



SENATE

'19 JUL 30 P 4:07

S. No. 829

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Introduced by Senator Ralph G. Recto

AN ACT
EXEMPTING THE SALE OR IMPORTATION OF PETROLEUM PRODUCTS AND
SALE OF ELECTRICITY FROM THE VALUE ADDED TAX, AMENDING FOR
THIS PURPOSE SECTIONS 108 AND 109 OF THE NATIONAL INTERNAL
REVENUE CODE OF 1997, AS AMENDED

EXPLANATORY NOTE

This proposed measure seeks to restore the VAT exemption on the sale or importation of petroleum products and sale of electricity. In November 2005, Republic Act No. 9337, otherwise known as the Reformed Value-Added Tax (RVAT) Law, removed the VAT exemption of these products, among others.

In 2004, the national government (NG) posted a debt and fiscal deficit of P3.8 Trillion and P 187 Billion, respectively¹. As a percentage of GDP, the debt is at 74.4% and fiscal deficit at 3.7%.² These figures prompted the government to push for some fiscal measures such as the enactment of the RVAT Law to avert a fiscal crisis and lower the risk of default in debt payment.

The primary objective of the RVAT Law is to widen the tax base by removing a number of products and services from the list of exempt transactions under the National Internal Revenue Code of 1997, as amended, thereby increasing revenue collections. This is in line with the principle that in order for the VAT system to be effective, it should be broad-based and with limited exemptions.

¹ Source of Basic Data: Bureau of the Treasury

² Source of Basic Data: Bureau of the Treasury

The VAT reform provides a steady revenue stream for the government to finance various infrastructure projects and social programs. Likewise, it has played a major role in averting a looming financial crisis in 2004 and in weathering the 2008 global financial crisis.

Undoubtedly, the VAT reform has produced significant and positive effects on our economy. In fact, 2018 figures would show that our economy has since recovered as the NG debt-to-GDP ratio greatly improved at 41.8% and NG deficit-to-GDP at 3.2%.³ However, as a consequence, such effect is also inflationary. VAT is an indirect tax that is passed on to the consumers of goods and services. Therefore, its imposition on the sale of certain products particularly petroleum products and electricity has the effect of increasing the prices of basic goods and services.

In December 2017, another revenue generating measure but with inflationary impact was enacted, Republic Act No. 10963, or the Tax Reform for Acceleration and Inclusion (TRAIN) Law. It was intended to finance, at least partially, the Build, Build, Build Program and other social services of the government. However, this law imposes additional excise tax on petroleum products, and just like the VAT, it has the effect of increasing the prices of goods and services.

The increased excise taxes and the imposition of VAT on petroleum products are too much of a burden on the consumers. To mitigate such burden, it is high time to restore the VAT exemption of petroleum products and electricity.

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



RALPH G. RECTO

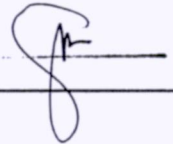
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³ Source of Basic Data: Bureau of the Treasury

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AN ACT
EXEMPTING THE SALE OR IMPORTATION OF PETROLEUM PRODUCTS AND
SALE OF ELECTRICITY FROM THE VALUE-ADDED TAX, AMENDING FOR
THIS PURPOSE SECTIONS 108 AND 109 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 108 of the National Internal Revenue Code of 1997, as
2 amended, is hereby further amended to read as follows:

3 "Sec. 108. *Value-Added Tax on Sale of Services and Use or Lease of*
4 *Properties.* –

5 "(A) *Rate and Base of Tax.* – There shall be levied, assessed and
6 collected, a value-added tax equivalent to twelve percent (12%) of gross
7 receipts derived from the sale or exchange of services, including the use
8 or lease of properties.

9 "The phrase 'sale or exchange of services' means the performance
10 of all kinds of services in the Philippines for others for a fee, remuneration
11 or consideration, including those performed or rendered by construction
12 and service contractors; stock, real estate, commercial, customs and
13 immigration brokers; lessors of property, whether personal or real;
14 warehousing services; lessors or distributors of cinematographic films;
15 persons engaged in milling, processing, manufacturing or repacking goods
16 for others; proprietors, operators or keepers of hotels, motels, resthouses,

1 pension houses, inns, resorts; proprietors or operators of restaurants,
2 refreshment parlors, cafes and other eating places, including clubs and
3 caterers; dealers in securities; lending investors; transportation
4 contractors on their transport of goods or cargoes, including persons who
5 transport goods or cargoes for hire and other domestic common carriers
6 by land relative to their transport of goods or cargoes; common carriers by
7 air and sea relative to their transport of passengers, goods or cargoes
8 from one place in the Philippines to another place in the Philippines; [~~sales
9 of electricity by generation companies, transmission by any entity, and
10 distribution companies, including electric cooperatives~~]; services of
11 franchise grantees of [~~electric utilities,~~] telephone and telegraph, radio
12 and television broadcasting and all other franchise grantees except those
13 under Section 119 of this Code and non-life insurance companies (except
14 their crop insurances), including surety, fidelity, indemnity and bonding
15 companies; and similar services regardless of whether or not the
16 performance thereof calls for the exercise or use of the physical or mental
17 faculties. The phrase 'sale or exchange of services' shall likewise include:

18 "xxx."

19 Sec. 2. Section 109 of the National Internal Revenue Code of 1997, as
20 amended, is hereby further amended to read as follows:

21 "Sec. 109. *Exempt Transactions.* –

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

24 "(A) xxx;

25 "xxx;

26 "(AA) Sale of drugs and medicines prescribed for diabetes, high
27 cholesterol, and hypertension beginning January 1, 2019; [~~and~~]

28 "**(BB) SALE OR IMPORTATION OF PETROLEUM PRODUCTS ;**

29 "**(CC) SALE OR IMPORTATION OF RAW MATERIALS TO BE**
30 **USED BY THE BUYER OR IMPORTER HIMSELF IN THE**
31 **MANUFACTURE OF PETROLEUM PRODUCTS;**

1 “(DD) SALE OF ELECTRICITY BY GENERATION COMPANIES,
2 TRANSMISSION BY ANY ENTITY, AND DISTRIBUTION COMPANIES,
3 INCLUDING ELECTRIC COOPERATIVES; AND

4 “[BB] (EE) Sale or lease of goods or properties or the performance of
5 services other than the transactions mentioned in the preceding paragraphs,
6 the gross annual sales and/or receipts do not exceed the amount of Three
7 million pesos (P3,000,000).

8 “(2) xxx.”

9 Sec. 3. *Implementing Rules and Regulations (IRR).* – Within thirty (30) days
10 from the effectivity of this Act, the Secretary of Finance, upon the recommendation
11 of the Commissioner of Internal Revenue, shall promulgate the necessary rules and
12 regulations for its effective implementation.

13 Sec. 4. *Repealing Clause.* – All laws, acts, decrees, executive orders,
14 issuances, and rules and regulations or parts thereof which are contrary to and
15 inconsistent with this Act are hereby repealed, amended or modified accordingly.

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

 Approved,