

Republic of the Philippines
HOUSE OF REPRESENTATIVES
Quezon City

SIXTEENTH CONGRESS
First Regular Session

HOUSE BILL NO. 3629



Sponsored by HON. RANEO E. ABU
2nd District of Batangas

Explanatory Note

This bill seeks to amend Section 32 (B) (7) (e) Chapter VI of the National Internal Code of the Philippines as amended by increasing the Thirty Thousand Pesos (Php 30,000.00) ceiling of the 13th Month Pay, Christmas Bonus and other benefits excluded from the computation of gross income for the purposes of income taxation.

Poverty and gross inequalization are major problems besetting the nation. The labor sector, the so called primary social economic force in our country, is specifically affected by these problems.

In view of the foregoing underlying premises, Section 9, Article II of the 1987 Philippine Constitution states that: "The State shall promote a just and dynamic social order that will ensure the prosperity and independence of the nation and free the people from poverty through policies that provide adequate social services, promote full employment, a rising standard of living, and an improved quality of life for all."

Corollary to this, under Section 18, Article II of the Constitution, it is also the State's policy to affirm labor as a primary social economic force by protecting the rights of workers and promote their welfare.

Adhering to the policies mandated by the Constitution to promote economic equalization and to tilt the balance of social forces by favouring the disadvantaged in life thereby alleviating the plight of the lowly working individuals, our laws exclude the mandated 13th month pay and the Christmas bonus from the coverage of income taxes, but only up to the extent of P30,000. Hence, the excess would form part of an individual's gross income and would be subject to the income tax.

Section 32 (B) (7) (e) of the National Internal Revenue Code, as amended, exempts from income tax the benefits mentioned in Presidential Decree No. 851 as amended by Memorandum Order No. 28 or the 13th Month Pay Law; Republic Act No. 6686 or the Law Authorizing the Grant of Christmas Bonus to National and Local Government Officials and Employees; and other benefits such as productivity incentives and other Christmas bonuses to the extent of P30,000.00.

Republic Act No. 7833 which was passed into law in 1994 specifically excludes the benefits found under the laws mentioned above from the computation of gross compensation for purposes of determining taxable compensation income. The ceiling of the coverage of the exclusion is only up to P30,000.00. However at that time, the lowest monthly basic salary for government employees (Salary Grade 1, Step 1) was P2,800 and that of the President of the Philippines (Salary Grade 33) was at P25,000. At present, the basic salaries have been adjusted such that SG-1 Step 1 now stands at P9,000 and SG-33 is at P120,000.

While there have been increases in the legislated pay scale of private and government personnel, the P30,000 cap for the income tax exemption of the 13th month pay and Christmas bonuses have remained the same. This amount no longer mirrors prevailing circumstances.

This bill moves to increase the ceiling of the 13th Month Pay and other benefits to be exempted from income tax to SEVENTY FIVE THOUSAND PESOS (P75,000.00). The passage of this bill is considered more responsive to the needs of the times.

If adjustments for inflation were reckoned from 1994, the National Tax Research Center (NTRC) and National Economic Development Authority (NEDA) peg the exemption ceiling estimates as of 2011 at P72,000¹ and P75,000² respectively.

Furthermore, the bill also provides that the ceiling of P75,000 shall be adjusted to its present value using the Consumer Price Index (CPI) as published by the National Statistics Office (NSO), three years after the measure's effectivity and every three years thereafter.

The law should always be responsive to the needs of the people. An increase in the ceiling of the 13th Month Pay and other benefits to be exempted from income tax is one of the reliefs the people need during these hard times.

Due to the foregoing, the passage of this measure is sincerely sought.



RANEO E. ABU

¹ NTRC position paper dated 23 March 2011

² NEDA position paper dated 06 February 2012

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AN ACT
INCREASING THE CEILING OF THE 13TH MONTH PAY, CHRISTMAS BONUS
AND OTHER BENEFITS EXCLUDED FROM THE COMPUTATION OF GROSS
INCOME FOR THE PURPOSES OF INCOME TAXATION, AMENDING FOR THE
PURPOSE SECTION 32 (B), CHAPTER VI OF THE NATIONAL INTERNAL
REVENUE CODE OF 1997, AS AMENDED

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

Section 1. Section 32 (B), Chapter VI of the National Internal Revenue Code of the
Philippines (R.A. No. 8424) is hereby amended as follows:

SEC. 32. Gross Income. –

“(A) General Definition. – xxx

“ x x x

(B) Exclusions from Gross Income. – The following items shall not be included in
gross income and shall be exempt from taxation under this title:

“ x x x

“(7) Miscellaneous Items. –

“ x x x

(e) 13th Month Pay and Other benefits. – Gross benefits received by
officials and employees of public and private entities: *Provided, however,* That
the total exclusion under this subparagraph shall not exceed [Thirty thousand
pesos (₱ 30,000)] **SEVENTY-FIVE THOUSAND PESOS (₱75,000)** which
shall cover:

- 1 (i) Benefits received by officials and employees of the national
2 and local government pursuant to Republic Act No. 6686;
3 (ii) Benefits received by employees pursuant to Presidential
4 Decree No. 851, as amended by Memorandum Order No. 28,
5 dated August 13, 1986;
6 (iii) Benefits received by officials and employees not covered by
7 Presidential decree No. 851, as amended by Memorandum
8 Order No. 28, dated August 13, 1986; and
9 (iv) Other benefits such as productivity incentives and Christmas
10 bonus: [*Provided, further,* That the ceiling of Thirty thousand
11 pesos (P 30,000) may be increased through rules and
12 regulations issued by the Secretary of Finance, upon
13 recommendation of the Commissioner, after considering
14 among others, the effect on the same of the inflation rate at
15 the end of the taxable year.]

16 *PROVIDED, THAT NOT LATER THAN THREE YEARS AFTER*
17 *THE EFFECTIVITY OF THIS ACT AND EVERY THREE (3) YEARS*
18 *THEREAFTER, THE AMOUNT HEREIN STATED SHALL BE*
19 *ADJUSTED TO ITS PRESENT VALUE USING THE CONSUMER PRICE*
20 *INDEX, AS PUBLISHED BY THE NATIONAL STATISTICS OFFICE*
21 *(NSO).*

22 “ x x x.”

23 **SEC. 2. *Repealing Clause.*** – All laws, decrees, resolutions, orders or ordinances or parts
24 thereof inconsistent with this Act, are hereby repealed, amended or modified accordingly.

25 **SEC. 3. *Effectivity.*** – This Act shall take effect fifteen (15) days after its publication in
26 the Official Gazette or in at least two (2) newspapers of general circulation.

Approved,