A Report Paper
On
Local Government Taxation in the Philippines

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INTRODUCTION

Definition and Rationale

Taxation is the imposition of a mandatory levy on the citizens and/or the businesses of a country by their government. In almost every country, the government derives a majority of its revenues for financing public services from taxation. Most individuals will feel the impact of quite a number of taxes during their lifetimes. In addition, taxes have become a powerful instrument for policy makers around the world to use in attaining economic and social goals. (http://www.answers.com/topic/taxation)

Charges refer to pecuniary liability, as rents or fees against persons or property (Book II, Title I, Chapter III Sec. 131 of LGC http://www.chanrobles.com/localgov1.htm)

Fee means a charge fixed by law or ordinance for the regulation or inspection of a business or activity. (Book II, Title I, Chapter III Sec.159 of LGC http://www.chanrobles.com/localgov1.htm)

Purpose of Taxation (1)
The main purpose of taxation is to accumulate funds for the functioning of the government machineries. No government in the world can run its administrative office without funds and it has no such system incorporated in itself to generate profit from its functioning.

In other words, a government can run its administrative set up only through public funding which is collected in the form of tax. Therefore, it can be well understood that the purpose of taxation is very simple and obvious for proper functioning of a state. Taxes are charges levied against a citizen’s personal income or on property or for some specified activity.

The Four "R"s (2)
Taxation has four main purposes or effects: Revenue, Redistribution, Repricing, and Representation.

Revenue: taxes raise money to spend on roads, schools and hospitals, and on more indirect government functions like market regulation or justice systems. This is the most widely known function.

Redistribution: Normally, this means transferring wealth from the richer sections of society to poorer sections. This function is widely accepted in most democracies, although the extent to which this should happen is always controversial.

Repricing: Taxes are levied to address externalities: tobacco is taxed, for example, to discourage smoking, and many people advocate policies such as implementing a carbon tax.

Representation: The fourth consequential effect of taxation in its historical setting has been the representation. The American revolutionary slogan "no taxation without representation" implied this: rulers tax citizens, and citizens demand accountability from their rulers as the other part of this bargain. Several studies have shown that direct taxation (such as income taxes) generates the greatest degree of accountability and better governance, while indirect taxation tends to have smaller effects.

Further, the other important purposes of taxation are as follows -

✓ Increase in effectiveness and productivity of the nation
✓ Increase in the quantum of revenue collection
✓ Improvement in services of the government
✓ Improve employment at all industry verticals
✓ Induction of modern technology into the system
✓ Rationalization of terms and condition of the economic system
✓ Rationalization of employment terms and conditions

History of Taxation (3)

2 http://en.wikipedia.org/wiki/Tax
EGYPT
During the various reigns of the Egyptian Pharaohs tax collectors were known as scribes. During one period the scribes imposed a tax on cooking oil. To insure that citizens were not avoiding the cooking oil tax scribes would audit households to insure that appropriate amounts of cooking oil were consumed and that citizens were not using leavings generated by other cooking processes as a substitute for the taxed oil.

GREECE
In times of war the Athenians imposed a tax referred to as eisphora. No one was exempt from the tax which was used to pay for special wartime expenditures. The Greeks are one of the few societies that were able to audit the tax once the emergency was over. When additional resources were gained by the war effort the resources were used to refund the tax. Athenians imposed a monthly poll tax on foreigners, people who did not have both an Athenian Mother and Father, of one drachma for men and a half drachma for women. The tax was referred to as metoikion

ROMAN EMPIRE
The earliest taxes in Rome were customs duties on imports and exports called portoria. Caesar Augustus was consider by many to be the most brilliant tax strategist of the Roman Empire. During his reign as “First Citizen” the publicani were virtually eliminated as tax collectors for the central government. During this period cities were given the responsibility for collecting taxes. Caesar Augustus instituted an inheritance tax to provide retirement funds for the military. The tax was 5 percent on all inheritances except gifts to children and spouses. During the time of Julius Caesar a 1 percent sales tax was imposed. During the time of Caesar Augustus the sales tax was 4 percent for slaves and 1 percent for everything else. Saint Matthew was a publican (tax collector) from Capernaum during Caesar Augustus reign. He was not of the old publicani but hired by the local government to collect taxes.

HISTORY OF TAXATION IN THE PHILIPPINES
To raise income to support the government, the Spaniards imposed several forms of taxes and monopolies. The tribute (buwis, later replaced by the cedula personal or personal identity paper) may be paid in any kind. It was fixed at 8 reales and later, increased to 15. Ten reales goes to the government, 1 to the town community chest and 3 to the Church. Another one real was for tithes (diezmo prediales). Also collected is the bandala, an annual enforced sale and requisitioning of goods such as rice. Custom duties and income tax are also collected. Later, they imposed Cedula personal, wherein all indios are required to pay for personal identification. Indios from the age of 18 to 60 are obliged to pay. (4)

Forced Labor (Polo y Servicio) (5)
Polo is the forced labor for 40 days of men ranging from 18 to 20 years of age who were obligated to give personal service to community projects. One could be exempted from polo by paying the falla, a daily fine of one and a half real. In 1884, it was reduced to 15 days.

Encomienda System (6)
The encomienda system is a land management system similar to the feudal system in Europe. Here, a meritorious Spaniard (called an encomendero) is given control over a piece of land and all its inhabitants. The encomendero is duty-bound to defend his encomienda and keep peace and order there. In return, he was granted the right to collect tribute according to the limit. Part of this tribute goes to the encomendero and the rest to the Church and government. This is subject, however to several abuses.

Manila-Acapulco Galleon Trade (7)
The Manila-Acapulco Trade is generally a trade between the Chinese and Spaniards in Manila and the Spaniards in Mexico. This has resulted into economic progress. But the negative effects of it far outweighed the advantages. Some income-producing economies were completely neglected and too much burden were given to Filipinos during their annual polo y servicio.

The residence tax, and in turn, the cedula, were abolished with the coming of American rule. No such tax would be imposed again until January 1, 1940, when Commonwealth Act No. 465 went into effect, mandating the imposition of a base residence tax of fifty centavos and an additional tax of one peso based on factors such as income and real estate holdings. The payment of this tax would merit the issue of a residence certificate. However, persons who are ineligible to pay

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1 http://www.taxworld.org/History/TaxHistory.htm
the residence tax may be issued a certificate for twenty centavos. Corporations were also subject to the residence tax.\(^8\)

Commonwealth Act No. 465 mandated that the High Commissioner and his staff, members and employees of the United States Armed Forces, visitors and consular staff were exempt from paying the residence tax, and as such are not given a residence certificate. Following Philippine independence, the same provisions were kept in effect. However, the changing socio-political climate necessitated the reform of certain provisions of Commonwealth Act No. 465. Significant amendments to the residence tax law were put into effect first in 1973, following the enactment of the Local Tax Code, with amendments on the allocation of the residence tax and on who are covered under it, as well as payment provisions. The same provisions from the Local Tax Code were later subsumed into the Local Government Code of 1991. The residence tax and residence certificate were renamed into the current community tax and community tax certificate.\(^9\)

THE PHILIPPINE TAX SYSTEM

National Tax Law\(^{10}\)

The 1987 Philippine Constitution sets limitations on the exercise of the power to tax. The rule of taxation shall be uniform and equitable. The Congress shall evolve a progressive system of taxation. (Article VI, Section 28, paragraph 1)

All money collected on any tax levied for a special purpose shall be treated as a special fund and paid out for such purpose only. If the purpose for which a special fund was created has been fulfilled or abandoned, the balance, if any, shall be transferred to the general funds of the Government. (Article VI, Section 29, paragraph 3)

The Congress may, by law, authorize the President to fix within specified limits, and subject to such limitations and restriction as it may impose, tariff rates, import and export quotas, tonnage and wharfage dues, and other duties or imposts within the framework of the national development program of the Government (Article VI, Section 29, paragraph 2) 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. (Article VI, Section 27, second paragraph)

The Supreme Court shall have the power to review, revise, reverse, modify or affirm on appeal or certiorari, as the law or the Rules of Court may provide, final judgments and orders of lower courts in all cases involving the legality of any tax, impost, assessment, or toll or any penalty imposed in relation thereto. (Article VIII, Section 5, paragraph)

The laws governing taxation in the Philippines are contained within the National Internal Revenue Code. This code underwent substantial revision with passage of the Tax Reform Act of 1997. This law took effect on January 1, 1998. Taxation is administered through the Bureau of Internal Revenue which comes under the Department of Finance. The chief executive of the Bureau of Internal Revenue is the Commissioner who has exclusive and original jurisdiction to interpret the provisions of the code and other tax laws. The commissioner also has the powers to decide disputed assessments, grant refunds of taxes, fees and other charges and penalties, modify payment of any internal revenue tax and abate or cancel a tax liability. Taxpayers can appeal decisions by the Commissioner directly to the Court of Tax Appeals.

Tax law in the Philippines covers national and local taxes. National taxes refer to national internal revenue taxes imposed and collected by the national government through the Bureau of Internal Revenue (BIR) and local taxes refer to those imposed and collected by the local government. (http://www.bir.gov.ph/legalmatters/8757.htm)

Local Government Tax Law\(^{11}\)

Local government taxation in the Philippines is based on the constitutional grant of the power to tax to the local governments. Local taxes may be imposed, as the Constitution grants, to each local government unit, the power to create its own sources of revenues and to levy taxes, fees, and charges which shall accrue to the local governments (Article X, Section 5). With respect to national taxes, local Government units shall have a just share, as determined by law, in the national taxes which shall be automatically released to them (Article X, Section 6).

\(^8\) [http://en.wikipedia.org/wiki/Community_tax_certificate_(Philippines)]
\(^9\) [http://en.wikipedia.org/wiki/Community_tax_certificate_(Philippines)]
\(^10\) [http://www.bir.gov.ph/legalmatters/8757.htm]
\(^11\) [http://www.bir.gov.ph/legalmatters/8757.htm]
Local government taxation and other fiscal matters are contained in Book II of the Local Government Code. These include real property taxation, shares of local governments in the proceeds of national taxes, credit financing and local budgets including property and supply management.

**Fundamental Principles of LGU Tax Powers**

The following fundamental principles shall govern the exercise of the taxing and other revenue-raising powers of local government units:

(a). Taxation shall be uniform in each local government unit;

(b). Taxes, fees, charges and other impositions shall:
   1. be equitable and based as far as practicable on the taxpayer's ability to pay;
   2. be levied and collected only for public purposes;
   3. be not unjust, excessive, oppressive, or confiscatory;
   4. not be contrary to law, public policy, national economic policy, or in restraint of trade;

(c). The collection of local taxes, fees, charges and other impositions shall in no case be let to any private person;

(d). The revenue collected pursuant to the provisions of this Code shall inure solely to the benefit of, and be subject to disposition by, the local government unit levying the tax, fee, charge or other imposition unless otherwise specifically provided herein; and,

(e). Each local government unit shall, as far as practicable, evolve a progressive system of taxation.

**Common Revenue-Raising Powers**

(1) **Service Fees and Charges.** Local government units may impose and collect such reasonable fees and charges for services rendered.

(2) **Public Utility Charges.** Local government units may fix the rates for the operation of public utilities owned, operated and maintained by them within their jurisdiction.

(3) **Toll Fees or Charges.** The sanggunian concerned may prescribe the terms and conditions and fix the rates for the imposition of toll fees or charges for the use of any public road, pier or wharf, waterway, bridge, ferry or telecommunication system funded and constructed by the local government unit concerned: Provided, That no such toll fees or charges shall be collected from officers and enlisted men of the Armed Forces of the Philippines and members of the Philippine National Police on mission, post office personnel delivering mail, physically-handicapped, and disabled citizens who are sixty-five (65) years or older. When public safety and welfare so requires, the sanggunian concerned may discontinue the collection of the tolls, and thereafter the said facility shall be free and open for public use.

Some illustrative revenue raising powers of local governments are:

**Provinces:**

- **Tax on transfer of real property ownership.** A tax on the sale, donation, barter, or on any other mode of transferring ownership or title of real property at the rate of not more than fifty percent (50%) of one percent (1%) of the total consideration involved in the acquisition of the property or of the fair market value in case the monetary consideration involved in the transfer is not substantial, whichever is higher. The sale, transfer or other disposition of real property pursuant to R.A. No. 6657 shall be exempt from this tax. (Section 185, Art. 1 Chapter 2 Book II of LGC)

- **Tax on business of printing and publication.** A tax on the business of persons engaged in the printing and/or publication of books, cards, posters, leaflets, handbills, certificates, receipts, pamphlets, and others of similar nature, at a rate not exceeding fifty percent (50%) of one percent (1%) of the gross annual receipts for the preceding calendar year. The receipts from the printing and/or publishing of books or other reading materials prescribed by the Department of Education, Culture and Sports, as school texts or references shall be exempt from the tax. (Section 136 Art. 1 Chapter 2 Book II of LGC)

- **Franchise tax.** A tax on businesses enjoying a franchise, at a rate not exceeding fifty percent (50%) of one percent (1%) of the gross annual receipts for the preceding calendar year based on the incoming receipt, or realized, within its territorial jurisdiction. (Section 137 Art. 1 Chapter 2 Book II of LGC)

- **Sand and gravel tax.** A tax levied and collected not more than ten percent (10%) of fair market value in the locality per cubic meter of ordinary stones, sand, gravel, earth, and other quarry resources, as defined under the National Internal Revenue Code, as amended, extracted from public lands or from the beds of seas, lakes, rivers, streams, etc.

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12 Book II, Title I, Chapter I Sec. 130 of LGC http://www.chanrobles.com/localgov1.htm
13 Book II, Title I Chapter II, Art. 5 of LGC http://www.chanrobles.com/localgov1.htm
creeks, and other public waters within its territorial jurisdiction. The proceeds of the tax on sand, gravel and other quarry resources shall be distributed as follows: Province - 30%; Component city or municipality where the sand, gravel, and other quarry resources are extracted - 30%; and Barangay where the sand, gravel, and other quarry resources are extracted - 40%. (Section 138 Art. I Chapter 2 Book II of LGC)

♦ Professional tax. A tax on each person engaged in the exercise or practice of his profession requiring government examination at such amount and reasonable classification as the sangguniang panlabawig may determine but shall in no case exceed Three hundred pesos (P=300.00). (Section 139 Art. I Chapter 2 Book II of LGC)

♦ Amusement tax on admission. Tax to be collected from the proprietors, lessees, or operators of theaters, cinemas, concert halls, circuses, boxing stadia, and other places of amusement at a rate of not more than thirty percent (30%) of the gross receipts from admission fees (Section 140 Art. I Chapter 2 Book II of LGC)

♦ Annual fixed tax per delivery truck or van of manufacturers or producers of or dealers in certain products. An annual fixed tax for every truck, van or any vehicle used by manufacturers, producers, wholesalers, dealers or retailers in the delivery or distribution of distilled spirits, soft drinks, cigars and cigarettes, and other products as may be determined by the sangguniang panlabawig, to sales outlets, or consumers, whether directly or indirectly, within the province in an amount not exceeding Five hundred pesos (P500.00). (Section 141 Art. I Chapter 2 Book II of LGC)

Municipalities:

- Tax on business on (a) manufacturers, assemblers, repackers, processors, brewers, distillers, rectifiers, and compounders of liquors, distilled spirits, and wines or manufacturers; (b) wholesalers, distributors, or dealers in any article of commerce of whatever kind or nature; (c) exporters, and on manufacturers, millers, producers, wholesalers, distributors, dealers or retailers of essential commodities; (d) retailers; (e) contractors and other independent contractors; (f) banks and other financial institutions; (g) peddlers engaged in the sale of any merchandise or article of commerce; and (h) any business, not otherwise
- Fees and charges on business and occupation and, except as reserved to the province in Section 139 of this Code
- Fishery rental or fees and charges. Municipalities shall have the exclusive authority to grant fishery privileges in the municipal waters and impose rentals, fees or charges
- Fees for sealing and licensing of weights and measures; and
- Community tax.

Cities:

- The city may levy and collect among others any of the taxes, fees and other impositions that the province or municipality may levy and collect.

Barangays (14):

- Taxes and fees on stores or retailers with fixed business establishments with gross sales or receipts of the preceding calendar year of Fifty thousand pesos (P=50,000.00) or less, in the case of cities and Thirty thousand pesos (P=30,000.00) or less, in the case of municipalities, at a rate not exceeding one percent (1%) on such gross sales or receipts
- Service charges for services rendered in connection with the regulation or the use of barangay-owned properties or service facilities such as palay, copra, or tobacco dryers;
- Barangay Clearance - No city or municipality may issue any license or permit for any business or activity unless a clearance is first obtained from the barangay where such business or activity is located or conducted;
- Other Fees and Charges:
  (1) On commercial breeding of fighting cocks, cockfights and cockpits;
  (2) On places of recreation which charge admission fees; and
  (3) On billboards, signboards, neon signs, and outdoor advertisements.

However, certain taxes, such as the following, may not be imposed by local government units: (Section 133, Local Government Code and Tax Law and Jurisprudence by Villeg & Acosta, copyright 2000)15

(1.) Income tax, except when levied on banks and other financial institutions;
(2.) Documentary stamp tax;
(3.) Taxes on estates, inheritance, gifts, legacies and other acquisitions mortis causa, except as otherwise provided in the Local Government Code (Code) (except taxes levied on the transfer of real property ownership under Section 135, and Section 151 of the Code);

14 Book II, Title I, Chapter II Article IV of LGC http://www.chanrobles.com/localgov1.htm
15 http://www.bir.gov.ph/legalmatters/8757.htm
(4.) Customs duties, registration fees of vessels (except license fees imposed under Section 149, and Section 151 of the Code), wharfage on wharves, tonnage dues and all other kinds of customs fees, charges and dues except wharfage on wharves constructed and maintained by the local government unit concerned;

(5.) Taxes, fees, charges and other impositions upon goods carried into or out of, or passing through, the territorial jurisdictions of local governments in the guise of charges for wharfage, tolls for bridges or otherwise, or other taxes in any form whatever upon such goods or merchandise;

(6.) Taxes, fees or charges on agricultural and aquatic products when sold by marginal farmers or fishermen;

(7.) Taxes on business enterprises certified by the Board of Investments as pioneer or non-pioneer for a period of six and four years, respectively, from the date of registration;

(8.) Excise taxes on articles enumerated under the National Internal Revenue Code and taxes, fees, or charges on petroleum products, but not a tax on the business of importing, manufacturing or producing said products (Patron vs. Pililla, 198 SCRA 82);

(9.) Percentage tax or value-added tax on sales, barter or similar transactions thereon (but not fixed graduated taxes on gross sales or on volume of production);

(10.) Taxes on the gross receipts of transportation contractors and persons engaged in the transportation of passengers or freight by hire and common carriers by air, land or water except as provided by the Code;

(11.) Taxes on premiums paid for reinsurance or retrocession;

(12.) Taxes, fees or charges for the registration of motor vehicles and for the issuance of all kinds of licenses or permits for the driving thereof, except tricycles;

(13.) Taxes, fees, or other charges on Philippine products actually exported except as provided by the Code (the prohibition applies to any local export tax, fee, or levy on Philippine export products but not to any local tax, fee, or levy that may be imposed on the business of exporting said products);

(14.) Taxes, fees or charges on duly organized and registered Countryside and Barangay Business Enterprises (R.A. No. 6810) and on cooperatives (R.A. No. 6938); and

(15.) Taxes, fees or charges of any kind on the National Government, its agencies and instrumentalities, and local government units (Section 133, LGC)

Community Tax (16)

Community tax shall be paid in the place of residence of the individual, or in the place where the principal office of the juridical entity is located. A community tax certificate shall be issued to every person or corporation upon payment of the community tax. Cities or municipalities may levy a community tax to the following:

(1.) Legal Individuals. Every inhabitant of the Philippines eighteen (18) years of age or over who has been regularly employed on a wage or salary basis for at least thirty (30) consecutive working days during any calendar year, or who is engaged in business or occupation, or who owns real property with an aggregate assessed value of One thousand pesos (P=1,000.00) or more, or who is required by law to file an income tax return shall pay an annual community tax of Five pesos (P=5.00) and an annual additional tax of One peso (P=1.00) for every One thousand pesos (P=1,000.00) of income regardless of whether from business, exercise of profession or from property which in no case shall exceed Five thousand pesos (P=5,000.00). In the case of husband and wife, the additional tax herein imposed shall be based upon the total property owned by them and the total gross receipts or earnings derived by them.

(2.) Juridical Persons. - Every corporation no matter how created or organized, whether domestic or resident foreign, engaged in or doing business in the Philippines shall pay an annual community tax of Five hundred pesos (P=500.00) and an annual additional tax, which, in no case, shall exceed Ten thousand pesos (P=10,000.00).

Printing of Community Tax Certificates and Distribution of Proceeds (17)

a. The Bureau of Internal Revenue shall cause the printing of community tax certificates and distribute the same to the cities and municipalities through the city and municipal treasurers.

b. The city or municipal treasurer shall deputize the barangay treasurer to collect the community tax in their respective jurisdictions.

c. The proceeds of the community tax actually and directly collected by the city or municipal treasurer shall accrue entirely to the general fund of the city or municipality concerned. However, proceeds of the community tax collected through the barangay treasurers shall be apportioned as follows: Fifty percent (50%) shall accrue to the general fund of the city.

(16) Book II, Title I, Chapter II, Art. 6 of LGC http://www.chanrobles.com/localgov1.htm
(17) Book II, Title I, Chapter II, Art. 6 of LGC http://www.chanrobles.com/localgov1.htm
or municipality concerned; and (2) Fifty percent (50%) shall accrue to the barangay where the tax is collected.

Collection of Taxes \(^{(18)}\)

- The tax period of all local taxes, fees and charges shall be the calendar year.
- All local taxes, fees, and charges shall be paid within the first twenty (20) days of January or of each subsequent quarter, as the case may be. The sangguniang concerned may, for a justifiable reason or cause, extend the time for payment of such taxes, fees, or charges without surcharges or penalties, but only for a period not exceeding six (6) months
- The sangguniang may impose a surcharge not exceeding twenty-five percent (25%) of the amount of taxes, fees or charges not paid on time and an interest at the rate not exceeding two percent (2%) per month of the unpaid taxes, fees or charges including surcharges, until such amount is fully paid but in no case shall the total interest on the unpaid amount or portion thereof exceed thirty-six (36) months
- All local taxes, fees, and charges shall be collected by the provincial, city, municipal, or barangay treasurer, or their duly authorized deputies. The provincial, city or municipal treasurer may designate the barangay treasurer as his deputy to collect local taxes, fees, or charges

Civil Remedies for Collection of Revenues \(^{(19)}\)

The civil remedies for the collection of local taxes, fees, or charges, and related surcharges and interest resulting from delinquency shall be:

1. By administrative action thru distraint of goods, chattels, or effects, and other personal property of whatever character, including stocks and other securities, debts, credits, bank accounts, and interest in and rights to personal property, and by levy upon real property and interest in or rights to real property; and
2. By judicial action. Local government unit concerned may enforce the collection of delinquent taxes, fees, charges or other revenues by civil action in any court of competent jurisdiction. The civil action shall be filed by the local treasurer within the period prescribed in Section 194 of this Code.

Distraint of Personal Property Procedure \(^{20}\)

- (a) Seizure
- (b) Accounting of distraint goods
- (c) Publication
- (d) Release of distraint property upon payment prior to sale
- (e) Procedure of sale
- (f) Disposition of proceeds

Personal Property Exempt from Distraint or Levy \(^{(21)}\)

- a) Tools and the implements necessarily used by the delinquent taxpayer in his trade or employment;
- b) One (1) horse, cow, carabao, or other beast of burden, such as the delinquent taxpayer may select, and necessarily used by him in his ordinary occupation;
- c) His necessary clothing, and that of all his family;
- d) Household furniture and utensils necessary for housekeeping and used for that purpose by the delinquent taxpayer, such as he may select, of a value not exceeding Ten thousand pesos (P=10,000.00);
- e) Provisions, including crops, actually provided for individual or family use sufficient for four (4) months;
- f) The professional libraries of doctors, engineers, lawyers and judges;
- g) One fishing boat and net, not exceeding the total value of Ten thousand pesos (P=10,000.00), by the lawful use of which a fisherman earns his livelihood; and
- h) Any material or article forming part of a house or improvement of any real property.

Tax Ordinance in LGUs \(^{(22)}\)

Authority and Limitation of LGU to Tax

- a) Exercise the power to levy taxes, fees or charges [through passing of tax ordinance by the Sangguniang] on any base or subject not otherwise specifically enumerated herein or taxed under the provisions of the National Internal Revenue Code, as amended, or other applicable laws: Provided, That the taxes, fees, or charges shall not be unjust, excessive, oppressive, confiscatory or contrary to declared national policy:

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18 Book II, Title I, Chapter III of LGC http://www.chanrobles.com/localgov1.htm
19 Book II, Title I, Chapter IV of LGC http://www.chanrobles.com/localgov1.htm
20 Book II, Title I, Chapter IV, Sec. 175 of LGC http://www.chanrobles.com/localgov1.htm
21 Book II, Title I, Chapter IV, Sec. 185 of LGC http://www.chanrobles.com/localgov1.htm
22 Book II, Title I, Chapter V (Miscellaneous Provision) http://www.chanrobles.com/localgov1.htm
Provided, further, That the ordinance levying such taxes, fees or charges shall not be enacted without any prior public hearing conducted for the purpose. (Book II, Title I, Chapter V Sec. 186 of LGC)

b) The enforcement of any tax ordinance or revenue measure after due notice of the disapproval or suspension thereof shall be sufficient ground for administrative disciplinary action against the local officials and employees responsible (Book II, Title I, Chapter V Sec. 190 of LGC)

c) Adjust Rates of Tax ordinances once every five (5) years, but in no case shall such adjustment exceed ten percent (10%) of the rates fixed. (Book II, Title I, Chapter V Sec. 187 of LGC)

d) Authority to Grant and Withdraw Tax Exemption Privileges through ordinances duly approved, grant and withdraw tax exemptions, incentives or relief under such terms and conditions. (Book II, Title I, Chapter V Sec. 192-193 of LGC)

e) Refund of Tax Credit.

Procedure for Approval and Affectivity of Tax ordinances and Revenue Measures; Mandatory Public Hearings

(1) Public hearings shall be conducted for the purpose prior to the enactment;
(2) Any question on the constitutionality or legality of tax ordinances or revenue measures may be raised on appeal within thirty (30) days from the affectivity thereof to the Secretary of Justice who shall render a decision within sixty (60) days from the date of receipt of the appeal;
(3) The aggrieved party may file appropriate proceedings with a court of competent jurisdiction after lapse of the sixty-day period without the Secretary of Justice acting upon the appeal.
(4) Publication of Tax ordinances and Revenue Measures shall be made after 10 days of approval for 3 consecutive days in a newspaper of local circulation, posted in at least two (2) conspicuous and publicly accessible places and furnish certified true copy of ordinance to local treasurers for public dissemination.

Tax Exemptions in the Philippines

Tax exemptions are limited to those granted by law. However, no law granting any tax exemption shall be passed without the concurrence of a majority of all the members of the Congress. (Article VI, Section 28, par. 4). The Constitution expressly grants tax exemption on certain entities/institutions such as (1) charitable institutions, churches, parsonages or convents appurtenant thereto, mosques, and nonprofit cemeteries and all lands, buildings and improvements actually, directly and exclusively used for religious, charitable or educational purposes (Article VI, Section 28, paragraph 3); (2) non-stock non-profit educational institutions used actually, directly and exclusively for educational purposes. (Article XVI, Section 4(3))

The following are exempted to tax as stated in the Article 283 of Rules and Regulations Implementing Local Government Code of 1991 (RA 7160) copyright 2008:

a) Local water districts;

b) Cooperatives duly registered under RA 6938, otherwise known as the Cooperative Code of the Philippines;

c) Non-stock and non-profit hospitals and educational institutions;

d) Business enterprise certified by the Board of Investments (BOI) as pioneer or non-pioneer for a period of six and four years, respectively, from the date of registration;

e) Business entity, association, or cooperative registered under RA 6810; and

f) Printer and/or publisher of books or other reading materials prescribed by DECS as school texts or references, insofar as receipts from the printing and/or publishing thereof are concerned.

Exemptions on Community Tax (24):

(1) Diplomatic and consular representatives; and
(2) Transient visitors when their stay in the Philippines does not exceed three (3) months.

Other laws relevant to taxation and its related BIR issuances also provide for the income tax exemption of certain entities and transactions such as (25).

a) The tax incentives of the cooperatives are provided for in R.A. No. 6938, otherwise known as the cooperative code of the Philippines. Cooperatives are exempt from income tax, VAT, 3% Percentage Tax, Donor’s Tax, Excise Tax, and Documentary Stamp Tax subject to certain conditions (RR 20-2001).

24 Book II, Title I, Chapter III Sec.159 of LGC http://www.chanrobles.com/localgov1.htm
25 http://taxphilippines.com/?p=3
b) The guidelines relevant to the income tax exemption of a BMBE are provided in RMC No. 40-2004 which published Department Order (D.O.) No. 17-04 of the Department of Finance (DOF) pursuant to RA No. 9178 otherwise known as the Barangay Micro Business Enterprises (BMBE) Act of 2002, RMC No. 52-2204 prescribes the format of the sworn affidavit for submission upon registration A BMBE is a business entity which is operated either as a sole proprietorship or a corporation, partnership, cooperative or association, organized and incorporated and existing under Philippine Laws. A BMBE shall still be subject to income tax on income not arising from its operations as such BMBE, VAT, Other Percentage Taxes and all other taxes and compliance requirements prescribed under the Tax Code and its implementing rules and regulations.

c) RR No. 4-2006 implements the tax privileges provision of RA No. 9257, otherwise known as the “Expanded Senior Citizens Act of 2002”. A senior citizen shall refer to any resident Filipino citizen aged 60 years old and above. Senior citizens are exempt from the payment of individual income tax provided that their annual taxable income does not exceed poverty level as determined by the NEDA for corresponding taxable year. Senior citizens are also entitled to the twenty (20%) discount on their purchase of goods and services.

REPUBLIC ACT NO. 9294 (26) an act restoring the tax exemption of offshore banking units (OBUS) and foreign currency deposit units (FCDUS), amending for the purpose section 27 (d) and section 28, paragraphs (a) (4) and (a) (7) of the national internal revenue code as amended.

Republic Act No. 9504 an Act Amending Sections 22, 24, 34, 35, 51 And 79 of Republic Act 8424, As Amended, Otherwise Known As The National Internal Revenue Code Of 1987." This new law [came into law on June 17, 2008] will exempt minimum wage earners from paying income tax, increasing tax exemption for all earners and additional exemptions for individuals with dependents/children. (27) The law authored by Sen. Manuel Roxas II and Sen. Richard Gordon has the following benefits: (28)

- No longer requires minimum wage earners to file income tax returns
- Holiday, overtime, night shift differential and hazard pay—are exempted from income tax upon the effectivity of the law 15 days after its publication
- The law increased the amount of personal exemption from P25,000 to P50,000 for all taxpayers regardless of status (single, married or head of the family), and the additional deduction for qualified dependents from P8,000 to P25,000. Thus, a family of six, with two working spouses and four dependent children, will have a total of P200,000 in personal exemptions (from the current P96,000). In case only one of the spouses is earning, he or she shall be allowed the standard personal exemption of P50,000.
- Provisions eliminated the old tax bracketing system under the 1997 National Revenue Code, as amended, which had specified tax exemption of P20,000, P25,000 and P32,000 for single, head of the family and married, respectively.

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### TAX GUIDE ON PHILIPPINE TAXATION (29)

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26 http://www.livinginthephilippines.com/taxation_law.html
29 http://www.bir.gov.ph/legalmatters/8761.htm
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