

NTRC Tax Research Journal

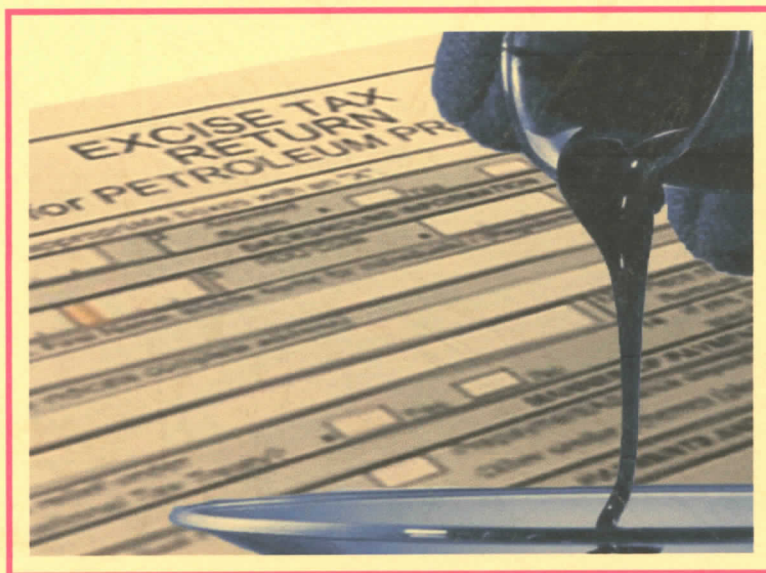
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Proposed Tax Reform on the Excise Tax on Petroleum Products



Restructuring the Excise Taxation of Motor Vehicles

Issuances with Revenue Implications: January – February 2017
Tax News Digest

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On the Cover: Photo (petroleum product) taken from <http://blog.anton-paar.com>

Proposed Tax Reform on the Excise Tax on Petroleum Products^{*}

I. INTRODUCTION

The proposed increase in the excise tax on petroleum products is one of the revenue-enhancing measures being considered to compensate for the revenue loss from the proposed restructuring of the personal income tax (PIT). The excise tax rates on said products have not been adjusted since 1996 or for the last 20 years. The non-adjustment to inflation of tax rates on these products affects the revenue productivity and equity aspect of the tax. The Department of Finance (DOF) in its Comprehensive Tax Reform Package (CTRP) proposes the imposition of two-tiered excise tax rates on “gasoline and others” and “diesel and others”.

This paper discusses the historical changes in the excise taxation of petroleum products from 1987 to the present, revenue performance of the excise tax and the impact of the proposal to pump prices of said products and public transport fares.

II. BACKGROUND INFORMATION

A. Laws on Excise Taxation of Petroleum Products, 1987-2016

For the period 1987 to the present, four (4) laws were enacted relative to the excise taxation of petroleum products, viz.:

- (a) Executive Order (EO) No. 195¹ (Revising the Excise Tax Rates of Certain Petroleum Products), effective June 17, 1987;
- (b) Republic Act (RA) No. 6965² (Revising the Form of Taxation on Petroleum Products from Ad Valorem to Specific), effective September 19, 1990;

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¹ Entitled, “Amending Paragraph (b) of Section 128 of the National Internal Revenue Code, As Amended, By Revising the Excise Tax Rates of Certain Petroleum Products”, effective June 17, 1987.

- (c) RA 8184 (Restructuring the Excise Tax on Petroleum Products), effective July 26, 1996; and
- (d) RA 9337 (Reformed Value Added Tax (RVAT) Law), effective November 5, 2005.

EO 195

EO 195 amended then Section 128 (b) of the National Internal Revenue Code (NIRC), as amended as follows:

- (a) Adoption of an ad valorem tax (AVT) on certain petroleum products; and
- (b) Imposition of zero rate on bunker fuel oil.

RA 6965

RA 6965 amended then Section 145 of the NIRC, as amended, as follows:

- (a) Adoption of pure specific tax on all petroleum products;
- (b) Reduction of the excise tax rates on all petroleum products, except denatured alcohol, processed gas and lubricating oils;
- (c) Imposition of zero-rate on liquefied petroleum gas (LPG) provided that LPG used for motive power shall be taxed at the equivalent rate as the specific tax on diesel fuel oil; and
- (d) Stabilization of the prices of petroleum products and cushioning the impact of the increase in fuel prices and the deterioration of the peso against the US dollar. Thus, the specific tax rates were lower than their peso equivalent under the previous AVT regime.

RA 8184

RA 8184 further amended said Section as follows:

- (a) Increase of the excise tax rates on refined petroleum products (e.g. premium leaded gasoline, premium unleaded gasoline, naphtha, regular gasoline, aviation turbo, kerosene, diesel fuel oil, and bunker fuel oil);
- (b) Removal of the exemption of bunker fuel oil; and
- (c) Imposition of the same tax imposed on aviation fuel (Avturbo) on kerosene if used as aviation fuel.

² Entitled, "An Act Revising the Form of Taxation on Petroleum Products from Ad Valorem to Specific, amending for the Purpose Section 145 of the National Internal Revenue Code as Amended by Republic Act Numbered Sixty-Seven Hundred Sixty-Seven", approved September 19, 1990

RA 9337

RA 9337 expanded the coverage of the VAT to include petroleum products and their raw materials and other previously exempt goods and services. It also increased the VAT rate from 10% to 12% effective February 1, 2006 via Bureau of Internal Revenue (BIR) Revenue Memorandum Circular (RMC) No. 7-2006.³ It should be mentioned, however, that even prior to RA 9337, lubricating oil, processed gas, grease, wax and petrolatum were already subject to the VAT.⁴

RA 9337 also made the following amendments:

- (a) Reduction of the excise taxes for naphtha and regular gasoline; and
- (b) Imposition of zero rate on kerosene, diesel and bunker fuel oil, which were previously subject to excise taxes of PhP0.60, PhP1.63 and PhP0.30 per liter, respectively.

Table 1 presents the excise tax rates on petroleum products under EO 195 and RAs 6965, 8184 and 9337:

**Table 1. EXCISE TAX RATES OF PETROLEUM PRODUCTS UNDER
EO 195 AND RAs 6965, 8184 AND 9337
(PhP per Liter Unless Otherwise Specified)**

Petroleum Products	Rates					Changes	
	EO 195 (1987)		RA 6965 (1990)	RA 8184 (1996)	RA 9337 (2005)	RA 6965- RA 8184	RA 8184- RA 9337
	AVT	Specific Tax					
Premium leaded gasoline*	48%	-	2.52	5.35	5.35	2.83	0.00
Premium unleaded gasoline	48%	-	2.52	4.35	4.35	1.83	0.00
Naphtha, regular gasoline & other similar product of distillation	48%	-	2.28	4.80	4.35	2.52	-0.45
Aviation turbo jet fuel (Avturbo)	48%	-	2.38	3.67	3.67	1.29	0.00
Kerosene	24%	-	0.50	0.60	0.00	0.10	-0.60
Diesel fuel oil	24%	-	0.45	1.63	0.00	1.18	-1.63
Bunker fuel oil	0%	-	0.00	0.30	0.00	0.30	-0.30
LPG	24%	-	0.00	0.00	0.00	0.00	0.00
Thinners and solvents	48%	-	-	-	-	-	-

³ Entitled, "Publishing the Full Text of the Memorandum from Executive Secretary Eduardo R. Ermita dated January 31, 2006 Approving the Recommendation of the Secretary of Finance to Increase the Value Added Tax Rate from 10% to 12%, effective February 1, 2006".

⁴ Section 109 (e) and (f) of RA 8424 exempts from VAT the sale or importation of petroleum products subject to excise tax under Title VI and the raw materials to be used by the buyer or importer himself in the manufacture of petroleum products except lubricating oil, processed gas, grease, wax and petrolatum.

Petroleum Products	Rates					Changes	
	EO 195 (1987)		RA 6965 (1990)	RA 8184 (1996)	RA 9337 (2005)	RA 6965-RA 8184	RA 8184-RA 9337
	AVT	Specific Tax					
Asphalts (per kg.)	24%	-	0.56	0.56	0.56	0.00	0.00
Denatured alcohol	-	0.05	0.05	0.05	0.05	0.00	0.00
Processed gas	-	0.05	0.05	0.05	0.05	0.00	0.00
Waxes and petrolatum (per kg.)	-	4.50	3.50	3.50	3.50	0.00	0.00
Lubricating oils (per ltr.) and greases (per kg.)	-	4.50	4.50	4.50	4.50	0.00	0.00

B. Revenue Performance of the Excise Tax on Petroleum Products

Excise Tax Collection on Locally Manufactured Petroleum Products, 1991-2015

Under RA 6965, excise tax collection on petroleum products for the years 1991 to 1996 was on the uptrend except for a slight decline in 1995. It registered an average share of 29.4% to total excise tax collection, 5.8% to total BIR collection and 0.6% to GDP. (**Table 2**)

When RA 8184 was implemented in mid-1996, excise tax collection went up by 52.1% despite the decline in the volume of removals (VOR) during the year (**Table 3**). With its full year implementation in 1997, excise tax collection grew by 81.3% or from PhP16.1 billion in 1996 to PhP29.3 billion in 1997. The increase in the collection was the result of the higher tax rates under RA 8184. Collections further increased by 5.1% or by PhP1.5 billion in 1998 due to the increase in the VOR.

However, excise tax collection on petroleum products registered negative performances for the next six years or from PhP30.8 billion in 1998 to PhP18.2 billion in 2004. The decrease in collection was attributed to the continuous drop in VOR during those years. Also, there was a decrease in excise tax collection from avturbo products on account of the tax exemption on the sale to international carriers under Section 135 of the Tax Code⁵ as amended by RA 8424 effective January 1, 1998.

The collection, slightly recovered in 2005 but again decreased by 30.8% in 2006. The decrease was predominantly due to the reduction of the tax rates of naphtha and regular gasoline and the zero rating of kerosene, diesel and bunker fuel oil under RA 9337. It further dropped by 22.5% in the following year. However, collection in 2008 grew positively due to higher removals of unleaded premium gasoline and jet A-1 fuel.

⁵ BIR Annual Report, 1999.

Table 2. EXCISE TAX COLLECTION ON LOCALLY MANUFACTURED PETROLEUM PRODUCTS AND RATIO TO TOTAL EXCISE TAX COLLECTION, TOTAL BIR COLLECTIONS AND GDP, 1991-2015
(Amounts in Billion PhP)

Year	Excise Tax Collection (ETC)	Growth Rate (%)	Ratio of Collection on Petroleum Products to:		
			Total ETC (%)	Total BIR Collection (%)	GDP (%)
A. Under RA 6965 (Effective September 19, 1990)					
1991	7.17	-	28.21	6.17	0.52
1992	8.03	12.08	29.08	6.00	0.54
1993	8.68	8.02	28.70	5.95	0.53
1994	10.63	22.48	30.05	5.67	0.57
1995	10.62	-0.11	27.20	5.02	0.50
1996	16.15	52.07	33.37	6.19	0.67
Ave.	10.21	18.91	29.44	5.83	0.55
B. Under RA 8184 (Effective July 26, 1996)					
1997	29.27	81.27	46.43	9.30	1.09
1998	30.76	5.08	49.01	9.12	1.04
1999	29.98	-2.52	48.54	8.78	0.92
2000	28.30	-5.62	45.88	7.84	0.79
2001	24.69	-12.75	42.06	6.35	0.63
2002	21.96	-11.06	38.52	5.57	0.52
2003	21.34	-2.80	37.42	5.01	0.47
2004	18.21	-14.68	30.59	3.89	0.36
2005	18.71	2.75	30.27	3.45	0.33
Ave.	24.80	4.41	40.97	6.59	0.68
C. Under RA 9337 (Effective November 5, 2005)					
2006	12.96	-30.75	22.24	1.98	0.21
2007	10.04	-22.54	18.25	1.41	0.15
2008	11.38	13.39	18.53	1.46	0.15
2009	12.77	12.23	21.09	1.70	0.16
2010	9.83	-23.02	14.63	1.20	0.11
2011	9.96	1.33	14.65	1.08	0.10
2012	10.16	1.97	14.04	0.96	0.10
2013	8.50	-16.30	7.15	0.70	0.07
2014	9.42	10.77	6.96	0.71	0.07
2015	11.89	26.21	7.51	0.82	0.09
Ave.	10.69	-2.67	14.51	1.20	0.12

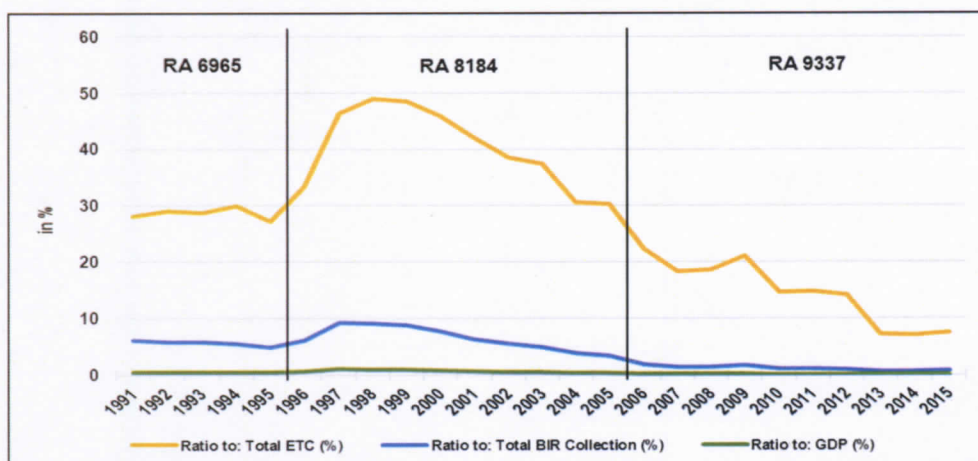
Source of basic data: BIR Annual Reports, 1991-2015.

In summary, excise tax collection on petroleum products for the period 2006 to 2015 moved erratically with an average annual excise tax collection of PhP10.7 billion. However, the average ratio of the excise tax collection on petroleum products to total excise tax collection declined from 22.2% in 2006 to 7.5% in 2015, to total BIR collection from 2.0% to 0.8% and to GDP from 0.2% to 0.1% during the period.

The declining ratio of the excise tax collection on petroleum to GDP implies that the tax has not been responsive to the changes in GDP which indicated leakages or weaknesses in the tax system. It is noted that the last time the ratio of the excise tax collection on petroleum to GDP was above 1% was in 1997. Since then, it has gone down reaching less than 0.1% in 2015.

RA 8184 brought in a short-lived increase in the excise tax collection. After two years of implementation, excise tax collection on petroleum products as well as its average annual contribution to total annual excise tax collection, total annual internal revenue taxes and GDP started to decline. RA 9337 further significantly decreased the excise tax collection upon its full year implementation in 2006. (Figure 1)

Figure 1. RATIO OF EXCISE TAX COLLECTION ON LOCALLY MANUFACTURED PETROLEUM PRODUCTS TO TOTAL EXCISE TAX COLLECTIONS, TOTAL BIR COLLECTIONS AND GDP, 1991 – 2015



Source of basic data: BIR and BSP

Volume of Removals of Locally Manufactured Petroleum Products, 1991-2014

The VOR of petroleum products was increasing under RA 6965 until it dropped by 36.2% in 1996. It recovered the following year and further increased in 1998 with the implementation of the Oil Deregulation Law. However, the VOR started to drop in 1999 up to 2004 which can be attributed to, among others: (a) closure or slowing down of several manufacturing industries dependent on diesel fuel for their machinery consumption; (b) nationwide phase-out of leaded gasoline on January 1, 2001 as mandated by EO 446⁶; (c) slowdown in local production of major oil companies; (d) temporary shutdown of refinery operations of Pilipinas Shell Petroleum Corp. in Batangas City for two months and the closure of Pililia Plant; and (e) purchase of Jet A-1

⁶ Entitled, "Mandating the Phase-out of Leaded Gasoline as One of the Means of Solving Air Pollution," effective November 2, 1997.

from local refineries without pre-payment of excise taxes delivered to tax exempt entities⁷, among others.

For the period 2005-2014, the VOR showed erratic trends except for the significant increase of 52.2% in 2008 due to higher removals of unleaded premium gasoline and jet A-1 fuel as earlier mentioned. **(Table 3)**

Table 3. VOLUME OF REMOVALS OF LOCALLY MANUFACTURED PETROLEUM PRODUCTS, 1991-2014
(in Billion Liters)

Year	VOR	Growth Rate (%)
RA 6965		
1991	8.45	-
1992	9.57	13.25
1993	10.69	11.70
1994	15.31	43.22
1995	17.80	16.26
Average	12.36	21.11
R.A 8184		
1996	11.35	-36.24
1997	14.94	31.63
1998	15.15	1.41
1999	14.94	-1.39
2000	14.54	-2.68
2001	12.96	-10.87
2002	10.74	-17.13
2003	10.20	-5.03
2004	8.11	-20.49
2005	9.16	12.95
Average	12.21	-4.78
RA 9337		
2006	9.00	-1.75
2007	8.78	-2.44
2008	13.36	52.16
2009	11.62	-13.02
2010	12.6	8.43
2011	11.97	-5.00
2012	11.96	-0.08
2013	11.86	-0.84
2014	12.31	3.79
Average	11.50	4.58
Ave. 91-14	11.97	3.38

⁷ BIR Annual Report, 2002.

Excise Tax Collection on Imported Petroleum Products, 2003-2015

Available data from the Bureau of Customs (BOC) show that excise tax collection on imported petroleum products was high at PhP13.9 billion in 2004. However, in 2005, the collection significantly declined to PhP1.8 billion as a result of the reduction of excise tax rate of naphtha and regular gasoline and zero-rating of diesel, kerosene and bunker fuel oil. From 2005 to 2015, the collection was generally increasing with the highest collection of PhP14.2 billion noted in 2013. (Table 4)

Table 4. EXCISE TAX COLLECTION ON IMPORTED PETROLEUM PRODUCTS AND VOLUME OF OIL IMPORTS, 2003-2015
(Amounts in Billion PhP)

Year	Excise Tax Collection (Petroleum)	Total Excise Tax Collection	Percentage (%) Share to Total Excise Tax	Volume of Oil Imports (in mil. tons)	Growth Rate (in %)	
					Excise Tax Collection (Petroleum)	Oil Imports
2003	9.53	11.75	81.07	5.54	-	-
2004	13.88	17.00	81.69	6.01	45.72	8.48
2005	1.75	14.60	11.99	4.49	(87.39)	(25.29)
2006	5.63	10.76	52.34	4.30	221.64	(4.23)
2007	6.89	13.38	51.49	5.23	22.35	21.63
2008	7.26	15.51	46.81	5.98	5.34	14.34
2009	9.49	17.92	52.97	7.17	30.75	19.90
2010	9.29	21.04	44.16	6.64	(2.10)	(7.39)
2011	9.00	20.03	44.95	5.92	(3.11)	(10.84)
2012	10.27	25.53	40.24	6.55	14.11	10.64
2013	14.20	26.94	52.69	8.16	38.19	24.58
2014	13.76	30.43	45.23	9.03	(3.05)	10.66
2015	13.16	31.82	41.35	9.87	(4.39)	9.30
Ave.	9.55	19.75	49.77	6.53	23.17	5.98

Source of basic data: BOC Annual Reports, 2003-2015

Total Excise Tax Collection on Petroleum Products, 2003-2015

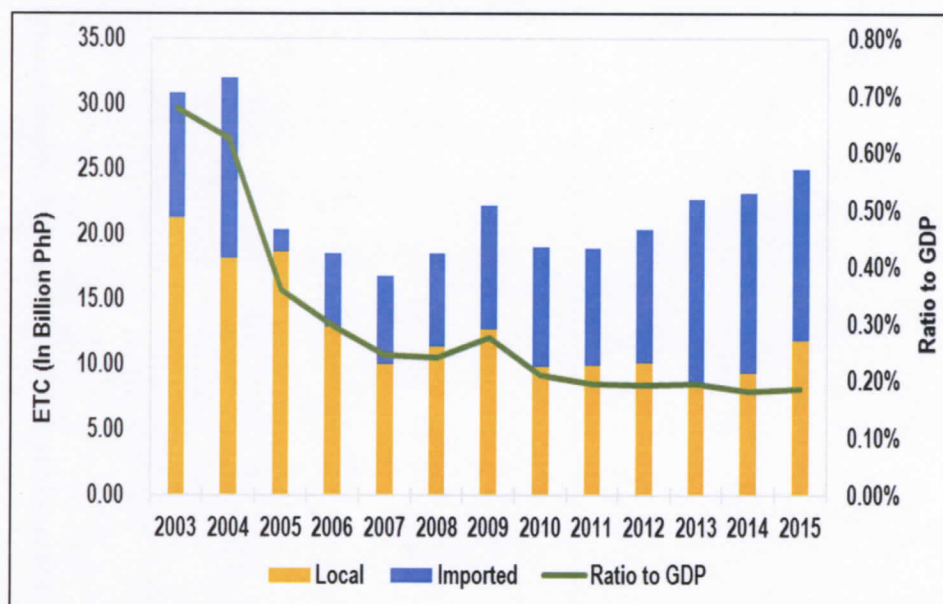
The total excise tax collection from both locally manufactured and imported petroleum products from 2003 to 2015 averaged PhP22.3 billion, i.e. PhP12.7 billion for locally manufactured and PhP9.6 billion for imported petroleum products. It is noted that the ratio of total collection on petroleum products (local and imported) to GDP was high at 0.68% and 0.63% in 2003 and 2004, respectively. However, subsequent to the full implementation of RA 9337 (2005-2015), the ratio of total excise tax collection to GDP continuously declined from 0.36% in 2005 to 0.19% in 2015. (Table 5 and Figure 2)

Table 5. TOTAL EXCISE TAX COLLECTION ON LOCAL AND IMPORTED PETROLEUM PRODUCTS, 2003-2015
(Amounts in Billion PhP)

Year	Local	Imported	Total	% to GDP
2003	21.34	9.53	30.87	0.68%
2004	18.21	13.88	32.09	0.63%
2005	18.71	1.75	20.46	0.36%
2006	12.96	5.63	18.59	0.30%
2007	10.04	6.89	16.93	0.25%
2008	11.38	7.26	18.64	0.24%
2009	12.77	9.49	22.26	0.28%
2010	9.83	9.29	19.12	0.21%
2011	9.96	9.00	18.96	0.20%
2012	10.16	10.27	20.43	0.19%
2013	8.50	14.20	22.70	0.20%
2014	9.42	13.76	23.18	0.18%
2015	11.89	13.16	25.05	0.19%
Ave.	12.71	9.55	22.25	0.30%

Source of basic data: BIR & BOC Annual Reports, 2003- 2015

Figure 2. TOTAL EXCISE TAX COLLECTION ON LOCALLY MANUFACTURED AND IMPORTED PETROLEUM PRODUCTS AND RATIO TO GDP, 2003-2015



Source of basic data: BIR and BOC

VAT Collection on Locally Manufactured Petroleum Products, 2003-2015

Since RA 9337 included petroleum products within the ambit of VAT while reducing the excise tax on naphtha and regular gasoline and subjecting to zero rate diesel, kerosene and bunker fuel oil, it is important to present also the VAT collection on petroleum products.

Available data from the Large Taxpayers Service of the BIR shows that the VAT collection on locally manufactured petroleum products for the period 2003-2015 averaged PhP1.0 billion with the highest collection of PhP3.3 billion recorded in 2006 and the lowest collection of PhP0.2 billion in the following year. The abrupt increase in the VAT on petroleum products in 2006 was the result of the increase in the VAT rate from 10% to 12% pursuant to RA 9337 and the inclusion of all petroleum products in the VAT system other than those which were already subject to VAT even prior to RA 9337. (**Table 6**)

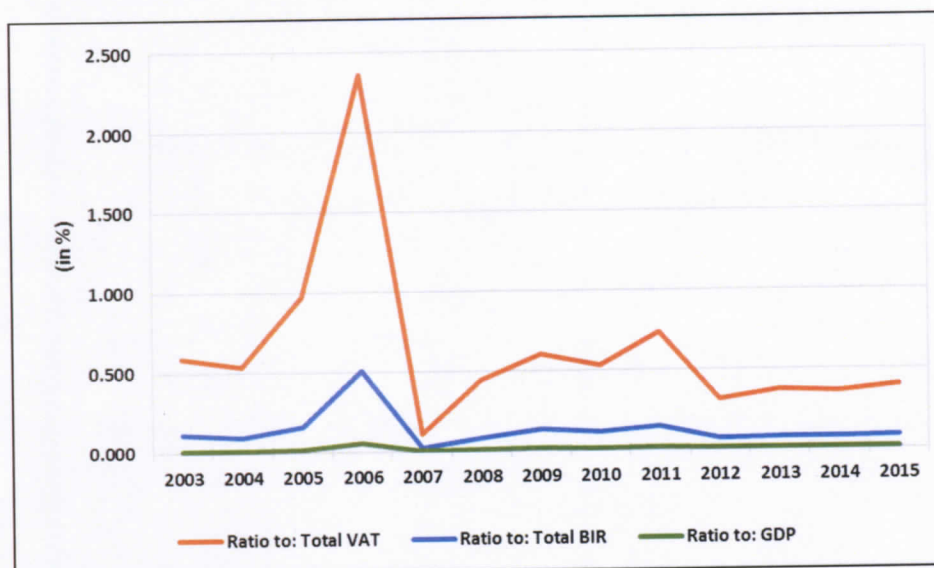
Table 6. VAT COLLECTION ON LOCALLY MANUFACTURED PETROLEUM PRODUCTS, 2003-2015
(Amounts in Billion PhP)

Year	VAT Collection	Growth Rate (%)	Ratio of VAT on Locally Manufactured Petroleum to:		
			Total VAT Collection (%)	Total BIR Collection (%)	GDP (%)
2003	0.48		0.59	0.11	0.01
2004	0.43	-11.77	0.53	0.09	0.01
2005	0.85	99.35	0.97	0.16	0.02
2006	3.32	290.05	2.36	0.51	0.05
2007	0.15	-95.46	0.10	0.02	0.00
2008	0.62	308.86	0.44	0.08	0.01
2009	1.01	63.12	0.60	0.13	0.01
2010	0.91	-9.30	0.53	0.11	0.01
2011	1.34	46.22	0.73	0.14	0.01
2012	0.72	-46.25	0.31	0.07	0.01
2013	0.93	29.32	0.37	0.08	0.01
2014	1.00	7.81	0.36	0.07	0.01
2015	1.17	16.90	0.40	0.08	0.01
Ave.	0.99	58.24	0.64	0.13	0.01

Source of basic data: BIR-LTS and BIR Annual Report, 2003-2014

The ratio of the VAT collection on locally manufactured petroleum to total VAT collection and to total BIR collection displayed erratic trends from 2003 to 2015 with the highest ratios noted in 2006 for the reason earlier mentioned. Likewise, its ratio to GDP for the period under review was mostly at 0.01% except in 2006 at 0.05% of GDP.

Figure 3. RATIO OF VAT COLLECTION ON LOCALLY MANUFACTURED PETROLEUM PRODUCTS TO TOTAL VAT COLLECTIONS, TOTAL BIR COLLECTIONS AND GDP, 2003-2015



Source of basic data: BIR

VAT Collection on Imported Petroleum Products, 2003-2015

The average VAT collection from imported petroleum products for the period 2003-2015 was PhP22.0 billion. It is noted that before the implementation of RA 9337 in 2005, collection was over PhP1.0 billion only. Under RA 9337, VAT collection increased with the highest of PhP42.1 billion recorded in 2014.

Similarly, under RA 9337, reasonable increases in the ratios of the VAT collection on imported petroleum to total VAT collection and to total BOC collection were noted although starting 2013, said ratios displayed declining trends.

Total VAT Collection on Petroleum Products, 2003-2015

The total VAT collection from both locally manufactured and imported petroleum products is presented in Table 8. As can be noted, the passage of RA 9337 in 2005 has significantly increased the VAT collection on petroleum products and its ratio to GDP. The VAT collection mostly came from oil imports.

Table 7. VAT COLLECTION ON IMPORTED PETROLEUM PRODUCTS 2003-2015
(Amounts in Billion PhP)

Year	VAT Collection	Growth Rate (%)	Ratio of VAT on Imported Petroleum to:		
			Total VAT Collection (%)	Total BOC Collection (%)	GDP (%)
2003	1.10		2.10	0.94	0.02
2004	1.65	49.73	2.81	1.30	0.03
2005	9.60	480.70	13.95	6.21	0.17
2006	13.63	41.97	11.46	6.88	0.22
2007	17.18	26.06	13.32	8.20	0.25
2008	26.59	54.79	17.00	10.22	0.34
2009	22.34	-15.99	16.68	10.14	0.28
2010	24.75	10.77	15.71	9.55	0.27
2011	28.37	14.65	14.17	10.70	0.29
2012	33.40	17.73	15.13	11.52	0.32
2013	39.06	16.94	16.29	12.81	0.34
2014	42.10	7.78	15.08	11.40	0.33
2015	26.50	-37.05	9.65	7.21	0.20
Ave.	22.02	55.67	12.56	8.24	0.24

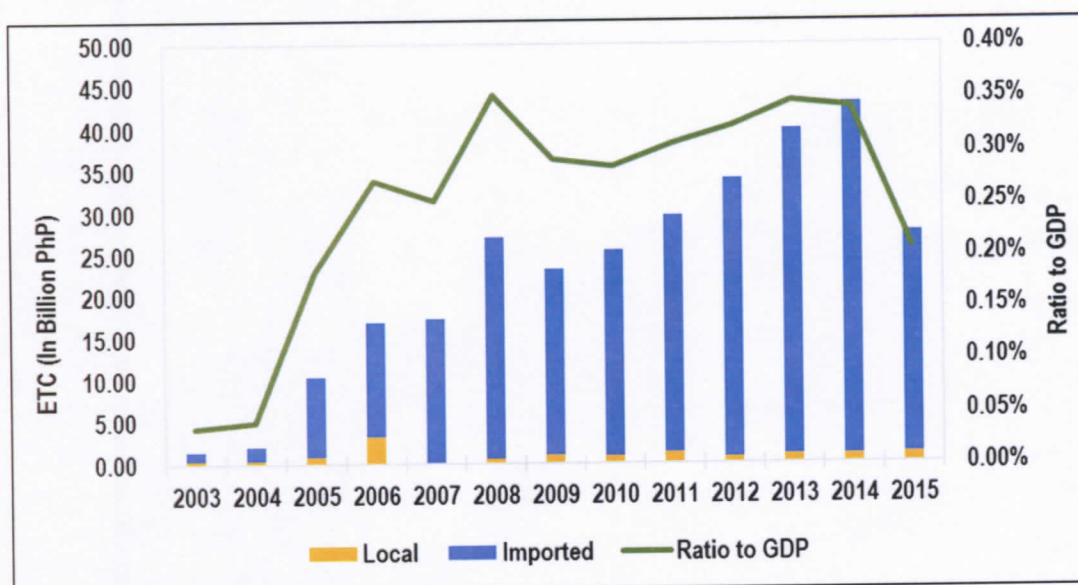
Source of basic data: BOC

Table 8. TOTAL VAT COLLECTION ON LOCAL AND IMPORTED PETROLEUM PRODUCTS, 2003-2015
(Amounts in Billion PhP)

Year	Local	Imported	Total	% to GDP
2003	0.48	1.10	1.59	0.03%
2004	0.43	1.65	2.08	0.04%
2005	0.85	9.60	10.45	0.18%
2006	3.32	13.63	16.95	0.27%
2007	0.15	17.18	17.33	0.25%
2008	0.62	26.59	27.21	0.35%
2009	1.01	22.34	23.35	0.29%
2010	0.91	24.75	25.66	0.28%
2011	1.34	28.37	29.71	0.31%
2012	0.72	33.40	34.12	0.32%
2013	0.93	39.06	39.99	0.35%
2014	1.00	42.10	43.10	0.34%
2015	1.17	26.50	27.67	0.21%
Ave.	0.99	22.02	23.02	0.25%

Source of basic data: BIR & BOC

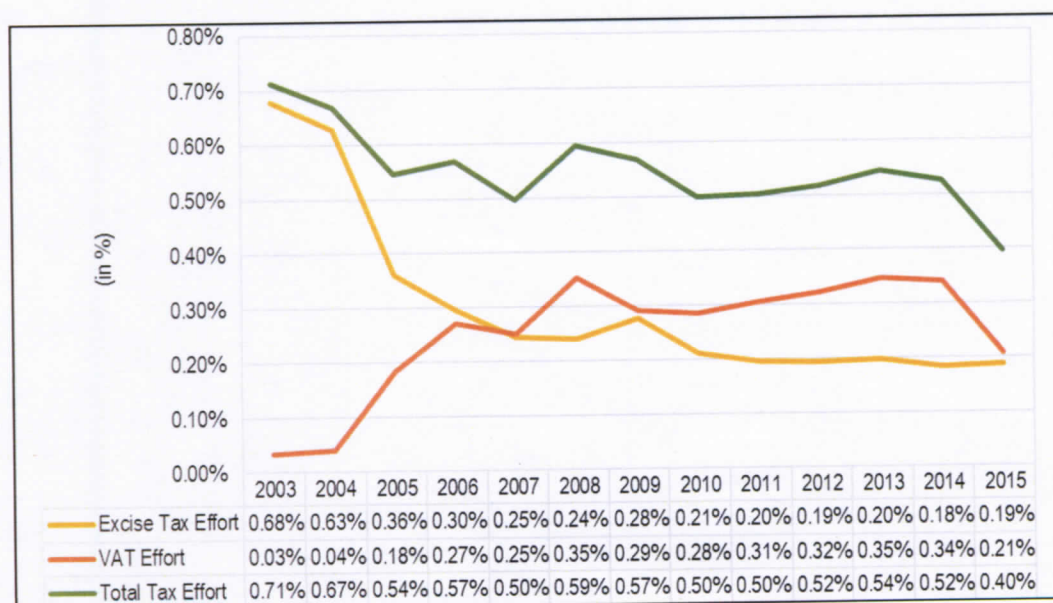
Figure 4. TOTAL VAT COLLECTION ON LOCALLY MANUFACTURED AND IMPORTED PETROLEUM PRODUCTS AND RATIO TO GDP 2003-2015



Source of basic data: BIR and BOC

It is noted while VAT effort generally increased, excise tax effort remarkably declined. The overall tax effort for petroleum products declined over time. There is therefore a need to adjust upward the excise tax on said products in order to improve its revenue productivity.

Figure 5. EXCISE TAX, VAT AND TOTAL TAX EFFORT ON LOCALLY MANUFACTURED AND IMPORTED PETROLEUM PRODUCTS 2003-2015



C. Ratio of Excise Tax to Pump Prices of Petroleum Products, 1991-2015

From 1991-1996, under RA 6965 the ratio of excise tax to pump prices averaged 26.5%, 23.1%, 6.3% and 7.0% for unleaded gasoline, regular gasoline, diesel oil and kerosene, respectively. With the full year implementation of RA 8184 in 1997 there was an abrupt increase in the ratios of regular gasoline and diesel oil due to the increase in the excise tax rates of petroleum products. Such increase in the ratios, however, was not sustained due to the non-indexation to inflation of the specific tax on petroleum products.

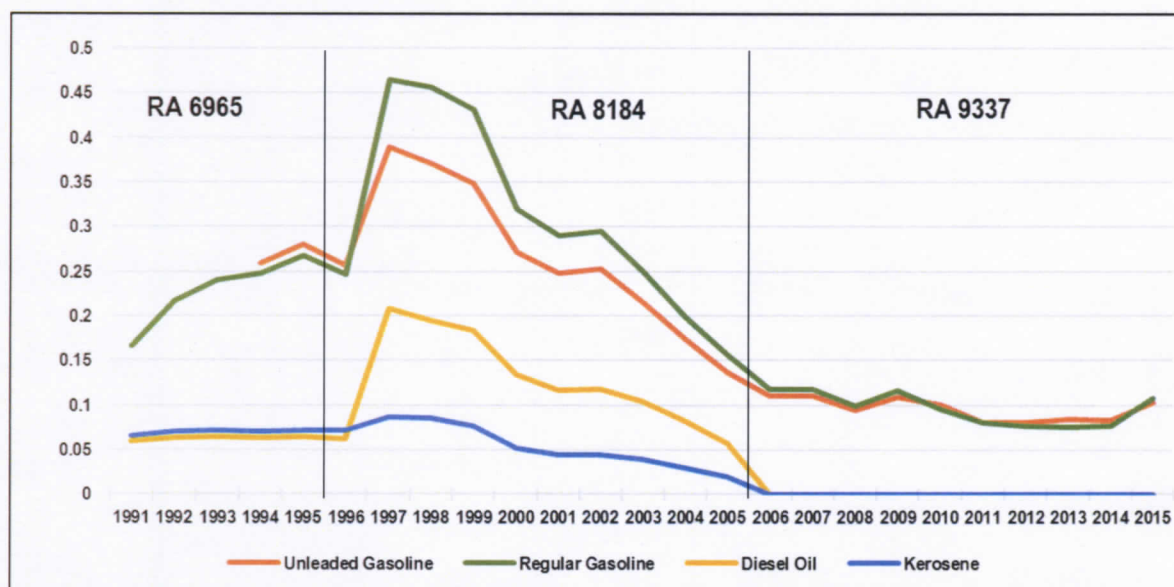
Table 9. HISTORICAL RATIO OF EXCISE TAX TO PUMP PRICES OF PETROLEUM PRODUCTS, 1991-2015

Year	Unleaded Gasoline	Regular Gasoline	Diesel Oil	Kerosene	Average
A. Under RA 6965 (Effective September 19, 1990)					
1991		16.6%	6.0%	6.6%	9.7%
1992		21.7%	6.4%	7.1%	11.7%
1993		24.0%	6.4%	7.1%	12.5%
1994	25.9%	24.7%	6.3%	7.0%	16.0%
1995	28.0%	26.8%	6.4%	7.1%	17.1%
1996	25.7%	24.7%	6.2%	7.2%	15.9%
Ave.	26.5%	23.1%	6.3%	7.0%	13.8%
B. Under RA 8184 (Effective July 26, 1996)					
1997	38.9%	46.4%	20.8%	8.7%	28.7%
1998	37.0%	45.6%	19.4%	8.5%	27.7%
1999	34.8%	43.2%	18.3%	7.7%	26.0%
2000	27.1%	32.0%	13.4%	5.1%	19.4%
2001	24.8%	29.0%	11.7%	4.4%	17.5%
2002	25.3%	29.6%	11.7%	4.4%	17.7%
2003	21.6%	25.1%	10.3%	3.9%	15.2%
2004	17.3%	19.9%	8.1%	2.9%	12.1%
2005	13.6%	15.6%	5.7%	2.0%	9.2%
Ave.	26.7%	31.8%	13.3%	5.3%	19.3%
C. Under RA 9337 (Effective November 5, 2005)					
2006	11.1%	11.8%	0.0%	0.0%	5.7%
2007	11.0%	11.8%	0.0%	0.0%	5.7%
2008	9.4%	9.9%	0.0%	0.0%	4.8%
2009	10.9%	11.7%	0.0%	0.0%	5.7%
2010	10.0%	9.6%	0.0%	0.0%	4.9%
2011	8.0%	8.0%	0.0%	0.0%	4.0%
2012	8.0%	7.7%	0.0%	0.0%	3.9%
2013	8.4%	7.5%	0.0%	0.0%	4.0%
2014	8.3%	7.7%	0.0%	0.0%	4.0%
2015	10.3%	10.7%	0.0%	0.0%	5.3%
RA 9337	9.5%	21.3%	6.5%	3.8%	12.5%
1991-2015	18.9%	20.9%	6.3%	3.6%	12.2%

Source of basic data: DOE

Also, the average annual ratio of the excise tax to pump price continued to drop because of the reduced rates on regular gasoline and zero rating in the excise tax on kerosene, diesel and fuel oil products under RA 9337.

Figure 6. RATIO OF EXCISE TAX RATE TO AVERAGE ANNUAL PUMP PRICE OF SELECTED PETROLEUM PRODUCTS, 1991 – 2015



Source of basic data: Department of Energy (DOE)

D. Petroleum Product Consumption, 2009-2013

A review of petroleum product consumption by fuel type shows that the most commonly consumed petroleum product is diesel fuel oil which comprises 47.1% of total consumption for the period 2009-2013. This is followed by premium unleaded gasoline at 21.8% and LPG at 13.8%. It is noted that diesel is commonly used by the transport sector (Table 10) such as jeepneys, buses, trucks and others, whereas, unleaded gasoline is widely used by passenger cars.

On the other hand, petroleum product consumption by sector indicates that any proposal to increase or restructure the taxation of petroleum products will affect the transport sector which accounts for 66.9% of the total petroleum product consumption. At this point, it should be mentioned that in recognition of its impact on the transport sector, the government will implement targeted programs such as the Pantawid Pasada in the first year of implementation to offset fare increase.

**Table 10. DISTRIBUTION OF PETROLEUM PRODUCT CONSUMPTION
BY SECTOR AND FUEL TYPE, 2009-2013
(Excluding Power Generation Sector)**

Sector	Premium Unleaded	Regular	Kerosene	Diesel	Fuel Oil	LPG	Jet A-1	Aviation Gasoline	Others	Total
Manufacturing	0.00%	0.00%	0.16%	2.45%	4.66%	1.10%	0.00%	0.00%	0.00%	8.36%
Mining	0.00%	0.00%	0.00%	1.41%	0.20%	0.00%	0.00%	0.00%	0.00%	1.61%
Construction	0.00%	0.00%	0.00%	0.72%	0.10%	0.00%	0.00%	0.00%	0.00%	0.82%
Transport	21.81%	3.90%	0.00%	36.03%	1.76%	0.71%	2.68%	0.04%	0.00%	66.93%
Residential	0.00%	0.00%	1.01%	0.00%	0.00%	9.46%	0.00%	0.00%	0.00%	10.47%
Commercial	0.00%	0.00%	0.00%	4.95%	1.12%	2.51%	0.00%	0.00%	0.00%	8.58%
Agriculture	0.00%	0.35%	0.01%	1.50%	0.04%	0.00%	0.00%	0.00%	0.00%	1.90%
Others, Non-Energy Use	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	1.32%	1.32%
Total	21.81%	4.25%	1.18%	47.06%	7.88%	13.78%	2.68%	0.04%	1.32%	100.00%

Source of basic data: DOE

III. EXCISE TAXATION OF PETROLEUM PRODUCTS IN THE ASEAN MEMBER COUNTRIES

A matrix showing the comparative structure of excise taxation on petroleum products imposed by ASEAN member-countries is presented in **Annex A**. The significant points/observations are as follows:

- (a) Among the ten (10) member-countries of the ASEAN, five (5) countries are imposing the excise tax or excise duty, namely, Philippines, Lao PDR, Singapore, Thailand and Vietnam while two (2) countries are imposing excise tax-like structure namely, Specific Tax on Certain Merchandise and Services Tax of Cambodia and Commercial Tax of Myanmar. In the case of Indonesia, Malaysia, and Brunei, no excise taxes are imposed on petroleum products.
- (b) Among the seven (7) countries, four (4) are using ad valorem tax rates. These are Lao PDR with excise tax rates ranging from 5% to 25%; Myanmar, two-tiered rates of 8% or 10%; Vietnam, 10% excise tax on all kinds of gasoline, naphtha, reformat components and other components for mixing gasoline; and Cambodia, 20% tax on certain kinds of petroleum.
- (c) In Lao PDR, gasoline is taxed at an average of 23% while diesel, aviation fuel and vehicle fuel are taxed at 10%. In Myanmar, a tax rate of 10% is imposed on gasoline, diesel oil or jet fuel and 8% on natural gas.
- (d) On the other hand, Philippines and Singapore impose specific tax rates which vary depending on the type of petroleum product. The tax base is per liter (or per kilogram for certain products) for the Philippines and per decaliter (equivalent to 10 liters) for Singapore. Singapore is imposing higher tax rates when converted to Philippine Peso, ranging from SGD 0.20/decaliter to SGD 7.10/decaliter or PhP6.71/liter to PhP23.81/liter compared to Philippines with

PhP0.00/liter to PhP4.35 per liter. For instance, regular gasoline in Singapore has an average excise tax of PhP18.78/liter while the Philippines has an excise tax of PhP4.35/liter. Thus, the excise tax of regular gasoline in Singapore is more than four times the excise tax being imposed in the Philippines.

- (e) Thailand is the only ASEAN country which has mixed impositions (ad valorem or specific rate), of which the excise tax rate depends on the rate that will produce the highest value. The ad valorem rate, which is based on the value of the product, ranges from 0% to 36% while the specific tax rate ranges from Baht 0.00 to Baht 7.00 or PhP0.00 to PhP9.33 per liter/kilogram. Thailand has the highest ad valorem tax of 36%, which is a tax levied on naphtha, reformat, pyrolysis, gasoline and other fluids with similar properties; and natural gas fluids and similar products.
- (f) For diesel, Thailand imposes specific tax rates of Baht 5.04 or Baht 5.31 equivalent to Philippine peso of PhP6.72 or PhP7.08 per liter, while the Philippines imposes no tax on diesel. Singapore likewise does not impose excise tax on diesel.

The excise tax on gasoline constitutes 8.8% to 31.6% of the price of gasoline or an average of 16.4% in the ASEAN with Singapore having the highest ratio. The Philippines has the second lowest excise tax rates on gasoline which is below the ASEAN average excise tax of PhP10.27 per liter. On the other hand, the excise tax is 0.0% to 16.5% of the price of diesel in the ASEAN, or an average of 7.6% with Thailand having the highest ratio and the Philippines and Singapore exempting diesel from the excise tax rates. The ratio of excise tax to pump price of gasoline and diesel is presented in **Table 11**.

Table 11. WORLD BANK PUMP PRICE⁸ OF GASOLINE AND DIESEL IN ASEAN COUNTRIES INCLUSIVE OF EXCISE TAX, 2014

Gasoline						Diesel				
Country	Pump Price US\$1 ⁹	PhP*	Excise Tax	Estimated Excise Tax (PhP)	Ratio of Excise Tax to Price (%)	Pump Price US\$1	In Peso	Excise Tax	Estimated Excise Tax (PhP)	Ratio of Excise Tax to Price (%)
Philippines	1.05	49.48	4.35	4.35	8.79	0.82	38.63	0.00	0.00	0.00
Lao PDR	1.40	63.68	25%	14.47	22.72	1.08	49.13	10%	4.46	9.08
Myanmar	1.14	52.04	10%	4.96	9.53	0.93	42.46	10%	4.04	9.51
Vietnam	1.04	47.66	10%	4.33	9.09	0.91	41.70	10%	3.79	9.09
Cambodia	1.34	60.86	20%	11.07	18.19	1.24	56.32	20%	5.09	9.04
Thailand	1.29	60.61	7 Baht	9.18	15.15	0.90	42.28	5.31 Baht	6.96	16.46
Singapore	1.58	74.50	\$7.10 ¹⁰	23.51	31.56	1.65	54.63	0	0.00	0.00
Ave.	1.26	58.40	-	10.27	16.43	1.08	46.45	-	3.48	7.60

Source of basic data: World Bank 2014

⁸ Fuel prices refer to the pump prices of the most widely sold grade of gasoline. Prices are converted from the local currency to U.S. dollars.

⁹ Exchange rate US\$1 = PhP47.12, November 10, 2015

¹⁰ 1 Per dal = 10 liters

IV. ON RESTRUCTURING THE EXCISE TAXATION ON PETROLEUM PRODUCTS

It is noted that the excise tax on naphtha, regular gasoline and other similar products of distillation was lowered from PhP4.80 to PhP4.35 per liter and the excise tax rates of kerosene, diesel and fuel oil were set to PhP0.00 under RA 9337. However, from equity standpoint, rich people also consume diesel. Many sports utility vehicles and luxury cars run on diesel. Moreover, diesel is one of the highest contributors to environmental pollution. Diesel emissions contribute to pollution of air and water; reductions in visibility; and global climate change. They also contribute to the development of cancer and other cardiovascular and respiratory diseases. Moreover, the exemption of diesel from excise tax under RA 9337 is not in line with international practice. In most other countries, the excise tax is imposed on diesel at slightly lower rates than on premium unleaded gasoline.

Thus, to simplify the taxation of petroleum products, the proposal is to impose two-tiered rates in tranches, as follows: **(Table 12)**

Table 12. PROPOSED TWO-TIERED EXCISE TAX RATES ON PETROLEUM PRODUCTS
(Amounts in PhP/Liter Unless Otherwise Specified)

Present Rates				DOF Proposal	
Regular Gasoline & Others		Diesel & Others		Gas & Others	Diesel & Others
Regular Gasoline	4.35	Diesel	0.00	PhP7/liter (second half of 2017)	PhP3/liter (second half of 2017)
Lubricating oils (ltr.) and greases (kg.)	4.50	Processed Gas	0.05		
Waxes and petrolatum (kg.)	3.50	Denatured alcohol used for motive power	0.05	PhP9/liter (2018)	PhP5/liter (2018)
Naphtha	4.35	Kerosene	0.00	PhP10/liter (2019)	PhP6/liter (2019)
Leaded Gasoline*	5.35	LPG	0.00		
Unleaded Gasoline	4.35	Asphalts (kg.)	0.56	PhP10.40/liter (2020**)	PhP6.24/liter (2020**)
Avturbo	3.67	Fuel oil	0.00		

*Phased out

**Annual indexation by 4% starting 2020

Note: There shall be no indexation for the year if the average Dubai Crude Oil Price in the month preceding the scheduled indexation exceeds USD100/barrel

The above proposal is in line with the best practice in the excise taxation of petroleum products i.e. to have minimum excise tax rate differentials between products to avoid product substitution and tax evasion opportunities.¹¹ Likewise, in order to optimize taxation, the structure should be simple with minimum items or categories.

Jeepney Fare Rates, 2005-2016

Presently, there is no rule of thumb in setting the jeepney fare rates, particularly in Metro Manila. The Land Transportation and Franchising Board (LTFRB) generally compares the historical data on fare rates and diesel price with the current price of diesel as basis in the grant of petitions to reduce or increase jeepney fares, to wit:

“It will be recalled that when the Board approved on June 14, 2014 the Petition for Fare increase for fifty centavos (0.50) for the first four (4) kilometers or from ₱8.00 to ₱8.50 and ten centavos (0.10) for every succeeding kilometers or from ₱1.40 to ₱1.50, the average diesel pump prices was pegged at ₱43.44/liter. In February 2009, the Board provided for a minimum fare of ₱7.00 when the diesel was at ₱23.00/liter. But when the diesel price increased to ₱37.75/liter, the minimum fare was also increased to ₱8.00.” (LTFRB Case No. 2014-16849)

Available data on historical jeepney fare rates in Metro Manila and diesel price per liter are as follows:

**Table 13. HISTORICAL JEEPNEY FARE RATES IN METRO MANILA
2005-2016**

Year	Month	Diesel Php/liter	% Inc. / Dec.	Fare	
				First 4 kms.	Succeeding km.
2005	May	27.00		7.50	1.25
2008	May	42.05	55.74%	8.00	1.25
	July	52.00	23.66%	8.50	1.50
	November	39.95	-23.17%	8.00	1.50
	December	34.15	-14.52%	7.50	1.40
2009	February	23.00	-32.65%	7.00	1.40
2011	January	37.75	64.13%	8.00	1.40
2012	March	47.00	24.50%	8.50	1.40
	May	45.00	-4.26%	8.00	1.40
2014	June	43.44	-3.47%	8.50	1.50
	December	32.95	-24.15%	7.50	1.50
2016	January	20.20	-38.69%	7.00	1.50
2017	February	31.00	53.47%	8.00	1.50

Source of data: LTFRB website (viewed August 25, 2016)

¹¹ ASEAN Excise Tax Reform: A Resource Manual, p. 72

It is noted that based on historical data on jeepney fare rates and current diesel price of PhP31.00/liter more or less, the estimated retail pump price under the DOF proposal will be PhP34.00 (PhP31.00+PhP3.00) could be a basis to increase the jeepney fare rates by fifty centavos (PhP0.50). It is to be noted however that effective February 8, 2017 the minimum jeepney fare was already increased to PhP8.00 ahead of the impending fuel tax hike this July.

In this aspect, as earlier noted, part of the incremental revenue from the excise tax on petroleum shall be allocated to fund highly targeted transfer programs in the first year of implementation such as the Pantawid Pasada to offset increase in fares. Also, the money that will be generated mostly from the rich will plow-back to the poor through the unconditional cash transfer program and improved infrastructure and basic social services.

V. CONCLUSION AND RECOMMENDATION

The declining collection from excise taxes on petroleum and considering that the country has one of the lowest excise tax rates in the ASEAN Region show that there is a need to restructure the excise taxation of petroleum products by increasing the tax rates and removing the zero-rates set forth under RA 9337.

The proposed adjustment of the tax rates will bring in more revenues for the government that will offset any revenue loss from lowering personal income tax. Aside from generating revenue, it will partially recoup the cost of the damage brought about by the production, transportation, storage and use of petroleum-derived fuels on the environment. As people will tend to drive less or make more prudent use of fuel oil products in response to higher prices, there will be reduced pollution emissions and less road and bridge damages. More prudent use of the vehicles will also result in traffic decongestion. There is also a need to index the rates to inflation and adjust them to their present values on a regular basis to preserve the real excise tax burden..



Annex A

COMPARATIVE EXCISE TAXATION OF PETROLEUM PRODUCTS IN ASEAN COUNTRIES

Country	Particulars	Tax Rates	Tax Base	Peso Equivalent
Philippines ¹ (Excise Tax)	1. Lubricating oils and greases	PhP 4.50	Per liter	
	2. Processed gas	PhP 0.05	Per liter	
	3. Waxes and petrolatum	PhP 3.50	Per kilogram	
	4. Denatured alcohol	PhP 0.05	Per liter	
	5. Naphtha, regular gasoline and other similar products of distillation	PhP 4.35	Per liter	
	6. Leaded premium gasoline (Phased-out)	PhP 5.35	Per liter	
	7. Unleaded premium gasoline	PhP 4.35	Per liter	
	8. Aviation turbo jet fuel	PhP 3.67	Per liter	
	9. Kerosene	PhP 0.00	Per liter	
	10. Diesel fuel oil	PhP 0.00	Per liter	
	11. Liquefied petroleum gas	PhP 0.00	Per liter	
	12. Asphalts	PhP 0.56	Per kilogram	
	13. Bunker fuel oil and similar fuel	PhP 0.00	Per liter	
	14. Naphtha to be used for petro-chemicals	PhP 0.00	Per liter	

¹ RA 9337 reduced excise tax of naphtha from PhP4.80 to PhP4.35, kerosene from PhP0.60 to PhP0.00, diesel fuel oil from PhP1.63 to PhP0.00 and bunker fuel oil from PhP0.30 to PhP0.00.

Country	Particulars	Tax Rates	Tax Base	Peso Equivalent
Singapore² (Excise Duty)	1. Motor spirit of RON 97 & above leaded	SGD 7.10	Per decaliter ³	PhP 238.08 ⁴ (PhP23.81/L)
	2. Motor spirit of RON 97 & above unleaded	SGD 6.40	Per decaliter	PhP 214.60 (PhP21.46/L)
	3. Motor spirit of RON 90 & above but below RON 97 leaded	SGD 6.80	Per decaliter	PhP 228.02 (PhP22.80/L)
	4. Motor spirit of RON 90 & above but below RON 97 unleaded	SGD 5.60	Per decaliter	PhP 187.78 (PhP18.78/L)
	5. Motor spirit of RON below 90 leaded	SGD 6.30	Per decaliter	PhP 211.25 (PhP 21.13/L)
	6. Motor spirit of RON below 90 unleaded	SGD 3.70	Per decaliter	PhP 124.07 (PhP12.41/L)
	7. Natural gas used as motor fuel	SGD 0.20	Per kilogram	PhP6.71
Lao PDR⁵ (Excise Tax)	1. Inflammable fuel (a) Super gasoline	25%		

² Singapore Customs, "List of Dutiable Goods", <http://www.customs.gov.sg/businesses/valuation-duties-taxes--fees/duties-and-dutiable-goods/list-of-dutiable-goods>, viewed 18 January 2016.

³ 1 decaliter (dal) = 10 liters

⁴ Foreign exchange rate: SGD1.00= PhP 33.5319, <http://www.oanda.com/currency/converter>, as of 27 January 2016

⁵ Lao People's Democratic Republic, Tax Law (amended version), <http://www.laotradeportal.gov.la/index.php?r=site/display&id=629#a20>, viewed 18 January 2016.

Country	Particulars	Tax Rates	Tax Base	Peso Equivalent
	(b) Regular gasoline	20%	Domestic – wholesale or retail value (excluding value added tax and the excise tax)	
	(c) Diesel	10%		
	(d) Aviation gasoline	10%	Imported – declared value for customs (CIF) plus import tax and other fees (if any)	
	(e) Lubricant, hydraulic oil, grease and brake oil	5%		
	2. Gas for vehicle	10%		
Myanmar⁶ (Commercial Tax)	1. Gasoline	10%	Domestic – proceeds of sale	
	2. Diesel oil	10%	Imported – landed cost	
	3. Jet fuel	10%		
	4. Natural gas	8%		
Vietnam⁷ (Excise Tax)	Gasoline of all kinds, naphtha, reformed components and other components for mixing gasoline	10%	Domestic – selling price set by the producer Imported – import-duty calculation price plus the import duty	

⁶ The Commercial Tax Law, http://www.mof.gov.mm/sites/default/files/CommercialTaxLawEnglish_1.pdf, viewed 18 January 2016.

⁷ Socialist Republic of Vietnam, “Law on Excise Tax”, [http://www.customs.gov.vn/Lists/EnglishDocuments/Attachments/1061/Law%20on%20Excise%20Tax%20\(no.27%2008%20\(7\).doc](http://www.customs.gov.vn/Lists/EnglishDocuments/Attachments/1061/Law%20on%20Excise%20Tax%20(no.27%2008%20(7).doc), viewed 18 January 2016.

Country	Particulars	Tax Rates		Tax Base	Peso Equivalent
Cambodia ⁸ (Specific Tax on Certain Merchandises & Services)	1. Petroleum Products (a) Motor gasoline, super and ordinary (b) Lubricating oils	20%		Domestic – ex-factory sales price recorded on invoice Imported– customs value of the product, plus all duties and taxes on imports, excluding the specific tax and the consumption tax	
Thailand ⁹ (Excise Tax)	1. Gasoline and similar products (a) Unleaded gasoline (b) Gasoline except unleaded gasoline (c) Imported unleaded gasoline sold to privileged individuals as stipulated by international law, treaties,			<u>Ad Valorem</u> (%)	<u>Specific</u>
		<u>Ad Valorem</u> (%)	<u>Specific</u>		
		0%	Baht 7.00	Per liter	PhP 9.33 ¹⁰
		0%	Baht 7.00	Per liter	PhP 9.33
		Tax exempted	Tax exempted		

⁸ “Kram dated February 24, 1997 on Taxation”, http://www.bigpond.com.kh/Council_of_Jurists/Fiscal/fsc001g.htm, and “Kram of 1st September 1995 Amending Act of Finance Management 1995”, http://www.bigpond.com.kh/Council_of_Jurists/Finpubl/fin011f.htm#Art21, viewed 18 January 2016.

⁹ The Excise Department, “Excise Tax Rates for Merchandise”, http://excise-english.excise.go.th/PEOPLE/KNOWLEDGE/GOODS_KNOW/OIL/WEBPORTAL_16200031052, viewed 28 January 2016.

¹⁰ Foreign exchange rate: Baht 1.00 = PhP 1.33, <http://www.oanda.com/currency/converter>, as of 27 January 2016.

Country	Particulars	Tax Rates		Tax Base		Peso Equivalent
		<u>Ad Valorem (%)</u>	<u>Specific</u>	<u>Ad Valorem (%)</u>	<u>Specific</u>	
	agreements and diplomatic arrangements made with foreign governments and the United Nations					
	(d) Gasohol E10	0%	Baht 6.30		Per liter	PhP 8.40
	(e) Gasohol E20	0%	Baht 5.60		Per liter	PhP 7.46
	(f) Gasohol E85	0%	Baht 1.05		Per liter	PhP 1.40
	2. Naphtha, reformulated, pyrolysis gasoline and other similar types of liquids	36%	Baht 7.00	Value of the product	Per liter	PhP 9.33
	3. Kerosene and other similar lighting oils					
	4. Jet fuel	0%	Baht 3.055		Per liter	PhP 4.07
	(a) Jet fuel not used in aircrafts	23%	Baht 3.00	Value of the product	Per liter	PhP 3.40
	(b) Jet fuel used for domestic aircrafts	1%	Baht 0.20	Value of the product	Per liter	PhP 0.27
	(c) Jet fuel oil used for aircrafts going abroad	Tax exempted	Tax exempted			

Country	Particulars	Tax Rates		Tax Base		Peso Equivalent
		<u>Ad Valorem (%)</u>	<u>Specific</u>	<u>Ad Valorem (%)</u>	<u>Specific</u>	
	5. Diesel and other similar types of oil					
	(a) Diesel with sulfur content more than 0.035% by weight	0%	Baht 5.31		Per liter	PhP 7.08
	(b) Diesel with sulfur content not exceeding 0.035% by weight	0%	Baht 5.31		Per liter	PhP 7.08
	(c) Diesel fuel to be sold in contiguous zone	Tax exempted	Tax exempted			
	(d) Diesel fuel sold in contiguous zones to vessels registered under the Thai Vessel Act B.E.2481 (1938) remaining in the tanks while travelling into the Kingdom	Tax exempted	Tax exempted			
	(e) Diesel fuel with biodiesel consisting of not less than 4% of fat-based methyl esters	0%	Baht 5.04	Value of the product	Per liter	PhP 6.72
	6. Natural gas liquid (NGL) and similar liquefied gases					
	(a) NGL and similar liquefied gases	36%	Baht 5.31	Value of the product	Per liter	PhP 7.08
	(b) NGL and similar liquefied gases that have been refined in an oil refinery	Tax exempted	Tax exempted			

Country	Particulars	Tax Rates		Tax Base		Peso Equivalent
		<u>Ad Valorem (%)</u>	<u>Specific</u>	<u>Ad Valorem (%)</u>	<u>Specific</u>	
	7. Liquefied petroleum gas (LPG), liquefied propane gas and similar liquefied gases					
	(a) LPG and similar liquefied gases	0%	Baht 2.17	Value of the product	Per kilogram	PhP 2.89
	(b) Liquid propane gas and similar liquefied gases	0%	Baht 2.17	Value of the product	Per kilogram	PhP 2.89
	(c) LPG, liquefied propane gas and similar liquefied gases used in electricity generation which would be sold to the Electricity Generating Authority of Thailand	Tax exempted	Tax exempted			
	8. Liquid methane, liquid ethane, liquid butane isomers, and other similar liquefied gas substances					
	(a) Liquid methane, liquefied butane, liquefied butane isomers, and other similar liquefied gas substances	Tax exempted	Tax exempted			
	(b) Liquid ethane	23%	Baht 2.17	Value of the product	Per kilogram	PhP 2.89

Country	Particulars	Tax Rates		Tax Base		Peso Equivalent
		<u>Ad Valorem (%)</u>	<u>Specific</u>	<u>Ad Valorem (%)</u>	<u>Specific</u>	
	9. Liquefied ethylene, liquid propylene, liquid butylene, liquefied isomers of butylene, liquefied butadiene and other similar liquefied substances					
	(a) Liquefied ethylene, liquid propylene, liquid butylene, liquefied butylene isomers, liquefied butadiene and other similar liquefied substances	23%	Baht 2.17	Value of the product	Per kilogram	PhP 2.89
	(b) Liquefied ethylene and other similar liquefied substances with purity exceeding 95%	Tax exempted	Tax exempted			
	(c) Liquefied propylene, liquefied butylene, liquefied butadiene and other similar liquefied substances with purity exceeding 90%	Tax exempted	Tax exempted			
	10. Methane gas, ethane gas, propane gas, butane gas, butane isomers and other similar gases					

Country	Particulars	Tax Rates		Tax Base		Peso Equivalent
		<u>Ad Valorem (%)</u>	<u>Specific</u>	<u>Ad Valorem (%)</u>	<u>Specific</u>	
	(a) Ethane gas	23%	Baht 2.17	Value of the product	Per kilogram	PhP 2.89
	(b) Propane gas	23%	Baht 2.17	Value of the product	Per kilogram	PhP 2.89
	(c) Methane gas, butane gas, butane gas isomers and other similar gases	Tax exempted	Tax exempted			
	11. Ethylene gas, propylene gas, butylene gas, butylene gas isomers and other similar gases	Tax exempted	Tax exempted			
	12. Other types of products according to the Minister of Commerce in the Royal Thai Government Gazette					
	(a) Residual fuel oil and other similar types of fuel oil	5%	Baht 0.00	Value of the product	Per Liter	
	(b) Bitumen-based fuel					
	i. Bitumen-based fuel	12%	Baht 0.00	Value of the product	Per Liter	
	ii. Bitumen-based fuel used in electricity generation which would be sold to the Electricity Generating Authority of Thailand	10%	Baht 0.00	Value of the product	Per Liter	

Country	Particulars	Tax Rates		Tax Base		Peso Equivalent
		<u>Ad Valorem (%)</u>	<u>Specific</u>	<u>Ad Valorem (%)</u>	<u>Specific</u>	
	(c) Hydrocarbon solvents that have specific characteristics					
	i. Hydrocarbon solvents that have specific characteristics	30%	Baht 0.00	Value of the product	Per Liter	
	ii. Hydrocarbon solvents that have specific characteristics such that they can be used in various kinds of industry	Tax exempted	Tax exempted			
	13. Oil and oil products produced by industrial manufacturers to be used internally in production processes	Tax exempted	Tax exempted			
	14. Oil and oil products to be used as raw materials or components of production in oil refineries and other oil products	Tax exempted	Tax exempted			
	Note: Any goods which ad valorem and specific excise tariffs are both prescribed shall be burdened to the excise tariff that produces the highest value. ¹¹					

¹¹ Section 4 of Excise Tariff Act, B.E. 2527 (1984), <http://www.thailawonline.com/en/thai-laws/laws-of-thailand/217-excise-tariff-act-be-2527-1984.html>, viewed 28 January 2016.

Country	Particulars	Tax Rates	Tax Base	Peso Equivalent
Indonesia	No excise tax applicable ¹²			
Malaysia	No excise tax applicable ¹³			
Brunei	No excise duties. ¹⁴			

Prepared by the National Tax Research Center
As of December 2016

¹² Excise duty is imposed only on ethyl alcohol, beverages with ethyl alcohol and tobacco products. Source: Ministry of Finance, Indonesia Customs and Excise, www.becukai.go.id/arsip/cuk/cukai.html, viewed 28 January 2016.

¹³ Excise duty is levied only on liquor; cigarettes, tobacco and tobacco products; motor vehicles; playing cards; and mahjong tiles. Source; Royal Malaysian Customs Department, "Excise", http://www.customs.gov.my/en/faq/Pages/faq_exc.aspx, viewed 28 January 2016.

¹⁴ KPMG, "Brunei Darussalam Tax Profile (Updated April 2013)", <https://www.kpmg.com/Global/en/services/Tax/regional-tax-centers/asia-pacific-tax-centre/Documents/CountryProfiles/Brunei.pdf>, viewed 28 January 2016.

Restructuring the Excise Taxation of Motor Vehicles *

I. INTRODUCTION

The Duterte administration commits to reduce the personal income tax (PIT) under its Comprehensive Tax Reform Program Package (CTRP) such that there will be huge revenue loss that the government needs to compensate.

This study reviews the excise taxation of motor vehicles as one of the sources of revenues to compensate for the forgone revenue from the proposed lowering of the PIT.

II. HISTORICAL CHANGES ON EXCISE TAXATION OF AUTOMOBILES IN THE PHILIPPINES (SEE ANNEX A)

The excise tax on automobiles was first imposed in 1986 via Executive Order (EO) No. 36¹. The rates were three-tiered ranging from 5% to 20% based on the manufacturer's or importer's selling price, net of excise and sales tax, depending on the engine displacement and fuel used i.e. whether it is gasoline or diesel-fed. The tax was in addition to the then 30% sales tax imposed on original sale of automobiles except motor vehicles classified as trucks, jeeps and utility vehicles. In 1988, EO 273² imposed a 10% VAT on the sale of goods and services in lieu of the sales tax, including those of automobiles. Relative thereto, it also prescribed a revised excise tax schedule for automobiles, as follows:

* Prepared by Marry-Jean V. Yasol, Tax Specialist II, reviewed and approved by Ma. Berlie L. Amurao, Supervising Tax Specialist and Marlene L. Calubag, Chief Tax Specialist, Indirect Taxes Branch, NTRC.

¹ Entitled, "Further Amending Certain Sections of the National Internal Revenue Code as Amended", effective August 1, 1986

² Entitled, "Adopting a Value-Added Tax, Amending for this Purpose Certain Provisions of the National Internal Revenue Code, and for Other Purposes", effective January 1, 1988

**Table 1. EXCISE TAX SCHEDULE ON AUTOMOBILES UNDER EO 273
1988 - 2002**

Engine Displacement		Tax Rate
Gasoline	Diesel	
Up to 1600 cc	Up to 1800 cc	15%
1601 – 2000 cc	1801 – 2300 cc	35%
2001 – 2700 cc	2301 – 3000 cc	50%
2701 cc or over	3001 cc or over	100%

Tax base: Manufacturer's or importer's selling price, net of excise and VAT

In 1997, the term "automobiles" was defined with the promulgation of Revenue Regulations (RR) No. 14-97³ (dated November 5, 1997) implementing the provisions of Section 149 of Title VI of the National Internal Revenue Code (NIRC), as amended, imposing an excise tax on automobiles and other motor vehicles. It defined "automobile" as any four (4) or more wheeled vehicle other than trucks specially designed for the transport of persons with a seating capacity of less than ten (10) adult passengers, including the driver. It included utility or light commercial vehicles designed for passenger use with seating capacity of less than 10 adult passengers, including the driver. However, the seats in the rear cargo/luggage compartment were not to be counted as passenger seats even if these are factory installed and meet the area specifications. Jump-seats, fold-away and fold-down seats were also treated in the same manner. These regulations were effective until the promulgation of RR 14-99⁴ (dated October 13, 1999), which amended Section 2 of RR 14-97.

RR 14-99 provided, among others, that: (a) trucks and passenger jeepneys are not covered; (b) closed or covered four-wheel drive vehicles, primarily designed to carry passengers, regardless of the number of seats, are considered and taxed as automobiles for purposes of the said regulation starting February 1, 2000; and (c) for the uniform application of the number of seats criterion, the passenger seats must conform to the following rules and area specifications:

- (a) Each seat shall be a horizontal rectangular area with seat and feet space of not less than thirty-five centimeters (35 cm.) wide and sixty centimeters (60 cm.) long for each passenger and fifty centimeters (50 cm.) wide and sixty centimeters (60 cm.) long for the driver or operator.
- (b) The requirement of the Seatbelt Use Act of 1999 (R.A. 8753) must be complied with for a seat to be counted as such for purposes of these regulations.

³ Entitled, "Revenue Regulations Governing the Imposition of Excise Tax on Automobiles and Other Motor Vehicles."

⁴ Entitled, "Amending Section 2 of Revenue Regulations No. 14-97 Otherwise Known as Revenue Regulations Governing the Imposition of Excise Taxes on Automobiles and Other Motor Vehicles."

- (c) In all cases where there is a variance in the determination of the correct number of seats, the number of seats shown in the manufacturer's certification and catalogue or brochure shall prevail.

In August 2003, RA 9224⁵ revised the excise tax structure and based it purely on the vehicle price regardless of engine displacement and type of fuel used. In particular, it imposed an ad valorem tax (AVT) based on the manufacturer's or importer's selling price (MISP), net of excise tax and VAT, in accordance with the following schedule:

**Table 2. EXCISE TAX ON AUTOMOBILES UNDER RA 9224
2003 - PRESENT**

Net Manufacturer's Price/ Importer's selling price	Rate
Up to PhP600,000	2%
Over PhP600,000 to PhP1.1 million	PhP12,000 + 20% of value in excess of PhP600,000
Over PhP1.1 million to PhP2.1 million	PhP112,000 + 40% of value in excess of PhP1.1 million
Over PhP2.1 million	PhP512,000 + 60% of value in excess of PhP2.1 million

It was through RA 9224 that the tax regime on automobiles was changed from pure ad valorem tax where the rate is directly applied on the price or value of the automobile to marginal tax rates applied to the excess of a pre-defined threshold vehicle price in the tax schedule (similar to income tax). Furthermore, it effectively reduced the rates from the previous 15%-100% to 2%-60% and removed the distinction between gasoline and diesel-fed engines.

A new definition of the term "automobile" was also provided under RA 9224, as any four (4) or more-wheeled motor vehicle regardless of seating capacity, which is propelled by gasoline, diesel, electricity or any other motive power. Buses, trucks, cargo vans, jeeps/jeepneys substitutes, single cab chassis, and special purpose vehicles are not considered as automobiles.

To implement the revised tax scheme on automobiles, RR 25-2003⁶ was issued and amended previous regulations relating to automobiles which include the following:

⁵ Entitled, "An Act Rationalizing the Excise Tax on Automobiles, Amending for the Purpose the National Internal Revenue Code of 1997, and for Other Purposes," approved August 29, 2003.

⁶ Subject: Amended Revenue Regulations Governing the Imposition of Excise Tax on Automobiles pursuant to the Provisions of Republic Act No. 9224, An Act Rationalizing the Excise Tax on Automobiles, Amending for the Purpose the National Internal Revenue Code of 1997, and for Other Purposes. (Issued, September 16, 2003)

- (a) Tax treatment of imported automobiles not intended for sale – A person/entity can import only one (1) unit of vehicle within a twelve month period, which would be taxed based on its total landed value⁷.
- (b) Tax treatment of subsequent sale, transfer or exchange of a tax-exempt automobile by a tax-exempt person/entity to a non-exempt person/entity – such automobile shall be taxed based on the depreciated value of the automobile at the time of sale, transfer, or exchange where depreciation rate shall be at 10% per year, but in no case shall the total amount of depreciation be more than 50% of the original cost or value.
- (c) Tax exempt removals for export – Automobile manufacturers for exporting purposes⁸ shall be exempt from the AVT. Moreover, firms involved in the delivery of automobiles may be exempt from the pre-payment of AVT.

Customs Administrative Order (CAO) No. 07-2014⁹, prescribed the guidelines in the determination of the rate of depreciation for No-Dollar importations¹⁰ of motor vehicles to which 10% is allocated for depreciation in every year of the automobile but in no case shall it be more than 50% of the original cost or value and in no case shall it exceed 90% for used trucks and heavy equipment.

On the other hand, Customs Memorandum Order (CMO) No. 29-2014 prescribed a uniform and simplified format in the computation of duties, taxes and other charges for automobiles. It covers the following:

- (a) Brand new automobiles consigned to car manufacturers or dealers, the net importer's selling price (ISP) shall be the higher value;
- (b) Used automobiles consigned to the following:
 - i. Returning Filipino Diplomats and/or Dept. of Foreign Affairs' officials;
 - ii. Returning Filipino Residents who have resided abroad for at least one (1) year {accumulated within 3 years of his/her stay abroad immediately preceding the date of filing of the Certificate of Authority to Import (CAI) at the Bureau of Import Services (BIS)};
 - iii. Immigrants holding 13A or 13G visas or those with dual citizenships provided a prior Certificate of Authority to Import had been issued by the DTI-BIS prior to exportation.

⁷ The cost of the vehicle would include purchase price, freight, insurance and additional costs as valued by the port.

⁸ Carries a permit to export, direct delivery to vessel, proof of export and exporter's bond

⁹ Subject: Revised Depreciation Schedule for Imported Motor Vehicles (Issued, October 29, 2014)

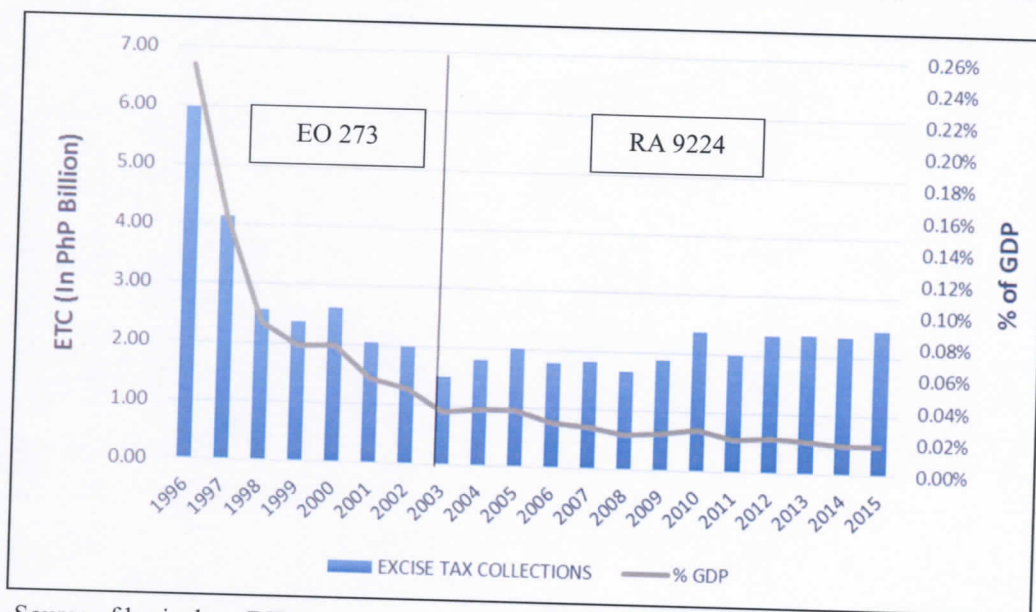
¹⁰ The No Dollar Importation (NDI) is a special privilege given by the government to returning residents and other qualified individuals to bring motor vehicles into the country for personal use under certain conditions.

- (c) Used automobiles under the local purchase scheme, sold by privilege (duty/tax exempt) persons to non-privilege (non-duty/tax exempt) individuals or those sold by privilege to privilege individuals. The depreciated value of the automobile at the time of sale, transfer or exchange shall be based on the provisions of CAO 07-2014.

III. REVENUE PERFORMANCE OF THE EXCISE TAX ON AUTOMOBILES, 1996-2015

Available data show that from a high collection of almost PhP6.0 billion in 1996, the excise tax collection (ETC) on automobiles went down to PhP4.1 billion in 1997 and further to PhP1.5 billion in 2003 under EO 273. With the full year implementation of RA 9224 in 2004, the collection hardly improved to PhP1.8 billion and remained more or less in that level up to 2009. Starting 2010, the collection hit PhP2.0 billion and more.

Figure 1. BIR COLLECTIONS FROM AUTOMOBILES, 1996 – 2015



Source of basic data: BIR

Its percentage contribution to total excise tax collection, BIR collection, and GDP, has been decreasing from percentage ratio of 9.7% to 1.6%, from 1.1% to 0.2% and from 0.3% to 0.02%, respectively, from 1996 to 2015.

Table 3. VOLUME OF REMOVALS (VOR) AND EXCISE TAX COLLECTIONS ON LOCALLY MANUFACTURED AUTOMOBILES, 1996-2015
(Amounts in Billion PhP)

Year	No. of Units	ETC	Growth Rate		Ratio of ETC to		
			VOR	ETC	Total ETC	Total BIR Collections	GDP
Under EO 273							
1996	83,935	5.98	-	-	9.67%	1.10%	0.25%
1997	65,852	4.13	-21.54%	-30.94%	6.68%	0.76%	0.15%
1998	32,195	2.57	-51.11%	-37.77%	4.16%	0.47%	0.09%
1999	26,697	2.38	-17.08%	-7.39%	3.85%	0.44%	0.07%
2000	28,410	2.63	6.42%	10.50%	4.25%	0.48%	0.07%
2001	22,060	2.06	-22.35%	-21.67%	3.33%	0.38%	0.05%
2002	28,240	2.00	28.01%	-2.91%	3.24%	0.37%	0.05%
2003	31,649	1.50	12.07%	-25.00%	2.43%	0.28%	0.03%
Ave.	39,880	2.91	-9.37%	-16.45%	4.70%	0.54%	0.10%
Under RA 9224							
2004	45,020	1.80	0.00%	0.00%	3.02%	0.38%	0.04%
2005	52,211	2.01	15.97%	11.77%	3.25%	0.37%	0.04%
2006	48,933	1.79	-6.28%	-10.91%	3.07%	0.27%	0.03%
2007	54,606	1.82	11.59%	1.88%	3.31%	0.26%	0.03%
2008	54,080	1.66	-0.96%	-8.73%	2.71%	0.21%	0.02%
2009	57,439	1.88	6.21%	13.28%	3.11%	0.25%	0.02%
2010	66,498	2.37	15.77%	25.93%	3.53%	0.29%	0.03%
2011	56,597	2.00	-14.89%	-15.69%	2.94%	0.22%	0.02%
2012	61,643	2.34	8.92%	16.88%	3.23%	0.22%	0.02%
2013	67,722	2.35	9.86%	0.57%	1.98%	0.19%	0.02%
2014	69,082	2.33	2.01%	-0.78%	1.72%	0.17%	0.02%
2015	74,347	2.45	7.62%	4.84%	1.55%	0.17%	0.02%
Ave	59,015	2.07	4.65%	3.25%	2.79%	0.25%	0.03%
Total Ave.	51,361	2.40	1.71%	-4.01%	3.55%	0.36%	0.05%

Source of basic data: BIR

The bulk (76%) of the volume of removals came from the 20% tax bracket with the highest recorded in 2015. Accordingly, total excise tax collection was highest under said bracket which comprised 90% of the total collection.

Table 4. VOLUME OF REMOVALS AND EXCISE TAX COLLECTIONS FROM LOCALLY MANUFACTURED AUTOMOBILES BY BRACKET, 2009-2015
(Amounts in Million PhP)

Year	No. of Units				Total Excise Tax Collection			
	2%	20%	40%	Total	2%	20%	40%	Total
2009	18,268	38,927	244	57,439	211.96	1,577.56	94.84	1,884.36
2010	21,171	45,176	151	66,498	254.15	2,097.83	20.99	2,372.97
2011	14,605	41,984	8	56,597	157.77	1,841.94	0.93	2,000.63
2012	12,389	49,032	222	61,643	130.11	2,118.84	89.38	2,338.33
2013	13,910	53,475	337	67,722	149.61	2,115.81	86.28	2,351.69
2014	15,649	53,258	175	69,082	171.67	2,119.54	42.20	2,333.40
2015	9,736	64,394	217	74,347	101.59	2,281.85	62.90	2,446.34
Ave.	15,104	49,464	193	64,761	168.12	2,021.91	56.79	2,246.82

Source of basic data: BIR

The same observation is found on imported automobiles wherein processed data from the BOC showed that the highest VOR and ETC came from the 20% tax bracket in 2015. Under the said bracket, excise tax collections amounted to PhP6.35 billion which comprised 58.2% of the total collection while its VOR comprised 52.8% of the total removals.

Table 5. ESTIMATED VOLUME OF REMOVALS AND EXCISE TAX COLLECTIONS BY BRACKET FROM IMPORTED AUTOMOBILES, 2015
(In Million PhP)

Tax Bracket	No. of Units	Excise Tax Collections
2%	80,576	707.74
20%	106,947	6,350.28
40%	13,542	2,471.54
60%	1,351	1,380.87
Total	202,416	10,910.44

Source of basic data: BOC raw data as processed by NTRC

Thus, the combined total excise tax collection from both local and imported automobiles is estimated to be PhP13.36 billion, of which 81.7% came from the BOC collections.

Table 6. TOTAL EXCISE TAX COLLECTIONS BY BRACKET FROM LOCALLY MANUFACTURED AND IMPORTED AUTOMOBILES, 2015
(In Million PhP)

Tax Bracket	No. of Units			ETC		
	Local	Imported	Total	BIR	BOC	Total
2%	9,736	80,576	90,312	101.59	707.74	809.33
20%	64,394	106,947	171,341	2,281.85	6,350.28	8,632.13
40%	217	13,542	13,759	62.90	2,471.54	2,534.45
60%	-	1,351	1,351	-	1,380.87	1,380.87
Total	74,347	202,416	276,763	2,446.34	10,910.44	13,356.78

It is noted that prior to RA 9224, automobile excise taxation was based on engine displacement. Such policy was based on the premise that motor vehicles inflict damage to the environment and thus the heavier the motor vehicle is, the greater the environmental damage, hence, heavier taxes¹¹. However, policy-makers have decreed that value-based taxation is more transparent and easier to administer.

IV. COMPARATIVE EXCISE TAXATION OF MOTOR VEHICLES IN OTHER COUNTRIES

A. Excise Taxation of Motor Vehicles in ASEAN Countries (Annex B)

All ASEAN member-countries impose “excise tax”, “excise duty” or an equivalent excise tax- like levy on motor vehicles (MV). In particular, the Philippines, Lao PDR, Thailand and Vietnam impose the excise tax while Brunei, Malaysia and Singapore collect the excise duty. Other member-countries have their own unique excise taxes, the Specific Tax on Certain Merchandise and Service Tax in Cambodia, Excise Tariff-Luxury Sales Tax in Indonesia and Commercial Tax in Myanmar.

All ASEAN member-countries impose ad valorem tax rates based on the price or value of the MV. However, the Philippines is the only member-country that imposes marginal tax rates wherein the rates are applied on the excess over a pre-defined threshold amount in the tax schedule (similar to the income tax) while all others directly apply the tax rates to the price or value of the MV.

Brunei imposes a standard rate of 20% based on the value of the MV except for certain types of tractors which are taxed at 15%. Singapore also collects 20% excise tax except on motorcycles which are taxed at 12%.

¹¹ APTF ASEAN Excise Tax Study Group Discussion Paper. available at www.iticnet.org/images/Phase_II_Discussion_Paper.pdf, viewed October 2015

Myanmar applies two-tiered rates of 25% and 5% of selling price depending on the type of MV. In particular, light vans, saloons, sedans, light wagons, estate wagons and coupe are taxed at 25% while bicycles, tractors, train engines, ships, vans and buses, cranes and winches cars, among others are taxed at 5%.

Cambodia imposes three-tiered rates of 10%, 20% and 30% of ex- factory selling prices of automobiles based on their tariff headings and engine displacement. The higher the engine displacement, the higher is the excise tax.

Indonesia, Lao PDR, Malaysia, Thailand and Vietnam apply multiple tax rates depending on the type of MV and engine displacement. In particular, Indonesia imposes rates ranging from 10% to 125%; Lao PDR, from 10% to 150%; Malaysia, 20% to 105%; Thailand, 10% to 50%; and Vietnam, 10% to 60%.

Thailand is the only country that imposes the excise tax based on the CO₂ emission rate of each type of MV and engine. The higher the emission rate, the higher the excise tax rate.

Indonesia, on the other hand, considers the seating capacity of the MV aside from the type of engine and cylinder in its excise tax structure. In particular, it levies higher tax on MVs used for transporting less than 10 passengers including the driver than on those with 10 up to 15 passengers and exempts MVs with 16 or more seating capacities. Vietnam also considers the seating capacity in its excise tax structure with higher rate imposed on passenger cars of nine (9) seats or less and lower rate on those with 16 to 24 seats.

The Philippines levies a four-tiered excise tax with rates ranging from 2% to 60% depending purely on the manufacturer's or importer's selling price net of excise and VAT.

The Philippines imposes the lowest minimum rate of 2% on taxable MVs compared with 5% or 10% minimum tax rate in other member-countries. On the other hand, Lao PDR imposes the highest tax rate of up to 150% on large vehicles.

In terms of the coverage of the excise tax, the Philippines imposes the tax on "automobiles" which include any four (4) or more wheeled motor vehicle regardless of seating capacity, which is propelled by gasoline, diesel, electricity or any other motive power. Buses, trucks, cargo vans, jeeps/jeepneys/jeepney substitutes, single cab, chassis, and special purpose vehicles are not considered as automobiles; hence, not subject to excise tax.

Unlike the Philippines which limits its excise tax in any four (4) or more wheeled MVs, eight (8) ASEAN member-countries namely Brunei, Cambodia, Indonesia, Lao PDR, Malaysia, Myanmar, Singapore and Vietnam impose excise tax on two- wheeled MV such as motorcycles. Thailand similarly does not collect excise tax on motorcycles like the Philippines.

While the Philippines does not subject buses and trucks to the excise tax, Lao PDR and Myanmar include them in the coverage of their respective excise tax structure. Singapore also subject buses to the tax.

While the Philippines does not tax special purpose vehicles, Brunei, Indonesia and Singapore impose the excise tax on these. In particular, Brunei imposes the excise tax on crane lorries, concrete mixer lorries, road sweeper lorries, fire fighting vehicles, mobile radiological units while Indonesia imposes the tax on special vehicles made for golf, snow, on the beach, on the mountain and the like. Singapore also subject to the tax special vehicles designed for travelling on snow, golf cars, ambulance and hearses, among others.

Thailand and Vietnam give preferential rates on eco-friendly automobiles by imposing lower rates. In particular, Thailand imposes lower rates for eco-cars while Vietnam impose lower rates on electric cars, cars running on bio-fuel or cars running on gasoline in combination with electricity or bio-fuel.

B. TAXATION OF LUXURY CARS OR MOTOR VEHICLES IN OTHER COUNTRIES

Among the ASEAN member-countries, it is only Indonesia that imposes a Luxury-Goods Sales Tax (LST) on certain manufactured taxable goods such as motor vehicles. The tax is charged only once either on importation of the good or on delivery by the manufacturer to another party. It is accounted for every month together with VAT. The importer or the manufacturer of the goods is held responsible for the settlement of the LST. The current LST rates are between 10% to 125% but according to the VAT and LST Law, the rate may be increased up to 200%. The LST on motor vehicle is based on the cylinder capacity of the motor vehicles.¹²

In Australia, cars with value over the luxury car tax (LCT) threshold are subject to an LCT rate of 33%. The tax is applicable to the portion of the car's value that is above the threshold, and not the total value of the car. The tax is levied against the seller - the car retailer, wholesaler or manufacturer but the seller may pass this substantial cost on to consumers by adding the amount of LCT paid on top of the car's retail price. The LCT is payable on imported luxury cars unless the car is covered by a specified Customs duty concession item or LCT exemption. For LCT purposes, a car is a motor vehicle (but not a motorcycle) designed to carry a load of less than two (2) tonnes and fewer than nine (9) passengers. However, a limousine is classified as a car, regardless of the number of passengers it is designed to carry.¹³

The following table lists the LCT thresholds for the relevant financial year – the financial year the car was imported, acquired or sold.

¹² Pwc, Indonesian Pocket Tax Book 2015, <https://www.pwc.com/id/en/pocket-tax-book/ptb-2015-final-eng.pdf>, viewed August 5, 2016.

¹³ Australian Government Australian Taxation Office, Luxury Car Tax, <https://www.ato.gov.au/Business/Luxury-car-tax/>

Table 7. AUSTRALIA's LUXURY CAR TAX THRESHOLDS

Financial year	Australian Dollars		Peso Equivalent (In Billion PhP)	
	Fuel-efficient Vehicles	Other Vehicles	Fuel-efficient Vehicles	Other Vehicles
2009	\$75,000	\$57,180	2.69	2.05
2010	\$75,375	\$57,466	2.71	2.06
2011	\$75,375	\$57,466	2.71	2.06
2012	\$75,375	\$59,133	2.71	2.12
2013	\$75,375	\$60,316	2.71	2.16
2014	\$75,375	\$61,884	2.71	2.22
2015	\$75,375	\$63,184	2.71	2.27
2016	\$75,526	\$64,132	2.71	2.30

Source: <https://www.ato.gov.au/rates/luxury-car-tax-rate-and-thresholds/>, viewed September 19, 2016; Forex: Australian \$1 = PhP35.89

V. PROPOSED EXCISE TAX REFORM ON AUTOMOBILES

House Bill (HB) No. 4774 proposes that the lowest bracket be increased from 2% to 4% and the succeeding marginal tax rates from 20%-60% to 40%-200%. Below is the comparative schedule of the proposed vis-a-vis the present excise tax rates on automobiles.

Table 8. PROPOSED EXCISE TAX RATES ON AUTOMOBILES

Net Manufacturer's Price / Importer's Selling Price (NMISP)	Present	Proposed
Up to PhP600,000	2%	4%
Over PhP600,000 to PhP1.1 million	PhP12,000 + 20% of value in excess of PhP600,000	PhP24,000 + 40% of value in excess of PhP600,000
Over PhP1.1 million to PhP2.1 million	PhP112,000 + 40% of value in excess of PhP1.1 million	PhP224,000 + 100% of value in excess of PhP1.1 million
Over PhP2.1 million	PhP512,000 + 60% of value in excess of PhP2.1 million	PhP1,224,000 + 200% of value in excess of PhP2.1 million

Table 9 shows the comparative maximum tax and maximum effective excise tax rates (ratio of excise tax to NMISP) per tax bracket under present and proposed schedules.

At NMISP of PhP600,000 in the first bracket, the tax under present tax schedule amounts to PhP12,000. The tax will increase to PhP24,000 under the proposed tax schedule. At NMISP of PhP1.1 million in the second bracket, the present tax amounts to PhP112,000. It will double to PhP224,000 under the proposed excise tax. The effective tax rate will also

double from 10.2% to 20.4%. In the third bracket, the tax for NMISP of PhP2.1 million amounts to PhP512,000 but it will more than double to PhP1.224 million under the proposed excise tax rate. In the fourth bracket, the increase in the tax will more than double or triple depending on the NMISP of motor vehicles.

Table 9. COMPARATIVE EFFECTIVE EXCISE TAX RATES PER TAX BRACKET UNDER PRESENT AND HB 4774

Net Manufacturer's/ Importer's Selling Price	Maximum Tax		Maximum ETR	
	Present	Proposed	Present	Proposed
Up to PhP600,000	12,000	24,000	2%	4%
Over PhP600,000 to PhP1.1 M	112,000	224,000	10.2%	20.4%
Over PhP1.1 to PhP2.1 M	512,000	1,224,000	24.4%	58.3%
Over PhP2.1 M				
@ PhP2.5 M	752,000	2,024,000	30.1%	80.1%
@ PhP5.0 M	2,252,000	7,024,000	45.0%	140.5%
@ PhP10.0 M	5,252,000	17,024,000	52.5%	170.2%

Table 10 shows the impact of the proposed excise tax on suggested retail price (SRP). Assuming a 20% dealers' profit margin, with the proposed excise tax rates, SRP of sample motor vehicles will increase by 2% to 14% in the first to third brackets. The increase will be more for other higher-priced brands/models falling under the third bracket. On the other hand, the increase in the SRP of sample motor vehicles in the fourth bracket will range from 34% to 59%. Again, the increase could be more for higher-priced brands/models falling under the fourth bracket.

Table 10. IMPACT OF THE PROPOSED EXCISE TAX ON THE SELLING PRICE OF AUTOMOBILES

Brand	Model	Suggested Retail Price				Excise Tax			
		Present	Proposed	Increase	% Change	Present	Proposed	Increase	% Change
Net Manufacturer's or Importer's Selling Price*									
1. Up to PhP600 thousand									
Suzuki	Alto 800 Deluxe	438,000	446,588	8,588	2%	6,390	12,780	6,390	100%
Hyundai	Eon GLX Navi	525,000	535,294	10,294	2%	7,659	15,319	7,659	100%
Suzuki	Super Carry Jeepney	550,000	560,784	10,784	2%	8,024	16,048	8,024	100%
Toyota	Wigo 1.0 G	561,000	572,000	11,000	2%	8,185	16,369	8,185	100%
Kia	Picanto 1.0 EX	575,000	586,275	11,275	2%	8,389	16,778	8,389	100%
2. PhP600 thousand to PhP1.1 Million									
Mitsubishi	Adventure TX	690,000	703,529	13,529	2%	10,067	20,133	10,067	100%
Ford	Fiesta 1.5 Ambiente 4DR	698,000	711,686	13,686	2%	10,183	20,366	10,183	100%
Hyundai	Accent 1.6 GL CRD VGT 4DR	748,000	762,667	14,667	2%	10,913	21,825	10,913	100%
Toyota	Avanza 1.3 E	807,000	825,198	18,198	2%	11,807	23,615	11,807	100%
Honda	City 1.5 VX Navi MUGEN	1,063,000	1,119,207	56,207	5%	41,820	83,641	41,820	100%
3. PhP1.1 Million to PhP2.1 Million									
Toyota	Corolla Altis 2.0 V	1,215,000	1,296,540	81,540	7%	60,670	121,339	60,670	100%
Isuzu	Crosswind Sportivo X	1,245,000	1,331,540	86,540	7%	64,390	128,780	64,390	100%
Mazda	BT-50 2.2 4x2	1,300,000	1,395,707	95,707	7%	71,210	142,421	71,210	100%

Brand	Model	Suggested Retail Price				Excise Tax			
		Present	Proposed	Increase	% Change	Present	Proposed	Increase	% Change
Toyota	RAV4 2.5 Premium 2WD	1,863,000	2,113,845	250,845	13%	161,760	348,401	186,640	115%
Hyundai	Sonata 2.4 GLS Premium	1,898,000	2,163,845	265,845	14%	169,201	367,002	197,801	117%
4. Over PhP2.1 Million									
BMW	520d Luxury Essential	3,990,000	5,361,090	1,371,090	34%	645,781	1,665,938	1,020,156	158%
Volkswagen	Touareg 3.0 TDI Sport Edition	4,290,000	5,923,590	1,633,590	38%	729,487	1,944,955	1,215,469	167%
Honda	Legend	4,385,000	6,101,715	1,716,715	39%	755,993	2,033,311	1,277,318	169%
Porsche	718 Cayman	5,950,000	9,036,090	3,086,090	52%	1,192,656	3,488,854	2,296,198	193%
Nissan	GT-R	7,350,000	11,661,090	4,311,090	59%	1,583,281	4,790,938	3,207,656	203%

*Net of excise tax and VAT

On the other hand, Table 11 presents the impact of the proposed excise tax on auto financing. Assuming a 20% down payment and 27.28% and 36.10% interest rates for five (5) years of Bank A and Bank B, respectively, on car loans, there will only be minimal increases in the monthly amortizations on motor vehicles. Based on sample motor vehicles, the increase in monthly amortizations under a 5-year installment period only ranges from PhP146 to PhP4,512 for Bank A and PhP156 to PhP4,824 for Bank B. The increase is still affordable for low-priced motor vehicles but the impact becomes heavier as the price of the motor vehicle goes up.

Table 11. IMPACT OF THE PROPOSED EXCISE TAX ON AUTO FINANCING FOR FIVE YEARS

Brand	Model	Increase in Monthly Amortization					
		Bank A @ 27.28%			Bank B @ 36.10%		
		Present	Proposed	Diff.	Present	Proposed	Diff.
Net Manufacturer's or Importer's Selling Price*							
1. Up to PhP600 thousand							
Suzuki	Alto 800 Deluxe	7,433	7,579	146	7,948	8,104	156
Hyundai	Eon GLX Navi	8,910	9,084	175	9,527	9,714	187
Suzuki	Super Carry Jeepney	9,334	9,517	183	9,981	10,176	196
Toyota	Wigo 1.0 G	9,521	9,707	187	10,180	10,380	200
Kia	Picanto 1.0 EX	9,758	9,949	191	10,434	10,639	205
2. PhP600 thousand to PhP1.1 Million							
Mitsubishi	Adventure TX	11,710	11,939	230	12,521	12,767	246
Ford	Fiesta 1.5 Ambiente 4DR	11,846	12,078	232	12,666	12,915	248
Hyundai	Accent 1.6 GL CRD VGT 4DR	12,694	12,943	249	13,574	13,840	266
Toyota	Avanza 1.3 E	13,695	14,004	309	14,644	14,975	330
Honda	City 1.5 VX Navi MUGEN	18,040	18,994	954	19,290	20,310	1,020
3. PhP1.1 Million to PhP2.1 Million							
Toyota	Corolla Altis 2.0 V	20,619	22,003	1,384	22,048	23,528	1,480
Isuzu	Crosswind Sportivo X	21,128	22,597	1,469	22,593	24,163	1,570
Mazda	BT-50 2.2 4x2	22,062	23,686	1,624	23,591	25,327	1,737
Toyota	RAV4 2.5 Premium 2WD	31,616	35,873	4,257	33,807	38,359	4,552
Hyundai	Sonata 2.4 GLS Premium	32,210	36,722	4,512	34,442	39,267	4,824

Brand	Model	Increase in Monthly Amortization					
		Bank A @ 27.28%			Bank B @ 36.10%		
		Present	Proposed	Diff.	Present	Proposed	Diff.
4. Over PhP2.1 Million							
BMW	520d Luxury Essential	67,713	90,981	23,268	72,405	97,286	24,881
Volkswagen	Touareg 3.0 TDI Sport Edition	72,804	100,527	27,723	77,849	107,493	29,644
Honda	Legend	74,416	103,550	29,134	79,573	110,726	31,153
Porsche	718 Cayman	100,975	153,348	52,373	107,973	163,975	56,002
Nissan	GT-R	124,734	197,896	73,162	133,378	211,610	78,232

**Assuming a 20% down payment of the SRP of sample motor vehicles presented in Table 10*

VI. CONCLUSION AND RECOMMENDATION

The present tax of 2% tax on the first bracket under the Philippine tax schedule is the lowest compared with the 5% or 10% minimum tax rate in other ASEAN member-countries. The proposed increase in the minimum tax from 2% to 4% in the first bracket and from 20% to 40% in the second bracket will make the rates comparable with its ASEAN peers. Moreover, given the tax savings on personal income tax and low increase in the monthly amortization in case of car financing, buying a car in the first and second brackets will still be affordable among middle income employees.

On the other hand, the significant increase in the proposed marginal tax rates ranging from 100% to 200% on high-priced automobiles under the third and fourth brackets will enhance the progressivity of the tax and is justified on the ability to pay of potential buyers.



Annex A

EXCISE TAX RATES AND DEFINITION OF AUTOMOBILES

Legislation (Date of Effectivity)	Tax Schedule			Features
EO 36 (August 1, 1986)	Tax Rate	Engine Displacement		Imposed an Ad Valorem Tax of 5%, 10% and 20% depending on engine displacement and type of fuel used, in addition to the sales tax.
		Gasoline	Diesel	
		5% 10% 20%	1201 to 1600 cc 1601 to 1800 cc 1801 cc or over 1851 to 2050 cc 2051 to 2250 cc 2251 cc or over	
	EO 273 (January 1, 1988)	15% 35% 50% 100%	Up to 1600 cc 1601 to 2000 cc 2001 to 2700 cc 2701 cc or over	
RR 14-97 (November 5, 1997)	Same schedule under EO 273			Defined the term “automobile” as: “any four (4) or more wheeled vehicle other than trucks as defined under RA 4136 and RA 1188 which is propelled by gasoline, diesel or any other motive power and specially designed for the transport of persons and not used primarily for carrying of freight and merchandise: Provided, that its seating capacity shall be less than 10 adult passengers including the driver. It shall include utility or light commercial

Legislation (Date of Effectivity)	Tax Schedule	Features
RR 14-99 (October 13, 1999)	Same schedule under EO 273	<p>vehicles designed for passengers with seating capacity of less than 10 adult passengers, including the driver. The seat in the rear cargo/luggage compartment shall not be counted as passenger seats even if these are factory installed and meet the area specification. Jump seats, fold away or fold down shall also be treated in the same manner.”</p> <p>Amended RR 14-97 such that starting February 1, 2000, closed or covered four-wheel drive vehicles primarily designed to carry passengers, regardless of the number of seats shall be covered by the tax on automobiles.</p> <p>Deleted the following provisions:</p> <p>“The seat in the rear cargo/luggage compartment shall not be counted as passenger seats even if these are factory installed and meet the area specification. Jump seats, fold away or fold down shall also be treated in the same manner.”</p> <p>“Automobile” is defined as a four (4) or more wheeled vehicle other than trucks or passenger jeeps, which is propelled by gasoline, diesel, electricity or any other motive power, and specially designed to transport persons and not primarily to transport freight or merchandise. It will include utility or light commercial vehicles designed for</p>

Legislation (Date of Effectivity)	Tax Schedule		Features
			passenger use with seats for less than ten (10) passengers, including the driver
RA 9224 (August 29, 2003)	Net Manufacturer's Selling Price / Importer's Selling Price	Tax Rate	Revised the excise tax structure and based it purely on the vehicle price regardless of engine displacement. "Automobile" as any four (4) or more-wheeled motor vehicle regardless of seating capacity, which is propelled by gasoline, diesel, electricity or any other motive power. Buses, trucks, cargo vans, jeeps/jepneys substitutes, single cab chassis, and special purpose vehicles are not considered as automobiles.
	Up to PhP600,000	2%	
	Over PhP600,000 to PhP1.1 million Over PhP1.1 million to PhP2.1 million Over PhP2.1 million	PhP12,000 + 20% of value in excess of PhP600,000 PhP112,000 + 40% of value in excess of PhP1.1 million PhP512,000 + 60% of value in excess of PhP2.1 million	

Prepared by: Indirect Taxes Branch, National Tax Research Center
Date Prepared: October 20, 2016

Annex B

COMPARATIVE EXCISE TAXATION ON MOTOR VEHICLES IN ASEAN COUNTRIES

Country	Particulars	Tax Base	Tax Rate
Philippines (Excise Tax)	Automobiles	Manufacturer's or importer's selling price, net of excise tax and value-added tax (VAT), in accordance with the following schedule:	
	➤ Any four (4) or more wheeled motor vehicle regardless of seating capacity, which is propelled by gasoline, diesel, electricity or any other motive power.	$\frac{\text{Net manufacturer's price/}}{\text{Importer's selling price}}$	2%
	➤ Buses, trucks, cargo vans, jeeps/jeepneys/jeepney substitutes, single cab, chassis, and special purpose vehicles are not considered as automobiles; hence, not subject to excise tax.	Up to PhP600 thousand Over PhP600 thousand to PhP1.1 million Over PhP1.1 million to PhP2.1 million Over PhP2.1 million	PhP12,000 + 20% of value in excess of PhP600 thousand PhP112,000 + 40% of value in excess of PhP1.1 million PhP512,000 + 60% of value in excess of PhP2.1 million

Country	Particulars	Tax Base	Tax Rate
Brunei ¹ (Excise Duty)	1. Tractors (other than tractors of heading 87.09)	Value of goods	15%
	2. Motor vehicles for the transport of 10 or more persons, including the driver	Value of goods	20%
	3. Motor cars and other motor vehicles principally designed for the transport of persons (other than those of heading 87.02), including station wagons and racing cars.	Value of goods	20%
	4. Motor vehicles for the transport of goods	Value of goods	20%
	5. Special purpose motor vehicles, other than those principally designed for the transport of persons or goods (for example, breakdown lorries; crane lorries, fire fighting vehicles, concrete-mixer lorries, road sweeper lorries, spraying lorries, mobile workshops, mobile radiological units).	Value of goods	20%
	6. Chassis fitted with engines, for the motor vehicles of headings 87.01 to 87.05	Value of goods	20%

¹ [http://www.mof.gov.bn/attachments/article/187/EXCISE%20DUTIES%20ORDER,%202006%20\(S%2040%2006\)%20EXCISE%20DUTIES%20ORDER,%20\(1\).pdf](http://www.mof.gov.bn/attachments/article/187/EXCISE%20DUTIES%20ORDER,%202006%20(S%2040%2006)%20EXCISE%20DUTIES%20ORDER,%20(1).pdf), viewed March 03, 2016

Country	Particulars	Tax Base	Tax Rate
Cambodia ² (Specific Tax on Certain Merchandise and Services)	7. Bodies (including cabs), for the motor vehicles of headings 87.01 to 87.05	Value of goods	20%
	8. Motorcycles (including mopeds) and cycles fitted with an auxiliary motor, with or without side-cars; side-cars	Value of goods	20%
	9. Trailers and semi-trailers; other vehicles, not mechanically propelled; parts thereof	Value of goods	20%
	1. Automobiles classified under the harmonized tariff heading 8703 with an engine displacement of more than 2000 cc, and spare parts for those automobiles	Domestic – ex-factory selling price which is 90% of the invoice price excluding VAT and specific tax	30%
	2. Automobiles classified under the harmonized tariff heading 8703 with an engine displacement of up to 2000 cc, and spare parts for those automobiles	Imported – tax is calculated inclusive of customs duty and CIF value ³	20%
	3. All types of motor vehicles and spare parts classified under the harmonized tariff headings 8702, 8704.21 through		10%

² Cambodia, "Law on Taxation", http://www.cambodiainvestment.gov.kh/content/uploads/2012/02/Law-on-Taxation-of-2004_0401.pdf, viewed 11 March 2016.

³ PricewaterhouseCoopers (Cambodia) Ltd., "Cambodian 2015 Tax Booklet", <http://www.pwc.com/kh/en/publications/assets/cambodian-2015-tax-booklet.pdf>, viewed 11 March 2016.

Country	Particulars	Tax Base	Tax Rate
	8704.90, 8706, 8708, 8714 and 8711 with engine displacements from 125 cc upwards		
Indonesia ⁴ (Excise Tariff-Luxury Sales Tax)	1. Motor vehicles for transporting less than 10 passengers including the driver	Sales price, replacement, import value, export value, or the other value utilized as the basis to calculate the tax payable.	
	(a) Spark-ignition internal combustion engine		
	i. Sedan or station wagon		
	• Cylinder content capacity up to 1500 cc		30%
	• Cylinder content capacity 1500 cc up to 3000 cc		40%
	• Cylinder content capacity more than 3000 cc		125%
	ii. Single drive axle (4x2)		
	• Cylinder content capacity up to 1500 cc		10%
	• Cylinder content capacity 1500 cc up to 2500 cc		20%

⁴ <https://www.pwc.com/id/en/indonesian-pocket-tax-book/assets/indonesian-ptb-2015-en.pdf>, viewed on March 04, 2016.

Country	Particulars	Tax Base	Tax Rate
Indonesia (cont.)	<ul style="list-style-type: none"> • Cylinder content capacity 2500 cc up to 3000 cc • Cylinder content capacity more than 3000 cc 		40%
	iii. Double drive axle (4x4)		
	<ul style="list-style-type: none"> • Cylinder content capacity up to 1500 cc 		30%
	<ul style="list-style-type: none"> • Cylinder content capacity 1500 cc up to 3000 cc 		40%
	<ul style="list-style-type: none"> • Cylinder content capacity more than 3000 cc 		125%
	(b) Compression ignition engine (diesel or semi-diesel)		
	i. Sedan or station wagon		
	<ul style="list-style-type: none"> • Cylinder content capacity up to 1500 cc 		30%
	<ul style="list-style-type: none"> • Cylinder content capacity 1500 cc up to 2500 cc 		40%
	<ul style="list-style-type: none"> • Cylinder content capacity more than 2500 cc 		125%
	ii. Single drive axle (4x2)		

Country	Particulars	Tax Base	Tax Rate
Indonesia (cont.)	<ul style="list-style-type: none"> • Cylinder content capacity up to 1500 cc 		10%
	<ul style="list-style-type: none"> • Cylinder content capacity 1500 cc up to 2500 cc 		20%
	<ul style="list-style-type: none"> • Cylinder content capacity more than 2500 cc 		125%
	iii. Double drive axle (4x4)		
	<ul style="list-style-type: none"> • Cylinder content capacity up to 1500 cc 		30%
	<ul style="list-style-type: none"> • Cylinder content capacity 1500 cc up to 2500 cc 		40%
	<ul style="list-style-type: none"> • Cylinder content capacity more than 2500 cc 		125%
	2. Motor vehicles for transporting 10 up to 15 passengers including the driver		
	(a) Spark-ignition internal combustion engine, all cylinder content capacity		10%
	(b) Compression ignition engine (diesel or semi-diesel), all cylinder content capacity		10%

Country	Particulars	Tax Base	Tax Rate
Indonesia (cont.)	<p>(c) Used for the official vehicle of the Indonesian Armed Forces (TNI) or Indonesia National Police's Patrol Vehicle (Polri)</p> <p>3. Motor vehicle for transporting 16 passengers or more including the driver</p> <p>4. Double cabin vehicles for passengers exceeding 3 persons but not exceeding 6 persons including the driver and has opened or closed bed for transport of goods, using spark-ignition internal combustion engine or compression ignition engine (diesel or semi-diesel), using single drive axle (4x2) or double drive axle (4x4), for all cylinder content capacities with the weight not more than 5 tons</p> <p>5. Special purpose vehicles</p> <p>(a) All types of special vehicle that are produced for golf</p> <p>(b) Special vehicle made for travelling on the snow, on the beach, on mountain and the like</p> <p>(c) Trailer or semi-trailer of type caravan, housing or camping</p>		<p>Exempt</p> <p>Exempt</p> <p>20%</p> <p>50%</p> <p>60%</p> <p>125%</p>

Country	Particulars	Tax Base	Tax Rate
Indonesia (cont.)	<p>(d) Motor vehicle in the form of ambulance, hearse, fire fighter vehicle, detainee vehicle, and public transportation vehicle</p> <p>(e) State protocol Vehicle</p> <p>(f) Patrol vehicle of TNI or Polri</p> <p>6. Two wheel motor vehicles</p> <ul style="list-style-type: none"> - Motorcycle (including moped) and bicycle equipped with additional motor, with or without sided carriage, includes side carriage <p>(a) Cylinder content capacity up to 250 cc</p> <p>(b) Cylinder content capacity more than 250 cc up to 500 cc</p> <p>(c) Cylinder content capacity above 500 cc</p> <p>7. Completely knocked down (CKD) motor vehicle</p> <ul style="list-style-type: none"> - Motor vehicle in the condition of disassemble becomes its parts includes its equipment as well as principal property of the motor vehicle in question 		<p>Exempt</p> <p>Exempt</p> <p>Exempt</p> <p>Exempt</p> <p>60%</p> <p>125%</p> <p>Exempt</p>

Country	Particulars	Tax Base	Tax Rate
Indonesia (cont.)	8. Car chassis <ul style="list-style-type: none"> Vehicle frame that has been completed with the motor fuel and its transmission as well as steering system and axle installed for the motor vehicle 		Exempt
	9. Good transporter vehicle <ul style="list-style-type: none"> Motor vehicle with the single cabin in the form of open-bed vehicle or close-bed vehicle, with the sum of passenger not more than 3 passengers including the driver, which is used for the good transportation activity either for personal or public purposes 		Exempt
Lao PDR ⁵ (Excise Tax)	1. Motorbikes: <ul style="list-style-type: none"> (a) from 110 cc or less (b) from 111 cc – 150 cc (c) from 151 cc – 250 cc (d) from 251 cc or more 	Domestic – wholesale or retail value (excluding VAT and the excise tax) Imported – declared value for customs (CIF) plus import tax and other fees (if any)	10% 15% 20% 25%

⁵ Lao PDR, "Tax Law (amended) No. 05/NA", <http://www.laotradeportal.gov.la/index.php?r=site/display&id=629#a22>, viewed 11 March 2016.

Country	Particulars	Tax Base	Tax Rate
Lao PDR (cont.)	(e) motorbike run by electricity		Shall be reduced by 20% of each item
	2. Large Vehicles:		
	(a) Categories of vans, buses, trucks, soft and hard roof jeeps, sedan cars and pickups	Purchase price	25% - 150%
	(b) Imported cars of the international organizations, cars of foreign aid projects in Lao PDR		Exempt
	(c) Temporarily imported cars for the use of project according to the investment agreement which is approved by the National Assembly		Exempt
	(d) Cars that are imported, produced and assembled domestically for professional use of State organizations as provided for in specific regulations		Exempt
	(e) Other types of large vehicles which are not vans, buses, trucks, soft and hard roof jeeps, sedan cars and pickups		Exempt
	3. Vehicle spare parts	Domestic – wholesale or retail value (excluding VAT and the excise tax)	10%

Country	Particulars	Tax Base	Tax Rate
	(a) Spare parts imported by manufacturing plants to produce complete vehicles in the country	Imported – declared value for customs (CIF) plus import tax and other fees (if any)	Exempt
	4. Vehicle accessories		15%
	5. Speed boats, yachts, motorized sport boats, including their components and spare parts		15%
Malaysia ⁶ (Excise Duty)	1. Motor Cars (including station wagons, sports cars and racing cars)		
	(a) engine capacity < 1800 cc		75%
	(b) engine capacity 1800 cc – 1999 cc		80%
	(c) engine capacity 2000 cc – 2,499 cc		90%
	(d) engine capacity above 2500 cc		105%
	2. Four Wheel Drive Vehicles		
	(a) engine capacity < 1800 cc		65%
	(b) engine capacity 1800 cc – 1,999 cc		75%
	(c) engine capacity 2000 cc – 2,499 cc		90%

⁶ Malaysian Automotive Association, "Duties & Taxes on Motor Vehicles", http://www.maa.org.my/info_duty.htm, viewed 11 March 2016 and Ministry of International Trade and Industry, "Domestic Automotive Duty Structure for CBU and CKD", <http://www.miti.gov.my/miti/resources/fileupload/ANNEX%20PRESS%20RELEASE%20ENGLISH.xls>, viewed 11 March 2016

Country	Particulars	Tax Base	Tax Rate
Malaysia (cont.)	(d) engine capacity above 2500 cc		105%
	3. Others (MPV & Van)		
	(a) engine capacity < 1,500 cc		60%
	(b) engine capacity 1,500 cc – 1,799 cc		65%
	(c) engine capacity 1,800 cc – 1,999 cc		75%
	(d) engine capacity 2000 cc – 2,499 cc		90%
	(e) engine capacity above 2,500 cc		105%
	4. Commercial Vehicles		
	(a) All classes		-
	5. Motorcycles		
Singapore ⁷ (Excise Duty)	(a) engine capacity ≤ 150 cc		20%
	(b) engine capacity > 150 cc		30%
	1. Motor vehicles for the transport of 10 or more persons including stretch limousines but excluding coaches, buses, minibuses or vans	Customs Value ⁸	20%

⁷ Singapore Customs; <http://www.customs.gov.sg/leftNav/trad/val/List+of+Dutiable+Goods.html>, viewed March 07, 2016

⁸ Cost + Insurance, and Freight (CIF) value

Country	Particulars	Tax Base	Tax Rate
Singapore (cont.)	2. Other vehicles specially designed for travelling on snow; golf cars and similar vehicles excluding motor vehicles in (1)		20%
	3. Motor cars (CKD and Non-CKD) including station wagons, SUVs and sport cars but excluding vans		
	(a) compression ignition internal combustion piston engine diesel or semi-diesel with engine displacement not over 1500 cc to over 3000 cc		20%
	(b) spark-ignition internal combustion reciprocating piston engine with engine displacement not over 1000 cc to over 3000 cc		20%
	(c) other than spark and compression ignition internal combustion piston engine, regardless of engine displacement		20%
	4. Other motor vehicles (CKD and Non CKD)		

Country	Particulars	Tax Base	Tax Rate
Singapore (cont.)	(a) compression ignition internal combustion piston engine diesel or semi-diesel with engine displacement not over 1500 cc to over 2500 cc		20%
	(b) spark-ignition internal combustion reciprocating piston engine with engine displacement not over 1000 cc to over 3000 cc		20%
	(c) other than spark and compression ignition internal combustion piston engine, regardless of engine displacement		20%
	(d) electrically powered		20%
	5. Ambulances		
	(a) compression ignition internal combustion piston engine diesel or semi-diesel with engine displacement not over 1500 cc to over 2500 cc		20%
	(b) spark-ignition internal combustion reciprocating piston engine with engine displacement not over 1000 cc to over 3000 cc		20%

Country	Particulars	Tax Base	Tax Rate
Singapore (cont.)	(c) electrically powered		20%
	6. Hearses (CKD and Non-CKD)		
	(a) compression ignition internal combustion piston engine diesel or semi-diesel with engine displacement over 1500 cc to over 2500 cc		20%
	(b) spark-ignition internal combustion reciprocating piston engine with engine displacement over 1500 cc to over 3000 cc		20%
	7. Prison vans (CKD and Non-CKD)		
	(a) compression ignition internal combustion piston engine diesel or semi-diesel with engine displacement over 1500 cc to over 2500 cc		20%
	(b) spark-ignition internal combustion reciprocating piston engine with		20%

Country	Particulars	Tax Base	Tax Rate
Singapore (cont.)	engine displacement over 1500 cc to over 3000 cc		
	8. Motor homes		
	(a) compression ignition internal combustion piston engine diesel or semi-diesel with engine displacement not over 1500 cc to over 2500 cc		20%
	(b) spark-ignition internal combustion reciprocating piston engine with engine displacement not over 1000 cc to over 3000 cc		20%
	9. Motorcycles (including mopeds) and cycles fitted with an auxiliary motor, with or without side-cars; side-cars		
	(a) CKD and non-CKD electrically powered motorcycles		12%
	(b) Other cycles excluding reciprocating internal combustion piston engine & electrically powered		

Country	Particulars	Tax Base	Tax Rate
Singapore (cont.)	i. Other CKD cycles with engine displacement not over 200 cc to over 500 cc		12%
	ii. Other Non-CKD cycles regardless of engine displacement		12%
	(c) Motorcycles (including mopeds) and cycles with reciprocating internal combustion piston engine		
	i. CKD and non-CKD mopeds and motorized bicycles with engine displacement not over 50 cc but not over 250 cc		12%
	ii. CKD and non-CKD motorcross motorcycles with engine displacement over 50 cc to over 800 cc		12%
	iii. CKD and non-CKD motorcycles (with or without sidecars) including motor scooters with engine displacement over 50 cc but not over 250 cc		12%

Country	Particulars	Tax Base	Tax Rate
Singapore (cont.)	iv. Other CKD and non-CKD cycles with engine displacement not over 50 cc but not over 800 cc		12%
	v. Other CKD and non-CKD motorcycles and motor scooters with engine displacement not over 50 cc		12%
	10. Chassis fitted with engines		
	(a) For ambulances		20%
	(b) For motor cars		20%
	(c) For other motor cars and motor vehicles principally designed for transport of persons		20%
	(d) For motor cars for transport of 10 or more persons including stretch limousines but excluding coaches, buses, minibuses or vans		20%

Country	Particulars	Tax Base	Tax Rate
	11. Bodies including cabs (a) For ambulances (b) For other motor cars and motor vehicles principally designed for transport of persons (c) For motor cars for transport of 10 or more persons including stretch limousines but excluding coaches, buses, minibuses, or vans		20% 20% 20%
Thailand⁹ (Excise Tax)	1. Passenger car (a) Engine capacity less than 3000 cc i. Carbon dioxide (CO ₂) emission rate less than 150 g/km		30%

⁹ http://www.thaiauto.or.th/2012/news/news-detail.asp?news_id=3198 and http://www.boi.go.th/upload/content/BOI-brochure%202015-automotive-20150325_70298.pdf, viewed on May 23, 2016

In order to promote green technology, the Thailand government has restructured automotive excise taxes to better-align with vehicle emissions that will be effective on 01 January 2016. http://www.boi.go.th/upload/content/BOI-brochure%202015-automotive-20150325_70298.pdf, viewed on March 04, 2016

Country	Particulars	Tax Base	Tax Rate
Thailand (cont.)	ii. CO ₂ emission rate 150 g/km up to 200 g/km		35%
	iii. CO ₂ emission rate more than 200 g/km		40%
	(b) Engine capacity more than 3000 cc, regardless of CO ₂ emission rate		50%
	2. Passenger car using E85 or compressed natural gas (CNG)		
	iv. Engine capacity less than 3000 cc		
	i. CO ₂ emission rate less than 150 g/km		25%
	ii. CO ₂ emission rate 150 g/km up to 200 g/km		30%
	iii. CO ₂ emission rate more than 200 g/km		35%
	v. Engine capacity more than 3000 cc, regardless of CO ₂ emission rate		50%
	3. Hybrid vehicles		
	(a) Engine capacity less than 3000 cc		
	i. CO ₂ emission rate less than 100 g/km		10%
	ii. CO ₂ emission rate 100 g/km up to 150 g/km		20%

Country	Particulars	Tax Base	Tax Rate
Thailand (cont.)	iii. CO ₂ emission rate 150 g/km up to 200 g/km		25%
	iv. CO ₂ emission rate more than 200 g/km		30%
	(b) Engine capacity more than 3000 cc, regardless of CO ₂ emission rate		50%
	4. Eco cars		
	(a) Engine capacity 1300 cc up to 1400 cc		
	i. CO ₂ emission rate less than 100 g/km		14%
	ii. CO ₂ emission rate more than 100 g/km		17%
	(b) Using E85 fuel		
	i. CO ₂ emission rate less than 100 g/km		12%
	ii. CO ₂ emission rate more than 100 g/km		17%
	5. Pick-up trucks		
	(a) Single cab		
	i. CO ₂ emission rate less than 200 g/km		3%

Country	Particulars	Tax Base	Tax Rate
Thailand (cont.)	ii. CO ₂ emission rate more than 200 g/km		5%
	(b) Space cab		
	i. CO ₂ emission rate less than 200 g/km		5%
	ii. CO ₂ emission rate more than 200 g/km		7%
	(c) Double cab		
	i. CO ₂ emission rate less than 200 g/km		12%
	ii. CO ₂ emission rate more than 200 g/km		15%
	6. Passenger pick-up trucks		
	(a) Engine capacity less than 3250 cc		
	i. CO ₂ emission rate less than 200 g/km		25%
	ii. CO ₂ emission rate more than 200 g/km		30%
	(b) Engine capacity more than 3250 cc, regardless of CO ₂ emission rate		50%

Country	Particulars	Tax Base	Tax Rate
Vietnam ¹⁰ (Excise Tax)	1. Cars under 24 seats		
	(a) Passenger cars of 9 seats or less, except those specified at Points 1(e), 1(f) and 1(g)	Domestically produced goods – selling price set by the producer	
	i. With cylinder capacity of 2000 cm ³ or less	Imported goods – import-duty calculation price plus the import duty	45%
	ii. With cylinder capacity of 2000 cm ³ to 3000 cm ³		50%
	iii. With cylinder capacity exceeding 3000 cm ³		60%
	(b) Passenger cars between 10 to less than 16 seats, except those specified at Points 1(e), 1(f) and 1(g)		30%
	(c) Passenger cars between 16 to 24 seats, except those specified at Points 1(e), 1(f) and 1(g)		15%
	(d) Cars for both passenger and cargo transportation, except those specified at Points 1(e), 1(f) and 1(g)		15%

¹⁰ <http://www.customs.gov.vn/Lists/EnglishDocuments/ViewDetails.aspx?language=en-US&ID=1061>, viewed on March 07, 2016.

Country	Particulars	Tax Base	Tax Rate
Vietnam (Excise Tax)	(e) Cars running on gasoline in combination with electricity or bio-fuel, with gasoline accounting for not more than 70% of the used fuel		70% of the tax rate for cars of the same kind as specified at Points 1(a) to 1(d)
	(f) Cars running on bio-fuel		50% of the tax rate for cars of the same type as specified at Points 1(a) to 1(d)
	(g) Electric cars		
	i. Passenger cars of 9 seats or less		25%
	ii. Passenger cars between 10 to less than 16 seats		15%
	iii. Passenger cars between 16 to 24 seats		10%
	iv. Cars for both passenger and cargo transportation		10%
	2. Two-wheeled and three-wheeled motorcycles with cylinder capacity more than 125 cm ³		20%

Country	Particulars	Tax Base	Tax Rate
Myanmar ¹¹ (Commercial Tax)	1. Bicycles	<u>Domestic</u> – Proceeds of the Sale <u>Imported</u> – Landed Cost	5%
	2. Tractors, other industrial motor trucks, parts and accessories thereof		5%
	3. Tractors, other industrial motor trucks, parts and accessories thereof		5%
	4. Train engines, train locomotives, coaches, spare parts and accessories thereof		5%
	5. Sea-going ships, other ships, motor boards, schooners, spare parts and accessories thereof		5%
	6. Electric motors		5%
	7. Lorries, trucks and trailers above ¼ ton		5%
	8. Vans and buses		5%
	9. Browsers ¹²		5%
	10. Cranes and winches cars		5%

¹¹ http://www.mof.gov.mm/sites/default/files/CommercialTaxLawEnglish_1.pdf, viewed March 07, 2016

¹² A browser is a generic name for a tanker of various kinds. In the United Kingdom, it is used by water companies to refer to mobile water tanks deployed to distribute fresh water in emergency situations. It also describes a fuel tanker used to deliver fuel to aircraft at airports or airfields. It is also describes refueling boats that supply seaplanes, and vehicles that fill heavy construction equipment such as hydraulic excavators and bulldozers. (Source: [http://everythingexplained.today/Browser_\(tanker\)](http://everythingexplained.today/Browser_(tanker)), viewed 20 April 2016)

Country	Particulars	Tax Base	Tax Rate
	11. Motor-car parts and accessories including frames and parts of chassis		5%
	12. Motorcycle parts and accessories		5%
	13. Motorcycles, scooters and the like		5%
	14. Light vans, saloons, sedans, light wagons, estate wagons and coupe		25%

ISSUANCES WITH REVENUE IMPLICATIONS: January – February 2017

REVENUE REGULATIONS (RRs)

Issuance	Subject	Date of Issue	Date of Effectivity
RR 1-2017	Prescribes the regulations governing applications for Value-Added Tax (VAT) credit/refund filed under Section 112 of the Tax Code, as amended, prior to the effectivity of RMC No. 54-2014. <i>(Published in Manila Bulletin on January 20, 2017)</i>	January 18, 2016	February 4, 2017
RR 3-2017	Implements the Tax Provisions of Republic Act (RA) No. 10693, Otherwise Known as the "MicroFinance NGOs Act." RE: Implements the following tax provisions for Non-Government Organizations (NGOs) engaged in MicroFinance operations for the poor: imposition of two percent (2%) tax based on gross receipts from microfinance operations in lieu of national taxes on Microfinance NGOs, provided, that preferential tax treatment shall be accorded only to NGOs whose primary purpose is microfinance and only on their microfinance operations catering to the poor and low-income individuals in alignment with the main goal of alleviating poverty; and imposition of regular taxes on the non-microfinance activities of Microfinance NGOs	February 24, 2017	March 14, 2017

REVENUE MEMORANDUM CIRCULARS (RMCs)

Issuance	Subject	Date of Issue	Date of Effectivity
RMC 8-2017	Clarifies the Tax Treatment of Value-Added Tax (VAT) on Government Money Payments for Overseas Economic	January 9, 2017	-

Issuance	Subject	Date of Issue	Date of Effectivity
	Cooperation Fund (OECD)- Funded Projects Under Exchange of Notes Between Republic of the Philippines and the Government of Japan RE: Acknowledging and accordingly implementing the standard clauses pertaining to the tax treatment of participating Japanese suppliers, contractors and nationals engaged in OECD- Funded projects in the Philippines		
RMC 10-2017	Clarifies the Bookkeeping Requirements of National Government Agencies and Instrumentalities and Government-Owned and-Controlled Corporations	January 19, 2017	

REVENUE MEMORANDUM ORDERS (RMOs)

Issuance	Subject	Date of Issue	Date of Effectivity
RMO 3-2017	Amends Further the Prescribed Format for the Certificate of Availment/ Approval and Notice of Denial Relative to Application for Compromise Settlement and/or Abatement of Penalties Pursuant to Section 204 of the Tax Code, as Amended	February 01, 2017	February 01, 2017
RMO 5-2017	Functional Guidelines Relative to the Implementation of the Taxpayer Registration System (TRS) Under the Electronic Tax Information Systems-1 (eTIS-1) RE: Prescribes the functional guidelines and procedures in the implementation of TRS in eTIS-1 to increase the Bureau's efficiency in terms of capturing and monitoring taxpayer's registration information, as well as the Bureau's	February 16, 2017	February 16, 2017

Issuance	Subject	Date of Issue	Date of Effectivity
	reporting requirements in order to support the core functions of collecting revenues; redefining procedures in the registration process to harmonize with subject functionality; adapting enhancements on the registration system; and adopting and enhancing the enhanced version of applications for registration forms (BIR Form Nos. 1901, 1902, 1903, 1904, 1905 and 2035) pursuant to Revenue Memorandum Circular (RMC) No. 09-2015		

OTHERS

Issuance	Subject	Date of Issue	Date of Effectivity
DILG MC 2017-29	Issuance/Renewal of Business Permits to Insurance Companies	February 10, 2017	
DILG MC 2017-23	Suspension of LGU Imposition and Collection of Illegal Fees and Taxes	February 6, 2017	To take effect immediately
BLGF MC 01-001-2017	Reminders in the Assessment of the Local Business Tax (LBT), Registration and Renewal of Business Permits and Licenses and Payment of Community Tax	January 5, 2017	



TAX NEWS DIGEST

TETANGCO WANTS STRONGER POWERS FOR AMLC TO RUN AFTER TAX DODGERS

Bangko Sentral ng Pilipinas (BSP) Governor Amando Tetangco Jr. urged a reform of the country's financial system including a proposal to strengthen the anti-money laundering laws.

He said the proposed measures aims to strengthen the local banking system; align the Philippine practices with increasingly strict international measures to combat cross border flows of illicit funds; and include tax evasion on the list of predicate crimes.

Mr. Tetangco asked Congress to strengthen the Anti-Money Laundering Law of 2001 to include the Philippines' growing casino industry under the coverage of the Anti-Money Laundering Council (AMLC), which acts as the country's financial intelligence unit.

The move to strengthen anti-money laundering measures gained support after cyber thieves attempted to steal US\$ 1 billion from the Bangladesh Central Bank, US\$ 81 million of which was successfully funneled into the local financial system through Rizal Commercial Banking Corp. before disappearing into the local casino industry.

Mr. Tetangco outlined other market reforms he wants to pursue. These include policy reforms and advocacies to broaden access to and affordability of

financial services; improving the quality and variety of financial products; promoting competitiveness and efficiency in the financial system; and strengthen good governance in banks, among others.

Source: *Philippine Daily Inquirer*
January 6, 2017

LAWMAKERS EYE HIGHER TAXES ON BEAUTY PRODUCTS, SERVICES

Rep. Rodel Batocabe proposed an imposition of higher taxes on beauty products and services, instead of a tax on fuel.

House Deputy Speaker Raneo Abu said he supports an aesthetic tax and other levies like a tax on sweetened beverages because these products are usually consumed by those who are in the higher-income bracket.

Several other lawmakers support the push for taxing or collecting more levies on luxury and non-essential products, which the rich can afford and which the poor can forgo. They also said the proposal to increase the tax on petroleum products should no longer be entertained, since the levies will directly cascade to all sectors of society and will hit the lower income groups harder.

Rep. Batocabe suggested that President Duterte's economic managers should consider taxing beauty products and services such as glutathione, nose lift

and liposuction, instead of imposing a PhP6.00 levy on diesel, cooking gas, kerosene and bunker fuel oil. He added the planned tax on diesel will result in increased cost of transporting consumer products, which in turn will translate into higher retail prices of these products, including basic necessities like rice, fish, meat, and vegetables.

Source: *The Philippine Star*
January 10, 2017

DBM CONFIDENT OF TAX REFORM PASSAGE BY FIRST HALF OF 2017

Budget Secretary Benjamin E. Diokno remains positive on the underlying revenue assumptions behind the 2018 budget, which will incorporate the results of reforms to the tax system, though delays raise the risk of some infrastructure projects going unfunded. He said that the mid-year timetable is a realistic estimate for passing the tax reform program.

The Department of Budget and Management (DBM) is set to propose a record PhP3.84 trillion budget for 2018, 14.6% more than this year's PhP3.35 trillion allocation.

Secretary Diokno said that 2018 will be the year most people will see an increase in take-home pay, as reforms to the personal income tax system will already have been implemented.

The first package of the comprehensive tax reform program (CTRP) that the DOF submitted to Congress is projected to generate PhP206.8 billion in additional revenue, or 1% of gross domestic product (GDP).

The Development Budget Coordination Committee (DBCC) said that some infrastructure projects for 2018 will depend on the additional revenue from the tax reform.

Source: *BusinessWorld*
January 12, 2017

REP. ARROYO FILES BILL TO OVERHAUL BIR

House Deputy Speaker Rep. Gloria Macapagal-Arroyo filed a bill seeking to overhaul the Bureau of Internal Revenue (BIR) by creating the National Revenue Agency (NRA) that will "significantly improve tax collection."

House Bill (HB) No. 695 states that there is an urgent need for Congress to create a Revenue Authority to address the growing taxpayer dissatisfaction particularly over front-line services, high level of tax evasion/avoidance, and increasing perception of corruption in the Bureau.

Rep. Arroyo said the BIR is hampered by at least three institutional constraints, namely: rigid personnel management system; compensation structure that restricts the hiring of first-rate professionals; and strict line-item budgeting that limits the flexibility in the allocation of funds.

Under the proposed measure, the NRA will be governed by a revenue board composed of four representatives from the government and three from the private sector. Government representatives will include the heads of the Department of Finance (DOF), Department of Budget and Management (DBM), National Economic

and Development Authority (NEDA), and the Securities and Exchange Commission (SEC). The DOF Secretary will serve as the board's chairman. Private sector representatives will be nominated by professional organizations and appointed by the President.

The proposed bill states that private sector representatives must be recognized experts in the fields of economics, accounting, law, business management, and other allied professions and will serve for a fixed tenure of office with different periods of expiry to avoid disruption of services, to prevent abandonment of approved programs and to limit reversal of revenue rulings and regulations.

Source: *BusinessWorld*
January 16, 2017

NTRC: 2-TIER TAX ON CIGARETTES AGAINST ASEAN TREND

The National Tax Research Center (NTRC) said that reverting to a two-tiered tax system on tobacco products would be going against the trend in Southeast Asia.

The NTRC said that majority of Association of Southeast Asian Nations (ASEAN) members have already adopted or shifted to a unified tax rate on cigarettes, including Malaysia, Thailand, Singapore, Cambodia, Lao PDR, Myanmar, and Vietnam. It also added that ASEAN is moving to a unitary tax rate as this tax regime helps governments combat not only smoking, but also tax evasion by tobacco players.

The NTRC said since tax administration would be simplified under a unitary tax rate, government would have

less difficulty in tracking and preventing attempts to smuggle, misdeclare or under-declare cigarette products. The unitary tax will level the playing field in the cigarette industry and promote competition. It will also minimize incentives for cigarette manufacturers and importers to under-invoice their products for tax purposes.

Source: *Manila Bulletin*
January 17, 2017

TAX REFORMS ENTER LEGISLATIVE MILL

The first package of the Duterte administration's tax reform program has been sent to the House of Representatives and was filed as a bill by the House Committee on Ways and Means.

House Bill (HB) No. 4774 otherwise known as "Tax Reform for Acceleration and Inclusion Act" now includes tax administration measures such as mandatory fuel marking, mandatory issuance of electronic receipts, mandatory linkages between firms' point of sale machines and the Bureau of Internal Revenue's (BIR) accounting system and mandatory use of global positioning system when transporting cargo.

Finance Secretary Carlos G. Dominguez III said the BIR and the Bureau of Customs (BOC) have already been undertaking sweeping reforms to improve taxpayer satisfaction, arrest official corruption, and restore public trust in the government's main revenue-generating agencies.

The proposal also seeks the easing of the bank secrecy law in order to facilitate crime investigation.

Under the personal income tax segment of the package, taxpayers earning up to PhP250,000 annually will be tax-exempt; those earning PhP400,000 to PhP800,000 will pay PhP30,000 plus 25% in excess of PhP400,000; earning PhP800,000 to PhP2 million will pay PhP130,000 plus 30% in excess of PhP800,000; earning PhP2-5 million will pay PhP490,000 plus 32% in excess of PhP2 million; and the "ultra-rich" – those earning more than PhP5 million – will pay PhP1.45 million plus 35% in excess of PhP5 million.

Revenue losses from the lowering of the personal income tax which is estimated to be around PhP139.6 billion in the first full year of implementation, as well as from reducing the estate and donor's tax to 6% from the current 20% for gifts worth more than PhP100,000 will be plugged by expanding the value-added tax (VAT) base by limiting exemptions on raw food and other necessities such as education and healthcare, raising excise tax rates on petroleum products and restructuring the excise tax on automobiles.

The first tax reform package also retains the VAT exemption of senior citizens and persons with disabilities (PWDs), the PhP82,000 exemption for 13th month and other bonuses.

The DOF estimated that the first package will yield PhP206.8 billion in its first year of implementation: PhP162.5 billion from reform in tax rates and PhP44.3 billion from legislated tax administration reform.

Source: *BusinessWorld*
January 19, 2017

HOUSE COMMITTEE OK'S ESTATE TAX AMNESTY

The House Committee on Ways and Means approved Unnumbered House Bill (UHB) in substitution to HBs 1889 (introduced by Rep. Arthur R. Defensor Jr.) and 3010 (introduced by Rep. Romero Federico S. Quimbo) entitled "An Act Granting Amnesty in Estate Tax" giving a one-time amnesty on the said tax.

Ways and Means Committee Chairman Rep. Dakila Carlo E. Cua said the amnesty rate is 6% on the value of the net estate and penalties are waived.

Collection of appropriate estate taxes has been elusive for the BIR which was estimated to actually go up to PhP10-50 billion from less than PhP1 billion currently.

Besides contributing to an overall increase in much-needed revenues, the amnesty is designed to free up properties – encumbered by such liability – for productive use.

The bill grants the following immunities and privileges to taxpayers who avail of the planned estate tax amnesty: immunity from civil, criminal or administrative penalties; estate tax amnesty returns for 2016 and prior years will not be admissible as evidence in judicial, quasi-judicial or administrative proceedings; and the books of accounts and other records of the taxpayers for the years covered by the amnesty will not be examined.

Rep. Defensor said the BIR itself backs the plan since estate tax take has been "insignificant compared to the overall tax collection." He added there are

many properties tied up to billions of pesos worth of unsettled estate tax that have become “idle capital”.

Rep. Quimbo noted that the primary cause of the inability to settle estate tax is due to high estate tax rates, and the inability to cope with the penalties that have accrued. In 95% of the cases, the penalties are even higher than the value of the properties.

Source: *BusinessWorld*
January 23, 2017

THINK TANK SEES FUEL MARKING SYSTEM HELPING RAISE REVENUE

The National Tax Research Center (NTRC) said the imposition of the mandatory use of fuel marking system will help the country raise revenue, curb smuggling, and protect the environment. The scheme will increase the tax receipts (without raising taxes) and sales revenue from increased volumes of official fuel in legal circulation.

The NTRC added that the measure will improve tax compliance and mitigate against tax evasion, minimize losses from fuel fraud, and ensure that revenue-generating agencies are able to collect appropriate amounts from the excise tax on fuel. It will also prevent illegal import of no or low-tax products and the dumping of transit, export and subsidized fuel.

Fuel marking involves the use of low concentrations of markers or dyes to be blended with the fuel, to mark the stages undergone by a particular batch of product, determining whether shipments have gone through the legal supply chain. Marked fuel will indicate that batches

have paid the required tariffs and gone through all the necessary steps for release to the market.

According to a study conducted by the Asian Development Bank (ADB), the NTRC said that the Philippines' forgone revenue amounted to \$750 million per year due to fuel smuggling, which “adulterated fuel products” in the supply chains.

Source: *BusinessWorld*
January 30, 2017

TAX REFORM TO BOOST GROWTH – BSP

The Bangko Sentral ng Pilipinas (BSP) said the proposed tax reform package of the Department of Finance (DOF) will have a positive impact on the country's economic growth. The BSP Deputy Governor expressed strong support for the DOF's proposed comprehensive tax reform program (CTRP).

He said the implementation of the first package of the CTRP would contribute an additional 0.6 percentage point to the country's GDP growth in 2017, and 0.2 percentage point in 2018.

The BSP Deputy Governor added that lower personal and corporate income taxes would “incentivize” more factories and businesses to produce and invest more, particularly in goods and infrastructure. As such, the increased capacity and production would moderate price movements.

The BSP estimates inflation rate to increase by 0.5 to 0.7 percentage point in the next two years with the implementation of DOF's proposed tax

reforms. This is on top of the BSP's projected 3.3% inflation this year and 3% in 2018.

The excise tax on fuel is considered one of the more disputed items in the revised tax reform package because of its impact on diesel, which is considered a socially-sensitive product.

The DOF said the increase in the excise tax rate on fuel would now be staggered over three years instead of the immediate hike of 6% upon the approval by Congress in the original draft.

Source: *The Philippine Star*
February 1, 2017

SENATE REVIEWS IMPACT OF SIN TAX REFORM LAW

The Senate is reviewing the impact of the Sin Tax Reform Law on revenue collection and public health, deferring action on a bill that seeks to return to the two-tier system in taxing cigarettes.

Senate President Aquilino Pimentel III, Senators Franklin Drilon, Ralph Recto, and Risa Hontiveros-Baraquel jointly filed a resolution directing a legislative review of RA 10351 to assess the effectiveness of a unitary tax system in reducing alcohol and cigarette consumption before considering any amendments to the law.

Under the time frame provided by the law, the review should have been conducted in the third quarter of 2016. The law was passed in 2012 and implemented in 2013. Senators Drilon and Recto have vigorously pushed for a unitary tax regime

after a four-year transition from a two-tier regime.

On the other hand, the Southeast Asia Tobacco Control Alliance (SEATCA) reaffirmed its support for RA 10351, which it said has been effective in reducing smoking especially among the youth as well as providing funds for universal health coverage of poor families.

The SEATCA said that while the two-tiered tax system under HB 4144 may appear more equitable, in reality it would encourage the young and the poor to smoke lower-priced cigarettes that expose them to the real risks of addiction, diseases, disability, and early death. HB 4144 seeks to amend the Sin Tax Reform Law, proposing a two-tier system by imposing a tax of PhP32.00 per pack on cheaper cigarettes and PhP36.00 per pack on premium brands.

According to SEATCA, all other ASEAN countries, except Indonesia, impose a unitary rate on cigarettes regardless of whether ad valorem or mixed specific or ad valorem.

Source: *The Philippine Star*
February 6, 2017

DUTERTE MULL TAX HIKE FOR IDLE LANDS

President Rodrigo Duterte is planning to impose higher real estate taxes on idle lands across the country, especially those that have not been developed in the last decade. He said landowners could face double or triple taxes if they don't put their idle properties and lots to good use.

The President added if the lots have not been developed for 10-20 years, he will double or triple the real estate tax unless the owners are willing to lend it to somebody or to the barangay so the people can use it.

The President has welcomed the vegetable garden initiated by the PSG, saying it was a symbolic gesture to promote simple and healthy living. The harvest from the project will benefit the Hospicio de San Jose, poor families living around the Palace, drug rehabilitation center in Manila, and the PSG dependents.

Source: *Manila Bulletin*
February 7, 2017

DOF BENT SLOWING DOWN VEHICLE SALES

The Department of Finance (DOF) is bent on curtailing the number of vehicles being sold in the country to address the worsening traffic problem.

The DOF is spearheading the government's move to substantially raise the excise tax in automobiles as part of the administration's tax reform program.

Finance Secretary Carlos G. Dominguez III said the main objective of the proposed increase in excise taxes on automobiles is to give the country a relief from the number of cars on the road. He added that cars nowadays have become very cheap, allowing more consumers to afford one.

Last year, new vehicles sold in the country reached 452,751 units based on combined sales output from the Chamber of Automotive Manufacturers of the

Philippines Inc. and the Association of Vehicle Importers and Distributors.

However, the planned excise tax hike on automobiles has received opposition from the local automobile industry, with some players saying that the proposed rates are high and would surely dampen industry and sales growth when implemented.

Under the Bill, the excise tax on automobiles priced up to PhP600,000 will increase from 2% to 4%; over PhP 600,000 to PhP1.1 million would be taxed PhP24,000 plus 40% in excess of PhP600,000; cars worth PhP1.1 million to PhP2.1 million would be taxed P224,000 plus 100% in excess of P1.1 million; cars worth over PhP2.1 million would be taxed PhP1.22 million plus 200% in excess of PhP2.1 million.

Automobile players argued that should the government want to address the country's traffic problems, it should instead focus on improving the country's infrastructure and ban old cars on the road rather than put a toll on the industry's sales growth.

Source: *The Philippine Star*
February 8, 2017

BUSINESS GROUPS PRESS PASSAGE OF TAX REFORMS

A group of foreign and local business organizations is urging the government to swiftly approve the comprehensive tax reform program (CTRP) and other related legislative proposals aimed at improving the business climate to sustain the growth momentum and reduce poverty in the country.

Aside from the CTRP, the business groups also pushed for the government to prioritize discussions on lifting of the constitutional restrictions on foreign ownership limits and amending the bank secrecy law. They also called for the approval of The Freedom of Information bill, Water Sector Reform Act, the emergency powers to address the traffic and transportation crisis, among others.

The business groups said all constitute reforms that will improve the business and economic climate of the Philippines and result in more investments, jobs, and inclusive growth.

According to the Department of Finance (DOF), relaxing the provisions of the bank secrecy law for tax fraud cases is one of the complementary measures to the CTRP.

Source: *The Philippine Star*
February 10, 2017

HOUSE OK'S ESTATE TAX AMNESTY

The House of Representatives approved on third and final reading two separate measures that seek to grant a one-time amnesty and impose a single rate for estate tax.

Aside from contributing to an overall increase in much-needed revenues, HB 4814, or the proposed estate tax amnesty law, is designed to free up properties – otherwise encumbered by liability on the part of delinquents – for productive use. On the other hand, HB 4815, seeks to impose a single estate tax rate of 6%.

HB 4814 also seeks to grant the following immunities and privileges to taxpayers who avail of the planned amnesty: immunity from civil, criminal or administrative penalties; estate tax amnesty returns for 2016 and prior years will not be admissible as evidence in judicial, quasi-judicial, or administrative proceedings; and books of accounts and other records of the taxpayers for the years covered by the amnesty will not be examined. The amnesty will cover estate tax liabilities up to the year 2016.

Collection of appropriate estate taxes has been elusive for the Bureau of Internal Revenue (BIR), with the past administration estimating that annual take could actually go up to PhP10-50 billion from less than PhP1 billion currently.

Those who will avail of the estate tax amnesty will just pay a 6% tax on the value of the property concerned, sans penalties and sanctions otherwise provided by law.

Source: *BusinessWorld*
February 14, 2017

SENATE TO FAST-TRACK ESTATE TAX REFORM

Senate Committee on Ways and Means Chairman Sen. Sonny Angara noted that estate tax rates have not been adjusted for two decades now such that the tax burden had “led families to delay settling the estate, resulting in huge penalties and surcharges while the use of assets are not maximized.”

Senator Angara filed SB 980, which will index estate tax brackets to inflation and raise the minimum taxable

net estate to PhP460,000. The proposal would also adjust the allowable deductions to make it more realistic and equitable such as funeral expenses (from PhP200,000 to PhP500,000), the value of family home (from PhP 1 million to PhP2 million), standard deduction (from PhP1 million to PhP2 million), medical expenses (from PhP500,000 to PhP1 million) and the allowable bank withdrawal (from PhP20,000 to PhP 200,000).

Senator Angara said the committee would prioritize and fast-track the passage of the counterpart House Bills (HB) passed earlier, specifically HB 4814, aimed at granting an estate tax amnesty, as well as HB 4815 that would bring down the levy to a flat rate of 6%.

The Department of Finance (DOF) said a draft bill for a proposed abatement law for estate tax which could be incorporated in the first package of the CTRP. The draft proposal would remove surcharges, in contrast to an across-the-board amnesty that removes the entire obligation to pay.

The National Tax Research Center (NTRC) noted that a uniform estate tax rate would minimize manipulative tax planning in reducing taxes, hence broadening the tax base as more will be encouraged to pay. Some try to avoid payment of estate taxes by donating land. It also supported the planned estate tax amnesty to encourage settlement and complement the tax collection efforts of the BIR while also stimulating real estate investments.

Source: *Philippine Daily Inquirer*
February 15, 2017

BIAP OPPOSES EXCISE TAX ON BEVERAGES

The Beverage Industry Association of the Philippines (BIAP) said the proposed increase in excise tax on sugar-sweetened beverages will likely hinder economic growth and increase production cost of several goods, which would eventually trickle down to consumers.

The BIAP opposes HB 292 that imposes an additional 10% tax per liter on sugar-sweetened beverages saying that the proposal would not achieve its target of curbing obesity and increasing government revenue collection, but instead raise the prices of several consumer goods and eventually hinder economic growth. It added that the proposal would impact most on the poorest segments of society.

BIAP said research findings showed that compared to consumers in other countries, Filipinos are not over-consuming sugar-sweetened beverages due to the smaller package size and less frequent consumption. Data from the World Health Organization (WHO) showed that out of 192 countries in the world obesity index, the Philippines only ranked 155th.

Source: *The Philippine Star*
February 20, 2017

