Graduate School of Development Studies

WHY 'GOOD LOCAL TAXES' AREN'T WORKING?:

Implications of the Revenue Assignment and Local Fiscal Environment to Revenue-Raising Capacity

(The Case of Local Governments in the Philippines)

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List of Acronyms

BLGF	-	Bureau of Local Government Finance
CE	-	[revenue] collection efficiency
CY	-	calendar year
COA	-	Commission on Audit
DOF	-	Department of Finance
GDP	-	Gross Domestic Product
IRA	-	Internal Revenue Allotment
LAO	-	Local Assessment Office
LBT	-	Local Business Tax
LGC	-	Local Government Code of 1991
LGUs/LGs	-	Local Government Units/Local Governments
MMA	-	Metropolitan Manila Area
NG/CG	-	National Government/Central Government
NSCB	-	National Statistics Coordination Board
NTRC	-	National Tax Research Center
RPT	-	real property tax
TAV	-	taxable assessed value
TCE	-	tax collection effort

Abstract

The paper focuses on local revenue assignment and revenue-raising capacity, with the aim of identifying how the assignment of revenues to low-tiered governments impact on their capacity to generate substantial revenues. The research finds out that while the revenues assigned to local governments are deemed as 'good local taxes', in reality, these taxes become unstable and unpredictable sources of local income. There are several factors, e.g., administrative, financial, legal and political, affecting the way local taxes are administered and enforced at the local level. Moreover, there are very few productive or 'good local taxes' assigned to local governments which, in turn, limit the amount of potential revenues obtainable by local governments. In the case of the LGUs in the Philippines, there are more minor revenue sources available for the localities than major or more productive revenue sources, giving less resource for LGUs to finance local expenditures using their own revenues.

Relevance to Development Studies

The research has relevance in terms of its practical and academic contribution to state and local government fiscal relations. Granting revenue-raising powers and additional sources of funds to local governments justifies the idea that local governments play significant role in carrying out a country's developmental goals. As agents of development, it is a general contention that local governments should be able to have adequate revenue sources, have the capacity to raise such resources, and more importantly, to decide on significant aspects of local tax administration. Providing them with revenue-raising powers is just one way of achieving the goal of fiscal decentralization – to make local governments autonomous and self-sustaining communities. The other is equipping them with an environment suitable to achieve such goal.

Keywords

Fiscal decentralization, local government, revenue assignment, local revenue mobilization

Chapter 1
OVERVIEW OF THE RESEARCH

The design of the sub-national taxes may have repercussions on tax administration and, conversely, tax policy options and assignments are constrained by tax administration capabilities at each level of government.

- Vehorn, C. and E. Ahmad, 1997

Fiscal decentralization has been the "most widespread trends in development" in the 1990s. (WorldBank in Smoke, 2001:1) Various countries have undertaken local government reforms with the belief that the 'recipe' for development is at hand. Conventional fiscal federalism theory has laid out the principles, patterned after "Musgravian model of public sector responsibility for stabilization, allocation and distribution", that guide the distribution and sharing of functions and resources within multi-tiered governments. (Smoke, 2001:4) Two core aspects in the design of fiscal decentralization are the assignment of expenditure responsibilities and revenue sources. By design, the assignment of revenues depends on the assignment of expenditure responsibilities.

Assigning of revenues – of "who sets and collect what taxes?" – is not only complex but, in reality, a politicized act.[1] (Bird and Vaillancourt, 1998; Litvack, *et al.,* 1998; and Fjeldstad, 2006) In theory, the assignment of revenues follows standard principles. These principles state which revenues are better assigned to the central government (CG) and which can be left to the local governments (LGs). Multi-tiered governments have followed these principles and assigned respective sources of revenue to CG and LGs. Most notably, income taxes were assigned to CGs while property taxes were delegated to local levels.

But intergovernmental finance does not end on assigning of revenues/tax sources. Rather, it is just the beginning of the story. Another important aspect, and where the government is often evaluated, deals with ascertaining the revenue-raising capacity of the government levels concerned – of 'how effectively the assigned government could raise such taxes?' Several studies pointed out those low-tiered governments rely on fiscal grants because they are inefficient in raising their own revenues. While others blame the weak revenue-raising capacity of localities on the manner of assigning revenues between central and LGs – on the 'unproductiveness' of revenues assigned to the latter.(Manasan, 2007; and Bahl, 2008)

These components of local finance are complex issues faced by some countries. (Bahl and Bird, 2008) As the assignment of revenues is vital to public finance, so is the mobilization of such revenues. What is clear is that the outcomes of both of these components are shaped and influenced by factors that may (or may not) be beyond the control of the government, be it central or local.

This paper explores the revenue side of local fiscal administration. It tackles the implications of the standard model of fiscal federalism on the principal revenue sources assigned to local government units (LGUs) in the Philippines. In particular, it explores the validity of the real property tax (RPT) and the potential of the local business tax (LBT) as 'good' local taxes. It also establishes the revenue-raising capacities of LGUs through analysis of revenue performance measures like local and external revenue ratios, RPT collection efficiency and tax gap, and local and national government revenue ratios. It also attempts to look at the capacity of local revenues to finance local expenditures by comparing the ratio of local taxes and the internal revenue allotment (IRA) to local expenditures. Moreover, the paper also explores the 'institutional framework' that influences local revenue mobilization.

1.1 The Context in the Philippines

The Philippines[2] is one of the countries that decentralized and introduced "major structural, institutional and fiscal reforms" during the '90s. (World Bank, 2005) With the enactment of the Local Government Code (LGC) in 1991, greater power and a number of functions and services were devolved to the LGUs. Overall, the decentralization programme embodied in the LGC aims to make LGUs fully functioning and self-reliant communities.[3] One major component of the LGC is the "enhancement" of fiscal resources of LGUs.[4] (Cabo, 1997) While LGUs enjoyed the same taxing powers under the old Local Tax Code, they were provided with greater financial resources, e.g., higher tax rates for property and business taxes, and an increased share from the internal revenue collections of the National Government (NG) under the LGC.

Currently, there are about 43,635 LGUs[5] in the Philippines consisting of 80 provinces; 121 cities; 1,511 municipalities; and 42,008 barangays (villages).[6] Each LGU level is vested with the power to create its own revenue sources and levy taxes, fees and charges, subject to certain conditions, e.g., not levied simultaneously with similar taxes imposed by the NG.[7] Provinces, through the municipalities, impose the RPT. They also collect the tax on transfer of real property ownership, professional tax, and some types of business taxes.[8] On the other hand, municipalities levy LBT and such other fees and charges.[9] Cities are allowed to levy the taxes, fees and charges imposed by provinces and municipalities at rates not exceeding 50% of the maximum rates imposed by other LGU levels.[10]

Aside from local (own) sources of revenues, LGUs also generate income from external sources. A major source of external revenues is the share received from the internal revenue tax collections of the NG or the IRA. In addition to this, some LGUs receive shares from other national tax collections provided under special laws, e.g., excise taxes imposed on tobacco products, and shares in the proceeds from the development and utilization of national wealth, but the portion of these shares which accrue to the LGUs are smaller compared to IRA.

The local revenues assigned to each level of LGU as well as the extent of revenue raising powers granted to LGUs are reflective of the government's vision of helping LGUs to become self-reliant communities as envisioned in the enactment of the LGC. However, contrary to this expectation, most LGUs in the Philippines have not been able to maximize their revenue potentials and meet their revenue targets. (GOP-WB/ADB, 2003) An example is the LGUs' inability to fully exhaust their RPT potential revenues. LGUs' RPT collection efficiency averaged 58% from 1993 to 2004, indicating that 42%, or about half of RPT dues remained uncollected. (Caro, 2006) Moreover, based on local and external revenue ratios, most LGUs seem to rely heavily on their shares from external revenues particularly the IRA. A big chunk of LGUs' total income comes from the IRA which, in many LGU cases, is financing more than 90% of their expenditures. (BLGF, 2008) On the average, LGU revenues from 1993 to 2007 amounted to ₱142.44 billion, of which local (own) sources of revenues represents 34% (₱47.10 billion) while external revenues represent 66% (₱97.39 billion), with the IRA comprising 93% of the latter.[11]

Due to the low revenue collection and likely dependence on the IRA, LGUs in the Philippines have been branded as inefficient in mobilizing their own revenues. Many studies have concluded that, per LGU level, provinces and municipalities are 'heavily dependent' on intergovernmental transfers while (some) cities, with the exception of the highly urbanized cities in Metro Manila, appear to be 'less dependent.' In particular, a study on local revenue performance points out that both provinces and municipalities "failed to maximize their taxing and revenue-raising powers and relied heavily on allotment to fund their developmental programs and regular projects." (Caro, 2006) The notable performance of the cities, on the other hand, shows that they exerted more effort in generating local revenues, minimizing their dependence on the IRA.[12]

1.2 Indication of the Problem

The perceived "dependency" of LGUs on the IRA may be looked at in a different and wider perspective. Judging the capacity (or incapacity) of LGUs to raise revenue solely on the basis of their dependence on fiscal transfers is not sufficient. Firstly, fiscal transfers can either be an incentive or disincentive to local revenue generation, and apart from it, there are constraints in the local environment that may have helped or hindered LGUs to raise their own sources of revenues. (Bahl, *et al.,* 1984) These limitations are summarized into broad areas as administrative, legal, political, and other institutional factors. The economic condition and the state of taxpayers' compliance also affect revenue mobilization. (McLure and Martinez-Vasquez, 2000) The latter are most likely beyond the control of the LGUs.

Secondly, the characteristics of the revenues sources determine the potential yield or income that can be derived from them.[13] Such characteristics include the taxable base and the rates applied. Lastly, local revenue sources assigned to LGs are designed not for local autonomy reasons but for efficiency purposes. In this case, Norregaard (in Ter-Minnassian (ed.), 1997) notes some potential risks to macroeconomic stability and CG's control if extensive fiscal autonomy is granted to LGs. Hence, CG's are assigned with taxes that maintain control of macroeconomic issues.

1.3 Research Objectives and Questions

The research aims to explore the characteristics/features of revenues assigned to LGUs and the limits and opportunities to local revenue mobilization in the Philippines. Specifically, it aims to do the following:

- To examine the characteristics of major revenues assigned to the LGUs (RPT and LBT) in relation to standard model of revenue assignment
- To determine institutional incentives and disincentives to local revenue mobilization
- To analyze the capacity of LGUs to raise local (own) sources of revenues

Towards this end, this research attempts to answer the following question:

> How do revenue assignment principles and the local (revenue) environment affect the revenue-raising capacity of governments at the local level?

By addressing this question, the research aims to trace the connection between revenue assignment and the current state of LG revenue performance. Hence, the research addresses the following sub-questions:

- Do revenue assignment principles validate the revenue sources assigned to LGUs in the Philippines? What features of the revenue assignment model are characterized in revenues assigned to them? (emphasis on RPT and LBT)
- What is the trend in local revenue performance of LGUs in the Philippines? What analysis can be derived from this trend?
- What are the constraints on local revenue mobilization? What are the opportunities available to them? (emphasis on the administration of the RPT)

1.4 Scope and Limitation

The research focuses on the revenue side of local finance, particularly on the assignment and mobilization of LGU revenues. It reviews what literatures on fiscal federalism say on revenue assignment and local revenue mobilization and compares them with the actual practice in the LGUs. To this end, the research is descriptive and exploratory in nature. It presents a general background of the revenues assigned to LGUs, their local and external revenue performance, and the 'institutional framework' that influence local revenue generation.

Specifically, discussion on revenue assignment covers the major local taxes like the RPT and LBT. The analysis of the revenue performance, on the other hand, covers the years 1997-2007. Year 1997 was chosen as a starting point for review to provide a brief continuation to the series of revenue mobilization and local government administration studies conducted in the country from 1980 to 1995.

An LGU case per local government level was looked at to provide specific case and a 'situationer' of LGUs in the Philippines. In particular, the experiences of the Province of La Union, San Fernando City, and the Municipalities of Bacnotan, Bauang and Burgos in Northern Philippines (Region I) are used as illustrative cases in the research. The use of particular LGU sample is intended only to make a concrete reference in analyzing the framework of the research. It does not intend to generalize the overall situation of LGUs in the Philippines.

1.5 Structure of the Paper

The paper is structured in six chapters. The next part, **Chapter 2,** includes a review of concepts used as well as the research methodology and framework of analysis used in the study. **Chapter 3**, on the other hand, presents the revenues assigned to each level of LGUs. It describes the salient features of local government tax system. **Chapter 4** presents a summary of LGUs' revenue performance in relation to their assigned revenues. Various performance measures applied include the comparison of local and external revenue sources; local and national revenues and expenditures; collection efficiency ratios; and tax gap. In order to give explanation on the revenue assignment and revenue-raising capacities of LGUs, **Chapter 5** tackles diverse issues affecting local revenue mobilization, with emphasis on the experiences in La Union Province. A short profile of each locality is presented to provide an overview of their social and economic situations. More importantly, the revenue performances of these LGUs are shown to emphasize their experiences in generating revenues. Lastly, **Chapter 6** presents the findings and conclusion of the study.

Chapter 2
RESEARCH FRAMEWORK AND METHODOLOGY

2.1 Conceptual Framework

Revenue (Tax) Assignment

Deciding which revenues should be assigned to the LGs and which should be retained to the NG is a challenge for fiscal policy and decision-makers. While there is no ideal assignment of revenue sources between the two levels of governments, economists laid out tax assignment principles in order to meet the respective responsibilities of central and LGs in maintaining 'macroeconomic stabilization, income redistribution and resource allocation.' (Boadway et al. in Fjeldstad 2006:3) For instance, Musgrave (in Bird, 2008:5) suggested that property taxes are better assigned to LGs based on stability and mobility grounds. On the other hand, comprehensive income taxes may be left exclusively to the NGs for administrative efficiency. Brosio (in Ahmad, Qiang and Tanzi (eds), 1995:180) points out that the NG should be responsible for taxes suitable for economic stabilization; has high redistributive potential; highly unequally distributed among jurisdictions; and highly mobile. These tax assignment principles were based on equity and efficiency criteria formulated by Musgrave. (Bird, 2008)

The *standard model of fiscal federalism* (or conventional model of revenue assignment) was developed by Wallace Oates and has its roots from Musgravian approach. Basically, the model "assigns no productive taxes to lower levels of government." (Bird, 2008:7) As noted from Smoke (2001), NGs generally assign to the LGs those revenue bases that are immobile and do not compete with national tax bases. Moreover, Tanzi (in Ahmad,Qiang and Tanzi (eds), 1995) pointed out that mobility of the tax base and economic objectives are important to determine where taxes may be assigned. Those tax bases that can escape the local level by moving to another should not be assigned to the local government. In addition, the tax should remain with the national government if 'economies of scale' in tax administration is the objective. This revenue assignment model also adheres to the saying that financing follows function, that is, tax assignment would largely depend on the assignment of expenditure responsibilities. If LGs have smaller responsibilities then low rates of taxes and fees and charges will suffice. But if it is responsible for wider social services, wider and more stable tax bases are needed.

There are, however, some problematic issues arising from the tax assignment principles. Smoke (2001) For one, the assigned revenue bases are often not enough to meet local expenditure needs. The situation offers an imbalance in the revenue and expenditure needs of among government levels. Conversely, LGs will rely on fund transfers from the NG. Also, LGs normally have unproductive sources of revenues, disabling them to recover the costs of administering them. LGs are often left with property taxes and user charges as potential revenue sources, while higher government levels are better off having personal income taxes and consumption taxes. (Bird, 2008) More importantly, there is little attention given to the proper enforcement of the assigned revenues which is aggravated by "serious design problems such as static bases, overly complex structures and ineffective allocation mechanisms." (Smoke, 2002:23)

On the other hand, the *second generation fiscal federalism model* supports the idea that there is "no optimal tax assignment" for levels of government. (Oates; Weingast; and Ambrosiano and Bordignon in Bird, 2008) Proponents of this model uphold that there is a "significant degree of tax autonomy" among low-tier governments. The model recognizes that the people who decide which taxes to be assigned and imposed are influenced by "political rather than an economic calculus." (Bird, 2008:9) According to Bird, the model does not make any practical recommendation because "it reflects more the outcome of political bargaining than the consistent application of any normative principles." (2008:11) Vehorn and Ahmad (in Ter-Minnassian (ed.), 1997:116) also points out that if the CG defines the tax base and rates in behalf of LGs, then autonomy is restricted. The model stresses the importance of LGs having the ability and responsibility to determine their own tax revenues. LGs should have control over which taxes and tax bases to levy, what tax rates to apply and how to enforce the taxes.

Revenue-Raising Capacity

The capacity of LGs to raise revenues assigned to them is another aspect of fiscal administration. In general, this capacity is assessed in terms of performance measures like the tax-to-gross domestic product (GDP) ratio and the tax gap. Since the collection of taxes is deemed as the ultimate goal of tax administration, "a revenue-collecting institution is only regarded as having a high capability to raise revenue if it generates a significant output." (von Soest, 2007:354) It only indicates a country's fiscal status – "whether it is above or below average in the relation to other countries and if it has changed over time." (von Soest, 2007:356) But the tax-to-GDP measure of capacity is influenced by environmental factors such as socio-economic and political variables which are beyond the control of tax administration. Moreover, the tax-to-GDP ratio is insufficient for measuring administrative performance. Hence, additional measure like the tax gap is necessary to determine whether there had been inefficiencies in tax administration. The tax gap measures the amount of uncollected revenues per year as well as the collection from past years' uncollected revenues. (Caro, 2006)

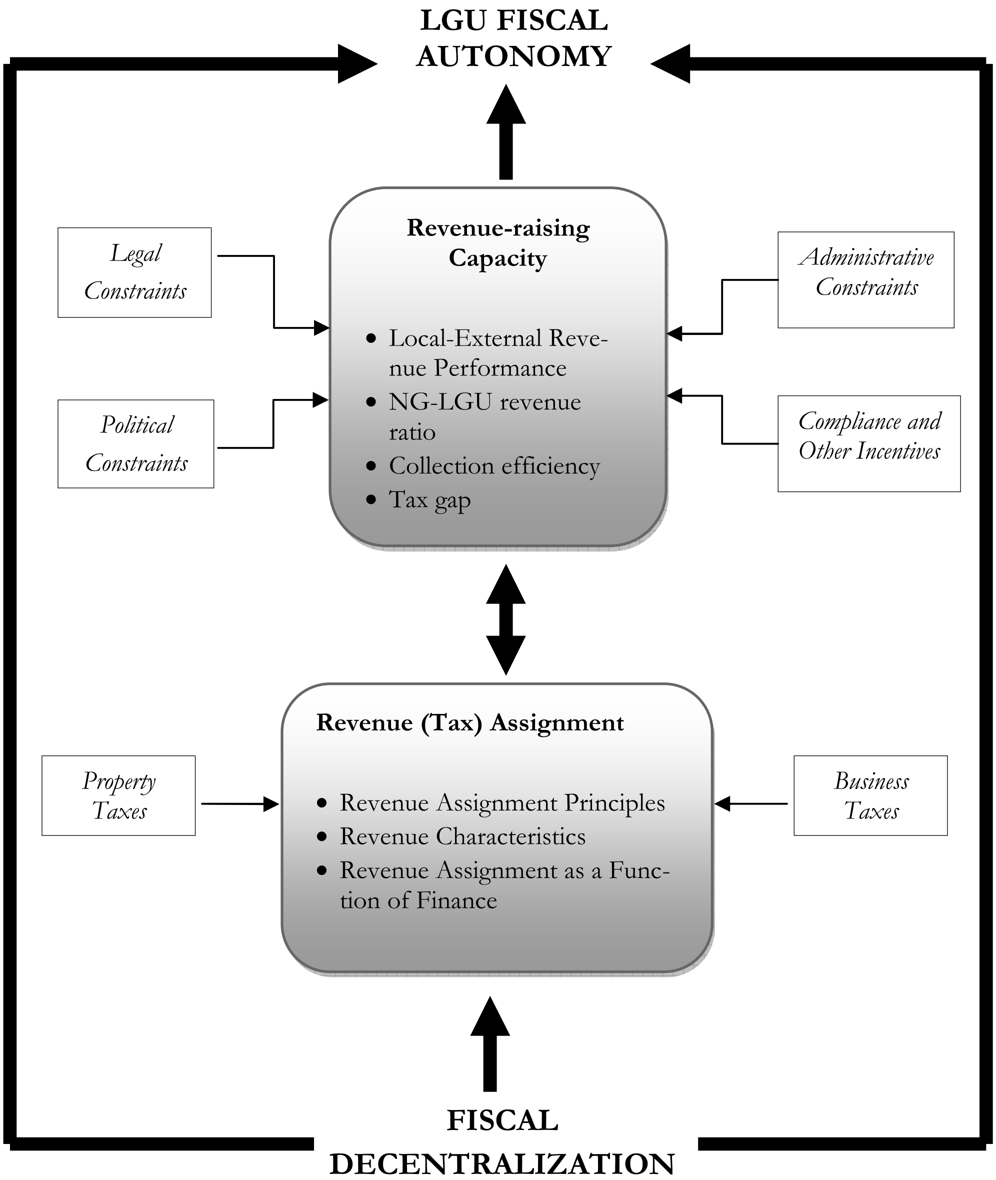
Clark (in Ahmad, 1997) also presents two ways of assessing the relative revenue-raising capacity of localities. One is the macroeconomic approach which uses GDP as single aggregate measure of revenue-raising capacity broken down per LGs. This is similar to the tax-to-GDP measure noted by von Soest (2007). On the other hand, the other measure of capacity uses a microeconomic approach. In this case, actual tax collections of each LG are compared with their potential revenues. Two possible ways of measuring capacity are revenue collection efficiency (CE), and the tax collection effort (TCE). TCE is "the ratio of actual revenue obtained by the LG to the revenues that could have been raised if the standard tax rate would have been applied." (Helmsing, 1997:50) On the other hand, the CE refers to the ratio of the actual local revenues collected over the potential revenues, that is, based on the rates actually applied by the LG. (Caro, 2008)

2.2 Analytical Framework

The research is analyzed following a revenue mobilization framework which the researcher designed based on related literature. (Figure 1) As part of the whole package of decentralization, the designation of revenue sources and revenue-raising powers to LGs provides them with certain degree of (fiscal) 'autonomy' allows them to finance their expenditure responsibilities. Under a fiscal decentralization programme of any given country, LGs are assigned their respective sources of revenue. The selection of these revenue sources is based on efficiency and equity criteria. However, the capacity of LGs to generate revenue is influenced by several factors that may (or may not) be beyond their control, e.g., administrative, legal, political and such institutional factors.

In a more specific framework, the evaluation of any local revenue scheme requires looking at two factors. One is revenue assignment which deals with the designation of revenue sources such as taxes, fees and charges, and fiscal transfers. The other is revenue capacity or the ability of LGs to generate the revenues specifically assigned to them. One prerequisite for the assignment of tax sources is that they should yield substantial income, that is, they are able to recover the costs of administration and provide extra income to the LG that administers them. (Davey, 1983) Bird and Vaillancourt (1998:11) point out the 'ideal' characteristics of taxes that should be assigned to LGs. In principle, local source of revenues should be sufficient to cover the costs of delivering services which the LGs should provide to the local community. It was noted that local tax bases should be immobile to give local authorities flexibility in adjusting or setting the rates without losing much of their tax base. Adequacy and stability/predictability of the tax yields are among the justifications for assigning revenue sources to LGs.

Figure 1. Analytical Framework on Revenue Mobilization



Source: Own representation (based on literature review)

The assignment of revenue sources is controversial in practice, and the implementation and generation of local revenues is generally as controversial as the former. Bahl, *et al.* (1984) note that there are several factors that limit local revenue mobilization. These include legal, political, administrative, economic, technological, and institutional factors. As cited earlier, the assignment of revenues and expenditure responsibilities to the LGs is a NG decision. Any proposed changes brought by the undesirable effects of any revenue assignment may not be easily granted to the LGs. The legal system within which LGs are set in is too rigid and limits them in making changes beyond what is stated in the law. On the political constraints, Bahl, *et al.* (1984:221) noted that "the political system and the degree of patronage embedded within the system also pose a serious constraint for LGs to raise revenues." Davey (1983) points out that, there exists some degree of corruption or collusion on transactions between taxpayers and local assessors and collectors. Taxes and charges which require adjustments to increase or maintain their value are prone to political manipulation.

The administrative structure of LGs in many developing countries also affects any decision for local revenue mobilization to be successful. For example, the assessment and collection of direct or income taxes would require field visits to the local areas. (Davey, 1983) Administrative costs of these field visits are too high and if LGs would not put extra effort to do so would severely affect their revenue generation. The absence of up-to-date technology or information database also affects the capacity of LGs to administer and monitor the collection of revenues. The prevailing economic condition also impacts on local revenue generation. 'Foreign exchange and inflationary difficulties' may have adverse effect on the level of revenues that LGs could raise.

However, Bahl, *et al.* (1984) also pointed out that there are potential incentives that may encourage LGs to collect revenues and to compel taxpayers to pay their dues. The retention of certain percentage of the taxes to the collecting agency or local government, for example, would encourage LGs to improve their collection. On the other hand, it would 'enhance voluntary tax compliance' if taxpayers are made aware of where their taxes are spent. Administrative incentives such as the level of compensation as well as skills training and reward system are also seen to improve performance of local government administrators. Penalties and surcharges are, however, devised in order to reprimand and make non-compliant citizens to pay. Governmental incentives such as grants and transfers, on the other hand, are viewed to bring out varying responses from the local government. It could either "stimulate" or "substitute" for revenue mobilization. (Bahl, *et al.*, 1984:228) LGs' response to intergovernmental aid would likely depend on the kind of aid and manner by which it is distributed to the LGs.

2.3 Methodology and Data Sources

The research involves both quantitative and qualitative approaches. Secondary quantitative data includes relevant revenue reports that gathered from the illustrative LGU cases. On the other hand, relevant aggregate data on local revenues were gathered from national government agencies in the Philippines such as the National Statistics Coordination Board (NSCB), Bureau of Local Government Finance (BLGF), Commission on Audit (COA) and the National Tax Research Center (NTRC). Secondary qualitative data includes the review of articles and researches about fiscal decentralization/federalism and LG fiscal administration in the Philippines.

Primary qualitative data, on the other hand, were gathered through interviews of concerned local authorities, particularly local treasurers and assessors. Interviews were conducted to follow up on the results of statistics gathered and to get feedback and opinion from the local authorities on the actual situation in the local level. A total of five local treasurers and four local assessors were interviewed for this purpose.

To holistic picture of LGU situation, and to give more specific and focused reference for the research, one province and its geo-political subdivision is used as an illustrative case. In deciding which LGUs to use, the researcher made a comparison of some provinces in Regions I (Pangasinan and La Union), III (Bulacan and Pampanga), and IV (Cavite, Laguna and Rizal) in terms of the number of their cities and municipalities; ratio of local and external revenues in CY2006; data availability; ease of setting an appointment with local officials and staff; and accessibility of transportation.[14] The Province of La Union was selected because it is a typical province in terms of its revenue sources and performance compared to the provinces in Regions III and IV-A which have relatively better financial capacities because of their proximity in MMA, and where large industrial businesses outside the MMA are concentrated. La Union is also relatively easy to reach compared to other provinces in Region I. Time and financial resources of the researcher are another consideration.

In analyzing the characteristics of taxes assigned to LGUs, the provisions of the LGC are reviewed in terms of tax bases and rates, and how these revenue sources are administered. Local revenue assignment is explored by identifying said features and alternately, referring to the methods of revenue assignment and standard revenue assignment model discussed by McLure and Martinez-Vazquez (2000); and Bird (2008) and Norregaard (in Ter-Minnassian (ed.), 1997), respectively. (see Chapter 3)

To determine LGUs' revenue-raising capacity, various measures of revenue performance are used. These include getting the ratio of local vis-à-vis external revenues; local vis-à-vis national revenues; local revenues vis-à-vis expenditures; IRA vis-à-vis local expenditures; RPT collection efficiency/effort ratios, and RPT gap. (see Chapter 4) To back up the results of the statistics, a review of previous local revenue studies was undertaken, e.g., LDAP and NTRC studies. Moreover, constraints and incentives to local revenue mobilization were gathered through interviews of selected LGUs. Said constraints and incentives are identified with reference to the revenue administration and institutional frames discussed by Bahl, *et al.* (1984).The unveiling of these factors provide more definitive explanation of the weaknesses in LGs' revenue-raising capacity. (see Chapter 5)

Chapter 3
GOOD FOR WHOM?: The Assignment of Local Taxes to LGUs

3.1 Qualities of 'A Good Local Tax"

How LGs might best be financed is one of the key issues in fiscal decentralization. (Norregaard in Ter-Minnassian, 1997:49) There is no universally-accepted system of financing LGs. However, following Musgrave's approach to intergovernmental finance which takes note of central government's role in macroeconomic stabilization, income redistribution and resource allocation, the conventional model of revenue assignment points out which revenues may be designated to LGs and which should remain to the CG. (Helmsing, 1997; McLure and Martinez-Vasquez, 2000; and Smoke, 2001) Specifically, revenue assignment principles describe the qualities of "a good local tax" as one which is able to finance decentralized expenditure functions; has less mobile tax base; easy to administer; and where LGs are able to determine the tax base and rates. (Norregaard in Ter-Minnassian (ed.), 1997:53-54; Brosio in Ahmad, Qiang and Tanzi (ed.), 1995:178-181; and Bird, 2008:11-13) These qualities will be reviewed to see if local taxes assigned to LGUs in the Philippines share these characteristics.

3.2 Assignment of Good Local Taxes to LGUs

Having a multi-tiered government, the Philippines vests its low-tier governments with the power to create and mobilize their own revenues. Under the LGC, provinces, cities and municipalities levy local (own) revenues from real properties which include the basic RPT, special education fund (SEF) tax, idle lands tax (ILT), and special levy/assessment. In addition, provinces collect the tax on transfer of real property ownership, professional tax, and some types of business taxes such as those levied on printing and publication; sand, gravel and other resources, annual fixed tax on vehicles, franchise and amusement taxes. Municipalities collect some the taxes imposed by provinces and receives substantial share on the revenues collected. Other taxes which municipalities levy include the community tax and LBT on manufacturers, exporters, wholesalers and other business clusters. Cities, on the other hand, may levy all taxes imposed by provinces and municipalities but at higher rates. Aside from tax revenues, LGUs also generate local (own) revenues from non-tax sources like fees and charges. These are imposed at amounts commensurate to the costs of providing services. Among others, these include business permit fees, building inspection fees, civil registration fees, user charges, and incomes from public enterprises and government business operations.

The LGC also specifies other (external) sources of income for the LGUs. Most important of these is the IRA, or the share of LGUs from internal revenue tax collections of the NG. Other than the IRA, some LGUs receive shares from national taxes like excise tax on tobacco, incomes of economic zones, which are provided by special laws. LGUs also have non-traditional sources of external revenues. They are empowered to contract loans with financial institutions and engage in credit financing to generate additional income. (Legaspi, 2001; and Celestino, et al., 1998)

3.2.1 Provinces

Provinces are at the first level of local government hierarchy, comprising of component cities (CCs), municipalities and barangays.[15] Section 134 of the LGC provides the taxing and revenue-raising powers of provinces. Most notable of these tax sources is the RPT. Other provincial taxes are considered minor revenue sources as reflected in terms of their contribution to total provincial revenues. (see related discussion in Chapter 4)

The RPT as Best Candidate of 'A Good Local Tax'

A wide array of literature on fiscal decentralization points to the designation of property taxes to LGs due to the immobility of the tax base. Standard model of revenue assignment prescribes that property taxes should be assigned to low-tiered governments.[16] McCluskey and Williams (in Mikesell, 2007) says that since real properties are visible and immobile, it becomes easy for LGs to use them. Land and buildings cannot move due to tax factors. It is highly visible and so property owners may not escape from taxation. In the Philippines, the imposition of the RPT is assigned to provinces, cities and municipalities in the MMA. In the case of provinces, the collection of the RPTs is delegated to its municipalities and the amount generated is shared among the province (35%), its municipalities (40%), and barangays (25%). In the case of cities, the collection is shared to its barangays at a 70%-30% ratio.[17]

The RPT is levied annually on owners of real properties (land, buildings, and other improvements). There are four RPT impositions which LGUs could collect, viz.: (a) basic RPT; (b) Special Education Fund (SEF) Tax; (c) idle land tax (ILT); and (d) special levy/assessments on land benefitted by public works. The tax is based on the assessed value[18] of real properties subject to the rates below. (Table 1) While the LGC provides the LGUs with flexibility on the basic RPT rate that it can apply. It was observed that only one out of 79 provinces has applied basic RPT rate below one percent.[19] The rest of the provinces used the maximum rate from the period 2003 to 2007. Based on the foregoing, it is assumed that provinces opt to apply the allowable maximum rate in order to achieve the 'much needed' revenues it can raise.

Table 1. Types of Local Real Property Taxes

Type of RPT	Tax Rates*	
	Province	Cities & Municipalities in the MMA
a. Basic RPT	Not exceeding 1%	Not exceeding 2%
b. SEF Tax	1%	1%
c. Idle Lands Tax	Not exceeding 1%	Not exceeding 5%
d. Special Levy	Not exceeding 60% of actual cost of the projects involved	Not exceeding 60% of actual cost of the projects involved

** Tax rates are specified under the LGC.*

As discussed in the next chapter, the performance of RPT is quite unimpressive. Many LGUs fail to use property tax in its full potential which bears a question as to the reliability or validity of the RPT as a best candidate of *a good local tax*. Interviews with local authorities also confirms the difficulty in administering the RPT. (see discussion on property valuation in Chapter 5) Mikesell (2007:55) finds a number of these difficulties such as the high cost of administering property taxes and the technical difficulties in maintaining property and ownership records, determining taxable property values, and calculating, distributing tax bills, and applying tax enforcement action against non-payers. These are exactly the same problems encountered by LGUs in the Philippines. (see Chapter 5) Among others, 'undervaluation' of real properties and non-reporting of real property transactions, political interference in setting property market values, and inadequacy of RPT records system plague the local property tax administration. (NTRC, 1997) All these problems affect RPT performance which, as evidenced from the records, showed cyclical variations and unpredictability. (see RPT performance in Chapter 4)

"Alternative methods of revenue assignment" requires distinguishing who defines the tax base, sets the tax rates, and administers the tax. (McLure and Martinez-Vasquez, 2000) Said requirements also fall within the ambit of the second-generation revenue assignment model discussed by Bird (2008). Looking at the case in the Philippines, LGUs do not have the option to choose which taxes to levy since tax sources per LGU level are already provided under the LGC. Also, tax bases and rates are already specified under same law. In the case of RPT, the tax base is left to the LGUs to identify, but the rates are limited to what the LGC mandates. Hence, a wealthy LGU wanting to raise more revenue by applying higher RPT rate is constrained to do so. Poor LGUs, on the other hand, have the flexibility to use lower tax rate if this is deemed beneficial, particularly to small taxpayers.

Another aspect of real property taxation where LGUs have the flexibility to make decisions is the application of property assessment levels/rates. The assessment level has a ratio of less than one and is applied to the fair market value of the property. In effect, it discounts the market value of the property and consequently lowers the potential RPT dues. While LGUs are granted with flexibility in applying the assessment levels, an NTRC study (1997) points out that many LGUs use the maximum levels provided under the LGC. Just like the maximum tax rates applied by provinces, the use of maximum assessment rates indicates the need of many LGUs for higher revenues.

Other Provincial Taxes: Too Much of Minor Taxes

In addition to RPT, provinces are delegated with other revenue sources.[20] However, compared to RPT, these tax sources have very limited tax bases, e.g., annual fixed tax on delivery trucks and vans, and tax on printing and publication, contributing a small portion to the overall provincial income. In fact, non-tax revenues such as incomes from public enterprises contribute more to provincial income than other tax sources. On this note, Bahl and Linn; and Shah (in Smoke, 2001:23) point out that LGs should focus on few but productive tax sources and avoid many minor taxes that do not provide substantial tax yield.

For some taxes, e.g., tax on sand and gravel, there is difficulty in assessing LGUs' revenue-raising capacity since potential revenues from taxes on natural resources vary from one resource deposit to another and among LGUs. (Clark in Ahmad (ed.), 1997) Moreover, this type of tax would also be suitable for LGUs where quarrying is prominent, or where natural resources exist abundantly. In La Union, for instance, this tax contributes more to provincial coffers than any other business tax sources. However, potential income from this source could not be verified due to unavailability of records among LGUs, e.g., quantity and value of extractable resources.

Lastly, with regard to the professional tax, LGUs have difficulty in identifying the taxable individuals due to lack of a roster of professionals practicing their occupation in their localities. Moreover, most of professionals practice their profession or maintain their offices in the cities, leaving provinces with smaller tax coverage. (NTRC, 1997)

3.2.2 Municipalities

Municipalities are the second tier in the local government structure.[21] It consists of barangays which serve primarily as a general-purpose government for the coordination and delivery of basic, regular and direct services to people within its jurisdiction.[22] They collect some of the taxes imposed by provinces and share with the latter the revenues generated from provincial impositions.

The LBT Potential as 'A Good Local Tax'

The LBT is the main source of revenue for municipalities. It is imposed on manufacturers, wholesalers, exporters, retailers, assemblers, producers and the like "for the act of operating a business enterprise." (Celestino, *et al.,* 1998) The tax is based on the annual gross receipts/sales accumulated by the business in the preceding calendar year, while the tax rate varies per type of business.[23]

There is, however, little evidence in the literature on the assignment of the LBT as a local tax.[24] Applying tax assignment criteria, the tax base of the LBT is not as immobile and visible as that of the RPT. While business units could not easily move and hide from the scrutiny of local authorities, the true value of gross receipts/sales which business owners declare for tax purposes are difficult to ascertain. Often, municipal authorities do not have a clear idea about the potential LBT obtainable from businesses located in their localities. For instance, a municipal treasurer in La Union noted that in order to estimate the LBT tax base for one business tax filer, they would increase the previous year's gross receipts/sales declared by business owners by a certain percentage. The 'guestimate' practice is very common due to the absence of data on potential LBT, and the unreliability of the 'self-declared' gross receipts/sales by business tax filers. Such discretion afforded to tax administrators in estimating the tax base opens an opportunity for corrupt practices. On this note, standard assessments, e.g., use of presumptive taxes, could be applied but with clearly defined criteria for their imposition, and minimizing discretion of tax administrators. (Vehorn and Ahmad in Ter-Minnassian (ed.), 1997) The estimated assessments may be based on criteria such as "the size business premises, number of employees, installed machinery and electricity use." (p. 128)

In terms of the ability to provide sufficient revenues, the LBT has been a major revenue contributor to LGUs. As may be noted in Chapter 4, the LBT tops as number one tax source for municipalities. In spite of this, municipalities suffer revenue losses from the LBT primarily due to lack of information on its potential revenues and, at the same time, to the practice of 'self-declaration' of taxes in the LGUs. Moreover, the requisites needed to fully tap the LBT are beyond the capacity of many municipalities. For instance, a regular survey of businesses in the localities would be needed to update the local treasury of the tax dues obtainable from such businesses. This would entail more manpower and other resources which, unfortunately, are limited in many municipalities. (see Chapter 5)

Lastly, revenue assignment principles would assign taxes to localities if the tax bases are evenly distributed. (Norregaard in Ter-Minnassian (ed.), 1997) The LBT does not seem to fit in this criterion since many business establishments are concentrated in cities or in higher income class municipalities. Low income municipalities, e.g., municipality of Burgos in La Union, are restricted from imposing the LBT due to limited tax base in their area. (see Chapter 4)

Other Municipal Taxes: (Dis)Incentives of Revenue-Sharing

Aside from the LBT, municipalities also collect community taxes.[25] Aggregate revenues generated from the community tax ranks next to LBT and RPT as major tax contributors to municipalities. However, community tax revenues contributed less than one percent to overall municipal income in the last ten years. Like other administrative constraints, the lack of LGU record identifying the persons subject to this tax makes the payment of community tax voluntary. Moreover, eliminating salaries and wages as additional community tax base and minimizing imposable community tax rate resulted to insignificant amount of revenues generated from this source. (Caro, 2007)

Moreover, besides the LBT and the community tax, municipalities also collect some taxes on behalf of the provinces. Since the collection of some provincial taxes are delegated to municipalities, the latter receives a certain percentage from RPT, tax on sand, gravel and quarry resources, and amusement tax collections. While there is no literature to back up on the direct correlation or possible disincentive effect of revenue-sharing arrangements existing between the provincial and municipal governments, this may offer an explanation why these LGUs appear to react less in raising their own revenues.

3.2.3 Cities

Cities consist of more urbanized and developed barangays and are categorized into three, namely: highly urbanized (HUCs), component (CCs) and independent component cities (ICCs), and are considered as distinct and separate jurisdictions.[26] They have their own charter which gives them corporate powers in addition to the administrative and political powers vested in them under the LGC.[27]

The LGC assigns more revenue sources to cities. They are deemed 'more privileged' than provinces and municipalities because they can levy taxes assigned to both provinces and municipalities and have the advantage of applying higher tax rates, e.g., not exceeding 50% higher than those imposed by other LGU levels.[28] By type of tax, business taxes[29] are the primary tax contributors of cities, followed by the RPT. This is evidenced by the fact that most commercial and industrial establishments are located in the urban areas. An LDAP (1992) study noted the effect of 'urbanization' on the level of revenues realizable in some LGUs. The study pointed out that there is higher taxpayers' awareness and compliance and more available resources for tax collection. (p.26) These effects of urbanization are particularly obvious in HUCs in MMA as well as in other high income generating localities. Given wider taxing powers, cities beat provinces and municipalities as top revenue earners.

Chapter 4
WHAT HAPPENED TO 'GOOD LOCAL TAXES"?: Assessing LGUs' Revenue-Raising Capacity

4.1 'Not Good' Endings: LGUs' Inability to Mobilize Taxes

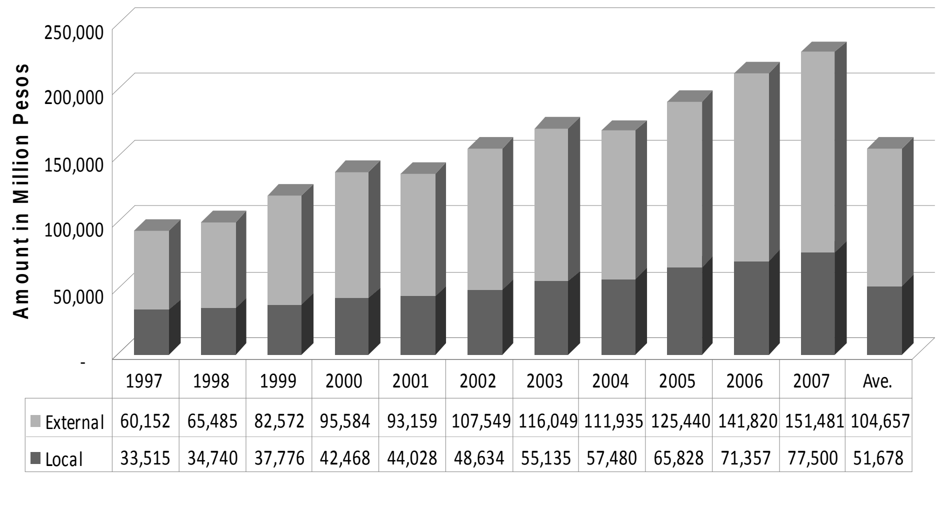
A good local tax should be 'sufficient' to enable, "at least the richest LGs", to generate ample revenues "to finance from their own resources." (Bahl, 2008:12) For purposes of determining the extent by which locally-assigned revenues contribute to their expenditure needs, various components of local revenue performance are measured. Local and external revenues ratios reveal that LGUs receive greater subsidy from the NG than their own revenues. Revenue collection efficiency and tax gap ratios, on the other hand, emphasize LGUs' inability to fully tap their potential revenues. On a macro level, local revenues do not to contribute much to national income.

As pointed out in several studies on revenue enforcement and collection, the low local revenue performance of LGUs has dubbed them as IRA-dependent. A review of BLGF's report on LGU revenue and expenditure (2008) shows that external revenues finance more than 80% of expenditure needs of many LGUs, and to some extent, about 100% for others. Legaspi (2001) notes that even with the increase in the IRA share under the LGC, some LGUs still experience budget deficits. The cost of maintaining and sustaining devolved LGU functions to the total IRA ranges from 25% to 68% for LGs. Considering other LGU responsibilities, this means a reduction in the funds allocated for local development projects. (Legaspi in Legaspi, 2001)

4.2 Local vs. External Revenues: A Measure of Capacity or Dependency?

A ratio of locally-generated and externally-sourced revenues is computed to determine the extent of LGUs' capacity to raise own revenues, or the extent of their dependence on external revenues. Such ratio also shows the role of local revenue in financing local services. (Mullins in Sjoquist, 2003) Figure 2 below shows that in the last ten years (1997-2007), LGUs' local to external revenue ratio has slightly improved – from 36% to 64% ratio in 1997 to 34% to 66% in 2007.[30] While local revenues have improved, the figure indicates that external revenues have consistently played a significant role in sustaining LGU operations. Without these sources, it would be difficult for LGUs to finance their expenditure needs or provide public services.

Figure 2. Revenue Performance of LGUs, By Major Categories of Revenue Source: CYs 1997 to 2007



	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	Ave.
External	60,152	65,485	82,572	95,584	93,159	107,549	116,049	111,935	125,440	141,820	151,481	104,657
Local	33,515	34,740	37,776	42,468	44,028	48,634	55,135	57,480	65,828	71,357	77,500	51,678

Source of basic data: COA and NTRC

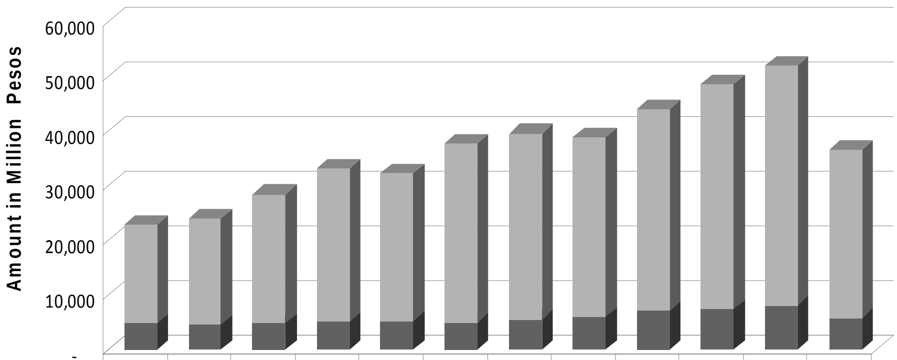
Growth-wise, both local and external revenue sources showed erratic trends during these periods. To a large extent, the fluctuations in the external revenue sources were attributed to the conditionalities in the release of the IRA as well as some fiscal austerity measures adopted by the Philippine government. It was noted that in CY2001, the NG required setting aside one-fifth of the development fund for anti-drugs campaign and another fraction for programs and activities addressing human and ecological security concerns. (Coscolluela, n.d.:10) On the other hand, economic measures, e.g., withholding 10% of the IRA, was adopted in 1998 during the Ramos administration to address fiscal problems. On the other hand, during the Estrada administration, a P30 billion-reduction was made from the IRA in anticipation of severe budgetary deficit. (Coscuella, n.d.)

On the other hand, the erratic trend in local sources could be attributed to revenue administration problems existing in the LGUs. A joint study by the Philippine Government and the World Bank and Asian Development Bank (2003:115) points out that many LGUs collect "only a small percentage of potential revenues." The same study noted the lack of registration databases, inaccurate cadastral records for property taxes, and inadequate audit for business taxes and data on tax delinquencies, as among the revenue administration problems encountered by LGUs.

Provinces

By LGU level, the province is the most dependent on external revenues, followed by municipalities. Figure 3 below indicates that a major portion of provincial revenues from 1997-2007 comes from external sources (an average of 84%).[31]

Figure 3. Revenue Performace of Provinces, By Major Categories of Revenue Source: CYs 1997 to 2007

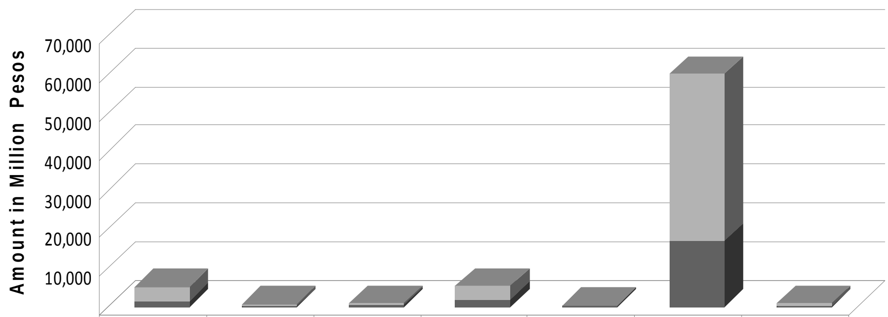


	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	AVE.
External	17,936	19,415	23,630	28,000	27,111	32,713	34,002	32,813	36,823	41,176	43,774	30,672
Local	4,926	4,591	4,850	5,196	5,244	5,044	5,566	5,983	7,185	7,470	8,204	5,842

Source of basic data: COA and NTRC

A comparison of the 1997 and 2007 provincial revenue shows that, in absolute amount, there is huge difference between the local and external revenues. In 1997, provinces generated a total revenue of P22.30 billion, of which P4.93 billion (22%) are locally-sourced while P17.37 billion (78%) came from external sources. After 10 years, provinces obtained a total of P51.98 billion wherein P8.2 billion (16%) were locally-generated and P43.77 billion (84%) are externally-sourced. This represented a slower growth in the locally-generated taxes (67%) than externally-sourced revenues (152%).

Figure 4. Comparative Revenue Performance of Provinces, By Type of Revenue: CYs 1997 and 2007



	Property Taxes	Business Taxes	Other Taxes	Operating & Misc Revenues	Other Non-Tax Revenues	IRA	Other Shares
2007	3,738	555	538	3,368	5	43,012	762
1997	1,572	273	586	1,987	509	17,161	210

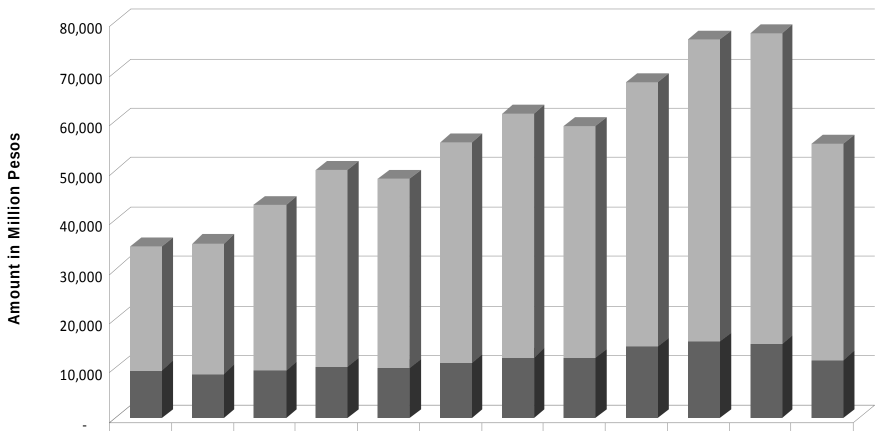
Source of basic data: COA and NTRC

On a positive note, there is comparatively similar rate of increase between major local tax sources, and external revenues. Property and business taxes grew by 138% and 103%, respectively, while the IRA increased by 151%. (Figure 4) The data show that the RPT and LBT grew at almost the same pace as the IRA while other minor taxes seem to lag behind other major impositions in contributing to total provincial tax revenues.

Municipalities

Like the provinces, external revenues dominate municipal incomes.[32] (Figure 5) In 2007, external revenues comprised P62.9 billion or 81% of total municipal revenue. This represents a 151%-increase compared to P25 billion external revenues in 1997. Local revenue collection, on the other hand, showed 53% growth from 1997 and 2007. This shows that external revenues received by provinces grew three times faster than their locally-generated revenues.

Figure 5. Revenue Performance of Municipalities, By Major Categories of Revenue Source: CYs 1997 to 2007

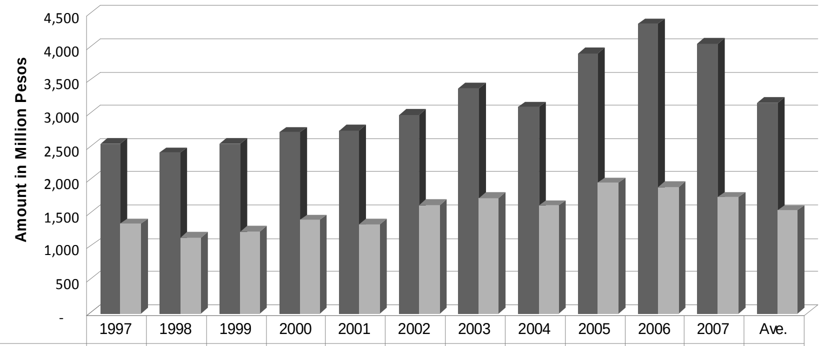


	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	Ave.
External	25,028	26,382	33,536	39,718	38,158	44,582	49,332	46,962	53,528	61,251	62,915	43,763
Local	9,841	9,081	9,671	10,474	10,275	11,221	12,365	12,228	14,566	15,456	15,072	11,841

Source of basic data: COA and NTRC

By major types of local taxes, the LBT contributes more to municipal coffers than the RPT. (Figure 6) For CYs1997 and 2007, there was 59% growth in the LBT collections of municipalities compared to the 29% increase in their basic RPT share. The scenario is understandable since LBT collections accrue only to municipalities while the basic RPT share of municipalities would depend on the pool of RPTs generated by municipalities in every province. Also, while provinces could dictate the RPT targets for each of their constituent municipality, the former does not necessarily have control over the capabilities of the municipalities to collect revenues and meet their targets. This also explains why there are fluctuations in the RPT collections of municipalities.

Figure 6. Comparative LBT Collection and Share from Basic RPT of Municipalities: CYs 1997 to 2007



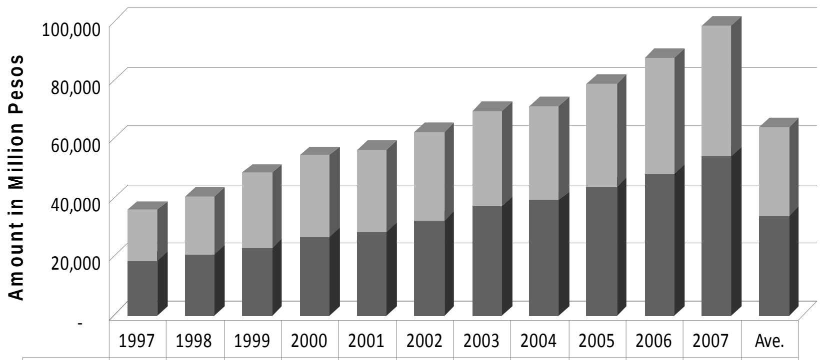
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	Ave.
LBT	2,548	2,414	2,553	2,718	2,751	2,982	3,385	3,104	3,904	4,351	4,050	3,160
Basic RPT	1,348	1,135	1,231	1,400	1,338	1,624	1,730	1,616	1,962	1,897	1,740	1,547

Source of basic data: COA and NTRC

Cities

Compared to provinces and municipalities, there is considerable improvement in the local and external revenue ratios of cities. Figure 7 indicates that cities have better local revenue position than aforementioned LGU levels. They are also more proactive in raising their own revenues.

Figure 7. Revenue Performance of Cities, By Major Categories of Revenue Source: CYs 1997 to 2007



	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	Ave.
External	17,187	19,689	25,406	27,866	27,890	30,255	32,715	32,160	35,088	39,393	44,792	30,222
Local	18,754	21,080	23,255	26,798	28,521	32,368	37,204	39,269	44,076	48,431	54,223	33,998

Source of basic data: COA and NTRC

A comparison of local and external city revenues show an improved local revenue performance and lesser reliance on external revenues.[33] In 1997, cities pose a ratio of 52% to 48% local to external revenues, respectively. This slightly improved in 2007 where a 55% to 45% ratio was recorded. Growth-wise, local revenues (189%) improved more than the external revenues (161%)

of cities. Worth-mentioning is that during the 10-year period, there were all positive increases in the revenue collection of cities while external revenues recorded a slight shortfall (-2%) from 2003 to 2004, and an invariable share in 2000 to 2001.

With higher local revenue ratio vis-a-vis the external revenues, cities are generally considered more self-governing and less IRA dependent. In particular, HUCs in MMA are able to sustain their local revenue collections. However, many other cities remain heavily dependent on external revenues such as the Cities of Sorsogon, Silay, Butuan and Koronadal which are all located in the southern part of the country. (BLGF, 2008) As noted earlier, the decreases in the external revenue shares are attributed to the reductions and controls in the release of IRA, and the increase in the number of cities created in the previous years.

4.3 Collection Efficiency and Tax Gap: The RPT as a 'Good-Turned-Bad' Tax

As in many countries worldwide, the RPT is a major source of locally-generated revenues of LGUs in the Philippines, but the potential revenues from this tax have not been fully tapped by the LGUs. Revenue collection efficiency (CE) and tax gap ratios reveal that there remains a significant portion of the RPT potential revenues that LGUs are unable to collect.

CE ratio is calculated to assess the capacity of LGUs to raise basic RPT. The CE is "one parameter LGUs may use to evaluate their tax administration and enforcement programs." (USAID-GOLD Project, 2001) It is an indicator of the proportion of property taxes actually collected by the LGUs as well as those which were uncollected. The ratio is computed by comparing the current year basic RPT collections plus discounts given to advance payments, and the potential current year collectibles which is based on the taxable assessed values (TAVs) of properties in the LGUs.

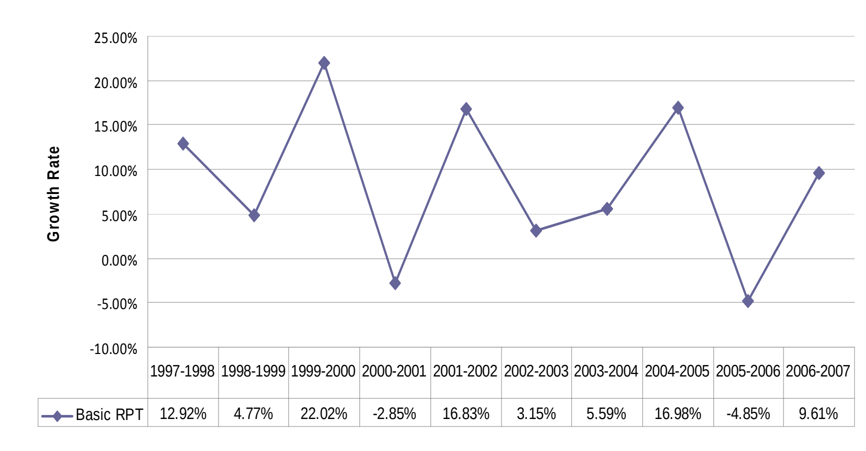
For provinces, the basic RPT rate used to get the TAVs is their actual tax rate. As mentioned earlier, provinces applied the maximum basic RPT rate with the exception of one province. Hence, the revenue CE for provinces also represents their TCE. On the other hand, the tax rate applied to get the cities' TAVs is the maximum 2% provided in the LGC as there are no available data that specified the tax rates used in each particular city. Thus, the TCE is measured to get the extent of RPT collected by cities vis-à-vis their RPT potential.

On the other hand, the basic RPT gap is measured to estimate the amount of uncollected basic RPT for the current year and the accumulated delinquencies for the previous years. The ratio gives an approximation of the revenues forgone by LGUs every year and the effort that the LGUs have exerted in collecting delinquent accounts. It is estimated by subtracting from the basic RPT current year and delinquency collectibles all the current year and delinquencies collected. The next year's delinquency collectibles comprise the accumulated delinquencies in the previous years. (Caro, 2006) In estimating the delinquencies for the first year, penalties and surcharges should be excluded, but due to lack of data on the amounts of penalties charged on delinquent accounts, the computation of the delinquencies will include penalties and surcharges.

Provinces

In 1997 and 2007, RPT contributed P1.57 billion (6.47%) and P3.74 billion (6.92%) to the total provincial revenues, representing a 138% increase during the 10-year period. Growth-wise, data shows erratic trend in basic RPT collection of provinces from CYs 1997 to 2007, with negative growths in some period.[34] (Figure 8) The cyclical movement in the basic RPT collection can be attributed to the low CE/TCE exerted by provinces. Since provinces applied the maximum basic RPT rates, the potential RPT is expected to rise, that is, assuming there is regular assessment of properties. However, many provinces in the country fail to conduct regular valuation of real properties. In the case of La Union, for example, the last valuation prior to the 2009 general revision happened in 1994. In effect, property values were low which consequently affected the level of realizable property taxes. (see Chapter 4) While the RPT is a major local revenue contributor, its potential in giving significant income largely depends on the collection effort exerted by the LGUs as well as some problems in tax administration that they encounter. As may be noted in Chapter 5, problems in property valuation affect the potential of provinces to raise property taxes. Moreover, there are administrative and political factors in local environment which influence LGUs in exercising their taxing and revenue-raising powers.

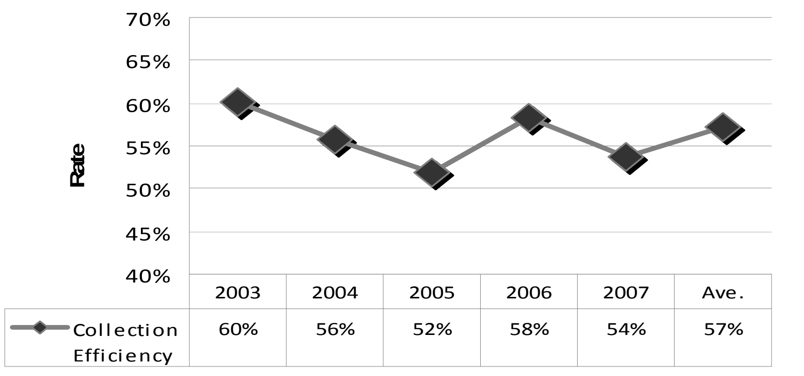
Figure 8. Growth Rate of Basic RPT Collections: CYs 1997 to 2007



Source of basic data: COA and NTRC

Revenue CE/TCE ratio of provinces show that there was consistent decline in their basic RPT collection effort from CYs 2003 to 2005, and a considerable increase in the CE in years 2006 and 2007. (Figure 9) On the average, about 57% of the calculated basic RPT collectibles was actually generated while the other 43% remain uncollected. Again, the unpredictability in the collection attempts of provinces explains the inconsistencies in their basic RPT CE ratio.

Figure 9. Basic RPT Collection Efficiency of Provinces: CYs 2003 to 2007



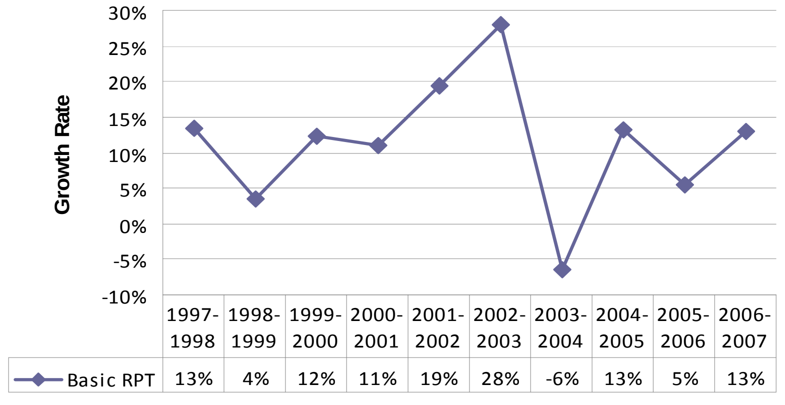
Based on available data from the BLGF and NTRC

Statistics gathered from the NTRC reveals that provinces have an estimated basic RPT gap of P15.87 billion accumulated from 1992 to 2007, representing about P1 billion uncollected RPT every year starting from the implementation of the LGC in 1992. Based on the CE ratios calculated above, around 43% of provincial basic RPT remained uncollected in the last five years. The low CE of provinces resulted to huge increase in the basic RPT gap. More than that, data on accumulated delinquencies of provinces show that as years pass by, the amount of delinquencies that provinces were able to collect vis-a-vis the total delinquencies accumulated each year have constantly declined – from an estimated 34% collected in 1993 to only 6% in 2007. The data show that provinces are unable to deal with their growing delinquent accounts.

Cities

Cities are generally viewed as more efficient than provinces and municipalities in collecting revenues. Basic RPT collection of cities amounted to ₱3.72 billion and ₱10.50 billion which represented 10.34% and 10.60% of the total revenues in 1997 and 2007, respectively. The amount represents a 182% growth in basic RPT collections during the 10-year period. While there was significant improvement in the revenues generated from this tax, Figure 10 shows that there has been large fluctuations in basic RPT collections of cities. By their nature, cities have more capacity to undertake property valuation than provinces since they exist independently from other LGUs, unlike the provinces which decide over a number of municipalities under their jurisdiction, e.g., scheduling and undertaking property valuation.

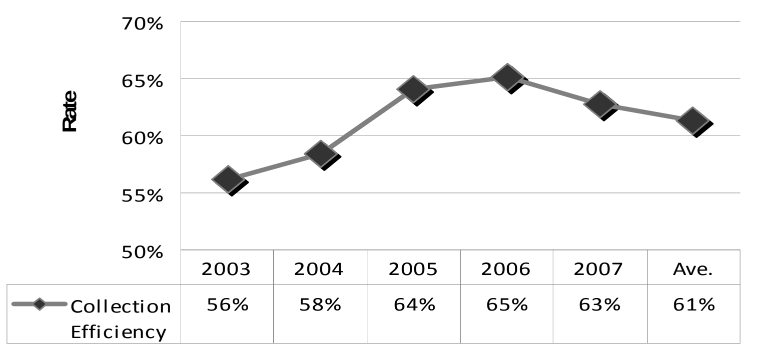
Figure 10. Growth Rate of Basic RPT Collection of Cities: CYs 1997-2007



Source of basic data: COA and NTRC

TCE ratios of cities show slight improvement than the provinces. From 2003 to 2007, cities generated an average of 61% of its total basic RPT collectible, leaving 39% uncollected. (Figure 11) Moreover, they have four times bigger basic RPT delinquency than provinces. Data show that cities have an estimated basic RPT gap of P60.23 billion accumulated from 1992 to 2007. Like the provinces, the proportion of cities' collected delinquencies vis-à-vis the accumulated delinquency fell consistently, but at lower rate than the provinces (from 17% in 1993 to 3% in 2007). This indicates that cities have exerted lesser effort than provinces in collecting accumulated delinquency accounts.

Figure 11. Basic RPT Collection Effort of Cities: CYs 2003-2007



Based on available data from the BLG and NTRC

4.4 LGU vs. NG Revenues and Expenditures: Measuring the Extent of Fiscal (De)Centralization

To determine the extent of local sector dominance or the degree of decentralization (or centralization) in the assignment of revenues, a ratio of LGU's own source of revenue and NG's own source of revenue is measured.

(Mullins in Sjoquist, 2003) Data show that LGU revenues fare less than NG revenues (about 7% to 8% of NG own revenues from 1997 to 2007). (Table 2) A comparison of NG and LGU own revenue sources would show that major taxes with more productive and wider tax coverage, e.g., income, import and value-added taxes, are assigned to the former. This shows that the current setup of NG-LGU fiscal relation has high degree of centralization of fiscal resources.

Table 2. Ratio of LGU Own Revenues to NG Own Revenues: CYs 1997 to 2007
(Amount in Billion Pesos)

YEAR	NG Revenues	LGU Revenues	LG-NG Ratio
1997	492.20	33.51	6.81%
1998	481.30	34.74	7.22%
1999	510.50	37.78	7.40%
2000	564.70	42.47	7.52%
2001	627.30	44.03	7.02%
2002	601.90	48.63	8.08%
2003	653.70	55.14	8.43%
2004	725.60	57.48	7.92%
2005	838.90	65.83	7.85%
2006	1,007.80	71.36	7.08%
2007	1,159.99	77.50	6.68%
Average	**696.72**	**51.68**	**7.46%**

Note: NG revenues include incomes from the value-added, income and excise taxes, import duties and other national taxes, and exclude subsidies to NGAs, GOCCs, LGUs and NGOs/POs.
Source of basic data: COA and NTRC

The assignment of 'less productive' revenue sources to LGUs denotes that the design of revenue assignment reduces the degree of fiscal autonomy for LGUs. This also follows the conventional model of tax assignment, which according to Bahl and Bird (2008:13), is not suitable for countries where LGs "account for significant portion of public sector spending." In the case of the Philippines, LGU expenditures account for 20% to 26% of NG expenditure (net of debt servicing) from 1993 to 2005, which is twice bigger than the 10% to 12% range of LGU expenditure prior to the effectivity of the LGC in 1991. (Manasan, 2007) With growing expenditure responsibilities and limited sources of revenues, it is no wonder why LGUs strongly rely on intergovernmental transfers, and other external revenue shares.

Using CY2007 data[35] on expenditures, cities have the biggest expenditure responsibilities in CY2007 (₱86.19), followed by municipalities (₱74.98 billion) and provinces (₱48.97 billion). (Table 3) The expenditure items covers the areas of general public services, education, health and nutrition, labor and employment, housing and community development, social services and welfare, economic services and debt-servicing. (BLGF, 2008:26-27) Comparing the expenditure amount to the IRA received by LGUs, it is estimated that the IRA may have financed 88%, 81% and 50% of provincial, municipal and city expenditures, respectively. On the other hand, assuming the LGUs finance said expenditures using their local revenues, provinces and municipalities would be able to finance only 17% and 20% of these expenditures, respectively, while cities can cover 63% of their expenditure needs. The figures show that cities have the bulk of expenditure responsibilities and have the most capacity to finance them using their own revenues. Provinces and municipalities, on the other hand, appear more incapable of financing their expenditures with local revenues. The incapacity of provinces and municipalities to finance these expenditure responsibilities is somehow equated with enough amount of IRA to support them. The ratio of IRA over expenditures reveals that provinces and municipalities have the IRA as a source of financing their expenditure responsibilities.

Table 3. Comparative Revenue and Expenditure, By LGU Level: CY 2007

LGU Level	Amount (in Million Pesos)			Ratio Over Expenditures	
	LG Revenues	IRA	Expenditures	LG Revenues	IRA
Provinces	8,204	43,012	48,974	17%	88%
Municipalities	15,072	60,536	74,983	20%	81%
Cities	54,223	43,044	86,193	63%	50%

Source of Basic Data: BLGF and NTRC

Since the IRA is a 'block grant' and is not earmarked for any specific LGU responsibility, it is difficult to assess what portion of the IRA should be used to finance shared LGU-NG functions, and which devolved functions should be directly funded by local (own) revenues. Per verification from the BLGF, LGUs may use their IRA for any LGU purposes as long as 20% is reserved for local development projects.[36] At any rate, a comparison of specific expenditure items indicates that general public services[37] comprise most of the expenditure responsibilities of LGUs, followed by expenditures on economic services, health and nutrition, education, and social services.

Chapter 5
THE UGLY TRUTH: Absence of an 'Enabling (Fiscal) Environment'

5.1 Setting the Ground for Revenue Mobilization

A good local tax is easy to administer. (Norregaard in Ter-Minnassian (ed.), 1997) However, LGs in the Philippines are generally labelled as inefficient and ineffective in enforcing and collecting taxes. With the continuous 'dependence' of many LGUs from their share from NG revenues along with their poor record of locally-generated revenues, their reputation has become unimpressive to the public. In gist, LGUs have more constraints than opportunities in raising revenues. LGs encounter various administrative, political and institutional factors that influence their revenue-raising capacities. These are aspects where LGs in general have little or no direct control. In this section, the experience of La Union and its geo-political subdivisions are explored to give concrete illustrations on factors constraining LGUs to employ their full capacities in raising revenues.

La Union[38] is a first income class[39] province in northern Philippines. It has a total land area of 1,493 km^2 comprising of one component city and 19 municipalities.[40] San Fernando City is the provincial capital, and is categorized as third income class city. Of La Union's municipalities, Agoo, Bauang, and Naguilian are classified as first class income classes, while Bacnotan, Balaoan and Rosario; and Aringay, Bangar and San Juan, are second and third class municipalities, respectively. On the other hand, there are six municipalities categorized as fourth class, namely: Caba, Luna, Sto. Tomas, Santol, Sudipen and Tubao; and four municipalities as fifth class, viz.: Bagulin, Burgos, Pugo and San Gabriel. (Table 4)

Table 4. Basic Facts about La Union and its Geo-Political Subdivisions

	PROVINCE	CITY	MUNICIPALITIES		
Profile	**La Union**	**San Fernando**	**Bacnotan**	**Bauang**	**Burgos**
Income Classification	3rd Class	3rd Class	2nd Class	1st Class	5th Class
Land Area (in km^2)	1,493	106.88	65	71.6	45
Number of Barangays	576	59	47	39	12
Population*	730,224	115,494	39,000	70,000	28,000
Poulation Density	489/km^2	1,081/km^2	600/km^2	978/km^2	622/km^2

** 2007 NSO projection*

The Province has a diverse economy – service, manufacturing, and agricultural industries – spread throughout the province. Its capital city, for instance, is a major commercial and trading center not only in La Union but in Region I. Various public, financial and educational institutions are situated in the area. Regional government offices in the northern region such the Central Bank of the Philippines, Commission on Audit, and the Government Service and Insurance System are located in San Fernando City. The Poro Point Special Economic and Freeport Zone, a former American airbase that was converted into a business and industrial area, also help facilitate the Province and the City's commercial activities and augment their revenues. The Port of San Fernando has also been an active international shipping point in the northern part of the country. The beaches in Bauang, San Juan and San Fernando City are major tourist attractions and have become additional source of income to the locals. Nevertheless, agriculture remains to be the main source of livelihood of the people in La Union. Among the top five agricultural crops grown in the Province are palay, corn, coconut, sugarcane and banana.[41] Fishing is also another means of their living, particularly for people residing near coastal areas.

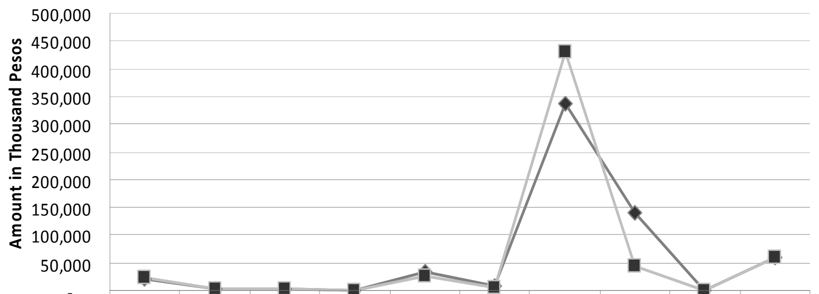
Among its first class municipalities, Bauang is the highest local revenue generator. Farming, fishing and quarrying are among the sources of livelihood of its residents. Tourism also plays a significant role in the economy of Bauang. Its beaches are favourite tourist destination in the province. Meanwhile, the Municipality of Bacnotan ranks as one of the top ten second income class cities to raise high local revenue sources particularly the RPT in years 2005 and 2006. (BLGF, 2008) Cement and tobacco drying, farming, fishing and quarrying are sources of livelihood of its residents. On the other hand, the Municipality of Burgos is one of the least tax revenue earning municipalities in the Province. It is located in mountainous terrains bordering La Union and Benguet Provinces. Broom-making and farming are the sources of livelihood of the people. Fruit, root crops and vegetables are among the products abundantly produced in this municipality.

5.2 Imperfections in the LG Environment: Constraints to Revenue Mobilization

Low Property Values: Irregular Valuation Schedule in La Union

La Union is considered as average compared to other provinces in the country. In 2006, it ranked as 32nd among the 79 provinces in terms of local revenue generation; 49th in terms of IRA share; and 39th in terms of overall income. (BLGF, 2008) The Province's top revenue contributors are fiscal transfers (IRA and other shares), incomes from economic enterprises and the RPT. It is observed that La Union's tax revenues only come from the RPT while tax on businesses and other provincial impositions contribute very little to the general fund of the province.[42] (Figure 12)

Figure 12. Comparative Revenue Performance of La Union Province, By Specific Revenue Source: CYs 2003 and 2007



	RPT	Taxes on Buss.	Other Taxes	Fees & Charges	Recpts. from	Other Non-	IRA	Other Shares	Extra. Recpts.	Ave.
2003	20,431	2,927	1,893	1,141	34,839	6,868	336,779	138,678	25	60,398
2007	23,982	2,089	2,848	455	25,662	6,030	430,847	43,415	110	59,493

Source of Basic Data: BLGF, as verified from La Union Provincial Government

La Union follows the trend in the revenue performance of most provinces in the Philippines. For one, it is heavily dependent on the IRA for its income. In 2003, the IRA represents 62% (₱336.78 million) of La Union's total revenue. It grew by 28% (₱430.85 million) in 2007, representing 80% of its overall income. The Provincial Treasurer admitted that without the IRA, the Province will not be able to function. The official, however, said that the amount of IRA that the Province regularly receives does not necessarily become a disincentive for them to collect revenues. However, going back to the revenue performance measures in the preceding chapter would show that provinces are very dependent on external revenues. Their expenditure responsibilities are almost funded through the IRA.

Going back to the discussion in Chapter 3, it holds true that provinces have limited sources of revenue compared to cities and municipalities. Among three LGU levels, they have the least revenues generated from local sources. For this reason, their local revenue collections look comparatively smaller than their external revenues counterpart. While RPT is assigned and levied by the provinces, the income they generate from this source is relatively smaller than the incomes they generate from public enterprises and other such receipts. Since the RPT proceeds is distributed among component municipalities and barangays, only a small portion of the actual collections is left to the provincial treasury. The official notes that per LGC provision, only 35% of the overall RPT collection is retained to the provincial treasury. If revenues are shared, it therefore lessens the degree of LGUs' autonomy in mobilizing revenues. It further explains why LGUs react less to raise their incomes.

The lack of regular property valuation offers another plausible explanation for the low RPT collections of the Province. Under the LGC, revaluation should be undertaken every three years, but in practice, there is no LGU that has consistently conducted property valuation since the enactment of the LGC in 1992. Many LGUs have outdated property market values. La Union, for example, conducted a revision in January 2009, 14 years after its last revision in 1994. The irregular schedule of valuation has caused property values in the area to fall below market levels. There are several reasons noted why property valuation has not been regularly conducted. As noted by RTI International (2007), property valuation needs accurate property information linked to property market data; well-trained and knowledgeable staff who knows how to use such information; and supervision for quality control. These factors are lacking in municipalities where the responsibility to conduct valuation and collect property taxes are delegated. Lack of initiative and apparent political will caused delays in the conduct of general revision in La Union. It has been cited by local assessors that local elected officials who are signatories to valuation and tax ordinances are cautious of endorsing the same for 'political' reasons. As Rose (1985) pointed out, "taxation is viewed as politically costly." Politicians will not raise taxes since this is an unpopular decision to make. In the Philippines, for example, it is generally observed that LGs do not undertake general revision of property assessments prior to an election for fear of incumbent officials that such undertaking would impact their election campaigns and political stake.

It is noteworthy to mention that La Union also get the bulk of its own source of revenue from local economic enterprises. This is understandable since provinces are responsible in the administration of devolved government functions, e.g., health and education. La Union operates a number of local economic enterprises such as hospitals, air- and seaports, public markets and slaughterhouses, water districts, day care centers, public elementary and secondary schools, and state universities. Fees and charges are collected from these to recover administration costs. Regarding other local taxes, e.g., tax on printing and publication, and annual fixed tax on delivery trucks and vans, the local authorities note that these are not potent revenue sources, saying there is minimal rates applied and limited tax base. Non-tax revenues contribute substantially to the local revenues than these local tax revenue sources. Tax base and rates applied on these revenue sources are very limited. The Provincial Treasurer noted that compared to cities, provinces and municipalities have lesser revenue sources and tax coverage. Other provincial taxes contribute very little to their income but the official notes that having other revenue source is better than not having any source of income.

Need for Technical Expertise: Valuation Staff Issues in San Fernando City

San Fernando City is also an average type of City. Its commercial area is line up with small and medium-scale business establishments, restaurants and fast food chains, supermarkets, resorts, hotels and tourist accommodations and banks and such financial institutions which contribute to the revenue coffers of the city. From 2003 to 2007, local revenues of San Fernando City represent about 32% of its total income while 68% comprise external revenues. Like La Union, the IRA is the City's major revenue contributor. Of locally-generated revenues, the LBT is the City's main revenue source, followed by the RPT.[43] (Figure 13) This is explainable since most businesses are set up in urban areas.

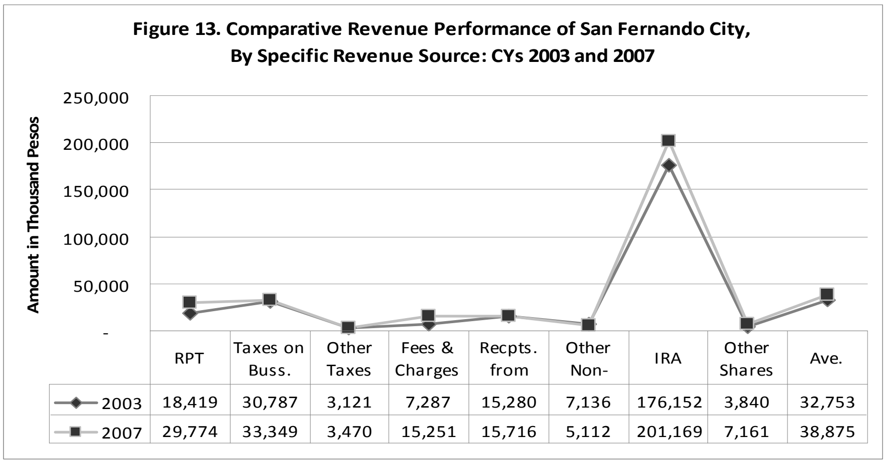


Figure 13. Comparative Revenue Performance of San Fernando City, By Specific Revenue Source: CYs 2003 and 2007

Source of Basic Data: BLGF, as verified from the City Government of San Fernando

While the overall revenue performance of cities would show less reliance on external revenues like IRA, the case of San Fernando is an exception. As noted earlier, more than half of its total revenue are externally-generated. Since San Fernando City is categorized as third income class city, its tax revenue bases are limited compared to HUCs and other high income-generating cities. As cited earlier, the City derives revenues from small and medium-scale businesses and some major business establishments. In relation to this, the local treasurer is amenable that the City is dependent on the IRA in financing their operations. However, said official noted that this does not mean that it impedes them from collecting and generating revenues. The official added that it is their mandate to raise their own revenues. They will continue to do so regardless of the IRA they receive.

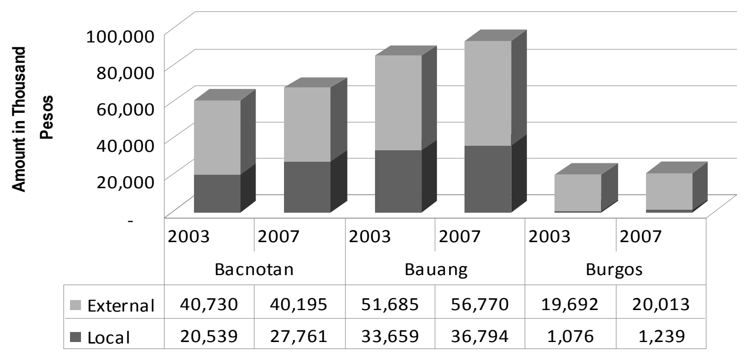
Like La Union, San Fernando City also had irregular schedule of property valuation. It had its last revision in 1998 after it was converted into a city. Conversely, the property values in these localities are lower than market levels. The City Assessor pointed out that the low property values has affected the amount of property taxes that the City generated. The City's real property assessment reports show unpredictable growth in the amount of RPT collectibles during the last five years. The scenario proves that absence of regular valuation have significant influence on RPT revenue potential. The local official acknowledged that 'local politics' extends vital influence to local tax administration. To mitigate the impact of low property taxes, San Fernando City, has passed an ordinance increasing the property tax rate up to the maximum rate allowed by the LGC.

Another general problem in revenue assessment comes from "the need to determine the relative accuracy of property valuations" since it affects, among others, the revenue potential of properties. (RTI International, 2007) In countries where there is developed property valuation system, only professionals are allowed to undertake property valuation and prepare valuation forms. In the case of Local Assessment Offices (LAOs) that were visited, both the city and provincial assessors admitted that their assessment and valuation staff are not professional valuers or appraisers but 'experienced' personnel who have been performing property valuation and assessment for several years. They added that LGs find it difficult to hire professionals. Prospective employees get more attracted to the compensation package offered in the private sector than those in the public sector. In addition, one qualification requirement for an assessor, for example, includes college degree 'preferably' on civil and mechanical engineer, commerce or any related course. Such qualification does not seem as a strong criterion for selection of assessment and valuation personnel. Even if engineers are hired, the skills necessary to perform valuation and property appraisal are highly technical, requiring trainings and real expertise on the field.[44] Without the expertise of valuation professionals, property values and assessment would also suffer.

Budget Constraints: Limiting Administrative Capacities in the Municipalities of Bauang, Bacnotan and Burgos

External revenue sources (mostly IRA) have consistently been the top revenue contributor to the Municipalities of Bauang, Bacnotan and Burgos. It is observed that both Bauang and Bacnotan, which belongs to higher income classification, have at least 50% IRA in their total revenue while Burgos which is categorized as a low income class municipality has 80% of its revenue generated from the same source.[45] The share is exclusive of other shares that the municipalities receive from the NG, such as those from excise tax on tobacco products, value-added tax and such national tax collections. Including these other shares, Burgos would have 95% of its total income from external sources while Bauang and Bacnotan have 59% and 63% from these sources, respectively. (Figure 14)

Figure 14. Comparative Revenue Performance of Municipalities in La Union, By Major Categories of Revenue Source: CYs 2003 and 2007



Basic source of data: BLGF and Municipal Governments of Bauang, Bacnotan and Burgos

Other than IRA, the LBT and other business taxes are also big sources of tax revenues for Bauang and Bacnotan compared to Burgos. Bauang hosts the Bauang Power Plant Corporation (BPPC) while Holcim Cement Corporation (Holcim) is located in Bacnotan. These two major industries contribute a vast amount of money to the treasuries of the said localities. Local authorities noted that without these corporations, their local government would not have substantial tax base. On the other hand, Burgos has very miniscule income from LBT. This is because there are no major industries located in the area and not much business establishments. The commercial center of Burgos is its public market which is surrounded by very few retail shops.

The RPT is the next major tax contributor to municipalities. With the properties owned by the aforesaid industries, the RPT collections of Bauang and Bacnotan are also comparatively higher than that of Burgos. For Bacnotan, industrial properties like Holcim is the main contributor in their RPT collections, followed by residential properties located in the area. For Burgos, on the other hand, revenue collections mainly come from agricultural properties. In terms of non-tax revenues, incomes from local public enterprises also contributes large amount of revenues to Bauang and Bacnotan. These municipalities have comparatively improved and bigger public enterprises like markets, slaughterhouses, water districts, and vehicle terminals than the Municipality of Burgos.

Among others, financial and administrative factors constrain these municipalities from properly executing their functions. In two municipalities that was visited, there was limited administrative support in the local treasury and assessment offices. A LAO, for example, is manned by two personnel, the head of office (local assessor) and an administrative staff (assessment clerk). It is surprising how the said Office manages to perform property valuation, assessment and such other related functions. As noted from their functional chart, the assessment clerk is responsible only for clerical tasks, e.g., recordkeeping and typewriting assessment data. On the other hand, the assessor is responsible for all technical tasks such as conducting physical surveys for property assessment.[46] Asked if the assessor is able to conduct physical surveys/field visits regularly, he said it is impossible especially with limited staff support. Said official revealed that he inspects 'informally' whenever he drives around the locality. In relation to this, Vehorn and Ahmad (in Ter-Minnasian (ed.) 1997:116) noted that resource constraints rule out LGs' ability to adequately staff various tax administration functions. The lack of personnel in core local government offices affects the performance of functions of such offices. For instance, property assessments prepared by the LAO may be based on outdated and unreliable market values,thereby lowering potential RPT dues and making property tax collections suffer.

Aside from the inability to fill up essential LG positions, resource constraints also hinder LGs from providing other administrative and technological support to its sub-units. For instance, a municipal respondent notes that in conducting inspection of properties, the staff would often use public means of transportation to get to the area. The locality does not have available vehicle that inspectors can use for these purposes. There is a transportation allowance which the local government allocates for such purpose but the amount is very nominal. Oftentimes, the staff themselves would lend out their own money and make reimbursements afterwards. This situation may become a disincentive for local government inspectors and staff to go on field since administrators act in response to incentives as well as disincentives in the system. (Bahl, *et al.*, 1984:225) In connection with this, most respondents pointed out that their local government does not give rewards or other form of incentives and benefits that may encourage the staff to perform and improve their tasks. However, they pointed out as well that their LGs may not have extra fund to provide monetary benefits.

Another problem caused by inadequacy of resources or local budget is the poor recordkeeping system among LGUs, aggravated by the lack of office space and facilities. In one municipal hall that was visited, there were no designated places for official documents and records. File cabinets line along corridors of the local hall. Even the rooms of the local officials are crowded with important files like property records which require filing. Moreover, with the number of transactions that is filed in the local halls every year, LGUs should be provided with technologies that would allow safe recordkeeping and easy records retrieval. At any rate, it is worth mentioning that that the Province of La Union is embarking on the computerization and linking of database resources among its municipalities and San Fernando City. However, local administrators should be aware that "computerizing the system *may not necessarily* solve all the problems." (emphasis added) (Lane in Bird and de Jantscher (eds) 1992:243) It is important that the staff are made completely trained and knowledgeable on the system if effective use of such system is desired.

5.3 More Constraints than Opportunities: Other Limits to Local Revenue Administration

No More, No Less: Legal Constraints Under the LGC

In terms of tax bases and rates, cities have wider tax coverage and greater flexibility in setting tax rates than provinces and municipalities. As noted earlier, cities may levy the same taxes imposed by provinces and municipalities up to a maximum rate of 50% more than what is allowed to the latter. One respondent noted that cities are at an advantage in terms of tax sources because they can impose almost all taxes and at higher rates. Under the LGC, LGUs can create new sources of revenues provided that a tax ordinance is approved for its implementation. However, when asked if LGUs impose other taxes than those authorized by the LGC, all respondent officials said that their localities only levy taxes provided by the said law. The respondents unanimously said that creating another source of revenue is tedious as it has to undergo the usual process of public hearings, not to mention the people's disapproval for new taxes. Moreso, the approving officials generally have apprehension in enacting ordinances on new revenue sources as it is deemed unhealthy to their political careers.

'Yes Boss!': Political Influences in Local Tax Administration

(a) Political Influence in Property Valuation at the Provincial and City Levels

Most respondent assessors noted that even if they make the initiative to prepare schedules of property assessments but the approving officials like the local council and the local chief executives do not intend to update real property values in their locality, their effort becomes useless. The difficulty of getting political support to conduct valuation is also another factor that leads to most LGUs having very low property values. Prior to the recent revaluation in La Union, for example, the property valuation based on 1994 values may have significant impact on the static trend in RPT collections of the Province. Aside from the absence of political support, LGUs also encounter other constraints in property assessments and appraisal. RTI International (2007:6-7) notes some of the key issues that deter LGs to create and update valuation rolls include the limited number of appraisers, lack of available market data, and the inadequacy of resources allocated to localities for the timely updating and preparation of valuation rolls.

(b) Politicized Appointment of Local Treasurers and Assessors

Under the LGC, every local government should, among others, have a local treasurer and assessor. Sections 470 and 471 of the LGC provide for the appointment of local treasurers and assistant treasurers by the Department of Finance but the list of recommendees are subject to the recommendation of the local chief executives. All the respondents prefer the current setup of appointment since it is deemed to remove political interference in the performance of local treasury duties. This setup also offers security of tenure for the appointees, unlike when appointment is carried out directly by the local chief executives like in the case of assessors. However, some respondents noted that such setup do not necessarily take away "politics" in the appointment since the recommendations have to be made by local officials who are in power. It becomes a culture that as a recommendee of such local official, treasurers become tied up to the wishes of the local chief executive who recommended them. As in the case of the general revisions of property mentioned above, assessors simply cannot conduct and implement the same if the mayors, governors and local council would not approve it.

Less Extra!: Taxpayer Compliance and Limited Employee Incentives

(a) Absence of Performance Reward System Among LGUs

As noted earlier, most of the respondents said that their LGU does not give any form of incentives or rewards that may have motivated their personnel to perform their functions better. Two respondents, however, have mentioned that every year, the BLGF, particularly its regional office, gives recognition to local treasurers who achieved their revenue targets and have good performance record. The local officials said that the recognition of their performance motivates them to improve their work and perform better. However, such awards are usually given to heads of offices only. Most respondents noted that for the staff, there are no incentives which the LGUs provide for the staff. These are necessary to boost staff's morale. In relation to this, Bahl, *et al.* (1984) points out that in many revenue administration systems, there are "few built-in pecuniary incentives for doing a good job." Said authors further explained that this could lead to shortages of qualified personnel like treasurers and assessors because, more often, professionals choose to work in the private sector where better compensation packages are offered.

(b) Discounts and Penalties for Early and Prompt/Advance Payments

To improve voluntary taxpayer compliance, local treasurers of the sample LGUs said that they give discounts for early tax payments, and surcharges as penalties for late payments. However, discounts and surcharges are only imposed in the collection of the RPT. For other taxes, there are no such incentives or surcharges imposed that would oblige or penalize taxpayers to pay. In the case of the business tax, on the other hand, the business permit becomes a compelling reason for business owners to settle their business tax dues since the permit or license to operate the business will not be released if a proof for business tax payment is not shown. For other local taxes such as the professional tax, the LGUs merely rely upon the voluntary payment of the taxpayers. Because of the weak monitoring system among LGs, keeping an eye on taxpayers who have (not) paid their tax dues is difficult.

(c) Incentive or Disincentive Effect of Transfers

Another factor which literature often relates to the "inefficiency" of LGs to raise revenue is the IRA. In studies on local fiscal administration, the IRA is frequently reasoned out as a disincentive for the LGs to mobilize their resources more effectively.[47] The "disincentive effect of the IRA" poses analysts to review the manner of its distribution to the LGUs. (Manasan, 2007) Local authorities interviewed are amenable that their LGs are dependent on their IRA share. But when asked whether the certainty in the allocation of the IRA becomes a disincentive for them to generate revenues or not, respondent local government officials noted that this is not necessarily true. Respondents said that they have difficulty compelling some people to pay because taxpayers would reason poverty for their inability to pay, and some taxpayers would instead wait for tax amnesties to write off their unpaid taxes. On this aspect, however, the LGU respondents are amenable that their localities do not use, say public auctions or sale, as means of ensuring the extraction of unpaid taxes. For cost and administrative reasons, the auction of properties with arrears is not a common practice in many LGUs, especially in poor localities. Two respondents noted that they 'cannot do anything' when taxpayers cannot pay. They added that it is even piteous for small property owners, for example, to put their properties on public sale. Again, the lack of political will to genuinely put into practice the revenue-raising powers granted to LGUs becomes an obstruction for them to generate potential revenues. Another local official, on the other hand, said that the lack of support from the NG to push for quick court decision on cases they filed against large taxpayers with delinquent accounts slows the process of obtaining significant amount of revenues from these taxpayers.

Chapter 6
Findings and Conclusion

In theory, fiscal decentralization offers an acceptable inter-governmental arrangement for financing and empowering multi-tiered governments. Assigning expenditure responsibilities and revenue sources to finance local needs are fundamentals of fiscal decentralization. In theory, revenues assigned to LGUs particularly property taxes are deemed as 'good local taxes', but in reality, these taxes become unstable and unpredictable sources of revenue. The revenue assignment model gives good basis in maintaining macro-level stability, but limits the choice of taxes that LGs can use. This is evident in the Philippines where LGUs have the RPT and the LBT only as major tax revenue sources.

Looking at the revenue assignment principles in Chapter 3, it was observed that only few features of the RPT and the LBT fit the description of the revenue assignment model. First, both the RPT and the LBT are primary revenue contributors to LGUs. However, they represent only a small portion of the overall LGU income, and much less when compared to local expenditures. Nevertheless, they remain indispensable revenue sources for LGUs since the other tax sources levied by them contribute much less. In fact, non-tax revenue sources dole out more substantial income than other (minor) taxes.

Second, both RPT and LBT are not only difficult to administer but also costly to carryout. The conduct of property valuation and survey of businesses, for example, requires resources which are often limited in LGUs. Even if the law mandates the valuation of properties on a regular schedule, many LGUs do not follow this rule. Going back in Chapter 5, the reasons for irregular property valuation are influenced by financial, administrative and political factors. Third, RPT has immobile tax base and is a good feature for assigning it to LGUs. For the LBT, on the other hand, this is a problem since it is difficult to establish the true value of gross receipts/sales of businesses. LGUs do not have basic 'toolkit' to enable them to properly enforce their revenue generation functions. Lastly, LGUs are endowed differently and so the tax bases for RPT and the LBT will vary for every locality. This has implication for poor LGUs, say municipalities, which have the power to impose the LBT but are constrained from doing so because there are no businesses that they can tax in the first place.

Some of the problems mentioned above reflect the low revenue performance of LGUs. Referring to the revenue performance measures in Chapter 4, overall trend in local revenue generation shows that local revenues fare less than the external revenues in contributing to total LGU revenues, and much less in financing local expenditures. This low performance is reaffirmed when collection efficiency and tax gap ratios showed that big shares of potential RPTs have not been collected and the amount generated from accumulated delinquencies have decreased. While this may show that LGUs have not exerted their full capacity to generate all of their realizable incomes, it also manifests some administrative issues that constrain them from reaching their full revenue-raising capacity. The large fluctuations in the RPT, for example, are attributed to problems relating to property valuation and the inconsistent revenue collection efforts of the LGUs.

On a macro level, the share of LGU income represents a very tiny portion of the NG revenues. A comparison of the NG and LGU revenue sources would reflect the assignment of more productive and major sources of revenues to the NG than the LGUs. Given the limitations of the revenues assigned to the latter, the absence of an 'enabling (local fiscal) environment' adds more problem for LGUs to raise revenues. Chapter 5 noted some of the institutional limitations embedded in the local environment which proponents of conventional fiscal federalism theory failed to incorporate in the design of decentralization. It was observed that there are more constraints than opportunities to local revenue mobilization. Among others, inadequate financial resources constraints LGUs to provide additional administrative support in core LGU functions. The lack of technical expertise in key assessment functions also affected the ability of LGUs in raising revenues. Politics have also intruded in local revenue administration and considerably influenced finance-related decisions at the local level.

In gist, it holds true that LGUs are dependent on their passive incomes like the IRA and have been unable to meet their revenue targets. However, this does not remove the influence of current local (fiscal) environment and LGUs' assigned revenue sources from explaining the way they have performed in raising (own) revenues in the last decade. As alternative view of fiscal decentralization points out, these are 'deficiencies' inherent in the design of fiscal decentralization. They are hard to remove from the system as they are 'meant to be there' – to maintain core public sector goals. Increasing institutional capacities of LGs may likely address these deficiencies, but they are better said than done.

Notes

[1] The other concerns assignment of expenditures. However, this is beyond the subject of this research.

[2] See map of the Philippines (Appendix 1).

[3] Section 2 of the LGC states that "the territorial and political subdivisions of the State shall enjoy genuine and meaningful local autonomy to enable them to attain their fullest development as self-reliant communities and make them more effective partners in the attainment of national goals.... provide for a more responsive and accountable local government structure instituted through a system of decentralization whereby local government units shall be given more powers, authority, responsibilities, and resources." (underscoring supplied)

[4] The other component is the transfer of five-frontline services in the areas of health, agriculture, social welfare, environmental protection, and infrastructure development from the NG to the LGUs.

[5] See structure of local government in the Philippines (Appendix 2).

[6] NSCB count as of June 2009.

[7] Excludes income tax, value-added tax, excise tax and customs.

[8] Includes the Tax on Business of Printing and Publication, Tax on Sand, Gravel and Other Quarry Resources, Annual Fixed Tax on Delivery Vans and Trucks, Franchise Tax, and Amusement Tax. Sections 132 to 141, LGC.

[9] Includes Fees and Charges on Business and Occupation, Fees for Sealing and Licensing of Weights and Measures, and Fishery Rentals, Fees and Charges. Sections 142 to 150, *ibid.*

[10] Section 151, *ibid.*

[11] Basic data was sourced from COA. Compiled and updated by the NTRC.

[12] As noted from NTRC study (2006), the IRA share of provinces comprise an average of 78% of its total revenues from 1993 to 2004, while municipalities and cities' IRA share averaged 71% and 46% during the same period, respectively, making cities appear to be less dependent on the IRA compared to the provinces and municipalities.

[13] It is noted though that the assignment of expenditures precedes the assignment of revenues. However, it is beyond the scope of this paper. Discussions on expenditure assignments may be read from Ahmad, Hewitt and Ruggiero (in Ter-Minnassian (ed.) 1997).

[14] The Province of Laguna in Region IV was originally chosen but the researcher was not advised by a concerned local government agency to push through with the fieldwork for some reasons.

[15] As of June 2009, there are 79 provinces in the Philippines. The total number excludes the Metropolitan Manila Development Authority (MMDA) which is an SRG imposed on existing local governments in the MMA and is autonomous from any provincial government. The MMA comprise largely of highly urbanized cities (HUCs) like the City of Manila, Quezon City, Makati City, which are independent of each other. (see NSCB website)

[16] There are two ways of assessing the 'appropriateness' of revenues assigned. One is by looking at the characteristics of the revenues (or taxes) assigned and the other is by determining whether the assignment of revenues was made on the basis of expenditure responsibilities per level of government. In this paper, the former will be explored using the revenue assignment principles developed by Musgrave and reiterated in other literatures. The latter may not be feasible to do for lack of available data on expenditure responsibilities of LGUs in the Philippines.

[17] Section 271, LGC.

[18] Assessed value (taxable value) is the fair market value (FMV) of the real property multiplied by the assessment level. Assessment level is the percentage applied to the FMV to determine the taxation value of the property. [Section 198 (g) and (h), LGC] This is illustrated as: *Assessed Value = FMV x Assessment Level.*

[19] Rizal Province applied lower than the maximum basic RPT rate in 2003-2005.

[20] See Appendix 3 for other provincial taxes.

[21] There are currently 1,511 municipalities in the Philippines. (see NSCB website)

[22] Section 440, LGC.

[23] Section 143, LGC.

[24] Most literature refer to sales taxes such as VAT, or import and export taxes which have different nature to the LBT. Other articles, however, tackle business licenses which are also of different characteristic, and more comparable to business permits that municipalities (and cities) also impose.

[25] Sections 156 to 164, LGC.

[26] Currently, there are 121 cities in the Philippines, 83 of which are CCs while 34 and 4 are HUCs and ICCs, respectively. **HUCs** are cities with minimum population of 200,000 inhabitants, and annual income of at least P50 million. There are currently 34 highly urbanized cities in the Philippines, 16 of which are located in MMA. **ICCs,** on the other hand, are those whose charters prohibit their voters from voting for provincial elective officials. Dagupan, Cotabato, Naga, Ormoc and Santiago are ICCs and are independent of the province. Lastly, **CCs** are those that do not meet the requirements mentioned. These are considered component cities of the province in which they are geographically located. (See NSCB website)

[27] Like municipalities, cities are created based on average income, population and land area. (Section 450, LGC)

[28] Except the professional and amusement taxes which are levied at fixed rates.

[29] Includes the LBT, tax on delivery trucks and vans, tax on printing and publications, amusement and franchise taxes.

[30] See Appendices 4 and 5 for details.

[31] See Appendices 6 and 7 for details.

[32] See Appendices 8 and 9 for details.

[33] See Appendices 10 and 11 for details.

[34] Analysis will be limited to the basic RPT only. The other property taxes such as the SEF tax will not be discussed since its imposition is almost similar to the basic RPT and that the revenues from this source does not go to the general fund of the LGU. On the other hand, the special levy and the ILT will not be included due to lack of available data and their minimal contribution to local tax revenues.

[35] Data were sourced from the BLGF.

[36] The only condition in the use of IRA is the appropriation of 20% of this amount for local development projects. (Section 287, LGC.)

[37] Include “executive and legislative services, overall financial and fiscal services, planning, general research, public order and safety, and centralized services.” (BLGF, 2008:26)

[38] See map of La Union Province (Appendix 12)

[39] LGUs in the Philippines are sub-classified into five income classes. First class LGUs are those that generate the highest income or revenue while those in the Fifth class earn the least income. The Department of Finance prepares the classification, based on LGUs’ annual income. See Appendix 13 for detail on income classification..

[40] Three out of 19 municipalities of La Union are used as sample municipal cases for this study. Bauang is selected as a representative of first income class municipality while Bacnotan and Burgos represent second and fifth income classes, respectively.

[41] Bureau of Agricultural Statistics. *NSO La Union QuickStat*. (see Census website)

[42] See Appendix 14 for details.

[43] See Appendix 15 for details.

[44] The provision of training and incentives to administrative staff is important to ensure that procedures are followed systematically and monitored internally and externally in order to obtain better appraisal results. (RTI International 2007)

[45] See Appendices 16, 17 and 18 for details.

[46] See Section 472 of the LGC for the duties and responsibilities of local assessors.

[47] Manasan, R. (2007) 'IRA Design Issues and Challenges', *Policy Notes No. 2007-09*. PIDS: Manila.

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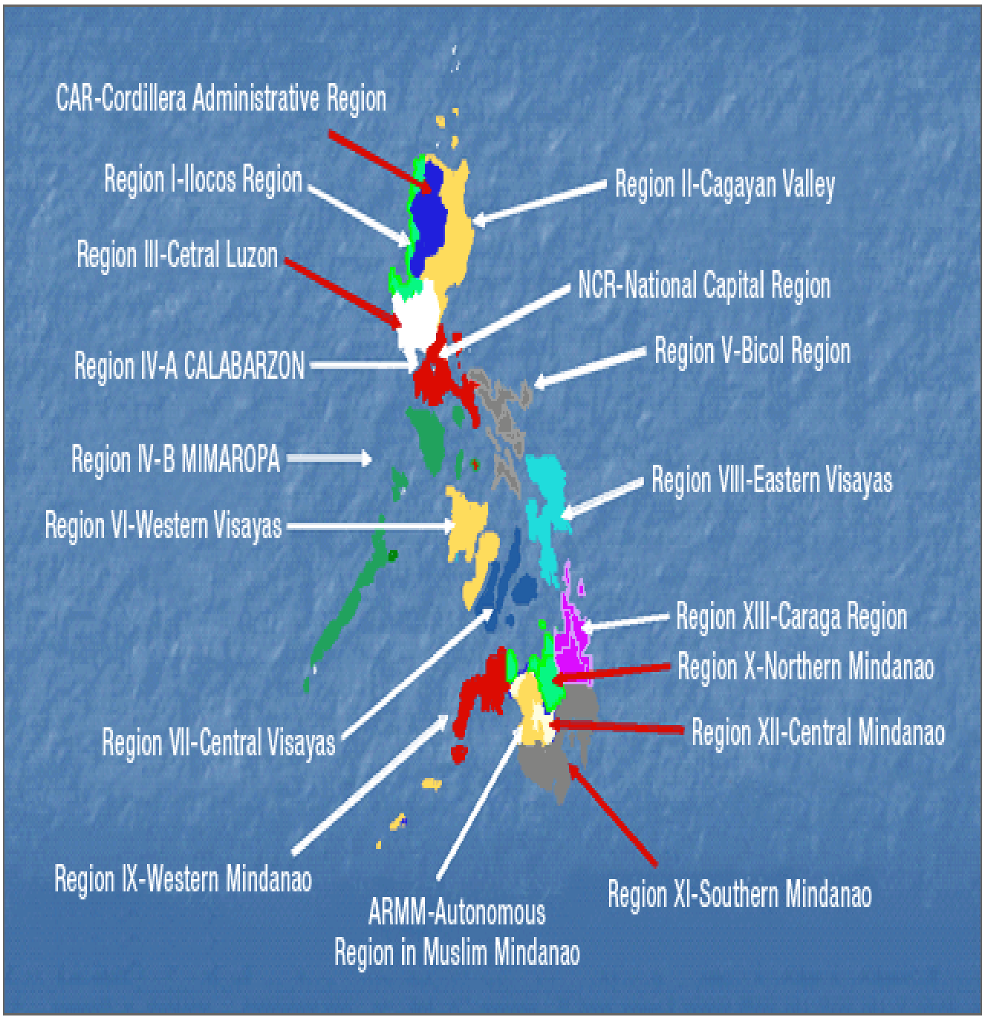
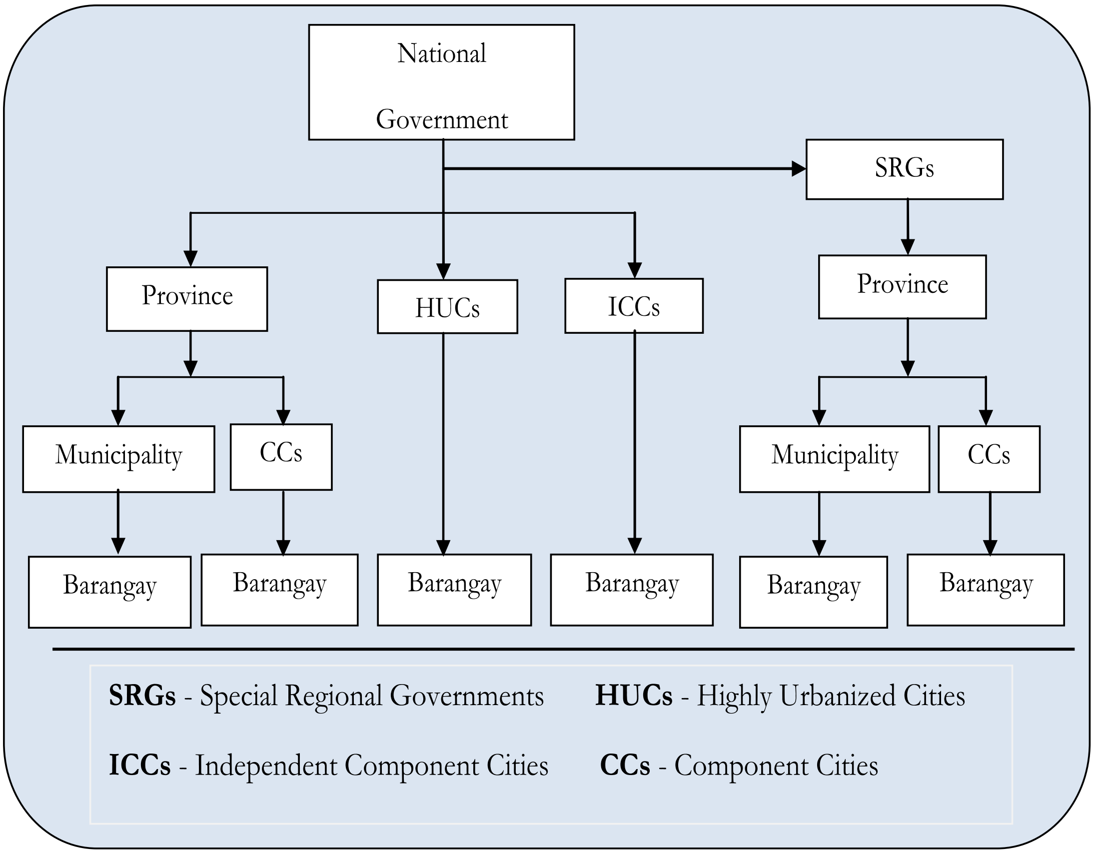
Appendices

Appendix ____.
Geographical Map of the Philippines



Appendix 2.
STRUCTURE OF LOCAL GOVERNMENT IN THE PHILIPPINES



Appendix 3.
OTHER PROVINCIAL SOURCES OF REVENUES

a. Tax on Transfer of Real Property Ownership (Section 135, LGC)
The transfer tax is imposed on sale, donation, or any mode of transferring ownership or title of real property. The tax is levied at a rate not exceeding 50% of one percent of the FMV or the monetary consideration involved in the acquisition of real property, whichever is higher. From 1997 to 2007, provinces generated an average of ₱250 million from transfer tax. The amount represents less than one percent of the total revenues of provinces during the entire period.

b. Tax on Business of Printing and Publication (Section 136, LGC)
This tax is levied by provinces on persons engaged in printing or publication business, e.g., books, cards, leaflets and similar products, at a rate not exceeding 50% of one percent of the annual gross receipts of the business. Only those books or reading materials prescribed by the Department of Education are exempt from this tax. During the period under review, provinces have generated an average income of ₱1.0 million from this tax.

c. Franchise Tax (Section 137, LGC)
The province may impose a tax enjoying a franchise. Section 131(m) of the LGC defines franchise as a right or privilege, affected with public interest which is conferred upon private persons or corporations, under such terms and conditions as the government and its political subdivisions may impose in the interest of public welfare, security and safety. Examples of these are franchises granted by the government to electric companies, waterworks, telephone companies and radio stations. (Celestino, et al., 1998:121)

The franchise tax is imposed at a rate not exceeding 50% of one percent of the annual gross receipts realized for the preceding calendar year. For newly-started businesses, the rate imposed shall not exceed one-twentieth (1/20) of one percent of the capital investment. From 1997 to 2007, franchise tax collections averaged ₱199 million or less than one percent of the total provincial revenues during the period.

d. Tax on Sand, Gravel and Quarry Resources (Section 138, LGC)
Provinces may also levy and collect a tax on sand, gravel and quarry resources extracted from public lands or from beds of seas, rivers, lakes, streams, creeks and other public waters within its territorial jurisdiction. The tax is collected at a rate not exceeding 10% of the FMV per cubic meter of ordinary stones, sand, gravel, earth and other quarry resources defined under the National Internal Revenue Code. From 1997 to 2007, an average of ₱87 million or less than one percent of the total revenues generated by provinces come from this source. It should be noted, however, that the collections from this tax are shared by the

province to component cities or to its municipalities and barangays where the quarry resources have been extracted.

e. Professional Tax (Section 139, LGC)

Provinces may also levy an annual professional tax on persons engaged in the exercise or practice of his profession. The professionals subject to this tax are only those who passed government examinations like bar examinations for lawyers and licensure examinations conducted by the Professional Regulation Commission (PRC) like certified public accountants, doctors, nurses and engineers. Professionals employed by the government are, however, exempt from this tax.

The rate of this tax may vary depending on the classification determined by the members of the local council but should not exceed ₱300.00. During the period under review, provinces collected ₱14 million (0.04%) from professional tax.

f. Amusement Tax (Section 140, LGC)

Amusement taxes are levied on proprietors, lessees or operators of theatres, cinemas, concert halls, circuses, boxing stadia and other places of amusement. The tax is imposed at a rate not more than 30% of the gross receipts taken from admission fees in such amusement places. While provinces have the power to impose this tax, the amounts collected does not exclusively accrue to the province but is shared equally with the municipality where the amusement places subjected to tax are located. For the period 1997 to 2007, provinces had an average share of ₱ 39 million (or 0.11% of provincial revenues) from amusement taxes while municipalities got an average share of ₱43 million (or 0.08% of municipal revenues) during the same period.

g. Annual Fixed Tax on Delivery Trucks and Vans (Section 141, LGC)

The annual fixed tax on delivery trucks and vans is levied on manufacturers, producers, wholesalers, dealers or retailers for every truck, van or any motor vehicle used in the delivery or distribution to sales outlets or consumers within the province of certain products such as liquors, wines, beers, soft drinks, cigarettes and other products as determined by the local council. It is also noted that when already taxed by the province, manufacturers, producers, wholesalers, dealers or retailers can no longer be subject to the peddlers' tax imposed by municipalities under Section 143(g) of the LGC.

The annual fixed tax is fixed at ₱500.00 per such vehicle. The payment of the tax is applicable to one province. Hence, if the vehicle is to distribute goods in other provinces or areas, the owner of the vehicle is liable to pay the same tax in the localities where it delivers goods. (Celestino, et al., 1998:124) From 1997 to 2007, provinces generated an average of ₱33 million or 0.09% of the total provincial revenues from this tax.

Appendix 4.
TOTAL REVENUES OF LOCAL GOVERNMENT, BY SOURCE, CYs 1997- 2007
(In Million Pesos)

SOURCE	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	Average
TOTAL REVENUE	**92,791**	**99,515**	**119,527**	**137,077**	**136,308**	**155,047**	**170,080**	**168,247**	**189,848**	**211,839**	**227,246**	**155,230**
I. Local Sources	**32,639**	**34,030**	**36,955**	**41,493**	**43,149**	**47,498**	**54,031**	**56,311**	**64,409**	**70,019**	**75,765**	**50,573**
A. Tax Revenues	23,272	25,148	27,735	30,957	32,361	36,271	42,020	42,430	48,309	51,543	55,824	37,806
1 Property Taxes	11,136	12,015	12,935	14,819	15,722	18,104	21,739	21,490	24,528	25,226	27,434	18,650
1.1 Real Property Taxes	10,964	11,867	12,875	14,716	15,654	18,059	21,687	21,453	24,452	25,148	27,414	18,572
a. Basic [1]	5,767	6,144	6,427	7,318	7,769	9,274	11,244	10,656	12,235	12,580	13,765	9,380
b. SEF Tax [2]	5,197	5,723	6,448	7,398	7,885	8,784	10,443	10,796	12,217	12,568	13,649	9,192
1.2 Special Assessments	15	81	13	9	40	44	48	33	53	64	1	37
1.3 Idle Land Tax	157	67	48	95	28	1	3	4	23	13	18	41
2 Business Taxes	9,320	9,963	11,263	12,360	13,205	15,612	17,021	18,108	20,565	22,978	24,812	15,928
Local Business Taxes	8,833	9,513	10,585	11,618	12,515	14,776	16,019	16,988	19,362	21,784	23,403	15,036
Tax on Delivery Trucks and Vans	33	54	45	56	58	34	67	73	92	90	103	64
Tax on Printing and Publications	15	18	17	25	24	27	31	38	41	41	46	29
Franchise Tax	308	280	480	511	478	619	757	856	887	889	953	638
Sand and Gravel Tax	131	98	136	150	129	156	148	153	184	174	307	161
3 Other Taxes [3]	2,816	3,171	3,537	3,778	3,434	2,555	3,260	2,833	3,216	3,339	3,579	3,229
B. Non-Tax Revenue	**9,367**	**8,881**	**9,220**	**10,535**	**10,788**	**11,226**	**12,011**	**13,881**	**16,099**	**18,476**	**19,941**	**12,766**
1 Operating & Miscellaneous Revenue	8,669	8,547	9,031	10,303	10,468	11,031	11,833	13,690	15,789	18,248	19,694	12,482
2 Capital Revenue	640	272	113	148	237	70	2	7	35	12	5	140
3 Others	59	62	76	84	83	125	176	185	276	216	241	144
II. External Sources	**60,152**	**65,485**	**82,572**	**95,584**	**93,159**	**107,549**	**116,049**	**111,935**	**125,440**	**141,820**	**151,481**	**104,657**
A. Internal Revenue Allotment	55,983	60,988	75,718	88,229	86,018	106,243	113,329	109,162	121,391	137,670	146,592	100,120
B. Share from Utilization of National Wealth	442	420	489	746	807	232	381	326	484	871	672	534
C. Grants and Aids	499	726	415	810	760	675	596	718	791	1,137	1,805	812
D. Other External Revenue Sources [4]	3,228	3,352	5,949	5,799	5,574	399	1,744	1,730	2,773	2,142	2,412	3,191

Source of Data: COA and NTRC

Notes:

[1] Less discount on basic real property tax.

[2] Less discount on special education tax.

[3] Includes tax on transfer of real property, professional tax, amusement tax, community tax and others

[4] Includes shares from Ecozones,EVAT, PAGCOR/PCSO, tobacco excise tax and borrowings.

Appendix 5.
PERCENT DISTRIBUTION OF LOCAL GOVERNMENT REVENUES, BY SOURCE, CYs 1997 - 2007

SOURCE	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	Average
TOTAL REVENUE	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**
I. Local Sources	**35.18%**	**34.20%**	**30.92%**	**30.27%**	**31.66%**	**30.63%**	**31.77%**	**33.47%**	**33.93%**	**33.05%**	**33.34%**	**32.58%**
A. Tax Revenues	**25.08%**	**25.27%**	**23.20%**	**22.58%**	**23.74%**	**23.39%**	**24.71%**	**25.22%**	**25.45%**	**24.33%**	**24.57%**	**24.32%**
1. Property Taxes	12.00%	12.07%	10.82%	10.81%	11.53%	11.68%	12.78%	12.77%	12.92%	11.91%	12.07%	11.94%
1.1. Real Property Taxes	11.82%	11.92%	10.77%	10.74%	11.48%	11.65%	12.75%	12.75%	12.88%	11.87%	12.06%	11.88%
a. Basic	6.21%	6.17%	5.38%	5.34%	5.70%	5.98%	6.61%	6.33%	6.44%	5.94%	6.06%	6.02%
b. SEF Tax	5.60%	5.75%	5.39%	5.40%	5.78%	5.67%	6.14%	6.42%	6.44%	5.93%	6.01%	5.87%
1.2 Special Assessments	0.02%	0.08%	0.01%	0.01%	0.03%	0.03%	0.03%	0.02%	0.03%	0.03%	0.00%	0.03%
1.3 Idle Land Tax	0.17%	0.07%	0.04%	0.07%	0.02%	0.00%	0.00%	0.00%	0.01%	0.01%	0.01%	0.04%
2. Business Taxes	10.04%	10.01%	9.42%	9.02%	9.69%	10.07%	10.01%	10.76%	10.83%	10.85%	10.92%	10.15%
Local Business Taxes	9.52%	9.56%	8.86%	8.48%	9.18%	9.53%	9.42%	10.10%	10.20%	10.28%	10.30%	9.58%
Tax on Delivery Trucks and Vans	0.04%	0.05%	0.04%	0.04%	0.04%	0.02%	0.04%	0.04%	0.05%	0.04%	0.05%	0.04%
Tax on Printing and Publications	0.02%	0.02%	0.01%	0.02%	0.02%	0.02%	0.02%	0.02%	0.02%	0.02%	0.02%	0.02%
Franchise Tax	0.33%	0.28%	0.40%	0.37%	0.35%	0.40%	0.45%	0.51%	0.47%	0.42%	0.42%	0.40%
Sand and Gravel Tax	0.14%	0.10%	0.11%	0.11%	0.09%	0.10%	0.09%	0.09%	0.10%	0.08%	0.14%	0.10%
3 Other Taxes	3.03%	3.19%	2.96%	2.76%	2.52%	1.65%	1.92%	1.68%	1.69%	1.58%	1.57%	2.23%
B. Non-Tax Revenue	**10.10%**	**8.92%**	**7.71%**	**7.69%**	**7.91%**	**7.24%**	**7.06%**	**8.25%**	**8.48%**	**8.72%**	**8.77%**	**8.26%**
1. Operating & Miscellaneous Revenue	9.34%	8.59%	7.56%	7.52%	7.68%	7.11%	6.96%	8.14%	8.32%	8.61%	8.67%	8.04%
2. Capital Revenue	0.69%	0.27%	0.09%	0.11%	0.17%	0.04%	0.00%	0.00%	0.02%	0.01%	0.00%	0.13%
3. Others	0.06%	0.06%	0.06%	0.06%	0.06%	0.08%	0.10%	0.11%	0.15%	0.10%	0.11%	0.09%
II. External Sources	**64.82%**	**65.80%**	**69.08%**	**69.73%**	**68.34%**	**69.37%**	**68.23%**	**66.53%**	**66.07%**	**66.95%**	**66.66%**	**67.42%**
A. Internal Revenue Allotment	60.33%	61.29%	63.35%	64.36%	63.11%	68.52%	66.63%	64.88%	63.94%	64.99%	64.51%	64.17%
B. Share from Utilization of National Wealth	0.48%	0.42%	0.41%	0.54%	0.59%	0.15%	0.22%	0.19%	0.25%	0.41%	0.30%	0.36%
C. Grants and Aids	0.54%	0.73%	0.35%	0.59%	0.56%	0.44%	0.35%	0.43%	0.42%	0.54%	0.79%	0.52%
D. Other External Revenue Sources	3.48%	3.37%	4.98%	4.23%	4.09%	0.26%	1.03%	1.03%	1.46%	1.01%	1.06%	2.36%

Source of Data: COA and NTRC

Appendix 6.
REVENUES OF PROVINCES, BY SOURCE, CYs 1997 - 2007
(In Million Pesos)

SOURCES	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	Average
TOTAL REVENUES	**22,862**	**24,005**	**28,480**	**33,196**	**32,355**	**37,757**	**39,568**	**38,796**	**44,008**	**48,646**	**51,978**	**36,514**
I. Local Sources	**4,926**	**4,591**	**4,850**	**5,196**	**5,244**	**5,044**	**5,566**	**5,983**	**7,185**	**7,470**	**8,204**	**5,842**
A. Tax Revenues	**2,430**	**2,935**	**3,353**	**3,431**	**3,356**	**3,316**	**3,624**	**3,693**	**4,481**	**4,286**	**4,831**	**3,612**
1. Property Taxes	1,572	1,771	1,960	2,371	2,298	2,724	2,868	2,997	3,498	3,414	3,738	2,655
1.1 Real Property Taxes	1,569	1,765	1,951	2,359	2,292	2,724	2,868	2,997	3,493	3,413	3,738	2,652
a. Basic [1]	702	793	831	1,014	985	1,151	1,187	1,253	1,466	1,395	1,529	1,119
b. SEF Tax [2]	866	972	1,120	1,345	1,307	1,573	1,681	1,744	2,027	2,018	2,209	1,533
1.2 Special Assessments	0	1	-	0	-	-	-	-	2	0	0	0
1.3 Idle Land Tax	3	6	9	12	6	-	-	-	3	0	0	3
2. Business Taxes	273	241	428	369	353	265	282	341	443	410	555	360
2.1. Tax on Delivery Trucks and Vans	17	20	26	24	24	21	40	44	49	48	55	33
2.2 Tax on Printing and Publications	1	1	2	1	1	1	1	1	2	3	2	1
2.3 Franchise Tax	160	126	291	229	222	131	131	182	248	220	255	199
2.4 Sand and Gravel Tax	63	56	73	69	68	80	73	80	103	96	196	87
2.5 Amusement Tax	32	39	36	46	37	32	38	35	41	43	46	39
3. Other Taxes [3]	586	923	965	690	705	328	474	355	541	463	538	597
B. Non-Tax Revenues	**2,495**	**1,656**	**1,497**	**1,765**	**1,889**	**1,728**	**1,942**	**2,290**	**2,704**	**3,184**	**3,373**	**2,229**
1 Operating & Miscellaneous Revenues	1,987	1,482	1,450	1,749	1,679	1,677	1,934	2,281	2,698	3,171	3,368	2,134
2 Capital Revenues	505	167	42	11	206	43	1	5	1	0	0	89
3 Others	4	6	4	5	4	9	7	4	5	13	5	6
II. External Sources	**17,936**	**19,415**	**23,630**	**28,000**	**27,111**	**32,713**	**34,002**	**32,813**	**36,823**	**41,176**	**43,774**	**30,672**
A. Internal Revenue Allotment	17,161	18,358	22,694	26,094	25,113	32,355	33,385	32,334	36,002	40,480	43,012	29,726
B. Share from Utilization of National Wealth	118	178	97	528	178	67	98	98	171	231	137	173
C. Grants and Aids	92	216	69	134	182	130	46	13	70	149	405	137
D. Other External Revenue Sources [4]	565	663	771	1,244	1,639	160	472	368	579	315	220	636

Sources of data: COA and NTRC

Notes:

[1] Less discount on Basic Real Property Tax.

[2] Less discount on Special Education Fund Tax.

[3] Includes tax on transfer of real property, professional tax, community tax, and others

[4] Includes shares from Ecozones,EVAT,PAGCOR/PCSO and tobacco excise tax.

Appendix 7.
PERCENT DISTRIBUTION OF REVENUES OF PROVINCES, BY SOURCE: CYs 1997 - 2007

SOURCES	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	Average
TOTAL REVENUES	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**
I. Local Sources	**21.55%**	**19.12%**	**17.03%**	**15.65%**	**16.21%**	**13.36%**	**14.07%**	**15.42%**	**16.33%**	**15.36%**	**15.78%**	**16.35%**
A. Tax Revenues	**10.63%**	**12.23%**	**11.77%**	**10.33%**	**10.37%**	**8.78%**	**9.16%**	**9.52%**	**10.18%**	**8.81%**	**9.29%**	**10.10%**
1. Property Taxes	6.87%	7.38%	6.88%	7.14%	7.10%	7.21%	7.25%	7.73%	7.95%	7.02%	7.19%	7.25%
1.1 Real Property Taxes	6.86%	7.35%	6.85%	7.11%	7.08%	7.21%	7.25%	7.73%	7.94%	7.02%	7.19%	7.24%
a. Basic	3.07%	3.30%	2.92%	3.05%	3.04%	3.05%	3.00%	3.23%	3.33%	2.87%	2.94%	3.07%
b. SEF Tax	3.79%	4.05%	3.93%	4.05%	4.04%	4.17%	4.25%	4.49%	4.61%	4.15%	4.25%	4.16%
1.2 Special Assessments	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
1.3 Idle Land Tax	0.01%	0.02%	0.03%	0.03%	0.02%	0.00%	0.00%	0.00%	0.01%	0.00%	0.00%	0.01%
2. Business Taxes	1.19%	1.00%	1.50%	1.11%	1.09%	0.70%	0.71%	0.88%	1.01%	0.84%	1.07%	1.01%
2.1. Tax on Delivery Trucks and Vans	0.07%	0.08%	0.09%	0.07%	0.07%	0.05%	0.10%	0.11%	0.11%	0.10%	0.11%	0.09%
2.2 Tax on Printing and Publications	0.00%	0.00%	0.01%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.01%	0.00%	0.00%
2.3 Franchise Tax	0.70%	0.52%	1.02%	0.69%	0.69%	0.35%	0.33%	0.47%	0.56%	0.45%	0.49%	0.57%
2.4 Sand and Gravel Tax	0.28%	0.23%	0.26%	0.21%	0.21%	0.21%	0.18%	0.21%	0.23%	0.20%	0.38%	0.24%
2.5 Amusement Tax	0.14%	0.16%	0.13%	0.14%	0.11%	0.09%	0.09%	0.09%	0.09%	0.09%	0.09%	0.11%
3. Other Taxes	2.56%	3.85%	3.39%	2.08%	2.18%	0.87%	1.20%	0.91%	1.23%	0.95%	1.03%	1.84%
B. Non-Tax Revenues	**10.91%**	**6.90%**	**5.26%**	**5.32%**	**5.84%**	**4.58%**	**4.91%**	**5.90%**	**6.14%**	**6.55%**	**6.49%**	**6.25%**
1 Operating & Miscellaneous Revenues	8.69%	6.18%	5.09%	5.27%	5.19%	4.44%	4.89%	5.88%	6.13%	6.52%	6.48%	5.89%
2 Capital Revenues	2.21%	0.70%	0.15%	0.03%	0.64%	0.11%	0.00%	0.01%	0.00%	0.00%	0.00%	0.35%
3 Others	0.02%	0.03%	0.01%	0.02%	0.01%	0.02%	0.02%	0.01%	0.01%	0.03%	0.01%	0.02%
II. External Sources	**78.45%**	**80.88%**	**82.97%**	**84.35%**	**83.79%**	**86.64%**	**85.93%**	**84.58%**	**83.67%**	**84.64%**	**84.22%**	**83.65%**
A. Internal Revenue Allotment	75.06%	76.47%	79.68%	78.61%	77.61%	85.69%	84.37%	83.34%	81.81%	83.21%	82.75%	80.78%
B. Share from Utilization of National Wealth	0.52%	0.74%	0.34%	1.59%	0.55%	0.18%	0.25%	0.25%	0.39%	0.47%	0.26%	0.50%
C. Grants and Aids	0.40%	0.90%	0.24%	0.40%	0.56%	0.35%	0.12%	0.03%	0.16%	0.31%	0.78%	0.39%
D. Other External Revenue Sources	2.47%	2.76%	2.71%	3.75%	5.07%	0.42%	1.19%	0.95%	1.32%	0.65%	0.42%	1.97%

Sources of data: COA and NTRC

Appendix 8.
REVENUES OF CITIES, BY SOURCE: CYs 1997-2007
(In Million Pesos)

SOURCES	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	Average
TOTAL REVENUES	**35,941**	**40,769**	**48,661**	**54,663**	**56,411**	**62,623**	**69,919**	**71,429**	**79,164**	**87,824**	**99,016**	**64,220**
I. Local Sources	**18,754**	**21,080**	**23,255**	**26,798**	**28,521**	**32,368**	**37,204**	**39,269**	**44,076**	**48,431**	**54,223**	**33,998**
A. Tax Revenues	**15,255**	**17,154**	**18,982**	**21,675**	**23,197**	**26,860**	**31,392**	**32,406**	**36,047**	**39,055**	**43,774**	**27,800**
1 Property Taxes	6,821	7,866	8,378	9,378	10,521	11,952	15,210	14,945	16,761	17,646	19,816	12,663
1.1 Real Property Taxes	6,687	7,761	8,352	9,365	10,507	11,909	15,163	14,910	16,694	17,573	19,798	12,611
a. Basic [1]	3,716	4,216	4,366	4,904	5,446	6,500	8,327	7,787	8,807	9,288	10,496	6,714
b. SEF Tax [2]	2,970	3,544	3,987	4,460	5,061	5,409	6,836	7,123	7,887	8,285	9,302	5,897
1.2 Special Assessments	3	55	6	1	0	43	47	32	48	63	0	27
1.3 Idle Land Tax [2]	131	50	19	12	14	0	0	3	19	10	17	25
2 Business Taxes	7,031	7,913	8,767	9,735	10,657	12,927	13,950	15,247	16,777	18,768	20,807	12,962
Local Business Tax	6,285	7,100	8,032	8,900	9,764	11,794	12,635	13,883	15,458	17,433	19,353	11,876
Tax on Delivery Trucks and Vans	13	31	16	21	19	12	25	26	37	38	45	26
Tax on Printing and Publications	14	17	15	24	23	26	28	34	37	37	43	27
Franchise Tax	97	85	111	180	200	420	564	625	584	619	657	377
Sand and Gravel Tax	28	10	13	16	14	18	16	19	20	20	21	18
Amusement Tax	595	670	579	595	636	657	683	660	640	620	688	638
3 Other Taxes [3]	1,403	1,376	1,837	2,562	2,019	1,981	2,232	2,214	2,509	2,641	3,152	2,175
B. Non-Tax Revenues	**3,499**	**3,926**	**4,274**	**5,123**	**5,324**	**5,508**	**5,813**	**6,863**	**8,029**	**9,375**	**10,450**	**6,198**
1 Operating & Miscellaneous Revenue	3,420	3,876	4,208	4,941	5,245	5,418	5,697	6,744	7,852	9,232	10,272	6,082
2 Capital Revenue	39	9	9	117	10	14	0	0	2	0	2	18
3 Others	40	41	57	66	68	76	115	118	175	144	176	98
II. External Sources	**17,187**	**19,689**	**25,406**	**27,866**	**27,890**	**30,255**	**32,715**	**32,160**	**35,088**	**39,393**	**44,792**	**30,222**
A. Internal Revenue Allotment	15,333	17,075	20,612	24,490	24,620	30,013	32,090	31,343	34,320	38,603	43,044	28,322
B. Share from Utilization of National Wealth	5	55	58	36	17	12	85	36	43	54	80	44
C. Grants and Aids	117	337	118	323	211	94	114	161	122	145	521	206
D. Other External Sources [4]	1,731	2,222	4,618	3,017	3,043	136	426	620	603	590	1,148	1,650

Sources of data: COA and NTRC

Notes:

[1] Less discount on basic Real Property Tax.

[2] Less discount on Special Education Fund Tax.

[3] Includes transfer tax on real property ownership, professional tax, community tax and others.

[4] Includes shares from Ecozones,EVAT, PAGCOR/PCSO, tobacco excise tax and borrowings.

Appendix 9.

PERCENT DISTRIBUTION OF REVENUES OF CITIES, BY SOURCE, CYs 1997-2007

SOURCES	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	Average
TOTAL REVENUES	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**
I. Local Sources	**52.18%**	**51.71%**	**47.79%**	**49.02%**	**50.56%**	**51.69%**	**53.21%**	**54.98%**	**55.68%**	**55.15%**	**54.76%**	**52.43%**
A. Tax Revenues	**42.44%**	**42.08%**	**39.01%**	**39.65%**	**41.12%**	**42.89%**	**44.90%**	**45.37%**	**45.53%**	**44.47%**	**44.21%**	**42.88%**
1 Property Taxes	18.98%	19.29%	17.22%	17.16%	18.65%	19.09%	21.75%	20.92%	21.17%	20.09%	20.01%	19.48%
1.1 Real Property Taxes	18.60%	19.04%	17.16%	17.13%	18.63%	19.02%	21.69%	20.87%	21.09%	20.01%	20.00%	19.38%
a. Basic	10.34%	10.34%	8.97%	8.97%	9.65%	10.38%	11.91%	10.90%	11.12%	10.58%	10.60%	10.34%
b. Special Education Fund (SEF) Tax	8.26%	8.69%	8.19%	8.16%	8.97%	8.64%	9.78%	9.97%	9.96%	9.43%	9.39%	9.04%
1.3 Special Assessments	0.01%	0.14%	0.01%	0.00%	0.00%	0.07%	0.07%	0.05%	0.06%	0.07%	0.00%	0.04%
1.4 Idle Land Tax	0.37%	0.12%	0.04%	0.02%	0.02%	0.00%	0.00%	0.00%	0.02%	0.01%	0.02%	0.06%
2 Business Taxes	19.56%	19.41%	18.02%	17.81%	18.89%	20.64%	19.95%	21.35%	21.19%	21.37%	21.01%	19.93%
Local Business Tax	17.49%	17.41%	16.51%	16.28%	17.31%	18.83%	18.07%	19.44%	19.53%	19.85%	19.55%	18.21%
Tax on Delivery Trucks and Vans	0.04%	0.08%	0.03%	0.04%	0.03%	0.02%	0.04%	0.04%	0.05%	0.04%	0.05%	0.04%
Tax on Printing and Publications	0.04%	0.04%	0.03%	0.04%	0.04%	0.04%	0.04%	0.05%	0.05%	0.04%	0.04%	0.04%
Franchise Tax	0.27%	0.21%	0.23%	0.33%	0.35%	0.67%	0.81%	0.87%	0.74%	0.71%	0.66%	0.53%
Sand and Gravel Tax	0.08%	0.03%	0.03%	0.03%	0.03%	0.03%	0.02%	0.03%	0.03%	0.02%	0.02%	0.03%
Amusement Tax	1.66%	1.64%	1.19%	1.09%	1.13%	1.05%	0.98%	0.92%	0.81%	0.71%	0.70%	1.08%
3 Other Taxes	3.90%	3.37%	3.78%	4.69%	3.58%	3.16%	3.19%	3.10%	3.17%	3.01%	3.18%	3.47%
B. Non-Tax Revenues	**9.73%**	**9.63%**	**8.78%**	**9.37%**	**9.44%**	**8.80%**	**8.31%**	**9.61%**	**10.14%**	**10.68%**	**10.55%**	**9.55%**
1 Operating & Miscellaneous Revenue	9.52%	9.51%	8.65%	9.04%	9.30%	8.65%	8.15%	9.44%	9.92%	10.51%	10.37%	9.37%
2 Capital Revenue	0.11%	0.02%	0.02%	0.21%	0.02%	0.02%	0.00%	0.00%	0.00%	0.00%	0.00%	0.04%
3 Others	0.11%	0.10%	0.12%	0.12%	0.12%	0.12%	0.17%	0.17%	0.22%	0.16%	0.18%	0.14%
II. External Sources	**47.82%**	**48.29%**	**52.21%**	**50.98%**	**49.44%**	**48.31%**	**46.79%**	**45.02%**	**44.32%**	**44.85%**	**45.24%**	**47.57%**
A. Internal Revenue Allotment	42.66%	41.88%	42.36%	44.80%	43.64%	47.93%	45.90%	43.88%	43.35%	43.96%	43.47%	43.98%
B. Share from Utilization of National Wealth	0.01%	0.13%	0.12%	0.07%	0.03%	0.02%	0.12%	0.05%	0.05%	0.06%	0.08%	0.07%
C. Grants and Aids	0.33%	0.83%	0.24%	0.59%	0.37%	0.15%	0.16%	0.23%	0.15%	0.17%	0.53%	0.34%
D. Other External Sources	4.82%	5.45%	9.49%	5.52%	5.39%	0.22%	0.61%	0.87%	0.76%	0.67%	1.16%	3.18%

Sources of data: COA and NTRC

Appendix 10.
REVENUES OF MUNICIPALITIES, BY SOURCE: CYs 1997-2007
(In Million Pesos)

SOURCES	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	Average
TOTAL REVENUES	**34,870**	**35,463**	**43,208**	**50,192**	**48,433**	**55,803**	**61,697**	**59,191**	**68,094**	**76,707**	**77,987**	**55,604**
I. Local Sources	**9,841**	**9,081**	**9,671**	**10,474**	**10,275**	**11,221**	**12,365**	**12,228**	**14,566**	**15,456**	**15,072**	**11,841**
A. Tax Revenues	**6,467**	**5,781**	**6,222**	**6,827**	**6,699**	**7,231**	**8,108**	**7,500**	**9,199**	**9,539**	**8,955**	7,503
1 Property Taxes	2,748	2,389	2,598	3,071	2,915	3,429	3,661	3,548	4,268	4,166	3,880	3,334
1.1 Real Property Taxes	2,709	2,341	2,571	2,992	2,855	3,426	3,656	3,546	4,265	4,162	3,878	3,309
a Basic [1]	1,348	1,135	1,231	1,400	1,338	1,624	1,730	1,616	1,962	1,897	1,740	1,547
b. SEF Tax [2]	1,361	1,207	1,341	1,592	1,517	1,802	1,926	1,929	2,303	2,264	2,138	1,762
1.2 Special Assessments	12	25	7	7	39	1	2	1	2	1	1	9
1.3 Idle Land Tax	28	23	20	71	21	1	3	1	1	3	0	16
2 Business Taxes	2,696	2,553	2,730	2,933	2,901	3,149	3,545	3,248	4,071	4,518	4,246	3,327
Tax on business (LBT)	2,548	2,414	2,553	2,718	2,751	2,982	3,385	3,104	3,904	4,351	4,050	3,160
Tax on Delivery Trucks and Vans	4	4	3	11	15	1	2	3	6	3	3	5
Tax on Printing and Publications	1	1	0	0	0	0	2	3	2	1	1	1
Franchise Tax	52	69	78	102	57	68	63	49	55	50	41	62
Sand and Gravel Tax	40	31	50	65	46	59	59	55	61	58	90	56
Amusement Tax	52	35	46	37	32	39	36	33	44	56	61	43
3 Other Taxes [3]	1,022	839	894	823	883	653	902	704	860	855	829	842
B. Non-Tax Revenues	**3,374**	**3,300**	**3,450**	**3,647**	**3,576**	**3,990**	**4,257**	**4,729**	**5,367**	**5,917**	**6,118**	**4,338**
1 Operating & Miscellaneous Revenues	3,263	3,189	3,372	3,613	3,544	3,937	4,202	4,665	5,239	5,846	6,054	4,266
2 Capital Revenues	95	96	62	21	21	13	1	2	32	12	3	32
3 Others	16	15	15	13	11	41	54	62	96	59	60	40
II. External Sources	**25,028**	**26,382**	**33,536**	**39,718**	**38,158**	**44,582**	**49,332**	**46,962**	**53,528**	**61,251**	**62,915**	**43,763**
A. Internal Revenue Allotment	23,489	25,556	32,413	37,644	36,286	43,874	47,854	45,485	51,069	58,586	60,536	42,072
B. Share from Utilization of National Wealth	319	187	334	182	612	153	198	192	270	586	455	317
C. Grants and Aids	289	173	228	354	367	451	436	543	599	843	879	469
D. Other External Revenue Sources [4]	932	467	561	1,538	892	103	845	742	1,590	1,237	1,045	905

Sources of data: COA and NTRC

Notes:

[1] Less discount on Basic Real Property Tax.

[2] Less discount on Special Education Fund Tax.

[4] Includes transfer tax on real property ownership, professional tax, community tax and other taxes.

[5] Includes shares from Ecozones,EVAT,PAGCOR/PCSO and tobacco excise tax.

Appendix 11.
PERCENT DISTRIBUTION OF REVENUES OF MUNICIPALITIES, BY SOURCE: CYs 1997-2007

SOURCES	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	Average
TOTAL REVENUES	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**
I. Local Sources	**28.22%**	**25.61%**	**22.38%**	**20.87%**	**21.22%**	**20.11%**	**20.04%**	**20.66%**	**21.39%**	**20.15%**	**19.33%**	**21.82%**
A. Tax Revenues	**18.55%**	**16.30%**	**14.40%**	**13.60%**	**13.83%**	**12.96%**	**13.14%**	**12.67%**	**13.51%**	**12.44%**	**11.48%**	**13.90%**
1 Property Taxes	7.88%	6.74%	6.01%	6.12%	6.02%	6.14%	5.93%	5.99%	6.27%	5.43%	4.97%	6.14%
1.1 Real Property Taxes	7.77%	6.60%	5.95%	5.96%	5.90%	6.14%	5.93%	5.99%	6.26%	5.43%	4.97%	6.08%
a Basic	3.87%	3.20%	2.85%	2.79%	2.76%	2.91%	2.80%	2.73%	2.88%	2.47%	2.23%	2.86%
b. SEF Tax	3.90%	3.40%	3.10%	3.17%	3.13%	3.23%	3.12%	3.26%	3.38%	2.95%	2.74%	3.22%
1.2 Special Assessments	0.03%	0.07%	0.02%	0.01%	0.08%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.02%
1.3 Idle Land Tax	0.08%	0.06%	0.05%	0.14%	0.04%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.04%
2 Business Taxes	7.73%	7.20%	6.32%	5.84%	5.99%	5.64%	5.75%	5.49%	5.98%	5.89%	5.44%	6.12%
Tax on Business	7.31%	6.81%	5.91%	5.42%	5.68%	5.34%	5.49%	5.24%	5.73%	5.67%	5.19%	5.80%
Tax on Delivery Trucks and Vans	0.01%	0.01%	0.01%	0.02%	0.03%	0.00%	0.00%	0.01%	0.01%	0.00%	0.00%	0.01%
Tax on Printing and Publications	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Franchise Tax	0.15%	0.19%	0.18%	0.20%	0.12%	0.12%	0.10%	0.08%	0.08%	0.07%	0.05%	0.12%
Sand and Gravel Tax	0.11%	0.09%	0.12%	0.13%	0.09%	0.10%	0.10%	0.09%	0.09%	0.08%	0.12%	0.10%
Amusement Tax	0.15%	0.10%	0.11%	0.07%	0.07%	0.07%	0.06%	0.06%	0.06%	0.07%	0.08%	0.08%
3 Other Taxes	2.93%	2.37%	2.07%	1.64%	1.82%	1.17%	1.46%	1.19%	1.26%	1.11%	1.06%	1.64%
B. Non-Tax Revenues	**9.68%**	**9.30%**	**7.98%**	**7.27%**	**7.38%**	**7.15%**	**6.90%**	**7.99%**	**7.88%**	**7.71%**	**7.84%**	**7.92%**
1 Operating & Miscellaneous Revenues	9.36%	8.99%	7.80%	7.20%	7.32%	7.05%	6.81%	7.88%	7.69%	7.62%	7.76%	7.77%
2 Capital Revenues	0.27%	0.27%	0.14%	0.04%	0.04%	0.02%	0.00%	0.00%	0.05%	0.02%	0.00%	0.08%
3 Others	0.05%	0.04%	0.04%	0.03%	0.02%	0.07%	0.09%	0.11%	0.14%	0.08%	0.08%	0.07%
II. External Sources	**71.78%**	**74.39%**	**77.62%**	**79.13%**	**78.78%**	**79.89%**	**79.96%**	**79.34%**	**78.61%**	**79.85%**	**80.67%**	**78.18%**
A. Internal Revenue Allotment	67.36%	72.06%	75.02%	75.00%	74.92%	78.62%	77.56%	76.85%	75.00%	76.38%	77.62%	75.13%
B. Share from Utilization of National Wealth	0.91%	0.53%	0.77%	0.36%	1.26%	0.27%	0.32%	0.32%	0.40%	0.76%	0.58%	0.59%
C. Grants and Aids	0.83%	0.49%	0.53%	0.70%	0.76%	0.81%	0.71%	0.92%	0.88%	1.10%	1.13%	0.80%
D. Other External Revenue Sources	2.67%	1.32%	1.30%	3.06%	1.84%	0.18%	1.37%	1.25%	2.34%	1.61%	1.34%	1.66%

Sources of data: COA and NTRC

Appendix 12.
INCOME CLASSIFICATION OF PROVINCES, CITIES AND MUNICIPALITIES*

1. Provinces

Class	Average Annual Income
First	P 350 M or more
Second	P 280 M or more but less than P 350 M
Third	P 210 M or more but less than P 280 M
Fourth	P 140 M or more but less than P 210 M
Fifth	P 70 M or more but less than P 140 M
Sixth	Below P 70 M

2. Cities

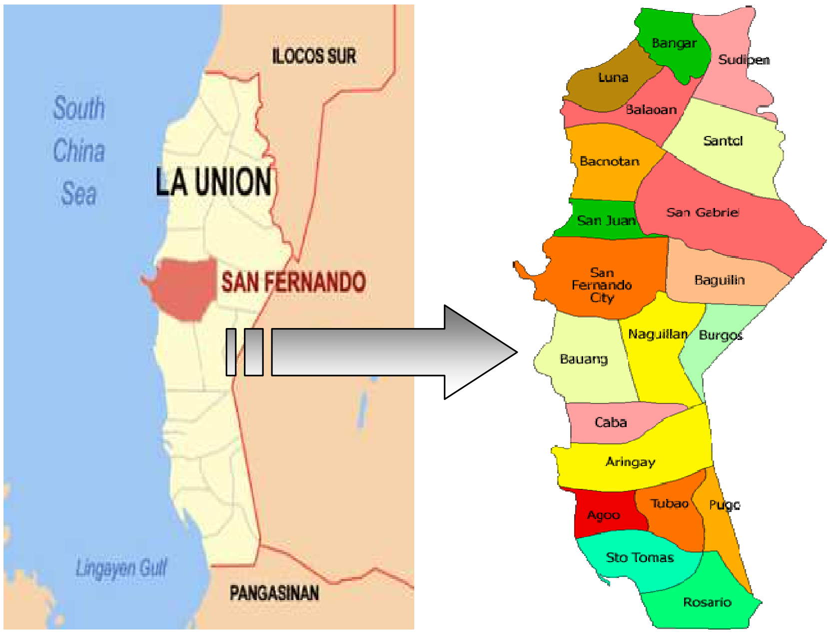
Class	Average Annual Income
Special	per Presidential Decree No. 465
First	P 300 M or more
Second	P 240 M or more but less than P 300 M
Third	P 180 M or more but less than P 240 M
Fourth	P 120 M or more but less than P 180 M
Fifth	P 60 M or more but less than P 120 M
Sixth	Below P 60 M

3. Municipalities

Class	Average Annual Income
First	P 50 M or more
Second	P 40 M or more but less than P 50 M
Third	P 30 M or more but less than P 40 M
Fourth	P 20 M or more but less than P 30 M
Fifth	P 10 M or more but less than P 20 M
Sixth	Below P 10 M

* Based on Department of Finance Department Order No.20-05, effective July 29, 2005 (sourced from NSCB website)

Appendix 13.
Map of La Union Province



Source: Google Images

Appendix 14.

REVENUE PERFORMANCE OF THE PROVINCE OF LA UNION, CYs 2002-2006

(In Thousand Pesos)

	2003	% Dist.	2004	% Dist.	2005	% Dist.	2006	% Dist.	2007	% Dist.	Average	% Dist.
Total Revenue	**543,581**	**100%**	**487,313**	**100%**	**568,949**	**100%**	**554,452**	**100%**	**535,438**	**100%**	**537,947**	**100%**
A. Local Sources	***68,098***	***13%***	***84,296***	***17%***	***58,051***	***10%***	***61,575***	***11%***	***61,067***	***11%***	**66,617**	***12%***
1. Total Tax Revenues	*25,251*	*5%*	*28,460*	*6%*	*29,026*	*5%*	*29,324*	*5%*	*28,920*	*5%*	**28,196**	*5%*
a. Real Property Tax	20,431	4%	23,649	5%	23,793	4%	23,399	4%	23,982	4%	**23,051**	4%
b. Tax on Businesses	2,927	1%	2,509	1%	2,169	0%	2,086	0%	2,089	0%	**2,356**	0%
c. Other Taxes	1,893	0%	2,301	0%	3,063	1%	3,839	1%	2,848	1%	**2,789**	1%
2. Total Non-Tax Revenues	*42,848*	*8%*	*55,836*	*11%*	*29,025*	*5%*	*32,251*	*6%*	*32,147*	*6%*	**38,421**	*7%*
a. Regulatory Fees/User Charges	1,141	*0%*	491	0%	470	0%	2,335	0%	455	0%	**978**	0%
b. Receipts from Eco. Enterprises	34,839	6%	50,252	10%	20,108	4%	21,136	4%	25,662	5%	**30,399**	6%
c. Other Receipts	6,868	1%	5,093	1%	8,446	1%	8,780	2%	6,030	1%	**7,044**	1%
B. External Sources	***475,482***	***87%***	***403,017***	***83%***	***510,898***	***90%***	***492,877***	***89%***	***474,372***	***89%***	**471,329**	***88%***
1. Internal Revenue Allotment	336,779	62%	336,826	69%	361,825	64%	394,959	71%	430,847	80%	**372,247**	69%
2. Other Shares	138,678	26%	66,161	14%	149,038	26%	97,651	18%	43,415	8%	**98,988**	18%
3. Extraordinary Receipts/Aids	25	0%	31	0%	36	0%	268	0%	110	0%	**94**	0%

Source of Data: BLGF and La Union Provincial Government

Appendix 15.
REVENUE PERFORMANCE OF SAN FERNANDO CITY, CYs 2003-2007
(In Thousand Pesos)

	2003	% Dist.	2004	% Dist.	2005	% Dist.	2006	% Dist.	2007	% Dist.	Average	% Dist.
Total Revenue	**263,992**	**100%**	**264,915**	**100%**	**274,027**	**100%**	**322,702**	**100%**	**317,873**	**100%**	**288,702**	**100%**
A. Local Sources	***84,000***	***32%***	***81,756***	***31%***	***99,802***	***36%***	***111,957***	***35%***	***109,543***	***34%***	**97,411**	***34%***
1. Total Tax Revenues	*52,327*	*20%*	*52,163*	*20%*	*55,584*	*20%*	*69,750*	*22%*	*66,593*	*21%*	**59,283**	*21%*
a. Real Property Tax	18,419	7%	17,398	7%	19,805	7%	32,197	10%	29,774	9%	**23,519**	8%
b. Local Business Tax	30,787	12%	32,013	12%	32,236	12%	33,520	10%	33,349	10%	**32,381**	11%
c. Other Taxes	3,121	1%	2,752	1%	3,543	1%	4,033	1%	3,470	1%	**3,384**	1%
2. Total Non-Tax Revenues	*31,672*	*12%*	*29,593*	*11%*	*44,218*	*16%*	*42,207*	*13%*	*42,950*	*14%*	**38,128**	*13%*
a. Regulatory Fees	7,287	3%	8,112	3%	18,455	7%	17,386	5%	15,251	5%	**13,298**	5%
b. Receipts from Eco. Enterprise	15,280	6%	15,385	6%	16,069	6%	16,146	5%	15,716	5%	**15,719**	5%
c. Other Receipts	7,136	3%	3,535	1%	-	0%	-	0%	5,112	2%	**3,157**	1%
B. External Sources	***179,992***	***68%***	***183,160***	***69%***	***174,225***	***64%***	***210,746***	***65%***	***208,330***	*66%*	**191,291**	***66%***
1. Internal Revenue Allotment	176,152	67%	183,160	69%	166,306	61%	180,056	56%	201,169	63%	**181,368**	63%
2. Other Shares	3,840	1%	-	-	7,920	3%	23,345	7%	7,161	2%	**8,453**	3%
3. Extraordinary Receipts/Aids	-	-	-	-	-	-	7,345	2%	-	-	**1,469**	1%

Source of Data: BLGF and City Government of San Fernando

Appendix 16.
REVENUE PERFORMANCE OF THE MUNICIPALITY OF BAUANG, CYs 2003-2007
(In Thousand Pesos)

	2003	% Dist.	2004	% Dist.	2005	% Dist.	2006	% Dist.	2007	% Dist.	Average	% Dist.
Total Revenue	**85,344**	**100%**	**76,020**	**100%**	**87,453**	**100%**	**81,905**	**100%**	**93,565**	**100%**	**84,857**	**100%**
A. Local Sources	***33,659***	***39%***	***32,123***	***42%***	***35,232***	***40%***	***34,942***	***43%***	***36,794***	***39%***	**34,550**	***41%***
1. Total Tax Revenues	*17,176*	*20%*	*16,470*	*22%*	*17,882*	*20%*	*17,159*	*21%*	*16,992*	*18%*	**17,136**	*20%*
a. Real Property Tax*	2,715	3%	2,460	3%	2,884	3%	2,901	4%	3,173	3%	**2,827**	3%
b. Local Business Tax	13,443	16%	12,835	17%	13,633	16%	13,079	16%	12,612	13%	**13,120**	15%
c. Other Taxes	1,018	1%	1,175	2%	1,366	2%	1,179	1%	1,207	1%	**1,189**	1%
2. Total Non-Tax Revenues	*16,484*	*19%*	*15,653*	*21%*	*17,350*	*20%*	*17,782*	*22%*	*19,802*	*21%*	**17,414**	*21%*
a. Regulatory Fees	3,853	5%	4,074	5%	5,486	6%	6,492	8%	5,625	6%	**5,106**	6%
b. Service/User Charges	2,276	3%	2,016	3%	1,929	2%	2,385	3%	2,030	2%	**2,127**	3%
c. Receipts from Eco. Enterprises	9,854	12%	8,301	11%	8,329	10%	8,498	10%	11,958	13%	**9,388**	11%
d. Other Receipts	500	1%	1,262	2%	1,606	2%	408	0%	188	0%	**793**	1%
B. External Sources	***51,685***	***61%***	***43,897***	***58%***	***52,221***	***60%***	***46,963***	***57%***	***56,770***	***61%***	**50,307**	***59%***
1. Internal Revenue Allotment	41,492	49%	43,897	58%	44,941	51%	44,941	55%	55,552	59%	**46,165**	54%
2. Other Shares	10,193	12%	-	-	7,280	8%	2,022	2%	1,218	1%	**4,143**	5%

Source of Data: BLGF and Municipal Government of Bauang

Appendix 17.
REVENUE PERFORMANCE OF THE MUNICIPALITY OF BACNOTAN, CYs 2003-2007
(In Thousand Pesos)

	2003	% Dist.	2004	% Dist.	2005	2006	2007	% Dist.	Average	% Dist.
Total Revenue	**61,269**	**100%**	**50,073**	**100%**	**67,189**	**73,359**	**67,956**	**100%**	**63,969**	**100%**
A. Local Sources	***20,539***	**34%**	***19,403***	**39%**	***22,864***	***29,928***	***27,761***	***41%***	**24,099**	**38%**
1. Total Tax Revenues	*14,508*	*24%*	*13,380*	*27%*	*15,359*	*16,148*	*16,739*	*25%*	**15,227**	*24%*
a. Real Property Tax*	8,246	13%	6,959	14%	8,138	8,129	8,299	12%	**7,954**	12%
b. Local Business Tax	5,469	9%	5,765	12%	6,484	7,184	7,471	11%	**6,475**	10%
c. Other Taxes	794	1%	657	1%	737	835	969	1%	**798**	1%
2. Total Non-Tax Revenues	*6,031*	*10%*	*6,023*	*12%*	*7,505*	*13,780*	*11,022*	*16%*	**8,872**	*14%*
a. Regulatory Fees	1,372	2%	1,437	3%	1,638	2,278	2,341	3%	**1,813**	3%
b. Service/User Charges	672	1%	547	1%	818	1,023	993	1%	**810**	1%
c. Receipts from Eco. Enterprises	3,340	5%	2,764	6%	3,444	8,924	6,363	9%	**4,967**	8%
d. Other Receipts	647	1%	1,274	3%	1,605	1,555	1,325	2%	**1,281**	2%
B. External Sources	***40,730***	***66%***	***30,670***	***61%***	***44,325***	***43,432***	***40,195***	***59%***	**39,870**	***62%***
1. Internal Revenue Allotment	28,866	47%	28,646	57%	29,646	37,260	37,675	55%	**32,419**	51%
2. Other Shares	11,863	19%	2,023	4%	14,679	6,171	2,520	4%	**7,451**	12%

Source of Data: BLGF and Muncipal Government of Bacnotan

Appendix 18.

REVENUE PERFORMANCE OF THE MUNICIPALITY OF BURGOS, CYs 2003-2007

(In Thousand Pesos)

	2003	% Dist.	2004	% Dist.	2005	% Dist.	2006	% Dist.	2007	% Dist.	Average	% Dist.
Total Revenue	**20,768**	**100%**	**16,269**	**100%**	**22,107**	**100%**	**22,664**	**100%**	**21,253**	**100%**	**20,612**	**100%**
A. Local Sources	***1,076***	***5%***	***1,027***	***6%***	***1,070***	***5%***	***1,243***	***5%***	***1,239***	***6%***	**1,131**	***5%***
1. Total Tax Revenues	*385*	*2%*	*387*	*2%*	*400*	*2%*	*432*	*2%*	*502*	*2%*	**421**	*2%*
a. Real Property Tax*	195	1%	192	1%	172	1%	168	1%	201	1%	**186**	1%
b. Local Business Tax	144	1%	150	1%	179	1%	210	1%	244	1%	**186**	1%
c. Other Taxes	45	0%	45	0%	49	0%	54	0%	57	0%	**50**	0%
2. Total Non-Tax Revenues	*691*	*3%*	*639*	*4%*	*670*	*3%*	*812*	*4%*	*737*	*3%*	**710**	*3%*
a. Regulatory Fees	87	0%	161	1%	170	1%	217	1%	265	1%	**180**	1%
b. Service/User Charges	154	1%	138	1%	91	0%	92	0%	116	1%	**118**	1%
c. Receipts from Eco. Enterprises	174	1%	186	1%	205	1%	238	1%	220	1%	**205**	1%
d. Other Receipts	277	1%	154	1%	203	1%	265	1%	135	1%	**207**	1%
B. External Sources	***19,692***	***95%***	***15,243***	***94%***	***21,037***	***95%***	***21,421***	***95%***	***20,013***	***94%***	**19,481**	***95%***
1. Internal Revenue Allotment	14,436	70%	15,243	94%	15,503	70%	18,168	80%	18,681	88%	**16,406**	80%
2. Other Shares	5,255	25%	-	-	5,535	25%	3,253	14%	1,332	6%	**3,075**	15%

Source of Data: BLGF and Municipal Government of Bauang