

THIRTEENTH CONGRESS OF THE REPUBLIC }
OF THE PHILIPPINES }
First Regular Session }

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SENATE

RECEIVED BY:



S. No. 1075

Introduced by Senator Edgardo J. Angara

EXPLANATORY NOTE

Under the Agricultural and Fisheries Modernization Act or AFMA, *“the goals of the national economy are a more equitable distribution of opportunities, income and wealth; a sustainable increase in the amount of goods and services produced by the nation for the benefit of the people; and an expanding productivity as the key to raising the quality of life for all, especially the underprivileged.”* With these in mind, it is highly realistic that agricultural inputs – which form the very backbone of the sustainable growth envisioned for the country – be exempted from the Value-Added tax effective once this law is passed.

The Value-Added Tax or VAT is a business tax levied on certain goods, properties and service. It is a universal taxation system developed by the Frenchman Maurice Laure in 1954. The term “value-added” refers to the value created in a product in the course of processing or manufacturing.

In the Philippines, the VAT system was introduced in 1988 through Executive Order 273 covering a limited number of goods and services. Under this set-up, the seller or producer has two options. One, he can absorb the VAT and not pass it on to the buyers since it allows him to claim tax credit within a 10% ceiling. Or two, he can choose to pass it on to his buyers. Both are allowed by the law.

RA 7716, which was signed in May 5, 1994, expanded the coverage of the 1988 VAT law. The law was intended to stabilize and sustain the country’s economic growth. But the exemption on basic goods and services common to the general population was maintained. No additional exemptions were granted.

Through the VAT system is highly commendable because it establishes a wider tax base, makes taxation more fair and equitable while promoting efficiency and a simplified tax administration, there is still a need to further revise it. The best way to do this is to insert revisions in Republic Act 8435, otherwise known as the Agriculture and Fisheries Modernization Act (AFMA).

Noticeably, the VAT system needs to be more particular in terms of agricultural inputs utilized in the country. Currently, only certain agricultural inputs are exempted from the VAT. Most are not. This leads the seller or importer to pass on or shift to the consumers, specifically the farmers, livestock growers and the like, to absorb the tax. This shall

further lead to higher overhead costs that shall ultimately be burdened by the average Filipino family.

The need to exempt from VAT coverage all agricultural inputs cannot be overemphasized. Agricultural inputs are the key ingredients or elements that contribute or make up agricultural products used, traded and consumed by the Philippine economy. The continuous non-exemption of these vital inputs fosters a circuitous drain on the average farmer and consumer which sadly does not help our plight one bit. More taxes imposed on the factors of production in the agricultural sector imply costs for everyone. As stated in Section 108 of the AFMA, "Taxation policies must not deter the growth of value-adding activities in the rural areas." It is thereby incumbent upon the Legislature to come up with laws or revisions to existing laws that shall be beneficial to the farmers in particular and the nation in general.

Early passage of this bill is most earnestly sought.



EDGARDO J. ANGARA

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AN ACT
AMENDING THE AGRICULTURAL AND FISHERIES MODERNIZATION
ACT (AFMA) OTHERWISE KNOWN AS REPUBLIC ACT 8435 BY
PROVIDING FOR THE GRANT OF VAT EXEMPTION TO ALL
ENUMERATED AGRICULTURAL INPUTS

Section 1. **Definition of Terms.** As used in this Act,

- a) "Persons Liable for Vat" shall mean any person who, in the course of trade or business, sells, barter, exchanges, leases, goods or properties, renders services, and any person who imports goods shall be subject to the value-added tax (VAT)... (Section 105, NIRC).
- b) "Goods" shall mean any movable, tangible objects which are appreciable or transferable.
- c) "Agricultural Inputs" shall mean "all types of agriculture inputs, equipment and machinery such as, but not limited to, fertilizer, insecticide, pesticide, tractor, trailers, trucks, farm implements and machinery, harvesters, threshers, hybrid seeds, genetic materials, sprayers, packaging machinery and materials, bulk-handling facilities such as conveyors and mini-loaders, weighing scales, harvesting equipment, spare parts of all agricultural equipment, fishing equipment and parts thereof, refrigeration equipment, and renewable energy systems such as solar panels" (Section 104, AFMA)

Section 2. **Amendment of the AFMA.** Section 109 of the AFMA is hereby amended to read as follows:

"All enterprises engaged in agriculture and fisheries as duly certified by the Department in consultation with the Department of Finance and the Board of Investment, shall, for five (5) years after the effectivity of this Act, be exempted from the payment of tariff and duties for the importation of all types of agriculture and fisheries inputs, equipment and machinery such as, but not limited to, fertilizer, insecticide, pesticide, tractor, trailers, trucks, farm implements and machinery, harvesters, threshers, hybrid seeds, genetic materials, sprayers, packaging machinery and materials, bulk-handling facilities such as conveyors and mini-loaders, weighing scales, harvesting equipment, spare parts of all agricultural equipment,

fishing equipment and parts thereof, refrigeration equipment, and renewable energy systems such as solar panels, Provided, however, that the imported agricultural and fishery inputs, equipment and machinery shall be for the exclusive use of the importing enterprise."

"The Department, in consultation with the Department of Finance and the Board of Investments shall, within ninety (90) days from the effectivity of his Act, formulate the implementing rules and regulations governing the importation of agriculture and fishery inputs, equipment and machinery."

"As an additional incentive for the agricultural sector, all types of agricultural inputs, equipment and machinery such as, but not limited to, fertilizer, insecticide, pesticide, tractor, trailers, trucks, farm implements and machinery, harvesters, threshers, hybrid seeds, genetic materials, sprayers, packaging machinery and materials, bulk-handling facilities, such as conveyors and mini-loaders, weighing scales, harvesting equipment, spare parts of all agricultural equipment, fishing equipment and parts thereof, refrigeration equipment, and renewable energy systems such as solar panels shall be exempted from the payment and coverage of the expanded Value-Added tax upon the effectivity of this Act. This shall not preclude however, the Legislature from instituting future laws that shall re-implement VAT coverage to said agricultural inputs if the need arises or when the market forces allow."

Section. 3. ALL AGRICULTURAL INPUTS, AS DEFINED IN THE AFMA, AND ALL FURTHER REVISIONS TO SAID LAW REGARDING THE SAME, ARE VAT-EXEMPTED. All agricultural inputs as defined in the current AFMA are VAT-exempted. All further revisions to this law involving the expansion of the definition of agricultural inputs shall mean that all of these newly-defined inputs are similarly exempted from VAT.

Section 4. **Effectivity.** This law shall take effect fifteen (15) days after publication in two (2) newspapers of general circulation.

Approved,