

## **Shrinking the Government and Expanding the Economy: Preliminary Salvo**

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## Intro, Data Source

- These are preliminary advocacies to show concrete proposals how small the Philippine state and taxes could be.
- Data source for budgets is the Budget of Expenditures and Sources of Financing (BESF), various years, latest is fiscal year 2005.

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## Outline

1. MG: Core Philosophies
2. Analysis of Big Philippine Government
3. Consolidating Departments, shrinking the bureaucracy
4. The choking taxes
5. Expanding the economy
6. Summary
7. How you can help

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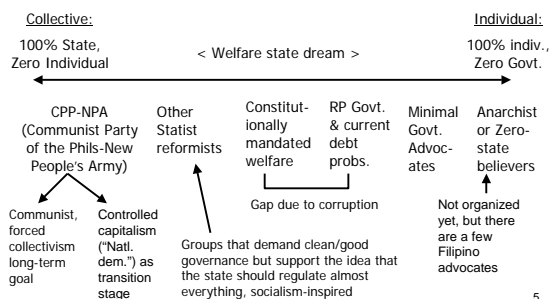
## MG: Core Philosophies

- Small (not zero) government, limited to a few core functions – enforcement of property rights and contracts, foreign affairs, etc.
- Greater individual freedom and liberty, greater individual responsibility, lesser dependence from the state and the politicians
- Small and few taxes, simple tax rules, to finance a small government
- Individuals constitute markets, as buyers and sellers of various goods and services. Free markets mean free individuals. Free trade, free mobility of people, capital, technology, culture, across countries

**Minimal Government = Minimal Taxes  
= Free Market = Individual Freedom**

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## Collective vs. Individual Control of his Income and Destiny: Philippine Setting



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## Analyzing the BIG Philippine Govt...

<u>National Govt. (NG):</u>	<u>Govt.- Owned &amp; Controlled Corps. (GOCCs):</u>	<u>Govt. Financial Instns. (GFIs):</u>	<u>Govt. Pension Funds (monopoli- es):</u>	<u>Central Bank:</u>	<u>Local Govt. Units (LGUs):</u>
Executive: OP, OVP, 21 Depts, 111 SUCs	NPC, NEA, PNOC, NFA, NIA, NDC, FTI, MWSS, PNR, NHA, BCDA, SBMA, PEZA, MIAA, PPA, PEA, 100+ others	LBP & subsid.,	SSS, GSIS	BSP, CB-BOL	78 prov., 80 cities, 1,500+ mun., 42,000+ brgys.
Legislative: Senate, House, Electoral Tribunals					
Judiciary					
Constit'l Offices: COA, CSC, Comelec, Ombudsman					
					➔ <b>Wide-ranging, multiple layers of politicians and bureaucrats, cronies and lackeys, requiring multiple taxes, fees and charges from the citizens to maintain</b>

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### As shown by the big Public Sector Deficit (in P Bill.)

Particulars	2002	2003	2004	2005
PSBR*	-268.3	-275.0	-336.4	-285.0
National Govt. (NG)	-210.7	-199.9	-197.8	-184.5
Central Bank Restructuring	-15.1	-15.7	-17.2	-18.4
Monitored GOCCs	-46.4	-65.3	-125.5	-91.9
Net lending to GOCCs	3.9	5.8	4.1	9.8
Other Pub. Sector	49.6	40.2	28.7	31.4
SSS/GSIS/PHIC	25.6	17.6	13.3	8.2
BSP	1.2	6.9	1.0	1.0
Govt. Financial Inst. (GFIs)	5.4	4.9	3.1	5.1
LGUs	18.9	7.9	10.1	17.1
CPSD**	-218.7	-234.9	-307.8	-253.6

\* PSBR = Public sector borrowing requirement

\*\* Consolidated public sector deficit; includes int. payment to BSP

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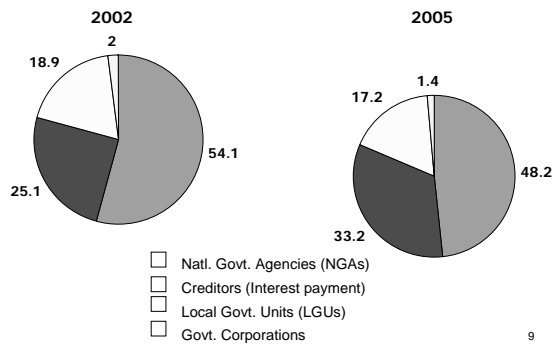
### The NG alone: huge expenses (P Bill.)

Recipient Units	2002	2003	2004	2005
1. Natl. Govt. Agencies (NGAs)	401.6	417.2	433.5	437.7
% of Total	54.1	50.6	50.3	48.2
2. Creditors (Interest payment)	185.9	226.4	271.5	301.7
% of Total	25.1	27.4	31.5	33.2
3. Local Govt. Units (LGUs)	140.0	148.5	145.4	155.9
% of Total	18.9	18.0	16.9	17.2
4. Govt. Corporations	14.5	33.0	11.2	12.3
% of Total	2.0	4.0	1.3	1.4
<b>Total Budget</b>	<b>742.0</b>	<b>825.1</b>	<b>861.6</b>	<b>907.6</b>
% of GDP *	18.7	19.2	18.2	17.2

Source: BESF, FYs \* Nominal GDP, P Billion: 2002 = 3,960; 2003 = 4,300; 2004 & 2005

2004 = 4,732; 2005 = 5,263 8

### % distribution of total budget



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### Bureaucracy is big: 2/3 of NG Net Budget goes to salaries... (P Bill.)

Purposes	2002	2003	2004	2005
Total Budget	742.0	825.1	861.6	907.6
less: interest payment	186.0	226.4	271.5	301.7
less: subsidies (LGUs, etc.)	154.1	174.5	166.1	176.8
Sub-Total	401.9	424.2	424.0	429.1
1. Personnel Services (PS)	268.1	279.4	287.4	289.2
% of sub-total	66.7	65.9	67.8	67.4
2. Maintenance & Operations (MOOE)	60.5	57.9	67.9	67.8
% of sub-total	15.0	13.6	16.0	15.8
3. Capital Outlay & Net Lending	73.3	86.9	68.7	72.1
% of sub-total	18.2	20.5	16.2	16.8

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### The NG's largest programs & agencies (P Billion)

Department/Object	2002	2003	2004	2005
1. Allocations to LGUs	140.0	148.5	145.4	155.9
2. Dept. of Education (DepEd)	104.1	106.7	107.5	111.0
3. Dept. of Pub. Works & Highways (DPWH)	47.6	53.3	47.2	49.5
4. Dept. of National Defense (DND)	63.0	70.5	45.5	46.2
5. Dept. of Interior and Local Govt. (DILG)	48.0	51.6	43.6	43.9
6. Pension and Gratuity Fund	0	28.6	33.0	34.7
7. State Universities and Colleges (SUCs)	16.9	17.1	16.7	16.8
8. Dept. of Agrarian Reform (DAR)	6.6	7.9	14.8	14.8
9. Budgetary Support to GOCCs	14.5	33.0	11.2	12.3
10. Agriculture & Fisheries Modernization Prog.	13.4	10.1	10.4	11.4
11. Dept. of Health (DOH)	11.8	9.9	10.4	10.3

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### The NG's largest programs & agencies (P Billion)

Department/Object	2002	2003	2004	2005
12. Dept. of Transpo. & Communication (DOTC)	11.0	10.4	10.4	8.0
13. The Judiciary	7.7	7.7	7.6	8.0
14. Autonom. Region for Muslim Mind. (ARMM)	5.3	5.6	5.5	7.1
15. Dept. of Finance (DOF)	6.5	5.8	6.5	6.8
16. Other Executive Offices	5.4	4.7	4.7	6.3
17. PDAF ('pork barrel')	5.7	8.3	8.3	6.1*
18. Dept. of Env. & Natural Resources (DENR)	7.0	6.4	5.5	5.9
19. Dept. of Justice (DOJ)	5.3	5.1	4.7	5.1
20. Dept. of Foreign Affairs (DFA)	5.2	4.9	4.5	5.1
21. Congress of the Philippines	4.5	4.7	4.7	4.7
Others				
<b>TOTAL, Net of Debt Payment</b>	<b>556.1</b>	<b>598.7</b>	<b>590.1</b>	<b>605.9</b>

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## On top of the 21 Departments, agencies under the Office of the Pres. (OP)

### A. Budget of more than P100 million for 2005

1. Commission on Higher Education (CHED)
2. Commission on Information and Communications Technology (CICT, created only in 2004)
3. Cooperative Development Authority (CDA)
4. Dangerous Drugs Board (DDB)
5. Energy Regulatory Commission (ERC)
6. Housing and Land Use Regulatory Board (HLURB)
7. National Commission for Culture and the Arts (NCCA)
8. National Commission on Indigenous People (NCIP)
9. National Intelligence Coordinating Agency (NICA)
10. Office on Muslim Affairs (OMA)
11. Philippine Drug Enforcement Agency (PDEA)
12. Philippine Sports Commission (PSC)
13. Presidential Management Staff (PMS)
14. Professional Regulatory Commission (PRC)
15. Securities and Exchange Commission (SEC)

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## Other agencies under the OP

### B. Budget of less than P100 million in 2005

1. Anti-Money Laundering Council (AMLC)
2. Commission on the Filipino Language (CFL)
3. Film Development Council of the Philippines (FDCP)
4. Games and Amusement Board (GAB)
5. Housing and Urban Development Coordinating Council (HUDCC)
6. Intellectual Property Office (IPO)
7. Movie and TV Review and Classification Board (MTRCB)
8. National Anti-Poverty Commission (NAPC)
9. National Commission on the Role of the Filipino Women (NCRFW)
10. National Security Council (NSC)
11. National Water Resources Board (NWRB)
12. National Youth Commission (NYC)
13. Optimal Media Board (OMB; before, Videogram Regulatory Board)
14. Palawan Council for Sustainable Development (PCSD)
15. Philippine Racing Commission (Philracom)
16. Presidential Commission on Good Government (PCGG)
17. Presidential Commission on the Urban Poor (PCUP)
18. Presidential Legislative Liaison Office (PLLO)

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## Political Expansion: the case of SUCs

- State universities and colleges (SUCs) are created by Congress either by direct establishment or by conversion (from a public high school, becomes a trade school, then a state college, then a state university).
- In 1989, there were only 77 SUCs, became 108 by 1999 (increase of 31 in 10 years, average of 3 SUCs/year); to the current 111.
- Creation of SUCs notable during election years:
- Between 1989-91, only 2 were created, but in 1992, an election year, 6 new ones were created.
- Between 1992-94, only 3 were created, but in 1995, an election year, 10 were created.
- Between 1995-97, only 1 was legislated, but in 1998, an election year, 9 new ones were established.

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## The Biggest SUCs (Budget in P Mill.)

State University / College, Region	2000	2003	2004	2005
1. Univ. of the Phils. (UP) System, incl. PGH	4,187	4,808	4,520	4,452
2. Mindanao State U. (MSU), Marawi, Iligan, Tawi-tawi	1,442	1,535	1,506	1,487
3. Polytechnic U. of the Phils. (PUP), NCR	593	565	548	545
4. Don Mariano Marcos Memorial State U. (DMMMSU), Ilocos	301	298	322	318
5. Technological U. of the Phils. (TUP), NCR	303	286	299	297
6. Bicol U., Bicol Region	262	285	280	281
7. Isabela State U. Cagayan Valley	241	281	270	271
8. Philippine Normal U. (PNU), NCR	221	239	243	243
9. Mariano Marcos State U. (MMSU), Ilocos Region	229	221	235	235
10. Western Mindanao State U. (WMSU), W. Mind.	202	225	224	224
11. Cagayan State U. (CSU), Cagayan Valley	216	212	220	220
12. Leyte State U. (LSU, formerly VISCA), E. Visayas	255	235	217	214
13. U. of Southern Mindanao (USM), Central Mind.	202	190	196	194
14. Benguet State U. (BSU), Cordillera	179	192	186	186
15. Central Mindanao U. (CMU), N. Mindanao	175	184	181	186

## SUCs named after Politicians (P Mill.)

State University / College, Region	2004	2005
1. Don Mariano Marcos Memorial State U. (DMMMSU), Ilocos	322	318
2. Mariano Marcos State U. (MMSU), Ilocos Region	235	233
3. Eulogio "Amang" Rodriguez Institute of S&T, NCR	90	93
4. Carlos C. Hilado Memorial State College, W. Visayas	78	80
5. Don Honorio Ventura College of Arts and Trades, C. Luzon	70	69
6. Ramon Magsaysay Technological U., C. Luzon	67	67
7. Tiburcio Tancinco Memorial Institute of S&T, E. Visayas	40	42
8. Dr. Emilio B. Espinosa, Sr. Memorial State College of Agriculture and Tech., Bicol Region	28	29
9. J.H. Cerilles State College, W. Mindanao	16	18
10. Adiong Memorial Polytechnic State College	12	12
11. Tomas Oppus Normal College, C. Visayas (consolidated with Southern Leyte State U. starting 2005?)	22	0

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## Govt. Corporations filling "market failure"?

### Real estate:

Batangas Land Co., GY Real Estate, Kamayan Realty Corp., First Cavite Industrial Estate (all NDC subsid.), Land Bank Realty Corp., Marawi Resort Hotel, SBMA, BCDA, ...

### Media, Entertainment:

People's TV Network, RPN-9, IBC-13, Phil. Leisure and Retirement Authority, PAGCOR, Phil. Commission on Scuba Diving,

### Transpo. Shipping:

Natl. Trucking & Forwarding Corp., Phil. Natl. Lines, Tacoma Bay Shipping Co., PNOC Shipping & Transport Corp., North Luzon Railway Corp., PNR, ...

### Hospitals

(aside from those under the DOH, UP): Lung Center, Heart Center, Kidney Center, Children's Medical Center

### Agriculture:

Natl. Food Authority, Food Terminal, Natl. Dairy Authority, Natl. Tobacco Admin., Phil. Coconut Authority, Phil. Sugar Corp., Meat Packing Corp., ZNAC Rubber Estate Corp., ...

### Wondering why there are no:

Tricycle Devt. Corp., Pumpboat Devt. Co., Tomato Devt. Admin., Beverage Research Authority, ...???

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## Major losing GOCCs, debts later to be assumed by NG (Net Profit/Loss, P Bill.)

The Big Losers	2002	2003	2004	2005
1. Natl. Power Corp. (NPC)	- 33.74	-113.23	-114.2	-83.61
2. Natl. Food Auth. (NFA)	- 5.12	- 7.58	- 14.52	-13.13
3. Natl. Electrification Admin (NEA)	- 1.37	- 6.42	- 1.77	- 1.28
4. Phil. Natl. Oil Co. (PNOC)	- 0.11	- 2.95	- 1.41	- 1.22
5. Light Rail Transit Auth. (LRTA)	- 2.36	- 3.84	- 1.88	- 1.29
6. Natl. Home Mortgage Finance Corp. (NHMFC)	- 2.10	- 2.30	- 2.69	1.54
7. Tech. Livelihood & Resource Corp. (TLRC)	- 0.18	- 0.49	- 0.52	- 0.17

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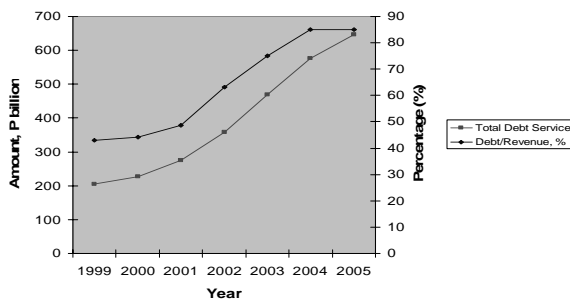
## Ever-expanding Debt Service Burden (P Bill.)

	1999	2000	2001	2002	2003	2004	2005
Interest	106.3	140.9	174.8	185.9	226.4	265.8	301.7
Principal	99.1	86.9	99.6	172.1	243.6	309.8	344.1
<b>Total</b>	<b>205.4</b>	<b>227.8</b>	<b>274.4</b>	<b>358.0</b>	<b>470.0</b>	<b>575.6</b>	<b>645.8</b>
GDP, Nominal	2,977	3,308	3,631	3,960	4,300	4,732	5,263
Debt / GDP, %	6.9	6.9	7.6	9.0	10.9	12.2	12.3
Total Revenue	478.5	514.8	563.7	567.1	626.6	676.4	758.5
Debt/Revenue, %	42.9	44.2	48.7	63.1	75.0	85.1	85.1
Domestic % of total	136.5	139.0	166.6	200.9	294.9	377.7	428.2
Foreign % of total	68.9	88.8	107.8	157.0	198.0	198.0	217.6
Foreign % of total	33.5	33.5	39.3	43.1	43.3	33.7	33.7

→ The cost of retaining the huge bureaucracy and losing state corporations is very high

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## Debt service to revenue over the years



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## Underground economy to evade govt. taxes & regulations (% of gross natl. income)

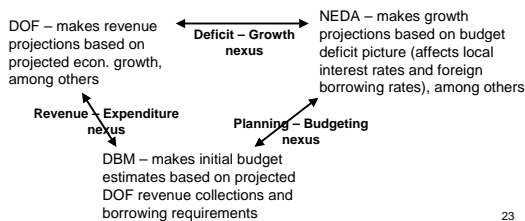
High Informal Economy...		Low Informal Economy...	
Philippines,	43.4%	Singapore,	13.1%
Thailand,	52.6%	Hong Kong,	16.1%
Pakistan,	36.8%	Japan,	11.3%
Brazil,	39.8%	Taiwan,	19.6%
Venezuela,	33.6%	United States,	8.8%
Mexico,	30.1%	Canada,	16.4%
Russia,	46.1%	Australia,	15.3%
Turkey,	32.1%	New Zealand,	12.7%
Egypt,	35.1%	United Kingdom,	12.6%
Nigeria,	57.9%	France,	15.3%

Source: WB, "Doing Business in 2004: Understanding Regulations"

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## Consolidating Departments, Shrinking the Bureaucracy (1)

Dept. of Budget & Mgt. (DBM) + Dept. of Finance (DOF) + Natl. Econ. Devt. Authority (NEDA) = Dept. of Finance and Economy (DFE)



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## Consolidating Departments (2)...

Dept. of Public Works and Highways (DPWH) + Dept. of Transportation and Communication (DOTC) = Dept. of PW, Transpo and Communication (DPWTC)

DPWH – plans, constructs, maintains roads & bridges, flood control, drainage and water projects

DOTC – plans, constructs, maintains ports; regulates transpo & telecomms firms

Need close coordination of plans

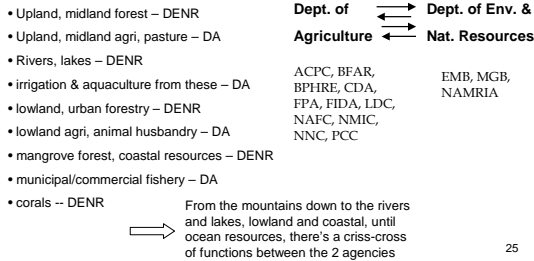
Sometimes conflict of plans in construction of flyovers vs. LRT/MRT lines; diggings for drainage vs. telecom cables.

Examples: flyovers and MRT station in Edsa-Ortigas; flyovers and LRT station in Katipunan, QC; diggings-cover-dig again to lay down drainage system, telecom cables, waterworks by MWSS.

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## Consolidating Departments (3)...

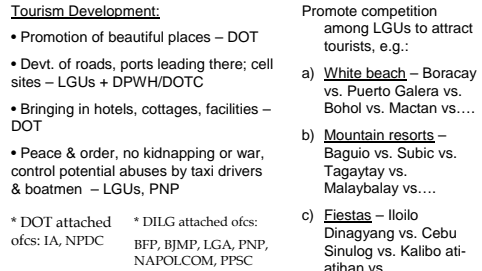
Dept. of Agriculture (DA) + Dept. of Environment and Natural Resources (DENR) = Dept. of Agriculture and Natural Resources (DANR)



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## Consolidating Departments (4)...

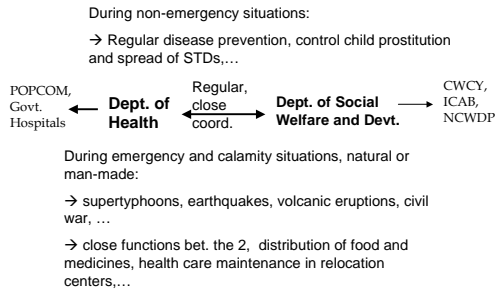
Dept. of Interior and Local Govt. (DILG) + Dept. of Tourism (DOT) = Dept. of Local Government and Tourism (DLGT)



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## Consolidating Departments (5)...

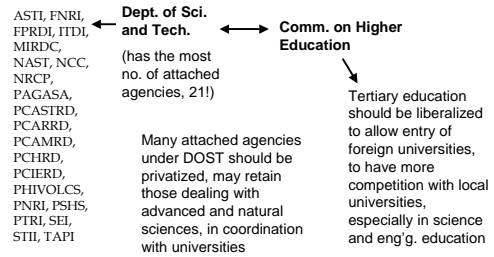
Dept. of Health (DOH) + Dept. of Social Welfare and Devt. (DSWD) = Dept. of Health and Social Welfare (DHSW)



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## Consolidating Departments (6)...

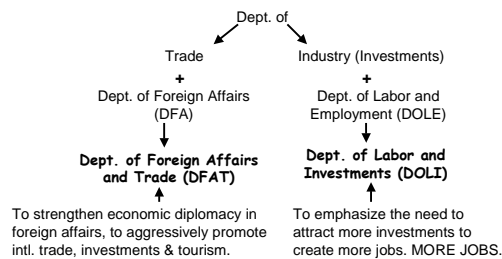
Dept. of Science and Technology (DOST) + Commission on Higher Education (CHED) = Dept. of Science and Higher Education (DSHE)



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## Consolidating Departments (7)...

Abolish the Dept. of Trade and Industry (DTI), consolidate trade function with the DFA, investment function with DOLE



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## Abolishing Departments (1)...

Dept. of Agrarian Reform (DAR)

- Absence of clear time table when Comprehensive Agrarian Reform Program (CARP) – Ag.Reform Law of 1988 originally specified a 10-yr. timetable, ie, until 1998 – will be finished.
- Part of the reason is that many DAR personnel themselves do not want CARP to be finished soon because DAR will have to be abolished then, losing their jobs.
- No timetable CARP creates lots of uncertainties in agri investment. Many agri entrepreneurs are unsure if the fruit farm or aquaculture farm or agro-forest farm they're developing may someday be covered by CARP.
- DAR can be demoted to an Office for Agrarian Reform (OAR) attached to the OP.

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## Abolishing Departments (2)...

### Office of the Press Secretary (OPS)

- An Agency with no direct service provision to the public except to broadcast the activities of Malacanang and other agencies, but having annual budget of P800M to P1 billion/year, excluding subsidies to attached corporations.
- Attached agencies: BBS, BCS, NPO, NIB, PIA, RTVM
- Attached corporations: PTV + 2 sequestered TV stations,...
- Some of those attached agencies and sequestered stations should be privatized.

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## Shrank Departments from 21 to 12...

### Departments Not Needing Reorganization (4)

- Dept. of National Defense (DND)
- Dept. of Education (DepEd)
- Dept. of Energy (DOE)
- Dept. of Justice (DOJ)

\* Total number of Depts = 4 + 8 = 12

→ With only 12 Depts running, governance will become more effective because the agency accountability is clearer, bureaucracy leaner, and tax burden lighter.

### Consolidated Departments (8)

- Dept. of Finance and Economy (DFE)
- Dept. of Pub. Works, Transpo and Communication (DPWTC)
- Dept. of Agri. & Nat. Resources (DANR)
- Dept. of Local Govt. and Tourism (DLGT)
- Dept. of Empl. and Investments (DEI)
- Dept. of Foreign Affairs and Trade (DFAT)
- Dept. of Health and Social Welfare (DHSW)
- Dept. of Science and Higher Education (DSHE)

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## Privatize most (if not all) GOCCs

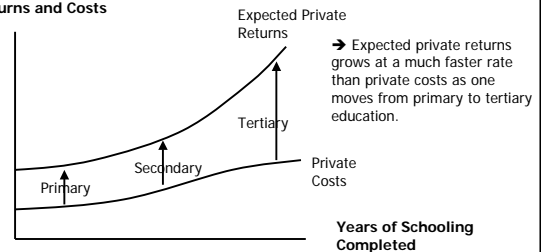
- GOCCs, whether earning or losing, should be privatized and proceeds be used to retire many public debt, especially domestic debt.
- A P1 trillion domestic debt retired, at 8% interest rate p.a., means P8 billion of annual savings on interest payment. That P8 billion/year can build many public school buildings and several hundred kilometers of roads around the country.
- Priority corporations for privatization are the current heavy losers and deficit-generators: NPC, NFA, PNO, LRTA, NEA, NHMFC,...
- Attractive corporations for privatization (unless there are constitutional barriers) would be those under the BCDA (Clark, John Hay,....), SBMA, DBP, PPA, PEA, NHA, NIA, Philpost,...
- Even if all GOCCs were privatized this year, their combined proceeds would not retire even 1/2 of the total public debt!

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## Privatize most (if not all) SUCs, why:

### (1) Private

### Returns and Costs

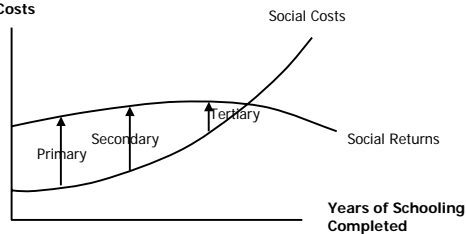


Source of this and next chart: Michael Todaro, 1994, *Economic Development*, 5<sup>th</sup> edition

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## Privatize most (if not all) SUCs, why:

### (2) Social Returns and Costs



→ Social costs grow at a much faster rate than social returns as one moves from primary to tertiary education. This is because for many developing countries, heavy subsidies in tertiary education made the costs rather high.

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## Alternatives to SUCs (giving educ. to poor but talented tertiary students)

- Revive study-now-pay-later program
- Cut corporate income tax for private universities and colleges, encourage more competition among them to improve quality while keeping school fees competitive
- Retain, even expand scholarships for targeted courses
- Coupled with huge tax cut for individual income to expand parents' disposable/ take home income, so they can afford private education.

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## Other government-shrinking measures

- From tens of thousands of public elementary and high schools to a third of their number initially. Education should be parental responsibility, not state responsibility. Parents should have jobs and be responsible enough as to the number of children they can raise.
  - From 4 specialized hospitals to zero.
  - From 2 military academy and defense college to zero.
  - From dozens of Presidential advisers and consultants to half the total number of line Departments initially, to zero in the L-term.
  - From 15 million hectares of public forest land to around 5 million has. – mainly the protection forest and national parks only.
- All these done not in 1 or 2 years but staggered over the medium to long-term; e.g., SUCs dependence on state subsidy down from current 85% to 40% in 5 years, to 0% in 10 years.

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## The choking income tax...

Annual Taxable Income	Tax Due for Individuals
Not over P10,000	5%
P10,000 to P30,000	P 500 + 10% of excess over P10,000
P30,000 to P70,000	P 2,500 + 15% of excess over P30,000
P70,000 to P140,000	P 8,500 + 20% of excess over P70,000
P140,000 to P250,000	P22,500 + 25% of excess over P140,000
P250,000 to P500,000	P50,000 + 30% of excess over P250,000
Over P500,000 *	P125,000 + 32% of excess over P500,000

→ Current tax rates are practically confiscatory. P500,000 (only US\$8,880 at P56.3/\$) annual income these days is not big, and yet government will get ¼ of it in the first P500,000, then 1/3 of it in excess of P500,000!

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## Other tax burdens...

- Corporate income tax, 32% of net corporate income or 2% of gross income (after certain deductions) minimum corporate income tax (MCIT), whichever is higher.
- Import duties and taxes
- VAT of 10% (many influential sectors & professionals exempted), to be increased to 12% by 2006, up to 14% by 2007.
- Specific tax on "sin" products (alcohol & tobacco) and petrol products
- Taxes on services: banks/financial institutions, insurance premiums, amusement, other percentage tax
- Documentary stamp tax, other taxes
- Motor vehicle tax (registration fee), driver's license fee
- Travel (foreign) tax, airport tax, immigration tax
- Business permit fees, community residence tax, other LGU taxes

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## Where we're taxed and charged (P Bill.)

Type of Revenue	2002	2003	2004	2005
<b>A. TAX Revenues*</b>	496.37	537.68	596.41	677.71
Tax on net income and profits	226.50	243.74	278.85	319.10
of w/c: on individuals	82.28	87.06	96.38	109.79
on company, corp., enterprises	100.76	112.17	127.42	147.60
Tax on domestic goods & services	172.51	186.78	203.78	225.04
of w/c: gen. sales, VAT	65.93	82.44	93.73	109.09
Tax on intl. trade and transactions	96.84	106.45	112.98	132.65
<b>B. NON-TAX Revenues**</b>	70.77	88.95	80.00	80.77
Bu. of Treasury income	47.19	56.66	40.74	45.37
Fees and charges	21.37	29.38	22.99	24.64
<b>TOTAL REVENUES</b>	<b>567.14</b>	<b>626.63</b>	<b>676.41</b>	<b>758.47</b>

\* Including tax on property, less than P1B/year

\*\* Incl. privatization, foreign grants, P1-3 B/year

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## Income tax + various consumption tax = ?

Juan, a young manager in a small bank, has a taxable income of P600,000 (about \$10,600) after a few deductions. Assuming certain consumptions...

Type of Tax	Details	Tax paid
1. Indiv. income tax	P125,000 + 32% of P100,00 (excess of P500,000)	P157,000
2. Motor vehicle tax	1.6 engine car, a Corolla	P 3,000
3. Petrol tax	He drives 20,000 kms./year, at 10 liters/km. = 2,000 liters x P4.35/liter premium gas	P 8,700
4. VAT on food in restos, bars,...	He spends P700/week on ave. in restaurants, bars, coffeeshops, 10% VAT = P70/week x 52 wks	P 3,640
5. VAT on food cooked at home	He shops P1,000/week on ave. on food & drinks bought from a supermarket, P100/wk x 52 weeks	P 5,200
6. Sin tax	He drinks 3 liters (9 bottles) a week beer on ave., x P16/liter tax; smokes 2 packs/week x P25/pack tax	P 5,100
7. Travel tax	He travels abroad 2x a year to visit some friends (P1,620 x 2) + (P500 airport tax x 2)	P 4,240
Sub-total	VAT on clothing, other consumption not incl. yet	P186,880

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## Multiple taxes + private expenses = "employee forever"?

- The above example does not include yet other taxes (VAT, sales tax, specific tax, local govt. taxes,...) on his other consumption and activities.
- And yet, Juan was already paying 31% of his annual income to the state. (Even other professionals who are not fixed-income earners can perhaps avoid paying income tax, but they can't evade the other consumption taxes)
- But Juan does not avail of public education system, sends his 2 kids to private schools.
- He neither avails of public hospitals, he and his family got private health cards and go to private hospitals for medical needs.
- He neither relies on the police to protect his neighborhood, he pays homeowners' association dues to pay private security guards, garbage collection, street lighting, road repair, etc.
- He also brings his car regularly to auto repair shops for maintenance because of potholed streets often neglected by the DPWH.
- Juan dreams of quitting his job and start his own business someday. But with such high and multiple taxes + private expenses piling on each other, Juan can hardly save to fulfill his dream.

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## Bloated government + high taxes = stunted economy

- Government should be helpful to the citizens, not burdensome to them. With big and expansive government requiring high and multiple taxes to maintain, the tax-paying public, those in the private sector especially, are choked. Economically and politically.
- With high unemployment situation, more and more people should become entrepreneurs, creating jobs not only for themselves and their friends/relatives, but also for other jobless people.
- When enterprises create plenty of jobs, there will be no need for unemployment benefits/insurance, for political patronage, for various dependency-inducing subsidies. Again, government has nothing to give to people except what it takes from somebody else.
- High and multiple taxes + maze of bureaucratic regulations (which encourages corruption) = stunted (if not killed) entrepreneurship.

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## Shrinking government + tax cut = expanding the economy

- Government size must shrink. Tax rates must be cut and simplified, and number of tax laws must be reduced.
- Over the long-term, when the public debt burden has been drastically reduced, individual income tax should be abolished. People should keep their earnings. The small government should shift revenue collections from income to consumption tax.
- Taxes on services: banks/financial institutions, insurance premiums, amusement, other percentage tax, documentary stamp tax, travel (foreign) tax, airport tax, immigration tax, other taxes can be retained. Also LGU taxes.
- The small government should be able to generate fiscal surplus, on top of large-scale privatization proceeds, to pay and retire the public debt.

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## Higher corporate income tax?

MANILA, PHILIPPINES | Friday, January 14, 2005  
<http://www.bworld.com.ph/current/TopStories/headline.html> *BusinessWorldOnline*

**Senate body mulls two-tiered net income tax for companies**  
 By CARINA I. RONCESVALLES, Reporter

... "There are four options where we can generate anywhere from P30 billion to P60 billion [in additional corporate income tax by] using two rates. The concept here is to adopt a two-tiered net income tax system for corporations. This will be based on the profitability of firms," Mr. Recto said.

He noted that the Senate Tax Study and Research Office already finished its study on corporate income taxes using 2003 payments data from the Bureau of Internal Revenue...

Options	Tax Rate on net income (NI)
1	25% on NI not exceeding P1M, 40% on NI exceeding P1M
2	25% on NI not exceeding P0.5M, 40% on NI exceeding P0.5M
3	32% on NI not exceeding P1M, 38% on NI exceeding P1M
4	32% on NI not exceeding P1M, 40% on NI exceeding P1M

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## Do corporations pay income tax?

**NO! People do! Corporations are just legal entities run by people.**

Corporate income tax is a cost of production taken from the pockets of people, the consumers and company employees, could include company owners. How?

Mr. X owns "Malakanya" publishing company. From his savings, he put in P10M worth of new investments into the company this year, and will be happy if he gets back a P1.5M net income (or 15% profit).

If there is zero corporate income tax, all he needs is

Investments  $\times$  (1 + profit rate) = Net sales (net of direct production cost, including labor costs), or  $P10M \times (1 + 0.15) = P11.5M$

But since there's a 32% corporate income tax, he should make a net sales higher than P11.5 million because the state will get P480,000 (= P1.5M  $\times$  0.32) from his gross profit, leaving him a lower net income (after tax) of only P1.02 M.

So, he'll have 3 options: (a) jack up his prices to customers to increase gross sales, and/or (b) cut wages to cut production cost, and/or (c) accept lower returns to his investments, time and efforts. Ruling out the last option, he'll take options a & b.

→ Any additional corporate income tax hike is additional burden to the pockets of the citizens. And the politicians are there to "serve the people"?

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## Higher Govt. fees (on top of higher taxes)!

MANILA, PHILIPPINES | December 28, 2004  
<http://www.bworld.com.ph/current/TopStories/headline.html> *BusinessWorldOnline*

**Gov't fees to rise 20%**  
 By KAREN L. LEMA, Reporter

Government agencies that have yet to comply with a four-year-old order to hike their fees and charges will soon implement at least a 20% across-the-board increase under a joint circular by the Finance and Budget departments.

"... In view of the urgent need to improve revenue collection to support the level of government expenditures for vital services and since Executive Order No. 197, some agencies have not complied with its provisions regarding the adjustment of fees and charges to recover the cost of rendering services," the joint circular noted.

Executive Order No. 197, signed on January 13, 2000, ordered all departments, bureaus, commissions, agencies, offices, and instrumentalities of the national government, including government-owned and -controlled corporations, to increase their fees and charges by not lower than 20%.

Of 127 national government agencies charging fees, 33 have yet to comply with the order, National Tax Research Center data show...

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## No let-up in siphoning off money from the public's pockets

- "Sin taxes" (tobacco and alcohol) already up – RA 9334, effective Jan. '05.
- VAT hike from 10% to 12% in Congress now; if Malacanang and the DOF will be unhappy with 12% after 2 years, then 2<sup>nd</sup>-step hike of 14%!
- Corporate income tax hike from 32% to 40% next in line. Next could be tax hike for self-employed persons from 32% to 40%. Malacañang's original proposal was "gross income tax (GIT) for corporations and self-employed individuals", which was shot down as soon as the idea was floated.
- Govt. fees and charges to increase this year – drivers license fees? Highway toll fees? Timber license fees?...
- Meanwhile, pampered GOCCs and govt. agencies remain. Some GOCCs have cost structure where personnel services (PS) comprise more than 50% of their total expenses! In 2003: SRA 71%; Philpost 69%; Philcoa 69%; NIA 61%;...
- In ordinary households, if they're indebted, they have to sell 1 or both of 2 cars; cut air-cons from 2 to only 1 or shift back to electric fan. Why can't the same principle be applied in GOCCs and many govt. agencies?

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## If some govt. agencies and GOCCs are abolished or privatized, “Paano naman mga empleyado?”

- “Eh, paano naman ang mga taxpayers?”
- In many private enterprises, a company goes bankrupt and just shuts off, employees don't hold rallies and demonstrations and blame the 'WB-IMF-globalization'. Just pack their things and go looking for another job, or start their own small business. Is this culture absent among state employees?
- Are state employees “unemployable” elsewhere that their agencies or corporations have to be subsidized forever by the taxpayers?
- Personally, if the state will abolish individual income tax, I can immediately hire 2 additional workers in our farm on a regular basis! But current taxation deprives me from hiring additional jobless people because my tax money is spent elsewhere...

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## Summary: vision of a Minimal Government

Expenditures	Big Govt.	Shrank Govt.	Taxes	Big Govt.	Shrank Govt.
1. No. of Depts.	21	11 M-T, 6 L-T	1. Individual income tax	5-32%	15% M-T, 0% L-T
2. No. of GOCCs	130 to 200+	0, privatize all	2. Corporate income tax	32%, or 2% MCIT	15% M-T, 0% L-T
3. No. of GFIs, Pension firms	5 (dbp, itp, atb, sss, gsis)	0	3. VAT	10% w/ exception (soon 12%)	5-7% w/o exception
4. No. of SUCs	111 + branches	17 M-T, 0 L-T	4. Import tax	3-50%	0%, free trade
5. No. of legislature	2 w/ party-list	1 w/o party-list	5. Petrol tax	P1.63 to P4.80/ltr	15-20% ad valorem
6. Interest payment, public debt	33% of budget	10% of GDP in 10 yrs.	6. Tobacco & Beer tax	T: P25/pack B: P16/liter	2x when inc. tax is 0

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## MG: Some activities and programs

### A. Research and Education

- Conduct studies and research to provide the movement intellectual ammunition to strengthen or refine the principles and advocacies. Produce educational materials for the public.

### B. Recruitment and Alliance Building

- Get more supporters – researchers, speakers, lobbyists, donors. Expand network with other free-market individuals, think tanks, organizations and movements, both local and international.

### C. Legislative Lobbying

- Find legislators who are supportive of many of these principles and advocacies, especially on large-scale privatization and giving relief to taxpayers; help them file and support the necessary legislative measures to be enacted into law.

### D. Party Building

- If not enough legislators will support these general principles, there will be a need to build our own political party in the future, to search and develop a new breed of politicians and legislators who believe in limited government, freer markets, and greater individual freedom and responsibility.

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## How You can Help

1. Ponder on the philosophy and the advocacies. If you can live with them...
2. Support our Activities and Programs, especially in spreading this idea to your friends, colleagues, families and relatives.
3. Contribute/Write papers and documentations, experiences and insights in the sectors or industries where you're doing business.
4. Contribute money or services in kind, to help finance other activities.
5. Political party-building: put up one, or help reorient an existing party, to advance these philosophies.

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# THANK YOU!!

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