SEVENTEENTH CONGRESS)
REPUBLIC OF THE PHILIPPINES)
First Regular Session)

HOUSE OF REPRESENTATIVES

H.B. No. 4156

Introduced by REP. LUISA LLOREN CUARESMA
LONE DISTRICT OF NUEVA VIZCAYA

EXPLANATORY NOTE

The Travel and Tourism Competitiveness Report released by the World Economic Forum at the Global Tourism Forum 2011 held in Andorra revealed that the Philippines ranked 94th out of the 139 countries in terms of most attractive environments for developing the travel and tourism industry. This dismal performance can be attributed to our low ratings in the travel and tourism regulatory framework, as well as in business environment and infrastructure.

The Board of Airline Representatives (BAR) which represents the biggest foreign airlines operating in the country considers both the three percent (3%) Common Carriers Tax (CCT) and the two and a half percent (2.5%) Gross Philippine Billings Tax (GBP) on all cargo and passenger revenue originating from the Philippines in an uninterrupted flight, regardless of the place of sale or issue of ticket as discriminatory taxes that target the foreign airlines and give undue advantage to local companies. The Philippines is the only country that charge such taxes while other Asian countries offer incentives to foreign carriers.

Due to the imposition of these taxes, Air France and the KLM Royal Dutch Airlines decided to stop flights between Amsterdam and Manila. This is the last direct link of the Philippines to Europe. Carriers with extensive global networks had either left the Philippines or shifted capacity to the benefit of neighboring countries' tourism and trade.

The International Air Transport Association (IATA) commissioned Oxford Economics to undertake a study of 54 countries to quantify the benefits of aviation.

From visiting family and friends to shipping high value products, 27 million passengers and 596,000 tons of freight travel to, from and within the Philippines. The value placed on these services is likely to significantly exceed the expenditure. Oxford Economics estimates that the benefit to travelers is worth around P575 billion and the estimated benefit to shippers is about P34 billion.

All of these benefits however would be offset by excessive tax burden on foreign carriers operating in the Philippines. The impact of taxation on aviation would most adversely impact leisure travelers given their high sensitivity to changes in price. IATA said the removal of the CCT and the gross Philippine billings (GPB) would bring down the cost of international travel to the country by 2.5 percent, and increase the number of international arrivals by 1.9 percent. Removing the said taxes also would redound to tourism proceeds of $38 billion to $78 million, as well as to a $1 billion boost to exports.

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

Luisa Lloren Cuaresma

REP. LUISA LLOREN CUARESMA

SEVENTEENTH CONGRESS OF THE)
REPUBLIC OF THE PHILIPPINES)
First Regular Session)

HOUSE OF REPRESENTATIVES

H.B. No. 4156

Introduced by Rep. Luisa Lloren Cuaresma

AN ACT RATIONALIZING THE TAX EXEMPTIONS ON INTERNATIONAL AIR CARRIERS OPERATING IN THE PHILIPPINES, AMENDING FOR THE PURPOSE CERTAIN SECTIONS OF THE NATIONAL INTERNAL REVENUE CODE OF 1997, AS AMENDED

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

SECTION 1. Section 28 (A) (3) (a) of The National Internal Revenue Code of 1997, as amended, is hereby further amended to read as follows:

"SEC. 28. Rates of Income Tax on Foreign Corporations. –

"(A) Tax on Resident Foreign Corporations. –

(1) xxx

(2) x x x

(3) International Carrier. - An international carrier doing business in the Philippines shall pay a tax of two and one-half percent (2.5%) on its 'Gross Philippine Billings' as defined hereunder:

"(a) International Air Carrier. - 'Gross Philippine Billings' refers to the amount of gross revenue derived from carriage of persons, excess baggage, cargo and mail originating from the Philippines in a continuous and uninterrupted flight, irrespective of the place of sale or issue and the place of payment of the ticket or passage document: Provided, That tickets revalidated, exchanged and/or indorsed to another international airline from part of the Gross Philippine Billings if the passenger boards a plane in a port or point in the Philippines: Provided, further, That for a flight which originates from the Philippines, but transshipment of passenger takes place at any port outside the Philippines on another airline, only the aliquot portion of the cost of the ticket corresponding to the leg flown from the Philippines to the point of transshipment shall from part of Gross Philippine Billings.

"*PROVIDED*, THAT INTERNATIONAL AIR CARRIERS DOING BUSINESS IN THE PHILIPPINES SHALL NOT BE LIABLE TO PAY THE GROSS PHILIPPINE BILLINGS HEREIN PROVIDED PURSUANT TO THE PRINCIPLE OF RECIPROCITY: PROVIDED, FURTHER, THAT THE GRANT OF RECIPROCAL EXEMPTIONS TO

INTERNATIONAL AIR CARRIERS SHALL ENTER INTO FORCE TIIIRTY (30) DAYS FROM THE EXCHANGE OF DIPLOMATIC NOTES BETWEEN THE PHILIPPINESAND THE FOREIGN JURISDICTION CONCERNED: PROVIDED, FINALLY, THAT SAID DIPLOMATIC NOTES SHALL CONSTITUTE THE AGREEMENT BETWEEN THE TWO (2) COUNTRIES.

"(b) xxx."

"Disbursements from the Fund shall be made solely for the protection, maintenance, administration, and management of the System, and duly approved projects endorsed by the PAMBs, in the amounts authorized by the DENR IN ACCORDANCE WITH EXISTING ACCOUNTING, BUDGETING AND AUDITING RULES AND REGULATIONS: PROVIDED, FURTHER, THAT THE FUND SHALL NOT BE USED TO COVER PERSONAL SERVICES EXPENDITURE."

SECTION 2. Separability Clause. - If any part of this Act is declared invalid or unconstitutional, such declaration shall not affect the other parts of this Act.

SECTION 3. Repealing Clause. - All laws, acts, presidential decrees, executive orders, administrative orders, rules and regulations inconsistent herewith or contrary to the provisions of this Act are deemed amended, modified or repealed accordingly.

SECTION 4. Effectivity Clause. - This Act shall take effect fifteen (15) days after its publication in the Official Gazelle or in two (2) newspapers of general circulation.

Approved,