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Philippines

Trade Policy Monitoring

Value-Added Tax Raised

2005

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Report Highlights:

Effective February 1, the Philippine Government raised the value-added tax rate from 10 percent to 12 percent. In 2005, Republic Act No. 9337, otherwise known as the Value-Added Tax (VAT) Reform Law was signed into law, which allowed the President to increase the VAT rate beginning January 1, 2006. Several Food and agricultural products remain exempt from VAT assessment.

Includes PSD Changes: No
Includes Trade Matrix: No
Unscheduled Report
Manila [RP1]
[RP]

The GRP announced that effective February 1, the value-added tax (VAT) rate will be increased to 12 percent from the original 10 percent. The new VAT rate will apply to all food and agricultural products, including those imported, except those considered to be in their original state. As before, VAT-exempt products include: livestock and poultry of a kind generally used as yielding or producing food for human consumption (e.g., layers or dairy cows), breeding stock and genetic materials; products that have undergone simple processes of preparation or preservation, such as freezing, drying, salting, broiling, roasting, smoking or stripping; polished or husked rice, corn grits, raw cane sugar, molasses, ordinary salt and copra are also considered in their original state.

Moreover, the sale or importation of seeds and seedlings, fingerlings, fish, prawn, livestock and poultry feeds, including ingredients used in the manufacture of finished feeds such as soybean meal (except specialty feeds for race horses, fighting cocks, aquarium fish, zoo animals and other animals generally considered as pets) will be exempt from VAT.

In November 2005, Republic Act 9337 or the Value-Added Tax (VAT) Reform Law took effect. The Reform Law gave "standby" authority to the Philippine President to raise the value-added tax rate from ten (10) percent to twelve (12) percent, provided any of the following conditions are met: a) VAT collection as a percentage of GDP of the previous year exceeds two and four-fifth ($2 \frac{4}{5}$) percent; or b) national government deficit as a percentage of GDP of the previous year exceeds one and one-half ($1 \frac{1}{2}$) percent.

The VAT Reform Law also lifted previous VAT exemptions for **cotton and cotton seeds**, fuel and power, domestic passenger transport, electrical cooperatives and raised corporate income tax to 35 percent from 32 percent. The expanded and higher VAT is expected to generate about P85 billion in 2006. More information on RA 9337 may be obtained from: <http://www.vatreform.gov.ph/>.

From January to November 2005, the United States exported over \$768 million worth of food and agricultural products to the Philippines. Exports of U.S. cotton for the same period were valued at \$19 million.