USDA Foreign Agricultural Service
GAIN Report
Global Agriculture Information Network
Template Version 2.09

Voluntary Report - public distribution

Date: 5/24/2005

GAIN Report Number: RP5020

Philippines

Food and Agricultural Import Regulations and Standards

Value-Added Tax to be Raised

2005

Approved by:
David C. Miller
FAS Manila

Prepared by:
Pia Abuel-Ang

Report Highlights:
On May 24, 2005, the President of the Philippines signed into law Republic Act No. 9337 otherwise known as the Expanded Value-Added Tax (VAT) Law which is expected to raise VAT to 12 percent from the current 10 percent, effective January 1, 2006. However, many food and agricultural products remain exempt from VAT assessment.

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

On May 24, 2005, the President of the Philippines signed into law the Expanded Value-Added Tax (VAT) bill, entitled "An Act Restructuring the Value-Added Tax, Amending for the Purpose, Title IV of the National Internal Revenue Code (NIRC) of 1997."

Effective January 2006, the new VAT Law gives "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 4/5) percent; or b) national government deficit as a percentage of GDP of the previous year exceeds one and one-half (1 1/2) percent.

The President is expected to exercise this authority by announcing a VAT rate increase from the current 10 percent to 12 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. 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.

According to media reports, the new VAT law also lifted previous VAT exemptions in fuel and power and raised corporate income tax to 35 percent from 32 percent. The new law is expected to generate VAT collections of P39 billion ($710 million) this year before rising to P145 billion ($2.6 billion) in 2006 when the rate is expected to increase to 12 percent.