



Republic of the Philippines
HOUSE OF REPRESENTATIVES
Quezon City, Metro Manila

Fifteenth Congress
First Regular Session

HOUSE BILL NO. 2687

Introduced by : **Honorable Jocelyn S. Limkaichong**
Honorable George P. Arnaiz
Honorable Pryde Henry A. Teves

EXPLANATORY NOTE

In 2004, the government embarked on a major alcohol and tobacco excise tax reform to address the flaws of the previous system, which principally failed to generate desired amount of revenues and serve its sumptuary objective as well. Non-buoyant revenues due to structural defects such as the non-indexation of specific tax rates and non-reclassification of alcohol and tobacco products (more popularly known as "sin" products) to reflect current prices characterized the previous system.

The government does not employ tax policy for revenue generation alone but it is likewise being used as a powerful tool to affect the behavior of producers and consumers. Tax policy is employed to control social costs or regulate activities that are likely to cause negative externalities. Smoking, for instance is an activity that clearly exhibits harmful effects on both the smokers and non-smokers and the excise tax is viewed to be an effective intervention in reducing demand for sin products.

However, the same challenges are still being felt today even with the passage of a new excise tax law in 2004. The new and current structure continues to have inherent weaknesses that continue to put revenues at risk and undermine the role of excise tax as a tool to curb consumption of tobacco and alcohol products.

More specifically the following problems continue to haunt the current tobacco and alcohol excise tax system:

1. Presence of multi-tiered structure requires complex rules on product classification and creates too much room for discretion;

2. Presence of multi-tiered structure is prone to downshifting of consumption from high-priced to low-priced brands that has negative consequence both in terms of revenues and in discouraging consumption;
3. Presence of old and new brands distinction has deprived government of revenues due to the artificially low tax rates applied to old brands;
4. Presence of old and new brands distinction makes the structure inequitable since products having the same price are taxed differently thus, leading to an unhealthy competition in the market;
5. More importantly, the absence of a provision that allows the specific tax to track inflation has rendered the tax ineffective in raising revenues and curbing consumption. While RA 9334 provides for step increases until 2011, the rates do not necessarily catch up with inflation. For instance, cumulative inflation from 2005 to 2007 is 17.2%. In 2007, the tax rates for cigarettes were increased by only 12% for the low-priced brands and by 6%, 5% and 4% for the medium-priced, high-priced and premium-priced brands, respectively.

In order for the excise tax to continue its dual role as a deterrent to the consumption of these so called "sin" products as well as a source of revenue, DOF is again spearheading another excise tax reform.

This bill is designed to once and for all address the persistent problems in the country's taxation of alcohol and tobacco products. The general objective of this bill is to make the tax structure simple, effective and efficient. It specifically seeks to minimize, if not completely eliminate opportunities for discretion on price; it will enhance the revenue generation to augment the financial resources of government and effective tool in curbing the consumption of alcohol and tobacco.

This bill maintains the specific form of excise taxation because it is easier to administer, it does not provide incentive for manufacturers and importer to undervalue their products and it is useful in internalizing the negative externalities from drinking and smoking since the damage caused by alcohol and tobacco products is dependent more on the quality consumed than on the price of these products.

This bill also addresses the issue of unfair competition between manufacturers of locally-produced and of imported alcohol products.

This bill seeks to move from the current multi-tiered and complex structure and adopt a unitary excise tax system for each category of alcohol (distilled spirits, fermented liquors, wine) and tobacco products (tobacco, cigar and cigarettes). But as a more pragmatic strategy, it is

proposed that a two-step increase in the rates for cigarettes to avoid a negative impact on revenues as we envisioned if a unitary structure will be immediately adopted.

For cigarettes, we are endorsing a two-rate structure of P8.00 and P14.00, per pack, for the initial year, and a uniform rate of P14.00 per pack of cigarette for the second year.

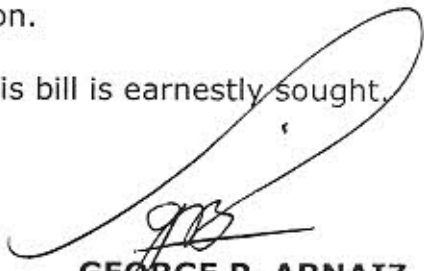
For fermented liquor, the rates will be unified at P21.52 per liter. A three-year adjustment period in the tax rates for distilled spirits will be undertaken to unify the tax rate at P150.00 per proof liter on the third year.

The proposed bill is estimated to generate additional revenues on the initial year ranging from P19 to 21 billion.

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



JOCELYN S. LIMKAICHONG
Representative
1st District, Oriental Negros



GEORGE P. ARNAIZ
Representative
2nd District, Oriental Negros



PRYDE HENRY A. TEVES
Representative
3rd District, Oriental Negros



Republic of the Philippines
HOUSE OF REPRESENTATIVES
Quezon City, Metro Manila

Fifteenth Congress
First Regular Session

HOUSE BILL NO. 2687

Introduced by : **Honorable JOCELYN S. LIMKAICHONG**
Honorable GEORGE P. ARNAIZ
Honorable PRYDE HENRY A. TEVES

AN ACT
RESTRUCTURING THE EXCISE TAX ON ALCOHOL AND
TOBACCO PRODUCTS

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

SECTION 1. Section 141 of the National Internal Revenue Code of 1997, as amended by Republic Act No. 9334, is hereby further amended to read as follows:

"SEC 141. Distilled Spirits. - On distilled spirits, there shall be collected, subject to the provisions of Section 133 of this Code, excise taxes **IN ACCORDANCE WITH ALCOHOL CONTENT** as follows:

(a) 45% ALCOHOL BY VOLUME AND LESS

YEAR 1 - P30.00 PER PROOF LITER

YEAR 2 - P80.00 PER PROOF LITER

YEAR 3 - P150.00 PER PROOF LITER

PROVIDED, THAT, ON THE FOURTH YEAR AND EVERY YEAR THEREAFTER, THE EXCISE TAX RATES PRESCRIBED HEREIN SHALL BE ADJUSTED TO ITS PRESENT VALUE USING AN APPROPRIATE PRICE INDEX FOR ALCOHOLIC DRINKS, AS

**PUBLISHED BY THE NATIONAL STATISTICS
OFFICE (NSO)."**

(b) MORE THAN 45% ALCOHOL BY VOLUME --

P150.00 PER PROOF LITER

**PROVIDED, THAT, ON THE FOURTH YEAR
AFTER THE EFFECTIVITY OF THIS ACT AND EVERY
YEAR THEREAFTER, THE EXCISE TAX RATES
PRESCRIBED HEREIN SHALL BE ADJUSTED TO ITS
PRESENT VALUE USING AN APPROPRIATE PRICE
INDEX FOR ALCOHOLIC DRINKS, AS PUBLISHED
BY THE NATIONAL STATISTICS OFFICE (NSO)."**

["a) If produced from the sap of nipa, coconut, cassava, camote, or buri palm or from the juice, syrup or sugar of the cane, provided such materials are produced commercially in the country where they are processed into distilled spirits per proof liter, Eleven pesos and sixty-five centavos (P11.65)]

["b) If produced from raw materials other than those enumerated in the preceding paragraph, the tax shall be in accordance with the net retail price per bottle of seven hundred fifty milliliter (750 ml.) volume capacity (excluding the excise tax and the value-added tax) as follows"]

["(1) Less than two hundred and fifty pesos (P250.00) - One hundred twenty six pesos (P126.00) per proof liter;]

["(2) Two hundred and fifty pesos (P250.00) up to Six hundred and seventy-five pesos (P675.00) - Two hundred Fifty-two pesos (P252.00), per proof liter; and]

["(3) More than Six hundred and seventy-five pesos (P675.00) - Five hundred four pesos (P504.00), per proof liter.]

(c) Medicinal preparations, flavoring extracts, and all other preparations, except toilet preparations, of which excluding water, distilled spirits form the chief ingredient, shall be subject to the same tax as such chief ingredient.

"This tax shall be proportionally increased for any strength of the spirits taxed over proof spirits, and the tax shall attach to this substance as soon as it is in existence as such, whether it be subsequently separated as pure or impure spirits, or transformed into any other substances either in the process of original production or by any subsequent process.

"Spirits or distilled spirits" is the substance known as ethyl alcohol, ethanol or spirits of wine, including all dilutions, purifications and mixtures thereof, from whatever source, by whatever process, produced, and shall include whisky, brandy, rum, gin and vodka, and other similar products of mixtures.

"Proof Spirits" is liquor containing one-half (1/2) of its volume of alcohol of a specific gravity of seven thousand nine hundred and thirty-nine ten thousandths (0.7939) at fifteen degrees centigrade (15°C). A 'proof liter' means a liter of proof spirits.

["Net retail price", as determined by the Bureau of Internal Revenue through a price survey to be conducted by the Bureau of Internal Revenue itself, or by the National Statistics Office when deputized for the purpose by the Bureau of Internal Revenue, shall mean the price at which the distilled spirits is sold on retail in at least ten (10) major supermarkets in Metro Manila, excluding the amount intended to cover the applicable excise tax and the value-added tax. For brands which are marketed outside Metro Manila, the **'net retail price'** shall mean the price at which the distilled spirits is sold in at least five (5) major supermarkets in the region excluding the amount intended to cover the applicable excise tax and the value-added tax.]

["Variants of existing brands and variants of new brands which are introduced in the domestic market after the effectivity of this Act shall be taxed under the proper classification thereof based on their suggested net retail price: *Provided, however,* that such classification shall not, in any case, be lower than the highest classification of any variant of that brand.]

[" A 'variant of a brand' shall refer to a brand on which a modifier is prefixed and/or suffixed to the root name of the brand.]

[" New brands, as defined in the immediately following paragraph, shall initially be classified according to their suggested net retail price. Willful understatement of the suggested net retail price by as much as fifteen percent (15%) of the actual net retail price shall render the manufacturer liable for additional excise tax equivalent to the tax due and difference between the understated suggested net retail price and the actual net retail price.]

[" 'New brand' shall mean a brand registered after the date of effectivity of R.A. No. 8240.]

[" 'Suggested net retail price' shall mean the net retail price at which new brands, as defined above, of locally manufactured or imported distilled spirits are intended by the

manufacturer or importer to be sold on retail in mayor supermarkets or retail outlets in Metro Manila for those marketed nationwide, and in other regions, for those with regional markets. At the end of three (3) months from the product launch, the Bureau of Internal Revenue shall validate the suggested net retail price as defined herein and determine the correct tax bracket to which a particular new brand of distilled spirits, as defined above shall be classified. After the end of eighteen (18) months from such validation, the Bureau of Internal Revenue shall revalidate the initially validated net retail price against the net retail price of the time of revalidation in order to finally determine the correct tax bracket which a particular new brand of distilled spirits shall be classified: *Provided, however,* that brands of distilled spirits introduced in the domestic market between January 1, 1997 and December 31, 2003 shall remain in the classification under which the Bureau of Internal Revenue has determined them to belong as of December 31, 2003. Such classification of new brands and brands introduced between January 1, 1997 and December 31, 2003 shall not be revised except by an Act of Congress.]

[“ The rates of tax imposed under this Section shall be increase by eight percent (8%) every two years starting on January 1, 2007.]

[“ Any downward reclassification of present categories, for tax purposes, of existing brands of distilled spirits duly registered at the time of effectivity of this Act which will reduce the tax imposed herein, or the payment thereof, shall be prohibited.]

[“ The classification of each brand of distilled spirits based on the average net retail price as of October 1, 1996, as set forth in Annex ‘A’, including the classification of brands for the same products which, although not set forth in said Annex ‘A’, were registered and were being commercially produced and marketed on or after October 1, 1996, and which continue to be commercially produced and marketed after the effectivity of this Act, shall remain in force until revised by Congress.]

“Manufacturers and importers of distilled spirits shall, within thirty (30) days from the effectivity of this Act, and within the first five (5) days of every third month thereafter, submit to the Commissioner a sworn statement of the volume of sales for each particular brand of distilled of spirits sold at his establishment for the three-month period immediately preceding.

“Any manufacturer or importer who, in violation of this Section, knowingly misdeclares or misrepresents in his or its sworn statement herein required any pertinent date or information shall upon final findings by the Commissioner that the violation was

committed, be penalized by a summary cancellation or withdrawal of his or its permit to engage in business as manufacturer or importer of distilled spirits.

"Any corporation, association or partnership liable for any of the acts or omissions in violation of this Section shall be fined treble the amount of deficiency taxes, surcharges and interest which may be assessed pursuant to this Section.

"Any person liable for any of the Acts or omission prohibited under this Section shall be criminally liable and penalized under Section 254 of this Code. Any person who willfully aids or abets in the commission of any such act or omission shall be criminally liable in the same manner as the principal.

"If the offender is not a citizen of the Philippines, he shall be deported immediately after serving the sentence, without further proceedings for deportation.

SEC. 2. Section 142 of the National Internal Revenue Code of (1997), as amended by Republic Act No. 9334, is hereby further amended to read as follows:

"SEC. 142. *Wines.* – On wines, there shall be collected per liter of volume capacity, the following taxes:

"(a) Sparkling wines/champagnes regardless of proof [, if the net retail price per bottle (excluding the excise tax and the value added tax) is:] – **THREE HUNDRED PESO (P300.00);**

["(1) Five hundred pesos (P500.00) or less - One hundred forty-five pesos and sixty centavos (P145.60); and]

["(2) More than Five hundred pesos (P500.00) – Four hundred thirty-six pesos and eighty centavos (P436.80)]

"(b) Still wines containing fourteen percent (14%) of alcohol by volume or less, Seventeen pesos and forty-seven centavos (P17.47)]; and

"(c) Still Wines containing more than fourteen percent (14%) but not more than twenty-five percent (25%) of alcohol by volume, [Thirty-four pesos and ninety-four centavos (P34.94).]

"(b) STILL WINES, REGARDLESS OF PROOF – FIFTY PESOS PROVIDED, THAT, A YEAR AFTER THE EFFECTIVITY OF THIS ACT AND EVERY YEAR THEREAFTER, THE EXCISE TAX RATES PRESCRIBED HEREIN SHALL BE ADJUSTED TO ITS PRESENT VALUE USING AN APPROPRIATE PRICE INDEX FOR

ALCOHOLIC DRINKS, AS PUBLISHED BY THE NATIONAL STATISTICS OFFICE (NSO)."

"Fortified wines containing more than twenty-five percent (25%) of alcohol by volume shall be taxed as distilled spirits. 'Fortified wines' shall mean natural wines to which distilled spirits are added to increase their alcohol strength.

["Net retail price, as determined by the Bureau of Internal Revenue through a price survey to be conducted by the Bureau of Internal Revenue itself, or the National Statistics Office when deputized for the purpose by the Bureau of Internal Revenue, shall mean the price at which wine is sold on retail in at least ten (10) major supermarkets in Metro Manila, excluding the amount intended to cover the applicable excise tax and the value-added tax, for brands which are marketed outside Metro Manila, the net retail price shall mean the price at which the wine spirits is sold in at least five (5) major supermarkets in the region excluding the amount intended to cover the applicable excise tax and the value-added tax.]"

["Variants of existing brands and variants of new brands which are introduced in the domestic market after the effectivity of this Act shall be taxed under the proper classification thereof based on their suggested net retail price: *Provided, however,* that such classification shall not, in any case, be lower than the highest classification of any variant of that brand.]"

["A 'variant of a brand' shall refer to a brand on which a modifier is prefixed and/or suffixed to the root name of the brand.]"

["New brands, as defined in the immediately following paragraph, shall initially be classified according to their suggested retail price."]

["'New brand' shall mean a brand registered after the date of effectivity of R.A. No. 8240."]

["'Suggested net retail price' shall mean the net retail price at which new brands, as defined above, of locally manufactured or imported wines are intended by the manufacturer or importer to be sold on retail in major supermarkets or retail outlets in Metro Manila for those marketed nationwide, and in other regions, for those with regional markets. At the end of the three (3) months from the product launch, the Bureau of Internal Revenue shall validate the suggested retail price of the new brand against the net retail price as defined herein and determine the correct tax bracket under which a particular new brand of wine, as defined above, shall be classified. After the end of eighteen (18) months from such validation, the Bureau of Internal Revenue shall validate the initially

validated net retail price against the net retail price as of the time of revalidation in order to finally determine the correct tax bracket which a particular new brand of wines shall be classified: *Provided, however,* That brands of wines introduced in the domestic market between January 1, 1997 and December 31, 2003 shall remain in the classification under which the Bureau of Internal Revenue has determined them to belong as of December 31, 2003. Such classification of new brands and brands introduced between January 1, 1997 and December 31, 2003 shall not be revised except by any Act of Congress.]

[The rates of tax imposed under this Section shall be increased by eight percent (8%) every two years starting on January 1, 2007 until January 1, 2011.]

[Any downward reclassification of present categories, for tax purposes, of existing brands of wines duly registered at the time of the effectivity of this Act which will reduce the tax imposed herein, or the payment hereof, shall be prohibited.]

[The classification of each branch of wines based on the average net retail price as of October 1, 1996, as set forth in Annex 'B', including the classification of brands for the same products which, although not set forth in said "**Annex B**" were registered and were being commercially produced and marketed after the effectivity of this Act, shall remain in force until revised by Congress.]

"Manufacturers and importers of wines shall, within thirty (30) days from the effectivity of this Act, and within the first five (5) days of every month thereafter, submit to the Commissioner a sworn statement of the volume of sales for each particular brand of wines sold at his establishment for the three month period immediately preceding.

"Any manufacturer or importer who, in violation of this Section, knowingly misdeclares or misrepresents in his or its sworn statement herein required any pertinent data or information shall, upon discovery, be penalized by a summary cancellation or withdrawal of his or its permit to engage in business as manufacturer or importer of wines.

"Any corporation, association or partnership liable for any of the acts or omissions in violation of this Section shall be fined treble the amount of deficiency taxes, surcharges and interest which may be assessed pursuant to this Section.

"Any person liable for any of the acts or omissions prohibited under this Section shall be criminally liable and penalize under

Section 254 of this Code. Any person who willfully aids or abets in the commission of any such act or omission shall be criminally liable in the same manner as the principal.

"If the offender is not a citizen of the Philippines, he shall be deported immediately after serving the sentence, without further proceedings for deportation.

SEC. 3. Section 143 of the National Internal Revenue Code of (1997), as amended by Republic Act No. 9334, is hereby further amended to read as follows:

"SEC. 143. Fermented Liquor. - There shall be levied, assessed and collected an excise tax on beer, lager beer, ale, porter and other fermented liquors except *tuba*, *basi*, *tapuy* and similar fermented liquors [in accordance with the following schedule:] **AN EXCISE TAX EQUIVALENT TO TWENTY-ONE PESOS AND FIFTY-TWO CENTAVOS (P21.52) PER LITER: PROVIDED, THAT, A YEAR AFTER THE EFFECTIVITY OF THIS ACT AND EVERY YEAR THEREAFTER, THE EXCISE TAX RATE PRESCRIBED HEREIN SHALL BE ADJUSTED TO ITS PRESENT VALUE USING AN APPROPRIATE PRICE INDEX FOR ALCOHOLIC DRINKS, AS PUBLISHED BY THE NATIONAL STATISTICS OFFICE (NSO)."**

["If the net retail price (excluding the excise tax and the value-added tax) per liter of volume capacity is less than Fourteen pesos and fifty centavos (P14.15), the tax shall be Eight pesos and twenty-seven centavos (P8.27) per liter;]

["(b) If the net retail price (excluding the excise tax and value-added tax) per liter of volume capacity is Fourteen pesos and fifty centavos (P14.50) up to Twenty-two pesos (P22.00), the tax shall be Twelve pesos and thirty centavos (P12.30) per liter;]

["(c) If the net retail price (excluding the excise tax and the value-added tax) per liter of volume capacity is more than Twenty-two pesos (P22.00), the tax shall be Sixteen pesos and thirty-three centavos (P16.33) per liter.]

["Variants of existing brands and variants of new brands which are introduced in the domestic market after the effectivity of this Act shall be taxed under the proper classification thereof based on their suggested net retail price: Provided, however, That such classification shall not, in any case, be lower than the highest classification of any variant of that brand.]

["A 'variant of a brand' shall refer to a brand on which a modifier is prefixed and/or suffixed to the root name of the brand.]

["Fermented liquors which are brewed and sold at microbreweries or small establishments such as pubs and restaurants shall be subject to the rate in paragraph (c) hereof.]

["New brands, as defined in the immediately following paragraph, shall initially be classified according to their suggested net retail price.]

[" **'New brand'** shall mean a brand registered after the date of effectivity of R.A. No. 8240.]

[" **'Suggested net retail price'** shall mean the net retail price at which new brands, as defined above, of locally manufactured or imported fermented liquor are intended by the manufacturer or importer to be sold on retail in major supermarkets or retail outlets in Metro Manila for those marketed nationwide, and in other regions, for those with regional markets. At the end of three (3) months from the product launch, the Bureau of Internal Revenue shall validate the suggested net retail price of the new brand against the net retail price as defined herein and determine the correct tax bracket to which a particular new brand of fermented liquor, as defined above, shall be classified. After the end of the eighteen [18] months from such validation, the Bureau of Internal Revenue shall revalidate the initially validated net retail price against the net retail price as of the time of revalidation in order to finally determine the correct tax bracket which a particular new brand of fermented liquors shall be classified: *Provided, however,* That brands of fermented liquors introduced in the domestic market between January 1, 1997 and December 31, 2003 shall remain in the classification under which the Bureau of Internal Revenue has determined them to belong as of December 31, 2003. Such classification of new brands and brands introduced between January 1, 1997 and December 31, 2003 shall not be revised except by an Act of Congress.]

[" **'Net retail price'** as determined by the Bureau of Internal Revenue through a price survey to be conducted by the Bureau of Internal Revenue itself, or the National Statistics Office when deputized for the purpose of Bureau of Internal Revenue, shall mean the price at which the fermented liquor is sold on retail in at least twenty (20) major supermarkets in Metro Manila (for brands of fermented liquor marketed nationally), excluding the amount intended to cover the applicable excise tax and the value-added tax. For brands which are marketed outside Metro Manila, the **'net retail price'** shall mean the price at which the fermented liquor is sold in at least five (5) major supermarkets in the region excluding the amount intended to cover the applicable excise tax and the value-added tax.]

["The classification of each brand of fermented liquor based on its average net retail price as of October 1, 1996, as set forth in Annex 'C' , including the classification of brands for the same products which, although not set forth in said Annex 'C', were registered and were being commercially produced and marketed on or after October 1, 1996, and which continue to be commercially produced and marketed after the effectivity of this Act, shall remain in force until revised by Congress.]

["The rates of tax imposed under this Section shall be increased by eight percent 98%] every two years starting on January 1, 2007 until January 1, 2011.]

[" Any downward reclassification of present categories, for tax purposes, of existing brands of fermented liquor duly registered at the time of the effectivity of this Act which will reduce the tax imposed herein, or the payment thereof, shall be prohibited.]

"Every brewer or importer of fermented liquor shall, within thirty (30) days from the effectivity of this Act, and within the first five (5) days of every month thereafter, submit to the commissioner a sworn statement of the volume of sales for each particular brand of fermented liquor sold at his establishment for the three-month period immediately preceding.

"Any brewer or importer who, in violation this Section, knowingly misdeclares or misrepresents in his or its sworn statement herein required any pertinent data or information shall be penalized by a summary cancellation or withdrawal of his or its permit to engage in business as brewer or importer of fermented liquor.

"Any corporation, association or partnership liable for any the acts or omissions in violation of this Section shall be fined treble the amount of deficiency taxes, surcharges and interest which may be assessed pursuant to this Section.

"Any person, liable for any of the acts or omissions prohibited under this Section shall be criminally liable and penalized under Section 254 of this Code. Any person who willfully aids or abets in the commission of any such act or omission shall be criminally liable in the same manner as the principal.

"If the offender is not a citizen of the Philippines, he shall be deported immediately after serving the sentence, without further proceedings for deportation.

SEC. 4. Section 144 of the National Internal Revenue Code of the (1997), as amended by Republic Act No. 9334, is hereby further amended to read as follows:

"SEC. 144. Tobacco Products. – There shall be collected a tax of [One peso (P1.00)] **TWO PESOS AND FIFTY CENTAVOS (P2.50)** on each kilogram of the following products of tobacco:

- a) Tobacco twisted by hand or reduced into a condition to be consumed in any manner other than the ordinary mode of drying and curing;
- b) Tobacco prepared or partially prepared with or without the use of any instruments or without being pressed or sweetened except as otherwise provided hereunder; and
- c) Fine-cut shorts and refuse, scraps clippings, cuttings, stems and sweepings of tobacco except as otherwise provided hereunder.

"Stemmed leaf tobacco, tobacco prepared or partially prepared with or without the use of any machine or instrument or without being pressed or sweetened, fine-cut shorts and refuse, scraps, clippings, cuttings, stems, midribs; and sweepings of tobacco resulting from the handling or stripping of whole leaf tobacco shall be transferred, disposed of, or to be use in the manufacture of cigars, cigarettes, or other tobacco products on which the excise tax will eventually be paid on the finished product, under such conditions as may be prescribed in the rules and regulations promulgated by the Secretary of Finance, upon recommendation of the Commissioner.

"On tobacco specially prepared for chewing so as to be unsuitable for use in any other manner, on each kilogram [Seventy-nine centavos (P0.79)] **ONE PESO AND EIGHTY SEVEN CENTAVOS (P1.87).**

[" The rates of tax imposed under this Section shall be increased by six percent (6%) every two years starting on January 1, 2007 until January 1, 2011.]

"PROVIDED, THAT, A YEAR AFTER THE EFFECTIVITY OF THIS ACT AND EVERY YEAR THEREAFTER, THE EXCISE TAX RATES PRESCRIBED HEREIN SHALL BE ADJUSTED ANNUALLY TO ITS PRESENT VALUE USING AN APPROPRIATE PRICE INDEX FOR TOBACCO PRODUCTS, AS PUBLISHED BY THE NATIONAL STATISTICS OFFICE (NSO)."

"Manufacturers and importers of tobacco products shall, within thirty (30) days from the effectivity of this Act, and within the first five (5) days of every month thereafter, submit to the Commissioner a sworn statement of the volume of sales for each particular brand of tobacco products sold at their establishment for the three-month period immediately preceding.

"Any manufacturer or importer who, in violation of this Section, knowingly misdeclares and misrepresents in his or its sworn statement herein required any pertinent data or information, shall upon discovery, be penalized by a summary cancellation or withdrawal of his or its permit to engage in business as manufacturer or importer of cigars or cigarettes.

"Any corporation, association or partnership liable for any of the acts or omissions in violation of this Section shall be fined treble the amount of deficiency taxes, surcharges and interest which may be assessed pursuant to this Section.

"Any person liable for any of the acts or omissions prohibited under this Section shall be criminally liable and penalized under Section 254 of this Code. Any person who willfully aids or abets in the commission of any such act or omission shall be criminally liable in the same manner as the principal.

"If the offender is not a citizen of the Philippines, he shall be deported immediately after serving the sentence, without further proceedings for deportation.

SEC. 5. Section 145 of the National Internal Revenue Code of (1997), as amended by Republic Act No. 9334, is hereby further amended to read as follows:

SEC. 145. Cigars and Cigarettes.

"A) Cigars. – There shall be levied, assessed and collected on cigars [an *ad valorem* tax based on the retail price] **A TAX OF 200** per cigar. [(excluding the excise tax and the value-added tax) in accordance with the following schedule:

"1) If the net retail price per cigar is Five hundred pesos (P500.00) or less, ten percent (10%); and

"2) If the net retail price per cigar (excluding the excise tax and the value-added tax) is more than Five hundred pesos (P500.00), Fifty pesos (P50.00) plus fifteen percent (15%) of the net retail price in excess of Five hundred pesos (P500.00).]

PROVIDED, THAT, A YEAR AFTER THE EFFECTIVITY OF THIS ACT AND EVERY YEAR THEREAFTER, THE EXCISE TAX RATES PRESCRIBED HEREIN SHALL BE ADJUSTED TO ITS PRESENT VALUE USING AN APPROPRIATE PRICE INDEX FOR TOBACCO PRODUCTS, AS PUBLISHED BY THE NATIONAL STATISTICS OFFICE (NSO)."

"B) Cigarettes Packed by Hand. – There shall be levied, assessed and collected on cigarettes packed by the hand a tax at the [rates prescribed below:] **RATE OF TWO PESOS AND FORTY-SEVEN CENTAVOS (P2.47) PER PACK.**

PROVIDED, THAT, A YEAR AFTER THE EFFECTIVITY OF THIS ACT AND EVERY YEAR THEREAFTER, THE EXCISE TAX RATES PRESCRIBED HEREIN SHALL BE ADJUSTED TO ITS PRESENT VALUE USING AN APPROPRIATE PRICE INDEX FOR TOBACCO PRODUCTS, AS PUBLISHED BY THE NATIONAL STATISTICS OFFICE (NSO)."

["Effective on January 1, 2005, Two peso (P2.00) per pack;

"Effective on January 1, 2007, Two pesos and twenty-three centavos (P2.23) per pack;

Effective on January 1, 2009, Two pesos and forty-seven centavos (P2.47) per pack; and

Effective on January 1, 2011, Two pesos and seventy-two centavos (P2.72) per pack.]

"Duly registered or existing brands of cigarettes or new brands thereof packed by hand shall be packed in thirties.

"(C) Cigarettes Packed by Machine. – There shall be levied, assessed and collected on cigarettes packed by machine a tax at the rates prescribed below:

"EFFECTIVE ON JANUARY 1, 2011

"(1) IF THE NET RETAIL PRICE (EXCLUDING THE EXCISE TAX AND THE VALUE-ADDED TAX) IS SIX PESOS AND FIFTY CENTAVOS (p6.50) AND BELOW PER PACK, THE TAX SHALL BE EIGHT PESOS (P8.00) PER PACK;

"(2) IF THE NET RETAIL PRICE (EXCLUDING THE EXCISE TAX AND THE VALUE-ADDED TAX) IS MORE THAN SIX PESOS AND FIFTY CENTAVOS (P6.50) PER PACK, THE TAX SHALL BE FOURTEEN PESOS (p14.00) PER PACK;

"EFFECTIVE ON JANUARY 1, 2012, THE TAX SHALL BE FOURTEEN PESOS (P14.00) PER PACK.

"PROVIDED, THAT, THEREAFTER, THE EXCISE TAX RATES PRESCRIBED HEREIN SHALL BE ADJUSTED ANNUALLY TO ITS PRESENT VALUE USING AN APPROPRIATE PRICE INDEX FOR TOBACCO PRODUCTS, AS PUBLISHED BY THE NATIONAL STATISTICS OFFICE (NSO)."

"ALL BRANDS OF CIGARETTES EXISTING IN THE MARKET AT THE TIME OF THE EFFECTIVITY OF THIS ACT SHALL BE CLASSIFIED ACCORDINGLY FOR THE PROPER DETERMINATION OF THE TAX LIABILITY IN ACCORDANCE WITH THE SCHEDULE PROVIDED ABOVE FOR THE YEAR COMMENCING JANUARY 1, 2011.

["(1) If the net retail price (excluding the excise tax and the value-added tax) is below Five Pesos (P5.00) per pack, the tax shall be:

"Effective on January 1, 2005, Two pesos (P2.00) per pack;

"Effective on January 1, 2007, Two pesos and twenty-three centavos (P2.23) per pack;

"Effective on January 1, 2009, Two pesos and forty-seven centavos (P2.47) per pack; and

"Effective on January 1, 2011, Two pesos and seventy-two centavos (P2.72) per pack; and

"(2) If the net retail price (excluding the excise tax and the value-added tax) is Five pesos (P5.00) but does not exceed Six pesos and fifty centavos (P6.50) per pack, the tax shall be:

"Effective on January 1, 2005, Six pesos and thirty-five centavos (P6.35) per pack;

"Effective on January 1, 2007, Six pesos and seventy-four centavos (P6.74) per pack;

"Effective on January 1, 2009, Seven pesos and fourteen centavos (P7.14) per pack; and

"Effective January 1, 2011, Seven pesos and fifty-six centavos (P7.56) per pack.

"(3) If the net retail price excluding the excise tax and the value-added tax) exceeds Six pesos and fifty centavos (P6.50) but does not exceed Ten pesos (P10.00) per pack, the tax shall be:

"Effective on January 1, 2005, Ten pesos and thirty-five centavos (P10.35) per pack;

"Effective on January 1, 2007, Ten pesos and eighty-eight centavos (P10.88) per pack;

"Effective on January 1, 2009, Eleven pesos and forty-three centavos (P11.43) per pack; and

"Effective January 1, 2011, Twelve pesos (P12.00) per pack;

"(2) If the net retail price (excluding the excise tax and the value-added tax) exceeds Six pesos and fifty centavos (P6.50) but does exceed Ten Pesos (P10.00) per pack, the tax shall be:

"Effective on January 1, 2005, Twenty five pesos (P25.00) per pack;

"Effective on January 1, 2007, Twenty-six pesos (P26.00) per pack;

"Effective on January 1, 2009, Twenty-seven pesos (P27.00) per pack; and

"Effective January 1, 2011, Twenty-eight pesos (P28.00) per pack;

"Variants of existing brands and variants of new brands of cigarettes which are introduced in the domestic market after the effectivity of this Act shall be taxed under the proper classification thereof based on their suggested net retail price: Provided, however, That such classification shall not, in any case, be lower than the highest classification of any variant of that brand.

"A '**variant of a brand**' shall refer to a brand on which a modifier is prefixed and/or suffixed to the root name of the brand.

"Duly registered or existing brands of cigarettes or new brands thereof packed by machine shall only be packed in twenties.

"Any downward reclassification of present categories, for tax purposed, of existing brands of cigars and cigarettes duly registered

at the time of the effectivity of this Act which will reduce the tax imposed herein, or the payment thereof, shall be prohibited.

"New brands, as defined in the immediately following paragraph, shall initially be classified according to their suggested net retail price.

"New brand' shall mean a brand registered after the date of effectivity of [R.A. No.8240] **THIS ACT.**

"Suggested net retail price' shall mean the net retail price at which new brands, as defined above, of locally manufactured or imported cigarettes are intended by the manufacturer or importer to be sold on retail in major supermarkets or retail outlets in Metro Manila for those marketed nationwide, and in other regions, for those with regional markets. At the end of three (3) months from the product launch, the Bureau of Internal Revenue shall validate the suggested net retail price of the new brand against the net retail prices as defined herein and determine the correct tax bracket under which a particular new brand of cigarette, as defined above, shall be classified. After the end of eighteen (18) months from such validation, the Bureau of Internal Revenue shall revalidate the initially validated net retail price against the net retail price as of the time of revalidation in order to finally determine the correct tax bracket under which a particular new brand of cigarettes shall be classified: [Provided, however, That brands of cigarettes introduced in the domestic market between January 1, 1997 and December 31, 2003 shall remain in the classification of new brands and brands introduced between January 1, 1997 and December 31, 2003 shall not be revised except by an Act of Congress.]

'Net retail price', as determined by the Bureau of Internal Revenue through a price survey to be conducted by the Bureau of Internal Revenue itself, or by the National Statistics Office when deputized for the purpose by the Bureau of Internal Revenue, shall mean the price at which the distilled spirits is sold on retail in at least twenty (20) major supermarkets in Metro Manila, excluding the amount intended to cover the applicable excise tax and the value-added tax. For brands which are marketed outside Metro Manila, the **'net retail price'** shall mean the price at which the distilled spirits is sold in at least five (5) major supermarkets in the region excluding the amount intended to cover the applicable excise tax and the value-added tax.

[The classification of each brand of cigarettes based in its average net retail price as of October 1, 1996, as set forth in the Annex **'D'**, including the classification of brands for the same products which, although not set forth in said Annex **'D'**, were registered and were being commercially produced and marketed on

or after October 1, 1996, and which continue to be commercially produced and marketed after the effectivity of this Act, shall remain in force until revised by Congress.]

" x x x x "

SEC. 2. Implementing Rules and Regulations. – The Secretary of Finance shall, upon the recommendation of the Commission of Internal Revenue, promulgate the necessary rules and regulations for the effective implementation of this Act.

SEC. 3. Repealing Clause. – All laws, decrees, executive orders, rules and regulations or parts thereof which are contrary to our inconsistent with this Act are hereby repealed, amended or modified accordingly.

SEC. 4. Effectivity. – This Act shall take effect fifteen (15) days after its publication in the Official Gazette or in any two newspapers of general circulation, whichever comes earlier.

Approved.