

RECLAIMING FISCAL JUSTICE: PROGRESSIVITY, ADMINISTRATIVE REFORM, AND SOCIAL PROTECTION IN PHILIPPINE TAX POLICY

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Introduction

Fiscal policy is often discussed in terms of revenues and expenditures, tax rates and deficits, incentives and redistribution. Yet beneath these familiar debates lies a more fundamental question: **what is the nature of the relationship between citizens and the State?** Taxation is not merely an instrument for financing government. It is the most visible expression of the reciprocal obligations that bind governments and citizens together. Citizens contribute resources through taxation with the expectation that government will transform these contributions into public goods, quality public services, social protection, and institutions that promote opportunity, security, and shared prosperity. Government, in turn, depends upon citizens' willingness to comply voluntarily with tax laws and participate in the formal economy. This reciprocal relationship constitutes what this chapter refers to as the **Fiscal Social Contract**.

The strength of this contract is not determined solely by the level of taxation or by the amount of revenue government collects. It depends equally on whether the tax burden is distributed fairly, whether tax administration is transparent and efficient, whether taxpayers are treated with dignity and protected from administrative abuse, and whether public resources are translated into services that improve people's lives. Fiscal institutions therefore derive their legitimacy not only from law but from public confidence that taxation is administered fairly and that government fulfills its corresponding obligations.

The Philippines has made significant progress in strengthening public finances over the past two decades. Reforms such as the Expanded Value-Added Tax Law, the Tax Reform for Acceleration and Inclusion (TRAIN) Act, and subsequent tax measures have increased revenue mobilization and improved fiscal stability. Nevertheless, important structural weaknesses remain. The tax system continues to rely heavily on consumption taxation while wealth remains lightly taxed. The real value of personal income tax exemptions has steadily eroded because of inflation. Broad VAT exemptions frequently benefit higher-income households more than the poor they were intended to protect. Revenue administration remains fragmented across institutions designed for a paper-based economy rather than an increasingly digital one. Meanwhile, many Filipino households continue to finance privately what government is expected to provide publicly, including healthcare, education, transportation, and disaster recovery.

These challenges are often addressed independently. Tax policy is debated separately from tax administration. Revenue administration is treated as an institutional concern distinct from social protection. Public expenditure is considered independently of taxation. This fragmented approach overlooks the fact that each component influences the effectiveness of the others. Progressive tax policy cannot succeed without capable institutions to implement it. Efficient tax administration cannot sustain public confidence if taxpayers perceive the tax system as unfair. Likewise, social protection cannot be effectively targeted without reliable fiscal information and modern administrative systems.

This proposal therefore argues that the next generation of Philippine fiscal reform should be understood not as a collection of individual tax measures but as an integrated effort to rebuild the Fiscal Social Contract. The proposed reforms rest on three mutually reinforcing pillars. The first is a more progressive tax system that strengthens the taxation of accumulated wealth, rationalizes the value-added tax while creating space for lower statutory rates, and restores fairness in the personal income tax system through higher exemptions, inflation indexation, and targeted household tax credits. The second is the modernization of revenue administration through the establishment of a National Revenue Authority supported by integrated digital information systems, interoperable government data, and taxpayer-centered administration. The third is the transformation of revenue administration into a broader platform for household fiscal administration, capable of delivering transparent, rules-based fiscal support while strengthening formalization and improving public policy.

This chapter develops an integrated framework for fiscal reform built around the concept of the **Fiscal Social Contract**. Rather than treating tax policy, revenue administration, and social protection as separate policy domains, the framework presented here argues that they are mutually reinforcing components of a single fiscal architecture. Within this framework, four institutional innovations are proposed: (1) a more progressive tax structure that restores fairness to the tax system; (2) a National Revenue Authority that integrates tax administration and government fiscal data; (3) a system of Household Fiscal Administration that links taxation with targeted fiscal support; and (4) an independent National Taxpayer Advocate that strengthens taxpayer protection and accountability. Together, these reforms seek to redefine taxation not merely as a mechanism for raising revenue but as an institution for rebuilding trust between citizens and the State.

Part One: Toward a More Progressive Tax System

1.1 Taxing Wealth

1.1.1 Inequality as the Starting Point

The Philippines has long carried the distinction of being one of the most unequal economies in East Asia and the Pacific. World Bank data using its harmonized regional inequality database (EAPPOV) place the Philippine Gini coefficient at 42.3 in 2018, the highest among 27 Asian economies it monitors (World Bank, 2022). More recent World Bank monitoring shows genuine, if modest, improvement since then: the Philippines' Gini index fell below 40 for the first time on record in 2023, aided by more than a decade of poverty reduction and a tightening labor market (World Bank, 2025). Even so, the World Bank's own Poverty and Equity Brief is careful to note that the country "has one of the highest income Gini coefficients in East Asia and the Pacific," and that the gains are uneven: 27.7 percent of Filipinos remain vulnerable to falling back into poverty, with median incomes only 28 percent above the poverty line (World Bank, 2025).

The picture is starker if we examine income concentration at the top rather than the Gini coefficient alone. The bottom 50 percent of the population holds just 14 percent of total national income, while the top 1 percent alone captures 17 percent (OECD, 2024). In other words, a single percentage point of the population takes home a larger income share than the bottom half combined. This distributional pattern has real economic consequences. The OECD submission links this concentration directly to lower labor productivity and slower long-run GDP growth (OECD, 2024).

This aggregate concentration is mirrored in the Philippines' own income-classification data. Using the 2018 Family Income and Expenditure Survey (FIES), researchers at the Philippine Institute for Development Studies (PIDS) classified Filipino families into seven income groups; the “rich” group—those with monthly family incomes above ₱219,140—comprised only 0.6 percent of families, or 0.34 percent of individuals (Albert et al., 2020; Albert et al., 2018). By contrast, the “poor” and “low-income but not poor” categories together accounted for nearly 56 percent of individuals. Drawing on this same PIDS classification, Eduardo Tadem of the University of the Philippines Center for Integrative and Development Studies has observed that rich Filipino families earn at least twenty times what poor families earn. This ratio inverts Plato's ancient dictum, recorded in the *Laws*, that no citizen should be more than four times richer than the poorest member of society (Tadem, 2023).

The concentration is starker still at the very top of the wealth distribution. Forbes' 2025 ranking of the Philippines' fifty richest individuals and families put their combined net worth at US\$86 billion (roughly ₱4.9 trillion), up more than 6 percent from US\$80.8 billion the year before. A single family—the heirs of the late retail magnate Henry Sy Sr.—retained the top spot for another consecutive year (Ho, 2025). At the time Tadem's monograph was written, this same list of fifty families held a combined net worth equivalent to roughly 20 percent of that year's GDP and nearly 88 percent of the entire national government budget, with six of the fifteen wealthiest individuals belonging to a single family (Tadem, 2023). Separately, calculations drawn from the Bangko Sentral ng Pilipinas' Financial Inclusion Survey suggest that roughly 334,500 Filipinos—three-quarters of one percent of the population—capture a combined net income exceeding by 26 percent the combined income of the remaining 99.2 percent of Filipinos, with capital owners earning an average of roughly ₱390,000 a month compared with a minimum-wage worker's ₱11,599 (Miraflor, 2023). Taken together, these independent data sources—World Bank inequality metrics, OECD-reported income-share data, PIDS's own household classification, and Forbes' market-based wealth rankings—converge on the same conclusion through different methodologies. The Philippine economy is not a picture of a middle-income society with pockets of poverty. It is an economy in which a very small number of asset-holders capture a share of national income and wealth entirely disproportionate to their numbers.

Taxation is one of the state's few levers to correct this. Thomas Piketty's influential *Capital in the Twenty-First Century* demonstrated that the private return on capital has historically exceeded the rate of economic growth. Piketty termed this the “ $r > g$ ” relationship. He concluded

that, left unaddressed, “capitalism automatically generates arbitrary and unsustainable inequalities” that compound across generations (Piketty, 2014, p. 1). The International Monetary Fund and the World Bank, historically resistant to redistributive taxation, reversed course during the COVID-19 pandemic: the IMF’s April 2020 “Tax Issues” paper called on governments to consider wealth-based “solidarity” levies, and both institutions co-hosted a 2021 conference explicitly endorsing progressive taxation—including wealth taxation—as a primary tool against inequality (Tadem, 2023).

1.1.2 What a Wealth Tax Is, and Why It Is Different from Existing Levies

A wealth tax is a recurring levy on an individual’s *net worth*—the market value of all owned assets (real property, financial securities, business interests, vehicles, jewelry, art) minus outstanding liabilities—rather than on income earned or consumption made in a given year (Saez & Zucman, 2019; Scheuer & Slemrod, 2021). Scheuer and Slemrod (2021) situate the wealth tax within a family of related but distinct instruments: unlike an income tax, which captures only the flow of earnings in a given period, or a conventional property tax, which typically captures only real estate, a net wealth tax reaches the entire stock of an individual’s assets regardless of form or realization. Saez and Zucman (2019), in their influential *Brookings Papers on Economic Activity* analysis of U.S. wealth tax design, argue that this stock-based structure allows a wealth tax to close loopholes that flow-based taxes structurally cannot: it reaches unrealized capital gains that may otherwise escape taxation entirely until (or unless) an asset is sold. It reaches passive and inherited wealth that generates comparatively little taxable “income” in any given year even as it compounds. It directly targets the concentration of the asset stock itself, which Saez and Zucman contend is a more accurate gauge of economic power and inequality than any single year’s income flow.

1.1.3 The Administrative Record: A Cautionary but Instructive History

Any credible proposal for a wealth tax in the Philippines must reckon honestly with the experience of countries that have tried and, in most cases, abandoned it. In 1990, twelve OECD countries—all in Europe—levied an individual net wealth tax; by the 2020s, only three or four still did (Perret, 2021). Austria repealed its wealth tax in 1994, Germany and Denmark in 1997, and the Netherlands in 2001, typically citing high administrative costs relative to revenue collected, the difficulty of valuing illiquid assets such as private businesses and art, and capital flight (Perret, 2021).

France’s experience is the most frequently cited cautionary tale. Its *Impôt de solidarité sur la fortune* (ISF), first introduced in 1982 and revived in 1988, taxed net wealth above roughly €1.3 million at rates that scaled up as wealth increased. Between 2000 and 2017, an estimated 60,000 millionaires left France, and one estimate placed total capital flight attributable to the ISF at €200 billion between 1988 and 2007, with a corresponding drag on GDP growth (Bove, 2026). President Emmanuel Macron abolished the ISF in 2018, replacing it with a narrower real-estate-

only wealth tax (the IFI), explicitly to redirect capital toward productive investment. It should be noted that the empirical picture is more contested than the popular narrative suggests: at least one academic study using synthetic-control methods found no statistically robust evidence that the ISF depressed French economic growth, even allowing for measurable capital outflows (Suzuki, 2020).

Perret (2021) made a rigorous review of why these taxes were repealed. Her findings complicate any simple “wealth taxes don’t work” reading. She groups the drivers of repeal into three categories—economic effects, administrative and tax-design issues, and political economy factors. She found the evidence for each strikingly uneven: the economic arguments most often invoked politically, that wealth taxes depress savings, investment, and drive emigration, have the weakest empirical support, with most studies finding limited effects on real behavior and much stronger effects on reported wealth and avoidance. The administrative failures, by contrast, were real: tax bases narrowed by exemptions until they fell disproportionately on illiquid middle-class housing wealth rather than the diversified portfolios of the very rich, valuation of privately held assets proved persistently difficult, and offshore evasion went largely unchecked absent international information-sharing. This is compounded by political economy dynamics in which well-organized wealthy interests secured the exemptions that hollowed out the tax base. Perret’s own reading of whether “this time is different” is cautiously affirmative, resting substantially on the post-2009 global shift toward automatic exchange of financial-account information, which directly addresses the evasion problem that most undermined earlier wealth taxes.

The lesson for Philippines is therefore less that wealth taxes never work than that wealth taxes are exceptionally difficult to design and administer well, and their political durability depends on how narrowly and defensibly they are targeted.

Three administrative problems recur across the international experience and are directly relevant to the Philippine context. First, **valuation** is difficult for anything that is not publicly traded—privately held companies, art, and closely held real estate all require appraisal infrastructure that most tax administrations, including the BIR, do not currently possess at scale. Second, **information and bank-secrecy constraints** make it hard to verify a taxpayer’s true net worth without the kind of automatic financial-account information-sharing that only a handful of jurisdictions have achieved. Third, **liquidity mismatches** mean that a taxpayer whose wealth is concentrated in an illiquid asset—a family compound, a controlling stake in an unlisted firm—may lack the cash to pay an annual levy on wealth they have not realized in cash form, creating pressure either for forced asset sales or for exemptions that quickly narrow the tax’s effective base.

1.1.4 An Achievable Alternative: Using an Asset Tax as a Proxy for a Wealth Tax

Given these constraints, several jurisdictions have pursued a narrower and more administrable alternative: rather than taxing net worth in the abstract, they tax a specific, easily verifiable, and hard-to-hide asset class—typically high-value real property—as a practical proxy for wealth. Real estate is an especially suitable proxy for the Philippine context for three reasons. It is

immovable and cannot be relocated to a tax haven. It is already registered with the Registry of Deeds and assessed (however imperfectly) by local assessors, giving the BIR and local government units an existing administrative foundation to build on. And, per the long-run historical analysis of Jordà et al. (2019), housing wealth has historically produced returns comparable to or better than equities and bonds across sixteen advanced economies since 1870 while remaining the single largest asset class in most economies. It suggests that a real-property-based levy captures a meaningful share of the wealth that would otherwise escape taxation entirely.

New York City’s evolving approach to taxing second homes and *pieds-à-terre*—residences owned by wealthy individuals who do not use them as a primary residence—offers an instructive design template. After more than a decade of proposals that repeatedly failed in the face of real-estate-industry lobbying, the New York State Legislature in May 2026 passed an annual surcharge on non-primary residences in New York City valued at US\$5 million or more, projected to raise approximately US\$500 million a year from roughly 11,200 to 13,000 qualifying properties (Jockims, 2026; Montanez, 2026). The design is instructive precisely because of what it excludes: full-time residents are explicitly exempted, and the surcharge is layered on top of, rather than replacing, the existing property tax system, which minimizes new valuation infrastructure. Once the properties are re-assessed at market value beginning in the 2028–2029 tax year, the surcharge scales progressively: 0.8 percent for properties between US\$5 million and US\$15 million, 1.05 percent between US\$15 million and US\$25 million, and 1.3 percent above US\$25 million (Frank, 2026b).

Equally instructive is the muted market and lifestyle impact the tax has had on the ultra-wealthy owners it targets. Real estate brokers who have observed New York’s luxury market through the 2019 mansion-tax debate, the 2019 *pied-à-terre* proposal, and the 2026 enactment note a consistent pattern: predictions of a mass exodus of wealthy buyers each time proved overstated. Veteran broker Melissa Cohn observed that a buyer with the net worth to purchase a US\$5 million second home is “not going to worry about” a proportionally small annual surcharge, since such buyers are, by definition, less cost-sensitive than the general market (Sexton, 2026). Manhattan luxury sales data bore this out: contracts for apartments priced above US\$10 million rose 80 percent year-on-year in the weeks immediately following the tax’s passage, even as brokers publicly warned of capital flight (Jockims, 2026). Independent fiscal analysts characterized the effect on ultra-wealthy owners’ behavior as “marginal” and “incremental rather than decisive.” The tax nudges pricing at the margins of the luxury segment without altering the fundamental calculus of why globally mobile wealthy individuals choose to own property in a major city (Frank, 2026a).

New York is not an isolated case. At least two other high-income jurisdictions have independently converged on the same design logic — taxing a narrow, high-value slice of real property rather than net worth in the abstract — which strengthens the comparative case for a Philippine asset-tax proxy considerably.

Singapore has gone further than most in stating this approach outright as deliberate wealth-tax policy rather than incidental property regulation. Facing calls to introduce a conventional net wealth tax, Finance Minister Lawrence Wong told CNBC in 2022 that property tax was already Singapore's "principal means of taxing wealth," and the government proceeded to raise non-owner-occupied residential property tax rates progressively — from a 10–20 percent band in 2022 to 12–36 percent by 2024 — alongside a steep 220 percent registration surcharge on the portion of a luxury vehicle's value exceeding S\$80,000 (Tan, 2022). The explicit framing is instructive. Rather than building new administrative machinery to value and monitor net worth, Singapore chose to make its existing, already-functioning property and vehicle registration systems more progressive.

The United Kingdom offers a more elaborate two-tier version of the same idea. Since 2013, the Annual Tax on Enveloped Dwellings (ATED) has imposed a banded annual charge on UK residential property worth more than £500,000 held through corporate structures. This mechanism was originally designed to counter wealthy owners using companies to shield property from stamp duty, capital gains tax, and inheritance tax (UK Government, 2026). ATED raised £132 million in the 2023–24 tax year alone, with more than 80 percent of liable properties concentrated in London, overwhelmingly in Westminster and Kensington and Chelsea (Laleye, 2026). This area is a geographic concentration pattern strikingly similar to what an asset-tax proxy would likely produce in Metro Manila. In November 2025, the UK government layered a second, broader instrument on top of ATED: a new High-Value Council Tax Surcharge, popularly termed the "mansion tax," which will apply from April 2028 to all residential properties worth £2 million or more regardless of ownership structure, in bands ranging from £2,500 to £7,500 annually. The surcharge is projected to affect only around 165,000 to 167,000 homeowners — fewer than 1 percent of English properties — while raising approximately £430 million a year (Bryant et al., 2026; Laleye, 2026).

Taken together, Singapore, the UK, and New York represent three independent jurisdictions arriving at a common design template: rather than constructing new net-wealth-tax infrastructure, each has layered a progressive, narrowly targeted surcharge onto an asset class the state can already see, value, and enforce against. This convergence across very different tax systems and political economies is itself evidence that the asset-tax-proxy model this chapter proposes for the Philippines is not a novel improvisation but an increasingly standard response to the administrative failures of comprehensive wealth taxation documented in Section 1.1.3.

Hong Kong offers an instructive counter-example. It pursued a superficially similar goal through a structurally different, and ultimately far more fragile, instrument. Beginning in 2010, facing a residential market that had risen roughly 400 percent in the preceding decade, Hong Kong introduced a suite of "demand-side management measures" aimed at non-resident and speculative buyers. This is the Buyer's Stamp Duty (BSD) of up to 15 percent levied on residential purchases by non-permanent residents and most corporate buyers, and a Special Stamp Duty (SSD) of up to 20 percent charged to sellers who resold within a defined holding

period, originally three years (DLA Piper, 2025; Habitat Property, 2026). Unlike the NYC, Singapore, and UK mechanisms, however, these were *transaction* taxes rather than *recurring holding* taxes. They applied only at the moment of purchase or resale, meaning a wealthy owner who bought before the rules took effect, or who simply held a property indefinitely, paid nothing further regardless of how much the asset appreciated or how long it remained under-taxed relative to its value. Hong Kong has never had, and still does not have, any net wealth tax, capital gains tax, or inheritance tax. The BSD and SSD were the closest it came to taxing accumulated real estate wealth, and even then only episodically, at the point of a transaction.

The fragility of this transaction-based approach became clear in February 2024, when the Hong Kong government abolished the BSD, SSD, and a related New Residential Stamp Duty in a single budget announcement. The reason for the abolition is a seven-year low in residential property prices and a need to revive transaction volumes (He, 2024; IRD, 2026). The reversal was total and immediate: overnight, non-resident and corporate buyers returned to paying the same stamp duty as any local buyer, and the minimum holding period discouraging speculative flipping disappeared entirely. The contrast with the UK's ATED and incoming mansion tax, or Singapore's progressively rising property tax bands, is instructive. Because Hong Kong's tools taxed the *transfer* of wealth rather than its *holding*, they generated no durable annual revenue stream and could be — and were — dismantled in a single policy announcement the moment market conditions made them politically inconvenient. A recurring, annually assessed asset-tax proxy of the kind this chapter proposes for the Philippines is structurally more resistant to this kind of reversal, precisely because it is embedded in the ordinary annual property-tax cycle rather than surfaced only at the discretion of a single transaction.

This is the core lesson for a Philippine adaptation. A well-targeted asset tax on ultra-high-value property changes relative prices at the top of the market without materially altering the lifestyles of the individuals it taxes, precisely because, for this segment of owners, the tax is a rounding error relative to their overall wealth.

1.1.5 A Philippine Design: Target Population, Mechanism, and Revenue Potential

Applying this logic to the Philippines requires first correcting a scale problem in how "the rich" have been defined so far in this chapter. The PSA/PIDS FIES-derived "rich" classification used in Section 1.1.1—households with monthly incomes above ₱219,140, or roughly ₱2.6 million a year—is a defensible basis for discussing income inequality broadly, but it is a poor proxy for the ultra-high-net-worth population an asset tax should actually target. A household earning ₱250,000 a month is affluent by national standards, but it is not the population buying property in the Philippines' most expensive residential enclaves. It more closely approximates an upper-middle-class professional or dual-income executive household than the tycoon and old-money families this chapter's wealth-tax rationale is built around. Anchoring the asset-tax-proxy threshold to this income classification risks either sweeping in a much broader population than intended or, if calibrated conservatively, setting a property-value threshold too low relative to where actual elite wealth is concentrated.

Actual transaction data from the Philippines' most exclusive residential villages makes this gap concrete. As of 2025–2026, Dasmariñas Village in Makati commands the highest per-square-meter valuation among Philippine subdivisions at roughly ₱600,000 to ₱704,000 per square meter. Neighboring Forbes Park—still regarded as the country's most prestigious address—trades at approximately ₱649,000 to ₱800,000 per square meter, with typical houses sitting on lots of 1,500 square meters or more, giving many individual properties an asking price in excess of ₱300 million and, for larger lots, well over ₱1 billion (Lamudi, 2026b; PDI, 2025). Urdaneta Village trades at roughly ₱500,000 to ₱600,000 per square meter. Ayala Alabang—larger and somewhat less exclusive but still firmly in the ultra-prime tier—trades at approximately ₱237,000 to ₱350,000 per square meter (PDI, 2025; Santos Knight Frank, 2024). A single teardown lot in Forbes Park South recently listed at ₱2.07 billion (Lamudi, 2026a). These figures make clear that the ₱50 million illustrative threshold this chapter uses elsewhere is not a stretch target calibrated to catch marginal cases. It sits far below the entry price of even a modest lot in any of these villages. A well-designed threshold in the ₱50–100 million range would, if anything, undertax the true ultra-prime segment relative to its actual market value, and government should feel free to calibrate the threshold considerably higher than a purely income-based approach would suggest, without meaningful risk of capturing upper-middle-class households.

This reframing also points toward a second, complementary design principle drawn directly from the New York model discussed in Section 1.1.4: rather than relying solely on a per-property value threshold, the levy should also—or primarily—target *non-primary* residence ownership, mirroring the pied-à-terre surcharge's explicit exemption for full-time residents and its focus on second, third, and further properties. This is a more precise proxy for concentrated wealth than property value alone, because it captures a defining feature of how the ultra-wealthy actually hold real estate. This is not as a single primary home, however expensive, but a portfolio of residences—a Forbes Park or Dasmariñas primary residence, a Tagaytay or Batangas weekend property, a Boracay or Palawan resort villa, a Baguio vacation house—each individually taxed at the local level but never previously visible to government as a *combined* holding by a single beneficial owner. A household occupying one high-value home as its sole residence, however prosperous, is meaningfully different from an individual or family holding four or five properties across multiple LGUs, and a well-designed asset-tax proxy should treat them differently, exempting or substantially discounting a taxpayer's single primary residence while applying the full surcharge rate to second and subsequent properties of high value.

A bottom-up estimate using named-village data offers a useful cross-check on this top-down projection, though it necessarily relies on approximate lot counts pending the kind of authoritative BLGF data the Real Property Valuation and Assessment Reform Act (RPVARA) is designed to produce. Forbes Park spans roughly 250 hectares (2.5 square kilometers) across its North and South sections. After accounting for the substantial land area occupied by the Manila Polo Club, the Manila Golf and Country Club, roads, and open space, a conservative estimate

would place the number of individual residential lots in the range of 700 to 900 (Estrada, 2019; PDI, 2025). Neighboring Dasmariñas Village, somewhat smaller, likely holds in the range of 500 to 600 lots, while the more compact Urdaneta Village likely holds 250 to 350. Combined, these three villages alone—without extending to Ayala Alabang, San Lorenzo, Bel-Air, Magallanes, Corinthian Gardens, White Plains, Wack Wack, or comparable ultra-prime enclaves in Cebu and Davao—would plausibly comprise 1,500 to 1,800 individual high-value residential properties.

Applying even a conservative surcharge of 1.0 percent to an average taxable land value of ₱400 million to ₱500 million per lot¹ would generate approximately ₱4 million to ₱5 million per property annually, or roughly ₱6 billion to ₱9 billion a year from these three villages alone. Extending the same logic to the full population of comparable ultra-prime villages nationwide would very plausibly reach. The two estimates are therefore mutually reinforcing rather than contradictory: a small number of the country's most exclusive addresses, taxed at a modest rate against their true market value rather than their chronically outdated assessed value, could plausibly generate tens of billions of pesos annually. This estimate can only sharpen from an approximation into an authoritative number once RPVARA's Schedule of Market Values and Real Property Information System are fully operational and can supply government with actual lot counts and current valuations rather than estimates drawn from real estate listings.

Until now, this kind of cross-property, multiple-ownership targeting has been effectively impossible for the Philippines to implement, because each LGU's assessor maintains property records only for their own jurisdiction. There is no mechanism to identify that the same beneficial owner holds additional high-value properties in other cities or provinces. This is precisely the gap Republic Act No. 12001 is positioned to close. The law's mandated Real Property Information System is designed as a nationwide, BLGF-maintained database of real property transactions, for the first time giving government the technical capacity to match ownership records across LGU boundaries and identify individuals or beneficial owners holding multiple high-value residential properties nationwide (Republic of the Philippines, 2024). Without this infrastructure, a non-primary-residence surcharge modeled on New York's approach would be difficult to enforce reliably in the Philippines, since a wealthy family could simply register each property under a different local jurisdiction with no central mechanism to notice the pattern. With RPVARA's database in place, the same infrastructure that resolves the valuation problem also resolves this ownership-matching problem, making both dimensions of a properly designed asset-tax proxy simultaneously achievable for the first time.

¹ This is a substantial discount from observed asking prices, which for Forbes Park alone regularly range from ₱300 million to over ₱2 billion (Lamudi, 2026a, 2026b).

1.2 Rationalizing the Value-Added Tax (VAT)

1.2.1 The Regressivity Problem

The VAT is, by construction, a tax on consumption rather than income. It is well established in the public finance literature that consumption taxes are regressive when measured against income: poorer households consume a larger share of their income (often all of it, and sometimes more, through borrowing) than wealthier households, who save and invest a growing share of their income as it rises.

Despite this regressivity concern, VAT remains the near-universal companion to income taxation in modern tax systems. This is both for efficiency and equity design rather than political inertia alone. VAT's broad base and input-credit mechanism make it comparatively difficult to evade and administratively efficient relative to its revenue yield. This is because it taxes transactions along the entire supply chain rather than depending on a single, often self-reported, point of assessment (Mooij & Swistak, 2024). Just as importantly, VAT captures economic activity that income tax structurally cannot. In economies with large informal and self-employed sectors, income tax collection depends on accurate income reporting that informal workers and cash-based enterprises routinely evade. Whereas VAT is collected automatically at the point of formal-sector sale regardless of whether the buyer's income was ever declared to tax authorities (Baer & Mooij, 2026). Recent OECD microsimulation research across 27 member countries further complicates the standard regressivity critique: when VAT burden is measured against household *expenditure* rather than annual income—a methodologically more appropriate basis, since income-based measures are distorted by the fact that wealthier households save a larger share of current income—VAT turns out to be roughly proportional or even mildly progressive in most OECD countries, with genuine regressivity emerging mainly in systems that have stripped away exemptions and reduced rates entirely (Thomas, 2020). The practical consensus among public finance institutions, then, is not that VAT's distributional effects should be ignored, but that they are best addressed through complementary instruments—a progressive income tax on one side of the ledger, and targeted cash transfers or exemptions for necessities on the other—rather than by abandoning VAT's efficiency and revenue-raising advantages altogether (Mooij & Swistak, 2024).

We examine the VAT incidence using a household microsimulation model based on the 2023 Family Income and Expenditure Survey (FIES) (PSA, 2023). The analysis estimates the VAT embedded in household expenditures under the current 12 percent VAT with prevailing exemptions. We use the following measures in evaluating the burden of VAT.

- VAT as % of household income which measures the tax burden relative to annual income
- VAT as % of household expenditure which measures the tax burden relative to consumption

- Kakwani Index to measure the progressivity or regressivity of VAT²
- VAT concentration curve which measures the distribution of VAT relative to income

The estimated household VAT burden equals 3.68% of aggregate household income and 5.04% of aggregate household expenditure. The Kakwani index is -0.0617, confirming regressivity relative to the income distribution. The VAT concentration coefficient is 0.2429, below the household-income Gini coefficient of 0.3046.

The burden is much flatter when measured against consumption than when measured against income. This is expected because low-income households consume most of their current income, while high-income households save a larger share. Existing VAT exemptions mitigate the burden on poor households, but they are not well targeted in peso terms: the bottom five income deciles receive only 36.6% of the total estimated exemption benefit, while the upper five deciles receive 63.4%.

We can look at the VAT burden by income decile. The results are summarized in the following table:

Table 1. VAT Incidence by Income Decile

Income decile	Average VAT/family	VAT as % of income	VAT as % of expenditure	Total VAT (in billion pesos)
1	P6,256	4.37%	4.89%	17.19
2	P7,676	4.20%	4.96%	21.10
3	P8,646	4.15%	5.01%	23.76
4	P9,853	4.09%	5.04%	27.07
5	P10,976	4.03%	5.08%	30.16
6	P12,143	3.93%	5.07%	33.37
7	P13,567	3.86%	5.10%	37.28
8	P15,413	3.70%	5.07%	42.35
9	P18,037	3.52%	5.03%	49.57
10	P27,375	3.06%	5.02%	75.23

The table gives us two insights. First, richer households pay much more VAT in absolute pesos. Second, the VAT burden relative to income is higher at the lower end of the distribution than at the top, which is the defining feature of regressivity.

² The Kakwani index uses the Gini coefficient to measure the progressivity of a policy intervention. It is the difference between the Gini coefficient index when VAT is implemented and the Gini index of income when there is no VAT imposition.

Table 2. VAT Regressivity

Measure	Result	Interpretation
VAT / household income	3.68% aggregate	Regressive because poorer households consume more of income
VAT / household expenditure	5.04% aggregate	Flatter across deciles; closer to proportional consumption taxation
Absolute VAT paid	Rises strongly with income	Higher-income households contribute most VAT pesos

VAT is more regressive when measured against annual income than when measured against expenditure. This distinction is important. The system imposes a similar effective tax on taxable consumption, but poorer households devote much more of their income to consumption.

Other progressivity measures confirm the regressivity of the VAT.

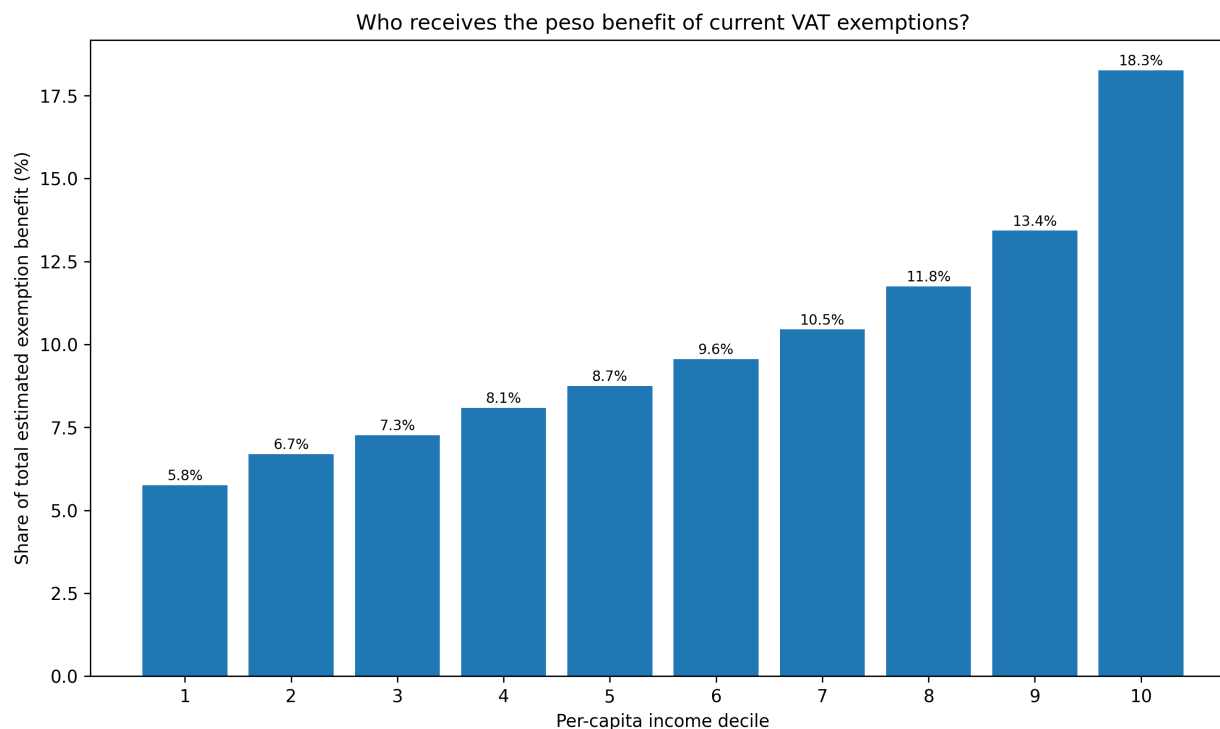
Table 3. Other Progressivity Measures of the VAT

Measure	Value	Interpretation	Policy meaning
Income Gini	0.3046	Income inequality	Benchmark distribution
VAT concentration coefficient	0.2429	VAT is concentrated among richer households in pesos	But less concentrated than income
Kakwani index	-0.0617	Negative = regressive	VAT burden rises less rapidly than income

The Kakwani index equals the VAT concentration coefficient minus the income Gini coefficient. A negative index means the tax is regressive relative to annual income. The estimated index of -.0617 indicates mild but clear regressivity.

The other important question is who benefits from VAT exemptions?

Exhibit 1. Distribution of VAT Exemption Benefits



Source: Author's estimates using PSA 2023 FIES PUF. Benefit equals modeled VAT under a broad base minus VAT under current exemptions.

Broad exemptions provide relief to poor households, but richer households capture more of the total peso benefit because they consume more. This weak targeting is a central argument for replacing some broad exemptions with direct transfers, refundable credits, or narrowly targeted subsidies.

Our presentation is limited by the use of household-incidence estimates and excludes business-to-business transactions, input-tax credits, refunds, government purchases, tax evasion, and behavioral responses. The FIES expenditure categories are also broader than the legal VAT categories. Nevertheless, our findings support the argument that while modest, VAT remains regressive. This is because of the exemption of several goods and services. It appears to be more proportional than regressive when measured against household expenditure. Most of the benefits from exemptions accrue to the upper half of the income distribution. A more equitable reform package should rationalize the poorly targeted exemptions, lower the statutory rate, strengthen compliance, and compensate vulnerable households through direct transfers.

1.2.2 Rationalizing and Broadening the VAT Base

Despite its regressivity, VAT cannot simply be abolished without a viable replacement, for two reasons that this chapter's overall architecture makes clear. First, VAT is currently the single largest source of national tax revenue after income tax. It accounts for roughly 26.5 percent of total BIR collections and nearly 30 percent of total government revenue (Quizon & Marquez, 2026). No realistic alternative revenue instrument could replace this scale of collection in the

near term. Second, VAT functions as a necessary structural complement to the income tax. A large share of Philippine economic activity occurs in the informal sector and among self-employed and professional taxpayers who substantially under-report income. A broad consumption tax captures economic activity and a share of the spending of wealthy individuals whose true income the BIR cannot easily verify and would miss entirely.

One factor that contributes to the regressivity of VAT is the unbalanced distribution of benefits from VAT exemption. While the exemptions were adopted to protect consumers and support selected sectors, the erosion of the VAT base disproportionately benefits higher-income households that consume more in absolute terms. There is a need to rationalize the exemptions to address this imbalance while preserving the protection for basic necessities. The broadening of the VAT base can help finance a reduction in the statutory VAT rate from 12 percent to 10 percent while maintaining fiscal sustainability.

We propose some guiding principles in rationalizing the VAT base.

- Equity – tax preferences should benefit the intended beneficiaries.
- Neutrality – Firms or individuals engaged in the same economic activity should face the same VAT treatment.
- Efficiency – Reducing preferential treatment lowers economic distortions and opportunities for arbitrage.
- Revenue – Broadening the base improves VAT productivity and creates fiscal space to support a lower statutory VAT rate.

Given these principles, we propose the following rationalization:

- Retain exemptions for basic necessities and services with strong social objectives.
- Remove exemptions that mainly benefit higher-income households.
- Protect low-income households through targeted transfers rather than broad tax exemptions.
- Maintain neutrality across competing sectors and business models.
- Commercial activities should face the same VAT rules regardless of the legal form of the enterprise.
- Complement reform with digital tax administration and stronger enforcement.

We propose the following rationalization:

Table 4. Proposed Rationalization of VAT

Sector	Current	Proposed	Policy Rationale
Fresh agricultural products	Exempt	Retain exemption	Food security, farmer protection and administrative

			simplicity.
Basic public health services	Exempt	Retain exemption	Equity and universal health objectives.
Public and basic education	Exempt	Retain exemption	Human capital development.
Processed food	Mixed	Subject to VAT	Broaden the base while preserving raw food exemptions.
Private tertiary education above a tuition threshold	Exempt	Subject to VAT	Current exemption disproportionately benefits higher-income households.
Selected private hospital and elective services	Exempt	Subject to VAT	Better target health-related tax expenditure.
Higher-value residential rentals	Exempt below threshold	Tax rentals above threshold	Better target housing support.
Insurance and selected financial services	Mixed	Review and broaden VAT coverage	Reduce preferential treatment where appropriate.
Digital services	VAT	Maintain VAT	Neutral treatment across domestic and foreign suppliers.

Another important and politically sensitive issue in VAT rationalization is the current VAT exemption for cooperatives. This has to be rationalized but not completely eliminated. The exemption should be tied to the cooperative's function and the beneficiaries it serves, rather than its legal form. The primary reason for the VAT exemption of cooperatives is the support to small producers, improve access to markets, promote rural development, and strengthen collective bargaining. However, several issues have emerged. Because the tax is entity-based rather than activity-based exemption, the tax treatment of entities differs despite identical economic activity. It violates the principle of tax neutrality. Large cooperatives also compete directly with supermarkets, banks, insurance firms, hospitals, universities among others and yet may enjoy preferential tax treatment. Once a cooperative reaches substantial commercial scale, the original justification for the exemption considerably weakens. Some businesses may organize or transact through cooperatives to obtain tax advantages rather than pursue genuine cooperative objectives. This creates unfair competition, erosion of the VAT base and opportunities for tax avoidance. To address this, VAT should be activity based. Commercial activities should face the same VAT rules regardless of the legal form of the enterprise. These principles should apply not only to cooperatives but also to educational institutions, health providers, non-profit organizations, government entities, and other special sectors.

Table 5. Rationalizing VAT for Cooperatives

Activity	Proposed treatment
Sale of agricultural products by farmer cooperatives	Retain exemption
Marketing of members' produce	Retain exemption
Agricultural inputs for members	Retain exemption
Microcredit to members	Consider retaining preferential treatment if justified
Consumer stores operating like ordinary supermarkets	Subject to VAT
Large commercial retail operations	Subject to VAT
Real estate development	Subject to VAT
Hotels and resorts	Subject to VAT
Commercial hospitals	Subject to VAT under the same rules as other providers
Universities charging high tuition	Apply the same VAT rules as comparable institutions

Another option is to distinguish between small community cooperatives and large commercial enterprises.

Specifically, the reforms we can adopt with respect to the rationalization of VAT treatment for cooperatives are as follows:

Table 6. Summary of VAT Rationalization for Cooperatives

Current Rule	Proposed Reforms
VAT exemption based primarily on cooperative status	VAT treatment based primarily on the economic activity and public policy objective
Broad exemption for qualifying cooperatives	Retain exemptions only for activities that clearly advance cooperative development, agriculture, or other social objectives; apply ordinary VAT rules to commercial activities competing with taxable businesses
Limited distinction by scale	Consider turnover or commercial-scale thresholds for certain cooperative activities where appropriate

Santos (2017) also flags necessary companion reform. Senior citizens, persons with disabilities (PWDs), and other poor households currently receive VAT relief through product-specific exemptions rather than direct transfers. Any further narrowing of VAT exemptions should be paired with an expansion of targeted cash transfers—channeled through the Department of Social Welfare and Development in coordination with DOF. The *social protection function* currently embedded (inefficiently) inside the VAT exemption system is preserved through a more transparent, better-targeted budgetary instrument rather than lost altogether (Santos, 2017).

1.2.3 Lowering the VAT rate

With the broadening and rationalization of the VAT base, we now have greater latitude to actually reduce the VAT rate. Using the FIES model, we can simulate the estimated household VAT and the potential impact to government revenue, VAT as percentage of household income and VAT as percentage of household expenditure. Note that our simulation is limited to household level data. Reducing the VAT rate from 12 percent to 10 percent combined with VAT rationalization can preserve the estimated household VAT yield and would actually result in additional government revenue. It produces about Php 7.5 billion more than the simulated current 12 percent structure.

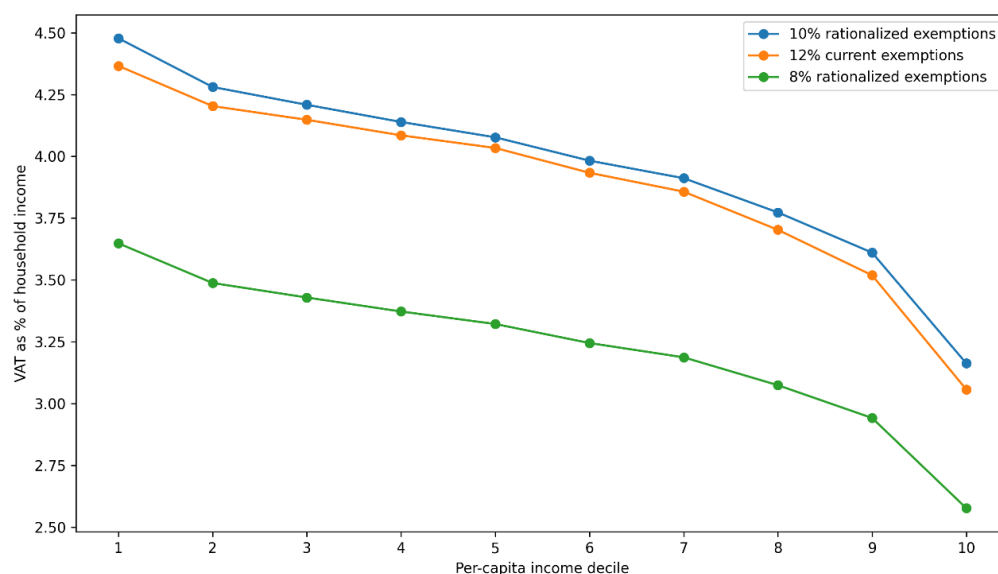
On the other hand, an 8 percent VAT with the same rationalized base lowers the estimated household VAT yield by approximately Php 60 billion or around 16.8 percent relative to the current structure.

Table 7. Simulation of the impact of various VAT rates

Scenario	Estimated household VAT	Relative to current system	VAT as % of household income	VAT as % of expenditure
12% VAT, current exemptions	₱357.08 billion	100.00%	3.68%	5.04%
10% VAT, rationalized exemptions	₱364.57 billion	102.10%	3.76%	5.14%
8% VAT, rationalized exemptions	₱297.06 billion	83.20%	3.06%	4.19%

Regardless of the rate, VAT remains regressive relative to income but the burden is reduced as the VAT rate goes down.

Diagram 1. Estimated VAT burden as a share of income



Source: Author's simulation using the PSA 2023 FIES Public Use File. Results depend on category-level VAT-liability assumptions.

The government can pursue a staggered decrease in VAT rate from 12 percent to 10 percent to 8 percent. The digitalization of tax administration can cushion the impact of decrease in tax revenue due to the decrease in VAT rate. The digitalization can focus on reduction of fraud and fake invoicing, improved registration, implementation of nationwide electronic invoicing and receipting, real-time or near-real-time transaction reporting, automated invoice matching, integration of BIR, Customs, SEC, LGU and other data, and stronger taxpayer safeguards. An option would be to establish a conditional pathway toward a lower VAT rate, beginning with 10%, with every subsequent reduction dependent on verified gains from exemption rationalization, digital compliance and sustained revenue performance.

1.3 Restoring Fairness in the Personal Income Tax System

1.3.1 The Erosion of the ₱250,000 Threshold

One of the most significant achievements of the Tax Reform for Acceleration and Inclusion (TRAIN) Act was the restructuring of the personal income tax system. By exempting annual taxable income of up to ₱250,000 from personal income tax and reducing tax rates for most wage earners, the reform increased disposable income, simplified tax administration, and removed millions of low-income workers from the income tax rolls. More importantly, it reaffirmed one of the fundamental principles of taxation—that taxes should be levied according to a person's ability to pay.

Nearly a decade after the enactment of the TRAIN Law, however, the economic environment under which the reform was designed has changed considerably. Inflation has steadily eroded the purchasing power of Filipino households. The combined effects of the COVID-19 pandemic, global supply chain disruptions, food inflation, rising fuel prices, and increasing housing and transportation costs have substantially altered household spending patterns. Although nominal wages have increased over the same period, much of these increases merely compensated for higher prices rather than reflecting genuine improvements in household welfare.

Consequently, the real value of the ₱250,000 personal income tax exemption has declined significantly. A taxpayer earning ₱500,000 annually today is no longer in the same economic position as a taxpayer earning the same amount when the TRAIN Law took effect in 2018. Housing, transportation, food, education, healthcare, utilities, insurance, and other basic expenditures now consume a much larger share of household income. The current exemption therefore no longer reflects the purchasing power that Congress intended when it enacted the reform.

The first objective of reform should therefore be straightforward: restore the real value of the TRAIN exemption. This can be accomplished by adjusting the exemption to reflect cumulative inflation since 2018 and by introducing automatic annual indexation of the exemption and all personal income tax brackets using the Consumer Price Index published by the Philippine Statistics Authority. Such a reform should not be viewed as a tax reduction. Rather, it simply preserves the original value of an existing policy and prevents the gradual increase in effective taxation caused by inflation—a phenomenon economists refer to as bracket creep or fiscal drag.

If we are to adjust the income tax exemption based purely on inflation, the ₱250,000 exemption under TRAIN should now be between approximately ₱320,000 and ₱340,000.³

1.3.2 The Case for ₱1 Million and Automatic Indexation

While inflation adjustment is necessary, it is not sufficient. The case for a more substantial reform extends beyond inflation itself. It reflects a broader transformation in the relationship between Filipino households and the State.

This chapter advances the proposition that a taxpayer's ability to pay should not be measured solely by gross income or inflation-adjusted income. Rather, tax policy should also recognize the extent to which households are compelled to privately finance essential goods and services that government is expected to provide or substantially subsidize. To describe this phenomenon, this chapter introduces the concept of **Public Service Replacement Cost (PSRC)**.

Public Service Replacement Cost refers to the additional expenditures households incur because public services are inadequate, inaccessible, delayed, or of insufficient quality, thereby requiring

³ The income tax exemption using the latest completed full-year CPI for 2025 is ₱320,479. If we use the latest available June 2026 CPI, the income tax exemption should be ₱338,500.

families to purchase private substitutes. These expenditures are fundamentally different from ordinary discretionary consumption. They are expenses that households incur because they have little practical alternative.

Healthcare provides perhaps the clearest illustration. Despite the country's commitment to universal health care, many households continue to finance hospitalization, medicines, laboratory tests, specialist consultations, and preventive healthcare largely from their own resources. Public financing reduces some of these costs but often does not eliminate the financial risks faced by families. As a consequence, households devote a growing share of their disposable income to healthcare expenditures that an effectively functioning public health system would otherwise absorb.

The same pattern is evident in education. Public education remains a constitutional responsibility of the State, yet many middle-income households enroll their children in private schools because of concerns regarding classroom congestion, teacher shortages, learning outcomes, and educational quality. Parents likewise invest in tutorial services, digital learning devices, internet connectivity, and supplemental educational materials. These expenditures are increasingly viewed as necessities rather than luxuries because families perceive them as essential investments in their children's future.

Transportation represents another significant component of Public Service Replacement Cost. Long commuting times, unreliable public transportation, traffic congestion, and inadequate mass transit systems impose both direct financial costs and substantial productivity losses. Many households purchase private vehicles, relocate closer to employment centers at considerably higher housing costs, or spend significantly more on transportation simply to compensate for deficiencies in public infrastructure.

Climate-related disasters provide another example. Every year, households rebuild homes damaged by floods, typhoons, and other natural hazards, often relying primarily on personal savings, private borrowing, or insurance. While government assistance remains indispensable, many families continue to shoulder a large share of recovery costs themselves.

Collectively, these expenditures reduce the income genuinely available for taxation. Increasingly, Filipino households pay twice for essential public services: first through taxes that finance government programs, and second through private expenditures undertaken because those services do not adequately meet their needs.

This observation should not be interpreted to mean that taxes constitute payment for specific government services. Taxation remains a collective obligation necessary to finance public goods and redistribute resources across society. Nevertheless, the ability-to-pay principle requires tax policy to recognize the economic reality that households have less disposable income available for taxation when government fails and households are compelled to replace public services with private expenditures.

Viewed from this perspective, reforming the personal income tax system is not simply about reducing taxes. It is about restoring fairness by ensuring that taxable income more accurately reflects a household's true economic capacity.

Taxation is founded on a fiscal social contract. Citizens contribute resources to government with the expectation that those resources will be transformed into public goods, quality public services, social protection, and institutions that improve collective welfare. Voluntary tax compliance ultimately depends not only on enforcement but also on citizens' confidence that taxes are being translated into tangible public value.

When government provides accessible healthcare, quality public education, efficient transportation, disaster resilience, and reliable public institutions, households incur lower Public Service Substitution Costs. Families are able to devote a greater share of their income to productive investment, entrepreneurship, savings, and consumption rather than financing private substitutes for public services. In turn, taxpayers are more likely to perceive the tax system as legitimate and equitable.

Conversely, when households increasingly shoulder expenditures that they reasonably expect public institutions to absorb, confidence in the tax system may weaken. Taxpayers continue to fulfill their fiscal obligations while simultaneously financing many essential services privately. The challenge therefore extends beyond the amount of taxes collected. It concerns whether the broader relationship between taxpayers and government remains balanced and credible.

The proposed reform seeks to strengthen—not weaken—that fiscal social contract. Increasing the personal income tax exemption acknowledges the changing realities faced by Filipino households while preserving the principle that taxation should be based on actual capacity to contribute. At the same time, the reform establishes a reciprocal expectation for government. As tax administration is modernized and revenue performance improves, government must likewise strengthen the quality, accessibility, and reliability of public services.

Viewed in this light, the proposed pathway toward a higher personal income tax exemption is more than a tax policy adjustment. It represents a long-term commitment to rebuilding trust between citizens and the State. A modern tax system should not merely collect revenues efficiently; it should reinforce the reciprocal relationship in which taxpayers contribute willingly because they experience government that delivers meaningful public value.

Ultimately, the success of tax reform cannot be measured solely by the amount of revenue collected. It should also be assessed by whether citizens perceive that taxation supports a government capable of reducing the need for households to privately replace essential public services. The long-term objective is therefore not simply a ₱1 million income tax exemption. It is a society in which households can devote more of their income to building their future because government has become more effective in fulfilling its own responsibilities.

This chapter proposes a phased pathway toward increasing the personal income tax exemption to ₱1 million. The immediate objective, however, is considerably more modest. The first phase should increase the exemption from **₱250,000 to ₱500,000**. This proposal goes beyond merely restoring the inflation-adjusted value of the TRAIN exemption. It also recognizes the increasing Public Service Replacement Costs borne by middle-income households and the reality that the existing tax schedule no longer reflects contemporary household expenditure patterns.

The ₱500,000 exemption should therefore serve as the first stage of a longer-term reform program. Subsequent increases may be undertaken as fiscal conditions improve and as reforms in tax administration strengthen revenue performance. Ultimately, a ₱1 million exemption should be viewed not as an immediate fiscal commitment but as a long-term policy objective consistent with a modern income tax system that better reflects actual living costs and taxpayers' ability to pay.

To prevent future erosion of the exemption, the reform should likewise provide for automatic annual indexation of both the exemption and all personal income tax brackets. Such a mechanism would eliminate bracket creep, reduce the need for periodic legislative amendments, and provide greater predictability for taxpayers and fiscal planners alike.

1.3.3 Introducing a Tax Credit System

Increasing the exemption alone, however, is unlikely to address the diverse financial pressures faced by middle-income households. The personal income tax system should therefore evolve beyond a purely revenue-raising instrument into a platform for delivering targeted fiscal support.

We propose the establishment of a **Household Tax Credit System** consisting of three complementary components.

The first component is an automatic **Middle-Income Relief Credit** designed to restore purchasing power lost through inflation and rising living costs. Unlike an increase in the exemption, which benefits all taxpayers above the threshold, a tax credit can be phased out gradually as household income rises, thereby concentrating relief on lower-middle- and middle-income households while limiting fiscal costs.

The second component consists of **conditional household tax credits** linked to expenditures that contribute directly to human development and household resilience. Illustrative examples include education tax credits for qualified tuition and learning expenses; health tax credits for hospitalization, medicines, diagnostics, and preventive healthcare; caregiving tax credits for households supporting senior citizens or persons with disabilities; and disaster recovery tax credits for certified property losses arising from typhoons, floods, earthquakes, and other officially declared disasters. Unlike universal subsidies, these credits would be targeted, means-tested, and supported by documentary evidence, thereby improving both equity and fiscal efficiency.

The third component is a **Formalization Incentive Credit**. Eligibility for selected tax credits should require households to maintain active taxpayer registration, update taxpayer information regularly, file annual income tax returns where required, and retain electronic receipts for qualified expenditures. Rather than treating tax compliance solely as a legal obligation, the reform encourages households to participate voluntarily in the formal economy by linking compliance to tangible fiscal benefits.

Taken together, these reforms transform the role of the personal income tax system. Instead of serving exclusively as a mechanism for collecting revenue, it becomes an instrument for protecting household purchasing power, strengthening the middle class, encouraging formalization, and delivering targeted fiscal support.

Illustrative examples include:

Table 8. Illustrative example on the Proposed Tax Credit

Proposed Tax Credit	Illustrative Maximum Annual Credit
Middle-Income Relief Credit	₱15,000
Education Tax Credit	Up to ₱20,000
Health Tax Credit	Up to ₱20,000
Disaster Recovery Tax Credit	Up to ₱50,000
Caregiving Tax Credit	Up to ₱15,000
Formalization Incentive Credit	₱5,000

These credits should be means-tested and phased out gradually as income rises to ensure that fiscal resources are directed toward households facing the greatest financial pressures.

Viewed together, the proposed reforms redefine the role of the personal income tax system. Rather than serving solely as an instrument of revenue collection, it becomes a mechanism for protecting household purchasing power, strengthening the social contract between taxpayers and government, promoting formalization, and delivering targeted fiscal support in a manner that is transparent, accountable, and fiscally sustainable.

The proposed reforms therefore recognize that sustaining voluntary tax compliance requires more than stronger enforcement. It requires rebuilding trust in the fiscal system itself. Government must continuously improve the quality of public services even as it modernizes tax administration. Taxpayers, in turn, should experience a tax system that is fair, responsive, and reflective of their actual economic circumstances.

Ultimately, the objective of personal income tax reform is not simply to increase the exemption or reduce taxes. It is to restore fairness, strengthen the middle class, modernize fiscal administration, and renew the social contract that lies at the heart of a well-functioning tax system.

Part Two: Building a Modern Fiscal System

2.1 Gaps in Tax Administration Reforms

2.1.1 Tax Administration as the Missing Pillar of Fiscal Reform

Experience from both developed and developing countries demonstrates that the success of tax reform depends as much on the quality of tax administration as on the quality of tax policy itself. The effectiveness of reforms such as personal income tax relief, value-added tax (VAT) rationalization, digital taxation, and targeted tax credits ultimately depends on the administrative capacity of the revenue authority responsible for implementing them (OECD, 2025).

This distinction is particularly important because tax administration determines whether legislative intent is translated into actual fiscal outcomes. A well-designed tax law administered poorly may generate lower revenues than anticipated, impose excessive compliance costs on taxpayers, encourage tax avoidance, and ultimately erode public confidence in the fiscal system. Conversely, an efficient and trusted tax administration can improve compliance, reduce administrative costs, expand the tax base, and generate higher revenues without increasing statutory tax rates. Tax administration is a fundamental determinant of fiscal performance.

Historically, tax reform in the Philippines has focused primarily on changes in tax policy. Major reforms—including the Comprehensive Tax Reform Program of the late 1990s, the Expanded Value-Added Tax Law of 2005, and the Tax Reform for Acceleration and Inclusion (TRAIN) Act—have concentrated on restructuring tax bases, revising tax rates, and modifying exemptions. While these reforms have contributed to higher revenue collections, relatively less attention has been devoted to modernizing the institutional architecture responsible for administering the tax system. Administrative reforms have largely consisted of incremental improvements within existing agencies rather than a comprehensive redesign of the country's revenue administration.

International experience suggests that this distinction matters. Over the past two decades, revenue administrations in advanced and emerging economies have undergone a profound transformation. The OECD describes this evolution as **Tax Administration 3.0**, a model in which tax administration becomes increasingly integrated into taxpayers' natural business systems through digital reporting, real-time information sharing, electronic invoicing, application programming interfaces (APIs), and automated compliance management (OECD, 2020). Rather than relying primarily on audits conducted after transactions occur, modern revenue administrations increasingly prevent non-compliance by embedding tax processes directly into digital commercial activities.

The implications extend beyond revenue collection. As tax administrations acquire more complete and timely information, they also become platforms for delivering fiscal policy. Revenue authorities in several jurisdictions now administer refundable tax credits, family benefits, wage subsidies, and targeted household transfers in addition to collecting taxes. The boundary between tax administration and broader fiscal administration is therefore becoming increasingly blurred.

Viewed in this context, the reforms proposed in this chapter—including higher personal income tax exemptions, targeted household tax credits, VAT rationalization, and digital taxation—cannot be evaluated independently of tax administration. Each proposal depends upon the State's capacity to identify taxpayers accurately, verify eligibility, process claims efficiently, and monitor compliance using integrated digital information systems. Tax administration, therefore, constitutes the missing pillar of fiscal reform. Without institutional modernization, even well-designed tax policies are unlikely to achieve their intended objectives.

2.1.2 Why Bureau-Level Reform Has Reached Its Limits

The Bureau of Internal Revenue has made substantial progress in digitizing taxpayer-facing services. Electronic filing, online registration, digital payment channels, and electronic document submission have improved the convenience of tax compliance and demonstrate the institution's commitment to modernization (BIR, 2001, 2024, 2026a, 2026b). These reforms, however, have primarily digitized individual administrative processes rather than transforming the underlying architecture of revenue administration. The BIR's digital initiatives remain largely agency-specific and therefore do not fully overcome the fragmentation that exists across the broader revenue system. Consequently, while digitalization has improved service delivery, it has not yet achieved the integrated, taxpayer-centric model envisioned under OECD's Tax Administration 3.0 framework.

The country's revenue administration continues to face structural constraints that cannot be resolved through improvements within individual agencies alone. Tax administration remains fragmented across multiple institutions, each operating under separate legal mandates, organizational structures, information systems, and performance objectives. The Bureau of Internal Revenue administers domestic taxes, while the Bureau of Customs manages border taxation and import controls. Other government agencies—including the Securities and Exchange Commission, the Philippine Statistics Authority, the Anti-Money Laundering Council, local government units, financial institutions, and regulatory agencies—maintain separate databases that contain information relevant to tax administration but are not fully integrated into a common analytical framework.

The consequence is that government often possesses extensive information but lacks the institutional architecture necessary to transform that information into effective compliance management. Individual agencies may each hold a portion of the taxpayer's economic profile, yet no institution possesses a comprehensive, real-time view of the taxpayer's overall economic

activity. The result is duplication of administrative effort, inconsistent reporting requirements, higher compliance costs for taxpayers, and reduced capacity to detect complex forms of tax evasion that span multiple taxes and multiple institutions.

This fragmentation becomes increasingly problematic as economic activity becomes more digital. A single commercial transaction may involve imported inputs monitored by Customs, electronic payments processed through the banking system, sales reported through electronic invoices, withholding taxes collected from employees, VAT obligations arising from domestic transactions, and corporate income tax on resulting profits. Yet, these data frequently remain dispersed across separate institutional systems. Opportunities for tax evasion therefore arise not simply because information is unavailable but because it is not effectively integrated.

OECD comparative studies indicate that mature revenue administrations increasingly organize compliance management around integrated taxpayer information rather than individual taxes or agencies (OECD, 2025). Data integration permits more accurate risk assessment, more targeted audits, improved taxpayer services, and lower administrative costs. The principal challenge facing Philippine tax administration is therefore no longer merely improving the Bureau of Internal Revenue. It is overcoming institutional fragmentation through a more integrated model of revenue administration.

2.1.3 Upgrading Revenue Administration

Today's taxpayers generate continuous streams of digital information through imports, electronic invoicing, payroll systems, online banking, digital payment platforms, e-commerce, financial reporting, and electronic commerce. Economic activity is increasingly characterized not by isolated transactions but by interconnected data ecosystems. Every commercial transaction leaves multiple digital footprints that can be analyzed collectively to improve compliance management, reduce fraud, and simplify taxpayer obligations.

Yet the institutional architecture of revenue administration has not evolved at the same pace. Revenue agencies continue to organize their operations around tax types and organizational boundaries rather than around taxpayers themselves. This institutional mismatch creates significant inefficiencies. The same taxpayer may maintain separate registrations, submit overlapping information to multiple government agencies, undergo separate audits, and comply with different digital systems despite conducting a single integrated business.

More fundamentally, integrating social protection with tax administration strengthens the fiscal social contract. Citizens are more likely to participate voluntarily in the tax system when they perceive that government institutions deliver meaningful benefits in return for compliance. A revenue authority that collects taxes efficiently while administering transparent, rules-based fiscal support demonstrates that taxation is not merely an obligation but part of a broader system of mutual accountability between citizens and the State.

This proposal should not be interpreted as transferring all social protection responsibilities to the National Revenue Authority. Rather, it recognizes that the revenue administration possesses many of the core administrative capabilities necessary for modern fiscal governance: reliable taxpayer identification, verified income information, secure digital payment systems, compliance monitoring, and increasingly sophisticated data analytics. Social protection agencies would continue to determine policy objectives, benefit design, and eligibility rules, while the National Revenue Authority would provide the administrative platform through which many income-tested fiscal transfers are implemented efficiently and transparently.

We therefore propose that the taxpayer—not the tax—should become the fundamental unit of administration. Rather than administering income tax, VAT, customs duties, and other taxes as separate institutional activities, modern revenue administration should organize information around a unified taxpayer account. Every taxpayer—whether an individual, household, or business—should possess a single digital fiscal identity through which all tax obligations, refunds, tax credits, compliance records, customs declarations, and administrative interactions are managed.

Such an approach fundamentally changes the role of the revenue authority. It no longer functions simply as a collector of taxes but as a manager of fiscal relationships between citizens and the State. The same digital infrastructure that enables more effective tax collection also enables government to deliver targeted household tax credits, process refunds more efficiently, reduce compliance burdens, and improve taxpayer services. Revenue administration thus becomes an integrated platform for implementing fiscal policy rather than merely enforcing tax laws.

The transition from tax-centered administration to taxpayer-centered administration represents more than an organizational reform. It reflects a broader transformation in public administration. The principal asset of a revenue authority is no longer its ability to process paper returns or conduct manual audits. Its comparative advantage lies in its capacity to manage information, integrate data across institutions, apply advanced analytics responsibly, and build trust through efficient, transparent, and citizen-centered service delivery.

For the Philippines, the challenge is therefore not simply to digitalize existing institutions but to redesign those institutions for the digital age. Institutional modernization is an essential prerequisite for successful fiscal reform.

2.2 The Case for a National Revenue Authority

2.2.1 Building a National Revenue Authority

The principal challenge facing Philippine revenue administration is no longer simply improving the Bureau of Internal Revenue or the Bureau of Customs individually. Rather, it is overcoming institutional fragmentation through a new organizational model that reflects the realities of the digital economy. Accordingly, we propose the establishment of a National Revenue Authority

(NRA) through the integration of the Bureau of Internal Revenue and the Bureau of Customs into a single autonomous revenue administration.

The proposal should not be understood merely as a bureaucratic merger. Organizational consolidation, by itself, generates only modest administrative efficiencies. The more fundamental objective is institutional redesign. The National Revenue Authority would reorganize revenue administration around the taxpayer rather than around individual taxes or separate agencies. Instead of maintaining fragmented institutional records, each individual and business would maintain a single digital fiscal account through which customs declarations, income tax obligations, value-added tax liabilities, withholding taxes, excise taxes, refunds, tax credits, and compliance history are administered.

This redesign reflects a broader shift in how modern revenue administrations understand taxation. Historically, tax authorities managed separate taxes through separate administrative systems because information was difficult to collect, store, and exchange. In the digital economy, however, information has become the principal asset of tax administration. Every commercial transaction generates multiple digital records across customs, banking, payroll systems, electronic invoicing platforms, financial statements, and tax returns. The challenge is no longer collecting information but integrating it into a coherent analytical framework.

A unified National Revenue Authority would therefore permit real-time matching of customs declarations, electronic invoices, VAT returns, withholding taxes, and income tax declarations. Such integration would substantially improve compliance management by allowing discrepancies to be identified at the transaction level rather than through post-audit investigations conducted years later. Opportunities for tax evasion increasingly arise between agencies rather than within them. Under-declared imports, transfer pricing, fictitious invoicing, carousel fraud, and other complex avoidance schemes frequently exploit fragmented administrative systems. Institutional integration therefore addresses one of the most important structural weaknesses of the current revenue administration.

The benefits extend beyond compliance. A unified authority reduces duplication of taxpayer registration, reporting requirements, documentary submissions, and audit processes. Businesses interact with government through a single digital portal rather than navigating multiple agencies with overlapping information requirements. Revenue officers likewise gain access to more comprehensive taxpayer information, allowing audits to become more targeted and less intrusive. Compliance costs decline not because enforcement becomes weaker, but because administrative processes become more coherent.

International experience demonstrates that autonomous revenue authorities supported by integrated digital systems generally exhibit stronger organizational performance, greater operational flexibility, and improved compliance outcomes than highly fragmented administrative structures (OECD, 2025). For the Philippines, the establishment of a National Revenue Authority therefore represents not merely an institutional reform but the administrative

foundation upon which broader fiscal reforms—including personal income tax reform, VAT rationalization, digital taxation, and household tax credits—can be successfully implemented.

2.2.2 Digital Revenue Administration and Tax Administration 3.0

The success of digital revenue administration ultimately depends not on technology alone but on the quality, completeness, and interoperability of government data. Artificial intelligence, predictive analytics, electronic invoicing, and real-time compliance management derive their effectiveness from access to comprehensive and reliable information. Digital transformation therefore requires more than automating existing administrative processes. It requires integrating information that is currently dispersed across multiple government institutions into a coherent fiscal data ecosystem.

The proposed National Revenue Authority should serve as the institutional backbone of this ecosystem. Rather than functioning solely as a tax collection agency, the Authority should become the government's principal fiscal data institution, responsible for integrating information necessary to administer taxation, social transfers, taxpayer services, and compliance management. Under this model, the NRA would maintain a unified taxpayer profile that consolidates relevant information from multiple government agencies while respecting statutory limitations, data privacy requirements, and appropriate governance safeguards.

The current institutional landscape remains highly fragmented. Business registration information is maintained by the Securities and Exchange Commission (SEC) and the Department of Trade and Industry (DTI). Property ownership records are distributed among the Land Registration Authority, local government units, and assessors' offices. Customs declarations are maintained by the Bureau of Customs, while domestic tax records reside within the Bureau of Internal Revenue. Information on social protection beneficiaries is maintained separately by the Department of Social Welfare and Development (DSWD). Financial intelligence relating to suspicious financial transactions is held by the Anti-Money Laundering Council (AMLC), while employment records, payroll contributions, and social insurance data are maintained by the Social Security System (SSS), the Government Service Insurance System (GSIS), PhilHealth, and the Home Development Mutual Fund (Pag-IBIG). Population and civil registration data are maintained by the Philippine Statistics Authority (PSA), while digital identity is increasingly anchored on the National ID System. Financial transaction information is generated through the banking system and regulated by the Bangko Sentral ng Pilipinas (BSP).

Individually, these agencies possess extensive information. Collectively, however, they lack an integrated institutional framework capable of generating a comprehensive view of taxpayers' economic activity. As a result, government frequently requests the same information repeatedly from citizens and businesses while simultaneously failing to detect inconsistencies across administrative systems. Fragmentation increases compliance costs, weakens risk analysis, delays verification, and limits the effectiveness of evidence-based policymaking.

The National Revenue Authority provides an institutional mechanism for overcoming these limitations. Through secure interoperability arrangements, standardized data protocols, and application programming interfaces (APIs), the Authority should be authorized to access relevant government datasets for clearly defined fiscal administration purposes. Such integration would permit automated verification of taxpayer registration, business ownership, customs declarations, payroll reporting, property transactions, social protection eligibility, and financial information where authorized by law. Rather than requiring taxpayers to repeatedly submit documents already held by government, information would flow securely between agencies under common governance standards.

The benefits of integrated data extend well beyond tax compliance. Real-time information sharing enables more accurate taxpayer registration, more effective detection of tax evasion, faster processing of VAT refunds, improved targeting of tax credits, more efficient customs administration, and better identification of fraudulent claims. At the same time, integrated data substantially reduce compliance costs by minimizing redundant reporting requirements and simplifying interactions between taxpayers and government.

The broader fiscal implications are equally significant. As proposed in this chapter, the National Revenue Authority would administer targeted household tax credits, including middle-income relief, education, healthcare, caregiving, and disaster recovery credits. These programs depend upon accurate household information that cannot be obtained from tax records alone. Eligibility may require verification of household composition, educational enrollment, health expenditures, disaster declarations, or existing social assistance received from other government agencies. A unified fiscal data infrastructure therefore becomes essential not only for tax collection but also for administering equitable and well-targeted fiscal policy.

The Authority should therefore adopt a "collect once, use many times" principle. Citizens and businesses should provide information to government only once, after which authorized agencies may securely access that information for legitimate public purposes subject to legal safeguards. This principle, increasingly adopted in advanced digital governments, reduces administrative burden while improving the quality and consistency of government information.

Viewed from this perspective, the National Revenue Authority is not simply another revenue agency. It is the institutional platform through which government integrates fiscal information across the public sector. Revenue collection becomes only one function within a broader fiscal data ecosystem that supports taxation, social protection, regulatory compliance, evidence-based policymaking, and public accountability. In the digital economy, information is the most valuable asset of tax administration. The effectiveness of future fiscal reforms will therefore depend less on creating new taxes than on building institutions capable of transforming data into better governance.

2.2.3 Formalization through Incentives

An equally important advantage of Household Fiscal Administration is its potential to accelerate the formalization of the Philippine economy. Traditional approaches to tax administration rely primarily on enforcement mechanisms to encourage registration and compliance. Businesses and individuals are required to register with the tax authority because the law mandates it, with non-compliance addressed through audits, penalties, and other enforcement measures. While enforcement remains essential, it has proven insufficient in addressing the country's large informal sector, where many households and microenterprises perceive registration primarily as an additional regulatory burden rather than as a source of tangible benefits.

The proposed model adopts a different approach. By linking targeted fiscal benefits to participation in the formal tax system, registration with the National Revenue Authority becomes a gateway to accessing government support rather than merely a legal obligation. Households that maintain active taxpayer registration, update their demographic and household information, retain electronic receipts, and participate in basic tax reporting become eligible for a range of rules-based fiscal benefits, including the proposed Middle-Income Relief Credit, education tax credits, health tax credits, caregiving assistance, disaster recovery credits, and other targeted forms of support.

This changes the incentive structure of tax administration. Instead of relying exclusively on penalties to encourage compliance, government creates positive incentives for voluntary registration. Participation in the formal economy is rewarded with greater access to fiscal assistance, while remaining outside the formal system increasingly entails forgone opportunities rather than simply avoiding tax obligations. Such an approach is particularly relevant in the Philippine context, where many households interact with government primarily as beneficiaries of public programs rather than as regular taxpayers.

The approach also improves the quality of government information. Every interaction between households and the National Revenue Authority contributes to the development of a comprehensive and continuously updated household fiscal profile. Beyond income and tax liabilities, the Authority may maintain information—subject to appropriate legal authority and privacy safeguards—on household composition, employment status, educational expenditures, health-related tax credits, disaster assistance received, caregiving responsibilities, and participation in other government programs. Rather than maintaining fragmented records across multiple agencies, government develops a more complete understanding of the socioeconomic circumstances of individual households.

This integrated information substantially strengthens public policymaking. Government can identify households facing multiple vulnerabilities, distinguish temporary shocks from chronic poverty, and monitor changes in household welfare over time. Fiscal assistance becomes more responsive because support can be calibrated according to verified household circumstances rather than relying solely on periodic surveys or fragmented administrative records. Aggregate

information generated by the National Revenue Authority can also improve fiscal forecasting, social protection planning, disaster response, labor market analysis, and regional development policies while maintaining appropriate protections for personal information.

Importantly, this proposal does not suggest that the National Revenue Authority should become the sole repository of all government data or replace the mandates of specialized agencies. Agencies such as the Department of Social Welfare and Development, the Department of Health, the Department of Education, local government units, and other implementing agencies would continue to determine policy priorities, establish eligibility rules, and deliver sector-specific services. The role of the National Revenue Authority is to provide the common fiscal data infrastructure that enables these agencies to implement programs more efficiently through secure data sharing, standardized digital identities, and interoperable information systems.

The integration of taxation and targeted fiscal support therefore creates a virtuous cycle. As more individuals register with the National Revenue Authority to access fiscal benefits, the government obtains more complete and accurate information on households. Better information improves the targeting of public assistance, which in turn increases public confidence in government programs and further strengthens incentives for participation in the formal economy. Higher levels of formalization improve tax compliance and revenue mobilization, creating additional fiscal space for expanding well-targeted social protection. In this manner, revenue administration evolves from a system designed primarily to collect taxes into an institution that simultaneously promotes formalization, strengthens evidence-based policymaking, improves social protection, and reinforces the fiscal social contract between citizens and the State.

The objective is not simply to transform taxpayers into beneficiaries, but to transform beneficiaries into active participants in the formal fiscal system. Registration with the National Revenue Authority should become the gateway through which households both contribute to and benefit from the fiscal system, thereby strengthening compliance, improving the quality of public data, and deepening the fiscal social contract.

2.3 Establishing a National Taxpayer Advocate

2.3.1 The National Taxpayer Advocate

The preceding sections propose a significant expansion of the role and capabilities of the National Revenue Authority. The Authority would consolidate the Bureau of Internal Revenue and the Bureau of Customs, integrate data across government agencies, administer household fiscal accounts, utilize artificial intelligence for compliance management, and serve as the principal platform for implementing selected fiscal transfers. Such reforms substantially strengthen the State's capacity to collect revenue and administer fiscal policy. They also significantly expand the government's access to information and its ability to influence taxpayers' economic activities.

Institutional power of this magnitude must be accompanied by equally strong mechanisms of accountability.

The effectiveness of tax administration depends not only on the government's ability to enforce tax laws but also on taxpayers' confidence that those powers are exercised fairly, proportionately, and transparently. Revenue collection ultimately rests upon voluntary compliance, and voluntary compliance is sustained by trust. Citizens are more likely to comply with tax obligations when they believe that tax authorities administer the law consistently, respect due process, protect taxpayer rights, and remain accountable for their decisions. A modern revenue administration therefore requires an institutional mechanism that protects taxpayers while simultaneously strengthening the legitimacy of the tax system itself.

This need is particularly important in the Philippine context. Although the Bureau of Internal Revenue has made substantial progress in professionalizing its operations, public perception continues to associate tax administration with lengthy audits, inconsistent interpretation of tax rules, excessive documentary requirements, delayed processing of refunds, and, in some cases, allegations of harassment or the use of tax investigations as instruments of political or administrative pressure. The OECD notes that delays in VAT refunds remain a persistent weakness of the Philippine tax system and that reducing compliance costs and strengthening taxpayer trust are essential components of improving tax compliance and formalization (OECD, 2026). Whether these perceptions arise from actual misconduct or from the complexity of the tax system itself, they have important consequences for taxpayer behavior. Businesses often view audits as adversarial rather than corrective. Many individuals perceive registration with the tax authority as exposing themselves to regulatory burdens without corresponding institutional support. Such perceptions undermine voluntary compliance, discourage formalization, and weaken the broader fiscal social contract.

The transition to a digital revenue authority further heightens the importance of taxpayer protection. Artificial intelligence-assisted risk scoring, automated audit selection, integrated government databases, and real-time transaction monitoring substantially improve compliance management. At the same time, however, they create new risks involving algorithmic bias, opaque administrative decision-making, excessive data collection, cybersecurity breaches, and unintended consequences arising from automated enforcement. The more technologically sophisticated the revenue administration becomes, the greater the need for independent institutional oversight.

Accordingly, we propose the establishment of an independent Office of the National Taxpayer Advocate within the National Revenue Authority.

The Office should not function as another appeals body for disputed tax assessments. Existing administrative and judicial remedies remain available for resolving questions of tax liability. Instead, the National Taxpayer Advocate should serve as the institutional guardian of taxpayer rights and the continuous improvement of revenue administration. Its principal mandate is not

simply to resolve individual complaints but to identify and correct systemic administrative problems that undermine taxpayer confidence and reduce the efficiency of the tax system.

To preserve its independence, the National Taxpayer Advocate should be appointed for a fixed term and removable only for causes specified by law. Although administratively attached to the National Revenue Authority, the Office should report directly to Congress through an annual State of the Taxpayer Report, identifying recurring administrative problems, evaluating taxpayer service performance, reviewing the operation of digital compliance systems, and recommending legislative and administrative reforms. Similar institutional arrangements have contributed significantly to improving tax administration in the United States through the Taxpayer Advocate Service, which has become an important mechanism for identifying systemic issues and strengthening taxpayer protections (Taxpayer Advocate Service, 2024).

2.3.2 The Functions of the Taxpayer Advocate

The Office should perform five principal functions.

First, it should provide direct assistance to taxpayers experiencing significant administrative hardship. Such cases may include prolonged audits, unreasonable delays in processing VAT refunds or tax credits, excessive documentary requirements, repeated requests for information already available to government, prolonged uncertainty arising from unresolved tax assessments, or other situations where administrative procedures impose disproportionate burdens. The objective is not to weaken tax enforcement but to ensure that enforcement remains fair, timely, and consistent.

Second, the Taxpayer Advocate should identify systemic administrative problems affecting taxpayers. The office will be mandated to analyze recurring complaints, audit practices, digital service failures, compliance costs, refund processing times, and administrative bottlenecks. The Taxpayer Advocate can recommend reforms that improve the operation of the revenue system rather than merely resolving individual cases. This function transforms taxpayer complaints into institutional learning.

Third, the Office should provide independent oversight of digital revenue administration. As artificial intelligence increasingly supports audit selection, risk scoring, fraud detection, and compliance management, taxpayers must have confidence that automated systems remain transparent, explainable, and free from systematic bias. The Taxpayer Advocate should therefore conduct periodic reviews of algorithmic governance, evaluate the fairness of digital compliance systems, monitor cybersecurity and data protection practices, and recommend safeguards that preserve due process while maintaining effective enforcement.

Fourth, the Office should institutionalize continuous legislative review of the Philippine tax system. Every five years, the National Taxpayer Advocate should submit to Congress a comprehensive review identifying provisions of the National Internal Revenue Code and customs laws that unnecessarily increase compliance costs, create administrative complexity, or

no longer reflect contemporary business practices and digital technologies. Such reviews would transform tax reform from an episodic legislative exercise into a process of continuous institutional improvement.

Fifth, and perhaps most importantly, the Office should broaden the framework through which the performance of the National Revenue Authority is evaluated. Traditionally, tax administrations have been assessed primarily on the basis of revenue collections. While revenue mobilization remains the Authority's core mandate, a taxpayer-centered fiscal administration requires a more comprehensive set of performance indicators. Success should also be measured by reductions in the tax gap, improvements in voluntary compliance, growth in taxpayer registration and formalization, reductions in compliance costs, timeliness of VAT refunds and tax credit processing, taxpayer satisfaction, digital service availability, successful delivery of household fiscal transfers, accuracy of social protection targeting, effectiveness of AI-assisted compliance systems, data security, and the quality of taxpayer services. These indicators more accurately reflect the broader responsibilities of a modern revenue authority and reinforce the principle that effective tax administration is measured not only by the amount of revenue collected but also by the quality of governance it provides.

Such a multidimensional performance framework also changes the internal incentives of the National Revenue Authority. Revenue officers are encouraged not only to maximize collections but also to improve taxpayer experience, simplify compliance, strengthen formalization, and enhance public confidence in the tax system. Organizational success becomes associated with better governance rather than simply higher assessments. This shift is particularly important because the reforms proposed in this proposal—including household fiscal administration, digital tax credits, and integrated government data—depend fundamentally upon public trust.

Ultimately, the establishment of a National Taxpayer Advocate recognizes that the legitimacy of taxation rests upon reciprocity. Citizens comply with tax obligations not solely because government possesses enforcement powers but because they believe that those powers are exercised responsibly, transparently, and in the public interest. The National Revenue Authority therefore requires an institutional counterbalance that protects taxpayer rights while strengthening administrative effectiveness. Stronger enforcement and stronger taxpayer protection should not be viewed as competing objectives. Rather, they are mutually reinforcing pillars of a modern revenue administration.

The following table summarizes some key performance indicators for the National Revenue Authority that the National Taxpayer Advocate can monitor.

Table 9: Balanced Scorecard for the National Revenue Authority

Dimension	Example KPI
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Dimension	Example KPI
Revenue Performance	Tax effort, tax gap, collection efficiency
Taxpayer Service	Taxpayer satisfaction, average registration time, digital service uptime
Compliance	Voluntary filing rate, percentage of electronic filing, formalization rate
Household Fiscal Administration	Number of households receiving tax credits, processing time, targeting accuracy
Governance	Number of taxpayer complaints resolved, refund turnaround time, compliance with taxpayer charter
Digital Transformation	API integration across agencies, AI model audits completed, cybersecurity incidents
Institutional Trust	Public trust survey, taxpayer confidence index

Taken together, the National Revenue Authority and the Office of the National Taxpayer Advocate redefine the relationship between government and taxpayers. The former provides the institutional capacity to administer an integrated, data-driven, and digitally enabled fiscal system. The latter ensures that this expanded administrative capability remains accountable, transparent, and citizen-centered. Together they establish the governance framework necessary for a modern fiscal state—one capable of collecting revenues efficiently, administering targeted fiscal support fairly, protecting taxpayer rights, and sustaining the fiscal social contract upon which successful tax reform ultimately depends.

Part Three: Rebuilding the Social Fiscal Contract

The reforms proposed throughout this chapter are frequently debated as separate policy initiatives. Wealth taxation is viewed primarily through redistribution lens. VAT reform is discussed largely as a question of revenue generation. Personal income tax reform is framed as household relief. Revenue administration is considered an institutional concern of the Bureau of Internal Revenue and the Bureau of Customs. Social protection belongs to another set of agencies and another policy conversation altogether.

This compartmentalized perspective has shaped Philippine fiscal reform for decades. It has produced important individual reforms, but it has also limited their effectiveness because each reform has been designed largely in isolation from the institutions required to implement it and from the broader relationship between taxpayers and government.

This proposal advances a different proposition. Fiscal reform should not be understood as a series of disconnected policy interventions. Rather, it should be viewed as a process of rebuilding the **Fiscal Social Contract**—the reciprocal relationship through which citizens contribute resources to government and government, in return, provides public goods, quality services, social protection, and institutions that justify continued public trust.

Under this framework, progressive taxation is not pursued solely to increase revenue. It is intended to distribute the burden of financing government more fairly according to taxpayers' ability to pay. The proposed wealth tax proxy recognizes the growing concentration of assets among a small segment of society. VAT rationalization broadens the tax base while creating space for lower statutory rates and better-targeted assistance. Personal income tax reform restores the real value of household income by recognizing inflation and the increasing costs families incur in privately replacing inadequate public services. Each reform strengthens the legitimacy of the tax system because each improves the relationship between taxation and fairness.

Modern revenue administration provides the institutional foundation upon which these policies depend. The proposed National Revenue Authority transforms revenue administration from a collection of separate agencies into an integrated fiscal institution organized around the taxpayer rather than individual taxes. Through interoperable government data, digital identities, electronic invoicing, artificial intelligence, and secure information sharing, the Authority becomes the government's fiscal operating system. Better administration increases compliance, reduces taxpayer burden, improves policy implementation, and generates the institutional capacity required to administer increasingly sophisticated tax policies.

Equally important, this chapter argues that revenue administration should evolve beyond its traditional role as a collector of taxes. By administering household fiscal accounts and targeted tax credits, the National Revenue Authority also becomes an instrument for strengthening formalization, improving policy targeting, and supporting household resilience. Registration with the tax system becomes not merely a legal obligation but a gateway to transparent, rules-based fiscal benefits. In this way, taxation and social protection become complementary rather than separate functions of government.

The Fiscal Social Contract therefore becomes both the objective and the measure of successful fiscal reform. The success of a tax system cannot be evaluated solely by revenue collections, tax effort, or deficit reduction. It must also be assessed by whether taxation is perceived as fair, whether compliance becomes easier, whether taxpayer rights are protected, whether public institutions are trusted, and whether citizens experience tangible improvements in the public services financed by their taxes.

Ultimately, the reforms proposed in this chapter should not be understood as isolated recommendations on wealth taxation, VAT, income taxation, or revenue administration. Together they constitute a blueprint for an integrated fiscal architecture that seeks to rebuild public trust through fairness, efficiency, accountability, and reciprocity. Fiscal justice is achieved

not when government simply collects more revenue, but when taxation strengthens the relationship between citizens and the State and enables both to fulfill their respective obligations within a modern democratic society.

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