

Republic of the Philippines
HOUSE OF THE REPRESENTATIVES
Quezon City



SIXTEENTH CONGRESS
First Regular Session

House Bill No. **1547**

Introduced by Representatives EMMI A. DE JESUS, LUZVIMINDA C. ILAGAN,
FERNANDO L. HICAP, NERI J. COLMENARES, CARLOS ISAGANI T. ZARATE,
JAMES MARK TERRY L. RIDON, and ANTONIO L. TINIO

EXPLANATORY NOTE

The House of Representatives has been given the exclusive mandate of originating revenue bills. Both the 1973 (Article VIII, Section 17) and the 1987 (Article VI, Section 28) Philippine Constitution directed Congress to "evolve a progressive system of taxation".

A progressive system of taxation assumes the imposition of a heavier tax burden for those who have larger incomes. Progressive taxes attempt to reduce the tax incidence of people with a lower ability to pay, as they shift the incidence increasingly to those with a higher ability to pay.

However, bowing under pressures from the International Monetary Fund, successive post-Martial Law administrations instituted a regressive system of taxation where the relative tax rate or burden increases as an individual's ability to pay decreases, thereby imposing enormous tax burdens on the poorest of the poor.

The Value-Added Tax (VAT) which is an indirect tax, is widely criticized as a regressive form of taxation. VAT was first imposed under the Philippine taxation system by President Corazon Aquino in July 1987 when she signed Executive Order 273 into law. The VAT was further institutionalized when former president Fidel Ramos signed into law RA 8424 or the Tax Reform Act of 1997.

R.A 8424 expanded the coverage of VAT to include basic necessities such as rice, corn, fresh, dried and canned fish, fresh pork, beef and poultry meat, fresh eggs, fresh vegetables, root crops, coffee, sugar, cooking oil, salt, laundry soap, detergents, firewood, charcoal, candles, and drugs classified as essential by the Department of Health.

This was further exacerbated when the value-added tax was perpetuated and its coverage expanded by Republic Act (RA) No. 9337, which was signed into law by former President Gloria Macapagal-Arroyo on May 24, 2005. Worse, under RA 9337, VAT now was imposed on such socially volatile products as gasoline and other petroleum products.

Without the VAT, consumers of regular gasoline would have paid only PhP48.71 per liter and not the current PhP54.90. Diesel, meanwhile, would have been priced at only PhP38.23 per liter without the VAT.¹ There have been 7 rounds of increases in both diesel and gasoline prices since January to May 2013.² These increased the pump price of diesel to PhP4.10 per liter in the first half of 2013 alone.

In an attempt to convince the public on the merits of VAT, the Department of Finance claimed that since VAT is a consumption tax, those who consume more will be taxed more. "In the case of fuel," the DOF primer reads, "the richest 30% of Filipino families consume about 65% of the total fuel used in the country while the poorest 30% only account for about 8% of the total consumption."

IBON Foundation, Inc., an independent economic think tank, clarified that the issue is not who consumes more but the **impact** of the price hike on the actual income of the poor, which is the most important case against the VAT. Even if poor families consumes less fuel than the rich, the effect on them of higher oil prices because of the VAT is greater because of their smaller incomes compared to those of the rich. This is so because, VAT being an indirect tax and one the burden of paying can be passed on, it is essentially, not only an end-users' tax but an "end-of-the-line" tax.

To illustrate, the rich who consume more gasoline and, admittedly, pay more VAT, are the ones who have businesses or professions against which they can charge the additional tax in the form of VAT that they pay for gasoline, for example. On the other hand, the poorest of the poor bear the full brunt of the tax. Thus, while both rich and poor VAT-payers are end-users who are liable for VAT, the poorest of the poor are at the end of the line and have no way of escaping from the **impact** of VAT.

¹ Data from www.alternative.com/pgp.php

² Data from Piston – as of May 29, 2013

This can also be seen in the percentage distribution of family expenditures by major expenditures group and income class according to the 2009 Family Income and Expenditure Survey (FIES). For those who belonging to the bottom 30% of the income groups, the expenditure groups affected by VAT make up more than 72.5% of their total expenses.

Any increase in the cost of goods falling under these expenditure groups would represent a burden, especially since their monthly incomes are not enough to enable a poor family to meet its basic needs. Almost 9 out of every 10 Filipino households earn less than what is needed for a decent standard of living. Thus, every peso added to the expenses not only of the poorest households puts great pressure on a family's daily budget and further pushes them into debt.

VAT is a tax on the poor and the government certainly has many other options. The end-users, especially those steeped in poverty, should not be made to pay for the government's inefficient tax collection. No amount of government explanation can justify the creation or imposition of taxes that will mostly impact on the poorest of the poor. Even in the face of a fiscal crisis which admittedly calls for revenue generation, the government has the burden of proving that all other options are absolutely unavailable before it can even sell the idea of further taxing the poor.

Stripped of all complications, VAT, being an indirect and "passable" tax, corners poor end-users who are not in a position to further pass on the tax. It is an **"end of the line" tax**. Everyone else in front or in between this line has the capacity to be immune. Worse, given the inefficiency of our country's tax collection and administration, those who are able to pass this tax on may even stand to profit from its imposition via the input and output VAT scheme, among others.

Taking the foregoing into consideration, VAT cannot be said to be a fair, just, equitable and progressive form of taxation. Thus, poor end-users have all the reasons to strongly oppose the imposition of VAT.

Women intensely feel the crunch of the increase in oil prices and the consequent hike in the prices of basic necessities and services. As family budget shrinks, food on the table becomes scarce, health services become less accessible, and education for children becomes a luxury. Women need to augment the family income or in most instances, poor women just have to contend themselves with sacrificing their own needs just so their families could survive the daily economic hardships.

According to the Department of Energy, reforming VAT will help generate additional revenues for the government to finance other basic services such as healthcare, better education, infrastructures, etc. The additional revenues from the VAT on oil, however, have not alleviated the poverty of our people but have in fact, continued to restrict their purchasing power.

The Arroyo government also used the justification of needing the RVAT as a revenue measure supposedly to fund much needed social services. Yet, in the 2007 budget, real public spending for education fell to PhP1,331.00 per Filipino from PhP1,503.00 in 2002. Government budget for health has also decreased in real terms to just PhP111.70 per Filipino. Clearly, the generation of RVAT as sources of revenue was never meant to adequately fund social services as out of the total of PhP1,359 billion generated since the year 2011 less than 3% were allocated for social services.

In a 2009 survey, 48.73% of mothers come from families without any form of income, while 15.23% come from families who earn only a maximum of PhP100.00 a day. Under these circumstances, 36% of the mothers surveyed cope by reducing their food budget, while 21.72% of mothers and their family cope by having only one or two meals a day. In fact, among urban poor families, such is the crisis level of their economic condition that in order to survive; they resort to 'rescuing' left-over food from fast food chains, 'dusting off' dirt (thus the label 'pagpag') that may have stuck to it, and reheating them.

Meanwhile, wages continue to be depressed for workers earning minimum wage income at PhP419.00 to 456.00.³ The economic think-tank IBON Foundation, Inc. (IBON), estimates a cost of living of PhP983.00 for a family of six living in the National Capital Region.

IBON asserts that removing the VAT on oil would provide relief to a large number of consumers and stimulate economic activity. They estimate that without the 12% VAT, oil pump prices would go down as much as P5 per liter. These savings mean more money for consumers to spend directly on their needs and less production cost for fuel-intensive businesses.

If needed, there are available alternatives to VAT – alternatives that do not promote a regressive form of taxation but rather a progressive system of taxation that our Constitution mandates this august body to evolve. There are available revenue measures that do not further burden the poorest of our constituents.

Oppositors of the RVAT point out that instead of burdening the poor with increases in taxes, the government could have reviewed the tax exemptions being provided to large corporations amounting to around P229.1 billion in potential revenues in 2003 alone. A study of the House of Representatives in 2006 on foregone revenue due to incentives found that this amounted to P150 billion. These include tax incentives and tax holidays for 3 to 8 years for 100% foreign-owned corporations registered with Special Economic Zones and the Board of Investments.

³ http://www.nwpc.dole.gov.ph/pages/statistics/stat_current_regional.html

IBON Foundation further pointed out that tax leakages costs the country about P215 billion to P285 billion in lost revenues.

Meanwhile, corruption in government siphons about 20 to 30 percent of the national budget based on a study by the National Tax Research Center. These alone are enough measures to counterbalance the unjust imposition of VAT on oil and petroleum products as well as basic necessities that poor families consume on a daily basis.

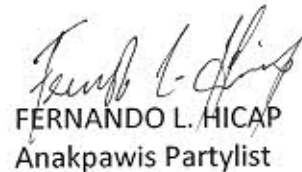
It is in this light that immediate passage of this bill which exempts the imposition of the value-added tax on basic necessities such as rice, as well as on oil and petroleum products is earnestly sought.



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**"AN ACT AMENDING SECTION 109 (1) OF REPUBLIC ACT 8424, OTHERWISE KNOWN AS
THE TAX REFORM ACT OF 1997, AS AMENDED BY REPUBLIC ACT NO. 9337,
EXEMPTING OIL, LPG AND OTHER BASIC NECESSITIES FROM THE IMPOSITION
OF THE VALUE-ADDED TAX, AND FOR OTHER PURPOSES"**

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

Section 1: Section 109 (1), Chapter 1, Title IV of RA 8424, otherwise known as the Tax Reform Act of 1997, as amended by RA 9337, is hereby further amended to read as follows:

SEC. 109. Exempt Transactions. – (1) Subject to the provisions of subsection (2) hereof, the following transactions shall be exempt from the value-added tax:

"(A) xxxx

After paragraph A, insert the following paragraphs (B) and (C).

"(B) SALE OR IMPORTATION OF BASIC NECESSITIES CONSUMED ON A REGULAR BASIS BY POOR FAMILIES, WHICH INCLUDE BREAD; CANNED FISH AND OTHER MARINE PRODUCTS; NOODLES; BISCUITS; SUGAR; COOKING OIL; SALT; LAUNDRY SOAP; DETERGENTS; FIREWOOD; CHARCOAL; CANDLES; AND DRUGS CLASSIFIED AS ESSENTIAL BY THE DEPARTMENT OF HEALTH;

"(C) THE SALE OF OIL, GASOLINE, LPG, KEROSENE AND OTHER PETROLEUM PRODUCTS;

And re-letter the succeeding paragraphs as from D to X.

SECTION 2. Implementing Rules and Regulations – The Secretary of Finance shall, upon the recommendations of the Commissioner of Internal Revenue, promulgate not later than 15 days upon the effectivity of this Act, the necessary Rules and Regulations, all former rules and regulations pertaining to value-added tax shall be deemed revoked.

SECTION 3. Separability Clause– Any provision or portion of this act that may be declared unconstitutional shall not have the effect of nullifying other parts thereof.

SECTION 4 Repealing Clause – All laws, acts, decrees, executive orders, issuances, and rules and regulations or parts thereof which are contrary to and inconsistent with any provisions of this Act are hereby repealed, amended or modified accordingly.'

SECTION 5. Effectivity Clause – This Act shall take effect fifteen (15) days after its complete publication in the Official Gazette or in newspaper of general circulation.

Approved,