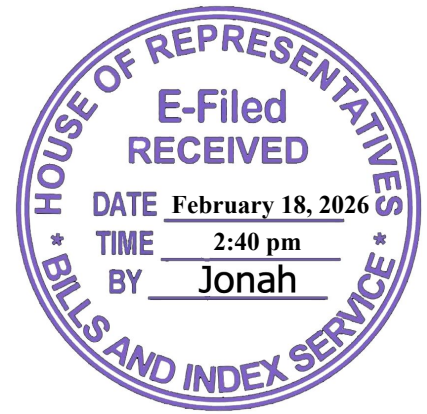


Republic of the Philippines
HOUSE OF REPRESENTATIVES
Quezon City, Metro Manila

TWENTIETH CONGRESS
First Regular Session
House Bill No. 7874



Introduced by Representative
BRIAN POE, PhD, MNSA

AN ACT RATIONALIZING THE WITHHOLDING TAX RATE ON REFINED PETROLEUM PRODUCTS, AMENDING FOR THE PURPOSE SECTION 57 OF THE NATIONAL INTERNAL REVENUE CODE OF 1997, AS AMENDED

EXPLANATORY NOTE

The downstream oil industry plays a vital role in sustaining economic activity in the Philippines. Petroleum products fuel public transportation, power generation, logistics, agriculture, and industrial production. Any distortion in the tax structure affecting this sector inevitably reverberates throughout the economy and impacts consumer prices.

Under current tax regulations, income derived from the sale of refined petroleum products is subject to a one percent (1%) creditable withholding tax (CWT) on gross sales. While intended as an advance collection mechanism, this rate has resulted in a persistent and significant accumulation of excess or unused tax credits among oil industry players. As reflected in audited financial statements in recent years, major oil companies have consistently reported increasing levels of unutilized CWTs due to the mismatch between the withholding rate and their actual income tax liabilities.

The downstream oil industry typically operates on thin margins. The imposition of a relatively high withholding tax on gross sales—rather than net income—creates cash flow constraints that tie up substantial working capital. Funds that could otherwise be deployed for infrastructure investments, storage expansion, logistics modernization, and distribution efficiency remain immobilized in the form of idle tax credits.

This measure seeks to rationalize the withholding tax rate applicable to refined petroleum products by reducing it to a rate not exceeding one-tenth of one percent (0.1%). The proposal does not remove the withholding mechanism; rather, it aligns the rate more closely with the sector's actual tax profile and economic realities.

By easing cash flow pressures, this reform is expected to:

- Improve liquidity within the downstream oil industry;
- Encourage reinvestment in infrastructure and operational efficiency;
- Reduce the need to pass financing costs to consumers; and
- Contribute, over time, to more stable and competitive fuel pricing.

Importantly, the measure does not diminish the government's power to assess and collect income taxes. It merely corrects a structural imbalance in advance withholding that results in excessive credit accumulation.

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


HON. BRIAN POE, PH.D, MNSA
Representative
FPJ Panday Bayanihan Party-List

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

Section 1. Section 57 of the National Internal Revenue Code (NIRC), as amended, is hereby further amended to read as follows:

Sec. 57. Withholding Tax at the Source.

X X X

(B) Withholding of Credible Tax at the Source. – Upon the recommendation of the Commissioner of Internal Revenue, the Secretary of Finance may require any payor corporation or person to withhold tax on income paid to individuals or entities residing in the Philippines, **FOR ITEMS OF INCOME WHERE WITHHOLDING IS AUTHORIZED UNDER EXISTING TAX LAWS.** The amount withheld shall **NOT EXCEED FIFTEEN PERCENT (15%)** of the income and shall be credited against the recipient's income tax liability for the year. Provided, however, that for income derived from the **SALE OF REFINED PETROLEUM PRODUCTS**, the withholding tax **SHALL NOT EXCEED 0.1%.**

Sec. 2. Implementing Rules and Regulations – Within ninety (90) days from the effectivity of this Act, the Department of Finance (DOF), in consultation with the relevant government agencies, shall issue the rules and regulations needed to implement this Act effectively.

Sec. 3. Separability Clause. – If any provision of this Act is declared unconstitutional or invalid, the other provisions not affected thereby shall remain in full force and effect.

Sec. 4. Repealing Clause. - All laws, decrees, orders, rules and regulations, or other issuances or parts thereof inconsistent with the provisions of this Act are hereby repealed and modified accordingly.

Sec. 5. Effectivity. -This Act shall take effect fifteen (15) days after its publication in the Official Gazette or in a newspaper of general circulation.

Approved,


HON. BRIAN POE, PhD, MNSA
Representative
FPJ Panday Bayanihan Party-List