

Republic of Philippines
HOUSE OF REPRESENTATIVES
Quezon City



THIRTEENTH CONGRESS
Second Regular Session

House Bill No. 4740

Introduced by Hon. Joey Sarte Salceda

EXPLANATORY NOTE

The global oil prices have risen to new record highs of US\$68/barrel from only US\$11 in 1998; and, it is a growing consensus among market experts that they would remain at an average of US\$68/barrel in the next 12 months.

The Philippines imports almost 100% of its oil requirements with our oil import bill projected to jump from US\$4.4bn in 2004 to \$6.2bn in 2005 and \$7.2bn in 2006 draining our hard-earned foreign exchange reserves, wiping out our BOP surplus and causing the peso to weaken.

Moreover, the rising global oil prices combined with peso weakness have caused domestic pump prices to rise dramatically putting severe pressure on the cost structure of our industries and have been compelled to pass these on with inflation surging to 8.4%.

The imposition of VAT on oil and electricity coincides with skyrocketing global oil prices causing a concentration of upward pressure on a product that is a pervasive primary input to industries and services.

It is being implemented amid incipient acceleration in food prices with rice price rising by 11% Year-on-Year (YoY) in July and other cost push pressures which could stoke inflation and choke consumer demand.

The personal consumption expenditure accounts for 80% of our gross domestic product and accounted almost for 100% of the demand growth over the past five years; thus, such inflationary pressures could depress the purchasing power of our consumers and aggravate the evolving slowdown in the economy.

The country's middle class composed of urban working families and rural entrepreneurs already takes up 75% of the tax burden and consumes 94% of Napocor sales to households and 96% of oil consumption.

Such confluence of negative factors is likely to ignite demand for wage hikes constituting a demand-driven pressure which is one of triggering fundamentals for the BSP to increase interest rates resulting in a triple whammy for the business sector and similarly increase the costs of servicing the country's P2.4 trillion domestic debt with 1% adjustment causing a P24bn increase in interest payments that easily wipes out the P20bn incremental revenue from oil and power VAT.

While the VAT Reform Law is the centerpiece of the fiscal reform program as it is estimated to raise P77.5bn incremental revenues annually of which P20bn would come from oil and electricity, the principal objective of raising revenues must be considered in the context of the overall P967bn revenue program with P90bn estimated to be raised from organic growth of the economy.

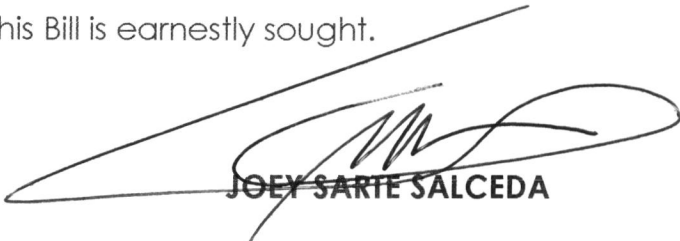
During the formulation of the appropriate tax level on oil and power, the prevailing price of oil per barrel in the world market was between US\$40 to US\$45 while GDP growth was more robust at 6.4% versus 4.6% in 1H 2005.

The economic managers and policymakers should learn the lesson from the experience of other economies which implemented painful fiscal reforms on a slowing domestic economy, weak global demand for exports and amid an escalating external shock which only served to depress the economy and caused a collapse in revenues;

There are legitimate timing and sequencing considerations in order to optimize the intended positive consequences and minimize the unwanted side effects of the VAT Reform Law by spreading the burden of the adjustment which could principally be achieved by implementing the rate hike to 12% ahead of the oil and power VAT.

The revenue loss from such deferral is estimated at only P6.6bn in 2005 and P15bn in 2006 that could easily be offset by improved collection efficiency and other less contractionary revenue measures.

Thus, the approval of this Bill is earnestly sought.



JOEY SARTÉ SALCEDA

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AN ACT
DEFERRING THE IMPOSITION OF THE VALUE-ADDED-TAX ON PETROLEUM
PRODUCTS AND ELECTRICITY UNTIL JUNE 1, 2006 AS PROVIDED UNDER
REPUBLIC ACT NO. 9337

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

SECTION 1. Notwithstanding the provisions of Sections 4, 5 and 6 of Republic Act No. 9337, the imposition of the value-added-tax on the following goods and services shall be deferred until June 1, 2006;

- (a) Sale or importation of petroleum products, except lubricating oil, pressed gas, grease, wax and petrolatum;
- (b) Sale and importation of raw materials to be used by the buyer or importer himself in the manufacture of petroleum products, except lubricating oil, processed gas, grease, wax and petrolatum;
- (c) Sales of electricity by generation companies, transmission, and distribution utilities;
- (d) Sales by electric cooperatives duly registered with the Cooperative Development Authority (CDA) or the National Electrification Administration (NEA), relative to the generation and distribution of electricity, as well as their importation of machineries and equipment, including spare parts, which shall be directly used in the generation and distribution of electricity; and

(e) Services of franchise grantees of electric utilities. '

SEC. 2. The taxpayers mentioned under Section 1 hereof shall be subject to the taxes and tax rates applicable prior to the effectivity of Republic Act No. 9337.

SEC. 3. The provisions under Sec. 17 of Republic Act 9337 shall likewise be deferred until June 1, 2006.

SEC. 4. The Secretary of Finance shall, upon the recommendation of the Commissioner of Internal Revenue, promulgate the necessary rules and regulations for the effective implementation of this Act.

SEC. 5. All laws, decrees, orders, issuances, rules and regulations and other issuances which are inconsistent with this Act, are hereby repealed or modified accordingly.

SEC. 6. This Act shall take effect on the date of the implementation of Republic Act No. 9337.

Approved,