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

SEVENTEENTH CONGRESS
1st Regular Session

House Bill No. 930

Introduced by Hon. Francis Gerald Aguinaldo Abaya

EXPLANATORY NOTE

Fiscal discipline is essential to improve and sustain economic performance, maintain macroeconomic stability and reduce vulnerabilities. It involves the prudent utilization and management of the government's financial resources, balanced by efforts to protect and enhance the revenue base. It is a shared responsibility by both the policymakers, i.e. the legislators, and the implementers of laws.

In recent years, many laws have been passed by Congress, which intentions may be well-meaning but have caused considerable impact on the budget. According to the Department of Finance, the estimated revenue losses from recently-enacted revenue-eroding laws could completely negate the revenue gains from the Reformed VAT Law or RA 9337, the law that saved the country from a serious fiscal crisis in 2005. The fiscal implications of recent revenue-eroding laws exacerbate the impact of the global economic and financial crisis, and the natural disasters that struck us last year. Proof is that for this year, 2010, the country's budget deficit was projected to reach P325 billion or 3.9 percent of GDP.

The proposed bill offers a framework of burden-sharing among the Legislature and the Executive Branches of the government. It aims to foster an atmosphere of mutual respect, coordination and cooperation.

The bill introduces a deficit-neutral measure designed to address the proliferation of unfunded laws. The concept is straightforward: no mandatory spending measure or tax legislation that increases the deficit or reduces revenues shall be passed and take effect without a new revenue-generating or expenditure-reduction measure.

Adopting deficit-neutral rules instill responsible fiscal management by consciously establishing control mechanisms on spending or preventing the erosion of the tax base. They ensure compliance with fiscal targets that are, in the first place, the bases for yearly appropriations approved by Congress.

Coupled with prudent spending and better tax effort, the enactment of the Deficit-Neutral Bill will help contain the budget deficit and attain the targeted ration of two percent (2%) of GDP by 2016 until 2019.

For the foregoing reasons, the approval of this bill is earnestly requested.

FRANCIS GERALD AGUINALDO ABAYA
Representative, First District, Cavite

Republic of the Philippines
HOUSE OF REPRESENTATIVES
Quezon City

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AN ACT INSTILLING FISCAL DISCIPLINE IN THE PUBLIC SECTOR BY ESTABLISHING DEFICIT-NEUTRAL RULES IN LINE WITH THE PRINCIPLE OF RESPONSIBLE FINANCIAL MANAGEMENT AND TOWARDS PROMOTING SUSTAINABLE ECONOMIC GROWTH

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

SECTION 1. ***Declaration of Policy.*** – It is hereby declared a policy of the State to instill fiscal discipline in the public sector along the principles of responsible financial management in order to ensure sufficient resources to finance socio-economic development programs toward overall macroeconomic stability and long-term sustainable growth.

SECTION 2. *Establishment of Deficit-Neutral Rules toward Responsible Financial Management.* – In line with the principles of responsible fiscal management, the State, through the Executive and Legislative Branches of the government, shall adopt deficit-neutral rules that establish control mechanisms on spending and adopt preventive measures again the erosion of the tax base.

Any mandatory spending legislation or any tax legislation that increases the deficit or reduces revenues must be accompanied by a counter availing measure that offsets the increase in deficit or reduction in revenue.

Deficit-neutral rules shall serve as a key tool to constrain deficit spending and to ensure compliance with annual fiscal targets agreed upon by the Development Budget and Coordinating Committee in support of the Budget Expenditures and Sources of Financing that is submitted to Congress for consideration in the enactment of the annual General Appropriations Act.

Said rules shall contribute to the attainment of diminishing yearly deficit targets over the medium term.

SECTION 3. ***Definition of Terms.*** – When used in this Act, the following terms or words and phrases shall mean or be understood as follows:

a. *Budget of Expenditure and Sources of Financing or BESF* refers to a document submitted by the President in accordance with Section 22, Article VII of the Philippine Constitution. It contains the annual program of estimated expenditures accompanied by an estimate of expected sources of financing, proposed by the Executive branch to the Legislature for spending authority.

b. *Deficit* refers to the budgetary deficit, which is the deficiency of total revenues over expenditures excluding debt repayments and payments of non-budgetary accounts.

c. *Development Budget and Coordinating Committee or DBCC* refers to the committee created under Executive Order No. 232, s. 1970, as amended.

d. *Fiscal Targets* refer to numerical estimates on deficit, revenue, tax, non-tax, expenditure and financing, whether or not set as a percentage of the gross domestic product, that are adopted by the DBCC.

e. *Gross Domestic Product or GDP* refers to the value of all goods and services produced domestically; the sum of the gross value added of all resident institutional units engaged in production, plus any taxes and minus any subsidies, on products not included in the values of their outputs.

SECTION 4. ***Grant of Tax Incentive.*** – The grant of tax incentive, in the nature of a tax break, tax exemption, tax privilege, tax reduction, tariff/duty reduction, preferential tax treatment, deferred tax or a broadening of an existing tax incentive or benefit, through the passage or effectivity of an executive or legislative measure, shall be conditioned on either of the following:

a. The issuance by the Department of Finance (DOF) of a certification that said measure is in compliance with the annual fiscal targets and that the tax incentive has been considered in the revenue program for the year's BESF; or

b. The imposition and implementation of a countervailing mechanism or cost-offsetting measure, through a revenue-generating provision or a reduction in expenditure.

SECTION 5. ***Rationalization of Existing Tax Incentives.*** – All existing incentives granted under various laws and executive orders shall be immediately reviewed with the end objective of rationalizing the tax incentives and eliminating the unnecessary and costly tax incentives within (2) years from effectivity of this law.

SECTION 6. ***Expenditure Bills.*** – Except for debt service and cost of living adjustments for government employees, all increases in national government expenditures especially those mandating the creation of recurrent expenditures must be offset by a permanent increase in revenue or permanent reduction in other expenditures.

Hereafter, all bills proposing an increase in public expenditures must be conditioned upon the following:

a. An estimate by the Department of Budget and Management (DBM) of its budgetary and financial impact for the next three (3) years; and

b. The enactment and implementation of an offsetting revenue-generating or expenditure-reduction measure

SECTION 7. ***Unfunded Laws.*** – All laws with budgetary implication that are enacted without identified supporting revenue measures nor identified expenditure reduction shall be considered harmful to public finances and may remain unfunded.

The effectivity of existing legal provisions whose mandates remain unfunded, whether partially or in full, shall be suspended until the requirements of the first paragraph of Sec. 5 shall have been complied with. For this purpose, the Committee on Oversight of the House of Representatives together with its counterpart in the Senate, in coordination with the DBM, shall prepare a list of existing legal provisions that remain unfunded as of the effectivity of this Act.

SECTION 8. ***Implementing Rules and Regulations.*** – Within sixty (60) days from effectivity of this Act, the DOF and the DBM shall promulgate the necessary rules and regulations for the proper implementation of the provisions of this Act.

SECTION 9. ***Separability Clause.*** – If any provision of this Act shall be declared unconstitutional, any other provision not affected thereby shall remain in full force and effect.

SECTION 10. *Repealing Clause.* – All laws, decrees, orders, rules and regulations, or parts thereof inconsistent with this Act are hereby repealed or amended accordingly.

SECTION 11. *Effectivity.* – This Act shall take effect fifteen (15) days following its publication in the Official Gazette or in a newspaper of general circulation.

Approved,