



# Should We Re-think Income Taxation in the Philippines?

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4 December 2014

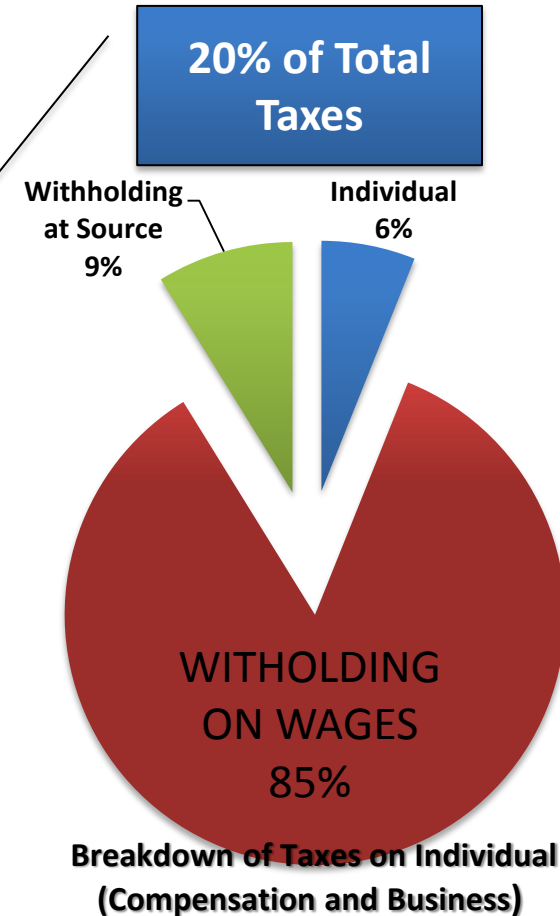
Ayala-UPSE Lecture Series

PCED Auditorium

# BACKGROUND:

## INDIVIDUAL INCOME TAX PAYMENTS

TAX CLASSIFICATION	2013
TOTAL	1,216,661
I. Taxes on Net Income and Profit	718,361
A. Company, Corporate, Enterprise	424,497
<b>B. Individual</b>	<b>246,580</b>
<b>1. Compensation and Business</b>	<b>235,878</b>
<b>a. Individual</b>	<b>14,309</b>
<b>b. Withholding on Wages</b>	<b>200,776</b>
<b>c. Withholding at Source</b>	<b>20,793</b>
2. Capital Gains	10,702
C. Others	47,284
II. Excise Taxes	118,856
III. Value Added Taxes	250,149
IV. Other Percentage Taxes	60,807
V. Other Taxes	68,488



# PREVAILING TAX RATES IN THE PHILIPPINES

## (National Tax Revenue Code)



Bracket	Taxable Income	Tax Due
1	Not over 10K	5%
2	Over 10K but not over 30K	P500 + 10% of the excess over 10,000
3	Over 30K but not over 70K	P2,250 + 15% of the excess over 30,000
4	Over 70K but not over 140K	P8,500 + 20% of the excess over 70,000
5	Over 140K but not over 250K	P22,500 + 25% of the excess over 140,000
6	Over 250K but not over 500K	P50,000 + 30% of the excess over 250,000
7	Over 500K	P125,000 + 32% of the excess over 500,000

# DEDUCTIONS UNDER THE CURRENT SYSTEM

- There are multiple tax deductions that the individual can avail of:
  - P50,000 deduction
  - P25,000 per child (maximum of 4 children)
  - Self-employed and professionals can avail of a 40% optional standard deduction
- RA 9504 exempts minimum wage earners from income tax payments.
- RA 8424 exempts the 13<sup>th</sup> month pay of public and private entities provided that it does not exceed P30,000



# MOTIVATION

- Several calls for lower income tax rates among legislators

There are currently eight (8) bills filed in the House of Representatives and three (3) bills in the Senate seeking to lower income tax rates or initiate re-bracketing.

All these measures acknowledge the unfairness and inequality of the prevailing income tax system, wherein the burden falls on the middle class.





Authors/Bill Number	
Romero “Miro” S. Quimbo (HB 4829)	<b>Adjusting the taxable income brackets and setting a flat rate for self-Employed and Corporations</b>
Salvacion “Sally” S. Ponce-Enrile (HB 210)	<b>Increasing the tax brackets from 7 to 13 with a rate ranging from 2.5% - 32%</b>
Magtanggol I T. Gunigundo (HB 4099)	<b>Reducing the top bracket tax rate from 32% to 30% and a flat rate of 15% for Corporations</b>
Arthur C. Yap (HB 4849)	<b>Increasing tax brackets from 7 to 8 with a rate ranging from 2% to 30%</b>
Roman T. Romulo (HB 4880)	<b>Reducing tax brackets from 7 to 6 and two-part implementation with a rate ranging from 13%-30% for 2016 that will become 10%-28% in 2017</b>
Rodrigo A. Abellanosa, Angelina “Helen” D.L. Tan, Maximo B. Rodriguez Jr., Rufus B. Rodriguez (4278, 4372, and 4890)	<b>Reducing tax brackets from 7 to 5 and three part implementation with a rate of 15%-32% this 2015, 13%-28% this 2016, and 10%-25% this 2017</b>
Dakila Carlo E. Cua (HB 4600)	<b>Imposing a flat rate of 10% for professionals</b>
Victoria G. Noel (HB 4925)	<b>Reduction of tax brackets from 7 to 6, three part implementation of individual tax rates of 15%-32% fro 2015, 13%-28% for 2016, and 10%-25% for 2017 as well as for Corporation Income Tax Rates of 30% for 2015, 27% for 2016, and 25% for 2017</b>
Juan Edgardo “Sonny” M. Angara (SB 2149)	<b>Adjusting tax brackets and lowering income tax rates, with the highest rate to be reduced from 32% to 25% by 2017</b>
Paolo Benigno “Bam” A. Aquino (SB 1942)	<b>Adjusting tax brackets, lowering income tax rates, and exempting Marginal Income Earners (not Over P60,000); with automatic indexation to inflation every 6 years</b>
Ralph G. Recto (SB 716)	<b>Adjusting tax brackets and lowering income tax rates, with automatic indexation to inflation every 6 years without need for legislative action</b>

# QUESTIONS

- Are income taxes equitable?
  - Horizontal Equity: Similarly situated taxpayers are taxed similarly.
  - Vertical Equity: Taxes are based on the ability to pay.
  - Compliance Equity: All taxpayers pay what they owe on a timely basis.
  - Time-Related Equity: Taxes are not unduly distorted when income or wealth levels fluctuate over time.



# QUESTIONS

- What are the tax revenue and equity implications of tax reform measures:
  - Inflation-adjustment of tax brackets
  - Lowering of tax rates
  - Reduced number of tax brackets
  - Removal of deductions





# METHODOLOGY

- Used the merged 2013 Labor Force Survey (LFS) and 2012 Family Income and Expenditure Survey (FIES), with a sample size of 40,171 households and 76,405 workers.
- STEP 1: Generate a baseline income tax distribution whose total approximates that reported by the BIR as tax collections for 2013
- STEP 2: Consider tax reform packages and simulate total tax revenues and distribution of income tax payments by income group



# METHODOLOGY

- Mean income was computed from the reported basic pay per day from primary occupation
- Correction for underreporting:
  - 21 percent for salary and wage earners
  - 30 percent for self-employed non-professionals
  - 40 percent for self-employed professionals.
- The tax code was used to compute tax due per worker
- Deductions were estimated on the basis of reported household characteristics
  - For the self-employed: 40 percent optional standard deduction



# LIMITATIONS

- No data on actual tax payments per worker; FIES reports actual tax payments per household.
  - An approximation of actual tax payments per worker: consider households with household heads who are the sole workers in their respective households.
- FIES does not capture the very rich
  - Merged 2013 LFS-2012 FIES: max of 5.2 million
  - Top 500 Taxpayers: over 16 million
  - DOF data supplied to the Senate's W&M Committee (22 September 2014 hearing): 5-16 M



# COMPLIANCE EQUITY: Who pays income taxes?

- Define “income tax participation:”

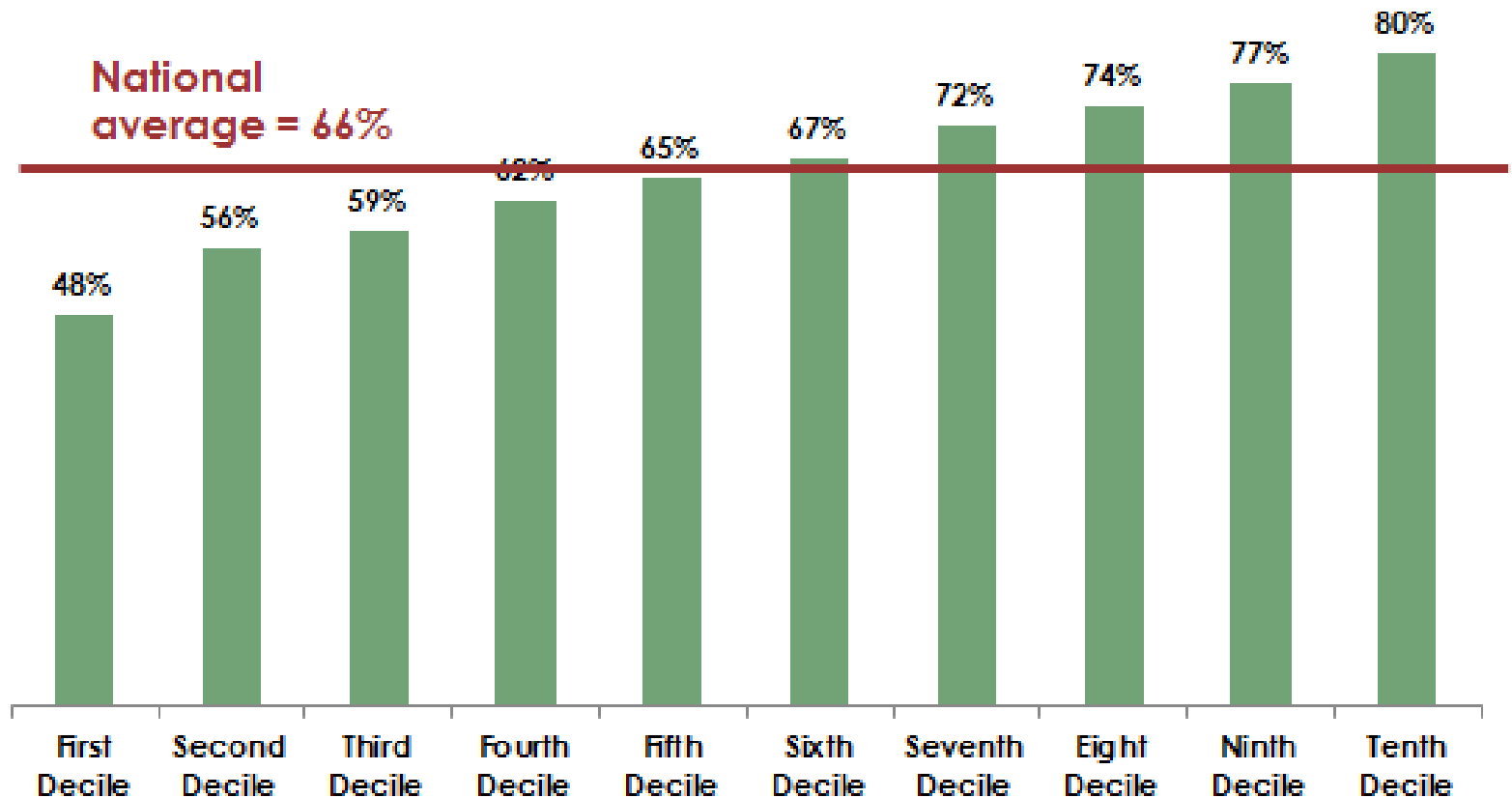
For every household with at least 1 working member earning more than the minimum wage.

=1 if (i) the household had at least 1 member employed as government or private sector worker, or, (ii) paying any positive amount of income tax,

=0, otherwise.



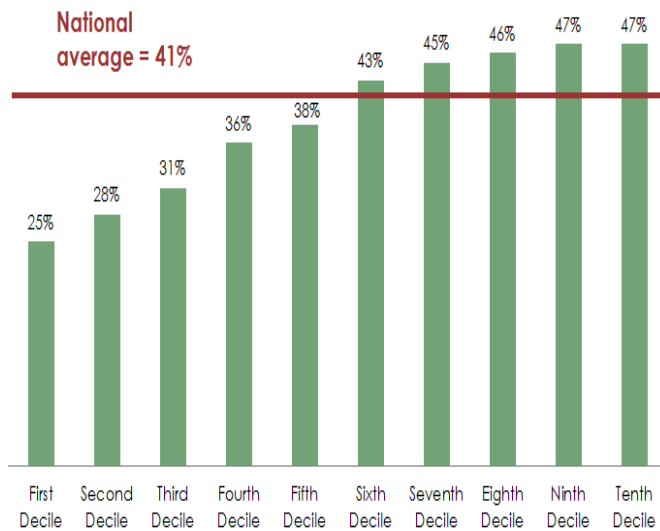
# INCOME TAX PARTICIPATION RATES, by pre-income tax deciles



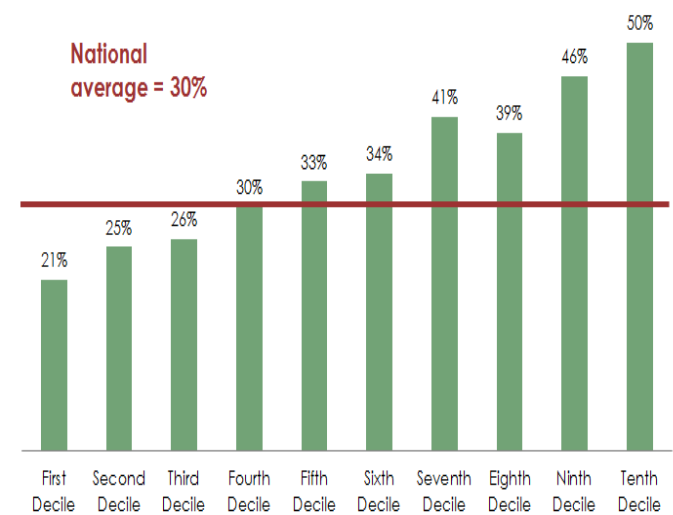
# INCOME TAX PARTICIPATION RATES, by pre-income tax deciles



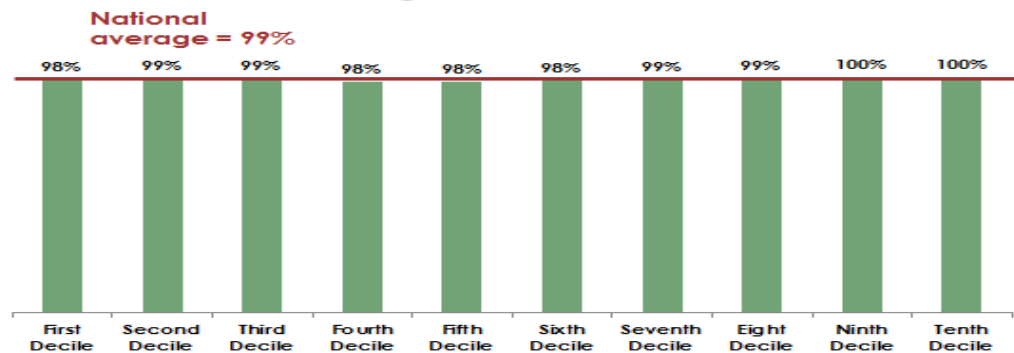
## PROFESSIONALS



## SELF-EMPLOYED, NON-PROFESSIONALS



## WAGE AND SALARY WORKERS



# COMPLIANCE EQUITY:

What portion of the tax due is unpaid?

- Define “tax gap”

= 1 minus the proportion of declared income taxes paid to income taxes due (based on the code)

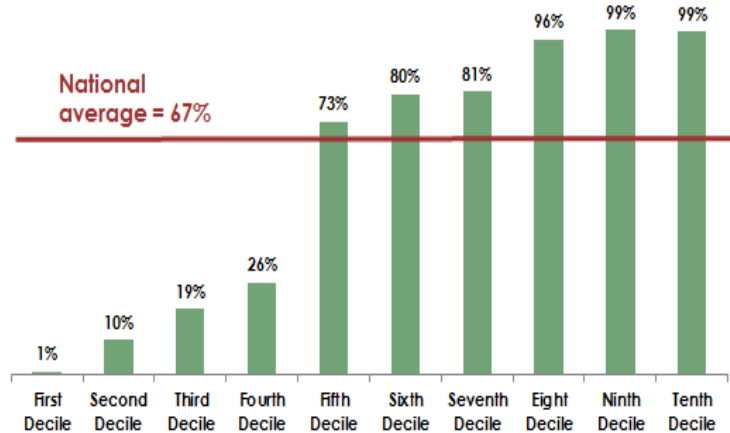
used household-level data headed by lone member who works (sample size of ~11,500 households)



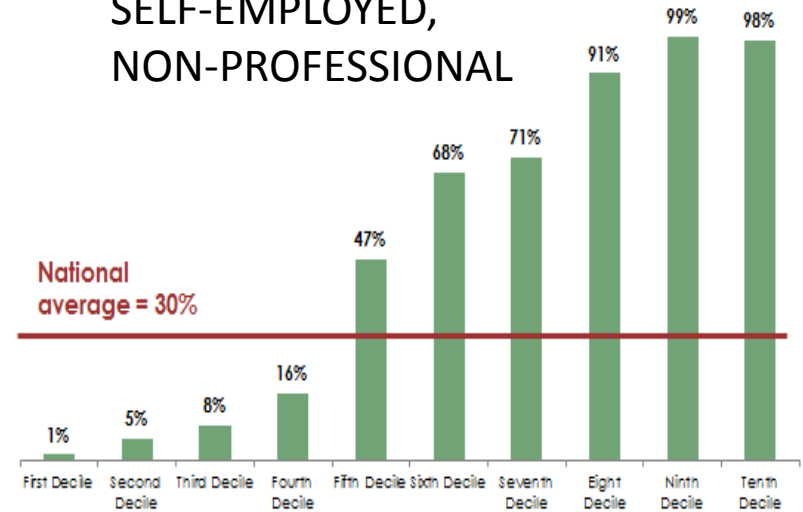
# TAX GAP, by income decile



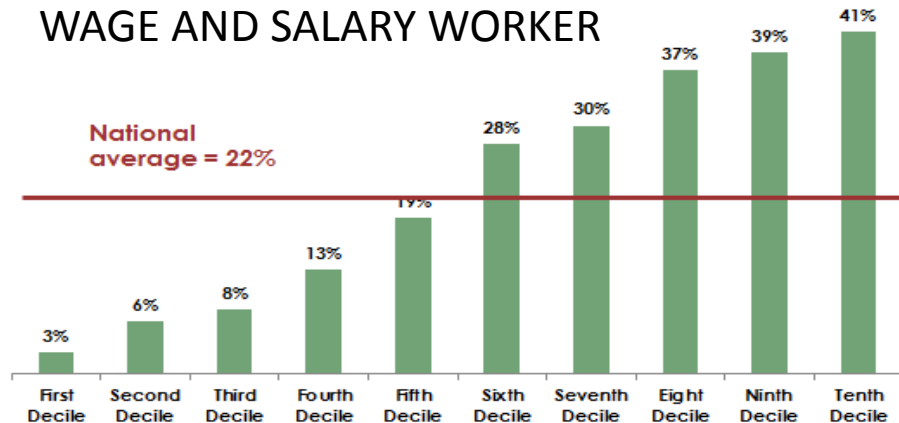
## PROFESSIONAL



## SELF-EMPLOYED, NON-PROFESSIONAL



## WAGE AND SALARY WORKER





# HORIZONTAL and VERTICAL EQUITY: Who bears the tax?



Type of Worker	Number	Share
Wage and salary workers	22,212	58.2%
Worked for private households	1,999	5.2%
Worked for private establishments	17,040	44.6%
Worked for government/ government-owned corporations	3,025	7.9%
Worked with pay in own-family operated farm or business	147	0.4%
Self-employed without any paid employee	10,821	28.3%
Employer in own family-operated farm or business	1,287	3.4%
Worked without pay in own family operated farm or business	3,856	10.1%
	38,176	100%

58 percent pays for 85 percent of all income tax payments

72 percent of W and S workers are tax exempt

SO, only 16 percent of all workers shoulder 85 percent of taxes!

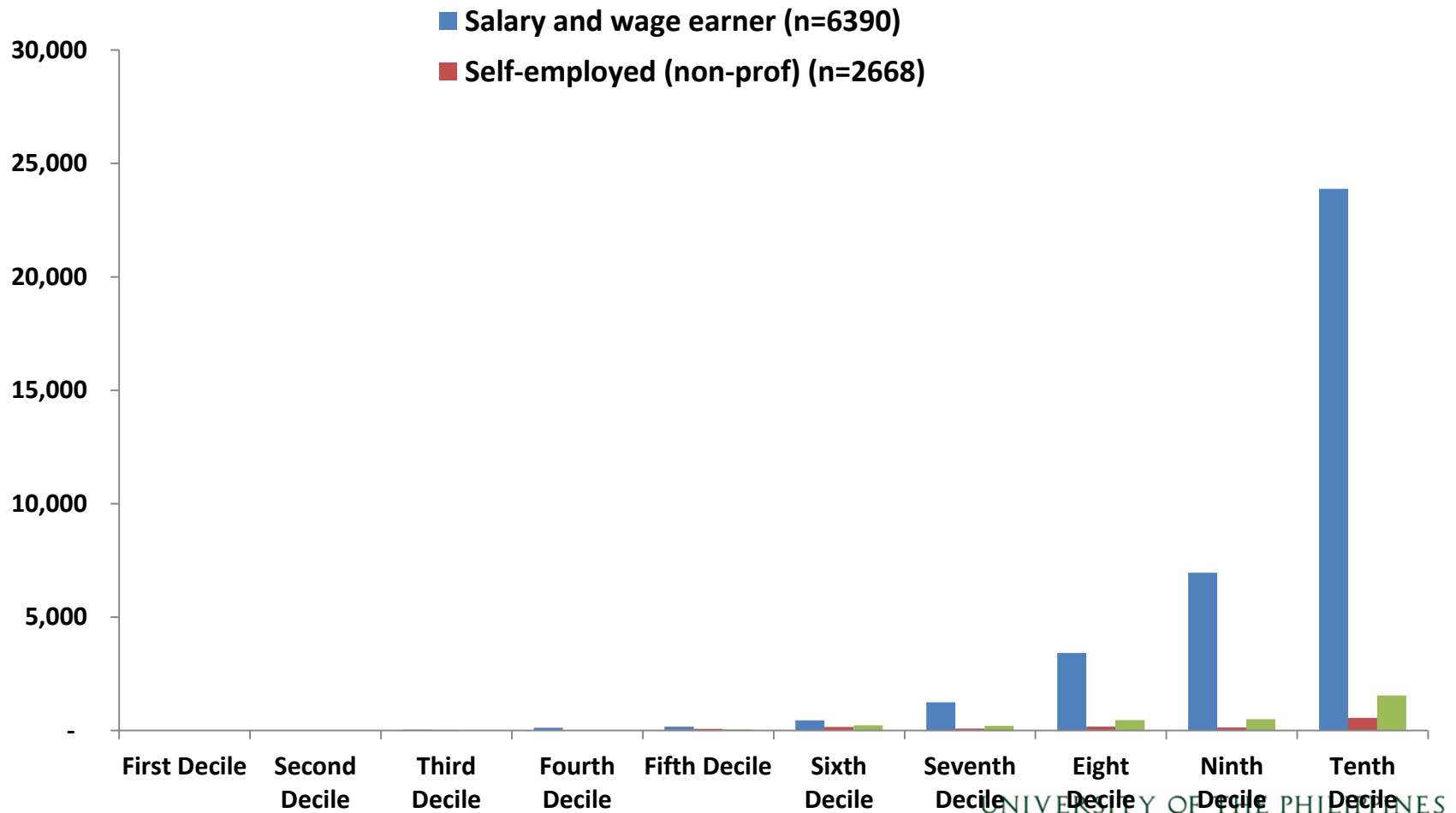
# HORIZONTAL and VERTICAL EQUITY: Who bears the tax?

EFFECTIVE TAX RATES  
= tax due/gross income

Bracket	CURRENT Taxable Income	Wage and Salary Workers	Self-Employed Non-professionals	Self-employed Professionals
1	Not over PhP10K	0.2%	0.2%	0.2%
2	Over PhP10K but not over PhP30K	1.1%	0.9%	0.9%
3	Over PhP30K but not over PhP70K	4.5%	2.5%	2.4%
4	Over PhP70K but not over PhP140K	8.4%	4.7%	4.9%
5	Over PhP140K but not over PhP250K	13.1%	7.4%	7.6%
6	Over PhP250K but not over PhP500K	17.7%	11.3%	10.9%
7	Over PhP500K	24.9%	14.3%	14.1%

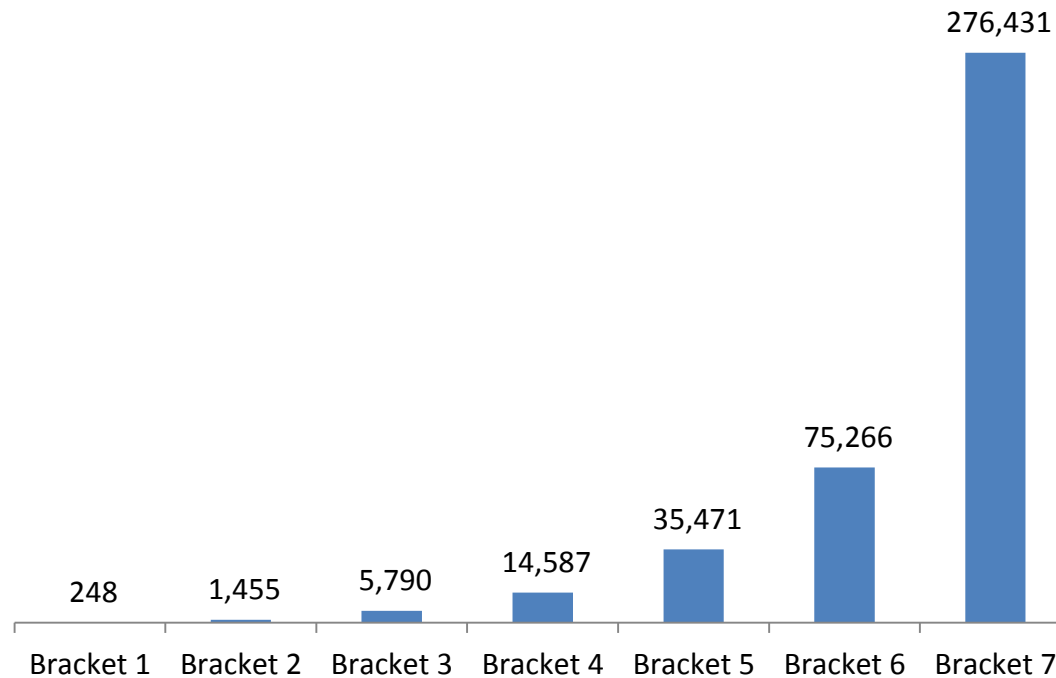


# Average Tax Payments, by type of worker and pre-tax income decile



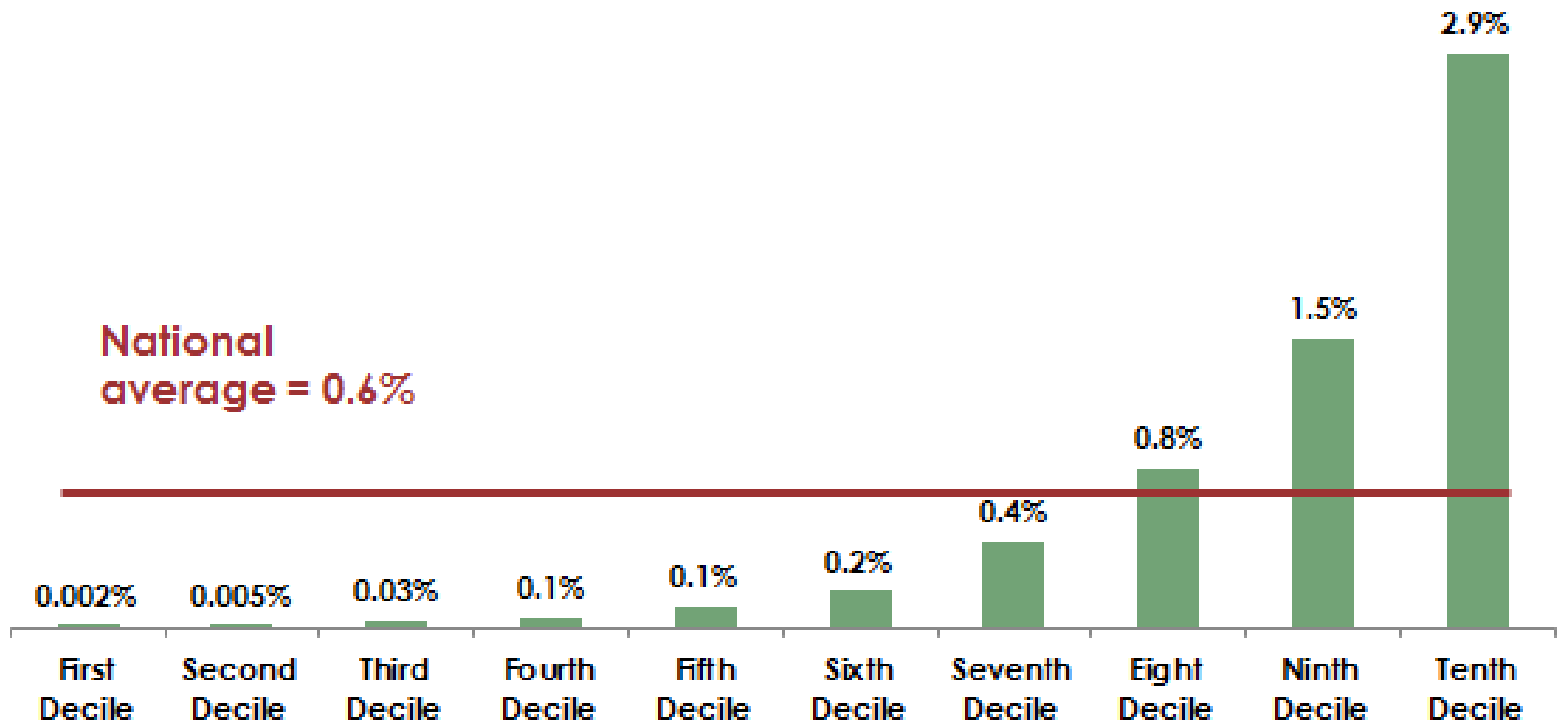
# VERTICAL EQUITY: Are taxes progressive?

AVERAGE TAX DUE, BY TAX BRACKET (IN PESOS)



# VERTICAL EQUITY: Are taxes progressive?

Ratio of Reported Tax Payments to Total Income,  
by income decile



# Vertically equitable?



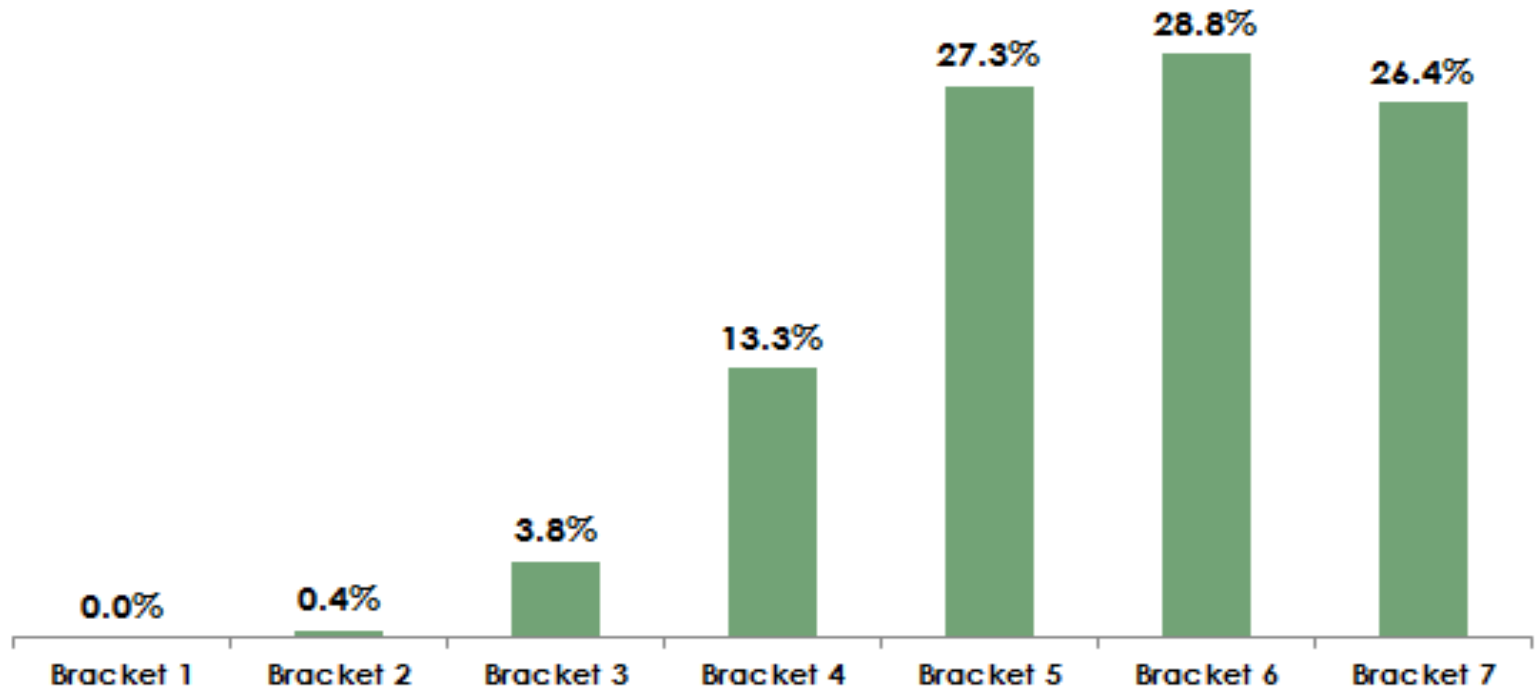
# 137 TOP TAXPAYER

# 138 TOP TAXPAYER



# Sharing of the Tax Burden

Distribution of Worker's Estimated Income Tax Due, by tax bracket



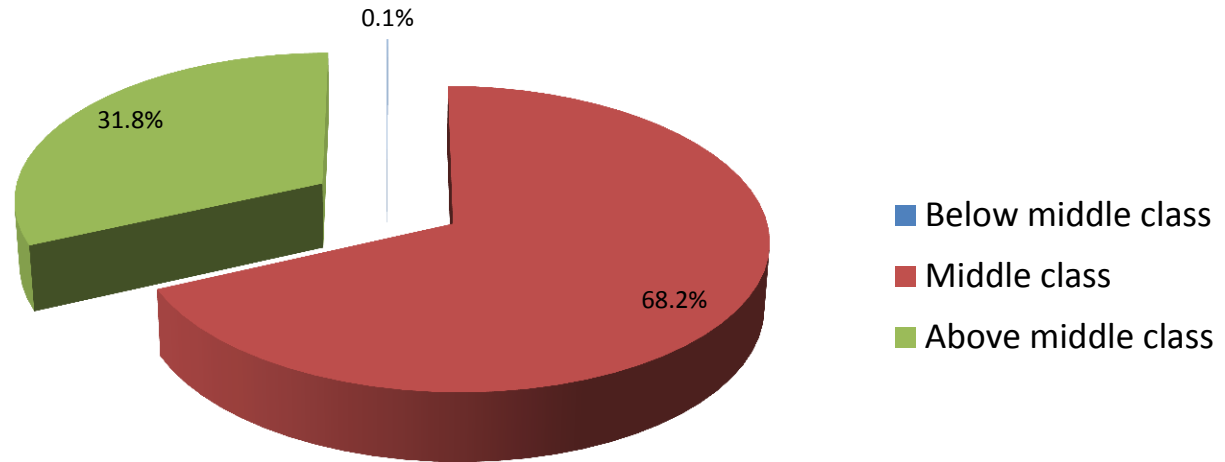
# Mapping of Tax Brackets and Income Class



Bracket	CURRENT Taxable Income	Average Gross Income	Classification based on adopted Birdsall (2010 definition)
1	Not over PhP10K	131,666	Below middle class
2	Over PhP10K but not over PhP30K	145,167	
3	Over PhP30K but not over PhP70K	145,006	Middle class
4	Over PhP70K but not over PhP140K	186,453	
5	Over PhP140K but not over PhP250K	287,467	
6	Over PhP250K but not over PhP500K	449,098	
7	Over PhP500K	980,723	Middle class to above middle class



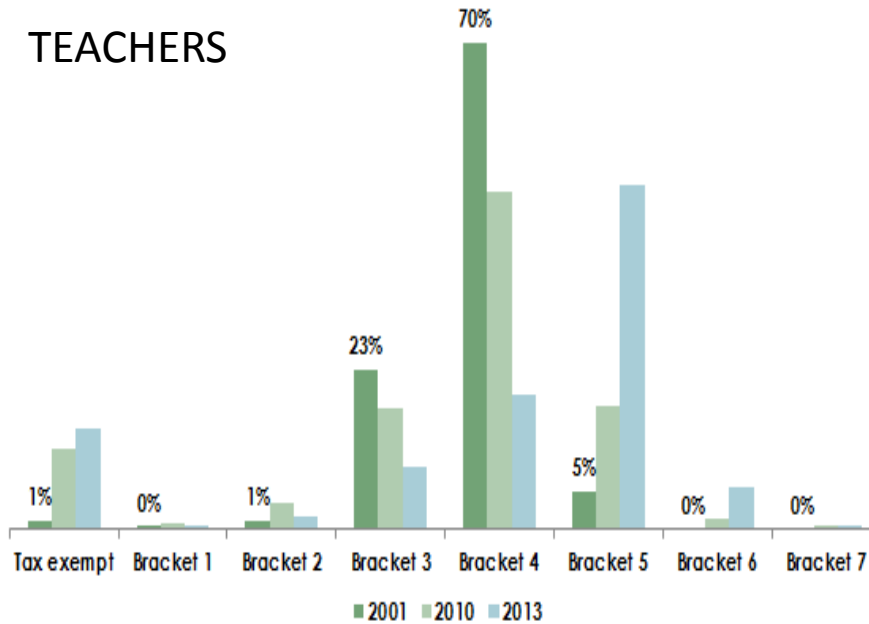
# Is the middle class overburdened?



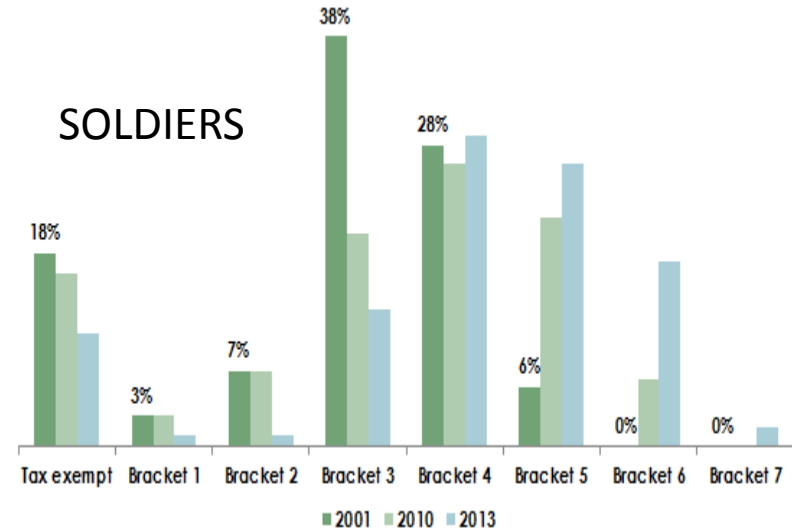
# TIME-RELATED EQUITY: “Frozen” Tax Brackets



TEACHERS



SOLDIERS



# INFLATION-ADJUSTED TAX BRACKETS

## OPTION 1: FULL ADJUSTMENT

Bracket	Taxable Income
1	Not over PhP21,613
2	Over PhP21,613 but not over PhP64,839
3	Over PhP64,839 but not over PhP151,290
4	Over PhP151,290 but not over PhP302,581
5	Over PhP302,581 but not over PhP540,323
6	Over PhP540,323 but not over PhP1,080,645
7	Over PhP1,080,645

## OPTION 2: MOVING AVERAGE (40-60)

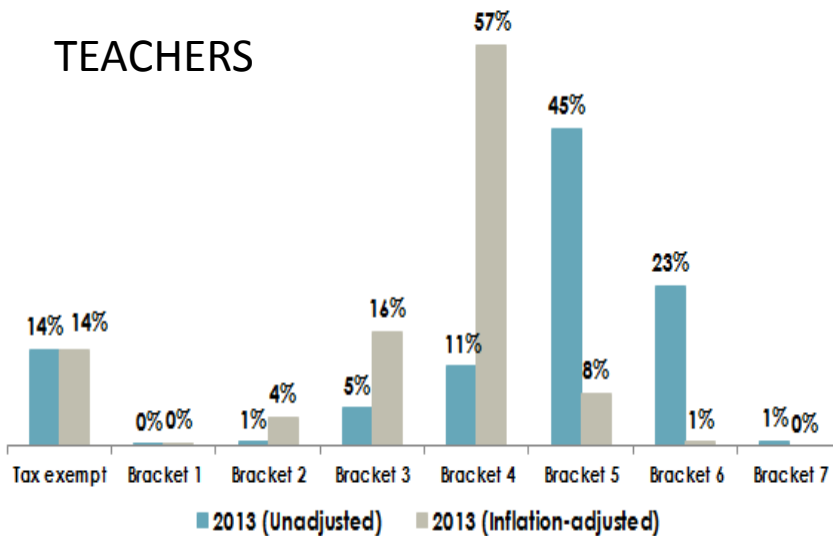
Bracket	Taxable Income
1	Not over PhP16,149
2	Over PhP16,149 but not over PhP48,448
3	Over PhP48,448 but not over PhP113,045
4	Over PhP113,045 but not over PhP226,091
5	Over PhP226,091 but not over PhP403,734
6	Over PhP403,734 but not over PhP807,468
7	Over PhP807,468



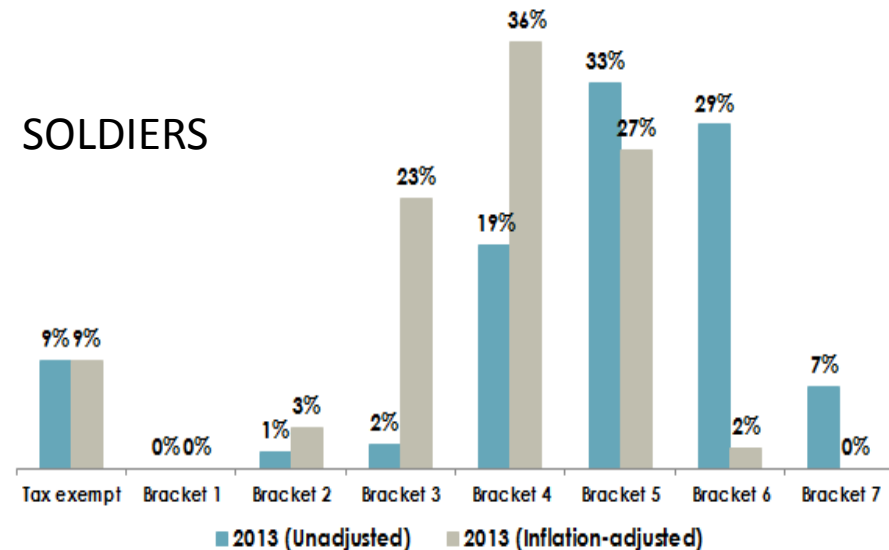
# Effects of Inflation Adjustment on the Distribution of Workers, by tax bracket



## TEACHERS



## SOLDIERS



# BASELINE INCOME TAX DISTRIBUTION

Tax Bracket	Mean Income	Taxable Income	Tax Due	Number of Workers	Tax Revenues
Not over PhP10K	131,666	4,962	248	234,761	58,239,034
Over PhP10K but not over PhP30K	145,167	19,552	1455	653,417	950,860,377
Over PhP30K but not over PhP70K	145,006	51,934	5790	1,547,163	8,958,260,867
Over PhP70K but not over PhP140K	186,453	100,433	14587	2,142,914	31,257,819,861
Over PhP140K but not over PhP250K	287,467	191,886	35471	1,808,040	64,133,781,334
Over PhP250K but not over PhP500K	449,098	334,222	75266	900,237	67,757,693,180
Over PhP500K to 5M	980,723	829,239	230357	222,496	51,253,493,178
Individuals earning 5M+ to 6M	4,801,587	4,671,587	1,536,454	657	1,009,450,602
Individuals earning 6M+ to 8M	6,804,834	6,674,834	2,177,483	549	1,195,438,186
Individuals earning 8M+ to 10M	8,810,414	8,680,414	2,819,212	291	820,390,718
Individuals earning 10M+ to 12M	10,770,307	10,640,307	3,446,281	161	554,851,230
Individuals earning 12M+	11,811,484	11,681,484	3,779,594	431	1,629,004,851
From TOP 500 (over 16M) classified as compensation income earners	34,783,834	34,653,834	11,130,749	448	4,983,150,537
From TOP 500 (over 16M) classified as professionals	77,153,762	46,192,257	14,812,853	52	774,826,167
<b>TOTAL</b>					<b>235,337,260,121</b>



# ESTIMATED INCOME TAX REVENUES, Inflation Adjustment: OPTION 1

Tax Bracket	Mean Income	Taxable Income	Tax Due	Number of Workers	Tax Revenues
Not over PhP21,613	139,068	11,098	553	612,033	338,536,199
Over PhP21,613 but not over PhP64,839	144,573	45,916	2,930	1,651,264	4,838,693,042
Over PhP64,839 but not over PhP151,290	190,517	103,292	8,268	2,601,007	21,505,050,542
Over PhP151,290 but not over PhP302,581	310,646	214,332	21,108	1,890,323	39,901,843,901
Over PhP302,581 but not over PhP540,323	512,216	385,940	43,340	565,374	24,503,113,061
Over PhP540,323 but not over PhP1,080,645	849,024	696,784	96,938	160,404	15,549,295,052
Over PhP1,080,645 to 5M	2,080,125	1,936,480	398,867	28,624	11,417,347,970
Individuals earning 5M+ to 6M	4,802,471	4,672,471	1,274,384	657	837,270,403
Individuals earning 6M+ to 8M	6,805,891	6,675,891	1,915,479	549	1,051,597,879
Individuals earning 8M+ to 10M	8,812,409	8,682,409	2,557,564	291	744,251,262
Individuals earning 10M+ to 12M	10,773,914	10,643,914	3,185,246	161	512,824,606
Individuals earning 12M+	11,812,831	11,682,831	3,517,700	431	1,516,128,499
From TOP 500 (over 16M) classified as compensation income earners	34,785,131	34,685,131	10,878,435	448	4,870,191,863
From TOP 500 (over 16M) classified as professionals	77,172,263	46,203,358	14,564,268	52	761,823,254
Additional revenues from VAT					9,924,134,200
<b>TOTAL</b>					<b>138,272,101,731</b>

← OF EC

**97.1B**  
Reduction  
(41.2%)

# ESTIMATED INCOME TAX REVENUES, Inflation Adjustment: OPTION 2 (MAIR, 40%-60%)

Tax Bracket	Mean Income	Taxable Income	Tax Due	Number of Workers	Tax Revenues
Not over PhP17,337	146,542	61,907	5,453	3,453,177	18,828,713,340
Over PhP17,337 but not over PhP52,011	197,923	94,805	8,581	944,157	8,101,872,779
Over PhP52,011 but not over PhP121,360	258,342	155,791	18,282	1,232,265	22,527,689,666
Over PhP121,360 but not over PhP242,720	350,082	240,874	29,746	1,224,914	36,436,488,701
Over PhP242,720 but not over PhP433,428	526,260	384,791	57,009	416,765	23,759,577,908
Over PhP433,428 but not over PhP866,856	786,587	614,752	110,357	189,074	20,865,688,958
Over PhP866,856 but no over 5M	1,721,502	1,538,998	360,025	48,677	17,524,814,539
Individuals earning 5M+ to 6M	4,802,471	4,671,860	1,274,189	657	837,141,957
Individuals earning 6M+ to 8M	6,805,891	6,675,160	1,915,245	549	1,051,469,433
Individuals earning 8M+ to 10M	8,812,409	8,681,030	2,557,123	291	744,122,816
Individuals earning 10M+ to 12M	10,773,914	10,641,421	3,184,448	161	512,696,160
Individuals earning 12M+	11,812,831	11,681,900	3,517,402	431	1,516,000,053
From TOP 500 (over 16M) classified as compensation income earners	34,785,131	34,684,234	10,878,149	448	4,870,063,417
From TOP 500 (over 16M) classified as professionals	77,172,263	46,195,684	14,561,813	52	761,694,808
Additional revenues from VAT					7,142,309,56
<b>TOTAL</b>					<b>165,480,344,103</b>

**69.9B  
Reduction  
(29.7%)**



# Empirical Support for Fair, Simple, and Lower Taxes

- Studies have shown that the likelihood of tax evasion increases with higher tax rates (Wu and Teng 2005, Crane and Nourzad 1990, Clotfelter 1983).
- Excessive complexity of rules also increases the cost of compliance and reduces the chances of severe punishment due to noncompliance (Roth et al. 1989, p.128).
- Roth et al. (1989) mention a 1973 US survey with 70 percent of its respondents finding the tax forms too complicated for the average taxpayer.
- Klepper and Nagin (1989) showed that tax noncompliance rates are related to measures of complexity, which in turn are related to the probability that evasion will be detected and punished (Slemrod 2007).
- Roth et al. (1989) report that in the US, the most common response to the question of why people cheat is that "the tax system is unfair"



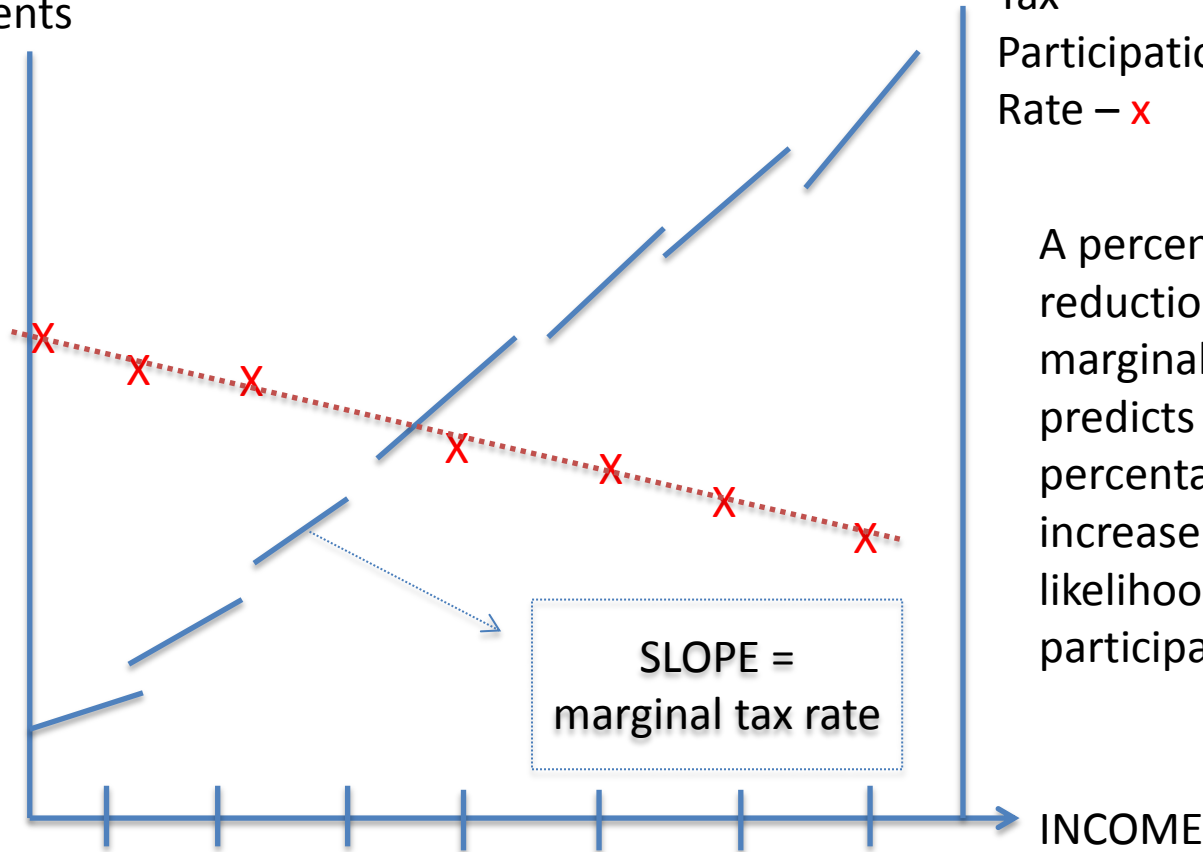


# Empirical Support for Lower Tax Rates: LFS-FIES data



Tax  
Payments

Tax  
Participation  
Rate – x



A percentage point reduction in marginal tax rate predicts a 13.3-18.7 percentage point increase in the likelihood of tax participation

Bracket 1 Bracket 2 Bracket 3 Bracket 4 Bracket 5 Bracket 6 Bracket 7

INCOME

# Simulation 1

- MAIR adjusted tax brackets, lower effective tax rates and simplification by removal of deductions
- *Reform Assumptions*: no deductions for wage and salary workers, no OSD for self-employed, lower effective tax rates for all

Bracket	PROPOSED Taxable Income = Gross Income	Salary and Wage Earners		Self-Employed	
		Current Effective Tax Rates	Proposed Tax Rates	Current Effective Tax Rates	Proposed Tax Rates
1	Not over PhP116,149	0.2%	0%	0.2%	0%
2	Over PhP116,149 but not over PhP148,448	1.1%	0.5%	0.9%	0.5%
3	Over PhP148,448 but not over PhP213,045	4.5%	4.0%	2.5%	2.0%
4	Over PhP213,045 but not over PhP326,091	8.4%	8.0%	4.7%	4.0%
5	Over PhP326,091 but not over PhP503,734	13.1%	12.5%	7.4%	7.0%
6	Over PhP503,734 but not over PhP907,468	17.7%	17.0%	11.3%	11.0%
7	Over PhP907,468	24.9%	24.5%	14.3%	14.0%

- *Behavioral Assumptions*: increased income tax participation rates for the self-employed and professionals; increased registration of professionals to 3.2M (from 1.9M)



# Simulation 2

- MAIR adjusted tax brackets, lower effective tax rates and simplification by removal of deductions
- *Reform Assumptions*: no deductions for wage and salary workers, no OSD for self-employed, lower effective tax rates for all, 1 additional tax bracket for gross income >10M

Bracket	PROPOSED Taxable Income = Gross Income	Salary and Wage Earners		Self-Employed	
		Current Effective Tax Rates	Proposed Tax Rates	Current Effective Tax Rates	Proposed Tax Rates
1	Not over PhP116,149	0.2%	0%	0.2%	0%
2	Over PhP116,149 but not over PhP148,448	1.1%	0.5%	0.9%	0.5%
3	Over PhP148,448 but not over PhP213,045	4.5%	4.0%	2.5%	2.0%
4	Over PhP113,045 but not over PhP326,091	8.4%	8.0%	4.7%	4.0%
5	Over PhP326,091 but not over PhP503,734	13.1%	12.5%	7.4%	7.0%
6	Over PhP503,734 but not over PhP907,468	17.7%	17.0%	11.3%	11.0%
7	Over PhP907,468 but not over PhP10M	24.9%	24.5%	14.3%	14.0%
8	Over PhP10M	32.0%	31.0%	19.2%	18.0%

- *Behavioral Assumptions*: increased income tax participation rates for the self-employed and professionals; increased registration of professionals to 3.2M (from 1.9M)



# Simulation 3

- MAIR adjusted tax brackets, lower effective tax rates and simplification by removal of deductions but with allowable deductions
- Reform Assumptions:* Allowable deductions for wage and salary workers: 50,000 pesos for single without children and 125,000 pesos for those with at least one child; no OSD but lower tax rates for the self-employed and professionals, 1 additional tax bracket for gross income >10M

Bracket	PROPOSED Taxable Income = Gross Income	Salary and Wage Earners		Self-Employed	
		Current Effective Tax Rates	Proposed Tax Rates	Current Effective Tax Rates	Proposed Tax Rates
1	Not over PhP116,149	0.2%	0%	0.2%	0%
2	Over PhP116,149 but not over PhP148,448	1.1%	0.5%	0.9%	0.5%
3	Over PhP148,448 but not over PhP213,045	4.5%	4.0%	2.5%	2.0%
4	Over PhP213,045 but not over PhP326,091	8.4%	8.0%	4.7%	4.0%
5	Over PhP326,091 but not over PhP503,734	13.1%	12.5%	7.4%	7.0%
6	Over PhP503,734 but not over PhP907,468	17.7%	17.0%	11.3%	11.0%
7	Over PhP907,468 but not over PhP10M	24.9%	24.5%	14.3%	14.0%
8	Over PhP10M	32.0%	31.0%	19.2%	18.0%

- Behavioral Assumptions:* increased income tax participation rates for the self-employed and professionals; increased registration of professionals to 3.2M (from 1.9M)

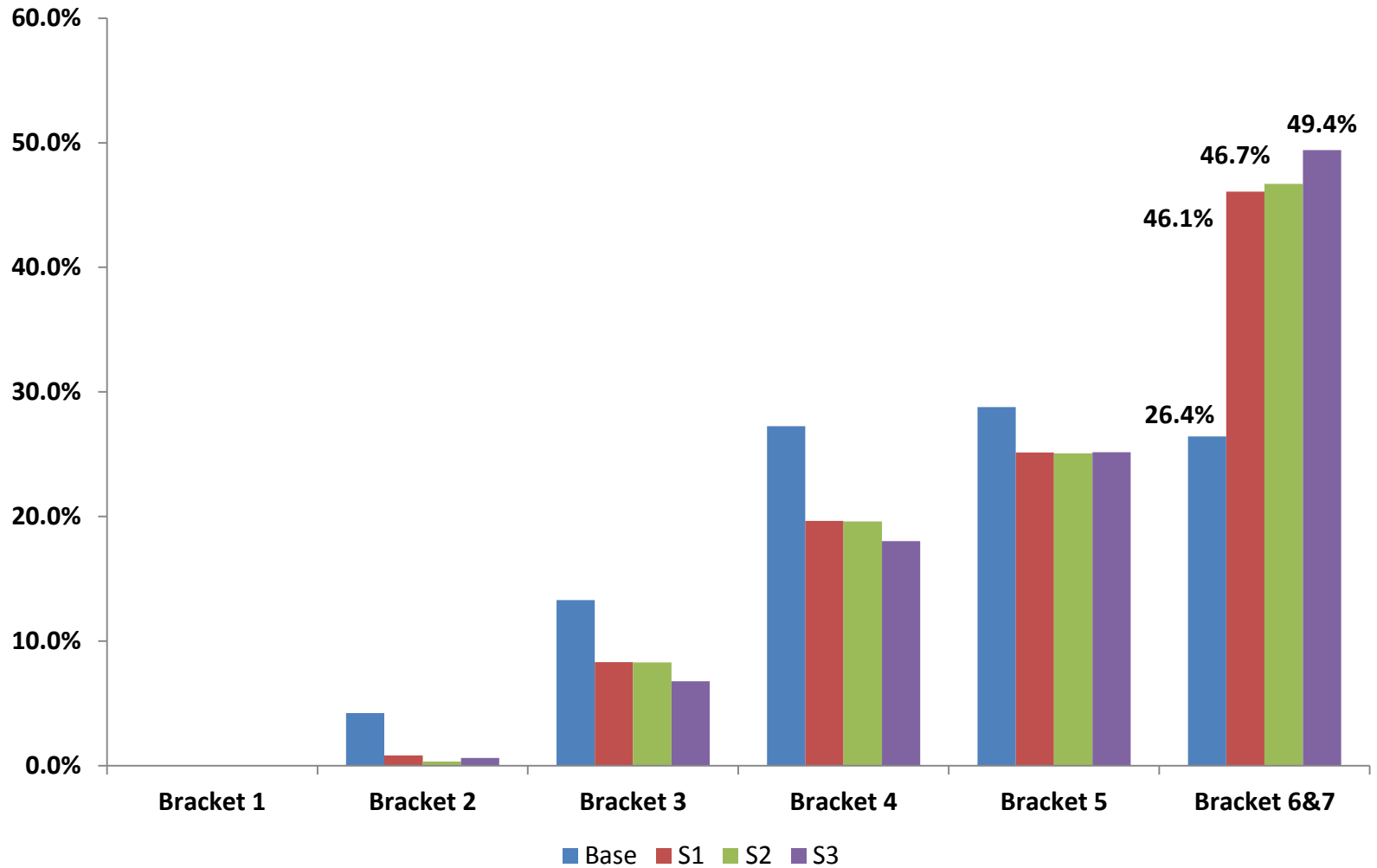


# Estimated Revenue Effects

Scenario	Change in Revenue	
	In percent	In pesos
<i>Base case, with correction for income underreporting: 235 billion pesos</i>		
A. Inflation-adjusted tax brackets (full adjustment)	-41.2%	97.1 billion (loss)
B. Inflation-adjusted tax brackets (MAIR)	-29.7%	69.9 billion (loss)
Simulations:		
1. MAIR adjusted tax brackets, lower effective tax rates, simplification by removal of deductions		
<i>70% participation rate for self-employed 80% participation rate for professionals</i>	-5.4%	12.7 billion (loss)
<i>90% participation rate for self-employed 90% participation rate for professionals</i>	-0.33%	772 million (loss)
2. MAIR adjusted tax brackets, lower effective tax rates, simplification by removal of deductions, 1 additional tax bracket for gross income > 10M		
<i>70% participation rate for self-employed 80% participation rate for professionals</i>	-5.1%	12.0 billion (loss)
<i>90% participation rate for self-employed 90% participation rate for professionals</i>	-0.04%	85 million (loss)
3. MAIR adjusted tax brackets, lower effective tax rates, simplification but with allowable deductions for salary and wage earners		
<i>70% participation rate for self-employed 80% participation rate for professionals</i>	-11.8%	27.8 billion (loss)
<i>90% participation rate for self-employed 90% participation rate for professionals</i>	-6.7%	15.9 billion (loss)



# Estimated Equity Effects



# Summary

- Current income tax structure:
  - Narrow tax base: only about 6.3M workers pay for 85% of all individual income taxes
  - These 6.3M workers are compensation earners, who have been facing increased tax rates over the years because of bracket creep
- Addressing "bracket creep" via inflation-adjusted tax brackets could come at huge cost - a 30-41 percent drop in income tax revenues.
- We show three possible ways to almost offset the cost of inflation-adjusted tax brackets: simplified procedures, lower tax rates, fewer tax brackets.
- This proposed tax structure will shift an additional 20-23 percent of the income tax burden to the highest tax bracket.
- **FAIRNESS COMES WITH A SMALL PRICE!**





# A Few Words on Corporate Income Taxes

- Data Source:
  - 2010 Annual Survey of Philippine Business and Industry
    - Sample: 29,271 business establishments/corporations
    - Industries covered
      - Agriculture, Forestry and Fishing (n=813)
      - Industry (n=7021)
      - Services (n=21,437)





# 2010 ASPBI

- Available data on taxes:
  - Taxes on products and production (excluding income tax)
- Crude method to compute for corporate income tax due
  - $(\text{Total revenues} - \text{total costs}) * 30\%$



# Why is there a gap?

- Based on the crude method of account for total corporate income tax due\*:

793.7 billion pesos (7.8% of total revenues)

VS.

280 billion pesos (actual collection, BIR report)



# Taxes on products and production

- Taxes on products and production is defined as “all taxes, other than income tax, incidental to the production or sale of goods and services that are chargeable as expenses including business license, BIR stamps, real estate tax and other local taxes
- Reported total taxes on products and production\*:

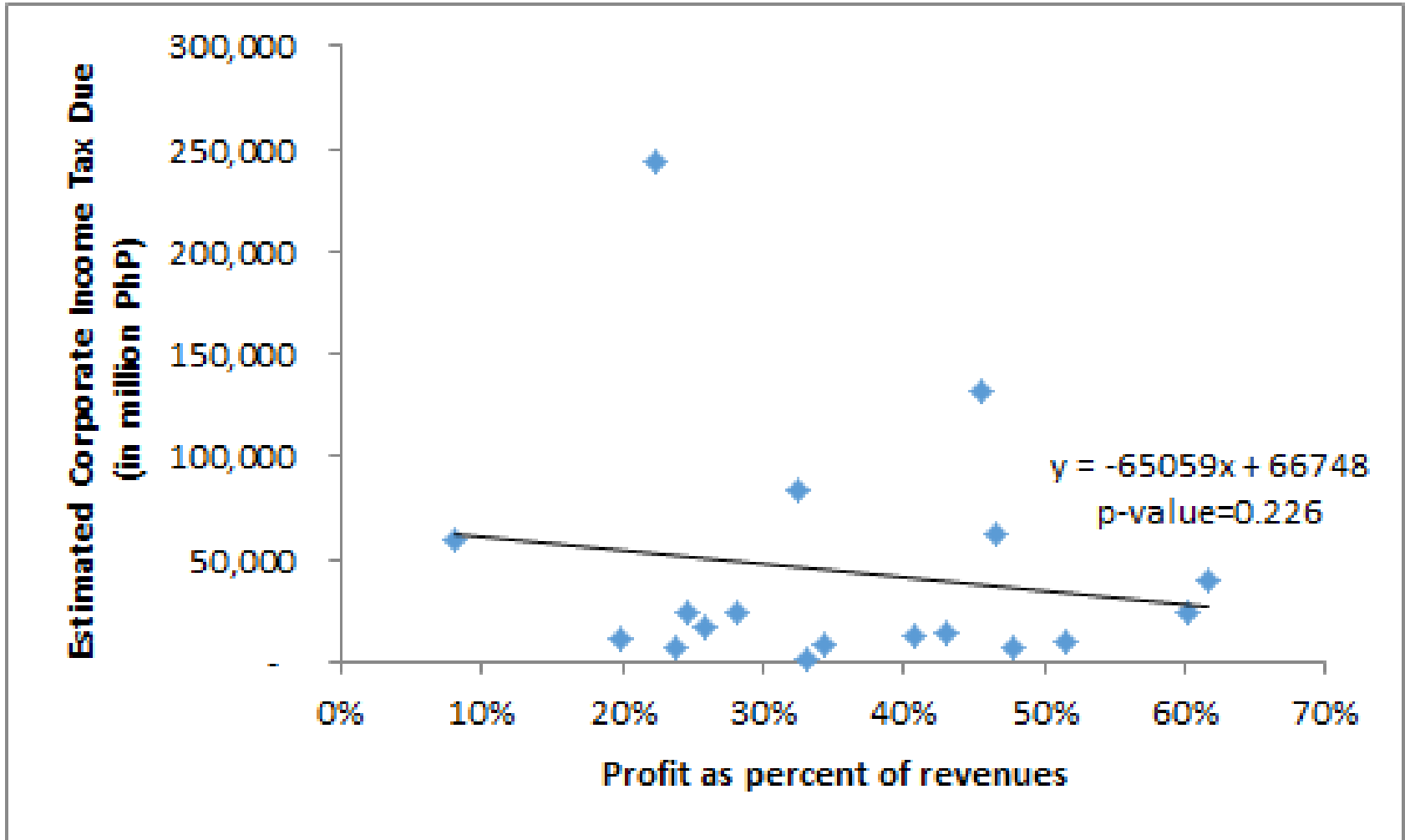
140 billion pesos (1.4% of total revenues)





	<b>Taxes on Products and Production as percent of revenues</b>
<b>Philippines</b>	<b>1.4%</b>
<b>AGRICULTURE</b>	<b>0.8%</b>
Agriculture, Forestry and Fishing	0.8%
<b>INDUSTRY</b>	<b>1.3%</b>
Mining and Quarrying	1.6%
Manufacturing	1.5%
Electricity, Gas, Steam and Air-Conditioning Supply	0.8%
Water Supply; Sewerage, Waste Management and Remediation Activities	0.8%
Construction	1.0%
<b>SERVICES</b>	<b>1.4%</b>
Wholesale and Retail Trade, Repair of Motor Vehicles and Motorcycles	0.6%
Transportation and Storage	1.2%
Accommodation and Food Service Activities	1.8%
Information and Communication	1.5%
Financial and Insurance Activities	3.2%
Real Estate Activities	2.5%
Professional, Scientific and Technical Activities	2.1%
Administrative and Support Service Activities	1.0%
Education	0.4%
Human Health and Social Work Activities	0.8%
Arts, Entertainment and Recreation	3.7%
Other Service Activities	1.8%

# Do taxes reduce profitability?



\*Authors, calculations;

Projected to reported total number of business establishments/corporations by ASPBI: 148,266

# Closing Remarks

- A lot more to study especially:
  - the incentive effects of income tax changes on labor supply decisions, saving, fertility
  - operational research on tax administration
  - Corporate income taxes and effects on competitiveness of industries in the light of ASEAN economic integration
- Figures are illustrative; further debate and discussion needed, especially with the DOF/BIR
- The importance of data, data, data
  - TAXSIM model of the US uses actual tax records
  - Constitutional provisions on the prohibition of the use of firm-level data

