



Republic of the Philippines
CONGRESS OF THE PHILIPPINES

Senate
PASAY CITY

SUBJECT : **SPOT REPORT ON THE 2:00 P.M., 04 NOVEMBER 2004
PUBLIC HEARING OF THE COMMITTEE ON WAYS AND
MEANS ON SBN 1815 AND HBN 3174 (SIN TAXES)
HELD AT THE RECTO ROOM**

DATE : **08 NOVEMBER 2004**

I. PRELIMINARY:

SENATORS PRESENT: Recto, J. Estrada, Magsaysay, Flavier, Enrile, Roxas, Osmeña III, Cayetano and Gordon

RESOURCE PERSONS: Grace Pulido Tan, Undersecretary, Department of Finance (DOF); Jose Buñag, Deputy Commissioner, Bureau of Internal Revenue; Alexander Padilla, Undersecretary, Department of Health; General Antonio Abaya, President, Fortune Tobacco Corporation; Atty. Raul Academia, Manager, Philip Morris; Jose Olives, Chief Financial Officer, Asia Brewery; Pablo Francisco, Financial Comptroller, Allied Domecq.

II. DISCUSSION:

Department of Finance Undersecretary Tan admitted that the approved House Bill (HB 3174) was not entirely to DOF's liking. Senator Enrile demanded a categorical answer on whether the DOF is supportive of HB 3174. Undersecretary Tan clarified that DOF will work for its speedy enactment and added that the present situation does not leave them much choice. She expressed disappointment that the final version contained "divergencies" from the original proposal.

Senator Enrile warned that HB 3174 would bring about distortions in the tax system. Senators Roxas, Gordon and Enrile inquired from the DOF officials whether HB 3174 is actually what President Arroyo wanted Congress to enact or whether this is a measure drafted by the DOF.

Undersecretary Tan stated that the tax measure was endorsed by the country's economic managers. Likewise it was formulated as a result of lengthy discussions. Senator Enrile directed the DOF executives to secure a copy of the Minutes of the Malacañang sponsored meeting on the sin taxes to determine if indeed HB 3174 has the imprimatur of President Arroyo.

Undersecretary Tan told the Committee that Secretary Cesar Purisima has been designated spokesperson of the nation's economic managers. Senator Enrile opined that the country's fiscal management should be the responsibility of the DOF Secretary and not the DTI top honcho. Senator Recto requested the Secretariat to invite Mr. Purisima at the next Committee on Ways and Means meeting scheduled on Tuesday, 9 November 2004 at 1:00 p.m.

Senator Gordon accused the Administration/Congress of coddling the leading cigarette/liquor manufacturers since HB 3174 practically encourages people to continue smoking since the tax rates are quite low. Senator Enrile argued that the determination of the tax rates should be anchored on the quantities/weight of the product rather than its price. Undersecretary Tan stressed the urgency of the enactment of the sin tax measures. She likewise welcomed the reforms to be instituted by Congress.

Senator Cayetano expressed concern on the health dimension of the sin taxes. She conceded that while there is a financial crisis and therefore there is an urgent need to generate revenues, however the health component should not be abandoned.

Senators Recto and Enrile informed the Body that they are amenable to a provision in the sin tax measure earmarking a certain portion of the revenues to be collected for the benefit of the various regional hospitals. Senator Recto disclosed that the country's cigarette taxes are the LOWEST in Asia! Senator Recto added that the Government is spending Forty Six Billion pesos annually to defray the medical costs from smoking related diseases. Senator Osmeña III felt that the 46 Billion Pesos figure cited is grossly misleading and quite exaggerated since the amount encompasses the man hours lost as well as the treatment of other ailments brought about by pollution induced diseases.

Philip Morris Manager Raul Academia revealed that 47% of the adult population smoke. Senator Osmeña III expressed disbelief at the aforementioned figures.

Senator Recto lamented the fact that the country's tax collection efficiency (TCE) is a measly 12%. In other Asian countries, the TCE hovers from 17% to 20%.

Senator Magsaysay batted for a more simplified taxation system to minimize the discretionary aspect of the tax collection process. Senator Osmeña III asked what shall be the repercussion of the slapping of a One Hundred Pesos Tax on a pack of cigarettes. Fortune Tobacco Corporation President Antonio Abaya predicted that the cigarette industry will collapse. Moreover, the livelihood of the tobacco farmers would be drastically affected. The hypothetical situation would lead to smuggling.

Senator J. Estrada inquired if HB 3174 will address the fiscal crisis. Undersecretary Tan maintained that the measure will go a long way in alleviating the financial hardships the country is suffering from.

Undersecretary Tan expressed doubt at the Eighteen Billion Pesos in generated income as contained in SB 1815. Senator Enrile contended that the figure was derived by utilizing a scientific formula and assuming certain economic conditions.

Asia Brewery Chief Financial Officer Olives said that while his firm was fully cognizant of the country's financial difficulties, however he believed that the proposed tax rates are quite high. Mr. Olives suggested that the tax increase be every two years instead of on an annual basis. Mr. Olives toyed with the idea of the Government reverting back to the ad valorem system (AVS) of taxation. Senator Enrile assailed the remarks of Mr. Olives since the former emphasized that the AVS would just lead to more government losses.

Allied Domecq (AD) Financial Comptroller Pablo Francisco expressed his support for an equitable tax scheme. He boasted that AD (seller of *Fundador* and *Carlos I*) is the market leader in distilled liquor.

Senators Osmeña III and Enrile instructed the DOF to submit a position paper enumerating the pertinent laws that shall be affected if Congress would pursue the tax indexation proposal. Likewise Senator Enrile ordered the DOF to furnish the Committee with a comprehensive study on the projected government revenue from fermented liquor if the products are subjected to a single rate over a prescribed period of time.

Respectfully submitted

Arturo I. Mojica, Jr.