

Re-modeling the Philippine Tax System: The Key to National Survival and Growth

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49 ATENEO L.J. 112 (2004)

SUBJECT(S): TAXATION LAW

KEYWORD(S): TAX EFFORT RATIO, TAX REFORMS AND POLICY

The Article addresses the questions of: how can the fiscal deficit be reduced? And second, how can the country's tax effort ratio be increased? The purpose of the paper is to present a framework that aims to address the twin problems of reducing the fiscal deficit and increasing the tax effort ratio. Firstly, the Article lays down some realities that have to be recognized. First is that revenue and deficit problems are systemic in nature. Second is that the country's total debt has been growing over years. Third is that there is great poverty incidence. Fourth is that we have a bloated bureaucracy that heavily burdens the national budget. And fifth is that the expenditure program of the government is grossly misunderstood and mismanaged. The Article then provides an extensive background of the fiscal situation of the Philippines in the past and today. Next, the Article explains the history of tax reforms in the Philippines. The analysis provides the utility of the tax effort ratio. Through all the data presented in the Article, an analysis of the impact of past tax reforms are provided. It is observed that revenue collections increased significantly. There is also data to show that more direct taxes were collected than indirect taxes. The Article posits that this is a clear indication that government has indeed evolved a progressive system of taxation. However, it is argued that one also has to take into account that direct taxes are mainly borne by salaried individuals which dilutes progressive taxation. Moreover, the convoluted and complex tax system has produced a double-edged sword as it made tax compliance more difficult for taxpayers and tax implementation and enforcement more inefficient for tax administrators. The Article posits that the re-modeling of the tax system is the best thing to do. What follows are the recommendations for the re-modeling.