

Proposed Reforms on Value-Added Tax*

I. INTRODUCTION

Package 1 of the Comprehensive Tax Reform Program (CTRP) includes proposed reforms on the Value-Added Tax (VAT) system such as broadening the VAT base by limiting the exemptions set forth under Section 109 of the National Internal Revenue Code (NIRC), as amended, to raw food and other necessities and removing all VAT zero-rated transactions except on direct exports. It also proposes to remove VAT exemptions under special laws. These amendments are proposed under Senate Bill (SB) No. 1408 and House Bill (HB) No. 5636 with few modifications which are now being deliberated upon in the Senate of the Philippines.

This paper discusses the historical changes in the VAT system since its inception in 1988 to the present, its revenue performance, and the impact of the proposed amendments to the VAT under the proposed CTRP.

II. BACKGROUND INFORMATION

A. VAT Legislation, 1988 to Present

Executive Order (EO) No. 273¹

The VAT was introduced in the Philippines in 1988 via EO 273 with the following basic features, viz.:

- (a) Simplified the tax structure and administration and imposed a standard VAT rate of 10% on the sale and importation of goods and services based on gross sales/receipts and 0% on exports and other foreign currency-denominated sales and those under special international treaties;

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¹ Entitled, "Adopting a Value-Added Tax (VAT), Amending for this Purpose, Certain Provisions of the NIRC, and for Other Purposes", approved July 27, 1987 and effective January 1, 1988.

- (b) Replaced with a uniform rate the following varied rates, viz.: fixed taxes; advance sales tax; tax on original sale; subsequent sales tax; compensating tax; miller's tax; contractor's tax; broker's tax; percentage tax on cinematographic film lessors and distributors; excise tax on solvents, matches and processed video- tape cassettes, among others;
- (c) Adopted the tax credit method of calculating the tax by subtracting the tax on input (raw materials, supplies, purchases, and capital expenses) from output (gross sales/receipts) tax;
- (d) Maintained the VAT progressivity by granting VAT exemption to the sale of basic commodities, agricultural and marine food products in their original state, fertilizers and other inputs, price-regulated petroleum products, among others; and
- (e) Imposed a 2% gross sales tax on entities exempt from the VAT with annual gross sales or receipts of less than PhP200,000².

RA 7716³

RA 7716 or the Expanded VAT (EVAT) Law amended EO 273, viz.:

- (a) Widened its coverage by:
 - i. Including certain goods/ services/transactions which were not previously subject to the VAT nor to other percentage taxes;
 - ii. Transferring taxability of certain persons subject to percentage taxes to the VAT; and
 - iii. Lifting VAT exemption of certain items/persons.
- (b) Provided additional goods/ transactions exempt from the VAT;

² As implemented by RR 05-87 (Effective January 1, 1988)

³ Entitled, "An Act Restructuring the Value Added Tax (VAT) System, Widening Its Tax Base and Enhancing Its Administration, and for these Purposes Amending and Repealing the Relevant Provisions of the National Internal Revenue Code, as Amended, and for Other Purposes", approved May 5, 1994 and effective January 1, 1996.

It is noted however, that RA 7716 was supposed to be effective 15 days after its complete publication in the Official Gazette or in at least 2 newspapers of general circulation whichever comes first. It was published in the Malaya and Journal on May 12, 1994 and in the Official Gazette on August 1, 1994, thus it was supposed to be effective on May 28, 1994. However, a temporary restraining order (TRO) was issued by the Supreme Court on the effectivity of RA 7716 on June 30, 1994 and it was only lifted on October 30, 1995. RA 7716 became effective on January 1, 1996 through the issuance of RR 7-95.

- (c) Provided for additional goods/ transactions subject to zero rate;
- (d) Prescribed for an annual registration and payment of registration fees of PhP1,000 for each separate establishment and non-VAT taxpayers;
- (e) Revised upward the annual gross sales/receipts of persons exempt from the VAT from PhP200,000 to PhP500,000⁴;
- (f) Increased the rate of tax payable by non-VAT persons whose gross sales or receipts in a taxable year is below the threshold, from 2% to 3% effective January 1, 1996 and 4% two years thereafter or effective January 1, 1998; and
- (g) Included certain services to be subject to VAT after two years from the effectivity of RA 7716, namely, services performed by actors, actresses, singers, talents, radio/TV broadcasters, etc.; professional athletes; banks and non-bank financial intermediaries and finance companies; professionals and registered professional partnerships; and international cargo vessels, airlines and freight forwarders; among others.

RA 8241⁵

RA 8241 or the Improved VAT Law amended the EVAT law by:

- (a) Providing additional features on VAT exemptions of cooperatives per type of cooperatives;
- (b) Exempting from the VAT the following: importation of meat; sale or importation of coal and natural gas in whatever form or state; educational services rendered by private educational institutions duly accredited by the Commission on Higher Education (CHED); house and lot and other residential dwellings valued at PhP1 million and below, lease of residential units with monthly rental per unit of not more than PhP8,000, among others;
- (c) Increasing the amount of exemption threshold from PhP500,000 to PhP550,000 subject to annual adjustment using the Consumer Price Index (CPI);
- (d) Providing for presumptive input tax credit to: persons or firms engaged in the processing of sardines, mackerel and milk, and in manufacturing refined sugar and cooking oil at the rate of 1.5% based on the gross value in money of their purchase of primary agricultural products which are used as inputs to their

⁴ Revenue Regulation (RR) No. 7-95 (effective January 1, 1996).

⁵ Entitled, "An Act Amending Republic Act No, 7716, Otherwise Known as the Expanded Value-Added Tax Law and Other Pertinent Provisions of the National Internal Revenue Code as Amended", approved December 20, 1996 and effective January 1, 1997.

production; and public works contractors based on the contract price with respect to government contracts only in lieu of actual input taxes therefrom;

- (e) Providing for the withholding of a creditable VAT for government public works at the rate of 8.5%;
- (f) Fixing the rate of tax for VAT-exempt and non-VAT taxpayers at 3% of gross quarterly sales or receipts;
- (g) Reverting the taxation of cars for rent or hire driven by the lessee; transportation contractors and other domestic carriers by land, air or water for the transport of passengers to the 3% common carriers tax;
- (h) Subjecting international air and shipping carriers to a tax of 3%;
- (i) Subjecting to a 3% franchise tax all franchises on radio and/or television broadcasting companies with annual gross receipts not exceeding PhP10 million;
- (j) Reducing the annual registration fee for non-VAT taxpayers from PhP1,000 to PhP500 for every separate or distinct place of establishment; and
- (k) Deferring the imposition of the VAT on the following: actors, actresses, singers, talents, radio/ TV broadcasters, etc.; professional athletes; banks and non-bank financial intermediaries; finance companies and other financial intermediaries not performing quasi-banking functions; professionals and registered professional partnerships.

RA 8424⁶

RA 8424 further deferred the imposition of the VAT beginning January 1, 2000 on the services performed by:

- (a) Actors, actresses, singers, talents, emcees, radio/TV broadcasters, choreographers, musical, radio, movie, television and stage directors;
- (b) Professional athletes;
- (c) Banks and non-bank financial intermediaries and finance companies; and
- (d) Professionals and registered professional partnerships.

⁶ Entitled, "An Act Amending the National Internal Revenue Code, as Amended, and for Other Purposes", approved December 11, 1997 and effective January 1, 1998.

RA 8761⁷

RA 8761 further deferred the imposition of the VAT beginning January 1, 2001 on the services performed by:

- (a) Actors, actresses, singers, talents, emcees, radio/TV broadcasters, choreographers, musical, radio, movie, television and stage directors;
- (b) Professional athletes;
- (c) Banks and non-bank financial intermediaries and finance companies;
- (d) Professional and registered professional partnerships; and
- (e) Services rendered by stock, real estate, commercial, customs and immigration brokers. The aforesaid brokers were subjected to a 7% tax based on gross receipts from brokering services beginning January 1, 2000 to December 31, 2000. Beginning January 1, 2001, they were supposed to be subject to the VAT in lieu of the 7% tax.

RA 9010⁸

RA 9010 finally imposed the VAT on the services performed by the following effective January 1, 2003:

- (a) Actors, actresses, singers, talents, emcees, radio/TV broadcasters, choreographers, musical, radio, movie, television and stage directors;
- (b) Professional athletes;
- (c) Banks and non-bank financial intermediaries and finance companies;
- (d) Professional and registered professional partnerships; and
- (e) Services rendered by stock, real estate, commercial, customs and immigration brokers. The aforesaid brokers continued to be subjected to a 7% tax based on gross receipts from brokering services beginning January 1, 2001 to December 31, 2002. Beginning January 1, 2003, they were subjected to the VAT in lieu of the 7% tax.

⁷ Entitled, "An Act Imposing the Value-Added Tax on Certain Services Beginning January 1, 2001, Amending for the Purpose Section 5 of Republic Act No. 8424 and for Other Purposes", approved February 16, 2000 and effective January 1, 2000.

⁸ Entitled, "An Act to Further Defer the Imposition of the Value-Added Tax on Certain Services, amending for the Purpose Sec. 5 of Republic Act No. 8424, as Amended by Republic Act No. 8761", approved February 27, 2001 and effective January 1, 2001.

RA 9238⁹

RA 9238 amended Section 109 of the NIRC, as amended by adding certain services among the exempt transactions, viz.:

- (a) Services rendered by doctors of medicine duly registered with the Professional Regulation Commission (PRC); and
- (b) Services rendered by lawyers duly registered with the Integrated Bar of the Philippines (IBP).

Also, the law reverted the taxation of banks and non-bank financial intermediaries to gross receipts tax (GRT) and amended the four-tier rates of 0%, 1%, 3% and 5% to three-tier rates of 0%, 1% and 5%.

RA 9337¹⁰

RA 9337, or the Reformed VAT (RVAT) Law, amended the VAT Law by:

- (a) Authorizing the President of the Philippines upon the recommendation of the Secretary of Finance to raise the VAT rate from 10% to 12% after meeting certain conditions. RA 9337 was implemented on November 1, 2005 while the increase of the VAT rate from 10% to 12% took effect only on February 1, 2006 via Bureau of Internal Revenue (BIR) Revenue Memorandum Circular (RMC) No. 7-2006¹¹.
- (b) Subjecting to the VAT the following previously exempt goods and services, viz.:
 - i. Domestic transport of passengers by air and sea;

⁹ Entitled, "An Act Amending Certain Sections of the National Internal Revenue Code of 1997, as Amended, by Excluding Several Services from the Coverage of the Value-Added Tax and Re-Imposing the Gross Receipts Tax on Banks and Non-Bank Financial Intermediaries Performing Quasi-Banking Functions and Other Non-Bank Financial Intermediaries Beginning January 01, 2004", lapsed into law on February 5, 2004 and effective January 1, 2004.

¹⁰ Entitled, "An Act Amending Sections 27, 28, 34, 106, 107, 108, 109, 110, 111, 112, 113, 114, 116, 117, 119, 121, 148, 151, 236, 237 and 288 of the National Internal Revenue Code of 1997, as Amended, and for Other Purposes", approved May 24, 2005 and effective November 1, 2005. It is noted that RA 9337 was supposed to be effective on July 1, 2005, however, due to a TRO issued by the Supreme Court, the enforcement of the Law was stopped. It finally took effect on November 1, 2005 when the TRO was finally lifted by the Supreme Court.

¹¹ 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.

- ii. Generation, transmission¹² and distribution of electricity;
 - iii. Coal and natural gas;
 - iv. Petroleum products and their raw materials;
 - v. Electric cooperatives¹³;
 - vi. Non-food agricultural products;
 - vii. Marine and forest products;
 - viii. Cotton and cotton seeds;
 - ix. Importation of passenger/cargo vessels more than 5,000 tons;
 - x. Works of art, literary works, musical compositions and similar creations;
 - xi. Doctors of medicine duly registered with the PRC; and
 - xii. Lawyers registered with the IBP.
- (c) Subjecting to zero-rate VAT the following goods and services, viz.:
- i. Transport of passengers and cargoes by domestic air or sea carriers to a foreign country;
 - ii. Services rendered to international air transport operations¹⁴ including lease of property for use thereof;¹⁵
 - iii. Sale of goods, supplies, equipment and fuel to aircrafts and vessels engaged exclusively in international transport; and
 - iv. Sale of power or fuel generated through renewable sources of energy such as, but not limited to, biomass, solar, wind, hydropower, geothermal, ocean energy, and other emerging energy sources using technologies such as fuel cells and hydrogen cells.
- (d) Incorporating other reform measures to plug the leaks in the existing VAT system and to simplify its VAT administration, viz.:
- i. Providing for the 70% cap on input VAT, the spreading of the input VAT claim on capital goods which exceeds PhP1 million (net of VAT component) to 5 years;

¹² Exempted from the VAT beginning December 20, 2008 under Section 9 of RA 9511, Entitled, "An Act Granting the National Grid Corporation of the Philippines a Franchise to Engage in the Business of Conveying or Transmitting Electricity through High Voltage Back-Bone System of Interconnected Transmission Lines, Substations and Related Facilities, and for Other Purposes, approved on December 1, 2008.

¹³ Electric Cooperatives that are duly registered with the Cooperative Development Authority are exempted from VAT under Section 61 (2) (b) of RA 9520, Entitled, "An Act Amending the Cooperative Code of the Philippines to be Known as the Philippine Cooperative Code of 2008", approved on February 17, 2009.

¹⁴ Under BIR Ruling 099-11, services provided by the hotel in its premises to international air transport operations pertaining to room accommodations and food and beverages services are not directly attributable to the transport of goods and passengers from Philippines ports to a foreign port. Hence, not subject to zero-rating but to 12% VAT.

¹⁵ It is noted that prior to the RVAT Law, only services rendered to vessels engaged exclusively in international shipping are subject to the 0% VAT under Section 108 (B) (4) of RA 8424.

- ii. Deleting the 1.5% presumptive input VAT on public works contractors; and
- iii. Imposing a uniform 5% final withholding VAT on government purchases of goods, services and public works contracts.¹⁶

(e) Providing certain mitigating measures on the VAT system, as follows:

- i. Removal of the franchise tax on power distribution and common carriers tax on domestic shipping. It also abolished the franchise tax on domestic airlines, i.e., P.D. 1590 on the franchise tax of Philippine Airlines, Inc., RA 7151 on the franchise tax of Cebu Air, Inc., RA 7583 on the franchise tax of Aboitiz Air Transport Corporation, RA 7909 on the franchise tax of Pacific Airways Corporation, RA 8339 on the franchise tax of Air Philippines, or any other franchise agreement or law pertaining to a domestic airline.
- ii. Increase in the presumptive input VAT on agro-processors¹⁷ from 1.5% to 4%; and
- iii. Increase in the marginal threshold exemption of VAT from PhP750,000¹⁸ to PhP1.5 million¹⁹ per annum, and sale of residential lot for PhP1.5 million and residential house and lot for PhP2.5 million²⁰ respectively.

RA 9361²¹

RA 9361 removed the 70% cap on claiming of input tax against the output tax.

¹⁶ The 5% final withholding VAT represents the net payable of the seller. Prior to RA 9337, withholding VAT on government payments was creditable. The rates were 3%, 6% and 8.5% on gross payments for the purchase of goods, services rendered, and payments made to government public works contractors, respectively.

¹⁷ Persons or firms engaged in the processing of sardines, mackerel, and milk, and in manufacturing refined sugar, cooking oil and packed noodle-based instant meals.

¹⁸ Adjusted from PhP550,000 to PhP750,000 by Revenue Regulation 1-2005, effective December 28, 2004.

¹⁹ Adjusted from PhP750,000 to PhP1,500,000 million by RR 14-2005 and RR 16-2005. Further adjusted to PhP1,919,500 under RR 16-2011, effective January 1, 2012.

²⁰ Previously set at PhP1,000,000 million by RA 8241 but later adjusted to PhP1,500,000 and PhP2,500,000 for residential lots and residential house and lot, respectively through RR 14-2005 and RR 16-2005. It was further adjusted to PhP3,199,200 million under RR 16-2011, effective January 1, 2012.

²¹ Entitled, "An Act Amending Section 110(B) of the National Internal Revenue Code of 1997, as Amended, and for Other Purposes", approved November 21, 2006 and effective December 13, 2006.

B. Special Laws with Provisions on VAT Exemption or Zero-Rating

Since the enactment of RA 9337 in 2005, various legislation were passed which affected the effectiveness of the VAT in generating much needed revenues for the government such as but not limited to the following:

RA 9367²²

RA 9367 or the Biofuels Act of 2006 granted VAT exemption on the sale of raw materials used in the production of biofuels such as, but not limited to, coconut, jatropha, sugarcane, cassava, corn, and sweet sorghum.

RA 9500²³

RA 9500 or the University of the Philippines Charter of 2008 granted exemption on all revenues and assets of the University used for educational purposes from all taxes and duties. However, the University shall pay 0% VAT for all transactions subject to this tax while all academic awards shall be exempt from taxes.

RA 9501²⁴

RA 9501 or the Magna Carta for Micro, Small, and Medium Enterprises (MSMEs) granted MSMEs availment and easier access to tax credits and other tax and duty incentives as provided by the Omnibus Investment Code and other laws.

RA 9593²⁵

RA 9593 or the Tourism Act of 2009 granted an exemption of 100% to various registered tourism enterprises from all taxes and customs duties on importations of capital investment and equipment.

²² Entitled, “An Act to Direct the Use of Biofuels, Establishing for this Purpose the Biofuel Program, Appropriating Funds Therefor, and for Other Purposes”, approved January 12, 2007.

²³ Entitled, “An Act to Strengthen the University of the Philippines as the National University”, approved April 29, 2008.

²⁴ Entitled, “An Act to Promote Entrepreneurship by Strengthening Development and Assistance Programs to Micro, Small and Medium Scale Enterprises, amending for the Purpose Republic Act No. 6977, as Amended, Otherwise Known as the “Magna Carta for Small Enterprises” and for Other Purposes”, approved May 23, 2008.

²⁵ Entitled, “An Act Declaring a National Policy for Tourism as an Engine of Investment, Employment, Growth and National Development, and Strengthening the Department of Tourism and its Attached Agencies to Effectively Efficiently Implement that Policy, and Appropriating Funds Therefor”, approved May 13, 2009.

RA 9511²⁶

RA 9511 re-imposed the franchise tax on all gross receipts derived by the National Grid Corporation of the Philippines (NGCP) from its operation under its franchise in lieu of income tax and any and all taxes, duties, fees, and charges (i.e. including the VAT).

RA 9513²⁷

RA 9513 or the Renewable Energy Act of 2008 granted zero VAT on the sale of fuel or power generated from renewable sources of energy such as, but not limited to biomass, solar, wind, hydropower, geothermal, ocean energy and other emerging energy sources using technologies such as fuel cells and hydrogen fuels.

RA 9519²⁸

RA 9519 provided the same tax privileges under RA 9500 to the Mindanao University of Science and Technology (MUST).

RA 9520²⁹

RA 9520 or the Philippine Cooperative Code of 2008 granted exemption from the VAT on certain transactions of duly registered cooperatives with the Cooperative Development Authority (CDA), viz.:

- (a) Duly registered cooperatives which transact business with members only;

²⁶ Entitled, “An Act Granting the National Grid Corporation of the Philippines a Franchise to Engage in the Business of Conveying or Transmitting Electricity through High Voltage Back-Bone System of Interconnected Transmission Lines, Substations and Related Facilities, and for Other Purposes”, approved December 1, 2008 and effective December 20, 2008.

²⁷ Entitled, “An Act Promoting the Development, Utilization and Commercialization of Renewable Energy Resources and for Other Purposes”, approved December 16, 2008.

²⁸ Entitled, “An Act Converting the Mindanao Polytechnic State College in Cagayan De Oro City, Province of Misamis Oriental into a State University to be known as the Mindanao University of Science and Technology (Must) and Appropriating Funds Therefor”, approved January 07, 2009.

²⁹ Entitled, “An Act Amending the Cooperative Code of the Philippines to be Known as the Philippine Cooperative Code of 2008”, approved February 17, 2009.

- (b) Electric cooperatives duly registered with the CDA on revenues on system loss and revenues on distribution, supply, metering and lifeline subsidy of electricity to their members;
- (c) Duly registered cooperatives which transact business with members and non-members with accumulated reserves and undivided net savings of not more than PhP10 million;
- (d) Business transactions with members of duly registered cooperatives with accumulated reserves and undivided net savings of more than PhP10 million;
- (e) Business transactions with non-members of cooperatives with accumulated reserves and undivided net savings of more than PhP10 million under certain conditions.

RA 9576³⁰

RA 9576 or the Philippine Deposit Insurance (PDIC) Charter provided that all tax obligations of the Corporation for a period of five (5) years reckoned from the date of effectivity of the Act shall be chargeable to the Tax Expenditure Fund (TEF) in the annual General Appropriations Act pursuant to the provisions of EO 93, series of 1986; However, on the 6th year and thereafter, the Corporation shall be exempt from the VAT and other national taxes (i.e., income tax, final withholding tax) on assessments collected from member banks including local taxes”.

RA 9647³¹

RA 9647 accorded the same exemption under RA 9500 to the Philippine Normal University.

RA 9679³²

RA 9679 granted PAG-IBIG Fund and all its assets and properties, all contributions collected and all accruals thereto and income or investment earnings

³⁰ Entitled, “An Act Increasing the Maximum Deposit Insurance Coverage, and in Connection Therewith, to Strengthen the Regulatory and Administrative Authority, and Financial Capability of the Philippine Deposit Insurance Corporation (PDIC), Amending for this Purpose Republic Act Numbered Three Thousand Five Hundred Ninety-One, as Amended, otherwise known as the PDIC Charter, and for Other Purposes”, approved April 29, 2009.

³¹ Entitled, “An Act Designating the Philippine Normal University as the Country's National Center for Teacher Education, Appropriating Funds Therefor, and for Other Purposes”, approved June 30, 2008.

³² Entitled, “An Act Further Strengthening the Home Development Mutual Fund, and for Other Purposes”, approved July 21, 2009.

therefrom, as well as all supplies, equipment, papers or documents exemption from any tax, assessment, fee, charge, or customs or import duty; and all benefit payments made by the PAG-IBIG Fund shall likewise be exempt from all kinds of taxes, fees or charges, and shall not be liable to attachments, garnishments, levy or seizure by or under any legal or equitable process whatsoever, either before or after receipt by the person or persons entitled thereto, except to pay any debt of the member to the Fund. No tax measure of whatever nature enacted shall apply to the Fund, unless it expressly revokes the declared policy of the State.

RA 9856³³

RA 9856 or The Real Estate Investment Trust (REIT) Act of 2009 subjected the gross sales from any disposal of real property or gross receipts from the rental of such real property to the VAT. However, the sale, exchange or transfer of securities forming part of its real estate-related assets are exempted from the VAT.

RA 9994³⁴

RA 9994 or the Expanded Senior Citizens Act of 2010 granted additional benefits to senior citizens by exempting from the VAT the following transactions, viz.:

- (a) Purchase of medicines, including the purchase of influenza and pneumococcal vaccines, and such other essential medical supplies, accessories and equipment to be determined by the Department of Health (DOH);
- (b) Professional fees of attending physician/s in all private hospitals, medical facilities, outpatient clinics and home health care services;
- (c) Professional fees of licensed professional health providing home health care services as endorsed by private hospitals or employed through home health care employment agencies;
- (d) Medical and dental services, diagnostic and laboratory fees in all private hospitals, medical facilities, outpatient clinics, and home health care services, in accordance with the rules and regulations to be issued by the DOH, in coordination with the Philippine Health Insurance Corporation (PhilHealth);

³³ Entitled "An Act Providing the Legal Framework for Real Estate Investment Trust and for Other Purposes", lapsed into law on December 17, 2009 and effective February 9, 2010.

³⁴ Entitled "An Act Granting Additional Benefits and Privileges to Senior Citizens, Further Amending Republic Act No. 7432, as Amended, Otherwise Known as "An Act to Maximize the Contribution of Senior Citizens to Nation Building, Grant Benefits and Special Privileges and for Other Purposes", approved February 15, 2010 and effective April 22, 2010.

- (e) Actual fare for land transportation travel in public utility buses (PUBs), public utility jeepneys (PUJs), taxis, Asian utility vehicles (AUVs), shuttle services and public railways, including Light Rail Transit (LRT), Mass Rail Transit (MRT), and Philippine National Railways (PNR);
- (f) Actual transportation fare for domestic air transport services and sea shipping vessels and the like, based on the actual fare and advanced booking;
- (g) Utilization of services in hotels and similar lodging establishments, restaurants and recreation centers;
- (h) Admission fees charged by theaters, cinema houses and concert halls, circuses, leisure and amusement; and
- (i) Funeral and burial services for the death of senior citizens.

RA 10068³⁵

RA 10068 or the Organic Agriculture Act of 2010 granted zero-rated VAT on sale/purchase of bio-organic products whether organic inputs or organic produce.

RA 10072³⁶

RA 10072 or the Philippine Red Cross Act of 2009 granted the Philippine Red Cross exemption from indirect taxes including VAT that will emerge from its operations, i.e., use, lease or sale of its real property and its exclusive importations and purchases.

RA 10073³⁷

RA 10073 or the Girl Scouts of the Philippines Charter of 2009 granted exemption from indirect taxes including VAT derived from its operations and exclusive importations and purchases.

³⁵ Entitled “An Act Providing for the Development and Promotion of Organic Agriculture in the Philippines and for Other Purposes”, approved April 6, 2010.

³⁶ Entitled “An Act Recognizing the Philippine National Red Cross as an Independent, Autonomous, Nongovernmental Organization Auxiliary to the Authorities of the Republic of the Philippines in the Humanitarian Field, to be Known as the Philippine Red Cross”, approved April 20, 2010.

³⁷ Entitled “An Act Instituting the New Girl Scouts of the Philippines Charter, Penalizing Violations Thereof and for Other Purposes”, approved April 20, 2010.

RA 10083³⁸

RA 10083 or the Aurora Pacific Economic Zone and Freeport Act of 2010 imposed on registered enterprises operating within the Zone a five (5%) tax on their Gross Income Earned (GIE) in lieu of local (except on real property tax on land) and national taxes.

RA 10349³⁹

RA 10349 granted sources of funds directly deposited to a special account in the general fund created specifically for the Revised AFP Modernization and importation of the same by the AFP are exempt from the value-added tax and customs duties.

RA 10378⁴⁰

RA 10378 exempted from the VAT the transport of passengers by international carriers.

RA 10659⁴¹

RA 10659 or the Sugarcane Industry Development Act of 2015 granted zero-rated VAT on refined sugar withdrawn from warehouses for actual physical export to the world market.

³⁸ Entitled “An Act Amending Republic Act No. 9490, Otherwise Known as the Aurora Economic Zone Act of 2007”, lapsed into law on April 22, 2010.

³⁹ Entitled, “An Act Amending Republic Act No. 7898, Establishing the revised AFP Modernization Program and for Other Purposes”, approved December 11, 2012.

⁴⁰ Entitled “An Act Recognizing the Principle of Reciprocity as Basis for the Grant of Income Tax Exemptions to International Carriers and Rationalizing Other Taxes Imposed Thereon by Amending Sections 28(A)(3)(a), 109, 118 and 236 of the National Internal Revenue Code (NIRC), as Amended, and for Other Purposes”, approved March 7, 2013 and effective March 28, 2013.

⁴¹ Entitled “An Act Promoting and Supporting the Competitiveness of the Sugar Industry and for Other Purposes”, approved March 27, 2015.

RA 10744⁴²

RA 10744 or the Credit Surety Fund (CSF) Cooperatives Act of 2015 granted the same tax privileges enjoyed by cooperatives under RA 9520 to CSF Cooperatives registered with the CDA.

RA 10747⁴³

RA 10747 or the Rare Diseases Act of the Philippines mandated that persons with rare diseases shall be accorded the same rights and privileges as persons with disabilities (PWDs). The law provided for exemption from all taxes and customs duties, as applicable whether national or local on the following:

- (a) Donations intended for researches on rare diseases, maintenance of the Rare Disease Registry, or for purchase of orphan drugs or orphan products for use solely by patients with rare diseases; and
- (b) Orphan drugs and orphan products for use solely by patients with rare diseases, as certified by the FDA.

RA 10754⁴⁴

RA 10754 amended Section 32 of RA 7277, otherwise known as the “Magna Carta for Persons with Disability”, by granting VAT exemption to PWDs on their transactions subject to 20% discount. The following transactions for the exclusive use and enjoyment or availment of the PWD are exempt from VAT, viz.:

- (a) Fees and charges relative to the utilization of all services in hotels and similar lodging establishments; restaurants and recreation centers;
- (b) Admission fees charged by theaters, cinema houses, concert halls, circuses, carnivals and other similar places of culture, leisure and amusement;
- (c) Purchase of medicines in all drugstores;

⁴² Entitled “An Act Providing for the Creation and Organization of Credit Surety Fund Cooperatives to Manage and Administer Credit Surety Funds to Enhance the Accessibility of Micro, Small and Medium Enterprises, Cooperatives and Non-Government Organizations to the Credit Facility of Banks and for Other Purposes”, approved February 6, 2016.

⁴³ Entitled “An Act Promulgating a Comprehensive Policy in Addressing the Needs of Persons with Rare Disease”, approved March 3, 2016.

⁴⁴ Entitled “An Act Expanding the Benefits and Privileges of Persons with Disability (PWD)”, approved March 23, 2016.

- (d) Medical and dental services including diagnostic and laboratory fees such as, but not limited to, x-rays, computerized tomography scans and blood tests, and professional fees of attending doctors in all government facilities, subject to the guidelines issued by the DOH, in coordination with the PhilHealth;
- (e) Medical and dental services including diagnostic and laboratory fees, and professional fees of attending doctors in all private hospitals and medical facilities, in accordance with the rules and regulations issued by the DOH, in coordination with the PhilHealth;
- (f) Fare for domestic air and sea travel;
- (g) Actual fare on land transportation travel such as, but not limited to, PUBS/PUJs, taxis, AUVs, shuttle services and public railways, including LRT, MRT and PNR; and
- (h) Funeral and burial services for the death of the PWDs. It includes the purchase of casket or urn, embalming, hospital morgue, transport of the body to intended burial sites in the place of origin, but excludes obituary publication and the cost of the memorial lot.

RA 10771⁴⁵

RA 10771 or the Green Jobs Act of 2016 granted tax and duty free importation of capital equipment actually, directly and exclusively used in the promotion of green jobs of the business enterprise.

RA 10801⁴⁶

RA 10801 granted to the OWWA and all its assets and properties, all contributions collected and all accruals thereto and income or investment earnings therefrom as well as all supplies, equipment, papers or documents exemption from any tax, assessment, fee, charge, or customs or import duty. All benefit payments made by the OWWA shall likewise be exempt from all kinds of taxes, fees or charges.

⁴⁵ Entitled, “An Act Promoting the Creation of Green Jobs, Granting Incentives and Appropriating Funds Therefor”, approved April 29, 2016.

⁴⁶ Entitled “An Act Governing the Operations and Administration of the Overseas Workers Welfare Administration”, approved May 10, 2016.

RA 10816⁴⁷

RA 10816 or the Farm Tourism Development Act of 2016 provides that the TIEZA and the Board of Investments, and other investment promotion agencies, shall develop and implement programs that shall establish reasonable and innovative investment incentives to attract more investors and farm tourism practitioners in the farm tourism industry.

It also provides that farm tourism operates and practitioners may avail of the incentives under existing laws.

RA 10817⁴⁸

RA 10817 or the Philippine Halal Export Development and Promotion Act of 2016 mandates the BOI, PEZA and other investment promotion agencies to promote the growth of Halal industries in different economic zones. It grants fiscal and non-fiscal incentives to attract investments in pioneering and essential industries to increase exports of Halal products or as raw materials or ingredients in the production of Halal products.

RA 10864⁴⁹

RA 10864 exempted from the VAT raw sugar or raw cane sugar (means sugar whose content of sucrose by weight, in the dry state, corresponds to a polarimeter reading of less than 99.5 degrees) regardless of the process/es involved in its production. It also exempted services by agricultural contract growers which include milling for others of palay into rice, corn into grits and sugar cane into raw sugar or raw cane sugar.

Other Laws

There are other laws that granted VAT exemption/zero-rating even before the enactment of RA 9337. There are more than 80 inventoried special laws as of this writing which are proposed to be repealed under SB 1408 and HB 5636 with few exemptions (i.e., exemption of cooperatives is retained)

⁴⁷ Entitled, “An Act Providing for the Development and Promotion of Farm Tourism in the Philippines”, approved May 16, 2016.

⁴⁸ Entitled “An Act Instituting the Philippine Halal Export Development and Promotion Program, Creating for the Purpose the Philippines Halal Export Development and Promotion Board, and for Other Purposes”, approved May 16, 2016.

⁴⁹ Entitled “An Act Defining Raw Sugar or Raw Cane Sugar, Amending Section 109(A) and (F) of the National Internal Revenue Code of 1997, as Amended, and for Other Purposes”, lapsed into law on June 10, 2016.

C. VAT Revenue Performance 1988-2016

Except for the year 1998 when collection dropped by 10.6%, total VAT collections of the BIR and Bureau of Customs (BOC) from 1988 to 2004 were generally on the uptrend which ranged from PhP14.3 billion to PhP139.1 billion. When RA 9337 was implemented in 2005, which increased the VAT rate from 10% to 12%, total VAT collections more than tripled from PhP156.7 billion in 2005 to PhP259.8 billion in 2006. There was a significant increase in the VAT collection of the BIR (60.4%) and the BOC (72.7%) in 2006, which was attributable to the first full year implementation of RA 9337 with the VAT rate at 12%. From 2007 to 2016, collection continued to increase from PhP274.04 billion in 2007 to PhP621.95 billion in 2016. (Table 1)

Table 1. VAT REVENUES AND PERCENT TO GDP: 1988-2016
(Amounts in Billion Pesos)

Year	VAT Revenues			% to GDP
	BIR	BOC	Total	
1988	7.15	7.19	14.34	1.79%
1989	10.13	10.07	20.20	2.18%
1990	13.08	12.85	25.93	2.41%
1991	15.10	11.68	26.77	2.15%
1992	18.11	13.98	32.09	2.37%
1993	22.75	21.41	44.16	3.00%
1994	25.46	21.29	46.75	2.76%
1995	29.57	28.90	58.48	3.07%
1996	40.93	35.01	75.93	3.50%
1997	47.27	41.72	88.99	3.67%
1998	47.54	31.98	79.52	2.98%
1999	55.15	36.63	91.78	3.08%
2000	53.88	42.26	96.14	2.68%
2001	59.24	47.25	106.49	2.74%
2002	65.93	49.38	115.31	2.75%
2003	82.63	52.66	135.30	2.97%
2004	80.22	58.88	139.10	2.72%
2005	87.86	68.81	156.67	2.76%
2006	140.93	118.87	259.80	4.14%
2007	145.01	129.02	274.04	3.98%
2008	140.32	156.33	296.65	3.84%
2009	168.83	133.90	302.73	3.77%
2010	174.77	157.51	332.28	3.69%
2011	183.78	200.22	384.00	3.96%
2012	230.11	220.99	451.10	4.27%
2013	250.84	239.83	490.67	4.25%
2014	278.10	279.11	557.22	4.41%
2015	295.50	274.70	570.20	4.28%
2016	331.41	290.54	621.95	4.30%
Ave.	106.95	96.31	203.26	3.26%

Sources of basic data: BIR, BOC and NTRC Various Public Finance and Other Related Statistics, 1988-2016.

From 1.79% ratio of VAT collection to GDP in 1988, the ratio increased significantly to 4.14% beginning 2006. However, the ratio gradually declined to 3.69% in 2010 but settled at over 4% in the succeeding years. In 2016, the ratio was pegged at 4.30%.

D. VAT Collections by Industry

Among the industries subject to the VAT, the Manufacturing Industry contributed the biggest chunk of collection to total VAT collection for the period 2000-2010 except in 2006 when Business Services exceeded the collection of the Manufacturing Industry. In 2011 onwards, Business Services topped other industries in terms of their contribution to VAT collections, where the highest collection of over PhP100 billion was noted in 2014 and 2016. On the other hand, the lowest VAT collections was contributed by other industries (including fines and penalties) for almost all the years except from 2003-2004 where the collection spiked leaving Storage and Warehousing industry at the bottom. (Table 2)

Table 2. BIR VAT COLLECTION BY INDUSTRY: 2000-2016
(Amounts in Billion Pesos)

Year	Manufacturing	Construction	Wholesale and Retail Trade	Storage and Warehousing	Business Services	Community, Personal and HH Service	Withholding on VAT	Property	Others (Including Fines and Penalties)	Total
2000	22.55	1.00	6.87	0.13	14.64	0.50	5.27	2.91	-	53.88
2001	23.94	1.04	7.52	0.33	15.14	0.61	7.56	3.10	-	59.24
2002	26.81	1.17	9.45	0.15	16.01	0.68	8.23	3.43	-	65.93
2003	25.49	1.21	10.43	0.18	22.82	1.82	10.17	3.14	7.39	82.63
2004	30.04	0.85	10.64	0.41	22.38	1.55	8.88	3.26	2.20	80.22
2005	31.05	1.08	12.70	0.27	27.20	2.33	9.81	3.42	0.00	87.85
2006	45.97	1.73	20.19	0.70	52.96	3.42	11.33	4.62	-	140.93
2007	55.95	2.19	16.50	1.08	41.29	2.00	17.66	8.35	-	145.01
2008	50.53	1.79	18.38	1.12	38.65	2.34	18.49	9.02	-	140.32
2009	63.64	3.74	21.03	1.17	44.68	2.63	22.30	9.40	0.25	168.83
2010	55.35	2.93	25.72	1.33	46.74	3.07	27.22	12.16	0.24	174.77
2011	51.08	3.26	28.43	0.37	59.12	3.46	23.57	14.15	0.35	183.78
2012	53.92	4.05	32.23	3.54	87.77	7.78	26.69	13.86	0.25	230.11
2013	63.53	5.83	37.72	0.41	85.62	10.74	28.37	18.26	0.35	250.84
2014	68.82	7.48	40.43	0.67	100.20	10.60	31.64	17.92	0.35	278.10
2015	79.61	7.29	46.47	0.74	92.44	12.50	35.72	20.38	0.38	295.55
2016	86.58	8.53	53.47	0.89	102.36	13.46	44.50	21.43	0.37	331.59

III. VAT-EXEMPT GOODS AND SERVICES IN THE ASEAN-MEMBER COUNTRIES

Among the ten (10) member-countries of the ASEAN, six are imposing the VAT, namely, Philippines, Cambodia, Lao PDR, Thailand, Vietnam and Indonesia, while three countries, namely, Singapore and Malaysia that impose the goods and services tax (GST) and Myanmar, the commercial tax. Brunei, on the other hand, has no VAT or equivalent consumption tax.

Of the six countries imposing the VAT, five impose in general a single VAT rate on sale of goods and services. These are the Philippines, which imposes the highest VAT rate of 12%, Cambodia, Indonesia and Lao PDR with 10% and Thailand with of 7%. It is noted that in the case of Indonesia, a special levy termed as luxury goods sales tax (LST) with rates ranging 10% to 75% is also imposed. On the other hand, Vietnam has two-tiered VAT rates i.e. a standard rate of 10% and 5% for specific essential goods and services.

Singapore and Malaysia collect a GST at 7% and 6%, respectively while Myanmar imposes a Commercial tax with the rates ranging from 5% to 100%.

Common to the ASEAN countries is the imposition of zero-rated VAT on exports of goods and certain types of specific services to avoid taxing the products/services twice.

International transport services by aircraft or ship are zero-rated in the Philippines, Thailand, Vietnam, Singapore and Malaysia. It is only the Philippines that subjects the sale of power or fuel generated through renewable sources of energy to zero-rate. Thailand has also distinct items in its zero rated transactions that other ASEAN countries do not have, such as supply of goods and services to government agencies and local authority or state enterprises under overseas loan program or assistance program.

With regard to exempt transactions, common to most ASEAN countries are the sale and importation of agricultural and marine food products in their original state. Just like the Philippines, importation of personal and household effects is specifically listed as exempt from the VAT in Cambodia, Lao PDR and Thailand. In addition, Philippines, Lao PDR, Thailand, Vietnam, Malaysia, Indonesia and Myanmar include sale, importation, printing or publication of books in their list of exempt transactions.

While the Philippine 12% VAT is high by ASEAN standards, where VAT rates generally range from 7% - 10%, the country's VAT effort stood only at 4.4% of GDP in 2014, same with Thailand considering its VAT rate of only 7% (Table 3). The low ratio of VAT to GDP is due to numerous exemptions and zero-rated transactions under the Philippine VAT system. Thus, under the CTRP, broadening the VAT base, limiting exemptions and other enhancing measures to improve VAT collection efficiency are being proposed. It is noted that on 59 lines of VAT exemptions in the Tax Code, Indonesia has 37 lines, Thailand 37 and Vietnam 25 (Annex A). Moreover, under special laws, there are more than 80 sectors/entities/individual groups are accorded VAT exemption. Some special

laws provide for explicit VAT exemption/zero-rating while others provide for exemption from all taxes (including VAT) or a certain tax rate in lieu of all taxes (including VAT).

**Table 3. VAT/GST RATES AND VAT/GST EFFORT OF ASEAN COUNTRIES
2013-2015**

Country	VAT/GST Rate	VAT/GST Effort		
		2013	2014	2015
Philippines	12%	4.3%	4.4%	4.3%
Brunei	N/A	N/A	N/A	N/A
Cambodia	10%	4.3%	5.0%	4.8%
Indonesia	10%	3.8%	3.9%	3.7%
Laos	10%	4.0%	4.1%	4.6%
Malaysia	6%	1.0%	1.0%	2.8%
Myanmar	5%	No data	No data	No data
Singapore	7%	2.5%	2.6%	2.6%
Thailand	7%	4.4%	4.4%	4.0%
Vietnam	10%	6.2%	No data	No data

*Collection on general taxes on goods and services (including VAT, Sales Tax, Turnover and other general taxes on goods and services) as percent of GDP

Source: IMF Government Finance Statistics (<http://data.imf.org>), except for Philippines which was obtained from BIR and BOC data.

IV. PROPOSED REFORMS ON THE VAT

On May 31, 2017, the House of Representatives approved on 3rd Reading Package 1 of the CTRP as HB 5636. Meanwhile, SB 1408 is filed in the Senate of the Philippines. The salient features of the Bills with regard to the VAT and the corresponding NTRC comments are discussed below.

(a) Limit the imposition of zero-percent (0%) VAT to direct exporters only

In the Philippines, VAT is imposed at the point of consumption, otherwise known as the destination principle. Thus, exports are zero-rated which means that exports leave the country free of any VAT. It is noted that since zero-rating at the final stage eliminates all revenue from the zero-rated goods or services, most countries tend to restrict the use of zero-rating beyond exports.

At present, indirect exporters or those that supply materials or services to direct exporters are subject to zero-rated VAT. This is to remove the burden of claiming of VAT refund from direct exporters.

It is noted that under the proposal, export sales are still zero-rated but the burden of claiming the VAT refund would now fall on the direct exporters and not the indirect exporters. Indirect exporters or local suppliers of export-manufacturing firms would now pass on the VAT due on the sale of goods or services to the direct exporters. Such a set-up would prevent any reuse of zero VAT certificates.

However, it is proposed that the removal of the VAT zero-rating of indirect exporters be done only upon the establishment and implementation of an enhanced VAT refund system which gives the taxpayer the actual refund or denial of his application within ninety (90) days from the filing of the VAT refund application.

It is noted that there is a correlation between the VAT compliance burden and the time delay in receiving a tax refund. How long it takes for a taxpayer to receive a refund could be seen as a useful test of the efficiency of tax authorities. This is also important for business in view of the impact on corporate liquidity and the time value of money on delayed refund processing.⁵⁰

Successful tax administrations have found that the most efficient and effective VAT refund processing systems are those that (1) distinguish between refund claimants with a history of compliance and those claimants with poor or unknown compliance histories (this entails maintaining historical profiles for each refund claimant); (2) use pre-refund audits for high-risk refund claims and post-refund audits for claims of lesser perceived risk; and (3) apply criteria to determine the likely extent of revenue risk associated with each refund claim.⁵¹

(b) Inclusion of electric cooperatives in the definition of sale or exchange of services subject to the VAT under Section 108 (A)

The implementation of RA 9337 removed the exemption from the VAT of electric cooperatives. However, the enactment of RA 9520, otherwise known as the Philippine Cooperative Code of 2008, provided for the exemption of electric cooperatives duly registered with the CDA from the VAT on revenues on systems loss and VAT on revenues on distribution, supply, metering and lifeline subsidy of electricity to their members.

As of 2016, there were 13 electric cooperatives registered with the CDA while 119 electric cooperatives are registered with the National Electrification Administration (NEA).

⁵⁰ PricewaterCoopers, "The Impact of VAT Compliance on Business", p. 12, <https://www.pwc.com/gx/en/tax/pdf/impact-of-vat.pdf>, viewed 26 April 2017.

⁵¹ Graham Harrison and Russell Krelove, *IMF Working Paper*, "VAT Refunds: A Review of Country Experience", WP/05/218, pp. 35-36. Downloaded from <http://www.imf.org/~media/Websites/IMF/imported-full-text-pdf/external/pubs/ft/wp/2005/wp05218.ashx>, 26 April 2017.

It is noted that the proposed inclusion of electric cooperatives to the definition of sale or exchange of services subject to the VAT would make it fair and non-discriminatory for electric cooperatives that are not registered with the CDA.

Likewise, it is a well-settled principle that for the VAT to be effective the number of VAT exemptions should be minimized as this erodes the VAT base, revenue collection, breaks the VAT chain and induces cascading problems. Moreover, it may create problems in compliance and administration, particularly when there are both exempt and taxable transactions.

(c) Subject the sale of power or fuel generated through renewable sources of energy such as, but not limited to, biomass, solar, wind, hydropower, geothermal, ocean energy, and other emerging energy sources using technologies such as fuel cells and hydrogen fuels to VAT exemption instead of zero-rate

Zero-rated and exempt transactions both have no output VAT. However, zero-rated transactions are allowed to credit or refund input tax on their purchases of goods, properties or services. It is noted that zero-rating is for exports only, thus, it should not be granted to transactions beyond exports.

For the period 2010-2015, total number of large taxpayers from renewable energy increased from 10 to 21 with total zero-rated sales/receipts ranging from PhP71.3 billion to PhP88.1 billion. Total VAT refund claimed for the same period ranged from PhP0.8 billion to PhP2.3 billion (Table 4). In an exempt transaction, in this case the sale of renewable energy, the seller will no longer be entitled to such tax refund, in which case the said VAT refunded will become part of the cost of the renewable energy sold.

Table 4. ZERO-RATED SALES/RECEIPTS AND VAT REFUNDS FROM RENEWABLE ENERGY, 2010 – 2015
(Amounts in Billion PhP)

Year	No. of Taxpayers	Zero-Rated Sales/Receipts	VAT Refund
2010	10	71.27	1.59
2011	10	75.19	1.96
2012	13	85.62	1.89
2013	17	70.77	1.28
2014	21	85.57	2.29
2015	21	88.13	0.83
Average		79.43	1.64

Source of basic data: BIR Large Taxpayers Service

(d) Removal of the VAT exemptions on cooperatives under Section 109 (L), (M), and (N) of the NIRC, as amended

Under HB 5636, VAT exemption of cooperatives under RA 9520 and Sections 109 (L), (M), and (N) of the NIRC, as amended, are proposed to be retained while SB 1408 proposes for its repeal.

It is noted that among the consequences of VAT exemption is the incentive to self-supply or avoid tax by vertical integration. To elaborate, exempt traders such as cooperatives, have an incentive to supply taxable items to themselves rather than purchasing them and incurring irrevocable VAT. This situation distorts the business structure, as all cooperatives have an incentive to only purchase inputs from other cooperatives.

According to the International Monetary Fund (IMF), indirect tax incentives are very prone to abuse, as qualified purchases can easily be diverted to buyers not intended to receive the incentives.

It is noted that exempting cooperatives from the VAT does not protect its buyers because cooperatives will be selling their goods with higher prices to recover the input VAT that they paid when they bought their supplies from a VAT-registered entity. On the other hand, subjecting them to the VAT would allow them to credit the VAT they paid on their inputs against their output VAT.

Likewise, the proposed removal of exemption on cooperatives will minimize leakages especially those cooperatives who are dealing with both members and non-members.

In this connection, SB 1408 is proposing for the repeal of the VAT exemption of cooperatives. Only the exemptions given to cooperatives that sell raw agricultural products and those that fall below the proposed VAT threshold of PhP3.0 million will be maintained.

However, recognizing the fact that cooperatives are vehicles of social justice and engines of economic growth by improving the lives of marginalized members of society, HB 5636 proposes for the retention of the VAT exemption on cooperatives. It is noted, however, should such retention be pushed through, it should include a system that will help strengthen audit of cooperatives such as the automatic audit of cooperatives by the BIR and inclusion of cooperative tax exemption estimates in the TIMTA to ensure transparency.

Meanwhile, in other countries, the Paraguay Ministry of Finance extended VAT to cooperatives as part of their economic and structural reforms to broaden the

VAT base and to increase tax collection starting November 1, 2016.⁵² Prior to the VAT imposition, cooperatives were already paying VAT on products and services offered to third parties, but not to those provided to their members.⁵³

Likewise, in the United States, cooperatives usually pay all the special levies on businesses including real and property taxes, sales tax (VAT-like tax), employment taxes, gasoline and diesel fuel taxes, license fees, motor vehicle registration fees, and excise taxes on telephone, power, and other utility services.⁵⁴

(e) Removal of the VAT exemption on real property utilized for low cost and socialized housing

Instead of handing over VAT exemptions to big housing developers and clients who can well afford to pay the VAT, the proposed VAT reform will instead give the privilege directly to low-income families in the form of cash vouchers that they can use when buying their own homes.

The proposal would also stop the practice of big-time real estate companies and condominium buyers to dodge tax payments by chopping up their properties into smaller units or use transfer pricing schemes so that their properties fall below the VAT threshold.

Currently, the threshold for residential lot was increased from PhP1.5 million to PhP1,919,500, while the threshold for house and lot and other residential dwellings was increased from PhP2.5 million to PhP3,199,200 pursuant to Revenue Regulation (RR) No. 16-2011⁵⁵ issued on October 28, 2011 and effective January 1, 2012. On the other hand, the Table below shows the current price ceilings set by the Housing and Urban Development Coordinating Council (HUDCC), viz.:

⁵² The World Bank (WB), "Paraguay Overview", <http://www.worldbank.org/en/country/paraguay/overview>, and The International Monetary Fund (IMF), "Paraguay: 2016 Article IV Consultation – Press Release and Staff Report", viewed January 27, 2017.

⁵³ International Co-operative Alliance, "Paraguay will apply VAT tax on services co-operatives provide to their members", <https://ica.coop/en/media/news/paraguay-will-apply-vat-tax-services-co-operatives-provide-their-members>, viewed January 27, 2017.

⁵⁴ United States Department of Agriculture (USDA), "Understanding Cooperatives: Income Tax Treatment of Cooperatives", Cooperative Information Report 45, Section 8, <http://www.uwcc.wisc.edu/pdf/CIR45-8.pdf>, viewed January 27, 2017.

⁵⁵ Subject, "Increasing the Amount of Threshold Amounts for Sale of Residential Lot, Sale of House and Lot, Lease of Residential Unit and Sale or Lease of Goods or Properties or Performance of Services covered by Section 109 (P), (Q) and (V) of the Tax Code of 1997, as amended, thereby Amending Certain Provisions of Revenue Regulations No. 16 -2005, as amended Otherwise Known as Consolidated VAT Regulations of 2005", issued October 28, 2011.

Table 5. CURRENT PRICE CEILING SET BY THE HUDCC ON SOCIALIZED AND LOW-COST HOUSING

Housing Category	Price Range	Lot Area	Floor Area
Socialized Housing ⁵⁶	PhP450,000 and below	30 - 50 sqm	18 - 30 sqm
Low Cost - Level 1 ⁵⁷	Above PhP450,00 - PhP1.7 million	50 - 100 sqm	35 - 55 sqm
Low Cost – Level 2 ⁵⁸	Above PhP1.7 million - PhP3 million	100 - 150 sqm	80 - 120 sqm

If the VAT is imposed on low-cost and socialized housing, housing prices will rise by around 4% only, not 12% as input VAT can be credited. Nevertheless, the significantly lower personal income tax rates under CTRP Package 1 will enable middle-income buyers to afford purchasing slightly pricier houses.

(f) Removal of the VAT exemption on the lease of a residential unit with a monthly rental not exceeding PhP10,000. (now PhP12,800)

Based on the Final Technical Report of the Housing Rental Study conducted by the Philippine Statistical Research and Training Institute⁵⁹, about 69% of the total 21,476,446 families are owners/have owner-like possession of house and lot and only about 7% or 1.5 million are renting families.

From the 1.5 million families, 97.1% of them pay monthly rentals of below PhP10,000. The National Capital Region (NCR) comprises 44.0% of total household renters in the country while 14% are in other highly urbanized cities (HUC). On the other hand, 8% are low-income families, 58% are middle-income families and 34% are high-income families.

It is noted that the PhP10,000 monthly thresholds have been raised to PhP12,800 per unit pursuant to RR 16-2011. The gross receipts from rentals not exceeding PhP12,800 per month per unit are exempt from VAT regardless of the aggregate annual gross receipts.

⁵⁶ These are the lowest priced housing units in the category. Typically, the houses are row type with no amenities. The roads are narrow, and in many cases, no sidewalks.

⁵⁷ Houses are usually bare or box type with only one toilet and bath, and the home interiors are left for the buyer to improve. Sometimes the community would have a few amenities.

⁵⁸ Houses are finished type with a minimum of 2 bedrooms. The community would usually have a swimming pool or clubhouse as standard amenities.

⁵⁹ <http://www.hudcc.net/sites/default/files/styles/large/public/document/FINAL%20REPORT%20ON%20THE%20RENTAL%20STUDY.pdf>, viewed February 3, 2017.

On the other hand, the gross receipts from rentals exceeding PhP12,800 per month per unit are subject to VAT if aggregate annual gross receipts from said unit exceeds PhP1,919,500. Otherwise, the gross receipts will be subject to the 3% percentage tax under Section 116 of the Tax Code.

With the proposed repeal of Section 109(Q) of the Tax Code, as amended, the taxation of lease of residential units will depend on how much is the annual gross receipts threshold under Section 109(W) under the proposal. If the aggregate annual gross receipts from rentals does not exceed the threshold it shall be subject to the 3% percentage tax, otherwise, it should be subject to the 12% VAT.

It is calculated that for a lessor with a single residential unit to be subject to the VAT under the proposal, the unit must have a monthly rental of PhP250,000. Using the current VAT threshold on lease of residential unit of PhP12,800, it is calculated that a lessor should have at least 20 residential units to be subject to VAT under the proposal.

(g) Removal of the VAT exemption of the NGCP

Among the components of the power industry, the NGCP is the only utility company that is subject to the franchise tax while other electric utilities are subject to the VAT. The re-imposition of the VAT on NGCP will make the tax treatment uniform for electric generation, transmission and distribution. There will be a minimal impact on revenue as transmission accounts to 5% to 7% of total power cost. and the impact of the re-imposition

(h) Retention of the VAT exemption of the Senior Citizens and Persons with Disabilities (PWDs)

The current policy on the VAT is to discourage the grant of exemptions since it is prone to abuse, as qualified purchases can easily be diverted to buyers not intended to receive the incentives. For instance, other non-seniors are perceived to be actually benefiting like riding on the senior citizens' 20% discount and VAT exempt privileges on their purchases.

Likewise, it can increase the compliance and administrative cost of businesses which produce both exempt and non-exempt goods or services. On the part of the BIR, there would also be an increase in administration cost.

It is noted that in the DOF's September 2016 submission of the bill to the House of Representatives, the VAT exemption of senior citizens and PWDs was proposed to be lifted. However, the proposal was met with strong opposition during consultations. Hence, in HB 5636 and SB 1408, said exemption was retained.

The implementation of a National Identification (I.D.) System to properly identify the senior citizens and PWDs who are covered by the VAT exemption is included in the proposal. This will ensure that the benefits given go to the right persons. The ID will also be used to ensure that the cash transfers and subsidies to mitigate the impact of the lifting of the VAT exemption of some items/transactions will likewise go to the right persons.

- (i) **Increase in the VAT threshold from PhP1.5 million to PhP3 million which is to be adjusted to inflation not later than January 31, 2018 and every three (3) years thereafter.**

The proposed increase of the VAT threshold from PhP1.5 million (now PhP1,919,500) to PhP3 million is more than the inflation-indexed amount. Using the change in Consumer Price Index (CPI) from 2012, (CPI =130.1) – 2018 (Projected CPI = 153), the threshold would increase from PhP1,919,500 to PhP2,257,367.

It is noted that the last adjustment of the VAT threshold was under RR 16-2011, effective January 1, 2012. Since then, the BIR has not made any issuance regarding VAT threshold which should be adjusted to its present value using the CPI published by the PSA (formerly NSO).

The following are the annual VAT threshold from EO 273 up to the present, viz.:

Table 6. ANNUAL GROSS SALES/RECEIPTS VAT THRESHOLD

Legislation / Issuance	BIR Issuance	Amount of Threshold
EO 273 (1988)	RR 5-87	PhP200,000
RA 7716 (1994)	RR 10-94	PhP500,000
	RR 6-95	PhP500,000
	RR 7-95	PhP500,000
RA 8241 (1997)	-	PhP550,000
	RR 1-2005	PhP750,000
RA 9337 (2005)	RR 14-2005	PhP1,500,000
	RR 16-2005	
	RR 16-2011	PhP1,919,500

Economists have argued that the current threshold is low by international standards and should be adjusted to PhP3 million. The proposed threshold of PhP3

million is to ensure that micro businesses would not be registered for VAT.⁶⁰ At present, Barangay Micro Business Enterprises (BMBEs)⁶¹ are exempt from income tax for income arising from their operations under Section 7 of RA 9178⁶².

It is noted that the non-indexation of the current VAT threshold, might result in the sustained increase in the general price level of goods and services and the corresponding diminution in the purchasing power of consumers. Basically, VAT is an indirect tax that is passed on to the consumers of goods and services; thus, the regular adjustment of the threshold amount on VAT exempt transactions covered by Sections 109 (1) (W) of the NIRC would increase the purchasing power of ordinary buyers or consumers.

V. CONCLUSION

The proposals on the VAT under the CTRP are supported. Fiscal prudence dictates that to compensate for the foregone revenues from the restructuring of the personal income tax, the broadening of the VAT base by limiting exemptions to raw food, and other necessities and zero-rated transactions would be an effective revenue mitigating measure.

The Philippines' low VAT effort of 4.3% recorded in 2015 was attributable to numerous VAT exemptions and zero-rated transactions. VAT exempt transactions tend to break the VAT chain, which lead to higher costs and prices, and revenue losses to the government. Zero rating, on the other hand, is extremely complex as it provides strong incentives for frauds, creates excessive burden on tax administration, and effectively erodes the base.

For a VAT regime to be effective it must have a broadened VAT base and minimized number of exemptions to the extent possible as exemptions tend to erode the VAT base and reduce revenue collection. It also creates problems in compliance and administration, particularly when a company produces both exempt and/or vatable items/transactions. VAT exemptions create numerous efficiency and effectiveness problems.

Lastly, a broad-based VAT, has been proven to be an efficient tool for revenue collection as this became the key source of government revenue in over 140 countries.

⁶⁰ Renato E. Reside, Jr. and Lee Burns, *Comprehensive Tax Reform in the Philippines: Principles, History and Recommendations (Draft)*, Special Study by the International Tax and Investment Center, August 2016.

⁶¹ "Barangay Micro Business Enterprise," hereinafter referred to as BMBE, refers to any business entity or enterprise engaged in the production, processing or manufacturing of products or commodities, including agro-processing, trading and services, whose total assets including those arising from loans but exclusive of the land on which the particular business entity's office, plant and equipment are situated, shall not be more than Three Million Pesos (P3,000,000.00). [Section 3 (a), RA 9178]

⁶² Entitled, "An Act to Promote the Establishment of Barangay Micro Business Enterprises (BMBEs), Providing Incentives and Benefits Therefor, and for Other Purposes", approved November 13, 2002.

Annex A

**Table A.1. SUMMARY OF VAT-EXEMPT GOODS/SERVICES/SECTORS,
PHILIPPINES VS. THAILAND**

Item	PHL	THA	Thailand Legal Basis
A. VAT Exempt under Section 109, NIRC			Thailand Revenue Code⁶³
<ul style="list-style-type: none"> • Agricultural food products in their original state 	Exempt	Exempt	<ul style="list-style-type: none"> • Sale or import of agricultural products whether they are trunks, branch, leaf, bark, offshoot, root, bud, bulb, pod, seed or other parts of plants and their by-products in fresh or preserved condition are exempt from VAT Sections 81 (1) (a) and 81 (2) (a)
<ul style="list-style-type: none"> • Marine food products in their original state 	Exempt	Exempt	<ul style="list-style-type: none"> • Sale or import of alive or dead animals, and in the case of non- alive animal whether it be flesh, parts of animal, egg, milk or by-product from animal in fresh or preserved condition are exempt from VAT Sections 81 (1) (b) and 81 (2) (a)
<ul style="list-style-type: none"> • Livestock and poultry 	Exempt	Exempt	-do-
<ul style="list-style-type: none"> • Breeding stock 	Exempt	Exempt	-do-
<ul style="list-style-type: none"> • Rice 	Exempt	Exempt	Sections 81 (1) (a) and 81 (2) (a)
<ul style="list-style-type: none"> • Corn grits 	Exempt	Exempt	<ul style="list-style-type: none"> • Sale or import of agricultural products preserved by grinding are exempt from VAT Sections 81 (1) (a) and 81 (2) (a)
<ul style="list-style-type: none"> • Raw cane sugar 	Exempt	Exempt	<ul style="list-style-type: none"> • Sale or import of agricultural products preserved by other method are exempt from VAT Sections 81 (1) (a) and 81 (2) (a)
<ul style="list-style-type: none"> • Molasses 	Exempt	Exempt	-do-
<ul style="list-style-type: none"> • Ordinary salt 	Exempt	Exempt	-do-

⁶³ <http://www.thailandlawonline.com/table-of-contents/thailand-tax-law-revenue-code>

Item	PHL	THA	Thailand Legal Basis
• Copra	Exempt	Exempt	• Sale or import of agricultural products preserved by drying are exempt from VAT Sections 81 (1) (a) and 81 (2) (a)
• Fertilizers	Exempt	Exempt	• Sale or import of fertilizers are exempt from VAT Sections 81 (1) (c) and 81 (2) (a)
• Seeds and seedlings	Exempt	Exempt	Sections 81 (1) (a) and 81 (2) (a)
• Fingerlings	Exempt	Exempt	Sections 81 (1) (b) and 81 (2) (a)
• Fish, prawn, livestock and poultry feeds	Exempt	Exempt	• Sale of fish meal, animal feed are exempt from VAT Sections 81 (1) (d) and 81 (2) (a)
• Personal and HH effects of returning residents to the Philippines and nonresidents coming to resettle in the Philippines	Exempt	Exempt	• Goods classified into duty exemption category under the law on customs tariff are exempt from VAT Section 81 (2) (c)
• Professional instruments and implements, and personal HH effects of persons coming to settle in the Philippines	Exempt	Exempt	-do-
• Services by agricultural contract growers and milling for others of palay into rice, corn into grits and sugar cane into raw sugar	Exempt	Vatable	
• Medical, dental and hospital services, except rendered by professionals	Exempt	Exempt	• Services in medical treatment including those services rendered by professionals are exempt from VAT Sections 81 (1) (i) and (j)
• Veterinary services	Exempt	Vatable	
• Educational services rendered by public and private educational institutions	Exempt	Exempt	• Educational services of public educational institutions, educational institutions under the law governing private universities or private schools under the law governing private school are exempt from VAT Section 81 (1) (g)

Item	PHL	THA	Thailand Legal Basis
<ul style="list-style-type: none"> Services rendered by individuals pursuant to an employer-employee relationship 	Exempt	Exempt	<ul style="list-style-type: none"> Services under employment contract are exempt from VAT Section 81 (1) (m)
<ul style="list-style-type: none"> Services rendered by regional or area HQ of MNCs 	Exempt	Vatable	
<ul style="list-style-type: none"> Agricultural cooperatives duly registered with the Cooperatives Development Authority (CDA) 	Exempt	Vatable	
<ul style="list-style-type: none"> Credit or multi-purpose cooperatives duly registered with the CDA 	Exempt	Exempt	VAT and SBT exempt - Section 77/3 and Section 91/3 (3)
<ul style="list-style-type: none"> Non-agricultural, non-electrical and non-credit cooperatives registered with the CDA under certain conditions 	Exempt	Vatable	<ul style="list-style-type: none"> Except business of a savings cooperative, only in respect of loans provided to its members or to another savings cooperative Sections 77/3 and 91/3 (3)
<ul style="list-style-type: none"> Export sales by persons who are not VAT-registered 	Exempt	Vatable (0%)	<ul style="list-style-type: none"> Export of goods which is not exempt from VAT are rated 0% Section 80/1 (1)
<ul style="list-style-type: none"> Real property not primarily held for sale to customers or held for lease in the ordinary course of trade or business 	Exempt	Exempt	<ul style="list-style-type: none"> Taxable under income tax of Thailand Section 39
<ul style="list-style-type: none"> Real property utilized for low-cost and socialized housing as defined in RA 7279 <ul style="list-style-type: none"> ➤ Beneficiaries under RA 7279 are underprivileged and homeless citizens within the poverty threshold of NEDA 	Exempt	Exempt	VAT and SBT exempt – Section 77/3 and Section 91/3 (5) <ul style="list-style-type: none"> Beneficiaries of housing development projects of the National Housing Authority (NHA) of Thailand are low and middle income earners including junior civil servants and government employees. Low income earners, junior civil servants and government employees are those with monthly income per family of not more than 22,000 baht (PhP30,054.50⁶⁴).⁶⁵

⁶⁴ 1 Thai Baht = Pphp1.36611, as of September 19, 2016, <https://www.oanda.com/currency/converter/>

Item	PHL	THA	Thailand Legal Basis
<ul style="list-style-type: none"> Residential lot valued at PhP1,919,500 and below 	Exempt	Exempt	<ul style="list-style-type: none"> Sale of an immovable property in a commercial or profitable manner, irrespective of the manner in which such property is acquired, only in accordance with the rules, procedures and conditions prescribed by a royal decree is VAT exempt but subject to 0.1% SBT.⁶⁵
<ul style="list-style-type: none"> House and lot and other residential dwellings valued at PhP3,199,200 and below 	Exempt	Exempt	
<ul style="list-style-type: none"> Lease of a residential unit with a monthly rental not exceeding P12,800 	Exempt	Exempt	<ul style="list-style-type: none"> Rental of immovable property are exempt from VAT Section 81 (1) (r)
<ul style="list-style-type: none"> Books and any newspaper, magazine, review or bulletin 	Exempt	Exempt	<ul style="list-style-type: none"> Sale of newspaper, magazine or school books are exempt from VAT Section 81 (1) (f)
<ul style="list-style-type: none"> Transport of passengers by international air and sea carriers 	Exempt	Vatable (0%)	<ul style="list-style-type: none"> Provision of international transport services by aircraft or ship by juristic business person are vatable at 0% rate Section 80/1 (3)
<ul style="list-style-type: none"> Passenger or cargo vessels and aircraft including engine, equipment and spare parts thereof for domestic or international transport operations 	Exempt	Vatable	
<ul style="list-style-type: none"> Importation of fuel, goods and supplies by persons engaged in international shipping or air transport operations 	Exempt	Vatable	
<ul style="list-style-type: none"> Banks, non-bank financial intermediaries performing quasi-banking functions, and other non-bank financial intermediaries 	Exempt	Exempt	Sections 77/3; 91/2 (1), (2) and (5); 91/3 (1) and (2); and 91/5 (1), (2) and (5)
<ul style="list-style-type: none"> Other goods or properties or performance of services the gross annual sales 	Exempt	Exempt	<ul style="list-style-type: none"> Small business annual turnover is less than 1.8 million baht (PhP2,459,000) [formerly 600,000 baht (PhP819,668)] is

⁶⁵ https://www.nha.co.th/view/2/home#ABOUT_NHA (viewed 26 September 2016)

⁶⁶ <http://www.rd.go.th/publish/6042.0.html> (viewed 26 September 2016)

Item	PHL	THA	Thailand Legal Basis
and/or receipts of which do not exceed PhP1,919,500.			exempt from VAT Section 81/1
B. VAT Exempt but Subject to Percentage Tax			
<ul style="list-style-type: none"> Persons who are not VAT-registered and whose gross sales/receipts do not exceed PhP1,919,500 	Exempt	Exempt	<ul style="list-style-type: none"> Small business annual turnover is less than 1.8 million baht (PhP2,459,000) is exempt from VAT Section 81/1
<ul style="list-style-type: none"> Domestic carriers and keepers of garages 	Exempt	Exempt	<ul style="list-style-type: none"> Provision of domestic transport are exempt from VAT Section 81 (1) (p)
<ul style="list-style-type: none"> Transport of cargo by international carriers 	Exempt	Vatable (0%)	Section 80/1 (3)
<ul style="list-style-type: none"> Franchises 	Exempt	Vatable	
<ul style="list-style-type: none"> Overseas dispatch, message or conversation originating from the Philippines 	Exempt	Vatable	
<ul style="list-style-type: none"> Banks and Non-Bank Financial Intermediaries Performing Quasi-Banking Functions 	Exempt	Exempt	<ul style="list-style-type: none"> VAT exempt but subject to 3.0% specific business tax (SBT) except for business of the Bank of Thailand, the Government Savings Bank, the Government Housing Bank, and the Bank for Agriculture and Agricultural Cooperatives, and Industrial Financial Corporation of Thailand Sections 91/2 (1), (2) and (5), 91/5 (1), (2) and (5), 91/6 (3), and 91/3 (1) and (2)
<ul style="list-style-type: none"> Non-Bank Financial Intermediaries 	Exempt	Exempt	<ul style="list-style-type: none"> Pawn broking under the law governing pawnshops are VAT exempt but subject to 2.5% SBT Sections 91/2 (4), 91/5 (4) and (2), and 91/6 (2)
<ul style="list-style-type: none"> Life insurance premiums 	Exempt	Exempt	<ul style="list-style-type: none"> Life insurance under the law governing life insurance is exempt from VAT but subject to 2.5% SBT Sections 91/2 (3), 91/5 (3), and 91/6 (2)
<ul style="list-style-type: none"> Agents of foreign insurance companies 	Exempt	Vatable	

Item	PHL	THA	Thailand Legal Basis
<ul style="list-style-type: none"> • Proprietors, lessees or operators of amusement places/activities <ul style="list-style-type: none"> ➤ Cockpits ➤ Cabarets, night or day clubs ➤ Boxing exhibitions ➤ Professional basketball games ➤ Jai-alai and racetracks 	Exempt	Vatable	
<ul style="list-style-type: none"> • Winnings in horse races 	Exempt	Vatable	
<ul style="list-style-type: none"> • Sale of shares of stocks listed and traded through local stock exchange 	Exempt	Exempt	<ul style="list-style-type: none"> • Sale of securities in a securities market under the law governing securities exchange of Thailand are VAT exempt but subject to a 0.1% SBT <p>Sections 91/2 (7), 91/5 (7), and 91/6 (1)</p>
C. VAT Exempt under Special Laws			
<ul style="list-style-type: none"> • Power transmission-NGCP (RA 9511) 	Exempt	Vatable	
<ul style="list-style-type: none"> • PWDs (RA 10754) 	Exempt	Vatable	
<ul style="list-style-type: none"> • Senior citizens (RA 9994) 	Exempt	Vatable	
<ul style="list-style-type: none"> • Boy Scouts of the Philippines (RA 7285) 	Exempt	Vatable	
<ul style="list-style-type: none"> • Girl Scouts of the Philippines (RA 10073) 	Exempt	Vatable	
<ul style="list-style-type: none"> • Biofuels (RA 9367) <ul style="list-style-type: none"> ➤ Only the sale of raw material used in the production of biofuels such as, but not limited to, coconut, jatropha, sugarcane, cassava, corn, and sweet sorghum is exempt from VAT. 	Exempt	Vatable	
<ul style="list-style-type: none"> • Cooperatives (RA 9520) 	Exempt	Vatable	<ul style="list-style-type: none"> • Except business of a savings cooperative, only in respect of loans provided to its members or to another savings cooperative <p>Sections 77/3 and 91/3 (3)</p>

Item	PHL	THA	Thailand Legal Basis
<ul style="list-style-type: none"> • Credit Surety Fund Cooperative (RA 10744) 	Exempt	Exempt	VAT and SBT exempt - Section 77/3 and Section 91/3 (3)
<ul style="list-style-type: none"> • Philippine Red Cross (RA 10072) 	Exempt	Exempt	
<ul style="list-style-type: none"> • Orphan drugs and products for use solely by patients with rare diseases (RA 10747) 	Exempt	-	
<ul style="list-style-type: none"> • Socialized housing (RA 7279, as amended by RA 10884) 	Exempt	Exempt	<ul style="list-style-type: none"> • See notes on low-cost housing

Table A.2. Summary of VAT-Exempt Goods/Services/Sectors, Philippines vs. Indonesia

Item	PHL	IND	Indonesia Legal Basis
A. VAT Exempt under Section 109, NIRC			
• Agricultural food products in their original state	Exempt	Exempt	Section 2(b) Article 4A of the Law of the Republic of Indonesia Number 42 Year 2009
• Marine food products in their original state	Exempt	Exempt	-do-
• Livestock and poultry	Exempt	Exempt	-do-
• Breeding stock	Exempt	Exempt	<ul style="list-style-type: none"> • Import and/or delivery of seeds and/or seedlings of agricultural goods, farming, forestry, animal husbandry, breeding, or fisheries are exempt from VAT Sections 1(c) and 2(d) Article 2 of the Government Regulation of the Republic of Indonesia No. 31 of 2007
• Rice	Exempt	Exempt	Section 2(b) Article 4A of the Law of the Republic of Indonesia Number 42 Year 2009
• Corn grits	Exempt	Exempt	-do-
• Raw cane sugar	Exempt	Exempt	-do-
• Molasses	Exempt	Exempt	<ul style="list-style-type: none"> • Import and/or delivery of agricultural products are exempt from VAT Sections 1(f) and 2(c) Article 2 of the Government Regulation of the Republic of Indonesia No. 31 of 2007
• Ordinary salt	Exempt	Exempt	Section 2(b) Article 4A of the Law of the Republic of Indonesia Number 42 Year 2009
• Copra	Exempt	Exempt	<ul style="list-style-type: none"> • Import and/or delivery of agricultural products are exempt from VAT Sections 1(f) and 2(c) Article 2 of the Government Regulation of the Republic of Indonesia No. 31 of 2007
• Fertilizers	Exempt	Exempt	-do-
• Seeds and seedlings	Exempt	Exempt	<ul style="list-style-type: none"> • Import and/or delivery of seeds and/or seedlings of agricultural goods, farming, forestry, animal husbandry, breeding, or fisheries are

Item	PHL	IND	Indonesia Legal Basis
			exempt from VAT Sections 1(c) and 2(d) Article 2 of the Government Regulation of the Republic of Indonesia No. 31 of 2007
• Fingerlings	Exempt	Exempt	-do-
• Fish, prawn, livestock and poultry feeds	Exempt	Exempt	• Import and/or delivery of animal feed, poultry feed and fish feed are exempt from VAT Sections 1(b) and 2(b) Article 2 of the Government Regulation of the Republic of Indonesia No. 31 of 2007
• Personal and HH effects of returning residents to the Philippines and nonresidents coming to resettle in the Philippines	Exempt	Exempt	Articles 2(3)(h) and 2(3)(i) of the Regulation of the Minister of Finance of the Republic of Indonesia Number 70/PMK.011/2013 ⁶⁷
• Professional instruments and implements, and personal HH effects of persons coming to settle in the Philippines	Exempt	Exempt	-do-
• Services by agricultural contract growers and milling for others of palay into rice, corn into grits and sugar cane into raw sugar	Exempt	Vatable (0%)	• Toll manufacturing services are subject to 0% VAT subject to certain conditions. Ministry of Finance Regulation No. 70 issued 30 March 2010 ⁶⁸
• Medical, veterinary, dental and hospital services, except rendered by professionals	Exempt	Exempt	• Services rendered by professionals are also exempted from VAT Section 3(a) Article 4A of the Law of the Republic of Indonesia Number 42 Year 2009
• Educational services rendered by public and private educational institutions	Exempt	Exempt	Section 3(g) Article 4A of the Law of the Republic of Indonesia Number 42 Year 2009
• Services rendered by	Exempt	Exempt	Section 3(k) Article 4A of the Law of

⁶⁷ http://www.kemenkeu.go.id/sites/default/files/pdf-peraturan/70_PMK_011_2013_TRANSLATED.pdf (viewed November 9, 2016)

⁶⁸ http://newsletters.usdbriefs.com/2010/Tax/WTA/a100611_7.pdf (viewed November 9, 2016)

Item	PHL	IND	Indonesia Legal Basis
individuals pursuant to an employer-employee relationship			the Republic of Indonesia Number 42 Year 2009
<ul style="list-style-type: none"> Services rendered by regional or area HQ of MNCs 	Exempt	-	Note: Not listed in exemption list. Not listed in vatable list.
<ul style="list-style-type: none"> Agricultural cooperatives duly registered with the Cooperatives Development Authority (CDA) 	Exempt	Vatable	
<ul style="list-style-type: none"> Credit or multi-purpose cooperatives duly registered with the CDA 	Exempt	Vatable	
<ul style="list-style-type: none"> Non-agricultural, non-electrical and non-credit cooperatives registered with the CDA under certain conditions 	Exempt	Vatable	
<ul style="list-style-type: none"> Export sales by persons who are not VAT-registered 	Exempt	Vatable	Section 1(f) of Article 4 of the Law of the Republic of Indonesia Number 42 Year 2009
<ul style="list-style-type: none"> Real property not primarily held for sale to customers or held for lease in the ordinary course of trade or business 	Exempt	Vatable	Minister of Finance Regulation No. 200/PMK.03/201-5 ⁶⁹
<ul style="list-style-type: none"> Real property utilized for low-cost and socialized housing as defined in RA 7279 <ul style="list-style-type: none"> ➤ Beneficiaries under RA 7279 are underprivileged and homeless citizens within the poverty threshold of NEDA 	Exempt	Exempt	<ul style="list-style-type: none"> Affordable housing and low-cost housing is exempt from VAT subject to certain conditions. Regulation of the Minister of Finance No. 31/PMK.03/2011⁷⁰

⁶⁹ http://www.hhp.co.id/files/Uploads/Documents/Type%202/HHP/AL_Jakarta_REITDoubleTaxation_Nov15.pdf (viewed September 22, 2016)

⁷⁰ <http://www.kemenkeu.go.id/sites/default/files/pdf-peraturan/31-PMK.03-2011.pdf> (viewed November 9, 2016)

Item	PHL	IND	Indonesia Legal Basis
<ul style="list-style-type: none"> Residential lot valued at PhP1,919,500 and below 	Exempt	Vatable	<ul style="list-style-type: none"> Sale of raw land is exempt from VAT, but the sale of land already prepared for development is subject to VAT.⁷¹
<ul style="list-style-type: none"> House and lot and other residential dwellings valued at PhP3,199,200 and below 	Exempt	Exempt	<ul style="list-style-type: none"> Note: Simple house, very simple house, and simple flats are exempt from VAT subject to certain conditions. Minister of Finance Regulation No. 113/PMK.03/2014⁷² Low cost apartment not exceeding Rp250,000,000 (<PhP1,000,000) is exempt from VAT Minister of Finance Regulation No. 69/PMK.010/2015⁷³
<ul style="list-style-type: none"> Lease of a residential unit with a monthly rental not exceeding P12,800 	Exempt	Vatable	<ul style="list-style-type: none"> VAT on rental payments.⁷⁴
<ul style="list-style-type: none"> Books and any newspaper, magazine, review or bulletin 	Exempt	Exempt/ Vatable	<ul style="list-style-type: none"> Textbooks are exempt from VAT Primer on Indonesian VAT⁷⁵ Music books are exempt from VAT while printed books, brochures, leaflets, dictionaries, encyclopedias, newspaper, journals, periodicals, children's books, calendars, and commercial catalogue are subject to VAT Indonesian Customs⁷⁶

⁷¹ <http://www.joneslanglasallesites.com/investmentguide/country/indonesia/valueaddedtaxgoodsandservicestax> (viewed November 9, 2016)

⁷² <http://www.online-pajak.com/en/tools-and-tips/regulation-update-113-pmk03-2014> (viewed November 9, 2016)

⁷³ <http://www.kemenkau.go.id/en/Berita/minister-fiannce-stipulated-regulation-low-cost-apartment> (viewed November 9, 2016)

⁷⁴ <http://www.joneslanglasallesites.com/investmentguide/country/indonesia/valueaddedtaxgoodsandservicestax> (viewed November 9, 2016)

⁷⁵ <http://www.kpmg.com/ID/en/IssuesAndInsights/ArticlesPublications/Documents/A-Primer-on-Indonesian-A-dded-Value-Tax.pdf> (viewed September 23, 2016)

Item	PHL	IND	Indonesia Legal Basis
<ul style="list-style-type: none"> Transport of passengers by international air and sea carriers 	Exempt	Exempt	Section 3(j) Article 4A of the Law of the Republic of Indonesia Number 42 Year 2009
<ul style="list-style-type: none"> Passenger or cargo vessels and aircraft including engine, equipment and spare parts thereof for domestic or international transport operations 	Exempt	Exempt	Indonesian government Regulation Number 69 of 2015 (“GR-69”) ⁷⁷
<ul style="list-style-type: none"> Importation of fuel, goods and supplies by persons engaged in international shipping or air transport operations 	Exempt	Exempt	<ul style="list-style-type: none"> Delivery of oil fuel for foreign marine transport vessel is exempt from VAT Article 2 of the Regulation of the Minister of Finance No. 154/PMK.03/2015 ⁷⁸
<ul style="list-style-type: none"> Banks, non-bank financial intermediaries performing quasi-banking functions, and other non-bank financial intermediaries 	Exempt	Exempt	Section 3(d) Article 4A of the Law of the Republic of Indonesia Number 42 Year 2009
<ul style="list-style-type: none"> Other goods or properties or performance of services the gross annual sales and/or receipts of which do not exceed PhP1,919,500. 	Exempt	Exempt	<ul style="list-style-type: none"> VAT registration threshold is at IDR4.8 billion (<Ph17.82 million) starting January 1, 2014⁷⁹
B. VAT Exempt but Subject to Percentage Tax			
<ul style="list-style-type: none"> Persons who are not VAT-registered and whose gross sales/receipts do not exceed PhP1,919,500 	Exempt	Exempt	<ul style="list-style-type: none"> VAT registration threshold is at IDR4.8 billion (<Ph17.82 million) starting January 1, 2014

⁷⁶ <http://ems.posindonesia.co.id/custom.html> (viewed November 9, 2016)

⁷⁷ <https://www2.deloitte.com/content/dam/Deloitte/id/Documents/tax/id-tax-info-oct2015-noexp.pdf> (viewed September 27, 2016)

⁷⁸ <http://www.kemenkeu.go.id/en/Peraturan/regulation-minister-finance-republic-indonesia-number-154pmk032015> (viewed November 9, 2016)

⁷⁹ <http://www.vatlive.com/asia-pacific/indonesia-raises-vat-registration-threshold/> (viewed November 9, 2016)

Item	PHL	IND	Indonesia Legal Basis
• Domestic carriers and keepers of garages	Exempt	Exempt	Indonesian government Regulation Number 69 of 2015 (“GR-69”) ⁸⁰
• Transport of cargo by international carriers	Exempt	Exempt	-do-
• Franchises	Exempt	-	Note: Not listed in exemption list. Not listed in vatable list.
• Overseas dispatch, message or conversation originating from the Philippines	Exempt	Vatable	
• Banks and Non-Bank Financial Intermediaries Performing Quasi-Banking Functions	Exempt	Exempt	Section 3(d) Article 4A of the Law of the Republic of Indonesia Number 42 Year 2009
• Non-Bank Financial Intermediaries	Exempt	Exempt	-do-
• Life insurance premiums	Exempt	Exempt	Section 3(e) Article 4A of the Law of the Republic of Indonesia Number 42 Year 2009
• Agents of foreign insurance companies	Exempt	Exempt	-do-
<ul style="list-style-type: none"> • Proprietors, lessees or operators of amusement places/activities <ul style="list-style-type: none"> ➢ Cockpits ➢ Cabarets, night or day clubs ➢ Boxing exhibitions ➢ Professional basketball games ➢ Jai-alai and racetracks 	Exempt	Exempt	<ul style="list-style-type: none"> • The following arts and entertainment services are exempt from VAT: <ul style="list-style-type: none"> ➢ Film show ➢ Art performance show, music performance show, dance performance show, and/or clothing performance show; ➢ Beauty contest show, bodybuilding contest show, and similar contest show; ➢ Show in the form of an exhibition; ➢ Discotheque, karaoke, night club, and the like; ➢ Circus performance show, acrobatic performance show, and magic performance show; ➢ Horse racing show, motor vehicle racing show, and agility

⁸⁰ <https://www2.deloitte.com/content/dam/Deloitte/id/Documents/tax/id-tax-info-oct2015-noexp.pdf> (viewed September 27, 2016)

Item	PHL	IND	Indonesia Legal Basis
			game; and ➤ Sport competition show. Article 2 of the regulation of the Minister of Finance No. 158/PMK.010/2015 ⁸¹
• Winnings in horse races	Exempt	-	Note: Not listed in exemption list. Not listed in vatable list.
• Sale of shares of stocks listed and traded through local stock exchange	Exempt	-	Note: Not listed in exemption list. Not listed in vatable list.
C. VAT Exempt under Special Laws			
• Power transmission- NGCP (RA 9511)	Exempt	Vatable	
• PWDs (RA 10754)	Exempt	Vatable	• Importation of goods for special purposes of blind people and other disabled are exempt from VAT Article 2(3)(f) of the Regulation of the Minister of Finance of the Republic of Indonesia Number 70/PMK.011/2013
• Senior citizens (RA 9994)	Exempt	Vatable	
• Boy Scouts of the Philippines (RA 7285)	Exempt	Vatable	
• Girl Scouts of the Philippines (RA 10073)	Exempt	Vatable	
• Biofuels (RA 9367) ➤ Only the sale of raw material used in the production of biofuels such as, but not limited to, coconut, jatropha, sugarcane, cassava, corn, and sweet sorghum is exempt from VAT.	Exempt	Vatable	• VAT on biofuel is borne by the government ⁸²
• Cooperatives (RA 9520)	Exempt	Vatable	

⁸¹ <http://www.kemenkeu.go.id/en/Peraturan/regulation-minister-finance-republic-indonesia-number-158pmk010-2015> (viewed November 9, 2016)

⁸² <http://www.kemenkeu.go.id/en/node/16976> (viewed November 9, 2016)

Item	PHL	IND	Indonesia Legal Basis
• Credit Surety Fund Cooperative (RA 10744)	Exempt	Vatable	
• Philippine Red Cross (RA 10072)	Exempt	Exempt	
• Orphan drugs and products for use solely by patients with rare diseases (RA 10747)	Exempt	-	Note: Not listed in exemption list. Not listed in vatable list.
• Socialized housing (RA 7279, as amended by RA 10884)	Exempt	Exempt	Section 3(m) Article 4A of the Law of the Republic of Indonesia Number 42 Year 2009

Table A.3. Summary of VAT-Exempt Goods/Services/Sectors, Philippines vs Vietnam

Item	PHL	VNM	Vietnam Legal Basis
A. VAT Exempt under Section 109, NIRC			
<ul style="list-style-type: none"> • Agricultural food products in their original state 	Exempt	Exempt	<ul style="list-style-type: none"> • Cultivation and husbandry products, and reared and fished aquatic products which have not yet been processed into other products or have been just preliminarily processed and sold by producing and fishing organizations and individuals, and products at the stage of importation are exempt from VAT. <p>Chapter I Article 5 (1) of the Law on Value- Added Tax No. 13/2008/QH12⁸³</p>
<ul style="list-style-type: none"> • Marine food products in their original state 	Exempt	Exempt	-do-
<ul style="list-style-type: none"> • Livestock and poultry 	Exempt	Exempt	-do-
<ul style="list-style-type: none"> • Breeding stock 	Exempt	Exempt	<ul style="list-style-type: none"> • Products which are animal breeds and plant varieties, including breeding eggs, breeding animals, seedlings, seeds, sperms, embryos and genetic materials are exempt from VAT. <p>Chapter I Article 5 (2) of the Law on Value- Added Tax No. 13/2008/QH12</p>
<ul style="list-style-type: none"> • Rice 	Exempt	Exempt	<ul style="list-style-type: none"> • Cultivation and husbandry products, and reared and fished aquatic products which have not yet been processed into other products or have been just preliminarily processed and sold by producing and fishing organizations and individuals, and products at the stage of importation are exempt from VAT. <p>Chapter I Article 5 (1) of the Law on Value- Added Tax No. 13/2008/QH12</p>
<ul style="list-style-type: none"> • Corn grits 	Exempt	Exempt	-do-
<ul style="list-style-type: none"> • Raw cane sugar 	Exempt	Exempt	-do-

⁸³ <http://www.ifrc.org/docs/idrl/899EN.pdf>

Item	PHL	VNM	Vietnam Legal Basis
• Molasses	Exempt	Vatable	<ul style="list-style-type: none"> • Molasses are subject to VAT. Chapter II Article 8 (2) (h) of the Law on Value- Added Tax No. 13/2008/QH12
• Ordinary salt	Exempt	Exempt	<ul style="list-style-type: none"> • Salt products made of seawater, natural rock salt, refined salt and iodized salt are exempt from VAT. Chapter I Article 5 (4) of the Law on Value- Added Tax No. 13/2008/QH12
• Copra	Exempt	Exempt	<ul style="list-style-type: none"> • Products which are animal breeds and plant varieties, including breeding eggs, breeding animals, seedlings, seeds, sperms, embryos and genetic materials are exempt from VAT. Chapter I Article 5 (2) of the Law on Value- Added Tax No. 13/2008/QH12
• Fertilizers	Exempt	Vatable	<ul style="list-style-type: none"> • Fertilizers, ores for fertilizer production, insecticides, pesticides and plant and animal growth stimulators are subject to VAT. Chapter II Article 8 (2) (b) of the Law on Value- Added Tax No. 13/2008/QH12
• Seeds and seedlings	Exempt	Exempt	<ul style="list-style-type: none"> • Products which are animal breeds and plant varieties, including breeding eggs, breeding animals, seedlings, seeds, sperms, embryos and genetic materials are exempt from VAT. Chapter I Article 5 (2) of the Law on Value- Added Tax No. 13/2008/QH12
• Fingerlings	Exempt	Exempt	-do-
• Fish, prawn, livestock and poultry feeds	Exempt	Vatable	<ul style="list-style-type: none"> • Feeds for cattle, poultry and other domestic animals are subject to VAT. Chapter II Article 8 (2) (c) of the Law on Value- Added Tax No. 13/2008/QH12

Item	PHL	VNM	Vietnam Legal Basis
<ul style="list-style-type: none"> Personal and HH effects of returning residents to the Philippines and nonresidents coming to resettle in the Philippines 	Exempt	Vatable	
<ul style="list-style-type: none"> Professional instruments and implements, and personal HH effects of persons coming to settle in the Philippines 	Exempt	Vatable	
<ul style="list-style-type: none"> Services by agricultural contract growers and milling for others of palay into rice, corn into grits and sugar cane into raw sugar 	Exempt	Vatable	
<ul style="list-style-type: none"> Medical, dental and hospital services, except rendered by professionals 	Exempt	Exempt	<ul style="list-style-type: none"> Healthcare and animal health services, including medical examination and treatment and preventive services for humans and domestic animals are exempt from VAT. <p>Chapter I Article 5 (9) of the Law on Value- Added Tax No. 13/2008/QH12</p>
<ul style="list-style-type: none"> Veterinary services 	Exempt	Exempt	-do-
<ul style="list-style-type: none"> Educational services rendered by public and private educational institutions 	Exempt	Exempt	<ul style="list-style-type: none"> Teaching and vocational training as provided for by law are exempt from VAT. <p>Chapter I Article 5 (13) of the Law on Value- Added Tax No. 13/2008/QH12</p>
<ul style="list-style-type: none"> Services rendered by individuals pursuant to an employer-employee relationship 	Exempt	Vatable	
<ul style="list-style-type: none"> Services rendered by regional or area HQ of MNCs 	Exempt	Vatable	
<ul style="list-style-type: none"> Agricultural cooperatives duly registered with the Cooperatives Development Authority (CDA) 	Exempt	Exempt	<ul style="list-style-type: none"> Cooperatives that pays VAT using credit-invoice method and sells unprocessed or preprocessed farming, breeding, aqua-cultural products to another company or cooperative for commercial purposes is exempt from

Item	PHL	VNM	Vietnam Legal Basis
			declaring and paying VAT. Chapter I Article 5(5) of the Vietnam Circular No. 219/2013/TT-BTC ⁸⁴
<ul style="list-style-type: none"> • Credit or multi-purpose cooperatives duly registered with the CDA 	Exempt	Vatable	-do-
<ul style="list-style-type: none"> • Non-agricultural, non-electrical and non-credit cooperatives registered with the CDA under certain conditions 	Exempt	Vatable	-do-
<ul style="list-style-type: none"> • Export sales by persons who are not VAT-registered 	Exempt	Vatable (0%)	<ul style="list-style-type: none"> • Exported goods and services are subject to 0% VAT. Chapter II Article 9 (1) of the Vietnam Circular No. 219/2013/TT-BTC
<ul style="list-style-type: none"> • Real property not primarily held for sale to customers or held for lease in the ordinary course of trade or business 	Exempt	Vatable	<ul style="list-style-type: none"> • The sale, lease, and hire purchase of commercial housing, which is finished apartments smaller than 70 m² that are sold at below 15 million VND/m² are subject to VAT. Article 2 (3) on Amendments to the Law on Value-Added Tax Law No. 31/2013/QH13 ⁸⁵
<ul style="list-style-type: none"> • Real property utilized for low-cost and socialized housing as defined in RA 7279 <ul style="list-style-type: none"> ➤ Beneficiaries under RA 7279 are underprivileged and homeless citizens within the poverty threshold of NEDA 	Exempt	Vatable	<ul style="list-style-type: none"> • The sale, lease, and hire purchase of social housing are subject to VAT. Article 2 (2) on Amendments to the Law on Value-Added Tax Law No. 31/2013/QH13

⁸⁴ <http://www.accaglobal.com/content/dam/acca/global/PDF-students/acca/f6/examdocs/Vietnam%20Circular%202019-2013%20-%20Circular%20on%20VAT.pdf>

⁸⁵ http://www.itpc.gov.vn/investors/how_to_invest/law/Law_No.31_2013/mldocument_view/?set_language=en

Item	PHL	VNM	Vietnam Legal Basis
<ul style="list-style-type: none"> Residential lot valued at PhP1,919,500 and below 	Exempt	Vatable	<ul style="list-style-type: none"> The sale, lease, and hire purchase of commercial housing, which is finished apartments smaller than 70 m² that are sold at below 15 million VND/m² are subject to VAT. <p>Article 2 (3) on Amendments to the Law on Value-Added Tax Law No. 31/2013/QH13</p>
<ul style="list-style-type: none"> House and lot and other residential dwellings valued at PhP3,199,200 and below 	Exempt	Vatable	-do-
<ul style="list-style-type: none"> Lease of a residential unit with a monthly rental not exceeding P12,800 	Exempt	Vatable	-do-
<ul style="list-style-type: none"> Books and any newspaper, magazine, review or bulletin 	Exempt	Exempt	<ul style="list-style-type: none"> Publication, import and distribution of newspapers, journals, specialized bulletins, political books, textbooks, teaching materials, law books, scientific technical books, books printed in ethnic minority languages as well as propaganda postcards, pictures and posters, including those in the form of audio or visual tapes or discs or electronic data; money printing are exempt from VAT. <p>Chapter I Article 5 (15) of the Law on Value- Added Tax No. 13/2008/QH12</p>
<ul style="list-style-type: none"> Transport of passengers by international air and sea carriers 	Exempt	Vatable (0%)	<ul style="list-style-type: none"> International transport services include passenger transport and freight transport; export of parts and supplies for repairing, maintaining vehicles, machinery, and equipment of foreign entities are rated 0% VAT. <p>Chapter II Article 9 (1) of the Vietnam Circular No. 219/2013/TT-BTC</p>
<ul style="list-style-type: none"> Passenger or cargo vessels and aircraft including engine, equipment and spare parts thereof for domestic or international transport operations 	Exempt	Vatable (0%)	-do-

Item	PHL	VNM	Vietnam Legal Basis
<ul style="list-style-type: none"> Importation of fuel, goods and supplies by persons engaged in international shipping or air transport operations 	Exempt	Vatable (0%)	-do-
<ul style="list-style-type: none"> Banks, non-bank financial intermediaries performing quasi-banking functions, and other non-bank financial intermediaries 	Exempt	Exempt	<ul style="list-style-type: none"> Credit provision services; securities trading; capital transfer; derivative financial services, including interest-rate swap contracts, forward contracts, futures contracts, call or put options, foreign currency sales, and other derivative financial services as prescribed by law are exempt from VAT. <p>Chapter I Article 5 (8) of the Law on Value- Added Tax No. 13/2008/QH12</p>
<ul style="list-style-type: none"> Other goods or properties or performance of services the gross annual sales and/or receipts of which do not exceed PhP1,919,500. 	Exempt	Exempt	<ul style="list-style-type: none"> Goods/Services provided by any business household or person that earns an annual revenue of at most VND 100 million (PhP219,000) are exempt from VAT. <p>Chapter I Article 5 (25) of the Vietnam Circular No. 219/2013/TT-BTC</p>
B. VAT Exempt but Subject to Percentage Tax			
<ul style="list-style-type: none"> Persons who are not VAT-registered and whose gross sales/receipts do not exceed PhP1,919,500 	Exempt	Exempt	<ul style="list-style-type: none"> Goods/Services provided by any business household or person that earns an annual revenue of at most VND 100 million (PhP219,000) are exempt from VAT. <p>Chapter I Article 5 (25) of the Vietnam Circular No. 219/2013/TT-BTC</p>
<ul style="list-style-type: none"> Domestic carriers and keepers of garages 	Exempt	Vatable	
<ul style="list-style-type: none"> Transport of cargo by international carriers 	Exempt	Vatable (0%)	<ul style="list-style-type: none"> International transport includes passenger transport and freight transport are rated 0% VAT. <p>Chapter II Article 9 (1) of the Vietnam Circular No. 219/2013/TT-BTC</p>

Item	PHL	VNM	Vietnam Legal Basis
<ul style="list-style-type: none"> • Franchises 	Exempt	Vatable	
<ul style="list-style-type: none"> • Overseas dispatch, message or conversation originating from the Philippines 	Exempt	Exempt	<ul style="list-style-type: none"> • Public post and telecommunications and universal Internet services under the Government's programs are exempt from VAT. <p>Chapter I Article 5 (25) of the Vietnam Circular No. 219/2013/TT-BTC</p>
<ul style="list-style-type: none"> • Banks and Non-Bank Financial Intermediaries Performing Quasi-Banking Functions 	Exempt	Exempt	<ul style="list-style-type: none"> • Credit provision services; securities trading; capital transfer; derivative financial services, including interest-rate swap contracts, forward contracts, futures contracts, call or put options, foreign currency sales, and other derivative financial services as prescribed by law are exempt from VAT. <p>Chapter I Article 5 (8) of the Law on Value- Added Tax No. 13/2008/QH12</p>
<ul style="list-style-type: none"> • Non-Bank Financial Intermediaries 	Exempt	Exempt	-do-
<ul style="list-style-type: none"> • Life insurance premiums 	Exempt	Exempt	<ul style="list-style-type: none"> • Life insurance, student insurance, insurance on domestic animals, insurance on plants and reinsurance are exempt from VAT. <p>Chapter I Article 5 (7) of the Law on Value- Added Tax No. 13/2008/QH12</p>
<ul style="list-style-type: none"> • Agents of foreign insurance companies 	Exempt	Vatable (0%)	<ul style="list-style-type: none"> • The revenue from goods and services of Insurance agents are subject to 0% VAT. <p>Chapter I Article 7 (dd) of the Vietnam Circular No. 219/2013/TT-BTC</p>
<ul style="list-style-type: none"> • Proprietors, lessees or operators of amusement places/activities <ul style="list-style-type: none"> ➢ Cockpits ➢ Cabarets, night or day clubs ➢ Boxing exhibitions ➢ Professional basketball games 	Exempt	Vatable	

Item	PHL	VNM	Vietnam Legal Basis
➤ Jai-alai and racetracks			
• Winnings in horse races	Exempt	Vatable	
• Sale of shares of stocks listed and traded through local stock exchange	Exempt	Vatable	
C. VAT Exempt under Special Laws			
• Power transmission- NGCP (RA 9511)	Exempt	Vatable	
• PWDs (RA 10754)	Exempt	Exempt	<ul style="list-style-type: none"> • Crutches, wheelchairs and other tools used exclusively by the disabled. Chapter I Article 5 (24) of the Law on Value- Added Tax No. 13/2008/QH12
• Senior citizens (RA 9994)	Exempt	Vatable	
• Boy Scouts of the Philippines (RA 7285)	Exempt	-	
• Girl Scouts of the Philippines (RA 10073)	Exempt	-	
<ul style="list-style-type: none"> • Biofuels (RA 9367) <ul style="list-style-type: none"> ➤ Only the sale of raw material used in the production of biofuels such as, but not limited to, coconut, jatropha, sugarcane, cassava, corn, and sweet sorghum is exempt from VAT. 	Exempt	Vatable	
• Cooperatives (RA 9520)	Exempt	Exempt	<ul style="list-style-type: none"> • Cooperatives that pays VAT using credit-invoice method and sells unprocessed or preprocessed farming, breeding, aqua-cultural products to another company or cooperative for commercial purposes is exempt from declaring and paying VAT. Chapter I Article 5(5) of the Vietnam Circular No. 219/2013/TT-BTC
• Credit Surety Fund Cooperative (RA 10744)	Exempt	Vatable	-do-

Item	PHL	VNM	Vietnam Legal Basis
<ul style="list-style-type: none"> Philippine Red Cross (RA 10072) 	Exempt	Exempt	
<ul style="list-style-type: none"> Orphan drugs and products for use solely by patients with rare diseases (RA 10747) 	Exempt	Vatable	
<ul style="list-style-type: none"> Socialized housing (RA 7279, as amended by RA 10884) 	Exempt	Vatable	<ul style="list-style-type: none"> The sale, lease, and hire purchase of social housing are subject to VAT. <p>Article 2 (2) on Amendments to the Law on Value-Added Tax Law No. 31/2013/QH13</p>