Voluntary _ Public

**Date:** 1/10/2013

**GAIN Report Number:**

## Philippines

**Post:** Manila

# Excise Tax Reform Levels Playing Field for Distilled Spirits

**Report Categories:**

Market Development Reports

**Approved By:**

William G. Verzani

**Prepared By:**

Maria Ramona C. Singian

**Report Highlights:**

On December 20, 2012, Philippine President Benigno Aquino signed into law a measure that will significantly change the rates of excise tax charged on distilled spirits. In general, analysts believe that the tax reform will level the playing field and improve the competitiveness of imported distilled spirits. Post forecasts 2013 U.S. distilled spirit export sales to the Philippines at roughly $1.1 million, an increase of 30 percent over the previous year, as a result of the tax reform and the bullish Philippine economy. Republic Act No. 10351 (An Act Restructuring the Excise Tax on Alcohol and Tobacco), also called the "Sin Tax Reform 2012" took effect on January 1, 2013. The controversial, long-awaited measure comes in response to a 2011 World Trade Organization (WTO) ruling, wherein the Philippine application of excise tax on distilled spirits was found to be discriminatory against imported products. Under that system, a low flat tax was applied to distilled spirits (imported or domestic) produced with raw materials that were commercially available in the Philippines (e.g. sugar cane). Significantly higher tax rates were applied to distilled spirits made with raw materials not commercially available in the Philippines. Under the new measure, excise tax on distilled spirits will be based on a uniform *ad valorem* tax (depending on the net retail price) regardless of the kind of raw material used or its origin.

**General Information:**

Philippine President Benigno S. Aquino III has signed into law a measure that will significantly change the rates of excise tax charged on distilled spirits. Republic Act No. 10351 (An Act Restructuring the Excise Tax on Alcohol and Tobacco), also called the "Sin Tax Reform 2012" was signed on December 20, 2012, and took effect on January 1, 2013.

The controversial, long-awaited measure comes in response to a 2011 WTO ruling, wherein the Philippine application of excise tax on distilled spirits was found to be discriminatory against imported products. Under that system the Philippines applied a low flat tax rate of 14.68 pesos (roughly U.S. $0.37) per proof liter (regardless of the net retail price) to distilled spirits (imported or domestic) produced from sap of nipa, coconut, cassava, camote, buri palm and sugar cane (all of which are commercially available in the Philippines). Distilled spirits made with raw materials not commercially available in the Philippine were subjected to excise tax rates as much as forty times higher depending on the net retail price as follows:

- If the net retail price was less than P250.00, the excise tax was P158.72 per proof liter
- If the net retail price was P250.00 to P675.00, the excise tax was P317.44 per proof liter
- If the net retail price was more than P675.00, the excise tax was P634.90 per proof liter

Under the new measure the excise tax on imported and domestically produced distilled spirits, regardless of the raw material used, will be based on a uniform *ad valorem* tax (depending on the net retail price) and a specific tax, according to the following schedule:

a. Effective on January 1, 2013

-An *ad valorem* ("according to value") tax equivalent to 15 percent of the net retail price (excluding excise tax and value-added tax) per proof liter; and

-A specific tax of twenty pesos (P20.00) per proof liter.

b. Effective on January 1, 2015

- An *ad valorem* tax equivalent to 20 percent of the net retail price (excluding excise tax and value-added tax) per proof liter; and
- A specific tax of twenty pesos (P20.00) per proof liter.

In addition to the *ad valorem* tax, the specific tax rate of twenty pesos (P20.00) shall increase by four percent effective on January 1, 2016, and every year thereafter.

Under the new system, the excise tax will decrease significantly for many higher-value, imported distilled spirits. Below is a table comparing the excise tax under the old and new systems for a one liter bottle of imported bourbon whiskey with a net retail price of 820 pesos (roughly $20 USD).

| | **Excise Tax in US$** | **Excise Tax in PhP** |
|---|---|---|
| Old Excise Tax System | 15.47 | 634.90 |
| New Excise Tax System | | |
| Effective on January 1, 2013 | 3.48 | 143.09 |

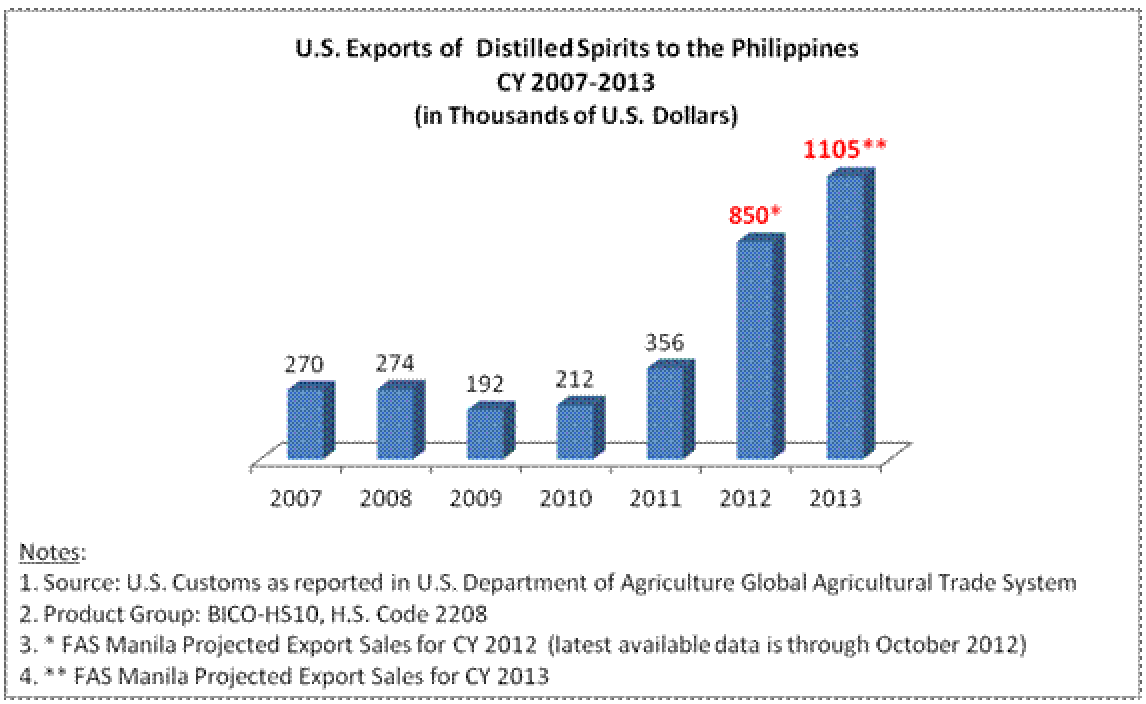
| | | |
|---|---|---|
| Effective on January 1, 2015 | 4.48 | 184.12 |
| Effective on January 1, 2016* | 4.50 | 184.92 |

Notes:
1. The exchange rate used is $1=P41.03 (based on the exchange rate on January 1, 2013).
2. Under Sin Tax Reform 2012, excise taxes on distilled spirits will be based on a uniform *ad valorem* tax (depending on the net retail price) and a specific tax.
3. *In addition to the *ad valorem* tax, the specific tax rate of twenty pesos (P20.00) shall increase by four percent effective on January 1, 2016, and every year thereafter.

**Philippine Market for Distilled Spirits**

According to Philippine statistics, the country imported 12.8 million liters of distilled spirit valued at $24 million in 2011. Imports accounted for only two percent of the total Philippine market in that year. Industry analysts believe the previous discriminatory tax system contributed to a decline in the overall consumption of imported spirits by roughly 25 percent over the past five years (from 2007-2011), while consumption of local spirits grew by 60 percent over the same period. Analysts expect that the tax reform will level the playing field and improve the competitiveness of imported distilled spirits.

U.S. Customs data shows that U.S. exports of distilled spirits to the Philippines declined in 2009 but picked up again in 2011 with record sales of $356,000 when the Philippine economy regained its momentum. FAS Manila estimates exports sales will reach $850,000 by the end of 2012 due to tremendous growth in demand for brandy, rum and alcoholic liqueurs. Post also forecasts that 2013 U.S. distilled spirit export sales to the Philippines will reach roughly $1.1 million, an increase of 30 percent over the previous year, as a result of the tax reform and the bullish Philippine economy.




**Further Information and Assistance**

FAS Manila is ready to help exporters of U.S. food and beverage products achieve their objectives in the Philippines. For questions, further information or assistance in exporting U.S. food & beverage products, please contact:

Foreign Agricultural Service
U.S. Department of Agriculture
Embassy of the United States of America
25/F Ayala Life-FGU Building
6811 Ayala Avenue
Makati City 1203
Tel: (632) 894-5363 or 894-5379
Fax: (632) 812-5430
Email: Agmanila@usda.gov