Republic of the Philippines
HOUSE OF REPRESENTATIVES
Batasan Hills, Quezon City

EIGHTEENTH CONGRESS
First Regular Session

HOUSE BILL NO. 481

Introduced by
REP. ARLENE D. BROSAS (Gabriela Women's Party),
REPS. CARLOS ISAGANI T. ZARATE, FERDINAND R. GAITE, EUFEMIA C. CULLAMAT (Bayan Muna),
REP. FRANCE L. CASTRO (ACT Teachers Partylist) and REP. SARAH JANE I. ELAGO (Kabataan Partylist)

EXPLANATORY NOTE

The House of Representatives has been given the exclusive mandate of originating tariff bills. Both the 1973 (Article VIII, Section 17) and the 1987 (Article VI, Section 28) Philippine constitution directed Congress to "evolve a progressive system of taxation".

A progressive system of taxation assumes the imposition of a heavier tax burden for those who have larger incomes. Progressive taxes attempt to reduce the tax incidence of people with a lower ability to pay, as they shift the incidence increasingly to those with a higher ability to pay.

However, bowing under pressures from the International Monetary fund, successive post-Martial Law administrations instituted a regressive system of taxation where the relative tax rate or burden increases as an individual's ability to, pay decreases, thereby imposing enormous tax burdens on the poorest of the poor.

The Value-Added Tax (VAT), which is an indirect tax, is widely criticized as a regressive form of taxation. VAT was first imposed under the Philippine taxation system by President Corazon Aquino in July 1987 when she signed Executive Order 273. The VAT was further institutionalized when former president Fidel Ramos signed into law RA 8424 or the Tax Reform Act of 1997.

R.A. 8424 expanded the coverage of VAT to include basic necessities such as rice, corn, fresh, dried and canned fish, fresh pork, beef and poultry meat, fresh eggs, fresh vegetables, root crops, coffee, sugar, cooking oil, salt, laundry soap, detergents, firewood, charcoal, candles, and drugs classified as essential by the Department of Health.

This was further exacerbated when the value-added tax was perpetuated and its coverage expanded by Republic Act 9337, which was signed into law by former President Gloria Macapagal-Arroyo on 24 May 2005 . Worse, under RA 9337, VAT was imposed on such socially volatile products as gasoline and other petroleum products.

In an attempt to convince the public on the merits of VAT, the Department of Finance claimed that since VAT is a consumption tax, those who consume more will be taxed more. "In the case of fuel," the DOF primer reads, "the richest 30% of Filipino families consume about 65% of the total fuel used in the country while the poorest 30% only account for about 8% of the total consumption."

IBON Foundation, an independent think tank, clarified that the issue is not who consumes more but the impact of the price hike on the actual income of the poor, which is the most important case against the VAT. Even if poor families consume less fuel than the rich, the effect on them of higher oil prices because of the VAT is greater because of their smaller incomes compared to those of the rich.

VAT, an indirect and "passable" tax, corners poor end-users who are not in a position to further pass on the tax. It is an "end of the line" tax. Everyone else in front or in between this line has the capacity to be immune. Worse, given the inefficiency of our country's tax collection and administration, those who can pass on this tax may even stand to profit from its imposition via the input and output VAT scheme, among others.

VAT is a tax on the poor and the government certainly has many other options. The end-users, especially those steeped in poverty, should not be made to pay for the government's inefficient tax collection. No amount of government explanation can justify the creation or imposition of taxes that will mostly impact on the poorest of the poor. Even in the face of a fiscal crisis which admittedly calls for revenue generation, the government has the burden of proving that all other options are absolutely unavailable before it can even sell the idea of further taxing the poor.

Taking the foregoing into consideration, VAT cannot be said to be a fair, just, equitable and progressive form of taxation. Thus, poor end-users have all the reasons to strongly oppose the imposition of VAT.

Women intensely feel the crunch of the increase in oil prices and the consequent hike in the prices of basic commodities and services. Three (3) rounds of oil price hike have been noted since the start of the Duterte Administration (August, September and November 2016), and several rounds of increase have been observed in the price of oil and basic necessities after the implementation of the Tax Reform for Acceleration and Inclusion (TRAIN) Law. As family budget shrinks, food on the table becomes scarce, health services become less accessible and education becomes a luxury. Women need to find ways to augment the family income or in most instances poor women just have to contend themselves with sacrificing their own needs just so their families could survive the daily economic hardships.

According to the 2015 Family Income and Expenditure Survey, food expenditures as well as water, electricity, and other gas fuel are the top expenses of the bottom 30% of all income groups. Meanwhile, 2018 level of wages continue to be depressed for workers earning minimum wage income at Php270 (ARMM)–Php537 (NCR).[1] As of June 2018, the economic think-tank IBON Foundation, Inc. (IBON) estimates a cost of living of Php1,175.00 for a family of six living in the National Capital Region to meet their basic needs.

'IBON asserts that removing the VAT on oil would provide relief to a large number of consumers and stimulate economic activity. They estimate that without the 12°/o VAT, oil pump prices would go down as much as Php5 per liter. These savings mean more money for consumers to spend directly on their needs and less production cost for fuel-intensive businesses.

If needed, there are available alternatives to VAT - alternatives that do not promote a regressive form of taxation but rather a progressive system of taxation that our Constitution mandates this august body to evolve. There are available revenue measures that do not further burden the poorest of our constituents.

Oppositors of the RVAT point out that instead of burdening the poor with increases in taxes, the government could have reviewed the tax exemptions being provided to large corporations amounting to around Php229.1 billion in potential revenues in 2003 alone. A study of the House of Representatives in 2006 on

[1]http://www.nwpc.dole.gov.ph/stats/current-nominal-minimum-wage-rates/

foregone revenue due to incentives found that this amounted to Php150 billion. These include tax incentives and tax holidays for 3 to 8 years for 100% foreign-owned corporations registered with Special Economic Zones and the Board of Investments.

IBON Foundation, further pointed out that tax leakages costs the country about Php215 billion to Php285 billion in lost revenues.

Meanwhile, corruption in government siphons about 20 o 30 percent of the national budget based on a study by the National Tax Research Center. These alone are enough measures to counterbalance the unjust imposition of VAT on oil and petroleum products as well as basic necessities that poor families consume on a daily basis.

It is in this light that immediate passage of this bill which exempts the imposition of the value added tax on basic necessities, prime commodities, oil, and petroleum products is earnestly sought.

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AN ACT EXEMPTING OIL, LPG, AND OTHER BASIC NECESSITIES, FROM THE IMPOSITION OF THE VALUE-ADDED TAX, AMENDING FOR THE PURPOSE SECTION 109 (1) OF REPUBLIC ACT 8424, OTHERWISE KNOWN AS THE TAX REFORM ACT OF 1997, AS AMENDED BY REPUBLIC ACT NO. 9337 AND FOR OTHER PURPOSES

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

SECTION 1. Section 109 (1), Chapter 1, Title IV of RA 8424, otherwise known as the Tax Reform Act of 1997, as amended by RA 9337, is hereby further amended to read as follows:

SECTION 109. ***Exempt Transactions.*** **- (1) Subject to the provisions of subsection (2) hereof, the following transactions shall be exempt from the value-added tax:**

"(A) xxx

After paragraph A, insert the following paragraphs (B) and (C).

"(B) SALE OR IMPORTATION OF BASIC NECESSITIES CONSUMED ON A REGULAR BASIS BY POOR FAMILIES, WHICH INCLUDE BREAD; CANNED FISH AND OTHER MARINE PRODUCTS; NOODLES; BISCUITS; SUGAR; COOKING OIL; SALT; LAUNDRY SOAP; DETERGENTS; FIREWOOD; CHARCOAL; CANDLES; AND DRUGS CLASSIFIED AS ESSENTIAL BY THE DEPARTMENT OF HEALTH;

"(C) THE SALE OF OIL, GASOLINE, LPG, KEROSENE AND OTHER PETROLEUM PRODUCTS;

And re-letter the succeeding paragraphs as from D to X.

SECTION 2. *Implementing Rules and Regulations.* The Secretary of Finance shall, upon the recommendations of the Commissioner of Internal Revenue, promulgate not later than 15 days upon the effectivity of this Act, the necessary Rules and Regulations, all former rules and regulations pertaining to value-added tax shall be deemed revoked.

SECTION 3. *Separability Clause.* Any provision or portion of this act that may be declared unconstitutional shall not have the effect of nullifying other parts thereof.

SECTION 4. *Repealing Clause.* All laws, acts, decrees, executive orders, issuances, and rules and regulations or parts thereof which are contrary to, and inconsistent with any provisions of this Act are hereby repealed, amended or modified accordingly.

SECTION 5. *Effectivity Clause.* This Act shall take effect fifteen (15) days after its complete publication in the Official Gazette or in newspaper of general circulation.

Approved,