



Republic of the Philippines
HOUSE OF REPRESENTATIVES
Quezon City

EIGHTEENTH CONGRESS
First Regular Session

HOUSE BILL NO. 6717



Introduced by Representative **Ferdinand L. Hernandez**

AN ACT
IMPOSING SALES TAX IN LIEU OF VALUE-ADDED TAX,
REPLACING FOR THE PURPOSE THE ENTIRE PROVISIONS OF
TITLE IV, AND AMENDING SECTION 116, TITLE V, AND SECTION
236, TITLE IX, OF THE NATIONAL INTERNAL REVENUE CODE OF
1997, AS AMENDED, AND FOR OTHER PURPOSES

EXPLANATORY NOTE

In 1987, Executive Order No. 273 was issued whereby the government sought to replace sales tax regime with a multi-stage value-added Tax (VAT) system. The adoption of the VAT system was one of the structural reforms provided in the 1986 Tax Reform Program designed to simplify tax administration and to make the tax system more equitable.

However, despite the laudable purpose of shifting to the VAT system, the present tax regime has presented several disadvantages, particularly in the matter of its administration.

From 2008 to 2019, the Bureau of Internal Revenue (BIR) reported that the total input tax exceeded the total output tax at an increasing rate of 25% to 47%. As of the end of 2019, the excess of input tax over output tax amounted to P924.6 billion.

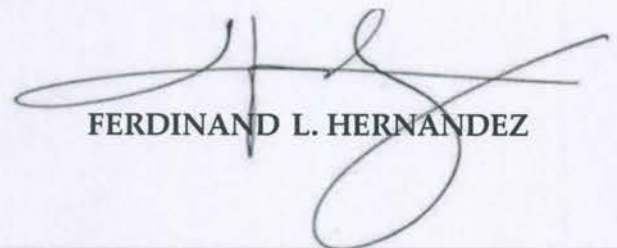
The BIR also disclosed that the effective collection rate of the VAT for the past 12 years ranged only from 2.8% to 3.1%. In other words, while the 12% VAT passed on to consumers is dutifully paid, an average of only 3% is being collected by the government, translating to a collection efficiency of only 25%.

These records for the past 12 years demonstrate the existence of loopholes that beset our VAT system. These loopholes emanate from the inherent complexity of the VAT system, particularly in the possible abuses that may be used to manipulate the input tax mechanism as well as the difficulty of administering and monitoring thereof.

This bill seeks to amend the present VAT system and shift to a simple sales tax system, which will effectively do away with the tax loopholes. The proposed sales tax system, which will implement a gross taxation system, aims to (a) eliminate the abuse of the input tax mechanism of the present VAT system; and, (b) simplify the monitoring and administration by the government.

Furthermore, the proposed sales tax system will also impose a lower tax rate, significantly reducing the tax which consumers pay on goods and services.

In light of the foregoing, the immediate enactment of this proposed legislation is sought.



FERDINAND L. HERNANDEZ



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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. The provisions of Title IV of the National Internal Revenue Code of 1997, as amended, governing value-added tax are hereby repealed and replaced with new provisions imposing sales tax, to read as follows:

"TITLE IV
"SALES TAX

"CHAPTER I – IMPOSITION OF TAX

"SEC. 105. PERSONS LIABLE. – ANY PERSON WHO, IN THE COURSE OF TRADE OR BUSINESS, SELLS, BARTERS, EXCHANGES, LEASES GOODS OR PROPERTIES, RENDERS SERVICES, AND ANY PERSON WHO IMPORTS GOODS SHALL BE SUBJECT TO THE SALES TAX IMPOSED IN SECTIONS 106 TO 108 OF THIS CODE.

"THE SALES TAX IS A CONSUMPTION TAX IMPOSED ON THE SALE OF GOODS, PROPERTIES AND SERVICES. IT MAY BE SHIFTED OR

PASSED ON TO THE BUYER, TRANSFEREE OR LESSEE OF THE GOODS, PROPERTIES OR SERVICES.

"THE PHRASE 'IN THE COURSE OF TRADE OR BUSINESS' MEANS THE REGULAR CONDUCT OR PURSUIT OF A COMMERCIAL OR AN ECONOMIC ACTIVITY, INCLUDING TRANSACTIONS INCIDENTAL THERETO, BY ANY PERSON REGARDLESS OF WHETHER OR NOT THE PERSON ENGAGE THEREIN IS A NON-STOCK, NONPROFIT PRIVATE ORGANIZATION (IRRESPECTIVE OF THE DISPOSITION OF ITS NET INCOME AND WHETHER OR NOT IT SELLS EXCLUSIVELY TO MEMBERS OR THEIR GUESTS), OR GOVERNMENT ENTITY.

"THE RULE OF REGULARITY, TO THE CONTRARY NOTWITHSTANDING, SERVICES AS DEFINED IN THIS CODE RENDERED IN THE PHILIPPINES BY NONRESIDENT FOREIGN PERSONS SHALL BE CONSIDERED AS BEING RENDERED IN THE COURSE OF TRADE OR BUSINESS."

"SEC. 106. 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, SALES TAX EQUIVALENT TO FOUR PER CENT (4%) OF THE GROSS SELLING PRICE OR GROSS VALUE IN MONEY OF THE GOODS OR PROPERTIES SOLD, BARTERED OR EXCHANGED, SUCH TAX TO BE PAID BY THE SELLER OR TRANSFEROR.

"(1) GOOD OR PROPERTIES. - THE TERM "GOODS" OR "PROPERTIES" SHALL MEAN ALL TANGIBLE AND INTANGIBLE OBJECTS WHICH ARE CAPABLE OF PECUNIARY ESTIMATION AND SHALL INCLUDE:

"(A) REAL PROPERTY HELD PRIMARILY FOR SALE TO CUSTOMERS OR HELD FOR LEASE IN THE ORDINARY COURSE OF TRADE OR BUSINESS;

"(B) THE RIGHT OR THE PRIVILEGE TO USE PATENT, COPYRIGHT, DESIGN OR MODEL, PLAN, SECRET FORMULA OR PROCESS, GOODWILL, TRADEMARK, TRADE BRAND OR OTHER LIKE PROPERTY OR RIGHT;

"(C) THE RIGHT OR THE PRIVILEGE TO USE IN THE PHILIPPINES OF ANY INDUSTRIAL, COMMERCIAL OR SCIENTIFIC EQUIPMENT;

"(D) THE RIGHT OR THE PRIVILEGE TO USE MOTION PICTURE FILMS, TAPES AND DISCS; AND

"(E) RADIO, TELEVISION, SATELLITE TRANSMISSION AND CABLE TELEVISION TIME.

"THE TERM 'GROSS SELLING PRICE' MEANS THE TOTAL AMOUNT OF MONEY OR ITS EQUIVALENT WHICH THE PURCHASER PAYS OR IS OBLIGATED TO PAY TO THE SELLER IN CONSIDERATION OF THE SALE, BARTER OR EXCHANGE OF THE GOODS OR PROPERTIES, EXCLUDING THE SALES TAX. THE EXCISE TAX, IF ANY, ON SUCH GOODS OR PROPERTIES SHALL FORM PART OF THE GROSS SELLING PRICE.

"(B) TRANSACTIONS DEEMED SALE. - THE FOLLOWING TRANSACTIONS SHALL BE DEEMED SALE:

"(1) TRANSFER, USE OR CONSUMPTION NOT IN THE COURSE OF BUSINESS OF GOODS OR PROPERTIES ORIGINALLY INTENDED FOR SALE OR FOR USE IN THE COURSE OF BUSINESS;

"(2) DISTRIBUTION OR TRANSFER TO:

"(A) SHAREHOLDERS OR INVESTORS AS SHARE IN THE PROFITS;
OR

"(B) CREDITORS IN PAYMENT OF DEBT;

"(3) CONSIGNMENT OF GOODS IF ACTUAL SALE IS NOT MADE WITHIN SIXTY (60) DAYS FOLLOWING THE DATE SUCH GOODS WERE CONSIGNED; AND

"(4) RETIREMENT FROM OR CESSATION OF BUSINESS, WITH RESPECT TO INVENTORIES OF TAXABLE GOODS EXISTING AS OF SUCH RETIREMENT OR CESSATION.

"(C) CHANGES IN OR CESSATION OF STATUS OF A SALES TAX REGISTERED PERSON. - THE TAX IMPOSED IN SUBSECTION (A) OF THIS SECTION SHALL ALSO APPLY TO GOODS DISPOSED OF OR EXISTING AS OF A CERTAIN DATE IF UNDER CIRCUMSTANCES TO

BE PRESCRIBED IN RULES AND REGULATIONS TO BE PROMULGATED BY THE SECRETARY OF FINANCE, UPON RECOMMENDATION OF THE COMMISSIONER, THE STATUS OF A PERSON AS A SALES TAX REGISTERED PERSON CHANGES OR IS TERMINATED.

"(D) SALES RETURNS, ALLOWANCES AND SALES DISCOUNTS. - THE VALUE OF GOODS OR PROPERTIES SOLD AND SUBSEQUENTLY RETURNED OR FOR WHICH ALLOWANCES WERE GRANTED BY A TAXPAYER MAY BE DEDUCTED FROM THE GROSS SALES OR RECEIPTS FOR THE QUARTER IN WHICH A REFUND IS MADE OR A CREDIT MEMORANDUM OR REFUND IS ISSUED. SALES DISCOUNT GRANTED AND INDICATED IN THE INVOICE AT THE TIME OF SALE AND THE GRANT OF WHICH DOES NOT DEPEND UPON THE HAPPENING OF A FUTURE EVENT MAY BE EXCLUDED FROM THE GROSS SALES WITHIN THE SAME QUARTER IT WAS GIVEN.

"(E) AUTHORITY OF THE COMMISSIONER TO DETERMINE THE APPROPRIATE TAX BASE. - THE COMMISSIONER SHALL, BY RULES AND REGULATIONS PRESCRIBED BY THE SECRETARY OF FINANCE, DETERMINE THE APPROPRIATE TAX BASE IN CASES WHERE A TRANSACTION IS DEEMED A SALE, BARTER OR EXCHANGE OF GOODS OR PROPERTIES UNDER SUBSECTION (B) HEREOF, OR WHERE THE GROSS SELLING PRICE IS UNREASONABLY LOWER THAN THE ACTUAL MARKET VALUE.

"SEC. 107. TAX ON IMPORTATION OF GOODS. -

"(A) IN GENERAL. - THERE SHALL BE LEVIED, ASSESSED AND COLLECTED ON EVERY IMPORTATION OF GOODS A SALES TAX EQUIVALENT TO FOUR PER CENT (4%) BASED ON THE TOTAL VALUE USED BY THE BUREAU OF CUSTOMS IN DETERMINING TARIFF AND CUSTOMS DUTIES PLUS 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 DUTIES ARE DETERMINED ON THE BASIS OF THE QUANTITY OR VOLUME OF THE GOODS, THE SALES TAX SHALL BE BASED ON THE LANDED COST PLUS EXCISE TAXES, IF ANY;

"(B) TRANSFER OF GOODS BY TAX-EXEMPT PERSONS. - IN THE CASE OF TAX-FREE IMPORTATION OF GOODS INTO THE

PHILIPPINES BY PERSONS, ENTITIES OR AGENCIES EXEMPT FROM TAX WHERE SUCH GOODS ARE SUBSEQUENTLY SOLD, TRANSFERRED OR EXCHANGED IN THE PHILIPPINES TO NON-EXEMPT PERSONS OR ENTITIES, THE PURCHASERS, TRANSFEREES OR RECIPIENTS SHALL BE CONSIDERED THE IMPORTERS THEREOF, WHO SHALL BE LIABLE FOR ANY INTERNAL REVENUE TAX ON SUCH IMPORTATION. THE TAX DUE ON SUCH IMPORTATION SHALL CONSTITUTE A LIEN ON THE GOODS SUPERIOR TO ALL CHARGES OR LIENS ON THE GOODS, IRRESPECTIVE OF THE POSSESSOR THEREOF."

"SEC. 108. TAX ON SALE OF SERVICES AND USE OR LEASE OF PROPERTIES. - THERE SHALL BE LEVIED, ASSESSED AND COLLECTED, A SALES TAX EQUIVALENT TO FOUR PER CENT (4%) OF GROSS RECEIPTS DERIVED FROM THE SALE OR EXCHANGE OF SERVICES, INCLUDING THE USE OR LEASE OF PROPERTIES;

"THE PHRASE 'SALE OR EXCHANGE OF SERVICES' MEANS THE PERFORMANCE OF ALL KINDS OF SERVICES IN THE PHILIPPINES FOR OTHERS FOR A FEE, REMUNERATION OR CONSIDERATION, INCLUDING THOSE PERFORMED OR RENDERED BY CONSTRUCTION AND SERVICE CONTRACTORS; STOCK, REAL ESTATE, COMMERCIAL, CUSTOMS AND IMMIGRATION BROKERS; LESSORS OF PROPERTY, WHETHER PERSONAL OR REAL; WAREHOUSING SERVICES; LESSORS OR DISTRIBUTORS OF CINEMATOGRAPHIC FILMS; PERSONS ENGAGED IN MILLING PROCESSING, MANUFACTURING OR REPACKING GOODS FOR OTHERS; PROPRIETORS, OPERATORS OR KEEPERS OF HOTELS, MOTELS, REST HOUSES, PENSION HOUSES, INNS, RESORTS; PROPRIETORS OR OPERATORS OF RESTAURANTS, REFRESHMENT PARLORS, CAFES AND OTHER EATING PLACES, INCLUDING CLUBS AND CATERERS; DEALERS IN SECURITIES; LENDING INVESTORS; TRANSPORTATION CONTRACTORS ON THEIR TRANSPORT OF GOODS OR CARGOES, INCLUDING PERSONS WHO TRANSPORT GOODS OR CARGOES FOR HIRE ANOTHER DOMESTIC COMMON CARRIERS BY LAND RELATIVE TO THEIR TRANSPORT OF GOODS OR CARGOES; COMMON CARRIERS BY AIR AND SEA RELATIVE TO THEIR TRANSPORT OF PASSENGERS, GOODS OR CARGOES FROM ONE PLACE IN THE PHILIPPINES TO ANOTHER PLACE IN THE PHILIPPINES; SALES OF ELECTRICITY BY GENERATION COMPANIES, TRANSMISSION, AND DISTRIBUTION COMPANIES; SERVICES OF FRANCHISE GRANTEES OF ELECTRIC UTILITIES, TELEPHONE AND TELEGRAPH, RADIO AND

TELEVISION BROADCASTING AND ALL OTHER FRANCHISE GRANTEEES EXCEPT THOSE UNDER SECTION 116 OF THIS CODE, AND NON-LIFE INSURANCE COMPANIES (EXCEPT THEIR CROP INSURANCES), INCLUDING SURETY, FIDELITY, INDEMNITY, AND BONDING COMPANIES; AND SIMILAR SERVICES REGARDLESS OF WHETHER OR NOT THE PERFORMANCE THEREOF CALLS FOR THE EXERCISE OR USE OF THE PHYSICAL OR MENTAL FACULTIES. THE PHRASE 'SALE OR EXCHANGE OF SERVICES' SHALL LIKEWISE INCLUDE:

"(1) THE LEASE OR THE USE OF OR THE RIGHT OR PRIVILEGE TO USE ANY COPYRIGHT, PATENT, DESIGN OR MODEL, PLAN, SECRET FORMULA OR PROCESS, GOODWILL, TRADEMARK, TRADE BRAND OR OTHER LIKE PROPERTY OR RIGHT;

"(2) THE LEASE OF THE USE OF, OR THE RIGHT TO USE OF ANY INDUSTRIAL, COMMERCIAL OR SCIENTIFIC EQUIPMENT;

"(3) THE SUPPLY OF SCIENTIFIC, TECHNICAL, INDUSTRIAL OR COMMERCIAL KNOWLEDGE OR INFORMATION;

"(4) THE SUPPLY OF ANY ASSISTANCE THAT IS ANCILLARY AND SUBSIDIARY TO AND IS FURNISHED AS A MEANS OF ENABLING THE APPLICATION OR ENJOYMENT OF ANY SUCH PROPERTY, OR RIGHT AS IS MENTIONED IN SUBPARAGRAPH (2) OR ANY SUCH KNOWLEDGE OR INFORMATION AS IS MENTIONED IN SUBPARAGRAPH (3);

"(5) THE SUPPLY OF SERVICES BY A NONRESIDENT PERSON OR HIS EMPLOYEE IN CONNECTION WITH THE USE OF PROPERTY OR RIGHTS BELONGING TO, OR THE INSTALLATION OR OPERATION OF ANY BRAND, MACHINERY OR OTHER APPARATUS PURCHASED FROM SUCH NONRESIDENT PERSON;

"(6) THE SUPPLY OF TECHNICAL ADVICE, ASSISTANCE OR SERVICES RENDERED IN CONNECTION WITH TECHNICAL MANAGEMENT OR ADMINISTRATION OF ANY SCIENTIFIC, INDUSTRIAL OR COMMERCIAL UNDERTAKING, VENTURE, PROJECT OR SCHEME;

"(7) THE LEASE OF MOTION PICTURE FILMS, FILMS, TAPES AND DISCS; AND

"(8) THE LEASE OR THE USE OF OR THE RIGHT TO USE RADIO, TELEVISION, SATELLITE TRANSMISSION AND CABLE TELEVISION TIME.

"LEASE OF PROPERTIES SHALL BE SUBJECT TO THE TAX HEREIN IMPOSED IRRESPECTIVE OF THE PLACE WHERE THE CONTRACT OF LEASE OR LICENSING AGREEMENT WAS EXECUTED IF THE PROPERTY IS LEASED OR USED IN THE PHILIPPINES.

"THE TERM 'GROSS RECEIPTS' MEANS THE TOTAL AMOUNT OF MONEY OR ITS EQUIVALENT REPRESENTING THE CONTRACT PRICE, COMPENSATION, SERVICE FEE, RENTAL OR ROYALTY, INCLUDING THE AMOUNT CHARGED FOR MATERIALS SUPPLIED WITH THE SERVICES AND DEPOSITS AND ADVANCED PAYMENTS ACTUALLY OR CONSTRUCTIVELY RECEIVED DURING THE TAXABLE QUARTER FOR THE SERVICES PERFORMED OR TO BE PERFORMED FOR ANOTHER PERSON, EXCLUDING THE SALES TAX."

"SEC. 109. EXEMPT TRANSACTIONS. - THE FOLLOWING TRANSACTIONS SHALL BE EXEMPT FROM THE SALES TAX:

"(A) SALE OR IMPORTATION OF AGRICULTURAL AND MARINE FOOD PRODUCTS IN THEIR ORIGINAL STATE, LIVESTOCK AND POULTRY OF OR KIND GENERALLY USED AS, OR YIELDING OR PRODUCING FOODS FOR HUMAN CONSUMPTION; AND BREEDING STOCK AND GENETIC MATERIALS THEREFOR.

PRODUCTS CLASSIFIED UNDER THIS PARAGRAPH SHALL BE CONSIDERED IN THEIR ORIGINAL STATE EVEN IF THEY HAVE UNDERGONE THE SIMPLE PROCESSES OF PREPARATION OR PRESERVATION FOR THE MARKET, SUCH AS FREEZING, DRYING, SALTING, BROILING, ROASTING, SMOKING OR STRIPPING. POLISHED AND/OR HUSKED RICE, CORN GRITS, RAW CANE SUGAR AND MOLASSES, ORDINARY SALT AND COPRA SHALL BE CONSIDERED IN THEIR ORIGINAL STATE;

"(B) SALE OR IMPORTATION OF FERTILIZERS; SEEDS, SEEDLINGS AND FINGERLINGS; FISH, PRAWN, LIVESTOCK AND POULTRY FEEDS, INCLUDING INGREDIENTS, WHETHER LOCALLY PRODUCED OR IMPORTED, USED IN THE MANUFACTURE OF FINISHED FEEDS (EXCEPT SPECIALTY FEEDS FOR RACE HORSES, FIGHTING COCKS, AQUARIUM FISH, ZOO ANIMALS AND OTHER

ANIMALS GENERALLY CONSIDERED AS PETS);

“(C) IMPORTATION OF PERSONAL AND HOUSEHOLD EFFECTS BELONGING TO THE RESIDENTS OF THE PHILIPPINES RETURNING FROM ABROAD AND NONRESIDENT CITIZENS COMING TO RESETTLE IN THE PHILIPPINES: PROVIDED, THAT SUCH GOODS ARE EXEMPT FROM CUSTOMS DUTIES UNDER THE CUSTOMS MODERNIZATION AND TARIFF ACT;

“(D) IMPORTATION OF PROFESSIONAL INSTRUMENTS AND IMPLEMENTS, WEARING APPAREL, DOMESTIC ANIMALS, AND PERSONAL HOUSEHOLD EFFECTS (EXCEPT ANY VEHICLE, VESSEL, AIRCRAFT, MACHINERY OTHER GOODS FOR USE IN THE MANUFACTURE AND MERCHANDISE OF ANY KIND IN COMMERCIAL QUANTITY) BELONGING TO PERSONS COMING TO SETTLE IN THE PHILIPPINES, FOR THEIR OWN USE AND NOT FOR SALE, BARTER OR EXCHANGE, ACCOMPANYING SUCH PERSONS, OR ARRIVING WITHIN NINETY (90) DAYS BEFORE OR AFTER THEIR ARRIVAL, UPON THE PRODUCTION OF EVIDENCE SATISFACTORY TO THE COMMISSIONER, THAT SUCH PERSONS ARE ACTUALLY COMING TO SETTLE IN THE PHILIPPINES AND THAT THE CHANGE OF RESIDENCE IS BONA FIDE;

“(E) SERVICES SUBJECT TO PERCENTAGE TAX UNDERTITLE V;

“(F) SERVICES BY AGRICULTURAL CONTRACT GROWERS AND MILLING FOR OTHERS OF PALAY INTO RICE, CORN INTO GRITS AND SUGAR CANE INTO RAW SUGAR;

“(G) MEDICAL, DENTAL, HOSPITAL AND VETERINARY SERVICES EXCEPT THOSE RENDERED BY PROFESSIONALS;

“(H) EDUCATIONAL SERVICES RENDERED BY PRIVATE EDUCATIONAL INSTITUTIONS, DULY ACCREDITED BY THE DEPARTMENT OF EDUCATION (DEPED), THE COMMISSION ON HIGHER EDUCATION (CHED), THE TECHNICAL EDUCATION AND SKILLS DEVELOPMENT AUTHORITY (TESDA) AND THOSE RENDERED BY GOVERNMENT EDUCATIONAL INSTITUTIONS;

“(I) SERVICES RENDERED BY INDIVIDUALS PURSUANT TO AN EMPLOYER-EMPLOYEE RELATIONSHIP;

“(J) SERVICES RENDERED BY REGIONAL OR AREA

HEADQUARTERS ESTABLISHED IN THE PHILIPPINES BY MULTINATIONAL CORPORATIONS WHICH ACT AS SUPERVISORY, COMMUNICATIONS AND COORDINATING CENTERS FOR THEIR AFFILIATES, SUBSIDIARIES OR BRANCHES IN THE ASIA-PACIFIC REGION AND DO NOT EARN OR DERIVE INCOME FROM THE PHILIPPINES;

“(K) SERVICES RENDERED IN PROCESSING, MANUFACTURING OR REPACKING GOODS FOR OTHER PERSONS DOING BUSINESS OUTSIDE THE PHILIPPINES WHICH GOODS ARE SUBSEQUENTLY EXPORTED, WHERE THE SERVICES ARE PAID FOR IN ACCEPTABLE FOREIGN CURRENCY AND ACCOUNTED FOR IN ACCORDANCE WITH THE RULES AND REGULATIONS OF THE BANGKO SENTRAL NG PILIPINAS (BSP);

“(L) SERVICES OTHER THAN THOSE MENTIONED IN THE PRECEDING PARAGRAPH, RENDERED TO A PERSON ENGAGED IN BUSINESS CONDUCTED OUTSIDE THE PHILIPPINES OR TO A NONRESIDENT PERSON NOT ENGAGED IN BUSINESS WHO IS OUTSIDE THE PHILIPPINES WHEN THE SERVICES ARE PERFORMED, THE CONSIDERATION FOR WHICH IS PAID FOR IN ACCEPTABLE FOREIGN CURRENCY AND ACCOUNTED FOR IN ACCORDANCE WITH THE RULES AND REGULATIONS OF THE BSP;

“(M) SERVICES RENDERED TO PERSONS OR ENTITIES WHOSE EXEMPTION UNDER SPECIAL LAWS OR INTERNATIONAL AGREEMENTS TO WHICH THE PHILIPPINES IS A SIGNATORY EFFECTIVELY EXEMPTS THE SUPPLY OF SUCH SERVICES;

“(N) SERVICES RENDERED TO PERSONS ENGAGED IN INTERNATIONAL SHIPPING OR INTERNATIONAL AIR TRANSPORT OPERATIONS, INCLUDING LEASES OF PROPERTY FOR USE THEREOF;

“(O) SERVICES PERFORMED BY SUBCONTRACTORS AND/OR CONTRACTORS IN PROCESSING, CONVERTING, OF MANUFACTURING GOODS FOR AN ENTERPRISE WHOSE EXPORT SALES EXCEED SEVENTY PERCENT (70%) OF TOTAL ANNUAL PRODUCTION;

“(P) TRANSPORT OF PASSENGERS AND CARGO BY AIR OR SEA VESSELS FROM THE PHILIPPINES TO A FOREIGN COUNTRY;

"(Q) SALE OF POWER OR FUEL GENERATED THROUGH RENEWABLE SOURCES OF ENERGY SUCH AS, BUT NOT LIMITED TO, BIOMASS, SOLAR, WIND, HYDROPOWER, GEOTHERMAL, OCEAN ENERGY, AND OTHER EMERGING ENERGY SOURCES USING TECHNOLOGIES SUCH AS FUEL CELLS AND HYDROGEN FUELS;

"(R) TRANSACTIONS WHICH ARE EXEMPT UNDER INTERNATIONAL AGREEMENTS TO WHICH THE PHILIPPINES IS A SIGNATORY OR UNDER SPECIAL LAWS, EXCEPT THOSE UNDER PRESIDENTIAL DECREE NO. 529;

"(S) SALES BY AGRICULTURAL COOPERATIVES DULY REGISTERED WITH THE COOPERATIVE DEVELOPMENT AUTHORITY TO THEIR MEMBERS AS WELL AS SALE OF THEIR PRODUCE, WHETHER IN ITS ORIGINAL STATE OR PROCESSED FORM, TO NON-MEMBERS; THEIR IMPORTATION OF DIRECT FARM INPUTS, MACHINERIES AND EQUIPMENT, INCLUDING SPARE PARTS THEREOF, TO BE USED DIRECTLY AND EXCLUSIVELY IN THE PRODUCTION AND/OR PROCESSING OF THEIR PRODUCE;

"(T) GROSS RECEIPTS FROM LENDING ACTIVITIES BY CREDIT OR MULTI-PURPOSE COOPERATIVES DULY REGISTERED WITH THE COOPERATIVE DEVELOPMENT AUTHORITY;

"(U) SALES BY NON-AGRICULTURAL, NON-ELECTRIC AND NON-CREDIT COOPERATIVES DULY REGISTERED WITH THE COOPERATIVE DEVELOPMENT AUTHORITY: PROVIDED, THAT THE SHARE CAPITAL CONTRIBUTION OF EACH MEMBER DOES NOT EXCEED FIFTEEN THOUSAND PESOS (P15,000) AND REGARDLESS OF THE AGGREGATE CAPITAL AND NET SURPLUS RATABLY DISTRIBUTED AMONG THE MEMBERS;

"(V) EXPORT SALES, OR THE SALE AND ACTUAL SHIPMENT OF GOODS FROM THE PHILIPPINES TO A FOREIGN COUNTRY, IRRESPECTIVE OF ANY SHIPPING ARRANGEMENT THAT MAY BE AGREED UPON WHICH MAY INFLUENCE OR DETERMINE THE TRANSFER OF OWNERSHIP OF THE GOODS SO EXPORTED AND PAID FOR IN ACCEPTABLE FOREIGN CURRENCY OR ITS EQUIVALENT IN GOODS OR SERVICES, AND ACCOUNTED FOR IN ACCORDANCE WITH THE RULES AND REGULATIONS OF THE BSP; THE SALE OF RAW MATERIALS OR PACKAGING MATERIALS TO A NONRESIDENT BUYER FOR DELIVERY TO A RESIDENT LOCAL

EXPORT-ORIENTED ENTERPRISE TO BE USED IN MANUFACTURING, PROCESSING, PACKING OR REPACKING IN THE PHILIPPINES OF THE SAID BUYER'S GOODS AND PAID FOR IN ACCEPTABLE FOREIGN CURRENCY AND ACCOUNTED FOR IN ACCORDANCE WITH THE RULES AND REGULATIONS OF THE BSP; SALE OF RAW MATERIALS OR PACKAGING MATERIALS TO EXPORT ORIENTED ENTERPRISE WHOSE EXPORT SALES EXCEED SEVENTY PERCENT (70%) OF TOTAL ANNUAL PRODUCTION; THOSE CONSIDERED EXPORT SALES UNDER EXECUTIVE ORDER NO. 226, OTHERWISE KNOWN AS THE 'OMNIBUS INVESTMENT CODE OF 1987', AND OTHER SPECIAL LAWS; AND SALE OF GOODS, SUPPLIES, EQUIPMENT AND FUEL TO PERSONS ENGAGED IN INTERNATIONAL SHIPPING OR INTERNATIONAL AIR TRANSPORT OPERATIONS SHALL BE CONSIDERED AS EXPORT SALES;

"(W) FOREIGN-CURRENCY DENOMINATED SALE, OR SALE TO A NONRESIDENT OF GOODS, EXCEPT THOSE MENTIONED IN SECTIONS 146 AND 147, ASSEMBLED OR MANUFACTURED IN THE PHILIPPINES FOR DELIVERY TO A RESIDENT IN THE PHILIPPINES, PAID FOR IN ACCEPTABLE FOREIGN CURRENCY AND ACCOUNTED FOR IN ACCORDANCE WITH THE RULES AND REGULATIONS OF THE BSP;

"(X) SALE OF REAL PROPERTIES NOT PRIMARILY HELD FOR SALE TO CUSTOMERS OR HELD FOR LEASE IN THE ORDINARY COURSE OF TRADE OR BUSINESS OR REAL PROPERTY UTILIZED FOR LOW-COST AND SOCIALIZED HOUSING AS DEFINED BY REPUBLIC ACT NO. 7279, OTHERWISE KNOWN AS THE URBAN DEVELOPMENT AND HOUSING ACT OF 1992, AND OTHER RELATED LAWS, RESIDENTIAL LOT VALUED AT TWO MILLION PESOS (P2,000,000.00) AND BELOW, HOUSE AND LOT, AND OTHER RESIDENTIAL DWELLINGS VALUED AT THREE MILLION PESOS (P3,000,000.00) AND BELOW: PROVIDED, THAT NOT LATER THAN JANUARY 31, 2023 AND EVERY THREE (3) YEARS THEREAFTER, THE AMOUNT HEREIN STATED SHALL BE ADJUSTED TO THEIR PRESENT VALUES USING THE CONSUMER PRICE INDEX, AS PUBLISHED BY THE PHILIPPINE STATISTICS AUTHORITY (PSA);

"(Y) LEASE OF A RESIDENTIAL UNIT WITH A MONTHLY RENTAL NOT EXCEEDING TEN THOUSAND PESOS (P10,000.00): PROVIDED, THAT NOT LATER THAN JANUARY 31, 2023 AND EVERY THREE (3) YEARS THEREAFTER, THE AMOUNT HEREIN STATED SHALL BE

ADJUSTED TO ITS PRESENT VALUE USING THE CONSUMER PRICE INDEX AS PUBLISHED BY THE PSA;

“(Z) SALE, IMPORTATION, PRINTING OR PUBLICATION OF BOOKS AND ANY NEWSPAPER, MAGAZINE REVIEW OR BULLETIN WHICH APPEARS AT REGULAR INTERVALS WITH FIXED PRICES FOR SUBSCRIPTION AND SALE AND WHICH IS NOT DEVOTED PRINCIPALLY TO THE PUBLICATION OF PAID ADVERTISEMENTS;

“(AA) TRANSPORT OF PASSENGERS BY INTERNATIONAL CARRIERS;

“(BB) SALE, IMPORTATION OR LEASE OF PASSENGER OR CARGO VESSELS AND AIRCRAFT, INCLUDING ENGINE, EQUIPMENT AND SPARE PARTS THEREOF FOR DOMESTIC OR INTERNATIONAL TRANSPORT OPERATIONS;

“(CC) IMPORTATION OF FUEL, GOODS AND SUPPLIES BY PERSONS ENGAGED IN INTERNATIONAL SHIPPING OR AIR TRANSPORT OPERATIONS;

“(DD) SALE OF GOLD TO THE BSP;

“(EE) SERVICES OF BANK, NON-BANK FINANCIAL INTERMEDIARIES PERFORMING QUASI-BANKING FUNCTIONS, AND OTHER NON-BANK FINANCIAL INTERMEDIARIES; AND

“(FF) SALE OR LEASE OF GOODS OR PROPERTIES OR THE PERFORMANCE OF SERVICES OTHER THAN THE TRANSACTIONS MENTIONED IN THE PRECEDING PARAGRAPHS, THE GROSS ANNUAL SALES AND/OR RECEIPTS DO NOT EXCEED THE AMOUNT OF THREE MILLION PESOS (P3,000,000): PROVIDED, THAT NOT LATER THAN JANUARY 31, 2023 AND EVERY THREE (3) YEARS THEREAFTER, THE AMOUNT HEREIN STATED SHALL BE ADJUSTED TO ITS PRESENT VALUE WITH FOOTNOTE IN THE BOOK VALUE USING THE CONSUMER PRICE INDEX, AS PUBLISHED BY THE PSA;

CHAPTER II – COMPLIANCE REQUIREMENTS

“SEC. 110. INVOICING AND ACCOUNTING REQUIREMENTS FOR SALES TAX REGISTERED PERSONS. –

"(A) INVOICING REQUIREMENT. – A SELLER, PROVIDER OR LESSOR OF GOODS, SERVICES OR PROPERTIES SHALL ISSUE:

"(1) INVOICE FOR EVERY SALE, BARTER OR EXCHANGE OF GOODS OR PROPERTIES; AND

"(2) OFFICIAL RECEIPT FOR EVERY LEASE OF GOODS OR PROPERTIES, AND FOR EVERY SALE, BARTER OR EXCHANGE OF SERVICES.

"(B) INFORMATION CONTAINED IN THE INVOICE OR OFFICIAL RECEIPT. – THE FOLLOWING INFORMATION SHALL BE INDICATED IN THE INVOICE OR OFFICIAL RECEIPT:

"(1) THE TAXPAYER'S IDENTIFICATION NUMBER (TIN);

"(2) THE TOTAL AMOUNT WHICH THE PURCHASER PAYS OR IS OBLIGATED TO PAY TO THE SELLER WITH THE INDICATION THAT SUCH AMOUNT INCLUDES THE SALES TAX: PROVIDED, THAT:

"(A) THE AMOUNT OF THE TAX SHALL BE SHOWN AS A SEPARATE ITEM IN THE INVOICE OR RECEIPT;

"(B) IF THE SALE IS EXEMPT FROM SALES TAX, THE TERM 'TAX EXEMPT SALE' SHALL BE WRITTEN OR PRINTED PROMINENTLY ON THE INVOICE OR RECEIPT;

"(C) IF THE SALE INVOLVES GOODS, PROPERTIES OR SERVICES SOME OF WHICH ARE SUBJECT TO AND SOME OF WHICH ARE SALES TAX EXEMPT, THE INVOICE OR RECEIPT SHALL CLEARLY INDICATE THE BREAK-DOWN OF THE SALE PRICE BETWEEN ITS TAXABLE AND EXEMPT COMPONENTS, AND THE CALCULATION OF THE SALES TAX ON EACH PORTION OF THE SALE SHALL BE SHOWN ON THE INVOICE OR RECEIPT: PROVIDED, THAT THE SELLER MAY ISSUE SEPARATE INVOICES OR RECEIPTS FOR THE TAXABLE AND EXEMPT COMPONENTS OF THE SALE.

"(3) THE DATE OF TRANSACTION, QUANTITY, UNIT COST, AND DESCRIPTION OF THE GOODS OR PROPERTIES OR NATURE OF THE SERVICE; AND

"(4) IN THE CASE OF SALES AMOUNTING TO ONE THOUSAND PESOS (P1,000.00) OR MORE, THE NAME, BUSINESS STYLE, IF ANY,

ADDRESS AND TAXPAYER IDENTIFICATION NUMBER (TIN) OF THE PURCHASER, CUSTOMER OR CLIENT.

“(C) ACCOUNTING REQUIREMENTS. – NOTWITHSTANDING THE PROVISIONS OF SECTION 230, ALL PERSON SUBJECT TO THE SALES TAX UNDER SECTIONS 106 AND 108 SHALL, IN ADDITION TO THE REGULAR ACCOUNTING RECORDS REQUIRED, MAINTAIN A SUBSIDIARY SALES JOURNAL AND SUBSIDIARY PURCHASE JOURNAL ON WHICH THE DAILY SALES AND PURCHASES ARE RECORDED. THE SUBSIDIARY JOURNALS SHALL CONTAIN SUCH INFORMATION AS MAY BE REQUIRED BY THE SECRETARY OF FINANCE.

“(D) CONSEQUENCE OF ISSUING ERRONEOUS INVOICE OR OFFICIAL RECEIPT. – IF A SELLER ISSUES AN INVOICE OR OFFICIAL RECEIPT FOR A TAX-EXEMPT TRANSACTION, BUT FAILS TO DISPLAY PROMINENTLY ON THE INVOICE OR RECEIPT THE TERM ‘TAX EXEMPT SALE’, THE ISSUER SHALL BE LIABLE TO ACCOUNT FOR THE TAX IMPOSED IN SECTION 106 OR SECTION 108 AS IF SECTION 109 DID NOT APPLY.

“(E) TRANSITIONAL PERIOD. – NOTWITHSTANDING SUBSECTION (B) HEREOF, TAXPAYERS MAY CONTINUE TO ISSUE VAT INVOICES AND VAT OFFICIAL RECEIPTS UNTIL DECEMBER 31, 2020 IN ACCORDANCE WITH DEPARTMENT OF FINANCE ISSUANCES AND BUREAU OF INTERNAL REVENUE ADMINISTRATIVE PRACTICES THAT EXISTED AS OF DECEMBER 31, 2019.”

“SEC. 111. RETURN AND PAYMENT OF SALES TAX. –

“(A) IN GENERAL. - EVERY PERSON LIABLE TO PAY THE SALES TAX IMPOSED UNDER THIS TITLE SHALL FILE A QUARTERLY RETURN OF THE AMOUNT OF HIS GROSS SALES OR RECEIPTS WITHIN TWENTY-FIVE (25) DAYS FOLLOWING THE CLOSE OF EACH TAXABLE QUARTER PRESCRIBED FOR EACH TAXPAYER: PROVIDED, HOWEVER, THAT THE TAXPAYER SHALL PAY THE SALES TAX ON A MONTHLY BASIS.

“ANY PERSON, WHOSE REGISTRATION HAS BEEN CANCELLED IN ACCORDANCE WITH SECTION 233, SHALL FILE A RETURN AND PAY THE TAX DUE THEREON WITHIN TWENTY-FIVE (25) DAYS FROM THE DATE OF CANCELLATION OF REGISTRATION: PROVIDED, THAT ONLY ONE CONSOLIDATED RETURN SHALL BE

FILED BY THE TAXPAYER FOR HIS PRINCIPAL PLACE OF BUSINESS OR HEAD OFFICE AND ALL BRANCHES.

"(B) WHEN TO FILE THE RETURN AND PAY THE TAX. – EXCEPT AS THE COMMISSIONER OTHERWISE PERMITS, THE RETURN SHALL BE FILED WITH AND THE TAX PAID TO AN AUTHORIZED AGENT BANK, REVENUE COLLECTION OFFICER OR DULY AUTHORIZED CITY OR MUNICIPAL TREASURER IN THE PHILIPPINES LOCATED WITHIN THE REVENUE DISTRICT WHERE THE TAXPAYER IS REGISTERED OR REQUIRED TO REGISTER.

"(C) WITHHOLDING OF SALES TAX. – THE GOVERNMENT OR ANY OF ITS POLITICAL SUBDIVISIONS, INSTRUMENTALITIES OR AGENCIES, INCLUDING GOVERNMENT-OWNED OR CONTROLLED CORPORATIONS (GOCCs) SHALL, BEFORE MAKING PAYMENT ON ACCOUNT OF EACH PURCHASE OF GOODS AND SERVICES WHICH ARE SUBJECT TO THE SALES TAX IMPOSED IN SECTIONS 106 AND 108 OF THIS CODE, DEDUCT AND WITHHOLD THE SALES TAX IMPOSED IN SECTIONS 106 AND 108 OF THIS CODE AT THE RATE OF FOUR PER CENT (4%) OF THE GROSS PAYMENT THEREOF. PAYMENT FOR LEASE OR USE OF PROPERTIES OR PROPERTY RIGHTS TO NONRESIDENT OWNERS SHALL ALSO BE SUBJECT TO FOUR PER CENT (4%) WITHHOLDING TAX AT THE TIME OF PAYMENT. FOR PURPOSES OF THIS SECTION, THE PAYOR OR PERSON IN CONTROL OF THE PAYMENT SHALL BE CONSIDERED AS THE WITHHOLDING AGENT.

"THE SALES TAX WITHHELD UNDER THIS SECTION SHALL BE REMITTED WITHIN TEN (10) DAYS FOLLOWING THE END OF THE MONTH THE WITHHOLDING WAS MADE."

"SEC. 112. POWER OF THE COMMISSIONER TO SUSPEND THE BUSINESS OPERATIONS OF A TAXPAYER. – THE COMMISSIONER OR HIS AUTHORIZED REPRESENTATIVE IS HEREBY EMPOWERED TO SUSPEND THE BUSINESS OPERATIONS AND TEMPORARILY CLOSE THE BUSINESS ESTABLISHMENT OF ANY PERSON FOR ANY OF THE FOLLOWING VIOLATIONS:

"(A) IN THE CASE OF SALES TAX REGISTERED PERSON. –

"(1) FAILURE TO ISSUE RECEIPTS OR INVOICES;

"(2) FAILURE TO FILE A SALES TAX RETURN AS REQUIRED UNDER

SECTION 111; OR

"(3) UNDERSTATEMENT OF TAXABLE SALES OR RECEIPTS BY THIRTY PER CENT (30%) OR MORE OF HIS CORRECT TAXABLE SALES OR RECEIPTS FOR THE TAXABLE QUARTER.

"(B) FAILURE OF ANY PERSON TO REGISTER AS REQUIRED UNDER SECTION 233. THE TEMPORARY CLOSURE OF THE ESTABLISHMENT SHALL BE FOR THE DURATION OF NOT LESS THAN FIVE (5) DAYS AND SHALL BE LIFTED ONLY UPON COMPLIANCE WITH WHATEVER REQUIREMENTS PRESCRIBED BY THE COMMISSIONER IN THE CLOSURE ORDER."

SEC. 2. Section 116, Title V of the National Internal Revenue Code, as amended, is hereby renumbered and amended to read as follows:

"SEC. 113 [116]. Tax on Persons Exempt from SALES TAX [Value-Added Tax (VAT)]. – Any person whose sales or receipts are exempt under Section 109(FF) [(V)] of this Code from the payment of **SALES** [value-added] tax and who is not a **SALES TAX** [VAT-] registered person shall pay a tax equivalent to three percent (3%) of his gross quarterly sales or receipts: Provided, That cooperatives shall be exempt from the three percent (3%) gross receipts tax herein imposed."

All succeeding sections of the Code are hereby renumbered accordingly.

SEC. 3. Section 236, Chapter II, Title IX of the National Internal Revenue Code, as amended, is hereby renumbered and amended to read as follows:

"SEC. 233 [236]. Registration Requirements. -

"(A) X X X

"(B) X X X

"(C) X X X

"(D) X X X

"(E) X X X

"(F) Cancellation of Registration. -

"(1) General Rule. - The registration of any person who ceases to be liable to

a tax type shall be cancelled upon filing with the Revenue District Office where he is registered an application for registration information update in a form prescribed therefor.

"(2) Cancellation of **SALES [Value-Added] Tax Registration**. – A **SALES TAX [VAT-]** registered person may cancel his registration for **SALES TAX [VAT]** if:

"(a) He makes written application and can demonstrate to the Commissioner's satisfaction that his gross sales or receipts for the following twelve (12) months, other than those that are exempt under Section 109 (A) to (EE) [(U)], will not exceed **THREE MILLION PESOS (P3,000,000.00)** [One million five hundred thousand pesos (P1,500,000)]; or

"(b) He has ceased to carry on his trade or business, and does not expect to recommence any trade or business within the next twelve (12) months.

"The cancellation of registration will be effective from the first day of the following month.

"(G) Persons Required to Register for **SALES [Value-Added] Tax**. –

"(1) Any person who, in the course of trade or business, sells, barter or exchanges goods or properties, or engages in the sale or exchange of services, shall be liable to register for **SALES [value added] tax** if:

"(a) His gross sales or receipts for the past twelve (12) months, other than those that are exempt under Section 109(A) to (FF) [(V)], have exceeded **THREE MILLION PESOS (P3,000,000.00)** [One million five hundred thousand pesos (P1,500,000)]; or

"(b) There are reasonable grounds to believe that his gross sales or receipts for the next twelve (12) months, other than those that are exempt under Section 109(A) to (FF) [(V)], will exceed **THREE MILLION PESOS (P3,000,000.00)** [One million five hundred thousand pesos (P1,500,000)]; or

"(2) Every person who becomes liable to be registered under paragraph (1) of this Subsection shall register with the Revenue District Office which has jurisdiction over the head office or branch of that person, and shall pay the annual registration fee prescribed in Subsection (B) hereof. If he fails to register, he shall be liable to pay the tax under Title IV as if he were a **SALES TAX [VAT-]** registered person [, but without the benefit of input tax credits for the period in which he was not properly registered].

"(H) Optional Registration for **SALES** [Value-Added] Tax of Exempt Person.

—

"(1) Any person who is not required to register for **SALES** [value-added] tax under Subsection (G) hereof may elect to register for **SALES** [value-added] tax by registering with the Revenue District Office that has a jurisdiction over the head office of that person, and paying the annual registration fee in Subsection (B) hereof.

"(2) Any person who elects to register under this Subsection shall not be entitled to cancel his registration under Subsection (F) (2) for the next three (3) years.

"For purposes of Title IV of this code, any person who has registered **SALES** [value-added] tax as a tax type in accordance with the provisions of Subsection (C) hereof shall be referred to as a '**SALES TAX** [VAT-] registered person' who shall be assigned only one Taxpayer Identification Number (TIN)."

SEC. 4. All exemptions from value-added tax mandated in other special laws shall continue to be recognized as exemptions from the sales tax imposed by this Act.

All other reference to value-added tax elsewhere in the Code or in other laws, executive orders, and rules and regulations shall henceforth be understood as referring to sales tax.

SEC. 5. Upon the effectivity of this Act, no carry-over of excess input taxes as of December 31, 2020 shall be allowed. Nonetheless, all VAT-registered persons may claim for refund or apply for the issuance of tax credit certificate of their excess input taxes as of December 31, 2020. Claims for refund or application for tax credit certificate from zero-rated or effectively zero-rated sales as of December 31, 2020 shall also be allowed. All such claims for refund or application of tax credit certificates should be filed before the Commissioner of Internal Revenue not later than December 31, 2022.

SEC. 6. The Department of Finance and the Bureau of Internal Revenue shall promulgate the necessary rules and regulations for the effective implementation of this Act.

SEC. 7. If any part or provision of this Act is declared invalid or unconstitutional, the remaining parts or provisions not affected shall remain in full

force and effect.

SEC. 8. All laws, decrees, executive orders, rules and regulations or parts thereof which are contrary to or inconsistent with the provisions of this Act are hereby repealed, amended or modified accordingly.

SEC. 9. This Act shall take effect on January 1, 2021, following its complete publication in the Official Gazette or in a newspaper of general circulation.

Approved.