



Republic of the Philippines
HOUSE OF REPRESENTATIVES
Quezon City



TWENTIETH CONGRESS
First Regular Session

House Bill No. 5518

Introduced by Representative Nelson S. Legacion
Third Congressional District, Camarines Sur

EXPLANATORY NOTE

At present, the Philippines maintains the highest Value-Added Tax (VAT) rate in Southeast Asia at twelve percent (12%). This rate is significantly higher compared to our regional counterparts, such as Indonesia (11%), Cambodia and Vietnam (10%), Singapore (9% Goods and Services Tax), Thailand and Laos (7%), and Malaysia (6%). Reducing the VAT rate is a critical step towards leveling the economic playing field and making the Philippines a more attractive destination for consumers and investors alike.

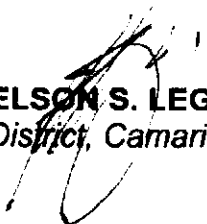
This reduction is fundamentally designed to provide immediate, tangible relief to consumers, effectively increasing their disposable income and purchasing power. The resultant surge in overall consumption is strongly projected to positively influence the country's Gross Domestic Product (GDP). Moreover, a lower, more palatable rate can potentially improve tax compliance, thereby helping to mitigate the initial impact of the rate reduction on the government's fiscal deficit. A reduced VAT rate serves as a powerful, direct form of economic stimulus, ultimately benefiting the broader economy and populace.

In light of recent government expenditure controversies, particularly those related to flood control scandals, this tax relief measure is essential for restoring taxpayer confidence. The public's willingness to comply with tax laws is intrinsically linked to the belief that their contributions are managed judiciously. By responsibly reducing the broad-based VAT, the government signals a commitment to easing the burden on the majority. Moreover, to ensure equity in the tax system, the proponent is actively studying and developing a companion bill for a Wealth Tax, aimed at having the most capable members of society contribute their fair share, thereby proving that tax reform is not merely about collection, but about justice and fiscal responsibility.

Furthermore, this bill seeks to amend the National Internal Revenue Code (NIRC) of 1997 by removing the restrictive clauses in Sections 106 (A), 107 (A),

and 108 (A). These clauses currently allow the President to temporarily revert the VAT rate back to 12% based on projected deficit targets exceeding the programmed deficit. The retention of this "sunset provision" creates economic uncertainty and undermines the stability intended by a lower rate. Removing these clauses will ensure the permanency of the reduced VAT rate, providing a more stable and predictable tax environment crucial for long-term business planning and sustained economic confidence.

In view of the indispensable role of predictable tax policy in achieving national competitiveness, the urgent need to stimulate the domestic economy, and the necessity of ensuring a stable tax policy, the immediate passage of this proposed measure is earnestly sought.


NELSON S. LEGACION
Representative, Third District, Camarines Sur



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AN ACT REDUCING THE VALUE-ADDED TAX (VAT) FROM TWELVE PERCENT (12%) TO TEN PERCENT (10%) AMENDING FOR THE PURPOSE THE NATIONAL INTERNAL REVENUE CODE (NIRC) OF 1997, AS AMENDED AND FOR OTHER PURPOSES

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

SECTION 1. Short Title. - This Act shall be known as the "VAT Reduction Act".

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 NIRC 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.

SECTION 4. Amendment to Section 107 (A). - Section 107 (A) of the NIRC of 1997, as amended, is hereby further amended to read as follows:

"Section 107. *Value-Added Tax on Importation of Goods.* -

(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.

SECTION 4. *Amendment to Section 107 (A).* - Section 107 (A) of the NIRC 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:

SECTION 5. *Amendment to Section 108 (A).* - Section 108 (A) of the NIRC 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.

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 ninety (90) 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,