

**Comments on on Section 150 of Republic Act No. 7610, or
the Local Government Code**

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- Sec. 150 (Situs of the Tax) is an important local tax that promotes the equitable collection of taxes/beneficiaries of taxes to those LGUs that provide the services that the local businesses benefit from. Reform efforts in the 18th Congress (Senate Bills 494 and 839; pertaining to Sec. 150 of the LGC) were aimed at simplifying the tax system and increasing the shares of cities and municipalities in the sales taxes collected from businesses in their locality but for which sales accrues to its principal office.

- In public sector economics/financial management literature, the tax assignment principles that should be considered by policymakers include:
 1. Mobility of factors of production and tradable goods
 - 1.1. Federal/Central government: Tax on mobile factors, e.g. corporate income tax
 - 1.2. Local government: Tax on immobile factors, e.g. land, property and local business taxes (applicable to Sec. 150 of the). Taxes on natural resources may be shared
 2. Redistributive and equity purposes
 - 2.1. Federal government: Progressive income taxes
 3. Administrative costs:
 - 3.1. Taxes should be assigned to the jurisdiction with the best ability to monitor relevant assessments
 - 3.2. Minimizes tax evasion

Table 1 below shows conceptual basis of tax assignment based on principles above. The ‘Single stage sales tax’ in Table 1 could be used to support the Sec. 150 of the LGC and any revisions therein.

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Table 1. Conceptual Basis of Tax Assignment

| Type of Tax | Determination of | | Collection & Administration | Comments |
|---|------------------|------------|-----------------------------|---|
| | Base | Rate | | |
| Customs | F | F | F | International trade taxes |
| Corporate income | F | F | F | Mobile factor, stabilization tool |
| Resource taxes, resource rent (profits, income) | F | F | F | Highly unequally distributed tax bases |
| Royalties, fees, charges, severance taxes, production, output and property taxes | S,L | S,L | S,L | Benefit taxes / charges for state-local services |
| Conservation charges | S,L | S,L | S,L | To preserve local environment |
| Personal income | F | F,S | F,S,L | Redistributive, mobile factor |
| Wealth taxes (taxes on capital wealth, wealth transfers, inheritances and bequests) | F | F,S | F | Redistributive |
| Payroll | F,S | F,S | F,S | Benefit charge, e.g. social security coverage |
| Multistage sales taxes (VAT) | F | F | F | Border tax adjustment possible under federal assignments, potential stabilization tools |
| <i>Single-stage sales taxes (manufacturer, wholesale, retail)</i> | | | | |
| <i>Option A</i> | <i>S</i> | <i>S,L</i> | <i>S,L</i> | <i>Higher compliance cost</i> |
| <i>Option B</i> | <i>F</i> | <i>S</i> | <i>F</i> | <i>Harmonize, lower compliance costs</i> |
| <i>"Sin" taxes</i> | | | | |
| <i>Excises on alcohol and tobacco</i> | <i>F</i> | <i>F</i> | <i>F</i> | <i>Health care shared responsibility</i> |
| <i>Betting, gambling</i> | <i>S,L</i> | <i>S,L</i> | <i>S,L</i> | <i>State and local responsibility</i> |
| <i>Lotteries</i> | <i>S,L</i> | <i>S,L</i> | <i>S,L</i> | <i>State and local responsibility</i> |

| Type of Tax | Determination of | | Collection & Administration | Comments |
|---|------------------|-------|-----------------------------|---|
| | Base | Rate | | |
| Race tracks | S,L | S,L | S,L | State and local responsibility |
| Taxation of "bads" | | | | |
| Carbon | F | F | F | To combat global/national pollution |
| BTU taxes | | | F,S,L | Pollution impact may be national, regional or local |
| Motor fuels | F,S,L | F,S,L | F,S,L | Tolls on federal/provincial or local roads |
| Effluent charges | F,S,L | F,S,L | F,S,L | To deal with interstate, intermunicipal or local pollution issues |
| Congestion tolls | F,S,L | F,S,L | F,S,L | Tolls on federal/provincial or local roads |
| Parking fees | L | L | L | To control local congestion |
| Betting, gambling | S,L | S,L | S,L | State and local responsibility |
| Lotteries | S,L | S,L | S,L | State and local responsibility |
| Race tracks | S,L | S,L | S,L | State and local responsibility |
| Taxation of "bads" | | | | |
| Carbon | F | F | F | To combat global/national pollution |
| <i>Note: F is federal/central responsibility; S is State responsibility (could be province); and, L is local responsibility</i> | | | | |

Source: (Bahl and Bird 2018, Shah 2004)

- In amending/revising Sec. 150, it must also be ensured that there is no double taxation of sales in LGUs as this would discourage investments and impact local growth and development.