

FOURTEENTH CONGRESS of the )  
REPUBLIC OF THE PHILIPPINES )  
*Second Regular Session* )

SENATE  
OFFICE OF THE SECRETARY

8 AUG 26 25 05

SENATE

RECEIVED BY: 

S.B. No. **2565**

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Introduced by **HON. RAMON BONG REVILLA, JR.**

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### EXPLANATORY NOTE

The President of the Republic of the Philippines in her 2008 State of the Nation Address reiterates the importance of the value added tax, to wit: it reduces our foreign debts and shore up fiscal independence, more livelihood programs for the people and boosts infrastructure projects.

However, the Filipino people in their day-to-day existence are face with an indecisive burden of oil price hikes, high food prices and other utilities. There may be a global crisis, but needless to say, it is the government's primary concern to address these matters by crafting short or long term solutions to ensure the quality of living of its people.

This representation acquiesced to the fact that the Philippine economy might not be able to absorb the revenue losses from the outright scrapping of VAT especially on petroleum products and power. Hence, just to mitigate the burden of the people, this bill seeks to reduce the VAT on oil and other petroleum products and on power from twelve percent (12%) to ten percent (10%). According to studies conducted by IBON Foundation, reduction of VAT on oil products would result in the lowering of its prices that would profit nearly one million public utility vehicle drivers and their families, as well as almost nine million household LPG users. While, VAT accounts for about 10% of the electricity bills – which is applied even on systems losses, lifeline rate subsidies and local franchise taxes - thus, a reduction would redound to an increase in purchasing power and savings for all households.

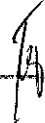
*In view of the foregoing, immediate passage of this bill is earnestly sought.*

  
RAMON BONG REVILLA, JR.

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**AN ACT**

**AMENDING SECTION 108 (A) OF THE NATIONAL INTERNAL REVENUE CODE,  
AS AMENDED BY REPUBLIC ACT 9337, AND FOR OTHER PURPOSES.**

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

**Section 1. Section 108 (A) of the National Internal Revenue Code, as amended by Republic Act No. 9337, is hereby amended to read as follows:**

"SEC. 108. *Value-added Tax on Sale of Services and Use or Lease of Properties.*

(A) *Rate and Base of Tax.* - There shall be levied, assessed and collected, a value-added tax equivalent to ten percent (10%) of gross receipts derived from the sale or exchange of services, including the use or lease of properties: Provided, That the President, upon the recommendation of the Secretary of Finance, shall, effective January 1, 2006, raise the rate of value-added tax to twelve percent (12%), after any of the following conditions has been satisfied:

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

(ii) National government deficit as a percentage of GDP of the previous year exceeds one and one-half percent (1 1/2%).

"The phrase '**sale or exchange of services**' means the performance of all kinds of services in the Philippines for others for a fee, remuneration or consideration, including those performed or rendered by construction and service contractors; stock, real estate, commercial, customs and immigration brokers; lessors of property, whether personal or real; warehousing services; lessors or distributors of cinematographic films; persons engaged in milling, processing, manufacturing or repacking goods for others; proprietors, operators or keepers of hotels, motels, rest-houses, pension houses, inns, resorts; proprietors or operators of restaurants,

refreshment parlors, cafes and other eating places, including clubs and caterers; dealers in securities; lending investors; transportation contractors on their transport of goods or cargoes, including persons who transport goods or cargoes for hire and other domestic common carriers by land relative to their transport of goods or cargoes; common carriers by air and sea relative to their transport of passengers, goods or cargoes from one place in the Philippines to another place in the Philippines; [sales of electricity by generation companies, transmission, and distribution companies;] services of franchise grantees of [electric utilities,] telephone and telegraph, radio and television broadcasting and all other franchise grantees except those under Section 119 of this Code and non-life insurance companies (except their crop insurances), including surety, fidelity, indemnity and bonding companies; and similar services regardless of whether or not the performance thereof calls for the exercise or use of the physical or mental faculties.

**THE SALES OF ELECTRICITY BY GENERATION COMPANIES, TRANSMISSION, AND DISTRIBUTION COMPANIES; AS WELL AS THE SERVICES OF FRANCHISE GRANTEEES OF ELECTRIC UTILITIES; AND SALE OR IMPORTATION OF PETROLEUM PRODUCTS AND RAW MATERIALS TO BE USED BY THE BUYER OR IMPORTER HIMSELF IN THE MANUFACTURE OF PETROLEUM PRODUCTS, EXCEPT LUBRICATING OIL, PROCESSED GAS, GREASE, WAX, PETROLATUM, COAL AND NATURAL GAS IN WHATEVER FORM AND STATE, SHALL AFTER THREE (3) MONTHS FROM THE EFFECTIVITY OF THIS ACT, SHALL BE LEVIED, ASSESSED AND COLLECTED, A VALUE-ADDED TAX EQUIVALENT TO TEN PERCENT (10%) OF GROSS RECEIPTS; PROVIDED, THAT AFTER A PERIOD OF ONE (1) YEAR FROM THE EFFECTIVITY OF THIS ACT, THE PRESIDENT, UPON CONSULTATION WITH THE DEPARTMENT OF FINANCE AND THE DEPARTMENT OF ENERGY, SHALL DETERMINE WHETHER TO PROSPECTIVELY REMOVE THE FULL TEN PERCENT (10%) VAT IMMEDIATELY OR REDUCE IT ON A STAGERRED BASIS. IN EITHER CASE, THE APPROPRIATE PRESIDENTIAL ORDER, AS WELL AS THE NECESSARY IMPLEMENTING RULES AND REGULATIONS, SHALL THEN BE ISSUED FOR THE PURPOSE.**

The phrase 'sale or exchange of services' shall likewise include:

"(1) xxx

“(2) xxx

“(3) xxx

"(4) xxx

“(5) xxx

“(6) xxx

"(7) xxx

“(8) xxx

"Lease of properties shall be subject to the tax herein imposed irrespective of the place where the contract of lease or licensing agreement was executed if the property is leased or used in the Philippines.

"The term '**gross receipts**' means the total amount of money or its equivalent representing the contract price, compensation, service fee, rental or royalty, including the amount charged for materials supplied with the services and deposits and advanced payments actually or constructively received during the taxable quarter for the services performed or to be performed for another person, excluding value-added tax.

**Sec. 2. Separability Clause.** – Any portion or provision of this Act that may be declared unconstitutional or invalid shall not have the effect of nullifying other portions and provisions hereof as long as such remaining portion or provision can still subsist and be given effect in their entirety.

**Sec. 3. Repealing Clause.** - All laws, decrees, orders, rules and regulations, and other issuances or parts thereof which are inconsistent with this Act, are hereby repealed, amended and modified accordingly.

**Sec. 4. Effectivity Clause.** This Act shall take effect immediately upon the completion of its publication in at least one newspaper of general circulation.

Approved,