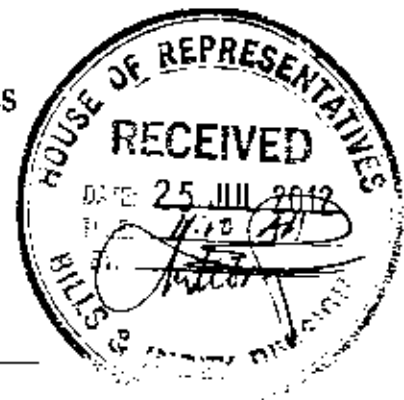


Republic of the Philippines
HOUSE OF REPRESENTATIVES
Quezon City

FIFTEENTH CONGRESS
Third Regular Session

HOUSE BILL No. 6416



Introduced by Rep. TEDDY A. CASIÑO

EXPLANATORY NOTE

The Philippines currently has (1) the highest electricity rates in Asia; (2) prices of oil and petroleum products that behave wildly and uncontrollably since the industry was deregulated; and (3) water service rates that have spiraled upward due to the onset of privatization in the late 1990s.

As of 2011, the Philippines had the highest cost of electricity in Asia with an average retail rate of 18.1 US cents per kilowatt-hour, easing out Japan that had 17.9 US cents per kilowatt-hour. The irrationally high electricity rates have driven off investors, stunted the growth of micro-, small and medium enterprises, and burdened both residential and industrial power consumers with artificial power shortages and manipulative schemes to further jack up prices in generation, transmission and distribution.

Crude oil and petroleum products are sensitive commodities since its prices directly affect the cost of almost all other commodities and services such as food, housing, social services and transportation. Despite the rollbacks in the prices of fuel and cooking gas, pump prices this year, fuel is allegedly overpriced by P1.84 per liter for diesel and by P4.40 for gasoline due to the series of price hikes until mid-April of 2012.

As a result of the privatization of the Metropolitan Waterworks and Sewerage System (MWSS) in 1996, water rates in Metro Manila drastically increased by 357.6 % for Maynilad and by 414.4 % for Manila Water in a span of only a decade, between August 1997 and January 2007. Water rates in Metro Manila and most of the country's cities and provinces are high and continue to increase due to increasing fees and tariffs over the years.

It is woefully wrong for the government to let prices of the aforementioned vital services and commodities uncontrollably go upwards, and to levy a high tax rate – the 12-percent value added tax (VAT) in particular – on the same services and commodities that are passed on to consumers from all sectors and walks of life.

When prices of electricity, oil and water are hiked, the sufferings inflicted on the people and the domestic economy are heightened. The government, instead of easing the burden of its citizens,

helps exacerbate these sufferings since every spike in prices of the aforementioned services and commodities earns the State billions of unjust windfall taxes.

There should in fact be no taxes on vital services and sensitive commodities. If these are to be taxes have to be levied, government should keep these to a minimum on electricity, oil and petroleum products and water.

A reduction of the VAT to a 6 percent rate on electricity, water services, and oil and petroleum products will provide relief to the domestic economy and the Filipino people. The 50 percent reduction of the VAT rate will bring down prices of oil products by as much three (3) pesos per liter, electricity rates by at least 38 centavos per kilowatt hour (kWh) for lifeline electricity users and at least 50 pesos in the bills of residential water users.

The government is awash with revenues. In its 2011 yearend fiscal report, government has in fact been able to increase its revenues. For the full year of 2011, revenue collections reached P1.36 trillion or a 12.6 percent growth compared to the 2010 figure of P1.21 trillion.

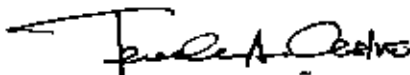
The collections of the Bureau of Internal Revenue (BIR) were recorded at P924.1 billion and the Bureau of Customs (BOC) at P265.1 billion, or a growth of 12 percent and 2 percent, respectively, for the year 2011 compared to 2010. On the other hand, the Bureau of Treasury registered an income of P75.2 billion while other offices posted an income of P95.4 billion.

Yet, there is still a shortfall in collections of the BIR by P15.8 billion and the BOC by P54.9 billion. The State can even raise more revenues by hitting its collection targets, widening its fight against tax evasion and smuggling of the biggest business magnates, and raising tariff rates on imported products that are killing local producers, manufacturers and businesses.

The reduced VAT rate can definitely be offset by (1) increased government efforts to plug the leakages in collection of the VAT itself and other taxes; (2) the increased revenues from the government's "off-budget" agencies such as the Philippine Amusement and Gaming Corp. (PAGCOR), Philippine Charity Sweepstakes Office (PCSO), the Malampaya project, and GOCCs among others, are included in the programming of the State's national budget. The 2012 revenue targets of Pagcor (P45 billion), PCSO (P31 billion) and the Malampaya project (P43 billion) are more than enough to cover for whatever reduction in the VAT rate is enacted for electricity, oil and water.

In fact, this measure is in line with government's duty to serve as it will give economic relief to the Filipino people bludgeoned by years of price hikes in oil, electricity and water as it will give them a little more money in the pocket for food, tuition, health care and savings.

In view of the foregoing, the immediate passage of this Bill is earnestly sought.


TEDDY A. CASINO
Bayan Muna Party-List

Republic of the Philippines
HOUSE OF REPRESENTATIVES
Quezon City

FIFTEENTH CONGRESS
Third Regular Session

HOUSE BILL No. 6416

Introduced by Rep. TEDDY A. CASIÑO

AN ACT
REDUCING THE VALUE ADDED TAX (VAT) RATE ON PETROLEUM PRODUCTS,
ELECTRICITY AND WATER SERVICES TO SIX PERCENT, AMENDING FOR THE
PURPOSE REPUBLIC ACT NO. 8424, OTHERWISE KNOWN AS THE TAX REFORM
ACT OF 1997, AS AMENDED BY REPUBLIC ACT NO. 9337, AND FOR OTHER
PURPOSES

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

SECTION 1. *Short Title.* - This Act shall be known as the “Value Added Tax (VAT) Rate Reduction on Oil, Electricity and Water Services Act of 2012.”

SECTION 2. *Declaration of policy.* - The State shall abide by its duty to render the best fruits of democracy to its citizens. Hence, it is bound to follow Article VI Section 28 (1) of the Constitution that states that “The rule of taxation shall be uniform and equitable. The Congress shall evolve a progressive system of taxation.” This Act is a viable and logical step at reducing the impact of the regressive Value Added Tax (VAT).

SECTION 3. *Definition of Terms.* - For the purposes of this Act and its implementation, the terms herein are defined as follows:

- a. **Electricity** – includes the sale of electricity by generation, transmission, and distribution companies and electric cooperatives; the services of franchise grantees of electricity utilities, and the sale or importation of machinery and equipment directly used in the generation, transmission, and distribution of electricity;
- b. **Oil** – covers the sale, importation and distribution of petroleum products and raw materials in the manufacture thereof; and
- c. **Water** - the sale of water services by concessionaires and the transactions of the Metropolitan Water and Sewerage System (MWSS), Local Water Districts (LWDs) and other water utilities owned, controlled, maintained, managed or operated by Local Government Units (LGUs) and the sale or importation of machinery and equipment directly used in the delivery of water services.

SECTION 4. Section 106 of the National Internal Revenue Code, as amended by Republic Act No. 9337, is hereby further amended to read as follows:

"SEC. 106. Value-Added Tax on Sale of Goods or Properties. -

"xxx.

SECTION 106. (C) (3). THE FOLLOWING SALES BY VAT-REGISTERED PERSONS SHALL BE SUBJECT TO A SIX PERCENT (6 %) RATE: ELECTRICITY, OIL AND WATER.

SECTION 5. Section 107 of the National Internal Revenue Code, as amended by Republic Act No. 9337, is hereby further amended to read as follows:

"SEC. 107. Value-Added Tax on Importation of Goods. -

"xxx.

SECTION 107. (A) (1) THE FOLLOWING SALES BY VAT-REGISTERED PERSONS SHALL BE SUBJECT TO A SIX PERCENT (6 %) RATE: ELECTRICITY, OIL AND WATER.

SECTION 6. Section 108 (A) of the National Internal Revenue Code, as amended by Republic Act No. 9337, is hereby further amended to read as follows:

"SEC. 108. Value-added Tax on Sale of Services and Use or Lease of Properties. -

"(A) *Rate and Base of Tax.* - There shall be levied, assessed and collected on every sale, barter or exchange of goods or properties, a value-added tax equivalent to ten percent (10%) of the gross selling price or gross value in money of the goods or properties sold, bartered or exchanged, such tax to be paid by the seller or transferor: *Provided, That* the President, upon the recommendation of the Secretary of Finance, shall, effective January 1, 2006, raise the rate of value-added tax to twelve percent (12 %), after any of the following conditions has been satisfied:

"(i) xxx

"(ii) xxx

"The phrase 'sale or exchange of services' means the performance of all kinds of services in the Philippines for others for a fee, remuneration or consideration, including those performed or rendered by construction and service contractors; stock, real estate, commercial, customs and immigration brokers; lessors of property, whether personal or real; warehousing services; lessors or distributors of cinematographic films; persons engaged in milling, processing, manufacturing or repacking goods for others; proprietors, operators or keepers of hotels, motels, rest-houses, pension houses, inns, resorts; proprietors or operators of restaurants, refreshment parlors, cafes and other eating places, including clubs and caterers; dealers in securities; lending investors; transportation contractors on their transport

of goods or cargoes, including persons who transport goods or cargoes for hire and other domestic common carriers by land relative to their transport of goods or cargoes; common carriers by air and sea relative to their transport of passengers, goods or cargoes from one place in the Philippines to another place in the Philippines; sales of [electricity by generation companies, transmission, and distribution companies; services of franchise grantees of electric utilities,] telephone and telegraph, radio and television broadcasting and all other franchise grantees except those under Section 119 of this Code and non-life insurance companies (except their crop insurances), including surety, fidelity, indemnity and bonding companies; and similar services regardless of whether or not the performance thereof calls for the exercise or use of the physical or mental faculties. The phrase 'sale or exchange of services' shall likewise include:

“xxx.

SECTION 108. (C). THE FOLLOWING SALES BY VAT-REGISTERED PERSONS SHALL BE SUBJECT TO A SIX PERCENT (6 %) RATE: ELECTRICITY, OIL AND WATER.

SECTION 7. Severability. – The provisions of this Act are declared to be severable, and if any provision, word, phrase, or clause of this Act or the application thereof to any person or entity shall be held invalid, such invalidity shall not affect the validity of the remaining portions of this Act.

SECTION 8. Repealing Clause. – All laws, presidential decrees, executive orders, presidential proclamations, rules and regulations or parts thereof inconsistent with this Act are hereby repealed or modified accordingly.

SECTION 9. Effectivity. – This Act shall take effect after fifteen (15) days from publication in at least two (2) newspapers of general circulation.

Approved,