

[EXECUTIVE ORDER NO. 273, July 25, 1987]

ADOPTING A VALUE-ADDED TAX, AMENDING FOR THIS PURPOSE CERTAIN PROVISIONS OF THE NATIONAL INTERNAL REVENUE CODE, AND FOR OTHER PURPOSES.

WHEREAS, there is a need to rationalize the present system of taxing goods and services by imposing a multi-stage value-added tax to replace the tax on original and subsequent sales tax and percentage tax on certain services;

WHEREAS, the adoption of the value-added tax is one of the structural reforms provided in the 1986 Tax Reform Program which is designed to simplify tax administration and make the tax system more equitable; and

WHEREAS, it is also necessary to amend, revise and renumber the provisions of the National Internal Revenue Code and to transfer the collection of certain taxes as a consequence of this and previous amendments in order to strengthen and improve tax administration and facilitate compliance thereof.

NOW, THEREFORE, I, CORAZON C. AQUINO, President of the Philippines, do hereby order:

SECTION 1. The provisions of Title IV governing excise taxes are hereby transferred to Title VI and replaced with new provisions imposing a value-added tax to read as follows:

"TITLE IV. VALUE-ADDED TAX

"Chapter 1. Imposition of Tax

"SEC. 99. **Persons liable.** – Any person who, in the course of trade or business, sells, barter or exchanges goods, renders services, or engages in similar transactions and any person who imports goods shall be subject to the value-added tax (VAT) imposed in Sections 100 to 102 of this Code.

SEC. 100. **Value-added tax on sale of goods.** – (a) **Rate and base of tax.** – There shall be levied, assessed and collected on every sale, barter or exchange of goods, a value-added tax equivalent to 10% of the gross selling price or gross value in money of the goods sold, bartered or exchanged, such tax to be paid by the seller or transferor. **Provided**, That the following sales by VAT-registered persons shall be subject to 0%.

"(1) export sales; and

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

zero rate.

“Export sales’ means the sale and shipment or exportation of goods from the Philippines to a foreign country, irrespective of any shipping arrangement that may be agreed upon which may influence or determine the transfer of ownership of the goods so exported, or foreign currency denominated sales. ‘Foreign currency denominated sales’ means sales to nonresidents of goods assembled or manufactured in the Philippines, for delivery to residents in the Philippines and paid for in convertible foreign currency remitted through the banking system in the Philippines.

“(b) **Transactions deemed sale.** – The following transactions shall be deemed sale;

“(1) Transfer, use, or consumption not in the course of business of goods originally intended for sale or for use in the course of business.

(2) Distribution or transfer to:

(A) shareholders or investors as share in the profits of the VAT-registered person or

(B) creditors in payment of debt

“(3) Consignment of goods if actual sale is not made within 60 days following the date such goods were consigned.

“(4) Retirement from or cessation of business, with respect to inventories of taxable existing as of such retirement or cessation.

“(c) **Changes in or cessation of status of a VAT-registered person.** – The tax imposed in paragraph (a) of this Section shall also apply to goods disposed of or existing as of a certain date if under circumstances to be prescribed in Regulations to be promulgated by the Secretary of Finance, the Status of a person as a VAT-registered person changes or is terminated.

“(d) **Determination of the tax.** – (1) Tax billed as a separate item in the invoice. – If the tax is billed as a separate item in the invoice, the tax shall be based on the gross selling price, excluding the tax. Gross selling price means the total amount of money or its equivalent which the purchaser pays or is obligated to pay to the seller in consideration of the sale, barter or exchange of the goods, excluding the value-added tax. The excise tax, if any, on such goods shall form part of the gross selling price.

“(2) **Tax not billed separately or is billed erroneously in the invoice.** – In case the tax is not billed separately or is billed erroneously in the invoice, the tax shall be determined by multiplying the gross selling price, including the amount intended by the seller to cover the tax or the tax billed erroneously, by the factor 1/11 or such factor as may be prescribed by regulations in case of persons partially exempt under special laws.

“(3) **Sales returns, allowances and sales discounts.** – The value of goods sold

and subsequently returned of for which allowances were granted by a VAT-registered person may be deducted from the gross sales or receipts for the quarter in which a refund is made or a credit memorandum or refund is issued. Sales discounts granted and indicated in the invoice at the time of sale may be excluded from the gross sales within the same quarter.

“(4) **Authority of the Commissioner to determine the appropriate tax base.** – The Commissioner shall, by regulations, determine the appropriate tax base in cases where a transaction is deemed a sale, barter or exchange of goods under paragraph (b) hereof, or where the gross selling price is unreasonably lower than the actual market value.

“SEC. 101. **Value-added tax on importation of goods.** – (a) In general. – There shall be levied, assessed and collected on every importation of goods a value-added tax equivalent to 10% based on the total value used by the Bureau of Customs in determining tariff and customs duties, plus customs duties, excise taxes, if any, and other charges, such tax to be paid by the importer prior to the release of such goods from customs custody: Provided, That where the customs duties are determined on the basis of the quantity or volume of the goods, the value-added tax shall be based on the landed cost plus excise taxes, if any.

“(b) **Transfer of goods by tax-exempt persons.** – In the case of tax-free importation of goods into the Philippines by persons, entities, or agencies exempt from tax where such goods are subsequently sold, transferred or exchanged in the Philippines to non-exempt persons or entities, the purchasers, transferees or recipients shall be considered the importers thereof who shall be liable for any internal revenue tax on such importation. The tax due on such importation shall constitute a lien on the goods superior to all charges or liens on the goods, irrespective of the possessor thereof.

“SEC. 102. **Value-added tax on sale of services.** – (a) Rate and base of tax. – There shall be levied, assessed and collected, a value-added tax equivalent to 10% percent of gross receipts derived by any person engaged in the sale of services. The phrase ‘sale of services’ means the performance of all kinds of services for others for a fee, remuneration or consideration, including those performed or rendered by construction and service contractors; stock, real estate, commercial, customs and immigration brokers; lessors of personal property; lessors or distributors of cinematographic films; persons engaged in milling, processing, manufacturing or repacking goods for others; and similar services, regardless of whether or not the performance thereof calls for the exercise or use of the physical or mental faculties: Provided, That the following services performed in the Philippines by VAT-registered persons shall be subject to 0%:

“(1) Processing, manufacturing or repacking goods for other persons doing business outside the Philippines which goods are subsequently exported, where the services are paid for in acceptable foreign currency, inwardly remitted to the Philippines and accounted for in accordance with the rules and regulations of the Central Bank of the Philippines.

“(2) Services other than those mentioned in the preceding sub-paragraph, the consideration for which is paid for in acceptable foreign currency which is remitted inwardly to the Philippines and accounted for in accordance with the rules and

regulations of the Central Bank of Philippines.

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

“Gross receipts’ means the total amount of money or its equivalent representing the contract price, compensation or service fee, including the amount charged for materials supplied with the services and deposits or advance payments actually or constructively received during the taxable quarter for the services performed or to be performed for another person, excluding value-added tax.

“(b) **Determination of the tax.** – (1) **Tax billed as a separate item in the invoice.** – If the tax is billed as a separate item in the invoice, the tax shall be based on the gross receipts, excluding the tax.

“(2) **Tax not billed separately or is billed erroneously in the invoice.** – If the tax is not billed separately or is billed erroneously in the invoice, the tax shall be determined by multiplying the gross receipts (including the amount intended to cover the tax or the tax billed erroneously) by 1/11.

“SEC. 103. **Exempt Transactions.** The following shall be exempt from the value-added tax:

“(a) Sale of nonfood agricultural, marine and forest products in their original state by the primary producer or the owner of the land where the same are produced.

“(b) Sale or importation in their original state of agricultural and marine food products; livestock and poultry of a kind generally used as, or yielding or producing food for human consumption; and breeding stock and genetic materials therefore.

“Products classified under this paragraph (a) shall be considered in their original state even if they have undergone the simple processes of preparation or preservation for the market, such as freezing, drying, salting, smoking or stripping. Polished and/or husked rice, corn grits and raw cane sugar shall be considered in their original state for purposes of this paragraph

“(c) Sale or importation of fertilizers, pesticides and herbicides; chemicals for the formulation of pesticides; seeds, seedlings and fingerlings; fish, animal and poultry feeds; and soya bean and fish meals;

“(d) Sale or importation of petroleum products (except lubricating oil, processed gas, grease, wax and petrolatum) subject to excise tax imposed under Title VI;

“(e) Sale or importation of raw materials to be used by the buyer or importer himself in the manufacture of petroleum products (except lubricating oil and grease) subject to excise tax;

“(f) Printing, publication, importation or sale of books and any newspaper, magazine, review, or bulletin which appears at regular intervals with fixed prices for subscription and sale and which is not devoted principally to the publication of advertisements;

“(g) importation of passenger and/or cargo vessel of more than ten thousand tons, whether coastwise or ocean-going, including engine and spare parts of said vessel, to be used by the importer himself as operator thereof;

“(h) Importation of personal and household effects belonging to residents of the Philippines returning from abroad and non-resident citizens coming to resettle in the Philippines: Provided, That such goods are exempt from customs duty under the Tariff and Customs Code of the Philippines;

“(i) Importation of professional instruments and implements, wearing apparel, domestic animals, and personal household effects (except any vehicle, vessel, aircraft, machinery, other goods for use in manufacturing and merchandise of any kind in commercial quantity) belonging to persons coming to settle for the first time in the Philippines, for their own use and not for sale, barter or exchange, accompanying such persons, or arriving within ninety days before or after their arrival, upon the production of evidence satisfactory to the Commissioner of Internal Revenue, that such persons are actually coming to settle in the Philippines and that the change of residence is bona fide;

“(j) Services rendered by persons subject to percentage tax under Title V;

“(k) Services by agricultural contract growers and milling for others of palay into rice, corn into grits and sugar cane into raw sugar;

Medical, dental, hospital and veterinary services;

“(m) Educational services rendered by private educational institutions, duly accredited by the Department of Education Culture and Sports, and those rendered by government educational institutions;

“(n) Sale by the artist himself of his works of art, literary works, musical compositions and similar creations, or his services performed for the production of such works;

“(o) Services performed as actors or actresses, talents, singers and emcees; radio and television broadcasters, choreographers; musical, radio, movie, television and stage directors;

Services performed as professional athletes;

Leasing of real property;

“(r) Services performed in the exercise of profession or calling (except customs brokers) subject to the occupation tax under the Local Tax Code, and professional services performed by registered general professional partnerships;

“(s) Services rendered by individuals pursuant to an employer-employee relationship;

“(t) Services rendered by regional or area headquarters established in the Philippines by multinational corporations which act as supervisory, communications