

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

FIFTEENTH CONGRESS
First Regular Session

House Bill No. 3639

Introduced by Hon. Joseph Emilio Aguinaldo Abaya

EXPLANATORY NOTE

Fiscal discipline is essential to improve and sustain economic performance, maintain macroeconomic stability and reduce vulnerabilities. It involves the prudent utilization and management of the government's financial resources, balanced by efforts to protect and enhance the revenue base. It is a shared responsibility by both the policymakers, i.e., the legislators, and the implementers of laws.

In recent years, many laws have been passed by Congress, which intentions may be well-meaning but have caused considerable impact on the budget. According to the Department of Finance, the estimated revenue losses from recently-enacted revenue-eroding laws could completely negate the revenue gains from the Reformed VAT Law or RA 9337, the law that saved the country from a serious fiscal crisis in 2005. The fiscal implications of recent revenue-eroding laws exacerbated the impact of the global economic and financial crisis, and the natural disasters that struck us last year. Proof is that for this year, 2010, the country's budget deficit is projected to reach P325 billion or 3.9 percent of GDP.

The proposed bill offers a framework of burden-sharing among the Legislature and the Executive Branches of the government. It aims to foster an atmosphere of mutual respect, coordination and cooperation.

The bill introduces a deficit-neutral measure designed to address the proliferation of unfunded laws. The concept is straightforward: no mandatory

spending measure or tax legislation that increases the deficit or reduces revenues shall be passed and take effect without a new revenue-generating or expenditure-reduction measure.

Adopting deficit-neutral rules instill responsible fiscal management by consciously establishing control mechanisms on spending or preventing the erosion of the tax base. They ensure compliance with fiscal targets that are, in the first place, the bases for yearly appropriations approved by Congress.

Coupled with prudent spending and better tax effort, the enactment of the Deficit-Neutral Bill will help contain the budget deficit and attain the targeted ratio of two percent (2%) of GDP by 2013 until 2016.

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


JOSEPH EMILIO AGUINALDO ABAYA

Republic of the Philippines
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HOUSE BILL No. 3639

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AN ACT
INSTILLING FISCAL DISCIPLINE IN THE PUBLIC SECTOR BY
ESTABLISHING DEFICIT-NEUTRAL RULES IN LINE WITH THE PRINCIPLE
OF RESPONSIBLE FINANCIAL MANAGEMENT AND TOWARDS
PROMOTING SUSTAINABLE ECONOMIC GROWTH

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

1 **Section 1. Declaration of Policy.** - It is hereby declared a policy of the
2 State to instill fiscal discipline in the public sector along the principles of
3 responsible financial management in order to ensure sufficient resources to
4 finance socio-economic development programs towards overall macroeconomic
5 stability and long-term sustainable growth.

6 **Sec. 2. Establishment of Deficit-Neutral Rules toward Responsible**
7 **Financial Management.** - In line with the principles of responsible fiscal
8 management, the State, through the Executive and Legislative Branches of
9 government, shall adopt deficit-neutral rules that establish control mechanisms
10 on spending and adopt preventive measures against the erosion of the tax base.

11 Any mandatory spending legislation or any legislation that increases the
12 deficit or reduces revenues must be accompanied by a countervailing measure
13 that offsets the increase in deficit or reduction in revenue.

14 Deficit-neutral rules shall serve as a key tool to constrain deficit spending
15 and to ensure compliance with annual fiscal targets agreed upon by the
16 Development Budget Coordination Committee in support of the Budget of
17 Expenditures and Sources of Financing that is submitted to Congress for
18 consideration in the enactment of the annual General Appropriations Act.

1 Said rules shall contribute to the attainment of diminishing yearly deficit
2 targets over the medium-term.

3 **SEC. 3 *Definition of Terms.*** - When used in this Act, the following
4 terms or words and phrases shall mean or be understood as follows:

- 5 a. *Budget of Expenditures and Sources of Financing or BESF* refers to a
6 document submitted by the President in accordance with Section 22,
7 Article VII of the Philippine Constitution. It contains the annual
8 program of estimated expenditures accompanied by an estimate of
9 expected sources of financing, proposed by the Executive branch to
10 the Legislature for spending authority.
- 11 b. *Deficit* refers to the budgetary deficit, which is the deficiency of total
12 revenues over expenditures excluding debt repayments and payments
13 of non-budgetary accounts.
- 14 c. *Development Budget Coordination Committee or DBCC* refers to the
15 committee created under Executive Order No. 232, s. 1970, as
16 amended.
- 17 d. *Fiscal Targets* refer to numerical estimates on deficit, revenue, tax,
18 non-tax, expenditure and financing, whether or not set as a percentage
19 of the gross domestic product, that are adopted by the DBCC.
- 20 e. *Gross Domestic Product or GDP* refers to the value of goods and
21 services produced domestically, the sum of the gross value added of
22 all resident institutional units engaged in production, plus any taxes
23 and minus any subsidies, on products not included in the values of
24 their outputs.

25 **Sec. 4. *Grant of Tax Incentives.*** - The grant of tax incentive, in the
26 nature of a tax break, tax exemption, tax privilege, tax reduction, tariff/duty
27 reduction, preferential tax treatment, deferred tax or a broadening of an existing
28 tax incentive or benefit, through the passage or effectivity of an executive or
29 legislative measure, shall be conditioned on either of the following:

- 30 a. The issuance by the Department of Finance (DOF) of a certification
31 that said measure is in compliance with the annual fiscal targets and
32 that the tax incentive has been considered in the revenue program for
33 the year's BESF; or

- 1 b. The imposition and implementation of a countervailing mechanism or
2 cost-offsetting measure, through a revenue-generating provision or a
3 reduction in expenditure.

4 Sec. 5. ***Rationalization of Existing Tax Incentives.*** - All existing tax
5 incentives granted under various laws and executive orders shall be immediately
6 reviewed with the end-objective of rationalizing the tax incentives system and
7 eliminating unnecessary and costly tax incentives within two (2) years from
8 effectivity of this law.

9 Sec. 6. ***Expenditure Bills.*** - Except for debt service and cost of living
10 adjustments for government employees, all increases in national government
11 expenditures especially those mandating the creation of recurrent expenditures
12 must be offset by a permanent increase in revenue or permanent reduction in
13 other expenditures.

14 Hereafter, all bills proposing an increase in public expenditures must be
15 conditioned upon the following:

- 16 a. An estimate by the Department of Budget and Management (DBM) of
17 its budgetary and financial impact for the next three (3) years; and
18 b. The enactment and implementation of an offsetting revenue-generating
19 or expenditure-reduction measure.

20 Sec. 7. ***Unfunded Laws.*** - All laws with budgetary implications that are
21 enacted without identified supporting revenue measures nor identified
22 expenditure reduction shall be considered harmful to public finances and may
23 remain unfunded.

24 The effectivity of existing legal provisions whose mandates remain
25 unfunded, whether partially or in full, shall be suspended until the requirements of
26 first paragraph of Sec. 5 shall have been complied with. For this purpose, the
27 Committee on Oversight of the House of Representatives together with its
28 counterpart in the Senate, in coordination with the DBM, shall prepare a list of
29 existing legal provisions that remain unfunded as of the effectivity of this Act.

30 Sec. 8. ***Implementing Rules and Regulations.*** - Within sixty (60) days
31 from the effectivity of this Act, the DOF and the DBM shall promulgate the
32 necessary rules and regulations for the proper implementation of the provisions
33 of this Act.

34 Sec. 9. ***Separability Clause.*** - If, for any reason, any portion or
35 provision of this Act or the application thereon shall be declared invalid or

1 unconstitutional, the validity of other parts or provisions shall not be affected and
2 thereby, shall continue to be in full force and effect.

3 Sec. 10. **Repealing Clause.** - The following laws, presidential decrees,
4 executive orders, corporate charters and other issuances or parts thereof,
5 contrary to or inconsistent with the provisions of this Act, are hereby repealed or
6 modified accordingly.

7 Sec. 11. **Effectivity.** - This Act shall take effect fifteen (15) days after its
8 publication in a newspaper of general circulation.

9 Approved.