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INTERNAL TAXATION IN THE PHILIPPINES

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CONTENTS.

PRELIMINARY NOTE.

The "Internal Revenue Law of Nineteen Hundred and Four," enacted by the Philippine Commission on July 2, 1904, repealed all of the old Spanish laws, then remaining in force and imposing internal taxes. It substituted in lieu of such taxes a system of internal taxation based largely on the American policy of obtaining a maximum of revenue from the manufacture, sale and consumption of articles of luxurious or optional use and a minimum of revenue from other sources. It has seemed wise to preface this paper with a brief summary of the various Spanish internal taxes obtaining in the past and especially at the time of the American occupation of the Philippine Islands. This will afford opportunity to students of tax problems and tax administration to judge as to the relative merits of the existing tax system, and of that which it replaced, and to form an intelligent opinion as to the necessity for the change.

INTERNAL TAXATION IN THE PHILIPPINES.

I.

The Old System.

The earliest record of excise taxation proper in the Philippine Islands is of a tax on the value of jewelry and golden trinkets which Governor Gonzalo Ronquillo, 1580–83, obliged the natives to pay to the insular treasury on pain of the confiscation of such ornaments as were concealed from the tax assessors. Before this time a tribute, or head tax, of one gold *maiz,* equal to about 3 *reales,* was being levied annually on each Indian and was made payable in money, cloth, rice or other staples at the option of the tax payer. The Indians were divided into *encomiendas* (royal grants), and the *encomendero* (grantee) usually collected the tribute in person, accompanied by a squad of arquebusiers. The principal Indian in each locality was required to deliver the tax for each Indian in his vicinity. Each *encomendero,* out of the money or produce thus collected, paid a per capita tax to the insular treasury. In 1577 this head tax was raised to 8 *reales* and later to 10 *reales.*

During the next two hundred years the head tax, or tribute, and occupation taxes collected from Chinese persons continued to constitute the main sources of internal revenue, although a few minor taxes, such as stamped paper and mint charges for the coinage of money were also introduced. In 1620 the total revenues were 593,922 pesos of which 300,000 pesos represented refunds from the treasury of Mexico of customs duties collected in the port of Acapulco on goods imported into that country from Manila. Of the internal revenue taxes Chinese residents paid 8,250 pesos as tribute and 112,000 pesos as occupation taxes.

The tribute, or head tax, paid by the Indians amounted to about 80,000 pesos. The expenses of the Spanish government in the Philippine Islands during 1620 were 850,734 pesos; the deficit, between the receipts and disbursements, of 256,812 pesos was made up by withdrawing that sum from the Mexican treasury.

By the beginning of the seventeeth century Spanish merchants had built up a lucrative export trade with Mexico and other parts of Spanish America. They desired a monopoly and during the entire seventeeth century and the larger portion of the eighteenth century the Spanish Crown, at the request of the exporters of Cadiz and Seville, issued a series of *cedulas,* or royal decrees, prohibiting trade between Manila and the Mexican port of Acapulco, or so limiting and imposing such restrictions on such trade as to amount to a virtual prohibition. Tomás de Comyn, a writer of that period, in his work "The State of the Philippine Islands," declares: "Scarcely will it be believed in the greater part of civilized Europe that a Spanish colony exists between Asia and America whose merchants are forbidden to avail themselves of their advantageous situation, and that as a special favor only are they allowed to send their effects to Mexico once a year, but under the following restrictions. . . ."

Thus it will be seen that it is no new experience for the Philippine Islands to be disappointed in their endeavor to get an American market for their surplus products and that in the late action, or non-action, of the United States Senate history but repeats itself. No one, however, believes that it will take the American people, as it took the Spanish Crown, two hundred years to right this wrong.

Late in the eighteenth century Spain adopted a more liberal policy toward the Philippine Islands and such measures were put into effect as soon resulted in the revival of their export trade not only to America but also to Europe and Asia. The relatively prosperous condition that ensued made possible the collection of larger sums as internal taxes and the adoption of a more modern system of taxation. It soon became unnecessary for the viceroy of Mexico to draw on his cash box to help the Philippines to meet their budget of expenses. In 1782 the Government took over the monopoly of the tobacco produced in the Islands, and controlled the entire output of leaf tobacco and manufactured product until 1883 when the monopoly was abolished. Attempts to control the distillation of spirits by Government monopoly of the industry were made as early as 1712, but were abandoned from time to time. In 1787 a definite policy of Government control of the spirit business was adopted and prosecuted until 1862, in which year the monopoly was finally done away with, and two years later the manufacture and sale of all kinds of liquors was declared free. In 1834 the Government took over the monopoly of the sale of opium and in 1850 still further increased its revenue through the establishment of an official lottery, converting the profits derived from the sale of tickets to the insular treasury.

Meanwhile the rates of the head tax, or *cedula personal* as it had come to be known, had been increased and different classes of *cedulas* established, at rates graded from one and a half pesos to thirty-seven and a half pesos per annum. Chinese persons were taxed at the highest rate, as, indeed, when it came to classification for purpose of taxation, whether occupation, business, or what not, Chinese merchants were always put in the first class. Toward the end of the nineteenth century internal taxes on all kinds of industrial enterprises, on the coinage of money, on forest products and on the rentals of urban property were added. In 1817 the total internal tax collections for insular purposes were 1,346,472 pesos; at the time of the American occupation the internal revenues amounted annually to nearly 12,000,000 pesos, without including surtaxes, amounting to several millions more collected for municipal purposes. Of the total insular revenues over 9,000,000 pesos were paid out as salaries and less than 300,000 pesos were