

# John Rawls' Theory of Justice and the Philippine Taxation

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## ABSTRACT

This paper discusses the philosophical concept of distributive justice enunciated by John Bordley Rawls (1921-2002) and how it is applied in the exercise of the state's inherent power of taxation, particularly in the Philippines. First, it discusses the legal bases, nature, and principles of taxation in the Philippines. Second, it also discusses Rawls' Theory of Justice and other Rawlsian philosophical ideas, such as the equal liberty principle and difference principle. Lastly, it presents how Rawl's theory of justice is applied to Philippine taxation.

**Keywords:** John Bordley Rawls, distributive justice, taxation, political philosophy

## INTRODUCTION

Taxes are the lifeblood of the government.

This has been the overarching principle justifying the exercise of the power of taxation. Cruz (2014) defines taxation as the power by which the sovereign, through its lawmaking body, raises revenue to defray the necessary expenses of government.

According to Schiller et al. (2015), there are probably few issues in everyday politics as contested and conflictive as taxation. Citizens and companies tend to have strong opinions on how much they pay (usually too much) and how much they get in return (usually too little). In the development debate, however, the topic is overwhelmingly dealt with from a technical or financial perspective (for instance, see Kenny and Winer, 2006, Knack, 2008, Aizenman and Jinjara, 2009, IMF, 2011, Fenochietto and Pessino, 2013). While thousands of tax economists and legal experts produce evidence on tax policy and tax administration issues, there are hardly any "tax political scientists" engaged in this debate. As a result, many contributions to the debate lack a deeper understanding of the political processes behind taxation. Researchers and policymakers often end up referring to "politics" or "lack of political will" in a rather anecdotal fashion and without a clear conceptual basis.

In the Philippines, taxation, or the taxation system it adopts, remains a challenge. Punongbayan (2017) mentioned that not only do our taxes disproportionately burden the poor and benefit the rich, but they also yield too little revenue given the distortions they create. Needless to say, both problems need to be resolved soon. In his article, Punongbayan (2017) identified problems with the taxation system of the Philippines. First, "the Philippine tax system currently has some of the highest income tax rates in this region. Compared to [the] major ASEAN counterparts, our corporate income tax is the highest at 30%, a rate that "turns off" foreign investors who prefer to do business in our low-tax neighbors." Second, "in the Philippines, too many goods and services are exempted from taxes. For instance, [the] value-added tax (VAT) law has 59 lines of exemptions – more compared with the VAT laws of [their] neighbors. The

plethora of exemptions partly explains the relatively low tax revenues [they] get. If only fewer goods were exempted – or if only the exemptions were limited to essential goods like raw food and medicines – then the government could boost its revenues.” Third, “too many Filipinos can get away with not paying taxes. Obviously, there are the tax evaders who are nearly impossible to catch and prosecute given our overly strict bank secrecy law. In addition, “compensation earners” or those who earn salaries or wages, end up paying more in taxes than the self-employed and the professionals (who have some ability to hide part of their incomes). As a result, from 2010 to 2013, compensation earners earned 60% of total incomes in the country but paid as much as 80% of all taxes. Fourth, “[the] tax system is overly complicated and burdensome, especially for small taxpayers. A 2015 study found that the Philippines ranked 127th out of 189 economies in terms of ease of paying taxes ([Philippines] ranked below Iraq and Afghanistan). Another study revealed that the “complexity of tax regulations” and [the] “high tax rates” are some of the most problematic factors for doing business in the country.” Fifth, “the Philippine tax system is only “mildly” progressive, and even borderline “regressive” – in many instances, poor Filipinos effectively pay a larger fraction of their income in taxes. For example, tax rates on dividends and other forms of capital incomes (which are earned mostly by the rich) are so low compared to the tax rates of ordinary workers. Increasing these capital income tax rates will certainly help make the rich pay more in taxes. Also, taxes on petroleum products have been constant for many years. Aside from being a lost opportunity to combat pollution and congestion, it’s also a lost opportunity to tax the rich who consume petroleum products more.”

Taxation is probably the most significant political phenomenon that political scientists have left relatively unexplored. (Curtis, 1989) Evidence on the politics of taxation in developing countries remains scarce (Schiller et al., 2015). Hence, this paper endeavors to contribute to the such gap.

In general, the main objective of this paper is to understand taxation system in the Philippines through the prism of John Rawls’ Theory of Justice. Specifically, this paper attempts to answer the following questions:

1. How does distributive justice apply to the strategy and actions of the Philippine government in terms of taxation?
2. In what ways do the principles of equal liberty and difference manifest in the policies and tactics employed by the Philippine government in terms of taxation?
3. How do John Rawls’ ideas on leadership and governance reflect in the narratives and public discourses on taxation?

Taxation stands as a fundamental pillar of governance, essential for funding government operations and public services. As Cruz (2014) articulates, taxation represents the sovereign's power to generate revenue necessary for sustaining the state's functions. However, the contentious nature of taxation, as highlighted by Schiller et al. (2015), underscores the complex relationship between citizens, businesses, and the government regarding tax burdens and perceived benefits.

The Philippines, in particular, faces significant challenges with its taxation system, as elucidated by Punongbayan (2017). High income tax rates, numerous exemptions, tax evasion issues, and a convoluted tax structure hinder revenue generation and exacerbate inequalities. These systemic flaws necessitate urgent attention and reform to align taxation with principles of fairness and efficiency.

Moreover, the neglect of taxation as a subject of rigorous political analysis, as noted by Curtis (1989) and Schiller et al. (2015), underscores the need for deeper exploration into the political dynamics shaping tax policies in developing countries like the Philippines. This study seeks to fill this gap by examining the Philippine taxation system through the lens of John Rawls' Theory of Justice, probing how distributive ju-

stice, equal liberty, and difference manifest in tax policies and governance.

In essence, understanding the political dimensions of taxation is vital for fostering equitable fiscal policies and strengthening governance. By grappling with these questions through a Rawlsian perspective, we can pave the way for a more just and effective taxation framework that aligns with principles of fairness and social welfare.

### **Philippine Taxation**

In the Philippines, taxation is primarily governed by the Constitution, statutes, and judicial interpretations. The legal bases, nature, and principles of taxation in the country reflect a combination of constitutional provisions, statutory enactments, and judicial doctrines that guide the administration and implementation of tax laws.

As to its legal bases, the 1987 Philippine Constitution fundamentally provides that the rule of taxation shall be uniform and equitable. The Congress shall evolve a progressive system of taxation. (Article VI, Sec. 28 (1), 1987 Philippine Constitution)

The requirement of uniformity in taxation means that taxes must be applied equally and uniformly to all persons or properties in similar situations or circumstances. This principle ensures that similarly situated individuals or entities are treated alike in terms of their tax obligations. It prevents arbitrary distinctions and discriminatory practices in taxation, promoting fairness and consistency across taxpayers. Moreover, equitability in taxation refers to the principle of fairness and justice in the distribution of tax burdens. It emphasizes that taxes should be imposed based on the taxpayer's ability to pay, considering factors such as income, wealth, or consumption. Equitable taxation aims to minimize the burden on those who can least afford it while ensuring that those with higher capacities to pay contribute proportionately more to government revenue.

Likewise, the constitutional directive for Congress to evolve a progressive system of taxation signifies the adoption of a tax structure where tax rates increase as income levels rise. This principle is based on the concept of ability-to-pay, asserting that individuals or entities with higher incomes should bear a greater share of the tax burden relative to their income. Progressive taxation aims to promote social justice by redistributing wealth and addressing income inequality through the tax system. Implementing a progressive tax system involves designing tax laws that impose higher tax rates on higher income brackets while providing relief or exemptions for low-income earners. This approach aligns with the constitutional mandate to promote equity and social justice in taxation, ensuring that the tax burden is distributed fairly and responsibly across different income groups.

In addition, Republic Act No. 8424, otherwise known as the National Internal Revenue Code (NIRC) of 1997, is the principal statute governing national taxes in the Philippines. It provides comprehensive rules and regulations on various types of taxes, including income tax, value-added tax (VAT), excise tax, estate tax, and donor's tax, while the Local Government Code of 1991 (Republic Act No. 7160) governs local taxation, granting local government units (LGUs) the authority to impose and collect certain taxes, fees, and charges.

As to its nature, taxation in the Philippines is an inherent attribute of sovereignty, exercised by the government through its legislative branch. It is the power to impose charges or levies upon persons, property, rights, or privileges for the purpose of generating revenue to fund public expenditures and achieve socio-economic objectives.

As to its principles, Philippine taxation upholds inherent and constitutional limitations, such as uniformity

and equity, progressive taxation, public purpose, discal adequacy, administrative feasibility, and non-retroactivity. Taxes must be levied uniformly and fairly across all taxpayers. Similarly situated taxpayers must be treated equally under similar circumstances. The principle that those with higher incomes should bear a greater tax burden, reflecting the ability-to-pay concept. Taxation must serve a public purpose, primarily funding government operations and public services. Taxes should be sufficient to meet the government's financial needs without resorting to excessive borrowing. Tax laws and regulations should be enforceable and easy to administer. Tax laws should not have retroactive effects unless explicitly provided by law.

### **John Rawls' Theory of Justice**

The American philosopher John Bordley Rawls explored his views on justice in his seminal works such as *A Theory of Justice*, *Political Liberalism*, and *Justice as Fairness*. Rawls (1921-2002) was an influential philosopher known for his work in political philosophy, particularly for developing the concept of "justice as fairness."

In *A Theory of Justice* (1999), Rawls posits that "justice is the first virtue of social institutions, as truth is of systems of thought," emphasizing the foundational role of justice in societal structures. Rawls contends that justice is essential for shaping social institutions and underscores its importance in individual interactions within society. He (1999) further asserts that "Each person possesses an inviolability founded on justice that even the welfare of society as a whole cannot override."

Rawls (1999) suggests that to achieve justice, society must consist of individuals who cooperate based on mutually recognized rules of conduct designed to advance collective well-being. This idea aligns with the social contract tradition, acknowledging Rawls' indebtedness to this influential theoretical framework. Lovett (2011) clarifies that Rawls did not claim originality for his theory but rather situated it within this broader tradition.

In articulating principles of justice, Rawls (1999) emphasizes that these principles define the fundamental terms of social association, regulating social cooperation and forms of government. This approach, termed "justice as fairness," seeks to establish a state that promotes fairness to its citizens (Aguas, 2019).

The "theory of justice as fairness" enables individuals to pursue their conceptions of what is good and not just the common good being dictated upon by the government. This offers a fair, equal, and just criteria for the distribution of goods; thus, called naturally as distributive justice. Rawls believed that without distributive justice, institutions would not truly prosper in a society. Believing in John Locke and Jean Jacques Rousseau, the "social contract" is necessary between the people and their leader. Rawls thought of this social contract as a hypothetical or a "thought experiment," which he called the "original position". Rawls' political philosophy highlights the importance of ensuring fairness in the major social, political, and economic institutions that structure society (Scheffler, 2015). This vision of justice as fairness aims to create a society that is fair to all its citizens, emphasizing the ethical and political dimensions of societal organization (Aguas, 2019). Despite economic interpretations of Rawls' ideas, the core of his approach remains deeply intertwined with political and ethical considerations.

### ***The Principles of Equal Liberty and Difference***

Rawls' first principle is known as the "equal liberty principle." In his work *Political Liberalism* (1996), Rawls states that each person is entitled to a fully adequate scheme of equal basic rights and liberties, which must be compatible with the same scheme for all individuals. This scheme ensures that equal

political liberties, and only those liberties, are guaranteed their fair value. Freeman (2002) elaborates on this by explaining that certain basic rights and freedoms are more crucial than others in defining the moral ideal of free and equal persons. Rawls aims to establish a democratic ideal where free citizens have equal civic status and the power to influence legislation and participate in public political life.

According to Rawls, all individuals who are free and equal possess basic rights and freedoms that are to be equally exercised in society and cannot be revoked by any individual since they are entitled to these liberties (Aguas, 2019). Rawls identifies these liberties as political liberty, freedom of speech and assembly, liberty of conscience and thought, freedom from psychological and physical oppression, the right to hold personal property, and freedom from arbitrary arrest and seizure (Rawls, 1999). These fundamental liberties are considered morally protected rights, essential for establishing fair equality of opportunity in terms of basic fundamental rights.

Furthermore, Rawls argues that these basic liberties should be protected and provided by the state, except for individuals who commit serious crimes, because they are rooted in a moral ideal of persons as free and equal self-governing agents (Freeman, 2002).

After elucidating the equal liberty principle, Rawls introduces the "difference principle." Rawls (1999) explains that this principle primarily applies to the distribution of income and wealth and the design of organizations that utilize differences in authority and responsibility. Although income and wealth distribution does not need to be equal, it must be advantageous to everyone, particularly the least advantaged, and positions of authority and responsibility must be accessible to all (Rawls, 1999).

The core idea of the difference principle, as explained by Van Parijs (2003), is that social and economic inequalities should be evaluated based on their impact on the least advantaged individuals in society. This principle allows for inequalities as long as they benefit everyone, especially those who are the least well-off (Van Parijs, 2003).

In summary, Rawls' difference principle seeks to justify inequalities in society by ensuring that they work to the advantage of all individuals, particularly the least advantaged. Rawls emphasizes the importance of identifying and assisting those who are less well-off to promote fairness and equality in society (Weatherford, 1983).

## METHODOLOGY

In this paper, the researcher employs qualitative method of research to elucidate how Rawlsian theory of justice applies to the taxation system of the Philippines.

In particular, document analysis, with the use of thematic analysis, is used to answer the research questions. Document analysis is a systematic procedure for reviewing or evaluating documents—both printed and electronic (computer-based and Internet-transmitted) material (Corbin & Strauss, 2008), while thematic analysis is a qualitative research method for analyzing data that entails searching across a data set to identify, analyze, and report repeated patterns (Braun & Clarke, 2006).

## RESULTS AND DISCUSSION

In general, this paper aimed to explain taxation in the Philippines using the lens of John Rawls' Theory of Justice. In particular, this paper is concerned on (1) how distributive justice is applied to the strategy and actions of the Philippine government in terms of taxation, (2) in what ways the principles of equal liberty and difference manifest in the policies and tactics employed by the Philippine government in terms of taxation, and (3) on how John Rawls' ideas on leadership and governance reflect in the narratives and pub-



lic discourses on taxation.

### **Distributive Justice and the Philippine Taxation**

Anchored on his concept of distributive justice, it can be gleaned that the Philippine taxation should support the protection and enhancement of basic liberties and rights, such as freedom of speech, assembly, and property rights. Rawls emphasizes that individuals should have equal access to these fundamental freedoms, and tax policies should not impede or disproportionately burden individuals' exercise of these rights.

First, Rawls advocates for a progressive tax system where individuals with higher incomes contribute a larger percentage of their earnings in taxes. In the context of the Philippines, tax rates are structured in a way that places a greater burden on those with higher incomes, while providing relief or exemptions for low-income individuals. This approach helps redistribute wealth and resources more equitably across society.

Second, pursuant to the symbiotic relationship between the government and the taxpayers, tax revenue is used to fund essential public services such as education, healthcare, and infrastructure. Rawls emphasizes the importance of ensuring equal access to these services for all citizens, regardless of socioeconomic status. Investing in these areas helps create a more level playing field and promotes fair equality of opportunity.

Third, tax policies should be designed to promote social mobility and upward economic mobility. This could involve using tax incentives to encourage investment in education, skills development, and entrepreneurship among disadvantaged groups. Providing opportunities for advancement helps fulfill Rawls' vision of fair equality of opportunity.

Fourth, Rawls' theory emphasizes the importance of fairness and procedural justice. Therefore, Philippine taxation policies should be transparent, accountable, and inclusive in their decision-making processes. Grounded on the inherent and constitutional limitations of taxation, citizens have a voice in how tax revenue is allocated and used to ensure that it aligns with principles of distributive justice.

### **The Principles of Equal Liberty and Difference and the Philippine Taxation**

When applied in Philippine taxation, the equal liberty principle ensures that all pay their own income tax from their salary, passive, business, and professional incomes. Section 23 of the National Internal Revenue Code (NIRC) of 1997 states:

*SEC. 23. General Principles of Income Taxation in the Philippines. - Except when otherwise provided in this Code:*

- A. A citizen of the Philippines residing therein is taxable on all income derived from sources within and without the Philippines;
- B. A nonresident citizen is taxable only on income derived from sources within the Philippines;
- C. An individual citizen of the Philippines who is working and deriving income from abroad as an overseas contract worker is taxable only on income derived from sources within the Philippines: Provided, That a seaman who is a citizen of the Philippines and who receives compensation for services rendered abroad as a member of the complement of a vessel engaged exclusively in international trade shall be treated as an overseas contract worker;
- D. An alien individual, whether a resident or not of the Philippines, is taxable only on income derived from sources within the Philippines;

- E. A domestic corporation is taxable on all income derived from sources within and without the Philippines; and
- F. A foreign corporation, whether engaged or not in trade or business in the Philippines, is taxable only on income derived from sources within the Philippines.

Furthermore, Section 32 thereof provides:

*SEC. 32. Gross Income. -*

- A. General Definition. - Except when otherwise provided in this Title, gross income means all income derived from whatever source, including (but not limited to) the following items:
  - a. Compensation for services in whatever form paid, including, but not limited to fees, salaries, wages, commissions, and similar items;
  - b. Gross income derived from the conduct of trade or business or the exercise of a profession;
  - c. Gains derived from dealings in property;
  - d. Interests;
  - e. Rents;
  - f. Royalties;
  - g. Dividends;
  - h. Annuities;
  - i. Prizes and winnings;
  - j. Pensions; and
  - k. Partner's distributive share from the net income of the general professional *partnership*.

The collected taxes are spent for public facilities to be used equally. Some of these projects are airports, seaports, railways, roads, bridges, water utilities, flood control, sewerage, electrification, energy sources, public markets, terminals, and among others.

Additionally, with the difference principle, the income tax imposed fairly on every Filipino is according to the following rates:

*Tax Schedule Effective January 1, 2023 and onwards:*

<i>Not over P250,000.....</i>	<i>0%</i>
<i>Over P250,000 but not over P400,000.....</i>	<i>15% of the excess over P250,000</i>
<i>Over P400,000 but not over P800,000.....</i>	<i>P22,500 + 20% of the excess over P400,000</i>
<i>Over P800,000 but not over P2,000,000.....</i>	<i>P102,500 + 25% of the excess over P800,000</i>
<i>Over P2,000,000 but not over P8,000,000.....</i>	<i>P402,500 + 30% of the excess over P2,000,000</i>
<i>Over P8,000,000 .....</i>	<i>P2,202,500 + 35% of the excess over P8,000,000</i>

As a result, the collected taxes are being spent differently or unequally to the less privileged citizens. Some of these expenses are student-teachers' assistances, scholarships, medical missions, immunizations, PhilHealth insurance subsidy, free medicines, sustainable livelihoods, feeding, 4Ps, relief operations, welfare assistance services, assistance to farmers, financial and social services, housing, and among others.

### **Rawlsian Leadership and Governance and the Philippine Taxation**

Rawls introduced the concept of the "veil of ignorance," which suggests that in designing a just society, individuals should imagine themselves behind a veil that obscures their own personal characteristics, such as wealth, talents, and social status. This hypothetical situation is meant to ensure that people design principles of justice without knowing their own position in society, thus promoting impartiality.

When considering taxation in the light of Rawls' principles, one might argue for a tax system that adheres to the difference principle, which is a key component of Rawls' theory. The difference principle states that social and economic inequalities are acceptable only if they benefit the least advantaged members of society. Applied to taxation, this principle might justify progressive tax policies that place a higher burden on those with greater means to ensure that the less fortunate are better off.

In public discourses on taxation, one can find arguments that draw on Rawlsian principles to advocate for tax policies that prioritize the needs of the most vulnerable in society. Discussions may revolve around questions on progressive taxation, social services, and fair opportunity. Advocates might argue that progressive taxation, where higher-income individuals pay a larger percentage of their income in taxes, aligns with Rawls' difference principle by addressing economic inequalities and benefiting the less advantaged. Discussions on the use of tax revenue to fund social programs, education, and healthcare can be framed in terms of how these services contribute to the well-being of the least advantaged, consistent with Rawls' emphasis on improving the condition of the most vulnerable. Rawls' focus on ensuring fair opportunities for all individuals could be invoked in debates on how tax policies impact social mobility, education accessibility, and other factors that contribute to a more equitable society.

### **CONCLUSION**

In conclusion, this exploration of taxation in the Philippines through the lens of John Rawls' Theory of Justice highlights the critical role of taxation as a fundamental pillar of governance. Taxation serves as the sovereign power by which revenue is raised to sustain government operations and public services, reflecting the core principle articulated by Cruz (2014) and other scholars. However, the contentious nature of taxation, as emphasized by Schiller et al. (2015), underscores the complex dynamics involving citizens, businesses, and the government regarding tax burdens and perceived benefits.

The challenges within the Philippine taxation system, as outlined by Punongbayan (2017), are multifaceted, encompassing issues such as high-income tax rates, numerous exemptions, tax evasion, and a convoluted tax structure that hinders revenue generation and exacerbates inequalities. Addressing these systemic flaws requires urgent attention and reform to align taxation with principles of fairness, equity, and efficiency.

Moreover, the neglect of taxation as a subject of rigorous political analysis, as noted by Curtis (1989) and Schiller et al. (2015), underscores the need for deeper exploration into the political dynamics shaping tax policies in developing countries like the Philippines. This study endeavors to contribute to filling this gap by examining the Philippine taxation system through the lens of John Rawls' Theory of Justice, probing how distributive justice, equal liberty, and difference manifest in tax policies and governance.



Rawls' principles of distributive justice underscore the importance of designing tax policies that promote fairness and equality, redistributing wealth and resources to benefit the least advantaged members of society. Progressive taxation, funding essential public services, promoting social mobility, and ensuring transparency and accountability in tax administration are key elements in aligning taxation with principles of distributive justice.

Similarly, Rawls' principles of equal liberty and difference emphasize the protection of basic liberties and the just distribution of income and wealth. Ensuring equal political liberties and providing opportunities for all individuals, particularly the least advantaged, are essential for fostering a more equitable society. In applying Rawlsian principles to Philippine taxation, there is a call for reform that addresses systemic inequalities, simplifies tax structures, and enhances transparency and fairness. By grappling with these challenges through a Rawlsian perspective, policymakers and stakeholders can work towards a taxation framework that fosters social welfare, economic equity, and ethical governance. Ultimately, understanding the political dimensions of taxation is crucial for advancing equitable fiscal policies and strengthening governance in the Philippines.

While Rawls may not have directly addressed taxation in his works, his principles of justice provide a theoretical foundation that can inform and shape discussions on fair and just tax policies within the broader context of governance and leadership. Public narratives on taxation can be enriched by considering Rawls' ideas and their implications for promoting social justice and reducing inequalities.

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