



Republic of the Philippines
House of Representatives
Quezon City

EIGHTEENTH CONGRESS

First Regular Session

House Bill No. 207

Introduced by Representative Jose Enrique S. Garcia III

EXPLANATORY NOTE

One key aspect in the devolution process set into motion by the Local Government Code (RA 7160), is the transfer to the local government units (LGUs) of the responsibility for the delivery of basic services which include health, agriculture, environment and natural resources, social services and public works funded by local funds.

To enable the LGUs to perform such assigned role to become partners in national progress and development, they have been given the power to levy taxes, fees and charges, thereby creating their own sources of revenue.

In particular, municipalities and cities have been given the power to impose, among others, tax on business establishments which operate within their respective territorial jurisdictions. Aiming to resolve disputes anticipated to arise from the operation of business establishments that spans two or more municipalities and cities, the Code set down in Section 150 thereof the rules on the proper situs of the tax.

The reasonable foresight ingrained in the formulation of Section 150 notwithstanding, the rules stipulated therein tend to favor some LGUs, particularly those in which the principal offices, corporate headquarters or designated financial centers are located due to certain business practices and strategies adopted by business establishments. For example, banks and other financial institutions have established levels of authority and transaction limits that usually send the processing, approval and recording of loan applications to the regional financial centers, headquarters or principal offices. Following the general rule under Section 150, the business tax significance of the transactions accrues to the LGU where the financial center, headquarters or principal office is located even if the loan transactions originated from branches or offices situated in other LGUs.

The above-described situation undermines the ability of other LGUs to maximize their revenue generation potential particularly those from which the economic activity originates but are completed in the financial centers, headquarters or principal offices situated elsewhere.

It is, therefore, the aim of this bill to achieve a more equitable distribution of potential tax revenues to LGUs by including the source or place where the economic stimulus emerged or where the service will be provided among the criteria in determining the situs of business tax of selected transactions regardless of the place where the transactions are processed and approved.

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



REP. JOSE ENRIQUE S. GARCIA III
Second District, Bataan



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**AN ACT TO RATIONALIZE THE COLLECTION OF THE TAX ON BUSINESS
UNDER SECTION 143 OF THE LOCAL GOVERNMENT CODE, AND AMENDING
FOR THE PURPOSE SECTIONS 143 AND 150 THEREOF**

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

SECTION 1. Section 143, Article II, Chapter II, Title I, Book II of Republic Act No. 7160, otherwise known as the "Local Government Code of 1991," is hereby amended, to read as follows:

"Section 143. Tax on Business. – The municipality may impose taxes on the following businesses:

X X X X

**(G) ON HOTELS, RESORTS, RECREATIONAL FACILITIES, AND
SIMILAR ESTABLISHMENTS, AT A RATE NOT EXCEEDING ONE
PERCENT (1%) ON THE GROSS RECEIPTS OF THE PRECEDING
CALENDAR YEAR;**

([g]H) On peddlers engaged in the sale of any merchandise or article of commerce, at a rate not exceeding Fifty pesos (P50.00) per peddler annually.

([h]I) On any business, not otherwise specified in the preceding paragraphs, which the sanggunian concerned may deem proper to tax: *Provided, That*, on any business subject to the excise tax, value-added or percentage tax under the National Internal Revenue Code, as amended, the rate of tax shall not exceed two percent (2%) of the gross sales or receipts of the preceding calendar year.

X X X X

SECTION 2. Section 150, Article II, Chapter II, Title I, Book II of Republic Act No. 7160, is hereby amended, to read as follows:

“Section 150. Situs of the Tax. –

(a) For purposes of collection of the taxes under Section 143 of this Code, manufacturers, assemblers, repackers, brewers, distillers, rectifiers and compounders of liquor, distilled spirits and wines, millers, producers, exporters, wholesalers, distributors, dealers, contractors, **[banks and other financial institutions,]** and other businesses, maintaining or operating branch, or sales outlet, elsewhere shall record the sale in the branch or sales outlet making the sale or transaction, and the tax thereon shall accrue and shall be paid to the municipality where such branch, or sales outlet is located. In cases where there is no such branch, or sales outlet in the city or municipality where the sale or transaction is made, the sale shall be duly recorded in the principal office and the taxes due shall accrue and shall be paid to such city or municipality **WHERE THE PRINCIPAL OFFICE IS LOCATED.**

X X X X

(F) IN CASE OF BANKS AND FINANCIAL INSTITUTIONS, ALL TRANSACTIONS ENTERED INTO BY CLIENTS RESIDING OR DOING BUSINESS IN THE PLACE WHERE A BRANCH IS LOCATED SHALL BE RECORDED IN SUCH BRANCH REGARDLESS OF THE PLACE WHERE THE TRANSACTIONS ARE FILED, NEGOTIATED AND APPROVED AND THE GROSS RECEIPTS THEREON SHALL BE TAXABLE BY THE CITY OF MUNICIPALITY WHERE THE BRANCH IS LOCATED. IN CASES WHERE THERE IS NO SUCH BRANCH IN THE CITY OR MUNICIPALITY WHERE THE CLIENTS RESIDE OR DO BUSINESS, THE TRANSACTIONS SHALL BE DULY RECORDED IN THE PRINCIPAL OFFICE AND THE TAXES DUE SHALL ACCRUE AND SHALL BE PAID TO THE CITY OR MUNICIPALITY WHERE THE PRINCIPAL OFFICE IS LOCATED.

(G) IN CASE OF INSURANCE COMPANIES, ALL THE GROSS RECEIPTS DERIVED FROM INSURANCE CONTRACTS/POLICIES SOLICITED BY A BRANCH SHALL BE TAXABLE BY THE CITY OR MUNICIPALITY WHERE SUCH BRANCH IS LOCATED.

(H) IN CASE OF HOTELS, RESORTS, RECREATIONAL FACILITIES, AND THE LIKE, ALL SALES REGARDLESS OF THE PLACE AND MANNER OF BOOKING SHALL BE RECORDED IN THE ESTABLISHMENT WHERE THE SERVICE IS PROVIDED AND THE TAX THEREON SHALL ACCRUE AND SHALL BE PAID TO THE CITY OR MUNICIPALITY WHERE SAID ESTABLISHMENT IS LOCATED.

SECTION 3. The Secretaries of the Department of Finance, the Department of Budget and Management, and the Department of Interior and Local Governments,

in consultation with the Presidents of the League of Municipalities, League of Cities and League of Provinces, shall promulgate the necessary rules and regulations to implement the provisions of this Act.

SECTION 4. All laws, decrees, executive orders, proclamations and administrative regulations, or part or parts thereof, which are inconsistent with the provisions of this Act are hereby repealed or modified accordingly.

SECTION 5. If any part or provisions of this Act shall be held to be unconstitutional or invalid, the other parts or provisions hereof which are not affected thereby shall continue to be in full force and effect.

SECTION 6. This Act shall take effect fifteen (15) days from its publication in the Official Gazette or in two (2) newspapers of national circulation.

Approved.