

International Tax Dialogue (ITD) Asia Conference

The Peninsula Hotel, Makati City
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KEYNOTE ADDRESS OF SECRETARY MARGARITO B. TEVES

Distinguished participants and fellow workers in government, good morning.

Today's conference provides another good opportunity for us to gain wisdom from one another as we articulate our respective country experiences in the field of taxation, particularly in the aspect of taxing micro and small enterprises (MSEs).

The diversity of MSEs has long been recognized, alongside different definitions among multilateral organizations like The World Bank, The European Union (EU), and the Organization for Economic Cooperation and Development (OECD).

Such recognition of diversity was also reinforced by the first Regional Conference on the taxation of micro and small business organized by ITD in cooperation with the Rwanda Revenue Authority in April 2009.

In fact, the outcome of said Conference provides us with very valuable insights. We can expect similar issues to arise as we stay together in this venue for a couple of days to discuss compliance management.

Our literatures speak of micro, small and medium-sized enterprises or MSMEs, or Micro and Small Businesses (MSBs), or Small and Medium Enterprises (SMEs), or Medium and Small Enterprises (MSEs).

We may coin several labels for these enterprises, but the crucial and common features that characterize them remain:

- First, they provide a significant source of employment for many;
- Second, they offer untapped revenue potential for the government; and
- Third, they operate in an uneven playing field that affects them as well as their larger business counterparts.

In the Philippines, for instance, micro enterprises play an important role and their contributions to the economy are being recognized over the years.

With a growing number of MSEs and their increasing contribution to the economy, it is essential that we enhance the regulatory environment in order to

foster a level playing field and foster healthy competition. One crucial step is to institutionalize tax policy and administration measures that will improve compliance among MSEs without discouraging their innovation and growth.

However, coming up with tax designs with all the basic principles of good taxation is clearly a daunting job.

This is why ITD was established in 2002 -- to promote sharing of experiences and good practices among us with the common goal of improving our national tax systems.

It may not be practical to harmonize our tax policies and implement a universal set of administrative measures. Nevertheless, we can surely achieve mutual benefits by learning from the best practices in the region with regard to compliance.

At this juncture, perhaps it is useful to invoke related questions that might help encourage lively discussions as we progress with the Conference.

For instance, how will we design taxes that are envisioned to bring the desired outcome? Should we come up with size-tailored tax policies and administrative approaches? Should we treat micro and small-sized businesses in the same manner as we treat large enterprises? From MSEs' perspective, which among the various approaches can provide the greatest incentives for voluntary compliance? How can we formulate tax policies and administrative mechanisms that promote financial inclusion of MSEs?

Those are all valid questions that attest to the complexity of taxation as applied to MSEs. Having said that, cost/benefit calculation helps us design our systems in such a way that the administrative and compliance costs are kept to the minimum.

This brings me to the fundamental tax principles of equity, efficiency and simplicity. Treatment of MSEs may differ among countries. However, notwithstanding the uniqueness of MSEs, it is our policy to spread the tax burden across the business community.

Equally important is that we design taxes in such a way that does not skew resource allocation decisions across the economy. We also believe that taxation policy should be an important component of economic stabilization and recovery efforts.

Another consideration is the certainty in which our tax designs and administration systems operate. Even our 18th Century economist, Adam Smith, stated that "the tax which each individual is bound to pay ought to be certain, and not arbitrary."

On behalf of the Philippine Government, I would like to take this opportunity to welcome everybody and to express my deepest gratitude to the ITD and its

partners for bringing us all together to this Conference. Your presence is a clear indication of the importance of sharing knowledge and experiences among countries, particularly in the region.

Thank you and good morning to all of you.