

Republic of the Philippines
HOUSE OF REPRESENTATIVES
Quezon City

TWENTIETH CONGRESS
First Regular Session

House Bill No. 4302



Introduced by Representative Leandro Legarda Leviste

EXPLANATORY NOTE

Since the Expanded Value-Added Tax (VAT) Law increased the VAT from 10% to 12%, VAT collections from the Bureau of Internal Revenue (BIR) and Bureau of Customs (BOC) have increased from P156.67 billion in 2005 to P1.20 trillion in 2024. This measure seeks to reduce the VAT from 12% to 10%, which could reduce VAT collections by over P200 billion or over P7000 per household per year.

To address inflation, which remains the top national concern among Filipinos, reducing the VAT is more efficient than collecting taxes and redistributing the proceeds, as this avoids leakages and saves on administrative costs. There are many ways to offset the foregone revenues of reducing the VAT in the form of reduced government spending or a new tax for only the wealthiest Filipinos. Moreover, the VAT is a regressive tax, which comprises a higher percentage of the income of lower-income than higher-income households, and reducing the VAT lives up to the Constitution's mandate for Congress to impose "a progressive system of taxation".

The Philippines also has the highest Value-Added Tax (VAT) in Southeast Asia at 12%, compared to approximately 11% in Indonesia, 10% in Cambodia, 10% in Vietnam, 9% in Singapore (GST), 7% in Thailand, 7% in Laos, 6% in Malaysia, 5% in Myanmar (Service Tax), and 2.5% in Timor-Leste (Import Tax), and reducing the VAT would make our economy more regionally competitive.

Reducing the VAT could also have a lessened impact on the deficit as this should increase consumption and our country's Gross Domestic Product (GDP), and improve tax compliance. This bill also includes a provision that the President may temporarily revert the VAT to 12% for a given year if the Development Budget Coordination Committee (DBCC)'s projected deficit target as a percentage of GDP exceeds the programmed deficit – thereby giving Congress an incentive to manage spending and decrease the deficit.

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

Leandro Legarda Leviste

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**AN ACT REDUCING THE VALUE-ADDED TAX (VAT) FROM 12% TO 10%,
AMENDING FOR THE PURPOSE 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. Short Title. – This Act shall be known as the “VAT Reduction Act of 2025”.

Section 2. Declaration of Policy. – It is the declared policy of the State to evolve a progressive system of taxation.

Section 3. Amendment to Section 106 (A). – Section 106 (A) of the National Internal Revenue Code of 1997, as amended, is hereby further amended to read as follows:

“Section 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 **ten percent (10%)** of the gross sales 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, may temporarily revert the value-added tax to twelve percent (12%) for a given year upon the recommendation of the Secretary of Finance if the projected deficit target as a percentage of Gross Domestic Product (GDP) exceeds the programmed deficit, as determined by the Development Budget Coordination Committee (DBCC) in the preceding year, based on the Annual Review of the Medium Term Fiscal Program.**”

Section 4. Amendment to Section 107 (A). – Section 107 (A) of the National Internal Revenue Code of 1997, as amended, is hereby further amended to read as follows:

“Section 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 **ten percent (10%)** based on the total value used by the Bureau of

Customs in determining tariff and 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 studies 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, That the President, upon the recommendation of the Secretary of Finance, may temporarily revert the value-added tax to twelve percent (12%) for a given year upon the recommendation of the Secretary of Finance if the projected deficit target as a percentage of GDP exceeds the programmed deficit, as determined by the DBCC in the preceding year, based on the Annual Review of the Medium Term Fiscal Program.**”

Section 5. Amendment to Section 108 (A). – Section 108 (A) of the National Internal Revenue Code of 1997, as amended, is hereby further amended to read as follows:

“Section 108. Value-added Tax on Sale of Services, Including Digital Services, and the Use or Lease of Properties. -

(A) Rate and Base of Tax. - There shall be levied, assessed and collected, a value-added tax equivalent to **ten percent (10%)** of the gross sales derived from the sale or exchange of services, including digital services, and the use or lease of properties: **Provided, That the President, upon the recommendation of the Secretary of Finance, may temporarily revert the value-added tax to twelve percent (12%) for a given year upon the recommendation of the Secretary of Finance if the projected deficit target as a percentage of GDP exceeds the programmed deficit, as determined by the DBCC in the preceding year, based on the Annual Review of the Medium Term Fiscal Program.**”

Section 6. Implementing Rules and Regulations. – The Secretary of Finance, upon the recommendation of the Commissioner of Internal Revenue, shall promulgate the necessary rules and regulations within sixty (60) days from the effectivity of this Act.

Section 7. Separability Clause. – If any provision of this Act is declared invalid or unconstitutional, the other provisions not affected thereby shall remain in full force and effect.

Section 8. Repealing Clause. – All laws, decrees, executive orders, letters of instructions, proclamations, or administrative regulations that are inconsistent with the provisions of this Act are hereby repealed, amended, or modified accordingly.

Section 9. Effectivity. – This Act shall take effect fifteen (15) days after its publication in the Official Gazette or in a newspaper of general circulation.

Approved,