

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



'16 JUL 21 P2:09

SENATE

S. No. 797

RECEIVED BY:

Introduced by Senator Ralph G. Recto

**AN ACT**  
**REMOVING THE CONDITIONS FOR THE CONDONATION OF ALL UNPAID**  
**INCOME TAXES DUE FROM LOCAL WATER DISTRICTS, AMENDING FOR THE**  
**PURPOSE SECTION 289-A OF THE NATIONAL INTERNAL REVENUE CODE, AS**  
**AMENDED**

**Explanatory Note**

Presidential Decree (P.D.) No. 198 institutionalized the concept of *Local Water Districts* (LWDs). As early as 1973, the government recognized the need for reliable, economically viable and sound water supply and wastewater disposal system for population centers of the Philippines.

In order to support the growth of LWDs, P.D. No. 198 exempted them from paying income taxes, as well as from the payment of all national government, local government and municipal taxes and fees, and all duties or imposts on imported machinery, equipment and materials required for its operation.

Over a period of more than three decades, several laws were enacted either granting or withdrawing the tax exemption privileges of LWDs. Also, the juridical personality and tax status of LWDs, as gleaned from the provisions of Sections 27 and 32 of the Tax Code, have been subjected to various interpretations by government agencies and judicial bodies. Even more disconcerting is the fact that other public utilities of similar nature such as the Metropolitan Waterworks and Sewerage System (MWSS) and National Power Corporation (NPC) were granted tax exemptions by the Bureau of Internal Revenue (BIR) based upon the same Tax Code provisions.

During the Fourteenth Congress, Republic Act (R.A.) No. 10026 was enacted with the end in view of resolving the inconsistencies in tax treatment that have probably hampered the growth and efficient provision of safe, adequate and potable water to more than fifteen (15) million people outside Metro Manila. Thus, R.A. No. 10026 included LWDs in the list of government agencies exempt from the payment of income taxes and also allowed the condonation of their tax liabilities.

However, R.A. No. 10026 provided that unpaid taxes will only be condoned subject to certain conditions, to wit: (1) that the BIR, after careful review of the financial statements of a water district applying for condonation of taxes due, establishes its financial incapacity; and (2) that the water district availing of such condonation shall submit to Congress a program of internal reforms, duly certified by the Local Water Utilities Administration. The condonation therefore, is not automatic but, rather is dependent on certain requirements which LWDs must comply with.

It will be noted that the Bureau of Internal Revenue has not issued a Revenue Regulation (RR) to implement the grant of condonation as per RA No. 10026. What was issued two years after the enactment of the law was Revenue Memorandum Circular 68-2012 which merely

established the procedures in submitting the documentary requirements in applying for condonation and prescribed a narrow compliance period of only less than 6 months.

According to the Philippine Association of Water Districts (PAWD), there are about 251 cases involving the unpaid tax liabilities of 164 water districts from fiscal year 1997 to 2007 which should be covered by the implementation of the condonation clause of R.A. No. 10026. However, two (2) months after the deadline set in the RMC, only a fraction of the 164 LWDs have complied with the requirements provided under R.A. No. 10026 and RMC 68-2012.

This bill seeks to remove the prescribed documentary requirements for availing the tax condonation granted in RA No. 10026. It was not the intent of RA No. 10026 (Granting Income Tax Exemption to LWDs) to make it difficult for LWDs to avail of the tax condonation benefit. In fact, under the same law, the LWDs are now exempt from the payment of income taxes and, therefore, there is no need to impose conditions to write off dues when LWDs deserved to have been exempted from the beginning.

Debt cancellation is not a principle alien to the government. We have undertaken bailouts of distressed firms and buyouts of their liabilities in amounts far greater than what is requested by the water districts.

The LWD funds needed to settle the unpaid income taxes should be used instead for the delivery of better services. We want to see improvements like new wells and fresh water sources, new pipes and modern meters to end leaks, among others.

The condonation of tax obligations is deemed necessary for the LWDs which have no financial capability to pay their tax liabilities. This would help them consolidate their resources in order to expand water services, improve water quality and ensure the provision of a reliable, secure and affordable supply of water to consumers.

It is getting tougher to meet the challenge of providing clean water for all in the years to come. Population increase demands that we have to correspondingly increase our potable water supply by 118 billion liters annually. Aside from this future demand, we also have to contend with a backlog that needs to be wiped out.

Condonation of the unpaid income taxes of local water districts would help them remain viable and better respond to the challenge of providing adequate potable water to the people.

Therefore, it is proposed that a one-time general amnesty or condonation of taxes involving LWDs be passed by this Congress.

In view of the foregoing, early approval of this proposal is earnestly sought.

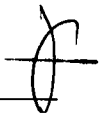


**RALPH G. RECTO**

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AMENDED

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

1 SECTION 1. Section 289-A of the National Internal Revenue Code of 1997, as  
2 amended, is hereby further amended to read as follows:

3 "Sec. 289-A. *Support for Local Water Districts.* – The amount that would  
4 have been paid as income tax and saved by the local water district by virtue of its  
5 exemption [to the] FROM income taxes shall be used by the local water district  
6 concerned for capital equipment expenditure in order to expand water services  
7 coverage and improve water quality in order to provide safe and clean water in the  
8 provinces, cities, and municipalities: *Provided*, That, the water district shall adopt  
9 internal control reforms that would bring about their economic and financial  
10 viability: *Provided, further*, That the water district shall not increase by more than  
11 twenty percent (20%) a year its appropriation for personal services, as well as for  
12 travel, transportation or representation expenses and purchase of motor vehicles.

13 "All unpaid INCOME taxes or any portion thereof due from a local water  
14 district for the period starting August 13, 1996 until the effectivity date of this Act  
15 are hereby condoned by the Government **THEREBY RELIEVING ALL**  
16 **LOCAL WATER DISTRICTS FROM THE PAYMENT THEREOF.**  
17 [subject to the following conditions: (1) that the Bureau of Internal Revenue, after  
18 careful review of the financial statements of a water district applying for  
19 condonation of taxes due, establishes its financial incapacity, after providing for  
20 its maintenance and operating expenses, debt servicing and reserved fund, to meet  
21 such obligations for the period stated herein; and (2) that the water district  
22 availing of such condonation shall submit to Congress of the Philippines a

1 program of internal reforms, duly certified by the local water utilities  
2 administration, that would bring about its economic and financial viability.]

3 “All water districts, through the Local Water Utilities Administration,  
4 shall furnish the Committee on Ways and Means of the Senate and House of  
5 Representatives, respectively, on an annual basis, with statistical data and  
6 financial statements regarding their operations and other information as may be  
7 required, for purposes of monitoring compliance with the provisions of this Act  
8 and reviewing the rationalization for tax exemption privileges.”

9 **SEC. 2. *Implementing Rules and Regulations.*** - The Secretary of Finance, in issuing the  
10 necessary rules and regulations for the effective implementation of this Act, shall take into  
11 account the legislative intent of exonerating local water districts of their tax liabilities including  
12 the fines, penalties and/or surcharges, if any, appurtenant thereto. The said rules and regulations  
13 shall not provide for additional requirements that would negate the purpose of this Act;  
14 *Provided, That,* the failure of the Secretary of Finance to promulgate the said rules and  
15 regulations shall not prevent the implementation of this Act upon its effectivity.

16 **SEC. 3. *Repealing Clause.*** - All laws, acts, decrees, executive orders, issuances, and  
17 rules and regulations or parts thereof which are contrary to and inconsistent with this Act are  
18 hereby repealed, amended or modified accordingly.

19 **SEC. 4. *Effectivity.*** - This Act shall take effect fifteen (15) days after its publication in  
20 at least two (2) newspapers of general circulation.

Approved,