

## Philippine Taxation and the History of the Bureau of Internal Revenue

### I. Pre-colonial Era

During the time before the Spaniards came, the country had various kingdoms, called barangays, which was ruled by the *datus* (or *rajahs* in some areas) who offered protection to all its subordinates. Since barter was the leading form of trade back then, tax (called *buwis* or *handug*, with the variant *handog*) came in forms of crops or goods, which the people living under the datu share a portion of their harvest or property, in exchange for security and protection.

Only the *timawa* (free men) pay taxes, since the *maharlikas* (nobility) and the *datu* offer the protection, while the *oripun* or *uripon* (slaves) couldn't offer anything since they lived to serve; thus the highest and the lowest of the castes were exempted from tax payment.

### II. Spanish Era

During the 17th and 18th centuries, the *Contador de Resultas* served as the Chief Royal Accountant whose functions were similar to the Commissioner of Internal Revenue. He was the Chief Arbitrator whose decisions on financial matters were final except when revoked by the Council of Indies.

During these times, taxes that were collected from the inhabitants varied from tribute or head tax of one gold *maiz* annually; tax on the value of jewelry and gold trinkets; indirect taxes on tobacco, wine, cockpits, *burlas*, and powder. From 1521 to 1821, the Spanish treasury had to subsidize the Philippines in the amount of P 250,000.00 per annum due to the poor financial condition of the country, which can be primarily attributed to the poor revenue collection system.

Other forms of taxes from the Spanish Era is the *tributo*, which was originally between 8 to 10 reales. Forced labor, or *polo y servicio*, was also a network for tax payment. Eventually, with the *cedula*, Spain replaced *tributo* with *cedula*, which allowed them to keep track of the people who could pay taxes. The *encomienda*

system, which is land ownership granted by the Crown to worthy peninsulares, was yet another form of tax income from the Filipinos. The *diezmos prediales* is 1/10 of the produce of the *encomienda* to be paid to the viceregal government, and the *sanctorum* was the tax paid to the local church. Other local taxes were the *vinta*, tax paid by people in the provinces along the coast of Western Luzon to defend the area against Muslim pirates common at the time, and the *donativo de Zamboanga*, was taxed specifically used for the conquest of Jolo.

Listed below is a sample of a Filipino's tax during the Spanish occupation:

<i>Tributo</i> ( <i>encomienda</i> tax)	: 10 reales
<i>Diezmos prediales</i> (government tax):	1 real
Commission on Internal Revenue	: 1 real
<i>Sanctorum</i>	: 3 reales

### III. American Era

In the early American regime from the period 1898 to 1901, the country was ruled by American military governors. In 1902, the first civil government was established under *William H. Taft*. However, it was only during the term of second civil governor *Luke E. Wright* that the Bureau of Internal Revenue (BIR) was created through the passage of Reorganization Act No. 1189 dated *July 2, 1904*.

On *August 1, 1904*, the BIR was formally organized and made operational under the *Secretary of Finance, Henry Ide* (author of the Internal Revenue Law of 1904), with *John S. Hord* as the first Collector (Commissioner). The first organization started with 69 employees, which consisted of a Collector, Vice-Collector, one Chief Clerk, one Law Clerk, one Records Clerk and three (3) Division Chiefs.

Following the tenure of John S. Hord were three (3) more American collectors, namely *Ellis Cromwell* (1909-1912); *William T. Holting* (1912-1914); and *James J. Rafferty* (1914-1918). They were all appointed by the Governor-General with the approval of the Philippine Commission and the US President.

During the term of Collector Holting, the Bureau had its first reorganization on *January 1, 1913* with the creation of eight (8) divisions, namely:

- 1) Accounting;
- 2) Cash;
- 3) Clerical;
- 4) Inspection;
- 5) Law;
- 6) Real Estate;
- 7) License; and
- 8) Records

Collections by the Real Estate and License Divisions were confined to revenue accruing to the City of Manila.

In line with the Filipinization policy of then US President William McKinley, Filipino Collectors were appointed. The first three (3) BIR Collectors were *Wenceslao Trinidad (1918-1922)*; *Juan Posadas, Jr. (1922-1934)*; and *Alfredo Yatao (1934-1938)*.

On May 1921, by virtue of Act No. 299, the Real Estate, License and Cash Divisions were abolished and their functions were transferred to the City of Manila. As a result of this transfer, the Bureau was left with five (5) divisions, namely:

- 1) Administrative;
- 2) Law;
- 3) Accounting;
- 4) Income Tax; and
- 5) Inspection

Thereafter, the Bureau established the following:

- 1) The *Examiner's Division*, formerly the Income Tax Examiner's Section which was later merged with the Income Tax Division; and
- 2) The *Secret Service Section*, which handled the detection and surveillance activities but was later abolished on

January 1, 1951.

Except for minor changes and the creation of the *Miscellaneous Tax Division in 1939*, the Bureau's organization remained the same from 1921 to 1941.

In 1937, the Secretary of Finance promulgated Regulation No. 95, reorganizing the Provincial Inspection Districts and maintaining in each province an Internal Revenue Office supervised by a Provincial Agent.

#### IV. Japanese Era

At the outbreak of World War II, under the Japanese regime (1942-1945), the Bureau was combined with the Customs Office and was headed by a Director of Customs and Internal Revenue.

#### V. Post-War Era

On July 4, 1946, when the Philippines gained its independence from the United States, the Bureau was eventually re-established separately. This led to a reorganization on *October 1, 1947* by virtue of Executive Order No. 94, wherein the following were undertaken:

- 1) The Accounting Unit and the Revenue Accounts and Statistical Division were merged into one;
- 2) All records in the Records Section under the Administrative Division were consolidated; and
- 3) All legal work were centralized in the Law Division.

Revenue Regulations No. V-2 dated October 23, 1947, divided the country into 31 inspection units, each of which was under a *Provincial Revenue Agent* (except in certain special units which were headed by a City Revenue Agent or supervisors for distilleries and tobacco factories).

The second major reorganization of the Bureau took place on January 1, 1951 through the passage of Executive Order No. 392. Three (3) new departments were created, namely:

- 1) Legal;
- 2) Assessment; and
- 3) Collection.

On the latter part of January of the same year, Memorandum Order No. V-188 created the Withholding Tax Unit, which was placed under the Income Tax Division of the Assessment Department. Simultaneously, the implementation of the withholding tax system was adopted by virtue of Republic Act (RA) 690. This method of collecting income tax upon receipt of the income resulted in the collection of approximately 25% of the total income tax collected during the said period.

The third major reorganization of the Bureau took effect on March 1, 1954 through Revenue Memorandum Order (RMO) No. 41. This led to the creation of the following offices:

- 1) Specific Tax Division;
- 2) Litigation Section;
- 3) Processing Section; and the
- 4) Office of the City Revenue Examiner

By September 1, 1954, a Training Unit was created through RMO No. V-4-47.

As an initial step towards decentralization, the Bureau created its first 2 Regional Offices in Cebu and in Davao on July 20, 1955 per RMO No. V-536. Each Regional Office was headed by a Regional Director, assisted by Chiefs of five (5) Branches, namely:

- 1) Tax Audit;
- 2) Collection;
- 3) Investigation;
- 4) Legal; and
- 5) Administrative.

The creation of the Regional Offices marked the division of the Philippine islands into three (3) revenue regions.

The Bureau's organizational set-up expanded beginning 1956 in

line with the regionalization scheme of the government. Consequently, the Bureau's Regional Offices increased to (8) eight and later into ten (10) in 1957. The Accounting Machine Branch was also created in each Regional Office.

In January 1957, the position title of the head of the Bureau was changed from Collector to Commissioner. The last Collector and the first Commissioner of the BIR was Jose Aranas.

A significant step undertaken by the Bureau in 1958 was the establishment of the *Tax Census Division* and the corresponding *Tax Census Unit* for each Regional Office. This was done to consolidate all statements of assets, incomes, and liabilities of all individual and resident corporations in the Philippines into a National Tax Census.

To strictly enforce the payment of taxes and to further discourage tax evasion, RA No. 233 or the Rewards Law was passed on June 19, 1959 whereby informers were rewarded the 25% equivalent of the revenue collected from the tax evader.

In 1964, the Philippines was re-divided anew into 15 regions and 72 inspection districts. The *Tobacco Inspection Board* and *Accountable Forms Committee* were also created directly under the Office of the Commissioner.

### **Marcos Administration**

The appointment of Misael Vera as Commissioner in 1965 led the Bureau to a "new direction" in tax administration. The most notable programs implemented were the "Blue Master Program" and the "Voluntary Tax Compliance Program". The first program was adopted to curb the abuses of both the taxpayers and BIR personnel, while the second program was designed to encourage professionals in the private and government sectors to report their true income and to pay the correct amount of taxes.

It was also during Commissioner Vera's administration that the country was further subdivided into 20 Regional Offices and 90 Revenue District Offices, in addition to the creation of various

offices which included the Internal Audit Department (replacing the Inspection Department), Administrative Service Department, International Tax Affairs Staff and Specific Tax Department.

Providing each taxpayer with a permanent *Tax Account Number (TAN)* in 1970 not only facilitated the identification of taxpayers but also resulted to faster verification of tax records. Similarly, the payment of taxes through banks (per Executive Order No. 206), as well as the implementation of the package audit investigation by industry are considered to be important measures which contributed significantly to the improved collection performance of the Bureau.

The proclamation of Martial Law on September 21, 1972 marked the advent of the New Society and ushered in a new approach to the developmental efforts of the government. Several tax amnesty decrees issued by the President were promulgated to enable erring taxpayers to start anew. Organization-wise, the Bureau had also undergone several changes during the Martial Law period (1972-1980).

In 1976, under Commissioner Efren Plana's administration, the Bureau's National Office transferred from the Finance Building in Manila to its own 12-story building in Quezon City, which was inaugurated on June 3, 1977. It was also in the same year that President Marcos promulgated the National Internal Revenue Code of 1977, which updated the *1934 Tax Code*.

On August 1, 1980, the Bureau was further reorganized under the administration of Commissioner Ruben Ancheta. New offices were created and some organizational units were relocated for the purpose of making the Bureau more responsive to the needs of the taxpaying public.

### **Cory Aquino Administration**

After the People's Revolution in February 1986, a renewed thrust towards an effective tax administration was pursued by the Bureau. "Operation: Walang Lagay" was launched to promote the efficient and honest collection of taxes.

On January 30, 1987, the Bureau was reorganized under the administration of Commissioner Bienvenido Tan, Jr. pursuant to Executive Order (EO) No. 127. Under the said EO, two (2) major functional groups headed and supervised by a Deputy Commissioner were created, and these were:

- 1) the Assessment and Collection Group; and
- 2) the Legal and Internal Administration Group.

With the advent of the *value-added tax (VAT)* in 1988, a massive campaign program aimed to promote and encourage compliance with the requirements of the VAT was launched. The adoption of the VAT system was one of the structural reforms provided for in the 1986 Tax Reform Program, which was designed to simplify tax administration and make the tax system more equitable. It was also in 1988 that the Revenue Information Systems Services Inc. (RISSI) was abolished and transferred back to the BIR by virtue of a Memorandum Order from the Office of the President dated May 24, 1988. This transfer had implications on the delivery of the computerization requirements of the Bureau in relation to its functions of tax assessment and collection.

The entry of Commissioner Jose Ong in 1989 saw the advent of the "Tax Administration Program" which is the embodiment of the Bureau's mission to improve tax collection and simplify tax administration. The Program contained several tax reform and enhancement measures, which included the use of the *Taxpayer Identification Number (TIN)* and the adoption of the New Payment Control System and Simplified Net Income Taxation Scheme.

### **Ramos Administration**

The year 1993 marked the entry into the Bureau of its first lady Commissioner, Liwayway Vinzons-Chato. In order to attain the Bureau's vision of transformation, a comprehensive and integrated program known as the *ACTS or Action-Centered Transformation Program* was undertaken to realign and direct the entire organization towards the fulfillment of its vision and mission.

It was during Commissioner Chato's term that a five-year *Tax Computerization Project (TCP)* was undertaken in 1994. This involved the establishment of a modern and computerized Integrated Tax System and Internal Administration System.

Further streamlining of the BIR was approved on July 1997 through the passage of EO No.430, in order to support the implementation of the computerized Integrated Tax System. Highlights of the said EO included the:

- 1) Creation of a fourth Revenue Group in the BIR, which is the Legal and Enforcement Group (headed by a Deputy Commissioner); and
- 2) Creation of the Internal Affairs Service, Taxpayers Assistance Service, Information Planning and Quality Service and the Revenue Data Centers.

### **Estrada Administration**

With the advent of President Estrada's administration, a Deputy Commissioner of the BIR, Beethoven Rualo, was appointed as Commissioner of Internal Revenue. Under his leadership, priority reform measures were undertaken to enhance voluntary compliance and improve the Bureau's productivity. One of the most significant reform measures was the implementation of the *Economic Recovery Assistance Payment (ERAP) Program*, which granted immunity from audit and investigation to taxpayers who have paid 20% more than the tax paid in 1997 for income tax, VAT and/or percentage taxes.

In order to encourage and educate consumers/taxpayers to demand sales invoices and receipts, the raffle promo "Huming ng Resibo, Manalo ng Libo-Libo" was institutionalized in 1999. The Large Taxpayers Monitoring System was also established under Commissioner Rualo's administration to closely monitor the tax compliance of the country's large taxpayers.

The coming of the new millennium ushered in the changing of the guard in the BIR with the appointment of Dakila Fonacier as the

new Commissioner of Internal Revenue. Under his administration, measures that would enhance taxpayer compliance and deter tax violations were prioritized. The most significant of these measures include:

- Full utilization of tax computerization in the Bureau's operations;
- Expansion of the use of electronic Documentary Stamp Tax metering machine and establishment of tie-up with the national government agencies and local government units for the prompt remittance of withholding taxes; and
- Implementation of Compromise Settlement Program for taxpayers with outstanding accounts receivable and disputed assessments with the BIR.

Memoranda of Agreement were also forged with the league of local government units and several private sectors and professional organizations (i.e. MAP, TMAP, PCCI, FFCCCI, etc.) to help the BIR implement tax campaign initiatives.

On September 1, 2000, the *Large Taxpayers Service (LTS)* and the *Excise Taxpayers Service (ETS)* were established under EO No. 175 to reinforce the tax administration and enforcement capabilities of the BIR. Shortly after the establishment of said revenue services, a new organizational structure was approved on October 31, 2001 under EO No. 306 which resulted in the integration of the functions of the ETS and the LTS.

In line with the passage of the Electronic Commerce Act of 2000 on June 14, the Bureau implemented a Full *Integrated Tax System (ITS)* Rollout Acceleration Program to facilitate the full utilization of tax computerization in the Bureau's operations. Under the Program, seven (7) ITS back-end systems were released in stages in RR 8 - Makati City and the Large Taxpayers Service.



## Arroyo Administration

Following the momentous events of EDSA II in January 2001, newly-installed President Gloria Macapagal-Arroyo appointed a former Deputy Commissioner, Atty. René G. Bañez, as the new Commissioner of Internal Revenue.

Under Commissioner Bañez's administration, the BIR's thrust was to transform the agency to make it taxpayer-focused. This was undertaken through the implementation of change initiatives that were directed to:

- 1) Reform the tax system to make it simpler and suit the Philippine culture;
- 2) Reengineer the tax processes to make them simpler, more efficient and transparent;
- 3) Restructure the BIR to give it financial and administrative flexibility; and
- 4) Redesign the human resource policies, systems, and procedures to transform the workforce to be more responsive to taxpayers' needs.

Measures to enhance the Bureau's revenue-generating capability were also implemented, the most notable of which were the implementation of the Voluntary Assessment Program and Compromise Settlement Program and expansion of coverage of the creditable withholding tax system. A technology-based system that promotes the paperless filing of tax returns and payment of taxes was also adopted through the *Electronic Filing and Payment System (eFPS)*.

With the resignation of Commissioner Bañez on August 19, 2002, Finance Undersecretary Cornelio C. Gison was designated as interim BIR Commissioner. Eight days later (on August 27, 2002), former Customs Commissioner, Guillermo L. Parayno, Jr. was appointed as the new Commissioner of Internal Revenue (CIR).

Barely a month since his assumption to duty as the new CIR, Commissioner Parayno offered a *Voluntary Assessment and Abatement Program (VAAP)* to taxpayers with under-declared sales/receipts/income. To enhance the collection performance of the BIR, Commissioner Parayno adopted the use of new systems such as the *Reconciliation of Listings for Enforcement or RELIEF System* to detect under-declarations of taxable income by taxpayers and the electronic broadcasting system to enhance the security of tax payments. It was also under Commissioner Parayno's administration that the BIR expanded its electronic services to include the web-based TIN application and processing; an electronic raffle of invoices/receipts; provision of e-payment gateways; e-substituted filing of tax returns and electronic submission of sales reports. The conduct of special operations on high profile tax evaders, which resulted to the filing of tax cases under the *Run After Tax Evaders (RATE)* Program marked Commissioner Parayno's administration as well as the conduct of Tax Compliance Verification Drives and accreditation and registration of cash register machines and point-of-sale machines. To improve taxpayer service, the Bureau also established a BIR Contact Center in the National Office and eLounges in Regional Offices.

On October 28, 2006, Deputy Commissioner for Legal and Inspection Group, Jose Mario C. Buñag was appointed as full-fledged Commissioner of Internal Revenue. Under his administration, the Bureau attained success in a number of key undertakings, which included the expansion of the RATE Program to the Regional Offices; inclusion of new payment gateways, such as the Efficient Service Machines and the G-Cash and SMART Money facilities; implementation of the Benchmarking Method and installation of the Bureau's e-Complaint System, a new e-Service that allows taxpayers to log their complaints against erring revenue officers through the BIR website. The *Nationwide Rollout of Computerized Systems (NRCS)* was also undertaken to extend the use of the Bureau's Integrated Tax System across its non-computerized Revenue District Offices. In 2007, the *National Program Support for Tax Administration Reform (NPSTAR)*, a program funded by various international development agencies, was launched to improve the BIR efficiency in various areas of tax

administration (i.e. taxpayer compliance, tax enforcement and control, etc.).

On June 29, 2007, Commissioner Buñag relinquished the top post of the BIR and was replaced by Deputy Commissioner for Operations Group, Lilian B. Hefti, making her the second lady Commissioner of the BIR. Commissioner Hefti focused on the strengthening of the use of business intelligence by embarking on data matching of income payments of withholding agents against the reported income of the concerned recipients. Information sharing between the BIR and the Local Government Units (LGUs) was also intensified through the LGU Revenue Assurance System, which aims to uncover fraud and non-payment of taxes. To enhance the Bureau's audit capabilities, the use of *Computer-Assisted Audit Tools and Techniques (CAATTs)* was also introduced in the BIR under her term.

With the resignation of Commissioner Hefti in October 2008, former BIR Deputy Commissioner for Legal and Enforcement Group, Sixto S. Esquivias IV was appointed as the new Commissioner of Internal Revenue. Commissioner Esquivias' administration was marked with the conduct of nationwide closure of erring business establishments under the "Oplan Kandado" Program. A Taxpayer Feedback Mechanism (through the eComplaint facility accessible via the BIR Website) was also established under his term where complaints on erring BIR employees and taxpayers who do not pay taxes and do not issue ORs/invoices can be reported. In 2009, the Bureau revived its "Handang Maglingkod" Project where the best frontline offices were recognized for rendering effective taxpayer service.

When Commissioner Esquivias resigned in November 2009, Senior Deputy Commissioner, Joel L. Tan-Torres assumed the position of Commissioner of Internal Revenue. Under his administration, Commissioner Tan-Torres pursued a high visibility public awareness campaign on the Bureau's enforcement and taxpayers' service programs. He institutionalized several programs/projects to improve revenue collections, and these include *Project R.I.P (Rest in Peace)*; intensified filing of tax evasion cases under the re-invigorated RATE Program; conduct

of Taxpayers Lifestyle Check and development of Industry Champions. Linkages with various agencies (i.e. LTO, SEC, etc.) were also established through the signing of several Memoranda of Agreement to improve specific areas of tax administration.

### P-Noy Aquino Administration

Following the highly-acclaimed inauguration of President Benigno C. Aquino III on June 30, 2010, a former BIR Deputy Commissioner, Atty. Kim S. Jacinto-Henares, was appointed as the new Commissioner of Internal Revenue. During her first few months in the BIR, Commissioner Henares focused on the filing of tax evasion cases under the *RATE Program*, in compliance with the SONA pronouncements of President Aquino.

### Duterte Administration

On December 19, 2017, President Rodrigo Duterte signed *the Tax Reform for Acceleration and Inclusion (TRAIN) Law*, wherein it exempts all taxpayers, whose annual income is less than or equal to Php 250, 000, to pay their taxes. As compensation, petroleum products and consumer goods with either natural, artificial, or high-fructose syrup sweeteners will get an increase in its prices, with natural fruit juices and milk being exempted from these increase.

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