

Republic of the Philippines
HOUSE OF REPRESENTATIVES
Quezon City

THIRTEENTH CONGRESS

First Regular Session

HOUSE BILL NO. 3676



Introduced by **Reps. Luis R. Villafuerte and Eric D. Singson**

EXPLANATORY NOTE

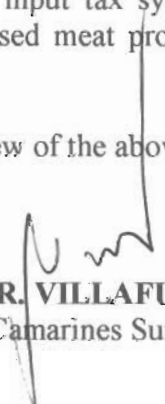
The Value-added Tax (VAT) system has a built-in mechanism that allows manufacturers and distributors to claim credits for their expenses in the manufacture and distribution of a particular good. The input tax credit system works in a way that the output tax due on a particular manufacturer or distributor is deducted by the input tax that the supplier passes on to him. This serves the primary rationale of VAT: the tax is only on the 'value added' on the good.

In order to mitigate the impact of VAT on prices of basic commodities, a provision that lays out the claiming of presumptive input tax credit was included. This effectively makes persons and firms engaged in the processing of basic products such as milk and sardines, allowable to claim a presumptive input tax equivalent to 1 ½% of the gross value which they spent for the purchase of the products which are then used as inputs to the production of the basic commodities.

This rate however should be reviewed in light of the proposal to raise the VAT rate from 10% to 12%. While these products, in their raw state, remain exempted from VAT, the increase should be matched by a corresponding upward shift in presumptive input tax credit. This bill proposes a parallel 2% increase in the presumptive input tax so that from the present 1 ½%, it will now be 3 ½%. This measure seeks to further mitigate the minimal impact on prices of basic goods of the VAT rate increase.

Moreover, the bill also expands the list of products which are covered by the presumptive input tax system. Under this bill, those engaged in the processing of home-processed meat products and the manufacture of instant noodles will also be included.

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


REP. LUIS R. VILLAFUERTE
2nd District, Camarines Sur


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2nd District, Ilocos Sur

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AN ACT
AMENDING SECTION 111 (B) (1) OF THE NATIONAL INTERNAL
REVENUE CODE OF 1997, AS AMENDED

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

SECTION 1. Section 111 (B) (1) is hereby amended to read as follows:

“(1) Persons or firms engaged in the processing of sardines, mackerel and milk, **HOME-PROCESSED MEAT PRODUCTS SUCH AS TOCINO, LONGANISA, EMBUTIDO, HOTDOG AND CORNED BEEF**, and in manufacturing **INSTANT NOODLES**, refined sugar and cooking oil, shall be allowed a presumptive input tax, creditable against the output tax, equivalent to [one and a half-percent (1 ½%)] **THREE AND ONE-HALF PERCENT (3 ½ %)** of the gross value in money of their purchases of primary agricultural products which are used as inputs to their production.”

SEC. 2. *Repealing Clause.* – All laws, decrees, executive orders, administrative orders, regulations or parts thereof which are inconsistent with this Act are hereby repealed, amended or modified accordingly.

SEC. 3. *Effectivity Clause.* – This Act shall take effect fifteen (15) days after its publication in the official Gazette or in any two (2) newspapers of general circulation.

Approved,