

Republic of the Philippines
HOUSE OF REPRESENTATIVES
Quezon City

THIRTEENTH CONGRESS

First Regular Session

1470

Introduced by HON. ERIC D. SINGSON

EXPLANATORY NOTE

This bill proposes to restructure the income tax system by adopting a gross income approach in taxing the business income derived by individuals and corporations. The proposal offers simplicity and ease in tax administration as only a limited list of expenses directly related to sale or production will be allowed as deductions for income tax purposes. Undue harassment from tax examiners will likewise be reduced as verification will now be limited on the correctness of the taxpayer's declared gross income.

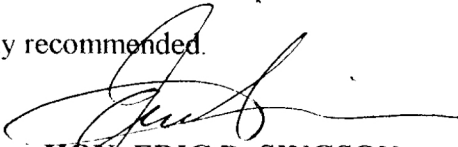
The present system of taxation allows the deduction of all expenses paid or incurred in carrying out any trade or business or practice of a profession for income tax purposes. This system entails a tedious compliance and administration process due to its susceptibility to abuse or manipulation by both taxpayers and tax examiners. Every item of expense can be subjected to scrutiny as to whether or not such is really a necessary or legitimate expense. Such situation greatly erodes the tax base and consequently reduces the tax take of the government.

By shifting to gross income taxation, the areas of discretion are minimized. Tax examiners need to validate only the accuracy of the taxpayer's declared gross sales/receipts and "cost of goods sold" or "cost of sales/services". It would lessen paper work both on the part of the taxpayer and tax examiner as substantiation requirements will be significantly reduced. As it will be easier to comply with, more taxpayers will be encouraged to file their returns. And with more taxpayers in the tax net, tax collection will accordingly increase.

With this measure, it is expected that tax administration, insofar as income tax is concerned, will be simplified. It can be considered as a major departure from the present system but it should be viewed as a bold step in enhancing the revenue potentials of the income tax system. The gains in terms of improved tax compliance and the resulting

increase in tax collection that will be derived out of this measure will considerably contribute to the revenues of the government.

The approval of this bill is earnestly recommended.



HON. ERIC D. SINGSON
2nd District, Ilocos Sur

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HOUSE BILL NO. 1470

Introduced by HON. ERIC D. SINGSON

AN ACT
ADOPTING THE GROSS INCOME TAXATION FOR CORPORATIONS AND
INDIVIDUALS ENGAGE IN TRADE OR BUSINESS AND/OR PRACTICE OF
PROFESSION, AMENDING FOR THE PURPOSE PERTINENT PROVISIONS OF
TITLE II OF THE NATIONAL INTERNAL REVENUE CODE OF 1997, AS
AMENDED, AND FOR OTHER PURPOSES

*Be it enacted by the Senate and House of Representatives of the Philippines in
Congress assembled:*

SECTION 1. State Policy. - It is hereby the declared policy of the State to promote efficiency in the taxation of income from business by simplifying the tax structure and reducing areas of discretion for both the taxpayer and tax administrator.

SEC. 2. Section 24 of the National Internal Revenue Code of 1997, as amended, is hereby further amended to read as follows:

“SEC. 24. [Income Tax Rates. -] RATES OF TAX ON
CITIZENS OR RESIDENTS. -

[“(A) Rates of Income Tax on Individual Citizen and Individual
Resident Alien of the Philippines. -]

[“(1) An income tax is hereby imposed:]

[“(a) On the taxable income defined in Section 31 of this Code,
other than income subject to tax under Subsections (B), (C), and (D) of
this Section, derived for each taxable year from all sources within and
without the Philippines by every individual citizen of the Philippines
residing therein;]

[“(b) On the taxable income defined in Section 31 of this Code,
other than income subject to tax under Subsections (B), (C), and (D) of

this Section, derived for each taxable year from all sources within the Philippines by an individual citizen of the Philippines who is residing outside of the Philippines including overseas contract workers referred to in Subsection (C) of Section 23 hereof; and]

[“(c) On the taxable income defined in Section 31 of this Code, other than income subject to tax under Subsections (B), (C), [and] (D) AND (E) of this Section, derived for each taxable year from all sources within the Philippines by an individual alien who is a resident of the Philippines.]

“(A) *COMPENSATION INCOME*. - AN INCOME TAX IS HEREBY IMPOSED:

“(1) ON THE TAXABLE COMPENSATION INCOME AS DEFINED UNDER SECTION 31 HEREOF DERIVED FOR EACH TAXABLE YEAR FROM ALL SOURCES WITHIN AND WITHOUT THE PHILIPPINES BY EVERY INDIVIDUAL CITIZEN OF THE PHILIPPINES RESIDING THEREIN;

“(2) ON THE TAXABLE COMPENSATION INCOME AS DEFINED UNDER SECTION 31 HEREOF DERIVED FOR EACH TAXABLE YEAR FROM ALL SOURCES WITHIN THE PHILIPPINES BY AN INDIVIDUAL CITIZEN OF THE PHILIPPINES WHO IS RESIDING OUTSIDE THE PHILIPPINES, INCLUDING OVERSEAS CONTRACT WORKERS REFERRED TO IN SUBSECTION (C) OF SECTION 23 HEREOF; AND

“(3) ON THE TAXABLE COMPENSATION INCOME AS DEFINED UNDER SECTION 31 HEREOF DERIVED FOR EACH TAXABLE YEAR FROM ALL SOURCES WITHIN THE PHILIPPINES BY AN INDIVIDUAL ALIEN WHO IS A RESIDENT OF THE PHILIPPINES.

“The tax shall be computed in accordance with and at the rates established in the following schedule:

Not over P10,000	5%
Over P10,000 but not over P30,000	P500 + 10% of the excess over P10,000
Over P30,000 but not over P70,000	P2,500 + 15% of the excess over P30,000
Over P70,000 but not over P140,000	P8,500 + 20% of the excess over P70,000

Over P140,000 but not over P250,000	P22,500 + 25% of the excess over P140,000
Over P250,000 but not over P500,000	P50,000 + 30% of the excess over P250,000
Over P500,000	P125,000 + [34%] 32%
of	the excess over P500,000 [in 1998]

["Provided, That effective January 1, 1999, the top marginal rate shall be thirty-three percent (33%) and effective January 1, 2000, the said rate shall be thirty-two percent (32%)."]

"(B) *INCOME FROM TRADE OR BUSINESS AND/OR PRACTICE OF PROFESSION.* - AN INCOME TAX OF FIFTEEN PERCENT (15%) IS HEREBY IMPOSED ON THE TAXABLE BUSINESS INCOME AS DEFINED UNDER SECTION 32 HEREOF DERIVED FOR EACH TAXABLE YEAR FROM THE CONDUCT OF TRADE OR BUSINESS AND/OR FROM THE PRACTICE OF PROFESSION BY:

"(1) EVERY INDIVIDUAL CITIZEN OF THE PHILIPPINES RESIDING THEREIN FROM ALL SOURCES WITHIN AND WITHOUT THE PHILIPPINES;

"(2) EVERY INDIVIDUAL CITIZEN OF THE PHILIPPINES WHO IS RESIDING OUTSIDE THE PHILIPPINES, INCLUDING OVERSEAS CONTRACT WORKERS REFERRED TO IN SUBSECTION (C) OF SECTION 23 HEREOF, FROM ALL SOURCES WITHIN THE PHILIPPINES; AND

"(3) EVERY INDIVIDUAL ALIEN WHO IS A RESIDENT OF THE PHILIPPINES FROM ALL SOURCES WITHIN THE PHILIPPINES.

"For married individuals, the husband and wife, subject to the provisions of Section 51(D) hereof, shall compute separately their individual income tax based on their respective total taxable COMPENSATION AND/OR BUSINESS income, AS THE CASE MAY BE: Provided, That if any income cannot be definitely attributed to or identified as income exclusively earned or realized by either of the spouses, the same shall be divided equally between the spouses for the purpose of

determining their respective taxable COMPENSATION AND/OR BUSINESS income.

“[(B)] (C) [Rate of Tax o] On Certain Passive Income. -

(1) Interests, Royalties, Prizes, and Other Winnings. - [A final tax at the rate of twenty percent (20%) is hereby imposed upon the amount of interest from any currency bank deposits and yield or any other monetary benefit from deposit substitutes and from trust funds and similar arrangements; royalties, except on books, as well as other literary works and musical compositions, which shall be imposed a final tax of ten percent (10%); prizes; (except prizes amounting to Ten thousand pesos (P10,000) or less which shall be subject to tax under Subsection (A) of Section 24; and other winnings (except Philippine Charity Sweepstakes and Lotto winnings), derived from sources within the Philippines:] INTERESTS FROM ANY CURRENCY BANK DEPOSITS AND YIELD OR ANY OTHER MONETARY BENEFIT FROM DEPOSIT SUBSTITUTES AND FROM TRUST FUNDS AND SIMILAR ARRANGEMENTS; ROYALTIES; AND PRIZES AND OTHER WINNINGS (EXCEPT PHILIPPINE CHARITY SWEEPSTAKES AND LOTTO WINNINGS, DERIVED FROM SOURCES WITHIN THE PHILIPPINES SHALL BE SUBJECT TO A FINAL TAX AT THE RATE OF FIFTEEN PERCENT (15%) OF THE TOTAL AMOUNT THEREOF: PROVIDED, HOWEVER, THAT ROYALTIES ON BOOKS AS WELL AS OTHER LITERARY WORKS, AND ROYALTIES ON MUSICAL COMPOSITIONS SHALL BE SUBJECT TO A FINAL TAX AT THE RATE OF TEN PERCENT (10%) OF THE TOTAL AMOUNT THEREOF: Provided, [however,] FURTHER That interest income received by an individual taxpayer (except a nonresident individual) from a depository bank under the foreign currency deposit system shall be subject to a final income tax at the rate of seven and one-half percent (7 ½%) of such interest income: Provided, furtherMORE, That interest income from long-term deposit or investment in the form of savings, common or individual trust funds, deposit substitute, investment management accounts and other investments evidenced by certificates in such form prescribed by the Bangko Sentral ng Pilipinas (BSP) shall be exempt from the tax imposed under this Subsection: Provided, finally That should the holder of the certificate pre-terminate the deposit or investment before the fifth (5th) year, a final tax shall be imposed on the entire income and shall be deducted and withheld by the depository bank from the proceeds of the long-term deposit or investment certificate based on the remaining maturity thereof.

“Four (4) years to less than five (5) years- 5%;

“Three (3) years to less than four (4) years - [12%] 10%; and

“Less than three (3) years - [20%] 15%

“(2) *Cash and/or Property Dividends.* - A final tax AT THE RATE of TEN PERCENT (10%) shall be imposed upon the cash and/or property dividends actually or constructively received by an individual from a domestic corporation or from a joint stock company, insurance or mutual fund companies and regional operating headquarters of multinational companies, or on the share of an individual in the distributable net income after tax of a partnership (except a general professional partnership) of which he is a partner, or on the share of an individual in the net income after tax of an association, a joint account, or a joint venture or consortium taxable as a corporation of which he is a member or co-venturer. [.]

[“Six percent (6%) beginning January 1, 1998;]

[“Eight percent (8%) beginning January 1, 1999;]

[“Ten percent (10%) beginning January 1, 2000.]

[“Provided, however, That the tax on dividends shall apply only on income earned on or after January 1, 1998. Income forming part of retained earnings as of December 31, 1997 shall not, even if declared or distributed on or after January 1, 1998, be subject to this tax.]

“[(C)] (D) ON Capital Gains from Sale of Shares of Stock not Traded in the Stock Exchange. - x x x

“[(D)] (E) ON Capital Gains Tax From Sale of Real Property. - x
x x

“(F) ON OTHER INCOME. - ANY INCOME, GAIN OR PROFIT OF WHATEVER KIND AND WHATEVER FORM DERIVED BY AN INDIVIDUAL OTHER THAN THOSE SPECIFIED UNDER SUBSECTIONS (A), (B), (C), (D) AND (E) HEREOF AND WHICH IS NOT SPECIFICALLY EXEMPT FROM TAX UNDER THIS TITLE SHALL BE SUBJECT TO A FINAL TAX AT THE RATE OF FIFTEEN PERCENT (15%) OF THE TOTAL AMOUNT THEREOF.

SEC. 3. Section 25 of the National Internal Revenue Code of 1997, as amended, is hereby further amended to read as follows:

“SEC. 25. Tax on Nonresident Alien Individual. -

“(A) Nonresident Alien Engaged in Trade or Business Within the Philippines.-

“(1) In General. - A nonresident alien individual engaged in trade or business in the Philippines shall be subject to an income tax in the same manner as an individual citizen and a resident alien individual ENGAGED IN TRADE OR BUSINESS IN THE PHILIPPINES AS PROVIDED UNDER SECTION 24 (B) HEREOF, on taxable BUSINESS income AS DEFINED UNDER SECTION 32 received from all sources within the Philippines. A nonresident alien individual who shall come to the Philippines and stay therein for an aggregate period of more than one hundred eighty (180) days during any calendar year shall be deemed a **‘nonresident alien doing business in the Philippines’**, Section 22(G) of this Code, notwithstanding.

“(2) Cash and/or Property Dividends from a Domestic Corporation or Joint Stock Company, or Insurance or Mutual Fund Company or Regional Operating Headquarter of Multinational Company, or Share in the Distributable Net Income of a Partnership (Except a General Professional Partnership), Joint Account, Joint Venture Taxable as a Corporation or Association, Interests, Royalties, Prizes, and Other Winnings. - Cash and/or property dividends from a domestic corporation, or from a joint stock company, or from an insurance or mutual fund company or from a regional operating headquarter of multinational company, or on the share of a nonresident alien individual in the distributable net income after tax of a partnership (except a general professional partnership) of which he is a partner, or on the share of a nonresident individual in the net income after tax of an association, a joint account, or a joint venture or consortium taxable as a corporation of which he is a member or co-venturer; interests; royalties (in any form); and prizes [(except prizes amounting to Ten thousand pesos (P10,000) or less which shall be subject to tax under Subsection (B)(1) of Section 24)]; and other winnings (except Philippines Charity Sweepstakes and Lotto winnings), shall be subject to an income tax AT THE RATE of [twenty percent (20%)] FIFTEEN PERCENT (15%) [on] OF the total amount thereof. Provided, however, That royalties on books as well as other literary works, and royalties on musical compositions shall be subject to a final tax AT THE RATE of ten percent (10%) [on] OF the total amount thereof. Provided, further, That cinematographic films and similar works shall be subject to the tax provided under Section 28 of this Code. Provided, furthermore, That interest income from long-term deposit or investment in the form of savings, common or individual trust funds, deposit substitutes, investment management accounts and other investments evidenced by

certificates in such form prescribed by the Bangko Sentral ng Pilipinas (BSP) shall be exempt from the tax imposed under this Subsection: Provided, finally That should the holder of the certificate pre-terminate the deposit or investment before the fifth (5th) year, a final tax shall be imposed on the entire income and shall be deducted and withheld by the depository bank from the proceeds of the long-term deposit or investment certificate based on the remaining maturity thereof:

“Four (4) years to less than five (5) years- 5%;

“Three (3) years to less than four (4) years - [12%] 10%; and

“Less than three (3) years - [20%] 15%

“(3) *Capital Gains.* - Capital gains realized from sale, barter or exchange of shares of stock in domestic corporations not traded through the local stock exchange, and real properties shall be subject to the tax prescribed under Subsections [(C) and] (D) AND (E) of Section 24.

“(4) **OTHER INCOME.** - ANY INCOME, GAIN OR PROFIT OF WHATEVER KIND AND WHATEVER FORM DERIVED BY A NONRESIDENT ALIEN ENGAGED IN TRADE OR BUSINESS WITHIN THE PHILIPPINES FROM SOURCES WITHIN THE PHILIPPINES OTHER THAN THOSE SPECIFIED UNDER SUBSECTIONS (A), (B), (C), (D) AND (E) HEREOF AND WHICH IS NOT SPECIFICALLY EXEMPT FROM TAX UNDER THIS TITLE SHALL BE SUBJECT TO A FINAL TAX AT THE RATE OF FIFTEEN PERCENT (15%) OF THE TOTAL AMOUNT THEREOF.

SEC. 4. Section 27(A) of the National Internal Revenue Code of 1997, as amended, is hereby deleted and in lieu thereof a new Section 27(A) is hereby inserted which shall read as follows:

“**SEC. 27. RATES OF INCOME TAX ON DOMESTIC CORPORATIONS.** -

“(A) *IN GENERAL.* - EXCEPT AS OTHERWISE PROVIDED IN THIS CODE, AN INCOME TAX AT THE RATE OF FIFTEEN PERCENT (15%) IS HEREBY IMPOSED UPON THE TAXABLE BUSINESS INCOME AS DEFINED UNDER SECTION 32 HEREOF DERIVED DURING THE TAXABLE YEAR FROM ALL SOURCES WITHIN AND WITHOUT THE PHILIPPINES BY EVERY CORPORATION, AS DEFINED UNDER SECTION 22(B) OF THIS CODE, AND TAXABLE UNDER THIS TITLE AS A CORPORATION,

ORGANIZED IN, OR EXISTING UNDER THE LAWS OF THE PHILIPPINES.

SEC. 5. Section 27 (B) of the National Internal Revenue Code of 1997, as amended, is hereby further amended to read as follows:

“(B) Proprietary Educational Institutions and Hospitals. - Proprietary educational institutions and hospitals which are nonprofit shall pay a tax AT THE RATE of ten percent (10%) [on] OF their taxable BUSINESS income except those covered by Subsection (D) hereof. Provided, That if the gross income from unrelated trade, business or other activity exceeds fifty percent (50%) of the total gross income derived by such educational institutions or hospitals from all sources, the tax prescribed in Subsection (A) hereof shall be imposed on the entire taxable income. xxx “

SEC. 6. Section 27 (D) (1) of the National Internal Revenue Code of 1997, as amended is hereby further amended to read as follows:

“(D) Rates of Tax on Certain Passive Incomes. -

“(1) Interest from Deposits and Yield or any other Monetary Benefit from Deposit Substitutes and from Trust Funds and Similar Arrangements, and Royalties. - A final tax at the rate of [twenty percent (20%)] FIFTEEN PERCENT is hereby imposed upon the amount of interest on currency bank deposit and yields or any other monetary benefit from deposit substitutes and from trust funds and similar arrangements received by domestic corporations, and royalties, derived from sources within the Philippines: Provided, however, That interest income derived by a domestic corporation from a depository bank under the expanded foreign currency deposit system shall be subject to a final income tax at the rate of seven and one-half percent (7 ½%) of such interest income.

SEC. 7. Section 27 (E) of the National Internal Revenue Code of 1997, as amended, is hereby deleted and in lieu thereof, a new Section 27 (E) is hereby inserted which shall read as follows:

“(E) TAX ON OTHER INCOME - ANY INCOME, GAIN OR PROFIT OF WHATEVER KIND AND WHATEVER FORM DERIVED BY A DOMESTIC CORPORATION FROM ANY SOURCE OTHER THAN THOSE SPECIFIED UNDER SUBSECTIONS (A), (B), (C), (D) AND (E) HEREOF AND WHICH IS NOT SPECIFICALLY EXEMPT FROM TAX UNDER THIS TITLE SHALL BE SUBJECT TO A FINAL TAX AT THE RATE OF FIFTEEN PERCENT (15%) OF THE TOTAL AMOUNT THEREOF.

SEC. 8. Section 28(A)(1) of the National Internal Revenue Code is hereby deleted and in lieu thereof a new Section 28(A)(1) is hereby inserted which shall read as follows:

“SEC. 28. RATES OF INCOME TAX ON FOREIGN CORPORATIONS. -

“(A) TAX ON RESIDENT FOREIGN CORPORATIONS. -

“(1) IN GENERAL. - EXCEPT AS OTHERWISE PROVIDED IN THIS CODE, A CORPORATION ORGANIZED, AUTHORIZED, OR EXISTING UNDER THE LAWS OF ANY FOREIGN COUNTRY, ENGAGED IN TRADE OR BUSINESS WITHIN THE PHILIPPINES SHALL BE SUBJECT TO AN INCOME TAX AT THE RATE OF FIFTEEN PERCENT (15 %) OF THE TAXABLE BUSINESS INCOME AS DEFINED UNDER SECTION 32 HEREOF DERIVED DURING THE TAXABLE YEAR FROM ALL SOURCES WITHIN THE PHILIPPINES. FOR PURPOSES OF THIS SUBSECTION, GROSS INCOME SHALL BE DETERMINED IN THE SAME MANNER AS PROVIDED UNDER SECTION 32 (B) OF THIS CODE.

SEC. 9. Section 28 (A)(2) of the National Internal Revenue Code of 1997, as amended, is hereby deleted. Paragraphs (3), (4), (5) and (6) of Section 28 (A) are hereby accordingly renamed Paragraphs (2), (3), (4) and (5), respectively.

SEC. 10. Paragraph (7) of Section 28 (A) of the National Internal Revenue Code of 1997, as amended, is hereby renumbered as paragraph (6) and further amended to read as follows:

“(6) Tax on Certain Income Received by a Resident Foreign Corporation. -

“(a) Interest from Deposits and Yield or any other Monetary Benefit from Deposit Substitutes, Trust Funds and Similar Arrangements and Royalties. - Interest from any currency bank deposit and yield or any other monetary benefit from deposit substitutes and from trust funds and similar arrangements and royalties derived from sources within the Philippines shall be subject to a final tax at the rate of [twenty percent (20%)] FIFTEEN PERCENT (15%) of such interest: x x x

“(b) Income Derived Under the Foreign Currency Deposit System.- x x x

“(c) *Capital Gains from Sale of Shares of Stock Not Traded in the Stock Exchange.* - x x x

“(d) *Intercompany Dividends.* - x x x

SEC. 11. A new paragraph to be known as paragraph (7) is hereby inserted under Section 28(A) of the National Internal Revenue Code of 1997, as amended, which shall read as follows:

“(7) **OTHER INCOME.** - ANY INCOME, GAIN OR PROFIT OF WHATEVER KIND AND WHATEVER FORM DERIVED BY A RESIDENT FOREIGN CORPORATION FROM SOURCES WITHIN THE PHILIPPINES OTHER THAN THOSE SPECIFIED UNDER PARAGRAPHS (1), (2), (3), (4), (5) AND (6) HEREOF AND WHICH IS NOT SPECIFICALLY EXEMPT FROM TAX UNDER THIS TITLE SHALL BE SUBJECT TO A FINAL TAX AT THE RATE OF FIFTEEN PERCENT (15%) OF THE TOTAL AMOUNT THEREOF.

SEC. 12. Section 28 (B) of the National Internal Revenue Code of 1997, as amended, is hereby further amended to read as follows:

“(B) *Tax on Nonresident Foreign Corporation.* -

“(1) *In General.* - Except as otherwise provided in this Code, a foreign corporation not engaged in trade or business in the Philippines shall pay a tax AT THE RATE OF [equal to thirty-five percent (35%)] **THIRTY-TWO PERCENT (32%)** of the gross income received during each taxable year from all sources within the Philippines, such as interests, dividends, rents, royalties, salaries, premiums (except reinsurance premiums), annuities, emoluments or other fixed or determinable annual, periodic or casual gains, profits and income, and capital gains, except capital gains subject to tax under subparagraph[s] 5(c)] and (d) : Provided that effective January 1, 1999, the rate shall be thirty-three percent (33%); and, effective January 1, 2000, and thereafter, the rate shall be thirty-two percent (32%).]

“(2) *Nonresident Cinematographic Film Owner, Lessor or Distributor.* - x x x

“(3) *Nonresident Owner or Lessor of Vessels Chartered by Philippine Nationals.* - x x x

“(4) *Nonresident Owner or Lessor of Aircraft, Machineries and Other Equipment.* - x x x