UNIVERSITY OF THE PHILIPPINES

SCHOOL OF ECONOMICS

Discussion Paper No. 0502 March 2005

Reforming the Philippine Tax System: Lessons from Two Tax Reform Programs

by

*Benjamin E. Diokno**

* Professor, School of Economics
University of the Philippines

Reforming the Philippine Tax System: Lessons from Two Tax Reform Programs

By BENJAMIN E. DIOKNO

Abstract

The most important role that fiscal policy can play with regard to growth is to ensure macroeconomic stability. But despite two highly visible tax reform programs in less than two decades, the Philippines is now in the midst of a fiscal crisis. This has been brought about by pressures on the spending side of the equation. But the biggest contributor to the present fiscal crisis is the deterioration of the tax system -- its declining tax effort and growing unresponsiveness to changes in economic activity.

The paper aims to describe analytically the similarities and differences of the 1986 Tax Reform Program and the 1997 Comprehensive Tax Reform Program (CTRP). In assessing the effect of the reform programs, the following questions were raised: Has the revenue mobilization capability of the tax system improved? Has the tax system become responsive to changes in economic activity? Has the share of corrective taxes to total taxes increased?

There are lessons learned in managing the reform: tax reforms should be done at the start of an administration; they should be presented as a critical component of a comprehensive public sector reform program; in an environment where timely, upward, adjustment in existing tax rates are difficult to legislate, ad valorem taxation should be preferred to specific taxation; successful reforms require broad political support; and most importantly, the President must have the political will to do what is best for his country.

Given the seriousness of the country's fiscal problem, the low-yielding, complicated and inflexible tax system needs a major overhaul, not minor tinkering. The next round of tax reforms should focus on broadening the tax base, increasing the tax yield, improving the system's responsiveness to changes in economic activity, and simplifying tax administration. The focus of the reform program should be: (a) heavier reliance on corrective or Piguovian taxes; (b) higher rate and broader VAT base, (c) rationalization of fiscal incentives, and (d) flat and lower income taxes.

Reforming the Philippine Tax System: Lessons from Two Tax Reform Programs

By BENJAMIN E. DIOKNO[*]

The most important role that fiscal policy can play with regard to growth is to ensure macroeconomic stability. But despite two highly visible tax reform programs in less than two decades – in 1986 and 1997 -- the Philippines, by the President's own admission, is in the midst of a fiscal crisis. Without doubt, the growing unmanageability of the total public sector's fiscal health has been brought about by pressures on the spending side of the equation. The cost of debt servicing has ballooned because of large and persistent deficits in recent years and the mismanagement of public corporations, notably the National Power Corporation. Moreover, the formula-based, mandatory grant system to local governments has constrained the national government's flexibility in reducing public spending.[1] But undoubtedly the biggest contributor to the present fiscal crisis is the progressive decline in the tax effort, defined as taxes as percent of GDP, and the growing unresponsiveness of the tax system to changes in economic activity.

This paper aims to describe analytically the similarities and differences of two tax reform programs – 1986 Tax Reform Program and the 1997 Comprehensive Tax Reform Program -- and then attempt to draw some policy lessons from them. It will focus on the following questions:

- Is the present tax system capable of mobilizing sufficient resources to finance the public expenditure needs of the government?
- What has been the contribution of the 1986 Tax Reform Program and the 1997 Comprehensive Tax Reform Program in improving the resource mobilization capability of the tax system?

[*] Philippine National Bank Professor of Economics, School of Economics, University of the Philippines, Diliman, Quezon City Philippines 1101 (e-mail: benjamin.diokno@up.edu.ph). This is a revised and updated version of the paper presented at the Manila 2005 International Conference on Business, Economics and Information Technology, Makati City, Philippines, March 7-8, 2005. The conference was jointly sponsored by the Alfred University College of Business (U.S.A.) and the University of the Philippines School of Economics. Financial support from the Philippine Center for Economic Development is gratefully acknowledged.

[1] For an extensive discussion of how the Philippine intergovernmental grant system has evolved and how it has become a serious contributor to the current fiscal problem, see B. Diokno, "Decentralization in the Philippines After Ten Years: What Have We Learned? What Have I Learned?" Discussion Paper No. 0308, School of Economics, University of the Philippines, December 2003.

- What other tax reforms may be proposed to enhance the resource mobilization capability of the tax system?
- What lessons for policy can be learned from the two tax reform programs?

I. The State of Fiscal Affairs

In her state of the nation address before Congress in July 2004, President Arroyo recognized the deepening fiscal and public debt problems. She called the deficit “our most urgent problem.” A group of 11 Filipino economists argued that: “The looming threat represented by an uncontrolled public debt is indeed the biggest economic challenge the country will have to confront immediately and for the remainder of the decade.”[2]

By any measure of fiscal imbalance – whether it is the national government deficit, consolidated public sector deficit (CPSD) or public sector borrowing requirement (PSBR) – it is unmistakably clear that the government’s finances has worsened significantly in recent years. The deficit of the national government, as percent of GDP, has remained above 4 percent, after reaching its peak of 5.3 percent in 2002. The CPSD has remained above 5 percent. Even scarier is the PSBR picture: it has averaged 6.6 percent during the last two years and is expected to balloon to 7.2 percent in 2004. From the economic standpoint, it may be argued that the PSBR is the most important among the three measures of fiscal imbalance because it shows how much the government has to borrow – either domestically or externally – in order to finance the deficit. In turn the financing requirement and its mix would affect domestic interest rates, exchange rates and, consequently, savings, investment and growth levels (Table 1).

Table 2 gives various fiscal risk indicators showing the extent of fiscal deterioration in recent years. Discretionary spending[3] has been falling: as percent of GDP, from 5.8 percent in 1999 to 3.9 percent in 2004; as percent of total expenditures, from 29.2 percent in 1999 to 20.7 percent in 2004. Consequently, the government’s ability to provide essential public services would be very much at risk in the event of some unforeseen shocks, whether internal or external.

The worsening fiscal gap was not due to any sharp increase in budgetary spending. Total spending as percent of GDP has averaged 19 percent in recent years. Primary spending-- that is, national government spending net of interest payments-- has in fact shrunk significantly since 1999, and is now at its lowest level in a decade.

[2] See Emmanuel de Dios, Benjamin Diokno, Emmanuel Esguerra, Raul Fabella, Ma. Socorro-Bautista, Felipe Medalla, Solita Monsod, Ernesto Pernia, Renato Reside, Jr., Gerardo Sicat, and Edita Tan, “The Deepening Crisis: The Real Score on Deficits and the Public Debt,” Discussion Paper No. 0409, School of Economics, University of the Philippines, August 2004.

[3] Defined as total expenditures less the following items: Internal Revenue Allotment (IRA), interest payments and personal services.

The severe and tightening budget constraint has taken its toll in terms of a sharply lower primary spending. As percent of GDP, government spending for education, health and

Table 1.Philippines: Consolidated Public Sector Financial Position, 1998-2004

Particulars	1998	1999	2000	2001	2002	2003	2004
	Actual	Actual	Actual	Actual	Actual	Actual	Proj.
I. Levels in billion pesos							
Public sector borrowing Requirement (PSBR)	**-111.3**	**-138.0**	**-179.1**	**-189.7**	**-268.3**	**-275.1**	**-336.4**
National government	**-50.0**	**-111.7**	**-134.2**	**-147.0**	**-210.7**	**-199.9**	**-197.8**
CB Restructuring	-26.4	-20.5	-19.1	-23.5	-15.1	-15.7	-17.2
Monitored GOCCs 1/	-38.0	-4.6	-19.2	-24.5	-46.4	-65.3	-125.5
Oil Price Stabilization Fund	0.7	1.9	0.0	0.8	0.0	0.0	0.0
Adj of NL and Equity to GOCCs	0.9	3.0	-6.6	4.5	3.9	5.8	4.1
Other Adjustments	1.5	-6.1	0.0	0.0	0.0	0.0	0.0
Other Public Sector	*28.1*	*37.5*	*22.7*	*17.4*	*49.5*	*40.1*	*28.6*
SSS/GSIS 2/	17.8	36.4	15.5	9.3	25.6	17.6	13.3
Bangko Sentral ng Pilipinas	3.2	-3.9	0.0	-0.1	1.2	6.9	1.0
Government Financial Institutions	5.4	3.3	2.8	3.9	5.4	4.9	3.0
Local Government Units	2.0	3.2	3.8	4.2	18.9	7.9	10.1
Timing Adjustments of IPs to BSP	-0.3	-2.3	0.5	0.0	-1.6	0.6	1.2
Other Adjustments	0.0	0.8	0.1	0.1	0.0	2.2	0.0
Consolidated public sector surplus/(deficit)	**-83.2**	**-100.5**	**-156.4**	**-172.2**	**-218.8**	**-235.0**	**-307.8**
II. In Percent of GDP							
Public sector borrowing requirement (PSBR)	**-4.2**	**-4.6**	**-5.3**	**-5.2**	**-6.8**	**-6.4**	**-7.2**
National government	**-1.9**	**-3.8**	**-4.0**	**-4.0**	**-5.3**	**-4.6**	**-4.3**
CB Restructuring	-1.0	-0.7	-0.6	-0.6	-0.4	-0.4	-0.4
Monitored GOCCs 1/	-1.4	-0.2	-0.6	-0.7	-1.2	-1.5	-2.7
Oil Price Stabilization Fund	0.0	0.1	0.0	0.0	0.0	0.0	0.0
Adj of NL and Equity to GOCCs	0.0	0.1	-0.2	0.1	0.1	0.1	0.1
Other Adjustments	0.1	-0.2	0.0	0.0	0.0	0.0	0.0
Other Public Sector	1.1	1.3	0.7	0.5	1.3	0.9	0.6
SSS/GSIS 2/	0.7	1.2	0.5	0.3	0.6	0.4	0.3
Bangko Sentral ng Pilipinas	0.1	-0.1	0.0	0.0	0.0	0.2	0.0
Government Financial Institutions	0.2	0.1	0.1	0.1	0.1	0.1	0.1
Local Government Units	0.1	0.1	0.1	0.1	0.5	0.2	0.2
Timing Adjustments of IPs to BSP	0.0	-0.1	0.0	0.0	0.0	0.0	0.0
Other Adjustments	0.0	0.0	0.0	0.0	0.0	0.1	0.0
Consolidated public sector surplus/(deficit)	**-3.1**	**-3.4**	**-4.7**	**-4.7**	**-5.5**	**-5.5**	**-6.6**
Source: Budget of Expenditures and Sources of Financing, various years							
Memo items:							
Nominal GDP (in billion pesos)	2665	2977	3355	3631	3960	4300	4649
1. Monitored GOCCs include the financial statements of the ff: NPC, TRANSCO, PSALM,PNOC, MWSS, NIA, NDC, CRTA, NEA, NHA, PNR, PPA, NFA, PEZA, HGC. Excludes the proceeds from privatization of PSALM and TRANSCO assets							
2. Includes surplus of the Philippine Health Insurance Corporation							

public infrastructure has deteriorated, putting at serious risk the economy's prospect for higher growth in the medium- and long-term.

Table 2. Philippines: Selected Fiscal Statistics, 1999-2004

In billion pesos, unless otherwise stated

	1999	2000	2001	2002	2003	2004
Revenues	478.5	514.7	563.7	567.1	626.6	676.4
Expenditures	590.2	645.4	710.7	777.9	826.5	874.2
Overall balance	-111.7	-130.7	-147.0	-210.8	-199.9	-197.8
Primary spending 1/	483.9	504.5	535.9	592.0	600.1	608.4
Primary balance 2/	-5.4	10.2	27.8	-24.9	26.5	68.0
As percent of GDP	-0.2	0.3	0.8	-0.6	0.6	1.5
Major expenditure functions						
Defense and public security	73.8	83.4	80.0	89.1	97.0	97.0
Education	101.0	108.5	110.8	119.8	128.6	130.4
Health	13.1	12.7	11.2	12.9	10.7	11.2
Infrastructure outlays	55.2	65.1	64.4	59.9	60.7	51.4
Internal revenue allotment (IRA) to LGUs	96.4	99.8	116.6	137.6	141.0	141.0
	As percent of Primary Spending					
Defense and public security	15.25	16.53	14.93	15.05	16.16	15.94
Education	20.87	21.51	20.68	20.24	21.43	21.43
Health	2.71	2.52	2.09	2.18	1.78	1.84
Infrastructure outlays	11.41	12.90	12.02	10.12	10.11	8.45
Internal revenue allotment (IRA) to LGUs	19.92	19.78	21.76	23.24	23.50	23.18
	As percent of GDP					
Defense and public security	2.48	2.49	2.20	2.25	2.26	2.09
Education	3.39	3.23	3.05	3.03	2.99	2.80
Health	0.44	0.38	0.31	0.33	0.25	0.24
Infrastructure outlays	1.85	1.94	1.77	1.51	1.41	1.11
Internal revenue allotment (IRA) to LGUs	3.24	2.97	3.21	3.47	3.28	3.03
Discretionary spending 3/	172.1	169.5	171.6	186.3	183.0	181.1
As percent of GDP	5.8	5.1	4.7	4.7	4.3	3.9
As percent of total expenditures	29.2	26.3	24.1	23.9	22.1	20.7
Total Debt Service Expenditures	205.4	227.8	274.4	358.0	470.0	575.5
Interest Payments	106.3	140.9	174.8	185.9	226.4	265.8
Principal Amortization	99.1	86.9	99.6	172.1	243.6	309.7
	As percent of Total Revenues					
Total Debt Service Expenditures	42.9	44.3	48.7	63.1	75.0	85.1
Interest Payments	22.2	27.4	31.0	32.8	36.1	39.3
Principal Amortization	20.7	16.9	17.7	30.3	38.9	45.8
Interest cost incl net deficit from CB restructuring	26.5	31.1	35.2	35.4	38.6	41.8
Memorandum items:						
Personal services	215.4	235.2	247.7	268.1	276.1	286.3
Net deficit from Central Bank restructuring	20.5	19.1	23.5	15.1	15.6	17.2
Nominal GDP	2977	3355	3631	3960	4300	4649

Source of basic data: Budget of Expenditures and Sources of Financing, various years

1. Total expenditures less interest payments

2. Total expenditures -IRA - interest payments - personal services

Figure 1 shows that to a large extent the recognized fiscal crisis may be attributed to the progressively declining tax effort. But there are two other reasons. The first is the ballooning debt servicing cost. Interest payments as percent of total revenues has been rising: from 22.2 percent in 1999 to 39.3 percent in 2004. Total debt servicing – interest payments plus principal amortization – as percent of total revenues is expected to reach 85.1 percent in 2004, twice the level in 1999. But the higher debt servicing cost is not fully accounted for by the large and persistent deficits of the national government. Specifically, while public debt rose by about P2.0 trillion from 1997-2003, only P855 trillion or 42.6 percent may be attributed to national government deficits. About one third (37 percent) of the increase in public debt is due to "non-budgetary accounts" and "assumed liabilities and lending to corporations" while 18.8 percent was caused by the depreciation of the exchange rate.[4]

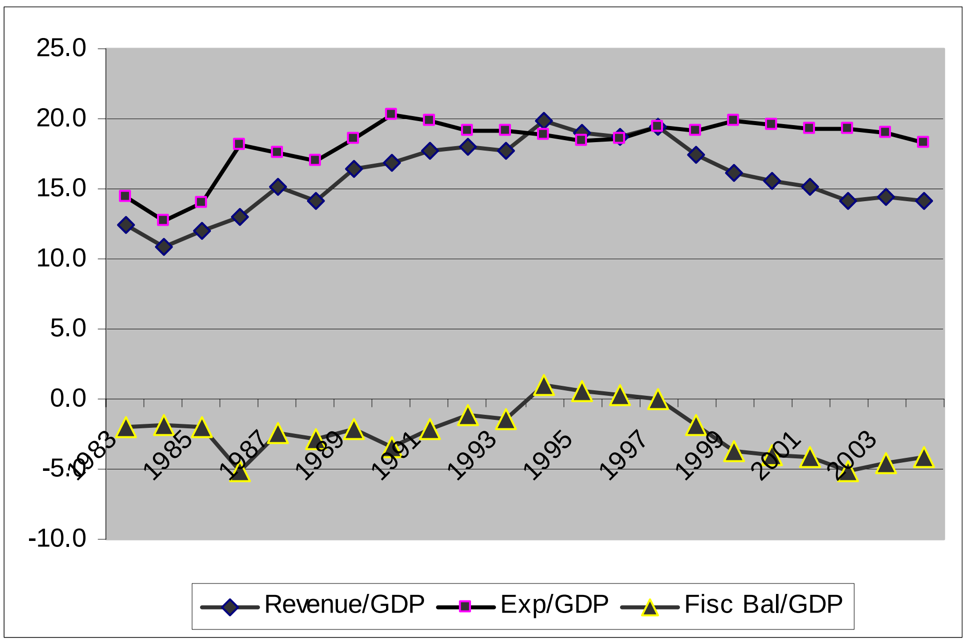

FIGURE 1. DETERIORATING FISCAL IMBALANCE

The other reason for the worsening fiscal position of the national government is the increasing mandatory and largely unconditional, grant to local governments pursuant to the Local Government Code of 1991. The grant to local governments, called Internal Revenue Allotment (IRA), has grown sharply in absolute terms, as percent of the national government budget, and in percent of GDP. The level of grant has turned out to be much higher than what was deemed fiscally responsible.[5] The IRA has been the largest source of revenues of local governments, especially the poor, rural communities. The IRA,

[4] For a fuller discussion of how public debt rose from 1997 to 2003, see de Dios, et.al, 2004.
[5] See Diokno [2003] for a more exhaustive discussion of this argument.

however, has not been immune to the budget crunch in recent years. Its absolute value has leveled off during the last two years, falling as percent of GDP.

II. The 1986 Tax Reform Program

A. What's Wrong with the Pre-1986 Tax System?

The fiscal statistics immediately before and during the 1986 tax reform program suggest that the Aquino government had no choice but to reform the tax system in order to maintain macroeconomic stability and restore economic growth. The fiscal deficit – whether measured in terms of the national government budget deficit, CPSD or PSBR – was large and unsustainable.

Table 3. Aquino: Reform or Perish
Years immediately before and during the 1986 tax reform
In percent of GDP

	1985	1986
Revenues	12.06	13.01
Taxes	10.71	10.76
Expenditures	14.01	18.15
Interest payments	2.56	3.55
Primary surplus	0.91	-1.59
National government fiscal balance	-1.94	-5.14
Consolidated public sector deficit (CPSD)	-5.61	-6.50
Public sector borrowing requirement (PSBR)	-2.73	-4.20

The pre-1986 tax system may be described as unresponsive to changes in economic growth, low yielding, heavily dependent on indirect taxes, and difficult to administer. From 1981 to 1985, total revenues grew at an average annual rate of 15 percent against the 18 percent average annual growth of the nominal GNP during the period. Tax effort was practically flat from 1981 to 1985, declining slightly from 11.2 percent to 11.0 percent, respectively. About 88 percent of total revenues came from tax sources, of which domestic-based taxes contributed a share of 53 percent while international trade taxes contributed 31 percent.

Income Taxation. Prior to the 1986 tax reform program, the income tax system followed two tax schedules. One was for the compensation income category (salaries and wages) under a modified gross income scheme of nine steps from 1 percent to 35 percent. The other schedule was for business and professional income on a net basis of five steps from 5 percent to 60 percent. Personal exemption levels had been revised in 1981, 1983, and 1985. Passive income (such as interest income, royalties and dividends) was subject to 17.5 percent and 15 percent withholding. Dual rates of 25 percent and 35 percent based on net taxable income were imposed on corporations.

Domestic Indirect Taxation. Most imported and locally produced goods were levied an ad valorem sales tax. Since 1985, a turnover tax of 1.5 percent of gross selling price had been levied on each subsequent sale of any article, except that of manufactured oils and other fuels. The advance sales tax on imported goods was allowed as credit against the sales tax due only on the original sale of imported goods. On October 1985, a unified sales tax rate on essential and non-essential articles was enacted. This eliminated the mark-up provision and imposed higher rates on imported goods. The base of the sales tax on domestic goods was the gross selling price while that of imports was the landed cost inclusive of tariff plus a mark-up of 25 percent. Specific taxes were imposed on certain domestically produced and imported goods. During earlier years, specific taxes were used to discriminate against imports, but in 1983 the rates of both types of goods was harmonized. In 1984, an ad valorem component was added to, and in most cases replaced, the unit tax.

International Trade Taxation. The ad valorem peak rate of 100 percent was reduced to 50 percent and tariff rates on other commodities were revised to conform to a more uniform structure. In 1982, an additional duty of 3 percent was imposed on all imports. This was raised to 5 percent in 1983 and to 10 percent in 1984. The additional duty was reduced gradually until they were finally phased out in 1986.

Export taxes on particular products were alternatively lifted, reimposed, raised and decreased depending on the performance of each product in the international market. The export tax was an ad valorem tax levied on the gross FOB value of taxable exports. Logs were taxed at 20 percent, copra at 15 percent, coconut oil at 9 percent, copra meal/cake and dessicated coconut at 8 percent, lumber, veneer, abaca, and pineapple juice at 4 percent and bananas at 2 percent.

Tax Incentives. A decree was issued in January 1981 to change the up-front rewards for performance-oriented incentives, such as tax credit on net value added earned and net local content of exports. In 1984, all tax exemptions to all government and private corporations were eliminated. However, many of these exemptions were restored.

B. Objectives of the 1986 Tax Reform Package

The 1986 tax reform program was designed to address the major weaknesses of the existing tax system such as its unresponsiveness to changes in income aggregates, low tax yield, heavy dependence on indirect taxes, and a complicated administration structure. The tax reform program was aimed primarily at obtaining a simpler, fairer and more efficient tax system.

The specific objectives of the 1986 tax reform measures are:

- Improve the elasticity of the tax system to increases in economic activity.
- Promote equity by ensuring that similarly situated individuals and firms bear the same tax burden
- Promote growth by withdrawing or modifying taxes that impair incentives to produce.

- Improve tax administration by simplifying the tax system and promoting tax compliance.

C. Major Actors and Coordinative Mechanism

The prime movers of the reform were: Jaime Ongpin, Minister of Finance; Solita Monsod, Minister of Socioeconomic Planning; and Alberto Romulo, Minister of Budget and Management. The highest level of technical support was provided to the Ministers by their respective deputies: Victor Macalingcag, Ministry of Finance; Willie Nuqui, National Economic and Development Authority; and Benjamin Diokno, Ministry of Budget and Management. A Task Force on Tax Reform under the NEDA Secretariat provided technical assistance and served as Secretariat of the Task Force.

Twenty nine (29) tax measures, including the VAT, were approved in a Cabinet meeting held on June 28, 1986. Individual presidential decrees, with full force of a law, were subsequently issued to provide the legal bases for implement the approved tax reform measures. The speed of approval of such a wide-ranging tax reform program is unprecedented in Philippine history. It could be attributed to the unique political situation at the time of its approval, with Corazon Aquino acting as President and the Legislature under a revolutionary government. In addition, the formulation and approval of the reform measures was, to a large extent, facilitated by the existence of a package of measures which had been prepared earlier by a group of economics from the University of the Philippines School of Economics.[6]

There was no question as to the ownership of the 1986 tax reform program. It was prepared without the benefit of foreign experts having been crafted by economists from the University of the Philippines with the assistance of some career government officials.[7]

D. Reforms in Income Taxation

The 1986 tax reform program unified the dual tax schedules applicable to individual income by adopting the lower 0-35 percent schedule for both compensation and professional incomes. Ceilings on allowable business deductions were introduced to minimize the possible revenue decline arising from the uniform schedule and to preserve the relative tax burdens of individuals. Unfortunately, this complementary measure has not been implemented due to the strong lobbying of various professional groups.

Since the plan was to eventually shift to comprehensive income taxation, passive incomes were treated differently for a limited period. Passive incomes were taxed at a uniform rate of 20 percent. The establishment of a uniform rate rendered passive income taxation

---

[6] Florian Alburo, et.al. "Economic Recovery and Long-run Growth: Agenda for Reforms," Makati: Philippine Institute for Development Studies, 1986.

[7] But some government tax experts did not appreciate the sense of urgency of having the new tax measures approved and implemented before a newly elected legislature is installed. They insisted on the conduct of further studies on most of the proposed tax measures.

neutral with respect to investment decisions involving bank deposits and royalty-generating ventures. But because of the higher rates, the change also resulted in an increase in revenue.

Personal exemptions were increased to adjust for inflation and to eliminate the taxation of those earning below the poverty threshold income. The policy change was meant to improve the fairness of the individual income tax system. Married taxpayers were given the option to file separate returns, which reduced the tax burden of married couples since both incomes start from a 0 percent rate on the first P2500 of taxable income.

In 1986 the dual rate system of 25 and 35 percent applicable to taxable income of corporate enterprises was replaced by a uniform rate of 35 percent, the highest marginal tax rate for personal income. The tax reform program eliminated taxation on inter-corporate dividends and gradually phased out the tax on dividends over a period of three years. In addition, the tax program imposed a tax on franchise grantees which previously enjoyed exemption from income taxes. This move put franchise grantees on an equal footing with similarly situated individuals or firms.

E. Reforms in Indirect Taxation

A major revamp of the indirect tax system was undertaken in 1986. The VAT was introduced in 1988 to simplify the tax structure and its administration, to maintain progressivity and to introduce tax neutrality for resource-allocation decisions. It replaced the advance sales tax, subsequent sales tax, compensating tax, miller's tax, contractor's tax, broker's tax, film lessors and distributor's tax, and excise taxes on solvents, matches and processed videotapes. The VAT is a uniform tax of 10 percent and is imposed on a final destination basis. The tax credit approach is used in collecting this tax, whereby firms are allowed to credit taxes paid on purchased inputs against taxes paid on final sales. In order to make the tax less inequitable, it exempts the sale of basic commodities such as agriculture and marine food products in their original state. It zero rates exports, and in most cases taxes imports fully. An additional 20 percent tax is imposed on non-essential articles such as jewelry, perfumes, toilet waters, yacht and other vessels for pleasure and sports.

F. Assessment of the 1986 Tax Reform Program

There is general agreement that the 1986 tax reform program had significantly improved the Philippine tax system, at least in revenue yield and simplicity. The tax effort had improved and so has the responsiveness of the tax system to changes in economic activity. Revenue effort rose steadily, after a dip in 1988 (the first year of implementation of the VAT), until the next round of tax reforms. Tax effort increased from10.7 percent In 1985 to 15.4 percent in 1992, then peaked at 17 percent in 1997.

Overall responsiveness of the tax system to changes in economic activity improved from an average of 0.9 percent from 1980-1985 to an average of 1.5 percent from 1986 to 1991.

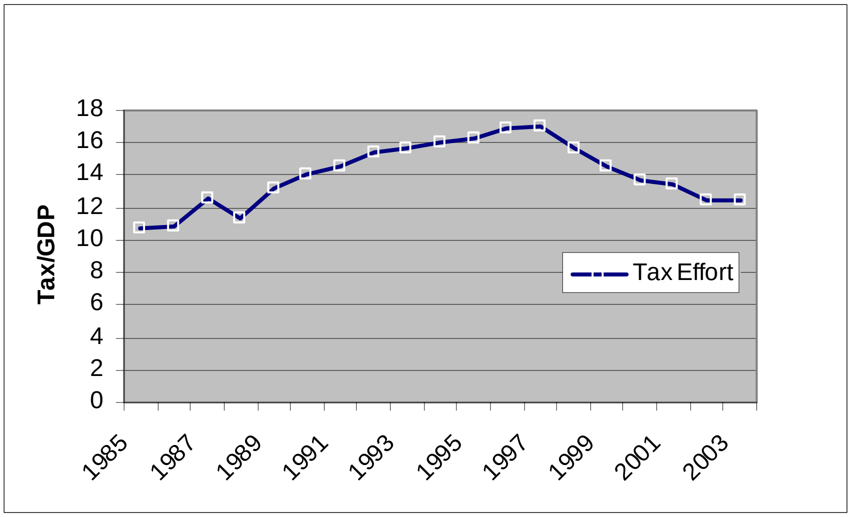

FIGURE 2. THE RISE AND FALL OF TAX EFFORT

Income taxes could have performed better, and the fairness of the tax system enhanced, had the Bureau of Internal Revenue implemented fully the approved reform imposing ceilings on allowable deductions.[8]

III. The 1997 Comprehensive Tax Reform Program

A. Tax System Was Not Broken, Why Fix It?

In 1997, the existing tax structure was not perfect, but it was not in bad shape too. The national government was in budget balance, with primary surpluses, as percent of GDP, averaging 3.5 percent. This favorable fiscal position was aided partly by one-time proceeds from the privatization of state enterprises (such as Petron, an oil refinery and marketing firm, and the Philippines National Bank) and sale of real properties.

Perhaps the most compelling reason for reforming the existing tax structure is that from 1992 to 1998, Congress passed, and the President approved, measures that have the effect narrowing the tax base through the grant of tax incentives or increasing the level of personal and additional exemptions. From 1992 to 1998, Congress passed 10 new tax measures which have the effect of raising revenues and 28 tax measures have the

[8] Reforming the tax system goes beyond formulating policies and having the necessary legislation passed. It is necessary that the intent of the tax measures as approved by the legislative be faithfully implemented by bureaucrats. Put differently, the tax reformers should not underestimate the power of bureaucrats to stall reforms. In some cases, however, the President or the Finance Secretary was responsible for not implementing tax measures passed by Congress and approved by the President. This is true for some key reforms introduced under the 1997 comprehensive tax reform program.

opposite effect of giving away revenues through the grant of incentives and higher exemption (see Annex A).

Table 4. Ramos: It Ain't Broke, Why Fix It?
Years immediately before and during the CTRP
In percent of GDP

	1996	1997
Revenues	18.9	19.6
Taxes	16.9	17.0
Expenditures	18.6	19.4
Interest payments	3.5	3.2
Primary surplus	3.8	3.3
National government fiscal balance	0.29	0.07
Consolidated public sector deficit(CPSD)	0.34	-0.99
Public sector borrowing requirement (PSBR)	0.57	-1.64

B. Objectives of the 1997 Comprehensive Tax Reform Program (CTRP)

The CTRP was seen as one of the important requirements for departure from the supervision of the International Monetary Fund. The specific objectives of the tax reform program were:

- Make the tax system broad-based, simple and with reasonable tax rates.
- Minimize tax avoidance allowed by existing flaws and loopholes in the system.
- Encourage payment by increasing the exemption levels, lowering the tax rate, and simplifying procedures.
- Rationalize the grant of tax incentives which equaled P31.7 billion in 1994.

The rationalization of tax incentives is perhaps the most important aspect of the reform package. It is consistent with the first objective of broadening the tax base and would have allowed the lowering of the tax rates, and consequently, of the deadweight loss of the tax system. The tax effort from 1989 onward could have been higher had there been no further erosion of the tax base. Among the major tax measures approved from 1989 to 1992 which have the effect of reducing tax revenues are the following:

- R.A. 6715 exempts from taxes, duties, and other assessments, the income and properties of legitimate labor organizations, including grants, endowments, gifts, donations and contributions from local and foreign fraternal and similar organizations.
- R.A. 6734 authorizes to deduct in full donations and grants to the autonomous region in Muslim Mindanao exclusively to finance projects in education, health, youth and culture and economic development, in determining the taxable income of the donors or grantors.
- R.A. 7634 authorizes to deduct in full donations and grants to the Regional Government of the Cordillera Administration Region exclusively to finance projects in education, health, youth and sports development, in determining the taxable income of the donors or grantors.

- R.A. 6810 grants exemptions from all taxes, national or local, license and business permits, fees and other business taxes, import duties and other duties on imported articles to countryside and barangay business enterprises (CBBEs).
- R.A. 6847 exempts the Philippine Sports Commission and donors from taxes in order to develop amateur sports in the country.
- R.A. 6938 grants tax exemption to cooperatives established under the Cooperatives Act of the Philippines
- R.A. 6948 exempts the pension of military veterans and their dependents from income tax, attachment, levy and garnishment.
- R.A. 6958 exempts Mactan-Cebu International Airport Authority from realty taxes.
- R.A. 6971 grants to business enterprises with productivity incentive program(s) a special deduction from gross income equivalent to 50 percent of total productivity bonuses given to employees under the program, over and above the total allowable ordinary and necessary business deductions for said bonuses under the National Internal Revenue Code; it also grants this same privilege to business enterprises which give grants for manpower training and special studies to rank-and-file employees pursuant to a program prepared by the labor-management committee for the development of skills identified as necessary by the appropriate government agencies.
- R.A. 7109 grants tax incentives to local water districts for a period of five years.
- R.A. 7156 grants tax incentives and privileges to any persons, natural or juridical, authorized to engage in mini-hydroelectric power development.

Annex A summarizes the major tax measures passed from 1992 to 1998, about two-thirds of which have the effect of giving away incentives or raising tax exemptions.

a. Major Actors and Coordinating Mechanism

At the Cabinet Secretary level, the major proponents of the tax reform measures were Roberto de Ocampo (Finance), Cielito Habito (National Economic and Development Authority), and to a limited extent, Salvador Enriquez (Budget and Management). Finance Undersecretary Milwida Guevara, provided the senior-level technical support. In addition, a presidential task force on tax and tariff reforms was created through Administrative Order No. 112 dated 10 February 1994. The task force was chaired by the Secretary of Finance and was multi-sectoral in composition, with representatives from the government, the private sector and the academe.

The passage of tax measures under CTRP was fraught with delays. The reform measures were legislated through various laws. Senator Juan Ponce Enrile was the major sponsor and advocate of CTRP from Congress. This arrangement was extraordinary since under the Philippine Constitution all money bills –appropriation, revenue or tariff -- are mandated to originate exclusively in the House of Representatives.[9]

b. Reforms in Income Taxation

The income tax system reverted to a uniform rate schedule for both compensation and professional income of individuals, after a brief experiment with the Simplified Net Income Taxation (or SNITS) which was legislated in 1992. The rate structure was reduced to 7 brackets. Personal and additional exemptions were increased even as the new structure allowed the deduction of premium payments for health and/or hospitalization insurance from gross income.

Corporate income tax (CIT) rate was reduced from 35 to 34 percent. Effective 1 January 1999, the rate was further reduced to 33 percent and on 1 January 2000 and onwards was reduced to 32 percent. In order to broaden the base, minimum corporate income tax (MCIT) was authorized to be imposed beginning on the fourth year from the time a corporation commences the business operations. The new income tax system imposes on fringe benefits granted to supervisory and managerial employees a tax equivalent to the applicable CIT rate of the grossed-up monetary value of the fringe benefit.

The Philippine government flip-flopped on the issue of dividend taxation. The tax on dividends which was repealed under the 1986 tax reform program was restored. A final tax was imposed upon the cash and/or property dividends actually or constructively received by an individual from a domestic corporation or from a joint stock company, insurance or mutual fund company, and a regional operating headquarters of a multinational company, or on the share of an individual in the distributable net income after tax of partnership (except a general professional partnership) of which he is a partner, or on the share of an individual in the net income after tax of an association, a joint account, or a joint venture or consortium taxable as a corporation of which he is a member or a co-venturer.

The reintroduction of dividend tax was phased in over a period of three years. A final tax of six percent (6%) was imposed beginning January 1, 1998; eight percent (8%) beginning January 1, 1999; and ten percent (10%) beginning January 1, 2000. The tax on dividends applies only on income earned on or after January 1998.

---

[9] Section 24, Article VI of the 1986 Philippine Constitution provides: “All appropriation, revenue or tariff bills, bills authorizing increase of the public debt, bills of local applications, and private bills shall originate exclusively in the House of Representatives, but the Senate may propose or concur with amendments.” This provision is similar to Section 7, Article I of the United Constitution which states that: “All Bills for raising Revenue shall originate in the House of Representatives, but the Senate may propose or concur with Amendments, as on other Bills.” But there are obvious substantive differences between the provisions in the two Constitutions. First, in the latter, the word “exclusively” does not appear. Second, in the former, the phrase “as on other Bill,” which is included in the latter, does not appear. The presence of “exclusively” and the absence of “as on other Bill” in the Philippine Constitution, were clearly intended to limit the Philippine Senate’s power to propose or concur with amendments.

c. Reforms in Indirect Taxation

Republic Act 7716, otherwise known as the Expanded VAT Law, which was approved on 5 May 1994 aimed to widen widen the VAT tax base and improve its administration. However, its implementation was delayed as a result of various law suits challenging its constitutionality.[10] Republic Act 7716 was subsequently amended by Republic Act 8241. The amendment has the effect of further narrowing the VAT base. The main features of the amendment are:

- Restoration of the VAT exempt status of cooperatives (agricultural, electric, credit or multi-purpose, and others provided that the share capital of each member does not exceed P15,000).
- Expansion of the coverage of the term "simple processes" by including broiling and roasting.
- Expansion of the coverage of the term "original state" by including molasses.
- Exemption from VAT coverage the following: importation of meat; sale or importation of coal and natural gas in whatever form or state; educational services rendered by private educational institutions duly accredited by the Commission on Higher Education; house and lots and other residential dwellings valued at P1 million and below, subject to adjustments using CPI; lease of residential units with monthly rental per unit of not more than P8,000, subject to adjustment using CPI; sale, importation, printing or publication of books and any newspaper.

The tax on downstream oil industry was restructured from ad valorem to specific. Taxes were effectively lowered, and no tax was imposed on LPG.

The tax on 'sin' products – cigarettes and liquor – were restructured from ad valorem to specific, purportedly to fix the existing loopholes in the system. The law provided for a process of indexation. Unfortunately, the indexation process was never implemented.

d. Assessment of the 1997 CTRP

As a result of the 1997 CTRP, tax effort has progressively declined and the tax system has become unresponsive to changes in economic activity. Tax effort dropped from a peak of 17 percent in 1997 to 12.5 percent in recent years. On personal income tax alone, the National Tax Research Center estimated that the government will experience a substantive revenue loss, equivalent to P14.1 billion or about 32.8 percent of what could have been collected without the CTRP.

[10] The following procedural issues were raised before the Supreme Court: Does Republic Act 7716 violate Art.VI, Section 24 of the Constitution? Does it violate Art. VI, Section 26[2] of the Constitution? What is the extent of the power of the Bicameral Conference Committee? The following substantive issues were also raised: Does the law violate Sections [1], [4], [5] and [10] of the Bill of Rights [Art. III]? Does the law violate Art. VI Sections 28[1] and [3] of the Constitution? See Philippine Supreme Court Decisions, G.R. No. 115931, August 25, 1994.

In addition to these two adverse outcomes, the tax reform package may be considered a major failure for three more reasons. First, the best component of the tax package – the rationalization of tax incentives – was totally ignored by Congress. In fact, the Tenth Congress (1995-98) added insult to injury by passing a total of 13 tax laws, of which 12 granted tax incentives and higher tax exemptions.

Table 5. Summary of Laws with Revenue Implications, 1992-1998

Year	Negative	Positive	Total
1992	13	3	16
1993	0	4	4
1994	3	2	5
1995	3	0	3
1996	2	1	3
1997	3	0	3
1998	4	0	4
Total	28	10	38

Second, some of its features that could have broadened the base, such as the tax on fringe benefits and the minimum corporate income tax, have yet to be implemented. Third, it included measures which are bereft of any rational justification, such as, for example, the VAT on banks and financial intermediaries. The proposed VAT on banks was, for the longest time, not implemented, and when finally implemented was recalled, and then subsequently repealed.

C. Assessing Tax Performance

Has the revenue mobilization capability of the tax system improved or deteriorated as a result of the reform? Has the tax effort increased or decreased? Has the tax system become responsive or unresponsive to changes in economic activity? Is the tax system more reliant or less reliant on corrective taxes?

Based on the empirical results, the following observations and conclusions appear warranted.

First, while tax effort rose significantly as a result of the 1986 tax reform program, it deteriorated progressively as a result of the 1997 tax reform program. This observation is true for all broad categories of taxes – direct, indirect and international trade – but the result is more pronounced for direct taxes. The decline in the tax effort for international trade taxes is totally anticipated. It is the result of the government's program of gradually reducing the tariff rates as part of its commitment to various international trade agreements.

Table 6. Tax Effort: Three Episodes

In percent of GDP

	1986-91	1992-97	1998-2003
Total taxes	12.8	16.2	13.7
Direct	3.9	5.8	6.1
Indirect	4.8	5.4	4.4
International trade	3.9	4.9	2.7

Greater reliance on direct taxes, especially on individual income taxes, increases the sense of fairness of any tax system. Table 7 shows that the share of taxes on net income and profits has increased as a result of both tax reform programs, with the share of personal income taxes to total taxes rising significantly. However, official statistics show that an increasing share of personal income taxes is accounted for by fixed income earners rather than by professionals and businessmen.

Table 7. Taxes on Net Income and Profits

As percent of total tax revenues

	1986-91	1992-97	1998-2003
Total net income and profits taxes	29.4	35.6	44.6
Individual	8.9	11.5	15.9
Corporate	13.9	16.8	19.5
Others	6.6	7.3	9.2

Second, while the tax system has become responsive to changes in economic activity as a result of the 1986 tax reform program, it has become unresponsive after the 1997 CRTP. While overall tax elasticity averaged 1.49 from 1986 to 1991, this dropped sharply to an average of 0.47 from 1998 to 2003, or after the 1997 CTRP. The observation is true for all major categories of taxes but the contrast is starker with respect to domestic taxes. As a result, the Executive Department has to go back quite to Congress for discretionary changes in the tax rates and bases in response to changes in economic activities and financial performance of the public sector. A reasonable explanation for this result is the ill-advised shift from ad valorem taxation to specific taxation for three major types of commodities: alcohol products, cigarettes, and petroleum products. While the new law taxing cigarettes provided for an adjustment mechanism through price indexation, the process of indexation proved to be politically difficult to implement.

Table 8. Tax System Become Less Responsive to Economic Activity

	1986-91	1992-97	1998-2003
Total taxes	1.49	1.26	0.47
Direct	1.48	1.51	0.72
Indirect	1.33	1.56	0.21
International trade	1.89	0.70	0.22

Third, the tax system has become less reliant on corrective taxes (defined here as taxes on goods which have negative externalities, such as cigarettes, alcohol products and petroleum products). At least in theory, taxes on these 'bad' commodities should be an important, and increasing, source of revenue of any government. It would allow governments to collect more revenues to reduce fiscal imbalances and at the same time ‘correct’ negative externalities or ‘bads”.

Table 9. Direction of Corrective Taxes

As percent of total taxes

	1986-91	1992-97	1998-2003
Total excise taxes on “bad” commodities	19.53	12.04	12.48
Alcohol products	3.81	3.45	2.80
Tobacco products	6.02	4.15	3.85
Fuels and oils	9.69	4.45	5.83

The declining contribution of corrective taxes to total taxes is basically a design problem. All three commodity groups are presently subject to specific, rather than ad valorem, taxation, and the specific rates have been unchanged for many years. But worse, legislators have set these specific rates at levels much lower than those consistent with the government’s revenue objective and the need to correct for the negative externalities associated with the use of these commodities. While total excise taxes on ‘bad’ commodities as percent of total taxes have averaged 19.5 percent from 1986-1991, the same has dropped sharply to 12.5 percent from 1998-2003. The decline has been observed for all three commodity groups. The biggest challenge for policymakers and tax reformists is how to reverse this declining trend in the face of a strong lobby from vested interests.

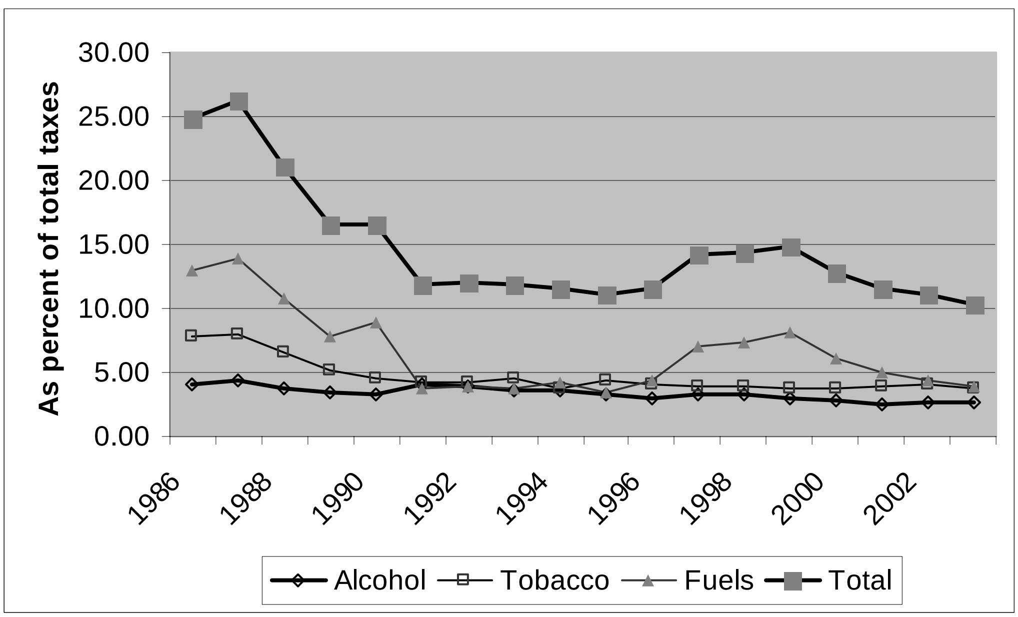

FIGURE 3. FALLING CORRECTIVE TAXES

D. Lessons Learned and Implications for Future Tax Reforms

A. Managing the Process of Reform

Tax reforms should be done at the start, not towards the end, of any administration. The 1997 comprehensive tax reform program was fraught with delays and came close to the 1998 presidential elections. As a result, the tax measures that Congress approved were watered-down versions of the original tax proposals. As a consequence, the approved tax measures weakened rather than strengthened the Philippine tax system. In the case of the 1987 CTRP, the rationalization of fiscal incentives, which could have reduced revenues foregone and broaden the tax base, was bypassed. A necessary, though not sufficient, condition for ensuring that the approved measures are fairly close to the original tax proposals is that the incoming administration should be ready with a core of tax proposals within months of its assumption to office.

Tax reforms require broad political support: from the Executive Department, legislature, business community and the citizenry. A joint legislative-executive tax commission[11] should be reconstituted by law in order to develop broad multi-party support for tax legislation, and in order to minimize the delay in developing a tax reform package at the start of every administration.

The probability of success of a tax reform program is enhanced if it is presented as a critical component of a comprehensive public sector reform program.

Presidential leadership is crucial in the design of a tax system. He should be willing to exercise his broad powers in order to develop, and shepherd through the legislative process, an appropriate tax system. At the same time, he should not allow his own men and members of Congress to unnecessarily tinker with the tax structure if it is not defective. And when presented with a flawed tax bill, the President should be willing to use his veto power, including line-item veto. [12]

B. The Core, Design and Sequencing of Future Tax Reforms

Given the seriousness of the country's fiscal problem, the low-yielding, complicated and inflexible tax system needs a major overhaul, not minor tinkering. The next round of tax reforms should focus on broadening the tax base, increasing the tax yield, improving the system's responsiveness to changes in economic activity, and simplifying tax administration. The focus of the reform program should be: (a) heavier reliance on

---

[11] A joint legislative-executive tax commission (JLETC) existed before martial law was declared in 1972. The Commission served as a forum for legislators (from both the majority and minority parties) and select Cabinet secretaries for continuing tax research, policy advocacy for tax policy formulation, tax legislation and improvement in tax administration. A successor agency, the National Tax Research Center (NTRC), does not have the political influence that its predecessor enjoyed.

[12] The President has line-item veto power with respect to an appropriation, tax and tariff bill. Article VI, Section 27(2) of the 1986 Constitution provides that: "The President shall have the power to veto any particular item or items in an appropriation, revenue, or tariff bill, but the veto shall not affect the item or items to which he does not object."

corrective or Piguovian taxes; (b) higher rate and broader VAT base, (c) rationalization of fiscal incentives, and (d) flat and lower income taxes.

Higher corrective taxation. The share of taxes on cigarettes, liquor and petroleum products to total taxes has progressively shrunk. By imposing higher taxes on cigarettes, liquor and petroleum products, the government would be able to raise higher revenues with minimum deadweight loss and at the same time 'correct' the negative externalities associated with the use of these commodities. A return to specific taxation of these three "bad" commodity types is clearly warranted. Ad valorem system of taxation is superior to specific taxation in an environment where upward adjustment of existing tax rates is difficult to legislate. The shift to specific taxation was done presumably to minimize tax avoidance through transfer pricing. But by now, empirical evidence supports the view that the alleged cure is worse than the disease. Tax avoidance through transfer pricing is better addressed by defining clearly, by law, what constitutes transfer pricing and imposing heavy penalty for committing the same.

Higher and broader VAT base. The Philippine VAT system has been severely weakened by Republic Act 8241 which limited considerably the VAT base. The focus of the next round of tax reforms is to broaden the base by recovering what was lost in 1996, expand in other areas, and increase the VAT tax rates gradually from 10 percent to 12 percent and eventually to 14 percent. Proposals to introduce multi-tier VAT system in the Philippines should be rejected because it will unnecessarily introduce complexity for the administrative weak tax collecting machinery.

Rationalizing fiscal incentives. This is perhaps the most important component of the 1997 tax reform program but was not legislated. The tax base has become narrower as a result of many tax laws passed in recent years. The existence of too many tax incentive laws has increased foregone revenues, complicated tax administration, and provided greater opportunities for special-interest deal-making.

Flat and lower income taxes. After achieving higher revenue yield from corrective taxation, improved VAT system and rationalization of incentives, the government may then consider joining the flat-tax bandwagon.[13] The flat tax may replace both the personal income tax and corporate income tax. It is already working in Hong Kong and many former communist nations like Estonia, Lithuania, Latvia, Russia, and the list of countries that has adopted flat tax has grown.[14] The most progressive income tax system has also been the most complicated to implement. One of the advantages of the flat tax is the ease by which it can be administered.

There are various "flat-tax" proposals. The basic idea, however, is that individuals would pay a given percentage of their income above a certain threshold level. Most individuals

---

[13] The "flat tax" was first proposed by Robert Hall and Alvin Rabushka, Stanford University economists, in their 1983 book "Low Tax, Simple Tax, Flat Tax." The flat tax was introduced into the political debate in 1996 when it was proposed by presidential candidate Malcolm Forbes, Jr. in the Republican primaries.

[14] For a recent article describing this phenomenon, see "The spread of flat taxes in Europe," *The Economist*, March 3rd 2005.

would be allowed a personal exemption (two exemptions for couples) and with additional deduction per child. Small business owners would pay themselves a salary so they could file an individual income tax form (along a business tax form) to take advantage of the proposed exemption from the wage tax. The flat tax would apply (without exemptions) to employer-paid fringe benefits. Simplicity is achieved with the elimination of all individual itemized deductions and credits.

Businesses would file tax forms similar to the current forms, except that (a) business incomes from dividends and capital gains would not be reported; (b) interest income would not be reported in income and interest expenses would not be deductible; and (c) all capital investments and inventory purchases would be deductible immediately, rather than depreciated or deducted when goods are sold.

Finally, some words on sequencing of tax reforms. The flat tax should open enormous opportunities for improving tax administration and encouraging investment (by removing tax on interest and dividends). But its adoption should come only after significant progress has been made in raising corrective taxes, expanding the VAT base and increasing its rate, and rationalizing tax incentives. However, given the three-year election cycle in Philippine politics, it may be worthwhile to consider the passage of the ‘core’ tax reforms enumerated above within the year of the new administration. The implementation of the flat tax could then be made contingent on the tax system achieving some well-defined tax performance indicators (say, for example, the share of corrective taxes to total taxes reaching 20 percent).

References

Alburo, Florian (1986). "Economic Recovery and Long-run Growth: Agenda for Reforms," Makati: Philippine Institute for Development Studies.

Clarete, Ramon and Benjamin Diokno (2000). "General Equilibrium Calculation of Tax Collection Costs for Border and Domestic Taxes: The Case of the Philippines," in G. Perry, J. Whalley and G. McMahon, editors, *Fiscal Reform and Structural Change in Developing Countries, Vol. 2*, London: Macmillan.

de Dios, Emmanuel, Benjamin Diokno, Emmanuel Esguerra, Raul Fabella, Ma. Socorro-Bautista, Felipe Medalla, Solita Monsod, Ernesto Pernia, Renato Reside, Jr., Gerardo Sicat, and Edita Tan (2004). "The Deepening Crisis: The Real Score on Deficits and the Public Debt," Discussion Paper No. 0409, School of Economics, University of the Philippines.

Diokno, Benjamin (2003). "Decentralization in the Philippines After Ten Years: What Have We Learned? What Have I Learned?" Discussion Paper No. 0308, School of Economics, University of the Philippines.

Diokno, Benjamin (1995). "Fiscal Policy for Sustainable Growth," in R. Fabella and H. Sakai (eds), *Towards Sustained Growth*, Tokyo: Institute of Developing Economies.

Diokno, Benjamin (1993). "Structural Adjustment Policies and the Role of Tax Reform," *Asian Development Review*, Manila: Asian Development Bank, 11(2).

Diokno, Benjamin (1994). "Taxes and Public Sector Resource Mobilization in the Philippines," in R. Fabella and H. Sakai (eds), *Resource Mobilization and Resource Use in the Philippines*, Tokyo: Institute of Developing Economies.

Krugman, Paul, editor, (1992). *Transforming the Philippine Economy*, National Economic and Development Authority (NEDA)/United Nations Development Programme (UNDP), Manila: APO Production Unit.

Manasan, Rosario (1993). "Breaking Away from the Fiscal Bind: Reforming the Fiscal System." Part 2 in PIDS: Review and Outlook of the Philippine Economy, 1993-1994. Makati: Philippine Institute for Development Studies.

Manasan, Rosario (1997). "Income Tax Reform under CTRP: A Taxing Problem," in *PIDS Policy Notes*, No. 97-10.

National Tax Research Center (1987). " A Study on Tax Administration and Compliance," NTRC Staff Papers, Manila.

NTRC (1989). ' Assessment of Tax Reforms,' Manila.

ANNEX A

LAWS WITH REVENUE IMPLICATIONS 1992-1998

Republic Act No.	Description	Revenue Implication	Remarks
R.A. 7227	Bases Conversion and Development Act of 1992 (13 Mar 1992)	-	• Tax and duty-free importation
R.A. 7277	Magna Carta for Disabled Persons (24 Mar 1992)	-	• Disabled persons are exempt from donor's tax
R.A. 7278	An Act to Create a Public Corporation to be known as The Boy Scouts of the Philippines (24 Mar 1992)	-	• Exempt from (a) income tax; (b) donor's tax; (c) tax/duties due donations of foreign countries • Deductibility of donations from the donor's gross income
R.A. 7279	Urban Development and Housing Program Act of 1992 (24 Mar 1992)	-	• Private sector participants are exempt from the ff: (a) project-related income taxes; (b) capital gains tax on raw lands used for the project; (c) value-added tax for the project contractor; (d) transfer tax for both raw completed projects; and (e) donor's tax for lands donated to socialized housing purposes
R.A. 7291	An Act Restoring the Tax and Duty Incentives Previously Enjoyed by the Veteran's Federation of the Philippines (24 Mar 1992)	-	• Tax and duty incentives and exemptions
R.A. 7306	An Act Providing for the Establishment of the People's Television Network, Incorporated (26 Mar 1992)	-	• Tax exempt on the importation of equipment, apparatus and materials • In the event, however, that the equipment etc. is sold to non-tax exempt entities, the buyers shall be subject to tax.
R.A. 7353	An Act Providing for the Creation, Organization and Operation of Rural Banks (2 Apr 1992)	-	• Exempt from payments of fees, taxes & charges except corporate income tax, local tax, fees and charges for 5 years from enactment of this law or opening of the rural bank
R.A. 7355	Manlilikha ng Bayan Act (3 Apr 1992)	-	• Exempt from donor's tax • Donations are deductible from taxable income

R.A. 7369	An Act Granting Tax and Duty Exemption and Tax Credit on Capital Equipment (10 Apr 1992)	-	• Exempt up to 100% of duties provided machinery is not domestically available • Tax credit if machinery is bought locally • If machine is sold within 5 years of purchase and without the approval of the Board, both parties have to pay twice the amount of the exemption
R.A. 7432	An Act to Maximize the Contribution of Senior Citizen's to Nation Building (23 Apr 1992)	-	• Realty tax holiday for 5 years from first year of operation for those constructing/developing residential areas for senior citizens and retirement villages • Tax credit for establishments that serve senior citizens
R.A. 7459	An Act Providing Incentives to Filipino Investors and Expanding the Functions of the Technology Application and Promotion Institute (28 Apr 1992)	-	• Exempt from payment of license and permit fees
R.A. 7471	An Act to Promote the Development of Philippine Overseas Shipping (5 May 1992)	-	• imports of oceangoing vessels and its spare parts are exempt from import duties and taxes provided that these are destined at a Philippine dry-docking or repair facility • Tax credits will be given to local manufacturers or dealers who sell machinery, equipment and spare parts to these shipping enterprises • Exempt from income taxes provided that at least 90% of taxable income is reinvested for 10 years from the approval of this Act.
R.A. 7497	An Act Adjusting the Basic Personal and Additional Exemptions Allowable to Individuals for Income Tax Purposes to the Poverty Threshold Level (19 Dec 1992)	-	• Increase in the personal and additional exemptions allowed in the personal income tax
R.A. 7639	An Act Providing for the Payment in Part of the Subscription of the Government of the Philippines to the Capital Stock of the National Power Corporation out of the Oil Price Stabilization Fund (9 Dec 1992)	+	• Tax exemptions were lifted
R.A. 7642	An Act Increasing the Penalties for Tax Evasion (28 Dec 1992)	+	• Increased deterrence to tax evasion
R.A. 7643	An Act to Empower the Commissioner of Internal Revenue to Require the Payment of the Value-added Tax Every Month & to allow Local Government Units to Share in VAT Revenue (28 Dec 1992)	+	

R.A. 7646	An Act Authorizing the Commissioner of Internal Revenue to Prescribe the Place for Payment of Internal Revenue Taxes by Large Taxpayers (24 Feb 1993)	+	
R.A. 7649	An Act Requiring the Government or any of its Political Subdivisions, Instrumentalities or Agencies including Government-owned or Controlled Corporations (GOCC) to Deduct and Withhold the VAT due.. (6 Apr 1993)	+	• Improvement in tax collection
R.A. 7654	An Act Revising the Excise Tax Base, Allocating a Portion of the Incremental Revenue Collected for the Emergency Employment Program (10 Jun 1993)	+/-	• Long-run effect is negative
R.A. 7660	An Act Rationalizing Further Structure and Administration of the Documentary Stamp Tax (23 Dec 1993)	+	
R.A. 7686	Dual Training System Act of 1994 (25 Feb 1994)	-	• Can deduct expenses from taxable income • Donations for the System can be deducted from the donor's taxable income
R.A. 7716	An Act Restructuring the Value-added Tax (VAT) System, Widening its Tax Base and Enhancing its Administration, Otherwise known as E-VAT (5 May 1994)	+	
R.A. 7717	An Act Imposing a Tax on the Sale, Barter or Exchange of Shares of Stock Listed and Traded through the Local Stock Exchange or through Initial Public Offering (5 May 1994)	+	
R.A. 7729	An Act Reducing the Excise Tax Rates on Metallic and Non-metallic Minerals and Quarry Resources (2 Jun 1994)	-	
R.A. 7844	An Act to Develop Exports as a Key towards the Achievement of the National Goals towards the Year 2000 (30 Dec 1994)	-	• Exemption from PD 1853 provided importation shall be used for the production of goods and services for export • Importation of machinery and equipment with accompanying spare parts to be used in the manufacture of exported products for a period of 3 years, until 1997 of 0% duty on imports • Tax credit for imported inputs and raw materials used in the production and packaging of export goods, which are not locally available for a period of 5 years • Tax credit for increase in current year export revenue computed by formula and granted for the year when performance is achieved • Tax credit for 3 years for exporters of non-traditional products who use or substitute locally produced raw materials

R.A. 7875	National Health Insurance Act of 1995 (14 Feb 1995)	-	• Philippine Health Insurance Co. is exempt from donor's tax • Donors may deduct donations from taxable income
R.A. 7916	An Act Providing for the Legal Framework and Mechanisms for the Creation, Operation, Administration and Coordination of Special Economic Zones in the Philippines, Creating for this Purpose, the Philippine Economic Zone Authority (PEZA) (24 Feb 1995)	-	• Grants preferential tax treatment for Special Economic Zones
R.A. 8042	Migrant Workers and Overseas Filipinos Act of 1995 (7 Jan 1995)	-	• Exempt from travel tax
R.A. 8184	An Act Restructuring the Excise Tax on Petroleum Products (11 Jun 1996)	-	
R.A. 8240	An Act Amending the National Internal Revenue Code (22 Nov 1996)	+	• Increased taxes on distilled spirits and fermented liquor
R.A. 8241	An Act Amending R.A. 7716 Otherwise known as the Expanded Value-added Tax Law (E-VAT) (20 Dec 1996)	-	• Additional exemptions to EVAT
R.A. 8282	Social Security Act of 1997 (May 1997)	-	• Income tax exempt
R.A. 8291	Government Security Insurance System Act of 1997 (May 1997)	-	• Income tax exempt
R.A. 8292	Higher Education Modernization Act of 1997 (6 Jun 1997)	-	• Donations are tax exempt
R.A. 8424	An Act Amending the National Internal Revenue Code Otherwise known as Tax Reform Act of 1997 (1 Jan 1998)	-	
R.A. 8479	An Act Deregulating the Downstream Oil Industry (10 Feb 1998)	-	• Tax credit and tax holidays given
R.A. 8502	Jewel Industry Development Act of 1998 (13 Feb 1998)	-	• Exempt from excise tax
R.A. 8550	An Act Providing for the Development , Management and Conservation of the Fisheries and Aquatic Resources (25 Feb 1998)	-	• Exempt from taxes and duties on imports of vessels • Rebates on taxes and duties on fuel consumption for commercial fisheries operation

Notes:

1. The years 1992, 1995 and 1998 were election years.
2. In 1992, the outgoing 8^{th} Congress enacted twelve (12) laws with tax implications. All are expected to have negative revenue implications.
3. In years 1992-95, during the 9^{th} Congress, 16 laws with revenue implications were enacted, of which nine (9) have positive revenue implications and seven (7) have negative revenue implications. Most of the laws with negative revenue implications were passed in the last year of the 9^{th} Congress.
4. In years 1995-98, during the 10^{th} Congress, a total of ten (10) laws with revenue implications) were enacted, of which only one (1) has positive revenue effects. The bulk of these laws were passed in the last two years of the 10th Congress.