



*BDB Law's "Tax Law for Business" appears in the opinion section of **Business Mirror** every Thursday.*

What's your New Year's resolution

WHAT'S your New Year's resolution? Easy to answer but usually we find it hard to commit to it. Many of us will answer that we will be quitting our bad habits, such as smoking and alcohol drinking. However, with the new law on "sin" tax, no ordinary Juan will have any difficulty in fulfilling his 2013 New Year's resolution, particularly on cutting back on his vices.

Before the end of 2012, President Aquino signed into law Republic Act 10351, an "Act Restructuring the Excise Tax on Alcohol and Tobacco." This Act is most commonly known as the sin-tax reform law amending specific provisions of the 1997 Tax Code, specifically on the imposition of excise tax on "sin" products, such as alcohol and tobacco products. It is effective beginning January 1st of 2013.

Under the new law, the excise tax that will be imposed on distilled spirits will be an ad-valorem tax equivalent to 15 percent of the Net Retail Price (NRP) per proof (which is the percentage of alcohol strength per bottle of liquor multiplied by two) plus an additional specific tax of P20 per proof liter. On January 1, 2015, the ad-valorem tax shall be increased to 20 percent.

For sparkling wines and champagnes, regardless of the quantity of proof, if the NRP of 750 ml per bottle is P500 or less, the excise tax of P250 shall be added. If the NRP is more than P500, then the excise tax of P700 shall be imposed. For still wines and carbonated wines that contain 14 percent or less alcohol per volume, a specific tax of P30 shall be imposed and if the alcohol content is more than 14 percent to 25 percent, the specific tax shall be P60.

For fermented liquors, such as beer, lager beer, ale, porter and other fermented liquors except tuba, basi, tapuy, if the NRP per liter of volume capacity is P50.60 or less, the tax shall be P15 per liter. If the NRP per liter of volume capacity is more than P50.60, the tax shall be P20 per liter. The specific tax rate will increase yearly beginning on January 1, 2014, based on the schedule provided by law. By 2017, the specific tax rate will become P23.50 per liter. For fermented liquors that are brewed and sold at microbreweries or small establishments, such as pubs and restaurants, it shall be subject to a specific rate of P28 per liter.

Meanwhile, tobacco products shall be imposed with an excise tax of P1.75 per kilogram. While tobacco products prepared for chewing will have an excise tax of P1.50 per kilogram.

For cigars, an ad-valorem tax of 20 percent of the NRP per cigar plus additional specific tax of P5 per cigar.

Finally, for cigarettes packed by hand, it shall be imposed with an excise tax of P12 per pack. The specific-tax rate will increase yearly beginning on January 1, 2014. By 2017, the specific tax rate will become P30 per pack.

The NRP as defined in the sin-tax reform law, shall be the price at which the subject item is sold on retail in at least five major supermarkets in Metro Manila, excluding the amount intended to cover the applicable excise tax and the value-added tax. Major supermarkets shall be those with the highest annual gross sales in Metro Manila or the region, as the case may be, as determined by the National Statistics Office, and shall exclude retail outlets or kiosks, convenience or sari-sari stores, and others of a similar nature. No two supermarkets on the list to be surveyed should be affiliated and/or branches of each other.

Notably, in 2014, there will be an annual increase of 4 percent on excise tax, particularly on wines, fermented liquors brewed and sold at microbreweries or small establishments, such as pubs and restaurants, tobacco products and cigars. While in 2016, an increment of 4 percent on specific tax for distilled spirits is likewise noted. In 2018 there is an increase of 4 percent on specific taxes imposed on fermented liquors not brewed and sold at microbreweries or small establishments, such as pubs and restaurants, and cigarettes.

The law also states that 15 percent of the incremental revenue collected from the excise tax on tobacco products under the Tax Code, as amended, shall be allocated and divided among the provinces producing burley and native tobacco, in accordance with the volume of tobacco-leaf production. The fund shall be exclusively utilized for programs to promote economically viable alternatives for tobacco farmers and workers.

Of the remaining balance of incremental revenue derived from this Act, 80 percent shall be allocated to the Universal Health-Care Program under the National Health Insurance Program, while the 20 percent shall be allocated nationwide, based on political and district subdivisions, for medical assistance and health-enhancement facilities program as determined by the Department of Health.

To implement this law, the Bureau of Internal Revenue (BIR) issued Revenue Regulations (RR) 17-2012, which prescribes the implementing guidelines and clarifies certain provisions. In addition, for the initial classifications of alcohol and tobacco products under the new sin-tax reform law, the BIR issued Revenue Memorandum Circular 90-2012.

* * * *

The author is a junior associate of Du-Baladad and Associates Law Offices (BDB Law), a member firm of World Tax Services (WTS) Alliance.

The article is for general information only and is not intended, nor should be construed as a substitute for tax, legal or financial advice on any specific matter. Applicability of this article to any actual or particular tax or legal issue should be supported therefore by a professional study or advice. If you have any comments or questions concerning the article, you may e-mail the author at julie.aranda@bdblaw.com.ph or call 403-2001 local 312.