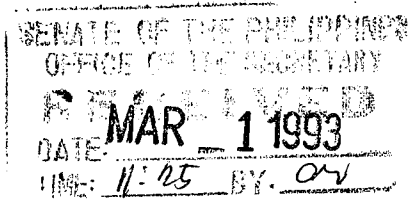


NINTH CONGRESS OF THE REPUBLIC)
OF THE PHILIPPINES)
First Regular Session)

S E N A T E

S. No. 1129



Introduced by Senator Ernesto F. Herrera

EXPLANATORY NOTE

The value-added tax (VAT) was introduced in 1988 to replace percentage taxes such as the manufacturer's sales tax, the turn-over tax, the advanced sales tax, the compensating tax, the privilege tax, the contractor's tax, the broker's tax and the miller's tax. The VAT has the following advantages compared to the taxes that it replaced, viz:

- First: The VAT is levied only on the value-added and prevents the cumulative taxation on goods. Traders can claim a credit or refund on the VAT which they paid on inputs to production.
- Second: The VAT can promote exports because it is zero-rated and exporters can claim a refund on the VAT which they paid on their inputs.
- Third: The VAT can be a bouyant revenue-source if it is broad-based.
- Fourth: The VAT is a neutral tax and a single rate VAT does not interfere with the consumer's tax.

However, the VAT as adopted in the Philippines was not broad-based; many activities were not within its purview. In effect, the VAT became inefficient, inequitable and less comprehensive which were contrary to its rationale. Hence, structural reforms are proposed to achieve the main goal of efficient, equitable, progressive and comprehensive taxation.

The modifications made in this Bill are as follow:

1. Transactions to be included in the VAT system are:
 - a) lease of real properties excluding agricultural lands; and residential properties with monthly rentals of less than P10,000.00;
 - b) hotels;
 - c) restaurants, eating places, caterers;

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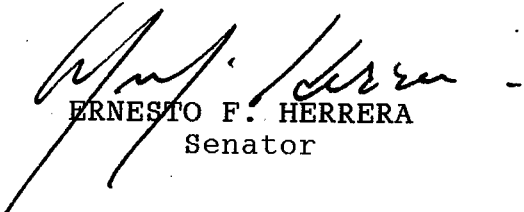
- 2 -

2. Exemptions from VAT are withdrawn from:

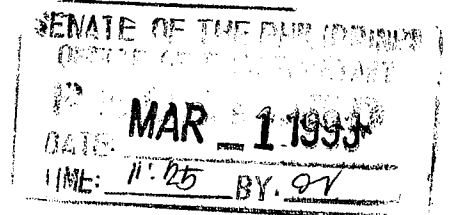
- a) services by persons in the exercise of their profession;
- b) actors, actresses, talents, singers, and professional athletes;
- c) Lawyers, accountants, doctors and other professions registered with PRC.

Inevitably, we will be drubbed by every critic, but it has to be inculcated in the mind of every Filipino that taxes are indispensable and it is an obligation that will ultimately redound to the benefit of every citizen.

With the foregoing considerations, early approval of this Bill is earnestly sought.


ERNESTO F. HERRERA
Senator

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



S E N A T E

S. No. 1129

Introduced by Senator Ernesto F. Herrera

AN ACT
RESTRUCTURING THE VALUE-ADDED TAX (VAT) SYSTEM BY EXPANDING
ITS TAX BASE, AMENDING SECTIONS 103, 113, 114 OF THE
NATIONAL INTERNAL REVENUE CODE, AS AMENDED

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

1 SECTION 1. Section 103 of the National Internal
2 Revenue Code, as amended is hereby further amended to read
3 as follows:

4 "SEC. 103. Exempt Transactions. - The
5 following shall be exempt from the value-added
6 tax:

7 (a) Sale of nonfood agricultural; marine
8 and forest products in their original state by the
9 primary producer or the owner of the land where
10 the same are produced.

11 (b) Sale or importation in their original
12 state of agricultural and marine food products;
13 livestock and poultry of a kind generally used as,
14 or yielding or producing food for human
15 consumption; and breeding stock and genetic
16 materials therefor.

17 Products classified under this paragraph and
18 paragraph (a) shall be considered in their

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1 original state even if they have
 2 undergone the simple processes of preparation or
 3 preservation for the market, such as freezing,
 4 drying, salting, smoking, or stripping. Polished
 5 and/or husked rice, corn grits and raw cane sugar
 6 shall be considered in their original state for
 7 purposes of this paragraph.

8 (c) Sale or importation of fertilizers,
 9 pesticides and herbicides; chemicals for the
 10 formulation of pesticides; seeds, seedlings and
 11 fingerlings; fish, animal and poultry fees; and
 12 soya bean and fish meals;

13 (d) Sale or importation of petroleum
 14 products (except lubricating oil, processed gas,
 15 grease, wax and petrolatum) subject to excise tax
 16 imposed under Title VI;

17 (e) Sale or importation of raw materials to
 18 be used by the buyer or importer himself in the
 19 manufacture of petroleum products (except
 20 lubricating oil and grease) subject to excise tax;

21 (f) Printing, publication, importation or
 22 sale of books and any newspaper, magazine, review,
 23 or bulletin which appears at regular intervals
 24 with fixed prices for subscription and sale and
 25 which is not devoted principally to the
 26 publication of advertisements;

27 (g) Importation of passenger and/or cargo
 28 vessel of more than ten thousand tons, whether
 29 coastwise or ocean-going, including engine and

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1 spare parts of said vessel, to be used by the
2 importer himself as operator thereof;

3 (h) Importation of personal and household
4 effects belonging to residents of the Philippines
5 returning from abroad and non-resident citizens
6 coming to resettle in the Philippines: Provided,
7 That such goods are exempt from customs duty under
8 the Tariff and Customs Code of the Philippines;

9 (i) Importation of professional instruments
10 and implements, wearing apparel, domestic animals,
11 and personal household effects (except any
12 vehicle, vessel, aircraft, machinery, other goods
13 for use in manufacture and merchandise of any kind
14 in commercial quantity) belonging to persons
15 coming to settle for the first time in the
16 Philippines, for their own use and not for sale,
17 barter or exchange, accompanying such persons, or
18 arriving within ninety days before or after their
19 arrival, upon the production of evidence
20 satisfactory to the Commissioner of Internal
21 Revenue, that such persons are actually coming to
22 settle in the Philippines and that the change of
23 residence is bona fide;

24 (j) Services rendered by persons subject to
25 percentage tax under Title V;

26 (k) Services by agricultural contract
27 growers and milling for others of palay into rice,
28 corn into grits and sugar cane into raw sugar;

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- 1 (1) Medical, dental, hospital and
- 2 veterinary services;
- 3 (m) Educational services rendered by private
- 4 educational institutions;
- 5 (n) Sale by the artist himself of his works
- 6 of art, literary works, musical compositions and
- 7 similar creations, or his services performed for
- 8 the production of such works;
- 9 [(o) Services performed as actors or
- 10 actresses, talents, singers and emcees; radio and
- 11 television broadcasters, choreographers; musical,
- 12 radio, movie, television and stage directors;]
- 13 [(p) Services performed as professional
- 14 athletes;]
- 15 [(q)] (O) Leasing of [real property]
- 16 AGRICULTURAL LAND; AND RESIDENTIAL PROPERTY WITH
- 17 A MONTHLY RENTAL OF LESS THAN TEN THOUSAND PESOS
- 18 (P10,000.00).
- 19 [(r) Services performed in the exercise of
- 20 profession or calling (except customs brokers)
- 21 subject to the occupation tax under the Local Tax
- 22 Code, and professional services performed by
- 23 registered general professional partnerships;]
- 24 [(s)] (P) Services rendered by individuals
- 25 pursuant to an employer-employee relationship;
- 26 [(t)] (Q) Services rendered by regional or
- 27 area headquarters established in the Philippines
- 28 by multinational corporations which act as

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1 supervisory, communications and coordinating
2 centers for their affiliates, subsidiaries or
3 branches in the Asia-Pacific Region and do not
4 earn or derive income from the Philippines;

5 [(u)] (R) Transactions which are exempt
6 under special laws or international agreements to
7 which the Philippines is a signatory;

8 [(v)] (S) Export sales by persons who are
9 not VAT-registered; and

10 [(w)] (T) Sales and/or services performed
11 by persons other than those mentioned in the
12 preceding paragraphs whose annual gross sales
13 and/or receipts do not exceed the amount
14 prescribed in regulations to be promulgated by the
15 Secretary of Finance which shall not be less than
16 P100,000 or higher than P500,000.

17 SEC. 2. Sections 113 and 114 are hereby repealed.

18 SEC. 3. All laws, decrees, orders, rules and
19 regulations and other issuances inconsistent with the
20 provisions of this Act are hereby repealed or amended
21 accordingly.

22 SEC. 4. This Act shall take effect fifteen (15)
23 days after its publication in the Official Gazette or in at
24 least two (2) national newspapers of general circulation,
25 whichever comes earlier.

Approved,