

Republic of the Philippines
HOUSE OF REPRESENTATIVES
Quezon City, Metro Manila

TWENTIETH CONGRESS
First Regular Session

HOUSE BILL NO. **6965**



Introduced by **REP. NATHANIEL “Atty. Nat” M. ODUCAO**

EXPLANATORY NOTE

The illegal importation, manufacture, sale, distribution, and possession of cigarettes have become a serious and persistent problem that undermines public revenue, weakens tax administration, distorts fair competition, and threatens public health. Despite the enactment of laws regulating excise-taxed products and modernizing customs administration, illicit cigarette trade has continued to expand in scale and sophistication, allowing criminal networks to profit at the expense of the government and law-abiding businesses.

Recent data illustrate the magnitude of the problem. The share of illicit cigarettes in the Philippine market increased from approximately 7.4 percent in 2021 to about 18.4 percent by the end of 2024, with projections indicating that illegal cigarettes may account for as much as 21 percent of total cigarette sales nationwide. In certain provinces, illicit cigarette penetration has reached extremely high levels, reflecting the presence of organized and well-financed smuggling operations. These figures demonstrate that illicit cigarette trade is no longer isolated or incidental, but systemic and widespread.

The economic consequences of illicit cigarette trade are substantial. Excise tax collections from tobacco products reportedly declined from approximately ₱176 billion in 2021 to about ₱134 billion in 2024, resulting in revenue losses exceeding ₱40 billion within a short period. Annual revenue losses attributable to cigarette smuggling are estimated at no less than ₱50 billion, with cumulative losses projected to rise further if left unchecked. These foregone revenues directly impair the government’s ability to fund essential public services, including health care programs, education, and social protection initiatives.

Illicit cigarette trade also undermines public health objectives. The widespread availability of untaxed and unregulated cigarettes weakens the intended impact of excise taxes as a deterrent to smoking and has been associated with a reversal of declining smoking rates. Reports indicate a recent increase in smoking prevalence, including among the youth, driven in part by the accessibility and low cost of illegal tobacco products. This trend places additional strain on the public health system and erodes gains achieved through tobacco control policies.

While the National Internal Revenue Code of 1997, as amended, penalizes unlawful acts involving excise-taxed articles, and Republic Act No. 10863, otherwise known as the Customs Modernization and Tariff Act (CMTA), provides for the regulation of importations and the classification of prohibited goods, experience has shown that the existing legal framework remains inadequate to effectively deter large-scale and organized cigarette smuggling. Criminal syndicates frequently exploit enforcement gaps between tax and customs authorities, treat existing fines and

¹ Philstar (2025) Defying the odds. Available at <https://www.philstar.com/opinion/2025/11/14/2487142/defying-odds> (last accessed December 14, 2025)

penalties as part of the cost of doing business, and continue operations with relative impunity. Moreover, the absence of explicit statutory recognition of organized cigarette smuggling as a grave economic offense limits the deterrent effect of current laws and constrains enforcement agencies in dismantling sophisticated smuggling networks.

This bill seeks to address these gaps by strengthening and harmonizing the enforcement mechanisms under the National Internal Revenue Code and the Customs Modernization and Tariff Act. It introduces clearer and more proportionate penalties based on the quantity of cigarettes involved, imposes significantly higher sanctions for organized and large-scale smuggling, and holds leaders, financiers, and masterminds criminally accountable regardless of the volume seized. It further expressly classifies organized and large-volume illicit cigarette trade as economic sabotage, reflecting the serious and lasting harm it inflicts on the national economy and public welfare.

In addition, the measure reinforces the customs framework under Republic Act No. 10863 by expressly declaring cigarettes and other tobacco products imported in violation of tax and excise laws as prohibited importations subject to seizure and forfeiture. It strengthens enforcement by expanding the authority of law enforcement agencies, enhancing inter-agency coordination among the Bureau of Internal Revenue, the Bureau of Customs, and the Philippine National Police, and ensuring that enforcement actions are not unduly hindered by procedural gaps. The bill also provides for forfeiture of illicit goods and instrumentalities, perpetual disqualification from tobacco-related businesses for organized offenders, recognition of corporate criminal liability, and the imposition of administrative sanctions, all of which are designed to disrupt organized smuggling operations and prevent repeat offenses.

By aligning penalties with the true scale of harm caused by illicit cigarette trade and reinforcing the enforcement mechanisms under both tax and customs laws, this proposed measure seeks to protect government revenues, promote fair competition, and advance public health objectives. Ultimately, it affirms the State's commitment to effective tax administration, strong customs enforcement, and the protection of the public interest.

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



REP. NATHANIEL "ATTY. NAT" M. ODUCADO
1 Tahanan Party List

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HOUSE BILL NO. **6965**

Introduced by **REP. NATHANIEL “ATTY. NAT” M. ODUCCADO**

AN ACT PRESCRIBING STIFFER PENALTIES FOR THE ILLEGAL IMPORT TRADE AND SMUGGLING OF CIGARETTES AND OTHER TOBACCO PRODUCTS, AND AMENDING FOR THE PURPOSE THE NATIONAL INTERNAL REVENUE CODE OF 1997, AS AMENDED, AND REPUBLIC ACT NO. 10863, OTHERWISE KNOWN AS THE CUSTOMS MODERNIZATION AND TARIFF ACT

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

1 **SECTION 1. Short Title.** – This Act shall be known as the “*Anti-Illicit Cigarette Import*
2 *Trade and Smuggling Act of 2025.*”

3 **SEC. 2. Declaration of Policy.** – It is hereby declared the policy of the State to protect
4 public revenue, ensure fair competition, and promote public health by preventing and penalizing
5 the illegal importation, manufacture, sale, distribution, and possession of cigarettes. Toward this
6 end, the State shall impose clear, proportionate, and deterrent penalties, with enhanced sanctions
7 for organized and large-scale illicit cigarette trade, while upholding due process and effective tax
8 administration.

9 **SEC. 3.** Section 263 of the National Internal Revenue Code of 1997, as amended, is hereby
10 further amended to read as follows:

11 ~~[Section 263. Unlawful Possession or Removal of Articles Subject to Excise Tax~~
12 ~~without Payment of the Tax. — Any person who owns and/or is found in possession of imported~~
13 ~~articles subject to excise tax, the tax on which has not been paid in accordance with law, or~~
14 ~~any person who owns and/or is found in possession of imported tax-exempt articles other than~~
15 ~~those to whom they are legally issued shall be punished by:~~

16 **“SEC. 263. UNLAWFUL POSSESSION OR REMOVAL OF ARTICLES SUBJECT**
17 **TO EXCISE TAX. — ANY PERSON WHO SHALL IMPORT, MANUFACTURE, SELL,**
18 **OFFER FOR SALE, DISTRIBUTE, TRANSPORT, STORE, OR POSSESS CIGARETTES**
19 **SUBJECT TO EXCISE TAX WITHOUT FULL PAYMENT OF THE EXCISE TAX DUE,**
20 **OR WITHOUT THE PRESCRIBED EXCISE TAX STAMPS, OR WITHOUT LAWFUL**

1 AUTHORITY, WHETHER SUCH CIGARETTES ARE LOCALLY MANUFACTURED
2 OR IMPORTED, SHALL BE CRIMINALLY LIABLE UNDER THIS CODE.

3 *PROVIDED, THAT THE POSSESSION OF CIGARETTES NOT BEARING THE*
4 *PRESCRIBED EXCISE TAX STAMPS SHALL CONSTITUTE PRIMA FACIE*
5 *EVIDENCE, SUBJECT TO REBUTTAL, OF A VIOLATION OF THIS SECTION;*

6 *PROVIDED, FURTHER, THAT THE BURDEN OF PROVING LAWFUL*
7 *PAYMENT OF EXCISE TAX OR LAWFUL AUTHORITY SHALL REST UPON THE*
8 *PERSON IN POSSESSION THEREOF."*

9 SEC. 4. Section 265 of the National Internal Revenue Code of 1997 is hereby amended by
10 adding new subsections to read as follows:

11 **"SEC. 265. OFFENSES RELATING TO ARTICLES SUBJECT TO EXCISE TAX. —**

12 a) **BASIC OFFENSES AND PENALTIES. — ANY PERSON WHO IS FOUND**
13 **GUILTY OF THE ILLEGAL IMPORTATION, MANUFACTURE, SALE,**
14 **DISTRIBUTION, TRANSPORT, OR POSSESSION OF CIGARETTES**
15 **SHALL, IN ADDITION TO THE PAYMENT OF ALL TAXES, DUTIES,**
16 **AND CHARGES DUE, SUFFER THE FOLLOWING PENALTIES:**

17
18 1) **WHERE THE QUANTITY INVOLVED DOES NOT EXCEED TEN**
19 **THOUSAND (10,000) PACKS, IMPRISONMENT OF SIX (6)**
20 **MONTHS AND ONE (1) DAY TO TWO (2) YEARS, AND A FINE**
21 **OF NOT LESS THAN FIVE HUNDRED THOUSAND PESOS**
22 **(P500,000) BUT NOT MORE THAN TWO MILLION PESOS**
23 **(P2,000,000);**

24 2) **WHERE THE QUANTITY INVOLVED EXCEEDS TEN**
25 **THOUSAND (10,000) PACKS BUT DOES NOT EXCEED FIFTY**
26 **THOUSAND (50,000) PACKS, IMPRISONMENT OF TWO (2)**
27 **YEARS AND ONE (1) DAY TO SIX (6) YEARS, AND A FINE OF**
28 **NOT LESS THAN TWO MILLION PESOS (P2,000,000) BUT NOT**
29 **MORE THAN TEN MILLION PESOS (P10,000,000);**

30 3) **WHERE THE QUANTITY INVOLVED EXCEEDS FIFTY**
31 **THOUSAND (50,000) PACKS, IMPRISONMENT OF SIX (6) YEARS**
32 **AND ONE (1) DAY TO TWELVE (12) YEARS, AND A FINE OF**
33 **NOT LESS THAN TEN MILLION PESOS (P10,000,000) BUT NOT**
34 **MORE THAN FIVE (5) TIMES THE AMOUNT OF EXCISE TAX**
35 **EVADED, WHICHEVER IS HIGHER.**

36
37 b) **ORGANIZED SMUGGLING OF CIGARETTES. — ORGANIZED**
38 **SMUGGLING SHALL BE DEEMED PRESENT WHEN THE ILLEGAL**
39 **IMPORTATION, MANUFACTURE, SALE, DISTRIBUTION,**
40 **TRANSPORT, OR POSSESSION OF CIGARETTES IS COMMITTED**
41 **UNDER ANY OF THE FOLLOWING CIRCUMSTANCES:**

- 1) BY TWO (2) OR MORE PERSONS ACTING IN CONCERT FOR PROFIT OR AS PART OF A CONTINUING SCHEME;
- 2) THROUGH THE USE OF DUMMY PERSONS, FRONT BUSINESSES, OR JURIDICAL ENTITIES;
- 3) INVOLVING MULTIPLE SHIPMENTS OR REPEATED TRANSACTIONS WITHIN A TWELVE (12)-MONTH PERIOD; OR
- 4) THROUGH THE USE OF FRAUDULENT DOCUMENTATION, CONCEALMENT, MISDECLARATION, OR TRANSSHIPMENT SCHEMES.

PROVIDED, THAT THE PRESENCE OF ANY ONE OF THE FOREGOING CIRCUMSTANCES SHALL BE SUFFICIENT TO ESTABLISH ORGANIZED SMUGGLING.

- c) **PENALTIES FOR ORGANIZED SMUGGLING. — WHEN THE OFFENSE INVOLVES ORGANIZED SMUGGLING, REGARDLESS OF THE QUANTITY OF CIGARETTES INVOLVED, THE OFFENDER SHALL SUFFER THE PENALTY OF IMPRISONMENT OF TWELVE (12) YEARS AND ONE (1) DAY TO TWENTY (20) YEARS, AND A FINE OF NOT LESS THAN TWENTY MILLION PESOS (₱20,000,000) BUT NOT MORE THAN TEN (10) TIMES THE AMOUNT OF EXCISE TAX EVADED, WHICHEVER IS HIGHER.**

PROVIDED, FURTHER, THAT THE PENALTIES UNDER THIS SUBSECTION SHALL BE IMPOSED IN LIEU OF THE PENALTIES UNDER SUBSECTION (A).

- d) **LEADERS, FINANCIERS, AND MASTERMINDS. — ANY PERSON WHO ORGANIZES, FINANCES, DIRECTS, MANAGES, OR EXERCISES CONTROL OVER AN ORGANIZED SMUGGLING OPERATION SHALL SUFFER THE MAXIMUM PENALTY PRESCRIBED UNDER SUBSECTION (C), REGARDLESS OF THE QUANTITY OF CIGARETTES INVOLVED.**

- e) **FORFEITURE AND PERPETUAL DISQUALIFICATION. — IN ALL CASES ARISING UNDER THIS SECTION, THE CIGARETTES, RAW MATERIALS, MACHINERY, TOOLS, CONVEYANCES, VESSELS, AIRCRAFT, VEHICLES, WAREHOUSES, EQUIPMENT, AND PROCEEDS USED IN OR DERIVED FROM THE COMMISSION OF THE OFFENSE SHALL BE FORFEITED IN FAVOR OF THE GOVERNMENT.**

FURTHERMORE, ANY PERSON CONVICTED OF ORGANIZED SMUGGLING SHALL BE PERPETUALLY DISQUALIFIED FROM

1 ENGAGING, DIRECTLY OR INDIRECTLY, IN ANY BUSINESS
2 INVOLVING CIGARETTES OR OTHER TOBACCO PRODUCTS.

3
4 f) **ECONOMIC SABOTAGE - THE ILLEGAL IMPORTATION,**
5 **MANUFACTURE, SALE, DISTRIBUTION, TRANSPORT, OR**
6 **POSSESSION OF CIGARETTES SHALL BE CONSIDERED ECONOMIC**
7 **SABOTAGE, IN ACCORDANCE WITH PREVAILING PENAL LAWS**
8 **AND JURISPRUDENCE, WHEN COMMITTED THROUGH**
9 **ORGANIZED SMUGGLING AS DEFINED UNDER SUBSECTION (B),**
10 **OR WHEN THE QUANTITY INVOLVED EXCEEDS FIFTY THOUSAND**
11 **(50,000) PACKS.”**

12
13 **ANY PERSON FOUND GUILTY OF ECONOMIC SABOTAGE UNDER**
14 **THIS SUBSECTION SHALL SUFFER THE PENALTY OF LIFE**
15 **IMPRISONMENT AND A FINE OF NOT LESS THAN TWENTY**
16 **MILLION PESOS (P20,000,000) BUT NOT MORE THAN TEN (10) TIMES**
17 **THE AMOUNT OF EXCISE TAX EVADED, WHICHEVER IS HIGHER.**

18
19 **THE OFFENSE OF ECONOMIC SABOTAGE UNDER THIS**
20 **SUBSECTION SHALL BE NON-BAILABLE WHEN THE EVIDENCE OF**
21 **GUILT IS STRONG.**

22
23 **THE PENALTIES HEREIN SHALL BE IMPOSED IN ADDITION TO**
24 **THE PAYMENT OF ALL TAXES, DUTIES, AND CHARGES DUE, AND**
25 **THE FORFEITURE OF THE CIGARETTES, CONVEYANCES,**
26 **MACHINERY, EQUIPMENT, AND PROCEEDS INVOLVED.”**

27 **SEC. 5.** Section 1113 of Republic Act No. 10863 is hereby amended by adding a new
28 paragraph to read as follows:

29 **“CIGARETTES AND OTHER TOBACCO PRODUCTS IMPORTED IN**
30 **VIOLATION OF THE NATIONAL INTERNAL REVENUE CODE OF 1997, AS**
31 **AMENDED, INCLUDING THOSE WITHOUT PAYMENT OF EXCISE TAX OR**
32 **WITHOUT THE PRESCRIBED EXCISE TAX STAMPS, SHALL BE DEEMED**
33 **PROHIBITED IMPORTATIONS AND SHALL BE SUBJECT TO SEIZURE,**
34 **FORFEITURE, AND THE PENALTIES PRESCRIBED UNDER THIS ACT.**

35 **FOR THIS PURPOSE, THE PHILIPPINE NATIONAL POLICE (PNP) IS**
36 **HEREBY AUTHORIZED TO ACT AS AN IMPLEMENTING AND ENFORCING**
37 **AUTHORITY WITH RESPECT TO THE DETECTION, SEIZURE, AND**
38 **CONFISCATION OF SUCH PROHIBITED IMPORTATIONS, AND MAY EXERCISE**
39 **SUCH AUTHORITY INDEPENDENTLY AND WITHOUT THE NEED FOR PRIOR**
40 **AUTHORIZATION FROM THE BUREAU OF CUSTOMS, WITHOUT PREJUDICE TO**
41 **COORDINATION WITH THE LATTER AND OTHER CONCERNED AGENCIES,**
42 **SUBJECT TO EXISTING CONSTITUTIONAL SAFEGUARDS AND APPLICABLE**
43 **RULES ON ARREST, SEARCH, AND SEIZURE.”**

1 **SEC. 6. *Corporate Liability.*** - When the offense is committed by a juridical entity, the
2 penalty shall be imposed upon the responsible officers, directors, or employees who knowingly
3 participated in or allowed the commission of the offense, without prejudice to the payment of
4 fines and forfeiture by the corporation.

5 **SEC. 7. *Administrative Sanctions.*** - Without prejudice to criminal prosecution, the
6 Bureau of Internal Revenue may impose administrative penalties, including but not limited to:

- 7 a) suspension or revocation of permits or licenses;
8 b) closure of business establishments; and
9 c) blacklisting from participation in tobacco-related business for repeated
10 violations.

11 **SEC. 8. *Deputization of Customs Officers*** - In coordination with, and without prejudice
12 to, the authority of the Bureau of Customs under existing laws, including the Customs
13 Modernization and Tariff Act, the Commissioner of Internal Revenue is hereby authorized to
14 deputize officers of the Bureau of Customs to assist in the enforcement of this Act. Deputized
15 Customs officers shall have the authority to:

- 16 a) Inspect, seize, or detain cigarettes and related materials suspected to be illegally
17 imported, manufactured, distributed, sold, or possessed;
18 b) Conduct investigations jointly with or in support of the Bureau of Internal
19 Revenue regarding offenses under this Act; and
20 c) Exercise such powers as may be necessary to prevent the commission of offenses
21 under this Act, subject to existing laws and regulations.

22 The rules and procedures for deputization, including the scope, duration, accountability
23 and coordination mechanisms between the Bureau of Internal Revenue and the Bureau of
24 Customs, shall be prescribed in the Implementing Rules and Regulations (IRR) of this
25 Act.

26 **SEC. 9. *Non-Applicability of Probation and Compromise.*** - To the extent permitted
27 under Presidential Decree No. 968, as amended, offenses involving cigarettes under this Act shall
28 not be subject to probation, nor to compromise or settlement, where the quantity involved
29 exceeds ten thousand (10,000) packs or where the offender is a repeat violator.

30 **SEC. 10. *Appropriations.*** - The amount necessary to carry out the provisions of this Act
31 shall be included in the annual General Appropriations Act.

32 **SEC. 11. *Implementing Rules and Regulations.*** - The Secretary of Finance, upon the
33 recommendation of the Commissioner of Internal Revenue, shall promulgate the necessary rules
34 and regulations to implement this Act within sixty (60) days from its effectivity. Such rules and
35 regulations shall include the imposition of administrative sanctions under Section 7, the
36 procedures for the deputization of Bureau of Customs officers under Section 8, coordination with
37 other government agencies in the enforcement of this Act, and such other matters as may be
38 necessary to ensure the effective implementation of this Act.

39 **SEC. 12. *Separability Clause.*** - If any provision of this Act is declared unconstitutional
40 or invalid, the remaining provisions not affected thereby shall continue to be in full force and
41 effect.

1 **SEC. 13. *Repealing Clause.*** - All laws, executive orders, rules, or regulations
2 inconsistent with this Act are hereby repealed or modified accordingly.

3 **SEC. 14. *Effectivity.*** - This Act shall take effect fifteen (15) days after its publication in
4 the *Official Gazette* or in a newspaper of general circulation.

5 *Approved,*