

Republic of the Philippines
HOUSE OF REPRESENTATIVES
Quezon City, Manila

THIRTEENTH CONGRESS
First Regular Session

HOUSE BILL NO. 1924



Introduced By Honorable Robert Ace S. Barbers

EXPLANATORY NOTE

The Department of Budget and Management's move to contain public expenditures runs counter to the government's goal of alleviating poverty and fostering socio-economic development in the country. Increase in revenue collection efforts is considered the key and right approach to this chronic fiscal problem of the government.

BIR has responded to the situation by intensifying its collection efforts through conducting audit tax payments together with other administrative measures; however, revenue collection remained bleak. Structural and administrative reforms within the BIR manpower and human resources including its operating procedures are just a few of the components needed in its transformation into a productive agency. Revitalizing the performance of BIR thru its processes, systems and control mechanisms is of primary significance before any revenue collection efforts can make a breakthrough in addressing the government's deteriorating fiscal position.

It is in this regard that a bill focusing on a system of rewards and incentives for the employees of the Bureau of Internal Revenue (BIR) with the purpose of promoting morale and enhancing their efficiency, integrity, credibility, responsiveness and at the same time optimizing all potentials in revenue generation for the government and penalizing non-performers in the bureau through separation from government service, be conceptualized and implemented.

In view of the urgency to work out an effective solution to the budgetary problems of our government, immediate passage of this measure is earnestly sought.


ROBERT ACE S. BARBERS

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**AN ACT CREATING THE INTERNAL REVENUE COMMISSION, IN ORDER TO
REVITALIZE TAX ADMINISTRATION, PROVIDING THE MECHANICS FOR ITS
IMPLEMENTATION, ALLOCATING FUNDS THEREFOR, AND FOR OTHER PURPOSES**

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

SECTION 1. *Short Title.* - This Act shall be known and cited as the “**IRC Act of 2003.**”

SECTION 2. *Declaration of Policy.* - It is hereby declared the policy of the State to revitalize the administration of taxes to adequately meet the resource need of government, enhance customer satisfaction of taxpayers, and help ensure the efficient and effective collection of taxes by the Government. Towards this end, the State shall endeavor to create a new internal revenue agency with greater fiscal and administrative powers necessary to discharge its mandate with excellence.

SECTION 3. *Establishment of the Internal Revenue Commission.* There is hereby established a new internal revenue agency, hereinafter referred to as the Commission, which shall be responsible for the implementation of internal revenue laws and shall be the primary agency under the Department of Finance (DOF) mandated to administer taxes. The Commission shall be established and organized within eight (8) months from the effectivity of this Act, after which it shall be fully operational as mandated in this Act. It shall take over the operations and functions of the Bureau of Internal Revenue as applicable under the Commission's new organizational structure as approved by the Board.

SECTION 4. *Responsibility and Primary Objective.* The primary responsibility and objective of the Commission is to ensure that the administration of taxes is efficiently and effectively carried out to provide the necessary wherewithal to finance the operations of the Government consistent with fiscal policies and revenue collection targets.

SECTION 5. *Powers and Functions.* - The Commission shall exercise the powers and duties provided for under the National Internal Revenue Code of 1997, hereinafter referred to as the Code, and other pertinent laws. All references to the Bureau of Internal Revenue in the Code shall be construed as referring to the Commission upon effectivity of this Act. Such powers and duties shall comprehend the assessment and collection of all national internal revenue taxes, fees and charges, and the enforcement of all forfeitures, penalties and fines connected therewith, including the execution of judgments in all cases decided in its favor and in favor of the BIR by the Court of Tax Appeals and the regular courts.

Pursuant to the primary goal of the Commission to revitalize the administration of taxes, in addition to other corporate powers heretofore exercised under the Code and other laws, the officials and employees of the Commission shall be hired according to the time-honored principle of merit and fitness. It is thus incumbent upon the Commission to impose stricter standard of recruitment in which **mandatory performance contracts** shall serve as basis for subsequent personnel actions.

SECTION 6. *Service Fee.* - The Commission shall receive an annual service fee from the Government for services rendered in the discharge of its mandate. Subject to the recommendation of the Development Budget Coordinating Council (DBCC) created under E.O. No. 232, s. of 1970, as amended, said fee shall not fall below two and a half percent (2.5%) nor go beyond six percent (6%) of revenues collected in the

immediately preceding calendar year, net of collections accruing to Local Government Units, including Internal Revenue Allotment (IRA), and other agencies: *Provided, however*, That in the initial year of operation, the service fee shall be five percent (5%) of net revenues collected in the immediately preceding year. Two percent (2%) of said amount shall be earmarked for the continuation of the computerization of the Commission, which should be completed as soon as possible to guarantee efficient collection and recording. Thereafter, the annual service fee shall be automatically appropriated in the annual General Appropriations Act (GAA).

SECTION 7. *Composition of the Internal Revenue Board; Qualifications of Members.* -

(a) There is hereby created an Internal Revenue Board, hereinafter referred to as the Board, composed of nine (9) members with the Secretary of Finance as chairperson, and the following as the other members: the Director-General of the National Economic Development Authority (NEDA), Secretary of Budget and Management (DBM), Governor of the *Bangko Sentral ng Pilipinas (BSP)*, and the Chairperson of the Securities and Exchange Commission (SEC), all of whom shall serve as *ex officio members* and with no additional compensation and four (4) representatives from the private sector to be appointed by the President within ninety (60) days upon the effectivity of this Act, who shall serve full-time for a term of three (3) years, and may be reappointed once: *Provided, however*, That appointment of representatives from the private sector shall follow the nomination process outlined in the Implementing Rules and Regulations.

All references in the Code and other revenue laws, and in the rules and regulations issued in connection therewith, to the Secretary of Finance shall be deemed to refer to the Internal Revenue Board.

(b) The four (4) members from the private sector shall include an economist, an accountant, an information and communication technology (ICT) professional and a lawyer. Each shall be selected and appointed from a pool of candidates to be nominated by peak professional organizations of economists, accountants, ICT professionals and lawyers, respectively, which must have been in existence for at least ten (10) years. A "peak professional organization" refers to an organization duly registered and recognized as such under the laws of the Philippines, and having the largest active membership of people belonging to that profession. The mechanics of the nomination process shall be provided for in the Implementing Rules and Regulations of this Act.

(c) To allow for continuity and smooth transition, of the initial members appointed from the private sector, the first two (2) appointees shall serve for three (3) years, while the third *and the fourth* for two (2) years;

(d) Whenever the chairperson or any of the other members serving in *ex officio* capacity is unable to attend a meeting of the Board, he shall be represented by his Undersecretary or an assistant of equivalent rank: *Provided*, That the highest ranking *ex officio* member present shall preside over the meeting in case the chairperson is absent; *and provided further*, that the representatives of the absent members shall not be allowed to vote.

(e) A member from the private sector must be a citizen of the Philippines, at least thirty five (35) years of age, of good moral character, known for honesty and patriotism, of unquestionable integrity and competence, and a recognized expert in the field of taxation, fiscal policy, public finance, fiscal administration, accounting, ICT management, or law: *Provided, however*, That no person who has been connected as a director, partner, officer, lawyer, accountant, consultant, or in any other capacity with individuals, general professional partnerships, or professional corporations who prepare and file tax returns, statements, protests and other papers with, or who appears before, the Commission shall be appointed within one (1) year from the termination of such connection. An appointment to fill the vacancy created by the death, resignation or removal of a member from the private sector shall only be for the unexpired period of such member's term.

(f) The five (5) ex-officio members of the Board, acting as a special committee, shall initially fix the compensation of the members from the private sector based on an objective classification system, to be specified in the Implementing Rules and Regulations of this Act, and taking into consideration the fact that the Commission is exempt from the coverage of the Salary Standardization Law. Thereafter, the entire Board may increase such compensation: *Provided, however*, That the increase shall not benefit a member during whose term the increase was approved, for the duration of such member's term. A reappointment

shall be considered as another term. *Provided further, that no additional compensation of any nature or form may be granted to the ex-officio members of the Board.*

SECTION 8. *Powers of the Internal Revenue Board.* - The Internal Revenue Board shall:

- (a) Adopt and promulgate policies and rules for the effective enforcement of the provisions of the Code, this Act, and other revenue laws;
- (b) Promulgate rules and regulations for the fair, efficient and effective assessment and collection of taxes, including the mandatory payment by the taxpayer of a reasonable percentage of any final assessment prior to protesting or disputing the assessment under Sec. 228 of the Code, which payment, in the event that the protest is decided in favor of the taxpayer, shall be refunded or applied as tax credit against existing or future tax liability of the taxpayer.
- (c) Grant tax amnesties and such reliefs as it may deem proper in settlement of tax liabilities to effect revenue collection.
- (d) Upon the recommendation of the Commissioner, appoint such deputies as may be necessary in accordance with the staffing pattern as approved by the Board.
- (e) Replace the Commissioner and other deputies as the Board may deem proper.
- (f) Exercise appellate jurisdiction over all personnel actions taken by the Commissioner, in which case, all decisions shall be rendered within 30 days after a case is submitted for decision;
- (g) Upon the recommendation of the Commissioner, approve the annual and supplemental budget of receipts and expenditures of the Commission, and authorize such operating and capital expenditures of the Commission as may be necessary or proper for the effective management, operation, and administration of the Commission;
- (h) Approve upon the recommendation of the Commissioner, the Commission's organizational and administrative structures and staffing pattern and establish, fix, review, revise and adjust the appropriate compensation package of the officers and employees of the Commission with reasonable allowances, incentives, bonuses, privileges and other benefits as may be necessary or proper for the effective management, operation and administration of the Commission, which shall be exempt from Republic Act No. 6758, otherwise known as the Salary Standardization Law: *Provided, however,* That the compensation package shall be subject to periodic review by the Board no more than once every two (2) years without prejudice to yearly merit reviews or increases based on productivity and efficiency;
- (i) Establish or create Regional Appeals Board in each of the regional revenue offices which shall have the power to decide with finality, which shall be deemed the decision of the Commissioner for purposes of Appeal to the Court of Tax Appeals, cases involving disputed assessments and refunds of internal revenue taxes, fees, charges, penalties, and forfeitures not exceeding specific amounts as may be set by the Board.
- (j) Hire and engage the services of lawyers or legal counsels from either the private sector or other offices of the government service to handle or prosecute specific vital cases filed or pending with the courts, in collaboration with the Board's handling lawyers, as may be determined by the Board in accordance with such guidelines that it may promulgate. The Board is hereby authorized to use its appropriations or available funds for the payment of legal fees for the services rendered by the special counsel.
- (k) Authorize and contract the National Printing Office to exclusively print all receipts required of taxpayers, to enable the Commission to easily track, and verify the authenticity of receipts issued by the taxpayer and minimize fraud and other illegal practices in avoidance of tax liabilities.
- (l) Exercise such powers and perform such other acts as may be necessary, useful, incidental or auxiliary to carry out the provisions of this Act;

SECTION 9. *Conflict of Interest.* - In addition to the requirements of Republic Act No. 6713, otherwise

known as the Code of Ethical Standards, any member of the Board with personal or financial interest in any matter in the agenda of the Board shall disclose such interest to the Board and shall inhibit himself during the deliberations when such matter is taken up. The decision taken on the matter shall be made public and the minutes of the meeting shall reflect the disclosure made and the inhibition of the member concerned.

SECTION 10. *Disqualifications.* - In addition to the disqualifications imposed by Republic Act No. 6713, a member of the Board shall be disqualified from being connected as director, partner, officer, lawyer, accountant, consultant or in any other capacity with individuals, general professional partnerships, or professional corporations who prepare and file tax returns, statements and protests and other papers with, or who appear before the Board, during his incumbency as member of the Board.

Members of the Board from the private sector shall not hold any public office or any employment during their tenure, unless such office or employment is with a state university or college or is connected with the performance of their duties as members of the Board.

SECTION 11. *Removal of Members from the Private Sector.* - The President may remove any member of the Board from the private sector for any of the following reasons:

- (a) The member suffers from physical or mental incapacity that renders him or her incapable of discharging his or her duties and responsibilities in the Board and such incapacity has lasted for more than six (6) months; or
- (b) The member has committed any act/s or operation/s that are shown *prima facie* to be disadvantageous, fraudulent or illegal or manifestly opposed to the aims and interests of the Commission; or
- (c) The member no longer possesses the qualifications specified in Section 7 of this Act; or
- (d) The member has been disqualified for committing acts prohibited under this Act; or
- (e) The member has been convicted of a crime involving moral turpitude.

SECTION 12. *Meetings.* - The Board shall meet at least twice a month. The Board may be called to a meeting by the chairperson or by four (4) other members of the Board.

The presence of five (5) members shall constitute a quorum: *Provided, That* in all cases at least one (1) member from the private sector shall be among the five (5).

All decisions of the Board shall require the concurrence of at least five (5) members, with at least one coming from the private sector. The Chairman shall vote only in cases of tie.

The Board shall maintain and preserve a complete record of the proceedings of the Board, including the tapes and transcript of stenographic notes, either in their original form, in microfilm, or in any electronic medium. The records of the proceedings of the Board shall be made available to the public in accordance with the rules and regulations that the Board may adopt, except the records of proceedings where data identifiable with the returns and tax records of specific taxpayers or are otherwise considered confidential in the NIRC are discussed.

SECTION 13. *The Commissioner; Qualifications; Appointment; Term of Office.* - The Commission shall be headed by a Commissioner, who shall be a natural-born citizen of the Philippines, of good moral character, known for honesty and patriotism, of unquestionable integrity, with at least seven (7) years experience in management, and a recognized expert in the field of taxation, finance, fiscal administration, economics, public administration, public finance, or law.

The Commissioner shall be appointed by the President from a list of at least three (3) nominees prepared by the Board for such purpose. *Provided, That* the incumbent Commissioner as of the date of approval of this Act shall serve only in a holdover capacity pending the appointment of the new Commissioner.

The Board and the Commissioner shall enter into a performance contract for a period of three (3) years.

The performance contract may be renewed by the Board depending on the Commissioner's performance. There shall be no limit to the number of renewals of the performance contract. However, in addition to other grounds for removal as may be provided for by law, the Commissioner may be removed by a majority vote of all the members of the Board prior to the end of the Commissioner's 3-year term for failure to meet commitments embodied in the performance contract, unless such failure is attributable to a cause or causes beyond the Commissioner's control. Such decision by the Board is subject to the provisions of the preceding section.

SECTION 14. *Powers and Functions of the Commissioner.* - The Commissioner shall exercise the powers and functions heretofore exercised by the Commissioner of the Internal Revenue under Sections 4, 5, 6, 7, 8, 14, 15, 16, 17, 19, 20, and other provisions of the National Internal Revenue Code of 1997. In addition, the Commissioner shall:

(a) Report and submit to Congress at the start of every year, detailed revenue collection targets from the smallest revenue unit up to the national office for Congress to be able to make an informed judgment as to projections in the government budget for the year, and for purposes of budget allocation for the Commission;

(b) Execute, administer and implement the policies and measures approved by the Board;

(c) Direct and supervise the operations and administration of the Commission;

(d) Represent the Commission in all dealings with offices, agencies and instrumentalities of the Government and with all persons and entities, public or private, domestic or foreign;

(e) Direct and supervise the preparation of the agenda for the meeting of the Board, and to submit for the consideration of the Board such policies and measures as he or she believes necessary to carry out the purposes and objectives of this Act;

(f) Promulgate with the approval of the Board, all necessary rules and regulations for the effective enforcement of the provisions of the Code, this Act and other revenue laws;

(g) Determine the organizational structure, including the geographical location of the branches and offices of the Commission; reorganize its personnel; and issue such rules and regulations, as he or she may deem necessary or convenient for the purposes of this Act;

(h) Establish a performance-based management system which shall govern the selection, hiring, appointment, transfer, promotion, or dismissal of any personnel. Such system shall aim to attract and retain professionally competent, well-trained, honest, courteous and efficient personnel and to establish professionalism and excellence at all levels of the Commission;

All positions in the Commission shall be governed by a compensation and position classification system and qualification standards approved by the Board based on a comprehensive job analysis and audit of actual duties and responsibilities, in addition to the qualification requirements prescribed under Civil Service Law. The Board shall have the authority to establish a compensation plan for the Commission: *Provided, however,* That the total personal services budget of the Commission shall not be more than sixty percent (60%) of its total operating budget.

(i) Appoint, remove, suspend or otherwise discipline personnel for cause in accordance with the Civil Service rules and regulations and the Implementing Rules and Regulations of this Act.

(j) Provide for the continuing education and training of Commission officials and employees. For this purpose, the Commission may establish a training institute or enter into agreements with institutions of higher learning in the country or abroad, for the establishment of training programs for its technical personnel in the field of taxation, tax administration, ICT and related fields. The Commission is likewise authorized to defray the cost of study, at home or abroad, of qualified employees of the Commission.

(k) The Commissioner shall have the authority to delegate any of the foregoing powers and in such official or officials of the Commission, as he or she deems necessary and practicable.

All references in the Code and other revenue laws, and in the rules and regulations issued in connection therewith, pertaining to the Commissioner of the BIR shall be deemed to refer to the Commissioner of the Internal Revenue Commission.

SECTION 15. *Salary of the Commissioner.* - The Board shall fix the salary of the Commissioner based on an objective classification system to be specified in the Implementing Rules and Regulations of this Act at a sum commensurate to the importance and responsibilities attached to the position *vis a vis* the remuneration and other emoluments offered among top banking institutions in the private sector.

SECTION 16. *System of Incentives and Rewards; Coverage* - A system of special rewards and incentives in revenue collection is hereby established to motivate Commission officials, officers and employees to render exemplary service while upholding the highest ethical standards. This shall be awarded to all those who have accomplished the revenue collection goal for the fiscal year in their respective units or areas of responsibility.

The special incentive system shall take the form of a performance bonus, which will be in cash, and equivalent to ten percent (10%) of the collection in excess of the target as validated by the Development Budget and Coordinating Council created under Executive Order No. 232 series of 1970 as amended, for the period under consideration. In the distribution of the 10% incentive, the bulk shall be awarded to the local or district revenue units responsible for the excess collection in proportion to their shares, and the rest shall be distributed among the regional revenue centers where the aforementioned local/district units belong, in proportion to their shares, and to the national office. Such proportionate distribution shall be detailed and specified in the Implementing Rules and Regulations. *Provided, however,* That no portion of the performance bonus shall accrue to members of the Internal Revenue Board.

SECTION 17. *Incentives and Rewards Fund.* - An incentives and rewards fund shall be created from the amount equivalent to ten percent (10%) of the excess revenue collection over the target revenue of the year under consideration. The fund which shall be treated as a Special Account in the General Fund shall be automatically appropriated. All amount accruing to the Special Account shall be utilized for the payment of special incentives and rewards pursuant to Section 16 of this Act.

SECTION 18. *System of Lateral Attrition and Procedures.* - There shall be a system of lateral attrition, which shall be an instrument to improve or maintain the revenue collection performance of the Internal Revenue Commission. Lateral attrition shall be in the form of transfer of post or assignment to a lower ranking revenue district or area or to a lower post of less responsible duties and functions or in extreme cases, separation from government service in accordance with Civil Service rules and regulations and other pertinent laws.

The system of lateral attrition shall be put in place after careful review and approval by the Board upon the recommendation of the Commissioner. *Provided,* That an official, officer and employee affected by the lateral attrition shall be given the right to appeal to the Civil Service Commission in accordance with existing Civil Service rules and laws, without prejudice to any personnel action taken against him or her during the pendency of the case.

In the determination of the Board of whether the form of lateral attrition is transfer of post or separation from the service, the degree of non-performance or non-attainment of revenue targets as duly specified under the performance contract, shall be the primary determining factor. Others factors such as but not limited to, lifestyle check, attitude and behavior in the workplace, and capacity and effectiveness to discharge the duties and functions of a revenue employee, shall also be taken into consideration. These shall be specified under the performance contract and guidelines for their objective implementation and shall be formulated and included in the Implementing Rules and Regulations: *Provided, however,* That in cases where the ground for termination is the failure to collect the revenue target, the shortfall should at least amount to twenty percent (20%).

For purposes of this Act, all officers and employees of the Bureau of Internal Revenue shall be considered

to be on a hold over capacity until such time that the Commission hires them, or officially terminates their services after thorough evaluation of their worthiness based on the following criteria: 1) qualifications – records of all BIR officers and employees shall be examined to determine whether they possess the qualifications required under the Civil Service rules and regulations to discharge the functions of their positions in the BIR, and to determine further if they possess the minimum qualifications required under the new staffing pattern of the Commission as approved by the Board; 2) lifestyle check – all officers and employees of the BIR shall be subject to lifestyle check to determine if they are fit to serve in the new Commission; 3) Three-year performance evaluation – all officers and employees of the BIR shall be evaluated based on their performance during the past three years, to include among others their ability to meet their intended revenue targets; 4) redundancy – all positions in the BIR shall be evaluated to determine which positions will fit into the new staffing pattern and which ones will be abolished for reason of redundancy. These criteria are not exclusive and other factors may be added by the Commissioner with the approval of the Board.

SECTION 19. *Exemptions from Lateral Attrition.* - The system of lateral attrition shall not apply in the following circumstances: (a) Where the revenue district or area of responsibility has suffered from economic difficulties brought about by natural or man-made calamities, industry set back in the market, regional financial crisis, and like situations: *Provided,* That the existence of these conditions shall be immediately reported to the Board by concerned revenue districts or areas of responsibility justifying shortfalls in revenue collections; and

(b) Where the district or area of responsibility is newly-created, not exceeding two (2) years in operation, and has no historical record of collection performance that can be used as basis for evaluation;

SECTION 20. *No injunction against Personnel Action of the Board.* No court shall grant an injunction to restrain the appointment, promotion, assignment, or reassignment of personnel of the Commission as finally determined or decided by the Board.

SECTION 21. *Annual Reports.* - The Commissioner shall monitor and render annual reports to the President, Congress and the Board, and make public the extent of the Commission's compliance with revenue targets and the law.

Likewise, in close coordination with the Civil Service Commission, the Commission shall also conduct a personnel effectiveness audit to determine the optimum performance of officials, officers, and employees and the full utilization of personnel.

SECTION 22. *Penal Provisions.* - (a) Any official, agent or employee found to have participated directly or indirectly in the commission of fraud, collusion, falsification, or misrepresentation in any transaction with the Internal Revenue Commission, whether for him or for some other person, shall suffer the penalties provided for in the Republic Act No. 8424, otherwise known as the Tax Reform Act of 1997, and in Article 172 of the Revised Penal Code.

(b) Whoever shall obtain or receive any money or check invoking any provision of this Act or any agreement thereunder, without being entitled thereto with the intent to defraud any taxpayer or the government of its due taxes, shall be punished by a fine of not less than Fifty Thousand Pesos (P50,000.00) nor more than Two Hundred Thousand Pesos (P200,000.00) and by imprisonment of not less than six (6) years and one (1) day to not more than twelve (12) years, and in addition shall suffer absolute perpetual disqualification from holding public office and from practicing any profession or calling licensed by the government.

(c) Any official, agent or employee who receives or keeps fund or property belonging, payable or deliverable to the Commission and appropriates the same, or takes or misappropriates or uses the same to any purpose other than that authorized by this Act, or permits another person to take, misappropriate or use said fund or property, in whole or in part, shall suffer the penalties provided in Article 217 of the Revised Penal Code, and in addition shall suffer absolute perpetual disqualification from holding public office and from practicing any profession or calling licensed by the government.

(d) Any official, agent or employee whose designation involves the collection of government revenues and

other accounts due the Internal Revenue Commission who shall fail, refuse or delay the payment, turnover, remittance or delivery of such accounts to the Commission within thirty (30) days from the time that the same shall have been due and demandable, shall upon conviction by final judgment suffer the penalties of imprisonment of not less than Six (6) years nor more than Twelve (12) years and a fine of not less than One Hundred Thousand Pesos (P100,000.00) nor more than Two Hundred Thousand Pesos (P200,000.00), and in addition shall suffer absolute perpetual disqualification from holding public office and from practicing any profession or calling licensed by the government.

(e) Criminal actions arising from violations of the provisions of this Act may be commenced by the Internal Revenue Commission or by any aggrieved taxpayer, either under this Act or, in appropriate cases, under the Revised Penal Code.

SECTION 23. *Applicability of Prohibitions and Sanctions; Administrative Complaints.* - The penalties imposed on officials, agents or employees of the Bureau of Internal Revenue who are guilty of the offenses enumerated under the National Internal Revenue Code of 1997 and other criminal statutes shall be applicable to members of the Internal Revenue Board and officials, agents and employees of the Internal Revenue Commission who are found guilty of such offenses.

For purposes of administrative complaints against officers and employees of the Commission, an Internal Affairs Division to be created by and reporting directly to the Board shall conduct the investigations on such complaints. For this purpose, such internal affairs division shall be deemed deputized by the Office of the Ombudsman under Republic Act No. 6770.

SECTION 24. *Indemnification for Legal Defense Costs and Expenses.* - Section 227 of the National Internal Revenue Code shall be amended to read as follows:

“The Internal Revenue Commission shall indemnify members of the Internal Revenue Board and other officials of the Commission, including personnel of the units performing assessment, audit and collection functions, against all costs and expenses reasonably incurred by such persons in connection with any civil or criminal action, suit or proceeding to which they may be or made party by reason of their performance of their functions or duties, unless they are finally adjudged in such action or proceeding to be liable for gross negligence or misconduct.

In the event of settlement or compromise, indemnification shall be provided only in connection with such matters covered by the settlement as to which the Internal Revenue Commission is advised by external counsel that the persons to be indemnified did not commit any gross negligence or misconduct.”

SECTION 25. *Transitory Provisions.* - (a) The Commission shall be organized, by adopting an entirely new organizational structure or staffing pattern to suit the operations of the Commission under this Act. Selection or hiring of Commission personnel shall be based strictly on merit and fitness and applicants shall be subject to the criteria mentioned in the preceding sections of this Act to ensure their suitability for appointment to the organization. The formulation of the program shall be completed within the transition period of Eight (8) months after the effectivity of this Act, and shall be fully implemented immediately thereafter.

(b) Subject to the preceding paragraph and to minimize the disruption of the internal revenue administration during the transition period, all incumbent personnel in the BIR as of the date of the approval of this Act shall continue to exercise their duties and functions. To help ensure that revenue targets are met during the same period, and in addition to the provision of Section 285 of the National Internal Revenue Code, an additional amount equivalent to One percent (1%) of the revenue collection for the said period shall be used to pay separation/retirement benefits authorized under the succeeding Section and shall likewise be treated as receipts appropriated for this purpose. Towards the same end, the hiring of auditors, suspension of assessments, institution of voluntary assessment programs, and similar measures are hereby authorized during the transition period to augment the revenue collection.

SECTION 26. *Separation Benefits.* - Internal revenue officials and employees displaced or separated from

the service as a result of the organization of the Commission shall be allowed to retire with proper benefits under existing retirement laws or to receive separation pay and other benefits in accordance with existing laws, rules and regulations.

SECTION 27. *Implementing Rules and Regulations.* - In consultation with the Office of the President, the Department of Finance, the Department of Budget and Management, and the Bureau of Internal Revenue, upon consultation with the Civil Service Commission, shall issue within the 30-day period between the publication and effectivity of this Act, the necessary Implementing Rules and Regulations for the effective implementation of this Act, subject to the approval of the Congressional Oversight Committee to be created for this purpose.

SECTION 28. *Congressional Oversight Committee.* There is hereby created a Congressional Oversight Committee composed of seven (7) Members from the Senate and seven (7) Members from the House of Representatives. The members from the Senate shall be appointed by the Senate President based on the proportional representation of the parties or coalitions therein with at least two (2) Senators representing the Minority. The members from the House of Representatives shall be appointed by the Speaker, also based on proportional representation of the parties or coalitions therein with at least two (2) members representing the Minority. The Oversight Committee shall have the power to oversee the implementation of this Act and to review or revise the Implementing Rules and Regulations within thirty (30) days from the promulgation of said IRR. After the Oversight Committee has approved the IRR, it shall thereafter become *functus officio*, and therefore cease to exist.

SECTION 29. *Separability Clause.* - Should any provision of this Act or any part thereof be declared unconstitutional or invalid by a competent court, the other provisions, so far as they are separable from the invalid ones, shall remain in force and effect.

SECTION 30. *Repealing Clause.* - All laws and any other law or parts thereof, which are inconsistent with this Act are hereby repealed, amended or modified accordingly.

SECTION 31. *Effectivity.* - This Act shall take effect thirty (30) days after its publication in the *Official Gazette* or in at least two (2) newspapers of general circulation.

Approved.