



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

JAN 30 2018

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SENATE

S.B. No. 1671

RECEIVED BY: 

Introduced by Senator **Ana Theresia "Risa" Hontiveros-Baraquel**

AN ACT
AMENDING SECTIONS 106, 107, 108, 109, AND 112 OF REPUBLIC
ACT NO. 8424, OTHERWISE KNOWN AS THE "TAX REFORM ACT OF
1997," AS AMENDED, AND FOR OTHER PURPOSES

EXPLANATORY NOTE

As our tax system becomes more efficient and corruption is weeded out by our modernizing revenue bureaucracy, we will want to rely less on taxes that are easily passed on to final consumers, such as the Value-Added Tax (VAT).

After the recent passage of the Tax Reform for Acceleration and Inclusion (TRAIN) Act, which significantly reduced the number of exemptions to the VAT, the Department of Finance (DOF) has stated that we can expect an improvement in the efficiency of tax collection.

This efficiency should allow us to provide relief for the lower economic deciles of our population by lowering the VAT rate to 10%

There is also a need to align our tax system with that of the region. Thus, once the collections from a VAT rate of 10% reach 4.5% of GDP - which represents an amount exceeding the revenue being generated by Thailand's VAT rate of 7% - there is ample room to further reduce the VAT rate to achieve full alignment with the ASEAN norm of 8%.

Hence, the immediate passage of this measure is earnestly sought.


ANA THERESIA HONTIVEROS-BARAQUEL



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INTRODUCED BY SENATOR ANA TRHERESIA "RISA" HONTIVEROS-BARAQUEL

AN ACT
AMENDING SECTIONS 106, 107, 108, 109, AND 112 OF REPUBLIC ACT NO. 8424,
OTHERWISE KNOWN AS THE "TAX REFORM ACT OF 1997," AS AMENDED,
AND FOR OTHER PURPOSES

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

CHAPTER I

GENERAL PROVISIONS

1 **SEC. 1.** *Short title.* This Act shall be known as the *Bawas VAT Act of 2018*.

2 **SEC. 2.** Section 106 (A) of Republic Act No. 8424, otherwise known as the Tax Reform
3 Act of 1997, is hereby amended to read as follows:

4 (A) *Rate and Base of Tax.* - There shall be levied, assessed and collected on
5 every sale, barter or exchange of goods or properties, value-added tax equivalent to
6 twelve percent (12%) of the gross selling price or gross value in money of the goods
7 or properties sold, bartered or exchanged, such tax to be paid by the seller or
8 transferor: **PROVIDED, THAT EFFECTIVE JANUARY 1, 2019, THE RATE**
9 **OF VALUE ADDED TAX (VAT) SHALL BE REDUCED TO TEN PERCENT**
10 **(10%); AND PROVIDED, FURTHER, THAT THE PRESIDENT SHALL,**
11 **EFFECTIVE JANUARY 1, 2022, REDUCE THE RATE OF VAT TO EIGHT**
12 **PERCENT (8%) SHOULD THE PREVIOUS YEAR'S REALIZED**
13 **REVENUES FROM VALUE ADDED TAX REPORTED IN THE BUDGET**
14 **OF EXPENDITURES AND SOURCES OF FINANCING SUBMITTED TO**

1 **CONGRESS EQUAL OR EXCEED FOUR POINT FIVE PERCENT (4.5%)**
2 **AS A PERCENTAGE OF GROSS DOMESTIC PRODUCT (GDP).**

3 **SEC. 3.** Section 107 (A) of Republic Act No. 8424, otherwise known as the Tax Reform
4 Act of 1997, is hereby amended to read as follows:

5 (A) *In General.* - There shall be levied, assessed and collected on every
6 importation of goods value-added tax equivalent to twelve percent (12%) based on
7 the total value used by the Bureau of Customs in determining tariff and customs
8 duties, plus customs duties, excise taxes, if any, and other charges, such tax to be
9 paid by the importer prior to the release of such goods from customs custody:
10 *Provided,* That where the customs duties are determined on the basis of quantity
11 or volume of the goods, the value-added tax shall be based on the landed cost plus
12 excise taxes, if any; **PROVIDED, THAT EFFECTIVE JANUARY 1, 2019,**
13 **THE RATE OF VALUE ADDED TAX (VAT) SHALL BE REDUCED TO**
14 **TEN PERCENT (10%); AND PROVIDED, FURTHER, THAT THE**
15 **PRESIDENT SHALL, EFFECTIVE JANUARY 1, 2022, REDUCE THE**
16 **RATE OF VAT TO EIGHT PERCENT (8%) SHOULD THE PREVIOUS**
17 **YEAR'S REALIZED REVENUES FROM VALUE ADDED TAX**
18 **REPORTED IN THE BUDGET OF EXPENDITURES AND SOURCES OF**
19 **FINANCING SUBMITTED TO CONGRESS EQUAL OR EXCEED FOUR**
20 **POINT FIVE PERCENT (4.5%) AS A PERCENTAGE OF GROSS**
21 **DOMESTIC PRODUCT (GDP).**

22 **SEC. 4.** Section 108 (A) of Republic Act No. 8424, otherwise known as the Tax Reform
23 Act of 1997, is hereby amended to read as follows:

24 (A) *Rate and Base of Tax.* - There shall be levied, assessed and collected on
25 every sale, barter or exchange of goods or properties, value-added tax equivalent to
26 twelve percent (12%) of gross receipts derived from the sale or exchange of
27 services, including the use or lease of properties[.]:**PROVIDED, THAT**
28 **EFFECTIVE JANUARY 1, 2019, THE RATE OF VALUE ADDED TAX**

1 (VAT) SHALL BE REDUCED TO TEN PERCENT (10%); AND
2 PROVIDED, FURTHER, THAT THE PRESIDENT SHALL, EFFECTIVE
3 JANUARY 1, 2022, REDUCE THE RATE OF VAT TO EIGHT PERCENT
4 (8%) SHOULD THE PREVIOUS YEAR'S REALIZED REVENUES FROM
5 VALUE ADDED TAX REPORTED IN THE BUDGET OF EXPENDITURES
6 AND SOURCES OF FINANCING SUBMITTED TO CONGRESS EQUAL
7 OR EXCEED FOUR POINT FIVE PERCENT (4.5%) AS A PERCENTAGE
8 OF GROSS DOMESTIC PRODUCT (GDP).

9 SEC. 5. Section 108 (B) of Republic Act No. 8424, otherwise known as the Tax Reform Act
10 of 1997, is hereby amended to read as follows:

11 (1) xxx

12 [(2) Services other than those mentioned in the preceding paragraph,
13 rendered to a person engaged in business conducted outside the Philippines or to a
14 nonresident person not engaged in business who is outside the Philippines when
15 the services are performed, the consideration for which is paid for in acceptable
16 foreign currency and accounted for in accordance with the rules and regulations of
17 the Bangko Sentral ng Pilipinas (BSP);]

18 (2) [(3)] Services rendered to persons or entities whose exemption under
19 special laws or international agreements to which the Philippines is a signatory
20 effectively subjects the supply of such services to zero percent (0%) rate;

21 (3) Services rendered to persons engaged in international shipping or
22 international air transport operations, including leases of property for use thereof:
23 *Provided*, That these services shall be exclusive for international shipping or air
24 transport operations;

25 (4) Services performed by subcontractors and/or contractors in processing,
26 converting, of manufacturing goods for an enterprise whose export sales exceed
27 seventy percent (70%) of total annual production; and

1 (5) Transport of passengers and cargo by air or sea vessels from the
2 Philippines to a foreign country.

3 [(7) Sale of power or fuel generated through renewable sources of energy such
4 as, but not limited to, biomass, solar, wind, hydropower, geothermal, ocean energy,
5 and other emerging energy sources using technologies such as fuel cells and
6 hydrogen fuels.

7 (8) Services rendered to:

8 (i) Registered enterprises within a separate customs territory as provided
9 under special law; and

10 (ii) Registered enterprises within tourism enterprise zones as declared by
11 the TIEZA subject to the provisions under Republic Act No. 9593 or the Tourism
12 Act of 2009.

13 *Provided*, That subparagraphs (b)(1) and (b)(5) hereof shall be subject to the
14 twelve percent (12%) value-added tax and no longer be subject to zero percent (0%)
15 vat rate upon satisfaction of the following conditions:

16 (1) The successful establishment and implementation of an enhanced VAT
17 refund system that grants refunds of creditable input tax within ninety (90) days
18 from the filing of the VAT refund application with the Bureau: *Provided*, that, to
19 determine the effectivity of item no. 1, all applications filed from January 1, 2018
20 shall be processed and must be decided within ninety (90) days from the filing of
21 the VAT refund application;

22 (2) All pending VAT refund claims as of December 31, 2017 shall be fully paid
23 in cash by December 31, 2019.

24 *Provided*, that the Department of Finance shall establish a VAT refund center
25 in the Bureau of Internal Revenue (BIR) and in the Bureau of Customs (BOC) that
26 will handle the processing and granting of cash refunds of creditable input tax.

1 An amount equivalent to five percent (5%) of the total value-added tax
2 collection of the BIR and the BOC from the immediately preceding year shall be
3 automatically appropriated annually and shall be treated as a special account in the
4 General Fund or as trust receipts for the purpose of funding claims for VAT refund:
5 *Provided*, That any unused fund, at the end of the year shall revert to the General
6 Fund.

7 *Provided, further*, that the BIR and BOC shall be required to submit to the
8 COCCTRP a quarterly report of all pending claims for refund and any unused
9 fund.]

10 **SEC. 5.** Section 109 (1) of Republic Act No. 8424, otherwise known as the Tax Reform Act
11 of 1997, is hereby amended to read as follows:

12 (A) xxx

13 xxx

14 **(J) SALE OF POWER OR FUEL GENERATED THROUGH**
15 **RENEWABLE SOURCES OF ENERGY SUCH AS, BUT NOT LIMITED**
16 **TO, BIOMASS, SOLAR, WIND, HYDROPOWER, GEOTHERMAL,**
17 **OCEAN ENERGY, AND OTHER EMERGING ENERGY SOURCES USING**
18 **TECHNOLOGIES SUCH AS FUEL CELLS AND HYDROGEN FUELS;**

19 [(J) Services rendered by regional or area headquarters established in the
20 Philippines by multinational corporations which act as supervisory,
21 communications and coordinating centers for their affiliates, subsidiaries or
22 branches in the Asia-Pacific Region and do not earn or derive income from the
23 Philippines;]

24 xxx

25 [(Q) Lease of a residential unit with a monthly rental not exceeding Fifteen
26 thousand pesos (P15,000);]

1 **(Q)[(R)]** Sale, importation, printing or publication of books and any
2 newspaper, magazine review or bulletin which appears at regular intervals with
3 fixed prices for subscription and sale and which is not devoted principally to the
4 publication of paid advertisements;

5 **(R)[(S)]** Transport of passengers by international carriers;

6 **(S)[(T)]** Sale, importation or lease of passenger or cargo vessels and aircraft,
7 including engine, equipment and spare parts thereof for domestic or international
8 transport operations;

9 **(T)[(U)]** Importation of fuel, goods and supplies by persons engaged in
10 international shipping or air transport operations: *Provided*, That the fuel, goods,
11 and supplies shall be used for international shipping or air transport operations;
12 *Provided*, That the fuel, goods, and supplies shall be used for international shipping
13 or air transport operations;

14 **(U)[(V)]** Services of bank, non-bank financial intermediaries performing
15 quasi-banking functions, and other non-bank financial intermediaries;

16 **(V)[(W)]** Sale or lease of goods and services to senior citizens and persons
17 with disabilities, as provided under republic act nos. 9994 (Expanded Senior Citizens
18 Act of 2010) and 10754 (An Act Expanding the Benefits and Privileges of Persons
19 with Disability), respectively;

20 **(W)[(X)]** Transfer of property pursuant to Section 40(c)(2) of the NIRC, as
21 amended;

22 **(X)[(Y)]** Association dues, membership fees, and other assessments and
23 charges collected by homeowners associations and condominium corporations;

24 **(Y)[(Z)]** Sale of gold to the Bangko Sentral ng Pilipinas;

25 **(Z)[(AA)]** Sale of drugs and medicines prescribed for diabetes, high
26 cholesterol, and hypertension beginning January 1, 2019; and

27 **(AA)[(BB)]** Sale or lease of goods or properties or the performance of
28 services other than the transactions mentioned in the preceding paragraphs, the

1 gross annual sales and/or receipts do not exceed the amount of [one million five
2 hundred thousand] Three million pesos (P3,000,000).

3 **SEC. 6.** Section 112 of Republic Act No. 8424, otherwise known as the Tax Reform Act of
4 1997, is hereby amended to read as follows:

5 SEC. 112. *Refunds or Tax Credits of Input Tax.* -

6 (A) xxx

7 (B) xxx

8 (C) xxx

9 **ALL PENDING VAT REFUND CLAIMS PURSUANT TO THIS**
10 **SECTION AS OF DECEMBER 31, 2017 SHALL BE PROCESSED, AND IF**
11 **MERITORIOUS, SHALL BE REFUNDED IN CASH WHEN APPROVED,**
12 **ON OR BEFORE DECEMBER 31, 2019.**

13 **SEC. 7.** *Implementing Rules and Regulations (IRR).* - The Secretary of Finance, upon
14 the recommendation of the Commissioner of Internal Revenue, shall issue the Implementing
15 Rules and Regulations for the effective implementation of this Act, within sixty (60) days from
16 the approval thereof.

17 **SEC. 8.** *Separability Clause.* - If any provision of this Act is declared unconstitutional or
18 invalid by a court of competent jurisdiction, the remaining provisions not affected thereby shall
19 continue to be in full force and effect.

20 **SEC. 9.** *Repealing Clause.* - All laws, decrees, executive orders, department or
21 memorandum orders and other administrative issuances or parts thereof which are
22 inconsistent with the provisions of this Act are hereby modified, superseded or repealed
23 accordingly.

24 The following laws or provisions of laws are hereby expressly repealed and the persons
25 and/or transactions affected herein are made subject to the VAT provisions of Title IV of the
26 National Internal Revenue Code, as amended:

1 (A) Section 16(a) and (b), Section 17(a), insofar as VAT exemption and vat
2 payment deferment is concerned, and section 17(b), insofar as VAT tax credits are
3 concerned, of Presidential Decree 972 s. 1976, or the Coal Development Act of
4 1976;

5 (B) Section 10 (2), insofar as VAT exemption is concerned, and (3), insofar as
6 VAT tax credits are concerned, of Republic Act No. 7156, or the Mini-Hydro
7 Electric Power Incentives Act;

8 (C) Section 15(g), insofar as VAT zero-rating is concerned, and Section 15 (j),
9 insofar as VAT tax credits are concerned, and Section 21 (a) (b) and (d) insofar as
10 VAT incentives are concerned, of Republic Act No. 9513, or the Renewable Energy
11 Act of 2008;

12 (D) Section 13, insofar as VAT exemption is concerned, of Republic Act No.
13 7820, or the Partido Development Administration act of 1994;

14 (E) Section 5(c), insofar as VAT exemption is concerned, of Republic Act No.
15 10072, or the Philippine Red Cross Act of 2009;

16 (F) Section 23, insofar as fiscal incentives relating to VAT are concerned, of
17 Republic Act No. 7916, or Special Economic Zones Act of 1995, as amended by
18 Republic Act No. 8748;

19 (G) Section 1, insofar as VAT exemption is concerned, of Republic Act no.
20 9400, or an Act amending Republic Act No. 7227, as amended, otherwise known as
21 the Bases Conversion and Development Act of 1992;

22 (H) 3rd paragraph, insofar as VAT exemption is concerned, of Section 2 of
23 Republic Act No. 9400, or an Act Amending Republic Act No. 7227, as amended,
24 otherwise known as the Bases Conversion and Development Act of 1992;

25 (I) 2nd paragraph, insofar as VAT exemption is concerned, of Section 3 of
26 Republic Act No. 9400, or an Act Amending Republic Act No. 7227, as amended,
27 otherwise known as the Bases Conversion and Development Act of 1992;

1 (J) Section 4, insofar as VAT exemption is concerned, of Republic Act No.
2 9400, or an Act Amending Republic Act No. 7227, as amended, otherwise known
3 as the Bases Conversion and Development Act of 1992;

4 (K) Section 5, insofar as VAT exemption is concerned, of Republic Act No.
5 9400, or an Act Amending Republic Act No. 7227, as amended, otherwise known
6 as the Bases Conversion and Development Act of 1992;

7 (L) Section 4 (f), insofar as VAT exemption is concerned, of Republic Act No.
8 7903, or the Zamboanga City Special Economic Zone Act of 1995;

9 (M) Section 4 (b) (c), insofar as VAT exemption is concerned, Republic Act
10 No. 7922, or the Cagayan Special Economic Zone Act of 1995;

11 (N) Section 5 (c) (e) (g) (m), insofar as VAT exemption is concerned, of
12 Republic Act No. 9490, or the Aurora Special Economic Zone Act of 2007;

13 (O) Section 4, insofar as VAT exemption is concerned, of Republic Act No.
14 10083, or an Act Amending Republic Act 9490, the Aurora Special Economic Zone
15 Act of 2007;

16 (P) Section 86 (c),(d),(e)(1), insofar as VAT exemption is concerned, and
17 (e)(2) insofar as VAT tax credits are concerned, of Republic Act No. 9593, or the
18 Tourism Act of 2009;

19 (Q) Section 5, insofar as VAT exemption is concerned, of Republic Act No.
20 9728, or the Freeport of Bataan Act of 2009;

21 **SEC. 10. Effectivity.** – This Act shall take effect fifteen (15) days after publication in the
22 *Official Gazette* or in at least two (2) newspapers of general circulation.

Approved,