

REPUBLIC ACT No. 9337

AN ACT AMENDING SECTIONS 27, 28, 34, 106, 107, 108, 109, 110, 111, 112, 113, 114, 116, 117, 119, 121, 148, 151, 236, 237 AND 288 OF THE NATIONAL INTERNAL REVENUE CODE OF 1997, AS AMENDED, AND FOR OTHER PURPOSES

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**AN ACT AMENDING SECTIONS 27, 28, 34, 106, 107, 108, 109, 110, 111, 112, 113, 114, 116, 117, 119, 121, 148, 151, 236, 237 AND 288 OF THE NATIONAL INTERNAL REVENUE CODE OF 1997, AS AMENDED, AND FOR OTHER PURPOSES**

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

**Section 1.** Section 27 of the National Internal Revenue Code of 1997, as amended, is hereby further amended to read as follows:

"SEC. 27. Rates of Income Tax on Domestic Corporations. -

(A) In General. - Except as otherwise provided in this Code, an income tax of thirty-five percent (35%) is hereby imposed upon the taxable income derived during each taxable year from all sources within and without the Philippines by every corporation, as defined in Section 22(B) of this Code and taxable under this Title as a corporation, organized in, or existing under the laws of the Philippines: Provided, That effective January 1, 2009, the rate of income tax shall be thirty percent (30%).

"In the case of corporations adopting the fiscal-year accounting period, the taxable income shall be computed without regard to the specific date when specific sales, purchases and other transactions occur. Their income and expenses for the fiscal year shall be deemed to have been earned and spent equally for each month of the period.

The corporate income tax rate shall be applied on the amount computed by multiplying the number of months covered by the new rate within the fiscal year by the taxable income of the corporation for the period, divided by twelve.

*Provided, further,* That the President, upon the recommendation of the Secretary of Finance, may, effective January 1, 2000, allow corporations the option to be taxed at fifteen percent (15%) of gross income as defined herein, after the following conditions have been satisfied:

"(1) A tax effort ratio of twenty percent (20%) of Gross National Product (GNP);

"(2) A ratio of forty percent (40%) of income tax collection to total tax revenues;

"(3) A VAT tax effort of four percent (4%) of GNP; and

"(4) A 0.9 percent (0.9%) ratio of the Consolidated Public Sector Financial Position (CPSFP) to GNP.

"The option to be taxed based on gross income shall be available only to firms whose ratio of cost of sales to gross sales or receipts from all sources does not exceed fifty-five percent (55%).

"The election of the gross income tax option by the corporation shall be irrevocable for three (3) consecutive taxable years during which the corporation is qualified under the scheme.

"For purposes of this Section, the term '**gross income**' derived from business shall be equivalent to gross sales less sales returns, discounts and allowances and '**cost of goods sold**.' 'Cost of good sold' shall include all business expenses directly incurred to produce the merchandise to bring them to their present location and use.

"For a trading or merchandising concern, '**cost of goods sold**' shall include the invoice cost of the goods sold, plus import duties, freight in transporting the goods to the place where the goods are actually sold, including insurance while the goods are in transit.

"For a manufacturing concern, '**cost of goods manufactured and sold**' shall include all costs of production of finished goods, such as raw materials used, direct labor and manufacturing overhead, freight cost, insurance premiums and other costs incurred to bring the raw materials to the factory or warehouse.

"In the case of taxpayers engaged in the sale of service, '**gross income**' means gross receipts less sales returns, allowances and discounts.

"(B) *Proprietary Educational Institutions and Hospitals.* - Proprietary educational institutions and hospitals which are non-profit shall pay a tax of ten percent (10%) on their taxable income except those covered by Subsection (D) hereof: Provided, That if the gross income from unrelated trade, business or other activity exceeds fifty percent (50%) of the total gross income derived by such educational institutions or hospitals from all sources, the tax prescribed in Subsection (A) hereof shall be imposed on the entire taxable income. For purposes of this Subsection, the term '**unrelated trade, business or other activity**' means any trade, business or other activity, the conduct of which is not substantially related to the exercise or performance by such educational institution or hospital of its primary purpose or function. A '**proprietary educational institution**' is any private school maintained and administered by private individuals or groups with an issued permit to operate from the Department of Education, Culture and Sports (DECS), or the Commission on Higher Education (CHED), or the Technical

Education and Skills Development Authority (TESDA), as the case may be, in accordance with existing laws and regulations.

"(C) *Government-owned or -Controlled Corporations, Agencies or Instrumentalities.* - The provisions of existing special or general laws to the contrary notwithstanding, all corporations, agencies, or instrumentalities owned or controlled by the Government, except the Government Service and Insurance System (GSIS), the Social Security System (SSS), the Philippine Health Insurance Corporation (PHIC), and the Philippine Charity Sweepstakes Office (PCSO), shall pay such rate of tax upon their taxable income as are imposed by this Section upon corporations or associations engaged in a similar business, industry, or activity.

"(D) *Rate of Tax on Certain Passive Incomes.* -

"(1) *Interest from Deposits and Yield or any other Monetary Benefit from Deposit Substitutes and from Trust Funds and Similar Arrangements, and Royalties.* - A final tax at the rate of twenty percent (20%) is hereby imposed upon the amount of interest on currency bank deposit and yield or any other monetary benefit from deposit substitutes and from trust funds and similar arrangements received by domestic corporations, and royalties, derived from sources within the Philippines: Provided, however, That interest income derived by a domestic corporation from a depository bank under the expanded foreign currency deposit system shall be subject to a final income tax at the rate of seven and one-half percent (7 1/2%) of such interest income.

"(2) *Capital Gains from the Sale of Shares of Stock Not Traded in the Stock Exchange.* - A final tax at the rates prescribed below shall be imposed on net capital gains realized during the taxable year from the sale, exchange or other disposition of shares of stock in a domestic corporation except shares sold or disposed of through the stock exchange:

"Not over P100,000 .....	5%
"Amount in excess of P100,000 .....	10%

"(3) *Tax on Income Derived under the Expanded Foreign Currency Deposit System.* - Income derived by a depository bank under the expanded foreign currency deposit system from foreign currency transactions with nonresidents, offshore banking units in the Philippines, local commercial banks including branches of foreign banks that may be authorized by the Bangko Sentral ng Pilipinas (BSP) to transact business with foreign currency deposit system units and other depository banks under the expanded foreign currency deposit system shall be exempt from all taxes, except net income from such transactions as may be specified by the Secretary of Finance, upon recommendation by the Monetary Board to be subject to the regular income tax payable by banks: *Provided, however,* That interest income from foreign currency loans granted by such

depository banks under said expanded system to residents other than offshore banking units in the Philippines or other depository banks under the expanded system shall be subject to a final tax at the rate of ten percent (10%).

"Any income of nonresidents, whether individuals or corporations, from transactions with depository banks under the expanded system shall be exempt from income tax.

"(4) *Intercorporate Dividends.* - Dividends received by a domestic corporation from another domestic corporation shall not be subject to tax.

"(5) *Capital Gains Realized from the Sale, Exchange or Disposition of Lands and/or Buildings.* - A final tax of six percent (6%) is hereby imposed on the gain presumed to have been realized on the sale, exchange or disposition of lands and/or buildings which are not actually used in the business of a corporation and are treated as capital assets, based on the gross selling price or fair market value as determined in accordance with Section, 6(E) of this Code, whichever is higher, of such lands and/or buildings.

"(E) *Minimum Corporate Income Tax on Domestic Corporations.* -

"(1) *Imposition of Tax.* - A minimum corporate income tax of two percent (2%) of the gross income as of the end of the taxable year, as defined herein, is hereby imposed on a corporation taxable under this Title, beginning on the fourth taxable year immediately following the year in which such corporation commenced its business operations, when the minimum income tax is greater than the tax computed under Subsection (A) of this Section for the taxable year.

"(2) *Carry Forward of Excess Minimum Tax.* - Any excess of the minimum corporate income, tax over the normal income tax as computed under Subsection (A) of this Section shall be carried forward and credited against the normal income tax for the three (3) immediately succeeding taxable years.

"(3) *Relief from the Minimum Corporate Income Tax Under Certain Conditions.* - The Secretary of Finance is hereby authorized to suspend the imposition of the minimum corporate income tax on any corporation which suffers losses on account of prolonged labor dispute, or because of *force majeure*, or because of legitimate business reverses.

"The Secretary of Finance is hereby authorized to promulgate, upon recommendation of the Commissioner, the necessary rules and regulations that shall define the terms and conditions under which he may suspend the imposition of the minimum corporate income tax in a meritorious case.

"(4) *Gross Income Defined.* - For purposes of applying the minimum corporate income tax provided under Subsection (E) hereof, the term '**gross income**' shall

mean gross sales less sales returns, discounts and allowances and cost of goods sold. '**Cost of goods sold**' shall include all business expenses directly incurred to produce the merchandise to bring them to their present location and use.

"For a trading or merchandising concern, '**Cost of goods sold**' shall include the invoice of the goods sold, plus import duties, freight in transporting the goods to the place where the goods are actually sold including insurance while the goods are in transit.

"For a manufacturing concern, '**cost of goods manufactured and sold**' shall include all costs of production of finished goods, such as raw materials used, direct labor and manufacturing overhead, freight cost, insurance premiums and other costs incurred to bring the raw materials to the factory or warehouse.

"In the case of taxpayers engaged in the sale of service, '**gross income**' means gross receipts less sales returns, allowances, discounts and cost of services. '**Cost of services**' shall mean all direct costs and expenses necessarily incurred to provide the services required by the customers and clients including (A) salaries and employee benefits of personnel, consultants and specialists directly rendering the service and (B) cost of facilities directly utilized in providing the service such as depreciation or rental of equipment used and cost of supplies; *Provided, however,* That in the case of banks, '**cost of services**' shall include interest expense."

**SEC. 2.** Section 28(A)(1) and (B)(1) and (5)(b) of the same Code, as amended, are hereby further amended to read as follows:

"SEC. 28. *Rates of Income Tax on Foreign Corporations.* -

(A) *Tax on Resident Foreign Corporations.* -

(1) *In General.* - Except as otherwise provided in this Code, a corporation organized, authorized, or existing under the laws of any foreign country, engaged in trade or business within the Philippines, shall be subject to an income tax equivalent to thirty-five percent (35%) of the taxable income derived in the preceding taxable year from all sources within the Philippines: *Provided,* That effective January 1, 2009, the rate of income tax shall be thirty percent (30%).

"In the case of corporations adopting the fiscal-year accounting period, the taxable income shall be computed without regard to the specific date when sales, purchases and other transactions occur. Their income and expenses for the fiscal year shall be deemed to have been earned and spent equidly for each month of the period.

"The corporate income tax rate shall be applied on the amount computed by multiplying the number of months covered by the new rate within the fiscal year by the taxable income of the corporation for the period, divided by twelve.

"*Provided, however,* That a resident foreign corporation shall be granted the option to be taxed at fifteen percent (15%) on gross income under the same conditions, as provided in Section 27(A).

"(2) *Minimum Corporate Income Tax on Resident Foreign Corporations.* - A minimum corporate income tax of two percent (2%) of gross income, as prescribed under Section 27(E) of this Code, shall be imposed, under the same conditions, on a resident foreign, corporation taxable under, paragraph (1) of this Subsection.

"(3) *International Carrier.* - An international carrier doing business in the Philippines shall pay a tax of two and one-half percent (2 1/2%) 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 form 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 form part of Gross Philippine Billings.

"(b) *International Shipping.* - 'Gross Philippine Billings' means gross revenue whether for passenger, cargo or mail originating from the Philippines up to final destination, regardless of the place of sale or payments of the passage or freight documents.

"(4) *Offshore Banking Units.* - The provisions of any law to the contrary notwithstanding, income derived by offshore banking units authorized by the Bangko Sentral ng Pilipinas (BSP), from foreign currency transactions with nonresidents, other offshore banking units, local commercial banks, including branches of foreign banks that may be authorized by the Bangko Sentral ng Pilipinas (BSP) to transact business with offshore banking units shall be exempt from all taxes except net income from such transactions as

may be specified by the Secretary of Finance, upon recommendation of the Monetary Board which shall be subject to the regular income tax payable by banks: *Provided, however,* That any interest income derived from foreign currency loans granted to residents, other than offshore banking units or local commercial banks, including local branches of foreign banks that may be authorized by the BSP to transact business with offshore banking units, shall be subject only to a final; tax at the rate of ten percent (10%).

"Any income of nonresidents, whether individuals or corporations, from transactions with said offshore banking units shall be exempt from income tax.

"(5) *Tax on Branch Profits Remittances.* - any profit remitted by a branch to its head office shall be subject to a tax of fifteen percent (15%) which shall be based on the total profits applied or earmarked for remittance without any deduction for the tax component thereof (except those activities which are registered with the Philippine Economic Zone Authority). The tax shall be collected and paid in the same manner as provided in Sections 57 and 58 of this Code: *Provided,* That interests, dividends, rents, royalties, including remuneration for technical services, salaries, wages, premiums, annuities, emoluments or other fixed or determinable annual, periodic or casual gains, profits, income and capital gains received by a foreign corporation during each taxable year from all sources within the Philippines shall not be treated as branch profits unless the same are effectively connected with the conduct of its trade or business in the Philippines.

"(6) *Regional or Area Headquarters and Regional Operating Headquarters of Multinational Companies.* -

"(a) Regional or area headquarters as defined in Section 22(DD) shall not be subject to income tax.

"(b) Regional operating headquarters as defined in Section 22(EE) shall pay a tax of ten percent (10%) of their taxable income.

"(7) *Tax on Certain Incomes Received by a Resident Foreign Corporation.*

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"(a) *Interest from Deposits and Yield or any other Monetary Benefit from Deposit Substitutes, Trust Funds and Similar Arrangements and Royalties.* - Interest from any currency bank deposit and yield or any other monetary benefit from deposit substitutes and from trust funds and similar arrangements and royalties derived from sources within the Philippines shall be

subject to a final income tax at the rate of twenty percent (20%) of such interest: *Provided, however,* That interest income derived by a resident foreign corporation from a depository bank under the expanded foreign currency deposit system shall be subject to a final income tax at the rate of seven and one-half percent (7 1/2%) of such interest income.

"(b) *Income Derived under the Expanded Foreign Currency Deposit System.* - Income derived by a depository bank under the expanded foreign currency deposit system from foreign currency transactions with nonresidents, offshore banking units in the Philippines, local commercial banks including branches of foreign banks that may be authorized by the Bangko Sentral ng Pilipinas (BSP) to transact business with foreign currency deposit system units and other depository banks under the expanded foreign currency deposit system shall be exempt from all taxes, except net income from such transactions as may be specified by the Secretary of Finance, upon recommendation by the Monetary Board to be subject to the regular income tax payable by banks: *Provided, however,* That interest income from foreign currency loans granted by such depository banks under said expanded system to residents other than depository banks under the expanded system shall be subject to a final tax at the rate of ten percent (10%).

"Any income of nonresidents, whether individuals or corporations, from transactions with depository banks under the expanded system shall be exempt from income tax.

"(c) *Capital Gains from Sale of Shares of Stock Not Traded in the Stock Exchange.* - A final tax at the rates prescribed below is hereby imposed upon the net capital gains realized during the taxable year from the sale, barter, exchange or other disposition of shares of stock in a domestic corporation except shares sold or disposed of through the stock exchange:

"Not over P100,000 ..... 5%

"On any amount in excess of P100,000 ..... 10%

"(d) *Intercorporate Dividends.* - Dividends received by a resident foreign corporation from a domestic corporation liable to tax under this Code shall not be subject to tax under this Title.

"(B) *Tax on Nonresident Foreign Corporation.* -



"(1) *In General.* - Except as otherwise provided in this Code, a foreign corporation not engaged in trade or business in the Philippines shall pay a tax equal to thirty-five percent (35%) of the gross income received during each taxable year from all sources within the Philippines, such as interests, dividends, rents, royalties, salaries, premiums (except reinsurance premiums), annuities, emoluments or other fixed or determinable annual, periodic or casual gains, profits and income, and capital gains, except capital gains subject to tax under subparagraph 5(c): Provided, That effective January 1, 2009, the rate of income tax shall be thirty percent (30%).

"(2) *Nonresident Cinematographic Film Owner, Lessor or Distributor.* - A cinematographic film owner, lessor, or distributor shall pay a tax of twenty-five percent (25%) of its gross income from all sources within the Philippines.

"(3) *Nonresident Owner or Lessor of Vessels Chartered by Philippine Nationals.* - A nonresident owner or lessor of vessels shall be subject to a tax of four and one-half percent (4 1/2%) of gross rentals, lease or charter fees from leases or charters to Filipino citizens or corporations, as approved by the Maritime Industry Authority.

"(4) *Nonresident Owner or Lessor of Aircraft, Machineries and Other Equipment.* - Rentals, charters and other fees derived by a nonresident lessor of aircraft, machineries and other equipment shall be subject to a tax of seven and one-half percent (7 1/2%) of gross rentals or fees.

"(5) *Tax on Certain Incomes Received by a Nonresident Foreign Corporation.* -

"(a) *Interest on Foreign Loans.* - A final withholding tax at the rate of twenty percent (20%) is hereby imposed on the amount of interest on foreign loans contracted on or after August 1, 1986;

"(b) *Intercorporate Dividends.* - A final withholding tax at the rate of fifteen percent (15%) is hereby imposed on the amount of cash and/or property dividends received from a domestic corporation, which shall be collected and paid as provided in Section 57(A) of this Code, subject to the condition that the country in which the nonresident foreign corporation is domiciled, shall allow a credit against the tax due from the nonresident foreign corporation taxes deemed to have been paid in the Philippines equivalent to twenty percent (20%), which represents the difference between the regular income tax of thirty-five percent (35%) and the fifteen percent (15%) tax on dividends as provided in this subparagraph: Provided, That effective January 1, 2009, the credit against the tax due shall

be equivalent to fifteen percent (15%), which represents the difference between the regular income tax of thirty percent (30%) and the fifteen percent (15%) tax on dividends;

"(c) *Capital Gains from Sale of Shares of Stock not Traded in the Stock Exchange.* - A final tax at the rates prescribed below is hereby imposed upon the net capital gains realized during the taxable year from the sale, barter, exchange or other disposition of shares of stock in a domestic corporation, except shares sold, or disposed of through the stock exchange:

"Not over P100,000 ..... 5%  
"On any amount in excess of P100,000..... 10%"

**SEC. 3.** Section 34(B)(1) of the same Code, as amended, is hereby further amended to read as follows:

"SEC. 34. *Deductions from Gross Income.* - Except for taxpayers earning compensation income arising from personal services rendered under an employer-employee relationship where no deductions shall be allowed under this Section other than under Subsection (M) hereof, in computing taxable income subject to income tax under Sections 24(A); 25(A); 26; 27(A), (B) and (C); and 28(A)(1), there shall be allowed the following deductions from gross income:

"(A) *Expenses.* -

"(1) *Ordinary and Necessary Trade, Business or Professional Expenses.* -

"(a) *In General.* - There shall be allowed as deduction from gross income all the ordinary and necessary expenses paid or incurred during the taxable year in carrying on or which are directly attributable to, the development, management, operation and/or conduct of the trade, business or exercise of a profession, including:

"(i) A reasonable allowance for salaries, wages, and other forms of compensation for personal services actually rendered, including the grossed- up monetary value of fringe benefit furnished or granted by the employer to the employee: Provided, That the final tax imposed under Section 33 hereof has been paid;

"(ii) A reasonable allowance for travel expenses, here and abroad, while away from home in the pursuit of trade, business or profession;

"(iii) A reasonable allowance for rentals and/or other payments which are required as a condition for the continued use or possession, for purposes of the trade, business or profession, of property to which the taxpayer has not taken or is not taking title or in which he has no equity other than that of a lessee, user or possessor;

"(iv) A reasonable allowance for entertainment, amusement and recreation expenses during the taxable year, that are directly connected to the development, management and operation of the trade, business or profession of the taxpayer, or that are directly related to or in furtherance of the conduct of his or its trade, business or exercise of a profession not to exceed such ceilings as the Secretary of Finance may, by rules and regulations prescribe, upon recommendation of the Commissioner, taking into account the needs as well as the special circumstances, nature and character of the industry, trade, business, or profession of the taxpayer: Provided, That any expense incurred for entertainment, amusement or recreation that is contrary to law, morals, public policy or public order shall in no case be allowed as a deduction.

"(b) *Substantiation Requirements.* - No deduction from gross income shall be allowed under Subsection (A) hereof unless the taxpayer shall substantiate with sufficient evidence, such as official receipts or other adequate records: (i) the amount of the expense being deducted, and (ii) the direct connection or relation of the expense being deducted to the development, management, operation and/or conduct of the trade, business or profession of the taxpayer.

"(c) *Bribes, Kickbacks and Other Similar Payments.* - No deduction from gross income shall be allowed under Subsection (A) hereof for any payment made, directly or indirectly, to an official or employee of the national government, or to an official or employee of any local government unit, or to an official or employee of a government-owned or-controlled corporation, or to an official or employee or representative of a foreign government, or to a private corporation, general professional partnership, or a similar entity, if the payment constitutes a bribe or kickback.

"(2) *Expenses Allowable to Private Educational Institutions.* - In addition to the expenses allowable as deductions under this Chapter, a private educational institution; referred to under Section 27(B) of this Code, may at its option elect either: (a) to deduct expenditures otherwise considered

as capital outlays of depreciable assets incurred during the taxable year for the expansion of school facilities, or (b) to deduct allowance for depreciation thereof under Subsection (F) hereof.

"(B) *Interest.* -

"(1) *In General.* - The amount of interest paid or incurred within a taxable year on indebtedness in connection with the taxpayer's profession, trade or business shall be allowed as deduction from gross income: Provided, however, That the taxpayer's otherwise allowable deduction for interest expense shall be reduced by forty-two percent (42%) of the interest income subjected to final tax: Provided, That effective January 1, 2009, the percentage shall be thirty-three percent (33%).

**SEC. 4.** Section 106 of the same Code, as amended, is hereby further amended to read as follows:

"SEC. 106. *Value-Added 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, a value-added tax equivalent to ten percent (10%) 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: Provided, That the President, upon the recommendation of the Secretary of Finance, shall, effective January 1, 2006, raise the rate of value-added tax to twelve percent (12%), after any of the following conditions has been satisfied:

"(i) Value-added tax collection as a percentage of Gross Domestic product (GDP) of the previous year exceeds two and four-fifth percent (2 4/5%);  
or

"(ii) National government deficit as a percentage of GDP of the previous year exceeds one and one-half percent (1 1/2%).

"(1) The term '**goods or properties**' shall mean all tangible and intangible objects which are capable of pecuniary estimation and shall include:

"(a) Real properties 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, 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 value-added tax. The excise tax, if any, on such goods or properties shall form part of the gross selling price.

"(2) The following sales by VAT-registered persons shall be subject to zero percent (0%) rate:

"(a) *Export Sales*. - The term '**export sales**' means:

"(1) 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 Bangko Sentral ng Pilipinas, (BSP);

"(2) 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 Bangko Sentral ng Pilipinas (BSP):

"(3) Sale of raw materials or packaging materials to export-oriented enterprise whose export sales exceed seventy percent (70%) of total annual production;

"(4) Sale of gold to the Bangko Sentral ng Pilipinas (BSP);

"(5) Those considered export sales under Executive Order No. 226, otherwise known as the Omnibus Investment Code of 1987, and other special laws; and

"(6) The sale of goods, supplies, equipment and fuel to persons engaged in international shipping or international air transport operations.

"(b) *Foreign Currency Denominated Sale.* - The phrase '**foreign currency denominated sale**' means sale to a nonresident of goods, except those mentioned in Sections 149 and 150, 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 Bangko Sentral ng Pilipinas (BSP).

"(c) Sales to persons or entities whose exemption under special laws or international agreements to which the Philippines is a signatory effectively subjects such sales to zero rate.

"(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 of the VAT-registered persons: 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 VAT-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 VAT-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 VAT-registered person 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 incases 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. 5.** Section 107 of the same Code, as amended, is hereby further amended to read as follows:

"SEC. 107. *Value-Added Tax on Importation of Goods.* -

"(A) *In General.* - There shall be levied, assessed and collected on every importation of goods a value-added tax equivalent to ten percent (10%) 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 value-added tax shall be based on the landed cost plus excise taxes, if any: Provided, further, That the President, upon the recommendation of the Secretary of Finance, shall, effective January 1, 2006, raise the rate of value-added tax to twelve percent (12%), after any of the following conditions has been satisfied:

"(i) Value-added tax collection as a percentage of Gross Domestic Product (GDP) of the previous year exceeds two and four-fifth percent (2 4/5%);  
or

"(ii) National government deficit as a percentage of GDP of the previous year exceeds one and one-half percent (1 1/2%).

"(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. 6.** Section 108 of the same Code, as amended, is hereby further amended to read as follows:

"SEC. 108. *Value-added Tax on Sale of Services and Use or Lease of Properties.* -

(A) *Rate and Base of Tax.* - There shall be levied, assessed and collected, a value-added tax equivalent to ten percent (10%) of gross receipts derived from the sale or exchange of services, including the use or lease of properties: Provided, That the President, upon the recommendation of the Secretary of Finance, shall, effective January 1, 2006, raise the rate of value-added tax to twelve percent (12%), after any of the following conditions has been satisfied:

(i) Value-added tax collection as a percentage of Gross Domestic Product (GDP) of the previous year exceeds two and four-fifth percent ( $2\frac{4}{5}\%$ );  
or

(ii) National government deficit as a percentage of GDP of the previous year exceeds one and one-half percent ( $1\frac{1}{2}\%$ ).

"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 and other 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 grantees except those under Section 119 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 or 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 value-added tax.

"(B) *Transactions Subject to Zero Percent (0%) Rate.* - The following services performed in the Philippines by VAT-registered persons shall be subject to zero percent (0%) rate:

"(1) 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);

"(2) 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 Bangko Sentral ng Pilipinas (BSP);

"(3) Services rendered to persons or entities whose exemption under special laws or international agreements to which the Philippines is a signatory effectively subjects the supply of such services to zero percent (0%) rate;

"(4) Services rendered to persons engaged in international shipping or international air transport operations, including leases of property for use thereof;

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

"(6) Transport of passengers and cargo by air or sea vessels from the Philippines to a foreign country; and

"(7) 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.

**SEC. 7.** Section 109 of the same Code, as amended, is hereby further amended to read as follows:

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

"(A) Sale or importation of agricultural and marine food products in their original state, livestock and poultry of a 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 Tariff and Customs Code of the Philippines;

"(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 under Title 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) 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;

"(L) 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;

"(M) Gross receipts from lending activities by credit or multi-purpose cooperatives duly registered with the Cooperative Development Authority;

"(N) 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;

"(O) Export sales by persons who are not VAT-registered;

"(P) 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 One million five hundred thousand pesos (P1,500,000) and below, house and lot, and other residential dwellings valued at Two million five hundred thousand pesos (P2,500,000) and below: *Provided*, That not later than January 31, 2009 and every three (3) years thereafter, the amounts herein stated shall be adjusted to their present values using the Consumer Price Index, as published by the National Statistics Office (NSO);

"(Q) Lease of a residential unit with a monthly rental not exceeding Ten thousand pesos (P10,000) *Provided*, That not later than January 31, 2009 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 National Statistics Office (NSO);

"(R) 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;

"(S) Sale, importation or lease of passenger or cargo vessels and aircraft, including engine, equipment and spare parts thereof for domestic or international transport operations;

"(T) Importation of fuel, goods and supplies by persons engaged in international shipping or air transport operations;

"(U) Services of banks, non-bank financial intermediaries performing quasi-banking functions, and other non-bank financial intermediaries; and

"(V) 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 One million five hundred thousand pesos (P1,500,000): *Provided*, That not later than January 31, 2009 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 National Statistics Office (NSO);

"(2) A VAT-registered person may elect that Subsection (1) not apply to its sale of goods or properties or services: *Provided*, That an election made under this Subsection shall be irrevocable for a period of three (3) years from the quarter the election was made."

**SEC 8.** Section 110 of the same Code, as amended, is hereby further amended to read as follows:

"SEC. 110. *Tax Credits.* -

"(A) Creditable Input Tax. -

"(1) Any input tax evidenced by a VAT invoice or official receipt issued in accordance with Section 113 hereof on the following transactions shall be creditable against the output tax:

"(a) Purchase or importation of goods:

"(i) For sale; or

"(ii) For conversion into or intended to form part of a finished product for sale including packaging materials; or

"(iii) For use as supplies in the course of business; or

"(iv) For use as materials supplied in the sale of service; or

"(v) For use in trade or business for which deduction for depreciation or amortization is allowed under this Code.

"(b) Purchase of services on which a value-added tax has actually been paid.

"(2) The input tax on domestic purchase or importation of goods or properties by a VAT-registered person shall be creditable:

"(a) To the purchaser upon consummation of sale and on importation of goods or properties; and

"(b) To the importer upon payment of the value-added tax prior to the release of the goods from the custody of the Bureau of Customs.

*Provided*, That the input tax on goods purchased or imported in a calendar month for use in trade or business for which deduction for depreciation is allowed under this Code, shall be spread evenly over the month of acquisition and the fifty-nine (59) succeeding months if the aggregate acquisition cost for such goods, excluding the VAT component thereof, exceeds One million pesos (P1,000,000): *Provided, however*, That if the estimated useful life of the capital good is less than five (5) years, as used for depreciation purposes, then the input VAT shall be spread over such a shorter period: *Provided, finally*, that in the case of purchase of services, lease or use of properties, the input tax shall be creditable to the purchaser, lessee or licensee upon payment of the compensation, rental, royalty or fee.

"(3) A VAT-registered person who is also engaged in transactions not subject to the value-added tax shall be allowed tax credit as follows:

"(a) Total input tax which, can be directly attributed to transactions subject to value-add tax; and

"(b) A ratable portion of any input tax which cannot be directly attributed to either activity.

"The term '**input tax**' means the value-added tax due from or paid by a VAT-registered person in the course of his trade or business on importation of goods or local purchase of goods or services, including lease or use of property, from a VAT-registered person. It shall also include the transitional input tax determined in accordance with Section 111 of this Code.

"The term '**output tax**' means the value-added tax due on the sale or lease of taxable goods or properties or services by any person registered or required to register under Section 236 of this Code.

"(B) *Excess Output or Input Tax.* - If at the end of any taxable quarter the output tax exceeds the input tax, the excess shall be paid by the VAT-registered person. If the input tax exceeds the output tax, the excess shall be carried over to the succeeding quarter or quarters: *Provided*, That the input tax inclusive of input VAT carried over from the previous quarter that may be credited in every quarter shall not exceed seventy percent (70%) of the output VAT: *Provided, however*, That any input tax attributable to zero-rated sales by a VAT-registered person may at his option be refunded or credited against other internal revenue taxes, subject to the provisions of Section 112.

"(C) *Determination of Creditable Input Tax.* - The sum of the excess input tax carried over from the preceeding month or quarter and the input tax creditable to a VAT-registered person during the taxable month or quarter shall be reduced by the amount of claim for refund or tax credit for value-added tax and other adjustments, such as purchase returns or allowances and input tax attributable to exempt sale.

"The claim for tax credit referred to in the foregoing paragraph shall include not only those filed with the Bureau of Internal Revenue but also those filed with other government agencies, such as the Board of Investments and the Bureau of Customs."

**SEC. 9.** Section 111 of the same Code, as amended, is hereby further amended to read as follows:

"SEC. 111. *Transitional/ Presumptive Input Tax Credits.* -

"(A) *Transitional Input Tax Credits.* - A person who becomes liable to value-added tax or any person who elects to be a VAT-registered person shall, subject to the filing of an inventory according to rules and regulations prescribed by the Secretary of Finance, upon recommendation of the Commissioner, be allowed input tax on his beginning inventory of goods, materials and supplies equivalent to two percent (2%) of the value of such inventory or the actual value-added tax paid on such goods, materials and supplies, whichever is higher, which shall be creditable against the output tax.

*"(B) Presumptive Input Tax Credits. -*

"Persons or firms engaged in the processing of sardines, mackerel and milk, and in manufacturing refined sugar, cooking oil and packed noodle based instant meals, shall be allowed a presumptive input tax, creditable against the output tax, equivalent to four percent (4%) of the gross value in money of their purchases of primary agricultural products which are used as inputs to their production.

"As used in this Subsection, the term '**processing**' shall mean pasteurization, canning and activities which through physical or chemical process alter the exterior texture or form or inner substance of a product in such manner as to prepare it for special use to which it could not have been put in its original form or condition."

**SEC. 10.** Section 112 of the same Code, as amended, is hereby further amended to read as follows:

*"SEC. 112. Refunds or Tax Credits of Input Tax. -*

*"(A) Zero-Rated or Effectively Zero-Rated Sales. - Any VAT-registered person, whose sales are zero-rated or effectively zero-rated may, within two (2) years after the close of the taxable quarter when the sales were made, apply for the issuance of a tax credit certificate or refund of creditable input tax due or paid attributable to such sales, except transitional input tax, to the extent that such input tax has not been applied against output tax: *Provided, however,* That in the case of zero-rated sales under Section 106(A)(2)(a)(1), (2) and (b) and Section 108 (B)(1) and (2), the acceptable foreign currency exchange proceeds thereof had been duly accounted for in accordance with the rules and regulations of the Bangko Sentral ng Pilipinas (BSP): *Provided, further,* That where the taxpayer is engaged in zero-rated or effectively zero-rated sale and also in taxable or exempt sale of goods of properties or services, and the amount of creditable input tax due or paid cannot be directly and entirely attributed to any one of the transactions, it shall be allocated proportionately on the basis of the volume of sales: *Provided, finally,* That for a person making sales that are zero-rated under Section 108 (B)(6), the input taxes shall be allocated ratably between his zero-rated and non-zero-rated sales.*

*"(B) Cancellation of VAT Registration. - A person whose registration has been cancelled due to retirement from or cessation of business, or due to changes in or cessation of status under Section 106(C) of this Code may, within two (2) years from the date of cancellation, apply for the issuance of a tax credit certificate for any unused input tax which may be used in payment of his other internal revenue taxes.*

*"(C) Period within which Refund or Tax Credit of Input Taxes shall be Made. - In proper cases, the Commissioner shall grant a refund or issue the tax credit certificate for creditable input taxes within one hundred twenty (120) days from*



the date of submission of complete documents in support of the application filed in accordance with Subsection (A) hereof.

"In case of full or partial denial of the claim for tax refund or tax credit, or the failure on the part of the Commissioner to act on the application within the period prescribed above, the taxpayer affected may, within thirty (30) days from the receipt of the decision denying the claim or after the expiration of the one hundred twenty day-period, appeal the decision or the unacted claim with the Court of Tax Appeals.

"(D) *Manner of Giving Refund.* - Refunds shall be made upon warrants drawn by the Commissioner or by his duly authorized representative without the necessity of being countersigned by the Chairman, Commission on Audit, the provisions of the Administrative Code of 1987 to the contrary notwithstanding: Provided, That refunds under this paragraph shall be subject to post audit by the Commission on Audit."

**SEC. 11.** Section 113 of the same Code, as amended, is hereby further amended to read as follows:

"SEC. 113. *Invoicing and Accounting Requirements for VAT-Registered Persons.* -

"(A) *Invoicing Requirements.* - A VAT-registered person shall issue:

"(1) A VAT invoice for every sale, barter or exchange of goods or properties; and

"(2) A VAT official receipt for every lease of goods or properties, and for every sale, barter or exchange of services.

"(B) *Information Contained in the VAT Invoice or VAT Official Receipt.* - The following information shall be indicated in the VAT invoice or VAT official receipt:

"(1) A statement that the seller is a VAT-registered person, followed by his 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 value-added 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 value-added tax, the term "**VAT-exempt sale**" shall be written or printed prominently on the invoice or receipt;

"(c) If the sale is subject to zero percent (0%) value-added tax, the term "**zero-rated sale**" shall be written or printed prominently on the invoice or receipt;

"(d) If the sale involves goods, properties or services some of which are subject to and some of which are VAT zero-rated or VAT-exempt, the invoice or receipt shall clearly indicate the breakdown of the sale price between its taxable, exempt and zero-rated components, and the calculation of the value-added 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, exempt, and zero-rated 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 in the amount of one thousand pesos (P1,000) or more where the sale or transfer is made to a VAT-registered person, 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 233, all persons subject to the value-added 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 Vat Invoice or Vat Official Receipt.* -

"(1) If a person who is not a VAT-registered person issues an invoice or receipt showing his Taxpayer Identification Number (TIN), followed by the word "VAT":

"(a) The issuer shall, in addition to any liability to other percentage taxes, be liable to:

"(i) The tax imposed in Section 106 or 108 without the benefit of any input tax credit; and

"(ii) A 50% surcharge under Section 248 (B) of this code;

"(b) The VAT shall, if the other requisite information required under Subsection (B) hereof is shown on the invoice or receipt, be recognized as an input tax credit to the purchaser under Section 110 of this Code.

"(2) If a VAT-registered person issues a VAT invoice or VAT official receipt for a VAT-exempt transaction, but fails to display prominently on the invoice or receipt the term "VAT-exempt Sale", the issuer shall be liable to account for the tax imposed in Section 106 or 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 for the period July 1, 2005 to December 31, 2005, in accordance with Bureau of Internal Revenue administrative practices that existed as of December 31, 2004."

**SEC. 12.** Section 114 of the same Code, as amended, is hereby further amended to read as follows:

"SEC. 114. *Return and Payment of Value-Added Tax.* -

"(A) *In General.* - Every person liable to pay the value-added 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 VAT-registered persons shall pay the value-added tax on a monthly basis.

"Any person, whose registration has been cancelled in accordance with Section 236, 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) *Where 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 Value-Added 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 value-added tax imposed in Sections 106 and 108 of this Code, deduct and withhold a final value-added tax at the rate of five percent (5%) of the gross payment thereof: *Provided,* That the payment for lease or use of properties or property rights to nonresident

owners shall be subject to ten percent (10%) 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 value-added tax withheld under this Section shall be remitted within ten (10) days following the end of the month the withholding was made."

**SEC. 13.** Section 116 of the same Code, as amended, is hereby further amended to read as follows:

"SEC. 116. *Tax on Persons Exempt from Value-Added Tax (VAT).* - Any person whose sales or receipts are exempt under Section 109 (V) of this Code from the payment of value-added tax and who is not a 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."

**SEC. 14.** Section 117 of the same Code, as amended, is hereby further amended to read as follows:

"SEC. 117. *Percentage Tax on Domestic Carriers and Keepers of Garages.* - Cars for rent or hire driven by the lessee; transportation contractors, including persons who transport passengers for hire, and other domestic carriers by land for the transport of passengers (except owners of bancas and owners of animal-drawn two wheeled vehicle), and keepers of garages shall pay a tax equivalent to three percent (3%) of their quarterly gross receipts.

"The gross receipts of common carriers derived from their incoming and outgoing freight shall not be subjected to the local taxes imposed under Republic Act No. 7160, otherwise known as the Local Government Code of 1991.

"In computing the percentage tax provided in this Section, the following shall be considered the minimum quarterly gross receipts in each particular case:

"Jeepney for hire -

"1. Manila and other cities P2,400

"2. Provincial 1,200

"Public utility bus-

"Not exceeding 30 passengers P3,600

"Exceeding 30 but not exceeding 50 passengers 6,000

"Exceeding 50 passengers 7,200

Taxis -

"1. Manila and other cities	P3,600
"2. Provincial	2,400

**SEC. 15.** Section 119 of the same Code, as amended, is hereby further amended to read as follows:

"SEC. 119. *Tax on Franchises.* - Any provision of general or special law to the contrary notwithstanding, there shall be levied, assessed and collected in respect to all franchises on radio and/or television broadcasting companies whose annual gross receipts of the preceding year does not exceed Ten million pesos (P10,000,000), subject to Section 236 of this Code, a tax of three percent (3%) and on gas and water utilities, a tax of two percent (2%) on the gross receipts derived from the business covered by the law granting the franchise: *Provided*, however, That radio and television broadcasting companies referred to in this Section shall have an option to be registered as a value-added taxpayer and pay the tax due thereon: *Provided, further*, That once the option is exercised, said option shall be irrevocable.

"The grantee shall file the return with, and pay the tax due thereon to the Commissioner or his duly authorized representative, in accordance with the provisions of Section 128 of this Code, and the return shall be subject to audit by the Bureau of Internal Revenue, any provision of any existing law to the contrary notwithstanding."

**SEC. 16.** Section 121 of the same Code, as amended, is hereby further amended to read as follows:

"SEC. 121. *Tax on Banks and Non-Bank Financial Intermediaries Performing Quasi-Banking Functions.* - There shall be collected a tax on gross receipts derived from sources within the Philippines by all banks and non-bank financial intermediaries in accordance with the following schedule:

"(a) On interest, commissions and discounts from lending activities as well as income from financial leasing, on the basis of remaining maturities of instruments from which such receipts are derived:

Maturity period is five years or less	5%
Maturity period is more than five years	1%

"(b) On dividends and equity shares and net income of subsidiaries 0%

"(c) On royalties, rentals of property, real or personal, profits, from exchange and all other items treated as gross income under Section 32 of this Code 7%

"(d) On net trading gains within the taxable year on foreign currency, debt securities, derivatives, and other similar financial instruments 7%

*"Provided, however,* That in case the maturity period referred to in paragraph (a) is shortened thru pre-termination, then the maturity period shall be reckoned to end as of the date of pre-termination for purposes of classifying the transaction and the correct rate of tax shall be applied accordingly.

*"Provided, finally,* That the generally accepted accounting principles as may be prescribed by the Bangko Sentral ng Pilipinas for the bank or non-bank financial intermediary performing quasi-banking functions shall likewise be the basis for the calculation of gross receipts.

"Nothing in this Code shall preclude the Commissioner from imposing the same tax herein provided on persons performing similar banking activities."

**SEC. 17.** Section 148 of the same Code, as amended, is hereby further amended to read as follows:

"SEC. 148. *Manufactured Oils and Other Fuels.* - There shall be collected on refined and manufactured mineral oils and motor fuels, the following excise taxes which shall attach to the goods hereunder enumerated as soon as they are in existence as such:

"(a) Lubricating oils and greases, including but not limited to, basestock for lube oils and greases, high vacuum distillates, aromatic extracts and other similar preparations, and additives for lubricating oils and greases, whether such additives are petroleum based or not, per liter and kilogram, respectively, of volume capacity or weight, Four pesos and fifty centavos (P4.50): *Provided, however,* That the excise taxes paid on the purchased feedstock (bunker) used in the manufacture of excisable articles and forming part thereof shall be credited against the excise tax due therefrom: *Provided, further,* That lubricating oils and greases produced from basestocks and additives on which the excise tax has already been paid shall no longer be subject to excise tax: *Provided, finally,* That locally produced or imported oils previously taxed as such but are subsequently reprocessed, rerefined or recycled shall likewise be subject to the tax imposed under this Section.

"(b) Processed gas, per liter of volume capacity, Five centavos (P0.05);

"(c) Waxes and petroleum, per kilogram, Three pesos and fifty centavos (P3.50);

"(d) On denatured alcohol to be used for motive power, per liter of volume capacity, Five centavos (P0.05); *Provided,* That unless otherwise provided by

special laws, if the denatured alcohol is mixed with gasoline, the excise tax on which has already been paid, only the alcohol content shall be subject to the tax herein prescribed. For purposes of this Subsection, the removal of denatured alcohol of not less than one hundred eighty degrees (180°) proof (ninety percent (90%) absolute alcohol) shall be deemed to have been removed for motive power, unless shown otherwise;

"(e) Naphtha, regular gasoline and other similar products of distillation, per liter of volume capacity, Four pesos and thirty-five centavos (P4.35): *Provided, however,* That naphtha, when used as a raw material in the production of petrochemical products or as replacement fuel for natural gas-fired-combined cycle power plant, in lieu of locally-extracted natural gas during the non-availability thereof, subject to the rules and regulations to be promulgated by the Secretary of Energy, in consultation with the Secretary of Finance, per liter of volume capacity, Zero (P0.00): *Provided, further,* That the by-product including fuel oil, diesel fuel, kerosene, pyrolysis gasoline, liquefied petroleum gases and similar oils having more or less the same generating power, which are produced in the processing of naphtha into petrochemical products shall be subject to the applicable excise tax specified in this Section, except when such by-products are transferred to any of the local oil refineries through sale, barter or exchange, for the purpose of further processing or blending into finished products which are subject to excise tax under this Section;

"(f) Leaded premium gasoline, per liter of volume capacity, Five pesos and thirty-five centavos (P5.35); unleaded premium gasoline, per liter of volume capacity, Four pesos and thirty-five centavos (P4.35);

"(g) Aviation turbo jet fuel, per liter of volume capacity, Three pesos and sixty-seven centavos (P3.67);

"(h) Kerosene, per liter of volume capacity, Zero (P0.00): *Provided,* That kerosene, when used as aviation fuel, shall be subject to the same tax on aviation turbo jet fuel under the preceding paragraph (g), such tax to be assessed on the user thereof;

"(i) Diesel fuel oil, and on similar fuel oils having more or less the same generating power, per liter of volume capacity, zero (P0.00);

"(j) Liquefied petroleum gas, per liter, zero (P0.00): *Provided,* That liquefied petroleum gas used for motive power shall be taxed, at the equivalent rate as the excise tax on diesel fuel oil;

"(k) Asphalts, per kilogram, Fifty-six centavos (P0.56); and

"(l) Bunker fuel oil, and on similar fuel oils having more or less the same generating power, per liter of volume capacity, zero (P0.00)."

**SEC. 18.** Section 151 of the same Code, as amended, is hereby amended to read as follows:

"SEC. 151. *Mineral Products.* -

"(A) *Rates of Tax.* - There shall be levied, assessed and collected on minerals, mineral products and quarry resources, excise tax as follows:

"(1) On coal and coke, a tax of Ten pesos (P10.00) per metric ton;

"(2) On all nonmetallic minerals and quarry resources, a tax of two percent (2%) based on the actual market value of the gross output thereof at the time of removal, in the case of those locally extracted or produced; or the value used by the Bureau of Customs in determining tariff and customs duties, net of excise tax and value-added tax, in the case of importation.

Notwithstanding the provision of paragraph (4) of subsection (A) of this Section, locally extracted natural gas and liquefied natural gas shall not be subject to the excise tax imposed herein.

"(3) On all metallic minerals, a tax based on the actual market value of the gross output thereof at the time of removal, in the case of those locally extracted or produced; or the value used by the Bureau of Customs in determining tariff and customs duties, net of excise tax and value-added tax, in the case of importation, in accordance with the following schedule:

"(a) Copper and other metallic minerals;

"(i) On the first three (3) years upon the effectivity of Republic Act No. 7729, one percent (1%);

"(ii) On the fourth and the fifth years, one and a half percent (1 1/2%); and

"(iii) On the sixth year and thereafter, two percent (2%);

"(b) Gold and chromite, two percent (2%).

"(4). On indigenous petroleum, a tax of three percent (3%) of the fair international market price thereof, on the first taxable sale, barter, exchange or such similar transaction, such tax to be paid by the buyer or purchaser before removal from the place of production. The phrase '**first taxable sale, barter, exchange or similar transaction**' means the transfer of indigenous petroleum in its original state to a first taxable transferee. The fair international market price shall be determined in consultation with an appropriate government agency.



"For the purpose of this Subsection, '**indigenous petroleum**' shall include locally-extracted mineral oil, hydrocarbon gas, bitumen, crude asphalt, mineral gas and all other similar or naturally associated substances with the exception of coal, peat, bituminous shale and/or stratified mineral deposits.

"(B) *For purposes of this Section, the term -*

"(1) '**Gross output**' shall be interpreted as the actual market value of minerals or mineral products, or of bullion from each mine or mineral land operated as a separate entity, without any deduction from mining, milling, refining (including all expenses incurred to prepare the said minerals or mineral products in a marketable state), as well as transporting, handling, marketing or any other expenses: *Provided*, That if the minerals or mineral products are sold or consigned abroad by the lessee or owner of the mine under C.I.F. terms, the actual cost of ocean freight and insurance shall be deducted *Provided, however*, That in the case of mineral concentrate not traded in commodity exchanges in the Philippines or abroad, such as copper concentrate, the actual market value shall be the world price quotations of the refined mineral products content thereof prevailing in the said commodity exchanges, after deducting the smelting, refining and other charges incurred in the process of converting the mineral concentrates into refined metal traded in those commodity exchanges.

"(2) '**Minerals**' shall mean all naturally occurring inorganic substances (found in nature) whether in solid, liquid, gaseous or any intermediate state.

"(3) '**Mineral products**' shall mean things produced and prepared in a marketable state by simple treatment processes such as washing or drying, but without undergoing any chemical change or process or manufacturing by the lessee, concessionaire or owner of mineral lands.

"(4) '**Quarry resources**' shall mean any common stone or other common mineral substances as the Director of the Bureau of Mines and Geo-Sciences may declare to be quarry resources such as, but not restricted to, marl, marble, granite, volcanic cinders, basalt, tuff and rock phosphate: *Provided*, That they contain no metal or metals or other valuable minerals in economically workable quantities."

**SEC. 19.** Section 236 of the same Code, as amended, is hereby further amended to read as follows:

"SEC. 236. *Registration Requirements.* -

"(A) *Requirements.* - Every person subject to any internal revenue tax shall register once with the appropriate Revenue District Officer:

"(1) Within ten (10) days from date of employment, or

"(2) On or before the commencement of business, or

"(3) Before payment of any tax due, or

"(4) Upon filing of a return, statement or declaration as required in this Code.

"The registration shall contain the taxpayer's name, style, place of residence, business, and such other information as may be required by the Commissioner in the form prescribed therefor.

"A person maintaining a head office, branch or facility shall register with the Revenue District Officer having jurisdiction over the head office, branch or facility. For purposes of this Section, the term '**facility**' may include but not be limited to sales outlets, places of production, warehouses or storage places.

"(B) *Annual Registration Fee.* - An annual registration fee in the amount of Five hundred pesos (P500) for every separate or distinct establishment or place of business, including facility types where sales transactions occur, shall be paid upon registration and every year thereafter on or before the last day of January: *Provided, however,* That cooperatives, individuals earning purely compensation income, whether locally or abroad, and overseas workers are not liable to the registration fee herein imposed.

"The registration fee shall be paid to an authorized agent bank located within the revenue district, or to the Revenue Collection Officer, or duly authorized Treasurer of the city or municipality where each place of business or branch is registered.

"(C) *Registration of Each Type of Internal Revenue Tax.* - Every person who is required to register with the Bureau of Internal Revenue under Subsection (A) hereof, shall register each type of internal revenue tax for which he is obligated, shall file a return and shall pay such taxes, and shall update such registration of any changes in accordance with Subsection (E) hereof.,

"(D) *Transfer of Registration.* - In case a registered person decides to transfer his place of business or his head office or branches, it shall be his duty to update his registration status by filing an application for registration information update in the form prescribed therefor.

"(E) *Other Updates.* - Any person registered in accordance with this Section shall, whenever applicable, update his registration information with the Revenue District Office where he is registered, specifying therein any change in tax type and other taxpayer details.

"(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 Value-Added Tax Registration.* - A VAT-registered person may cancel his registration for 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 (U), will not exceed 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 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 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 (u), have exceeded 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 (U), will exceed one million five hundred thousand pesos (P1,500,000).

"(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 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 Value-added Tax of Exempt Person.* - (1) Any person who is not required to register for Value-added tax under Subsection (G) hereof may elect to register for Value-added tax by registering with the Revenue District Office that has 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 value-added tax as a tax type in accordance with the provisions of Subsection (C) hereof shall be referred to as a "VAT-registered person" who shall be assigned only one Taxpayer Identification Number (TIN).

"(I) *Supplying of Taxpayer Identification Number (TIN).* - Any person required under the authority of this Code to make, render or file a return, statement or other document shall be supplied with or assigned a Taxpayer Identification Number (TIN) which he shall indicate in such return, statement or document filed with the Bureau of Internal Revenue for his proper identification for tax purposes, and which he shall indicate in certain documents, such as, but not limited to, the following:

"(1) Sugar quedans, refined sugac release order or similar instruments;

"(2) Domestic bills of lading;

"(3) Documents to be registered with the Register of Deeds or Assessor's Office;

"(4) Registration certificate of transportation equipment by land, sea or air;

"(5) Documents to be registered with the Securities and Exchange Commission;

"(6) Building construction permits;

"(7) Application for loan with banks, financial institutions, or other financial intermediaries;

"(8) Application for mayor's permit;

"(9) Application for business license with the Department of Trade and Industry; and

"(10) Such other documents which may hereafter be required under rules and regulations to be promulgated by the Secretary of Finance, upon recommendation of the Commissioner.

"In cases where a registered taxpayer dies, the administrator or executor shall register the estate of the decedent in accordance with Subsection (A) hereof and a new Taxpayer Identification Number (TIN) shall be supplied in accordance with the provisions of this Section.

"In the case of a nonresident decedent, the executor or administrator of the estate shall register the estate with the Revenue District Office where he is registered: *Provided, however;* That in case such executor or administrator is not registered, registration of the estate shall be made with and the Taxpayer Identification Number (TIN) supplied by the Revenue District Office having jurisdiction over his legal residence.

"Only one Taxpayer Identification Number (TIN) shall be assigned to a taxpayer. Any person who shall secure more than one Taxpayer Identification Number shall be criminally liable under the provisions of Section 275 on 'Violation of Other Provisions of this Code or Regulations in General.'"

**SEC. 20.** Section 237 of the Code, as amended, is hereby amended to read as follows:

"SEC. 237. *Issuance of Receipts or Sales or Commercial Invoices.* - All persons subject to an internal revenue tax shall, for each sale and transfer of merchandise or for services rendered valued at Twenty-five pesos (P25.00) or more, issue duly registered receipts or sale or commercial invoices, prepared at least in duplicate, showing the date of transaction, quantity, unit cost and description of merchandise or nature of service: *Provided, however,* That where the receipt is issued to cover payment made as rentals, commissions, compensation or fees, receipts or invoices shall be issued which shall show the name, business style, if any, and address of the purchaser, customer or client.

"The original of each receipt' or invoice shall be issued to the purchaser, customer or client at the time the transaction is effected, who, if engaged in business or in the exercise of profession, shall keep and preserve the same in his place of business for a period of three (3) years from the close of the taxable year in which such invoice or receipt was issued, while the duplicate shall be kept and preserved by the issuer, also in his place of business, for a like period.

"The Commissioner may, in meritorious cases, exempt any person subject to an internal revenue tax from compliance with the provisions of this Section."

**SEC. 21.** Section 288 of the same Code, as amended, is hereby further amended to read as follows:

"SEC. 288. *Disposition of Incremental Revenues.* -

"(A) *Incremental Revenues from Republic Act No. 7660.* - The incremental revenues from the increase in the documentary stamp taxes under R.A. No. 7660 shall be set aside for the following purposes:

"(1) In 1994 and 1995, twenty-five percent (25%) thereof respectively, shall accrue to the Unified Home-Lending Program under Executive Order No. 90 particularly for mass-socialized housing program to be allocated as follows: fifty percent (50%) for mass-socialized housing; thirty percent (30%) for the community mortgage program; and twenty percent (20%) for land banking and development to be administered by the National Housing Authority: *Provided*, That not more than one percent (1%) of the respective allocations hereof shall be used for administrative expenses;

"(2) In 1996, twenty-five percent (25%) thereof to be utilized for the National Health Insurance Program that hereafter may be mandated by law;

"(3) In 1994 and every year thereafter, twenty-five percent (25%) thereof shall accrue to a Special Education Fund to be administered by the Department of Education, Culture and Sports for the construction and repair of school facilities, training of teachers, and procurement or production of instructional materials and teaching aids; and

"(4) In 1994 and every year thereafter, fifty percent (50%) thereof shall accrue to a Special Infrastructure Fund for the construction and repair of roads, bridges, dams and irrigation, seaports and hydroelectric and other indigenous power projects: *Provided, however*, That for the years 1994 and 1995, thirty percent (30%), and for the years 1996, 1997 and 1998, twenty percent (20%), of this fund shall be allocated for depressed provinces as declared by the President as of the time of the effectivity of R.A. No. 7660: *Provided, further*, That availments under this fund shall be determined by the President on the basis of equity.

*Provided, finally*, That in paragraphs (2), (3) and (4) of this Section, not more than one percent (1%) of the allocated funds thereof shall be used for administrative expenses by the implementing agencies.

"(B) *Incremental Revenues from Republic Act No. 8240.* - Fifteen percent (15%) of the incremental revenue collected from the excise tax on tobacco products under R.A. No. 8240 shall be allocated and divided among the provinces producing burley and native tobacco in accordance with the volume of tobacco leaf production. The fund shall be exclusively utilized for programs in pursuit of the following objectives:

"(1) Cooperative projects that will enhance better quality of agricultural products and increase income and productivity of farmers;

"(2) Livelihood projects, particularly the development of alternative farming system to enhance farmer's income; and

"(3) Agro-industrial projects that will enable tobacco farmers to be involved in the management and subsequent ownership of projects, such as post-harvest and secondary processing like cigarette manufacturing and by-product utilization.

"The Department of Budget and Management, in consultation with the Oversight Committee created under said R.A. No. 8240, shall issue the corresponding rules and regulations governing the allocation and disbursement of this fund.

"(C) *Incremental Revenues from the Excise Tax on Alcohol and Tobacco Products.* -

"(1) Two and a half percent (2.5%) of the incremental revenue from the excise tax on alcohol and tobacco products starting January 2005 shall be remitted directly to the Philippine Health Insurance Corporation for the purpose of meeting and sustaining the goal of universal coverage of the National Health Insurance Program; and

"(2) Two and a half percent (2.5%) of the incremental revenue from the excise tax on alcohol and tobacco products starting January 2005 shall be credited to the account of the Department of Health and constituted as a trust fund for its disease prevention program.

"The earmarking provided under this provision shall be observed for five (5) years starting from January 2005."

(D) *Incremental Revenue from the Value-added Tax.* - Fifty percent (50%) of the local government unit's share from the incremental revenue from the value-added tax shall be allocated and used exclusively for the following purposes:

1. Fifteen percent (15%) for public elementary and secondary education, to finance the construction of buildings, purchases of school furniture and in-service teacher trainings;
2. Ten percent (10%) for health insurance premiums of enrolled indigents as a counterpart contribution of the local government to sustain the universal coverage of the national health insurance program;
3. Fifteen percent (15%) for environmental conservation to fully implement a comprehensive national reforestation program; and
4. Ten percent (10%) for agricultural modernization to finance the construction of farm-to-market roads and irrigation facilities.

Such allocations shall be segregated as separate trust funds by the National Treasury and shall be over and above the annual appropriation for similar purposes.

(E) The amount of fifteen million pesos (P15,000,000) shall be allocated for a public information and education program to be administered by the Bureau of Internal Revenue, explaining clearly to businesses their registration, invoicing and reporting requirements under the Value-added tax rules. Such program should include seminars and visits to taxpayers to familiarize them with the tax, and the development and publication of easy-to-read guides on the Value-added Tax."

**SEC. 22. *Franchises of Domestic Airlines.*** - The provisions of P.D. No. 1590 on the franchise tax of Philippine Airlines, Inc., R.A. No. 7151 on the franchise tax of Cebu Air, Inc., R.A. No. 7583 on the franchise tax of Aboitiz Air Transport Corporation, R.A. No. 7909 on the franchise tax of Pacific Airways Corporation, R.A. No. 8339 on the franchise tax of Air Philippines, or any other franchise agreement or law pertaining to a domestic airline to the contrary notwithstanding:

- (A) The franchise tax is abolished;
- (B) The franchisee shall be liable to the corporate income tax;
- (C) The franchisee shall register for value-added tax under Section 236, and to account under Title IV of the National Internal Revenue Code of 1997, as amended, for value-added tax on its sale of goods, property or services and its lease of property; and
- (D) The franchisee shall otherwise remain exempt from any taxes, duties, royalties, registration, license, and other fees and charges, as may be provided by their respective franchise agreement.

**SEC. 23. *Implementing Rules and Regulations.*** - The Secretary of Finance shall, upon the recommendation of the Commissioner of Internal Revenue, promulgate not later than June 30, 2005, the necessary Rules and Regulations for the effective implementation of this Act. Upon



issuance of the said Rules and Regulations, all former rules and regulations pertaining to value-added tax shall be deemed revoked.*alf-itc*

**SEC. 24. Repealing Clause.** - The following laws or provisions of laws are hereby repealed and the persons and/or transactions affected herein are made subject to the value-added tax subject to the provisions of Title IV of the National Internal Revenue Code of 1997, as amended:

(A) Section 13 of R.A. No. 6395 on the exemption from value-added tax of National Power Corporation (NPC);

(B) Section 6, fifth paragraph of R.A. No. 9136 on the zero VAT rate imposed on the sales of generated power by generation companies; and

(C) All other 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.

**SEC. 25. Separability Clause.** - If any provision of this Act is subsequently declared unconstitutional, the validity of the remaining provisions hereof shall remain in full force and effect.

**SEC. 26. Effectivity Clause.** - This Act shall take effect on July 1, 2005.

Approved,

**FRANKLIN DRILON**  
President of the Senate

**JOSE DE VENECIA JR.**  
Speaker of the House of  
Representatives

This Act which is consolidation of House Bill No. 3555, House Bill No. 3705 and Senate Bill No. 1950 was finally passed by the House of the Representative and the Senate on May 11, 2005 and May 10, 2005, respectively.

**OSCAR G. YABES**  
Secretary of Senate

**ROBERTO P. NAZARENO**  
Secretary General  
House of Representatives

Approved: May 24, 2005

**GLORIA MACAPAGAL-ARROYO**  
*President of the Philippines*