FIFTHEENTH CONGRESS OF THE)
REPUBLIC OF THE PHILIPPINES)
First Regular Session)

SENATE

S. No. 2480

Introduced by Senator FRANKLIN M. DRILON

EXPLANATORY NOTE

It is a policy of the State to maintain fiscal discipline as it is very essential in reducing vulnerabilities in the government, sustaining macroeconomic stability, and improving economic performance. In accordance therewith, the State has the right to establish measures to further strengthen fiscal discipline in the government.

This bill proposes that public spending which results to an increase in deficit or reduction in revenue, whether it is a mandatory spending legislation or any tax legislation, should and must be accompanied by a countervailing measure which offsets it. Establishing Deficit-Neutral rules on both the Executive and Legislative branches of the government are much needed in order to institute these control mechanisms or cost-offsetting measures on spending. The bill also commands the adoption of preventive measures against the erosion of tax base.

These Deficit-Neutral rules will be the key tool to somewhat limit deficit spending and to ensure compliance with the annual fiscal targets agreed upon by the Development Budget Coordinating Committee (DBCC).

This Bill, therefore, helps the government to properly manage the country's public finances and strengthen the country's fiscal position. A more responsible financial management will be created. Thus, overall macroeconomic stability and long-term sustainable growth are most likely to be achieved.

For these reasons, passage of this proposed measure is most earnestly and promptly requested.

FRANKLIN M. DRILON
Senator

FIFTEENTH CONGRESS OF THE)
REPUBLIC OF THE PHILIPPINES)
First Regular Session)

SENATE

S. No. 2480

Introduced by Senator Franklin M. Drilon

AN ACT
INSTILLING FISCAL DISCIPLINE IN THE PUBLIC SECTOR BY ESTABLISHING DEFICIT-NEUTRAL RULES IN LINE WITH THE PRINCIPLE OF RESPONSIBLE FINANCIAL MANAGEMENT AND TOWARDS PROMOTING SUSTAINABLE ECONOMIC GROWTH.

Be it enacted by the Senate and House of Representatives of the Philippines in Congress assembled:

Section 1. ***Declaration of Policy*** – It is hereby declared a policy of the State to instill fiscal discipline in the public sector along the principles of responsible financial management in order to ensure sufficient resources to finance socio-economic development programs toward overall macroeconomic stability and long-term sustainable growth.

Sec. 2. ***Establishment of Deficit-Neutral Rules toward Responsible Financial Management*** – In line with the principles of responsible fiscal management, the State, through the Executive and Legislative Branches of government, shall adopt deficit-neutral rules that establish control mechanisms on spending and adopt preventive measures against the erosion of the tax base.

Any mandatory spending legislation or any tax legislation that increases the deficit or reduces revenues must be accompanied by a countervailing measure that offsets the increase in deficit or reduction in revenue.

Deficit-neutral rules shall serve as a key tool to constrain deficit spending and to ensure compliance with annual fiscal targets agreed upon by the Development Budget and Coordinating Committee in support of the Budget of Expenditures and Sources of Financing that is submitted to Congress for consideration in the enactment of the annual General Appropriations Act.

Said rules shall contribute to the attainment of diminishing yearly deficit targets over the medium-term.

Sec. 3. ***Definition of Terms*** – When used in this Act, the following terms or words and phrases shall mean or be understood as follows:

a. *Budget of Expenditure and Sources of Financing* or *BESF* refers to a document submitted by the President in accordance with Section 22, Article VII of the Philippine Constitution. It contains the annual program of estimated expenditures accompanied by an estimate of expected sources of financing, proposed by the Executive branch to the Legislature for spending authority.

b. *Deficit* refers to the budgetary deficit, which is the deficiency of total revenues over expenditures excluding debt repayments and payments of non-budgetary accounts.

c. *Development Budget and Coordinating Committee* or *DBCC* refers to the committee created under Executive Order No. 232, s. 1970, as amended.

d. *Fiscal Targets* refer to numerical estimates on deficit, revenue, tax, non-tax, expenditure and financing, whether or not set as a percentage of the gross domestic product, that are adopted by the DBCC.

e. *Gross Domestic Product* or *GDP* refers to the value of all goods and services produced domestically; the sum of the gross value added of all resident institutional units engaged in production, plus any taxes and minus any subsidies, on products not included in the values of their outputs.

Sec. 4. ***Grant of Tax Incentive*** – The grant of tax incentive, in the nature of a tax break, tax exemption, tax privilege, tax reduction, tariff/duty reduction, preferential tax treatment, deferred tax or a broadening of an existing tax incentive or benefit, through the passage or effectivity of an executive or legislative measure, shall be conditioned on either of the following:

a. The issuance by the Department of Finance (DOF) of a certification that said measure is in compliance with the annual fiscal targets and that tax incentive has been considered in the revenue program for the year's BESF; or

b. The imposition and implementation of a countervailing mechanism or cost-offsetting measure, through a revenue-generating provision or a reduction in expenditure.

Sec. 5. ***Rationalization of Existing Tax Incentives*** – All existing incentives granted under various laws and executive orders shall be immediately reviewed with the end-objective or rationalizing the tax incentives system and eliminating unnecessary and costly tax incentives within two (2) years from effectivity of this law.

Sec. 6. ***Expenditure Bills*** – Except for debt service and cost of living adjustments for government employees, all increases in national government expenditures especially those mandating the creation of recurrent expenditures must be offset by a permanent increase in revenue or permanent reduction in other expeditures.

Hereafter, all bills proposing an increase in public expenditures must be conditioned upon the following:

a. An estimate by the Department of Budget and Management (DBM) of its budgetary and financial impact for the next three (3) years; and
b. The enactment and implementation of an offsetting revenue-generating or expenditure-reduction measure

Sec. 7 ***Unfunded Laws*** - All laws with budgetary implications that are enacted without identified supporting revenue measures nor identified expenditure reduction shall be considered harmful to public finances and may remain unfunded.

The effectivity of existing legal provisions whose mandates remain unfunded, whether partially or in full, shall be suspended until the requirements of first paragraph of Sec. 5 shall have been complied with. For this purpose, the Committee on Oversight of the House of Representatives together with its counterpart in the Senate, in coordination with the DBM, shall prepare a list of existing legal provisions that remain unfunded as of the effectivity of this Act.

Sec. 8. ***Implementing Rules and Regulation*** – Within sixty (60) days from effectivity of this Act, the DOF and the DBM shall promulgate the necessary rules and regulations for the proper implementation of the provisions of this Act.

Sec. 9. ***Separability Clause*** – If, for any reason, any portion or provision of this Act or the application thereof shall be declared invalid or unconstitutional, the validity of other parts or provisions shall not be affected and thereby, shall continue to be in full force and effect.

Sec. 10. ***Repealing Clause*** – The following laws, presidential decrees, executive orders, corporate charters and other issuances or parts thereof, contrary to or inconsistent with the provisions of this Act, are hereby repealed or modified accordingly:

Sec. 11. ***Effectivity*** – This Act shall take effect fifteen (15) days after its publication in a newspaper of general circulation.