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## TAXATION IN THE PHILIPPINES. I.

A BRIEF account of the principal revenues enjoyed by the Spanish government in the Philippine Islands during the three and a quarter centuries of Spanish rule may be of special interest at the present time. In the following outline an endeavor is made to select those features only of that revenue system which have a true historical significance, as distinct from those which have a mere antiquarian interest. The further effort has been made to select the salient features only and not to write an exhaustive account of all the tiresome vacillations of policy, due to the ignorance of the home government as to the conditions which existed in the islands. This account deals with the revenues of the central or insular government only and does not include local or municipal revenues.

It has become somewhat the fashion to speak ill of Spain's government in those of her dependencies which have passed under the rule of the United States and to see as little good in the Spanish laws as in their administration. But, in discussing the Spanish laws, apart from their administration, so far as they concern taxation in the Philippines, it would be a sad mistake to fall in with this prevailing fashion. Mistaken decrees were, to be sure, frequently issued, but they were almost invariably recalled as soon as the conditions which made them such were understood; and the system of taxation, taken as a whole, as it stood on the statute books, was not ill adapted to the character of the people and of their economic life.

But, while not a few of the provisions of the laws relating to taxation can scarcely fail to meet with the approval of every impartial student, the methods and the spirit in which those laws were administered were so utterly void of any recognition of some of those principles which Americans have come to regard — in theory, at least — as the correct guides for all official conduct that it is almost as difficult for us to understand

the Spanish methods of administration as for us to see in them anything but abuse of power. We find that the government officials connected with the revenue system frequently made collections and took fees which no law permitted, that they commuted the payment of taxes or reduced the amount to be paid, in consideration of payments to themselves, and that even those collections made in accordance with the law did not always find their way into the public treasury.<sup>1</sup> Where a public office is regarded as a public trust, these are well-nigh the worst abuses that could be imagined, and the officials guilty of them would be regarded as dishonest and unfaithful. But that view of official duty was not generally recognized in the Philippines. "Public money was, like holy water, something to which everybody helped himself." Moreover, as we study the history of government in these islands, we find a certain extenuation—never, of course, amounting to an excuse—for the common view that a public officer was entitled to certain *caidas*, or "droppings," as the Spaniards called those emoluments of office not permitted by law but sanctioned by custom. Some of these extenuating circumstances arose from the general attitude of the government toward the people of the islands. The natives were regarded as a conquered people and were required to pay tribute in order to enrich the royal exchequer and the officers who accomplished the conquest. Many feudal ideas pervaded the system of government which was originally established, and some of them have continued even into the nineteenth century.<sup>2</sup> The original basis of the revenue system was the responsibility of the native chieftains, the *cabezas de Barangay*, for the taxes levied against the people of their districts. Although Spain provided the most elaborate means for determining how much she would compel the *cabeza* to pay into

<sup>1</sup> All this applies with greater force to the local, than to the central, government, although true of both.

<sup>2</sup> The relation of the resident laborers to the *dueños* on many of the large *haciendas*, even at the present time, preserves some feudal characteristics; no wages are paid, compulsory services are performed on certain of the owners' fields and a certain proportion of the crops of the tenants' fields is surrendered to the owners in return for the privilege of tenancy.

the treasury, yet, as a sort of tacit recognition of his original rights and natural authority, she never inquired too closely into how much more any *cabeza* might collect for himself. The earlier Spanish laws distinctly recognized certain revenues as belonging to him, by virtue of his position and of the authority which he received from his clan, and simply required that he persuade his people to render additional tribute to the Crown of Spain, whose vassals both he and they had become. Even in the more recent laws no adequate provision is made for the remuneration of his services, a course which can be justified only on the supposition that he could still claim revenues from the people by virtue of his position as a natural leader.

That those next in authority over the *cabeza* should assert a claim to a personal share in these unlegalized but customary emoluments of his office seemed so natural that the government in some instances recognized the practice and went so far as to fix the rates, or percentages, of the taxes collected which should go to the petty governors, to the *alcaldes* and even to the administrator of the treasury (*hacienda*).

Many important sources of revenue were farmed out, and the profits of conducting these farms were also levied upon without scruple by those high in office. Government officials were usually appointed by favor; their nominal salaries were often small, especially in the case of those connected with the revenue system; numerous fees and percentages were allowed; and, as the people were always ignorant of the law, the opportunities which the officials had for extortion were almost unlimited. The taxpayers could for the most part know nothing of their rights under the law. There was no compilation of the decrees, royal orders and the like relating to taxation until 1867; and such laws as were published at all (usually by posting in public buildings) were in Spanish, a tongue but little understood among the people. The laws and regulations relating to taxation were scattered throughout other legislation; and it has proved a task of no small difficulty, even with the help of such excellent compilations as those of San Pedro and the joint works of Tiscar and de la Rosa, and of the records of

the Treasury in Manila, to ascertain and verify the few facts in regard to the provisions of the revenue laws which are stated in the following brief sketch.

One source of much confusion of ideas was the inextricable intermingling of church funds with state and public funds. Taxes proper were collected in the same manner and at the same time as the gifts of the pious to the church, the latter being distinguished by names which had only a historical significance. It was in 1501 that Pope Alexander VI<sup>1</sup> granted to Ferdinand and Isabella, and to their successors, the right to collect and retain the tithes and other church dues in all their possessions beyond the seas. This grant was made in return for a promise—afterwards most liberally fulfilled, so far as the Philippines were concerned—that the Crown should pay the expenses of the church in Christianizing the conquered people.

Whatever may have been the origin of the abuses in the administration of the tax laws of the Philippines and however serious these abuses undoubtedly were, they cannot obscure the fact that the statutes provided, in the main, a logical, fair and equitable system of taxes, which might perhaps be improved in some minor particulars but which, as a whole, if honestly administered, would have met all the requirements of the situation. For the future the possibility of such abuses of power by revenue officials as have just been under consideration has been, in a great measure, removed by the excellent provisions which the United States Philippine Commission has made for the establishment of an honest and efficient civil service in the islands. If the promise of that act is realized, the Spanish laws relating to taxation, with only such modification as may be necessary to bring them into accord with the changed conditions, may safely be continued in force and will probably be found to comply with the requirements of justice as nearly as could any revenue laws which might be devised.

<sup>1</sup> By Bull of December 16. This was a sequel to the grant of temporal sovereignty over the lands to be discovered and conquered beyond the seas, which was made by the same pope in 1493.

In the insular budgets the revenues were usually entered under six general headings: (1) The direct taxes (*contribuciones directas*), including the personal taxes and the income tax. (2) The indirect taxes (*contribuciones indirectas*), or the custom duties.<sup>1</sup> (3) The monopolies (*rentas estancadas*), including at various times the stamp taxes and the sale of quicksilver, salt, playing cards, corrosive sublimate, gunpowder, spirituous liquors, tobacco and opium. (4) Lotteries. (5) Public domain (*bienes del estado*). (6) Miscellaneous and indeterminate revenues (*ingresos eventuales*). The same analysis is followed in this article, with the exception that the first is divided into two parts: (1) personal taxes and (2) the income tax, thus making seven, instead of six, parts.

## I. PERSONAL TAXES.

1. *Tribute from Natives*.— One of the laws of the Indies, several times repromulgated and dating originally from 1523, nearly fifty years before the conquest of Manila, reads:

Since it is a just and reasonable thing, that the Indians, who may be pacified, and reduced to obedience and vassalage to Us, should render tribute in recognition of Our sovereignty, and should give such service as Our subjects and vassals owe, and as, moreover, they have established among themselves the custom of paying tribute to their chiefs, We command that they be persuaded to aid Us with tribute, in such moderate amount of the fruits of the earth, as may from time to time be required by law.<sup>2</sup>

The collection of this "tribute" was commenced in the Philippines immediately after their conquest by Legaspi and was continued until 1884, a period of over three hundred years, with but little change in form or in the methods of administration and with no change in principle.

<sup>1</sup> There never were any excises proper in the Philippines. The *alcabalas* of the *Leyes de las Indias* were never enforced here, and the place of such excises was taken by the monopolies.

<sup>2</sup> Recopilación de Leyes de los Reynos de las Indias, bk. vi, title v, law 1. (Hereafter this title is quoted as Recopilación de las Indias.)

The tribute was a personal tax of the nature of a uniform poll tax and was the only direct tax universally enforced. It was levied on natives, including *mestizos*.<sup>1</sup> Spaniards resident in the islands were exempt. The rate, known as "one tribute," was originally 8 silver *reales* for each family, but this was early raised to 10 *reales fuertes*, or their equivalent, 25 *reales de vellón*,<sup>2</sup> equal to  $\frac{1}{4}$  *pesos*,<sup>3</sup> and subsequently (1851) to 12 *reales fuertes*, or  $1\frac{1}{2}$  *pesos*.

Until comparatively recent times the tribute might be paid in money or in kind, or partly in one and partly in the other. When paid in kind, those products which were most easily disposed of were to be preferred. The products were accepted at values determined in advance, according to a table of official values. Those which might be tendered varied much from time to time and from province to province, or from district to district. In most cases the tribute had to be rendered in the staple product of the province. The most common staple was rice or paddy, but later tobacco was required from certain provinces.

The unit of assessment was the family. For this purpose the family ordinarily included a married man over twenty years of age (after 1851, over sixteen) and his wife and minor children.<sup>4</sup> Every unmarried male over twenty and every unmarried female over twenty-five (after 1851, eighteen and twenty) living with the parents paid one-half a "tribute." The duty to contribute ceased when the taxpayer reached sixty years of age. Briefly stated, this was a uniform poll tax, at the rate of half a "tribute,"

<sup>1</sup> A similar tax, known as the *capitación personal de Chinos*, was levied on the Chinese, as explained below.

<sup>2</sup> *Recopilación de las Indias*, bk. vi, title v, law 65. In 1884, when the tribute was abandoned, the rate was 1 *peso* and 17 *cuartos*, or \$1.10-5/8 (Mex.).

<sup>3</sup> To avoid confusion between the dollar (gold) of the United States and the dollar of Mexico, which is current in the islands, the latter is called a *peso* in this article. In the Philippines 1 *duro*, or *peso fuerte*, equalled 8 *reales fuertes*, or 160 *cuartos*, or 100 *centimos* (or *centavos*), or 5 *pesetas*. One *real de vellón*, the ancient unit, equalled two-fifths of a *real fuerte*; or 1 *peso fuerte* equalled 20 *reales de vellón*. For a while the accounts were carried in *escudos de plata*, equal to  $\frac{1}{2}$  *peso* each.

<sup>4</sup> Originally males under twenty, females under twenty-five, subsequently (1851) males under eighteen, females under twenty.

levied upon every person, male or female, over sixteen years of age and under sixty.<sup>1</sup>

Exempt from the tribute, besides the Spaniards were: (1) The *alcaldes*, *gobernadores* and the *cabezas de Barangay*,<sup>2</sup> who collected these taxes; as were also their wives and first-born sons or, if they had no sons, the persons adopted as such. This exemption lasted three years, or for the term of office. (2) Soldiers and militia men, both active and retired or invalided, together with their wives and those sons who resided under the parental roof; also their widows; and further the members of the provincial reserves.<sup>3</sup> (3) Members of the various branches of the civil guard (exclusive of the municipal guard), including members of the *resguardo volante* (revenue inspectors) and *guardas volantes*, the custom-house guards (*carabineros de hacienda*), and the marine guards (*resguardos maritimos*) with their wives and sons.<sup>4</sup> (4) Inspectors of tobacco and storekeepers, both male and female, under the administration of the tobacco monopoly, with their wives or husbands and sons.<sup>5</sup>

<sup>1</sup> The reason for the fiction that the tribute was at a certain rate per family, when as a matter of fact it was at half that rate per poll, is found in the customary organization of the Filipino family. Until the children marry and set up an independent household, the result of their labor belongs to the parents.

<sup>2</sup> The laws of the Indies (see Recopilación de las Indias, bk. vi, title v, laws 18 and 20; also, Ordenanza de Intendentes of 1786, art. 137) granted exemption to the "Indian chiefs" (*caciques*) and their older sons and to their wives, also to all "Indian" *alcaldes*. In the Philippines the traditional *cacique* was at the head of the group of forty or fifty families which constituted the natural clan. Legaspi governed the natives through these *caciques*, who came to be known as *cabezas de Barangay*. It has been commonly supposed that this exemption was granted as a partial compensation for services rendered. It is, however, clear from the history of this exemption that it was rather a recognition of the native chieftains' original governmental rights and powers.

<sup>3</sup> Royal *Cédula*, Oct. 11, 1786; decree of the *Superintendencia*, Jan. 27, 1819; *Bando*, Sept. 16, 1840, art. 20; decree of the *Superintendencia*, Oct. 5, 1841; *ibid.*, Oct. 13, 1841; *ibid.*, Aug. 7, 1849; *ibid.*, July 26, 1853; *ibid.*, Aug. 1, 1853; decrees of the superior government and of the *Superintendencia*, Jan. 17, and Feb. 10, 1846.

<sup>4</sup> Ordenanza de Intendentes of 1786, art. 91; decree of the *Intendencia general*, June 12, 1835; decree of the *Superintendencia*, Jan. 27, 1838; *Bando*, Sept. 16, 1840, art. 20; decree of the *Superintendencia*, Oct. 3, 1850.

<sup>5</sup> Royal *Cédula*, May 15, 1784; decree of the superior government, April 21, 1819; Circular No. 45, Aug. 22, 1840; *Bando*, Sept. 16, 1840, art. 20.



(5) Government employees receiving a fixed salary.<sup>1</sup> (6) Paupers and cripples receiving public benevolence.<sup>2</sup> (7) Miscellaneous persons, some exempt in recognition of distinguished services to the government, or to agriculture or industry, and others for "just cause."<sup>3</sup> In case the payment of the tribute should become excessively burdensome, on account of suffering among the people from plague, failure of crops or severe tempest, such payment might be wholly or partially suspended or remitted.<sup>4</sup>

The laws of the Indies required that the "Indians" should pay the tribute in their *pueblos* and that they must not be required to deliver it elsewhere.<sup>5</sup> On the basis of this provision,

<sup>1</sup> Ordenanza de Intendentes 1786, art. 91; decree of the *Superintendencia*, Nov. 18, 1833; *ibid.*, Sept. 9, 1835; Circular of the *Administración general de Tributos*, June 1, 1863.

<sup>2</sup> *Bando*, Sept. 16, 1840, art. 20.

<sup>3</sup> Among these were: "Two or more *cantores* and one *sacristán* for every *pueblo* having one hundred native inhabitants or more." (See *Recopilación de las Indias*, bk. vi, title iii, law 3); after 1786 the *porteros* of churches and from the same date the *gobernadorcillos*, *tenientes* and officials of justice in the municipalities; after 1840, the number of servitors of each of the cathedrals who might be exempt was limited; from 1785, the students of the University of Manila; from 1840, the students of the colleges of Santo Tomás, San José and San Juan de Letrán; from 1853, the students of the University of Santo Tomás and from the same date the students of the college of San Carlos de Cebú; from 1835, the widows of advocates and the wives of bachelors of arts; from 1740, day laborers employed four months each year at the arsenal at Cavite; and from 1826, day laborers at the royal artillery shops; from 1835, servants of the military hospital; from 1854, servants of the hospital of Cebú; from 1822, the legitimate descendants of those Cebuans who were first subjugated and who contributed to the pacification of that island; from 1854, native women who were widows of Spaniards; from 1836, Spanish *mestizos*; from 1828, the natives, *mestizos* and Chinese who, in groups of not more than twenty families, cultivate plantations of sugar each capable of producing 2000 *picos* (278,688 pounds) per annum, or plantations of indigo, each capable of yielding 100 quintals (10,145 pounds) per annum; also the descendants of certain prominent individuals, notably those of D. Pedro Mojica and of D. Carlos Lacondola recognized by Spain as petty kings; after 1838, wives, widows and sons of the employees of the marine service; after 1857, meritorious employees of the telegraph system. Partial exemption was granted to many persons, among them to the official vaccinators. After 1878, the exemption was extended to natives who paid 4 *pesos* or more per annum for the "*urbana*" tax or the "industrial" tax; and if these taxes exceeded 12 *pesos*, this exemption was to include the sons living under the *patria potestas*.

<sup>4</sup> *Recopilación de las Indias*, bk. vi, title v, laws 22 and 45.

<sup>5</sup> *Ibid.*, bk. vi, title v, law 44; bk. viii, title vii, law 10; bk. viii, title viii, law 34.

the native chiefs or heads of the hundreds — that is, the *cabezas de Barangay* — were made the actual collectors of the tribute for the forty or fifty families under their charge; and the local officials — the *alcaldes*, for the province; the mayors (*corregidores*) or the petty governors (*gobernadorcillos*), commonly known as “captains,” for the municipality — were held responsible for its collection,<sup>1</sup> it being remitted through their hands to the treasury in Manila. It was at one time prescribed that no *cabecera* should contain less than forty-five, nor more than fifty, contributors, but this provision was often difficult to comply with and fell into abeyance.

Every second year a *padrón de tasas*, or tax list, was made up for each *cabecera* and served as a basis of assessment for two years. This list was practically a census of the tribute-paying natives, as it gave the names, ages and occupations of the heads of families subject to the tribute. It had to be *viséd* by the parish priest, who was supposed to compare it with the parish records and vouch for its correctness.

The *cabezas de Barangay* were charged with all the tribute due from those contributors whose names were entered in the *padrón de tasas*; and if the whole amount were not turned in at the end of three months, they were liable to imprisonment and their goods were subject to confiscation.<sup>2</sup> This drastic measure was often enforced with the utmost severity.

Besides the tribute the native “Indians” paid, in the same manner, three other taxes, amounting in all to five silver *reales*; one *real* for the tithe (*diezmos prediales*), one *real* for the community fund (*caja de comunidad*) and three *reales* for the church, under the name of the *sanctorum*.<sup>3</sup>

The tithe<sup>4</sup> was — theoretically, at least — paid by all residents

<sup>1</sup> For accounts of the local government of the Philippines, see Report of the Philippine Commission of 1899, vol. i, pp. 44 ff.; also Foreman, *The Philippine Islands*, ch. xiii. These accounts relate mainly to the simpler and more uniform local governments established by the modern reforms; the ancient system was much less uniform, and as the Maura law was not universally introduced, there is still much more complexity than would appear from these descriptions.

<sup>2</sup> Decree of the *Superintendencia*, Sept. 25, 1819.

<sup>3</sup> Collected by the government, but paid over to the church.

<sup>4</sup> *Recopilación de las Indias*, bk. i, title xvi, laws 1–23, 29; bk. vi, title v, law 65.

of the islands, even by those who, for reasons of state or religion, or by favor, were exempt from the tribute.<sup>1</sup> Except as commuted, the tithe never became of any importance as a source of revenue to the government. It was originally one-tenth of the fruits of the soil or of any profits or income and pertained to the crown.<sup>2</sup> But those who paid the tribute were declared exempt, so far as their estates were concerned; and for them the tithe was commuted and added to the tribute, at the uniform rate of one *real*.<sup>3</sup>

From 1635 to the middle of the nineteenth century there was a further addition to the tribute, at the rate of one-half *real* for each contributor, ostensibly for the conquest of Joló. This was known as the *donativo de Zamboanga*.<sup>4</sup>

The tribute demanded from the *mestizos* (that is, ordinarily the sons by native women of the *Sangleyes*, or Chinese traders, in the islands) was double in amount that levied on the natives, and they paid two *reales* for the tithe, one *real* for the community fund and three *reales* for the *sanctorum*.

Spanish *mestizos* were exempt from the tribute. This exemption included the sons of Spaniards by native women and of natives by Spanish women.<sup>5</sup>

In 1781 the province of Bulacan voted a special tax, to equip two boats of the variety known as *vintas*<sup>6</sup> for the protection of the coasts of the archipelago from the inroads of the Moros. This tax, called the *vintas*, amounted at first to one-half *real* for

<sup>1</sup> Recopilación de las Indias, bk. i, title xvi, law 14 (Spaniards to pay); *ibid.*, law 16 (estates [*haciendas*] of the king to pay); *ibid.*, law 17 (knights of the military orders to pay); royal *Cédulas*, Sept. 25, 1768, Oct. 14, 1785 (*las religiones* to pay on the fruits of their estates).

<sup>2</sup> Ordenanzas de Intendentes de la Hacienda, 1786, arts. 155, 168.

<sup>3</sup> Royal *Cédula*, July 12, 1778, approving the royal decree (*real auto*) of Dec. 11, 1775; also the royal *Cédula*, May 23, 1801.

<sup>4</sup> The fortified port of Zamboanga, Island of Mindanao, was the outpost from which the wars with the Moslems were waged.

<sup>5</sup> Decree of the *Superintendencia*, Dec. 10, 1836, and the decision of the *Junta Superior Directiva de Apelaciones*, June 30, 1856.

<sup>6</sup> The origin of this term is somewhat uncertain. But it was applied by the Spaniards to a long narrow dugout, usually with one heavy outrigger, somewhat like a catamaran and built for speed. Such boats are common in the southern islands of the archipelago and in the Caroline Islands.

each person who paid tribute and was afterwards raised to one *ganta*<sup>1</sup> of paddy. The province of Pampanga later joined Bulacan in the payment of the *vintas*. This tribute was suppressed in 1829 and its place was taken by a tax on the coasting trade (*cabotage*); revived again later, it was finally suppressed in 1851.<sup>2</sup>

2. *Recognition of Vassalage*.—The tribute could, in the nature of things, be exacted from those natives only who were fully subjugated and living in organized communities under the Spanish local administration. But that did not prevent the effort to collect revenues from those “infidels” who were not sufficiently subdued to be organized into regular municipalities but who could yet be compelled to recognize Spanish sovereignty.

Long before the conquest of the Philippines, the laws of the Indies had provided that all the “Indians” who might be conquered should be persuaded to pay a moderate tribute in recognition of Spanish sovereignty.<sup>3</sup> This, as we have seen, was the origin of the tribute, and it was also the ground upon which, whenever possible, the wild, “infidel” tribes of the mountains and uncivilized islands were required to pay a tribute, which later became known as the “recognition of vassalage.”

This tribute was collected with no regularity whatsoever, and there were, moreover, many legal exceptions to its enforcement, the general purpose of which was to bring the natives into the fold of the church. Thus, for example, it was provided that the “Indians” who were “in rebellion” should be conciliated by all good means, even by the remission of all taxes, to come into obedience.<sup>4</sup> The acceptance of baptism was rewarded by exemption,<sup>5</sup> and in any case conversion to the sacred faith of the Spaniards carried with it ten years of exemption from tribute.

<sup>1</sup> A *ganta* equals one-half *cavan*, or three litres. Prior to 1815 a *ganta* was equal to 3,0641 litres.

<sup>2</sup> In addition to the tribute, there was a heavy local tax rendered in the form of compulsory labor on roads, public works and churches. This could be commuted into a money payment. It was one of the most fertile sources of abuse of power.

<sup>3</sup> *Recopilación de las Indias*, bk. vi, title v, law 1.

<sup>4</sup> *Ibid.*, bk. iii, title iv, law 8.

<sup>5</sup> *Instrucción*, Aug. 28, 1569, arts. 5, 7; royal *Cédula*, Feb. 1, 1756. The same provisions were incorporated in all later legislation.

In 1846<sup>1</sup> the rate of the recognition of vassalage for the negritos and "infidels" was fixed at one *real* per capita. In some places<sup>2</sup> the rate was made as high as one *peso* per annum. But in later years the total amount collected from this source was only about 12,000 *pesos* per annum.

3. *The Cédulas Personales*. — In 1884 the time-honored tribute, the original mainstay of the entire system of government and of the revenue in the Philippines, and the original basis of Spain's commerce with her dependencies, was repealed; and with it passed away the tithe, the *caja de comunidad* and the *sanctorum*.<sup>3</sup> The place of the ancient tribute, which had been rendered for so many years with so little murmuring, was taken by a graduated poll tax, modelled upon that of the peninsula, and needless to say the innovation was not popular.

The tax was collected by means of a certificate of identification, known as a *cédula personal*,<sup>4</sup> which every resident<sup>5</sup> of the islands — Spaniards and foreigners, as well as natives, "without distinction of race, nationality or sex, over eighteen years of age" — was required to obtain. The only exceptions were the Chinese, who paid another poll tax, the *remontados é infieles*, not subject to the local administration, and the natives and colonists of the archipelago of Joló and of the islands of Balabac and Palawan.

There were eventually sixteen different classes of *cédulas*<sup>6</sup>:

1. Costing 37.50 *pesos*; for all persons who paid in one or more

<sup>1</sup> Circular of the superior government of June 12.

<sup>2</sup> Sibuyan, for example, by convention approved by the *Superintendencia* on Feb. 15, 1853.

<sup>3</sup> Decree of the *Gobierno general*, May 7, 1884, and royal decree of March 6, 1884. An amount equal to the proceeds of the *sanctorum* was allowed the church from the proceeds of the *cédulas*.

<sup>4</sup> The *cédulas* were first issued by authority of the royal decree of March 6, 1884, under a provisional regulation dated July 15, 1884. This regulation, somewhat amended, was approved by royal *Decreto* of July 22, 1885. It was amended further by the decree of the general government of April 25, 1888, and the royal decrees of Dec. 12, 1890, May 19, 1893, and July 15, 1894. Less important amendments will be found in the royal decrees accompanying the budget each year.

<sup>5</sup> Residence, one year.

<sup>6</sup> Originally there were nine classes taxed, the rates ranging from 1.50 *pesos* to 25 *pesos*, and a tenth, gratis, for priests, soldiers and privileged classes.

quotas of the direct taxes<sup>1</sup> more than 400 *pesos*, exclusive of surtaxes; or those who enjoyed, from one or more sources, salaries or receipts in excess of 8000 *pesos* per annum, whether paid from state or local funds, or paid from the earnings of corporations, industries or individuals.<sup>2</sup>

2. Costing 30 *pesos*; for those with direct taxes of 300 to 400 *pesos*, or incomes of 6000 *pesos* to 8000 *pesos*.

3. Costing 22.50 *pesos*; for those with direct taxes of 200 *pesos* to 300 *pesos*, or incomes of 4000 to 6000 *pesos*.

4. Costing 12.00 *pesos*; for those with direct taxes of 100 to 200 *pesos*, or incomes of 2000 to 4000 *pesos*.

5. Costing 7.50 *pesos*; for direct taxes of 50 to 100 *pesos*, or incomes of 1000 to 2000 *pesos*.

6. Costing 5.25 *pesos*; for direct taxes of 12 to 50 *pesos*, or incomes of 600 to 1000 *pesos*. Also for the wives and children, of both sexes, over eighteen years of age, of all persons who paid taxes amounting to over 100 *pesos* or enjoyed incomes amounting to 2000 *pesos*; always provided that such wives or children were not, on account of independent property or income, required to obtain *cédulas* of a higher class.

7. Costing 3.50 *pesos*; for direct taxes of 8 to 12 *pesos* inclusive, or incomes of 200 to 600 *pesos*. Or the wives and children of persons who paid direct taxes of 12 *pesos* to 100 *pesos*, or had incomes of 600 to 2000 *pesos*.

8. Costing 3.00 *pesos*; for the wives and children, of both sexes, more than eighteen years of age, of all persons who paid annually on account of direct taxes of 8 to 12 *pesos* inclusive, or enjoyed salaries or incomes of 200 to 600 *pesos* inclusive.

9. Costing 2.25 *pesos*; for direct taxes of less than 8 *pesos*, or incomes of less than 200 *pesos*. In 1890 this class was declared to include all persons not belonging to the higher classes who enjoyed fixed incomes, and all domestic servants.<sup>3</sup>

<sup>1</sup> The *cédula* was not considered a direct tax. The taxes included were the industrial tax and the *urbana* tax. See, below, "the income tax."

<sup>2</sup> The direct taxes were supposed to be at the rate of half a tithe, or five *per centum*; hence taxes at 400 *pesos* per annum would, theoretically, represent an income of 8000 *pesos*. The same proportion holds good in the subsequent classes, excepting 6, 7, 8 and 9, which included persons who enjoyed partial exemption from the direct taxes on account of the comparative smallness of their incomes, and hence in those classes the tax is less than five per cent of the income.

<sup>3</sup> Royal decree of December 12.

10. Costing 2.00 pesos; for all persons not included in the preceding classes or in subsequent classes. In 1890 this class was declared to include wage workers whose earnings were irregular or of a fortuitous character.

11. Costing 2.00 pesos; for military officers in active service.

12. Costing 0.50 pesos; for wives and sons of military officers.

13. Costing 1.50 pesos; for agricultural colonists.

14. Issued gratis; for monks, nuns, sisters of charity, "pastors of the asylums of benevolence," paupers who received public aid, privates in the army and navy and in the civil guard (*tercio civil*) and for convicts during the period of their imprisonment.

15. Issued gratis and known as "privileged" (*clase privilegiada*); for petty governors (*gobernadorcillos*) or municipal "captains," and their wives; for *cabezas de Barangay* and their wives, and their assistants, "known at that time by the name of *primogenitos*"<sup>1</sup> (first-born sons), "in recognition of their services in the administration and collection of the tax."<sup>2</sup>

16. A special *cédula*, gratis; for European agriculturists in Paragua<sup>3</sup> (Island of Palawan).

Any person was permitted to purchase a *cédula* of a higher class than that which he was legally required to have. To enforce the collection of these taxes the proper *cédula* had to be exhibited on the following occasions:

(1) Upon taking up any commission or entering upon any public employment under the royal or insular authority; (2) upon entering upon any provincial or municipal office; (3) upon making any contract, public or private; (4) upon presenting any claim, soliciting business or appearing for any purpose before the petty governors or ministers of justice in the *pueblos*; (5) upon bringing any action before any court of any authority or before any officer; (6) upon matriculation in any institution of learning; (7) upon entering any employment in industry or commerce, any profession, art or trade; (8) upon payment of direct

<sup>1</sup> Under the tribute, as explained above, the first-born sons of the *cabezas de Barangay*, or "persons adopted as such," were exempt. It seems that the *cabezas* "adopted" their assistants.

<sup>2</sup> This was not the original reason for this exemption. See footnote above, concerning the exemption of *cabezas de Barangay* in connection with the tribute.

<sup>3</sup> See royal order of Aug. 20, 1888. This was a convict settlement.

taxes; (9) upon presenting any claim or exercising any civil right not previously mentioned, and upon acquiring any rights or contracting any obligations; (10) upon establishing identity; (11) upon realizing any kind of credits, making or withdrawing deposits, collecting on letters of credit, making bills of exchange, depositing money in savings banks, confirming pledges with the *montes de piedad*, or pawn shops, and upon bidding at public auction; (12) upon becoming a director, administrator, member, voter, shareholder or employee of any class of association or industrial undertaking; (13) upon travelling<sup>1</sup> beyond the boundaries of the *pueblo* of residence; and (14) upon entering into domestic service. The officers of the government were authorized to call for and examine the *cédulas* upon any and all occasions, and any person found without a *cédula* (*indocumentado*) was subject to very severe penalties.

The *cédulas* were issued on the basis of a *padrón* prepared by the *cabezas de Barangay* and drawn up in practically the same manner as the *padrón* for the tribute, the required information being collected on schedules (*hojas*, literally, "leaflets") filled out by the heads of households, giving the name and income of every person over eighteen years of age in the household. The *padrón* was made in triplicate: one copy for the *cabeza*, one for the *gobernadorcillo* and one for the treasury department (*administración de hacienda pública*). The heads of all institutions — monasteries, convents, prisons, *etc.* — who had persons entitled to *cédulas gratis* under their charge prepared a special *padrón*; but any person not entered in the *padrón* might purchase a *cédula*, if he so desired. The captains, or the *patrones*, of all boats were required to submit a similar *padrón* for the persons living on the boats. The *cabeza de Barangay* was held responsible for the collection of the taxes on all persons entered in the *padrón* for his *cabecera*, and the captains, or the *patrones*, of all boats were held similarly responsible.

The *cédulas* were prepared with stubs and bore serial numbers, so that every one issued to the tax collectors could be traced and

<sup>1</sup> The *cédula* thus served as a passport to all persons travelling within the islands.



accounted for. The *cédula* stated the year for which it was valid, the number of the class, the rate at which it was issued, the province and *pueblo* in which it was issued, the name of the person to whom it was sold, giving the name of the province of which he was a native, his age, conjugal condition, profession and address, with proper references to the *padrón* in which he was enrolled.

To cover the costs of collection there was an allowance of six per cent (formerly five per cent), of which three went to the *cabeza de Barangay*, one to the governor of the province, one to the administrator of the *hacienda pública* and one to the *gobernadorcillo*.

To complete the transformation of all the ancient taxes which had grown out of the tribute exacted from the conquered peoples, the royal decree of July 15, 1894, authorized the governor-general to provide the *cédula* of the tenth class (2.00 pesos) for such *pueblos* and plantations<sup>1</sup> of "infidels" as he thought proper, and in every case to exact as the rate for the recognition of vassalage an annual payment of at least 0.50 pesos.

After the American occupation the *cédulas personales* were abolished; but, as the procedure of Spanish law was retained, it was soon found that the possession of such a document for the purpose of identification was necessary. Consequently, the military government decided to issue such certificates at the nominal and uniform rate of one *peseta* (0.20 pesos) each, an amount which it was assumed would be sufficient to cover the cost of sale.

Just previous to the American occupation the *cédulas* had yielded a revenue of about 7,000,000 pesos per annum, which was the largest item on the list of revenues at that time.

4. *Chinese Poll Tax*.—The *Sangleyes*, or Chinese traders, resident in the islands, were the constant subjects of restrictive legislation and of discriminating taxation. As early as 1614 the governor was enjoined to collect license taxes from them for

<sup>1</sup> The term *rancherías*, here translated as "plantation," is used in the mountainous provinces of Luzon to designate a village or settlement not organized as a *pueblo*. They were usually governed by a native *gobernadorcillo*, under the guidance of a missionary. In the Visayas similar settlements are called *sementeras*,—literally, "plantations."

acquiring residence (*radicación*), and the royal officials were empowered to fix the rate of these licenses.<sup>1</sup> A *bando* issued by the governor in 1660 prescribes the manner in which these licenses shall be issued and the listing of the Chinese in a *padrón*. Down to 1755, when the non-Christian Chinese were expelled from the Philippines, their presence was regarded as essential to trade and to the industrial prosperity of the islands. It is not the least significant of the many interesting historical facts built into the city wall of Manila that the largest and finest gateway should be that "del Parian,"<sup>2</sup> or leading from the district within the walled city where the Chinese were once allowed to settle.

In 1790 the rate for the Chinese poll tax was fixed at six *duros* per capita, equivalent to six *pesos* of eight *reales* each.<sup>3</sup> But in 1828 the superior government, "recognizing," in the words of a memorial submitted at the time, "the great advantages which the Chinese, or *Sangleyes*, enjoyed in the commerce which they had in the Philippines, to the prejudice of the Spaniards and *mestizos*, and considering that the tribute of six *duros* per annum which they were paying was very little compared with their gains and with that which existed in Java, Singapore and other colonies in Asia, where they were permitted to trade," decided that there should be a new *padrón*, or tax list, made of the Chinese resident in the islands; that they should be divided into *cabecerías*, as were the natives; that the Chinese *cabezas de Barangay* should give bond for the tribute of their respective *cabecerías*, and gather the same and turn it in to the provincial *alcaldes*, who were to receive three per cent of the collections; that the Chinese were to be divided into three classes: (1) the greater merchants, among whom were to be classed such as shipped goods or effects to foreign lands or sent them to the provinces of the Indian archipelago, or imported goods

<sup>1</sup> Recopilación de las Indias, bk. viii, title xxix, law 11; also bk. vi, title ix, law 13.

<sup>2</sup> Mexican for market place.

<sup>3</sup> Royal *Cédula*, May 14. Foreman (p. 120) states that "taxes were first levied on the Mongul traders in 1828." This is an error, as the special capitation tax began in 1790, and license taxes were levied almost without interruption after 1614.

for sale on their own account or on commission, whether from abroad or from other provinces; (2) lesser merchants or shopkeepers, who were supplied from the warehouses of the capital or of the provinces; and (3) artisans of every class; that the first class should pay ten *pesos fuertes* per month, the second four and the third two; that any Chinaman who failed for three months to pay his tax should be delivered over to the owner of some *hacienda* to work as a day laborer at a wage not less than two silver *reales* and a ration of rice per day, and the master of the *hacienda* should pay the wages to the *alcalde mayor* of the province until the tax was discharged.

This scheme for the taxation of the Chinese had been prepared in Spain without sufficient knowledge of the local conditions, and its enforcement would have met with many grave difficulties, some of which were, however, obviated before it went into effect. In the first place, there were among the Chinese many who could barely earn the meagre living to which they were accustomed and who could not pay even the two *pesos* per month which the law required. Consequently, a fourth class at one *peso* per month had to be established. The third class was then made to consist of overseers, masters or superintendents of factories or shops, while the fourth included operators and day laborers. In the second place, it would have tended to impede the entrance of the Chinese into commercial life, for which they were well fitted and which had been their favorite occupation, and would have driven them to compete more and more with the natives in fields which the Chinese had not entered heretofore. In the third place, the daily wage of two *reales* for delinquent Chinese which the government had placed as the minimum was too high, being more than the natives employed as agricultural laborers could earn. To remedy this it was provided that the delinquent Chinese were to be employed on the public works and fortifications and that, if they were delinquent for a second quarter, they were to be expelled from the islands. Another difficulty in the program for this tax was that no Chinamen would consent to act as *cabezas de Barangay*, on account of the responsibility for the taxes on the *padrón* for the *cabecera*.

The duty of making the *padrón* was, therefore, laid upon the *corregidores*, or mayors, of the towns or districts where the Chinese resided, and collections were made by the *alcaldes mayores* of the province.

The first *padrón*, satisfactorily completed in 1831, showed 5708 Chinese, of whom 7 were in the first class, 166 in the second, 4509 in the third and 830 in the fourth, while 196 were over sixty years of age and exempt. But the attempt to collect the tax on this basis was beset with new difficulties which had not been anticipated. Eight hundred Chinese preferred to return home rather than pay the tax. One thousand and eighty-three fled to the mountains, and four hundred and fifty-three, who did not possess the means to return home, to flee or to pay the tax, were compelled to work out their taxes on the public works. Hence in 1834 the government saw itself compelled to authorize the *intendencia* to reduce the rates to such a level that the taxes could be paid by the Chinese. The result was that the increase was levied in the form of a special tax on Chinese industry and commerce, which is discussed in another connection, and the poll tax proper was restored to its old level.

In 1850,<sup>1</sup> in connection with one of the many almost vain efforts to encourage the entrance of the Chinese into agricultural pursuits, two new classes were created for the poll tax, consisting of (1) Chinese engaged on estates raising sugar, indigo and hemp in Luzon and the Visayas, and (2) Chinese engaged in agriculture in certain sparsely settled districts. The rates for these two classes were twelve and five *reales*, respectively. Those Chinese who chose to raise tobacco for the monopoly were to be exempt for five years. The benefits of this act were afterwards extended<sup>2</sup> to Chinese engaged in fisheries, wood-cutting, mining, shipbuilding and in any employment other than that of commerce. In 1862 these rates became three and two *pesos*, respectively.<sup>3</sup> Nevertheless, as most of the Chinese

<sup>1</sup> *Decreto*, August 5 and *Bando* of the same date.

<sup>2</sup> *Decreto*, Dec. 22, 1850.

<sup>3</sup> Royal order, March 27, 1861.

clung stubbornly to their old commercial pursuits, there was, in spite of all this legislation, little practical change from the general tax of six *pesos* per annum imposed in 1790.

An extensive revision of the law relating to the Chinese poll tax was made in 1890, by virtue of the royal decree of February 13. Every Chinese, irrespective of age or sex, was required to be provided with a *cédula de capitación personal*, or document of identification. This document, or schedule, was precisely similar in character and in effect to that which the natives were required to have and which was known as the *cédula personal*. It was valid for one year only, and its cost thus constituted an annual tax.

The *cédulas* were of eight different classes, as follows :

1. Costing 30 *pesos* ;<sup>1</sup> for all male Chinese over fourteen years of age whose annual contribution in the form of direct taxes<sup>2</sup> exclusive of surtaxes amounted to 400 *pesos* or more.

2. Costing 25 *pesos* ; for those whose direct taxes were over 300 *pesos* but not over 400 *pesos*.<sup>3</sup>

3. Costing 20 *pesos* ; for those whose direct taxes were over 200 *pesos* but not over 300 *pesos*.

4. Costing 15 *pesos* ; for those whose direct taxes were over 100 *pesos* but not over 200 *pesos*.

5. Costing 10 *pesos* ; for those whose direct taxes were over 50 *pesos* but not over 100 *pesos*.

6. Costing 6 *pesos* ; for all male Chinese over fourteen years of age not included in the five preceding classes.<sup>4</sup>

7. Costing 3 *pesos* ; for Chinese women over fourteen years of age.

8. Issued gratis ; for all under fourteen years of age and for those physically incapacitated for work.

Another class of *cédula*, called *privilegiada*, was issued gratis to the Chinese *gobernadorcillo* and to his wife ; also to his lieutenants and to the tax collectors during their term of office.

<sup>1</sup> Without the surtaxes ; see below.

<sup>2</sup> The *cédula* was not regarded as a direct tax.

<sup>3</sup> The ambiguity as to which *cédula* a Chinese paying exactly 400 *pesos* should purchase existed in the Spanish law.

<sup>4</sup> It should be observed that this is the old rate of the Chinese poll tax of 1790 ; see above.

As was so universally the practice with all Spanish taxes, these rates were increased by several surtaxes. First, there was five per cent of the price as a "consumption tax." Second, there were a number of surtaxes, ostensibly for the support of the provincial and municipal governments. Latterly, and down to the time of American occupation, these amounted to fifty per cent and were designated as for the "benefit of the treasury." Third, there was a surtax of eight per cent, to be distributed as follows: one per cent for the general treasury, two, for the cost of collection and five, to form a fund to meet the expenses of sending home insolvent Chinese. The total cost of the *cédulas* was, therefore: class 1, 48.90 pesos; class 2, 40.75 pesos; class 3, 32.60 pesos; class 4, 24.45 pesos; class 5, 16.30 pesos; class 6, 9.78 pesos; class 7, 4.89 pesos. It was expressly provided that any Chinaman might purchase a *cédula* belonging to a higher class than that in which he was listed, without being required to give any explanation.

To enforce the purchase of these documents, the Chinese were required to produce them on every occasion when they came in any way in contact with the government or when it might be necessary to establish their identity, and certain officials were authorized to call for and inspect the *cédulas* at any time. The *cédula* had to be presented in court whenever a Chinaman had business there; to notaries, whenever their services were required; to the captain of the port and to every ship captain, when the Chinaman desired to travel, *etc., etc.* Any Chinaman found without a *cédula* (*indocumentado*) was subject to severe penalties, and in case of actual inability to purchase one might be deported. The officers of collection were held accountable for the price of the *cédulas* for every person entered in the *padrón* and could only be relieved from the responsibility for payment by proving sickness on the part of a contributor, sufficient to incapacitate him for work for four months, his death or departure from the islands.

## II. THE INCOME TAX.

1. *In General.*—In 1878<sup>1</sup> the system of taxes in force in the Philippines was rounded out by the addition of a tax on all incomes except those from agriculture, it being the established policy of the Spanish government to nurture that occupation. This was the only tax in the Islands known administratively as a direct tax. It was levied under the guise of two taxes: one, on the annual rental value of urban real estate, called the *contribución directa sobre la propiedad urbana*, but commonly known as the “*urbana*” tax; and another on salaries, dividends and profits, called the *contribución directa sobre la industria, el comercio, las profesiones y las artes*, a name commonly abbreviated into the “*industrial tax.*”<sup>2</sup> The rate of the income tax was half a tithe, or five per cent of the net income. Very low incomes were entirely exempt, and a partial exemption was granted to those just above the lowest.

2. *The “Urbana” Tax.*—This was originally levied at the rate of five per cent upon the net rental value of all houses and buildings of brick, of masonry, of iron and of wood, whether inhabited by their owners or not and whatever might be the uses to which they were put; and also upon those of bamboo and *nipa*,<sup>3</sup> when rented or used for commercial or industrial purposes.

Absolute exemption was granted for buildings owned and occupied by religious communities, those which served as residences for the parish priests, those used as hospitals, houses of benevolence or schools, when not private property or when granted by the owner for such use free of rent, houses inhabited by foreign consuls, when owned by the governments which they represented, and when those governments granted a similar franchise to the representatives of Spain, and public buildings owned and used by the state.

<sup>1</sup> Royal decree, June 14.

<sup>2</sup> This common name is peculiarly unfortunate and has given rise to a complete misunderstanding of the true character of the tax.

<sup>3</sup> The common native house has a bamboo frame, with *nipa* thatch for roof and walls.

Temporary exemption was granted to houses of bamboo and *nipa*, when occupied by their owners, and to edifices of whatever materials ruined by earthquakes, typhoons, flood or fire and those which were in process of construction or of complete reconstruction and for one year thereafter.

The net rental value upon which the tax was to be assessed was determined by deducting a fixed allowance, for the expenses of repairs and maintenance, from the gross rentals received or which might have been received had the edifice been rented. This allowance was forty per cent in the case of structures of brick, masonry or iron and fifty per cent in the case of structures of wood or of bamboo and *nipa*.

The tax was assessed upon all proprietors, without distinction of class or nationality, with the sole exception that natives who paid tribute were to be exempt if their *urbana* tax would not exceed four *pesos* per annum; if it reached or exceeded that sum, such natives were to be exempt from the tribute; if it exceeded twelve *pesos*, this exemption from the tribute was to extend to their legitimate children living under the *patria potestas*; and when it reached twenty-five *pesos*, they and their sons were also to be exempted from personal services.<sup>1</sup>

In the course of the next ten years a number of modifications were introduced, and in 1889<sup>2</sup> the law finally assumed that form which it had at the time of the American occupation and in which it is still enforced by the United States military government. The principal changes were: First, the abandonment of the distinction between houses of bamboo and *nipa* and those of brick, masonry or iron, together with the exemption of the former when occupied by the owners. In place of this, all buildings of whatever materials on which the annual tax would be less than one *peso* were exempted. Second, the allowance for repairs and maintenance was reduced to twenty-five per cent and made uniform for all structures. The rate was increased by a surtax of five per cent of the tax, for the expenses of assessment and collection.

<sup>1</sup> A local tax.

<sup>2</sup> Royal decree, published in *Manila Gazette*, Dec. 29.



The details of administration are very similar to those of the general property tax, as it exists in the commonwealths of the United States. The tax is payable quarterly, and the penalty for delinquency is ten per cent. In case of enforced collection, which is by distraint of personal or real property, the cost of collection is added. In order to ascertain the rental value, the revenue officers are authorized to examine receipts, leases and other documents. The selling value of the property may be taken into consideration to determine the rent when the building is occupied by the owner, and the rent is then estimated according to the average percentage on the value earned by other property leased and similarly located. If the rent cannot be ascertained in this way, it is estimated at ten per cent of the selling value.

The tax list, or *padrón*, is compiled by local assessment boards, known as "local census boards," service upon which is compulsory and unpaid. Every proprietor of real estate is compelled to make a declaration, known as a *cédula*, or schedule, which gives all the particulars regarding the property, but the assessment is made by the board. The tax is collected by the internal revenue office in each province, and special collectors may be appointed for this branch of the service, all being under the central tax office of the general treasury department.

That part of the income tax represented by the "*urbana*" tax covered all income derived from real estate other than agricultural real estate. Building lots unoccupied were exempt.

3. *The Tax on Industry and Commerce.*—The second, and by far the most important, part of the income tax is the so-called "industrial tax." The prototypes of this tax are to be found in the Spanish excise<sup>1</sup> (*Alcabala*), never collected in these islands, in the ancient tax on *pulperías*, or grocery stores, and in the industrial and commercial license tax on the Chinese.<sup>2</sup>

<sup>1</sup> The similarity is one of form merely.

<sup>2</sup> The license tax for the manufacture and sale of spirituous liquors, which was imposed after 1864, when the monopoly of spirituous liquors was abandoned (see decree of the *Superintendencia*, May 14, 1864), might have been included here. But the tax on the Chinese shops was a true tax apportioned to profits, which, for convenience of collection merely, took a form analogous to that of a license tax,

The tax on the *pulperías*, which had no significance in the Philippines except as an isolated instance of a tax similar to the one now under discussion, was levied on all grocery stores in excess of the number declared by an ordinance passed by the local authorities to be absolutely necessary for the support of the community.<sup>1</sup>

The industrial and commercial license tax on Chinese was, however, of no little importance. This tax originated, as has already been stated, in an attempt to increase the burden upon these industrious people in 1828. As it proved to be impolitic to raise the rate of the capitation tax, those Chinese who could afford to pay higher rates were reached by an additional tax levied in the form of a license tax on their shops and industries.

For the assessment of this tax all shops kept by the Chinese were divided into four classes, according to the size of the shop and the character of the goods made and sold.<sup>2</sup> The first class included those shops which, in addition to the main room, had interior rooms, where, as in the main room, were displayed "manufactures of cotton, linen or silk, fancy goods, books, paper and other things used by the rich and the well to do." In the second class were all those shops of one room only which sold any or all the following goods: European or Chinese wares, silks, hardware, porcelain, mirrors and the like, or goods and effects of the country. This class also included Chinese pharmacies, wax chandlers, bake shops, blacksmith shops and lumber shops. The third class included shops selling comestibles, raw or cooked, silversmith shops, shoemaker shops, carpenter shops, dye shops and soap-maker shops. The fourth class included all those not enumerated in the preceding classes, among which the most important were: umbrella makers, shops for sandals and slippers (*chinelas*), junk shops, barber shops, stands for old clothes and hats, shops for the sale of leather, flour, furniture, Chinese

while the tax on dealers in liquors was a true license tax, and its resemblance to the older Chinese "industrial and commercial tax" was merely superficial.

<sup>1</sup> Recopilación de las Indias, bk. iv, title viii, law 12.

<sup>2</sup> We follow here the general outline of the decree of the superior government of Sept. 13, 1852, as given in circular No. 82 of the *Administración general de Tributos*.

delicacies, charcoal and for cleaning rice. Those of the first class paid 100 *pesos* per annum, of the second 60 *pesos*, of the third 30 *pesos*, and of the fourth 12 *pesos*.

It was the object of the classification to apportion the tax to the ability of the taxpayer, and the characteristics used for this purpose were such as indicated in a general way the profits of the various enterprises in which the Chinese engaged. Precisely the same principle was followed in the income tax of 1878, so far as that tax affected the profits of industry and commerce; and out of this simple classification of Chinese shops grew the elaborate tariff for all industries, by whomsoever conducted, which is now in force.

By the decree of June 14, 1878,<sup>1</sup> the industrial tax as levied on the Chinese was extended to all industries of the same sort, by whomsoever conducted, and two new classes, one at 300 *pesos* per annum and one at 200 *pesos*, were created. The first of these new classes was composed of stock companies and corporations engaged in making loans and discounts, large commercial houses and factories, insurance companies other than mutual, banks which issued bills payable to bearer on demand, also commercial capitalists engaged in banking or in the export and import trade, having warehouses and selling at wholesale, when doing business in Manila. The second class included commercial capitalists, as above, doing business elsewhere than in Manila; wholesale stores, not importing, whether dealing in foreign wares or those of the country; money lenders; dealers in the products of the country and their collecting agents;<sup>2</sup> and finally all those manufactories and mercantile houses which "by reason of their business ought to pay a higher rate than those assigned to the third class."

The law of 1878 was by its own terms tentative and to a certain extent incomplete. But as the experiment proved a success and the tax yielded a handsome revenue, the law was gradually

<sup>1</sup> The same decree which established the *urbana* tax.

<sup>2</sup> *Acopiadores*, agents whose business it is to travel through the interior inducing the natives to plant and harvest and then buying and transporting to the coast hemp, copra, sugar, etc.

expanded and amended until it reached its full growth in the elaborate *reglamento* approved by royal decree, June 19, 1890, which enumerated over four hundred different classes of industries and occupations. This regulation preserves all the old features of the tax and extends it to cover wages, salaries and professional earnings.

The most striking characteristic of this part of the income tax is that it is almost entirely objective, a declaration or estimate of the amount of the income in money being required in but very few cases, and the amount of the contribution required of any one person being determined, in most cases, by the external or superficial features of the business in which he is engaged — such, for example, as the kind of goods handled, the size and arrangement of his shop, and the importance from a commercial point of view of the town in which it is located.

The cases in which a statement of, or reference to, the amount of the income is prescribed are as follows: (1) officials of banks, stock companies and the like, administrators of real estate, or of the vested incomes of individuals or corporations, agents or attorneys of persons receiving pensions or interest from the state; (2) employees of banks, corporations, insurance companies and other organizations, firms or individuals when the remuneration exceeds 600 *pesos* per annum; (3) dividends declared by banks, by corporations or branches and agencies thereof (excepting mutual insurance companies), the tax being in this case stopped at the source; (4) government contractors, in which case the rate is one-half of one per cent of the sum named in the contract.<sup>1</sup>

In other cases there are generally four specific rates for each industry, shop or occupation: the first for Manila and its adjacent suburbs; the second for most of the other important ports of entry<sup>2</sup> and a few important towns of over thirty thousand inhabitants; the third for certain provincial towns of over fifteen thousand but not over thirty thousand inhabitants; and the

<sup>1</sup> It was evidently assumed that the profit on such contracts would be at least ten per cent, so that this is no departure from the regular rate on incomes.

<sup>2</sup> Zamboanga is excepted.

fourth for all other towns. These rates stand in the relations of 100, 68, 51 and 36, or nearly so.<sup>1</sup> In the case of certain industries which manufacture goods from raw materials produced in the islands and of occupations, like those of peddlers, in which location is of little importance, there is only one rate for each, irrespective of location.

To illustrate the manner in which the elaborate tariff, with four times four hundred different classes of contributors, is constructed, we may cite a few typical examples. Thus, number nine in group one reads: "Brokers dealing in the wares of the country but not importing or exporting goods and not having a regular office or place of business"; these are rated at (1) 30, (2) 20, (3) 15 and (4) 11 *pesos*. Under number twenty-one in the same group are: "Bankers, whose regular business is to buy, sell or discount on their own account, or as agents, drafts, bills of exchange and other securities"; rated at (1) 1000, (2) 680, (3) 510 and (4) 357 *pesos*. Under group two, which deals with bazaars and stores, number three contains: "Stores and bazaars engaged exclusively in the sale of Chinese, Japanese and British Indian goods," which import these wares; rated at (1) 400, (2) 272, (3) 204 and (4) 143 *pesos*; and the same kind of establishments not importing, at (1) 200, (2) 136, (3) 102, (4) 71 *pesos*. Other distinctive characteristics, besides the kind of wares and whether imported or not, used in the same group are: whether the goods are manufactured on the premises or elsewhere, whether the business is done at retail or at wholesale, whether the establishment maintains a "godown" or warehouse and whether machinery is used or not. Under group three, which treats of dealers and vendors, we find number eight includes "dealers in lumber and all kinds of builders, cabinet-makers or coopers, who export their wares," rated at 150, 102, 77 and 54 *pesos*; and under number nine, if they forego the right to export, they are rated at 75, 51, 38 and 27 *pesos*. Under group four, which treats of various industries, number twenty-six<sup>2</sup> includes

<sup>1</sup> Thus the four rates for *acopiadores* are 250, 170, 128 and 89 *pesos*.

<sup>2</sup> Added by the decree of the *Intendencia general*, Feb. 5, 1892.

small shops situated in a room opening directly on the street or in arcades, with a back room or workshop, where are sold, at wholesale and at retail, hardware, locks and keys, nails, cutlery, tools and instruments of steel, iron and other metals, cooking utensils, faucets and the like, and with the right to sell, at retail only, other articles from Europe, China and Japan, such as small hardware, jewelry, porcelain, fine and common earthenware, files, mirrors, optical instruments, toys, articles of iron, brass or bronze, zinc, perfumery, musical instruments, furs, hats, brushes, combs, umbrellas, piece lace, portmantaus, foot-wear, paints, sewing-machines, clocks, all kinds of paper, stationery, prints, engravings, chromos, frames, mouldings, trinkets of metal, blank books, saddlery and similar articles,

with but one door and without a "godown" or warehouse; rated at 100, 68, 51 and 36 *pesos*. If such a shop has a "godown," the rates are 120, 80, 60 and 42 *pesos*; and if two doors with a "godown," 150, 102, 77 and 54 *pesos*.

Among the professions, surveyors, for example, pay 12, 8, 6 or 4 *pesos*; dentists, 30, 20, 15 or 11 *pesos*; architects, 100, 68, 51 and 36 *pesos*, according to location; lawyers, 150, 100 or 50 *pesos*, according to the category of the courts in which they practice. Among the arts and trades we find tailors importing goods rated at 100 *pesos* for Manila and at the usual reduction in other places; not importing, they pay 50 *pesos*, etc.; and if they work in doorways or anywhere in sight of the public, but have no shops, 12 *pesos*.

The various classes in the tariff correspond very closely to the different varieties of shops which have grown up in the islands. Thus, number twenty-six of group four, used as an illustration above, is an accurate description of several hundred Chinese shops in Manila; and the number of doors and the possession or non-possession of a storehouse, or "godown," are simple and common marks distinguishing differences in size and profits. An examination of the business conducted under each of the various classes or numbers of the tariff shows that the tax is approximately five per cent of the usual or average profits. A dealer or manufacturer commencing business in a small way will be placed in a class for which the tariff rate is low; as his business grows, he passes into a higher class, and

his taxes increase *pari passu* with the increase of his profits. There is a possibility, however, that the same tax may be paid by a large establishment as by a small one, when both are organized along the same lines. But experience has proved that this is very rarely the case, as a larger establishment would naturally acquire some of the many different characteristics which would place it in another class.

There are sixty-two different classes of occupations or industries which are exempt. These exemptions are drawn in such a way as to relieve from taxation: (1) all persons other than Chinese whose incomes are in all probability below 600 *pesos* per annum — such, for example, as seamstresses, domestic servants, weavers of mats and of walls of *nipa* or *nipa* thatch, boatmen, itinerant barbers and day laborers; (2) all public officials, including school teachers; (3) public and benevolent institutions; (4) industries otherwise taxed or burdened, as mining and forestry; (5) all branches of agricultural industry (in accordance with the settled policy of the government); (6) fishing; (7) writers, authors and editors of scientific or literary works and teachers in the higher branches of education; (8) for two years only, “any manufacturing industry which has not been previously conducted in the islands.”

Like all Spanish taxes, the rates of this tax were increased by surtaxes, now abolished, some of which accrued to the benefit of the provincial and municipal governments. Assessment is made on the basis of a tax list, or *padrón*, drawn up by the internal revenue office in each province, and declarations are required from all persons subject to the tax. The tax is payable quarterly, and delinquencies are punished by a penalty of twenty-five per cent, plus twenty-five cents (Mexican) per day for expenses of collection. Collection may be enforced by closure of the shop or establishment and, if that fails, by seizure and sale of the delinquent's property.

4. *Operation of the Income Tax as a Whole.* — The question of incidence is obviously most important; for, if the tax is shifted from the rent, wages, interests or profits upon which it is levied, it must result in raising the price

of commodities and must act as an annoying restraint on trade. Such, however, is not found to be the case. The consumer does not pay the tax, and there is no perceptible restraint on trade. The tax is universal and affects every kind of economic activity except agriculture, which, as has already been stated, it was the expressed policy of the Spanish government to foster and encourage. It is distinctly a tax on profits. The only place where labor and capital can go to escape this taxation is, therefore, into agriculture, all branches of industrial and commercial activity being alike subject to the tax and at practically the same rates; consequently the prices of manufactured or commercial wares can be affected by the tax only to the extent that capital and labor are driven into agriculture and the cost of agricultural products correspondingly reduced. The reasons for thus favoring agriculture, which had all the more weight by virtue of the fact that the "friars," who were large landholders, had a decisive voice in the government, are to be found: first, in the great natural advantages which the islands possess for the production of such crops as hemp, tobacco, copra, cocoanut oil, sugar, indigo and chocolate — crops which promise such magnificent returns for the general wealth and welfare of the country when they are developed; and, second, in the inertness of the natives and their reluctance to labor after their immediate necessities are supplied, which places so severe a handicap on all agricultural endeavor. The policy of Spain in favoring agriculture in these islands, even at the expense of manufacturing industries, was not without justification.

In considering the form of the income tax, the most striking characteristic is the skillful way in which it avoids almost entirely the difficulties of a personal declaration, or estimate, of the annual income and the dangers of false statements and misrepresentation. In this it bears a marked resemblance to the British property and income tax. Except in the case of such gross negligence or corruption on the part of the public officials as was common under Spanish rule, it is impossible for the taxpayer to evade a just assessment; and it is the only form of an income tax which can be enforced with any success



whatever among a people trained, as the Filipinos have been for centuries, in every form of duplicity where the interests of government are concerned. It is, moreover, a tax which, if honestly administered, can be made as just and equitable under existing circumstances as any other tax which could possibly be developed. Practically all of the objections that have been urged against the Philippine income tax, in the various statements and petitions presented to the representatives of the United States government, are based upon the corrupt methods of administration under Spanish rule; and not one which is worthy of a moment's consideration has been urged against the principle of this tax.

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*(To be continued.)*