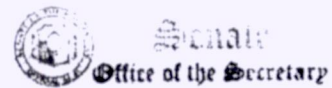


EIGHTEENTH CONGRESS OF THE)
REPUBLIC OF THE PHILIPPINES)
First Regular Session)



SENATE
S. No. 604

'19 JUL 17 P6:16

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Introduced by Senator Ralph G. Recto

AN ACT
EXEMPTING BOOKS, NEWSPAPERS, MAGAZINES, JOURNALS, REVIEWS,
BULLETINS AND OTHER EDUCATIONAL OR LEARNING MATERIALS MADE
OR PUBLISHED IN DIGITAL OR ELECTRONIC FORMAT FROM VALUE-
ADDED TAX, AMENDING FOR THE PURPOSE SECTION 109 (1) OF THE
NATIONAL INTERNAL REVENUE CODE OF 1997, AS AMENDED

EXPLANATORY NOTE

Northrop Frye, a famous Canadian literary critic and theorist once said, "The most technologically efficient machine that man has ever invented is the book."

Frye's quote still holds true to this day. Books and other useful reading materials contribute to a person's intellectual development and imagination.

However, not much has been introduced to the print books since it was first officially printed more than 500 years ago using Johannes Gutenberg's movable type printing press, until 40 years ago, when Michael Hart, founder of Project Gutenberg, started "digitizing" cultural works including books which later became known as e-books. E-books are basically books composed in or converted to digital format for display on a computer screen or handheld device.¹

Recently, there have been dramatic changes in the world of consumer electronics with the introduction of the latest generation gadgets such as digital books, e-readers, smart phones and tablets. Thus, it would only be a matter of time

¹ Merriam-Webster

before learning institutions in the country start to require their students to bring the latest electronic technology to class. Not only are they handy, eco-friendly and space-saving but also, these gadgets will make it easier for students to take down notes and at the same time download books and other useful reading materials from the Internet. Unfortunately, students might find it more expensive to download e-books than buying its printed format since the former is not VAT-exempt.

At present, our Tax Code under Section 109 (1) includes the sale, importation, printing or publication of books and any newspaper, magazine, review or bulletin as exempt from the coverage of the value-added tax (VAT). Exemption from VAT makes books more affordable and more accessible to the public most especially to the students and researchers. However, at the time the VAT Reform Act of 2005 was enacted, e-books and other digitally formatted reading and learning materials were not yet used prevalently and only a handful of electronic devices were capable of reading or displaying e-books. Hence, they were not included in the list of VAT-exempt items. Moreover, the Bureau of Internal Revenue issued BIR Ruling No. 244-2012 and Revenue Memorandum Circular No. 75-2012 stating that the sale of e-books and other electronically formatted versions of books are subject to VAT since it is not one of those listed under Section 109 (1) of the Tax Code.

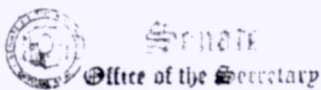
Guided by the principle that laws must reflect the changing times and encouraged by the countless benefits that e-books will provide the students and researchers in this country, the proposed Bill seeks to exempt books, newspapers, magazines, journals, reviews, bulletins and other educational or learning materials made or published in digital or electronic format from value-added tax.

In view of the foregoing considerations, approval of this bill is earnestly sought.

/aim



RALPH G. RECTO



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[Signature]

AN ACT

EXEMPTING BOOKS, NEWSPAPERS, MAGAZINES, JOURNALS, REVIEWS, BULLETINS AND OTHER EDUCATIONAL OR LEARNING MATERIALS MADE OR PUBLISHED IN DIGITAL OR ELECTRONIC FORMAT FROM VALUE-ADDED TAX, AMENDING FOR THE PURPOSE SECTION 109 (1) 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:

Section 1. A new subparagraph is hereby inserted after subparagraph (AA) of Section 109 (1) of the National Internal Revenue Code of 1997, as amended, to read as follows:

"SEC. 109. *Exempt Transactions.* –

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

"(A) xxx;

"xxx

"(BB) SALE OF BOOKS, NEWSPAPERS, MAGAZINES, JOURNALS, REVIEWS, BULLETINS AND OTHER EDUCATIONAL OR LEARNING MATERIALS MADE OR PUBLISHED IN DIGITAL OR ELECTRONIC FORMAT; AND

Sec. 2. Subparagraph (BB) of Section 109 (1) of the same Code is amended to read as subparagraph (CC).

1

2 Sec. 3. *Implementing Rules and Regulations.* – The Secretary of Finance,
3 shall, upon the recommendation of the Commissioner of Internal Revenue,
4 promulgate not later than thirty (30) days upon the effectivity of this Act the
5 necessary rules and regulations for its effective implementation.

6 Sec. 4. *Repealing Clause.* – All laws, acts, presidential decrees, executive
7 orders, issuances, presidential proclamations, rules and regulations or parts thereof
8 which are contrary to and inconsistent with any provision of this Act are hereby
9 repealed, amended or modified accordingly.

10 Sec. 5. *Effectivity.* – This Act shall take effect fifteen (15) days after
11 its complete publication either in the *Official Gazette*, or in at least two (2)
12 newspapers of general circulation.

 Approved,