

SIXTEENTH CONGRESS OF THE REPUBLIC)
OF THE PHILIPPINES)
Second Regular Session)



Senate
Office of the Secretary

'14 JUL -1 P3:00

SENATE
P. S. R. No. 755

RECEIVED BY: 

Introduced by Senator Miriam Defensor Santiago

RESOLUTION
DIRECTING THE PROPER SENATE COMMITTEES
TO CONDUCT AN INQUIRY, IN AID OF LEGISLATION, ON THE REPORTED
INCREASE IN SMUGGLED CIGARETTES RESULTING
IN LOSS OF REVENUE FOR THE GOVERNMENT

WHEREAS, Republic Act No. 10351, an Act Restructuring the Excise Tax On Alcohol And Tobacco Products By Amending Sections 141, 142, 143, 144, 145, 8, 131 And 288 of Republic Act No. 8424, Otherwise Known As the National Internal Revenue Code of 1997, As Amended By Republic Act No. 9334, aka Sin Tax Reform Law was passed by Congress in December 2012 and was implemented beginning in January 2013;

WHEREAS, R. A. 10351, was designed to achieve both health and revenue objectives; the additional tax would generate revenues for the government and the price increase would dampen demand and consumption for tobacco and alcohol products;

WHEREAS, in its official website, the government said that revenues from sin taxes are to augment the funds of the Aquino administration's universal health care program;

WHEREAS, R.A. 10351 imposed additional specific excise taxes on tobacco products, raising the market price on cigarettes;

WHEREAS, a GMA News report dated 3 January 2014 stated that the government raked in P33.96 billion in additional revenues during the first year of implementation of the Sin Tax Reform Law in 2013;

WHEREAS, in a statement, the Department of Finance announced that in the first four months of 2014, tobacco tax collections exceeded the government's target, outperforming overall tax collections for the period;

WHEREAS, an article in the 15 April 2014 issue of the Wall Street Journal, quoting a study by Global Financial Integrity noted two channels for potential smuggling: one is "pure" smuggling – and the 7,000 islands in the Philippine archipelago make it an ideal target for someone intent on moving goods into the country undetected; the other is called "technical" smuggling – manipulating customs documentation to misrepresent the value, quantity or quality of goods being imported;

WHEREAS, in an article in the 8 September 2012 issue of *Business World*, Prof. Benjamin Diokno of the UP School of Economics said that one of the unintended consequences of the sharp rise in the real price of cigarettes in response to higher taxes is the strong incentive for smuggling. This happened in the UK, in the United States (movement of contraband from low-taxed states to high-taxed states), Greece, Spain, Canada, Brunei and many other countries;

WHEREAS, an article entitled, "Smoke of Genius" in the 26 June 2014 issue of *Inquirer* cited studies done by the US-based International Tax and Investment Center (ITIC) and the UK-based Oxford Economics (OE) on the taxes collected from sale of cigarettes in the Philippines,

that the legitimate trade in cigarettes—i.e. sales with official and accurate excise tax payments remitted to the BIR—dropped by a huge 16 percent in 2013;

WHEREAS, the study further stated that on the other hand, the illicit trade—meaning, smuggling of cigarettes from abroad and the “cheating” in excise tax payments to the BIR—apparently went up, thereby accounting for about 18 percent of total cigarette consumption in the country in 2013;


WHEREAS, the study estimated that the Aquino administration must have foregone P15.6 billion in cigarette excise tax collection in 2013 alone, broken down into P12.7 billion in excise tax and P2.9 billion in VAT;

WHEREAS, in an article entitled “Worldwide Organized Cigarette Smuggling: An Empirical Analysis” and published in *Applied Economics* (February 2010), A. Yurekli and O. Sayginsoy find that: “A tax-induced increase in real retail cigarette prices and an improvement in anti-smuggling law enforcement (as proxied by the corruption behavior) are found to significantly increase government revenues while decreasing global consumption and smuggling;

WHEREAS, the success achieved from the implementation of the Sin Tax Reform Law must be protected from eroding by instituting specific measure geared towards addressing the illicit trade in cigarettes;

WHEREFORE, BE IT HEREBY RESOLVED BY THE PHILIPPINE SENATE, to direct the proper Senate committees, to conduct an inquiry, in aid of legislation, on the reported smuggling of cigarettes and whether a portion of the revenue gain from higher sin taxes should be spent for improving anti-smuggling law enforcement.

Adopted,


MIRIAM DEFENSOR SANTIAGO
avr

/acs