

EIGHTEENTH CONGRESS OF THE )  
REPUBLIC OF THE PHILIPPINES )  
*First Regular Session* )



**HOUSE OF REPRESENTATIVES**

**H. B. No. 4551**

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Introduced by Rep. Vilma Santos-Recto  
6th District of Batangas

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**AN ACT**  
**EXEMPTING THE SALE OR IMPORTATION OF PETROLEUM PRODUCTS AND**  
**SALE OF ELECTRICITY FROM THE VALUE ADDED TAX, AMENDING FOR**  
**THIS PURPOSE SECTIONS 108 AND 109 OF THE NATIONAL INTERNAL**  
**REVENUE CODE OF 1997, AS AMENDED**

**EXPLANATORY NOTE**

This proposed measure seeks to restore the VAT exemption on the sale or importation of petroleum products and sale of electricity. In November 2005, Republic Act No. 9337, otherwise known as the Reformed Value-Added Tax (RVAT) Law, removed the VAT exemption of these products, among others.

In 2004, the national government (NG) posted a debt and fiscal deficit of P3.8 Trillion and P 187 Billion, respectively<sup>1</sup>. As a percentage of GDP, the debt is at 74.4% and fiscal deficit at 3.7%.<sup>2</sup> These figures prompted the government to push for some fiscal measures such as the enactment of the RVAT Law to avert a fiscal crisis and lower the risk of default in debt payment.

The primary objective of the RVAT Law is to widen the tax base by removing a number of products and services from the list of exempt transactions under the National Internal Revenue Code of 1997, as amended, thereby increasing revenue collections. This is in line with the principle that in order for the VAT system to be effective, it should be broad-based and with limited exemptions.

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<sup>1</sup> Source of Basic Data: Bureau of Treasury

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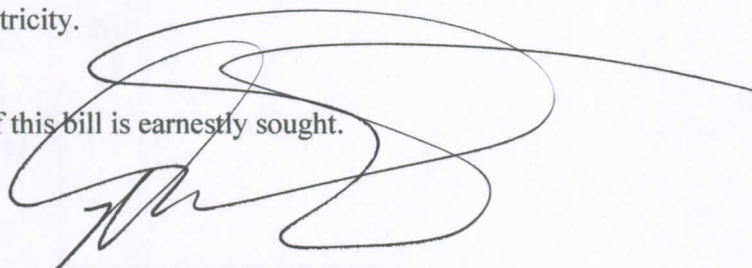
The VAT reform provides a steady revenue stream for the government to finance various infrastructure projects and social programs. Likewise, it has played a major role in averting a looming financial crisis in 2004 and in weathering the 2008 global financial crisis.

Undoubtedly, the VAT reform has produced significant and positive effects on our economy. In fact, 2018 figures would show that our economy has since recovered as the NG debt-to-GDP ratio greatly improved at 41.8% and NG deficit-to-GDP at 3.2%.<sup>3</sup> However, as a consequence, such effect is also inflationary. VAT is an indirect tax that is passed on to the consumers of goods and services. Therefore, its imposition on the sale of certain products particularly petroleum products and electricity has the effect of increasing the prices of basic goods and services.

In December 2017, another revenue generating measure but with inflationary impact was enacted, Republic Act No. 10963, or the Tax Reform for Acceleration and Inclusion (TRAIN) Law. It was intended to finance, at least partially, the Build, Build, Build Program and other social services of the government. However, this law imposes additional excise tax on petroleum products, and just like the VAT, it has the effect of increasing the prices of goods and services.

The increased excise taxes and the imposition of VAT on petroleum products are too much of a burden on the consumers. To mitigate such burden, it is high time to restore the VAT exemption of petroleum products and electricity.

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



**VILMA SANTOS-RECTO**

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<sup>3</sup> Source of Basic Data: Bureau of Treasury

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AN ACT  
EXEMPTING THE SALE OR IMPORTATION OF PETROLEUM PRODUCTS AND  
SALE OF ELECTRICITY FROM THE VALUE-ADDED TAX, AMENDING FOR  
THIS PURPOSE SECTIONS 108 AND 109 OF THE NATIONAL INTERNAL  
REVENUE CODE OF 1997, AS AMENDED

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

1           Section 1. Section 108 of the National Internal Revenue Code of 1997, as amended, is  
2 hereby further amended to read as follows:

3                   “Sec. 108. *Value-Added Tax on Sale of Services and Use or Lease of*  
4 *Properties.* –

5                   “(A) *Rate and Base of Tax.* – There shall be levied, assessed and collected,  
6 a value-added tax equivalent to twelve percent (12%) of gross receipts derived  
7 from the sale or exchange of services, including the use or lease of properties.

8                   “The phrase ‘sale or exchange of services’ means the performance of all  
9 kinds of services in the Philippines for others for a fee, remuneration or  
10 consideration, including those performed or rendered by construction and service  
11 contractors; stock, real estate, commercial, customs and immigration brokers;  
12 lessors of property, whether personal or real; warehousing services; lessors or  
13 distributors of cinematographic films; persons engaged in milling, processing,  
14 manufacturing or repacking goods for others; proprietors, operators or keepers of  
15 hotels, motels, rest houses, pension houses, inns, resorts; proprietors or operators  
16 of restaurants, refreshment parlors, cafes and other eating places, including clubs  
17 and caterers; dealers in securities; lending investors; transportation contractors on



1 their transport of goods or cargoes, including persons who transport goods or  
2 cargoes for hire and other domestic common carriers by land relative to their  
3 transport of goods or cargoes; common carriers by air and sea relative to their  
4 transport of passengers, goods or cargoes from one place in the Philippines to  
5 another place in the Philippines; ~~[sales of electricity by generation companies,~~  
6 ~~transmission by any entity, and distribution companies, including electric~~  
7 ~~cooperatives]~~; services of franchise grantees of ~~{electric utilities,}~~ telephone and  
8 telegraph, radio and television broadcasting and all other franchise grantees except  
9 those under Section 119 of this Code and non-life insurance companies (except  
10 their crop insurances), including surety, fidelity, indemnity and bonding  
11 companies; and similar services regardless of whether or not the performance  
12 thereof calls for the exercise or use of the physical or mental faculties. The phrase  
13 'sale or exchange of services' shall likewise include:

14 "xxx."

15 Sec. 2. Section 109 of the National Internal Revenue Code of 1997, as amended, is  
16 hereby further amended to read as follows:

17 "Sec. 109. *Exempt Transactions.* –

18 "(1) Subject to the provisions of Subsection (2) hereof, the following  
19 transactions shall be exempt from the value-added tax:

20 "(A) xxx;

21 "xxx;

22 "(AA) Sale of drugs and medicines prescribed for diabetes, high cholesterol,  
23 and hypertension beginning January 1, 2019; ~~{and}~~

24 **"(BB) SALE OR IMPORTATION OF PETROLEUM PRODUCTS ;**

25 **"(CC) SALE OR IMPORTATION OF RAW MATERIALS TO BE**  
26 **USED BY THE BUYER OR IMPORTER HIMSELF IN THE**  
27 **MANUFACTURE OF PETROLEUM PRODUCTS;**

28 **"(DD) SALE OF ELECTRICITY BY GENERATION COMPANIES,**  
29 **TRANSMISSION BY ANY ENTITY, AND DISTRIBUTION COMPANIES,**  
30 **INCLUDING ELECTRIC COOPERATIVES; AND**

31 ~~"{BB} (EE)~~ Sale or lease of goods or properties or the performance of services  
32 other than the transactions mentioned in the preceding paragraphs, the gross annual  
33 sales and/or receipts do not exceed the amount of Three million pesos (P3,000,000).

34 "(2) xxx."

1           Sec. 3. *Implementing Rules and Regulations (IRR)*. – Within thirty (30) days from the  
2   effectivity of this Act, the Secretary of Finance, upon the recommendation of the  
3   Commissioner of Internal Revenue, shall promulgate the necessary rules and regulations for  
4   its effective implementation.

5           Sec. 4. *Repealing Clause*. – All laws, acts, decrees, executive orders, issuances, and  
6   rules and regulations or parts thereof which are contrary to and inconsistent with this Act are  
7   hereby repealed, amended or modified accordingly.

8           Sec. 5. *Effectivity*. – This Act shall take effect fifteen (15) days after its complete  
9   publication in the *Official Gazette* or in at least two (2) newspapers of general circulation.

          Approved,