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SENATE

S. B. No. 462

RECEIVED BY: 

Introduced by Senator Ralph G. Recto

Explanatory Note

In 2004, members of the 13th Congress enacted Republic Act (R.A.) No. 9337 or the law that expanded the value-added taxation system in the country. This piece of legislation increased the VAT to 12% and expanded the tax base to include fuel, electricity and the transport industries, among others.

From its deliberation in Congress and up to its eventual enactment and implementation, R.A. No. 9337 appears to be one of the most heavily-debated tax measures ever to have been brought to the halls of Congress and before the bar of public opinion.

There was strong opposition to the measure as it was seen to be an additional burden to the general public. However, its proponents believed that it was necessary to enact such a law owing to the prevailing economic conditions at that time.

The tax measure is one of the recommended solutions to address a looming fiscal crisis brought about by an unprecedented increase in national debt.

In 2004, the country's debt-to-GDP ratio was at 74.4%, a record high. Debt service, including principal and interest payments, was equivalent to 85.1%¹ of government revenues, while infrastructure and other capital expenditures were only 10.9% of government expenditures for the same year.

The country's total foreign borrowing was over P3 trillion while foreign reserves fell. It was also at this time when the country was receiving downgrades in credit ratings from international credit rating agencies due to the deterioration in public finances.

To arrest the downward trend of the national government finances, drastic measures were needed to be implemented to increase revenues. One such measure was the enactment of R.A. No. 9337, which had generated more funds for infrastructure and social services and allowed the government to cut down on borrowings for its projects since 2004.

However, the prevailing conditions in 2004 no longer exist today and an amendment to R.A. No. 9337 should be in order.

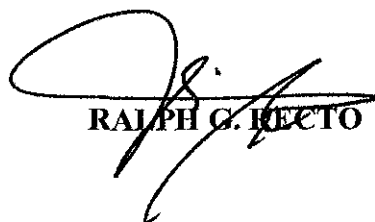
This bill seeks to authorize the President of the Republic of the Philippines to reduce the VAT rate from 12% to 10% if the national debt as a percentage of GDP of the previous year does not exceed fifty-five percent (55%). The author believes that nearly nine years after the enactment of R.A. No. 9337, the VAT rate can be reduced to 10% in order to unburden the general public as the existing conditions when the law was passed are no longer present at this time.

¹ Source: http://www.treasury.gov.ph/statdata/yearly/yr_cor_debtiservice.pdf (Accessed on March 20, 2013)

The debt-to-GDP ratio slightly went up from 50.9% in 2011 to 51.4% in 2012², but still, a far cry from the 74.4% in 2004. A low debt-to-GDP ratio indicates that an economy is able to produce a large number of goods and services and profit high enough to pay back debt. The Aquino administration said it is committed to cutting the debt-to-GDP ratio to 42.8%³ in 2016. Also, forecasts of international financial institutions indicate that the peso will further strengthen this year.⁴

The reduction of the VAT rate from 12% to 10% therefore would be a welcome relief for the general public now burdened with high prices of commodities brought about by the continuing volatility of crude oil prices in the world market.

In view of the foregoing, the passage of this measure is sincerely sought.



RALPH G. RECTO

/s/

² NG Debt Indicators. Source: http://www.treasury.gov.ph/statdata/yearly/yr_debtindicator.pdf (Accessed on March 18, 2013)

³ Philippine Development Plan 2011-2016 Results Matrices. <http://www.neda.gov.ph/PDP/rm/pdprm2011-2016.pdf> (Accessed on March 19, 2013)

⁴ Bank of America-Merrill Lynch (BofA) said it expects the peso to average 41 to a dollar by the first quarter of 2013. Source: <http://www.philstar.com/business/2012/11/04/863006/peso-seen-hit-301-next-year> (Accessed on March 21, 2013); and Metrobank's economic weather report forecasts that the peso will be supported by the solid take up of capital flows and still robust OFW (Overseas Filipino Workers) remittances. Source: <http://www.philstar.com/cebu-business/2013/01/15/897160/peso-further-strengthen-2013> (Accessed on March 21, 2013)

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AN ACT

AUTHORIZING THE PRESIDENT OF THE REPUBLIC OF THE PHILIPPINES TO LOWER THE RATE OF VALUE ADDED TAX TO TEN PERCENT (10%), AMENDING FOR THE PURPOSE SECTIONS 106 (A), 107 (A) AND 108 (A) OF THE NATIONAL INTERNAL REVENUE CODE OF 1997, AS AMENDED BY REPUBLIC ACT (R.A.) NO. 9337

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

1 **SECTION. 1.** Section 106 paragraph (A) of the National Internal Revenue Code of 1997,
2 as amended by R.A. No. 9337, is hereby further amended to read as follows:

3 **“SEC. 106. Value-Added Tax on Sale of Goods or Properties.**

4 **“(A) Rate and Base of Tax.** – There shall be levied, assessed and collected on
5 every sale, barter or exchange of goods or properties, a value-added tax
6 equivalent to TWELVE PERCENT (12%) [ten percent (10%)] of the gross
7 selling price or gross value in money of the goods or properties sold, bartered
8 or exchanged, such tax to be paid by the seller or transferor : *Provided*, That
9 the President, upon the recommendation of the Secretary of Finance, shall
10 [effective January 1, 2006, raise] LOWER the rate of value-added tax to TEN
11 PERCENT (10%) IF THE [twelve percent (12%), after any of the following
12 conditions has been satisfied:

13 “(i) Value-added tax collection as a percentage of Gross Domestic
14 Product (GDP) of the previous year exceeds two and four-fifth percent
15 (2 4/5%); or

16 “(ii) National government DEBT [deficit] as a percentage of GROSS
17 DOMESTIC PRODUCT (GDP) of the previous year DOES NOT

1 EXCEED FIFTY-FIVE PERCENT (55%). [exceeds one and one-half
2 percent (1 ½%).]

3 “(1) xxx

4 “(2) xxx.”

5 SEC. 2. Section 107 paragraph (A) of the National Internal Revenue Code of 1997, as
6 amended by R.A. No. 9337, is hereby further amended to read as follows:

7 ***“SEC. 107. Value-Added Tax on Importation of Goods.***

8 ***“(A) In General.*** – There shall be levied, assessed and collected on every
9 importation of goods a value-added tax equivalent to TWELVE PERCENT
10 (12%) [ten percent (10%)] based on the total value used by the Bureau of
11 Customs in determining tariff and customs duties, plus customs duties, excise
12 taxes, if any, and other charges, such tax to be paid by the importer prior to the
13 release of such goods from customs custody: *Provided*, That where the customs
14 duties are determined on the basis of the quantity or volume of the goods, the
15 value-added tax shall be based on the landed cost plus excise taxes, if any:
16 *Provided, further*, That the President, upon the recommendation of the
17 Secretary of Finance, shall [, effective January 1, 2006, raise] LOWER the rate
18 of value-added tax to TEN PERCENT (10%) IF THE [twelve percent (12%),
19 after any of the following conditions has been satisfied:

20 “(i) Value-added tax collection as a percentage of Gross Domestic
21 Product (GDP) of the previous year exceeds two and four-fifth percent
22 (2 4/5%); or

23 “(ii) National government DEBT [deficit] as a percentage of GROSS
24 DOMESTIC PRODUCT (GDP) of the previous year DOES NOT
25 EXCEED FIFTY-FIVE PERCENT (55%). [exceeds one and one-half
26 percent (1 ½%).]

27 “xxx.”

28 SEC. 3. Section 108 paragraph (A) of the National Internal Revenue Code of 1997, as
29 amended by R.A. No. 9337, is hereby further amended to read as follows:

1 **“SEC. 108. Value-Added Tax on Sale of Services and Use or Lease of**
2 **Properties. –**

3 **“(A)Rate and Base of Tax. –** There shall be levied, assessed and collected, a
4 value-added tax equivalent to TWELVE PERCENT (12%) [ten percent
5 (10%)] of gross receipts derived from the sale or exchange of services,
6 including the use or lease of properties: *Provided*, That the President, upon the
7 recommendation of the Secretary of Finance, shall [, effective January 1, 2006,
8 raise] LOWER the rate of value-added tax to TEN PERCENT (10%) IF THE
9 [twelve percent (12%), after any of the following conditions has been satisfied:

10 “(i) Value-added tax collection as a percentage of Gross Domestic
11 Product (GDP) of the previous year exceeds two and four-fifth percent
12 (2 4/5%); or

13 “(ii) National government DEBT [deficit] as a percentage of GROSS
14 DOMESTIC PRODUCT (GDP) of the previous year DOES NOT
15 EXCEED FIFTY-FIVE PERCENT (55%). [exceeds one and one-half
16 percent (1 ½%).]

17 “xxx.”

18 **SEC. 4. Implementing Rules and Regulations (IRR). –** Within sixty (60) days upon
19 approval of this Act, the Secretary of Finance, upon recommendation by the Commissioner of
20 Internal Revenue, shall issue the IRR for the effective implementation of this Act.

21 **SEC. 5. Repealing Clause. –** All laws, acts, decrees, executive orders, issuances, and
22 rules and regulations or parts thereof which are contrary to and inconsistent with this Act are
23 hereby repealed, amended or modified accordingly.

24 **SEC. 6. Effectivity. –** This Act shall take effect fifteen (15) days after its complete
25 publication in the Official Gazette or in at least two (2) newspapers of general circulation.

Approved,