

ANSWER TO FUEL PRICE HIKES

## RETREAT FROM RVAT?



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ANSWER TO FUEL PRICE HIKES

## RETREAT FROM RVAT?

Last December 14, 2007, Senator Mar Roxas filed Senate Bill 1962, a bill which seeks to amend RA 9337 by suspending the 12% Reduced Value Added Tax (RVAT) on the importation of crude oil and finished fuel products for six months. Two days later, Senator Juan Miguel Zubiri filed Senate Bill 1977, which proposes to amend RA 9337 by lifting the 12% RVAT on crude oil and finished products as well as on electricity.

In January 2008, ahead of their counterparts at the House of Representatives, the Senate Committees on Ways and Means and Energy held a public hearing on the popular clamor among consumer, labor, and transport groups to remove the reformed value added tax on oil.

The consultation was held prior to an end-January energy summit organized by the Department of Energy in the light of the continuous rise in the price of crude oil abroad and domestic fuel pump prices.

### SOLUTIONS: SHORT OR LONG TERM?

However, suspending, removing, or reducing the 12% VAT on oil or power is not the best course of action at these times. It has negative consequences affecting government revenues, which, would impact the quality and quantity of services that government provides, especially on health and education.

Based on the government's 2008 revenue projections, MBC Research estimates the foregone revenues to reach P27.3 billion under SB 1962 and

P51.1 billion under SB 1977. Both measures will undoubtedly keep the Bureau of Internal Revenue and the Bureau of Customs from meeting their revenue targets unless alternative revenue sources are identified

### POPULAR BUT COSTLY

Estimated impact of proposed RVAT amendments on programmed revenues for 2008

#### Under SB 1962

Bring down RVAT rate on sale or importation of crude oil and finished fuel products to 0% from 12% for six months

Bureau of Internal Revenue:	(P1,669.5 million)
Bureau of Customs:	(P25,585.50 million)
Net gain/(loss)	(P27,255 million)

#### Under SB 1977

Restoring RVAT exemption on sale or importation of coal

Bureau of Internal Revenue:	(P 273 million)
Bureau of Customs:	(P 182 million)

Restoring RVAT exemption on sale or importation of natural gas

Bureau of Internal Revenue:	(P908 million)
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Restoring RVAT exemption on sale or importation of petroleum and petroleum products

Bureau of Internal Revenue:	(P3,339 million)
Bureau of Customs:	(P51,117 million)

Restoring RVAT exemption on power and electric cooperatives

Bureau of Internal Revenue:	(P12,397 million)
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Restoring franchise tax on power distribution

Bureau of Internal Revenue:	P3,181 million
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Restoring excise taxes on the following fuel products: P0.45 per liter of regular gasoline/ P0.60 per liter of kerosene/ P1.63 per liter of diesel fuel/ P0.30 per liter of bunker fuel oil

Bureau of Internal Revenue:	P8,977 million
Bureau of Customs:	P4,941 million

#### Total

Bureau of Internal Revenue:	(P 4,759 million)
Bureau of Customs:	(P46,358 million)

Net gain/ (loss)	(P51,117 million)
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Reference: Budget of Expenditures and Sources of Financing, FY 2008

Note: Estimates by Makati Business Club Research as of 22 January 2008

## DROP IN THE BUCKET

Impact of RVAT on electricity and petroleum product costs

Components of consumer price index  
(Base year: 2000)

Component	Weight	Pre-RVAT Oct 2005	10% RVAT Nov 2005	12% RVAT Feb 2006	Change	Weighted Contribution to Monthly CPI	Weighted Contribution to Annual CPI
LPG	1.2778	181.93	205.19	221.74	39.81	0.5087	0.0424
Kerosene	0.2531	250.14	264.77	268.18	18.04	0.0457	0.0038
Electricity	3.7037	150.91	153.71	164.91	14.00	0.5185	0.0432
Oil/gas/diesel	1.3127	237.52	247.52	246.42	8.90	0.1168	0.0097
Other lubricants	0.1539	140.45	146.62	147.13	6.68	0.0103	0.0009
<b>Total</b>	<b>6.7013</b>					<b>1.2000</b>	<b>0.1000</b>

Source: National Statistics Office

Note: Estimates of MBC Research as of 22 January 2008

soon. Although ahead of the medium-term plan, the proposals will further set back a projected fiscal consolidation by the end of 2008.

In a joint public statement with the Management Association of the Philippines, and the Financial Executives Institute of the Philippines, MBC stresses the importance of having a stable economy with consistent policies in creating a business environment that is globally competitive for investments. Instead of revising our position on RVAT for oil and power, the government should, instead, focus on relieving consumers from the impact of rising world oil prices, which have now reached beyond US\$100 per barrel.

Suspending the law on RVAT would only weaken the legislature as an institution. Furthermore, it might reverse the international credit ratings upgrade given to the country after it passed the RVAT Law in 2005. In effect of a downgrade, government's borrowing costs and interest expenditure would increase, while the private sector's credit rating would be also be affected as it cannot go higher than the sovereign's rating.

Another area of concern is conservation. The price of oil is rising everywhere in the world, and this trend

sends a signal to consumers about the value of the commodity. Suspending VAT on oil, making oil cheaper than its real price would send a message that there is nothing wrong with the market. As such, consumers will never learn to adapt to this scenario – one of which is conserving resources like oil and electricity.

This will prove to be a much bigger problem after the six months VAT suspension has lapsed and the problem returns. The likelihood is that high oil prices are here to stay, and of-

fering to suspend VAT on oil and power is a transient solution, not a real one. On the other hand, if the suspension ends up being a permanent exemption, it would be disastrous for our fiscal health and would jeopardize the implementation of government programs.

On the other hand, MBC research shows that should the estimated foregone revenues from both measures, amounting to P27.3 billion to P51.1 billion, directly translate into consumer spending or investments, an additional 0.4% to 0.8% will directly contribute to the country's GDP growth.

In terms of consumer prices, LPG, kerosene, electricity, oil, gas, diesel, and other lubricants comprise only 6.7% of the entire consumer price index basket. Based on the changes in the price indices of these items since they have been covered by RVAT, MBC Research estimates that the cost reduction would result in reducing inflation rate by only 0.1%.

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