1983

Business Tax License

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Recommended Citation

Bahl, Roy W. and Larry Schroeder. "Business Tax License." in Local Government Finance in the Third World: A Case Study of the Philippines, 82-99, edited by Roy W. Bahl, Jr. and Barbara D. Miller Praeger Publishers, 1983.

LOCAL GOVERNMENT FINANCE IN THE THIRD WORLD

A Case Study of the Philippines

Edited by Roy Bahl
and Barbara D. Miller

PRAEGER

PRAEGER SPECIAL STUDIES • PRAEGER SCIENTIFIC

Library of Congress Cataloging in Publication Data

Main entry under title:
Local government finance in the Third World.

Includes index.
1. Local finance—Philippines—Addresses, essays, lectures. I. Bahl, Roy W. II. Miller, Barbara D., 1948-
HJ9580.L62 1983 336'.014'599 82-18600
ISBN 0-03-063306-0

Published in 1983 by Praeger Publishers
CBS Educational and Professional Publishing
a Division of CBS Inc.

3456789 052 987654321

Printed in the United States of America

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The Business License Tax

by ROY BAHL and LARRY SCHROEDER

The business license tax (BLT) is a major source of city and municipal government revenue in the Philippines. In many jurisdictions it accounts for more General Fund revenues than does the real property tax (see Table 1.6). Despite this importance, and despite the many problems with the tax, little attention has been given to the possibilities for reforming the BLT.[1] In this chapter we consider the problems and reform options in the areas of base determination, rate level and structure, and collection efficiency.

The BLT is an amalgam of three types of business tax or licenses that may be levied by local governments with its statutory basis given in PD 231 (amended). The major form of business tax is a gross receipts tax, with the tax rate varying according to type of business and total sales. The second form is an annual fixed amount levied without regard to the volume of sales, resembling a license paid for the privilege of doing business in the local area. The third is an amusement tax imposed as a flat percentage rate on admissions and so forth but levied only by provinces and cities. Although the overall structure of the BLT is complicated, most revenue is derived from the gross receipts tax.

DETERMINATION AND ASSESSMENT OF THE TAX BASE

Two issues are associated with the determination of the business license tax base: specifying the category into which a particular business falls and determining the amount of taxable gross receipts. The

classification of business for tax purposes causes no great difficulty, especially in small localities, where the nature of specific businesses is familiar to nearly everyone.[2] It is considerably more difficult to obtain an accurate estimate of annual gross receipts, and herein lies the major problem with the BLT.

The treasure's office maintains a file of all businesses in the locality and as new businesses are formed, new cards are added to this file. Each card contains the name of the business, its address, the nature of business performed (which serves as the basis for determining which rate schedule is applicable), and space for entering yearly the gross receipts of the business during the previous year, the tax due, and the payment record. This record keeping seems straightforward, but there are many cards and manual manipulation is cumbersome and leaves much room for error.

The measurement of gross receipts is not an easy job nor is it done with great accuracy. For large businesses with verifiable records, the BLT works. The problem comes in the case of small businesses that do not have records that can be easily examined to verify the reported amount of gross receipts. In these cases, the tax becomes almost voluntary. Most treasurers accept on faith the businessman's statement as to the amount of gross receipts and therefore tax liability, which is justified on grounds that the declaration of gross receipts involves a "sworn statement" by the businessman. Moreover, the job of verifying sworn statements would require much more staff than most local treasurers have available. In light of this procedure, it is not surprising that there is a severe underreporting problem.

Some steps have been taken to get a better estimate of gross receipts. One seemingly unsophisticated but effective method used in some jurisdictions is haggling over the amount. Treasurers may not be able to establish the amount of gross receipts, but they may be able to guess that gross receipts have increased. When local treasurers recognize cases where inflation is increasing gross business revenue by large amounts—goods that have price inelastic demands—their haggling powers are strengthened. On the other hand, proper haggling is a time-consuming process and understaffed treasurers' offices cannot engage in it on a large scale. A second method used to increase the accuracy of reporting, at least for large businesses, is to require that the businessman present accounting records to substantiate any self-reported revenue data. This method does, however, require that the treasurer's staff have some ability to analyze an income statement.[3]

Intergovernmental cooperation could help eliminate the reporting problem. The Philippines levies a national sales tax and both personal

and corporate income taxes. The submittal of income tax records to the local government could be an efficient and simple method for obtaining evidence regarding past years' gross revenues. This course would require a great deal of cooperation with the central government; and if the BLT could be tied to the central tax structure, perhaps a more effective kind of local sales tax could be developed.

RATE STRUCTURE

The rate structure of the BLT is regressive, that is, firms with higher levels of gross receipts are taxed at lower rates. For example, in the case of retailers and wholesalers operating in cities, firms with gross receipts less than ₱1,000 pay at a 4.5 percent rate (maximum), whereas firms with gross receipts of ₱100,000 pay at a 2.4 percent rate, and firms with gross receipts of ₱1 million pay at a 1.37 percent rate. This general structure of declining effective rates holds across all classes of business activity.

A regressive rate structure makes the revenue elasticity of the BLT lower than it would be under a flat rate or progressive rate structure. As firms increase their gross receipts because of real income growth and inflation, they are "bumped up" into higher gross receipts brackets, where the average tax rate is lower. Under a flat rate structure, real income growth and inflation would generate a greater revenue flow. On the positive side, the current regressive rate structure does not provide the inducement to understate gross receipts that a progressive structure would provide, is less inflationary than a flat rate or progressive structure, and reduces the disincentives to investment and expansion of firm operations.

Notwithstanding these advantages, the present rate structure could be altered to advantage by creating a flat rate at least as great as that currently imposed on the smallest business within each group. This change, itself, would lead to greater revenues from the tax and, more importantly, would increase the elasticity of the revenue source. It would still be possible to retain the current differentials in rates across different types of businesses.[4]

As noted above, not all business activities are taxed on a gross receipts basis. In some cases the rates are specific, for example, per bowling alley lane, or per night in the case of boxing contests. The specific rate structure is clearly inelastic and does not contribute a rapid revenue growth during periods of inflation and income growth. Such a rate structure may also induce undesirable economic incentives.

A greatly oversimplified example may be used to make the point. The BLT on theaters permits a tax of ₱800 per year if the theater contains balcony and orchestra seats for 500 to 999 persons; a similar theater with seating capacity of 1,000 or more persons pays a ₱1,000-per-year tax. Suppose an "optimal size" theater (without regard to the tax) would be built to seat 1,010 persons. Given the tax differential due to the 11 seats, the builder may decide to build a 999-seat theater instead. In this case the differential tax based only upon seats will result in suboptimal investment. Although the BLT rates may not be large enough to have such effects, the possible inefficiencies inherent in such a structure should be recognized.

COLLECTION PROCEDURES AND PROBLEMS

Administration of the BLT is straightforward. Upon determination of the tax base, application of the statutory rate directly yields the total of the tax liability. While the statute declares all business taxes to be due by January 20, it also permits localities to allow for quarterly payments, which is the procedure generally followed. Payment is made directly at the treasurer's office; little use is made of collectors. Collection of the tax is aided greatly by the fact that shortly after the first of the year each business must obtain a mayor's permit, which is a license for doing business within the jurisdiction. Because a prerequisite to obtaining the mayor's permit is payment of the previous year's business taxes, the likelihood that a business will be delinquent on its local tax levy is greatly decreased.

Collection efficiency under the BLT is not easily measured. The usual ratio of collections to collectibles is misleading because it misses the revenue loss due to underreporting. In effect, the traditional measure of BLT collection efficiency refers to the extent to which known taxpayers with a known tax base actually make payment. By this measure, collection efficiency for the business tax appears quite good and is probably due to the fact that businessmen must show proof of past years' payment of the BLT in order to obtain a new mayor's permit.

The major collection difficulty is associated with late payment. As noted above, the tax can be paid quarterly throughout the tax year, but it is not until the subsequent application for the mayor's permit that a major impetus for payment occurs, even though delinquency letters are sent to the businesses after each quarter. Thus, some taxpayers are often late in their tax payment. In such cases

late charges are applied to the amount overdue. There are also problems with businesses that do not obtain a mayor's permit and therefore evade the business tax. These, however, do not appear to be major, and some municipalities have tax collectors who enter business establishments to ensure that a mayor's permit has been obtained.

REVENUE PERFORMANCE

Less complete data are available on the business tax base than on the property tax base because gross receipts data are not available in as extensive a form as is property assessment information. We can therefore say less about the base elasticity of the BLT, but we can trace the revenue performance of the BLT over time and across the sample of cities and municipalities.

Sectoral Composition

In order to learn about the base elasticity of the BLT, we extracted data on the revenue composition by industrial sector for the cities of Iloilo and Legaspi for 1977 and 1979 (Table 3.1). These data, although imperfect, tell something about the structure of BLT revenue growth and its potential responsiveness to income and prices. By far the most substantial portion of the business tax in both cities was collected from retailers and wholesalers. Amusement admissions constituted the second most productive source in both cities, with manufacturing of a lower order of importance. The BLT is essentially a tax on traders, placing relatively little burden on producers.

In the three-year period between 1977 and 1979, one can discern patterns in the sectoral composition of revenue growth by comparing the 1977 and 1979 revenue distributions. In total, these taxes grew by over 40 percent in Iloilo City and by nearly 25 percent in Legaspi City. When it is recognized, however, that the consumer price index over this period increased by 25 percent, it becomes clear that real business tax revenues in Legaspi were approximately constant. One cannot infer from these results that the business tax is inherently responsive to inflation even though it is primarily a gross receipts tax on traders.

The faster growth rate in Iloilo City compared to that in Legaspi City could be attributed to several possible causes. First, the economy of Iloilo City could be more broad based than that in Legaspi City so that any cyclical fluctuations that are industry-specific would

TABLE 3.1

Business Taxes in Iloilo City and Legaspi City, 1977 and 1979

Tax	Iloilo City			Legaspi City		
	Percent of Total		Percent Increase, 1977-79	Percent of Total		Percent Increase, 1977-79
	1977	1979		1977	1979	
1. Manufacturing	4.2	7.3	147.9	5.9	8.6	81.1
2. Eateries	1.9	1.8	38.0	6.4	5.9	15.0
3. Services	8.4	6.2	4.2	3.9	3.2	3.4
4. Spirits	3.1	2.2	2.6	1.6	1.3	0.2
5. Tobacco	0.7	0.6	12.8	1.5	1.1	-7.5
6. Amusement devices	0.2	0.1	-12.7	0.3	0.2	-23.3
7. Amusement places	3.1	3.6	60.6	1.1	1.0	17.1
8. Amusement admissions	12.8	9.7	7.5	11.9	12.5	29.8
9. Pawnshops/banks	1.7	1.4	15.8	2.2	2.3	32.4
10. Insurance	0.3	0.2	-8.4	–	–	
11. Boarding houses	0.1	0.0	4.1	0.1	0.2	197.7
12. Lodging houses	0.2	0.1	-25.1	–	–	

(Continued)

TABLE 3.1 (Continued)

Tax	Iloilo City			Legaspi City		
	Percent of Total		Percent Increase, 1977-79	Percent of Total		Percent Increase, 1977-79
	1977	1979		1977	1979	
13. Hotels	0.3	0.2	-20.4	0.6	0.6	15.6
14. Private detective	0.1	0.1	9.8	0.0	0.0	-24.9
15. Real estate	2.0	2.2	57.3	0.6	0.7	47.0
16. Fish ponds	0.0	0.0	-56.8	–	–	–
17. Cemeteries	0.0	0.0	104.0	–	–	–
18. Billboards	0.3	0.2	-17.6	0.1	0.0	-70.4
19. Printing	0.2	0.2	40.6	–	–	–
20. Mills	0.3	0.2	21.6	0.2	0.0	17.1
21. Delivery trucks	0.3	0.4	95.6	–	0.3	–
22. Peddlers	0.1	0.1	77.5	2.4	0.4	-81.4
23. Retail-wholesale	59.6	63.0	49.8	49.1	51.5	30.2
24. Other	–	–	–	12.0	10.0	3.1
Total amount	P5,461,316	P7,741,495	41.8	P2,010,906	P2,498,921	24.3
Total as percent of total General Fund revenues	33.0	37.3		41.1	43.1	

– = Not available.
Source: Constructed from data supplied by local treasurers.

affect the former city less so than the latter. Second, it may be that in general the local economy in Iloilo City was stronger during this period than in the Bicol region. In this respect, note that the retail-wholesale portion of the tax increased by nearly 50 percent in Iloilo City compared to only 30 percent in Legaspi City. Third, it may be that administrative practices in Iloilo City were more effective than in Legaspi City in capturing the taxable base—despite the fact that we were told there are eight clerks assigned to the BLT in Legaspi City and only six in Iloilo City.

Variations Among Municipalities and Cities

In order to obtain a more systematic view of the relationship between the revenue yields of the BLT and various socioeconomic characteristics of jurisdictions, we carried out a cross-sectional analysis on BLT collections in 98 municipalities in 4 provinces and 42 cities. We studied the variation among municipalities within each province, among all 98 municipalities, and among the 42 cities. Ordinary least squares regression has been used on 1977 data, with the revenue and income variables expressed in natural logarithms, to estimate four models:

1. $BLT_p = \alpha_1 + \beta_1 Y_p$
2. $BLT_p = \alpha_2 + \beta_2 Y_p + \delta_2 U_p$
3. $BLT_p = \alpha_3 + \delta_3 U_p + \gamma_3 NY_p$
4. $BLT_p = \alpha_4 + \delta_4 U_p + \gamma_4 NY_p + \Gamma_4 P$

One measure of the income elasticity of the yield of the BLT can be found by regressing per capita BLT revenues (BLT_p) on per capita personal income (Y_p) as in model 1. However, as suggested in the tax effort discussion of Chapter 1, the BLT appears to be very much an "urban tax"—hence, model 2 includes a variable measuring the percent of population living in urban areas (U_p). The data in Chapter 1 suggested that nonagricultural income was more systematically associated with tax revenues than was total personal income—again an indication of the role of a more developed local economy. Thus, models 3 and 4 use per capita nonagricultural income (NY_p) rather than per capita income and combine it with urbanization in model 3

and both urbanization and population (P) in model 4. Several interesting conclusions can be drawn from the results of this analysis (Table 3.2).

The cross-sectional response to income (income elasticity) varies greatly over the four provinces. The coefficient for Bulacan is more than 2, suggesting that per capita BLT revenues vary among municipalities in the province even more than in proportion to the wide variations in personal income which exist. Since we cannot believe that the income elasticity could be as high as 2.22, we must conclude that high income communities have other characteristics that also stimulate higher BLT revenues per capita. In Albay, the income elasticity is a much lower 0.63, but not statistically significant, whereas in Sorsogon, the statistical relationship is even weaker.

The results for Iloilo are perplexing. They suggest that higher levels of income are associated with lower per capita BLT revenues, which could have a number of interpretations. One is that there are differences in tax rates with higher income communities levying lower rates. Another is that the per capita income measure reflects large amounts of agricultural income, which in turn does not reflect much business taxpaying capacity. The latter appears more likely, because where per capita income is high, there is a high agricultural component and therefore less ability to collect BLT revenues. With respect to all of the estimates of model 1, it is clear that little of the variation can be explained within provinces. Either additional variables must be included to account for different levels of willingness and capacity to collect BLT revenues, or intangible and personal factors that underlie the more effective use of the BLT in some communities than in others must be considered.[5]

The addition of urban population and the nonagricultural measure of per capita income improves the results greatly except in Iloilo, where none of the models is very strong. In Albay the nonagricultural income elasticity of the BLT ranges from 0.50 to 0.66, and approximately half of the variation in per capita BLT revenues can be explained.[6] The Bulacan elasticity is considerably greater, suggesting that municipalities with a 1 percent higher level of per capita nonagricultural income collect nearly 2 percent more in per capita BLT revenues. Again this elasticity is unexpectedly high. One possible explanation is that as development occurs and incomes rise, an associated critical level of population and buying power is reached and the area becomes a marketing center. This growth then creates a business tax base reflecting not only the socioeconomic characteristics of the municipality itself but also its ability to draw economic activity from other areas.

TABLE 3.2

Cross-Sectional Estimates of Income Elasticities of Business License Tax, 1977

Province	Model	Independent Variables: Inter-cept	ln (Per Capita Income)	Percent Urban	ln (Per Capita Nonagricultural Income)	Population (in thousands)	R^2	F
Albay	1	-3.98	.63				.09	1.50
			(1.22)					
	2	-4.04	.60	.03			.22	1.92
			(1.21)	(1.49)				
	3	-3.88		.03	.66		.46	6.10
				(1.74)	(2.95)†			
	4	-3.52		.03	.50	.01	.56	5.51
				(1.98)	(2.15)*	(1.66)		
Bulacan	1	-14.43	2.22				.23	6.32
			(2.51)*					
	2	-9.64	1.49	.01			.33	4.97
			(1.58)	(1.73)				
	3	-11.84		.004	1.94		.53	11.27
				(.75)	(3.46)†			
	4	-10.05		.007	1.72	-.01	.56	8.21
				(1.27)	(2.94)†	(1.23)		

(Continued)

TABLE 3.2 (Continued)

Province	Model	Independent Variables: Inter-cept	ln (Per Capita Income)	Percent Urban	ln (Per Capita Nonagricultural Income)	Population (in thousands)	R^2	F
Iloilo	1	5.02	-.74 (1.99)*				.05	3.97
	2	5.17	-.81 (2.23)*	.02 (1.92)			.16	3.96
	3	-2.16		.02 (1.59)	.32 (1.38)		.10	2.32
	4	-2.51		.02 (1.52)	.44 (1.75)	-.01 (1.24)	.14	2.09
Sorsogon	1	-.12	.05 (.09)				.00	.01
	2	.26	-.09 (.21)	.04 (3.72)†			.53	6.93
	3	-1.02		.03 (3.11)†	.13 (.85)		.56	7.67
	4	-2.04		.02 (2.12)	.25 (1.72)	.02 (2.24)	.70	8.49

Four provinces pooled	1	-2.58	.42 (1.51)				.02	2.27
	2	-.35	.04 (.17)	.02 (5.25)†			.24	15.23
	3	-3.04		.02 (4.06)†	.52 (4.45)†		.37	28.27
	4	-3.04		.01 (3.85)†	.51 (4.30)†	.002 (.38)	.37	18.73
Cities	1	-12.13	1.98 (3.55)†				.26	12.63
	2	-10.27	1.68 (2.70)†	.01 (1.05)			.28	6.89
	3	-4.32		.004 (.69)	.92 (2.08)*		.23	5.19
	4	-2.60		.004 (.76)	.57 (1.30)	.005 (2.24)*	.33	5.55

Note: Dependent variable: ln (per capita business license tax). Numbers in parentheses are absolute t-values.
*Significant at less than the 0.05 level.
†Significant at less than the 0.01 level.
Source: Computed by authors.

This point may be expanded with the aid of a hypothetical example. Consider two neighboring communities, A and B. Assume that locality A has achieved a higher degree of "development," which is manifest in higher per capita incomes, urbanization, and so on, and has become the marketing center for both communities. It will then earn higher than expected BLT revenues, whereas community B, with its lower per capita income, earns lower than expected BLT revenues. When BLT per capita is regressed on income, a 1 percent difference in income is, not surprisingly, associated with a 2 percent difference in BLT per capita.

In Sorsogon the urbanization variable alone is significantly different from zero and the income elasticity estimate is very low and statistically insignificant. The high *F*-values and nonsignificant coefficients in model 4 for Sorsogon suggest a high degree of multicollinearity, not an unexpected result, as the province contains only a few urbanized areas that serve as regional market centers.

Turning to the municipalities, we find that the pooled data for 98 municipalities show no significant relationship between per capita income and the BLT. Indeed, the simplest model explains only 2 percent of the variability in per capita BLT across all municipalities. On the other hand, both urbanization and per capita nonagricultural income remain significant and positive in each of the models in which they are used and account for between one-fourth and one-third of the variance explained. It is impossible, however, to determine the extent to which the relatively high levels of these variables and BLT per capita in Bulacan are responsible for the results. In any case, the failure to explain more of the variation makes one point clear: The willingness to enforce and collect the tax is an important factor in explaining variations in per capita BLT revenues.

Interestingly, in the case of the cities, per capita income is significant and the implied income elasticity is high (approximately 2). The urbanization variable is not significant (model 2), even when used in conjunction with per capita nonagricultural income (model 3). As may be seen from model 4, population size does seem to matter—larger cities raise more BLT per capita than smaller cities, regardless of their level of income. As in the case of the pooled data, the city models explain one-third or less of the variance.

Increases in Selected Municipalities

Although we lacked a sufficiently complete nationwide time series to study the revenue growth in the BLT, we did observe how

TABLE 3.3

Business License Tax Performance in Selected Albay Municipalities, 1977–79 (in pesos)

	Camalig			Libon			Malinao			Tabaco		
General Fund	1977	1978	1979	1977	1978	1979	1977	1978	1979	1977	1978	1979
Business tax	73,297	88,698	92,087	30,131	32,440	33,469	14,709	34,180	35,229	301,253	361,536	398,451
Business tax as percent of General Fund income	16.5	16.0	15.1	8.2	8.7	7.9	7.5	14.8	14.0	22.1	24.5	24.2
	Growth Rates (percent)											
	1977–78		1978–79	1977–78		1978–79	1977–78		1978–79	1977–78		1978–79
Business tax	21.0		3.0	7.7		3.2	132.4		3.1	20.0		13.2
General Fund income	18.3		9.6	1.6		13.1	18.1		8.5	8.3		11.7
	Socioeconomic Characteristics											
1975 population	41,702			47,890			24,889			65,254		
1970–75 population growth (percent)	7.08			9.71			8.32			7.73		
Percent urban, 1975	8.64			13.2			0			19.6		
Mean 1975 household income (pesos)	6,641			4,523			4,151			7,341		
Per capita nonagricultural income (pesos)	767			152			358			835		

Sources: Financial data from the provincial treasurer; socioeconomic data from National Census and Statistics Office, "1975 Integrated Census of the Population and Its Economic Activities, Phase II, Albay," no. 289 (Manila, February 8, 1980).

BLT revenues fared in selected Iloilo and Albay municipalities during the 1977–79 period (Tables 3.3 and 3.4). With this extremely small sample it is difficult to reach any definitive conclusions, but the data do not preclude general statements concerning the growth in BLT revenues in particular types of jurisdictions. The most striking feature of this growth pattern is a great deal of year-to-year variation, especially in the case of the Iloilo jurisdictions.

In Albay, Tabaco relies most heavily on the BLT, a reliance that grows out of the fact that Tabaco is the largest of the four Albay municipalities represented here and serves as a market center for several surrounding municipalities. The other three municipalities, more rural in nature and much less important as trading centers, have BLT revenues that are understandably lower relative to total revenue. The extremely large increase between 1977 and 1978 in Malinao is difficult to explain but may be attributable to a new industrial plant that prior to 1978 was exempt from 50 percent of all local taxes under the preferential treatment afforded pioneer industries (Republic Act 5186).

In general, there is much less reliance on the BLT in Iloilo than in Albay. The municipality of Pavia relies more heavily upon this revenue source than the other five jurisdictions represented here. While Pavia's population size and income characteristics are not significantly different from the other jurisdictions, and its location adjacent to Iloilo City may hamper its possibilities as a market center, it has attracted some manufacturing activity that contributes heavily to its BLT base. Interestingly, the highest income community, Passi, has one of the lowest revenue-dependent rates associated with BLT. This may be due partially to its location in a sugar-growing area, implying a relatively high per capita income but a low business tax base. The less urbanized areas in general rely less on the BLT, again suggesting that it is essentially an urban tax.

Annual growth in the BLT is erratic in the six jurisdictions. These fluctuations can usually be traced to two major causes. The first is the location of a new business, which results in a dramatic one-year increase in the tax, particularly if it is a large business, which accounts for a significant share of the total revenue yield. The second reason has to do with enforcement of the tax. If there is a major push to collect the BLT in a particular year, a substantial increase may result; while if enforcement is lax in a particular year, a large decrease occurs. Even a single large, but late, payment of the tax in small communities can greatly influence the annual pattern.

TABLE 3.4

Business License Tax Performance in Selected Iloilo Municipalities, 1977–79
(in pesos)

	Dingle			Dumangas			Guimbal		
	1977	1978	1979	1977	1978	1979	1977	1978	1979
Business tax	48,658	59,856	54,701	37.404	54,711	61,290	45,119	56,435	21,278
Business tax as percent of General Fund income	10.5	13.2	10.0	6.6	8.6	8.8	19.2	24.1	8.2
	Growth Rates (percent)								
	1977–78	1978–79		1977–78	1978–79		1977–78	1978–79	
Business tax	23.0	-8.6		46.3	12.0		25.1	-62.3	
General Fund income	-2.4	20.6		11.8	10.3		-0.3	10.1	
	Socioeconomic Characteristics								
1975 population	25,683			38,457			18,409		
1970–75 population growth (percent)	12.80			10.53			10.64		
Percent urban, 1975	7.75			4.80			23.66		
Mean 1975 household income (pesos)	4,104			4,429			4,389		
Per capita nonagricultural income (pesos)	428			335			343		

(Continued)

TABLE 3.4 (Continued)

	Passi			Pavia			Tigbauan		
	1977	1978	1979	1977	1978	1979	1977	1978	1979
Business tax	69,666	60,627	54,775	109,100	149,940	153,685	13,950	14,346	14,869
Business tax as percent of General Fund income	6.2	5.0	5.3	21.7	26.8	21.8	4.2	3.5	3.4
	Growth Rates (percent)								
	1977–78	1978–79		1977–78	1978–79		1977–78	1978–79	
Business tax	-13.0	-9.6		37.4	2.5		2.8	3.6	
General Fund income	7.0	-14.0		11.4	25.7		21.0	8.8	
	Socioeconomic Characteristics								
1975 population	47,017			14,423			27,443		
1970–75 population growth (percent)	23.99			10.44			12.14		
Percent urban, 1975	15.52			18.06			9.57		
Mean 1975 household income (pesos)	9,891			5,961			6,746		
Per capita nonagricultural income (pesos)	443			432			552		

Sources: Financial data from the provincial treasurer; socioeconomic data are preliminary figures furnished by the National Census and Statistics Office.

CONCLUSION

The BLT is a productive revenue source that local governments will continue to rely upon. It is not as good a revenue source as a sales tax shared with the central government could be. Its base assessment problems are substantial and probably insurmountable. Furthermore, it does not automatically grow with income and inflation. On the other hand, it has important advantages: It generates a great deal of revenue, it brings businesses into the local taxpaying community, and it might be used to increase the collection efficiency of the property tax. One might take either of two directions in suggesting a program of reform. First, one can assume that the BLT will remain an important local revenue source and then raise the question as to how it might be adjusted to become more productive. Second, one can consider the alternative of replacing the BLT with a share of central government sales tax. The former is the direction suggested in Chapter 7, which addresses alternative reform possibilities.

NOTES

1. We found only one study of the BLT in Metro Manila done by the NTRC. See *Study on Local Business Taxes in Manila* (Manila: NTRC, 1978).

2. One instance in which classification has caused problems was encountered in Bocaue, Bulacan, where it was stated that since chemical manufacturers and chemical dealers pay different rates, classification decisions can have substantial revenue effects. The Bureau of Internal Revenue was called on for assistance because it also classifies businesses in administering the corporate business tax and several indirect excise taxes imposed at the central government level.

3. In the case of large business operations, the use of an outside expert by the treasurer's office may be well worth the investment.

4. Any further substantial changes in the overall structure of rates should, however, await further in-depth research.

5. See, for instance, the sociocultural insights provided in John T. Omohundro's anthropological study, *Chinese Merchant Families in Iloilo: Commerce and Kin in a Central Philippine City* (Athens: Ohio University press, 1981).

6. That this elasticity is nearly identical to that for the statistically insignificant per capita income variable (and the coefficients on the urban variable in models 2 and 3 are identical) adds credence to the speculation that the systematic income-BLT relationship can be attributed to nonagricultural income, which is more easily capturable by the BLT.