

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

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SENATE  
Senate of the Philippines

**SENATE**

19 JUL 11 P1:12

S. No. 355

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**INTRODUCED BY SENATOR RISA HONTIVEROS**

**AN ACT**

**AMENDING SECTIONS 106, 107, 108, 109, AND 112 OF REPUBLIC ACT NO. 8424, OTHERWISE KNOWN AS THE "TAX REFORM ACT OF 1997," AS AMENDED, AND FOR OTHER PURPOSES**

**EXPLANATORY NOTE**

As our tax system becomes more efficient and corruption is weeded out by our modernizing revenue bureaucracy, we will want to rely less on taxes that are easily passed on to final consumers, such as the Value-Added Tax (VAT).

After the recent passage of the Tax Reform for Acceleration and Inclusion (TRAIN) Act, which significantly reduced the number of exemptions to the VAT, the Department of Finance (DOF) has stated that we can expect an improvement in the efficiency of tax collection.

This efficiency should allow us to provide relief for the lower economic deciles of our population by lowering the VAT rate to 10%

There is also a need to align our tax system with that of the region. Thus, once the collections from a VAT rate of 10% reach 4-5% of GDP - which represents an amount exceeding the revenue being generated by Thailand's VAT rate of 7% - there is ample room to further reduce the VAT rate to achieve full alignment with the ASEAN norm of 8%.

Hence, the immediate passage of this measure is earnestly sought

*Risa Hontiveros*  
**RISA HONTIVEROS**

**Senator**

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AN ACT

**AMENDING SECTIONS 106, 107, 108, 109, AND 112 OF REPUBLIC ACT NO. 8424, OTHERWISE KNOWN AS THE "TAX REFORM ACT OF 1997," AS AMENDED, AND FOR OTHER PURPOSES**

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

1       Section 1. *Short Title.* – This Act shall be known as the "Bawas VAT Act of  
2       2019."

3       Sec. 2. Section 106 (A) of Republic Act No. 8424, otherwise known as the Tax  
4       Reform Act of 1997, is hereby amended to read as follows:

5       (A) Rate and Base of Tax. - There shall be levied, assessed and  
6       collected on every sale, barter or exchange of goods or properties,  
7       value-added tax equivalent to twelve percent (12%) of the gross selling  
8       price or gross value in money of the goods or properties sold, bartered  
9       or exchanged, such tax to be paid by the seller or transferor:

10      **PROVIDED, THAT EFFECTIVE JANUARY 1, 2019, THE RATE OF  
11       VALUE ADDED TAX (VAT) SHALL BE REDUCED TO TEN PERCENT  
12       (10%); AND PROVIDED, FURTHER, THAT THE PRESIDENT  
13       SHALL, EFFECTIVE JANUARY 1, 2022, REDUCE THE RATE OF  
14       VAT TO EIGHT PERCENT (8%) SHOULD THE PREVIOUS YEAR'S  
15       REALIZED REVENUES FROM VALUE ADDED TAX REPORTED IN  
16       THE BUDGET OF EXPENDITURES AND SOURCES OF FINANCING  
17       SUBMITTED TO CONGRESS EQUAL OR EXCEED FOUR POINT  
18       FIVE PERCENT (4-5%) AS A PERCENTAGE OF GROSS  
19       DOMESTIC PRODUCT (GDP).**

1 Sec. 3. Section 107 (A) of Republic Act No. 8424, otherwise known as the Tax  
2 Reform Act of 1997, is hereby amended to read as follows:

3 (A) In General. - There shall be levied, assessed and collected on every  
4 importation of goods value-added tax equivalent to twelve percent  
5 (12%) based on the total value used by the Bureau of Customs in  
6 determining tariff and customs duties, plus customs duties, excise  
7 taxes, if any, and other charges, such tax to be paid by the importer  
8 prior to the release of such goods from customs custody: Provided,  
9 That where the customs duties are determined on the basis of quantity  
10 or volume of the goods, the value-added tax shall be based on the  
11 landed cost plus excise taxes, if any; **PROVIDED, THAT EFFECTIVE**  
12 **JANUARY 1, 2019, THE RATE OF VALUE ADDED TAX (VAT)**  
13 **SHALL BE REDUCED TO TEN PERCENT (10%); AND PROVIDED,**  
14 **FURTHER, THAT THE PRESIDENT SHALL, EFFECTIVE JANUARY**  
15 **1, 2022, REDUCE THE RATE OF VAT TO EIGHT PERCENT (8%)**  
16 **SHOULD THE PREVIOUS YEAR'S REALIZED REVENUES FROM**  
17 **VALUE ADDED TAX REPORTED IN THE BUDGET OF**  
18 **EXPENDITURES AND SOURCES OF FINANCING SUBMITTED TO**  
19 **CONGRESS EQUAL OR EXCEED FOUR POINT FIVE PERCENT (4-**  
20 **5%) AS A PERCENTAGE OF GROSS DOMESTIC PRODUCT**  
21 **(GDP).**

22 Sec. 4. Section 108 (A) of Republic Act No. 8424, otherwise known as the Tax  
23 Reform Act of 1997, is hereby amended to read as follows:

24 (A) Rate and Base of Tax. - There shall be levied, assessed and  
25 collected on every sale, barter or exchange of goods or properties,  
26 value-added tax equivalent to twelve percent (12%) of gross receipts  
27 derived from the sale or exchange of services, including the use or  
28 lease of properties~~[.]~~:**PROVIDED, THAT EFFECTIVE JANUARY 1,**  
29 **2019, THE RATE OF VALUE ADDED TAX (VAT) SHALL BE**  
30 **REDUCED TO TEN PERCENT (10%); AND PROVIDED, FURTHER,**  
31 **THAT THE PRESIDENT SHALL, EFFECTIVE JANUARY 1, 2022,**  
32 **REDUCE THE RATE OF VAT TO EIGHT PERCENT (8%) SHOULD**  
33 **THE PREVIOUS YEAR'S REALIZED REVENUES FROM VALUE**  
34 **ADDED TAX REPORTED IN THE BUDGET OF EXPENDITURES**  
35 **AND SOURCES OF FINANCING SUBMITTED TO CONGRESS**

1           **EQUAL OR EXCEED FOUR POINT FIVE PERCENT (4-5%) AS A**  
2           **PERCENTAGE OF GROSS DOMESTIC PRODUCT (GDP).**

3           Sec. 5. Section 108 (B) of Republic Act No. 8424, otherwise known as the Tax  
4           Reform Act of 1997, is hereby amended to read as follows:

5           (1) xxx

6           [(2) Services other than those mentioned in the preceding paragraph,  
7           rendered to a person engaged in business conducted outside the  
8           Philippines or to a nonresident person not engaged in business who is  
9           outside the Philippines when the services are performed, the  
10          consideration for which is paid for in acceptable foreign currency and  
11          accounted for in accordance with the rules and regulations of the  
12          Bangko Sentral ng Pilipinas (BSP);]

13          **(2) [(3)]** Services rendered to persons or entities whose exemption  
14          under special laws or international agreements to which the Philippines  
15          is a signatory effectively subjects the supply of such services to zero  
16          percent (0%) rate;

17          (3) Services rendered to persons engaged in international shipping or  
18          international air transport operations, including leases of property for  
19          use thereof: Provided, That these services shall be exclusive for  
20          international shipping or air transport operations;

21          (4) Services performed by subcontractors and/or contractors in  
22          processing, converting, of manufacturing goods for an enterprise whose  
23          export sales exceed seventy percent (70%) of total annual production;  
24          and

25          (5) Transport of passengers and cargo by air or sea vessels from the  
26          Philippines to a foreign country.

27          [(7) Sale of power or fuel generated through renewable sources of  
28          energy such as, but not limited to, biomass, solar, wind, hydropower,  
29          geothermal, ocean energy, and other emerging energy sources using  
30          technologies such as fuel cells and hydrogen fuels.

31          (8) Services rendered to:

32                 (i) Registered enterprises within a separate customs territory as  
33                 provided under special law; and

34                 (ii) Registered enterprises within tourism enterprise zones as  
35                 declared by the TIEZA subject to the provisions under Republic  
36                 Act No. 9593 or the Tourism Act of 2009.

1       Provided, That subparagraphs (b)(1) and (b)(5) hereof shall be subject  
2       to the twelve percent (12%) value-added tax and no longer be subject  
3       to zero percent (0%) vat rate upon satisfaction of the following  
4       conditions:

5                 (1) The successful establishment and implementation of an  
6                 enhanced VAT refund system that grants refunds of creditable  
7                 input tax within ninety (90) days from the filing of the VAT  
8                 refund application with the Bureau: Provided, that, to determine  
9                 the effectivity of item no. 1, all applications filed from January 1,  
10                 2018 20 shall be processed and must be decided within ninety  
11                 (90) days from the filing of the VAT refund application;

12                 (2) All pending VAT refund claims as of December 31, 2017 shall  
13                 be fully paid in cash by December 31, 2019.

14       Provided, that the Department of Finance shall establish a VAT refund  
15       center in the Bureau of Internal Revenue (BIR) and in the Bureau of  
16       Customs (BOC) that will handle the processing and granting of cash  
17       refunds of creditable input tax.

18       An amount equivalent to five percent (5%) of the total value-added tax  
19       collection of the BIR and the BOC from the immediately preceding year  
20       shall be automatically appropriated annually and shall be treated as a  
21       special account in the General Fund or as trust receipts for the purpose  
22       of funding claims for VAT refund: Provided, That any unused fund, at  
23       the end of the year shall revert to the General Fund.

24       Provided, further, that the BIR and BOC shall be required to submit to  
25       the COCCTRP a quarterly report of all pending claims for refund and any  
26       unused fund.]

27       Sec. 6. Section 109 (1) of Republic Act No. 8424, otherwise known as the Tax  
28       Reform Act of 1997, is hereby amended to read as follows:

29                 (A) xxx

30                 xxx

31                 **(J) SALE OF POWER OR FUEL GENERATED THROUGH**  
32                 **RENEWABLE SOURCES OF ENERGY SUCH AS, BUT NOT**  
33                 **LIMITED TO, BIOMASS, SOLAR, WIND, HYDROPOWER,**

1           **GEOTHERMAL, OCEAN ENERGY, AND OTHER EMERGING**  
2           **ENERGY SOURCES USING TECHNOLOGIES SUCH AS FUEL**  
3           **CELLS AND HYDROGEN FUELS;**

4           [(J) Services rendered by regional or area headquarters established in  
5           the Philippines by multinational corporations which act as supervisory,  
6           communications and coordinating centers for their affiliates,  
7           subsidiaries or branches in the Asia-Pacific Region and do not earn or  
8           derive income from the Philippines;]

9           **xxx**

10          [(Q) Lease of a residential unit with a monthly rental not exceeding  
11           Fifteen thousand pesos (P15,000);]

12          **(Q)[(R)]** Sale, importation, printing or publication of books and any  
13           newspaper, magazine review or bulletin which appears at regular  
14           intervals with fixed prices for subscription and sale and which is not  
15           devoted principally to the publication of paid advertisements;

16          **(R)[(S)]** Transport of passengers by international carriers;

17          **(S)[(T)]** Sale, importation or lease of passenger or cargo vessels and  
18           aircraft, including engine, equipment and spare parts thereof for  
19           domestic or international transport operations;

20          **(T)[(U)]** Importation of fuel, goods and supplies by persons engaged in  
21           international shipping or air transport operations: Provided, That the  
22           fuel, goods, and supplies shall be used for international shipping or air  
23           transport operations; Provided, That the fuel, goods, and supplies shall  
24           be used for international shipping or air transport operations;

25          **(U)[(V)]** Services of bank, non-bank financial intermediaries  
26           performing quasi-banking functions, and other non-bank financial  
27           intermediaries;

28          **(V)[(W)]** Sale or lease of goods and services to senior citizens and  
29           persons with disabilities, as provided under republic act nos. 9994  
30           (Expanded Senior Citizens Act of 2010) and 10754 (An Act Expanding  
31           the Benefits and Privileges of Persons with Disability), respectively;

32          **(W)[(X)]** Transfer of property pursuant to Section 40(c)(2) of the  
33           NIRC, as amended;

34          **(X)[(Y)]** Association dues, membership fees, and other assessments  
35           and  
36           charges collected by homeowners associations and condominium

1                   corporations;

2                   **(Y)[(Z)]** Sale of gold to the Bangko Sentral ng Pilipinas;

3                   **(Z)[(AA)]** Sale of drugs and medicines prescribed for diabetes, high

4                   cholesterol, and hypertension beginning January 1, 2019; and

5                   **(AA)[(BB)]** Sale or lease of goods or properties or the performance of

6                   services other than the transactions mentioned in the preceding

7                   paragraphs, the gross annual sales and/or receipts do not exceed the

8                   amount of [one million five hundred thousand] Three million pesos

9                   (P3,000,000).

10                  Sec. 7. Section 112 of Republic Act No. 8424, otherwise known as the Tax  
11                  Reform Act of 1997, is hereby amended to read as follows:

12                  Sec. 112. Refunds or Tax Credits of Input Tax. —

- 13                   (A) xxx
- 14                   (B) xxx
- 15                   (C) xxx

16                  **ALL PENDING VAT REFUND CLAIMS PURSUANT TO THIS**  
17                  **SECTION AS OF DECEMBER 31, 2017 SHALL BE PROCESSED,**  
18                  **AND IF MERITORIOUS, SHALL BE REFUNDED IN CASH WHEN**  
19                  **APPROVED, ON OR BEFORE DECEMBER 31, 2019.**

20                  Sec. 8. *Implementing Rules and Regulations (IRR)*. — The Secretary of  
21                  Finance, upon the recommendation of the Commissioner of Internal Revenue, shall  
22                  issue the Implementing Rules and Regulations for the effective implementation of  
23                  this Act, within sixty (60) days from the approval thereof.

24                  Sec. 9. *Separability Clause*. — If any provision of this Act is declared  
25                  unconstitutional or invalid by a court of competent jurisdiction, the remaining  
26                  provisions not affected thereby shall continue to be in full force and effect.

27                  Sec. 10. *Repealing Clause* – All laws, decrees, executive orders, department or  
28                  memorandum orders and other administrative issuances or parts thereof which are  
29                  inconsistent with the provisions of this Act are hereby modified, superseded or  
30                  repealed accordingly.

31                  The following laws or provisions of laws are hereby expressly repealed and the  
32                  persons and/or transactions affected herein are made subject to the VAT provisions  
33                  of Title IV of the National Internal Revenue Code, as amended:

- 34                   a) Section 16(a) and (b), Section 17(a), insofar as VAT exemption and

- vat payment deferment is concerned, and section 17(b), insofar as VAT tax credits are concerned, of Presidential Decree 972 s. 1976, or the Coal Development Act of 1976;
- b) Section 10 (2), insofar as VAT exemption is concerned, and (3), insofar as VAT tax credits are concerned, of Republic Act No. 7156, or the Mini-Hydro Electric Power Incentives Act;
  - c) Section 15(g), insofar as VAT zero-rating is concerned, and Section 15 (j), insofar as VAT tax credits are concerned, and Section 21 (a) (b) and (d) insofar as VAT incentives are concerned, of Republic Act No. 9513, or the Renewable Energy Act of 2008;
  - d) Section 13, insofar as VAT exemption is concerned, of Republic Act No. 7820, or the Partido Development Administration act of 1994;
  - e) Section 5(c), insofar as VAT exemption is concerned, of Republic Act No. 10072, or the Philippine Red Cross Act of 2009;
  - f) Section 23, insofar as fiscal incentives relating to VAT are concerned, of Republic Act No. 7916, or Special Economic Zones Act of 1995, as amended by Republic Act No. 8748;
  - g) Section 1, insofar as VAT exemption is concerned, of Republic Act no. 20 9400, or an Act amending Republic Act No. 7227, as amended, otherwise known as the Bases Conversion and Development Act of 1992;
  - h) 3rd paragraph, insofar as VAT exemption is concerned, of Section 2 of Republic Act No. 9400, or an Act Amending Republic Act No. 7227, as amended, otherwise known as the Bases Conversion and Development Act of 1992;
  - i) 2nd paragraph, insofar as VAT exemption is concerned, of Section 3 of Republic Act No. 9400, or an Act Amending Republic Act No. 7227, as amended, otherwise known as the Bases Conversion and Development Act of 1992;
  - j) Section 4, insofar as VAT exemption is concerned, of Republic Act No. 2 9400, or an Act Amending Republic Act No. 7227, as amended, otherwise known as the Bases Conversion and Development Act of 1992;
  - k) Section 5, insofar as VAT exemption is concerned, of Republic Act No. 5 9400, or an Act Amending Republic Act No. 7227, as amended,

otherwise known as the Bases Conversion and Development Act of 1992;

i) Section 4 (f), insofar as VAT exemption is concerned, of Republic Act No. 7903, or the Zamboanga City Special Economic Zone Act of 1995;

m) Section 4 (b) (c), insofar as VAT exemption is concerned, Republic Act No. 7922, or the Cagayan Special Economic Zone Act of 1995;

n) Section 5 (c) (e) (g) (m), insofar as VAT exemption is concerned, of Republic Act No. 9490, or the Aurora Special Economic Zone Act of 2007;

o) Section 4, insofar as VAT exemption is concerned, of Republic Act No. 10083, or an Act Amending Republic Act 9490, the Aurora Special Economic Zone Act of 2007;

p) Section 86 (c),(d),(e)(l), insofar as VAT exemption is concerned, and (e)(2) insofar as VAT tax credits are concerned, of Republic Act No. 9593, or the Tourism Act of 2009;

q) Section 5, insofar as VAT exemption is concerned, of Republic Act No. 9728, or the Freeport of Bataan Act of 2009;

Sec. 11. *Effectivity.* – This Act shall take effect fifteen (15) days after its publication in the Official Gazette or 25 in any newspaper of the general circulation.

Approved,