

Republic of the Philippines
HOUSE OF REPRESENTATIVES
Quezon City

FIFTEENTH CONGRESS
First Regular Session

HOUSE BILL NO. 1070

Introduced by Honorable HERMILANDO I. MANDANAS
Second District, Batangas

EXPLANATORY NOTE

This bill seeks to amend the National Internal Revenue Code (NIRC) of 1997, as amended, to institute the Value Simplified Tax system (VAST) that will effectively substitute the highly unpopular and complicated Value Added Tax (VAT).

Without Congress being perceived to be attempting to increase taxes imposed on the consumers or ultimate users of goods and services, this bill aims to increase the collection of taxes under the NIRC of 1997, as amended by:

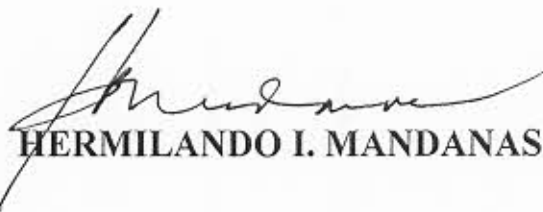
1. Simplifying the taxation system; and
2. Reducing the discretion or interpretations of tax applicability that increase temptation for corruption, and reduce the tax collection efficiency of the Government.

The significant features of the bill are :

1. Reduction of the tax rate by fifty (50%) percent: From twelve percent (12%) to six percent (6%);
2. Allowing all the exemptions under the VAT system to continue under the VAST;
3. Increasing further the exemptions under the VAST system by including all the retired AFP, PNP, Coast Guards and Customs Police, and also retired public school teachers who served over a period of not less than thirty (30) years, or even earlier, if retirement is due to injuries or sickness suffered while in the line of duty; and in addition, the threshold of the exempted maximum sale to be subject to VAST be increased for small vendors and sales/lease of real estates;
4. Provisions applying three percent (3%) tax on sales amounting to Php 2.5 Million and below will continue;
5. Repeal of the input tax and claims of presumptive VAT provisions, which were found to be occasions of corruption, and causes of material reduction in the expected tax collections of Government;

6. Establish the framework to facilitate further reduction in the VAST rate through simplifications of the System and reduction of complicated and discretionary tax provisions.

Motivated by the need to increase tax collections, improve the people's perception regarding tax impositions by Government, system that eliminates the scheme predisposed to leakages and loopholes, avoid occasion of corruption, and putting in place a more efficient means to maximize the revenue take of the Government, approval of this is earnestly sought.



HERMILANDO I. MANDANAS

1 Republic of the Philippines
2 **HOUSE OF REPRESENTATIVES**
3 Quezon City, Metro Manila

4
5 **FIFTEENTH CONGRESS**
6 **First Regular Session**
7

8 **HOUSE BILL NO. 1970**
9

10
11 **Introduced by the Honorable Hermilando I. Mandanas**
12 **Second District, Batangas**
13

14
15 **AN ACT**
16 **IMPOSING A VALUE SIMPLIFIED TAX IN LIEU OF THE VALUE-ADDED TAX**
17 **AMENDING FOR THE PURPOSE TITLE IV**
18 **OF THE NATIONAL INTERNAL REVENUE CODE OF 1997, AS AMENDED**
19

20
21 *Be it enacted by the Senate and the House of Representatives of the Philippines*
22 *in Congress assembled:*
23

24 **SECTION 1.** Section 105 of the National Internal Revenue Code (NIRC) is hereby
25 amended to read as follows:
26

27 “SEC. 105. *Persons Liable.* - Any person who, in the course of trade
28 or business, sells barter, exchanges, leases goods or properties, renders
29 services, and any person who imports goods shall be subject to the [value-
30 added tax (VAT)] VALUE SIMPLIFIED TAX (VAST) imposed in Sections
31 106 to 108 of this Code.
32

33 “The [value-added tax] VALUE SIMPLIFIED TAX is an indirect tax
34 and the amount of may be shifted or passed on to the buyer, transferee or
35 lessee of the goods, properties or services. This rule shall likewise apply to
36 existing contracts of sale or lease of goods, properties or services at the time
37 of the effectivity of Republic Act No., 7716.
38

39 “The phrase “in the course of trade or business” means the regular conduct or
40 pursuit of a commercial or an economic activity, including transactions
41 incidental thereto, by any person regardless of whether or not the person
42 engaged therein is a nonstock, nonprofit private organization (irrespective of
43 the disposition of its net income and whether or not it sells exclusively to
44 members of their guests), or government entity.
45

46 “The rule of regularity, to the contrary notwithstanding, services as defined in
47 this Code rendered in the Philippines by nonresident foreign persons shall be
48 considered as being rendered in the course of trade or business.”
49

50 **SECTION. 2.** Section 106 of the NIRC is hereby amended to read as follows:
51

52 “SEC. 106. [Value-Added Tax] VALUE SIMPLIFIED TAX on Sale
53 of Goods or Properties. -
54

55 “(A) Rate and Base of Tax. - There shall be levied, assessed and collected on
56 every sale, barter or exchange of goods or properties [value-added] VALUE

1 SIMPLIFIED tax equivalent to [ten percent (10%)] SIX PERCENT (6%) of
2 the gross selling price or gross value in money of the goods or properties sold,
3 bartered or exchanged, such tax to be paid by the seller or transferor.
4 [Provided, That the President, upon the recommendation of the Secretary of
5 Finance, shall, effective January 1, 2006, raise the rate of value-added tax to
6 twelve percent (12%), after any of the following conditions has been been
7 satisfied:
8

9 [(i) Value-added tax collection as a percentage of Gross Domestic
10 Product (GDP) of the previous year exceeds two and four-fifth percent (2
11 4/5%); or]
12

13 [(ii) National government deficit as a percentage of GDP of the
14 previous year exceeds one and one-half percent (1 1/2%).]
15

16 (1) The term "goods" or "properties" shall mean all tangible and intangible
17 objects which are capable of pecuniary estimation and shall include:
18

19 (a) Real properties held primarily for sale to customers or held for
20 lease in the ordinary course of trade or business;
21

22 (b) The right or the privilege to use patent, copyright, design or model,
23 plan, secret formula or process, goodwill, trademark, trade brand or
24 other like property or right;
25

26 (c) The right or the privilege to use in the Philippines of any industrial,
27 commercial or scientific equipment;
28

29 (d) The right or the privilege to use motion picture films, tapes and
30 discs; and
31

32 (e) Radio, television, satellite transmission and cable television time.
33

34 "The term "gross selling price" means the total amount of money or its
35 equivalent which the purchaser pays or is obligated to pay to the seller in
36 consideration of the sale, barter or exchange of goods or properties, excluding
37 the [value-added] VALUE SIMPLIFIED tax. The excise tax, if any, on such
38 goods or properties shall form part of the gross selling price.
39

40 [(2) The following sales by VAT-registered persons shall be [subject to zero
41 percent (0%) rate;]
42

43 [(a) Export Sales. - The term 'export sales' means:]
44

45 [(1) The sale and actual shipment of goods from the Philippines
46 to a foreign country, irrespective of any shipping arrangement that
47 may be agreed upon which may influence or determine the transfer of
48 ownership of the goods so exported and paid for in acceptable foreign
49 currency or its equivalent in goods or services, and accounted for in
50 accordance with the rules and regulations of the Bangko Sentral ng
51 Pilipinas (BSP);]
52

53 [(2) Sale of raw materials or packaging materials to a
54 nonresident buyer for delivery to a resident local export-oriented
55 enterprise to be used in manufacturing, processing, packing or
56 repacking in the Philippines of the said buyer's goods and paid for in

1 acceptable foreign currency and accounted for in accordance with the
2 rules and regulations of the Bangko Sentral ng Pilipinas (BSP);]

3
4 [(3) Sale of raw materials or packaging materials to export-
5 oriented enterprise whose export sales exceed seventy percent (70%)
6 of total annual production;]

7
8 [(4) Sale of gold to the Bangko Sentral ng Pilipinas (BSP);]

9
10 [(5) Those considered export sales under Executive Order No.
11 226, otherwise known as the Omnibus Investment Code of 1987, and
12 other special laws; and]

13
14 [(6) The sale of goods, supplies, equipment and fuel to persons
15 engaged in international shipping or international air transport
16 operations]

17
18 [(b) Foreign Currency Denominated Sale. - The phrase "foreign
19 currency-denominated sale" means sale to a nonresident of goods, except
20 those mentioned in Sections 149 and 150, assembled or manufactured in the
21 Philippines for delivery to a resident of the Philippines, paid for in acceptable
22 foreign currency and accounted for in accordance with the rules and
23 regulations of the Bangko Sentral ng Pilipinas (BSP).]

24
25 [(c) Sales to persons or entites whose exemption under special laws or
26 international agreements to which the Philippines is a signatory [effectively
27 subjects such sales to zero rate].

28
29 "(B) Transactions Deemed Sale. - The following transactions shall be deemed
30 sale:

31
32 (1) Transfer, use or consumption not in the course of business of goods
33 or properties originally intended for sale or for use in the course of
34 business;

35
36 (2) Distribution or transfer refers to:

37
38 (a) Shareholders or investors as share in the profits of the
39 [VAT] VAST-registered persons; or

40
41 (b) Creditors in payment of debt;

42
43 (3) Consignment of goods if actual sale is not made within sixty (60)
44 days following the date such goods were consigned; and

45
46 (4) Retirement from or cessation of business with respect to
47 inventories of taxable goods existing as of such retirement or
48 cessation.

49
50 "(C) Changes in or Cessation of Status of a [VAT]-VAST registered person. -
51 The tax imposed in Subsection (A) of this Section shall also apply to goods
52 disposed of or existing as of a certain date if under circumstances to be
53 prescribed in rules and regulations to be promulgated by the Secretary of
54 Finance, upon recommendation of the Commissioner, the status of a person as
55 a [VAT] VAST-registered person changes or is terminated.
56

1 “(D) Sales Returns, Allowances and Sales Discounts. - The value of goods or
2 properties sold and subsequently returned or for which allowances were
3 granted by a [VAT] VAST-registered person may be deducted from the gross
4 sales or receipts for the quarter in which a refund is made or a credit
5 memorandum or refund is issued. Sales discount granted and indicated in the
6 invoice at the time of sale and the grant of which does not depend upon the
7 happening of a future event may be excluded from the gross sales within the
8 same quarter it was given.
9

10 “(E) Authority of the Commissioner to Determine the Appropriate Tax Base. -
11 The Commissioner shall, by rules and regulations prescribed by the Secretary
12 of Finance, determine the appropriate tax base in cases where a transaction is
13 deemed a sale, barter or exchange of goods or properties under Subsection (B)
14 hereof, or where the gross selling price is unreasonably lower than the actual
15 market value.
16

17 **SECTION 3.** Section 107 of the same Code is hereby amended to read as follows
18

19 “SEC. 105. [Value-Added] VALUE SIMPLIFIED Tax on Importation of
20 Goods. -
21

22 “(A) In General. - There shall be levied, assessed and collection on every
23 importation of goods a [value-added] VALUE SIMPLIFIED tax equivalent to
24 [ten percent [10%] SIX PERCENT (6%) based on the total value used by the
25 Bureau of Customs in determining tariff and customs duties, plus customs
26 duties, excise taxes, if any, and other charges, such tax to be paid by the
27 importer prior to the release of such goods from customs custody: [Provided,
28 That where the customs duties are determined on the basis of the quantity or
29 volume of the goods, the value-added tax shall be based on the landed cost
30 plus excise taxes, if any; Provided, further, That the President, upon the
31 recommendation of the Secretary of Finance, shall, effective January 1, 2008,
32 raise the rate of the value-added tax to twelve percent (12%), after any of the
33 following conditions has been satisfied:]
34

35 [(i) Value-added tax collection as a percentage of Gross Domestic
36 Product (GDP) of the previous year exceeds two and four-fifth percent
37 (2 4/5%); or]
38

39 [(ii) National government deficit as a percentage of GDP of the
40 previous year exceeds one and one-half percent (1 1/2%).]
41

42 “(B) Transfer of Goods by Tax-Exempt Persons. - In the case of tax-free
43 importation of goods into the Philippines by persons, entities or agencies
44 exempt from tax wherein such goods are subsequently sold, transferred or
45 exchanged in the Philippines to non-exempt persons or entities, the
46 purchasers, transferees, or recipients shall be considered the importers
47 thereof, who shall be liable for any internal revenue tax on such importation.
48 The tax due on such importation shall constitute a lien on the goods superior
49 to all charges or liens on the goods, irrespective of the possessor thereof.
50

51 **SECTION 4.** Section 108 of the same Code is hereby amended to read as follows:
52

53 “SEC. 108. [Value-Added] VALUE SIMPLIFIED Tax on Sale of Services
54 and Use or Lease of Properties. -
55

56 “(A) Rate and Base of Tax. - There shall be levied, assessed and collected, a
57 [value-added] VALUE SIMPLIFIED tax equivalent to [ten percent (10%)]

1 SIX PERCENT (6%) of gross receipts derived from the sale or exchange of
2 services, including the use or lease of properties. [Provided, That the
3 President, upon the recommendation of the Secretary of Finance, shall,
4 effective January 1, 2006 raise the rate of value-added tax to twelve percent
5 (12%), after any of the following conditions has been satisfied:]
6

7 [(i) Value-added tax collection as a percentage of Gross Domestic
8 Product (GDP) of the previous year exceeds two and four-fifth percent
9 (2 4/5%); or]

10
11 [(ii) National government deficit as a percentage of GDP of the
12 previous year exceeds one and one-half percent (1 1/2%).]
13

14 The phrase "sale or exchange of services" means the performance of all kinds
15 of services in the Philippines for others for a fee, remuneration or
16 consideration, including those performed or rendered by construction and
17 service contractors, stock, real estate, commercial, customs and immigration
18 brokers, lessors of property, whether personal or real; warehousing services;
19 lessors or distributors of cinematographic films; persons engaged in milling,
20 processing, manufacturing or repacking goods for others; proprietors,
21 operators or keepers of hotels, motels, resthouses, pension houses, inns,
22 resorts; proprietor or operators of restaurants, refreshment parlors, cafes and
23 other eating places, including clubs and caterers; dealers in securities; lending
24 investors; transportation contractors on their transport of goods or cargoes,
25 including persons who transport goods or cargoes for hire and other domestic
26 common carriers by land relative to their transport of goods or cargoes;
27 common carriers by air and sea relative to their transport of passengers, goods
28 or cargoes from one place in the Philippines to another place in the
29 Philippines; sales of electricity by generation companies, transmission and
30 distribution companies; telephone and telegraph, radio and television
31 broadcasting and all other franchise grantees except those under Section 119
32 of the Code and non-life insurance companies (except their crop insurances)
33 including surety, fidelity, indemnity and bonding companies; and similar
34 services regardless of whether or not the performance thereof calls for the
35 exercise or use of the physical or mental faculties. The phrase 'sale or
36 exchange of services' shall likewise include:
37

38 (1) The lease or the use of or the right or privilege to use any
39 copyright, patent, design or model, plan secret formula or process,
40 goodwill, trademark, trade brand or other like property or right;
41

42 (2) The lease of the use of, or the right to use of any industrial,
43 commercial or scientific equipment;
44

45 (3) The supply of scientific, technical, industrial or commercial
46 knowledge or information;
47

48 (4) The supply of any assistance that is ancillary and subsidiary to and
49 is furnished as a means of enabling the application or enjoyment of any
50 such property, or right as is mentioned in subparagraph (2) or any such
51 knowledge or information as is mentioned in subparagraph (3);
52

53 (5) The supply of services by a nonresident person or his employee in
54 connection with the use of property or rights belonging to, or the
55 installation or operation of any brand, machinery or other apparatus
56 purchased from such nonresident person.
57

1 **SECTION 5.** Section 109 of the same Code is hereby amended to read as follows:

2
3 “SEC. 109. Exempt Transactions. - The following shall be exempt
4 from the [value-added] VALUE SIMPLIFIED tax:

5
6 [(1) Subject to the provisions of Subsection (2) hereof, the following
7 transactions shall be exempt from the value-added tax:]

8
9 “(A) Sale or importation of agricultural and marine food products in their
10 original state, livestock and poultry of a kind generally used as, or yielding
11 or producing foods for human consumption, and breeding stock and genetic
12 materials therefor;

13
14 “Products classified under this paragraph shall be considered in their original
15 state even if they have undergone the simple processes of preparation or
16 preservation for the market, such as freezing, drying, salting broiling,
17 roasting, smoking or stripping. Polished and/or husked rice, corn grits, raw
18 cane sugar and molasses, ordinary salt, and copra shall be considered in their
19 original state;

20
21 “(B) Sale or importation of fertilizers; seeds, seedlings and fingerlings; fish,
22 prawn, livestock and poultry feeds, including ingredients, whether locally
23 produced or imported, used in the manufacture of finished fees (except
24 specialty feeds for race horses, fighting cocks, aquarium fish, zoo animals
25 and other animals generally considered as pets);

26
27 “(C) Importation of personal and household effects belonging to the
28 residents of the Philippines returning from abroad and nonresident citizens
29 coming to resettle in the Philippines: Provided, That such goods are exempt
30 from customs duties under the Tariff and Customs Code of the Philippines;

31
32 “(D) Importation of professional instruments and implements, wearing
33 apparel, domestic animals, and personal household effects (except any
34 vehicle, vessel, aircraft, machinery other goods for use in the manufacture
35 and merchandise of any kind in commercial quantity) belonging to persons
36 coming to settle in the Philippines, for their own use and not for sale, barter
37 or exchange, accompanying such persons, or arriving within ninety (90)
38 days before or after their arrival, upon the production of evidence
39 satisfactory to the Commissioner, that such persons are actually coming to
40 settle in the Philippines and that the change of residence is bona fide;

41
42 “(E) Services subject to percentage tax under Title V;

43
44 “(F) Services by agricultural contract growers and milling for others of palay
45 into rice, corn into grits and sugar cane into raw sugar;

46
47 “(G) Medical, dental, hospital and veterinary services except those rendered
48 by professionals;

49
50 “(H) Educational services rendered by private educational institutions, duly
51 accredited by the Department of Education (DEPED), the Commission on
52 Higher Education (CHED), the Technical Education And Skills Development
53 Authority (TESDA) and those rendered by government educational
54 institutions;

55
56 “(I) Services rendered by individuals pursuant to an employer-employee
57 relationship;

1 “(J) Services rendered by regional or area headquarters established in the
2 Philippines by multinational corporations which act as supervisory,
3 communications and coordinating centers for their affiliates, subsidiaries or
4 branches in the Asia-Pacific Region and do not earn or derive income from
5 the Philippines;
6

7 “(K) Transactions which are exempt under international agreements to which
8 the Philippines is a signatory or under special laws, except those under
9 Presidential Decree No. 529;
10

11 “(L) Sales by agricultural cooperatives duly registered with the Cooperative
12 Development Authority to their members as well as sale of their produce,
13 whether in its original state or processed form, to non-members; their
14 importation of direct farm inputs, machineries and equipment, including spare
15 parts thereof, to be used directly and exclusively in the production and/or
16 processing of their produce;
17

18 “(M) Gross receipts from lending activities by credit or multi-purpose
19 cooperatives duly registered with the Cooperative Development Authority;
20

21 “(N) Sales by non-agricultural, non-electric and non-credit cooperatives duly
22 registered with the Cooperative Development Authority: Provided, That the
23 share capital contribution of each member does not exceed [Fifteen Thousand
24 Pesos (P15,000)] FIFTY THOUSAND PESOS (P50,000.00) and regardless
25 of the aggregate capital and net surplus ratably distributed among the
26 members;
27

28 “(O) Export sales by persons who are not [VAT] VAST-registered;
29

30 “(P) Sale of real properties not primarily held for sale to customers or held for
31 lease in the ordinary course of trade or business, or real property utilized for
32 low-cost and socialized housing as defined by Republic Act No. 7279,
33 otherwise known as the Urban Development and Housing Act of 1992, and
34 other related laws, residential lot valued at [One million five hundred
35 thousand pesos (P1,500,000)] TWO MILLION FIVE HUNDRED
36 THOUSAND PESOS (P2,500,000) and below, house and lot, and other
37 residential dwellings valued at [Two million five hundred thousand pesos
38 (P2,500,000)] THREE MILLION FIVE HUNDRED THOUSAND PESOS
39 (P3,500,000) and below: Provided, That not later than [January 31, 2009]
40 JANUARY 31, 2012 and every three (3) years thereafter, the amounts herein
41 stated shall be adjusted to their present values using the Consumer Price
42 Index, as published by the National Statistics Office (NSO);
43

44 “(Q) Lease of a residential unit with a monthly rental not exceeding [Ten
45 thousand pesos (P10,000)] TWENTY THOUSAND PESOS (P20,000)
46 Provided, That not later than [January 31, 2009] JANUARY 31, 2012 and
47 every three (3) years thereafter, the amount herein stated shall be adjusted to
48 its present value using the Consumer Price Index as published by the National
49 Statistics Office (NSO);
50

51 “(R) Sale, importation, printing or publication of books and any newspaper,
52 magazine, review or bulletin which appears at regular intervals with fixed
53 prices for subscription and sale and which is not devoted principally to the
54 publication of paid advertisements;
55

56 “(S) Sale, importation or lease of passenger or cargo vessels and aircraft,
57 including engine, equipment and spare parts thereof for domestic or

1 international transport operations;

2
3 “(T) Importation of fuel, goods and supplies by persons engaged in
4 international shipping or air transport operations;

5
6 “(U) Services of banks, non-bank financial intermediaries performing quasi-
7 banking functions, and other non-bank financial intermediaries; and
8

9 “(V) SALE AND ACTUAL SHIPMENT OF GOODS FROM THE
10 PHILIPPINES TO A FOREIGN COUNTRY, IRRESPECTIVE OF ANY
11 SHIPPING ARRANGEMENT THAT MAY BE AGREED UPON WHICH
12 MAY INFLUENCE OR DETERMINE THE TRANSFER OF OWNERSHIP
13 OF THE GOODS SO EXPORTED AND PAID FOR IN ACCEPTABLE
14 FOREIGN CURRENCY OR ITS EQUIVALENT IN GOODS OR
15 SERVICES, AND ACCOUNTED FOR IN ACCORDANCE WITH THE
16 RULES AND REGULATIONS OF THE BANGKO SENTRAL NG
17 PILIPINAS (BSP);
18

19 “(W) SALE OF RAW MATERIALS OR PACKAGING MATERIALS TO A
20 NONRESIDENT BUYER FOR DELIVERY TO A RESIDENT LOCAL
21 EXPORT-ORIENTED ENTERPRISE TO BE USED IN
22 MANUFACTURING, PROCESSING, PACKING OR REPACKING IN THE
23 PHILIPPINES OF THE SAID BUYER'S GOODS AND PAID FOR IN
24 ACCEPTABLE FOREIGN CURRENCY AND ACCOUNTED FOR IN
25 ACCORDANCE WITH THE RULES AND REGULATIONS OF THE
26 BANGKO SENTRAL NG PILIPINAS (BSP);
27

28 “(X) SALE OF RAW MATERIALS OR PACKAGING MATERIALS TO
29 EXPORT-ORIENTED ENTERPRISE WHOSE EXPORT SALES EXCEED
30 SEVENTY PERCENT (70%) OF TOTAL ANNUAL PRODUCTION;
31

32 “(Y) SALE OF GOLD TO THE BANGKO SENTRAL NG PILIPINAS
33 (BSP);
34

35 “(Z) SALES UNDER EXECUTIVE ORDER NO. 226, OTHERWISE
36 KNOWN AS THE OMNIBUS INVESTMENT CODE OF 1987, AND
37 OTHER SPECIAL LAWS; AND
38

39 “(AA) THE SALE OF GOODS, SUPPLIES, EQUIPMENT AND FUEL TO
40 PERSONS ENGAGED IN INTERNATIONAL SHIPPING OR
41 INTERNATIONAL AIR TRANSPORT OPERATIONS.
42

43 “(BB) SALE TO A NONRESIDENT OF GOODS, EXCEPT THOSE
44 MENTIONED IN SECTIONS 149 AND 150, ASSEMBLED OR
45 MANUFACTURED IN THE PHILIPPINES FOR DELIVERY TO A
46 RESIDENT OF THE PHILIPPINES, PAID FOR IN ACCEPTABLE
47 FOREIGN CURRENCY AND ACCOUNTED FOR IN ACCORDANCE
48 WITH THE RULES AND REGULATIONS OF THE BANGKO SENTRAL
49 NG PILIPINAS (BSP).
50

51 “(CC) SALES TO PERSONS OR ENTITES WHOSE EXEMPTION
52 UNDER SPECIAL LAWS OR INTERNATIONAL AGREEMENTS TO
53 WHICH THE PHILIPPINES IS A SIGNATORY.
54

55 “(DD) PROCESSING, MANUFACTURING OR REPACKING GOODS
56 FOR OTHER PERSONS DOING BUSINESS OUTSIDE THE
57 PHILIPPINES WHICH GOODS ARE SUBSEQUENTLY EXPORTED,

1 WHERE THE SERVICES ARE PAID FOR IN ACCEPTABLE FOREIGN
2 CURRENCY AND ACCOUNTED FOR IN ACCORDANCE WITH THE
3 RULES AND REGULATIONS OF THE BANGKO SENTRAL NG
4 PILIPINAS (BSP);
5

6 “(EE) SERVICES OTHER THAN THOSE MENTIONED IN THE
7 PRECEDING PARAGRAPH RENDERED TO A PERSON ENGAGED IN
8 BUSINESS CONDUCTED OUTSIDE THE PHILIPPINES OR TO A
9 NONRESIDENT PERSON NOT ENGAGED IN BUSINESS WHO IS
10 OUTSIDE THE PHILIPPINES WHEN THE SERVICES ARE
11 PERFORMED, THE CONSIDERATION FOR WHICH IS PAID FOR IN
12 ACCEPTABLE FOREIGN CURRENCY AND ACCOUNTED FOR IN
13 ACCORDANCE WITH THE RULES AND REGULATIONS OF THE
14 BANGKO SENTRAL NG PILIPINAS (BSP);
15

16 “(FF) SERVICES RENDERED TO PERSONS OR ENTITIES WHOSE
17 EXEMPTION UNDER SPECIAL LAWS OR INTERNATIONAL
18 AGREEMENTS TO WHICH THE PHILIPPINES IS A SIGNATORY
19 EFFECTIVELY SUBJECTS THE SUPPLY OF SUCH SERVICES TO
20 ZERO PERCENT (0%) RATE;
21

22 “(GG) SERVICES RENDERED TO PERSONS ENGAGED IN
23 INTERNATIONAL SHIPPING OR INTERNATIONAL AIR TRANSPORT
24 OPERATIONS, INCLUDING LEASES OF PROPERTY FOR USE
25 THEREOF;
26

27 “(HH) SERVICES PERFORMED BY SUBCONTRACTORS AND/OR
28 CONTRACTORS IN PROCESSING, CONVERTING, OR
29 MANUFACTURING GOODS FOR AN ENTERPRISE WHOSE EXPORT
30 SALES EXCEED SEVENTY PERCENT (70%) OF TOTAL ANNUAL
31 PRODUCTION;
32

33 “(II) TRANSPORT OF PASSENGERS AND CARGO BY AIR OR SEA
34 VESSELS FROM THE PHILIPPINES TO A FOREIGN COUNTRY;
35

36 “(JJ) SALE OF POWER OR FUEL GENERATED THROUGH
37 RENEWABLE SOURCES OF ENERGY SUCH AS, BUT NOT LIMITED
38 TO, BIOMASS, SOLAR, WIND, HYDROPOWER, GEOTHERMAL,
39 OCEAN ENERGY, AND OTHER EMERGING ENERGY SOURCES
40 USING TECHNOLOGIES SUCH AS FUEL CELLS AND HYDROGEN
41 FUELS.
42

43 “(KK) PRIVILEGES GRANTED TO SENIOR CITIZENS UNDER
44 REPUBLIC ACT NO. 9994 WHICH TOOK EFFECT ON FEBRUARY 15,
45 2010; PROVIDED, THAT SUCH EXEMPT SALES OF GOODS AND
46 SERVICES TO SENIOR CITIZENS HEREUNDER SHALL LIKEWISE
47 EXTEND TO RETIRED PUBLIC SCHOOL TEACHERS WHO HAVE
48 RENDERED AT LEAST THIRTY (30) YEARS OF SERVICE, MILITARY
49 PERSONNEL AND OFFICERS OF THE PHILIPPINE NATIONAL
50 POLICE.
51

52 [V] “(LL) Sale or lease of goods or properties or the performance of services
53 other than the transactions mentioned in the preceding paragraphs, the gross
54 annual sales and/or receipts do not exceed the amount of [One million five
55 hundred thousand pesos (P1,500,000)] TWO MILLION FIVE HUNDRED
56 THOUSAND PESOS (P2,500,000) Provided, That not later than [January 31,
57 2009] JANUARY 31, 2012 and every three (3) years thereafter, the amount

herein stated shall be adjusted to its present value using the Consumer Price Index as published by the National Statistics Office (NSO);

[(2) A VAT-registered person may elect that subsection (1) not apply to its sale of goods or properties or services; provided, that an election made under this subsection shall be irrevocable for a period of three (3) years from the quarter the election was made.]

SECTION 6. Section 110 of the same Code is hereby amended to read as follows:

“SEC. 110. ANY TAX CREDIT MECHANISM OR SCHEME SHALL NOT BE ALLOWED UNDER THE VALUE SIMPLIFIED TAX.

[Sec. 110. Tax Credits. -

[(A) Creditable Input Tax. -

[(1) Any input tax evidenced by a VAT invoice or official receipt issued in accordance with Section 113 hereof on the following transactions shall be creditable against the output tax:]

[(a) Purchase or importation of goods:]

[(i) For sale; or]

[(ii) For conversion into or intended to form part of a finished product for sale including packaging materials; or]

[(iii) For use as supplies in the course of business; or]

[(iv) For use as materials supplied in the sale of service; or]

[(v) For use in trade or business for which deduction for depreciation or amortization is allowed under this Code.]

[(b) Purchase of services on which a value-added tax has actually been paid.]

[(2) The input tax on domestic purchase or importation of goods or properties by a VAT-registered person shall be creditable:]

[(a) To the purchaser upon consummation of sale and on importation of goods or properties; and]

[(b) To the importer upon payment of the value-added tax prior to the release of the goods from the custody of the Bureau of Customs. Provided, That the input tax on goods purchased or imported in a calendar month for use in trade or business for which deduction for depreciation is allowed under this Code, shall be spread evenly over the month of acquisition and the fifty-nine (59) succeeding months if the aggregate acquisition cost for such goods, excluding the VAT component thereof,

1 exceeds One million pesos (P1,000,000): Provided, however,
2 That if the estimated useful life of the capital good is less than
3 five (5) years, as used for depreciation purposes, then the input
4 VAT shall be spread over such a shorter period: Provided,
5 finally, that in the case of purchase of services, lease or use of
6 properties, the input tax shall be creditable to the purchaser,
7 lessee or licensee upon payment of the compensation, rental,
8 royalty or fee.]
9

10 [(3) A VAT-registered person who is also engaged in transactions not
11 subject to the value-added tax shall be allowed tax credit as follows:]
12

13 [(a) Total input tax which, can be directly attributed to
14 transactions subject to value-add tax; and]
15

16 [(b) A ratable portion of any input tax which cannot be directly
17 attributed to either activity.]
18

19 [The term 'input tax' means the value-added tax due from or paid by a VAT-
20 registered person in the course of his trade or business on importation of
21 goods or local purchase of goods or services, including lease or use of
22 property, from a VAT-registered person. It shall also include the transitional
23 input tax determined in accordance with Section 111 of this Code.]
24

25 [The term 'output tax' means the value-added tax due on the sale or lease of
26 taxable goods or properties or services by any person registered or required to
27 register under Section 236 of this Code.]
28

29 [(B) Excess Output or Input Tax. - If at the end of any taxable quarter the
30 output tax exceeds the input tax, the excess shall be paid by the VAT-
31 registered person. If the input tax exceeds the output tax, the excess shall be
32 carried over to the succeeding quarter or quarters: Provided, That the input tax
33 inclusive of input VAT carried over from the previous quarter that may be
34 credited in every quarter shall not exceed seventy percent (70%) of the output
35 VAT: Provided, however, That any input tax attributable to zero-rated sales
36 by a VAT-registered person may at his option be refunded or credited against
37 other internal revenue taxes, subject to the provisions of Section 112.]
38

39 [(C) Determination of Creditable Input Tax. - The sum of the excess input tax
40 carried over from the preceding month or quarter and the input tax creditable
41 to a VAT-registered person during the taxable month or quarter shall be
42 reduced by the amount of claim for refund or tax credit for value-added tax
43 and other adjustments, such as purchase returns or allowances and input tax
44 attributable to exempt sale.]
45

46 [The claim for tax credit referred to in the foregoing paragraph shall include
47 not only those filed with the Bureau of Internal Revenue but also those filed
48 with other government agencies, such as the Board of Investments and the
49 Bureau of Customs.]
50

51 **SECTION 7.** Sections 111 and 112 of the same Code is hereby repealed.
52

53 **SECTION 8.** Section 113 of the Code is hereby amended to read as follows:
54

55 "SEC. 113. Invoicing and Accounting Requirements for [VAT-Registered]
56 VAST-REGISTERED Persons. -
57

1 "(A) Invoicing Requirements. - A [VAT] VAST-registered person shall issue:

2
3 (1) A [VAT] VAST invoice for every sale, barter or exchange of
4 goods or properties; and

5
6 (2) A [VAT] VAST official receipt for every lease of goods or
7 properties, and for every sale, barter or exchange of services.
8

9 "(B) Information Contained in the [VAT] VAST Invoice or [VAT] VAST
10 Official Receipt. - The following information shall be indicated in the [VAT]
11 VAST invoice or [VAT] VAST official receipt:
12

13 (1) A statement that the seller is a [VAT] VAST-registered person,
14 followed by his taxpayer's identification number (TIN);
15

16 (2) The total amount which the purchaser pays or is obligated to pay to
17 the seller with the indication that such amount includes the [value-
18 added] VALUE SIMPLIFIED tax: Provided, That:
19

20 (a) The amount of the tax shall be shown as a separate item in
21 the invoice or receipt;
22

23 (b) If the sale is exempt from [value-added tax] VALUE
24 SIMPLIFIED TAX, the term ["VAT-exempt sale"] VAST-
25 EXEMPT SALE shall be written or printed prominently on the
26 invoice or receipt [;].
27

28 [(c) If the sale is subject to zero percent (0%) value-added tax,
29 the term "zero-rated sale" shall be written or printed
30 prominently on the invoice or receipt;]
31

32 [(d) If the sale involves goods, properties or services some of
33 which are subject to and some of which are VAT zero-rated or
34 VAT-exempt, the invoice or receipt shall clearly indicate the
35 breakdown of the sale price between its taxable, exempt and
36 zero-rated components, and the calculation of the value-added
37 tax on each portion of the sale shall be shown on the invoice or
38 receipt: "Provided, That the seller may issue separate invoices
39 or receipts for the taxable, exempt, and zero-rated components
40 of the sale.]
41

42 (3) The date of transaction, quantity, unit cost and description of the
43 goods or properties or nature of the service; and
44

45 (4) In the case of sales in the amount of one thousand pesos (P1,000)
46 or more where the sale or transfer is made to a [VAT] VAST-
47 registered person, the name, business style, if any, address and
48 taxpayer identification number (TIN) of the purchaser, customer or
49 client.
50

51 "(C) Accounting Requirements. - Notwithstanding the provisions of Section
52 233, all persons subject to the [value-added tax] VALUE SIMPLIFIED TAX
53 under Sections 106 and 108 shall, in addition to the regular accounting records
54 required, maintain a subsidiary sales journal and subsidiary purchase journal
55 on which the daily sales and purchases are recorded. The subsidiary journals
56 shall contain such information as may be required by the Secretary of Finance.
57

1 "(D) Consequence of Issuing Erroneous [VAT] VAST Invoice or [VAT]
2 VAST Official Receipt. -
3

4 (1) If a person who is not a [VAT] VAST-registered person issues an
5 invoice or receipt showing his Taxpayer Identification Number (TIN),
6 followed by the word ["VAT"] "VAST":
7

8 [(a)] The issuer shall, in addition to any liability to other
9 percentage taxes, be liable to:
10

11 (i) The tax imposed in Section 106 or 108 without the
12 benefit of any input tax credit; and
13

14 (ii) A 50% surcharge under Section 248 (B) of this
15 code;
16

17 [(b) The VAT shall, if the other requisite information required
18 under Subsection (B) hereof is shown on the invoice or receipt,
19 be recognized as an input tax credit to the purchaser under
20 Section 110 of this Code.]
21

22 (2) If a [VAT] VAST-registered person issues a [VAT] VAST invoice
23 or [VAT] VAST official receipt for a [VAT] VAST-exempt
24 transaction, but fails to display prominently on the invoice or receipt
25 the term "VAT-exempt Sale", the issuer shall be liable to account for
26 the tax imposed in Section 106 or 108 as if Section 109 did not apply.
27

28 "(E) Transitional Period. - [Notwithstanding Subsection (B) hereof, taxpayers
29 may continue to issue VAT invoices and VAT official receipts for the period
30 July 1, 2005 to December 31, 2005 in accordance with Bureau of Internal
31 Revenue administrative practices that existed as of December 31, 2004.]
32

33 THE SECRETARY OF FINANCE, IN CONSULTATION WITH THE
34 CONGRESSIONAL OVERSIGHT COMMITTEE, SHALL PROMULGATE
35 THE NECESSARY RULES AND REGULATIONS WITHIN THIRTY (30)
36 DAYS FROM THE EFFECTIVITY OF THIS ACT RELATIVE TO
37 UNUSED TAX CREDITS, WHICH SHALL, WITHIN ONE (1) YEAR
38 UPON PROMULGATION OF SAID RULES AND REGULATIONS, BE
39 ALLOWED AS A DEDUCTION FROM THE GROSS INCOME OF THE
40 TAXPAYER IN COMPUTING THE INCOME TAX DUE.
41

42 **SECTION 9.** Section 114 of the Code is hereby amended to read as follows:
43

44 "SEC. 114. Return and Payment of [Value-Added] VALUE SIMPLIFIED Tax. -
45

46 "(A) In General. - Every person liable to pay the [value-added] VALUE
47 SIMPLIFIED tax imposed under this Title shall file a quarterly return of the
48 amount of his gross sales or receipts within twenty-five (25) days following
49 the close of each taxable quarter prescribed for each taxpayer: Provided,
50 however, That [VAT] VAST-registered persons shall pay the value-added tax
51 on a monthly basis.
52

53 "Any person, whose registration has been cancelled in accordance with
54 Section 236, shall file a return and pay the tax due thereon within twenty-five
55 (25) days from the date of cancellation of registration: Provided, That only
56 one consolidated return shall be filed by the taxpayer for his principal place of
57 business or head office and all branches.

1 "(B) Where to File the Return and Pay the Tax. - Except as the Commissioner
2 otherwise permits, the return shall be filed with and the tax paid to an
3 authorized agent bank, Revenue Collection Officer or duly authorized city or
4 municipal Treasurer in the Philippines located within the revenue district
5 where the taxpayer is registered or required to register.
6

7 "(C) Withholding of [Value-Added] VALUE SIMPLIFIED Tax. - The
8 Government or any of its political subdivisions, instrumentalities or agencies,
9 including government-owned or -controlled corporations (GOCCs) shall,
10 before making payment on account of each purchase of goods and services
11 which are subject to the value-added tax imposed in Sections 106 and 108 of
12 this Code, deduct and withhold a final value-added tax at the rate of [five
13 percent (5%)] THREE PERCENT (3%) of the gross payment thereof:
14 [Provided, That the payment for lease or use of properties or property rights to
15 nonresident owners shall be subject to ten percent (10%) withholding tax at
16 the time of payment. For purposes of this Section, the payor or person in
17 control of the payment shall be considered as the withholding agent.]
18

19 "The [value-added] VALUE SIMPLIFIED tax withheld under this Section
20 shall be remitted within ten (10) days following the end of the month the
21 withholding was made."
22

23 **SECTION 11.** Section 115 of the Code is hereby amended to read as follows:
24

25 "SEC. 115. Power of the Commissioner to Suspend the Business Operations
26 of a Taxpayer. - The Commissioner or his authorized representative is hereby
27 empowered to suspend the business operations and temporarily close the
28 business establishment of any person for any of the following
29 violations.
30

31 "(a) In the case of a [VAT] VAST-registered Person. -
32

33 (1) Failure to issue receipts or invoices;
34

35 (2) Failure to file a [value-added] VALUE SIMPLIFIED tax
36 return as required under Section 114; or
37

38 (3) Understatement of taxable sales or receipts by thirty percent
39 (30%) or more of his correct taxable sales or receipts for the
40 taxable quarter."
41

42 "(b) Failure of any Person to Register as Required under Section 236. -
43 The temporary closure of the establishment shall be for the duration of
44 not less than five (5) days and shall be lifted only upon compliance
45 with whatever requirements prescribed by the Commissioner in the
46 closure order."
47

48 **SECTION 12.** Section 236 of the same Code is hereby amended to read as follows:
49

50 "SEC. 236. Registration Requirements. -
51

52 "(A) Requirements. - Every person subject to any internal revenue tax shall
53 register once with the appropriate Revenue District Officer:
54

55 "(1) Within ten (10) days from date of employment, or
56

57 "(2) On or before the commencement of business, or

1 "(3) Before payment of any tax due, or

2
3 "(4) Upon filing of a return, statement or declaration as required in this
4 Code.

5
6 "The registration shall contain the taxpayer's name, style, place of residence,
7 business, and such other information as may be required by the Commissioner
8 in the form prescribed therefor.

9
10 "A person maintaining a head office, branch or facility shall register with the
11 Revenue District Officer having jurisdiction over the head office, branch or
12 facility. For purposes of this Section, the term 'facility' may include but not be
13 limited to sales outlets, places of production, warehouses or storage places.

14
15 "(B) Annual Registration Fee. - An annual registration fee in the amount of
16 Five hundred pesos (P500) for every separate or distinct establishment or
17 place of business, including facility types where sales transactions occur, shall
18 be paid upon registration and every year thereafter on or before the last day of
19 January: Provided, however, That cooperatives, individuals earning purely
20 compensation income, whether locally or abroad, and overseas workers are
21 not liable to the registration fee herein imposed.

22
23 "The registration fee shall be paid to an authorized agent bank located within
24 the revenue district, or to the Revenue Collection Officer, or duly authorized
25 Treasurer of the city or municipality where each place of business or branch is
26 registered.

27
28 "(C) Registration of Each Type of Internal Revenue Tax. - Every person who
29 is required to register with the Bureau of Internal Revenue under Subsection
30 (A) hereof, shall register each type of internal revenue tax for which he is
31 obligated, shall file a return and shall pay such taxes, and shall update such
32 registration of any changes in accordance with Subsection (E) hereof.,

33
34 "(D) Transfer of Registration. - In case a registered person decides to transfer
35 his place of business or his head office or branches, it shall be his duty to
36 update his registration status by filing an application for registration
37 information update in the form prescribed therefor.

38
39 "(E) Other Updates. - Any person registered in accordance with this Section
40 shall, whenever applicable, update his registration information with the
41 Revenue District Office where he is registered, specifying therein any change
42 in tax type and other taxpayer details.

43
44 "(F) Cancellation of Registration. -

45
46 (1) General Rule. - The registration of any person who ceases to be
47 liable to a tax type shall be cancelled upon filing with the Revenue
48 District Office where he is registered, an application for registration
49 information update in a form prescribed therefor;

50
51 (2) Cancellation of [Value-Added] VALUE SIMPLIFIED Tax
52 Registration. - A [VAT] VAST-registered person may cancel his
53 registration for [VAT] VAST if:

54
55 (a) He makes written application and can demonstrate to the
56 Commissioner's satisfaction that his gross sales or receipts for
57 the following twelve (12) months, other than those that are

1 exempt under Section 109 (A) TO (U), will not exceed [One
2 million five hundred thousand pesos (P1,500,000)] TWO
3 MILLION FIVE HUNDRED THOUSAND PESOS
4 (P2,500,000); or
5

6 (b) He has ceased to carry on his trade or business, and does
7 not expect to recommence any trade or business within the next
8 twelve (12) months.
9

10 "The cancellation of registration will be effective from the first day of
11 the following month.
12

13 "(G) Persons Required to Register for [Value-added] VALUE SIMPLIFIED
14 Tax. -
15

16 (1) Any person who, in the course of trade or business, sells, barter or
17 exchanges goods or properties, or engages in the sale or exchange of
18 services, shall be liable to register for [Value-added] VALUE
19 SIMPLIFIED tax if:
20

21 (a) His gross sales or receipts for the past twelve (12) months,
22 other than those that are exempt under section 109 (a) to (u),
23 have exceeded [One million five hundred thousand pesos
24 (P1,500,000)] TWO MILLION FIVE HUNDRED
25 THOUSAND PESOS (P2,500,000); or
26

27 (b) There are reasonable grounds to believe that his gross sales
28 or receipts for the next twelve (12) months, other than those
29 that are exempt under Section 109 (A) to (U), will exceed [One
30 million five hundred thousand pesos (P1,500,000)] TWO
31 MILLION FIVE HUNDRED THOUSAND PESOS
32 (P2,500,000).
33

34 (2) Every person who becomes liable to be registered under paragraph
35 (1) of this Subsection shall register with the Revenue District Office
36 which has jurisdiction over the head office or branch of that person,
37 and shall pay the annual registration fee prescribed in Subsection (B)
38 hereof. If he fails to register, he shall be liable to pay the tax under
39 Title IV as if he were a VAT-registered person, but without the benefit
40 of input tax credits for the period in which he was not properly
41 registered.
42

43 "(H) Optional Registration for [Value-added] VALUE SIMPLIFIED Tax of
44 Exempt Person. - (1) Any person who is not required to register for [Value-
45 added] VALUE SIMPLIFIED tax under Subsection (G) hereof may elect to
46 register for [Value-added] VALUE SIMPLIFIED tax by registering with the
47 Revenue District Office that has jurisdiction over the head office of that
48 person, and paying the annual registration fee in Subsection (B) hereof.

49 (2) Any person who elects to register under this Subsection shall not be
50 entitled to cancel his registration under Subsection (F)(2) for the next three (3)
51 years.
52

53 "For purposes of Title IV of this Code, any person who has registered [value-
54 added] VALUE SIMPLIFIED tax as a tax type in accordance with the
55 provisions of Subsection (C) hereof shall be referred to as a "VAT-registered
56 person" who shall be assigned only one Taxpayer Identification Number
57 (TIN).

1 "(I) Supplying of Taxpayer Identification Number (TIN). - Any person
2 required under the authority of this Code to make, render or file a return,
3 statement or other document shall be supplied with or assigned a Taxpayer
4 Identification Number (TIN) which he shall indicate in such return, statement
5 or document filed with the Bureau of Internal Revenue for his proper
6 identification for tax purposes, and which he shall indicate in certain
7 documents, such as, but not limited to, the following:
8

- 9 (1) Sugar quedans, refined sugac release order or similar instruments;
- 10
- 11 (2) Domestic bills of lading;
- 12
- 13 (3) Documents to be registered with the Register of Deeds or
- 14 Assessor's Office;
- 15
- 16 (4) Registration certificate of transportation equipment by land, sea or
- 17 air;
- 18
- 19 (5) Documents to be registered with the Securities and Exchange
- 20 Commission;
- 21
- 22 (6) Building construction permits;
- 23
- 24 (7) Application for loan with banks, financial institutions, or other
- 25 financial intermediaries;
- 26
- 27 (8) Application for mayor's permit;
- 28
- 29 (9) Application for business license with the Department of Trade and
- 30 Industry; and
- 31
- 32 (10) Such other documents which may hereafter be required under
- 33 rules and regulations to be promulgated by the Secretary of Finance,
- 34 upon recommendation of the Commissioner.
- 35

36 "In cases where a registered taxpayer dies, the administrator or executor shall
37 register the estate of the decedent in accordance with Subsection (A) hereof
38 and a new Taxpayer Identification Number (TIN) shall be supplied in
39 accordance with the provisions of this Section.
40

41 "In the case of a nonresident decedent, the executor or administrator of the
42 estate shall register the estate with the Revenue District Office where he is
43 registered: Provided, however; That in case such executor or administrator is
44 not registered, registration of the estate shall be made with and the Taxpayer
45 Identification Number (TIN) supplied by the Revenue District Office having
46 jurisdiction over his legal residence.
47

48 "Only one Taxpayer Identification Number (TIN) shall be assigned to a
49 taxpayer. Any person who shall secure more than one Taxpayer Identification
50 Number shall be criminally liable under the provisions of Section 275 on
51 "Violation of Other Provisions of this Code or Regulations in General."
52

53 **SECTION 13. Severability.** - The provisions of the Act are declared to be severable,
54 and if any provision, word, phrase, or clause of the Act or the application thereof to any
55 person shall be held invalid, such invalidity shall not affect the validity of the remaining
56 portions of this Act.
57

1 **SECTION 14. *Repealing Clause.*** - All laws, presidential decrees, executive orders,
2 presidential proclamations, rules and regulations or parts thereof inconsistent with this Act
3 are hereby repealed or modified accordingly.
4

5 **SECTION 15. *Effectivity.*** - This Act shall take effect after fifteen (15) days from
6 publication in at least two (2) newspapers of general circulation.
7

8 APPROVED.