
communication	71347	63524.91	4716.72			3105.37	4279.91	32751.05	878.40		37909.36	
Storage	7038	0.00	4243.91			2794.09	3730.73	0.00	1060.34		4791.07	
Trade	207563	0.00	118933.60			88629.40	104860.24	0.00	12546.91		117407.15	
Finance, real estate	157072	157072.00	0.00			0.00	0.00	20899.29	0.00		20899.29	
Private services	127444	66994.61	26537.28			33912.11	42157.97	34439.22	8139.62		84736.80	
Government services	103547	103547.00	0.00			0.00	0.00	24538.04	0.00		24538.04	
TOTAL	1474457	861566.35	210822.50			300967.23	418193.80	216052.91	75930.72	124317.93	710177.43	487582.7
										Potential VAT Revenue		48758.27
GD Capital Formation	353595											
A. Fixed Capital	350543											
1. Construction	148860	0.561917		0.25		20911.75						
2. Durable Equipment	176889											
3. Breeding Stock & Orchard Dev't	24794											
B. Changes in Stocks	3052											

NIA, As of Jan 1995
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Appendix Table 6c
Computation of Potential Revenues from VAT on Domestic Sales (Million Pesos), 1994

Sector	1994 Sectoral GVA (1)	GVA of Exempt sectors (2)	GVA of Marginal sectors (3)	Merchandise exports 26.4172 (4)	GVA of exports (5)	1-2-3-5 (6)	Adjusted GVA (output) (7)	VATable Inputs to exempt sec. (8)	VATable Inputs to marg. sec. (9)	VATable Inputs to exports (10)	7+8+9 (11)	
Agriculture,												
Fishery, Forestry	372507	356069.25	0.00	22137.61	16437.75	0.00	0.00	23226.56	0.00	0.00	23226.56	
Mining and Quarrying	16509	0.00	125.15	20605.42	10549.54	5834.31	7340.77	0.00	86.98	7331.92	7427.75	
Manufacturing	393810	148128.07	19975.66	306703.69	84311.66	141616.95	232733.05	84190.77	26076.12	137331.09	342999.95	
Food	164157	108350.90	5703.98	29877.85	10174.25	39927.87	88304.29	25255.98	4701.58	8386.26	118261.85	
Beverages	17888	0.00	2221.41	237.75	116.69	15549.89	21832.86	0.00	1407.04	73.91	23239.90	
Tobacco	10093	0.00	1261.63	0.00	0.00	8831.38	10786.47	0.00	1277.23	0.00	12063.70	
Textile	9955	0.00	1074.81	4570.18	1356.53	7523.66	10531.81	0.00	2116.50	2671.26	12648.31	
Footwear, wearing apparel	27144	0.00	265.51	68288.46	25019.94	1858.55	2344.74	0.00	389.70	36723.35	2734.45	
Wood/ wood products	5626	0.00	432.69	7634.57	2164.48	3028.83	8472.25	0.00	315.87	1580.09	8788.12	
Furniture	5941	0.00	445.38	6340.13	2377.93	3117.69	4857.01	0.00	493.64	2635.59	5350.65	
Paper/ paper products	3203	0.00	400.38	0.00	0.00	2802.63	3781.44	0.00	862.67	0.00	4644.12	
Publishing/ printing	4963	2130.60	354.05	0.00	0.00	2478.35	3262.94	3724.59	726.04	0.00	7713.57	
Leather/ leather products	245	0.00	2.83	702.70	222.34	242.17	294.02	0.00	5.51	432.75	299.53	
Rubber/ rubber products	3796	0.00	196.36	7259.18	2225.14	1374.50	1958.34	0.00	360.82	4088.87	2319.17	
Chemicals/ chemicals products	31245	4474.24	3002.10	8083.66	2753.95	21014.71	27919.74	7740.88	4838.07	4438.16	40498.69	
Petroleum	34506	33172.34	0.00	3487.07	1333.66	0.00	0.00	47469.33	0.00	0.00	47469.33	
Non-mettalic mineral products	14069	0.00	1645.27	2536.05	906.87	11516.86	21095.41	0.00	1587.32	874.93	22682.73	
Basic metal	10047	0.00	1213.40	1400.11	339.83	8493.78	11187.31	0.00	3401.11	952.52	14588.42	
Metal fabrication	8970	0.00	861.73	5954.17	2076.19	6032.08	6783.65	0.00	1502.19	3619.29	8285.84	
Machinery	4284	0.00	45.27	9911.73	3921.83	316.90	364.26	0.00	62.38	5403.74	426.64	
Electrical	22680	0.00	0.00	131663.32	21115.01	1564.99	1819.17	0.00	0.00	56551.37	1819.17	
Transport equipment	6088	0.00	682.44	2477.93	628.51	4777.06	5737.90	0.00	1870.86	1723.01	7608.76	
Misc. manufactures	8910	0.00	166.44	16278.81	7578.50	1165.07	1399.41	0.00	157.60	7175.97	1557.00	
Construction	95495	0.00	46410.57			49084.43	58701.15	0.00	35710.38		94411.53	
Electricity, gas and water	44895	44895.00	0.00			0.00	0.00	6243.54	0.00		6243.54	
Transportation, communication	75529	67248.42	4993.19			3287.39	4530.78	34670.75	929.89		40131.42	
Storage	7284	0.00	4392.25			2891.75	3861.13	0.00	1097.40		4958.53	
Trade	230799	0.00	132247.83			98551.17	116599.00	0.00	13951.50		130550.50	
Finance, real estate	181689	181689.00	0.00			0.00	0.00	24174.72	0.00		24174.72	
Private services	147141	77348.90	30638.73			39153.37	48673.66	39761.94	9397.63		97833.23	
Government services	127274	127274.00	0.00			0.00	0.00	30160.75	0.00		30160.75	
TOTAL	1692932	1002652.65	238783.38			340419.37	472439.54	242429.03	87249.90	144663.01	802118.47	542277.5
										Potential VAT Revenue		54227.75
GD Capital Formation	407367											
A. Fixed Capital	400139											
1. Construction	165202	0.60299512		0.25		24904						
2. Durable Equipment	207562											
3. Breeding Stock & Orchard Dev't	27375											
B. Changes in Stocks	7228											

NIA, As of Jan 1995
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61

Appendix Table 6d
Computation of Potential Revenues from VAT on Domestic Sales (Million Pesos), 1995

Sector	1995 Sectoral GVA (1)	GVA of Exempt sectors (2)	GVA of Marginal sectors (3)	Merchandise exports 25.7144 (4)	GVA of exports (5)	1-2-3-5 (6)	Adjusted GVA (output) (7)	VATable Inputs to exempt sec. (8)	VATable Inputs to marg. sec. (9)	VATable Inputs to exports (10)	7+8+9 (11)	
Agriculture,												
Fishery, Forestry	412197	394669.07	0.00	23605.82	17527.93	0.00	0.00	25744.44	0.00	0.00	25744.44	
Mining and Quarrying	17178	0.00	113.85	22962.96	11756.55	5307.60	6678.05	0.00	79.13	8170.79	6757.18	
Manufacturing	438247	158965.87	22375.46	392131.74	95135.68	162038.48	262140.51	90452.42	29714.86	154664.44	382307.79	
Food	176183	116288.59	5888.74	37543.02	12784.46	41221.21	91164.63	27106.21	4853.87	10537.75	123124.71	
Beverages	20662	0.00	2566.97	257.14	126.21	17968.82	25229.16	0.00	1625.92	79.94	26855.08	
Tobacco	10581	0.00	1322.63	0.00	0.00	9258.38	11308.00	0.00	1338.98	0.00	12646.98	
Textile	11160	0.00	1196.55	5348.60	1587.59	8375.86	11724.75	0.00	2356.23	3126.25	14080.98	
Footwear, wearing apparel	30370	0.00	525.85	71408.89	26163.22	3680.93	4643.85	0.00	771.82	38401.42	5415.67	
Wood/ wood products	5808	0.00	455.35	7637.18	2165.22	3187.43	8915.90	0.00	332.41	1580.62	9248.30	
Furniture	6909	0.00	530.89	7097.17	2661.86	3716.25	5789.49	0.00	588.42	2950.29	6377.91	
Paper/ paper products	3901	0.00	487.63	0.00	0.00	3413.38	4605.50	0.00	1050.67	0.00	5656.17	
Publishing/ printing	5493	2358.13	391.86	0.00	0.00	2743.02	3611.39	4122.34	803.57	0.00	8537.30	
Leather/ leather products	285	0.00	2.06	848.58	268.50	282.94	343.52	0.00	4.02	522.59	347.53	
Rubber/ rubber products	4399	0.00	201.76	9085.41	2784.93	1412.31	2012.21	0.00	370.75	5117.53	2382.96	
Chemicals/ chemicals products	35663	5106.89	3443.91	8820.04	3004.82	24107.38	32028.60	8835.43	5550.07	4842.46	46414.10	
Petroleum	36894	35212.27	0.00	4397.16	1681.73	0.00	0.00	50388.44	0.00	0.00	50388.44	
Non-mettallic mineral products	17121	0.00	2015.99	2777.16	993.09	14111.92	25848.78	0.00	1944.98	958.11	27793.77	
Basic metal	13352	0.00	1625.31	1440.01	349.51	11377.18	14985.09	0.00	4555.70	979.66	19540.79	
Metal fabrication	9751	0.00	903.01	7246.83	2526.94	6321.05	7108.63	0.00	1574.16	4405.05	8682.79	
Machinery	5072	0.00	68.55	11432.62	4523.61	479.84	551.56	0.00	94.45	6232.91	646.01	
Electrical	28087	0.00	0.00	190620.85	22945.27	5141.73	5976.83	0.00	0.00	61453.27	5976.83	
Transport equipment	7239	0.00	663.23	7621.75	1933.19	4642.58	5576.38	0.00	1818.20	5299.72	7394.58	
Misc. manufactures	9317	0.00	85.18	18549.34	8635.53	596.29	716.22	0.00	80.66	8176.86	796.88	
Construction	106639	0.00	51826.55			54812.45	65551.41	0.00	39877.69		105429.10	
Electricity, gas and water	49410	49410.00	0.00			0.00	0.00	6871.45	0.00		6871.45	
Transportation, communication	81554	72612.88	5391.50			3549.63	4892.20	37436.46	1004.07		43332.73	
Storage	7375	0.00	4447.13			2927.88	3909.37	0.00	1111.11		5020.48	
Trade	261862	0.00	150046.93			111815.07	132291.94	0.00	15829.21		148121.16	
Finance, real estate	208723	208723.00	0.00			0.00	0.00	27771.74	0.00		27771.74	
Private services	169290	88992.16	35250.75			45047.09	56000.46	45747.27	10812.25		112559.98	
Government services	153853	153853.00	0.00			0.00	0.00	36459.30	0.00		36459.30	
TOTAL	1906328	1127225.98	269452.17			385498.19	531463.95	270483.08	98428.30	162835.23	900375.33	633528.6
										Potentital VAT Revenue		63352.86
GD Capital Formation	423634											
A. Fixed Capital	423197											
1. Construction	183740	0.59627191		0.25		27389.75						
2. Durable Equipment	209772											
3. Breeding Stock & Orchard Dev't	29685											
B. Changes in Stocks	437											

NIA, As of Jan 1995
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62

Appendix Table 6e
Computation of Potential Revenues from VAT on Domestic Sales (Million Pesos), 1996

Sector	1996 Sectoral GVA (1)	GVA of Exempt sectors (2)	GVA of Marginal sectors (3)	Merchandise exports 31.75405 (4)	GVA of exports (5)	1-2-3-5 (6)	Adjusted GVA (output) (7)	VATable inputs to exempt sec. (8)	VATable inputs to marg. sec. (9)	VATable inputs to exports (10)	Presumpti Input Tax Credit (11)	Percentag Tax on mall Firm (12)	.1*(7+8+9)-11+12 potential VAT revenue (13)	
Agriculture,														
Fishery, Forestry	470341	453270.38	0.00	22989.93	17070.62	0.00	0.00	41445.42	0.00	0.00		0.00	4144.54	
Mining and Quarrying	17316	1088.02	114.78	21021.18	10762.40	5350.81	6551.34	199.15	89.03	8347.76		6.73	690.68	
Manufacturing	495415	181358.52	25469.56	477072.83	108054.59	180827.72	284996.68	105566.85	34526.09	195761.55		2221.71	44730.67	
Food	209559	138318.23	7479.11	33500.52	11407.87	52353.78	111884.92	39658.25	6721.97	10253.00		658.90	16485.41	
Beverages	23053	0.00	2867.99	222.28	109.10	20075.92	27400.29	0.00	1929.06	73.38		175.30	3108.24	
Tobacco	11692	0.00	1461.50	0.00	0.00	10230.50	12067.76	0.00	1540.65	0.00		97.94	1458.78	
Textile	11528	0.00	1201.83	6446.07	1913.34	8412.82	10928.09	0.00	2487.83	3960.68		121.47	1463.06	
Footwear, wearing apparel	29301	0.00	533.01	68334.71	25036.89	3731.10	4310.57	0.00	838.99	39409.36		43.64	558.60	
Wood/ wood products	5864	0.00	458.42	7747.99	2196.63	3208.95	8607.26	0.00	387.34	1856.02		46.51	947.97	
Furniture	7021	0.00	517.36	7684.48	2882.14	3621.51	5388.67	0.00	609.59	3395.96		41.38	641.21	
Paper/ paper products	3921	0.00	490.13	0.00	0.00	3430.88	4408.08	0.00	1087.63	0.00		51.52	601.09	
Publishing/ printing	6022	0.00	752.75	0.00	0.00	5269.25	6283.77	0.00	1502.99	0.00		72.02	850.70	
Leather/ leather products	333	0.00	4.70	933.57	295.39	328.30	362.71	0.00	9.66	607.22		0.45	37.68	
Rubber/ rubber products	4220	0.00	116.00	10739.54	3291.97	812.03	1102.13	0.00	221.00	6271.50		11.35	143.67	
Chemicals/ chemicals products	39204	4423.39	3952.72	9272.18	3158.86	27669.03	33935.74	7686.16	6799.93	5434.24		348.07	5190.25	
Petroleum	41313	38616.89	0.00	7049.40	2696.11	0.00	0.00	58222.44	0.00	0.00		0.00	5822.24	
Non-mettalic mineral products	19503	0.00	2325.74	2508.57	897.05	16280.21	28858.07	0.00	2381.31	918.48		195.12	3319.05	
Basic metal	13628	0.00	1648.59	1809.98	439.31	11540.11	14430.39	0.00	4730.84	1260.65		203.77	2119.89	
Metal fabrication	11316	0.00	1041.34	8561.21	2985.26	7289.40	7841.46	0.00	1866.19	5349.87		89.59	1060.36	
Machinery	5981	0.00	126.32	12561.90	4970.44	884.24	940.32	0.00	184.92	7276.24		9.58	122.10	
Electrical	33546	0.00	0.00	260033.91	31300.60	2245.40	2440.17	0.00	0.00	86199.58		0.00	244.02	
Transport equipment	7958	0.00	397.33	18842.85	4779.32	2781.34	3059.97	0.00	1129.38	13584.75		47.00	465.93	
Misc. manufactures	10452	0.00	94.71	20823.67	9694.33	662.96	746.30	0.00	96.82	9910.63		6.10	90.42	
Construction	127592	0.00	62009.71			65582.29	75347.14	0.00	50629.22			3656.16	16253.79	
Electricity, gas and water	57996	57996.00	0.00			0.00	0.00	9284.75	0.00			0.00	928.47	
Transportation,														
communication	92769	35151.03	34743.64			22874.34	31044.77	32951.73	22104.63			2306.30	10916.41	
Storage	8233	0.00	4964.50			3268.50	3828.63	0.00	2053.81			236.07	824.32	
Trade	295092	0.00	169087.72			126004.28	138092.62	0.00	32581.63			6536.73	23604.15	
Finance, real estate	244889	129083.41	50838.65			64966.94	71531.81	13896.28	14238.85			1888.85	11855.55	
Private services	199196	61951.58	60250.30			76994.12	96542.15	39513.11	28963.52			3198.66	19700.54	
Government services	181034	181034.00	0.00			0.00	0.00	61676.58	0.00			0.00	6167.66	
TOTAL	2189873	1100932.93	407478.86			545868.99	707935.14	304533.87	185186.78	204109.31	0.00	20051.20	139816.78	106780.1
										Potential VAT Revenue w/o %tax			119765.58	86728.9
GD Capital Formation	544951									on small firms				
A. Fixed Capital	523724													
1. Construction	230508	0.64467611		0.25		37150.75								
2. Durable Equipment	260149													
3. Breeding Stock & Orchard Dev't	33067													
B. Changes in Stocks	21227													

NIA, As of Jan 1995
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Appendix Table 7
Potential Revenue of VAT on Imports
(in million pesos)

Year	Total Imports	Wheat	Corn	Rice	Unmilled Cereals	Feed Stuffs	Urea	Fruits	Fertilizer	Live Animals,etc	Fish	Petroleum Prod.	Adjusted Imports ($)	Exchange Rate	Adj. Imp (Pesos)	Potential Revenue
1991	12051	172			1	153	59	37	72	150	62	1784	9561	27.4786	262722.9	26272.29
1992	14519	235			7	186	75	54	70	194	61	2050	11567	25.5125	295613.3	29561.33
1993	17597	260		36	1	234	67	66	58	226	49	2016	14584	27.1198	395515.2	39551.52
1994	21333	324			2	195	90	99	80	347	53	2040	18103	26.4172	478230.6	47823.06
1995	26391	349	33	76	2	263	110	97	85	563	59	2461	22293	25.7144	573251.1	57325.11

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Appendix Table 8
Key Features of Old & New Income Tax Laws

Personal Income Tax Rates

	Taxable Income			Tax Due			
Old System		Not Over	P 2,500		0%		
	Over P 2,500	but not over	5,000		1%		
	Over 5,000	but not over	10,000	P 25 +	3%	of excess over	P 5,000
	Over 10,000	but not over	20,000	175 +	7%	of excess over	10,000
	Over 20,000	but not over	40,000	875 +	11%	of excess over	20,000
	Over 40,000	but not over	60,000	3,075 +	15%	of excess over	40,000
	Over 60,000	but not over	100,000	6,075 +	19%	of excess over	60,000
	Over 100,000	but not over	250,000	13,675 +	24%	of excess over	100,000
	Over 250,000	but not over	500,000	49,675 +	29%	of excess over	250,000
	Over 500,000			122,175 +	35%	of excess over	500,000
New System		Not Over	P 10,000		5%		
	Over P 10,000	but not over	30,000	P 500 +	10%	of excess over	P 10,000
	Over 30,000	but not over	70,000	2,500 +	15%	of excess over	30,000
	Over 70,000	but not over	140,000	8,500 +	20%	of excess over	70,000
	Over 140,000	but not over	250,000	22,500 +	25%	of excess over	140,000
	Over 250,000	but not over	500,000	50,000 +	30%	of excess over	250,000
	Over 500,000			125,000 +	34%	of excess over	500,000[a/]

Personal Exemption

Old System — ₱9,000 for single individual; ₱12,000 for head of the family; ₱18,000 for each married income earner and ₱5,000 for each dependent up to 4

New System — ₱20,000 for each single individual; 25,000 for head of the family, 32,000 for each married income earner and ₱8,000 for each dependent up to 4

Personal Income Tax Base

Old System — Schedular income system with wage income subject to one schedule and business and professional income subject to another schedule; dividends are not subject to individual income tax; interest income subject to 20% final withholding tax rate; capital gains on real property subject to 5% tax based on gross selling price; set capital gains on unlisted shares of stocks subject to 10/20% tax, tax of ½ of 1% on gross selling price of listed stocks sold

[a/] Top marginal bracket will decline to 33% in 1999 and 32% in 2000.

Appendix Table 8 (cont'd)

New System	Compensation and business/professional income subject to a single rate schedule; dividends subject to a final withholding tax rate of 6% in 1998, 8% in 1999 and 10% in 2000 and every year thereafter; interest income subject to 20% final withholding tax rate (with interest income from long-term deposit being exempt from this tax); capital gains on real property subject to 6% tax based on gross selling price (but capital gains from sale/disposition of principal residence can be deferred); capital gains on unlisted stocks subject to 5/10% tax; capital gains on shares of stocks listed and traded through the stock exchange subject to a final tax at the rate of 0.5% of gross selling price; shares of stock sold or exchanged through initial public offering subject to final tax of 1%-4% of gross selling price; 7.5% tax on interest income from Foreign Currency Deposits
Company Income Tax Rate	
Old System	tax rate of 35%
New System	tax rate of 34% in 1998, 33% in 1999 and 32% in 2000 and every year thereafter
Other Sources of Income Not Otherwise Included in the Corporate Income Tax Base, Depreciation and Other Features	
Old System	Intercorporate dividend subject to 0% tax; interest income subject to 20% tax; net capital gains from sales of shares of unlisted stock subject to 10/20% tax; tax of ½ of 1% of gross selling price on sale of shares of listed stocks
New System	Intercorporate dividend subject to 0% tax except for insurance companies, mutual funds companies and regional operating headquarters of multinational companies; interest income subject to 20% tax; net capital gains from sales of shares of unlisted stock subject to 5/10% tax; tax on the sale/exchange or barter of shares of listed stock at the rate of 0.5% based on gross selling price; tax on sale of shares of stock sold through initial public offering at the rate of 1-4% based on gross selling price; final tax on the sale of real property at the rate of 6% based on gross selling price; NOLCO; accelerated depreciation; minimum corporate income tax at the rate of 2% of gross income, fringe benefit tax, tax on reverse repurchase agreements, correction for interest tax arbitrage