

LOCAL REVENUE PRODUCING TAX ADMINISTRATION: The GOLD Experience

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Introduction

The first requisite in raising financial capability of Local Government Units is to grant them power and authority to generate revenues. This is mandated in the 1987 Constitution and granted, in a limited degree, under the powers stipulated by the Local Government Code of 1991.

The second requisite in strengthening local fiscal adequacy is the presence of sufficient tax objects. That is, the powers and authority provided to LGUs may not be used productively if there are no adequate tax bases to which those powers may be applied.

The third requisite is an efficient and effective tax administration. That is, the newly granted taxing powers to the LGUs can be useless if taxes are not collected wisely and cost-effectively.

This paper singles out a few of these issues drawn from the 1991-1995 experiences of municipalities in six of ten sites covered by the GOLD project, namely: Bulacan, Bohol, Nueva Vizcaya, Capiz, North Cotabato, and Sarangani.

Specifically, the paper examines

- the revenue structure of the LGUs, and
- the collection efficiency of the major sources of locally raised taxes to wit:
 - business taxes, and
 - receipts from economic enterprises

GOLD stands for Governance for Local Democracy. Funded by the USAID, it is implemented by the Associates in Rural Development, the international consultancy firm that won the right to implement this project which aims to help enhance the effectiveness of revenue administration of chosen LGUs in the country.

++ Dr. Lamarca was hired by the Associates in Rural Development to write this paper integrating the revenue administration experiences of the GOLD sites.

- the critical gaps impeding effective revenue generation of the above taxes, and
- some suggested actions by LGUs by which they can improve effectiveness and efficiency of the existing systems related to these income streams

Revenue Structure of the Municipalities

A greater share of the revenues of the municipalities in the six provinces covered by the GOLD project from 1991-95 came from external sources. They contributed 74.1 per cent to the total income. On a provincial comparison, only the municipalities of Bulacan indicated a deviation from the trend by registering a rather strong reliance on local sources, raising more than half (55.2 per cent) of the total income from local revenues (Please see Table 1).

Table 1. Percentage Distribution of Revenues from Local and External Sources, All Municipalities of Sample Provinces, 1991-95

Sources	1 Bulacan	2 Bohol	Nueva Vizcaya	North Cotabato	Capiz	Saranga ni	Ave.
Local	55.2	19.8	18.3	22.7	20.3	18.8	25.9
Real Property Tax	14.3	2.8	1.8	4.7	NDA	4.5	5.6
Business Tax	15.9	4.8	5.6	7.0	3.2	5.2	7.0
Econ. Enterprise	11.1	8.1	5.0	5.6	NDA	4.2	6.8
Fees & Charges	49	2.6	2.0	2.4°	NDA	2.1	2.8
Loans	0.5	0.2	1.9	3.0			1.4
Others	8.5	1.3	2.0			2.8	3.7
External	44.8	80.2	81.7	77.3	79.7	81.2	74.1
IRA	44.5	79.1	81.0	77.3	79.7°	79.8	73.6
Grants/Aids	0.3	1.1	0.7			1.4	0.9
Total	100.0	100.0	100.0	100.0	100.0	100.0	

Source: Reports of Receipts and Revenues, 1991-95

1 average of 1991 and 1995

2 1991 to 1994

estimates

Comparing the revenue performance of the municipalities considered with that of other LGUs in other areas, it is lower than that of the municipalities in Region I where the average share of IRA to total income in 1992-1994 is pegged at 64.7 per cent (Lamarca 1997), and likewise lower than that of all municipalities nationwide where the externally sourced income from 1991-1994 is 58.9 per cent (Cuaresma and Ilago, 1996.9).

Table 2. Performance Rating Criteria

Ratio of IRA to Total Income	Rating
15% and below	10
16% to 30%	8
31% to 45%	6
46% to 60%	4
61% to 75%	2
75% and above	0

Applying the performance rating criteria proposed by the Bureau of Local Government Finance for LGUs on financial management (Please see Table 2), the average rating of all the municipalities in the sample provinces is 0. This implies that they are heavily, if not hopelessly, dependent on external revenues. This problem is what Bird (in Cuaresma and Ilago, 1996:7-8) calls vertical imbalance. Invariably, the IRA has occupied a primordial position in local finance.

By province, however, it is the municipalities of Bulacan which **got a** rating of 6. As mentioned earlier, it is they which are quite self-reliant financially (refer to Table 3).

Table 3. Performance Rating of Municipalities According to Share of IRA to Total Income. By Province, 1991-95

Province	Share	Rating
Bulacan	44.8	6
Bohol	80.0	0
Nueva Vizcaya	81.9	0
North Cotabato	87.9	0
Capiz	79.1	0
Sarangani	84.0	0
Average	76.3	0

Contribution of Major Sources

Among the major sources of income, the IRA stood out as the single most important revenue source (See Table 4). From 1991 to 1995, it accounted for 73.5 per cent of the revenues of the municipal governments. Business taxes ranked second with a 7.0 per cent share. Receipts from Economic Enterprises came in third with 6.8 per cent share. Real Property Taxes, the traditional source of revenues, are fourth, generating 5.6 per cent share. Fees and Charges ranked fifth with 2.8 per cent.

Credit, another source of financing enshrined in RA 7160, had not been well availed of as indicated by a mere 1.4 per cent share.

Growth of Revenues

External sources, as expected, showed a much faster pace than local sources (refer to Table 3). This is accounted for by the provision of RA 7160 increasing IRA from 20 per cent in 1991 to 30 per cent in 1992, 35 per cent in 1993 and 40 per cent in 1994 onwards. More importantly, however, it has to be stressed, and not without a happy note, that from 1991-95 locally sourced revenues of the municipalities, on the average, had increased by 25.1 per cent, or more than half the pace of external sources.

By component, all the sources of local revenues had shown significant increases. Business taxes, the biggest contributor to local income, had posted a growth rate of 28.6 per cent, while receipts from economic enterprises had registered a high 28.4 per cent increase. Even Real Property Taxes which are claimed by Manasan (1996) to be inversely proportional to the growth of IRA (that is, as per capita IRA had increased, per capita collection of real property had decreased) had posted a positive 19.1 per cent increase. Accordingly, it is not totally correct to accept the conclusion that the tremendous increase in external revenues has "serve(d) as a substitution rather than an incentive to efforts of LGUs to generate more locally sourced revenues..." and thus has made local chief executives complacent.

Table 4. Growth of Income, by Major Source, All Municipalities of Sample Provinces, 1991-1995

Sources	1 Bulacan	2 Bohol	Nueva Vizcaya	North Cotabato	Capiz	Sarangani	Ave.
Local	25.3	125	32.4	29.9	26.0	24.5	25.1
Real Property Tax	28.4	8.3	10.7	22.9		28.4	19.1
Business Tax	42.0	26.2	22.8	21.6		30.6	28.6
Econ. Enterprise	18.6	9.0	28.4	17.0		22.0	19.0
Fees & Charges	38.9	23.9	2.5			23.7	21.0
Loans	0	0	28.7	1,934.8			490.9
Others	33.2	3.6	(6.3)			12.5	10.8
External	40.8	43.2	40.0	48.3	59.8	46.1	46.5
IRA		58.6	40.6				49.6
Grants/Aids		511.3	1253.0	0	0	0	352.9
Total	31.0	46.2	37.9	41.2	51.1	39.2	41.1

Sources: Budget Operations Statements, 1991 to 1995

Note: 1 1991 and 1992 data only

2 1992 to 1995 data

3 no data available

While there was an overall increase among the local sources of revenues, there appears to be an uneven growth of finances. In terms of Receipts from Economic Enterprises, the municipalities of Nueva Vizcaya, Sarangani and Bulacan had shown high growth rates while those of North Cotabato and Bohol had experienced smaller growths. Concerning Real Property Tax, while towns in Bulacan, Sarangani and South Cotabato had posted relatively bigger increases, those in Bohol and Nueva Vizcaya had registered lower growth rates. Consequently, this has led to uneven levels of expenditures and to access to public services, which may be viewed as horizontal imbalance (Bird in Curesma and Dago, 1996:8).

Collection Efficiency Quotient

As shown in the preceding discussion, Business Taxes and Receipts from Economic Enterprises came out as among the three major sources of local revenues. The question that now begs is: have the LGUs been earning substantially from these sources? To answer this, their collection efficiency quotients (CEQ) have been computed. To compute the CEQ of the Business Taxes, the total expenses, namely: personal services and MOOE of the offices of the treasurer and the mayor were divided by the revenues from this source. On the other hand, to compute the CEQ of the economic enterprises, the total cost of the public market and 10 per cent of the total cost of collecting

revenues were divided by the receipts from the enterprises. Computations are found in Table 5.

From the table below, it can be concluded pathetically that in 1993, the LGUs were cost-inefficient. They were spending much more than what they were collecting. To generate P1.00 of Business Tax, they were spending P1.63. The situation worsened in 1995. The municipalities were then wasting P2.12 to collect P1.00 of the tax. Across provinces, it is only the municipalities of Bulacan which were efficient. On the average, they were investing a low P0.20 to generate P1.00 of the tax.

Table 5. Collection of Efficiency Quotient of Business Tax and Receipts from Economic Enterprises, All Municipalities by Province, 1993 and 1995

Province	Business Taxes		Receipts from Econ. Enterprises	
	1993	1995	1993	1995
Bulacan	0.20	0.24	1.13	1.54
Bohol		1.79		1.21
Nueva Vizcaya	2.16	3.67	4.27	2.43
North Cotabato	2.70	3.62	1.49	1.73
Capiz	1.44	1.57	0.71	0.66
Sarangani	1.67	1.84	0.93	1.15
Average	1.63	2.12	1.71	1.45

Sources: Reports of Revenues and Receipts, Statements of Allocations, Appropriations and Obligations, 1993 and 1995

The case of the economic enterprises is not very different. During the same periods, the municipalities under study, on the average, were spending more than what they were collecting. On a provincial comparison, only the towns of Capiz had been earning in 1993 and 1995.

On the whole, the municipalities considered in the study had not been cost efficient. They had been wasting precious resources of the people.

Hindrances to Effectiveness

What had been the critical bottlenecks in the current municipal tax system that need to be addressed? Across the different municipalities in the GOLD provinces, several gaps had been identified. They had been classified into first level – those that can be immediately addressed; second and third levels – those that require more preparation before measures can be instituted, or those that would be addressed while pursuing the first level concerns.

Classified, as first level gaps are 1) insufficient tax information campaign, 2) inefficient and not so competent tax collectors, 3) weak internal control, and 4) inadequate tax ordinances.

Second level gaps include 5) poor market administration and 6) inadequate tax incentives, while third level gap concerns with 7) inadequate infrastructure facilities.

Political intervention was identified in all municipalities as a very critical gap. But since it cuts across all concerns, it is not within the immediate reach of the municipalities.

Suggested Remedial Actions by LGUs

The different municipalities in the GOLD sites have identified several actionable measures to improve the effectiveness and efficiency of existing systems of revenue generation. These are clustered into IMMEDIATE and INTERMEDIATE action points.

Among the **immediate** measures are those which can be implemented by the LGUs at once. They include:

- Intensification of LOU tax information campaigns
- Strengthening tax collection procedures and internal controls
- Updating and strict implementation of LOU tax powers as granted in the LGC
- Installation of cost/effective management systems in economic enterprises, and
- Capability-building programs for tax collectors.

Intermediate measures are those which can be pursued while implementing the IMMEDIATE measures. They include:

- LGU provision of tax incentives and logistical support to tax collectors
- Installation of modern, perhaps computerized, recording, management and collection systems, and
- Improvement of LGU owned and operated infrastructure facilities.

Although warding off political interference in revenue generation had been noted as one of the remotest of the measures identified, it is nevertheless, one of the most important when endeavoring to improve revenue generation.

Conclusion

By granting more taxing powers, adding some tax bases, and increasing tax rates, the new Local Government Code has sought to improve the financial autonomy of the LGUs. However, a number of challenges have still to be hurdled. Much has still to be worked out.

First, while there has been an increase in locally sourced revenues of the municipalities from 1991 to 1995, this is not substantial enough to significantly reduce their growing dependence on external income.

Second, as one of its salient intents, the new Code has granted the LGUs corporate powers. As corporations, LGUs can, or more appropriately, should now embark on economic ventures from which to generate revenues to sustain their pro-people programs. Corollarily, a model of reinventing government requires a shift from the LGUs in the GOLD sites, except the municipalities of Bulacan regarding their collection of business taxes and those of Capiz concerning their generation of income from economic enterprises, glaringly indicate the contrary. Much of the precious resources, which would have been used more productively to improve quality of life, still need to be used more rationally.

The technical assistance jointly developed by the LGUs and the GOLD project among those municipalities desiring revenue generation improvements is now a new factor in the situation. They may help interested LGUs in improving the effectiveness and efficiency of their existing tax systems. Already, LGU/GOLD Workshops have surfaced many gaps and bottlenecks in these matters. Likewise, they have begun to develop strategies, and immediate, and intermediate actions by which participating LGUs can use their own personnel and cash resources in making their revenue generation systems

more effective and efficient. Much will depend upon the dedication and determination of LGU political and executive leaderships.

Notes

Most of the data found in Tables 1 and 2 are derived from data available in the proceedings using mathematical principles. However, the data in Capiz municipalities are too inadequate to surface important figures concerning the percentage share and growth rates of major sources of revenues.

Cuaresma, Jocelyn and Simeon Dago, **Local Fiscal Administration in the Philippines**, Quezon City: UPCA Local Government Center and Public Administration Centre of the German Foundation for International Development, 1996.

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Manasan, Rosario, "Local Governments Urged to Improve Tax Collection," **Philippine Daily Inquirer**, September 18, 1996 (Article is based on a study by the author entitled "Revenue Mobilization in LGUs: The Early Years of the Local Government Code Implementation")

Proceedings of the Workshop on **Revenue Producing Local Tax Administration** held in the GOLD Provinces of Bulacan (April 23-24, 1996), Bohol (February 10-11, 1997), Nueva Vizcaya (February 27-28, 1997), North Cotabato (March 6-7, 1997), Capiz (April 25-26, 1997), and Sarangani (May 26-27, 1997)