



MALACAÑAN PALACE
MANILA

MAR 26 2021

**THE HONORABLE SPEAKER AND
THE LADIES AND GENTLEMEN OF
THE HOUSE OF REPRESENTATIVES**

In accordance with my firm commitment to uplift the lives of the Filipino people and pave the path for economic recovery and inclusive growth, I sign into law Republic Act (RA) No. **11534**, entitled "**AN ACT REFORMING THE CORPORATE INCOME TAX AND INCENTIVES SYSTEM, AMENDING FOR THE PURPOSE SECTIONS 20, 22, 25, 27, 28, 29, 34, 40, 57, 109, 116, 204 AND 290 OF THE NATIONAL INTERNAL REVENUE CODE OF 1997, AS AMENDED, AND CREATING THEREIN NEW TITLE XIII, AND FOR OTHER PURPOSES,**" or the "**Corporate Recovery and Tax Incentives for Enterprises (CREATE) Act.**"

I. GENERAL COMMENTS

After more than twenty years of deliberations on the countless versions filed in Congress, corporate income tax reform and fiscal incentives rationalization has finally come to fruition. It comes at an opportune time, since it will serve as a fiscal relief and recovery measure for Filipino businesses still suffering from the effects of the COVID-19 pandemic.

This Act lowers the highest ASEAN corporate income tax rate of thirty (30) percent to twenty (20) percent for micro, small, and medium enterprises (MSMEs) and twenty-five (25) percent for other corporate taxpayers. It also plugs tax leakages through the rationalization of the fiscal incentives granted to our investors, and shifts the administration of such incentives towards a system that is performance-based, targeted, time-bound, and transparent.

We thank the legislators of the 18th Congress for this monumental breakthrough, particularly the Chairpersons of the House Committee on Ways and Means and the Senate Committee on Ways and Means, and the capable leadership of both Houses of Congress.

II. DIRECT VETO

To ensure that the objectives of this vital piece of legislation is achieved, I invoke the power vested in me by Article VI, Section 27 (2) of the Constitution, which provides that "the President shall have the power to veto any particular item or items in an appropriation, revenue, or tariff bill," and hereby register the following line-item vetoes to this bill:

THE PRESIDENT OF THE PHILIPPINES

A. Increasing the value-added tax (VAT)-exempt threshold on sale of real property

I am constrained to veto item (P) of the amended Section 109 of the National Internal Revenue Code of 1997, as amended (Tax Code), under Section 12 of this Act, to wit:

"(P) Sale of real properties not primarily held for sale to customers or held for lease in the ordinary course of trade or business or real property utilized for low-cost and socialized housing as defined by Republic Act No. 7279, otherwise known as the 'Urban Development and Housing Act of 1992', and other related laws, residential lot valued at Two million five hundred thousand Pesos (P2,500,000.00) and below, house and lot, and other residential dwellings valued at Four million two hundred thousand Pesos (P4,200,000.00) and below: *Provided*, That beginning January 1, 2024 and every three (3) years thereafter, the amounts herein stated shall be adjusted to present values using the Consumer Price Index, as published by the Philippine Statistics Authority (PSA)";

Under the Tax Code, as amended by the TRAIN Law, the sales of house and lot and other residential dwellings valued at not more than P2.5 million shall be VAT-exempt. The exemption is targeted to provide relief to buyers of socialized housing and base-level economic housing. The amendment in the CREATE Act increases the VAT-threshold to up to P4.2 million. In effect, this will benefit even those not originally targeted for the VAT-exemption—those who can actually afford proper housing. This results in a tax exemption that is highly distortive and exacts a heavy price on the taxpaying community. The provision is also prone to abuse, as properties can be parceled into lots so that their individual values fall within the VAT-exempt threshold.

If not vetoed, the estimated revenue loss from the foregoing is P155.3 billion from 2020 to 2030, which could be used in public goods to benefit the poor directly.

B. 90-day period for the processing of general tax refunds

For being administratively impracticable, I am constrained to veto the whole of Section 14 of this Act, to wit:

"SEC. 14. Section 204 of the National Internal Revenue Code of 1997, as amended, is hereby further amended to read as follows:

"SEC. 204. *Authority of the Commissioner to Compromise, Abate, and Refund or Credit Taxes.* –The Commissioner may –

"(A) x xx

"(B) x xx

"(C) Credit or refund taxes erroneously or illegally received or penalties imposed without authority, refund the value of internal revenue stamps when they are returned in good condition by the purchaser, and in his discretion, redeem or change unused stamps that have been rendered unfit for use and refund their value upon proof of destruction. No credit or refund of taxes or penalties shall be allowed unless the taxpayer files in writing with the