

In reality, the Philippines has one of the lower prices of oil compared with other countries in the region, mainly because of the very low taxes on petroleum products. Prior to the imposition of VAT on petroleum, tax on diesel in the country is only about 8.7% compared to 26.5% in Thailand and 33.5% in Malaysia. For gasoline, tax comprises 17% of the total pump price in the country as against 30% in Thailand and more than half of that in Malaysia at 51.7%.

#### *7. Is VAT on petroleum anti-poor?*

No. VAT is a consumption tax. Those who consume more are going to be taxed more. And the non-poor (high income groups) consume more petroleum. Studies show that the higher income group allocates or spends a higher percentage of their annual income on petroleum products and services.

Based on the 2000 Family Income and Expenditure Survey (FIES) conducted by the National Statistics Coordination Board (NSCB), the top 30% of the income groups consume about 65.4% of the total petroleum consumption in the country, while the bottom 30% consume only 7.5%.

The same data also show that 2% of the total income of the high income groups is spent on petroleum products. The low income groups, on the other hand, spend only 1.4% of their total income to petroleum products.

#### *8. Aside from revenue generation, what other benefits are expected as a result of VAT on Petroleum?*

Taxing petroleum will help regulate or lessen its use. This is good for the economy as the country is poised to benefit from foreign exchange savings as a result of less oil imports. This is also good for the environment as less consumption of petroleum means less pollution and improved health for our people.

Taxing petroleum is also a way to modify the behavior of people. As petroleum is becoming expensive, people are motivated to use petroleum efficiently and responsibly.

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# FREQUENTLY ASKED QUESTIONS ON R-VAT ON PETROLEUM



1. RA 9337 or Reformed VAT Law (R-VAT) lifts the VAT exemptions on certain goods and services, including petroleum products. How will this affect fuel prices?

For the first time petroleum products, among other goods and services, will be subject to VAT. Prices of petroleum products are expected to rise slightly, but the burden of higher prices will be borne by consumers depending on their level of consumption. Those who consume more fuel will bear a bigger burden than those who consume less fuel.

2. How much will fuel prices increase?

The 10% VAT will not be fully passed on to oil products. This means that the impact of VAT will be substantially less than 10%. Using the November 1, 2005 prevailing pump prices, fuel prices will only increase by an average of 4.2% instead of 10%. This is because government has put in place mitigating measures to lessen the impact of VAT on petroleum such as (a) removing excise taxes and (b) reducing import duty.

3. By how much have the mitigating measures lessened the impact of the VAT on petroleum?

The R-VAT removed the excise tax on socially sensitive products such as diesel which is used by public transport, kerosene used for lighting purposes in the countryside and fuel oil used for power generation. The R-VAT also reduced the excise tax on regular unleaded gasoline. In addition, Executive Order No. 440 reduced the import duty of crude and petroleum products to 3% from 5% to further reduce the impact of VAT. For socially sensitive liquefied petroleum gas (LPG) used by households, the VAT impact is significantly mitigated as it is now zero import duty and zero excise tax.

Table 1. Total Impact of Mitigation Measures

| Product               | Mitigation Measures   |                      | Total (P/liter) |
|-----------------------|-----------------------|----------------------|-----------------|
|                       | Removal of Excise Tax | Reduction of Tariff* |                 |
| Unleaded              | 0.00                  | (0.52)               | 0.52            |
| Regular               | (0.45)                | (0.46)               | 0.91            |
| Diesel                | (1.63)                | (0.57)               | 2.2             |
| Kerosene              | (0.60)                | (0.57)               | 1.17            |
| Bunker                | (0.30)                | (0.35)               | 0.65            |
| LPG (P/11kg cylinder) | 0.00                  | (10.03)              | 10.03           |

\* Based on Oct. 1- 20, 2005 MOPS/Contract Price+. This tariff is pursuant to E.O. 440 which will take effect upon the implementation of RVAT Law.

4. How does one compute for VAT on petroleum?

For illustration purposes, using the pump prices of November 1, 2005 as base, we deduct the impact of mitigation measures (i.e., reduced tariff and excise taxes) to get the new pump price to be imposed with 10% VAT.

The rollback on fuel prices effected by the oil companies to reflect the softening of world oil prices for the month of October compared to September also cushioned the impact of VAT.

Here is a sample computation:

Table 2. Sample/Illustration of the Impact of VAT on Petroleum Products

| Product     | Pump Price<br>24 Oct 05<br>(P/liter) | Rollback* | Mitigating Measures |         | Total reduction in<br>Pre-VAT<br>pump price | New Pump Price<br>(P/liter) | 10% VAT | Final Pump Price with<br>VAT**<br>(P/liter) | Nominal Increase (in<br>P/liter) | Percentage Increase |
|-------------|--------------------------------------|-----------|---------------------|---------|---|-----------------------------|---------|---|----------------------------------|---------------------|
|             |                                      |           | Excise              | Tariff* |   |                             |         |   |                                  |                     |
|             | a                                    | b         | c                   | d       | e=(b+c+d)                                   | f=a + (e)                   | g=f*0.1 | h=f+g                                       | j=h-a                            | j=i/a               |
| Unleaded    | 36.05                                | (0.60)    | 0.00                | (0.52)  | (1.12)                                      | 34.93                       | 3.49    | 38.42                                       | 2.37                             | 6.6%                |
| Regular     | 34.57                                | (0.60)    | (0.45)              | (0.46)  | (1.51)                                      | 33.06                       | 3.31    | 36.37                                       | 1.80                             | 5.2%                |
| Diesel      | 32.95                                | (0.60)    | (1.63)              | (0.57)  | (2.80)                                      | 30.15                       | 3.02    | 33.17                                       | 0.22                             | 0.7%                |
| Kerosene    | 33.51                                | (0.60)    | (0.60)              | (0.57)  | (1.77)                                      | 31.74                       | 3.17    | 34.91                                       | 1.40                             | 4.2%                |
| Bunker      | 21.98                                | (0.60)    | (0.30)              | (0.35)  | (1.25)                                      | 20.73                       | 2.07    | 22.80                                       | 0.82                             | 3.7%                |
| LPG (P/cyl) | 464.00                               | (11.00)   | 0.00                | (10.03) | (21.03)                                     | 442.97                      | 44.00   | 487.27                                      | 23.27                            | 5.0%                |

\* ROLLBACK of P0.60/liter on all products; P1.00/kg or P11 kg LPG

\*\*Based on Oct. 1- 20, 2005 MOPS/Contract Price+.

Prices may vary based on location, company and other factors

5. Why are we imposing VAT on petroleum?

Foremost, the R-VAT is one of the major components of the government's fiscal program to put the country back on track in its economic reform agenda. In 2004, about 86% of the government revenues was used for servicing debt and only about 11% was allocated to infrastructure and other capital expenditures.

Reforming the VAT system, which includes VAT on petroleum, will help generate additional revenues for the Government to finance other basic services such as improved healthcare, better education, expanded electrification, quality roads and bridges, and other basic infrastructure for the people.

6. Are other countries taxing petroleum as much?

Table 3. Share of VAT/Sales Excise Taxes in the Consumer Price of Gasoline in Selected Asian Countries, 2005 (in US cents per liter and percent)

| Country     | Pump Price (in US cents per liter) | VAT/Sales Tax (in US cents per liter) | Excise (in US cents per liter) | Total (in US cents per liter) | Percent (%) of Pump Price |
|-------------|------------------------------------|---------------------------------------|--------------------------------|-------------------------------|---------------------------|
| Hongkong    | 154                                | 0                                     | 82.56                          | 82.56                         | 53.61                     |
| South Korea | 135                                | 13.5                                  |                                |                               | 74.81                     |
| Singapore   | 89                                 | 4.45                                  | 25                             | 29.45                         | 33.09                     |
| Thailand    | 54                                 | 5.4                                   | 10.86                          | 16.26                         | 30.13                     |
| Philippines | 52                                 | None                                  | 8.8                            | 8.8                           | 16.99                     |
| Vietnam     | 48                                 | 4.8                                   | 6.48                           | 11.28                         | 23.50                     |
| Malaysia    | 37                                 | 3.7                                   | 15.43                          | 19.13                         | 51.70                     |
| Indonesia   | 27                                 | 2.7                                   | 1.21                           | 3.92                          | 14.50                     |

Source: Energy Products Taxation by Milwida M. Guevarra, 2005