

Republic of the Philippines
HOUSE OF REPRESENTATIVES
Batasan Hills, Quezon City

SIXTEENTH CONGRESS
First Regular Session



House Bill No. 247

Introduced by
ACT TEACHERS Party-List Representative Antonio L. Tinio

EXPLANATORY NOTE

Republic Act 8424 or the *National Internal Revenue Code* (NIRC) as amended allows for "personal exemptions"—amounts which are deducted from a citizen or resident alien's gross income to arrive at a lesser income that may be subjected to tax (known as the net or taxable income). "Personal exemptions are the theoretical personal, living, and family expenses of an individual...These are arbitrary amounts which have been calculated by our lawmakers to be roughly equivalent to the minimum of subsistence, taking into account the personal status and additional qualified dependents of the taxpayer" (*Carmelino F. Pansacola v. Commissioner of Internal Revenue*, G.R. No. 159991, 16 November 2006).

By looking at the adjustments to the personal exemptions in the past two decades, it can be seen that Congress has been slow to respond to the needs of the people by increasing these amounts in a timely manner to keep up with the rising cost of living. In 1991, under Republic Act 7167, the basic personal exemption varied from P9,000 to P18,000 depending on the status of the taxpayer, while the additional exemption was P5,000 per dependent. In 1997, Republic Act 8424 was enacted, increasing the basic personal exemption to P20,000 to P32,000 and additional exemption to P8,000 per dependent. The latest adjustment was in 2008, through Republic Act 9504, which increased the basic personal exemption to P50,000 and the additional exemption to P25,000 per dependent. Four years later, the exemptions have remained at such amounts, despite the rising costs which daily assault the family.

In 2008, the basic personal exemption of P50,000 was 68% of the annual salary of the lowest-paid government employee (Salary Grade 1 at P6,149 per month), 33% of that of a middle-level government employee (Salary Grade 11, P12,748 per month), and 6% of that of the Philippine President (Salary Grade 33, P69,878 per month). It was 42% of the annual basic pay of the minimum wage earner in the private sector in the National Capital Region (P382 per day).¹

¹ Republic Act 9504 exempted minimum wage earners from payment of income tax. The minimum wage rate is used here only as a benchmark for private sector incomes.

The basic personal exemption now stands at 46% of the annual salary of the lowest-paid government employee (Salary Grade 1 at P9,000 per month), 22% of that of a middle-level government employee (Salary Grade 11 at P18,549 per month), 3% of that of the President (Salary Grade 33 at P120,000 per month), and 35% of that of the minimum wage earner (P11,780 per month).

Per Constitutional mandate, taxation must be equitable and progressive. By these principles, income earners from the lowest strata, especially purely compensation income earners, are to be taxed less *and* given more opportunities to decrease their taxable incomes. They comprise the majority of the income taxpayer base, and the State can do no less than increase the amounts they can take home to their families. However, much more needs to be done in this regard. In Chapter VII of the NIRC stands, for instance, only three types, out of at least 16, of allowable deductions are available to purely compensation income earners—premium payments on health and/or hospitalization insurance, the basic personal exemption, and the additional exemption for dependents. The rest are fully enjoyed exclusively by corporate taxpayers.

This bill aims to increase the basic personal and additional exemptions, and to give the Commissioner of Internal Revenue the duty to annually review these exemptions in relation to current living costs and recommend necessary adjustments to Congress. It proposes the restoration of the exemptions to the 2008 levels, thereby easing the income tax burden on ordinary working people. This proposal will allow the lowest-paid government employee to take home a non-taxable income of at least 69% of his or her annual pay. The middle-level government employee and the minimum wage earner will be assured of 34% and 53% of their incomes, respectively.



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AN ACT
INCREASING THE ALLOWANCE OF PERSONAL EXEMPTION FOR INDIVIDUAL TAXPAYERS,
AMENDING FOR THE PURPOSE SECTION 35 (A) AND (B) OF REPUBLIC ACT 8424, OR THE
TAX REFORM ACT OF 1997, AS AMENDED BY REPUBLIC ACT 9504

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

SECTION 1. Section 35 of Republic Act 8424 or the *Tax Reform Act of 1997* as amended by Republic Act 9504 is hereby further amended to read as follows:

“SECTION 35. *Allowance of Personal Exemption for Individual Taxpayer.* -

“(A) *In General.* – For purposes of determining the tax provided in Section 24 (A) of this Title, there shall be allowed a basic personal exemption amounting to [Fifty thousand pesos (P50,000)] **SEVENTY FIVE THOUSAND PESOS (P75,000)** for each individual taxpayer.

“In the case of married individuals where only one of the spouses is deriving gross income, only such spouse shall be allowed the personal exemption.

“(B) *Additional Exemption for Dependents.* – There shall be allowed an additional exemption of [Twenty-five thousand pesos (P25,000)] **FORTY THOUSAND PESOS (P40,000)** for each dependent not exceeding four (4).

“The additional exemption for dependent shall be claimed by only one of the spouses in the case of married individuals.

“In the case of legally separated spouses, additional exemptions may be claimed only by the spouse who has custody of the child or children: *Provided, that* the total

amount of additional exemptions that may be claimed by both shall not exceed the maximum additional exemptions herein allowed.

"For purposes of this Subsection, a 'dependent' means a legitimate, illegitimate or legally adopted child chiefly dependent upon and living with the taxpayer if such dependent is not more than twenty-one (21) years of age, unmarried and not gainfully employed or if such dependent, regardless of age, is incapable of self-support because of mental or physical defect.

"(C) x x x

"(D) x x x

"(E) THE COMMISSIONER OF INTERNAL REVENUE SHALL ANNUALLY REVIEW THE ALLOWABLE DEDUCTIONS UNDER THIS SECTION IN RELATION TO CURRENT COSTS OF LIVING AND RECOMMEND NECESSARY ADJUSTMENTS TO CONGRESS."

SECTION 2. Any law, revenue regulation, or any part thereof inconsistent with this Act are hereby repealed or modified accordingly.

SECTION 3. This Act shall take effect fifteen (15) days after its publication in the *Official Gazette* or one newspaper of general circulation.

Approved,