



Republic of the Philippines
HOUSE OF REPRESENTATIVES
Quezon City, Metro Manila



Thirteenth Congress
First Regular Session

HOUSE BILL NO. 2374

Introduced by Honorable Catalino V. Figueroa

EXPLANATORY NOTE

This bill seeks to impose gross income taxation for corporations, amending for the purpose the National Internal Revenue Code, as amended.

In 1997, the Congress enacted the Tax Reform Act of 1997 to address public clamor for a more realistic system of sourcing revenues as an alternative to the imposition of new taxes everytime the budget is increased. Under the said law, individuals are taxed on the basis of their gross income after personal deductions and corporations are given the option to choose between gross income taxation (subject to certain conditions) and net income taxation.

Individual taxpayers, especially those receiving fixed salaries, could not help but feel aggrieved by the aforecited decision of Congress. Corporations and professional partnerships are given the option although they are the higher earning enterprises and have more resources available to enable them to hide their true income.

True enough, our present system of taxation is based on honesty which virtue is hardly abundant these days either in the taxpayer or tax examiner. This system gives too much leeway to taxpayers, corporations and

partnerships to manipulate their books of accounts by either increasing expenses or reducing income. It likewise leaves too much discretion on the part of the tax examiner to determine allowable exclusions, expense deductions and the amounts involved. It opens the gates of corruption and loss of government revenues, more so where the taxpayer and the examiner, through the frequent interaction encouraged by the present system, constantly meet and haggle between themselves. Oftentimes, the examiner condones 30% to 50% of the taxpayer's liability.

This modus operandi permeates every phase of assessment and collection, from the preparation of returns, examination, assessment, and compromise settlement, up to the prosecution stage.

Internal revenue statistics show that of the total individual income taxes collected, only 2-6 percent come from individual taxpayers engaged in trade or business or in the exercise of a profession. This means that compensation income taxpayers pay 97.4% of total individual taxes. The reason is because compensation taxes are simple to compute and are withheld at source while the taxable net incomes of businessmen and independent professionals are paid by them only after a complicated process of computation for allowable deductions and negotiations with the BIR.

The need to institute meaningful reforms in our present tax system becomes more imperative in the light of these revelations. We ought to discard the existing scheme and the tedious process of computing net taxable income upon trade or business and independent professional service income.

It is no wonder then that in her July 26, 2004 State of the Nation Address, the President herself, Gloria Macapagal Arroyo, pushed for the passage of the Gross Taxation System.

The gross taxation system encourages voluntary compliance for many reasons: first, it is difficult to evade payment of the right amount of tax, and thus, makes it easier to prove tax fraud and prosecute and jail tax evaders; second, the gross tax rates are pegged at lower levels; third, taxpayers are no longer at the mercy of tax examiners; and fourth, the margin of error in tax is lessened and the computation of the final tax is based only on one figure – the gross income.

Gross income taxation is simple to administer: the taxes are easy to collect, taxpayers and tax examiners no longer exercise wide discretion, and the overall national taxes are easy to monitor.

In view thereof, early approval of this measure is earnestly requested.



CATALINO V. FIGUEROA



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AN ACT
INSTITUTING THE GROSS INCOME TAXATION SYSTEM FOR
CORPORATIONS, AMENDING FOR THE PURPOSE THE
NATIONAL INTERNAL REVENUE CODE, AS AMENDED.

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

SECTION 1. Section 27, paragraphs (A), (B) and (C) of the National
Internal Revenue Code, as amended, is hereby further amended to 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 of [thirty-five percent (35%)] FIFTEEN
PERCENT (15%) is hereby imposed upon the [taxable]*

GROSS income derived during each taxable year from all sources within and without the Philippines by every corporation, as defined in Section 22 (B) of this Code and taxable under this Title as a corporation, organized in, or existing under the laws of the Philippines. [*Provided*, x x x].”

“(B) *Proprietary Educational Institutions and Hospitals.*-

Proprietary educational institutions and hospitals which are nonprofit shall pay a tax of [ten percent (10%)] FIVE PERCENT (5%) on their [taxable] GROSS income except those covered by Subsection (D) hereof: x x x .”

“(C) *Government-owned or Controlled Corporation Agencies or Instrumentalities.*- The provisions of existing special or general laws to the contrary notwithstanding, all corporations, agencies, or instrumentalities owned or controlled by the Government, except the Government Service Insurance System (GSIS), the Social Security System (SSS), the Philippine Health Insurance Corporation (PHIC), the Philippine Charity Sweepstakes Office (PCSO) and the Philippine Amusement and Gaming Corporation (PAGCOR), shall pay such rate of tax upon their [taxable] GROSS income as are

imposed by this Section upon corporations or associations engaged in a similar business, industry, or activity.”

SEC. 2. Section 28, paragraph (A) of the same Act is hereby amended to read as follows:

“SEC. 28. *Rates of 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 equivalent to [thirty-five percent (35%)] FIFTEEN PERCENT (15%) of the [taxable] GROSS income derived in the preceding taxable year from all sources within the Philippines. [Provided, That x x x.]”

SEC. 3. Section 34 of the same Act is hereby repealed.

SEC. 4. This Act shall take effect fifteen (15) days following its publication in at least two (2) newspapers of general circulation in the Philippines.

Approved,