

Republic of the Philippines
House of Representatives
Quezon City

Thirteenth Congress

First Regular Session



House Bill No. 3602

Introduced by **Representative JOEY SARTE SALCEDA**

EXPLANATORY NOTE

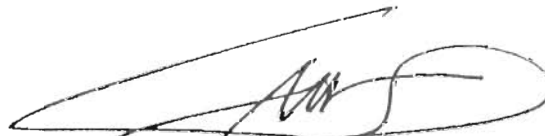
This measure seeks to restore the corporate income tax from 32 percent to 35 percent.

Using 2003 incomes, this would raise revenues by P10.5 billion from P112 billion to P122.5 billion according to the National Tax Research Center (NTRC). This would correct the current sequence and complexion which are opposed are burden on the masses whether rightly or wrongly supported by empirical data. There is pervasive impression that corporations are not being made to share the burden given their current tax structure. Thus, there is nasty and vigorous contrary pressure versus substantial tax measures after the sin taxes. The question may be asked, "Why impose incremental burdens on consumers and cooperatives while corporations get away with no additional burden or equitable share in solving the fiscal crisis?"

Clearly, to make VAT hike and reimposing VAT on petroleum in lieu of the P2 tax per liter politically feasible, we must make profitable firms, not just cellular phone companies, do their share. This is a better tax policy than a selective franchise tax on telecoms. Unprofitable firms need not worry.

A two-tiered, say 25 percent and 40 percent, corporate income tax based on aggregate income level will create distortions. While these would finally catch those alleged exaggerated telecom profits, it would also penalize firms who have to risk and employ huge resources to earn them. The only viable rational way to inject progressivity on corporate income tax is to use ROE which would be a messy administrative nightmare for a Bureau of Internal Revenue (BIR) that could barely make do with a current uniform rate. A uniform rate clearly is the better policy.

In view of the foregoing, the early passage of this bill is earnestly sought.


JOEY SARTE SALCEDA

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AN ACT
AMENDING THE NATIONAL INTERNAL REVENUE CODE, AS
AMENDED AND FOR OTHER PURPOSES

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

SECTION 1. Section 27 of Republic Act No. 8424, as amended, is hereby 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%) is hereby imposed upon the taxable 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*, That effective January 1, 1998, the rate of income tax shall be thirty-four percent (34%); 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%)].

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[“The reduced corporate income tax rates shall be applied on the amount computed by multiplying the number of months covered by the law rates within the fiscal year by the taxable income of the corporation for the period, divided by twelve.]

[“*Provided, further, That the*] **THE** President, upon the recommendation of the Secretary of Finance, may , effective January 1, 2000, allow corporations the option to be taxed at fifteen percent (15%) of gross income as defined herein, after the following conditions have been satisfied:

Section 2. Section 28 of the same Act is hereby amended to 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 of thirty-five percent (35%) of the taxable income derived in the preceding taxable year from all sources within the Philippines [: *Provided, That* effective January 1, 1998, the rate of income tax shall be thirty-four percent (34%); 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%)].

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[“The reduced corporate income tax rates shall be applied on the amount computed by multiplying the number of months covered by the law rates within the fiscal year by the taxable income of the corporation for the period, divided by twelve.]

[“*Provided, however, further, That*] A resident foreign corporation shall be granted the option to be taxed at fifteen percent (15%) on gross income under the same conditions, as provided in Section 27 (A).””

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“(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 equal to thirty-five percent (35%) of the gross income received during each taxable year from all sources within 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 subparagraphs 5 [(c) and (d): Provided, That effective January 1, 1998, the rate of income tax shall be thirty-four percent (34%); effective January 1, 1999, the rate shall be thirty-three (33%); and, effective January 1, 2000 and thereafter, the rate shall be thirty-two (32%)].

Section 3. This Act shall take effect fifteen (15) days after its complete publication in at least two (2) national papers of general circulation.

Approved,