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DOMESTIC RESOURCE MOBILIZATION CASE STUDY: THE PHILIPPINES

Leadership in Public Financial Management II
(LPFM II)

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Acronyms

ASEAN	Association of Southeast Asian Nations
BIR	Bureau of Internal Revenue
BOC	Bureau of Customs
CIT	Corporate Income Tax
CMTA	Customs Modernization and Tariff Act
CTRP	Comprehensive Tax Reform Program
DRM	Domestic Resource Mobilization
DOF	Department of Finance
e2M	Electronic to Mobile
eFPS	Electronic Filing and Payment System
eTIS	Electronic Tax Information System
E-VAT	Expanded Value Added Tax
FPI	Facilitating Public Investment
GDP	Gross Domestic Product
IMF	International Monetary Fund
ITS	Integrated Tax System
LPFM	Leadership in Public Financial Management
LTS	Large Taxpayer Service
MCC	Millennium Challenge Corporation
NARA	National Authority for Revenue Administration
NTRC	National Tax Research Center
PHP	Philippine Peso
PIT	Personal Income Tax
RARP	Revenue Administration and Reform Project
RATE	Run After Tax Evaders
RATS	Run After The Smugglers
STA	Sin Tax Act
TCP	Tax Computerization Project
TIMTA	Tax Incentives Management and Transparency Act
TRAIN	Tax Reform for Acceleration and Inclusion Act
VAT	Value Added Tax
WTO	World Trade Organization

Preface

Programs to strengthen domestic resource mobilization (DRM)¹ in developing countries are important not only to curtail reliance on donor funding, but more importantly to provide the governments with a dependable, sustainable, and steadily expanding source of domestic revenue for investing in development and delivering essential public goods and services. Effective DRM programs can also be a foundation for building good governance and enhancing accountability in public finance management. In addition, DRM programs can deliver major economic benefits by creating tax systems that foster more efficient private sector development.

The 2015 Addis Ababa Action Agenda on Financing for Development placed DRM front and center as a goal in its own right—and as the most viable mechanism for achieving the United Nations Sustainable Development Goals. To follow up on the Addis Agenda, the Addis Tax Initiative was established, underpinning the international community’s commitment to help developing countries strengthen their DRM efforts.

Developing countries face enormous challenges as they seek to improve revenue performance. These challenges include weak administrative and enforcement capacity, an inherently narrow tax base, a prevalence of informal sector activities, a culture of low tax compliance, and deep-seated problems with corrupt practices and politically driven tax favors.

Notwithstanding these challenges, many developing countries—including the Philippines—have shown progress in strengthening DRM. This case study tells the story of the Philippines’ efforts to enhance revenue performance and provide better services for the country’s taxpayers.

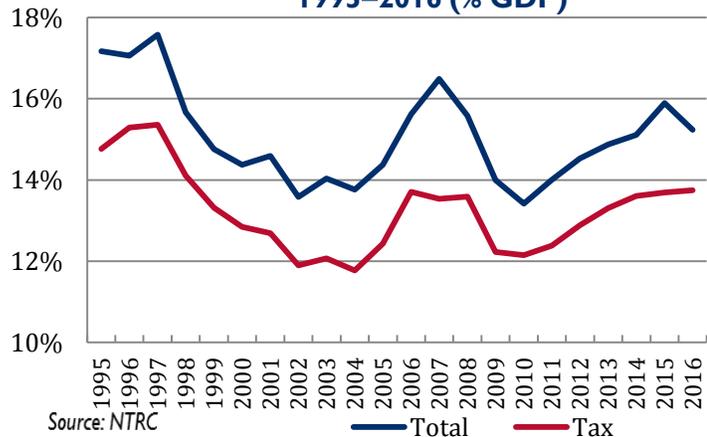
¹ DRM, in its broadest sense, encompasses not only efforts to enhance government revenues but also the government’s ability to effectively budget and efficiently spend financial resources to provide public goods and services. This study, however, focuses solely on the revenue side of budget performance.

Executive Summary

The Philippine economy faced two severe international financial crises over the past two decades (1996–2016). But, in each case, economic growth quickly resumed and inflation stabilized, thanks to prudent

macroeconomic policies. Tax revenues, however, slipped from 15.4 percent of GDP in 1997 to just 11.8 percent in 2004 (Figure 1). Policy measures to plug this gap boosted the tax ratio to 13.5 percent of GDP in 2007, but tax cuts to cushion effects of the global financial crisis knocked the ratio back to 12.4 percent in 2010. Since then, the tax ratio has rebounded by 1.6 percentage points through a combination of policy reforms and measures to strengthen tax administration and facilitate compliance. Even so, the tax ratio in 2016 remained well below the 1997 peak.

Figure 1. Trends in Domestic Revenue, 1995–2016 (% GDP)



To fund an increase in priority spending on infrastructure and social services, the Duterte government is promoting a Comprehensive Tax Reform Program. Phase I entails the Tax Reform for Acceleration and Inclusion (TRAIN) bill, which has passed both chambers and is currently going through a bicameral reconciliation process. The TRAIN legislation represents the first major overhaul of the tax system since 1997. That earlier reform program, however, had several key deficiencies, including lack of adjustments for inflation. It also suffered from revenue reversals caused by a proliferation of tax incentives and exemptions.

Before TRAIN, the most important policy reform over the past decade has been the 2012 Sin Tax Act (STA), which corrected critical problems with the excise tax on tobacco and alcohol products. The STA narrowly survived opposition from vested interests because it was framed not just as a fiscal measure, but also as a public health measure. On the administrative side, the most important reform since 1997 was the creation of the Large Taxpayers Service at the Bureau of Internal Revenue in 2000, focusing resources on the most important segment of taxpayers. Other major administrative reforms have been in the areas of computerization, simplification of compliance, enforcement, and public awareness. These improvements in tax administration have been an important source of the revenue gains achieved since 2010. Despite the reform efforts, revenue gains have been weakened by continuing expansion of special tax breaks, bank secrecy laws that hinder tax audits, lack of inflation adjustments to the excise on petroleum products, human and financial resource constraints in the revenue bureaus, and ongoing problems with corruption.

The case of the Philippines offers several valuable lessons for DRM programs more broadly. First, as illustrated by the 2012 STA, success against vested interests requires coordination across government departments combined with broad, active grassroots support and innovative packaging, such as earmarking a portion of the revenues for social programs. Second, to achieve any significant results in a democratic institutional environment, reforms must be home grown and viewed as such; even so, international partners have a vital role to play in supporting the government with technical and financial assistance. Third, the Philippine experience underscores the need to curb revenue leakages caused by politically driven loopholes and exemptions that can undermine otherwise sound, effective reforms. Fourth, constraints on access to financial information, exemplified by stringent bank secrecy laws in the Philippines, and seriously hamper efforts to strengthen tax investigations and audits. Fifth, political will for reform must be sustained over several years for major reforms to gain traction. Finally, tax reforms work best when the overarching governance environment achieves a suitable balance between operational autonomy and accountability in tax administration.

DRM Case Study: The Philippines

Introduction: Economic Conditions

Over the past two decades (1996–2016), the Philippines' economy has grown at an average rate of 4.8 percent per year, despite facing two major financial crises. The Asian financial crisis in 1997-98 and the global financial crisis of 2008-09 produced short-term contractions, but in both cases, economic growth quickly resumed. Over the same period, inflation spiked several times, reaching 9.2 percent in 1998 and 8.3 percent in 2008. These episodes of instability were also short-lived, so that inflation averaged 4.9 percent between 1997 and 2007 and 3.8 percent between 2007 and 2016. For the past two years, inflation has been held below 2 percent.

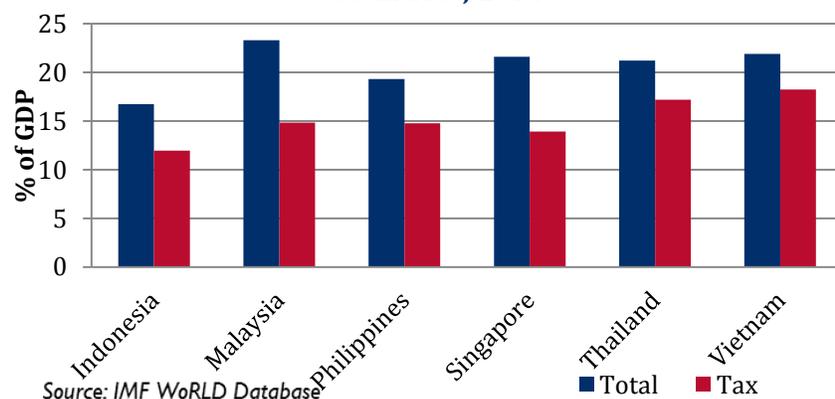
This resilient economic performance was accompanied by structural changes that have a major bearing on domestic resource mobilization (DRM). The service sector, parts of which can be difficult to tax, accounted for about 50 percent of GDP on the eve of the Asian financial crisis, but grew to nearly 60 percent in 2016. In turn, the manufacturing sector declined slightly in relative importance to just under 20 percent of GDP in 2016, from 22.3 percent in 1996. Equally important, merchandise imports fell from 47 percent of GDP in 1997 to just 28 percent in 2016.

Over this period, economic growth was supported by prudent macroeconomic policies marked by relatively low budget deficits. But political pressure has been growing for greater spending on infrastructure and social services. President Rodrigo Duterte, who took office in mid-2016, has targeted a large increase in these expenditures as part of his ten-point socioeconomic agenda. To ensure fiscal sustainability, this spending program will require a substantial improvement in the revenue yield.

Revenue Trends: A Lost Decade and Partial Recovery

In 2016 Philippine central government revenue amounted to 15.2 percent of GDP, of which 13.7 percent derived from taxation.² Both ratios are low by regional standards (Figure 1), and with respect to government

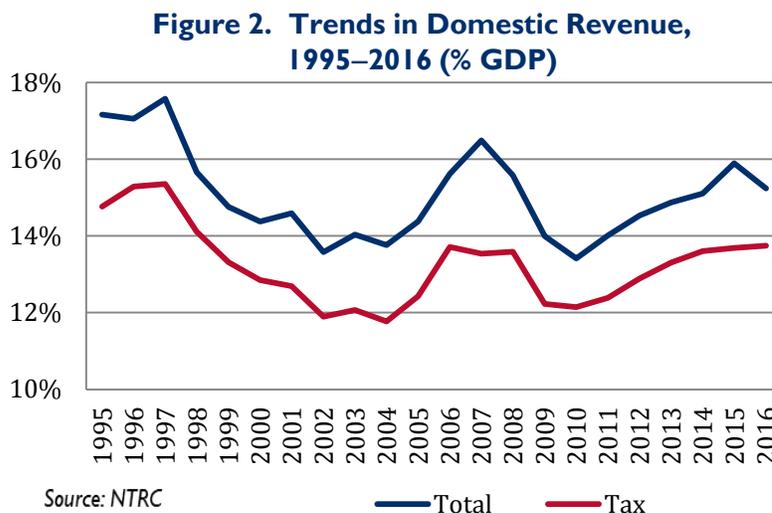
Figure 1. Total & Tax Revenue of select ASEAN Countries, 2014



² Statutory contributions to the Social Security Fund are booked as off-budget revenue; these revenues amounted to 2.4% of GDP in 2016.

budget targets and perceived development needs.³

To put this in perspective, the tax ratio peaked at 15.4 percent of GDP in 1997 (Figure 2). That same year, the government passed the Comprehensive Tax Reform Program (CTRP), discussed below, aiming to establish a sound foundation for future revenue growth. But the Asian financial crisis knocked the tax yield down to 14.1 percent of GDP in 1998, as “built-in stabilizers” in the tax code responded to the recession. When the economy recovered, the tax ratio continued to slide, bottoming out at 11.8 percent of GDP in 2004. This staggering drop in the revenue yield, fully 3.6 percent of GDP, resulted from a combination of factors; these include a proliferation of special-interest tax breaks, lower import duties in pursuit of trade liberalization, flaws in the design of the 1997 excise tax reform, and weak tax administration.



To plug the revenue hole, excise rates on alcohol and tobacco were adjusted in 2004, followed by an increase in the corporate income tax (CIT) rate from 32 percent to 35 percent in 2006. An increase in the value added tax (VAT) rate from 10 percent to 12 percent also took effect in 2006, along with reforms to broaden VAT coverage. These measures, among others discussed below, boosted the tax ratio to 13.5 percent of GDP in 2007. But the global financial crisis brought another sharp downturn in the economy, prompting the government to adopt tax cuts to cushion the impact of the crisis. As a result, the tax ratio fell to 12.2 percent of GDP in 2009, and 12.1 percent in 2010—closing out more than a decade of “lost years” for DRM.

Since 2010 the ratio of tax revenue to GDP has rebounded by 1.6 percentage points (as of 2016). The improvement has been due in part to the natural buoyancy of revenues as incomes have increased—the flip side of built-in stabilizers. In addition, the government took steps to boost revenue by adopting the Sin Tax Reform Law of 2012 (despite strong resistance from special interests) and pursuing measures to improve tax administration and facilitate tax compliance.⁴ Even so, revenue gains have been weakened by a stream of special-interest tax preferences, leaving the tax ratio in 2016 well below the peak achieved in 1997.

³ International comparison data comes from the IMF World Longitudinal database for the year 2014—the latest year of available data in the database (<http://data.imf.org/?sk=77413F1D-1525-450A-A23A-47AEED40FE78>). Data for the Philippines in this database may differ from official statistics from government sources.

⁴ A recent Philippines government posting cites World Bank assessments of the “tax gap” as showing that tax administration improved by 40 percent between 2006 and 2016. See

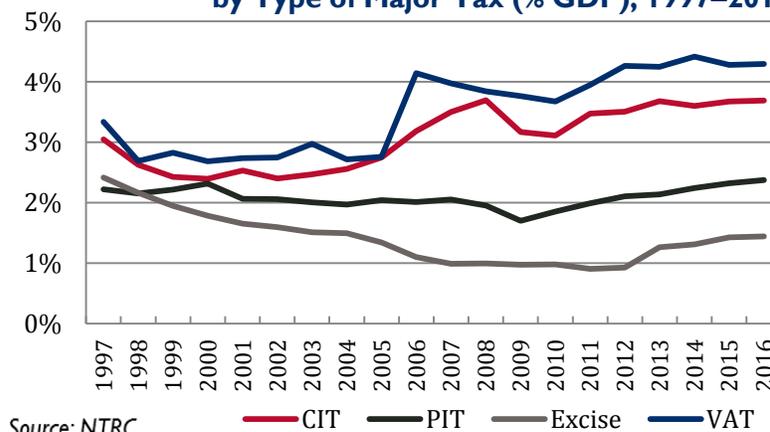
As of 2016, the Bureau of Internal Revenue (BIR) accounted for 79 percent of total tax revenue, with the Bureau of Customs (BOC) collecting 20 percent and other offices 1 percent. The Large Taxpayers Service (LTS) collected more than 60 percent of BIR revenue. By type of tax, VAT was the most important revenue source, generating more than 31 percent of the tax revenue (of which BOC collected nearly half in the form of VAT on imports). The CIT accounted for 27 percent of the tax revenue, with personal income tax (PIT) generating 17 percent and excise tax 11 percent.

Over the “lost years” between 1997 and 2010, BIR collections plunged from 11.7 percent of GDP to just 9.1 percent, while BOC revenue slumped from 3.5 percent of GDP to 2.9 percent. Excise revenues declined precipitously, while income tax and import duties also fell (Figure 3). Import duties now account for only 3 percent of tax revenue—down from more than 20 percent in the early 1990s. That drop, however, is unsurprising given the decline in merchandise imports relative to GDP (mentioned earlier) and liberalization of trade in compliance with bilateral and regional trade agreements.

Since 2010, BIR collections have risen to 10.8 percent of GDP. BOC revenues, meanwhile, have slipped slightly further to 2.7 percent of GDP. Otherwise, collection performance has improved for all major taxes, relative to GDP. Even with these improvements, tax

collections are still falling far short of the government’s stated targets. In turn, weak revenue performance continues to constrain spending on infrastructure and social services, which are priorities for the country’s overarching development agenda. Given the need to improve revenue performance, the Duterte government has been promoting a new Comprehensive Tax Reform Program (CTRP). Phase I is the Tax Reform for Acceleration and Inclusion Act (TRAIN). As of end-November 2017, both chambers of Congress had passed versions of the TRAIN legislation, and the bicameral reconciliation was underway. Some of the proposed reforms, however, have been watered down during the legislative process.

Figure 3. Revenue Trends, by Type of Major Tax (% GDP), 1997–2016



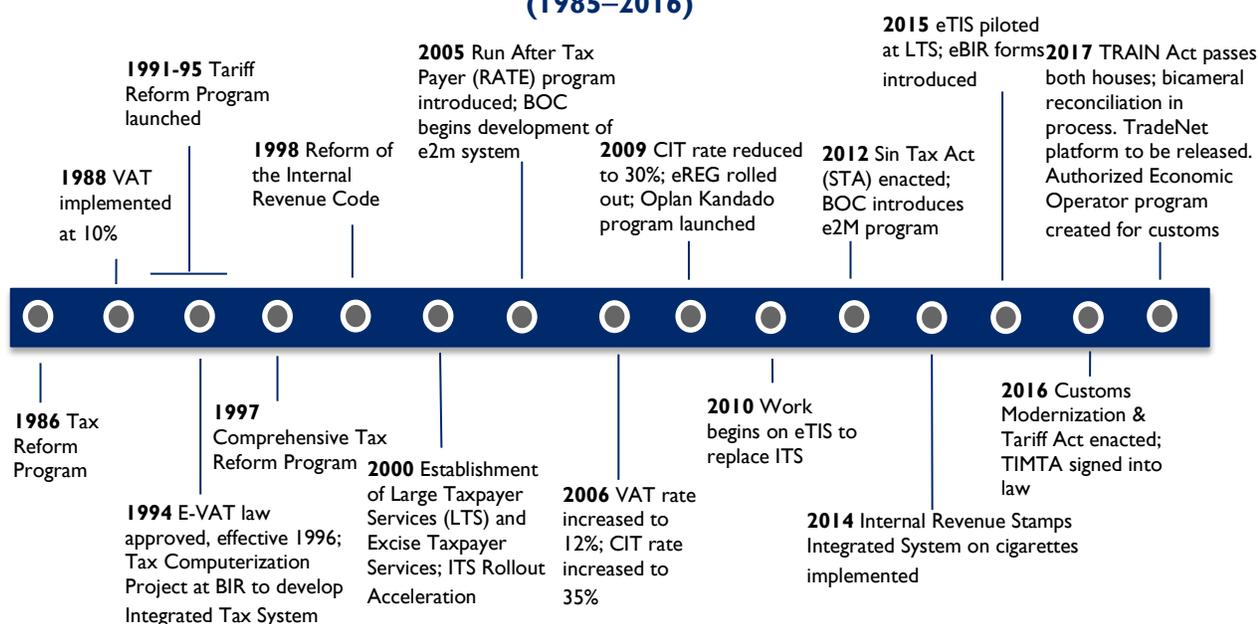
Source: NTRC

Philippines, Department of Finance, “BIR Can Collect Extra P433-B from Tax Policy, Administration Reforms,” *News and Views*, June 18, 2017; available from: <http://www.dof.gov.ph/index.php/bir-can-collect-extra-p433-b-from-tax-policy-administration-reforms/>.

The DRM Reforms

Over the past two decades, the government has pursued a series of tax policy measures and administrative reforms to strengthen DRM. Figure 4 summarizes key elements and a timeline of tax and customs reforms. Policy reforms have been particularly challenging because congressional approval has been strongly influenced by resistance from vested interests.⁵ Special interests have also driven a proliferation of tax exemptions and incentives that have eroded the positive effects of other measures.

Figure 4. Timeline of Major Tax and Customs Reforms in the Philippines (1985–2016)



Reforms to Tax Policy

Transition from the colonial revenue system began in the 1950s, followed by major reforms in the late 1980s to 1990s. The administration of Corazon Aquino initiated a tax reform program in 1986 to improve revenue yield, promote tax equity, reduce distortionary effects of taxation on employment and production, and improve tax compliance (including use of unique taxpayer identification numbers). The heart of the program was the introduction, in 1988, of the VAT at a standard rate of 10 percent, replacing a complicated, inefficient array of indirect taxes. Businesses that were not required to register for VAT were subject, instead, to a simple “percentage tax” based on sales revenue. But the Corazon Aquino administration also expanded the use of tax incentives for investment promotion, and subsequent congresses passed numerous acts that further weakened the tax base through VAT exemptions, deferrals, and

⁵ Unlike a parliamentary system, in which bills submitted by the prime minister are often ratified with few changes, in the Philippines presidential system, the Congress acts as an independent branch to review, amend, and approve policy measures.

zero-ratings. Currently, more than 80 sectors, entities, or groups benefit from such preferences (Jurado, 2017).

The next major policy initiative was the expansion of VAT coverage (the “EVAT”) in 1994 to include services. EVAT also raised the threshold for VAT registration and indexed the threshold for inflation. Although EVAT reduced exemptions, those provisions were challenged in court, and many exemptions were ultimately retained.

In 1997 the Comprehensive Tax Reform Program (CTRP) was adopted to broaden the tax base, minimize revenue leakages, simplify the tax structure, and enhance income tax progressivity. Principal features included a uniform PIT schedule for compensation, business, and professional incomes; a phased-in reduction of the CIT rate from 35 percent to 32 percent by 2000; and restructuring of the excise taxes on alcohol and petroleum products. Some features of the 1997 program, however, proved to be poorly designed. An important deficiency was (a) the failure to provide inflation adjustments to specific excise rates and (b) the creation of multiple tiers of excise rates that allowed manufacturers to “game” the system to minimize tax payments. This set the stage for a steady decline in excise revenues by 1.5 percent of GDP from its level of the mid-1990s through 2011. The 1997 reform also lacked inflation adjustments to the income tax brackets, with the result that many taxpayers have faced higher marginal tax rates over time simply attributable to inflation—a phenomenon referred to as “bracket creep.” A major selling point for the 2017 TRAIN proposal is that it would reverse 20 years of “creep” for individual taxpayers.

To combat the revenue decline, the Revenue Mobilization Package of 2006 increased the CIT rate from 32 to 35 percent; moreover, another revision of the VAT law (the “RVAT”) increased the tax rate to 12 percent, abolished exemptions for petroleum and other energy products (while decreasing the excise on these products), and subjected certain services to VAT. In the first year of RVAT, total VAT collections jumped by 66 percent in nominal terms, or 1.3 percent of GDP.

In 2009, facing an economic downturn owing to the global financial crisis, the government cut the CIT rate back to 30 percent as a countercyclical fiscal stimulus. CIT revenue fell by 10 percent that year in nominal terms in 2010, but rebounded quickly when the economy recovered.

When the administration of Benigno Aquino III took office in 2010, it saw the weakness in excise collections as a glaring problem. This prompted what is widely regarded as the most important policy reform of the past decade—the Sin Tax Act (STA) of 2012—to

Political Economy of the Sin Tax Act

It was only possible to overcome entrenched interests opposing the Sin Tax Act by mobilizing public opinion on behalf of the reform—especially through the healthcare community—and equipping proponents with quality policy analysis (including by the World Bank). Another vital element in the political strategy for the STA was a built-in earmark to allocate a large portion of incremental excise revenue to spending on public health programs, including health coverage for the poor. Even with a broad coalition of support and solid economic analysis, the STA passed in the Senate by only one vote. Still, the political tactics used for the STA have been highly instructive for current efforts to mobilize public opinion in favor of the TRAIN reforms.

correct critical deficiencies in the excise on tobacco and alcohol. The STA was designed and framed not just as a fiscal measure, but also as a public health measure aiming to reduce consumption of these products by raising their prices.⁶ The direct effect of the STA was to increase the excise on cigarettes and alcohol products. Especially important was a steep increase in the minimum tax on low-grade cigarettes. Over four years, to 2016, the STA also moved the excise on cigarettes from a multitiered ad valorem tax to a unified specific tax with an annual inflation adjustment, greatly reducing the complexity of tax administration. The excise tax on alcohol products remained fairly complex owing to lobbying by the industry.

In just two years, from 2012 to 2014, excise revenue on “sin” products doubled from 0.5 percent to 1.0 percent of GDP. An evaluation by the World Bank in 2016 found that the STA also (a) contributed to tripling the Department of Health budget between 2012 and 2016 and (b) to a decline in smoking prevalence to 25 percent of adults in 2016, from 30 percent before the enactment of the STA. Overall excise revenue, however, remains below the peak attained in 1997, mainly because of lack of adjustment to the excise on petroleum products.⁷ Correcting that deficiency has been a major component of the TRAIN program for enhancing revenue, though it has faced strong resistance from industry groups.

Several less salient policy measures have also been adopted, including periodic adjustments to excise rates before the STA, and the introduction and subsequent modification of an optional standard deduction for income tax. Rationalization of tax incentives has also been on the reform agenda since at least 2001, and legislation to this effect was drafted in 2010, albeit with little movement. In 2016, though, the government enacted the Tax Incentives Management and Transparency Act (TIMTA) requiring all recipients of tax incentives from an investment promotion agency to file annual tax incentive reports with their respective agencies. This should allow the Department of Finance (DOF) to monitor and report on this category of tax expenditures more systematically—as a first step in efforts to rationalize these costly incentives.

Efforts in 2017 to pass the TRAIN legislation represent the most comprehensive tax reform initiative since the 1997 package. Key features include broadening the VAT base by limiting exemptions, removing all VAT zero-rating

Behind the TRAIN reforms

The 2017 TRAIN package reflects years of technical work by the government and international development organizations (including, notably, the current undersecretary at Philippine Department of Finance, previously a tax specialist with the World Bank Group. The package also reflects a pressing need for additional revenue to finance the president’s commitment to higher spending on infrastructure and social services. TRAIN has been packaged with complementary measures to mobilize support from a broad coalition of public interest groups. But the legislation does not enjoy unanimous political support, and has faced strong lobbying in Congress from vested interests aiming to dilute some key provisions.

⁶ Reform to the excise on distilled spirits was also motivated by the need to comply with World Trade Organization (WTO) rules on equal treatment of imports and domestic products.

⁷ Excise revenue on petroleum products has been affected by sharp fluctuations in the world market price, but this price was actually higher in 2016 than in the peak revenue year of 1997. See the Macrotrend’s webpage “Crude Oil Prices - 70 Year Historical Chart”; available at <http://www.macrotrends.net/1369/crude-oil-price-history-chart>.

except for direct exports, reducing the number of PIT brackets and adjusting them for inflation, introducing excise on certain sugar-sweetened beverages, and consolidating excise rates for petroleum products. This policy package is planned to be accompanied by administrative reforms; these include linkage of BIR servers to cash registers and point-of-sale machines, expansion of electronic receipts and invoices, relaxation of bank secrecy restrictions for tax fraud cases, and submission of certification of tax payment for professional license renewals.

On the customs side, a series of tariff reforms greatly reduced the fiscal role of import duties by cutting the average applied tariff from 33.3 percent in 1990, to 19.5 percent in 2000, and to 5.8 percent in 2003 (Bautista and Tecson 2003; WTO 2005).⁸ Other customs initiatives are discussed in the next section.

Reforms to Tax Administration

Over the past two decades, the most important administrative reform in the Philippines was the establishment of the Large Taxpayers Service (LTS) at BIR in 2000, to focus special resources on the most important segment of the tax base. In 2016, the LTS generated more than 60 percent of BIR revenue. Other major administrative reforms have been undertaken in computerization, simplification of compliance, enforcement, and public awareness. According to a recent IMF country review of the Philippines, “improvements in tax administration” have been an important source of the increased revenue yield in recent years. Substantiating this claim, the VAT efficiency ratio has improved from 30.6 percent in 2010 to 35.8 percent in 2016, exceeding the previous peak of 34.5 percent achieved in 2006 (authors’ calculations)—despite erosion to the VAT base from the introduction of new exemptions.⁹

Computerization of operations. The BIR in 1994 initiated the development of an Integrated Tax System (ITS), under a World Bank Tax Computerization Project (TCP). By 2010, the ITS had become outdated and inadequate for BIR operations. With support from the Revenue Administration and Reform Project (RARP) from the Millennium Challenge Corporation (MCC), the Bureau began development of a new electronic Tax Information System (eTIS) with a web-based platform that should eventually encompass all of BIR’s main operations and consolidate data from other systems; these systems include the electronic Filing and Payment System (eFPS), the electronic registration system (eReg), and Automated Auditing Tools System (AATS), among others. The system’s objective is to greatly improve operational efficiency at BIR and provide senior officers with a tool to manage and monitor operations more effectively.

Currently, though, the implementation of eTIS is well behind the planned schedule. Delays have occurred because of the complexity of the systems involved, and complications relating to customization off-the-shelf software to suit local requirements, as well as staffing constraints. Some of the implementation problems can be traced to the initial choice of software that may

⁸ This tariff reduction also affected revenue from VAT on imports because the VAT rate applies to import values *inclusive* of the tariff.

⁹ The VAT efficiency ratio = actual VAT revenue as a percentage of the theoretical potential from applying the prevailing VAT rate to all economic activity contributing to GDP. A higher ratio indicates broader coverage, improved administration, or both. Here, the gain in VAT efficiency ratio is primarily due to administrative improvements, since no significant policy measures were undertaken during this period to boost VAT revenues.

not have been an optimal fit for BIR operations, along with challenges of reengineering BIR processes for the computer era. When RARP ended in 2016, eTIS was covering five core modules in the LTS and the Makati region—meeting targets that had been set for the initial phase of the rollout. According to available information, however, it is unclear when the full national rollout can be achieved owing to issues with the design, performance, and funding.

Progress with computerization has also been ongoing at BOC. In January 1996, with World Bank Support, the Philippine Bureau of Customs introduced the widely used Automated System for Customs Data (ASYCUDA) to streamline procedures and improve transparency. By 2016, the Bureau upgraded to ASYCUDA++ and planned to adopt the most recent version, ASYCUDA World. Further transition to a “paperless customs service” is a key objective of the Customs Modernization and Tariff Act (CMTA) of 2016. Among other features, the CMTA also replaces the 1978 Tariff and Customs Code (including subsequent amendments) and mandates modernization of post-clearance audit, regulation of “free zones,” and procedures to facilitate clearances for Authorized Economic Operators.

Compliance simplification. Other BIR initiatives have simplified tax compliance and improved taxpayer services. For example, eFPS allows taxpayers to file returns and make payments online, where previously they had to visit BIR offices and stand in long, slow queues. This system was initially introduced for large taxpayers, but e-filing has expanded rapidly in the past few years, with support from USAID. By 2016, over 924,450 active eFilers were using eBIR forms (BIR 2016). The number of registrations has also increased significantly since the rollout of eREG in 2009. The BIR website even has an option for taxpayers to report service dissatisfaction or official misconduct (though no information is available on the effectiveness of this system).

On the customs side, BOC began in 2005, with support from the EU, to design an “electronic to Mobile” (e2M) information system to allow customs officers and traders to handle transactions via the internet, while also generating data for risk management. The e2M system went live in 2012. On a separate front, with continuing support from the European Union, BOC and the Department of Commerce will soon roll out an online TradeNet platform to serve as the National Single Window for trade facilitation. TradeNet will consolidate rules and requirements for seven cabinet-level departments and 13 government agencies. Initially, the platform will cover trade rules for a limited set of commodities, accounting for about half the country’s trade.

Enforcement. The culture of tax compliance has long been very weak in the Philippines. This has been manifest in many ways, including non-filing of returns, under declaration of incomes, and exaggerated expense claims. Efforts to strengthen enforcement have thus been a prominent focus of the government’s approach to boosting revenue performance. In 2005, the BIR inaugurated the Run After Tax Evaders (RATE) program to pursue criminal investigations of tax fraud. BOC introduced a similar program the following year, the Run After the Smugglers (RATS) program. Although hundreds of cases have been filed (94 in 2015 alone), the number of indictments is much lower with very few convictions (if any). Nonetheless, a former BIR commissioner contends that these enforcement initiatives helped to motivate the rapid growth

in registrations and returns, by showing taxpayers that tax evasion entails risks and consequences.¹⁰ Indeed, the number of registered taxpayers increased from 23 million just since 2013 to nearly 30 million in 2016.

Two other enforcement programs have had sharper teeth. In 2009, BIR established the Oplan Kandado Program, authorizing tax officers to issue closure orders to temporarily shut down businesses that fail to register for VAT, file VAT returns, or issue VAT receipts. In addition, as indicated by the IMF reviews mentioned above, BIR has taken steps to strengthen audit operations. These include risk classification based on industry benchmarks (since 2006), transfer pricing guidelines (since 2013), some limited use of automated audit tools (since 2015),¹¹ and training for tax auditors. BOC has also adopted risk-based selection for customs clearances, but by all indications, most shipments are still getting channeled to the intrusive “red line” procedures.

Public awareness and information. The BIR has also taken steps to increase public awareness about taxpayer responsibilities and the availability of taxpayer services. A major campaign was undertaken beginning in 2014, with support from the MCC’s RARP project, to use this tool to inform the public about the tax system. In addition, BIR has established eLounge facilities in field offices to provide taxpayers with access to eServices. In 2016, there were 73 such facilities around the country. BIR has also established a call-in center for questions about tax compliance. In addition, the BIR website provides FAQs and fact sheets to the public on a variety of tax issues. These facilities and the provision of electronic services are particularly important in the Philippines, where taxpayers are spread across thousands of islands.

Two additional administrative issues merit attention. First, between 2000 and 2010, both BIR and BOC suffered from high turnover at the top, creating a lack of momentum for reform. BIR, in particular, had eight commissioners over this period. By all accounts, the stability of leadership at BIR from 2010 to 2016 under Commissioner Kim Henares was an important factor in improving revenue performance. Similarly, at BOC, an overhaul of top management by the Aquino administration in 2013 helped to stabilize leadership and revenue performance for that bureau. Second, the Philippines nearly enacted legislation in 2002 to create the National Authority for Revenue Administration (NARA) that would have made BIR functionally and financially autonomous. The lack of autonomy, particularly in human resource management, funding, and conditions of service, is still a serious impediment to strengthening tax administration.

Constraints to Higher Revenue Yields Despite Reforms

Despite the reform efforts detailed above, the revenue gain since 2010 has been fairly modest, and the tax collections remain well below the government target for financing priority spending programs. Several key factors—most mentioned already—have contributed to the disappointing revenue yield. These include a proliferation of tax incentives, bank secrecy laws that hinder

¹⁰ This was emphasized by former BIR Commissioner Kim Henares in a phone interview on October 22, 2017.

¹¹ See “BIR Tax Programs for Tax Evaders in the Philippines” at the Philippine Tax and Accounting Center’s website; available at <http://taxacctgcenter.org/bir-tax-programs-for-tax-evaders-in-the-philippines/>.

audits and investigations, and the absence of inflation adjustments to the excise on petroleum products—factors compounded by corruption and human resource constraints.

Tax incentives. The tax system is riddled with holes created by a complex institutional structure for granting tax incentives and exemptions. Many tax holidays and exemptions are granted by a variety of investment promotion agencies such as the Board of Investments and the Philippine Economic Zone Authority, to name only two. Adding to the cost of incentives granted by these agencies, Congress has passed dozens of acts creating VAT exemptions, deferrals, and zero-ratings for favored sectors, entities, or groups, including senior citizens, armed forces, national athletes, and entertainers (Jurado, 2017). A bill to rationalize incentives is planned for 2018 as part of the next package of the CTRP, in conjunction with a reduction in the overall CIT rate. Many observers, however, expect strong, widespread resistance to any reduction in incentives.

Bank secrecy laws. Unusually restrictive bank secrecy laws in the Philippines severely hamper efforts by the tax and customs bureaus to crack down on tax evasion and strengthen tax audit. These laws prevent tax authorities from obtaining critical financial information, even for criminal investigations of tax fraud. This constraint is especially restrictive for enforcements targeting self-employed individuals and professionals, who are most likely to be underreporting large amounts of income. Relaxation of this bank secrecy constraint has been a key issue under debate in the legislature as part of the 2017 TRAIN reform package.

Lack of inflation adjustment. As mentioned earlier, the 1997 tax reform program was deeply flawed in that it excluded adjustments for inflation to specific rates of excise tax and thresholds for personal income tax. The lack of inflation adjustment on excise rates turned out to be a big problem for revenue erosion. For alcohol and tobacco, the Sin Tax Act of 2012 corrected this problem. But the lack of adjustment for petroleum products has remained a major drain on the Treasury, causing this source of revenue in 2016 to decline by one full percent of GDP compared to the yield 20 years ago.¹²

Corruption. Although the annual reports for BIR and BOC emphasize integrity as a core value, the public perception is very different. For example, annual opinion polls conducted by the Social Weather Station (SWS), an independent research organization, include a rating for the “sincerity of institutions in fighting corruption.” For 2016, BIR was rated as *poor*, and BOC “*very bad*” (which is worse than *poor*, on the SWS scale). In addition, 30 percent of enterprises covered by the SWS for 2016 reported being solicited for a bribe in the course of assessments or payments of income tax, while 24 percent reported such solicitations in connection with imports. Furthermore, the most recent World Bank Enterprise Survey for the Philippines found that nearly 74 percent of firms in 2015 were required to visit or meet with tax officials, creating opportunities for “negotiation” of tax liabilities.

¹² As noted earlier (see footnote 7), this sharp decline in excise revenue on petroleum products has occurred though the world market price was actually higher in 2016 than in 1997.

Corruption, therefore, remains a major challenge for both BIR and BOC, not only contributing to revenue loss, but also damaging public perception of fairness in the tax system. One component of the recently ended MCC compact—the Revenue Integrity Protection Service (RIPS)—aimed to strengthen antigraft investigations by the DOF. The final evaluation report for the compact found a significant increase in the number of BIR and BOC personnel investigated and charged with corruption or malfeasance between 2009 and 2014 (NORC, 2016). But the extent of attribution to RIPS is an open question because this change coincided with the tenure of a BIR commissioner with a reputation for strict adherence to the law.

Staffing. The IMF (2015) reported that both revenue departments face “large shortages of staff.” The recruitment of skilled staff for these agencies is very challenging due to budget constraints and lack of autonomy in setting conditions of service.¹³ This leads to salaries that are low for the required levels of professionalism and integrity. Well-trained accountants, lawyers, and auditors are especially subject to poaching from other government or private sector organizations that offer better pay. The Attrition Act of 2005 aimed to improve incentives for BIR and BOC staff who exceed targets, but this has institutionalized a very narrow focus on meeting collection targets, which can be detrimental to the efficiency of tax administration and the quality of taxpayer services.¹⁴ According to some observers, penalties for missing targets levied under this Act have also hampered computerization efforts and other reforms by discouraging staff from taking risks associated with process reengineering.

Contribution of Donor Support

Given political imperatives in the Philippines, progress on revenue reforms has been totally dependent on priorities and programs of top management at BIR and BOC, support from senior officials at DOF, and implicit or explicit backing from the highest political levels. In addition, broad public support at both the national and grassroots levels has often been essential in overcoming resistance to policy reforms from vested interests.

And yet, major reforms have also depended critically on support from international partners. In an interview for this study, a former BIR commissioner was asked about the role of donor support. In her view, local officials are too preoccupied with ongoing tasks to design, develop, and implement reforms without external assistance; moreover, local funding by itself is “too little” to cover the cost for most reforms without substantial donor contributions. She added that local officials also benefit from having “someone from the outside” evaluate needs and suggest options for reform. Donor support thus provides local leaders with valuable evidence-based analysis and recommendations drawing on international experience. Most recently, technical work of this sort has been instrumental to the formulation of TRAIN reforms that are now under consideration.

¹³ The BIR operating expense, as a percentage of collections, was less than 0.5 percent in 2016. Based on international standards, the Revenue Authority bill that was under consideration in 2002 would have set the level of funding at 1.5 percent of collections. See Manasan (2003).

¹⁴ An amendment of the Attrition Act to cover tax administration functions, instead of just collection targets, has been recommended and is now being considered by the government. See <http://newsinfo.inquirer.net/150997/attrition-act-declared-valid#ixzz4uex7YJpu>

Within the period covered by this study, the World Bank’s Tax Computerization Project (1993–1999) was the first major contribution from an international partner. The project was instrumental in jumpstarting BIR’s electronic modernization efforts. Later, the Bank’s National Program Support for Tax Administration Reform project supported BIR in further IT system enhancement, among other activities. Similarly, the Asian Development Bank contributed to development of the VAT information system and to strengthening BIR’s enforcement capacity. Other support to BIR has come from the Canadian International Development Agency (contact centers), Swedish International Development Cooperation Agency (tax statistics and audit), and AusAID (capacity building and human resource management).

The U.S. government has also long been a major partner for BIR through a series of programs, including USAID’s current Facilitating Public Investment (FPI) project. Among other contributions, FPI has supported analysis of the TRAIN reforms, including work on tax expenditures; expanded e-filing and e-payment; and worked to strengthen DOF’s Fiscal Intelligence Unit. The MCC compact, which ended in 2016, supported design and development of the eTIS system and the BIR’s public awareness campaign. The compact also funded the IMF to provide a long-term tax advisor and short-term technical assistance on tax reforms; it also helped to strengthen DOF capacity for investigating corruption in the tax system.

BOC has also received substantial donor support for administrative reforms, most notably through the EU’s Trade Related Technical Assistance Project, ongoing since 2005. In addition, USAID’s Trade-Related Assistance for Development (TRADE) project, which ended in 2014, played a significant role in helping the government pass the CMTA, after many years of inaction on this major reform legislation.

Lessons Learned

Only since 2010 have tax reform initiatives in the Philippines been showing results in terms of improved revenue performance, and gains have been fairly modest, for reasons explained above. Nonetheless, this experience offers several valuable lessons for DRM programs more broadly.

First and foremost, the need for congressional action on changes in the tax law puts political economy considerations at the center of any drive for important policy reforms. Under a democratic system with an independent legislative branch, reforms will not prevail if the constituency consists mainly of economists and technocrats. As illustrated by the Sin Tax Reform of 2012, success against vested interests requires coordination across government units, an effective process of building consensus across a broad range of stakeholder, and innovative packaging, such as earmarking revenues for health or other social programs.

Second, to achieve any significant results in a democratic institutional environment, reforms must be home grown—and viewed as such. Even so, international partners have a vital role to play in supporting the government with technical and financial assistance.

Third, the Filipino experience underscores the need to curb revenue leakages because of loopholes and exemptions granted by investment promotion agencies or special-interest

legislation. A politically driven proliferation of tax incentives and exemptions can undermine what would otherwise be sound and effective reforms to tax policy and tax administration.

Fourth, constraints on access to financial information, exemplified by the stringent bank secrecy laws prevailing in the Philippines, seriously hamper efforts to improve the effectiveness of tax investigations and tax audits, essential to curtail tax evasion.

Fifth, reforms are not conceived and delivered overnight. To gain traction, the political will for reform must be sustained over several years. In the Philippines, the momentum for reform clearly suffered between 2000 and 2010 owing to lack of continuity at the top of BIR and BOC.

Finally, appropriate levels of budget support and effective management of human resources are hallmarks for efficient tax administration. In the Philippines, both BIR and BOC have consistently faced budget limitations and civil service restrictions on staff remuneration, hindering their ability to recruit, develop, and retain highly skilled personnel. Tax reforms work best when the overarching governance environment achieves a suitable balance between operational autonomy and accountability in tax administration.

Appendix A – Timeline of Major Tax Policy Reforms

Year	Reform
1957	First Tariff and Customs Code of the Philippines (replacing 1909 colonial regulations); highly protectionist
1977	National Internal Revenue Code promulgated, which updated the 1934 Tax Code
1981–85	Tariff Reform Program: top duty rate reduced from 100% to 50%, average nominal protection rate reduced from 34.6% to 27.9%, and quantitative restrictions and import licensing also loosened
1984	Presidential Decree eliminated tax exemptions to all corporations (public or private)—but many exemptions quickly restored through the Fiscal Incentives Review Board or Presidential Orders
1986	Tax Reform Program (TRP), including decision to adopt VAT to replace complex set of sales taxes; unified Personal Income Tax with 35% top rate; unified Corporate Income Tax rate at 35%; and personal exemptions increased and indexed to inflation
1987	Omnibus Investment Act (Executive Order 226) authorized Board of Investments to approve numerous tax incentives under annual Investment Priorities Plan (IPP); allowed for additional incentives via special laws, which later proliferated
1988	VAT implemented at 10% rate; businesses below the VAT registration threshold subject instead to 2% tax on gross sales or receipts
1992–98	Congress approved 28 tax measures, expanding tax incentives and broadening exemptions
1991–95	Tariff Reform Program (TRP): Planned reduction aimed to reduce most-favored nation (MFN) rates to 0-5% by 2004 (with some exceptions); transitional schedule reduced top duty rate to 30% and simplified duty structure
1994	Expanded VAT Law (E-VAT) approved to widen tax base by reducing exemptions—challenged in court and replaced by revised E-VAT law <i>retaining</i> many of the exemptions; gross receipts tax for businesses below VAT threshold raised to 3% Executive Order 189 established phase-in of further tariff reductions through 2000; by 2003, the average nominal protection rate reduced to 6.19%
1996	Act on Tobacco and Alcohol Taxation enacted
1997	Comprehensive Tax Reform Program (CTRP): National Internal Revenue Code (NIRC); last major reform of PIT to date (tax bracket thresholds unchanged to 2017, creating bracket creep, though personal allowance increased in 2008) <ul style="list-style-type: none"> • Phased reduction in top marginal tax rate phased from 35% to 32% for both corporate and individual income tax • Introduced 2% minimum tax on corporations • Introduced final withholding on dividends, phased in over 3 years to rate of 10%

	<ul style="list-style-type: none"> • Increased personal exemption for income tax • Introduced Optional Standard Deduction (OSD) at 10% for individuals engaged in trade, business, or profession • CTRP failed to address major objective of rationalizing tax incentives
1998	National Internal Revenue Code enacted
2001	Expansion of coverage of the creditable withholding tax system; rules for customs valuations clarified (R.A. 9135); planned reductions in MFN rates begin to be partially rolled back owing to industrial pressures
2004	Act on Increasing the Excise Rates imposed on Alcohol and Tobacco Products enacted
2005	Lateral Attrition Act of 2005 (R.A. 9335) establishes (a) rewards for tax officers exceeding revenue targets at BIR and BOC and (b) sanctions for officers whose performance falls short of targets
2006	Revenue Mobilization Package to counteract extremely low revenues and improve fiscal balance: VAT rate increased from 10% to 12%, and CIT rate increased from 32% to 35%
2008	Minimum wage earners exempt from PIT, and PIT exemption level raised (economic crisis relief measures) Optional standard deduction (a) raised to 40% for business individuals in computing taxable income and (b) extended to corporations for computing gross income
2009	CIT rate reduced to 30%, as economic crisis relief measure
2012	Sin Tax Act, introducing major reforms to excise tax on tobacco and alcohol products, with rate increases phased in through 2018 with automatic inflation adjustment for specific rates; 15% set-aside of revenue for tobacco growing regions, 80% of remainder of incremental revenue earmarked for universal health care and 20% to Medical Assistance Program and health facilities enhancement After many development delays, BOC introduces e2m system
2016	Customs Modernization and Tariff Act (CMTA) enacted to (a) provide legal mandate for move to paperless customs service and (b) modernize customs clearance procedures to global standards in compliance with Revised Kyoto Convention of WCO. (CMTA bills had been debated in Congress since at least 2010, when the Philippines acceded to the Revised Kyoto Convention.) EU supported development of this landmark legislation. Tax Incentives Management and Transparency Act (TIMTA) signed into law

Appendix B – Timeline of Major Tax Administration Reforms

Year	Reform
1904	Bureau of Internal Revenue (BIR) created and operationalized
1970	Tax Account Number (TAN) introduced, along with options for tax payment through banks
1994	Tax Computerization Project (TCP) undertaken to introduce a computerized Integrated Tax System (ITS) and Internal Administration System
1997	Legal and Enforcement Group created as were the Internal Affairs Service, Taxpayers Assistance Service, Information Planning and Quality Service, and the Revenue Data Centers
1999	Raffle introduced to encourage and educate consumers/taxpayers to demand sales invoices/receipts to strengthen VAT administration
2000	Large Taxpayers Service (LTS) established Excise Taxpayers Service (ETS) established ITS Rollout Acceleration Program implemented to facilitate full utilization of tax computerization in BIR operations
2001	BIR reorganized, integrating functions of the ETS and the LTS BIR adopts e-filing and payment system (eFPS), a technology-based system promoting paperless filing of tax returns and payment of taxes
2003	BIR Contact Center established Post-Entry Audit Group within BOC created (Executive Order No. 160)
2005	Run After Tax Evaders (RATE) program introduced Automated Auditing Tool introduced for LTS BOC begins development of e2m (electronic-to-mobile) system, aiming to allow most customs transactions to be conducted by internet, streamline import and export processing, and provide better data for assessments and risk management. (But implementation then encountered long delays)
2009	Highly visible campaign launched to improve public understanding of tax obligations Oplan Kandado project introduced, authorizing BIR to order temporary suspension of business operations for non-compliant taxpayers (including failure to issue VAT receipts or invoices) eREG rolled out that provides web-based system for taxpayer registration services, including TIN issuance and payment of registration fees Human Resource Information System (HRIS) launched in BIR national office BIR revives its “Handang Maglingkod” project to recognize best frontline offices for effective taxpayer service
2010	Work on eTIS begun at BIR to replace earlier (and outdated) ITS, integrating taxpayer

	<p>registration, accounting, processing, enforcement, and online service delivery</p>
2013	<p>BIR Commissioner Kim Henares appointed to Committee of Experts on International Tax Cooperation, under the UN Office of Financing for Development; BIR issues two Memorandum Orders on exchange of information and international cooperation on tax matters</p> <p>BIR Arrears Management Team begins operation</p> <p>President Aquino (a) launches Customs Reform Program, including new management team and (b) creates the Office of Revenue Agency Modernization and the Customs Policy Research Office</p> <p>Executive Order 155 removed the Post-Entry Audit Group from BOC and placed its functions in the Fiscal Intelligence Unit at DOF</p>
2014	<p>Internal Revenue Stamps Integrated System (IRSIS) on cigarettes implemented</p> <p>Award-winning Public Awareness Campaign (PAC) initiated by BIR</p> <p>Post-clearance audit removed from BOC, and transferred to Fiscal Intelligence Unit at DOF</p> <p>Philippines becomes 68th signatory of the Multilateral Convention on Mutual Administrative Assistance in Tax Matters, developed by OECD to fight international tax avoidance and evasion</p> <p>BIR amends the regulation on exchange of tax information in conformance with international conventions</p> <p>BOC adopts “open-data policy,” including full disclosure of monthly import data, online information on customs procedures, online listing of all regulated imports, and so forth</p>
2015	<p>New comprehensive ICT system (eTIS) piloted in the LTS, replacing outdated ITS</p> <p>eBIR forms introduced, expanding e-filing, greatly reducing compliance costs, and strengthening risk management</p> <p>BOC establishes the Strategic Performance Management System (SPMS)</p>
2016	<p>BOC establishes Customer Assistance and Response Services (BOC-CARES) Unit</p> <p>BOC’s e2m system now incorporates Client Profile Registration System, e-Manifest, Import Entry, Online Cargo Release, Transshipment Entry, and Export Declaration</p>
2017	<p>BOC introduces electronic Value Reference Information System (eVRIS) to control under-invoicing, consistent with Revised Kyoto Convention, as authorized by the CMTA</p> <p>BOC creates Authorized Economic Operator (AEO) program, through Customs Administrative Order (CAO) 5-2107, as authorized by the CMTA</p> <p><u>TradeNet platform</u> scheduled for rollout in December, serving as National Single Window for trade facilitation; the platform initially covers rice and 6 other commodities that account for half of the country’s trade, and it initially consolidates requirements for 7 cabinet-level departments and 13 government agencies</p>

Appendix C – Philippines Data

General Overview of the Economy											
	1997	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
GDP per capita, PPP (current international \$)	3,182	4,881	5,101	5,115	5,484	5,707	6,099	6,527	6,938	7,320	7,806
GDP growth (annual %)	5.2	6.6	4.2	1.1	7.6	3.7	6.7	7.1	6.1	6.1	6.9
Inflation, consumer prices (annual %)	5.6	2.9	8.3	4.2	3.8	4.6	3.2	3.0	4.1	1.4	1.8
Consumer price index (2010 = 100)	53	85	92	96	100	105	108	111	116	117	120
Population growth (annual %)	2.2	1.7	1.6	1.6	1.6	1.6	1.7	1.7	1.6	1.6	1.6
Population, total (in millions)	73.1	89.3	90.8	92.2	93.7	95.3	96.9	98.5	100.1	101.7	103.3
Labor force participation rate, total (% of total population ages 15+) (modeled ILO estimate)	66.4	63.5	64.1	64.4	64.9	65.4	65.0	64.7	64.6	64.7	64.7
Personal remittances received (% of GDP)	8.3	11.0	10.8	11.9	10.8	10.3	9.8	9.8	10.1	10.2	10.2
Agriculture, value added (% of GDP)	18.9	12.5	13.2	13.1	12.3	12.7	11.8	11.3	11.3	10.3	9.7
Services, etc., value added (% of GDP)	49.0	54.5	53.9	55.2	55.1	55.9	56.9	57.6	57.3	58.8	59.5
Industry, value added (% of GDP)	32.1	33.1	32.9	31.7	32.6	31.3	31.2	31.1	31.3	30.9	30.8
Manufacturing, value added (% of GDP)	22.3	22.7	22.8	21.3	21.4	21.1	20.6	20.4	20.6	20.0	19.6
Final consumption expenditure (% of GDP)	85.8	82.8	83.2	84.5	81.3	83.2	85.1	84.2	83.1	84.7	84.7
Gross fixed capital formation (% of GDP)	24.4	19.9	19.7	19.0	20.5	18.7	19.6	20.6	20.7	22.0	24.6
Merchandise imports (% of GDP)	46.9	38.8	34.7	27.3	29.3	28.4	26.1	24.2	23.8	24.0	28.3
Export of goods and services (% of GDP)	49.0	43.3	36.9	32.2	34.8	32.0	30.8	28.0	28.9	28.4	28.0

Source: World Development Indicators (WDI), World Bank (<https://data.worldbank.org/products/wdi>).

Note: N.A. = not available.

Tax Structure		
	As of 2017	Notes
Value added tax (VAT) rate	12.0%	Rate increased from 10% effective February 1, 2006. A percentage tax of 3% on business gross receipts is payable by small businesses with sales below the VAT threshold, which have not voluntarily registered for VAT
VAT threshold	1,919,500	
VAT threshold, % of per capita income	24.4%	
VAT year introduced	1988	
Corporate income tax (CIT) rate	30.0%	Percent of net income or 2% of gross income, whichever is higher
Personal income tax (PIT) minimum rate	5.0%	
PIT minimum income level	0	In Philippine peso (PHP)
PIT maximum rate	32.0%	Applies to income over PHP 500,000
PIT maximum income level	500,000	In PHP
Social Security rate (payroll tax)	11%	Percent of monthly salary credit not exceeding PHP 16,000, paid by the employer (7.37%) and the employee (3.63%)
Custom Duty Rates:		
Most Favored Nation (MFN) rate	0 – 30%	Basic rate of duty applicable to imports coming from non-ASEAN members
ASEAN Trade in Goods Agreement (ATIGA)	0%	Member states agreed to place 99% of all products at 0 duty rate

Source: Deloitte, *International Tax: Philippines Highlights 2017*, available at: <https://www2.deloitte.com/content/dam/Deloitte/global/Documents/Tax/dttl-tax-philippineshighlights-2017.pdf>.

Tax Administration										
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Number of tax returns filed (in millions)	14.5	15.2	16.1	15.7	16.9	17.6	18.5	18.9	18.6	16.5
Income taxes	2.0	2.1	2.2	2.3	2.4	2.5	2.5	2.5	2.5	2.2
Withholding taxes	5.5	5.7	6.0	6.4	7.0	7.2	7.8	7.7	7.3	6.0
VAT	1.8	1.9	1.9	1.9	1.9	2.1	2.1	2.2	1.9	1.4
Percentage taxes	3.3	3.6	4.0	4.2	4.8	5.0	5.3	5.6	5.9	5.9
Registered Taxpayers (in millions)	13.5	15.0	15.8	17.3	19.0	20.8	23.0	24.9	27.2	29.8
Large Taxpayers Services (LTS) revenue, % of total BIR revenue	63.0	55.6	60.9	57.6	63.8	63.8	64.0	63.5	62.8	62.5
Number of taxpayers served by LTS	1,453	1,108	1,522	1,196	1,943	1,968	2,028	2,128	2,287	N.A.
BIR collections, % of BIR goal	N.A.	96.1	94.0	100.4	107.4	99.2	97.0	91.7	86.1	97.3
BIR operating expense, % of collections	0.63	0.72	0.76	0.79	0.78	0.60	0.61	0.50	0.48	0.48
Number of staff complement – BIR	11,475	11,341	10,824	10,717	10,387	10,187	10,189	7,525	9,549	9,855
Number of authorized staff – BOC	N.A.	N.A.	N.A.	N.A.	N.A.	3,547	3,515	N.A.	N.A.	6,285
Number of authorized BOC positions filled	N.A.	2,939								
Activated eFPS users	22,235	27,693	30,816	N.A.	48,305	54,594	67,024	N.A.	124,434	154,958
Number of tax returns e-filed	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	1.5	1.9	10.0	17.4

Sources: Bureau of Internal Revenue (as provided by National Tax Research Center) and e-filing data from USAID FPI project.

Note: N.A. = not available.

Domestic Resource Mobilization (as percent of GDP)											
	1997	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
National Government Revenues	17.6	16.5	15.6	14.0	13.4	14.0	14.5	14.9	15.1	15.9	15.2
National Tax Revenues	15.4	13.5	13.6	12.2	12.1	12.4	12.9	13.3	13.6	13.7	13.7
Direct Taxes	6.2	6.4	6.4	5.6	5.6	6.0	6.2	6.4	6.4	6.5	6.5
Income Tax	6.1	6.2	6.2	5.4	5.4	5.9	6.1	6.2	6.2	6.4	6.4
Corporate Income Tax	3.0	3.5	3.7	3.2	3.1	3.5	3.5	3.7	3.6	3.7	3.7
Individual Income Tax	2.2	2.1	2.0	1.7	1.9	2.0	2.1	2.1	2.2	2.3	2.4
Others	0.8	0.6	0.6	0.6	0.5	0.4	0.5	0.4	0.4	0.4	0.3
Transfer Taxes	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other Direct Taxes	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Indirect Taxes	9.1	7.2	7.2	6.7	6.6	6.3	6.7	6.9	7.2	7.2	7.2
Excise Taxes	2.4	1.0	1.0	1.0	1.0	0.9	0.9	1.3	1.3	1.4	1.4
Domestic	2.3	0.8	0.8	0.8	0.7	0.7	0.7	1.0	1.1	1.2	1.1
Foreign	0.1	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.3
License and Business Taxes	4.1	4.6	4.4	4.3	4.2	4.4	4.8	4.8	4.9	4.7	4.7
VAT	3.3	4.0	3.8	3.8	3.7	3.9	4.3	4.2	4.4	4.3	4.3
Domestic	1.8	2.1	1.8	2.1	1.9	1.9	2.2	2.2	2.2	2.2	2.3
Foreign	1.6	1.9	2.0	1.7	1.7	2.1	2.1	2.1	2.2	2.1	2.0
Other Business Taxes	0.8	0.6	0.5	0.5	0.5	0.5	0.5	0.5	0.4	0.4	0.4
Import Duties	1.7	0.7	0.6	0.5	0.5	0.3	0.3	0.3	0.4	0.4	0.3
Other Indirect Taxes	0.9	0.9	1.3	0.8	0.9	0.7	0.6	0.6	0.7	0.7	0.7
National Non-Tax Revenues	2.2	3.0	2.0	1.8	1.3	1.6	1.6	1.6	1.5	2.2	1.5

Source: NTRC.

Domestic Resource Mobilization (as percent of tax revenue)											
	1997	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
National Tax Revenues	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Direct Taxes	40.6	47.0	47.1	45.6	45.9	48.8	48.4	47.8	46.8	47.4	47.5
Income Tax	39.8	45.8	46.0	44.4	44.7	47.6	47.2	46.8	45.7	46.4	46.4
Corporate Income Tax	19.8	25.9	27.2	25.9	25.6	28.1	27.2	27.6	26.5	26.9	26.8
Individual Income Tax	14.5	15.2	14.4	13.9	15.3	16.1	16.4	16.1	16.5	17.0	17.3
Others	5.5	4.8	4.4	4.5	3.9	3.4	3.6	3.1	2.7	2.6	2.3
Transfer Taxes	0.2	0.1	0.1	0.1	0.2	0.2	0.3	0.2	0.3	0.3	0.3
Other Direct Taxes	0.7	1.1	1.0	1.1	1.0	1.0	0.9	0.8	0.8	0.7	0.8
Indirect Taxes	59.4	53.0	52.9	54.4	54.1	51.2	51.6	52.2	53.2	52.6	52.5
Excise Taxes	15.7	7.3	7.3	8.0	8.1	7.3	7.2	9.5	9.6	10.4	10.5
Domestic	15.3	5.9	5.9	6.2	6.1	5.7	5.3	7.7	7.9	8.7	8.2
Foreign	0.5	1.4	1.5	1.8	1.9	1.7	1.9	1.8	1.8	1.7	2.3
License and Business Taxes	26.7	33.8	32.2	35.1	34.3	35.8	37.0	35.9	35.7	34.5	34.5
VAT	21.7	29.4	28.3	30.8	30.2	31.9	33.1	31.9	32.5	31.3	31.2
Domestic	11.4	15.5	13.4	17.1	15.8	15.2	16.9	16.3	16.2	16.2	16.6
Foreign	10.3	13.8	14.9	13.6	14.4	16.7	16.2	15.6	16.2	15.1	14.6
Other Business Taxes	4.9	4.4	3.9	4.4	4.1	3.9	3.9	4.0	3.3	3.2	3.3
Import Duties	10.9	5.2	4.2	4.5	4.3	2.7	2.5	2.1	2.6	2.6	2.5
Other Indirect Taxes	6.0	6.8	9.3	6.8	7.4	5.4	5.0	4.7	5.2	5.1	5.0

Source: NTRC.

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	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Ease of Doing Business Rank	N.A.	99	99								
Overall Distance to Frontier (DTF)	N.A.	N.A.	N.A.	54.29	54.99	55.65	55.92	59.86	59.89	59.53	60.4
Paying Taxes – Rank	N.A.	120	115								
Paying Taxes – Payments (number per year)	48	47	47	47	47	47	47	36	36	36	28
Paying Taxes – Time (hours per year)	195	195	195	195	195	195	193	193	193	191	186
Paying Taxes – Post-filing index (0-100)	N.A.	49.8	49.8								
Percent of firms visited or required to meet with tax officials—average	N.A.	73.9	N.A.								
If there were visits, average number of visits or required meetings with tax officials—average	N.A.	1.4	N.A.								
Percent of firms identifying tax rates as a major constraint—average	N.A.	26.4	N.A.								
Percent of firms identifying tax administration as a major constraint—average	N.A.	20.8	N.A.								
Percent of firms expected to give gifts in meetings with tax officials—average	N.A.	14.1	N.A.								
Percent of firms identifying corruption as a major constraint—average	N.A.	35.4	N.A.								

Sources: Doing Business Indicators, World Bank (<http://www.doingbusiness.org/>); Enterprise Survey Data, World Bank (<http://www.enterprisesurveys.org/>).

Note: N.A. = not available.

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