

## A REGRESSIVE ASPECT OF PHILIPPINE INCOME TAXATION

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### I. Introduction

The income tax may be viewed from two points—as a means of spreading the cost of government among the people, and as an instrument for siphoning revenue from the private to the public sector. The first is concerned with the allocation of the tax burden; the second stresses the revenue and economic implications of income taxation.

When we view the income tax in terms of burden allocation, we envision a discernible need for placing high priority on equity and fairness. These are paramount considerations of legal and economic institutions. Ultimately, a tax system is bound to succeed only where it gains popular support as a fair and equitable means of allocating burden.

Fairness in income taxation *ex necessitate rei* mandates a direct relation between the *tax* and the *income*. It would be fair, for instance, to require one to pay tax when he has in fact received income. And the amount of increases in wealth, irrespective of the source of the income or the characterization of the recipient, is probably one best single index for determining how much tax he should pay vis-a-vis other taxpayers. If the burden of taxation is not directly related to this most significant index of taxability, apart from lending itself to notoriety, the income tax system may lose its force as a revenue potential, as an “automatic counter-cyclical device”<sup>1</sup> and as a tool of socio-economic development.

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<sup>1</sup> Thus, because of its progressive rates under which the rich pays more tax than the poor, the income tax takes care of short-run changes in economic activity. As incomes decline, the average effective rate of tax will decline; conversely, as incomes increase the average effective rate of tax will also increase. The automaticity of these operations copes adequately with economic disturbances without need of resorting to drastic monetary policies. [For further explanation, see: W. J. Baum and H. Kalven, Jr., *The Uneasy Case for Progressive Taxation* (The University of Chicago Press: Chicago, Illinois, 1958) pp. 30-30.]

## II. *Regressive Aspect*

The Philippine income tax structure has one disturbing feature—the exclusion from gross income of certain income items.<sup>2</sup> This is also our present procedure of giving tax exemption benefits on income or on so much thereof as is exempt under the law. In both cases there is a non-recognition of significant income items in the determination of the appropriate tax rate.

Exclusion or non-recognition of income tax exempt items disrupts the concept of progression.<sup>3</sup> It results in the reduction of the tax base and the virtual taking away of the excluded amount from the schedule of income subject to the highest tax rate applicable to the taxpayer. Exclusion in this sense conduces to inequality in the enjoyment of the tax exemption benefits, and consequently to unfairness in the distribution of the tax burden. The rich enjoys more tax benefits than the poor, thereby rendering the income tax structure regressive in that respect.<sup>4</sup>

TABLE I.—PRESENTATION OF INEQUITIES UNDER THE EXCLUSION PROCEDURE \*

Taxpayer	Taxable Income	Exempt Income	Total Income	Tax without Exclusion	Tax with Exclusion	Taxpayer's Benefit
A	6000	2000	8000	680	360	320
A-1	6000	0	6000	360	360	0
B	2000	4000	6000	360	60	300
B-1	4000	4000	8000	680	180	500
C	2000	6000	8000	680	60	620
C-1	6000	2000	8000	680	360	320

\* The taxes herein are computed in accordance with Sec. 21, National Internal Revenue Code.

The disparities in treatment of taxpayers under the present exclusion procedure are illustrated in the foregoing Table. Taxpayers A and A-1 bear the same tax burden of ₱360 although their individual capacities to pay differ as shown by their respective total incomes (₱8000 and ₱6000). This is occasioned by the exclusion of

<sup>2</sup> Sec. 29(2), *National Internal Revenue Code*.

<sup>3</sup> Tax exemption, if enjoyed by all like the personal allowances under Sec. 23, *supra*, has nonetheless a declining progressive effect. This particular kind of progression is frequently noted in the literature. Cohen-Stuart for example refers to it as "Benthamite Progression." But where the enjoyment of tax exemption is limited to selected recipients of exempt income, the result has the elements of regression. (W. J. Blum and H. Kalven, Jr., *supra*, p. 96, footnote 232.)

<sup>4</sup> This effect is felt more acutely among individual taxpayers than among corporations, since the former are subject to more progressive rates (see Sec. 21, *supra*) than the latter which are liable to only two rates (see Sec. 24, *supra*).

the P2000 exempt from A's total income which reduces his taxable base to an amount equal only to that of A-1, which is P6000.

Taxpayers B and B-1 enjoy different extents of tax benefits (P300 and P500, respectively) although they have the same amount of P4000 exempt income. This is the result of the exclusion of the exempt income from the total income, thereby making the extent of the tax benefit derivable from tax exemption depend not on the amount of exempt income received, but upon the amount of the taxable income. The lower the taxable income is (B's), the smaller the tax benefit becomes; and the higher the taxable income (B-1's), the bigger the tax benefit is.<sup>5</sup>

The disparities so far illustrated become all the more obvious in the case of taxpayers C and C-1. While they have the same amount of P8000 total income, there is a wide gap of difference in their respective tax burdens (P60 and P320). By the process of exclusion the base for the computation of the progressive tax rates is reduced to the amount of the taxable income without regard to the taxpayer's greater capacity to pay resulting from his receipt of the amount excluded.

### III. *The Problem*

Progressive taxation is now regarded as one of the central ideas of modern democratic capitalism and is widely accepted as a secure policy commitment.<sup>6</sup> Our problem is how to readjust the present treatment of income tax exempt items in order to equalize the enjoyment of tax benefits under the law by all classes of taxpayers irrespective of income bracket and thus achieve fairness in the distribution of the tax burden. In the foregoing situation (Table I), the ideal objectives would be to (1) distribute the tax incidence in accordance with principle of ability to pay; (2) preserve the policy considerations behind the grant of tax exemption; and (3) at the same time promote equality among taxpayers in the enjoyment of tax benefits derivable from the same amount of exempt income.

### IV. *Proposed Remedy*

To attain the goals of equality in tax benefits and fairness in tax burden allocation would require the supplanting of the present

<sup>5</sup> When applied, for instance, as an incentive device to promote the sale of government bonds and securities [see Sec. 29(b)(4), *supra*], the exclusion procedure illustrates a glaring defect. As can be deduced above, for the same amount of bonds and securities, the concession offered in the form of tax exemption benefits is 60% of the interest income if the purchaser belongs to the highest income bracket and only 3% thereof if he belongs to the lowest income group.

<sup>6</sup> W. J. Blum and H. Kalven, Jr., *supra*, p. 1.

exclusion procedure by a system of special credit for income tax exempt items. This calls for the recognition (or inclusion) of such items by lumping them together with the taxpayer's taxable income *only for the purpose of determining the appropriate tax rate applicable to his income bracket*. The exempt status of the income not subject to tax will be preserved nonetheless by the operation of the special credit—i.e., the tax otherwise due on the exempt income will have to be deducted from the taxpayer's total tax liability on both his exempt and taxable income.

The procedure may be outlined in this manner: *first*, the exempt (net) income during the year should be added to the taxpayer's taxable (net) income, both incomes having been first determined according to the usual method of computation; *second*, on the basis of the sum of the two types of income, the total tax should be computed applying the appropriate progressive rate; and *lastly*, the tax otherwise due on the exempt (net) income should likewise be computed and deducted from the total tax to find the final tax liability of the taxpayer.<sup>7</sup>

TABLE II.—PRESENTATION OF EQUITY UNDER THE SPECIAL CREDIT PROPOSAL \*

Taxpayer	Taxable Income	Exempt Income	Total Income	Tax Before Special Credit	Special Credit for Exempt Income	Tax Due After Special Credit	Taxpayer's Benefit
X	0	6000	6000	360	360	0	360
A	6000	2000	8000	680	60	620	60
A-1	6000	0	6000	360	0	360	0
B	2000	4000	6000	360	180	180	180
B-1	4000	4000	8000	680	180	500	180
C	2000	6000	8000	680	360	320	360
C-1	6000	2000	8000	680	60	620	60

\* The taxes herein are computed in accordance with Sec. 21, National Internal Revenue Code.

Equality and fairness in treatment of taxpayers under the special credit system are illustrated in the above Table. Taxpayer X, for instance, who has an exempt income of ₱6000 and no taxable income whatsoever, has a *zero* tax liability. The reason is that there is no income subject to tax, which goes to show that the exempt income will in no case be impaired by the tax under the proposal. This is in fairness to the grantee of exemption and in deference to the policy considerations behind the tax exemption grant.

<sup>7</sup> "Net" of exempt income referred to herein means the total exempt income less whatever expenses incurred, including taxes paid, in connection therewith.

By operation of the special credit system all taxpayers receiving the same amount of exempt income will enjoy the same extent of tax benefit. Thus, taxpayers A and C-1 who both have P2000 exempt income enjoy the same tax benefit of P60; taxpayers B and B-1 who both have P4000 exempt income enjoy the same tax benefit of P180; and taxpayers X and C who both have P6000 exempt income enjoy the same tax benefit of P360. These show that under the proposal the extent of tax benefit enjoyable from tax exemption depends appropriately upon the amount of exempt income received and not, rather inordinately, upon the amount of taxable income as results under the present exclusion procedure.

The case of taxpayers B and B-1 is a good example of how the special credit system will promote progression according to the taxpayer's ability to pay. While receiving the same amount of tax benefit (P180) for the same amount of exempt income (P4000), their respective tax burdens vary (P180 and P500) according to their ability to pay as shown by the amount of total income received (P6000 and P8000, respectively). In this way the rate of tax is measured against income.

The present exclusion procedure, on the other hand, negates progression when it reduces the taxable base to the amount of the taxable income. Thus, in the present case of B whose taxable income is only P2000, he will pay a tax of only P60 (3% of P2000) despite his greater capacity to pay as shown by the P6000 total income he received.

### V. Criteria for Recognition

The income items presently excluded from gross income which may be proposed for recognition under the special credit system, are:

1. Proceeds of life insurance policies paid to beneficiaries upon the death of the insured.<sup>8</sup>
2. Interest on government securities<sup>9</sup> unless otherwise specifically provided in the special law from income tax.<sup>10</sup>
3. Gifts, bequests, devices and properties received through legal succession.<sup>11</sup>
4. Winnings from sweepstakes<sup>12</sup> and other games of chance, authorized by law, which are exempt from income tax.
5. Income exempt under treaty<sup>13</sup> unless otherwise provided therein.
6. Any other income which is or may be exempt from income tax by special laws.

<sup>8</sup> Sec. 29 (b) (1), *supra*.

<sup>9</sup> Sec. 29 (b) (4), *supra*.

<sup>10</sup> See, *Perfecto v. Meer*, G.R. No. L-2348 in relation to Art. VIII, Sec. 9; Art. X, Sec. 1; and Art. XI, Sec. 1, *Constitution of the Philippines*.

<sup>11</sup> Sec. 29 (b) (3), *National Internal Revenue Code*.

<sup>12</sup> Republic Act No. 1165.

<sup>13</sup> Sec. 29 (b) (6), *National Internal Revenue Code*.

Of course, not every amount received by a taxpayer is recognizable as income. For there are receipts constitutive of no more than a virtual return of capital. Amounts received as return of insurance premiums,<sup>14</sup> or those representing compensation for injuries or sickness,<sup>15</sup> may be mentioned as examples. But the tax concept of income for purposes of recognition, although not amenable to specific definition, should include all accretions to one's economic power in the common sense notion shared by economists.

"... income x x x (is) x x x the increase or accretion in one's power to satisfy his wants in a given period, insofar as that power consists of (a) money itself or (b) anything susceptible of valuation in terms of money x x x. Income is the money value of the net accretion to one's economic power between two points of time."<sup>16</sup>

The seven items of income proposed to be recognized for purposes of the special credit system have been selected in the light of the foregoing concept. The type of activity which generates the income (whether business or trade, employment, donation, succession, etc.) is considered irrelevant. *Accretion* in wealth, and not the particular *source* of the accretion, is the significant index of tax liability. Any restrictive definition of income which characterizes it as only those gains arising from "a transaction" or from "a regular or recurrent business activity" would miss the mark of defining income in its real concept.

To test the rationality of the above concept of income against our tax structure, two questions may be satisfied, namely: whether the concept is sufficiently inclusive to recognize all yearly accretions in each taxpayer's wealth which is administratively feasible to reach without departing from certain compelling policy considerations; and whether the said concept is formulated so as to permit application of the rates to income in a way consistent with revenue needs and the prevailing notions of fairness.

The income items above outlined are deemed sufficiently broad as to include all accretions in each taxpayer's wealth. Not included are those which may not be recognized from the practical viewpoint or for some prescribed policy considerations. Thus, the imputed income from a housewife's services and the annual appreciation on assets held by a taxpayer are not proposed to be recognized for ad-

<sup>14</sup> Sec. 29(b)(2), *supra*.

<sup>15</sup> Sec. 29(b)(5), *supra*.

<sup>16</sup> Robert Murray Haig, "The Concept of Income—Economic and Legal Aspects", published in *AEA Readings in Economics of Taxation* (Musgrave & Shoup, ed., R. D. Irwin, Inc.: Homewood, Illinois, 1959), p. 54.

ministrative and practical reasons.<sup>17</sup> Non-recognition likewise holds true in respect of those income items which the government may wish to give a special treatment for certain economic or other considerations.

But where accretion in wealth is measurable in money and can otherwise be feasibly appreciated, its recognition is imperative both revenue wise and as a matter of fairness. The continued non-recognition of significant items of income like gifts or inheritance, sweepstakes winnings, and salaries of certain government officials, has little basis in theory and in terms of fairness. If the recipient of these income items has small taxable income, then the progressive rate structure may result in his tax liability being correspondingly small. But the point is that his economic position, for purposes of the progressive tax rates, is in no way different in terms of disposable income from another taxpayer with equal income from non-exempt sources.

## VI. *Justifications*

Non-recognition of income tax exempt items, as it appears in our statute books, reflects no more than the popular view of tax exemption sanctified by prolonged usage. This system, though unsound, has become rigidly fixed in the law for no other reason than that the public has been accustomed to it. But from the technical and logical viewpoint, "tax exemption" means that what is exempted or waived by the government is the tax otherwise due on the exempt income; it does not mean exemption also from the operation of the progressive rates. In the proper sense "tax exemption" requires merely that the exempt income bear a *zero tax rate*. Exclusion of such income as now prevails not only attains a *zero tax rate* for the exempt income but also pulls down the appropriate progressive rates for the non-exempt income. In this sense, exclusion is devoid of support from the basic philosophy of tax exemption.

*A. Recognition is in keeping with our income tax structure.*—The Philippine income tax structure is based on the "global system"<sup>18</sup> where all types of income are lumped together and taxed

<sup>17</sup> For the same reasons, although economists consider it as income, the present law does not tax imputed income; and with respect to the annual appreciation on assets, the same is not taxed until the time the capital asset is disposed of. (Sec. 34, *National Internal Revenue Code*).

<sup>18</sup> The world's income tax system may be divided into two major classifications: the *global* and the *schedular*. Under the global system, often referred to as the unitary system, incomes from all sources are combined and the total is taxed under one rate schedule, whatever may be the different activities or sources which gave rise to the different components of the total. For example, income from wages, real property, dividends, business or professional activity, and agriculture are all added together and the sum total is taxed

under one set of rates.<sup>19</sup> Absence of any logical need to classify "types of income", so as to impose different tax rates on each, is a characteristic of the global approach. The reason is simple. The measure of the income tax is the taxpayer's capacity to pay, and distinctions as to different types or sources of income are irrelevant in determining that capacity. Henry Simons argues the point thus—

"The income tax is not a tax upon income but a tax upon persons according to their respective incomes; and, subject to the requirement of adherence to simple, general rules, the objective policy must be fairness among persons, not fairness among kinds of receipts."<sup>20</sup>

In the Philippines, however, there is a classification of certain income items as "exclusions" from gross income the purpose being to subject them to a "zero tax rate".<sup>21</sup> To this extent we deviate from the global approach and impinge upon the principle of ability to pay. As contemplated in the instant proposal, these income items may as well be recognized and included in gross income and still retain their "zero tax rate" status.

The readjustment of the present tax treatment of these income items confluent with the global approach may indeed entail minor administrative difficulties. But these difficulties are inherent in every attempt to make the tax system a fair means of distributing the tax burden. They do not constitute an insurmountable hindrance to the need for upholding progression, more especially because the procedure involved in the proposal does not deviate distantly from the usual method of determining tax liability. Moreover, the taxpayers who would be affected by the proposal are practically the affluent and literate class who may not find difficulty in applying the special credit system.

*B. Recognition will remove the vestigial retrogression in income taxation.*—Income classification belongs appropriately to countries

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at the same rates. Under the schedular system, income is not treated as a unitary concept but is divided into various categories or "schedules" according to the different types of activity from which it may have arisen. Typically, different deductions are allowed for different schedules, and net income under different schedules are taxed at different rates. For example, dividends and other income from capital are treated differently from wages and other income from labor. The income tax recognizes these distinctions according to source, rather than base the tax on the taxpayer's overall capacity to pay. [See IPT, Harvard Law School, *Income Tax Policy and Legislation* (1962-63), Part III, Chapter III, p. 89.]

<sup>19</sup> Thus, under the National Internal Revenue Code, save capital gains (Sec. 34), all types of income are brought together under the broad definition of "gross income" [Sec. 29(a)] and taxed under one set of rates (Secs. 21 and 24).

<sup>20</sup> H. C. Simons, *Personal Income Taxation* (The University of Chicago Press: Chicago, Illinois, 1955), p. 128; underlining ours.

<sup>21</sup> Sec. 29(b), *National Internal Revenue Code*.



following the "schedular system".<sup>22</sup> Here different tax rates and rules of determining net income apply to "classified types of income." Tax authorities, however, have criticizngly pointed out that because of income classification under the schedular system, the tax burden "falls somewhat fortuitously depending on the way in which income is fragmented among the schedules".<sup>23</sup>

The more developed countries of the world—as the United States, the United Kingdom, Germany, Canada, Sweden and the Netherlands,—use the global or unitary approach. Less developed countries tend to adhere to the schedular system.<sup>24</sup> The Shoup Mission to Venezuela reported that—

"It is probably not just a coincidence that those countries that make heavy the successful use of the personal income tax do not use the system of schedular rates x x x, while some of the other countries where the income tax has encountered grave difficulties are adherents of the schedular system."<sup>25</sup>

It may be fair to state that the complexities of modern economic life have rendered adherence to the schedular approach increasingly difficult. The history of tax reform of some countries in recent years is a history of attempts to eliminate the schedular system and to replace it by the global approach. The key recommendation of the Shoup Mission to Venezuela was that Venezuela should replace "its nine schedular taxes and the complementary tax by a single, unified income tax."<sup>26</sup> In the Philippines, recognition of the heretofore excluded income items would mean more than just keeping abreast with the global system—it would further mean the removal from the income tax structure of a known vestige of retrogression.

*C. Recognition will promote the principle of ability to pay.*—Aside from the fact that the global basis of our income tax structure renders reasonable the recognition of income tax exempt items to make possible the direct correspondence between income levels and tax burden, our concept of income also indicates a policy in that direction. We have adopted "net accretion" as an income concept when our law points to gross income as embracing "any income derived from any source whatsoever".<sup>27</sup> Where "completely applied, *net accretion* in income would include not only what has been called recurrent, consummable receipts, but also receipts from inherit-

<sup>22</sup> See footnote No. 18.

<sup>23</sup> IPT, Harvard Law School, *supra*, Part II, Chapter I, p. 214.

<sup>24</sup> For instance, Mexico, Venezuela and other Latin American countries.

<sup>25</sup> Shoup, Surrey, Oldman, *et al.*, *The Fiscal System of Venezuela* (1959), p. 15.

<sup>26</sup> *Ibid*, p. 14.

<sup>27</sup> Sec. 29(a), *National Internal Revenue Code*.

ance and gifts, as well as the money value of various types of real income".<sup>28</sup> Uniquely, however, while our law has embraced *net accretion* as an income concept, it has allowed a sufferance in the exclusion of certain income items from gross income.<sup>29</sup>

Adherence to *net accretion* in its full signification will produce real advantages to our country. *Firstly*, it will provide (revenue-wise) the most inclusive determination of the proper tax base for purposes of income taxation; and, *secondly*, it will sustain the principle (as a matter of fairness) that where income taxation is involved, exempt income is definitely an addition to the economic power of the taxpayer. The recognition of such income for purposes of the progressive rates will promote taxation according to one's ability to pay.

D. *Recognition will maintain the policy considerations of tax exemption grant.*—There will be no alternation in the exempt status of income tax exempt items by their recognition under the proposal. The resultant taxes computed according to the progressive rates applicable to the taxpayer consonant with his ability to pay will in no wise dig into his exempt income. If a person has a ₱100 taxable income and a ₱1 million exempt income, the tax rate applicable will be determined by his proper income bracket. Since the totality of his taxable and exempt incomes is ₱1,000,000, he will be subject to the 60% tax applicable to his income bracket.<sup>30</sup> But the 60% tax will have to be imposed exclusively on his taxable income since the proposal preserves the exempt status of his ₱1 million exempt income. Hence, he pays a tax of ₱60 on the ₱100 taxable income, instead of only ₱3.00 (3% of ₱100)<sup>31</sup> under the present system.

As a general proposition, the incentive capacity of tax exemption grants will be accelerated by the proposed special credit for income tax exempt items. For instance, if the exempt income items

<sup>28</sup> IPT, Harvard Law School, *supra*, Part II, Chapter III, p. 81.

A recent book on finance written by two noted economists concludes that a "person's income is simply its total gain measured in money terms over a given period of time." It even recognizes that "in principle, gifts and inheritance result in gains to the recipient and should be included in his taxable income." [Rolph & Break, *Public Finance* (Rona'd Press: New York, 1961), pp. 113 and 129.]

Another authority advocates that "all exemptions of receipts by kind x x x should be eliminated entirely—notably, the exemption of interest on governmental obligations; and that all gifts, inheritances, and bequests should be treated as part of the recipient's *taxable income* for the year in which they are received, with such limited and carefully devised exemptions for minor gifts as are required by administrative necessity." (H. C. Simons, *supra*, pp. 125-147; 170-184; and 210-211.)

<sup>29</sup> Sec. 29(b), *National Internal Revenue Code*.

<sup>30</sup> Sec. 21, *supra*.

<sup>31</sup> *Ibid.*

in the foregoing Table II were interest income on bonds purchased from the government, it will be noticed that the increase in tax benefits rises faster than the increase in the amount of bonds purchased. Citing taxpayer A (Table II), who has an interest income of ₱2000 and enjoys a tax benefit of ₱60 as basis for comparison, it is shown that: (1) B who has an interest income (₱4000) twice that of A, enjoys three times as much tax benefit (₱180) as the latter; and (2) C with interest income (₱6000) three times that of A, enjoys six times as much tax benefits (₱360) as him. Therefore, the incentive offer under the special credit system for government bond issues will gain momentum in the steep rise of tax benefits from bigger bond purchases.

*E. Recognition is one of the most feasible revenue-increasing devices under the circumstances.*—The problem of how to increase the revenue has ever been one of the government's greatest concern. The fact remains that the existing tax system has been rendered quite ineffective by changes and, indeed, constantly changing conditions of the economy. It has become impotent as a tool for realizing social and economic justice in the distribution of the fruits of the country's economy.<sup>32</sup>

For the last few years efforts at increasing the revenue has been directed through an improved tax collection machinery. While some improvement in tax collection has actually been realized, it is not enough to support the ever-rising cost of government. On the other hand, increasing the revenue through an acceleration of the existing tax rates may merit lukewarm support from our policy makers and the general taxpaying public. In fact, our executive and legislative leaders have been extremely cautious in tampering with this politically explosive issue.

Under these circumstances, the instant proposal appears to be one of the best devices that can augment the finances of the government. For one thing it does not involve a direct increase in the existing tax rates; and for another thing it will produce revenue from taxpayers who can well afford to pay taxes. The revenue potential of the proposal is tremendous on account of the application of the proper income tax rates to the readjusted true income levels of taxpayers.

*F. Recognition is a solution to the present constitutional immunity from tax of salaries of certain government officials.*—Worthy of mention is the case of *Perfecto v. Meer*<sup>33</sup> where the Supreme

<sup>32</sup> See a'so. Joint Legislative-Executive Tax Commission, *Second Annual Report* (1960-61).

<sup>33</sup> G.R. No. L-2348.

Court, following the ruling in the American case of *Evans v. Gore*,<sup>34</sup> interpreted the constitutional proviso prohibiting the diminution of judicial salaries<sup>35</sup> to mean "immunity" of judges and justices from paying the income tax. It took cognizance, however, of the decision in the later American case of *O'Malley v. Woodrough*,<sup>36</sup> "that Congress may validly enact a law taxing the salaries of judges appointed after its passage."

Studies have thus been undertaken on the feasibility of taxing judicial salaries in this jurisdiction at least in the prospective sense intimated in the *O'Malley* and *Perfecto* cases. But while there has been a recommendation to that effect Congress up to now has not acted upon it, realizing perhaps that even should such a measure pass the test of constitutionality it fails nonetheless to solve the immediate revenue needs of the country to however limited extent. The instant proposal of recognizing these salaries (together with those of other government officials exempt from income tax) only for the purpose of determining the true income bracket of judges and justices offers a happy compromise. It strikes a balance between the need to exact more taxes from these officials in accordance with their ability to pay, on one hand, even as it protects their salaries against diminution in any form, on the other hand.

## VII. CONCLUSION

In these, our times, when the impulse veers toward the grant of more tax exemptions than the enactment of tax laws to support the escalating revenue needs of the country, when our leaders for understandable reasons are as reticent to the need for tax increases as they are lukewarm to withdraw tax exemptions, and when so many people who should pay more tax pay so little—we may yet pause and consider the proposed special credit for income tax exempt items as a possible leverage that can cushion the adverse impact wrought upon the government coffers by our own judgment—or indifference.

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<sup>34</sup> 253 U.S. 409.

<sup>35</sup> Art. VIII. Sec. 9, *Constitution of the Philippines*.

<sup>36</sup> 307 U.S. 277.