

SIXTEENTH CONGRESS OF THE)
REPUBLIC OF THE PHILIPPINES)
First Regular Session)



HOUSE OF REPRESENTATIVES
H. No. **3776**

Introduced by [redacted] **Teodorico T. Haresco Jr.**

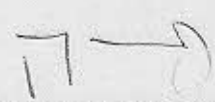
EXPLANATORY NOTE

Micro, small and medium scale enterprises (MSMEs) compose 99.7 percent of the business enterprises operating in the Philippines. Of the total number of MSMEs, about 92% are micro enterprises. MSMEs also accounted for 35.7% of Gross Value-Added (GVA) to the economy. It is the accepted view that MSMEs still has immense potential for GV A growth such as being exhibited by their counterparts in Indonesia (53.28%), Vietnam (39%) and Thailand (37.8%).¹

Though it is recognized that MSMEs have the potential for more employment generation and economic growth that can help provide a self-sufficient industrial foundation for the country, its full potential of this sector is yet to be realized because of stiff competition capital with the large scale enterprises.

This bill seeks to maximize the untapped potential of the MSME sector by enhancing government support, giving incentives and benefits and by strengthening participation of the private sector.

In view of the importance of micro, small and medium scale enterprises and of their contribution to our economy, the passage of this bill is earnestly sought.


TEODORICO T. HARESCO JR.
Lone Distriet of Aklan

¹ Senate Economic Planning Office (SEPO). *MSME Sector at a Glance*. March 2012.

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AN ACT EMPOWERING THE MICRO, SMALL, AND MEDIUM ENTERPRISES

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

SECTION 1. Short Title. This Act shall be known as the "MSME Empowerment Act of 2014."

SECTION 2. Declaration of Policy. - It is hereby declared the policy of the state to empower and recognize the full potential of Micro, Small and Medium Enterprises (MSMEs) as a tool for employment generation and economic growth which can help provide a self-sufficient industrial foundation of the country.

SECTION 3. Eligibility. Any person, natural or juridical, or cooperative, or association, having the qualifications as micro, small or medium enterprises as defined by Republic Act 9501 also known as the Magna Carta for Micro, Small and Medium Enterprises may apply for registration as MSME.

SECTION 4. Registration and Fees. –

- (a) *Micro Enterprises.* -The Office of the Treasurer of each city or municipality shall register the micro enterprise and issue a Certificate of Authority to enable the micro enterprise to avail of the benefits under this Act. Any such application shall be processed within fifteen (15) working days. Should the process, after application, take more than 15 days, the micro enterprise shall be deemed registered and can proceed with its operation unless revoked by the Local Government Unit (LGU).

The Municipal or City Mayor shall designate a Micro Enterprise Registration Officer who shall be under the Office of the Treasurer. LGUs shall establish a One-Stop-Business Registration Center to handle the efficient registration and processing of permits/licenses of the concerned enterprises. Likewise, LGUs shall make a periodic evaluation of the micro enterprise's financial status for monitoring and reporting purposes. To defray the administrative costs of registering and monitoring micro enterprises, the LGUs may charge a fee not exceeding One Thousand Pesos (Php 1,000.00). The Certificate of Authority to be issued by the LGU shall be effective for a period of two (2) years, renewable every two (2) years.

- (b) *Small and Medium Enterprises (SME)* - The Department of Trade and Industry (DTI),

through its field offices, shall register the small and medium enterprises (SMEs) and issue a Certificate of Authority to enable the SME to avail of the benefits under this Act. Any such application shall be processed within fifteen (15) working days. Should the process, after application, take more than 15 days, the SME shall be deemed registered and can proceed with operations unless revoked by DTI.

The DTI shall designate a SME Registration Officer who shall be under the DTI field office concerned. The DTI field offices shall establish a One-Stop-Business Registration Center to handle the efficient registration and processing of permits/licenses of concerned enterprises. Likewise, the DTI shall make a periodic evaluation of the SME's financial status for monitoring and reporting purposes. To defray the administrative costs of registering and monitoring the small and medium enterprises, the DTI field office may charge a fee not exceeding One Thousand Pesos (Php 1,000.00). The Certificate of Authority to be issued by DTI shall be effective for a period of two (2) years, renewable every two (2) years.

SECTION 5. *Incentives and Benefits.* –

(a) *Micro Enterprises:* The following incentives and benefits shall be made available to registered micro enterprises:

1. Exemption from Income Tax. - All micro enterprises shall be exempt from the payment of income tax with respect to income received from the operations of the enterprise; and
2. Exemption from the Coverage of the Minimum Wage Law. - All micro enterprises shall be exempt from the coverage of the Minimum Wage Law: Provided, That all employees covered under this Act shall be entitled to the same benefits given to any regular employee such as, among others, social security and healthcare benefits.

(b) *Small and Medium Enterprises.* - Registered small and medium enterprises which shall hire additional employees subsequent to its registration under this Act, shall be allowed a deduction from its gross income in the amount of Forty Thousand Pesos (Php 40,000.00) for each new employee hired: Provided, That the maximum allowable deduction from gross income shall not exceed One Hundred Twenty Thousand Pesos (Php 120,000): Provided, further, That the employment must be continuous for a period of at least one (1) year: Provided, finally, That the incentive shall no longer be applicable upon the termination of the employee. This incentive can only be availed for a period of five (5) years from the effectivity of this Act.

(c) *Micro, Small and Medium Enterprises.* - In addition to the above incentives, MSMEs shall be entitled to the following:

1. Exemption from Value-Added Tax (VAT) Registration and Percentage Tax.
– Registered MSMEs whose annual gross selling price or gross value in money received from the sale, barter, or exchange of goods, as well as the annual gross receipts derived from the sale or exchange of services do not exceed Three Million Pesos (Php 3,000,000.00) shall not be required to be a VAT-registered entity and shall likewise be exempt from the payment of

percentage tax under the National Internal Revenue Code, as amended. Should the enterprise exceed the Three Million Pesos (Php 3,000,000.00) value, it shall no longer be covered by this exemption on the following year; and

2. Local Taxes and Fees for Micro Enterprises - LGUs shall not charge micro enterprises any local tax and are encouraged to reduce the amount of applicable fees and charges.

3. Local Taxes and Fees for Small and Medium Enterprises. - LGUs are encouraged either to reduce the amount of applicable local taxes, fees and charges imposed or to exempt the small and medium enterprises from the payment of local taxes, fees and charges.

SECTION 6. *Information Dissemination.* - The Philippine Information Agency (PIA), in coordination with DTI, BSP, Department of Labor and Employment (DOLE), and DILG shall ensure the proper and adequate information dissemination of the contents and benefits of this Act to the general public especially to its intended beneficiaries specifically in the barangay level.

SECTION 7. *Annual Report.* - The DTI, BSP, DOLE and DILG, shall submit an annual report to Congress on the status of the implementation of this Act.

SECTION 8. *Implementing Rules and Regulations.*- The Secretary of the Department of Trade and Industry, in consultation with the Secretaries of the Department of Interior and Local Government (DILG), Department of Finance (DOF), Department of Labor and Employment (DOLE) and the Bangko Sentral ng Pilipinas (BSP) Governor shall formulate the necessary rules and regulations to implement the provisions of this Act within ninety (90) days after its approval. The rules and regulations issued pursuant to this Act shall take effect fifteen (15) days after its publication in a newspaper of general circulation.

SECTION 9. *Penalties.*- Any person who shall willfully violate any provision of this Act or who shall in any manner commit any act to defeat any provision of this Act shall, upon conviction, be punished by a fine of not less than Twenty-Five Thousand Pesos (Php 25,000.00) but not more than Fifty Thousand Pesos (Php 50,000.00) and suffer imprisonment of not less than six (6) months but not more than two (2) years.

SECTION 10. *Separability Clause.* - If any provision of this Act shall be held unconstitutional, the remainder of the Act not otherwise affected shall remain in full force and effect.

SECTION 11. *Repealing Clause.* - Provisions of Republic Act No. 6977, as amended by Republic Act No. 8289 and Republic Act No. 9501, Republic Act No. 9178, and all other existing laws, presidential decrees, executive orders, proclamations or administrative regulations that are inconsistent with the provisions of this Act are hereby amended, modified, superseded, or repealed accordingly.

SECTION 12. *Effectivity.* - This Act shall take effect fifteen (15) days after its publication in the Official Gazette or in at least two (2) newspapers of general circulation.