

Republic of the Philippines
HOUSE OF REPRESENTATIVES
Quezon City

Nineteenth Congress
First Regular Session



House Bill No. **7143**

Introduced by Representatives Joey Sarte Salceda, Mikaela Angela B. Suansing, Alfelito M. Bascug, and Milagros A. Magsaysay

AN ACT
CREATING A VAT REFUND MECHANISM FOR NON-RESIDENT TOURISTS,
ADDING FOR THE PURPOSE A NEW SECTION 109-A TO THE NATIONAL
INTERNAL REVENUE CODE, AS AMENDED

EXPLANATORY NOTE

The Philippines remains one of the few major Asia-Pacific tourist destinations without a working tourist VAT refund mechanism. Only India and Cambodia are the other countries in the top 15 tourist destinations in Asia-Pacific with this gap in procedure. This reduces the country's competitiveness among its peer and neighbor countries.

While the President has approved the proposal of the Private Sector Advisory Council to institute a VAT refund system for tourist purchases, the National Internal Revenue Code of 1997, as amended, does not yet provide for a legal basis for such a system.

The lack of such a system, as well as a standing legal basis for it, foregoes gross value-added in the tourism sector. Renata (2010) found that high VAT rates on tourists have significant negative effects on consumption volume for hotels and restaurants. Due to high elasticities in the tourism sector, it appears that for every 1% in unrefunded VAT, the reduction in tourist consumption in hotels and restaurants is 1.5%.¹

¹ Endres, Renata. (2010). Impact Of Value Added Tax On Tourism. International Business & Economics Research Journal (IBER). 9. 10.19030/iber.v9i10.646.

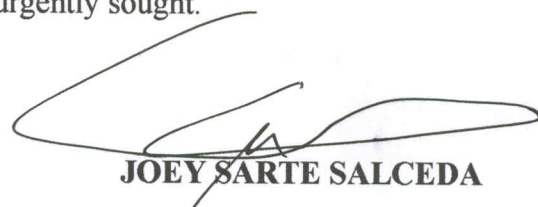
The credibility of the VAT refund system appears to affect the destination choices of shopping-focused tourists.² This is particularly the case for Australia, where a credible VAT refund system has created a tourist shopping industry.

This proposal seeks to adopt best practices in VAT refund mechanisms among major Asia-Pacific tourism destinations. For example, most revenue authorities allow a full rebate, but charge a service fee paid to the collecting and refunding agent. Revenue authorities also typically employ an agent, who collects a service fee of between 0.8-6% of the total sale. Most revenue authorities also require a minimum purchase value to process a refund application.

The bill requires that the total value of goods purchased per transaction should be P2,000, and should be shipped out within 60 days of purchase. It also allows that a service agent be designated to administer the tax refund system on behalf of the government.

This measure is expected to increase annual tourist expenditures on shopping from P59 billion to P69.62 billion, which offsets VAT expenditures of around P7.08 billion, assuming the same tourist base. Further, a simulated model shows that tourist spending on shopping, accounting for increased tourist arrivals because of the refund system, will increase to P76.58 billion, or a total increase of P17.6 billion in tourist sales, representing a growth by 29.8%

In view of the foregoing, the approval of this bill is urgently sought.



JOEY SARTE SALCEDA



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² Tingting, Wang and Stewart, Miranda, The Law and Policy of VAT Tourist Tax Refund Schemes: A Comparative Analysis (November 19, 2021). Tax and Transfer Policy Institute, working paper 19/2021, Available at SSRN: <https://ssrn.com/abstract=3969488> or <http://dx.doi.org/10.2139/ssrn.3969488>

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INTERNAL REVENUE CODE, AS AMENDED

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

SECTION 1. A new Section 109-A is hereby inserted after Section 109 of the National Internal Revenue Code of 1997, as amended, to read as follows:

“SEC. 109-A. VAT REFUND FOR TOURISTS. – A TOURIST SHALL BE ELIGIBLE FOR A VALUE-ADDED TAX (VAT) REFUND ON GOODS PURCHASED IN THE PHILIPPINES IF SUCH GOODS ARE SHIPPED OR TAKEN OUT OF THE COUNTRY WITHIN SIXTY (60) DAYS FROM THE DATE OF PURCHASE, AND THE VALUE OF GOODS PURCHASED PER TRANSACTION AMOUNTS TO AT LEAST TWO THOUSAND PESOS (PHP 2,000.00): PROVIDED, THAT SUCH THRESHOLD MAY BE REASONABLY ADJUSTED TO AN AMOUNT THAT WOULD SUFFICIENTLY COVER THE COST OF ADMINISTERING THE REFUND, AS DETERMINED BY THE SECRETARY OF FINANCE UPON RECOMMENDATION OF THE COMMISSIONER OF INTERNAL REVENUE: PROVIDED FURTHER, THAT THE ADMINISTRATION OF THE REFUND PROCESS MAY BE CONDUCTED THROUGH A SERVICE PROVIDER.

“FOR PURPOSES OF THIS SECTION, A ‘TOURIST’ SHALL REFER TO A NON-RESIDENT INDIVIDUAL ENGAGED IN TRADE OR BUSINESS IN THE PHILIPPINES, WHO COMES TO THE COUNTRY FOR TRAVEL,

RECREATION, LEISURE, OR BUSINESS FOR A PERIOD NOT EXCEEDING THREE (3) MONTHS FOR LEISURE, BUSINESS OR OTHER PURPOSES.”

Sec. 2. *Separability Clause.* – If any provision of this Act is declared unconstitutional, the remaining parts or provision not affected thereby shall remain in full force and effect.

Sec. 3. *Repealing Clause.* – All laws, decrees, executive orders, implementing rules and regulations, issuances, or any part thereof inconsistent with the provisions of this Act are deemed repealed, amended, or modified accordingly.

Sec. 4. *Effectivity.* – This Act shall take effect fifteen (15) days after its publication in the *Official Gazette* or in a newspaper of general circulation.

Approved,