

Republic of the Philippines
House of Representatives
Quezon City

Seventeenth Congress
First Regular Session

HOUSE BILL NO. **4688**



Introduced by Representative Joey Sarte Salceda

EXPLANATORY NOTE

This proposed Tax Reform for Acceleration and Inclusion (short-named TRAIN) Bill envisions to create a tax system that is simpler, fairer, and more efficient, characterized by low rates and a broad base that promotes investment, job creation and poverty reduction. This is in line with President Rodrigo Duterte's commitment to President Rodrigo Duterte's promise and commitment to "Tunay na Pagbabago" or real positive change for the Filipino people, that includes, among others, more inclusive growth manifested by a comfortable life for all, improved public services, more and better jobs, and more money in the people's pockets; and safe, healthy, and peaceful communities.

All these can significantly reduce poverty incidence from 26 to 17 percent by 2022, or lifting some 10 million Filipinos out of poverty, and achieving upper middle income country status by 2022. Sustaining real positive change for one generation can eradicate extreme poverty and allow our country to join the ranks of advanced nations by 2040. This is a dream that all Filipinos share and aspire for.

To realize these aspirations, the Duterte Administration recognizes the need to sustain high growth of at least 7 percent every year for one generation, shift the source of growth from consumption to investment, and heavily invest in our people through improved social services, such as public health and education systems, and in better infrastructure to improve connectivity and raise productivity. These necessary investments require an additional one trillion pesos annually over the long-term, of which some 600 billion pesos (3% of GDP) is targeted by 2019. To sustainably finance these investments, a tax reform program for acceleration and inclusion is proposed.

This Bill will be complemented by major tax administration reforms in both the Bureau of Internal Revenue and Bureau of Customs, proposed separately under the Tax Administration Reform Act. This is in addition to continuing budget reforms that are being pursued to promote spending transparency and efficiency.

The tax reform program consists of several packages, with each package balancing trade-offs (e.g., lowering of some tax rates while broadening the base of other taxes) and helping to ensure timely enactment. The first package, which is the subject of this bill, seeks to lower personal income

taxes while broadening the VAT base and adjusting excise taxes. Relaxation of bank secrecy and an absolute tax amnesty are also being proposed to accompany this package.

The key features of this bill are the following:

1. Adjustment of the personal income tax brackets to correct for "income bracket creeping", reduction of the maximum rate to 25% over time, except for the highest income earners to maintain progressivity, and shift to a modified gross system to simplify the PIT system.
2. Revenue losses from the PIT reform will be offset by i) expanding the VAT base by limiting exemptions to raw food and other necessities (e.g., education and health), ii) increasing excise tax rates on all petroleum products to address negative externalities brought about by congestion and pollution, and iii) restructuring and increasing the excise tax on automobiles. These increases in various excise taxes will be indexed to inflation as well to preserve the excise burden.
3. To mitigate the impact of the tax increases on the poor and low income households, 25% of incremental revenues from increases in excise taxes is earmarked for highly targeted subsidies for three (3) years is proposed to fully protect the poorest 50% of households and partially protect the working class. Moreover, there is mechanism to link adjustments in petroleum taxes to Dubai crude price set at \$85/barrel.

Effective partnership between Congress and the Executive has always been crucial in moving the country's development agenda forward. Today, a window of opportunity exists to take the country to the next level of development. This window of opportunity, characterized by strong macroeconomic fundamentals, global recognition for the success of the country, and a popular new government, provides the necessary condition to realize the President's vision for the country. This bill is the author's humble contribution to this call to become partners for real positive change.

Given all these, the timely passage of this bill is earnestly sought.



REP. JOEY SARTE SALCEDA

Republic of the Philippines
HOUSE OF REPRESENTATIVES
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House Bill No. 4688

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AN ACT AMENDING SECTIONS 22, 24, 31, 32, 34, 35, 79, 106, 107, 108, 109, 110, 148 AND TITLE VI OF REPUBLIC ACT NO. 8424 OTHERWISE KNOWN AS "THE NATIONAL INTERNAL REVENUE CODE OF 1997", AS AMENDED, AND FOR OTHER PURPOSES

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

SECTION 1. *Title.* This Act shall be known as the "Tax Reform for Acceleration and Inclusion" or its acronym TRAIN.

SEC. 2. *Declaration of Policy.* It is hereby declared the policy of the State:

1. To enhance the progressivity of the tax system through the rationalization of the Philippine internal revenue tax system, thereby promoting sustainable economic growth;
2. To provide, as much as possible, an equitable relief to a greater number of taxpayers in order to improve levels of disposable income and increase economic activity; and
3. To ensure that the government is able to provide for the needs of those under its jurisdiction and care.

SEC. 3. Section 22 of the National Internal Revenue Code of 1997, as amended, is hereby further amended to read as follows:

SEC. 22. Definitions. – When used in this Title:

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[(GG) The term "*statutory minimum wage*" shall refer to the rate fixed by the Regional Tripartite Wage and Productivity Board, as defined by the Bureau of Labor and Employment Statistics (BLES) of the Department of Labor and Employment (DOLE)."

(HH) The term "*minimum wage earner*" shall refer to a worker in the private sector paid the statutory minimum wage, or to an employee in the public sector with compensation income of not more than the statutory minimum wage in the non-agricultural sector where he/she is assigned."]

SEC. 4. Section 24 of the National Internal Revenue Code of 1997, as amended, is hereby further amended to read as follows:

SEC. 24. Income Tax Rates. -

(A) Rates of Income Tax on Individual Citizen and Individual Resident Alien of the Philippines. -

(1) An income tax is hereby imposed:

(a) On the taxable income defined in Section 31 of this Code, other than income subject to tax under Subsections (B), (C) and (D) of this Section, derived for each taxable year from all sources within and without the Philippines by every individual citizen of the Philippines residing therein;

(b) On the taxable income defined in Section 31 of this Code, other than income subject to tax under Subsections (B), (C) and (D) of this Section, derived for each taxable year from all sources within the Philippines by an individual citizen of the Philippines who is residing outside of the Philippines including overseas contract workers referred to in Subsection (C) of Section 23 hereof; and

(c) On the taxable income defined in Section 31 of this Code, other than income subject to tax under Subsections (B), (C) and (D) of this Section, derived for each taxable year from all sources within the Philippines by an individual alien who is a resident of the Philippines.

(2) Rates of Tax on Taxable Income of Individuals. - The tax shall be computed in accordance with and at the rates established in the following schedule:

[Not over P10,000	5%
Over P10,000 but not over P30,000.....	P500 + 10% of the excess over P10,000
Over P30,000 but not over P70,000	P2,500 + 15% of the excess over P30,000
Over P70,000 but not over P140,000.....	P8,500 + 20% of the

	excess over P70,000
Over P140,000 but not over P250,000.....	P22,500 + 25% of the excess over P140,000
Over P250,000 but not over P500,000.....	P50,000 + 30% of the excess over P250,000
Over P500,000.....	P125,000 + 32% of the excess over P500,000]

TAX SCHEDULE 2018

Not over P250,000	0%
Over P250,000 but not over P400,000	20% of the excess over P250,000
Over P400,000 but not over P800,000	P30,000 + 25% of the excess over P400,000
Over P800,000 but not over P2,000,000.....	P130,000 + 30% of the excess over P800,000
Over P2,000,000 but not over P5,000,000	P490,000 + 32% of the excess over P2,000,000
Over P5,000,000	P1,450,000 + 35% of the excess over P5,000,000

TAX SCHEDULE 2019

Not over P250,000	0%
Over P250,000 but not over P400,000	15% of the excess over P250,000
Over P400,000 but not over P800,000	P22,500 + 20% of the excess over P400,000
Over P800,000 but not over P2,000,000	P102,500 + 25% of the excess over P800,000
Over P2,000,000 but not over P5,000,000	P402,500 + 30% of the excess over P2,000,000
Over P5,000,000	P1,302,500 + 35% of the excess over P5,000,000

PROVIDED, THAT AFTER 2019, THE TAXABLE INCOME LEVELS IN THE ABOVE SCHEDULES SHALL BE ADJUSTED ONCE EVERY FIVE (5) YEARS THROUGH RULES AND REGULATIONS ISSUED BY THE SECRETARY OF FINANCE, UPON RECOMMENDATION OF THE COMMISSIONER, AFTER CONSIDERING AMONG OTHERS, THE EFFECT ON THE SAME OF THE FIVE-YEAR CUMULATIVE INFLATION RATE.

For married individuals, the husband and wife, subject to the provision of Section 51 (D) hereof, shall compute separately their individual income tax based on their respective total taxable income: *Provided*, That if any income cannot be definitely attributed to or identified as income exclusively earned or realized by either of the spouses, the same shall be divided equally between the spouses for the purpose of determining their respective taxable income.

[Provided, That minimum wage earners as defined in Section 22 (HH) of this Code shall be exempt from the payment of income tax on their taxable income: *Provided*, further, That the holiday pay, overtime pay, night shift differential pay and hazard pay received by such minimum wage earners shall likewise be exempt from income tax.]

(B)Rate of Tax on Certain Passive Income: –

(1) Interests, Royalties, Prizes and Other Winnings. – A final tax at the rate of twenty percent (20%) is hereby imposed upon the amount of interest from any currency bank deposit and yield or any other monetary benefit from deposit substitutes and from trust funds and similar arrangements; royalties, except on books, as well as other literary works and musical compositions, which shall be imposed a final tax of ten percent (10%); prizes (except prizes amounting to Ten thousand pesos (P10,000) or less which shall be subject to tax under Subsection (A) of section 24; and other winnings [(except Philippine Charity Sweepstakes and Lotto winnings)] derived from sources within the Philippines: *Provided*, *however*, That interest income received by an individual taxpayer (except a nonresident individual) from a depository bank under the expanded foreign currency deposit system shall be subject to a final income tax at the rate of seven and on-half percent (7 ½%) of such interest income: *Provided*, *further*, That interest income from long-term deposit or investment in the form of savings, common or individual trust funds, deposit substitutes, investment management accounts and other investments evidenced by certificates in such form prescribed by the *Bangko Sentral ng Pilipinas* (BSP) shall be exempt from the tax imposed under this Subsection: *Provided*, *finally*, That should the holder of the certificate pre-terminate the deposit or investment before the fifth (5th) year, a final tax shall be imposed on the entire income and shall be deducted and withheld by the depository bank from the

proceeds of the long-term deposit or investment certificate based on the remaining maturity thereof:

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SEC. 5. Section 25 of the National Internal Revenue Code of 1997, as amended, is hereby further amended to read as follows:

SEC. 25. Tax on Nonresident Alien Individual. -

(A) *Nonresident Alien Engaged in Trade or Business Within the Philippines.* -

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(B) *Nonresident Alien Not Engaged in Trade or Business Within the Philippines.*-

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[(C) *Alien Individual Employed by Regional or Area Headquarters and Regional Operating Headquarters of Multinational Companies.*- There shall be levied, collected and paid for each taxable year upon the gross income received by every alien individual employed by regional or area headquarters and regional operating headquarters established in the Philippines by multinational companies as salaries, wages, annuities, compensation, remuneration and other emoluments, such as honoraria and allowances, from such regional or area headquarters and regional operating headquarters, a tax equal to fifteen percent (15%) of such gross income: Provided, however, That the same tax treatment shall apply to Filipinos employed and occupying the same position as those of aliens employed by these multinational companies. For purposes of this Chapter, the term 'multinational company' means a foreign firm or entity engaged in international trade with affiliates or subsidiaries or branch offices in the Asia-Pacific Region and other foreign markets.]

[(D) *Alien Individual Employed by Offshore Banking Units.* - There shall be levied, collected and paid for each taxable year upon the gross income received by every alien individual employed by offshore banking units established in the Philippines as salaries, wages, annuities, compensation, remuneration and other emoluments, such as honoraria and allowances, from such off-shore banking units, a tax equal to fifteen percent (15%) of such gross income: Provided, however, That the same tax treatment shall apply to Filipinos employed and occupying the same positions as those of aliens employed by these offshore banking units.]

[(E) Alien Individual Employed by Petroleum Service Contractor and Subcontractor. - An Alien individual who is a permanent resident of a foreign country but who is employed and assigned in the Philippines by a foreign service contractor or by a foreign service subcontractor engaged in petroleum operations in the Philippines shall be liable to a tax of fifteen percent (15%) of the salaries, wages, annuities, compensation, remuneration and other emoluments, such as honoraria and allowances, received from such contractor or subcontractor: Provided, however, That the same tax treatment shall apply to a Filipino employed and occupying the same position as an alien employed by petroleum service contractor and subcontractor.]

[Any income earned from all other sources within the Philippines by the alien employees referred to under Subsections (C), (D) and (E) hereof shall be subject to the pertinent income tax, as the case may be, imposed under this Code.]

SEC. 6. Section 31 of the National Internal Revenue Code of 1997, as amended, is hereby further amended to read as follows:

SEC. 31. Taxable Income, Defined. - The term 'taxable income' means the pertinent items of gross income specified in this Code less [the] deductions [and/or personal and additional exemptions], if any, authorized for such types of income by this Code [or other special laws].

SEC. 7. Section 32(B)(7) of the National Internal Revenue Code of 1997, as amended, is hereby further amended to read as follows:

SEC. 32. Gross Income. -

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(B) Exclusions from Gross Income.- The following items shall not be included in gross income and shall be exempt from taxation under this Title:

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(7) Miscellaneous Items. -

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[(e) 13th Month Pay and Other Benefits. - Gross benefits received by officials and employees of public and private entities: Provided, however, That the total exclusion made under this subparagraph shall not exceed Eighty-two thousand pesos (P82,000) which shall cover:]

[(i) Benefits received by officials and employees of the national and local government pursuant to Republic Act No. 6686;]

[(ii) Benefits received by employees pursuant to Presidential Decree No. 851, as amended by Memorandum Order No. 28, dated August 13, 1986;]

[(iii) Benefits received by officials and employees not covered by Presidential Decree No. 851, as amended by Memorandum Order No. 28 dated August 13, 1986; and]

[(iv) Other benefits such as productivity incentives and Christmas bonus: Provided, further, That the ceiling of Thirty thousand pesos (P30,000) may be increased through rules and regulations issued by the Secretary of Finance, upon recommendation of the Commissioner, after considering, among others, the effect on the same of the inflation rate at the end of the taxable year.]

(e[f]) GSIS, SSS, Medicare and Other Contribution. – GSIS, SSS, Medicare and Pag-Ibig contributions, and union dues of individuals.

(f[g]) Gains from the Sale of Bonds, Debentures or other Certificate of Indebtedness. – Gains realized from the sale or exchange or retirement of bonds, debentures or other certificate of indebtedness with a maturity of more than five (5) years.

(g[h]) Gains from Redemption of Shares in Mutual Fund. – Gains realized by the investor upon the redemption of shares of stock in a mutual fund company as defined in Section 22 (BB) of this Code.

SEC. 8. Section 33 of the National Internal Revenue Code of 1997, as amended, is hereby further amended to read as follows:

SEC. 33. *Special Treatment of Fringe Benefit.* -

(A)Imposition of Tax. - A final tax of THIRTY-TWO PERCENT (32%) EFFECTIVE JANUARY 1, 2018; THIRTY PERCENT (30%) EFFECTIVE JANUARY 1, 2019; THEREAFTER [thirty-four percent (34%) effective January 1, 1998; thirty-three percent (33%) effective January 1, 1999; and thirty-two percent (32%) effective January 1, 2000 and thereafter], is hereby imposed on the grossed-up monetary value of fringe benefit furnished or granted to the employee (except rank and file employees as defined herein) by the employer, whether an individual or a corporation (unless the fringe benefit is required by the nature of, or necessary to the trade, business or profession of the employer, or when the fringe benefit is for the convenience or

advantage of the employer). The tax herein imposed is payable by the employer which tax shall be paid in the same manner as provided for under Section 57 (A) of this Code. The grossed-up monetary value of the fringe benefit shall be determined by dividing the actual monetary value of the fringe benefit BY SIXTY-EIGHT PERCENT (68%) EFFECTIVE JANUARY 1, 2018; SEVENTY PERCENT (70%) EFFECTIVE JANUARY 1, 2019; AND THEREAFTER. [by sixty-six percent (66%) effective January 1, 1998; sixty-seven percent (67%) effective January 1, 1999; and sixty-eight percent (68%) effective January 1, 2000 and thereafter: *Provided, however,* That fringe benefit furnished to employees and taxable under Subsections (B), (C), (D) and (E) of Section 25 shall be taxed at the applicable rates imposed thereat: *Provided, further,* That the grossed -up monetary value of the fringe benefit shall be determined by dividing the actual monetary value of the fringe benefit by the difference between one hundred percent (100%) and the applicable rates of income tax under Subsections (B), (C), (D), and (E) of Section 25.]

(B) Fringe Benefit Defined. - For purposes of this Section, the term '**fringe benefit**' means any good, service or other benefit furnished or granted in cash or in kind by an employer to an individual employee (except rank and file employees as defined herein) such as, but not limited to, the following:

- (1) Housing;
- (2) Expense account;
- (3) Vehicle of any kind;
- (4) Household personnel, such as maid, driver and others;
- (5) Interest on loan at less than market rate to the extent of the difference between the market rate and actual rate granted;
- (6) Membership fees, dues and other expenses borne by the employer for the employee in social and athletic clubs or other similar organizations;
- (7) Expenses for foreign travel;
- (8) Holiday and vacation expenses;
- (9) Educational assistance to the employee or his dependents; and
- (10) Life or health insurance and other non-life insurance premiums or similar amounts in excess of what the law allows.

(C) Fringe Benefits Not Taxable. - The following fringe benefits are not taxable under this Section:

[(1) Fringe benefits which are authorized and exempted from tax under special laws;]

(1[2]) Contributions of the employer for the benefit of the employee to retirement, insurance and hospitalization benefit plans;

(2[3]) Benefits given to the rank and file employees, whether granted under a collective bargaining agreement or not; and

(2[4]) *De minimis* benefits as defined in the rules and regulations to be promulgated by the Secretary of Finance, upon recommendation of the Commissioner.

The Secretary of Finance is hereby authorized to promulgate, upon recommendation of the Commissioner, such rules and regulations as are necessary to carry out efficiently and fairly the provisions of this Section, taking into account the peculiar nature and special need of the trade, business or profession of the employer.

SEC. 9. Section 34 of the National Internal Revenue Code of 1997, as amended, is hereby further amended to read as follows:

SEC. 34. Deductions from Gross Income.- Except for taxpayers earning compensation income arising from personal services rendered under an employer-employee relationship where no deductions shall be allowed under this Section other than under subsection (M) hereof, in computing taxable income subject to income tax under Sections 24(A); 25(A); 26; 27(A), (B) and (C); and 28(A)(1), there shall be allowed the following deductions from gross income;

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(L) Optional Standard Deduction (OSD). - For individual taxpayers whose gross sales do not exceed PhP 5 million, and in lieu of the deductions allowed under the preceding Subsections, an individual subject to tax under Section 24, other than a nonresident alien, may elect a standard deduction in an amount not exceeding forty percent (40%) of his gross sales or gross receipts, as the case maybe. [In the case of a corporation subject to tax under Sections 27 (A) and 28 (A) (1), it may elect a standard deduction in an amount not exceeding forty percent (40%) of its gross income as defined in Section 32 of this Code.] Unless the taxpayer signifies in his return his intention to elect the optional standard deduction, he shall be considered as having availed himself of the deductions allowed in the preceding Subsections. Such election when made in the return

shall be irrevocable for the taxable year for which the return is made: *Provided*, That an individual who is entitled to and claimed for the optional standard deduction shall not be required to submit with his tax return such financial statements otherwise required under this Code: *Provided, further*, That except when the Commissioner otherwise permits, the said individual shall keep such records pertaining to his gross sales or gross receipts, [or the said corporation shall keep such records pertaining to his gross income as defined in Section 32 of this Code] during the taxable year, as may be required by the rules and regulations promulgated by the Secretary of Finance, upon recommendation of the Commissioner.

[(M) Premium Payments on Health and/or Hospitalization Insurance of an Individual Taxpayer.- The amount of premiums not to exceed Two thousand four hundred pesos (P2,400) per family or Two hundred pesos (P200) a month paid during the taxable year for health and/or hospitalization insurance taken by the taxpayer for himself, including his family, shall be allowed as a deduction from his gross income: *Provided*, That said family has a gross income of not more than Two hundred fifty thousand pesos (P250,000) for the taxable year: *Provided, finally*, That in the case of married taxpayers, only the spouse claiming the additional exemption for dependents shall be entitled to this deduction.]

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SEC. 10. Section 35 of the National Internal Revenue Code of 1997, as amended, is hereby repealed and the succeeding Sections shall be renumbered accordingly.

SEC. 11. Section 79 of the National Internal Revenue Code of 1997, as amended, is hereby further amended to read as follows:

SEC. 79. Income Tax Collected at Source.-

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[(D) Personal Exemptions.-

(1) In General. - Unless otherwise provided by this Chapter, the personal and additional exemptions applicable under this Chapter shall be determined in accordance with the main provisions of this Title.

(2) Exemption Certificate. -

(a) When to File. - On or before the date of commencement of employment with an employer, the employee shall furnish the employer with a signed withholding exemption certificate relating to the personal and additional exemptions to which he is entitled.

(b) Change of Status. - In case of change of status of an employee as a result of which he would be entitled to a lesser or greater amount of exemption, the employee shall, within ten (10) days from such change, file with the employer a new withholding exemption certificate reflecting the change.

(c) Use of Certificates. - The certificates filed hereunder shall be used by the employer in the determination of the amount of taxes to be withheld.

(d) Failure to Furnish Certificate. - Where an employee, in violation of this Chapter, either fails or refuses to file a withholding exemption certificate, the employer shall withhold the taxes prescribed under the schedule for zero exemption of the withholding tax table determined pursuant to Subsection (A) hereof.]

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[(F) Husband and Wife.- When a husband and wife each are recipients of wages, whether from the same or from different employers, taxes to be withheld shall be determined on the following bases:

(1) The husband shall be deemed the head of the family and proper claimant of the additional exemption in respect to any dependent children, unless he explicitly waives his right in favor of his wife in the withholding exemption certificate.

(2) Taxes shall be withheld from the wages of the wife in accordance with the schedule for zero exemption of the withholding tax table prescribed in Subsection (D)(2)(d) hereof.]

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SEC. 12. Section 106 of the National Internal Revenue Code of 1997, as amended, is hereby further amended to read as follows:

SEC. 106. Value-Added Tax on Sale of Goods or 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 TWELVE[ten] percent (12%) [(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) Value-added tax collection as a percentage of Gross Domestic product (GDP) of the previous year exceeds two and four-fifth percent (2 4/5%); or

(ii) National government deficit as a percentage of GDP of the previous year exceeds one and one-half percent (1 1/2%).]

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(2) The following sales by VAT-registered persons shall be subject to zero-percent (0%) rate:

(a) Export Sales. - The term 'export sales' means:

(1) The sale and actual shipment of goods from the Philippines to a foreign country, irrespective of any shipping arrangement that may be agreed upon which may influence or determine the transfer of ownership of the goods so exported and paid for in acceptable foreign currency or its equivalent in goods or services, and accounted for in accordance with the rules and regulations of the *Bangko Sentral ng Pilipinas* (BSP);

[(2) Sale of raw materials or packaging materials to a nonresident buyer for delivery to a resident local export-oriented enterprise to be used in manufacturing, processing, packing or repacking in the Philippines of the said buyer's goods and paid for in acceptable foreign currency and accounted for in accordance with the rules and regulations of the *Bangko Sentral ng Pilipinas* (BSP);]

[(3) Sale of raw materials or packaging materials to export-oriented enterprise whose export sales exceed seventy percent (70%) of total annual production;]

[(4)] Sale of gold to the BangkoSentralngPilipinas (BSP);]

[(5) Those considered export sales under Executive Order No. 226, otherwise known as the Omnibus Investment Code of 1987, and other special laws; and]

(2[6]) The sale of goods, supplies, equipment and fuel to persons engaged in international shipping or international air transport operations; PROVIDED, THAT THE GOODS, SUPPLIES, EQUIPMENT AND FUEL SHALL BE USED FOR INTERNATIONAL SHIPPING AND AIR TRANSPORT OPERATIONS;

(3) DIRECT EXPORTS BY A REGISTERED EXPORT PRODUCER OF EXPORTS PRODUCTS, OR THE SALES OF EXPORT PRODUCTS TO ANOTHER PRODUCER OR TO AN EXPORT TRADER: PROVIDED, THAT THE LATTER SHALL ONLY BE DEEMED EXPORT SALES WHEN ACTUALLY EXPORTED BY THE LATTER, AS EVIDENCED BY LANDING CERTIFICATES OR SIMILAR COMMERCIAL DOCUMENTS.

(b) Foreign Currency Denominated Sale.- The phrase "foreign currency denominated sale" means sale to a nonresident of goods, except those mentioned in Sections 149 and 150, assembled or manufactured in the Philippines for delivery to a resident in the Philippines, paid for in acceptable foreign currency and accounted for in accordance with the rules and regulations of the *BangkoSentralngPilipinas*(BSP);

(c) Sales to persons or entities whose exemption under [special laws or] international agreements to which the Philippines is a signatory effectively subjects such sales to zero rate; AND

(D) SALE OF GOLD TO THE BANGKO SENTRAL NG PILIPINAS (BSP);

SEC. 13. Section 107 of the National Internal Revenue Code of 1997, as amended, is hereby further amended to read as follows:

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

(A) In General.- There shall be levied, assessed and collected on every importation of goods a value-added tax equivalent to TWELVE [ten] percent (12[10]%) based on the total value used by the Bureau of Customs in determining tariff and customs duties plus customs duties, excise taxes, if any, and other charges, such tax to be paid by the importer prior to the release of such goods from customs custody: Provided, That where the customs duties are determined on the basis of the quantity or volume of the goods, the value-added tax shall be based on the landed cost plus excise taxes, if any. [Provided, further, 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) Value-added tax collection as a percentage of Gross Domestic Product (GDP) of the previous year exceeds two and four-fifth percent (2 4/5%); or

(ii) National government deficit as a percentage of GDP of the previous year exceeds one and one-half percent (1 1/2%)]

(B) Transfer of Goods by Tax-exempt Persons. -

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SEC. 14. Section 108 of the National Internal Revenue Code of 1997, as amended, 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, a value-added tax equivalent to TWELVE [ten] percent (12%) [(10%)] of gross receipts derived from the sale or exchange of services, including the use or lease of properties. [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) Value-added tax collection as a percentage of Gross Domestic Product (GDP) of the previous year exceeds two and four-fifth percent (2 4/5%); or

(ii) National government deficit as a percentage of GDP of the previous year exceeds one and one-half percent (1 1/2%)

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(B) Transactions Subject to Zero Percent (0%) Rate.-The following services performed in the Philippines by VAT-registered persons shall be subject to zero percent (0%) rate.

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[(3) Services rendered to persons or entities whose exemption under [special laws or] international agreements to which the Philippines is a signatory effectively subjects the supply of such services to zero percent (0%) rate;]

[(4) Services rendered to persons engaged in international shipping or international air transport operations, including leases of property for use thereof;]

[(5) Services performed by subcontractors and/or contractors in processing, converting, or manufacturing goods for an enterprise whose export sales exceed seventy percent (70%) of total annual production;]

[3[6]] Transport of passengers and cargo by air or sea vessels from the Philippines to a foreign country;

[(7) Sale of power or fuel generated through renewable sources of energy such as, but not limited to, biomass, solar, wind, hydropower, geothermal, ocean energy, and other emerging energy sources using technologies such as fuel cells and hydrogen fuels.]

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SEC.15. Section 109 of the National Internal Revenue Code of 1997, as amended, 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) Xxx

(B) Xxx;

(C) Xxx;

[(D) Importation of professional instruments and implements, wearing apparel, domestic animals, and personal household effects (except any vehicle, vessel, aircraft, machinery other goods for use in the manufacture and merchandise of any kind in commercial quantity) belonging to persons coming to settle in the Philippines, for their own use and not for sale, barter or exchange, accompanying such persons, or arriving within ninety (90) days before or after their arrival, upon the production of evidence satisfactory to the Commissioner, that such persons are actually coming to settle in the Philippines and that the change of residence is *bona fide*;

(D[E]) Services subject to percentage tax under Title V;

(E[F]) Services by agricultural contract growers and milling for others of palay into rice, corn into grits and sugar cane into raw sugar;

(F[G]) Medical, dental, hospital and veterinary services except those rendered by professionals.

(G[H]) Educational services rendered by private educational institutions, duly accredited by the Department of Education(DepED), the Commission on Higher Education (CHED), the Technical Education and Skills Development Authority (TESDA)and those rendered by government educational institutions;

(H[I]) Services rendered by individuals pursuant to an employer-employee relationship;

(I[J]) Services rendered by regional or area headquarters established in the Philippines by multinational corporations which act as supervisory, communications and coordinating centers for their affiliates, subsidiaries or branches in the Asia-Pacific Region and do not earn or derive income from the Philippines;

(J[K]) Transactionswhich are exempt under international agreements to which the Philippines is a signatory [or under special laws, except those under Presidential Decree No. 529];

[(L) Sales by agricultural cooperatives duly registered with the Cooperative Development Authority to their members [as well as

sale of their produce, whether in its original state or processed form, to non-members]; their importation of direct farm inputs, machineries and equipment, including spare parts thereof, to be used directly and exclusively in the production and/or processing of their produce;]

[(M) Gross receipts from lending activities by credit or multi-purpose cooperatives duly registered with the Cooperative Development Authority;]

[(N) Sales by non-agricultural, non- electric and non-credit cooperatives duly registered with the Cooperative Development Authority: Provided, That the share capital contribution of each member does not exceed Fifteen thousand pesos (P15, 000) and regardless of the aggregate capital and net surplus ratably distributed among the members;]

(L[O]) Export sales by persons who are not VAT-registered;

(M[P]) Sale of real properties not primarily held for sale to customers Nor held for lease in the ordinary course of trade or business [or real property utilized for low-cost and socialized housing as defined by Republic Act No. 7279, otherwise known as the Urban Development and Housing Act of 1992, and other related laws, residential lot valued at One million pesos (P1,500,000) and below, house and lot, and other residential dwellings valued at Two million five hundred thousand pesos (P2, 500, 000) and below: Provided, That not later than January 31, 2009 and every three (3) years thereafter, the amount herein stated shall be adjusted to their present values using the Consumer Price Index, as published by the National Statistics Office (NSO)];

[(Q) Lease of a residential unit with a monthly rental not exceeding Ten thousand pesos (P10, 000): Provided, That not later than January 31, 2009 and every three (3) years thereafter, the amount herein stated shall be adjusted to its present value using the Consumer Price Index as published by the National Statistics Office (NSO);]

(N[R]) Sale, importation, printing or publication of books and any newspaper, magazine review or bulletin which appears at regular intervals with fixed prices for subscription and sale and which is not devoted principally to the publication of paid advertisements;

(O[S]) Transport of passengers by international carriers;

(P[T]) Sale, importation or lease of passenger or cargo vessels and aircraft, including engine, equipment and spare parts thereof for domestic or international transport operations;

[(U) Importation of fuel, goods and supplies by persons engaged in international shipping or air transport operations;]

(Q[V]) Services of bank, non-bank financial intermediaries performing quasi-banking functions, and other non-bank financial intermediaries; and

(R[W]) Sale or lease of goods or properties or the performance of services other than the transactions mentioned in the preceding paragraphs, the gross annual sales and/or receipts do not exceed the amount of FIVE MILLION [One million five hundred thousand] pesos (P5,000,000.00 [P1,500,000]): *Provided*, That not later than January 31, 2018 and every three (3) years thereafter, the amount herein stated shall be adjusted to its present value using the Consumer Price Index, as published by the Philippine Statistics Agency (PSA); and

(R) SALE OF POWER OR FUEL GENERATED THROUGH RENEWABLE SOURCES OF ENERGY SUCH AS, BUT NOT LIMITED TO, BIOMASS, SOLAR, WIND, HYDROPOWER, GEOTHERMAL, OCEAN ENERGY, AND OTHER EMERGING ENERGY SOURCES USING TECHNOLOGIES SUCH AS FUEL CELLS AND HYDROGEN FUELS.

SEC. 16. Section 110 of the National Internal Revenue Code of 1997, as amended, is hereby further amended to read as follows:

SEC. 110. Tax Credits. -

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(B) Excess Output or Input Tax. If at the end of any taxable quarter the output tax exceeds the input tax, the excess shall be paid by the VAT-registered person. IF AT THE END OF THE FIRST THREE TAXABLE QUARTERS, THE INPUT TAX EXCEEDS THE OUTPUT TAX [If the input tax exceeds the output tax], the excess shall be carried over to the succeeding quarter [or quarters]. ANY EXCESS INPUT TAX AT THE END OF THE LAST QUARTER OF THE YEAR SHALL NOT BE CARRIED OVER TO THE SUCCEEDING YEAR, BUT SUCH EXCESS INPUT TAX MAY BE REFUNDED. *Provided, however*, that any input tax attributable to zero-rated sales by a VAT-registered person may at his option be refunded or credited against other internal revenue taxes, subject to the provisions of Section 112.

PROVIDED FURTHER, THE ACCUMULATED EXCESS INPUT TAXES CARRIED OVER FROM PRIOR YEARS TO THE YEAR 2018 MAY BE

CARRIED OVER TO THE SUCCEEDING QUARTER OR QUARTERS OF 2018, PROVIDED THAT SUCH ACCUMULATED INPUT TAX SHALL NOT BE CARRIED OVER TO THE SUCCEEDING YEAR (2019), BUT THE SAME MAY BE REFUNDED AT THE END OF THE LAST TAXABLE QUARTER OF 2018.

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SEC. 17. Chapter 5 of Title V of the National Internal Revenue Code of 1997, as amended, is hereby further amended to read as follows:

CHAPTER V
EXCISE TAX ON PETROLEUM PRODUCTS

SEC. 148. *Manufactured Oils and Other Fuels.*- There shall be collected on refined and manufactured mineral oils and motor fuels, the following excise taxes which shall attach to the goods hereunder enumerated as soon as they are in existence as such:

EFFECTIVE ON JANUARY 1, 2017

(a) Lubricating oils and greases, including but not limited to, basestock for lube oils and greases, high vacuum distillates, aromatic extracts, and other similar preparations, and additives for lubricating oils and greases, whether such additives are petroleum based or not, per liter and kilogram respectively, of volume capacity or weight, TEN [Four] pesos [and fifty centavos] (P10.00 [P4.50]) [*Provided, however, That the excise taxes paid on the purchased feedstock (bunker) used in the manufacture of excisable articles and forming part thereof shall be credited against the excise tax due therefrom: Provided, further, That lubricating oils and greases produced from basestocks and additives on which the excise tax has already been paid shall no longer be subject to excise tax: Provided, finally, That locally produced or imported oils previously taxed as such but are subsequently reprocessed, re-refined or recycled shall likewise be subject to the tax imposed under this Section*].

(b) Processed gas, per liter of volume capacity, SIX PESOS (P6.00) [Five centavos (P0.05)];

(c) Waxes and petrolatum, per kilogram, TEN PESOS (P10.00) [Three pesos and fifty centavos (P3.50)];

(d) On denatured alcohol to be used for motive power, per liter of volume capacity, SIX PESOS (P6.00) [Five centavos (P0.05)]: *Provided, That unless otherwise provided by special laws, if the denatured alcohol is mixed with gasoline, the excise tax on which has already been paid, only the alcohol content shall be subject to the tax herein prescribed. For purposes of this Subsection, the removal of denatured*

alcohol of not less than one hundred eighty degrees (180°) proof (ninety percent (90%) absolute alcohol) shall be deemed to have been removed for motive power, unless shown otherwise;

(e) Naphtha, regular gasoline and other similar products of distillation, per liter of volume capacity, TEN [Four] pesos [and thirty five centavos] (P10.00 [P4.35]): *Provided, however,* That naphtha, when used as a raw material in the production of petrochemical products or as replacement fuel for natural-gas-fired-combined cycle power plant, in lieu of locally-extracted natural gas during the non-availability thereof, subject to the rules and regulations to be promulgated by the Secretary of Energy, in consultation with the Secretary of Finance, per liter of volume capacity, Zero (P0.00): *Provided, further,* That the by-product including fuel oil, diesel fuel, kerosene, pyrolysis gasoline, liquefied petroleum gases and similar oils having more or less the same generating power, which are produced in the processing of naphtha into petrochemical products shall be subject to the applicable excise tax specified in this Section, except when such by-products are transferred to any of the local oil refineries through sale, barter or exchange, for the purpose of further processing or blending into finished products which are subject to excise tax under this Section;

(f) Leaded premium gasoline, per liter of volume capacity, TEN [Five] pesos [and thirty-five centavos] (P10.00 [P5.35]); unleaded premium gasoline, per liter of volume capacity, TEN [Four] pesos [and thirty-five centavos] (P10.00 [P4.35]);

(g) Aviation turbo jet fuel, per liter of volume capacity, TEN [Three] pesos [and sixty-seven centavos] (P10.00 [P3.67]);

(h) Kerosene, per liter of volume capacity, SIX PESOS [Zero](P6.00 [P0.00]): *Provided,* that kerosene, when used as aviation fuel, shall be subject to the same tax on aviation turbo jet fuel under the preceding paragraph (g), such tax to be assessed on the user thereof;

(i) Diesel fuel oil, and on similar fuel oils having more or less the same generating power, per liter of volume capacity, SIX PESOS [zero] (P6.00 [P0.00]);

(j) Liquefied petroleum gas, per liter, SIX PESOS [zero] (P6.00 [P0.00]): *Provided,* that liquefied petroleum gas used for motive power shall be taxed at the equivalent rate as the excise tax on diesel fuel oil;

(k) Asphalts, per kilogram, SIX PESOS [Fifty-six centavos] (P6.00 [P0.56]); and

(l) Bunker fuel oil, and on similar fuel oils having more or less the same generating power, per liter of volume capacity, SIX PESOS [zero](P6.00 [P0.00]).

"PROVIDED, HOWEVER, THAT THE EXCISE TAXES PAID ON THE PURCHASED FEEDSTOCK (BUNKER) USED IN THE MANUFACTURE OF EXCISABLE ARTICLES AND FORMING PART THEREOF SHALL BE CREDITED AGAINST THE EXCISE TAX DUE THEREFROM[:],

"PROVIDED, FURTHER, THAT LUBRICATING OILS AND GREASES PRODUCED FROM BASESTOCKS AND ADDITIVES ON WHICH THE EXCISE TAX HAS ALREADY BEEN PAID SHALL NO LONGER BE SUBJECT TO EXCISE TAX[:],

"PROVIDED, FINALLY, THAT LOCALLY PRODUCED OR IMPORTED OILS PREVIOUSLY TAXED AS SUCH BUT ARE SUBSEQUENTLY REPROCESSED, REREFINED OR RECYCLED SHALL LIKEWISE BE SUBJECT TO THE TAX IMPOSED UNDER THIS SUB[S]SECTION.

"THE TAX RATES IMPOSED UNDER THIS SUBSECTION SHALL BE INCREASED BY TEN PERCENT (10%) EVERY YEAR THEREAFTER EFFECTIVE ON JANUARY 1, 2018 THROUGH REVENUE REGULATIONS ISSUED BY THE SECRETARY OF FINANCE, , UNLESS THE AVERAGE DUBAI CRUDE OIL PRICE IN THE MONTH PRECEEDING THE SCHEDULED INDEXATION EXCEEDS EIGHTY FIVE U.S. DOLLARS (USD 85) PER BARREL.

SEC.18. Chapter 5 of Title VI of the National Internal Revenue Code of 1997, as amended, is hereby further amended to read as follows:

CHAPTER VI – EXCISE TAX ON MISCELLANEOUS ARTICLES

SEC. 19. Automobiles¹⁰³There shall be levied, assessed and collected an ad valorem tax on automobiles based on the manufacturer's or importer's selling price, net of excise and value-added tax, in accordance with the following schedule:

Net manufacturer's price/importer's selling price	Rate
Up to P600 Thousand	5% [2%]
Over P600 Thousand to P1.1 million	[P12, 000 +] 20% of NET MANUFACTURING/IMPORTATION PRICE [value in excess of P600 thousand]

¹⁰³As amended by RA 9224 and implemented by RR 25-03. See RMC 60-03 for clarification on issues pertaining to the imposition of excise tax on automobiles pursuant to RA 9224.

Over P1.1 Million to P2.1 Million	[P112, 000 +] 40% of NET MANUFACTURING/IMPORTATION PRICE [value in excess of P1.1 Million]
Over P2.1 Million	[P512,000 +] 60% of NET MANUFACTURING/IMPORTATION PRICE [value in excess of P2.1 Million]

Provided, That the brackets reflecting the manufacturer's price or importer's selling price, net of excise and value-added taxes, will be indexed by the Secretary of Finance once every two (2) years if the change in the exchange rate of the Philippine peso against the United States (U.S.) dollar is more than ten percent (10%) from the date of effectivity of this Act, in the case of initial adjustment and from the last revision date in the case of subsequent adjustments.

The manufacturer's price or importer's selling price, net of excise and value-added taxes, shall be indexed by the full rate of the peso depreciation or appreciation, as the case may be.

Provided, further, that in case the change in the exchange rate of the Philippine peso against the U.S. dollar is at least twenty percent (20%) at anytime within the two-year period referred to above, the Secretary of Finance shall index the brackets reflecting the manufacturer's price or importer's selling price, net of excise and value-added taxes, by the full rate of the peso depreciation or appreciation, as the case may be.

As used in this Section -

(a) Automobile shall mean any four (4) or more wheeled motor vehicle regardless of seating capacity, which is propelled by gasoline, diesel, electricity or any other motive power: *Provided,* That for purposes of this Act, buses, trucks, cargo vans, jeeps/jeepneys/jeepney substitutes, single cab chassis, and special-purpose vehicles shall not be considered automobiles.

(b) Truck/cargo van shall mean a motor vehicle of any configuration that is exclusively designed for the carriage of goods and with any number of wheels and axles: *Provided,* That pick-ups shall not be considered as trucks.

(c) Jeep/jeepney/jeepney substitutes shall mean as "Philippine jeep or jeepney" which are of the jitney type locally designed and manufactured generally from surplus parts and components. It shall also include jeepney

substitutes that are manufactured from brand-new single cab chassis or cowl chassis and locally customized rear body that has continuous sideways row seats with open rear door and without retractable glass windows.

(d) Bus shall mean a motor vehicle of any configuration with gross vehicle weight of 4.0 tons or more with any number of wheels and axles, which is generally accepted and specially designed for mass or public transportation.

(e) Single cab chassis shall mean a motor vehicle with complete engine power train and chassis equipped with a cab that has a maximum of two (2) doors and only one (1) row of seats.

(f) Special purpose vehicle shall mean a motor vehicle designed for specific applications such as cement mixer, fire truck, boom truck, ambulance and/or medical unit, and off-road vehicles for heavy industries and not for recreational activities.

Provided, That in the case of imported automobiles not for sale, the tax imposed herein shall be based on the total landed value, including transaction value, customs duty and all other charges. Automobiles used exclusively within the freeport zone shall be exempt from excise tax.

Sec. 20. Section 288 of the National Internal Revenue Code of 1997, as amended, is hereby further amended to read as follows:

- A. Xxx
- B. Xxx
- C. Xxx
- D. Xxx
- E. Xxx

F. **EARMARKING OF INCREMENTAL REVENUES FROM THE TAX REFORM FOR ACCELERATION AND INCLUSION ACT.** TWENTY FIVE PERCENT (25%) OF THE INCREMENTAL REVENUES GENERATED FROM THE PETROLEUM EXCISE TAX UNDER SECTION XX OF THIS ACT SHALL BE ALLOCATED TO FUND HIGHLY TARGETED SUBSIDY PROGRAMS IN THE FIRST THREE YEARS FROM THE EFFECTIVITY OF THIS ACT. AN INTER-AGENCY COMMITTEE COMPOSED OF THE DEPARTMENT OF SOCIAL WELFARE AND DEVELOPMENT, DEPARTMENT OF FINANCE AND THE DEPARTMENT OF BUDGET AND MANAGEMENT SHALL PREPARE THE SUBSIDY PROGRAMS.

THE REMAINING SEVENTY-FIVE PERCENT (75%) SHALL BE ALLOCATED FOR OTHER SOCIAL AND INFRASTRUCTURE EXPENDITURES. *PROVIDED*, THAT THE REVENUES FROM THIS ACT SHALL ACCRUE TO THE GENERAL FUND AFTER THE THREE-YEAR PERIOD.

THE INTER-AGENCY COMMITTEE SHALL ISSUE RULES AND REGULATIONS GOVERNING THE ALLOCATIONS AND DISBURSEMENT OF INCREMENTAL REVENUES REFERRED TO IN THIS PARAGRAPH.

SEC. 21. *Implementing Rules and Regulation.*— The Secretary of Finance shall, upon the recommendation of the Commissioner of Internal Revenue, promulgate upon the effectivity of this Act the necessary Rules and Regulations for its effective implementation.

SEC.22. *Separability Clause.*— If any provision of this Act is subsequently declared invalid or unconstitutional, other provisions hereof which are not affected thereby shall remain in full force and effect.

SEC. 23. *Repealing Clause.*— The following laws or provisions of laws are hereby repealed and the persons and/or transactions affected herein are made subject to the value-added Tax subject to the provision of Title IV of the National Internal Revenue Code of 1997, as amended:

- (a) Section 4 of R.A. 9994 or the Expanded Senior Citizens Act of 2010, pertaining to the value-added tax exemption;
- (b) Section 32(a) of R.A. 7277, as amended by R.A. 10754 or the Magna Carta for Persons with Disability;
- (c) Section 9, with respect to Value-added Tax, or R.A. 9511 or the National Grid Corporation of the Philippines Act;
- (d) Article 61(2)(b) of R.A. 9520 or the Philippine Cooperative Code of 2008;
- (e) Section 4(a) and (b) of R.A. 9295 or the Domestic Shipping Development Act of 2004;
- (f) Section 11(a) and (b) of R.A. 10073 or the Girl Scout of the Philippines Charter of 2009;
- (g) Section 13(1), with respect to Value-added Tax, or P.D. 1869 s. 1983.
- (h) Last paragraph of Section 8 of RA 7278 or the Boy Scout of the Philippines with respect to Value-added tax.

Provided further, the following special provisions under specific laws are hereby repealed:

- (a) Section 33(A) of R.A. 7277, as amended by R.A. 10754 or the Magna Carta for Persons with Disabilities; and

(b) Section 22(B) of R.A. 10165 or the Foster Care Act of 2012.

(c) Section 4 or RA 1169 or "An Act Providing For Charity Sweepstakes, Horse Races and Lotteries"

All other laws, acts, presidential decrees, executive orders, issuances, presidential proclamations, 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 25. *Effectivity Clause.*— This Act shall take effect fifteen (15) days after its complete publication in the Official Gazette or in at least two (2) newspapers of general circulation.

Approved.