

Fiscal Federalism

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Philippine Association for Government Budget Administration, Inc.
1st Quarterly Seminar and Meeting
February 15, 2019

Theme: Public Financial Management in a Difficult and Challenging Environment

PAGBA 2019 1st Quarter Seminar & Meeting
February 13-16, 2019
Crowne Plaza Hotel, Ortigas, Quezon City

Outline

- Basic Concepts
- Development Issues and Challenges
- Fiscal Federalism Design
 - Assignment of Expenditure Functions
 - Assignment of Revenue Powers
 - Vertical and Horizontal Fiscal Balance
- Fiscal Provisions of Draft Federal Constitutions
 - Consultative Committee
 - Resolution of Both Houses No. 15 (passed by Hrep)
- Concluding Remarks

Unitary vs. Federal

	<i>Unitary government</i>	<i>Federal government</i>
Number of state	There is only one state	There are two states: (1) Federal government + (2) Two or more states (or cantons, or Länders)
Legal system	There is only one legal system	There are two legal systems: (1) Federal legal system + (2) two or more legal systems of states
Legislative, executive and judiciary powers	There is only one legislative, executive and judiciary power	There are two legislative, executive and judiciary powers: (1) Federal legislative, executive and judiciary powers + (2) legislative, executive and judiciary powers of states

Source: Gozler (2003: 75).

Fiscal Federalism

- financial relations between units of governments in a federal government system
- public finance discipline that deals with the division of governmental functions and financial relations among levels of government (can apply to unitary multi-level government)
- Musgrave (1959): federal or central government should be responsible for the economic stabilization and income redistribution but the allocation of resources should be the responsibility of state and local governments

Decentralization vs Federalism

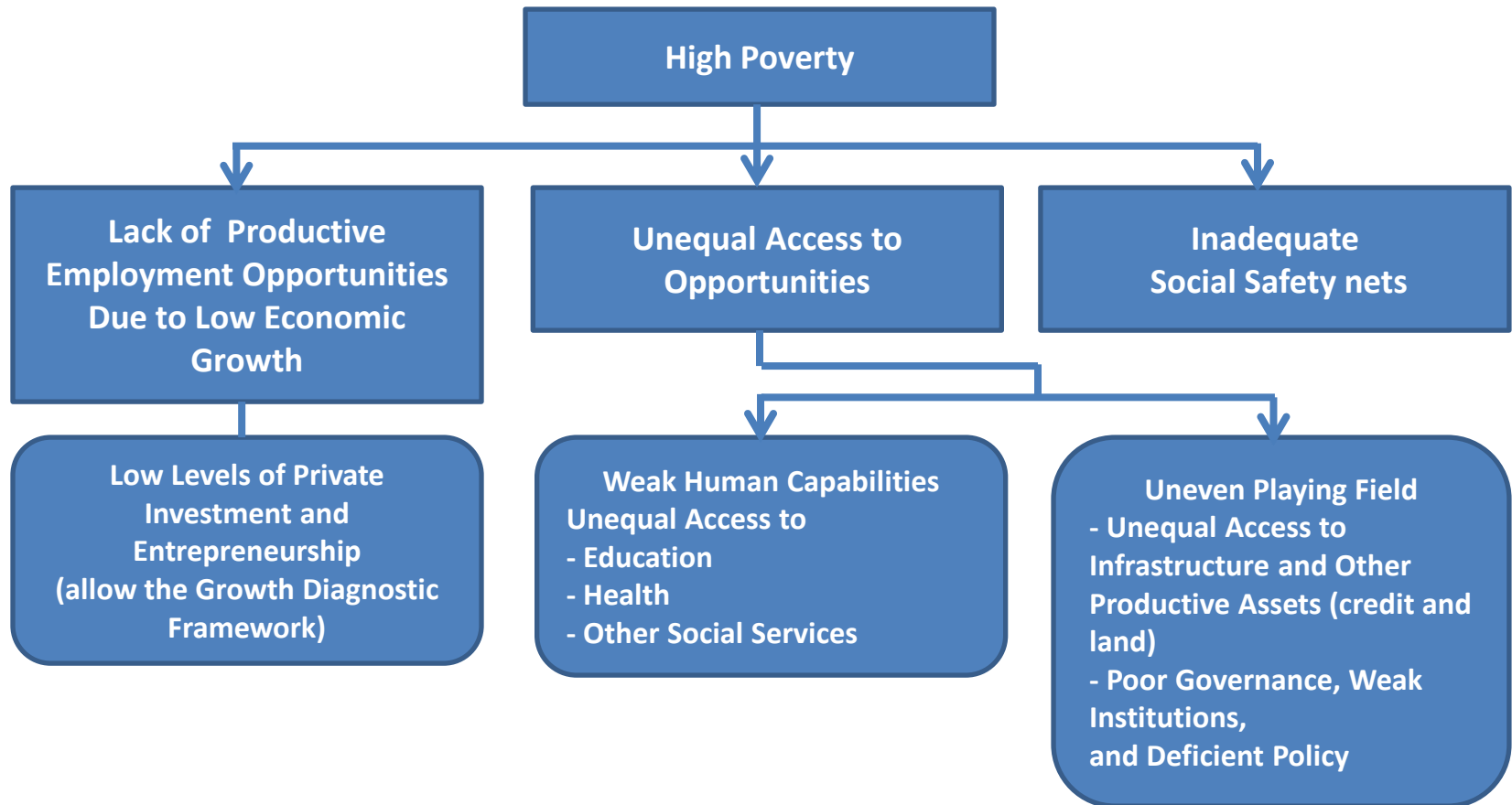
<i>Decentralization</i>	<i>Federalism</i>
Deconcentration, Delegation, Devolution (Local Autonomy)	Self-rule and Shared-rule
Creation and assignment of powers and functions to subnational units based on legislation and orders passed by the central government	Subnational government (or constituent states), their numbers, borders, and powers are constitutionally guaranteed.
Administrative and technical: can be partial and selective	Political: comprehensive, covers the entire political architecture (i.e. legislative, administrative and judicial)

Note: Federal countries are not necessarily more decentralized than unitary countries

Common objectives of decentralization and federalism

- Empower local communities and bring democracy and political accountability closer to the citizen,
- Provide avenue for non-majoritarian democratic arrangement
- Promote good governance and efficiency by catering to local concerns, and allowing experimentation and search for best practice
- Manage diversity (unity in diversity)

Diagnostic Framework for Poverty



SOURCE: Asian Development Bank (2007). Philippines: Critical Development Constraints

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Selected Indicators on the Quality of Infrastructure

GCI Ranking for 2017-2018

	Rank out of 137 Countries (1 as best, 137 as poorest)					
	Indonesia	Malaysia	Philippines	Singapore	Thailand	Viet Nam
2nd pillar: Infrastructure	52	22	97	2	43	79
Quality of overall infrastructure	68	21	113	2	67	89
Quality of roads	64	23	104	2	59	92
Quality of railroad infrastructure	30	14	91	4	72	59
Quality of port infrastructure	72	20	114	2	63	82
Quality of air transport infrastructure	51	21	124	1	39	103
Available airline seat km/week	14	23	27	21	15	28
Quality of electricity supply	86	36	92	3	57	90
Fixed telephone lines/100 pop.	104	71	105	27	91	96
Mobile telephone subscriptions/100 pop.	18	28	88	23	5	44

SOURCE: World Economic Forum 2017

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Selected Indicators on the Quality of Public Institutions

GCI Ranking for 2017-2018

	Rank out of 137 Countries (1 as best, 137 as poorest)					
	Indonesia	Malaysia	Philippines	Singapore	Thailand	Viet Nam
Diversion of public funds	41	32	106	4	80	61
Public trust in politicians	42	29	107	1	102	46
Irregular payments and bribes	75	39	118	3	72	109
Ethics and corruption	47	34	111	1	86	69
Favoritism in decisions of government officials	32	22	105	1	71	56
Efficiency of government spending	25	15	88	2	51	69
Burden of government regulation	27	5	111	1	58	76
Efficiency of legal framework in settling disputes	44	18	113	1	49	82
Transparency of government policymaking	51	23	81	2	83	82
Government efficiency	35	14	97	1	60	69

SOURCE: World Economic Forum 2017

Commission on Audit, Audit Performance Summary Report For Calendar Year 2011

Table II.7-A. Common Audit Findings with Pecuniary Loss

Particular	Total	
	No. of Findings	Amount (in Million Pesos)
1. Unauthorized/Irregular/Unnecessary expenses	1,642	18,653.516
2. Unliquidated Cash Advances	1,003	7,534.153
3. No bidding/Not in Accordance with Procurement Law	692	15,163.353
4. Underassessment/Undercollection	157	20,813.224
5. Unutilized/Ineffective Projects	104	13,583.533
6. Lack of appropriation	100	525.363
7. Unliquidated Fund Transfer	77	6,800.313
8. Delayed remittance/unremitted withholding tax/loans/premiums of employees and other trust liabilities	73	750.910
9. Non-existent cash/unaccounted assets	49	1,199.753
10. Unimplemented projects/Unutilized funds	47	3,276.235
11. Shortages and malversation of funds	42	282.327
12. Delayed implementation of projects/ suspended projects	36	2,554.056
13. Unremitted/ Uncollected income/Accounts Receivables	34	3,511.810
14. Overpricing / excessive contract cost	34	1,117.419
15. Unsettled Suspensions/Disallowances/Charges	32	203.750
16. Fictitious claims/expenses	26	5,198.772
17. Untitled land purchased/ owned	17	390.671
18. Undeposited collections	9	149.658
19. Unrecouped advances/mobilization	6	107.860

Economic growth and living condition in the Philippines are highly uneven across regions.

Population, Gross Regional Domestic Product, Poverty, Human Development Index by Region, 2012, 2015

Region	Population	Gross Regional Domestic Product		Poverty Incidence		Human Development Index
	Percent Share (%)	Percent Share (%)		Percent		
	2015	2012	2015	2012	2015	
PHILIPPINES	100.0	100.0	100.0	25.2	21.6	0.644
NCR	12.8	36.2	37.9	3.9	3.9	0.829
CAR	1.7	1.9	1.8	22.8	19.7	0.542
ILOCOS	5.0	3.1	3.1	18.5	13.1	0.660
CAGAYAN	3.4	1.7	1.8	22.1	15.8	0.584
CENTRAL LUZON	11.1	9.1	8.9	12.9	11.2	0.642
CALABARZON	14.3	16.8	15.5	10.9	9.1	0.700
MIMAROPA	2.9	1.8	1.5	31.0	24.4	0.558
BICOL	5.7	2.1	2.1	41.1	36.0	0.507
WESTERN VISAYAS	7.5	4.1	4.1	29.1	22.4	0.613
CENTRAL VISAYAS	7.3	6.4	6.5	30.2	27.6	0.605
EASTERN VISAYAS	4.4	2.2	2.0	45.2	38.7	0.494
ZAMBOANGA PENINSULA	3.6	2.1	2.1	40.1	33.9	0.505
NORTHERN MINDANAO	4.6	3.9	3.9	39.5	36.6	0.529
DAVAO	4.8	4.0	4.2	30.7	22.0	0.521
SOCCKSARGEN	4.5	2.7	2.7	44.7	37.3	0.483
CARAGA	2.6	1.2	1.2	40.3	39.1	0.506
ARMM	3.7	0.9	0.7	55.8	53.7	0.330

Source: NSCB & Philippine Statistics Authority

National Government and Local Government shares in total Government Expenditures, Philippines, 2009, 2011, 2013, and 2015

	Billion Pesos				Percent Share (percent)			
	2009	2011	2013	2015	2009	2011	2013	2015
National Government	841.3	987.9	1,352.3	1,810.1	75.7	76.3	80.0	82.7
Department	624.4	806.7	1,025.3	1,411.4	56.1	62.3	60.6	64.5
Central Office & NCR	330.2	494.4	383.3	496.0	29.7	38.2	22.7	22.7
Regional	294.1	312.3	642.0	915.4	26.4	24.1	38.0	41.8
Special Purpose Funds Net of Transfers to LGUs & Debt Service	216.9	181.2	327.0	398.8	19.5	14.0	19.3	18.2
Local Government	270.8	306.5	338.8	378.1	24.3	23.7	20.0	17.3
Provinces	63.7	73.1	76.0	89.7	5.7	5.6	4.5	4.1
Cities	111.4	120.3	144.9	150.7	10.0	9.3	8.6	6.9
Municipalities	95.7	113.1	117.9	137.7	8.6	8.7	7.0	6.3
TOTAL	1,112.0	1,294.5	1,691.0	2,188.2	100.0	100.0	100.0	100.0

Source of basic data: Department of Budget and Management, Budget of Expenditures and Sources of Financing (various issues). Bureau of Local Government Finance, Statement of Receipts and Expenditures (various issues).

National government and local government shares in total government revenues, Philippines, 1990, 2000, 2010, and 2015

Particulars	Percent Share							
	1990		2000		2010		2015	
	NG	LGUs	NG	LGUs	NG	LGUs	NG	LGUs
Tax Revenues	96.2	3.8	93.5	6.5	93.9	6.1	93.7	6.3
Non-Tax	89.2	10.8	83.6	16.4	76.3	23.7	85.4	14.6
Total Revenues	95.1	4.9	92.4	7.6	91.9	8.1	92.4	7.6
	As Percentage of GDP							
	1990		2000		2010		2015	
	NG	LGUs	NG	LGUs	NG	LGUs	NG	LGUs
Tax Revenues	14.1	0.6	14.6	1.0	12.1	0.8	13.6	0.9
Non-Tax	2.5	0.3	2.8	0.3	1.3	0.4	2.2	0.4
Total Revenues	16.8	0.9	17.7	1.3	13.4	1.2	15.8	1.3

Source of basic data: Department of Budget and Management. Budget of Expenditures and Sources of Financing (Various issues), Bureau of Local Government Finance. Statement of Receipts and Expenditures (Various issues)

Common Pool Resource (CPR)

A common resource pool is a resource that is available for the joint use of numerous individuals (property of non-excludability) but where the consumption of the resource by an individual or group reduces the amount available to others (property of rivalry in use). Individuals or groups are thus inclined to use more of these resources but to invest less in their upkeep. The result is the overuse of common pool resources or a condition called “*tragedy of commons*” (Grossman, 2010).

Common Pool Resource Problem

- Each sector/locality/group/individual would try to minimize its contribution to the CPR or its share of the tax burden.
- A major reason for the Philippines' weak tax effort relative to its regional peers is the numerous tax exemptions given to various sectors and groups, e.g., senior citizens, persons with disabilities, boy scouts and girl scouts, cooperatives, economic zones, etc.
- The Philippines' value added tax system, for instance, has the highest number of line exemptions at 143 compared to Indonesia's 37, Thailand's 35, Vietnam's 25, and Malaysia's 14 (Department of Finance, 2017).

Common Pool Resource Problem

- Fiscal illusion and weak fiscal discipline
 - Patronage politics and political dynasties
 - Tolerance of corruption
 - Weak allocative and operational efficiency
- (“Divide by N” – Fragmentation)

Highly Fragmented Local Government System

TABLE 1.3 Vertical Organization of Intergovernmental Systems in East Asia, 2005

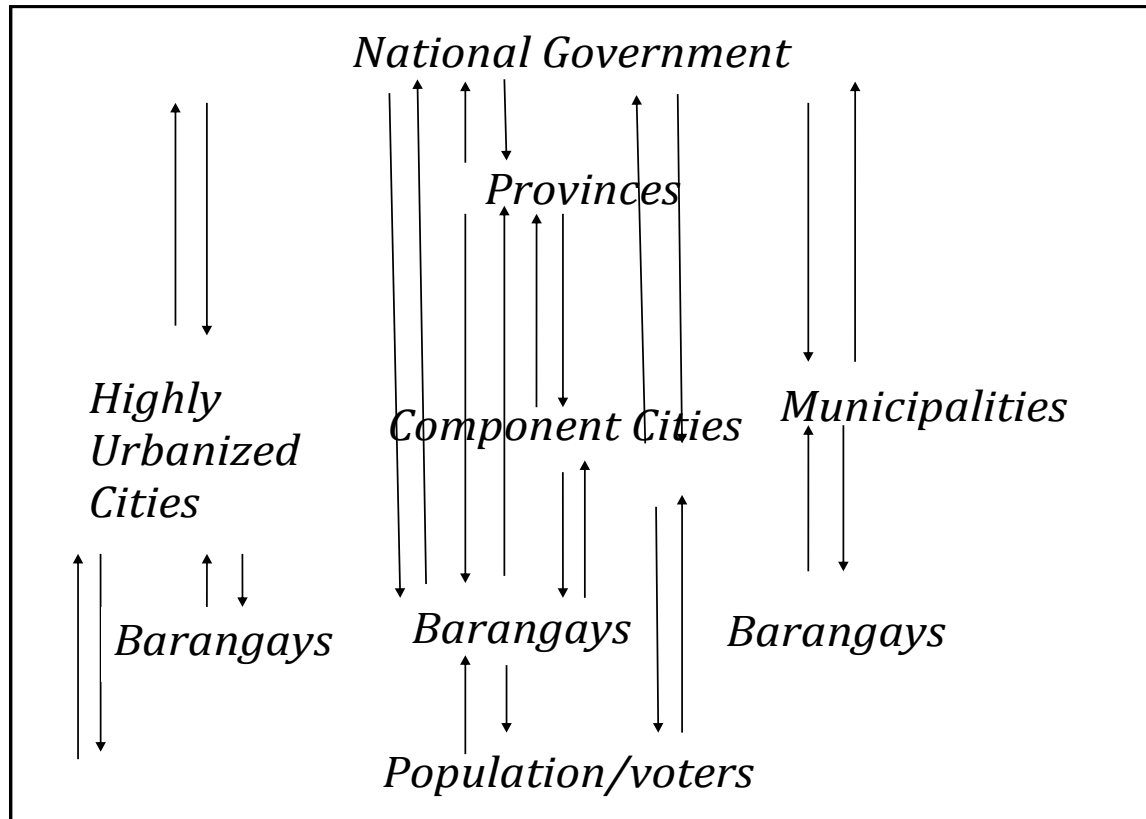
Country	Levels of subnational government ^a	Number of first-tier subnational governments	Average population of first-tier subnational governments (millions, 2002)
Cambodia	2	24	0.5
China	4	32	40.0
Indonesia	3	32	7.0
Philippines	4	149	0.5
Thailand	3	76	0.8
Vietnam	3	61	1.3

Sources: Various country case studies prepared for this report and World Bank statistics.

a. "Level" refers to an organ of government with some degree of formal budget (expenditure) authority. In some cases (such as Indonesia), this can be highly circumscribed, particularly at the lowest levels.

NOTE: As of 2017, the Philippines has 81 provinces and 145 cities (except for Isabela City and Cotabato City, all cities are highly urbanized and independent cities).

Fragmented local government units + patronage politics
= Fragmented government services



Number of LGUs

Provinces:	81
Cities:	145
Municipalities:	1,489
Barangays:	42,036

Notes:

- National Government deals directly with all local government levels
- Provinces are fiscally the weakest.
- Cities are fiscally the strongest.

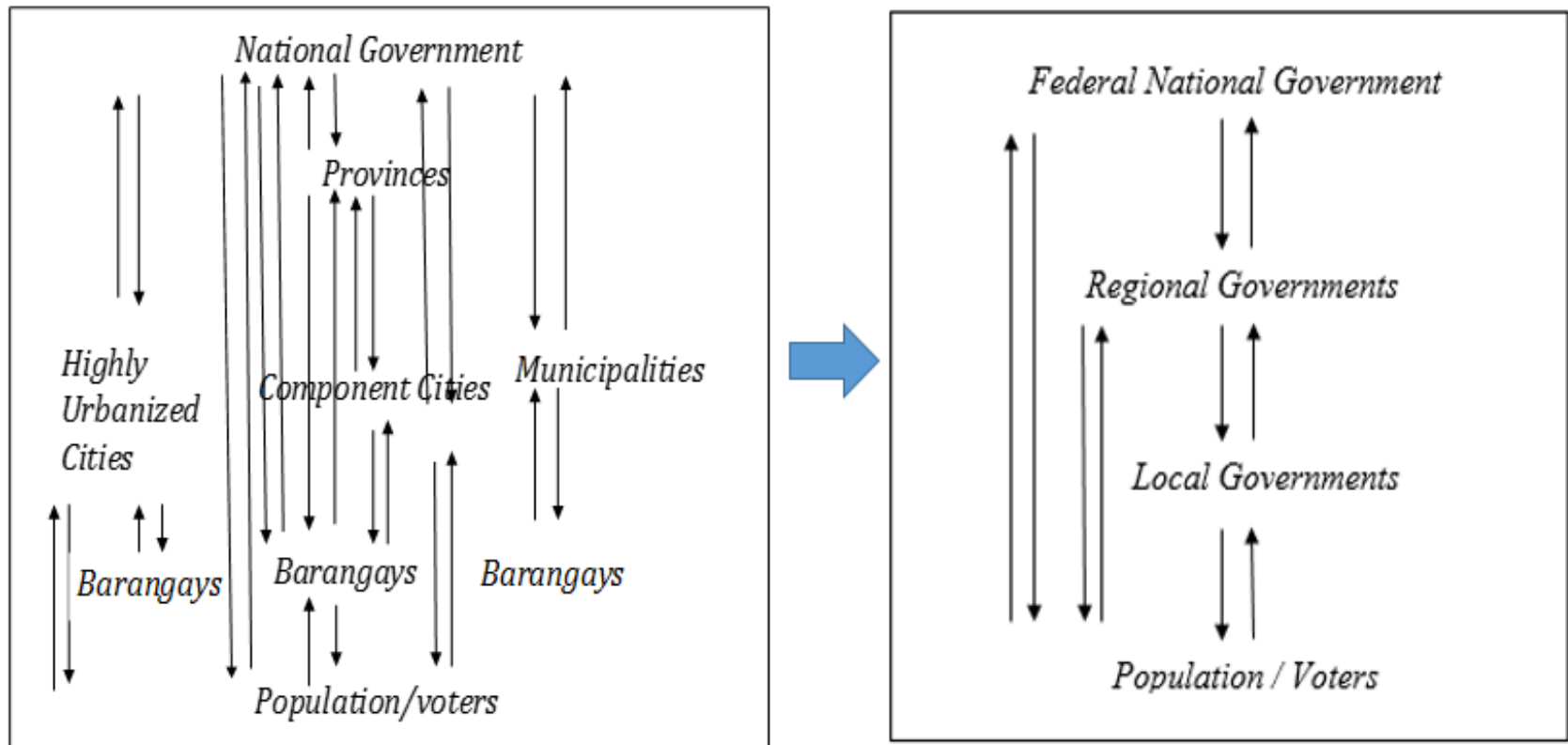
Autonomy and Coordination

- Based on international experiences, autonomy, by itself, is not sufficient guarantee of improved governance and service delivery. Government services are diverse and complicated; they have both national and local dimensions that require coordination and cooperation among players at all levels (Australia DFAT and The World Bank, 2015) .
- Effective coordination among government tiers requires clear division of responsibilities, adequate funding, and bureaucratic capacity at all government levels. As a whole, the Philippines falls short of these requirements (Balisacan, Hill, Piza, 2006)

Common Structural Characteristics of Federations

- two levels of government, i.e., national and subnational that directly govern their constituents,
- executive and legislative authorities formally defined in the country's Constitution,
- provision of autonomy for the levels of government through proper assignment of revenue resources,
- representation of subnational governments in federal policy making institutions,
- mandated bodies (courts) or mechanisms (referendums), to settle disputes among governments,
- institutions tasked to facilitate intergovernmental collaboration for services with shared responsibilities.

Shift to Federal Government



Critical Aspects of (Fiscal)Federalism:

- Proper and Clear Assignment of Functions (exclusive vs shared)
- Vertical Fiscal Balance: Expenditure functions of the different levels of government should be matched with corresponding revenue raising powers
- Horizontal Fiscal Balance: Each unit within a particular level of government (or each state in a federal system) has the capacity to provide services at a comparable standard.
- Well designed intergovernmental relation and institutions that facilitate self-rule and shared-rule (e.g. state representation in federal policy making, intergovernmental fiscal institutions to facilitate tax harmonization and fiscal equalization, government borrowings, etc.)

DIVISION OF POWERS

- **Federal Power** - concerns the entire nation
- **Regional Power** - basic service to the people
- **Shared Power** - basic service that is best provided under a national standard
- All residual powers are retained by the Federal Government but may be delegated to the regional governments

Expenditure Assignment

Expenditure /Service Category	Responsibility for	
	Policy, Standards & Oversight	Provision & Administration
Defense	Federal	Federal
Foreign Affairs	Federal	Federal
International Trade	Federal	Federal
Monetary Policy, Currency & Banking	Federal	Federal
Immigration	Federal	Federal
Airlines and Railways	Federal	Federal
Interstate Commerce	Federal	Federal
Regulation	Federal	Federal, State, Local
Natural Resources	Federal	Federal, State, Local
Fiscal Policy	Federal, State	Federal, State, Local
Environment	Federal, State	State, Local
Industry & Agriculture	Federal, State	State, Local
Education	Federal, State	State, Local
Health	Federal, State	State, Local
Social Welfare	Federal, State	State, Local
Parks & Recreation	Federal, State, Local	Federal, State, Local
Police	State, Local	State, Local
Water, Sewage & Refuse	Local	Local
Fire Protection	Local	Local
Highways		
Interstate	Federal	State, Local
Provincial	State	State, Local
Local	Local	Local

Adapted from Anwar Shah, The Reform of Intergovernmental Fiscal Relations In Developing & Emerging Market Economies, Policy and Research Series No. 23, World Bank, 1994.

Expenditure by functions across gov't. levels (% of general government expenditure)

Functions	Belgium			Canada			Germany		
	Central	State	Local	Central	State	Local	Central	State	Local
General public services	52.7	16.8	16.7	33.2	13.8	23.5	30.5	25.2	8.6
Defense	3.7	0.0	0.0	6.6	0.0	0.0	7.6	0.0	0.0
Public order & safety	4.1	0.2	11.1	3.7	2.9	9.0	1.0	9.1	4.5
Economic affairs	6.0	17.5	9.9	7.9	8.5	13.0	8.9	10.5	11.4
Environmental protection	0.0	2.1	5.0	0.7	0.4	5.8	0.1	0.6	5.7
Housing & community amenities	0.0	2.2	2.8	1.5	1.3	2.3	1.6	2.8	7.7
Health	2.8	1.0	2.5	10.1	33.5	1.5	0.0	1.3	1.9
Recreation, culture & religion	0.3	4.4	9.5	2.0	1.1	6.8	0.2	1.6	6.0
Education	4.3	38.1	19.8	2.6	23.4	42.1	1.2	25.4	16.2
Social protection	26.1	17.6	16.3	31.6	15.2	5.5	48.7	23.5	33.3

Sources: OECD National Accounts database

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REGIONAL ALLOCATION OF THE EXPENDITURE PROGRAM, BY DEPARTMENT /SPECIAL PURPOSE FUND,CY 2015									
(In Billion Pesos)									
PARTICULARS	Total	Nationwide	Central Office	Regional	NCR	Region I	CAR	Region II	Region III
DEPARTMENTS	1,409.92	-	323.21		253.87	46.73	28.8	33.71	83.64
Congress of the Philippines	12.98	-	-		12.98	-	-	-	-
Office of the President	2.60	-	-		2.60	-	-	-	-
Office of the Vice-President	0.23	-	-		0.23	-	-	-	-
Department of Agrarian Reform	10.59	-	2.77		-	0.29	0.47	0.31	0.58
Department of Agriculture	49.32	-	10.73	38.59	3.39	2.15	1.46	2.38	3.65
Department of Budget and Management	1.46	-	1.12	0.33	0.06	0.02	0.02	0.02	0.02
Department of Education	341.45	-	14.64	326.81	29.74	18.15	7.35	12.16	30.38
State Universities and Colleges	44.40	-	-	44.40	16.71	2.02	1.11	1.54	2.89
Department of Energy	4.61	-	4.61		4.61	-	-	-	-
Department of Environment & Natural Resources	21.44	-	7.19	14.26	1.23	0.73	0.85	0.81	1.02
Department of Finance	15.33	-	7.13	8.20	4.30	0.33	0.16	0.19	0.36
Department of Foreign Affairs	13.05	-	-		13.05	-	-	-	-
Department of Health	88.41	-	19.88	68.53	11.27	3.69	1.85	2.63	4.54
Department of the Interior & Local Government	105.73	-	80.06	25.67	7.52	0.94	0.75	0.77	1.04
Department of Justice	12.09	-	2.18	9.91	6.95	0.30	0.03	0.14	0.24
Department of Labor & Employment	12.05	-	2.14	9.91	1.71	0.48	0.34	0.41	0.83
Department of National Defense	100.09	-	-		42.49	1.00	1.60	1.56	10.94
Department of Public Works & Highways	303.16	-	55.55	247.61	42.71	12.16	10.57	7.76	20.83
Department of Science and Technology	17.76	-	0.24	17.52	13.69	0.14	0.19	0.17	0.21
Department of Social Welfare & Development	108.17	-	40.84	67.32	4.35	3.44	1.30	2.09	4.98
Department of Tourism	2.51	-	1.67	0.84	0.22	0.05	0.02	0.06	0.03
Department of Trade & Industry	3.84	-	1.58	2.26	0.51	0.12	0.09	0.12	0.19
Department of Transportation & Communications	54.54	-	51.49	3.05	1.55	0.11	0.06	0.09	0.18
National Economic & Development Authority	6.41	-	4.77	1.64	0.28	0.08	0.09	0.08	0.10
The Presidential Communications Operations Office	1.16	-	-		1.16	-	-	-	-
Other Executive Offices	12.66	-	3.77	8.89	7.00	0.12	0.20	0.13	0.14

REGIONAL ALLOCATION OF THE EXPENDITURE PROGRAM, BY DEPARTMENT /SPECIAL PURPOSE FUND,CY 2015									
(In Billion Pesos)									
PARTICULARS	Total	Nationwide	Central Office	Regional	NCR	Region I	CAR	Region II	Region III
DEPARTMENTS	1,409.92	-	323.21		253.87	46.73	28.8	33.71	83.64
Autonomous Regions in Muslim Mindanao	25.23	-	-	25.23	-	-	-	-	-
Joint Legislative-Executive Councils	0.00	-	-	0.00	0.00	-	-	-	-
The Judiciary	21.05	-	-		21.05	-	-	-	-
Civil Service Commission	1.18	-	0.54		0.14	0.03	0.03	0.03	0.04
Commission on Audit	8.51	-	5.18		-	0.25	0.22	0.19	0.33
Commission on Elections*	5.66	-	5.13		0.08	0.11	0.07	0.08	0.13
Office of the Ombudsman	1.88	-	-		1.88	-	-	-	-
Commission on Human Rights	0.38	-	-		0.38	-	-	-	-
SPECIAL PURPOSE FUNDS	1,184.77	611.47	7.06		181.89	22.24	12.23	20.65	46.90
Budgetary Support to Government Corporations	63.83	0.03	0.37		37.64	1.09	0.79	1.18	8.78
Allocations to Local Government Units	423.33	31.28	-	392.05	72.09	18.90	10.55	17.59	32.46
National Disaster Risk Reduction and Mgt Fund (Calamit	14.00	10.38	3.17		-	-	0.02	0.11	0.08
Contingent Fund	2.00	1.95	0.05	-	-	-	-	-	-
DepEd School Building Fund	-	-	-	-	-	-	-	-	-
E-Government Fund	1.00	0.94	0.06	-	-	-	-	-	-
International Commitments Fund	10.72	10.69	0.04		-	-	-	-	-
Miscellaneous Personnel Benefits Fund	117.38	74.96	2.56		3.43	2.03	0.84	1.67	5.28
Pension and Gratuity Fund	126.67	55.40	0.81		68.72	0.22	0.03	0.10	0.30
Rehabilitation and Reconstruction Program	1.00	1.00	-	-	-	-	-	-	-
Feasibility Studies Fund	-	-	-	-	-	-	-	-	-
Tax Expenditure Fund	25.48	25.48	-		-	-	-	-	-
Net Lending	26.50	26.50	-		-	-	-	-	-
Debt Service Fund - Interest Payments	372.86	372.86	-		-	-	-	-	-
GRAND TOTAL	2,594.69	611.47	330.27	1,313.02	435.76	68.97	41.07	54.35	130.53
	942.40	34.17	305.09	920.97	153.21	45.04	26.44	31.54	71.63

2015 Total Government Expenditure Including Debt Service, Billion Pesos								
Federal/National Government	942.40	35.41	48.16					
Nationwide	34.17	1.28						
Central Office	305.09	11.46						
Regional (Excluding ALGU)	920.97	34.60	51.84					
LGUs (PCMB)	458.79	17.24						
Total	2,661.43	100.00						
				Government Expenditure Excluding Debt Service				
2015 Total Government Expenditure Excluding Debt Service, Billion Pesos				Particulars	Million Pesos	Percent Share		
Federal/National Government	569.54	24.93	39.78	National Government	908,803	39.8		
Nationwide	34.17	1.50		Exclusive Functions	569,539	24.9		
Central Office	305.09	13.35		Shared Functions	339,264	14.9		
Regional (Excluding ALGU)	920.97	40.31	60.22	Regional Governments	920,970	40.3		
LGUs (PCMB)	454.78	19.91		Local Governments (PCMB)	454,777	19.9		
Total	2,284.55	100.00		Total	2,284,550	100.0		

Tax Assignment: Principles

- Tax system should lower administrative and compliance cost (tax harmonization)
- Redistribution can be performed better by central government, thus progressive taxes and mobile tax bases are better assigned to central government
- Taxes with bases that are not mobile are appropriate for middle and lower-level governments
- User charges are appropriate for all levels of government

Tax Assignment: Principles (Moore, 2007)

Fiscal Sociology: *Fiscal (social) contract*

- If the state is dependent on broad taxation, it is likely to be more responsive and accountable to its citizens.
- At the other end, citizen-taxpayers who shoulder the burden of taxation are likely to be more vigilant about the taxes that they have to pay and how their government spends the money.

Tax Assignment: Dimensions

- **Tax base definition** covers the procedures for the computation of the tax base, including the rules for definition of income and expenditures, deductions and exemptions, formulation of the tax schedule, and attribution or apportionment of the tax base to different jurisdictions.
- **Tax rate determination** refers to the simple decision or choice about the rates to impose on the tax base to determine the liabilities of taxpayers.
- **Tax administration and enforcement** consist of the various activities in assessing, collecting, and auditing tax payments, and providing assistance to taxpayers to achieve compliance.
- **Tax revenue allocation** refers to the sharing of proceeds

Joint Taxation vs. Tax Sharing

- Joint taxation – power to tax (tax rate setting, tax base definition, and tax administration) is granted to more than one level of government
- Tax sharing or revenue sharing – power to tax is exclusively assigned to one government level, usually the national government, which then shares the tax proceeds with other government levels.

Tax Assignment

Type of Tax	Dimension of tax assignment		
	Determination of		Collection & Administration
	Base	Rate	
Customs	Federal	Federal	Federal
Corporate income	Federal	Federal	Federal
Personal income	Federal	Federal, State, Local	Federal
Payroll	Federal, State	Federal, State	Federal, State
Wealth taxes	Federal	Federal, State	Federal
Natural resource taxes	Federal	Federal	Federal
Conservation charges	State, Local	State, Local	State, Local
Multistage sales tax (VAT)	Federal	Federal	Federal
Single-stage sales tax	State	State, Local	State, Local
Excise taxes			
Alcohol & tobacco	Federal	Federal	Federal
Motor vehicles	State, Local	State, Local	State, Local
Petroleum products	Federal, State, Local	Federal, State, Local	Federal, State, Local
Pollution taxes			
Carbon	Federal	Federal	Federal
BTU	Federal, State, Local	Federal, State, Local	Federal, State, Local
Effluent	Federal, State, Local	Federal, State, Local	Federal, State, Local
Land	State	Local	Local
Property	State	Local	Local
User charges	Federal, State, Local	Federal, State, Local	Federal, State, Local

Adapted from Anwar Shah, The Reform of Intergovernmental Fiscal Relations In Developing & Emerging Market Economies, Policy and Research Series No. 23, World Bank, 1994.

Government Revenue Collections, 2015		NG-RG Sharing = 60:40				NG-RG Sharing = 40:60	
Particulars	Million Pesos		RG	NG		RG	NG
National Government	2,108,955		543,739	1,565,216		770,356	1,338,599
Tax Revenues	1,815,474		518,558	1,296,916		732,585	1,082,889
Bureau of Internal Revenue	1,433,301						
Net Income and Profits (JS)	846,201	0.40	338,480	507,721	0.60	507,721	338,480
Excise Taxes (JS)	158,319	0.40	63,328	94,991	0.60	94,991	63,328
Sales Tax and Licenses 1/ (NG)	287,231	0.00	0	287,231	0.00	0	287,231
Property Transfer Tax (RG)	5,636	1.00	5,636	0	1.00	5,636	0
Selective Taxes on Services	58,378	0.40	23,351	35,027	0.60	35,027	23,351
Franchise Taxes (JS)	613	0.40	245	368	0.60	368	245
Documentary Stamp Tax (RG)	72,073	1.00	72,073	0	1.00	72,073	0
Other Taxes (JS)	4,850	0.40	1,940	2,910	0.60	2,910	1,940
Bureau of Customs	367,534						
Import Duties and Taxes (NG)	57,139	0.00	0	57,139	0.00	0	57,139
VAT on Imports (NG)	274,695	0.00	0	274,695	0.00	0	274,695
Other Collections (NG)	35,700	0.00	0	35,700	0.00	0	35,700
Other Offices	14,639						
LTO-Motor Vehicle Fees (RG)	11,300	1.00	11,300	0	1.00	11,300	0
BFP-Fire Code Tax (RG)	1,369	1.00	1,369	0	1.00	1,369	0
BI-Immigration Tax (NG)	72	0.00	0	72	0.00	0	72
DENR-Forest Charges (RG)	128	1.00	128	0	1.00	128	0
CHED/NCCA (RG)	1,770	0.40	708	1,062	0.60	1,062	708
Non-tax Revenues	293,481		25,181	268,300		37,771	255,710
Collection from other Offices	224,518		25,181	199,337		37,771	186,747
Exclusive NG Offices	161,566	0.00	0	161,566	0.00	0	161,566
Shared NG-RG Offices	62,952	0.40	25,181	37,771	0.60	37,771	25,181
Foreign Grants	164	0.00	0	164	0.00	0	164
Interest Income from BSP 2/**	5,906	0.00	0	5,906	0.00	0	5,906
Interest on Advances to GOCCs**	110	0.00	0	110	0.00	0	110
Privatization Proceeds	62,783	0.00	0	62,783	0.00	0	62,783

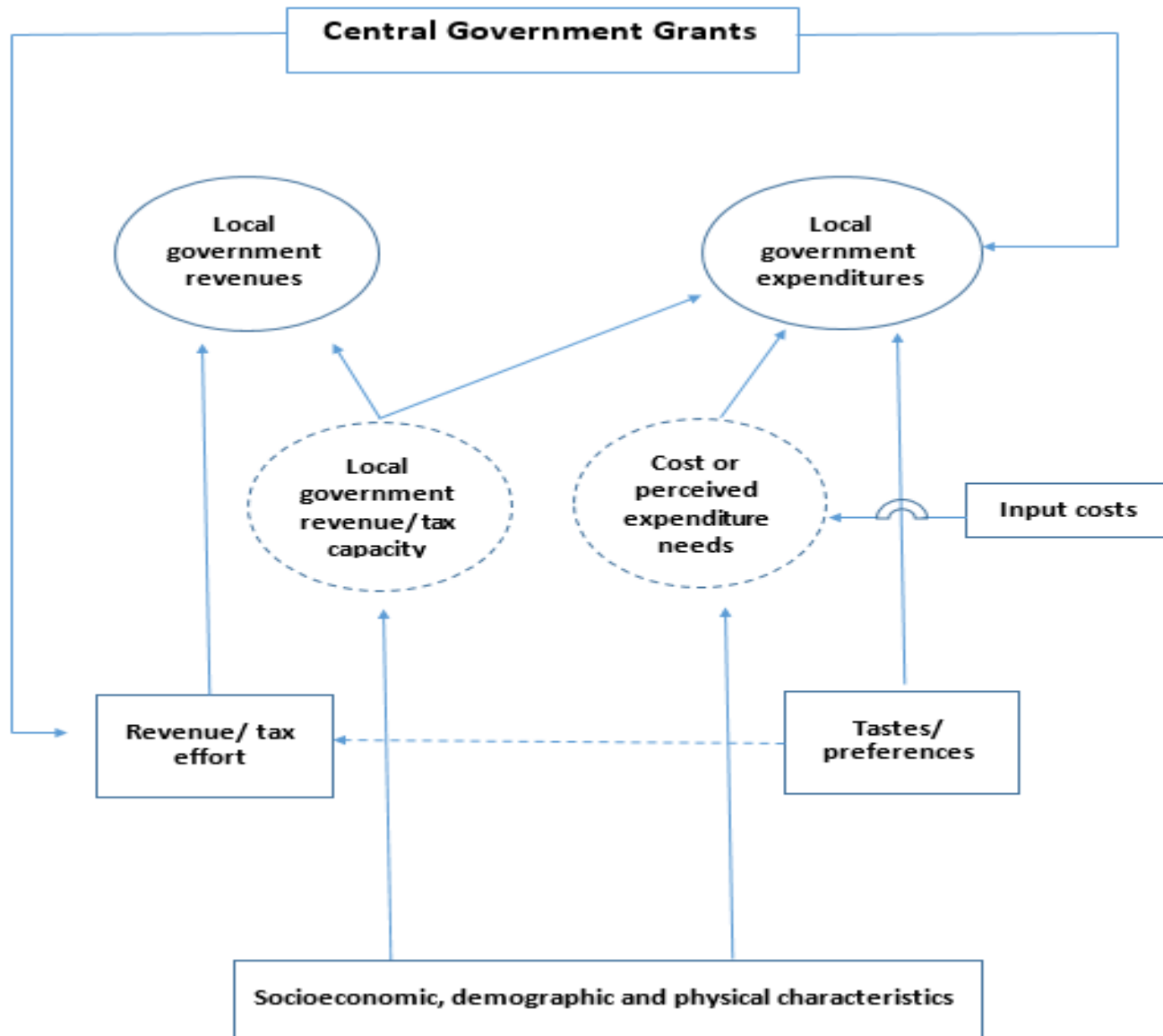
Vertical Fiscal Balance

Government Expenditure Excluding Debt Service			Government Revenues (NG-RG Sharing = 60:40)		
Particulars	Million Pesos	Percent Share		Million Pesos	Percent Share
National Government	908,803	39.8	National Government	1,565,216	68.6
Exclusive Functions	569,539	24.9	o.w. trans to RG	377,231	
Shared Functions	339,264	14.9	IRA to LGU	389,784	
Regional Governments	920,970	40.3	Regional Governments	543,739	23.8
Local Governments (PCMB)	454,777	19.9	Local Governments (PCMB)	172,341	7.6
Total	2,284,550	100.0	Total	2,281,296	100.0
Government Expenditure Excluding Debt Service			Government Revenues (NG-RG Sharing = 40:60)		
Particulars	Million Pesos	Percent Share		Million Pesos	Percent Share
National Government	908,803	39.8	National Government	1,338,599	58.7
Exclusive Functions	569,539	24.9	o.w. trans to RG	150,614	
Shared Functions	339,264	14.9	IRA to LGU	389,784	
Regional Governments	920,970	40.3	Regional Governments	770,356	33.8
Local Governments (PCMB)	454,777	19.9	Local Governments (PCMB)	172,341	7.6
Total	2,284,550	100.0	Total	2,281,296	100.0
Notes: Financial Position	NG-RG Sharing = 60:40			NG-RG Sharing = 40:60	
National Government	(110,602)			(110,602)	
Regional Governments	0			0	
Local Governments (PCMB)	107,348			107,348	

Horizontal Fiscal Imbalance and Fiscal Equalization

	Regional Ex	Regional RevCap	Fiscal Gap	NG Transfers	Regional RevCap	Fiscal Gap	NG Transfers
	Million	Million	Million	Million	Million	Million	Million
NCR	153,209	205,854	52,645	0	291,649	138,440	0
CAR	45,043	9,575	-35,468	30,287	13,565	-31,478	14,111
Region I	26,442	16,697	-9,745	8,321	23,656	-2,786	1,249
Region II	31,539	9,666	-21,872	18,677	13,695	-17,844	7,999
Region III	71,633	48,460	-23,173	19,787	68,657	-2,976	1,334
Region IV-A	72,163	84,060	11,897	0	119,095	46,931	0
Region IV-B	35,917	8,361	-27,556	23,530	11,846	-24,072	10,791
Region V	59,635	11,541	-48,094	41,068	16,351	-43,284	19,404
Region VI	63,809	22,438	-41,371	35,327	31,790	-32,019	14,354
Region VII	59,132	35,393	-23,739	20,271	50,144	-8,988	4,029
Region VIII	48,880	11,098	-37,782	32,262	15,724	-33,157	14,864
Region IX	42,763	11,314	-31,448	26,854	16,030	-26,733	11,984
Region X	55,238	21,128	-34,110	29,127	29,933	-25,304	11,343
Region XI	47,311	23,069	-24,242	20,701	32,683	-14,628	6,557
Region XII	41,680	14,529	-27,152	23,185	20,584	-21,097	9,457
CARAGA	34,209	6,491	-27,718	23,668	9,196	-25,012	11,213
ARMM	32,369	4,064	-28,305	24,169	5,758	-26,611	11,929
Philippines	920,973	543,739	-377,234	377,234	770,356	-150,617	150,617
			-441,776			-335,988	
			-64,542			-185,371	

Fiscal gap model



Subnational Government Borrowing

- Golden rule – limit SG borrowing for financing of capital investments only
- Firm commitment regarding “no bail-out” of SG loans
- Need for bankruptcy policy and mechanisms for SGs

Fiscal-Related Provisions of the Draft Federal Constitution

Consultative Committee created to review
the 1987 Constitution

Article XII, Sec 1: Exclusive powers of Federal Gov't.



Source: VERA Files Infographics, 2018

PAGBA 2019 1st Quarter Seminar & Meeting
February 13-16, 2019
Crowne Plaza Hotel, Ortigas, Quezon City

Article XII, Sec 2: Exclusive powers of Federated Regions



Source: VERA Files Infographics, 2018

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Article XIII: Fiscal Powers and Financial Administration



Source: VERA Files Infographics, 2018

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Fiscal-Related Provisions of the Draft Federal Constitution

Resolution of Both Houses No. 15
Passed by the House of Representatives

ARTICLE XII: Local Governments and Federal States

- Section 1. The territorial and political subdivisions of the Republic of the Philippines are the provinces, cities, municipalities, and barangays. There shall be federal states in the country as provided in this article.
- Sec. 3. Congress shall strengthen the existing Local Government Code to provide for a more responsive and accountable local government structure x x x, allocate among the different local government units their powers, responsibilities, and resources.

ARTICLE XII: Local Governments and Federal States

Sec. 16. Primary Legislative Powers of Federal States:

- 1) Administrative organization, planning, budget, and management;
- 2) Creation of sources of revenues and finance;
- 3) Agriculture and fisheries;
- 4) Natural resources, energy, environment, indigenous appropriate technologies and inventions;
- 5) Trade, industry, and tourism;
- 6) Labor and employment;
- 7) Public works, transportation, except railways, shipping, and aviation;
- 8) Health and social welfare;
- 9) Education and the development of language, culture, and the arts as part of the cultural heritage;
- 10) Ancestral domain and natural resources;
- 11) Housing, land use, and development;
- 12) Urban and rural planning and development; and
- 13) Such other matters as may be authorized by law for the promotion of the general welfare of the people of the federal state.

ARTICLE XII: Local Governments and Federal States

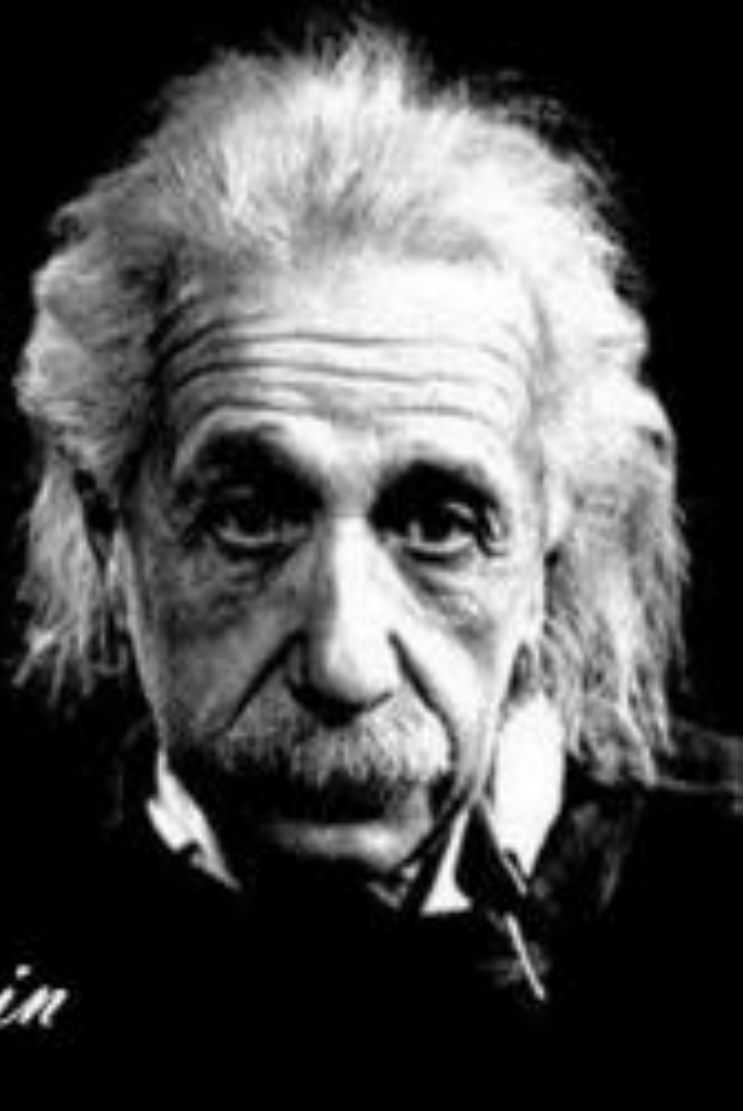
- Sec. 5. Each local government and federal states shall have the power to create its own sources of revenue and to levy taxes, fees, and charges subject to such guidelines and limitations as Congress may provide. x x
- Sec. 6. The National Government is mandated to provide local governments their just share, as determined by law, in the national taxes, which shall be automatically released to them.
- Sec. 7. Local governments shall be entitled to an equitable share in the proceeds of the utilization and development of the national wealth within their respective areas, x x x

Will Proposed Changes Solve the Problems?

Common Resource Pool	No
Fragmented Government structure	No
Patronage and Political Dynasties	No

WE CANNOT SOLVE
OUR PROBLEMS WITH
THE SAME THINKING
WE USED WHEN
WE CREATED THEM

~ Albert Einstein



Thank you.