

Philippines: Big Business Threatens Advocates Of Wealth Tax

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Management Association of the Philippines' President Alfredo Pascual's warning that the wealth tax proposed by presidential candidate Ka Leody De Guzman will result in "capital flight" should be taken not simply as speculation but as a threat—one directed at government officials who might be thinking of taking the labor leader's idea seriously.

Don't scare capital, says Pascual. What he fails to mention is that the corporate elite successfully pressured President Duterte and Finance Secretary Carlos Dominguez to bring down the corporate income tax from 30 to 25 per cent last year. This is amazing. While other countries were busy tightening their tax enforcement and increasing their tax rates to meet the greater demand for health services, the Philippines was drastically bringing down its corporate income tax rate to accommodate the corporate elite. Now our corporate income tax rate is lower than those of the United States, Germany, and Japan, which is unheard of since developing countries as a rule have much higher tax rates on corporate income.

We not only have greedy corporations but also greedy dynasties. Income tax evasion by the very rich is legendary, Lucio Tan being emblematic in this regard. This is why the wealth tax will not only tax income but other streams of wealth like property and stocks. In fact, a great part of the income of the superrich comes from property and stocks and other financial streams.

With a tough wealth tax and tougher tax collection, a Leody/Walden administration won't need to resort to foreign borrowings to fund better social services, thus balancing if not gaining a surplus in out external accounts.

But with a stricter tax regime, the superrich might be tempted to bring their capital out of the country to ensure they won't have to pay the taxes they have avoided paying for so long. This is not an idle threat. The Pandora Papers expose revealed that at least 156 superrich Filipinos have hidden their wealth in tax havens all over the world. The list includes Transport Secretary Arthur Tugade, former Comelec Chair Andy Bautista, and multibillionaire tycoon Enrique Razon.

Leaving for tax havens will not be possible under a Leody/Walden administration, since one of the provisions of the wealth tax law will be a high 50 per cent tax on outward capital flows destined for tax havens, which will make capital flight a very unattractive escape route and force the superrich to meet their obligations to their fellow Filipinos.

But to return to MAP President Pascual's reaction to Ka Leody's proposal, it might be useful to quote Nobel laureate Paul Krugman's words on taxes on the rich in a recent article in the New York Times: "Assertions that prosperity depends on keeping taxes at the top low have been refuted by experience time and time again — most recently in the failure of the Trump tax cuts to deliver the promised immense investment boom...The only reason the obsession with low taxes for the rich retains any influence is that keeping this zombie shambling around serves the interests of corporations and the

wealthy. So let's not waste time on it."

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