SENATE
OFFICE OF THE SECRETARY

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FOURTEENTH CONGRESS)
REPUBLIC OF THE PHILIPPINES)
***First Regular Session*)**

SENATE BILL NO. 24

Introduced by Senator M. A. Madrigal

EXPLANATORY NOTE

In 2004, *Republic* Act 9337 was passed into law. The measure allowed President Gloria Macapagal-Arroyo to increase the VAT rate to 12% and expand its coverage to encompass additional goods, including gasoline and other oil products. The reason given for the imposition was the same: the country needed the revenues to jump-start the economy which was mired in a deep fiscal crisis.

Three years after the expanded value-added tax was imposed, the economy has not substantially improved, despite the claims of publicists of the current administration. Filipinos are still mostly poor, hungry, unemployed and stalked by an uncertain future.

In the main, the current tax system of the country has remained "regressive," according to the 2007 Country Report on the Philippines of Social Watch, an international watchdog citizens' network on poverty eradication. For example, for the year 2006, the total projected revenue of ₱969 billion ($18.9 billion), ₱566 billion ($11 billion) would be from indirect or regressive taxes and non-tax revenue. This constitutes 59% of total projected revenue. On the other hand, projected direct taxes total ₱402 billion ($7.8 billion), which amounts to 41% of total revenue.

Social Watch notes that tax administration in the Philippines has traditionally been perceived as "both corrupt and inefficient." Government tax collection agencies are considered "flagships of corruption." In spite of the efforts of administrators to change this unsavory image, public perception has remained largely the same. Inefficiency and corruption have resulted in the non-collection of significant amounts of government revenue.

One factor responsible for inadequate revenue collection is the practice of granting tax incentives to attract investors. While the government passes new tax measures or collect existing taxes, it also grants incentives and tax benefits. A study of the House of Representatives in 2006 on foregone revenue due to incentives found that this amounted to ₱150 billion ($2.9 billion); on the other hand, the projected financing needs of the government for 2006 amounted to ₱125 billion ($2.4 billion). "Obviously, foregone revenue could have covered all or at least a part of the government's financing requirements" said Social Watch.

A study from the University of the Philippines further notes that the fiscal incentives granted by the Board of Investments in 2004 alone resulted in a negative economic benefit of ₱55.72 billion ($1.1 billion). This means that the amount of foregone revenues due to tax- and duty-free privileges was higher than the amount of economic benefits resulting from the investments for which these perks were provided. Thus, while foreign investors are benefiting significantly from tax incentives, host countries like the Philippines are losing heavily and have to turn to regressive taxes and borrowing to cover urgent financing needs.

A questionable government policy of onerous debt service or paying off debts that were wasted, mismanaged and tainted with corruption has only perpetuated the regressive cycle. According to Social Watch, the percentage share of interest payments in the national budget has been steadily rising for the past eight years. In 1999, 18% of the national budget went to interest payments; this rose to 32% of the budget in 2006. In contrast, the percentage shares of social services and all other sectoral expenditures have declined, while interest payments continue to rise. In 1999, 34% of the budget went to social expenditures, but this went down in 2006 to 28% of the budget. Economic development expenditures also took a beating, from 25% of the 1999 budget to 19% in 2006.

The report of Social Watch International is echoed by studies of independent think-tank organizations that have also expressed serious concern on the worsening social inequity in the Philippines despite the imposition of additional taxes.

IBON Philippines, an advocacy research organization, reports that even as tax revenues have increased, the government has been cutting back further on the budget for social services – already grossly insufficient to begin with but declining in real terms since 1997. Real public spending on education fell to ₱1,331 per Filipino in the recently-approved 2007 budget after reaching a high of ₱1,503 in 2002. Health spending is now down to just P111.78 per Filipino.

It should be noted that the declining allocations for these vital services are happening amid long-standing gross neglect. The Department of Education admits that there is a lack of 20,517 teachers (assuming a ratio of 45 students to one teacher), 45,775 classrooms (assuming 45 students to a classroom), 3.2 million seats and 67 million textbooks in school year 2006-07.

The burden of health spending is also increasingly borne by Filipinos who can least afford its high costs, says IBON. Government's share in total health expenditures has drastically fallen under the Arroyo administration, with possibly the steepest drop in such a short period of time. Health accounts show that national and local government's share in total health expenditure was 40.6% in 2000 but fell to just 30.3% in 2004. Filipinos are forced to make up the difference from private sources, primarily out-of-pocket spending.

IBON stresses that all these fiscally repressive measures have aimed to ensure repayments to creditors as well as to assure foreign investors that foreign exchange is available for their globally-integrated commercial, financial and "pseudo-manufacturing" operations. In 2006, government paid around P854.4 billion in total public debt service, which is equivalent to P9,935 per Filipino, or seven times combined spending on education and health. In nominal terms, this is a 211% increase from debt service levels in 2001. "The Arroyo administration has not only brought the country to its worst ever fiscal crisis, it is making the most public debt payments and is the most indebted government in Philippine history," according to the data resource group.

As it is, the government borrowed P592.4 billion in the first 11 months of 2006, or slightly less than in the same period the previous year. Over four-fifths of this borrowing went straight back to creditors through debt servicing. Although government has tried to repay as much debt as it could, total national government debt still increased marginally to P3.914 trillion in October 2006 from P3.888 trillion in the same period in 2005.

These pre-payments give the impression that the debt situation is improving, to restore government creditworthiness so it can continue to borrow. But since these do not address the fundamental roots of the debt problem (economic backwardness, trade and investment liberalization, bureaucratic waste and corruption), the debt crisis cannot but eventually repeat itself. The government in early January 2007 already borrowed $1 billion from the international capital market and aims to borrow at least $1.47 billion more in official development assistance from the World Bank, Asian Development Bank and the Japan Bank for International Cooperation. Some P260 billion are also going to be borrowed domestically in 2007.

In any case, the economy's financial backwardness and reliance on external sources of financing means that it remains on a tight leash with government economic policy-makers – "effectively compelled by blackmail not just through multilateral lenders but also through financial blackmail by commercial banks and through global capital markets," states IBON.

Hence, the financial sacrifices the Arroyo government asks Filipinos to make through taxation cannot be justified as "short-term pain for long-term gain" since the fiscal squeeze is precisely aimed at furthering the administration's controversial policies. More than anything else, the Arroyo government's fiscal efforts have been focused on assuring debtors of repayments regardless of their impact on the general public.

Yet, even the sustainability of this approach is in doubt. As has been pointed out, the expenditure cuts have been severe and the taxes burdensome. At the same time, there remain persistent problems in revenue administration such as high tax evasion and persistently over-generous incentives for foreign investors. Bureaucratic corruption also continues to bleed government resources.

The expanded value-added tax under Republic Act 9337 therefore serves no other purpose, but to benefit the interest of foreign creditors and not the interest of the Filipinos. It is time to repeal this repressive and regressive law that has burdened the people for already more than three years.

M. A. MADRIGAL

SENATE
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S. B. NO. 24

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Introduced by Senator M. A. Madrigal

AN ACT
REPEALING REPUBLIC ACT 9337, OTHERWISE KNOWN AS THE ACT AMENDING SECTIONS 27, 28, 34, 106, 107, 108, 109, 110, 111, 112, 113, 114, 116, 117, 119, 121, 148, 151, 236, 237 AND 288 OF THE NATIONAL INTERNAL REVENUE CODE OF 1997, AS AMENDED, AND FOR OTHER PURPOSES

Be it enacted by the Senate and the House of Representatives of the Philippines in Congress assembled:

Section 1. – Any provision of law to the contrary notwithstanding, Republic Act No. 9337 entitled "THE ACT AMENDING SECTIONS 27, 28, 34, 106, 107, 108, 109, 110, 111, 112, 113, 114, 116, 117, 119, 121, 148, 151, 236, 237 AND 288 OF THE NATIONALINTERNAL REVENUE CODE OF 1997, AS AMENDED, AND FOR OTHER PURPOSES" is hereby repealed.

Section 2. – This Act shall take effect fifteen (15) days after its complete publication in a newspaper of general circulation.

Approved,