

SIXTEENTH CONGRESS OF THE REPUBLIC)
OF THE PHILIPPINES)

First Regular Session)



HOUSE BILL NO. **4550**

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Introduced by ANGKLA Partylist Representative JESULITO A. MANALO

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AN ACT AMENDING CERTAIN PROVISIONS OF REPUBLIC ACT NO. 7471 AS AMENDED BY REPUBLIC ACT NO. 9301, ENTITLED "AN ACT TO PROMOTE THE DEVELOPMENT OF THE PHILIPPINE OVERSEAS SHIPPING" AND FOR OTHER PURPOSES

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

EXPLANATORY NOTE

On 5 May 1992, Republic Act (RA) 7471, otherwise known as the Philippine Overseas Shipping Development Act was enacted. The said law, among others, granted income tax exemption to Philippine shipping enterprises for a period of ten (10) years from its enactment, subject to certain conditions, particularly that the income subject of the exemption will be used for the construction, purchase, or acquisition of vessels and related equipment and/or in the improvement of modernization of its vessels and related equipment.

On 27 July 2004, RA 7471 was amended by RA 9301, extending the said income tax exemption for a similar period of ten (10) years, which period is to expire this year. The extension was sought after a strict interpretation of the definition of "Philippine overseas shipping"

disqualified Philippine overseas shipping companies from availing of incentives.

RA 7471, as amended, undoubtedly supports the government's national policy in promoting the development of Philippine overseas shipping. The government must not lose sight of this policy, now, more than ever. Indeed, the Philippines, being an archipelagic state, stands to benefit more if the overseas shipping industry is further improved and expanded. Unfortunately though, there are merely about 129 registered overseas vessels flying the Philippine flag at present.

The shipping sector needs to show and impress investors and business of longer stability. For instance, ship mortgage loans taken by ship owners usually have a 25 year payment scheme. Hence, it is necessary that assistance extended to these ship owners through incentives, perks and privileges be granted for a longer and more liberal period of time. This way, the present ship owners can enjoy the benefits of the law, recoup their investments, and be enticed to further expand their shipping business and operations. This, in turn, will most likely attract more investors to go into Philippine overseas shipping. Extension of R.A. 9301 will also enable the present Filipino ship owners and operators in the overseas trade to be competitive with the Philippines' neighboring countries if and when the Asian connectivity and free trade arrangements come into force in the near future.

Additionally, for the Philippine ship registry to be able to compete with the other ship registries like Panama and Liberia, the incentives given should be institutionalized as they do in these other ship registries. Ship owners in these registries do not pay income tax but instead pay tonnage tax.

The further extension of the income tax exemption granted to the Philippine ship enterprise is one of the many ways that the government can help boost the constant growth and development of the shipping industry.

The proposed bill will definitely allow Filipino ship owners to modernize the country's merchant fleet and provide stable employment to Filipino seafarers, generate foreign exchange and contribute to the country's economy in the form of common carrier's taxes and the bareboat charter taxes paid to the government, not to mention the huge foreign exchange remittances of its seafarers.

Likewise, this amendment is expected to encourage investment in ships and generate more employment for seafarers, as our Filipino ship owners will have increased capabilities to employ more people for its operations. Government will save on foreign currency spending in transporting foreign trade (99% of the Philippines' foreign trade is carried by foreign flag ships) as more Filipino ship owners will be able to become more competitive and efficient due to the fiscal incentives given their way. Foreign exchange earnings will rise as more Philippine flag ships will employ Filipino seafarers. The government will generate more revenues by way of taxes, fees and charges (i.e. common carriers tax and bareboat tax). Ancillary businesses like ship manning, ship management, ship chandling, cargo handling, ship agency and other businesses engaged in the maritime industry.

With these amendments, it is hoped that the Philippine Shipping Industry would have enough resources to improve its services and ensure safer and more efficient operation.



JESULITO A. MANALO
Partylist Representative
ANGKLA

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

Section 1. Sec 7 of Republic Act No. 7471, as amended by Republic Act No. 9301 shall be read as follows:

"Sec. 7. *Exemption from Income Tax.* - A Philippine shipping enterprise shall be exempt from payment of income tax on income derived from Philippine overseas shipping from the date of approval of this Act: Provided, That: The entire net income, after deducting not more than fifteen percent (15%) thereof for distribution of profits or declaration of dividends, which would otherwise be taxable under the provisions of Title II of the National Internal Revenue Code, is reinvested for the construction, purchase, or acquisition of vessels and related equipment and/or in the improvement or modernization of its vessels and related equipment in accordance with the regulations; and

Section 2. *Repealing Clause.* - All laws, decrees, executive orders or rules and regulations inconsistent with this Act are hereby repealed, amended or modified accordingly.

Section 3. *Effectivity.* - This Act shall take effect after fifteen (15) days following its publication in at least two (2) newspapers of general circulation.

Approved,