



2009 BUDGET BRIEFER

CONGRESSIONAL PLANNING AND BUDGET DEPARTMENT

OCTOBER 2008

No. 2008-02

FINANCING THE 2009 BUDGET: MAKING BOTH ENDS MEET*

Balancing the budget this year would have been a nice feather in the cap for our fiscal turnaround, but given the adverse global economic environment, this is a milestone we may have to postpone.... Next year, we propose to spend P40 billion more than our income to sustain economic activity and protect the economy from spillover effects of high food and oil prices.

- The President's Budget Message, FY 2009

One of the primary goals of taxation is fiscal adequacy—that is, to raise revenues that could support a growth-oriented expenditure program on one hand and provide safety nets during socio-economic difficulties on the other. In the thick of the recent food and fuel price crises, the financial troubles in the world market as well as the onslaught of natural and man-made calamities, the government must stand ready to respond immediately to the plight of marginalized/more vulnerable sectors and ensure that their well-being improve over the long run.

In her Budget Message for fiscal year 2009, President Gloria Macapagal-Arroyo vowed that, “revenue collection agencies shall work overtime to attain revenue targets”. Instead of introducing new tax measures to deliver higher revenues (*like what happened beginning 2006 with the expansion of the value added tax system and the 20% increase in VAT rate*), the Executive will pursue further improvements in tax administration policies.

The Executive also announced its decision to postpone balancing the budget until 2010, as originally set in the medium-term development agenda (MTPDP). As in previous years, this could spell a new episode of deficit spending and borrowing—unless the government seriously reins in the deficit during a pre-election year.

Projecting a very optimistic revenue target creates a lot of issues. It encourages the enactment of a budget that cannot, in actuality, be supported by hard cash. Once approved by Congress, the Department of Budget and Management (DBM) is duty-bound to release the appropriated funds (especially for basic services like health, education, infrastructure) otherwise the people would lose

Prepared by Dina de Jesus-Pasagui with research assistance from May Chelli Adasa and Susan Palaganas of the Fiscal Studies Group, Congressional Planning and Budget Department (CPBD).

faith in their government leaders. And since the appropriations serve as a binding constraint—particularly on the expenditure side, there may be no recourse but to go to the credit market thus, falling back to the vicious cycle of deficit and debt.

PROPOSED REVENUE PROGRAM

The proposed cash budget¹ for FY 2009 amounting to P1,433.3 billion would be financed partly by revenues (P1,393.3 billion) and loans (P40.0 billion). On the revenue side, close to 92% or P1,278.9 billion would come from tax sources and P114.4 billion from non-tax sources. The Bureau of Internal Revenue (BIR) is tasked to generate P968.3 billion or 14.6% more than its current (2008) target of P845.2 billion. The Bureau of Customs (BOC) is likewise expected to increase its tax take from P269.0 billion this year to P300.1 billion or an improvement of 11.6%.

Non-tax revenues are projected to decline by 10.1% or P12.9 billion as the sale of government assets slow down. In 2007, actual revenues from privatization amounted to P90.62 billion while projected collections from the same source come 2009 is only P10 billion.

TABLE I
REVENUE PROGRAM, 2008-2009
(AMOUNTS IN BILLION PESOS)

PARTICULARS	2008	2009	Growth	
			Amount	%
BIR	845.2	968.3	123.1	14.6
BOC	269.0	300.1	31.1	11.6
Other Offices	9.4	10.5	1.1	11.7
Total Tax Collections	1,123.6	1,278.9	155.3	13.8
Non-Tax Revenues	127.3	114.4	(12.9)	(10.1)
Total Revenues	1,250.9	1,393.3	142.4	11.4

Source: 2009 BESF

When the 2008 budget was presented to Congress last year, the revenue program was only for P1,236.2 billion because there was no anticipation of global increase in the price of oil products (*see Table 2*). What was considered bane for households and industry actually became a boon for government. A “windfall” profit was generated since the inclusion of oil products in the value added tax system (VAT) coincided with the hike in fuel prices. Thus, the 2008 collection target for the BOC was increased by P14.5 billion to P269.0 billion primarily due to higher import duties

¹ The cash budget of P1,433 billion differs from the proposed obligation budget of P1,415 billion primarily due to Payables (*i.e.*, payment of prior years' accounts in 2009 and non-payment of current year's obligations).

arising from the spike in oil prices. Increase in average tariff rate, higher volume of imports and the decline in the share of duty-exempt goods to total imports are other factors for possible increase in Customs' collections.² BIR collection target was also adjusted—albeit nominally by P200 million.

TABLE 2
REVENUE PROGRAM, 2008
(AMOUNTS IN BILLION PESOS)

PARTICULARS	Original	Emerging	Variance
BIR	845.0	845.2	0.2
BOC	254.5	269.0	14.5
Other Offices	9.4	9.4	-
Non-Tax Revenues	127.3	127.3	-
Total Revenues	1,236.2	1,250.9	14.7
% of GDP	17.0%	16.3%	

Source: DOF Presentation to the Committee on Appropriations, 03 September 2008

ASSESSMENT OF REVENUE PERFORMANCE

Last year (2007), the national government posted its best revenue performance in nine years—with total collections of equivalent to 17.1% of gross domestic product (GDP). The exceptional revenue take came primarily from the sales proceeds of government assets (*P90.6 billion or 1.4% of GDP*)—a non-recurring event. Tax-to-GDP ratio, on the other hand, slid down to 14.03% from 14.25% a year earlier. Despite the improvement in collection effort, the Philippines is still at the tail-end of other Asian countries as far as total revenue performance is concerned. Table 3 shows that the Philippine revenue-to-GDP effort is only better than Lao PDR and Cambodia.

TABLE 3
TAX AND REVENUE EFFORT
SELECTED ASIAN COUNTRIES, 2007

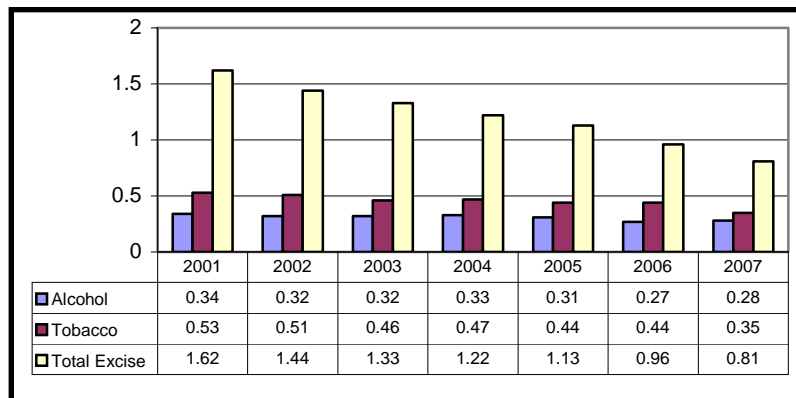
COUNTRY	Revenue-to-GDP	Tax-to-GDP
Vietnam	24.9	n.a.
Malaysia	21.8	14.8
Indonesia	17.9	12.4
Thailand	17.2	n.a.
Philippines	17.1	14.0
Lao PDR	13.6	12.0
Cambodia	12.1	10.2

Source: Key indicators for Asia and the Pacific, ADB 2008

² "Customs Collection Shortfall due to Inefficiency", *Philippine Daily Inquirer* 18 June 2008.

Collection of taxes hinges on two things: the tax structure (*i.e. tax laws*) and the system of tax administration. In December 2004, Republic Act No. 9334 was approved by Congress providing for the increase in excise tax rates of sin products (*i.e. alcohol and tobacco*) beginning 2005 and every two years thereafter until 2011. Intuitively, one would expect a corresponding improvement in excise taxes over time—but this was not the case. As a ratio to GDP, excise tax collections decelerated from 2.6% in 1997 to 0.81% in 2007.

FIGURE I
EXCISE TAX EFFORT, 2001-2007



Source: Bureau of Internal Revenue

While Congress approved the automatic increase in tax rates, the codal classification of exciseable products into premium, high-priced, medium-priced and low-priced brands (*originally set at 1997 levels*) were left untouched. Consequently, many of the brands listed in Annexes C and D of the Tax Code are currently selling at much higher prices hence, must be slapped with higher tax. For instance, Winston Red, Hope Luxury and Mark M 100 are classified as medium-priced brands (*i.e., "legislated" price of between P5 to P6.50*) with statutory tax of P6.74 per pack. Considering that the current net retail price³ of these products is around P16, the applicable excise tax should have been P26.06 per pack. Another weakness of the present excise tax structure is the existence of multiple tax brackets, which opens up the avenue for misclassification/misdeclaration of goods sold so as to reduce tax payments.

In order to simplify excise taxation of alcohol and tobacco products, there are proposals to collapse the multi-level tax classification into unitary tax rates (*i.e., HB Nos 3787 and 3759*). The simplified tax system is estimated to generate P17.4 billion from alcohol products and P34 billion from tobacco products or a total of P51.4 billion. It was noted, however, that while HB No. 3759 removed the legislated price of cigarettes (Annex D of the Tax Code), the companion bill on alcohol products (HB No. 3787) is silent about Annex C or the codal classification of fermented liquors.

³ Net retail price (NRP) is computed as price of exciseable goods at retail outlets minus 12% VAT and excise tax.

TABLE 4
EXCISE TAX ON SIN PRODUCTS, PRESENT AND PROPOSED

PARTICULARS	Current Tax Rates			Proposed
	2007	2009	2011	
Fermented Liquor				
NRP < P14.50	P8.27	P8.93	!0.42	P21.52 *
NRP P14.50 – P22	12.30	13.28	15.49	
NRP > P22	16.33	17.64	20.57	
Cigarettes packed by hand				
NRP < P5	2.23	2.47	2.72	P14 *
NRP P5 – P6.50	6.74	7.14	7.56	
NRP P6.50 – P10	10.88	11.43	12.00	
NRP > P10	26.06	27.16	28.30	

* With automatic adjustment two years after effectivity date and every year thereafter using the CPI as published by the NSO

There were also attempts to reconstitute the BIR into an independent revenue authority.⁴ The proposals stem from major bottlenecks that impede the collection efficiency of the agency. One, the system of compensation, salary adjustment, incentive and promotion is dependent upon longevity/length of service rather than personnel performance. Because employees are covered by the security of tenure principle, they are assured of their salaries even if they do not perform well. Two, the operating budget of the agency is too small compared with the enormity of assigned task/revenue goal. For example, the pay scale for licensed professionals (*i.e.*, P12,000 per month for certified public accountants and P15,000 for lawyers) is but a pittance compared to their counterparts in the private sector. Three, the appointment of key officials is prone to political interference.

To address these constraints, the Independent Revenue Authority will be manned by personnel who are bound by a performance contract thus, giving the administrators the flexibility to hire and fire employees. Prior to their admission to the revenue office, existing BIR personnel shall be required to undergo a series of examination to determine their level of competence—*i.e.*, skills test, panel interview and psychological evaluation. Disinterested employees shall be paid an appropriate separation or retirement package.

The operating budget of the authority will be set as a percentage of prior year's collection—unlike the current practice of a line-item budget that is subject to the review and approval of DBM and Congress. Leadership of the agency will be provided by a collegial body (similar to the Board of Directors in a private corporation) that will be chosen from a short-list of nominees identified by peak organizations of lawyers, tax consultants, economists, management experts and other allied

⁴ HB Nos. 5054 and 5465 filed in 2003 and HB No. 276 filed in 2004.

professions. The proposal for the creation of the Revenue Authority lost steam when the Lateral Attrition law (RA 9335) was passed in May 2005.

Among other things, the Attrition Law provides that responsible officials/staff will be rewarded (penalized) in case BIR and BOC surpass (fail to meet) their revenue targets. In 2007, collections of both bureaus were below expectations—BIR by P52.2 billion and BOC by P18.8 billion. Table 5 shows that almost all BIR revenue regions registered collection shortfall.

TABLE 5
BIR COLLECTION PERFORMANCE, 2007
(AMOUNTS IN BILLION PESOS)

IMPLEMENTING OFFICE			Excess (Deficit)
	Collection	Goal	
Grand Total	717.23	765.86	(48.62)
I. BIR Operations	682.67	730.47	(47.80)
A. Large Taxpayers Service	429.95	469.75	(39.80)
B. Revenue Regions	252.72	260.72	(8.00)
1. Calasiao, Pangasinan	4.21	4.58	(0.38)
2. Cordillera Adm. Region	2.97	3.11	(0.13)
3. Tuguegarao, Cagayan	2.15	2.13	0.03
4. San Fernando, Pampanga	10.33	11.43	(1.10)
5. Valenzuela City	8.64	10.31	(1.66)
6. Manila	26.23	26.58	(0.35)
7. Quezon City	55.84	58.88	(3.04)
8. Makati City	72.76	70.39	2.37
9. San Pablo City	29.06	30.84	(1.77)
10. Legaspi City	3.77	3.17	0.60
11. Iloilo City	4.42	4.73	(0.31)
12. Bacolod City	3.36	3.80	(0.44)
13. Cebu City	7.94	8.91	(0.98)
14. Tacloban City	3.26	3.58	(0.32)
15. Zamboanga City	2.17	2.31	(0.15)
16. Cagayan de Oro City	4.13	4.04	0.08
17. Butuan City	2.09	1.97	0.11
18. Cotabato City	2.88	2.89	(0.01)
19. Davao City	6.51	7.06	(0.55)
II. Non-BIR Operations	34.57	35.39	(0.82)

Source: BIR Annual Report based on Revenue Accounting Division data as of 20 June 2008

In the case of BOC, the revenue deficiency of P18.8 billion was largely accounted for by three ports of entry: Batangas (-P6.3 billion), Port of Manila (-P4.0 billion) and Manila International Container Port (-P3.1 billion). To date, the Revenue Performance Evaluation Board is yet to release its report on the implementation of RA 9335.

COST OF TAX ADMINISTRATION

The performance of an organization has strong correlation with the resources (*human, financial and physical*) that are placed at the disposal of its managers. Comparing the annual appropriations of BIR and BOC to their actual and target collections tell an interesting story.

In 2007, the Bureau of Internal Revenue received total appropriations of P5.57 billion of which 83% (P4.63 billion) had been obligated. This implies that budget-to-revenue collection ratio for the year is only P0.65 (*see Table 6*). For 2009, the proposed allocation for the BIR is P7.10 billion or 36.3% higher than the current year's adjusted spending program (P5.21 billion).

TABLE 6
BIR BUDGET ALLOCATION, 2007-2009
(AMOUNTS IN BILLION PESOS)

Particulars	Actual 2007	Adjusted 2008	Proposed 2009	Difference (2008 & 2009)	
				Amount	%
Total Obligations	4,628.5	5,208.5	7,101.3	1,892.8	36.3
PS	2,792.1	2,605.7	4,019.0	1,413.3	54.2
MOOE	1,737.2	2,397.5	2,974.1	576.6	24.0
CO	99.2	205.3	108.2	(97.1)	(47.3)
Budget-Revenue Ratio	0.65	0.62	0.73		
<i>Memo item:</i> BIR Revenues	713,605	845,154	968,297		

Source: 2009 BESF

Should the proposed budget be approved by Congress, the cost of BIR operations per P100 worth of tax revenues will increase, albeit minimally. It was noted, however, that the P7.10 billion proposed appropriations even included the Retirement and Life Insurance Premium (P253 million) and Tax Refund (P500 million).

Personal services (PS) and maintenance and other operating expenses (MOOE) would increase in 2009 but capital outlay (CO) decreases by 47.3% or P97.1 billion—almost the sum of actual capital spending in 2007. Additional budget for current operating expenses are given to the enable BIR to hire some 3,400 revenue, assessment, collection, monitoring and legal officers, and to beef up BIR operating funds.⁵

Compared with BIR, the Customs Bureau has higher administration cost (*i.e. average of P1.06 budget per P100 tax collection in 2007-2009*). The proposed budget from MOOE shows a whopping increase

⁵ *The President' Budget Message*

by 736% which goes mainly to the payment of arrearages with the Société Générale de Surveillance (SGS) for services rendered several years ago (*see Table 7*). A portion of the increase in budget (P260 million) would be taken from the income from super green lane and the container security fees.⁶

TABLE 7
BOC BUDGET ALLOCATION, 2007-2009
(AMOUNT IN BILLION PESOS)

PARTICULARS	Actual 2007	Adjusted 2008	Proposed 2009	Difference (2008 & 2009)	
				Amount	%
Total Obligations	2,113.5	1,561.4	4,938.0	3,376.6	216.2
PS	1,141.1	1,018.1	1,078.1	60.0	5.9
MOOE	962.2	461.8	3,859.9	3,398.1	735.8
CO	10.2	81.5	0	(81.5)	(100)
Budget-Revenue Ratio	1.0	0.58	1.6		
<i>Memo item:</i> BOC Revenues	209,439	269,002	300,059		

Source: BESF 2009

REVENUE OUTLOOK

FY 2008 Revenues. The Congressional Planning and Budget Department (CPBD) projects that full-year collection for 2008 would amount to P1,200.3 billion—instead of the revised revenue program of P1,250.9 billion as set by the DBCC. The estimate was arrived by taking into consideration the low side (4.6%) of the GDP growth scenario as calculated by CPBD Macroeconomics and Industry Studies Group and the collection efficiency levels of the major revenue generating agencies for the past four years.

Based on CPBD estimate, the economy will likely grow much slower in 2008 (*between 4.6% and 5.1%*) whereas the executive projects a 5.5% to 6.4% GDP growth scenario.⁷ Unfavorable performance of regularly-taxed sectors and activities plus the escalating financial turmoil could weigh down on the revenue take of both BIR and BOC. In particular, CPBD observes a softening in industry and service sectors, slump in personal and government consumption and fragile imports and exports) Moreover, crude oil price may not be as high as projected by DBCC (US\$115-125 per barrel).⁸ Recall that the BOC collection was recently up scaled by P14.5 billion partly due to the “windfall” from VAT on oil.

⁶ *ibid.*

⁷ There are even speculations that GDP growth for 2008 will be downscaled to 4.4%-4.9%

⁸ CPBD expects Dubai oil to range between US\$100-120 in 2008.

The tax relief granted to minimum wage earners⁹ and the increase in personal and additional exemptions that may be availed by individual income taxfilers will also take a toll on BIR collections. Under RA 9504, each taxpayer regardless of status is entitled to a personal deduction of P50,000 and additional tax exemption of P25,000 for every dependent child (*not exceeding four*). Previously, taxpayers are entitled to much lower rates: P20,000 for single, P25,000 for head of family, P32,000 for married individual and P8,000 for every dependent child.

The estimate for other taxes (P9.43 billion) is surprisingly lower than the actual collection in 2007 (P9.89 billion), primarily due to reduced revenue target for motor vehicle fees to be generated by the Land Transportation Office. In 2007, actual motor vehicle fees collected reached P8.33 billion but the current year's target is only set at P7.98 billion. A higher revenue goal is assigned to LTO for FY 2009 (P8.98 billion).

TABLE 8
2008 REVENUE ESTIMATES
(AMOUNT IN BILLION PESOS)

PARTICULARS	Revised DBCC Targets		CPBD Projection		Difference
	Amount	% of GDP	Amount	% of GDP	
BIR	845.2	11.00	806.4	10.59	(38.8)
BOC	269.0	3.50	255.4	3.35	(13.6)
Other Tax	9.4	0.12	10.3	0.13	0.9
Non-Tax Revenues	127.3	1.66	128.2	1.68	0.9
TOTAL REVENUES	1,250.9	16.28	1,200.3	15.75	(50.6)
Less: Cash Disbursements	1,325.9	17.26	1,325.9	17.41	-
Deficit	(75.0)	(0.98)	(125.6)	(1.65)	(50.6)
Memo Item: GDP, Nominal	7,681.9		7,615.5		

Source of basic data: BESF,

In the case of non-tax revenues, CPBD has consistently pointed out the relatively low collection goal that is assigned to the Bureau of the Treasury (BTr).¹⁰ For 2008, estimated BTr income is P40.3 billion when actual collection in 2007 was P46.6 billion. The target for 2009 is even much lower at P29.37 billion.

Should there be no change in the level of cash disbursements (P1,325.9 billion), CPBD projects that full-year deficit for 2008 would amount to P125.6 billion (*equivalent to 1.65% of GDP*) rather than P75.0 billion (*or 0.98% of GDP*) as programmed by DBCC.

⁹ The term "minimum wage earner" shall refer to a worker in the private sector paid the statutory minimum wage, or to an employee in the public sector with compensation income of not more than the statutory minimum wage in the non-agricultural sector where he/she is assigned (Section 22 paragraph HH of the Tax Code, as amended by RA 9504).

¹⁰ *Analyses of the President's Proposed Budget for FY 2006, 2007 and 2008.*

FY 2009 Revenues. The prospect for 2009 is also bleak—given the existing revenue base, the level of collection performance and the macro environment for the coming year. CPBD projects that NG would be able to raise P1,354.3 billion (15.9% of GDP) rather than P1,393.3 billion (16.03% of GDP) as programmed by DBCC. The CPBD revenue estimate takes into account a much lower GDP growth of 4.9% to 5.7% compared to the official target of 6.1% to 7.1% (*see related discussion in Macroeconomic Perspective*)¹¹ coupled with the reduction of corporate tax rate (from 35% to 30%)¹² and the full implementation of RA 9504 (higher personal and additional exemptions for individual income taxpayers). Based on the estimates of the Department of Finance, lower corporate income tax of 30% will translate to P15.9 billion foregone revenues while RA 9504 will cost P19.09 billion in revenue loss.

With a cash disbursement program of P1.4 trillion and revenues of P1.35 billion, NG deficit is expected to reach P79.0 billion or a little less than 1% of GDP. Full cash spending in 2009 is more likely being a pre-election year for the top elective posts in the land. Consequently, a wider budget gap (*which implies more borrowings to cover for the revenue deficiency*) puts the goal of a zero deficit by the end of 2010 into question.

TABLE 9
2009 REVENUE ESTIMATES
(AMOUNT IN BILLION PESOS)

PARTICULARS	DBCC Targets		CPBD Projection		Difference
	Amount	% of GDP	Amount	% of GDP	
BIR	968.3	11.14	945.0	11.09	(23.3)
BOC	300.1	3.45	274.7	3.22	(25.4)
Other Tax	10.5	0.12	11.1	0.13	0.6
Non-Tax Revenues	114.4	1.32	123.5	1.45	9.1
TOTAL REVENUES	1,393.3	16.03	1,354.3	15.90	(39.0)
Less: Cash Disbursements	1,433.3	16.49	1,433.3	16.83	-
Deficit	(40.0)	(0.46)	(79.0)	(0.93)	(39.0)
Memo Item: GDP, Nominal	8,691.5		8,517.4		

CREATING FISCAL SPACE

To increase revenues, Congress can expedite the enactment of three revenue enhancement measures: (a) rationalization of fiscal incentives, (b) amendments to the Tariff and Customs Code, and (c) re-introduction of simplified net income tax system for professionals and self-employed

¹¹ Performance of major drivers of growth could be pulled down due to the impact of the financial crisis that recently hit the US. Worst case scenario projects GDP growth of between 4.1%-5.1% for 2009.

¹² Along with the increase in VAT rate, RA 9337 also adjusted the corporate income tax from 32% to 35% with a provision that the same will be reduced to 30% effective January 2009.

individuals. According to Dr. Renato Reside, 90% of tax and duty exemptions granted by the Board of Investments are redundant (*i.e. perks given to investments that would have been undertaken even without the incentives*).¹³ In peso terms, foregone revenues due to the existing incentive system amount to P43.2 billion (2004 estimate).

In substitution to the proposed rationalization of fiscal incentives (*HB Nos. 1757, 2278, 2530 and 2712*), the House Committee on Ways and Means has recently endorsed Committee Report No. 1332. Among others, CR 1332 provides that as the national investments promotion agency, the Board of Investments (BOI) shall formulate an evolving National Framework for investments Promotion that will govern all investments promotion agencies (IPAS). The BOI Board of Governors will now be composed of the Secretaries of the Department of Trade and Industry, Finance, National Economic Development Authority and undersecretaries from DTI and representatives from the private sector. Previously, DOF and NEDA Secretaries do not sit in the BOI Board of Governors. The substitute bill also adopts a grandfather rule that reads, “incentives granted to existing registered enterprises from contracts or agreements entered into by them with the BOI, PEZA, other IPAs and other government instrumentalities shall continue to be legally binding in accordance with the terms and conditions stated in their respective contracts”. In the Senate, two bills have been filed on the same subject matter (SB Nos. 1640 and 2375) and are now under consideration by the Committee on Economic Affairs.

Certain provisions of the Tariff and Customs Code (TCCP) will have to be amended so as to strengthen the government’s campaign against smuggling. Specifically, there are proposals requiring the mandatory advanced transmission and publication of cargo manifests and bills of lading to the BOC and the Philippine Ports Authority; conduct of spot checks and periodic audits of customs bonded warehouses; and giving private sector representatives more pro-active role in the deliberation of valuation issues.¹⁴

Prior to the enactment of RA 9504 (*exempting minimum wage earners and increasing tax exemptions of individual taxpayers*), the income tax restructuring proposal (Committee Report No. 451) included the re-imposition of a simplified net income tax system (SNITS). The SNITs will help minimize tax evasion by limiting the number of deductible expenses including representation, entertainment, advertising, transportation and miscellaneous expenses. It is also perceived to broaden the tax base—i.e, with lesser documentary evidence to keep, taxpayers in the informal sector may be encouraged to register their business with BIR and become part of the tax stream.

However, the SNITs provision was not adopted in Senate version (SB No 2293/CR 53) and consequently, in the bicameral conference committee because Congress was requested to fast-track

¹³ Dr. Renato Reside, “Good Investments or Wasted Gifts?” 16 July 2006 UP School of Economics

¹⁴ House Bill Nos. 15, 155, 418 and 485.

the approval of additional tax deductions and the exemption of minimum wage earners. Just recently, the SNITS proposal was revived in the House of Representatives (HB No. 5257). Estimated revenue from this measure is placed at P11 billion.

Another source of revenues for the BIR are the taxes withheld by national government agencies (NGAs), local government units (LGUs), and government-owned-and controlled corporations (GOCCs). Based on the Annual Financial Report issued by the Commission on Audit, un-remitted taxes by NGAs, LGUs and GOCCs (*Due to BIR account*)¹⁵ as of December 2007 amounted to P18.65 billion (*for a list of NGAs, LGUs and GOCCs with huge unremitted taxes, please see Annex 1*). For the past two years, total Due to BIR of these agencies/units/offices have been increasing—from P9.94 billion in 2005 to P14.98 in 2006.

State corporations with huge un-remitted withholding taxes as of December 2007 include: National Power Corporation (P10.47 billion), Philippine Gaming and Amusement Corporation (P524 million), Development Bank of the Philippines (P235 million), Philippine Deposit Insurance Corporation (P213 million) and Philippine Charity Sweepstakes Office (P203 million). Consolidated liability to BIR of government corporations that submitted audited financial statements to COA in 2007 amount to P13.26 billion.

Cities with huge un-remitted taxes are predominantly from the National Capital Region, namely: Manila (P200.04 million), Caloocan (P189.52 million), Quezon City (P139.43 million), Mandaluyong (P91.27 million), Makati (P39.86 million), and Pasig (P20.39 million). Meanwhile, Nueva Ecija (P129.17 million), Quirino (P33.09 million) and Cavite (P23.96 million) top the list of provinces with Due to BIR accounts as of December 2007.

Aside from increase in revenues, fiscal space is also created when leakages in public spending are minimized. As an oversight body, the Commission on Audit helps identify possible areas where savings may be generated. It would serve public interest if Congress could utilize the COA reports in the exercise of legislative oversight. A summary of major audit findings and observations for CY 2007 is provided in Annex 2.

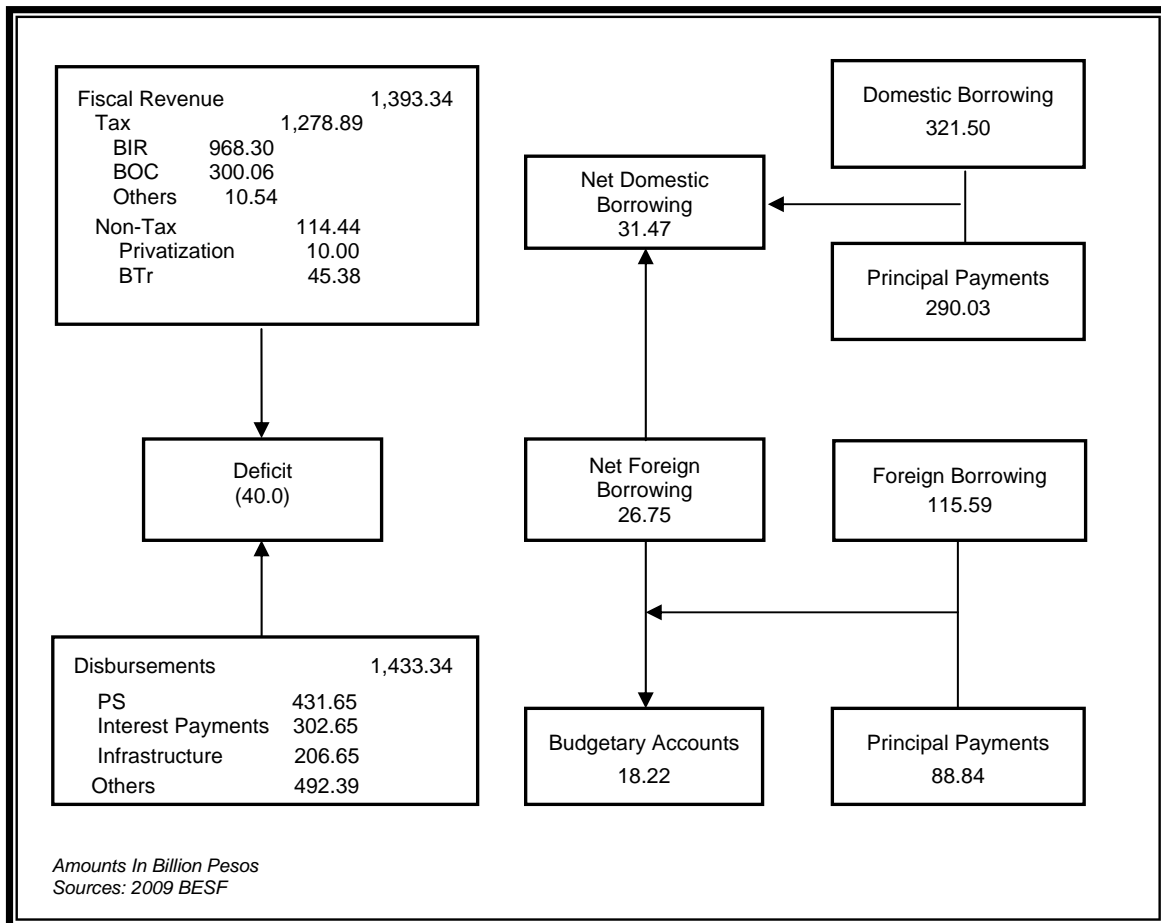
PROPOSED BORROWING PROGRAM

While the government projects a deficit of P40 billion (*i.e. cash collections less cash disbursements*), programmed borrowings for FY 2009 would amount to P437.09 billion, which will be used partly to retire maturing debts. Figure 2 shows that net borrowing from domestic source would be P31.47

¹⁵ *Due to BIR represents unremitted income taxes withheld from salaries of government officials and employees and value added taxes deducted from the claims of suppliers/creditors.*

billion (or the difference between gross borrowing of P321.50 billion and principal amortization of P290.03 billion). On the other hand, net foreign borrowing would be P26.75 billion (or the difference between gross foreign borrowing of P115.59 billion and principal amortization of P88.84 billion).

**FIGURE 2
NG FISCAL PROGRAM, 2009
(IN BILLION PESOS)**



By debt structure, almost three-fourths of NG liabilities are sourced locally. Note, however, that an increasing proportion of annual borrowing requirement is in the form of fixed rate Treasury Bonds (i.e., 77% of T-Bonds is payable in 5-20 years) hence the need to review the provisioning for Bond Sinking Fund.¹⁶ More importantly, loan proceeds must be invested in projects with high socio-economic returns to ensure repayment of debts in the future.

¹⁶ Free Online Dictionary defines Sinking fund as a fund to which money is added on a regular basis that is used to ensure investor confidence that promised payments will be made and that is used to redeem debt securities or preferred stock issues.

TABLE 9
DEBT STRUCTURE, 2007-2009
(IN PERCENT)

PARTICULARS	2007	2008	2009
Domestic	73.4	75.8	73.6
T-bills	(10.2)	13.7	3.9
Fixed Rate T-bonds	44.2	62.2	69.6
Retail T-bonds	17.4	-	-
Benchmark Bonds	21.9	-	-
Foreign	26.6	24.2	26.4

Note: In 2007, maturing T-bills exceeded gross flotation hence, the negative sign.

Another development to watch out this year (2008) is the possibility of shifting from commercial borrowing to program loans by as much as US\$450 million or P20.25 billion (*assuming an exchange rate of US\$1 to P45*). A program loan is a multi-purpose foreign loan not used to finance a specific project but is conditioned on basic changes in economic, monetary, fiscal policies, among others.¹⁷ On the positive side, program loans usually carry concessional rates and are more flexible than project loans. What Congress should be wary about are the conditionalities that would be attached to the program loans. The salient features of current and proposed program loans are listed in Table 10.

DEBT SERVICING

The Arroyo government must be credited for its aggressive debt management strategies—borrowing when interest rate/risk premium are low owing to improved fiscal position, rejecting bids to temper lending rates and going after long-term indebtedness. Thus, outstanding liabilities of NG were trimmed down to 55.8% of GDP in 2007 from 63.8% in 2006. However, the size of the NG debt is still large compared to Malaysia (41.6%), Vietnam (42.8%), Indonesia (34.1%), and Thailand (37.9%).

The share on debt service/interest payments in the national budget has also been declining (*from 31.64% in 2005 to 21.39% in 2009*) which enables the government to re-direct its financial resources to economic and social services. From 18.35% in 2005, the share of economic services is expected to increase by seven percentage points (7%) in 2009 while that of social services would improve from 26.97% to 30.67% during the same period. Economic services cover agriculture, trade and

¹⁷ *Budget of Expenditures and Sources of Financing, Glossary of Terms also defines Project loans (i.e. foreign loan obtained to finance a specific project).*

industry, tourism, communications, roads, power and energy. On the other hand, social services pertain to education, health, housing and community development, etc.

TABLE 10
SALIENT FEATURES OF PROGRAM LOANS, 2007-2009
(in Million US Dollars)

PARTICULARS	Loan Number	Implementing Agency	Loan Signing Date	Date of Effectivity	Loan Closing Date	Loan Amount	ACTUAL			
							2007	2008 a/	2009	
ASIAN DEVELOPMENT BANK							1,800	325	450	400
Local Government Financing & Budget Reform Program I	2387	DOF	22-Feb-08	07-Jun-08	30-Apr-08	300	-	300	-	
Development Policy Support Program II (DPSP II) Co-financing	<i>Proposed</i>	DOF				200	-	150	-	
Governance and Justice Sector Reform Program	<i>Proposed</i>	DOJ				300	-	-	-	
Financial Market Regulation & Intermediation Program II	<i>Proposed</i>	SEC				200	-	-	200	
Local Government Financing & Budget Reform Program II	<i>Proposed</i>	DOF				200	-	-	-	
Development Policy Support Program III (DPSP III) Co-financing	<i>Proposed</i>	DOF				200	-	-	200	
Microfinance Development Program	2199	DOF/NCC	22-Nov-05	14-Dec-05	30-Nov-07	150	75	-	-	
Development Policy Support Program (DPSP) Co-financing	2315	DOF	13-Feb-07	21-Feb-07	31-Mar-07	250	250	-	-	
WORLD BANK (IBRD)							771	303	40	100
National Program Support for Basic Education	7393	DepEd	03-Oct-06	01-Jan-07	31-Dec-11	200	8	14	50	
National Sector Support for Health Reform	7395	DOH	03-Oct-06	27-Mar-07	30-Jun-11	110	6.7	14	24	
National Program Support for Tax Administration	7431	BIR	30-Mar-07	25-Jun-07	31-Dec-11	11	0.1	2	4	
National Program Support for Environment and Natural Resource Management	7470	DENR	29-Aug-07	27-Nov-07	03-Dec-12	50	-	5	12	
Development Policy Loan	7242	DOF	23-Jan-07	06-Feb-07	31-Mar-07	250	250	-	-	
Social Expenditure Management Project II	7118	DBM	12-Sep-02	11-Dec-02	30-Jun-07	100	37.9	-	-	
National Program Support for Social Welfare and Development	<i>Proposed</i>	DSWD				50	-	5	10	
Food Crisis Response Program	<i>Proposed</i>	DA/DSWD				-	-	-	-	
JAPAN BANK FOR INTERNATIONAL DEVELOPMENT							300	300	-	-
Power Sector Development Program	<i>Untied</i>	DOF	23-Feb-07	16-Mar-07	30-Nov-08	300	300	-	-	
UNITED STATES							20	10	10	-
2006 Public Law-480 Title I Program	PL-480 2006	DOF/DA	14-Jul-06			20	10	10	-	
TOTAL (in US Dollars)							2,891	937	500	500
TOTAL (in million Pesos)								41,971	22,500	22,500

a/ Program loans may increase by about US\$450 million.

Source: Department of Finance

SUMMARY

The concept of “making both ends meet” suggests different perspectives and interpretations. It may mean spending within one’s resources (which implies a cut on the proposed budget) or better yet, improving tax collections in order to ensure that the spending program will be properly funded. Also, since there are two “ends” that must be met—closing the budget gap while providing for infrastructure and social safety nets, gives all the more reason to aspire for higher tax take.

The CPBD projects that the revenue programs for 2008 and 2009 will not be met due to two important factors: a lower-than-expected GDP growth (*which approximates the tax base or income*) and a lower-than-expected tax effort (*or the ratio of tax collections to GDP*).

Based on CPBD estimate, the economy will likely grow much slower in 2008 (*between 4.6% and 5.1%*) whereas the executive projects 5.5% to 6.4% GDP growth (or may be even less under emerging scenario). Unfavorable performance of regularly taxed sectors and activities plus the escalating financial turmoil could weigh down on the revenue collections of both BIR and BOC. We are also not comfortable with the official revenue effort of 16.28% given the current tax structure and collection efficiency of BIR and BOC—rather, we foresee that revenue-to-GDP ratio to settle at 15.75%. In which case, cash deficit is likely to reach P125.6 billion or P50.6 billion higher than the deficit target for 2008. To fill the budget gap, government may turn to the credit market for funding.

The prospect for 2009 is also bleak—CPBD projects that NG would be able to raise P1,354.3 billion (15.9% of GDP) rather than P1,393.3 billion (16.03% of GDP) as programmed by DBCC. The CPBD revenue estimate takes into account a much lower GDP growth of 4.9% to 5.7% coupled with the reduction of corporate tax rate (from 35% to 30%) and the full implementation of RA 9504 (higher personal and additional exemptions for individual income taxpayers). With a cash disbursement program of P1.4 trillion and revenues of P1.35 billion, NG deficit is expected to reach P79.0 billion or a little less than 1% of GDP. Full cash spending in 2009 is more likely being a pre-election year for the top elective posts in the land. Consequently, a wider budget gap (*which implies more borrowings to cover for the revenue deficiency*) puts the goal of a zero deficit by the end of 2010 into question.

To arrest the inadequacy of funds to finance the budget, Congress can fast-track deliberation of the following proposed measures: rationalization of fiscal incentives, amendments to the Tariff Customs Code to beef up anti-smuggling efforts, restructuring of the excise tax on sin products, re-imposition of the simplified income tax system for professionals/self-employed individuals. Aside from structural reforms, there may also be a need to address the major bottlenecks that impede BIR

collection efficiency. In which case, Congress can revisit earlier proposals to create an Independent Revenue Authority.

The Bureau of Internal Revenue should strictly monitor the remittance of withholding agents, both in the private and public sector. The Commission on Audit reports that government corporations, local government units and national government agencies have cumulative withholding tax liability (Due to BIR) of P18.6 billion as of 31 December 2007.

COA reports are a rich source of information on how public officials and employees observe accountability and how systemic weaknesses in the bureaucracy can be properly corrected/addressed. Congress could forge partnership with COA in the performance of its function of legislative oversight.

ANNEX I
SCHEDULE OF DUE TO BIR, AS OF DECEMBER 31, 2007
(IN MILLION PESOS)

Government-Owned and/or Controlled Corporations	Amount	Local Government Units	Amount
NPC	10,471.5	Provinces	
PAGCOR	524.6	Nueva Ecija	129.2
DBP	234.7	Quirino	33.1
PDIC	213.4	Cavite	24.0
PCSO	203.9	Abra	21.1
LWUA	192.2	Masbate	15.4
PTNI	147.2	Negros Oriental	14.7
RPN	144.0	Laguna	10.9
BCDA	135.4	Lanao del Sur	10.5
TLRC	95.4	Iloilo	9.6
Total GOCCs	12,362.3	Zamboanga Del Sur	9.3
		Sub-total	277.7
National Government	Amount	Cities	
Public Works and Highways	880.4	Manila	200.0
Education	287.3	Caloocan	189.5
Agriculture	223.4	Quezon	139.4
National Defense	203.4	Mandaluyong	91.3
State Universities and Colleges	196.6	Olongapo	61.8
Finance	120.0	Makati	39.9
Interior and Local Government	116.4	Calbayog	27.3
Commission on Elections	94.7	Butuan	21.7
Health	91.8	Pasig	20.4
Foreign Affairs	90.7	Cebu	20.0
Total NGAs	2,304.7	Sub-total	811.3
		Municipalities	
		Mabalacat, Pampanga	20.1
		Dasmariñas, Cavite	13.1
		Narvacan, Ilocos Sur	12.5
		Pantabangan, Nueva Ecija	8.3
		Ilagan, Isabela	5.9
		San Ildefonso, Bulacan	5.9
		Ternate, Cavite	5.9
		Candaba, Pampanga	5.7
		Siocon, Zamboanga del Norte	5.6
		Taytay, Rizal	5.0
		Sub-total	87.9
		Total LGUs	1,176.9

Source: Commission on Audit (COA)

ANNEX 2
MAJOR AUDIT OBSERVATIONS, CY 2007

Audit Observations	Recommendations
Cash in bank balances worth P1.3 billion were not remitted to the Bureau of the Treasury. These balances include dormant accounts; unclaimed tax refunds and salaries; excess and/or unutilized fund for completed and/or unimplemented projects; collections of trust receipt; toll and material testing fees; and interests earned from bank deposits. (<i>Common Audit Observation</i>)	Remit the cash in bank balances to the Bureau of the Treasury.
Receivables from importers, including accounts of government agencies under the Deferred Payment Scheme and surety companies valued at approximately P20.11 billion remained uncollected and unrecorded in the books of the BOC. Of this amount, P8.35 billion pertains to due and demandable surety bonds that have remained outstanding from one to over twelve years.	Issue final demand letters to all outstanding accounts of importers, including government agencies and surety companies to enforce collection.
Collections of BIR revenue collection officers totalling P669.18 million were not deposited intact and daily—with delays ranging from 5 days to 5 months, exposing the same to possible loss or misuse. Moreover, some collecting officers incurred cash shortages of P7.38 million by tampering official receipts and falsifying reports of collections.	Monitor closely the revenue collecting officers' compliance with daily reporting and deposit of collections. Require the immediate restitution of cash shortage and initiate appropriate legal action.
Failure of the BIR to enforce settlement of dishonored checks and the continued acceptance of private and/or company checks from taxpayers with previous record of dishonored checks resulted in the accumulation of Receivables worth P528.22 million.	Institute legal action to enforce settlement of dishonored checks. Stop the practice of accepting personal and/or company checks as payment for internal revenue taxes from those with previous record of unsettled dishonored checks.
The COMELEC cannot enforce the decision of the Supreme Court to recover the amount of P1.31 billion for automated counting machines delivered in 2004—i.e. P1.05 billion from Mega-Pacific eSolutions, Inc. and P260.78 million from Philippine Multi-Media System, Inc. Furthermore, the Commission continuously pays rent of around P2 million per month (which has accumulated to P63.8 million in three years) for the storage of the automation machines.	In coordination with the Office of the Solicitor General, exert extraordinary effort to recover the amounts paid to the two suppliers. Return the automated machines to the suppliers pursuant to the SC decision (i.e. Supreme Court GR No. 159139 dated 13 January 2004 and GR No. 163193 dated 08 May 2004).
The COMELEC has fully paid P78.16 million to Multi-forms Corporation for the supply and delivery of 8 million pieces of Voter's Registration Record (VRR) with ID Laminate despite the non-completion and/or non-distribution by the supplier of 100% of the VRR units and ID laminates.	Exert effort to recover from the suppliers the undelivered items and impose penalties and fines stipulated in the contract for the breach of contract.
Information and multi media equipment packages costing at least P667.95 million were neither utilized nor maximized for classroom instructions in 13 Regions because they were either defective or distributed to schools which were not strictly selected in accordance with the approved criteria, resulting in the wasteful storage or utilization of the units.	Create a Monitoring and Feedback Unit in the DepEd Osec to monitor the proper implementation of the program. Require the Regional Offices to follow strictly the criteria on the selection of school recipients of IT equipment and software.

Audit Observations	Recommendations
<p>The DOE has not collected the amount of P1.60 billion from energy resource developers and/or energy-generating facilities for the sale of generated electricity for the period June 1, 1994 to September 30, 2007</p>	<p>Intensify the collection of receivables by imposing upon the independent power producers the remittance of the unpaid amounts.</p>
<p>The DENR revenues from fees/ rentals/ sales totalling P456.31 million were not collected due to failure to assess, bill, and enforce collection remedies.</p>	<p>Collect immediately the total amount of unpaid rental/user's fees. Coordinate with the DENR Regional Offices and NRDC to facilitate early disposal of confiscated products to increase DENR's share from the sale thereof.</p>
<p>The intended benefits from farm to market road and small water impounding projects of DA worth P750.33 million were unrealized since projects were either delayed or not carried out. Likewise, the objective of the livelihood program was not attained due to the procurement by DA-RFU XI of 176 multi-purpose tents, 84 public address systems, 109 satellite receivers, 50 computers, etc., amounting to P30.96 million which are irrelevant to the program.</p>	<p>Take appropriate steps to ensure the completion of the projects. Utilize funds only for intended purposes;</p>
<p>The DA lost/wasted funds amounting to approximately P215.91 million due to unnecessary expenditures (i.e, unutilized post harvest facilities, excessive cost in the procurement of farm inputs, overpayment of farm-to-market roads, undistributed corn seeds, posters and pamphlets, unproductive livestock center and unused construction materials).</p>	<p>Dispose properly all unused post harvest facilities. Conduct careful evaluation of needs and resources before acquisition. Hold persons responsible for loss or wastage (i.e. by refund and / or filing of appropriate charges). Design a system espousing accountability in the distribution of rice/corn/vegetable seeds to farmers.</p>

Source: 2007 Annual Financial Report Vol 1, Commission on Audit