

REPUBLIC OF THE PHILIPPINES
HOUSE OF REPRESENTATIVES
QUEZON CITY

SIXTEENTH CONGRESS
FIRST REGULAR SESSION

H.B. NO. 3513



Introduced by **HON. AL FRANCIS C. BICHARA**

EXPLANATORY NOTE

This bill seeks to do away with the Estate Tax system of taxation on transfers of decedent's properties, and replace it with Inheritance Tax system which is more reflective of the Filipino culture, and more realistic as far as the financial status of most Filipino families are concerned.

It is a fact that most Filipino families are unaware of the existence of Estate taxes imposed by law upon the estate of a decedent. Thus, most estates are partitioned among the heirs after some informal "internal arrangements" have been reached, without taxes being paid for years if taxes are ever paid at all.

In some cases where the heirs are made aware of the taxes they have to pay, those who can afford the exorbitant rates, pay the taxes within the prescribed period to avoid further penalties. Those who have no means to pay the taxes end up either selling a substantial portion of the estate to settle the taxes or postponing indefinitely such payment until it is too late and the penalties have made the payment too burdensome that they end up selling entire properties with the buyers shouldering the tax deficiencies.

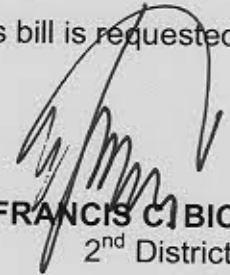
In most cases, heirs lose substantial portions if not entire properties to satisfy tax obligations. Take for example the land distributed to individual tenant farmers under the CARP. It takes years before the farmer can actually pay back the government, yet in several cases, even before the farmer can fully satisfy his obligations, he has already passed away and left the small land to his family. Complications arise when the heirs need to transfer the ownership of the land to be able to legally assume the pending obligations of the decedent. Aside from having almost nothing to pay for the land and the real property taxes that go with it, they will now have to look for additional resource to satisfy the exorbitant estate tax if they don't want to lose the only property that they may ever own. Thus most of them end up selling the land while it still has value and before it is eaten up by the unpaid taxes and amortization payments.

Such reality is not in consonance with the Filipino culture. Heads of families work hard to be able to leave to their loved ones substantial inheritance which they can in turn transfer to their descendants and so forth. The exorbitant tax rates prevent this scenario from coming into play. One may argue that the estate taxes benefit the government and the people. However, transfers of properties through inheritance does not stop payment of taxes. Real property taxes will continue to be paid by the new registered owners or heirs, as well as other taxes incidental to ownership of properties. Thus, perhaps it is even more beneficial in the long run to do away with estate taxes, in order to preserve inheritances and our culture.

The same is true for donor's taxes. If the donations are made within and among family members, such should be tax exempt. Should it be allowed, such practice will avoid tedious accounting of estates in cases of intestate succession, not to mention the bitter in-fighting among heirs, if most or all of the properties of the decedent have already been distributed among the heirs while he was still alive.

For this reason, this bill proposes changing our system of taxation on transfers of estate from Estate Tax to Inheritance Tax and exempting certain donations from taxation.

In view of the foregoing considerations, approval of this bill is requested.



AL FRANCIS C. BICHARA
2nd District, Albay

H.B. NO. 3513

Introduced by **HON. AL FRANCIS C. BICHARA**

**AN ACT RESTRUCTURING THE TRANSFER TAXES, AMENDING FOR THE
PURPOSE TITLE III OF THE NATIONAL INTERNAL REVENUE CODE, AS
AMENDED**

Section 1. Section 84 of the National Internal Revenue Code, as amended, is hereby further amended to read as follows:

"SEC. 84. Inheritance Tax. - Properties inherited by the spouse, children, parents, and siblings, from a decedent, whether resident or non-resident of the Philippines, shall be exempt from tax. In all other cases, a tax of Three percent (3%) shall be imposed on the net value of the inheritance. Such tax must be settled, and a certification to that effect must be issued by the Commissioner, before the transfer of ownership or possession of the inheritance may be effected."

Section 2. Sections 99(A) and (B) of the National Internal Revenue Code, as amended, are hereby further amended to read as follows:

"SEC. 99. Tax Payable by Donor. -

(A) *If the Donee is a relative, charitable or religious institution, or government. -* When the Donee or beneficiary is the spouse, children, parents, siblings, any charitable or religious institution, or any government entity, the donation shall be tax-exempt.

(B) *Tax Payable by Donor if Donee is a Stranger. —* When the donee or beneficiary is a stranger, the tax payable by the donor shall be Three percent (3%) of the total value of the gifts. For the purpose of this tax, a stranger is any person not included in the preceeding enumeration.

Section 3. *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 4. *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 amended or modified accordingly.

Section 5. *Implementing Rules.* - The Bureau of Internal Revenue shall formulate the Implementing Rules and Regulations within 90 days after the passage of this Act, to harmonize the foregoing amendments with the other existing provisions of the National Internal Revenue Code, whenever applicable.

Section 6. *Effectivity Clause.* – This Act shall take effect fifteen (15) days following its publication in the *official Gazette* or in at least two (2) newspaper of general circulation.

Approved.