Republic of the Philippines
HOUSE OF REPRESENTATIVES
Quezon City

THIRTEENTH CONGRESS
First Regular Session

HOUSE BILL NO. 651

Introduced by: **HON. EDUARDO C. ZIALCITA, Ph.D.**

EXPLANATORY NOTE

The real estate industry in the Philippines was one of the sectors most adversely affected by the regional economic crisis. Market factors have pushed real estate transaction volumes to extremely low levels, with disastrous effects on the industry.

Studies have shown that one of the major factors contributing to the low volumes of real estate transactions is the extremely low market demand due to high prices of real estate, especially in highly urbanized areas. Combined with the shrinking purchasing power of the national currency, this has impelled investors and consumers to forego real estate purchases and abandon real estate developments.

The fact that the government imposes a value-added tax (VAT) of 10% on all sales or leases of real estate (under Section 106 (A) (1) (a) and Section 108 (A) of the National Internal Revenue Code, as amended) contributes greatly to the increase in real estate prices, since this value-added tax is invariably passed on to the end buyer or lessee, bloating the price of real estate to unnatural levels.

The VAT on real estate transactions places the local real estate industry at a disadvantage in comparison with other Southeast Asian countries. Among Southeast Asian countries (including Hong Kong), only the Philippines and Indonesia impose VAT on real estate transactions. Even Indonesia levies only an 8% VAT on real estate transactions and completely exempts from VAT the sale of undeveloped or raw lands.

To achieve the goal of rehabilitating the real estate industry, it is imperative that the real estate industry be provided with ample assistance and incentives, including tax measures more conducive to greater activity in the real estate market. It is for this reason that this bill proposes to reduce the amount of value-added tax

imposed on real estate transactions in order to bring prices of real estate to levels more attractive to the end consumer.

The indirect gains of reduction in the VAT for real estate transactions overwhelm any perceived reduction in government revenue collections on a per transaction basis. Greater volume of transactions would more than compensate for the lower per transaction collections. Perhaps even greater would be the benefit to be derived from the fact that support services and allied industries will ultimately benefit by the increase in real estate transactions, resulting in greater tax revenues from those areas.

In view of the foregoing, the passage of this bill is earnestly requested.

Rep. Eduardo C. Zialcita, Ph.D.
1st District of Paranaque City

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AN ACT
AMENDING SECTION 106 (A) (1) (a) AND SECTION 108 (A) OF PRESIDENTIAL DECREE NO. 1158, AS AMENDED BY REPUBLIC ACT NO. 8424, OTHERWISE KNOWN AS THE NATIONAL INTERNAL REVENUE CODE

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

SECTION 1. Section 106 (A) (1) (a) of Republic Act 8424, otherwise known as the National Internal Revenue Code of 1997, is hereby amended to read as follows:

SEC. 106 Value-added tax on sale of goods or properties.

(A) *Rate and base of tax*. There shall be levied, assessed and collected on every sale, barter, or exchange of goods or properties, a value-added tax equivalent to ten percent (10%) of the gross selling price or gross value in money of the goods or properties sold, bartered or exchanged, such tax to be paid by the seller or transferor; Provided, that the value-added tax on every sale to customers or held for lease in the ordinary course of business shall be equivalent to two percent (2%) of the gross selling price or gross value in money of the real properties sold, bartered, exchanged or leased; Provided, finally, that no value-added tax shall be levied, assessed and collected on every sale, barter, or exchange of lands without any improvements. For purposes of this subsection, the term "improvements" shall mean all types of buildings, walls, fences, roads, structures, or constructions of all kinds, which

are of a fixed character or which are adhered to the soil, excluding trees, plants and growing fruits, and other fixtures that are mere superimpositions on the land.

SECTION 2. Section 108 (A) of Republic Act No. 8424 is hereby amended to read as follows:

SEC. 108. Value-added tax on sale of services and use or lease of properties.

(A) *Rate and base of tax*. There shall be levied, assessed and collected, a value-added tax equivalent to ten percent (10%) of gross receipts derived from the sale or exchange of services, including the lease or use of properties; Provided, that the value-added tax on the sale or exchange of services by real estate brokers or real property lessors and the lease or use of real properties in the ordinary course of trade or business shall be equivalent to two percent (2%) of the gross receipts derived from such sale or exchange of services or lease or use of real properties.

SECTION 3. This Act shall take effect fifteen (15) days after publication in one (1) newspaper of general circulation.

Approved.