

Republic of the Philippines
HOUSE OF REPRESENTATIVES
Quezon City

FIFTEENTH CONGRESS
First Regular Session

House Bill No. 3992

Introduced by Honorable Giorgidi B. Aggabao

EXPLANATORY NOTE

The inherent and fundamental nature and character of a tax is that of a contribution to the support of the government. And Income Taxation i.e. taxes on income is a well-recognized exaction. The law, however, allows a taxpayer to reduce his taxes by permitting him certain deductions. This is an area, however, where discreditable evasion of the taxing laws occurs; where fraud on the revenue of the government happens.

Under present law, deductions from gross income are permitted for the following expenses: 1. Ordinary and necessary trade, business or professional expenses; 2. Interests; 3. Taxes; 4. Losses; 5. Bad Debts; 6. Depreciation; 7. Charitable Contributions; 8. Research & Development; 9. Pension Trusts; 10. Premium Payments on Insurance.

As proposed under this bill, deductions from gross income will only be allowed only for the following expenses: 1. Salaries & Wages; 2. Supplies and Utilities; 3. Rentals; 4. Interests; 5. Taxes; 6. Depreciation; 7. Research & Development; 8. Charitable Contributions.

This bill seeks to accomplish three objectives. First, it limits, through specific statutory provisions, deductions to only eight allowable expenses. Second, it eliminates the sui generis deduction of "ordinary and necessary trade, business or professional expenses" such as travelling expenses, entertainment, amusement, recreation expenses and other wide variety of expenses that have spawned problems of drawing an exact line of demarcation between legitimate business expenses and personal expenses. Third, it also eliminates Losses, Bad Debts, Pension Trusts and Premium payments on insurance which are basically personal expenses.

The practical operation of the Optional Standard Deduction is maintained under this bill. However, instead of 10% of gross income, this bill seeks to increase the rate to 20% of gross income.

It is hoped that simplifying the taxes for self-employed individuals and professionals will boost the tax take of the government. For this reason, approval of this bill is earnestly requested.


GIORGIDI B. AGGABAO

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AN ACT
ADOPTING THE SIMPLIFIED NET INCOME TAXATION SCHEME FOR INDIVIDUALS ENGAGED
IN TRADE/BUSINESS AND/OR PRACTICE OF PROFESSION, AMENDING FOR THE PURPOSE
THE NATIONAL INTERNAL REVENUE CODE OF 1997, AS AMENDED

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

SECTION 1. Section 22 of the National Internal Revenue Code (NIRC) of 1997, as amended, is hereby further amended by adding the following definitions after Subsection (HH) to read as follows:

"Sec. 22. *Definitions.* – When used in this Title:

"x x x

"(HH) x x x

"(II) THE TERM 'SELF-EMPLOYED INDIVIDUALS' SHALL MEAN PERSONS WHO, INDEPENDENT OF EMPLOYER-EMPLOYEE RELATIONSHIP, DERIVE INCOME FROM TRADE OR BUSINESS OR FROM THE PURSUIT OF AN OCCUPATION.

"(JJ) THE TERM 'PROFESSIONALS' SHALL MEAN PERSONS WHO, INDEPENDENT OF EMPLOYER-EMPLOYEE RELATIONSHIP, DERIVE FROM THEIR PROFESSION, THE PRACTICE OR EXERCISE OF WHICH REQUIRE AN EXAMINATION AND/OR LICENSE FROM A GOVERNMENT AGENCY."

SECTION 2. Section 24 of the NIRC of 1997, as amended, is hereby further amended to read as follows:

"Sec. 24. *Income Tax Rates.* –

"(A) *Rates of Income Tax on Individual Citizen and Individual Resident Alien of the Philippines.* –

"(1) x x x

"x x x; and

"(c) x x x.

"(2) *Rates of tax on Taxable Income of Individuals.* –

"x x x.

" (3) SIMPLIFIED NET INCOME TAX FOR SELF-EMPLOYED INDIVIDUALS AND FOR PROFESSIONALS. – AN INCOME TAX FOLLOWING THE PRESCRIBED RATE FOR INDIVIDUALS UNDER THE PRECEDING PARAGRAPH IS HEREBY IMPOSED UPON THE TAXABLE INCOME DERIVED DURING ITS TAXABLE YEAR FROM ALL SOURCES WITHIN AND WITHOUT THE PHILIPPINES BY AN INDIVIDUAL RESIDENT CITIZEN AND FROM ALL SOURCES WITHIN THE PHILIPPINES BY AN INDIVIDUAL NONRESIDENT CITIZEN AND INDIVIDUAL RESIDENT ALIEN ENGAGED IN TRADE, BUSINESS OR PRACTICE OF PROFESSION.

" X X X. "

SECTION 3. Section 34 of the NIRC of 199, as amended, is hereby further amended, to read as follows:

"Sec. 34. *Deductions from Gross Income.* – Except for taxpayers earning compensation income arising from personal services rendered under an employer-employee relationship where no deductions shall be allowed under this Section other than that under Subsection (M) hereof, in computing taxable income subject to income tax under Sections [24(A);] [25(A);] [26;] 27(A), (B) and (C) [;] **THE ITEMS SPECIFIED IN PARAGRAPHS (A) TO (J) OF THIS SECTION: PROVIDED, HOWEVER, THAT IN COMPUTING TAXABLE INCOME SUBJECT TO TAX UNDER SECTION 24(A)(3) IN THE CASE OF SELF-EMPLOYED INDIVIDUALS OR PROFESSIONALS, ONLY THE FOLLOWING DEDUCTIONS SUBJECT TO SUBSTANTIATION, SHALL BE ALLOWED:**

"(A) A REASONABLE ALLOWANCE FOR SALARIES AND OTHER COMPENSATION;

"(B) A REASONABLE ALLOWANCE FOR SUPPLIES AND UTILITIES INCURRED, IN THE PURSUIT OF THE TAXPAYER'S TRADE OR BUSINESS, PROFESSION OR OCCUPATION;

"(C) A REASONABLE ALLOWANCE FOR RENTALS AND/OR PAYMENTS WHICH ARE REQUIRED AS CONDITION FOR THE CONTINUED USE OR POSSESSION OF PROPERTY TO WHICH THE TAXPAYER HAS NOT TAKEN OR IS NOT TAKING TITLE OR IN WHICH HE HAS NO EQUITY OTHER THAN OF A LESSEE, USER OR POSSESSOR, IN THE PURSUIT OF THE TAXPAYER'S TRADE OR BUSINESS, PROFESSION OR OCCUPATION.

"(D) INTEREST PAID OR ACCRUED WITHIN A TAXABLE YEAR ON LOANS CONTRACTED FROM ACCREDITED FINANCIAL INSTITUTIONS WHICH MUST BE PROVEN TO HAVE BEEN INCURRED, IN THE PURSUIT OF THE TAXPAYER'S TRADE OR BUSINESS, PROFESSION OR OCCUPATION;

"(E) TAXES PAID OR INCURRED WITHIN THE TAXABLE YEAR, IN THE PURSUIT OF THE TAXPAYER'S TRADE OR BUSINESS, PROFESSION OR OCCUPATION, EXCEPT:

"(1) THE INCOME TAX PROVIDED FOR UNDER THIS TITLE;

"(2) THE INCOME TAXES IMPOSED BY AUTHORITY OF ANY FOREIGN COUNTRY;

"(3) ESTATE AND DONOR'S TAXES; AND

"(4) TAXES ON REAL PROPERTY NOT USED IN THE TAXPAYER'S TRADE OR BUSINESS, PROFESSION OR OCCUPATION.

"(F) A REASONABLE ALLOWANCE FOR DEPRECIATION, FOR THE EXHAUSTION, WEAR AND TEAR OF PROPERTY USED IN THE PURSUIT OF THE TAXPAYER'S TRADE OR BUSINESS, PROFESSION OR OCCUPATION;

"(G) A REASONABLE ALLOWANCE FOR RESEARCH AND DEVELOPMENT NOT IN EXCESS OF FIVE PERCENT (5%) OF GROSS INCOME, IN THE PURSUIT OF THE TAXPAYER'S TRADE OR BUSINESS, PROFESSION OR OCCUPATION; AND

"(H) CONTRIBUTIONS MADE TO THE GOVERNMENT AND ACCREDITED RELIEF ORGANIZATIONS FOR THE REHABILITATION OF CALAMITY STRICKEN AREAS BY THE PRESIDENT."

"(A) *Expenses.* –

" x x x.

"(I) *Optional Standard Deduction.* – In lieu of the deductions allowed under the preceding Subsections, an individual subject to tax under Section 24, other than a nonresident alien, may elect a standard deduction in an amount not exceeding [ten (10%) percent] **TWENTY (20%) PERCENT** of his gross income x x x x x .

"(M) x x x.

" x x x."

SECTION 4. *Mandatory Registration by Self-Employed Individuals and Professionals.* – All self-employed individuals and professionals, as defined in this Act, shall register with the appropriate Government licensing and/or regulatory agency, for purposes of the unified list of taxpayers who are self-employed individuals and professionals: *Provided, That* the Social Security System (SSS), the Professional Regulations Commission (PRC), the Department of Trade and Industry (DTI) – Board of Investments (BOI), and other licensing and/ or regulatory agencies, shall be required to submit on a quarterly basis to the Bureau of Internal Revenue (BIR), a list of self-employed individuals or professionals, registered with such agency.

SECTION 5. *Applicability Clause.* – This act shall apply to income earned or paid to, and deductions incurred or paid by, self-employed individuals and professionals, beginning taxable year 2011.

SECTION 6. *Separability Clause.* – If any provision of this Act is declared invalid or unconstitutional, other provisions hereof which are not affected thereby shall continue to be in full force and effect.

SECTION 7. *Repealing Clause.* – Any law, presidential decree or issuance, executive order, letter of instruction, administrative order, rule or regulation contrary to or inconsistent with any provision of this Act is hereby repealed or modified accordingly.

SECTION 8. *Effectivity Clause.* – This Act shall take effect fifteen (15) days after its publication in the *Official Gazette* or in at least two (2) national newspapers of general circulation, whichever date comes earlier.

Approved.