

Philippine local government taxation

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Philippine Local Government Taxation Local government units, by virtue of the 1987 Constitution and the Local Government Code of 1991, otherwise known as Republic Act 7160 have been given the power to raise certain taxes. Power to Create Sources of Revenue (Sec. 129) - Each local government unit (LGU) has the power to create its own sources of revenue and to levy taxes, fees, and charges - The grant of power to create sources of revenue is consistent with the basic policy of local autonomy - The taxes, fees and charges shall accrue exclusively to the LGU. Following political subdivisions have the power to tax: 1.) Province It is the largest unit in the political structure of the Philippines. It consists in varying numbers of municipalities and, in some cases, of component cities. 2.) City There are three classes of cities in the Philippines: the highly-urbanized, the independent component cities which are independent of the province, and the component cities which are part of the provinces where they are located and subject to their administrative supervision. 3.) Municipality It is a political corporate body which is endowed with the facilities of a municipal corporation, exercised by and through the municipal government in conformity with law. It is a subsidiary of the province which consists of a number of barangays within its territorial boundaries, one of which is the seat of government found at the town proper. 4.) Barangay The smallest political unit into which cities and municipalities in the Philippines are divided. It is the basic unit of the Philippine political system. It consists of less than 1, 000 inhabitants residing within the territorial limit of a city or municipality and administered by a set of elective officials, headed by a barangay chairman. SEC. 130. Fundamental Principles. - The following

fundamental principles shall govern the exercise of the taxing and other revenue-raising powers of local government units: chanrobles virtual law library (a) Taxation shall be uniform in each local government unit; (b) Taxes, fees, charges and other impositions shall: chanrobles virtual law library (1) be equitable and based as far as practicable on the taxpayer's ability to pay; (2) be levied and collected only for public purposes; (3) not be unjust, excessive, oppressive, or confiscatory; (4) not be contrary to law, public policy, national economic policy, or in restraint of trade; (c) The collection of local taxes, fees, charges and other impositions shall in no case be let to any private person; (d) The revenue collected pursuant to the provisions of this Code shall inure solely to the benefit of, and be subject to disposition by, the local government unit levying the tax, fee, charge or other imposition unless otherwise specifically provided herein; and, (e) Each local government unit shall, as far as practicable, evolve a progressive system of taxation. cralaw

Common Revenue-Raising Powers (1) Service Fees and Charges. - Local government units may impose and collect such reasonable fees and charges for services rendered. (2) **Public Utility Charges.** - Local government units may fix the rates for the operation of public utilities owned, operated and maintained by them within their jurisdiction. (3) **Toll Fees or Charges.** - The sanggunian concerned may prescribe the terms and conditions and fix the rates for the imposition of toll fees or charges for the use of any public road, pier or wharf, waterway, bridge, ferry or telecommunication system funded and constructed by the local government unit concerned: Provided, That no such toll fees or charges shall be collected from officers and enlisted men of the Armed Forces of the Philippines and members of the Philippine

National Police on mission, post office personnel delivering mail, physically-handicapped, and disabled citizens who are sixty-five (65) years or older. When public safety and welfare so requires, the sanggunian concerned may discontinue the collection of the tolls, and thereafter the said facility shall be free and open for public use. Some illustrative revenue raising powers of local governments are: Provinces: \hat{a}^{TM} | Tax on transfer of real property ownership. A tax on the sale, donation, barter, or on any other mode of transferring ownership or title of real property at the rate of not more than fifty percent (50%) of one percent (1%) of the total consideration involved in the acquisition of the property or of the fair market value in case the monetary consideration involved in the transfer is not substantial, whichever is higher. The sale, transfer or other disposition of real property pursuant to R. A. No. 6657 shall be exempt from this tax. (Section 185, Art. 1 Chapter 2 Book II of LGC) \hat{a}^{TM} | Tax on business of printing and publication. A tax on the business of persons engaged in the printing and/or publication of books, cards, posters, leaflets, handbills, certificates, receipts, pamphlets, and others of similar nature, at a rate not exceeding fifty percent (50%) of one percent (1%) of the gross annual receipts for the preceding calendar year. The receipts from the printing and/or publishing of books or other reading materials prescribed by the Department of Education, Culture and Sports, as school texts or references shall be exempt from the tax. (Section 136 Art. 1 Chapter 2 Book II of LGC) \hat{a}^{TM} | Franchise tax. A tax on businesses enjoying a franchise, at a rate not exceeding fifty percent (50%) of one percent (1%) of the gross annual receipts for the preceding calendar year based on the incoming receipt, or realized, within its territorial jurisdiction.

(Section 137 Art. I Chapter 2 Book II of LGC) ¶ Sand and gravel tax. A tax levied and collected not more than ten percent (10%) of fairmarket value in the locality per cubic meter of ordinary stones, sand, gravel, earth, and other quarry resources, as defined under the National Internal Revenue Code, as amended, extracted from public lands or from the beds of seas, lakes, rivers, streams, creeks, and other public waters within its territorial jurisdiction. The proceeds of the tax on sand, gravel and other quarry resources shall be distributed as follows: Province - 30%; Component city or municipality where the sand, gravel, and other quarry resources are extracted - 30%; and Barangay where the sand, gravel, and other quarry resources are extracted - 40%. (Section 138 Art. I Chapter 2 Book II of LGC) ¶ Professional tax. A tax on each person engaged in the exercise or practice of his profession requiring government examination at such amount and reasonable classification as the sangguniang panlalawigan may determine but shall in no case exceed Three hundred pesos (P= 300. 00). (Section 139 Art. I Chapter 2 Book II of LGC) ¶ Amusement tax on admission. Tax to be collected from the proprietors, lessees, or operators of theaters, cinemas, concert halls, circuses, boxing stadia, and other places of amusement at a rate of not more than thirty percent (30%) of the gross receipts from admission fees (Section 140 Art. I Chapter 2 Book II of LGC) ¶ Annual fixed tax per delivery truck or van of manufacturers or producers of or dealers in certain products. An annual fixed tax for every truck, van or any vehicle used by manufacturers, producers, wholesalers, dealers or retailers in the delivery or distribution of distilled spirits, fermented liquors, soft drinks, cigars and cigarettes, and other products as may be determined

by the sangguniang panlalawigan, to sales outlets, or consumers, whether directly or indirectly, within the province in an amount not exceeding Five hundred pesos (P500. 00). (Section 141 Art. I Chapter 2 Book II of LGC)

Municipalities: _ Tax on business on (a) manufacturers, assemblers, repackers, processors, brewers, distillers, rectifiers, and compounders of liquors, distilled spirits, and wines or manufacturers; (b) wholesalers, distributors, or dealers in any article of commerce of whatever kind or nature; (c) exporters, and on manufacturers, millers, producers, wholesalers, distributors, dealers or retailers of essential commodities; (d) retailers; (e) contractors and other independent contractors; (f) banks and other financial institutions; (g) peddlers engaged in the sale of any merchandise or article of commerce; and (h) any business, not otherwise _ Fees and charges on business and occupation and, except as reserved to the province in Section 139 of this Code _ Fishery rental or fees and charges. Municipalities shall have the exclusive authority to grant fishery privileges in the municipal waters and impose rentals, fees or charges _ Fees for sealing and licensing of weights and measures; and _ Community tax. Cities: _ The city may levy and collect among others any of the taxes, fees and other impositions that the province or municipality may levy and collect. Barangays _ Taxes and fees on stores or retailers with fixed business establishments with gross sales or receipts of the preceding calendar year of Fifty thousand pesos (P= 50, 000. 00) or less, in the case of cities and Thirty thousand pesos (P= 30, 000. 00) or less, in the case of municipalities, at a rate not exceeding one percent (1%) on such gross sales or receipts _ Service charges for services rendered in connection with the regulation or the use of barangay-owned properties or

service facilities such as palay, copra, or tobacco dryers; _ Barangay Clearance - No city or municipality may issue any license or permit for any business or activity unless a clearance is first obtained from the barangay where such business or activity is located or conducted; _ Other Fees and Charges: (1) On commercial breeding of fighting cocks, cockfights and cockpits; (2) On places of recreation which charge admission fees; and (3) On billboards, signboards, neon signs, and outdoor advertisements. LGUs' taxing and revenue raising powers are limited. They can only impose taxes, fees and charges as the law may allow. Sec. 133 of the Code defines the common limitations on specific subjects which are beyond the scope of LGUs taxing and revenue raising powers. This is to ensure that local taxing powers do not contravene but rather support national tax policies. There are two kinds of limitations on the local taxing powers: the common and the specific. Limitations: Limitation 1: Income Tax - Income tax, except when levied on banks and other financial institutions Limitation 2: Documentary Stamp Tax - The documentary stamp tax is an excise tax upon documents, instruments, and other papers, and upon acceptance, assignments, sales and transfers of the obligation, right or property incident thereto. 3.) Taxes on estates, inheritance, gifts, legacies and other acquisitions mortis causa, except as otherwise provided in the Local Government Code (Code) (except taxes levied on the transfer of real property ownership under Section 135, and Section 151 of the Code); (4.) Customs duties, registration fees of vessels (except license fees imposed under Section 149, and Section 151 of the Code), wharfage on wharves, tonnage dues and all other kinds of customs fees, charges and dues except wharfage on wharves constructed and

maintained by the local government unit concerned; (5.) Taxes, fees, charges and other impositions upon goods carried into or out of, or passing through, the territorial jurisdictions of local governments in the guise of charges for wharfage, tolls for bridges or otherwise, or other taxes in any form whatever upon such goods or merchandise; (6.) Taxes, fees or charges on agricultural and aquatic products when sold by marginal farmers or fishermen; (7.) Taxes on business enterprises certified by the Board of Investments as pioneer or nonpioneer for a period of six and four years, respectively, from the date of registration; (8.) Excise taxes on articles enumerated under the National Internal Revenue Code and taxes, fees, or charges on petroleum products, but not a tax on the business of importing, manufacturing or producing said products (*Patron vs. Pililla*, 198 SCRA 82); (9.) Percentage tax or value-added tax on sales, barter or exchanges of goods or services or similar transactions thereon (but not fixed graduated taxes on gross sales or on volume of production); (10.) Taxes on the gross receipts of transportation contractors and persons engaged in the transportation of passengers or freight by hire and common carriers by air, land or water except as provided by the Code; (11.) Taxes on premiums paid for reinsurance or retrocession; (12.) Taxes, fees or charges for the registration of motor vehicles and for the issuance of all kinds of licenses or permits for the driving thereof, except tricycles; (13.) Taxes, fees, or other charges on Philippine products actually exported except as provided by the Code (the prohibition applies to any local export tax, fee, or levy on Philippine export products but not to any local tax, fee, or levy that may be imposed on the business of exporting said products); (14.) Taxes, fees or

charges on duly organized and registered Countryside and Barangay Business Enterprises (R. A. No. 6810) and on cooperatives (R. A. No. 6938); and (15.) Taxes, fees or charges of any kind on the National Government, its agencies and instrumentalities, and local government units (Section 133, LGC)