FOURTEENTH CONGRESS OF THE REPUBLIC)
OF THE PHILIPPINES)
Third Regular Session)

9 NOV 25 P2:08

SENATE
P. S. R. No. 1496

RECEIVED BY:

Introduced by Senator Miriam Defensor Santiago

RESOLUTION
DIRECTING THE PROPER SENATE COMMITTEE TO CONDUCT AN INQUIRY, IN AID OF LEGISLATION, ON THE NEED TO IMPROVE THE EFFICIENCY OF THE COUNTRY'S TAX PAYMENT SYSTEM IN ORDER TO INCREASE TAX COLLECTION AND AVOID REVENUE SHORTFALL

WHEREAS, the Constitution, Article 2, Section 9 provides, "The State shall promote a just and dynamic social order that will ensure the prosperity and independence of the nation and free the people from poverty through policies that provide adequate social services, promote full employment, a rising standard of living, and an improved quality of life for all";

WHEREAS, according to a survey conducted by the World Bank and the PriceWaterhouseCoopers LLP, which was published in the 23 November 2009 article in the *Manila Times*, paying taxes in the Philippines became more burdensome this year,

WHEREAS, in a report entitled "Paying Taxes 2010," the World Bank and Price WaterhouseCoopers said the Philippine ranking in terms of ease of paying taxes fell by six notches to 141st among 183 countries; it previously ranked 135th;

WHEREAS, the country lagged behind its Asian neighbors, with Singapore at 5th; Malaysia, 24th; Thailand, 88th; and Indonesia at 127th;

WHEREAS, this year's top reformer, Timor-Leste, introduced a new tax law, streamlined the business tax regime, and simplified tax administration; for the third year in a row, Eastern Europe and Central Asia had the largest number of reforms, with 10 economies improving their systems;

WHEREAS, the report's data records the taxes and mandatory contributions that a small to medium sized company must pay in a given year, as well as the administrative burden of paying taxes and contributions;

WHEREAS, it takes 47 transactions, 195 hours, and 49.4 percent of commercial profits to comply with business taxes each year in the Philippines, and for these three indicators, the country ranked 132nd, 72nd and 132nd, respectively;

WHEREAS, the paying taxes indicator measures tax systems from the point of view of a domestic company complying with the different tax laws and regulations;

WHEREAS, in the first ten months of this year, tax collections slipped 4.8 percent to P925.4 billion from last year's P972.6 billion;

WHEREAS, the Bureau of Internal Revenue (BIR), which contributes more than 75 percent of government revenues, raised a mere P612 billion, or 5.1 percent lower than last year's P644.8 billion;

WHEREAS, the government earlier announced that it already breached its full-year fiscal ceiling at end-October but the budget gap widened to P266.1 billion in the first 10 months this year, or well beyond the P250 billion full-year ceiling;

WHEREAS, as a result, the government is expecting a worst-case scenario of a P300-billion deficit this year, even as it hopes to keep the revenue shortfall to P280 billion;

WHEREAS, the International Monetary Fund (IMF) has expressed concern over the government's ballooning budget deficit, and has sought a clear position on how to improve the country's tax collection;

WHEREAS, the IMF further assailed that the country's tax effort, which is defined as the tax to gross domestic product (GDP) ratio, is declining as a result of poor tax collection;

WHEREAS, the government's tax effort in the first half of the year fell to 13.5 percent from 14.7 percent last year;

WHEREAS, under Article IV of its Articles of Agreement, the IMF holds bilateral discussions with members, usually every year, wherein a staff team visits the country, collects economic and financial information, and discusses with the country's officials their economic policies;

WHEREAS, the country's tax effort was lower than Malaysia's at 15.3 percent; Brunei, 37.5 percent; and Thailand, 15.2 percent;

WHEREAS, according to UP Economics Professor Benjamin Diokno, the next administration is likely to face a fiscal crisis because of weak revenue collections and legislated tax cuts; the country's tax-to-GDP ratio might drop to 11 percent to 12 percent next year from 14 percent in 2007;

WHEREAS, the country's poor tax effort and the effects of the global financial crisis could derail the government's quest to achieve the Millennium Development Goals (MDGs) by 2015;

WHEREAS, the MDGs are eight time-bound goals aimed at significantly reducing—if not completely eradicating—extreme poverty by 2015; compared with its neighbors, the Philippines lags behind in meeting its MDG targets;

WHEREAS, taxes and contributions measured include the profit or corporate income tax, social contributions and labor taxes paid by the employer, property taxes, dividend tax, capital gains tax, financial transactions tax, waste collection taxes, and vehicle and road taxes;

WHEREAS, according to Penelope Brook, World Bank Group Director of the Global Indicators and Analysis Department, government efforts to streamline tax procedures and reduce time spent on compliance can make an important difference for small and medium enterprises, especially in difficult economic times; this year's top reformer reduced compliance time by over 50 percent by rationalizing tax regulations, simplifying computation rules, and reducing payments;

WHEREAS, the challenge for the government is to ensure sufficient public revenues for the future while incentivizing investment and economic growth;

WHEREFORE, be it hereby resolved by the Philippine Senate, to direct the proper Senate committee to conduct an *inquiry in aid of legislation*, on the need to improve the country's tax payment system in order to increase tax collection and avoid revenue shortfall.

Adopted,

MIRIAM DEFENSOR SANTIAGO

/dpm