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Simplification of Tariffs, a Paradox?

by

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Introduction

Suppose I am a bioethanol importer, the first thing I would search for is the tariff rate. I would consult the Tariff and Customs Code of the Philippines (TCCP) to easily get the applicable tariff rate. In all probability I would be surprised to find the complexity of the tariff rates. Consider the following tariff rates:

AHTN Code 2207.2011

Description – Ethyl alcohol of an alcoholic strength by volume exceeding 99% volume
2010 rates of duty

- 10% for the Most Favored Nation rate (MFN);
- 0% for the Common Effective Preferential Tariff/ASEAN Trade in Goods Agreement (CEPT/ATIGA);
- 45% for the WTO bound rates;
- 5% for the ASEAN China Free Trade Area (ACFTA);
- 0% for the ASEAN-Korea Free Trade Area (AKFTA);
- 7% for the Philippine-Japan Economic Partnership Agreement (JPEPA);
- 5% for the ASEAN-Australia-New Zealand Free Trade Area (AANZFTA): and
- 7% for the ASEAN/Japan Comprehensive Economic Cooperation Agreement.

My search for a tariff rate would make me ponder consequently raising the following questions:

1. What do the following acronyms stand for: MFN, CEPT/ATIGA, WTO, ASEAN, ACFTA, KFTA and JPEPA?
2. What are regional trade groupings? Are the regional groupings concerned only with trade related matters?
3. What other information must I know aside from the data contained in the TCCP?
4. What are the effects of regional groupings for the Philippines?

Regarding the acronyms, they stand for the following:

- **MFN** – Most Favored Nation tariff rate,
- **CEPT/ATIGA** – Common Effective Preferential Tariff/ASEAN Trade in Goods Agreement.
- **WTO** – World Trade Organization,
- **ACFTA** – ASEAN- China Free Trade Area (*a multi-lateral trade agreement between the ASEAN countries and China*),
- **AKFTA** – ASEAN – Korea Free Trade Area (*a multi-lateral trade Agreement between the ASEAN countries and South Korea*), and
- **JPEPA** – Japan - Philippines Economic Partnership Agreement (*a bilateral trade agreement between the Philippines and Japan*).

WTO bound rates

The WTO bound rate for ethanol is 45%, the highest rate in the list. But what does “WTO bound rate” mean?

Under the WTO, when members open their markets

through the removal of barriers to trade, they “bind” their tariff rates for their products to be exported. These countries commit “to bind” the tariff rates, a commitment not to increase tariffs beyond the bound rate.

The binding of tariffs in the WTO provides a stable and predictable basis for trade, a fundamental principle underlying the operation of an institution. Although provision is made for the renegotiation of bound tariffs, a return to higher tariffs is discouraged by the requirement that any increase be compensated for.

For a bit of history, the World Trade Organization (WTO) started in 1995 to foster trade between countries by the removal of non-tariff barriers and the lowering tariffs rates. The WTO requires a bound tariff rate, a more or less a theoretical figure, applicable to all WTO member-countries.

In my example (*bioethanol*), the WTO bound rate has the highest tariff rate of 45%. Due to the proliferation of free trade agreements (FTAs) and regional trade groupings, the significance a bound tariff lessened because membership in the FTAs and regional groupings means a lesser applicable rate.

However, WTO bound rate is used as a “bargaining chip” to get a better deal or concession from other countries during the negotiation period of the FTAs and regional groupings.

Most Favored Nation (MFN) Rate

But what does MFN mean? In my example, the MFN rate is 10%.

The **most favored nation (MFN)** is a status or level treatment accorded by one state to another in international trade. It means that a recipient country must receive equal advantages as a “most favored nation” by the country granting such treatment. In effect, a country accorded an MFN status must not be treated less advantageously than any country with MFN status by the promising country.

Another challenge to the MFN principle has been posed by regional trade blocks such as the European Union (EU) and the North American Trade Agreement (NAFTA) which have lowered or eliminated tariffs among the members while maintaining tariff walls between member nations and the rest of the world. Trade agreements usually allow for exceptions to allow for regional economic integration.

The benefits² of an MFN are as follows:

A country that grants the MFN rate will have its imports provided by the most efficient supplier. This may not be the case if tariffs are negotiated on a bilateral country by country basis;

MFN allows smaller countries, in particular, to participate in the advantages that larger countries often grant to each other, whereas on their own, smaller countries would often not be powerful enough to negotiate such advantages by themselves;

¹ Tariff Bindings of the Philippines on industrial products under the WTO. A Primer on the New Developments in Trade and Tariff Policy, Philippine Tariff Commission, August 20, 2010, Quezon City, page 88.

² http://en.wikipedia.org/wiki/Most_favoured_nation

Granting MFN has domestic benefits: having one set of tariffs for all countries simplifies the rules and makes them more transparent. It also lessens the frustrating problem of having to establish rules of origin (ROO). A product imported from a certain country contain raw materials and spare parts originating from a third country. In order to determine the ROO for customs purposes, the MFN rates come in handy; and

MFN restrains domestic special interests from obtaining protectionist measures. For example, butter producers in country A may be able to lobby for high tariffs on butter to prevent cheap imports from developing country B, because, as the high tariffs would apply to every country, the interests of A's principal ally C might get impaired.

From the Philippine point of view, the MFN rate is used only to countries wherein our country does not have any FTA nor regional groupings like the European Union, Africa, and Latin America.

Well alright, enough for the MFN, but what does regional grouping mean?

The Free Trade Areas (FTAs)

But what is a Free Trade Area (FTA)? My computer's internet on GOOGLES gave me the following definitions:

- ...FTA is a type of trade block, a designated group of countries that have agreed to eliminate tariffs, quotas on most (if not all) goods and services traded between them. It can be considered the second stage of **economic integration**.
- ...an international region in which obstacles to restricted trade have been reduced to a minimum...
- A group of countries that adopt free trade (zero tariffs and no other policy restrictions) **on trade among themselves**, while not necessarily changing the barriers that each country has on trade with countries outside the group...
- A FTA is an association of a number of countries between which there is a free trade. A FTA may also be called a **common market**.
- ...involves country combination, where the member nations remove all trade impediments among themselves, **but retain their freedom concerning their policy vis-à-vis non-member countries...**

My research led me to the following matrix on FTAs and regional groupings, adding to my confusion:

Trade bloc	Population	Gross Domestic Product (USD)				Members
		2006	2007	Growth	Per capita	
Common markets, Economic and Monetary unions						
EMU – The European Economic and Monetary Union	324,879,195	10,685,946,928,310	12,225,304,229,686	14.41%	37,630	Austria, Belgium, Cyprus, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Malta, Netherlands, Portugal, Slovakia, Slovenia, Spain Total members = 16 countries
OECS – The Organization of Eastern Caribbean States	593,905	3,752,679,562	3,998,281,731	6.54%	6,732	Antigua and Barbuda, Dominica, Grenada, Saint Kitts and Nevis, Saint Lucia, Saint Vincent and the Grenadines Total members = 6 countries
OII – A grouping of Polynesian Islands	504,476	12,264,278,329	14,165,953,200	15.51%	28,081	French Polynesia, New Caledonia, Wallis and Futuna Total members = 3 countries

CCCM – A grouping of the Caribbean islands including other island countries of South America	6,418,417	39,616,485,623	43,967,600,765	10.98%	6,850	12 OECS member-countries plus the following countries: Barbados, Belize, Guyana, Jamaica, Suriname, Trinidad and Tobago Total members = 12 countries
EEA – <i>The European Economic Area</i>	499,620,521	14,924,076,504,592	17,186,876,431,709	15.165	34,400	The 27 European Union (EU), Iceland, Liechtenstein, Norway Total members = 30 countries
Customs and monetary unions						
CEMAC – The Economic Community of Central African States	39,278,645	51,265,460,685	58,519,380,755	14.15%	1,490	Cameroon, Central African Republic, Chad, Republic of Congo, Equatorial Guinea, Gabon Total members = 6 countries
UEMOA – The Economic Community of West African States	90,299,945	50,395,629,494	58,453,871,283	15.99%	647	Benin, Burkina Faso, Ivory Coast, Guinea-Bissau, Mali, Niger, Senegal, Togo Total members = 8 countries
CAN - <i>Comunidad Andina</i> –The Andean Community of Nations	96,924,486	281,269,141,372	334,172,968,648	18.81%	3,448	Bolivia, Colombia,, Ecuador, Peru Total members = 4 countries
EAC – East African Community	127,107,838	49,882,030,443	61,345,180,041	22.98%	483	Burundi, Kenya, Rwanda, Tanzania, Uganda Total members = 5 countries
EUCU – The grouping of the European Union plus Iceland, Liechtenstein and Norway, plus Andorra, San Marino and Turkey	574,602,745	15,331,827,900,202	17,679,376,474,719	15.31%	30,768	EEA, Andorra, San Marino and Turkey Total members = 33 countries
GCC – Gulf Cooperation Council	36,154,528	724,460,151,595	802,641,302,477	10.79%	22,200	Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, United Arab Emirates Total members = 6 countries

MERCOSUR – <i>Mercado Comun del Sur</i> – The Southern Common Market	55,681,675	277,544,834,196	305,692,671,540	10.14%	5,490	Argentina, Brazil, Paraguay, Uruguay, Venezuela Total members = 5 countries
SACU – South African Customs Union	268,445,656	1,499,811,549,187	1,848,337,158,281	23.24%	6,885	Botswana, Lesotho, Namibia, South Africa, Swaziland Total members = 5 countries
Preferential trade areas and Free trade areas						
AANZFTA – ASEAN + 3	2,085,858,841	10,216,029,899,764	11,323,947,181,804	10.84%	5,429	ASEAN, Australia, China /Hong Kong/Macau, Japan, New Zealand, South Korea Total members = 15 countries
ALADI – (<i>Asociacion Latinoamericana de Integracion</i>) – The Association for Latin American Integration	499,807,662	2,823,198,095,131	3,292,088,771,480	16.61%	6,587	CAN (<i>Comunidad Andina</i>), MERCOSUR (<i>Mercado Comun del Sur</i>), Chile, Cuba, Mexico Total members = 12 countries
AFTZ - Africa Free Trade Zone	553,915,405	643,541,709,413	739,927,625,273	14.98%	1,336	EAC (East Africa Community), SACU (South African Customs Union), Angola, Comoros, Democratic Republic of the Congo, Djibouti, Egypt, Eritrea, Ethiopia, Libya, Madagascar, Malawi, Mauritius, Mozambique, Seychelles, Sudan, Zambia, Zimbabwe Total members = 26 countries
APTA – Asia Pacific Trade Agreement	2,714,464,027	4,868,614,302,744	5,828,692,637,764	19.72%	2,147	Bangladesh, China/Hong Kong/Macau, India, Laos, Sri Lanka, South Korea Total members = 6 countries
CARICAFORUM-EUCU-OCTs	592,083,950	15,437,771,092,522	17,798,283,524,961	15.29%	30,060	CCCM (the South American island countries), EUCU (European Union plus other countries), OCTs (Overseas Countries and Territories), OII (South Pacific Islands), Anguilla, Aruba, Bahamas, British Antarctic Territories, British Indian Ocean Territory, British Virgin Islands, Cayman Islands, Dominican Republic, Falkland Islands, French Southern and Antarctic Lands, Greenland, Mayotte, Montserrat, Netherlands Antilles,

						Pitcairn Islands, Saint Helena/Ascension/Tristan da Cunha, South Georgia/South Sandwich Islands, Saint Pierre/Miquelon, Turks/Caicos Islands Total members = 67 countries
CACM – The Central American Common Market	37,388,063	87,209,524,889	97,718,800,794	12.05%	2,614	Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua Total members = 5 countries
CEFTA – The Central European Trade Agreement	27,968,711	110,263,802,023	135,404,501,031	22.80%	2,841	Albania, Bosnia/Herzegovina, Croatia, Kosovo, Macedonia, Moldova, Montenegro, Serbia Total members = 8 countries
CISFTA – The Commonwealth of Independent States Free Trade Area (former countries of the Soviet Union)	27,897,834	1,271,909,586,018	1,661,429,920,721	30.62%	6,088	EAEC (East Asia Economic Caucus), Armenia, Azerbaijan, Georgia, Ukraine, Moldova
DR-CAFTA-US – The grouping of the Dominican Republic, – Central America Free Trade Agreement, United States	356,964,477	13,345,469,865,037	14,008,686,684,089	4.97%	39,244	CACM (Central American Common Market), Dominican Republic, United States/Puerto Rico Total members = 7 countries
ECOWAS – The Economic Community of West African States	283,096,250	215,999,071,943	255,784,634,128	18.42%	904	UEMOA (<i>L'Union Economique et Monetaire Ouest Africaine</i> – The Economic and Monetary Union of West Africa), Cape Verde, Gambia, Ghana, Guinea, Liberia, Nigeria, Sierra Leone Total members = 15 countries
EFTA-SACU – The grouping of the European Free Trade Association and the Southern African Customs Union	68,199,991	1,021,509,931,918	1,139,385,636,888	11.54%	16,707	Iceland, Switzerland, Norway, Liechtenstein Botswana, Lesotho, Namibia, South Africa, Swaziland Total members = 9 countries
EAEC – The Eurasian Economic Community	207,033,990	1,125,634,333,117	1,465,256,182,498	30.17%	7,077	Belarus, Kazakhstan, Kyrgyzstan, Russia, Tajikistan, Uzbekistan Total members = 6 countries
NAFTA – The North American Free Trade Agreement	449,227,672	15,337,094,304,218	16,189,097,801,318	5.56%	36,038	Canada, Mexico, United States/Puerto Rico Total members = 3 countries

TPP – The Trans-Pacific Strategic Partnership- Agreement	25, 639,622	401,810,366,865	468,101,167,294	16.50%	18,257	Brunei, Chile, New Zealand, Singapore Total members = 4 countries
SAARC – The South Asian Association for Regional Cooperation	1,567,187,373	1,162,684,650,544	1,428,392,756,312	22.85%	911	Afghanistan, Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan, Sri Lanka Total members = 8 countries
SPARTECA – South Pacific Regional Trade and Economic Co-operation Agreement	35,079,659	918,557,785031	1,102,745,750,172	20.05%	31,435	OII members – French Polynesia, New Caledonia, Wallis and Futuna PICTA members – Australia, Cook Islands, Federated States of Micronesia, Fiji, Kiribati, Nauru, New Zealand, Niue, Palau, Papua new Guinea, Republic of Marshall Islands, Samoa, Solomon Islands, Tonga, Tuvalu, Vanuatu, Timor Leste Total members = 21 countries

Comparison between regional trade blocks

Regional bloc	Activities								
	Free Trade Area	Economic and monetary union			Free Travel		Political pact	Defence pact	Other
		Customs Union	Single Market	Currency Union	Visa-free	Border-less			
EU (European Union)	in force	in force	In force	in force	in force	in force (SCHEN GEN and CTA)	in force	in force – NATO (North Atlantic Treaty Organization) and CFSP/ESDF (Common Foreign and Security Policy/European Security and Defence Policy)	ESA (European Space Agency)
EFTA (European Free Trade Association)	In force	-	In force	-	in force	in force	-	in force	ESA
CARICOM (Caribbean Community)	in force	in force	In force	in force and proposed common	in force	Proposed	Proposed	-	NWFZ (Nuclear-Weapon-Free-Zone)

AU ³	ECOWAS ⁴	in force	in force	Proposed	in force and proposed for 2012 and proposed common	in force	proposed	proposed	in force	NWFZ
	ECCAS ⁵	in force	in force	Proposed	in force	in force	Proposed	Proposed	in force	NWFZ
	EAC ⁶	in force	in force	Proposed for 2015	Proposed for 2012	proposed	?	proposed for 2015	-	NWFZ
	SADC ⁷	in force	in force	Proposed for 2015	de facto in force and proposed common for 2016	proposed	-	-	-	NWFZ
	COMESA ⁸	in force	proposed for 2010	?	proposed for 2018	-	-	-	-	NWFZ
	Common	proposed for 2019	proposed for 2019	Proposed for 2015 -	proposed for 2028	-	-	proposed for 2028	-	NWFZ
UNASUR ⁹	MERCOSUR ¹⁰	in force	in force	Proposed for 2015	-	in force	-	proposed for 2014	-	NWFZ
	CAN ¹¹	in force	in force	Proposed	-	in force	-	-	-	NWFZ
	Common	proposed for 2014	proposed for 2019	Proposed for 2019	proposed for 2019	in force	proposed for 2019	in force	-	NWFZ
EurAsEC ¹²		in force	in force	Proposed for 2012	-	in force	-	-	in force	-
AL ¹³	GCC ¹⁴	in force	proposed for 2012	Proposed	proposed	in force	-	-	-	-
	Common	in force	proposed for 2015	Proposed for 2020	proposed	-	-	Proposed	-	-
ASEAN ¹⁵		in force	-	Proposed for 2015	proposed	in force	-	proposed for 2015	proposed for 2020	NWFZ
CAIS ¹⁶		in force	proposed	?	-	in force	-	proposed	-	NWFZ
CEFTA ¹⁷		in force	-	-	-	-	-	-	-	RCC ¹⁸
NAFTA ¹⁹		in force	-	-	-	-	-	-	in force	-
SAARC ²⁰		in force	-	-	-	-	-	-	-	-
PIF ²¹		proposed for 2021	-	-	-	-	-	-	-	NWFZ

There are regional groupings around the world. Its function goes beyond trade relations because they are also concerned in the following areas: (a) monetary policy leading to the creation of a common currency; (b) military policy because they are also concerned with mutual defense; (c) creation of

a customs union; (d) trade liberalization in accordance with the mandates of the WTO; (e) forging treaties with other regional groupings and other big economies like China and Japan; and (f) movement of its citizens within the economic union, among others.

³ Africa Union.

⁴ Economic Community of West African States

⁵ Economic Community of Central African States

⁶ East African Community

⁷ Southern African Development Community

⁸ Common Market for Eastern and Southern Africa

⁹ *Union de Naciones Suramericanas* – Union of South American Nations

¹⁰ *Mercado Común del Sur* – Southern Common Market

¹¹ *Comunidad Andina* – Andean Community of Nations

¹² Eurasian Economic Community

¹³ Free Zones of the Arab Emirates

¹⁴ Gulf Cooperation Council

¹⁵ Association of Southeast Asian Nations

¹⁶ Central American Integration System

¹⁷ Central European Free Trade Agreement

¹⁸ Regional Cooperation Council (European Defence Agreement)

¹⁹ North American Free Trade Agreement

²⁰ South Asian Association for Regional Cooperation

²¹ Pacific Islands Forum

It is interesting that the ASEAN does not have an FTA with the European Community. The reason in that Myanmar is a member of the ASEAN and the Western European Union would not like to have trade relations with countries ruled by military regimes.

For a better understanding of the mechanics of regional groupings, I search for regional groupings wherein the Philippines are involved.

Trade groupings – the Philippine experience

My research led me to the latest primer²² of the Tariff Commission hoping that I might be enlightened in my quest for a better understanding of the tariff rates. The following points from the primer might help:

The Philippines entered into the following trade agreements affecting our tariff rates:

1. The AFTA (ASEAN Free Trade Area)

As a backgrounder, during the Fourth ASEAN Summit in January 1992, the ASEAN Heads of Government agreed to establish an ASEAN Free Trade AREA (AFTA) by the year 2008 to open up their economies in the era of globalization. During the ASEAN Economic Ministers (AEM) Meeting in September 1994, the target date of implementation was advanced to 2003. The main implementing mechanism of AFTA is the Common Effective Preferential Tariff (CEPT) Scheme. The Agreement on the CEPT-AFTA was signed in Singapore on January 28, 1992.

According to the Tariff Commission primer, ASEAN stands for ASEAN Free Trade Area which involves the removal of obstacles to freer trade among member states. This includes the abolition of high tariffs and taxes on traded goods and the scrapping of qualitative restrictions (QRs) and other non-tariff barriers (NTBs) that limit the entry of imports.

The primer further states that the ultimate objective of AFTA is to increase ASEAN's competitive edge as a production base geared for the world market. A critical step in this direction is the liberalization of trade in the region through the elimination of intra-regional tariffs and non-tariff barriers.

The primer further states that as the cost competitiveness of manufacturing industries in ASEAN is enhanced and with the larger size of the market, investors can enjoy economies of scale in production. In this manner, ASEAN hopes to attract more foreign investments in the region.

2. ASEAN Trade in Goods Agreement (ATIGA)²³

ATIGA is an improvement over the CEPT (Common Effective Preferential Tariff Scheme)- AFTA. It consolidates ASEAN's existing initiatives, obligations and commitments made with regard to both Trade in Goods (tariffs) and non-tariff elements (e.g, trade disciplines on Sanitary and Phytosanitary (SPS) measures, customs procedures, and trade facilitations), among others, into

one comprehensive agreement.

The objective of the ATIGA is to achieve free flow of goods in ASEAN as one of the principal means to establish a single market and production base for the deeper economic integration of the region towards the realization of the ASEAN Economic Community (AEC) by 2015.

3. ASEAN – 6

ASEAN – 6 refers to Brunei Darussalam, Indonesia, Malaysia, the Philippines, Singapore and Thailand.

CLMV refers to Cambodia, Lao Democratic Republic, Myanmar and Viet Nam.

The member states shall eliminate import duties on all products traded between member states by 2010 for ASEAN – 6 and by 2015, with flexibility to 2018, for CLMV.

Each member state shall reduce and/or eliminate import duties on **originating goods of the other member states** in accordance with certain modalities.

At this point, it is worthwhile that the concept of **rules of origin (ROO)** comes into play, which will be discussed later.

4. ASEAN – China Free Trade Area

The ASEAN – China FTA is the world's biggest free trade area embracing 1.7 billion consumers, a combined gross domestic product (GDP) of approximately 2 trillion US dollars, and a total international trade of 1.23 trillion US dollars.

The objectives of the ASEAN – China FTA are as follows:

- Strengthen and enhance economic, trade and investment co-operation between the contracting parties;
- Progressively liberalize and promote trade in goods and services as well as create a transparent, liberal and facilitative investment regime;
- Explore new areas and develop appropriate measures for closer economic cooperation between the parties; and
- Facilitate the more effective economic integration of the newer ASEAN member states and bridge the development gap among the parties.

5. ASEAN – Japan Comprehensive Economic Partnership

The objectives of the agreement are as follows:

- Strengthen economic integration between ASEAN and Japan through the creation of a CEP (Comprehensive Economic Partnership);

²² Common Effective Preferential Tariff Scheme for the ASEAN Free Trade Area (CEPT – AFTA)/ The ASEAN Trade in Goods Agreement (ATIGA). A primer on New Developments in Trade and Tariff Policy, August 2010.

²³ A Primer on New Developments in Trade and Tariff Policy, Tariff Commission, August 2010, page 134.

- Enhance the competitiveness of ASEAN and Japan in the world market through strengthened partnership and linkages;
- Progressively liberalize and facilitate trade in goods and services as well as create a transparent and liberal investment regime;
- Explore new areas and develop appropriate measures for further co-operation and economic integration; and
- Facilitate the more effective economic integration of the newer ASEAN member states and bridge the development gap among the ASEAN member states.



6. ASEAN – Korea Free Trade Area (AKFTA)

The objectives of the Agreement are as follows:

- Strengthen and enhance economic, trade and investment cooperation among the parties;
- Progressively liberalize and promote trade in goods and services as well as create a transparent, liberal and facilitative investment regime;
- Explore new areas and develop appropriate measures for closer economic cooperation and integration;
- Facilitate to more effective economic integration of the new ASEAN member countries and bridge the development gap among the parties; and
- Establish a cooperative framework for further strengthening the economic relations among the parties.

7. ASEAN – India Free Trade Area

The objectives of the Agreement are as follows:

- Strengthen and enhance economic, trade and investment cooperation between the parties;
- Progressively liberalize and promote trade in goods and services as well as create a transparent, liberal, and facilitative investment regime;
- Explore new areas and develop appropriate

measures for closer economic cooperation between parties; and

- Facilitate the more effective economic integration of the new ASEAN member states and bridge the development gap among parties.

The trade agreement between India and the ASEAN has a great impact on the ordinary Filipino citizen because India manufactures cheap medicine which the Philippines may easily import.

8. ASEAN – Australia and New Zealand Free Trade Agreement

AANZFTA means the ASEAN – Australia and New Zealand Free Trade Area is a multilateral free trade agreement between the ten member countries of the ASEAN and Australia and New Zealand. It aims to promote growth and development and increase living standards throughout the region.

The FTA covers trade in goods, trade in services and investment. It aims to move towards deeper economic integration between two regions through progressive elimination of all forms of barriers to trade in goods, services and investment; and through trade and investment facilitation and economic cooperation measures.

9. The Asia Pacific Economic Cooperation (APEC)

APEC is an association of economies that share the boundaries of the Pacific Ocean. Under APEC, member economies work together to reduce barriers to trade, ease exchange of goods, services, resources and technical know-how, strengthen economic and technical cooperation between and among themselves. These concerted efforts, ultimately, would result in a greatly improved global economy and the forging of stronger ties between the developing and the major economies of the world.

When APEC was established, there were twelve (12) founding member-countries: Australia, Brunei Darussalam, Canada, Indonesia, Japan, Korea, Malaysia, New Zealand, the Philippines, Singapore, Thailand, and the United States. In 1991, the People's Republic of China, Hong Kong, and Chinese Taipei, were accepted as members. Mexico and Papua New Guinea were accepted in 1993 and Chile became a full member in 1994. The latest members are Peru, Vietnam and Russia whose formal memberships were acknowledged in November 1998.

10. Japan – Philippines Partnership Agreement (JPEPA)

JPEPA is the first bilateral economic agreement entered into by the Philippines. The agreement is described as “the new age free trade area” as it aims to go beyond tariff reductions or eliminations. The agreement also deals with **movement of natural persons and services, investments and cooperation on areas as technology transfer, human and resource development, small and medium enterprises development, environment and competition policy.** Japan is the second biggest trading partner and the main source of foreign direct investment.

The objectives of JPEPA are as follows:

- Strengthen the economic collaboration between the Philippines and Japan by increasing cross-border flow of goods, persons, investments and services;
- Protection of intellectual property rights, controlling anti-competitive activities, improvement of business environment; and
- Cooperation in the fields of human resource development, financial services, information and communications technology, energy and environment, science and technology, trade and investment promotion, small and medium enterprises, tourism, transportation and road development.

Rules of Origin (ROO)

The ROO²⁴ sets the criteria needed to determine the national source of an imported product. It is used for the following purposes:

- to implement measures and instruments of commercial policy such as anti-dumping duties and safeguard measures;
- to determine whether imported products shall receive the most-favored-nation (MFN) treatment or preferential treatment;
- for the purpose of trade statistics;
- for the application of labelling and marketing requirements; and
- for government procurement.

The origin of the import can be determined by using the *qualifying value content* criteria, the rules of which are given below:

The product specific rules using the valued-added method require that the qualifying value content (QVC) of a good should not be less than the percent age specified by the rule of origin for that product.

For the purpose of calculating the QVC, the following formula shall be applied:

$$Q.V.C. = \frac{F.O.B. - V.N.M.}{F.O.B.} \times 100$$

Where:

Q.V.C. is the qualifying value content of a good, expressed as a percentage;

F.O.B. is the free-on-board value of a good payable by the buyer of the good to the seller of the good, regardless of the mode of shipment, not including any internal excise taxes reduced, exempted, or repaid when the good is exported.

V.N.M. is the value of the non-originating materials used in the production of a good.

A Certificate of Origin (CO) is a declaration of the exporter **as certified by the BOC**, that the export product complies with the origin requirement as specified under the agreement.

Self Certification under the ROO²⁵

Realizing the difficulty in the determination of the ROO of an import on any customs office, a new device is being experimented worldwide, the concept of self-certification. It shifts the burden in the determination of the ROO from the BOC to the private sector.

Self certification is defined as *“a system which enables the certified exporter to make out an invoice declaration for the export of goods.”*

For an importer like me, it means that I have to know the manufacturing/exporting entity whose product I intend to import. As a result of the self certification scheme, my additional duties as an importer would be as follows:

- I must have a knowledge of the identity of my exporter;
- I must also get a certification that the product I am importing have the necessary *“residence requirement”*, meaning that at least 40% of the raw materials used in the product originates from the exporting country. The 40% raw material content is the average level needed to avail of a special tariff rate as a result of the pertinent FTA (Free Trade Area) Agreement;
- I must apply for a special tariff rate at the BOC in order that the latter may issue a Certification of Origin (CO). Note that the burden of proof in the determination of the ROO is shifted from the BOC to me (an importer),
- I must also know the particular FTA or regional agreement involved in my importation; and
- I must also be ready to the Post Entry Audit (PEA) group of the BOC in case of any error committed due to my ROO application with the BOC.

The ASEAN is still in the trial phase towards the implementation of the self certification scheme. In this regard a Memorandum of Agreement was signed among the three (3) ASEAN members Malaysia, Brunei, and Singapore during the 21st APEC Ministerial Meeting in Singapore on November 12, 2009.

In the ASEAN pilot program, self certification is described as a system which enables the certified exporter to make out an Invoice Declaration for the export of goods. The information in the invoice is less than what appears in the ATIGA (ASEAN Trade in Goods Agreement) Form D. It will gradually replace the conventional ATIGA Form D which is currently used. A separate OCP (Operational Certification Procedures) has been formulated for the purposes of the pilot project.

During the regime of the pilot project, there will dual

²⁴ <http://www.wto.org/english/tratop-e/roi-e/roi-info-e.htm>.

²⁵ Summary of the APEC Self-certification Path finder Phase -2: Capacity Building Workshop 2 (CTI 41/2010A), Richmond Hotel, Manila, Philippines, 10-11 February 2011.

systems. The first is the conventional certification system, side by side with the system of self-certification for exporters who are manufacturers and appointed as certified exporters.

Considering that the Philippines is not a participant in the pilot project and the **system of self certification must be in place by 2012** in the whole ASEAN region, our country has a lot of preparation to do.

Observations

In my search for the correct tariff for my import, the following are my observations:

1. Tariff paradox

As a result of the different commercial treaties of the Philippines with other countries, the tariff rates will continue to decrease in the future. It is in accordance to the WTO objective to liberalize trade and to streamline procedures.

The tariff decrease means the decreasing revenue for the BOC, however, the load of work for the BOC will increase because of the requirements of the ROO, this is the first paradox.

It is the BOC who issues the Certificate of Origin in compliance to the ROO in order that the importer may avail of the low rate under the different trade agreements of the Philippines. In doing so, the work of the BOC becomes more complicated. The second paradox is that any complication in the importation process is contrary to the WTO objective of facilitating trade.

Decreases in tariffs mean that the BOC now depends more on the Value-Added Tax (VAT) and excise taxes for its revenues.

In the future, the BOC function would be reduced to doing "police work" in order to prevent the importation of contrabands (totally prohibited importations).

2. The Attrition law – RA 9335

Another paradox for the BOC is while its revenue decreases, RA 9335, the Attrition law requires higher BOC income. RA 9335 provides penalties for BOC officers and employees for non compliance with the revenue goals of the BOC.

In order to be more realistic, the yearly collection goals assigned to the BOC must be lowered. However, the lowering of the BOC collection goals would run counter to a budget deficit regime of the present government, more paradox.

3. Senate ratification of treaties

The Constitution provides for the following:²⁶

"No treaty or international agreements shall be valid and effective unless concurred in by at least two-thirds of all members of the Senate."

In reality, such treaty making power of the Executive needing two-thirds concurrence of all the members of the Senate is diminished.

The reality, the Philippines, in order to gain greater bargaining power must be a member of a regional grouping like the ASEAN. Being a member of the ASEAN, the Philippines may make treaties with the larger economies like Japan, China, India as well as other regional groupings like the EEA (European Economic Area).

In a free trade area like ASEAN – India, the Senate ratification as required by the Philippine Constitution would have lesser impact in the overall ratification process. All the member countries must likewise ratify/concur the treaty with India in order to make the ASEAN – India FTA (free trade agreement) effective. Somehow, Philippine sovereignty is lessened by joining a regional trading group.

4. Special laws – RA 9367, The Biofuels Act of 2006

To add to the complication in the determination of the correct tariff rate, RA 9367 provides for the following special tariff rate:

A lower duty of 1% is levied if biofuel is "imported with certification from the Department of Energy (DOE) that the articles will be used for the Fuel Ethanol Program."²⁷ The certification is given by the DOE to oil companies when there is a shortage of supply as determined by the National Biofuels Board (NBB).

On a personal note, assuming I am an importer I would like all tariff matters, especially those in special laws, to be incorporated in a single reference like the TCCP for easy reference.

5. RA 9280, Customs Broker Act of 2004, as amended by RA 9853

RA 9280, the Customs Broker Act of 2004, defines the practice of brokering as follows:

"Sec. 6. Scope of the Practice of Customs Brokers.- Customs Broker Profession involves services consisting of consultation, preparation of customs requisite documents for imports and exports, declaration of customs duties and taxes, preparation, signing, filing, lodging and processing of import and export entries; representing importers and exporters before any government agency and private entities in cases related to valuation and classification of imported articles and rendering of other professional services in matters relating to customs and tariff laws, its procedures and practices..."

The following amendment, RA 9853, was made:

"Sec. 27. Acts Constituting the Practice of Customs Brokerage Profession. – Any single act or transaction embraced within the provision of

²⁶ Article VII, Executive Department, Section 21.

²⁷ Biofuels Act of 2006, RA 9367.

Section 6 hereof shall constitute an act of engaging in the practice of customs brokerage profession. Import entry shall be signed by a customs broker and the consignee/owner/importer under oath based on the covering documents submitted by the importers: Provided, That export declaration shall be signed by the exporter or, at his option, delegate the signing and processing of the documents to his designated customs broker or authorized representative."

Conclusion

As an importer, the most logical thing for me to do is to leave the complexities of importation in the hands of a professional customs broker to address the tariff complexities. To facilitate matters, the Tariff Commission will issue the 2010 version of the tariff rates to serve as guide to importers.



Revenue-Raising Powers

of Local Government Units (LGU) under the Local Government Code (LGC) of 1991 (Republic Act No. 7160): a Review

by

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I. INTRODUCTION. –

1. The Local Government Code of 1991 was approved on October 10, 1991 and took effect on January 1, 1992. The laws repealed by the LGC were the following:

“Section 534. Repealing Clause.

(a) Batas Pambansa Blg. 337, otherwise known as the Local Government Code, Executive Order No. 112 (1987),¹ and Executive Order No. 319 (1988)² are hereby repealed.

“(b) Presidential Decree Nos. 684³, 1191⁴, 1508⁵, and such other decrees, orders, instructions, memoranda and issuances related to or concerning the barangay are hereby repealed.

¹ Placing All Budget Officers of Provinces, Cities and Municipalities Under the Administrative Control and Technical Supervision of the Ministry of Budget and Management (Dec. 24, 1986).

² Providing the Reorganization of the Local Development Councils (March 4, 1988).

³ Strengthening and Defining the Role of the Barangay Youth in Every Barangay (April 15, 1975).

⁴ Constituting the Pambansang Katipunan ng Kabataang Barangay ng Pilipinas, Vesting It With Powers and Attributes of a Corporation, Defining Its Roles and Functions, and for other purposes (September 1, 1977).

⁵ Establishing A system of Amicably Settling Disputes at the Barangay Level (June 11, 1978).

⁶ An Act Prescribing the Proportionate Share of the National, Provincial, City and Municipal Governments in the Financial Contributions for the Operation and Maintenance of Free Beds in Government Hospitals and/or the Establishment of Additional Wards or Hospitals in the Philippines (June 22, 1957).

⁷ An Act Creating A Special Education Fund to be Constituted from the Proceeds of An Additional Real Property Tax and a Certain Portion of the Taxes on Virginia-Type Cigarettes and Duties on Imported Leaf Tobacco, Defining the Activities To Be Financed, Creating School Boards for the Purpose, and Appropriating Finds Therefrom (September 25, 1968).

⁸ Revising the Present System of National Internal Revenue Allotments to Local Governments (March 3, 1973).

⁹ Enacting A Local Government Code for Provinces, Cities, Municipalities and Barrios (July 1, 1973).

¹⁰ Increasing the Specific Tax on Lubricating Oils Gasoline, Bunker Fuel Oil, Diesel Fuel Oil, and other Similar Petroleum Products Levied Under Section 142, 144 and 145 of the National Internal Revenue Code, as amended, and Granting Provinces, Cities and Municipalities Certain Shares in the Specific Tax On Such Products (April 16, 1974).

¹¹ Requiring the Approval of the Philippine Tourism Authority on Certain Development Projects and Loans Applied for to Finance Construction, Etc. (January 24, 1974).

¹² Increasing the Specific Tax on Lubricating Oils Gasoline, Bunker Fuel Oil, Diesel Fuel Oil, and other Similar Petroleum Products Levied Under Section 142, 144 and 145 of the National Internal Revenue Code, as amended, and Granting Provinces, Cities and Municipalities Certain Shares in the Specific Tax on Such Products (April 16, 1974).

¹³ Enacting a Real Property Tax Code (June 1, 1974).

¹⁴ Decree On Local Fiscal Administration (June 3, 1974).

¹⁵ Providing For An Improved System of Acquisition, Utilization, Care, Custody and Disposal (August 2, 1974).

¹⁶ Providing for the Budgetary Administration of the Integrated National Police (January 6, 1975).

¹⁷ Decree on Credit Finance for Local Governments (July 25, 1975).

¹⁸ The Local Government Personnel Administration and Compensation Plans Decree of 1977 (May 5, 1977).

“(c) The provisions of Sections 2, 3, and 4 of Republic Act No. 1939⁶ regarding hospital fund; Section 3, a (3) and b (2) of Republic Act No. 5447⁷ regarding the Special Education Fund; Presidential Decree No. 144⁸ as amended by Presidential Decree Nos. 559 and 1741; Presidential Decree No. 231⁹ as amended; Presidential Decree No. 436¹⁰ as amended by Presidential Decree No. 558; and Presidential Decree Nos. 381¹¹, 436¹², 464¹³, 477¹⁴, 526¹⁵, 632¹⁶, 752¹⁷, and 1136¹⁸ are hereby repealed and rendered of no force and effect.

“(d) Presidential Decree No. 1594¹⁹ is hereby repealed insofar as it governs locally-funded projects.

“(e) The following provisions are hereby repealed or amended insofar as they are inconsistent with the provisions of this Code: Sections 2, 16, and 29 of Presidential Decree No. 704;²⁰ Section 12 of Presidential Decree No. 87,²¹ as amended; Sections 52, 53, 66, 67, 68, 69, 70, 71, 72, 73, and 74 of Presidential Decree No. 463,²² as amended; and Section 16 of Presidential Decree No. 972,²³ as amended, and

“(f) All general and special laws, acts, city charters, decrees, executive orders, proclamations and administrative regulations, or part or parts thereof which are inconsistent with any of the provisions of this Code are hereby repealed and modified accordingly.”

2. *Constitutional Provisions.* - Under Article X of the 1987 Constitution, several provisions exist that govern local governments, viz:

General Provisions

“Section 1. The territorial and political subdivisions of the Republic of the Philippines are the provinces, cities, municipalities, and barangays. There shall be autonomous regions in Muslim Mindanao and the Cordilleras as hereinafter provided.

“Section 2. The territorial and political subdivisions shall enjoy local autonomy.

“Section 3. The Congress shall enact a local government code which shall provide for a more responsive and accountable local government structure instituted through a system of decentrali-

zation with effective mechanisms of recall, initiative, and referendum, allocate among the different local government units their powers, responsibilities, and resources, and provide for the qualifications, election, appointment and removal, term, salaries, powers and functions and duties of local officials, and all other matters relating to the organization and operation of local units.

“Section 4. The President of the Philippines shall exercise general supervision over local governments. Provinces with respect to component cities and municipalities, and cities and municipalities with respect to component barangays shall ensure that the acts of their component units are within the scope of their respective powers and functions.

“Section 5. Each local government unit shall have power to create its own sources of revenues and to levy taxes, fees, and charges subject to such guidelines and limitations as the Congress may provide, consistent with the basic policy of local autonomy. Such taxes, fees, and charges shall accrue exclusively to the local governments. (Emphasis supplied)

“Section 6. Local government units shall have a just share, as determined by law, in the national taxes which shall be automatically released to them.

“Section 7. Local governments shall be entitled to an equitable share in the proceeds of the utilization and development of the national wealth within their respective areas, in the manner provided by law, including sharing the same with the inhabitants by way of direct benefits.

“Section 8. The term of office of elective local officials, except barangay officials, which shall be determined by law, shall be three years and no such official shall serve for more than three consecutive terms. Voluntary renunciation of the office for any length of time shall not be considered as an interruption in the continuity of his service for the full term for which he was elected.

“Section 9. Legislative bodies of local governments shall have sectoral repre-

¹⁹ Prescribing Policies, Guidelines, Rules and Regulations for Government Infrastructure Contracts (June 11, 1978).

²⁰ Fisheries Decree of 1975 (May 16, 1975).

²¹ The Oil Exploration and Development Act of 1972 (December 1, 1972).

²² Mineral Resources Development Decree of 1974 (May 17, 1974).

²³ Coal Development Act of 1976 (July 28, 1976).

sentation as may be prescribed by law.

“Section 10. No province, city, municipality, or barangay may be created, divided, merged, abolished, or its boundary substantially altered, except in accordance with the criteria established in the local government code and subject to approval by a majority of the votes cast in a plebiscite in the political units directly affected.

“Section 11. The Congress may, by law, create special metropolitan political subdivisions, subject to a plebiscite as set forth in Section hereof. The component cities and municipalities shall retain their basic autonomy and shall be entitled to their own local executives and legislative assemblies. The jurisdiction of the metropolitan authority that will hereby be created shall be limited to basic services requiring coordination.

“Section 12. Cities that are highly urbanized, as determined by law, and component cities whose charters prohibit their voters from voting for provincial elective officials, shall be independent of the province. The voters of component cities within a province, whose charters contain no such prohibition, shall not be deprived of their right to vote for elective provincial officials.

“Section 13. Local government units may group themselves, consolidate or coordinate their efforts, services, and resources for purposes commonly beneficial to them in accordance with law.

“Section 14. The President shall provide for regional development councils and other similar bodies composed of local government officials, regional heads of departments and other government offices, and representatives from non-governmental organizations within the region for purposes of administrative decentralization to strengthen the autonomy of the units therein and to accelerate the economic and social growth and development of the units in the region.”

Autonomous Region

“Section 15. There shall be created autonomous regions in Muslim Mindanao and in the Cordilleras consisting of provinces, cities, municipalities, and geographical areas sharing common and distinctive historical and cultural heritage, economic and social structures, and

other relevant characteristics within the framework of this Constitution and the national sovereignty as well as territorial integrity of the Republic of the Philippines.

“Section 16. The President shall exercise general supervision over autonomous regions to ensure that the laws are faithfully executed.

“Section 17. All powers, functions, and responsibilities not granted by this Constitution or by law to the autonomous regions shall be vested in the National Government.

“Section 18. The Congress shall enact an organic act for each autonomous region with the assistance and participation of the regional consultative commission composed of representatives appointed by the President from a list of nominees from multisectoral bodies. The organic act shall define the basic structure of government from the region consisting of the executive department and legislative assembly, both of which shall be reflective and representative of the constituent political units. The organic act shall likewise provide for special courts with personal, family, and property law jurisdiction consistent with the provisions of this Constitution and national laws.

“The creation of the autonomous region shall be effective when approved by majority of the votes cast by the constituent units in a plebiscite called for the purpose, provided that only provinces, cities, and geographic areas voting favorably in such plebiscite shall be included in the autonomous region.

“Section 19. The first Congress elected under this Constitution shall, within eighteen months from the time of organization of both Houses, pass the organic acts for the autonomous regions in Muslim Mindanao and the Cordilleras.

“Section 20. Within its territorial jurisdiction and subject to the provisions of this Constitution and national laws, the organic act of autonomous regions shall provide for legislative powers over:

- (1) Administrative organization;
- (2) Creation of sources of revenues;
- (3) Ancestral domain and natural resources;

- (4) Personal, family, and property relations;
- (5) Regional urban and rural planning development;
- (6) Economic, social, and tourism development;
- (7) Educational policies;
- (8) Preservation and development of the cultural heritage; and
- (9) Such other matters as may be authorized by law for the promotion of the general welfare of the people of the region.

“Section 21. The preservation of peace and order within the regions shall be the responsibility of the local police agencies which shall be organized, maintained, supervised, and utilized in accordance with applicable laws. The defense and security of the regions shall be the responsibility of the National Government.”

II. REVENUE-RAISING POWERS OF LGUs UNDER THE LGC. –

3. The Local Government Code of 1991 enhances the taxing powers of LGUs. Under Book II²⁴ thereof, and based on Section 5, Article X of the 1987 Constitution, LGUs have the following revenue-raising powers:

“Section 129. *Power to Create Sources of Revenue.* Each local government unit shall exercise its power to create its own sources of revenue and to levy taxes, fees, and charges subject to the provisions herein, consistent with the basic policy of local autonomy. Such taxes, fees, and charges shall accrue exclusively to the local government units (Chapter 1, General Provisions).

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Provinces (Article One)

“Section 135. *Tax on Transfer of Real Property Ownership.* (a) The province may impose 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. 6657²⁵ shall be exempt from

this tax.

“(b) For this purpose, the Register of Deeds of the Province concerned shall, before registering any deed, require the presentation of the evidence of payment of this tax. The provincial assessor shall likewise make the same requirement before cancelling an old tax declaration and issuing a new one in place thereof. Notaries public shall furnish the provincial treasurer with a copy of any deed transferring ownership or title to any real property within thirty (30) days from the date of notarization.

“It shall be the duty of the seller, donor, transferor, executor or administrator to pay the tax herein imposed within sixty (60) days from the date of the execution of the deed or from the date of the decedent’s death.

“Section 136. *Tax on business of Printing and Publication.* The province may impose 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 of not exceeding fifty percent (50%) of one percent of the gross annual receipts for the exceeding calendar year.

“In the case of a newly started business, the tax shall not exceed one-twentieth (1/20) of one percent (1%) of the capital investment. In the succeeding calendar year, regardless of when the business started to operate, the tax shall be based on the gross receipts for the preceding calendar year, or any function thereof, as provided herein.

“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 herein imposed.

“Section 137. *Franchise Tax.* Notwithstanding any exemption granted by any law or other special law, the province may impose 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.

²⁴ The LGC is divided into Four (4) Books. Book I: General Provisions; Book II: Local Taxation and Fiscal Matters; Book III: Local Government Units; and, Book IV: Miscellaneous and Final Provisions.

²⁵ The Comprehensive Agrarian Reform Law of 1988.

"In the case of a newly started business, the tax shall not exceed one-twentieth (1/20) of one percent (1%) of the capital investment. In the succeeding calendar year, regardless of when the business started to operate, the tax shall be based on the gross receipts for the preceding calendar year, or any fraction thereof, as provided herein.

"Section 138. *Tax on Sand, Gravel and Other Quarry Products.* The province may levy and collect 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,²⁶ as defined in the National Internal Revenue Code, as amended, extracted from public lands or from the beds of seas, lakes, rivers, streams, creeks, and other public waters within its territorial jurisdiction.

"The permit to extract sand, gravel and other quarry resources shall be issued exclusively by the provincial governor, pursuant to the ordinance of the sangguniang panlalawigan.

"The proceeds of the tax on sand, gravel and other quarry resources shall be as follows:

- "(1) Province – thirty percent (30%);
- "(2) Component City or Municipality where the sand, gravel, and other quarry resources are extracted – thirty percent (30%); and
- "(3) Barangay where the sand, gravel, and other quarry resources are extracted – forty percent (40%).

"Section 139. *Professional Tax.* (a) The province may levy an annual professional 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 panlalawigan may determine but shall in no case exceed Three hundred pesos (P300.00).

"(b) Every person legally authorized to practice his profession shall pay the professional tax to the province where he practices his profession or where he maintains his principal office in case he practices his profession in several places, *Provided, however,* That such

person who has paid the corresponding professional tax shall be entitled to practice his profession in any part of the Philippines without being subjected to any other national or local tax, license, or fee for the practice of such profession

"(c) Any individual or corporation employing a person subject to professional tax shall require payment by that person of the tax on his profession before employment and annually thereafter.

"(d) The professional tax shall be payable annually, on or before the thirty-first (31st) day of January. Any person first beginning to practice a profession after the month of January must, however, pay the full tax before engaging therein. A line of profession does not become exempt even if conducted with some other profession for which the tax has been paid. Professionals exclusively employed in the government shall be exempt from the payment of this tax.

"(e) Any person subject to the professional tax shall write in deeds, receipts, prescriptions, reports, books of account, plans and designs, surveys and maps, as the case may be, the number of the official receipt issued to him.

"Section 140. *Amusement Tax.* (a) The province may levy an amusement tax to be collected from 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.

"(b) In the case of theaters or cinemas, the tax shall first be deducted and withheld by their proprietors, lessees, or operators and paid to the provincial treasurer before the gross receipts are divided between said proprietors, lessees, or operators and the distributors of the cinematographic films.

"(c) The holding of operas, concerts, dramas, recitals, painting and art exhibitions, flower shows, musical programs, literary and oratorical presentations, except pop, rock, or similar concerts shall be exempt from the payment of the tax herein imposed.

²⁶ Any common stone or other common mineral substances as the Director of the Bureau of Mines and Geo-Sciences may declare to be quarry resources such as, but not limited to, marl, marble, granite, volcanic cinders, basalt, tuff and rock phosphate: *Provided,* That they contain no metal or other valuable minerals in economically workable quantities (Excise Tax on Minerals, Sec. 153[B][4]).

“(d) The sangguniang panlalawigan may prescribe the time, manner, terms and conditions for the payment of tax. In case of fraud or failure to pay the tax, the sangguniang panlalawigan may impose such surcharges, interests and penalties as it may deem appropriate.

“(e) The proceeds from the amusement tax shall be shared equally by the province and the municipality where such amusement places are located.

“Section 141. *Annual Fixed Tax for Every Delivery Truck or Van of Manufacturers or Producers, Wholesalers of, Dealers, or Retailers in, Certain Products.*

(a) The province may levy 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, fermented liquors, soft drinks, cigars and cigarettes, and other products as may be determined by the sangguniang panlalawigan, to sales outlet, or consumers, whether directly or indirectly, within the province in an amount not exceeding Five hundred pesos (P500.00).

“(b) The manufacturers, producers, wholesalers, dealers, and retailers referred to in the immediately foregoing paragraph shall be exempt from the tax on peddlers prescribed in this Code.”

Municipalities (Article Two)

“Section 142. *Scope of Taxing Power.* Except as otherwise provided in this Code, municipalities may levy taxes, fees, and charges not otherwise levied by provinces.

“Section 143. *Tax on Business.*²⁷ The municipality may impose taxes on the following businesses:

“(a) On manufacturers, assemblers, repackers, processors, brewers, distillers, rectifiers, and compounders of liquors, distilled spirits, and wines or manufacturers of any article of commerce of whatever kind or nature

“(b) On wholesalers, distributors, or dealers in any article of commerce of whatever kind or nature

“(c) On exporters, and on manufacturers,

millers, producers, wholesalers, distributors, dealers or retailers of essential commodities

“(d) On retailers

“(e) On contractors and other independent contractors

“(f) On banks and other financial institutions on the gross receipts of the preceding calendar year derived from interest, commissions and discounts from lending activities, income from financial leasing, dividends, rentals on property and profit from exchange or sale of property, insurance premium

“(g) On peddlers engaged in the sale of any merchandise or article of commerce

“(h) On any business, not otherwise specified in the preceding paragraphs, which the sanggunian concerned may deem proper to tax: Provided, That on any business subject to excise tax, value-added tax or percentage tax under the National Internal Revenue Code, as amended, the rate shall not exceed two percent (2%) of gross sales or receipts of the preceding calendar year.

“Section 144. *Rates of Tax within the Metropolitan Manila Area.* The municipalities within the Metropolitan Manila Area may levy taxes at rates which shall not exceed by fifty percent (50%) the maximum rates prescribed in the preceding Section.

“Section 147. *Fees and Charges.* The municipality may impose and collect such reasonable fees and charges on business and occupation and, except as reserved to the province in Section 139 of this Code, on the practice of any profession or calling, commensurate with the cost of regulation, inspection and licensing before any person may engage in such business or occupation, or practice such profession or calling.

“Section 148. *Fees for Sealing and Licensing of Weights and Measures.* “(a) The municipality may levy fees for the sealing and licensing of weights and measures at such reasonable rates as shall be prescribed by the sangguniang bayan.

²⁷The rates are found under Section 143, LGC.

“(b) X X X.

“Section 149. Fishery Rentals, Fees and Charges. (a) Municipalities shall have the exclusive authority to grant fishery privileges in the municipality waters and impose rentals, fees or charges therefore in accordance with the provisions of this Section.

“(b) X X X

“(1) X X X.

“(2) X X X.

“(3) X X X.”

Cities (Article Three)

“Section 151. Scope of Taxing Powers. Except as otherwise provided in this Code, the city, may levy the taxes, fees, and charges which the province or municipality may impose: *Provided, however,* That the taxes, fees and charges levied and collected by highly urbanized and independent component cities shall accrue to them and distributed in accordance with the provisions of this Code.

“The rates of taxes that the city may levy may exceed the maximum rates allowed for the province or municipality by not more than fifty percent (50%) except rates of professional and amusement taxes.”

Barangays (Article Four)

“Section 152. Scope of Taxing Powers. The barangays may levy taxes, fees, and charges, as provided in this Article, which shall exclusively accrue to them:

“(a) *Taxes.* On Stores or retailers with fixed business establishments with gross sales or receipts of the preceding calendar year of Fifty thousand pesos (P50,000.00) or less, in the case of cities and Thirty thousand pesos (P30,000.00) or less, in the case of municipalities, at a rate of not exceeding one percent (1%) on such gross sales or receipts.

“(b) *Service Fees or Charges.* Barangays may collect reasonable fees or 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.

“(c) *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. For such clearance, the sangguniang barangay may impose a reasonable fee. The application for clearance shall be acted upon within seven (7) working days from the filing thereof. In the event that the clearance is not issued within the said period, the city or municipality may issue the said license or permit.

“(d) *Other Fees and Charges.* The barangay may levy reasonable 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.”

Common Revenue-Raising Powers (Article Five)

“Section 153. Service Fees and Charges. Local government units may impose and collect such reasonable fees and charges for services rendered.

“Section 154. 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.

“Section 155. Toll Fees and 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

²⁸Also referred to as *Community Development Tax*.

thereafter the said facility shall be free and open for public use.”

Community Tax (Article Six)

“Section 156. Community Tax.²⁸ Cities or municipalities may levy a community tax in accordance with the provisions of this Article.”

III. COMMENTS AND OBSERVATIONS.

4. The Local Government Code of 1991 was enacted with the end in view of complying with the provisions of the 1987 Constitution. The latter’s intention is to give autonomy to local government units (LGUs). In fact a separate Article (X) is devoted entirely to Local Government,²⁹ covering twenty-one (21) sections. The Constitutions mandate can be found under the following proviso:

“Section. 3. The Congress shall enact a local government code which shall provide for a more responsive and accountable local government structure instituted through a system of decentralization with effective mechanisms of recall, initiative, and referendum, allocate among the different local government units their powers, responsibilities, and resources, and provide for the qualifications, election, appointment and removal, term, salaries, powers and functions and duties of local officials, and all other matters relating to the organization and operation of local units.”

5. The object of the above proviso is to devolve powers to local governments which can best be handled by them as it affects local or municipal matters. The governmental affairs of municipalities are better administered by people who are in direct contact with the locals. Moreover, under Section 2 “The territorial and political subdivisions shall enjoy local autonomy.” The following comment³⁰ is worth note taking:

“The Code is indeed what it is touted to be. For the first time in the history of the country, substantial powers including considerable powers of taxation are granted to local government units (LGUs) which are: the province, the city, the municipality, and the barangay. X X X. With the Code actually de-

volving substantial powers to local government units, they will now have the power and the money to respond more rapidly to the urgent needs of the people and provide the basic amenities for civilized living to their constituents without having to depend solely upon the good graces of the central government.”

(Emphasis supplied)

6. It has likewise been commented:

“The Local Government Code, enacted pursuant to the Constitution, Article 10, Section 3, provides for the exercise by local government units of their power to tax, the scope thereof or its limitations, and the exemption from taxation.”³¹ (Underscoring ours)

7. As mentioned above, the LGC of 1991 gives or extends local autonomy to LGUs in cases where proper. This is so because not all governmental functions can be delegated to LGUs. And, for a delegation of power to be valid, certain requirements must be met, such as completeness of the law.³² In the case of *Limbonas vs. Miguelin*,³³ the connotation of autonomy was discussed:

“Autonomy is either (1) decentralization of administration; or (2) decentralization of political power. There is decentralization of administration when the central government delegates administrative powers to political subdivisions in order to broaden the base of government power and in the process make local governments “more responsive and accountable” and “ensure their fullest development as self-reliant communities and make them more effective partners in the pursuit of national development and progress. At the same time, it relieves the central government of the burden of managing local affairs and enables it to concentrate on national concerns. The President exercises ‘general supervision’ over them, but only to “ensure that local affairs are administered accordingly to law.” He has no control over their acts in the sense that he can substitute their judgment with his own.”

²⁹ “Local government has been described as a political subdivision of a nation or state which is constituted by law and has substantial control of local affairs” (Bernas, Joaquin G.: *The 1987 Constitution of the Philippines: A Commentary* (Page 1110), citing UP Law Center Constitution Revision Project, the latter quoting *Journal of Local Administration Overseas* 135.

³⁰ Pimentel, Aquilino Q.: *The Local Government Code of 1991: The Key To National Development*, pp. 2 & 4.

³¹ Santiago, Defensor Miriam: *Local Government Code Annotated*, 2000 Ed., p. 137.

³² *Pelaez v. Auditor General*, 15 SCRA 569, cited in Bernas, Joaquin G.: *The 1987 Constitution of the Republic of the Philippines: A Commentary*, pp. 686-687.

³³ GR No. 80391, February 28, 1989, as discussed in Aralar, Reynaldo B.: *Local Government Code of 1991*, p. 4.

As earlier mentioned, the foremost reason for the enactment of the LGC of 1991 is to extend to LGUs the power and prerogative to manage their own affairs. It is viewed that local affairs are best handled by the locals themselves, for they are in a far more superior position to know the ins and outs of matters internally affecting them, say compared to the National Government (NG). The latter is concerned more with managing the day to day operations relative to national matters rather than with local circumstances. The nebulous relationship of LGUs and the NG was made clear with the passage of the LGC.

8. Of the powers handed down to LGUs under the LGC, the power of taxation, it is submitted, is the most distinctive. As enumerated above, the scope of said prerogative to impose taxes, is broad. And, the LGUs are given leeway on the manner they allocate the taxes collected, subject only to the usual accounting and auditing pre-conditions. Of course, in the imposition of taxes LGUs must follow constitutional guidelines and the delimitations written under the LGC³⁴ itself.

9. Under Section 130 of the LGC, LGUs are bound to act within certain parameters. These are:

“SEC. 130. *Fundamental Principles.* -

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 taxpayers ability to pay;

“(2) be levied and collected only for public purposes;

“(3) not be unjust, excessive, oppressive, or confiscatory; and

“(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 subjected to disposition by, the local government unit levying the tax, fee, charge or other imposition unless otherwise specifically provided, herein; and

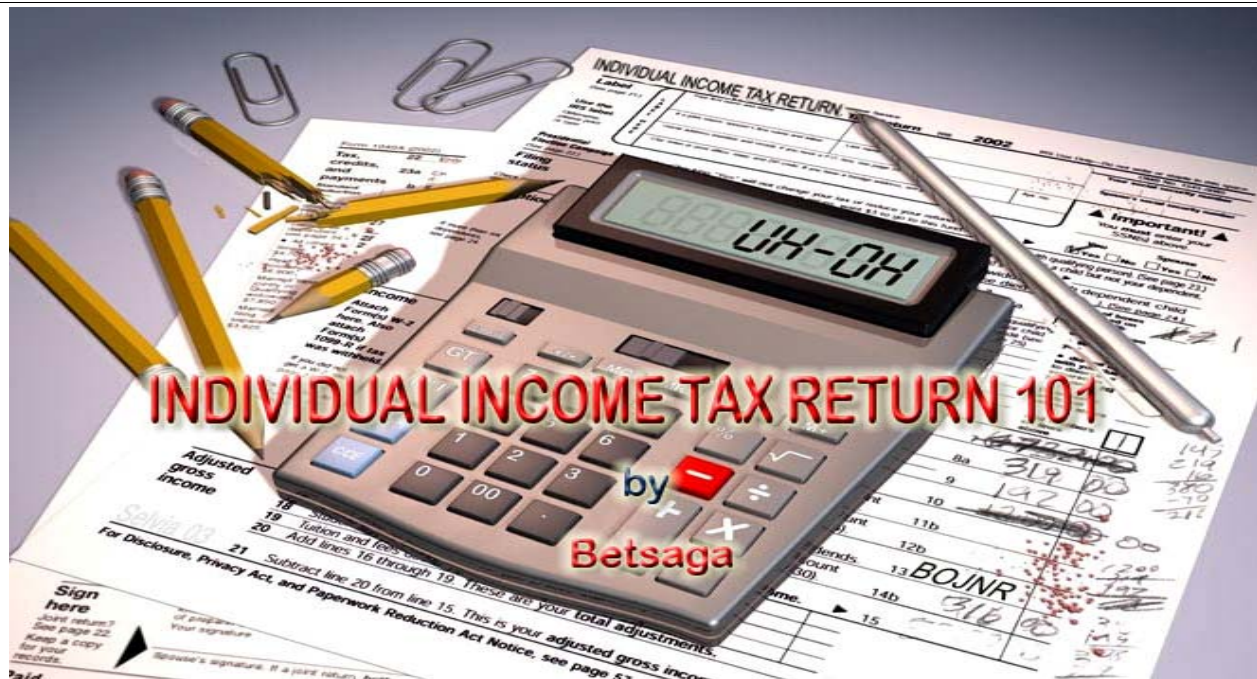
“(e) Each local government unit shall, as far as practicable, evolve a progressive system of taxation.”

The above-cited proviso serves as guidelines for the LGUs to enact tax ordinances within the bounds of the LGC and the 1987 Constitution. This is complemented by Section 133 of the LGC referring to common limitations on the taxing powers of LGUs. Together with existing jurisprudence interpreting local tax laws, the mentioned Sections above guard against potential abuse on the part of LGUs on their perceived plenary power of raising revenue, on consequences that are far from intended.

10. Of course, despite the grant of fiscal and taxing powers under the LGC, LGUs who do not make use of the same would not benefit from it. LGUs should take full advantage of the law if they are to become self-sufficient and better self-governing. It should be noted that the Department of Interior and Local Government (DILG), pursuant to its mandate, is ably assisting LGUs in maximizing its prerogatives under the LGC. The DILG often conducts seminars/trainings to apprise local authorities regarding their duties and responsibilities under the LGC. This way said officials and employees can improve their services to the locality and its residents. It must be stressed, nevertheless, even as it may merely state the obvious, that the provisions of the LGC give LGUs all the necessary tools for them to become independent from the central government.

11. In the final analysis, it is really up to local governments and their duly appointed and elected officials and likewise its people, to see to it that they enact tax ordinances that are advantageous to all sectors of society, taking into account the capacity of the taxpayers to shoulder the necessary government expenses. And, more importantly that government and the governed live harmoniously.

³⁴ Sec. 133. Common Limitations on the Taxing Powers of Local Government Units. - Unless otherwise provided herein, the exercise of the taxing powers of provinces, cities, municipalities, and barangays shall not extend to the levy of the following: (a) Income tax, except when levied on banks and other financial institutions; (b) Documentary stamp tax; (c) Taxes on estates, inheritance, gifts, legacies and other acquisitions *mortis causa*, except as otherwise provided herein; (d) Customs duties, registration fees of vessel and 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; (e) Taxes, fees or charges and other impositions upon goods carried into or out of, or passing through, the territorial jurisdictions of local government units in the guise of charges for wharfage, tolls for bridges or otherwise, or other taxes, fees or charges in any form whatsoever upon such goods or merchandise; (f) Taxes, fees or charges on agricultural and aquatic products when sold by marginal farmers or fishermen; (g) Taxes on business enterprises certified to the Board of Investment as pioneer or non-pioneer for a period of six (6) and four (4) years respectively from the date of registration; (h) Excise taxes on articles enumerated under the National Internal Revenue Code, as amended, and taxes, fees or charges on petroleum products; (i) Percentage or value-added tax (VAT) on sales, barter, or exchanges or similar transportation of passengers or freight by hire and common carriers by air, land or water, except as provided herein; (j) 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 in this Code; (k) Taxes on premiums paid by way of reinsurance or retrocession; (l) 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; (m) Taxes, fees, or other charges on Philippine products actually exported, except as otherwise provided herein; (n) taxes, fees, or charges on Countryside and Barangay Business Enterprises and cooperatives duly registered under R.A. No. 6810 and Republic Act Numbered Sixty-nine hundred thirty eight, otherwise known as the 'Cooperative Code of the Philippines' respectively; and (o) Taxes, fees or charges of any kind on the National Government, its agencies and instrumentalities, and local government units. N.B.: R.A. No. 6810 [Dec. 14, 1989], Magna Carta for Countryside and Barangay Business Enterprises or Kalakalan 20 Law.



With barely a month to file our income tax return, I have surmised the necessity to at least give some information on what this is all about. Many of the concerned just go through the process of filing their income tax returns without really knowing the what, the why's and the how's. Some when asked why they are filing their income tax return responded that it is part of the system that they have to comply otherwise they will pay a fine if they cannot comply on or before April 15 of each year. Some answered with a shrug of the shoulder.

Taxes, as we all know is a form payment, a fee charged/imposed by the government¹ to the income of an individual or corporation, its produce or services it renders. Accordingly, this is done to finance and support the basic services that the government has to cater its constituents such as health, education, public safety, payment for public and private debt, etc.

Let's zero in on individual income tax which according to the Bureau of Internal Revenue is a tax on a person's income, emoluments, profits arising from property, practice of profession, conduct of trade or business or on the pertinent items of gross income specified in the National Internal Revenue Code (NIRC), as amended, less the deductions and/or personal and additional exemptions, if any, authorized for such types of income, by the Tax Code, as amended, or other special laws.

Who are required to file income tax returns?

- every individual citizen of the Philippines residing therein

- ◇ employees deriving purely compensation income from 2 or more employers, concurrently or successively at anytime during the taxable year
- ◇ employees deriving purely compensation income regardless of the amount, whether from a single or several employers during the calendar year, the income tax of which has not been withheld correctly (i.e. tax due is not equal to the tax withheld) resulting to collectible or refundable return
- ◇ self-employed individuals receiving income from the conduct of trade or business and/or practice of profession
- ◇ individuals deriving mixed income, i.e., compensation income and income from the conduct of trade or business and/or practice of profession
- ◇ individuals deriving other non-business, non-professional related income in addition to compensation income not otherwise subject to a final tax
- ◇ individuals receiving purely compensation income from a single employer, although the income of which has been correctly withheld, but whose spouse is not entitled

¹ Sec. 21 (NIRC) Sources of Revenue. – The following taxes, fees and charges are deemed to be national internal revenue taxes: (a) Income tax; (b) Estate and Donor's taxes; (c) Value-Added tax; (d) Other percentage taxes (e) excise taxes; (f) Documentary stamp taxes; and (g) such other taxes as are or hereafter may be imposed and collected by the Bureau of Internal Revenue

to substituted filing

◇ marginal income earners

- **an individual citizen of the Philippines who is residing outside of the Philippines including overseas contract workers**
- **Non-resident citizens receiving income from sources within the Philippines**
- **Aliens, whether resident or not, receiving income from sources within the Philippines**

However, RA 9504, provided that minimum wage earners are exempted from the payment of income tax on their taxable income.

Computation of taxable income.

All income derived from whatever source, including but not limited to the following items as defined Sec. 32 (A) NIRC), are considered taxable income:

- Compensation for services in whatever form paid including, but not limited to fees, salaries, wages, commissions, and similar items;
- Gross income derived from the conduct of trade or business or the exercise of a profession;
- Gains derived from dealings in property;
- Interests;
- Rents;
- Royalties;
- Dividends;
- Annuities;
- Prizes and winnings;

- Pensions; and
- Partner's distributive share from the net income of the general professional partnership.

For purposes of determining the individual income tax, a personal exemption for individual taxpayer² amounting to Fifty Thousand (P50,000) for each individual taxpayer is deducted from his/her gross income. There shall also be an allowed additional exemption of Twenty-five thousand pesos (P25,000) for each dependent³ not exceeding four (4). However, only one of the spouses who is deriving gross income can claim the additional exemption for the dependents. In case of legally separated spouses, additional exemptions can be claimed by the spouse who has custody of the child or children.

A. For the Annual Income Tax filing of individuals earning Purely Compensation Income (Including Non-Business/Non-Profession Related Income) and For Marginal Income Earners, the Tax Form to be used is BIR Form 1700 - Annual Income Tax Return (For Individual Earning Purely Compensation Income Including Non-Business/Non-Profession Related Income)⁴.

Documentary Requirements

1. Certificate of Income Tax Withheld on Compensation (BIR Form 2316)
2. Waiver of the Husband's right to claim additional exemption, if applicable
3. Duly approved Tax Debit Memo, if applicable
4. Proof of Foreign Tax Credits, if applicable
5. Income Tax Return previously filed and proof of payment, if filing an amended return for the same taxable year.

The income tax can be computed in accordance with and at the rates established in the following schedules:

Not over P10,000.....	5%
Over P10,000 but not over P30,000...	P500 + 10% of the excess over P10,000
Over P30,000 but not over P70,000...	P2,500 + 10% of the excess over P30,000
Over P70,000 but not over P140,000...	P8,500 + 20% of the excess over P70,000
Over P140,000 but not over P250,000...	P22,500 + 25% of the excess over P140,000
Over P250,000 but not over P500,000...	P50,000 + 30% of the excess over P250,000
Over P500,000.....	P125,000 + 32% of the excess over P500,000

² RA 9504 (June 17, 2008) which took effect July 6, 2008.

³ A "Dependent" means a legitimate, illegitimate or legally adopted child chiefly dependent upon and living with the taxpayer if such dependent in not more than twenty-one (21) years of age, unmarried and not gainfully employed or if such dependent, regardless of age, is incapable of self-support because of mental or physical defect.

⁴ From BIR website

Procedures

1. Fill-up BIR Form 1700 in triplicate.
2. If there is payment:
 - o Proceed to the nearest Authorized Agent Bank (AAB) of the Revenue District Office where you are registered and present the duly accomplished BIR Form 1700, together with the required attachments and your payment.
 - o In places where there are no AABs, proceed to the Revenue Collection Officer or duly Authorized City or Municipal Treasurer located within the Revenue District Office where you are registered and present the duly accomplished BIR Form 1700, together with the required attachments and your payment.
 - o Receive your copy of the duly stamped and validated form from the teller of the AABs/Revenue Collection Officer/duly Authorized City or Municipal Treasurer.
3. For "No Payment" Returns including refundable returns, and for tax returns qualified for second installment:
 - o Proceed to the Revenue District Office where you are registered or to any Tax Filing Center established by the BIR and present the duly accomplished BIR Form 1700, together with the required attachments.
 - o Receive your copy of the duly stamped and validated form from the RDO/Tax Filing Center representative.

However, an employee who is qualified for substituted filing of income tax return under BIR Revenue Regulations 02-98, shall no longer be required to file income tax return (BIR Form No. 1700) since BIR Form No. 1604-CF with alphalist of employees shall be considered a substituted return filed by the employer. BIR Form No. 2316, duly certified by both employee and employer, shall serve the same purpose as if a BIR Form No. 1700 has been filed, such as proof of financial capacity for purposes of loan, credit card, or other applications, or for the purpose of availing tax credit in the employee's home country and for other pur-

poses with various government agencies. (As added by RR 19-02 and amended by RR 10-08).

- B. For the Annual Income Tax of Self-Employed Individuals, Estates And Trusts (Including Those With Mixed Income, i.e., Compensation Income and Income from Business and/or Practice of Profession), use BIR Form 1701 - Annual Income Tax Return (For Self-Employed Individuals, Estates and Trusts Including Those With Both Business and Compensation Income).

Documentary Requirements

1. Certificate of Income Tax Withheld on Compensation (BIR Form 2316)⁵, if applicable
2. Certificate of Income Payments not Subjected to Withholding Tax (BIR Form 2304) if applicable
3. Certificate of Creditable Tax Withheld at Source (BIR Form 2307), if applicable
4. Waiver of the Husband's right to claim additional exemption, if applicable
5. Duly approved Tax Debit Memo, if applicable
6. Proof of Foreign Tax Credits, if applicable
7. Income Tax Return previously filed and proof of payment, if filing an amended return for the same year
8. Account Information Form (AIF) or the Certificate of the independent CPA with Audited Financial Statements if the gross quarterly sales, earnings, receipts or output exceed P 150,000.00
9. Proof of prior year's excess tax credits, if applicable

Procedures

1. Fill-up BIR Form 1701 in triplicate copies.
2. If there is payment:
 - o Proceed to the nearest Authorized Agent Bank (AAB) of the Revenue District Office

⁵ Every employer or other person who is required to deduct and withhold the tax on compensation including fringe benefits given to rank and file employees, shall furnish every employee from whose compensation taxes have been withheld the Certificate of Compensation Payment/Tax Withheld (BIR Form No. 2316) on or before January 31 of the succeeding calendar year, or if the employment is terminated before the close of such calendar year, on the day on which the last payment of compensation is made.

where you are registered and present the duly accomplished BIR Form 1701, together with the required attachments and your payment.

- o In places where there are no AABs, proceed to the Revenue Collection Officer or duly Authorized City or Municipal Treasurer located within the Revenue District Office where you are registered and present the duly accomplished BIR Form 1701, together with the required attachments and your payment.
 - o Receive your copy of the duly stamped and validated form from the teller of the AABs/Revenue Collection Officer/duly Authorized City or Municipal Treasurer
- C. For "No Payment" including refundable/ creditable returns, returns with excess tax credit carry over, and returns qualified for second installment:
- o Proceed to the Revenue District Office where you are registered or to any established Tax Filing Centers established by the BIR and present the duly accomplished BIR Form 1701, together with the required attachments.
 - o Receive your copy of the duly stamped and validated form from the RDO/Tax Filing Center representative.

Deadline

Final Adjustment Return or Annual Income Tax Return - On or before the 15th day of April of each year covering income for the preceding year

- D. For the Account Information Form of Self-Employed Individuals, Estates And Trusts (Including Those With Mixed Income, i.e., Compensation Income and Income from Business and/or Practice of Profession) use BIR Form 1701 AIF - Account Information Form For Self-Employed Individuals, Estates and Trusts (Including those with Mixed Income, i.e., Compensation Income and Income from Business and/or Practice of Profession) and Estates and Trusts (Engaged in Trade or Business)

NOTE: Pursuant to Revenue Memorandum Circular No. 6 – 2001, corporations, companies or persons whose gross quarterly sales, earnings, receipts or output exceed P 150,000.00 may not accomplish this form. In lieu thereof, they may file their annual income tax returns accompanied by balance sheets, profit and loss statement, schedules listing income-producing properties and the corresponding income therefrom, and other relevant statements duly certified by an independent CPA.

Documentary Requirements

None

Procedures

1. Accomplish BIR Form 1701 AIF in triplicate.
2. Attach the same to BIR Form 1701.

Deadline

Same deadline as BIR Form 1701 - On or before the 15th day of April of each year covering taxable income for the preceding year

- E. The Quarterly Income Tax For Self-Employed Individuals, Estates And Trusts (Including Those With Mixed Income, I.E., Compensation Income and Income from Business and/or Practice of Profession) uses BIR Form 1701Q - Quarterly Income Tax Return For Self-Employed Individuals, Estates and Trusts (Including those with both Business and Compensation Income)

Documentary Requirements

1. Certificate of Income Tax Withheld at Source (BIR Form 2307), if applicable
2. Certificate of Income Payments not Subjected to Withholding Tax (BIR Form 2304) if applicable
3. Duly approved Tax Debit Memo, if applicable
4. Previously filed return, if an amended return is filed for the same quarter

Procedures

1. Fill-up BIR Form 1701Q in triplicate.
2. If there is payment:
 - o Proceed to the nearest Authorized Agent Bank (AAB) of the Revenue District Office where you registered and present the duly accomplished BIR Form 1701 Q, together with the required attachments and your payment.

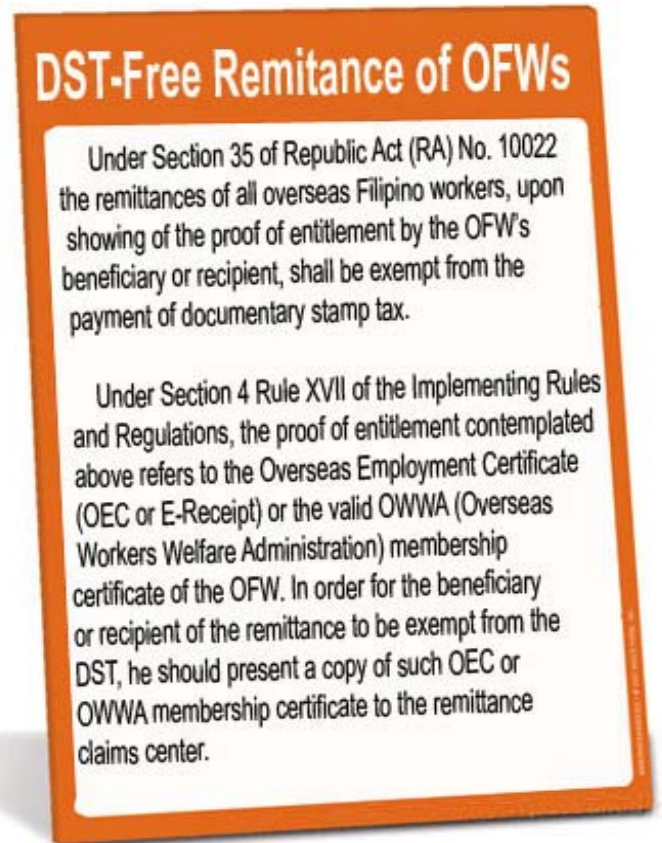
- o In places where there are no AABs, proceed to the Revenue Collection Officer or duly Authorized City or Municipal Treasurer located within the Revenue District Office where you are registered and present the duly accomplished BIR Form 1701Q, together with the required attachments and your payment.
 - o Receive your copy of the duly stamped and validated form from the teller of the AABs/Revenue Collection Officer/duly Authorized City or Municipal Treasurer.
3. For "No Payment" Returns including refundable/creditable returns with excess tax credit carry over and returns qualified for second installment:
- o Proceed to the Revenue District Office where you are registered or to any Tax Filing Center established by the BIR and present the duly accomplished BIR Form 1701Q, together with the required attachments.
 - o Receive your copy of the duly stamped and validated form from the RDO/Tax Filing Center representative.

Deadlines

- April 15 – for the first quarter
- August 15 – for the second quarter
- November 15 – for the third quarter

I hope I was able to make the subject on Income Tax Return more friendly, easier to understand and bearable to comply with. It is an overstatement if I further stress on the need of the

government to collect the necessary taxes to finance its many functions. Much more discuss on the topic of how the government should spend the hard earned money that its taxpayers are remitting. As a reminder, let us pay our taxes correctly and on time, as every loyal and patriotic citizens not as a mere obligation but as a pledge of allegiance to our one and only country- the Philippines.



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