

Column for Business Mirror

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The Entrepreneur

Flexibility on the tax stance

The inclusion of higher taxes on tobacco and alcohol products in the 13 priority bills that the government announced last August 16 is a positive development.

I recall that it was last June that the government reiterated that it was sticking to its pledge that no new taxes would be imposed, but now it would propose to index alcohol and tobacco taxes to inflation, which could raise about P60 billion in incremental revenue a year.

The government may say its proposal is not a new tax, just a revision of existing taxes. I'm not arguing against that; the important thing is that there is at least flexibility in its rather rigid no-new-taxes stance.

Nobody wants new or higher taxes, including me, and I admire the government's efforts to focus on more efficient revenue collection rather than on new tax measures.

I laud in particular the efforts of the Bureau of Internal Revenue to go after tax evaders, especially the high-profile cases. However, I don't think such efforts of running after tax cheats would help improve collection efficiency nor would it be enough to sustain the government's growing expenditure requirements, especially for capital projects and public services.

Congress is now deliberating on the proposed P1.816-trillion proposed national budget for 2012, which is 10.4 percent higher than the P1.645-trillion appropriations for this year.

The reality is that while the annual expenditure increases, tax collection as a percentage of our Gross Domestic Product, known as tax effort, has been declining. The highest tax effort the government achieved was 17 percent in 1997, just before the Philippines felt the impact of the Asian financial crisis. It fell to 16.2 percent in 2008, then to 14.6 percent in 2009.

Now, according to the Department of Finance, the government's tax effort was at 11.86 percent during the first quarter of 2011, a slight improvement from 11.58 percent for the same period in 2010. For the whole of 2011, the finance department is targeting a tax effort of 12.8 percent, rising to 13.1 percent in 2012.

Based on these targets, we have a long way to go before we can reach the 17 percent level. It is really a very steep climb, and it's not only because of inefficiency or tax evasion.

The government also cited new laws that erode tax collection, such as the expanded exemptions for individual income taxpayers, which accounted for P35.6 billion in lost revenue; measures slapping franchise tax on electricity transmission instead of value added tax resulted in lost revenue of P8.5 billion; incentives for projects related to biofuel, exemption of the Pag-IBIG Fund from all taxes and the Japan-Philippines Economic Partnership Agreement: P4.9 billion in foregone revenue.

In addition, economic growth has slowed down, and is likely to end 2011 with a GDP growth rate of less than 6 percent, much lower than the record high 7.6 percent posted in 2010.

As everybody knows, higher economic growth rate means more business activities, which translate to bigger tax collections. Conversely, slower economic growth, such as is expected this year, means smaller tax take.

So, we have a population that is among the fastest-growing in the world, a poverty problem that affects half of our 90 million people, a high unemployment rate, a huge backlog in classrooms, inadequate health care facilities. The record-high proposed budget for 2012 is a recognition of the need for more resources, primarily from taxes.

We can send all tax evaders to jail (a long process before their tax obligations are settled), collect all taxes due from existing laws (a Utopian dream, because no government in the world can claim 100-percent tax efficiency), but we will still need more revenues to meet our growing needs.

Under these circumstances, it should be a given that improving tax collection efficiency is not enough. But, of course, Revenue Commissioner Kim Henares' efforts to run after tax evaders and strictly enforce tax laws must not abate. She should get all the support that she and her team need.

At the same time, the government must explore other revenue sources. Privatization will not generate as much revenue as before because the remaining assets that may be disposed off are few and of less value compared to previously sold assets. Still, a few billion pesos from privatization will help.

I understand that proposing new taxes at this time will be very difficult for the government, but selective adjustments like the revision of sin taxes may be a good compromise. The criteria should be that any adjustment should exclude taxpayers in the lower income brackets, or that the impact should be more on the tax-capable sectors.

In the end, I believe that any measure will draw opposition and criticism from the affected sectors. Still, the government must show resolve to bite the bullet, so to speak, if it is for the public good!

. Isn't that why leaders are elected?

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