



Republic of the Philippines
House of Representatives
Quezon City



SEVENTEENTH CONGRESS

First Regular Session

House Bill No. 4672

Introduced by Representative Jose Enrique S. Garcia III

EXPLANATORY NOTE

One key aspect in the devolution process set into motion by the Local Government Code (RA 7160), is the transfer to the local government units (Igus) of the responsibility for the delivery of basic services which include health, agriculture, environment and natural resources, social services and public works funded by local funds.

To enable the Igus to perform such assigned role to become partners in national progress and development, they have been given the power to levy taxes, fees and charges, thereby creating their own sources of revenue.

In particular, municipalities and cities have been given the power to impose, among others, tax on business establishments which operate within their respective territorial jurisdictions. Aiming to resolve disputes anticipated to arise from the operation of business establishments that spans two or more municipalities and cities, the Code set down in Section 150 thereof the rules on the proper situs of the tax.

However, questions on the equity of the allocation of the tax are being raised since a great majority of businesses have their principal offices in highly urbanized centers such as Metro Manila. Factories and production plants are usually located in municipalities and cities in the countryside which thus bear the brunt of the concomitant air, noise and environmental pollution.

It is, therefore, the aim of this bill to achieve a more equitable allocation of the tax by giving primary consideration to the place most affected by the operation, production or manufacturing activity of the business irrespective of where the sale is generated.

The current 70-30 sharing that the Code prescribes will be abolished as this bill proposes to increase to 100% the share of the Igu where the factory, plant or plantation is located.

The bill also incorporates and adopts some of the guidelines laid down by the Department of Finance on specific businesses such as banks, insurance companies, and construction contractors.

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



REP. JOSE ENRIQUE S. GARCIA III
Second District, Bataan



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**AN ACT TO RATIONALIZE THE COLLECTION OF THE TAX ON
BUSINESS UNDER SECTION 143 OF THE LOCAL GOVERNMENT CODE,
AND AMENDING FOR THE PURPOSE SECTION 150 THEREOF**

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

SECTION 1. Section 150, Article II, Chapter II, Title I, Book II of Republic Act No. 7160, otherwise known as the Local Government Code, is hereby amended, to read as follows:

"Section 150. Situs of the Tax. -

(a) For purposes of collection of the taxes under Section 143 of this Code, manufacturers, assemblers, repackers, brewers, distillers, rectifiers and compounders of liquor, distilled spirits and wines, millers, producers, exporters, wholesalers, distributors, dealers, **[contractors, banks and other financial institutions,]** and other businesses, maintaining or operating branch, **[or] sales outlet, FACTORY, PLANT AND PLANTATION** elsewhere shall record the sale in the **PRINCIPAL OFFICE** **[branch or sales outlet making the sale or transaction,]** and the tax thereon shall accrue and shall be paid to the municipality where such branch, **[or] sales outlet, FACTORY, PLANT OR PLANTATION** is located. In cases where there is no such branch, **[or] sales outlet, FACTORY, PLANT OR PLANTATION ELSEWHERE, [in the city or municipality where the sale or transaction is made,]** the sale shall be duly recorded in the principal office and the taxes due shall accrue and shall be paid to such city or municipality **WHERE THE PRINCIPAL OFFICE IS LOCATED.**

[(b) The following sales allocation shall apply to manufacturers, assemblers, contractors, producers, and exporters with factories, project offices, plants, and plantations in the pursuit of their business:

(1) Thirty percent (30%) of all sales recorded in the principal office shall be taxable by the city or municipality where the principal office is located.

(2) Seventy percent (70%) of all sales recorded in the principal office shall be taxable by the city or municipality where the factory, project office, plant, or plantation is located.]

[(c) In case of a plantation located at a place other than the place where the factory is located, said seventy percent (70%) mentioned in subparagraph (b) of subsection (2) above shall be divided as follows:

(1) Sixty percent (60%) to the city or municipality where the factory is located; and

(2) Forty percent (40%) to the city or municipality where the plantation is located.]

[(d)]B) In cases where a manufacturer, assembler, producer, exporter or contractor has two (2) or more **BRANCHES, SALES OUTLETS**, factories, project offices, plants, or plantations located in different localities, [the seventy percent (70%) sales allocation mentioned in subparagraph (b) of subsection (2) above] **THE SALE** shall be prorated among the localities where the **BRANCHES, SALES OUTLETS**, factories, project offices, plants, and plantations are located in proportion to their respective volumes of **SALE OR** production during the period for which the tax is due.

[(e)]C) The foregoing sales allocation shall be applied irrespective of whether or not sales are made in the locality where the factory, project office, plant, or plantation is located.

(D) IN CASE OF BANKS AND BANKING INSTITUTIONS, ALL TRANSACTIONS FILED WITH OR NEGOTIATED IN THE BRANCH SHALL BE RECORDED IN SAID BRANCH AND THE GROSS RECEIPTS DERIVED FROM SAID TRANSACTIONS SHALL BE TAXABLE BY THE CITY OR MUNICIPALITY WHERE THE BRANCH IS LOCATED.

THIS RULE SHALL BE APPLIED TO: (1) TRANSACTIONS NEGOTIATED WITH AND APPROVED BY THE BRANCH MANAGER UNDER HIS OWN AUTHORITY; (2) TRANSACTIONS FILED AND NEGOTIATED IN THE BRANCH BUT BEING BEYOND THE APPROVING AUTHORITY OF THE BRANCH MANAGER, ARE FORWARDED TO THE HEAD OFFICE FOR APPROVAL; AND, (3) TRANSACTIONS WHERE THE STATED ADDRESS IN THE LOAN APPLICATION OF THE BORROWER IS THE CITY OF MUNICIPALITY WHERE THE BANK HAS A BRANCH, IN WHICH

CASE THE HEAD OFFICE UPON APPROVAL OF THE LOAN SHALL CREDIT THE TRANSACTION TO THE BRANCH.

(E) IN CASE OF INSURANCE COMPANIES, ALL THE GROSS RECEIPTS DERIVED FROM INSURANCE CONTRACTS/POLICIES SOLICITED BY A BRANCH SHALL BE TAXABLE BY THE CITY OF MUNICIPALITY WHERE SUCH BRANCH IS LOCATED.

(F) IN CASE OF CONSTRUCTION CONTRACTORS, ALL GROSS RECEIPTS REALIZED FROM PROJECTS OR CONTRACTS UNDERTAKEN BY A BRANCH OFFICE SHALL BE RECORDED IN THE SAID BRANCH OFFICE AND THE TAX THEREON SHALL BE PAYABLE TO THE CITY OR MUNICIPALITY WHERE THE BRANCH IS LOCATED.

IN CASES WHERE THERE IS NO BRANCH OFFICE, THE GROSS RECEIPTS SHALL BE RECORDED IN THE HEAD OFFICE AND THE SAME SHALL BE TAXABLE BY THE CITY OR MUNICIPALITY WHERE THE PROJECT IS LOCATED.

IN CASES WHERE THE PROJECT COVERS TWO (2) OR MORE LOCALITIES, THE GROSS RECEIPTS SHALL BE PRO-RATED AMONG THE LOCALITIES IN PROPORTION TO THE COST OF THE WORK ACCOMPLISHED."

SECTION 2. The Secretaries of the Department of Finance, the Department of Budget and Management, and the Department of Interior and Local Governments, in consultation with the Presidents of the League of Municipalities, League of Cities and League of Provinces, shall promulgate the necessary rules and regulations to implement the provisions of this Act.

SECTION 3. All laws, decrees, executive orders, proclamations and administrative regulations, or part or parts thereof, which are inconsistent with the provisions of this Act are hereby repealed or modified accordingly.

SECTION 4. If any part or provisions of this Act shall be held to be unconstitutional or invalid, the other parts or provisions hereof which are not affected thereby shall continue to be in full force and effect.

SECTION 5. This Act shall take effect fifteen (15) days from its publication in the Official Gazette or in two (2) newspapers of national circulation.

Approved.