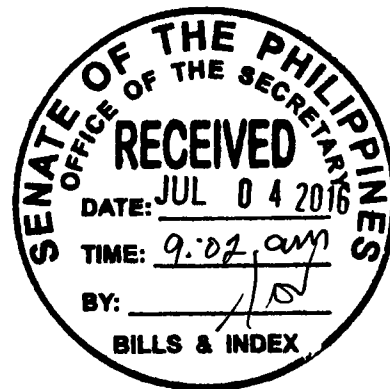


SEVENTEENTH CONGRESS OF THE )  
 REPUBLIC OF THE PHILIPPINES )  
 First Regular Session )

SENATE

S. No. 270



Introduced by Senator Ralph G. Recto

**AN ACT**  
**INCREASING THE THRESHOLD FOR CERTAIN NON-VAT TAXPAYERS,**  
**AMENDING FOR THE PURPOSE SECTIONS 109 AND 236 OF THE NATIONAL**  
**INTERNAL REVENUE CODE OF 1997, AS AMENDED**

**Explanatory Note**

The contribution of Micro and Small Enterprises (MSEs) to the country's economic development cannot be overemphasized. In terms of employment, MSEs generated 4.36 million jobs or roughly 55.9% of total jobs generated by all types of business establishments created in 2014, i.e. 2.37 million jobs in micro and 1.98 million in small enterprises<sup>1</sup>. Moreover, industries falling under these categories propel economic growth by promoting development in the rural areas, thereby bringing in employment opportunities, decentralizing economic activities and redistributing wealth throughout the country.

Complicated business regulations and rigorous accounting and reporting requirements prescribed by the National Internal Revenue Code (NIRC) stifle the growth of micro and small enterprises (MSEs). Under Section 236 of the NIRC, any person who exceeds or expects to exceed his annual gross sales or receipts by One Million Five Hundred Thousand Pesos (P1,500,000) are mandated to register for Value-Added Tax (VAT). At the same time, Section 109 of the same Code provides that transactions of goods and services that do not exceed the amount of One Million Five Hundred Thousand Pesos (P1,500,000) are exempted from VAT.

The Bureau of Internal Revenue (BIR) issued Revenue Regulation No. 16-2011, which adjusted the VAT threshold amount from One Million Five Hundred Thousand Pesos (P1,500,000) to One Million Nine Hundred Nineteen Thousand Five Hundred Pesos (P1,919,500) using the Consumer Price Index (CPI). Entities falling below the threshold are mandated instead to pay the 3% percentage tax. A number of MSEs still find themselves administratively incapable of complying with the rigorous requirements mandated by the NIRC. The lower percentage tax rate of 3% compared to the 12% VAT presents an opportunity for underdeclaration of sales or receipts to avoid VAT coverage.

Aside from the national taxes they have to pay, MSEs must also bear the cost of business taxes to local government units (LGUs). The local levy varies according to the type of business, and the amount of gross sales or receipts. Again, this becomes an avenue for tax evasion and other corrupt practices such as misdeclaration of sales, bribery or connivance with the taxing authority.

In the 2016 Doing Business Report of the World Bank Group, the Philippines fared low and ranked 165<sup>th</sup> out of 189 economies in terms of starting a business in the country, and 126<sup>th</sup> in terms of businesses paying taxes. Among the factors considered in measuring the ranking were all the procedures officially required or commonly done in practice by an entrepreneur to start up and

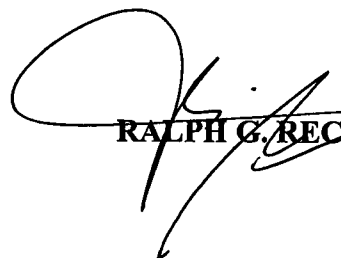
<sup>1</sup> 2014 MSME Statistics, DTI. Source: <http://www.dti.gov.ph/dti/index.php/resources/sme-resources/sme-statistics> (Accessed on 21 June 2016)

formally operate an industrial or commercial business—as well as the time and cost required to complete these procedures.<sup>2</sup> Therefore, it is imperative that the MSEs be given adequate support by reducing the tax impediments, among other burdensome registration procedures, that hinder them to accelerate economic development.

This bill aims to protect MSEs by amending sections 109 (W) and 236 (F) & (G) of the NIRC, thereby increasing the VAT threshold to Three Million Pesos (P3,000,000). The increase in the VAT threshold is warranted in order to support entrepreneurs, who have proven to be among the significant drivers of the country's economic growth, by freeing them from rigorous tax procedures. MSEs will, in effect, be unburdened from the administrative and accounting requirements prescribed by the NIRC to VAT-registered entities, while at the same time MSEs will be able to focus on maximizing their resources towards intensifying economic activity and creating more jobs.

Although the proposed measure may result in lower VAT revenues, MSEs will have lower operating expenses, which will translate to lower consumer prices. In effect, the end-consumers will ultimately benefit from this legislation through increased purchasing power. Likewise, businesses will be able to provide more investments in labor and capital resulting to accelerated job generation.

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



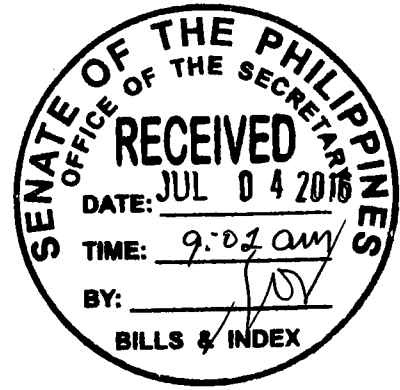
**RALPH G. RECTO**

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<sup>2</sup> Source: Doing Business Report 2016, Accessed on 21 June 2016  
<http://www.doingbusiness.org/~media/giawb/doing%20business/documents/profiles/country/PHL.pdf>

SEVENTEENTH CONGRESS OF THE )  
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AN ACT  
INCREASING THE THRESHOLD FOR CERTAIN NON-VAT TAXPAYERS,  
AMENDING FOR THE PURPOSE SECTIONS 109 AND 236 OF THE NATIONAL  
INTERNAL REVENUE CODE OF 1997, AS AMENDED

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

1           **SECTION 1.** Section 109 of the National Internal Revenue Code of 1997, as amended by  
2 Republic Act No. 9337, is hereby further amended to read as follows:

3           *“SEC. 109. Exempt Transactions. –*

4           (1) Subject to the provisions of Subsection (2) hereof, the following  
5 transactions shall be exempt from the value-added tax:

6           “(A) xxx;

7           “xxx

8           “(W) Sale or lease of goods or properties or the performance of services  
9 other than the transactions mentioned in the preceding paragraphs, the  
10 gross annual sales and/or receipts do not exceed the amount of [One  
11 million five hundred thousand pesos (P1,500,000)] **THREE MILLION**  
12 **PESOS (P3,000,000):** *Provided,* That not later than [January 31, 2009]  
13 **SIX (6) YEARS AFTER THE EFFECTIVITY OF THIS ACT** and  
14 every [three (3)] **SIX (6) years** thereafter, the amount herein stated shall  
15 be adjusted to its present value using the Consumer Price Index (CPI),  
16 as published by the [National Statistics Office (NSO)] **PHILIPPINE**  
17 **STATISTICS AUTHORITY (PSA).**

18           “(2) xxx.”

1           SEC. 2. Section 236 paragraph (F) subparagraph (2)(a) and paragraph (G) subparagraph (1)  
2 of the National Internal Revenue Code of 1997, as amended by Republic Act No. 9337, are hereby  
3 further amended to read as follows:

4           “SEC. 236. *Registration Requirements.* –

5           “(A) xxx;

6           “xxx

7           “(F) *Cancellation of Registration.* –

8           “(1) xxx

9           “(2) Cancellation of Value-added Tax Registration. – A VAT-  
10 registered person may cancel his registration for VAT if:

11           “(a) He makes written application and can demonstrate to the  
12 Commissioner’s satisfaction that his gross sales or receipts  
13 for the following twelve (12) months, other than those that  
14 are exempt under Section 109 (A) to [(U)] (V), will not  
15 exceed [One million five hundred thousand pesos  
16 (P1,500,000)] **THREE MILLION PESOS (P3,000,000):**  
17 **PROVIDED, THAT NOT LATER THAN SIX (6) YEARS**  
18 **AFTER THE EFFECTIVITY OF THIS ACT AND**  
19 **EVERY SIX (6) YEARS THEREAFTER, THE**  
20 **AMOUNT HEREIN STATED SHALL BE ADJUSTED**  
21 **TO ITS PRESENT VALUE USING THE CONSUMER**  
22 **PRICE INDEX (CPI), AS PUBLISHED BY THE**  
23 **PHILIPPINE STATISTICS AUTHORITY (PSA);**

24           “(b) xxx.”

25           “(G) *Persons Required to Register for Value-Added Tax.* –

26           “(1) Any person who, in the course of trade or business, sells, barter  
27 or exchanges goods or properties, or engages in the sale or exchange  
28 of services, shall be liable to register for value-added tax if:

1                   “(a) His gross sales or receipts for the past twelve (12) months,  
2                   other than those that are exempt under Section 109 (A) to (V),  
3                   have exceeded [One million five hundred thousand pesos  
4                   (P1,500,000)] **THREE MILLION PESOS (3,000,000):**  
5                   **PROVIDED, THAT NOT LATER THAN SIX (6) YEARS**  
6                   **AFTER THE EFFECTIVITY OF THIS ACT AND EVERY**  
7                   **SIX (6) YEARS THEREAFTER, THE AMOUNT HEREIN**  
8                   **STATED SHALL BE ADJUSTED TO ITS PRESENT**  
9                   **VALUE USING THE CONSUMER PRICE INDEX (CPI),**  
10                   **AS PUBLISHED BY THE PHILIPPINE STATISTICS**  
11                   **AUTHORITY (PSA); or**

12                   “(b) There are reasonable grounds to believe that his gross sales  
13                   or receipts for the next twelve (12) months, other than those that  
14                   are exempt under Section 109 (A) to (V), will exceed [One  
15                   million five hundred thousand pesos (P1,500,000)] **THREE**  
16                   **MILLION PESOS (P3,000,000): PROVIDED, THAT NOT**  
17                   **LATER THAN SIX (6) YEARS AFTER THE**  
18                   **EFFECTIVITY OF THIS ACT AND EVERY SIX (6)**  
19                   **YEARS THEREAFTER, THE AMOUNT HEREIN**  
20                   **STATED SHALL BE ADJUSTED TO ITS PRESENT**  
21                   **VALUE USING THE CONSUMER PRICE INDEX (CPI),**  
22                   **AS PUBLISHED BY THE PHILIPPINE STATISTICS**  
23                   **AUTHORITY (PSA).**

24                   “(2) xxx

25                   “(H) xxx

26                   “(I) xxx

27                   “xxx.”

1           **SEC. 3. *Implementing Rules and Regulations (IRR)*.** – Within sixty (60) days upon approval  
2 of this Act, the Secretary of Finance, upon recommendation by the Commissioner of Internal  
3 Revenue, shall issue the IRR for the effective implementation of this Act.

4           **SEC. 4. *Separability Clause*.** – Any portion or provision of this Act that may be declared  
5 unconstitutional or invalid shall not have the effect of nullifying other portions or provisions  
6 hereof, as long as such remaining portions or provisions can still subsist and be given effect in  
7 their entirety.

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

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

Approved,