



Republic of the Philippines
HOUSE OF REPRESENTATIVES
Quezon City

SIXTEENTH CONGRESS
First Regular Session

HOUSE BILL NO. 4829

Introduced by Representative Romero "Miro" S. Quimbo

EXPLANATORY NOTE

The current income taxes imposed on individuals and corporations have become uncompetitive and unresponsive. Our tax system's failure to keep in step with global corporate trends and to adapt with rising inflation rates must be resolved.

Since the effectivity on January 1, 1998 of the National Internal Revenue Code (NIRC) of 1997, or for 16 long years, the levels of taxable income brackets have been pegged at the 1998 Consumer Price Index (CPI) of 67.8%, which is starkly less than half of the present (March 2014) CPI of 137.7%. Meanwhile, as income of salaried individuals is increased to keep it at par with rising inflation, they are pushed into higher income brackets, and, thus, are compelled to pay more taxes than they should. This brings about the so-called "*bracket creep*", which is defined as "*a situation where inflation pushes income into higher tax brackets resulting in an increase in income taxes but without increase in real purchasing power.*"¹ This significant erosion of purchasing power imperils the economic welfare of our countrymen. This bill hopes to address this problematic situation by adjusting the taxable income brackets based on the inflation rate.

To illustrate, an individual taxpayer whose income of P25,000 yields a tax of P2,000, will just have to pay a tax of P1,500, if this bill is passed. This will allow him to enjoy an additional take home pay or disposable income of P500. In essence, his present tax burden of 8% will be effectively reduced to 6%.

¹ Source: <http://www.investopedia.com/terms/b/bracketcreep.asp>

By adjusting the taxable income brackets, this measure gives salaried individuals relief with their financial difficulties, while at the same time stimulating economic activities through enhanced spending and consumption.

Similarly, the tax on corporations must be adjusted to enable the country to entice more business investments. Presently, the applicable tax rate in our jurisdiction is 30% on taxable income, lamentably the highest among the member-countries of the Association of South East Asian Nations (ASEAN), the rates of which range from 17%-25%.

This bill aims to aptly restructure the income taxes imposed on individuals and corporations by amending Sections 22; 24; 27 (A) and (E) (1); 28 (A) (1), (2) and (B) (1); and 34 of the NIRC of 1997, as amended.

Aside from adjusting the levels of taxable income brackets and the corresponding base amount of tax for *compensation income earners* based on updated CPI, the bill also proposes:

- To impose a flat rate of **25% income tax** on *self-employed individuals* and *professionals*;
- To impose a **5% minimum income tax** rate on *self-employed individuals* and *professionals*;
- To reduce the **corporate income tax (CIT)** rate from **30% to 25%**; and,
- To increase the **minimum corporate income tax (MCIT)** rate from **2% to 5%**.

The application of 25% income tax rate for self-employed individuals and professionals, according them full treatment as corporations, is opportune. Since both are engaged in business for profit and allowed the same business deductions, they must be equally treated under our tax regime.

This will likewise address the prevalent unfair practice of overutilization of deductions and gross underdeclaration of revenues by unscrupulous self-employed individuals and professionals, which practically allows them to trample the present tax schedule of 5% to 32% in Sec. 24 (A) (2) to their advantage.

This particular amendment is all the more justified citing recent empirical data showing that only 15% of the total collection of individual income taxes is paid by self-employed individuals and professionals, while the bigger chunk of 85% comes from compensation income earners.

On reducing the CIT to 25%, corporations will be given the chance to be competitive with savings that will be realized. This could be used as additional capital for expansion and other beneficial business activities, which in turn can translate to additional jobs for the country's growing labor force. The overall effect will certainly be a renewed and vibrant economic activity.

Lastly, the increased 5% MCIT and the similarly rated minimum income tax rate for self-employed individuals and professionals are novel changes. These are intended to cover the expected revenue loss arising from the adjustment in the levels of taxable income brackets for compensation income earners and the reduced CIT rate of 25%.

Given this, it is hightime that the country's individual and corporate income tax system be subjected to the fine-tuning it needs to regain its responsive and competitive character, benefitting individual and corporate taxpayers, and the national economy as a whole.

Accordingly, passage of the measure is earnestly sought.



REP. ROMERO "MIRO" S. QUIMBO
Second District, Marikina City

Republic of the Philippines
HOUSE OF REPRESENTATIVES
Quezon City, Metro Manila

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HOUSE BILL NO. **4829**

Introduced by Representative Romero "Miro" S. Quimbo

AN ACT
RESTRUCTURING THE INCOME TAXES IMPOSED ON INDIVIDUALS AND
CORPORATIONS, AMENDING FOR THE PURPOSE SECTIONS 22; 24; 27 (A)
AND (E) (1); 28 (A) (1), (2) AND (B) (1); AND 34 ALL UNDER 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:*

1 **SECTION. 1.** Section 22 of the National Internal Revenue Code of 1997, as
2 amended, is hereby further amended to read as follows:
3

4 "SEC. 22. Definitions. – When used in this Title:
5

6 (A) xxx.
7

8 (II) THE TERM 'COMPENSATION INCOME EARNERS' MEANS
9 PERSONS WHO DERIVE THEIR INCOME FROM
10 PERSONAL SERVICES RENDERED UNDER AN
11 EMPLOYER-EMPLOYEE RELATIONSHIP.
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13 (JJ) THE TERM 'SELF-EMPLOYED' MEANS PERSONS
14 ENGAGED IN BUSINESS AND WHO DERIVE THEIR
15 PERSONAL INCOME FROM SUCH BUSINESS. THIS
16 INCLUDES SINGLE PROPRIETORSHIPS, I.E.,
17 MANUFACTURERS, TRADERS, MARKET VENDORS,
18 OWNERS OF EATERIES, FARMERS AND SERVICE
19 SHOPS.
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(KK) THE TERM 'PROFESSIONALS' MEANS PERSONS WHO DERIVE THEIR INCOME FROM THE PRACTICE OF THEIR PROFESSION. THIS INCLUDES LAWYERS AND OTHER PERSONS WHO ARE REGISTERED WITH THE PROFESSIONAL REGULATION COMMISSION SUCH AS DOCTORS, DENTISTS, CERTIFIED PUBLIC ACCOUNTANTS AND OTHERS SIMILARLY SITUATED. THE TERM 'PROFESSIONAL' ALSO REFERS TO ONE WHO PURSUES AN ACT AND MAKES HIS LIVING THEREFROM SUCH AS ARTISTS, ATHLETES AND OTHERS SIMILARLY SITUATED."

SEC. 2. Section 24 of the National Internal Revenue Code of 1997, as amended, is hereby further amended to read as follows:

"SEC. 24. Income Tax Rates. –

(A) xxx

(1) xxx

(2) Rates of Tax on Taxable Income of Individuals. –

(A) ON COMPENSATION INCOME EARNERS. –

The tax shall be computed in accordance with and at the rates established in the following schedule:

[Not over P10,000	5%]
[Over P10,000 but not over P30,000	P500+10% of the excess over P10,000]
[Over P30,000 but not over P70,000	P2,500+15% of the excess over P30,000]
[Over P70,000 but not over P140,000	P8,500+20% of the excess over P70,000]
[Over P140,000 but not over P250,000	P22,500+25% of the excess over P140,000]
[Over P250,000 but not over P500,000	P50,000+30% of the excess over P250,000]
[Over P500,000	P125,000+32% of the excess over P500,000]

NOT OVER P20,000	5%
OVER P20,000 BUT NOT OVER P60,000	P1000+10% OF THE EXCESS OVER P20,000
OVER P60,000 BUT NOT OVER P140,000	P5000+15% OF THE EXCESS OVER P60,000
OVER P140,000 BUT NOT OVER P280,000	P17,000+20% OF THE EXCESS OVER P140,000
OVER P280,000 BUT NOT OVER P500,000	P45,000+25% OF THE EXCESS OVER P280,000
OVER P500,000 BUT NOT OVER P1,000,000	P100,000+30% OF THE EXCESS OVER P500,000
OVER P1,000,000	P250,000+32% OF THE EXCESS OVER P1,000,000

(B) ON SELF-EMPLOYED AND/OR PROFESSIONALS
ENGAGED IN THE PRACTICE OF PROFESSION. –

AN INCOME TAX OF TWENTY-FIVE PERCENT (25%)
IS HEREBY IMPOSED UPON THE TAXABLE INCOME
AS DETERMINED IN SECTION 31 DERIVED DURING
EACH TAXABLE YEAR, OTHER THAN INCOME
SUBJECT TO TAX UNDER SUBSECTIONS (B), (C)
AND (D) OF THIS SECTION, BY THE FOLLOWING
SELF-EMPLOYED INDIVIDUALS AND/OR
PROFESSIONALS IN THE PRACTICE OF THEIR
PROFESSION:

- (I) RESIDENT CITIZENS ON ALL INCOME
DERIVED FROM SOURCES WITHIN AND
WITHOUT THE PHILIPPINES;
- (II) NONRESIDENT CITIZENS ON INCOME
DERIVED FROM SOURCES WITHIN THE
PHILIPPINES; AND
- (III) ALIEN INDIVIDUALS RESIDING IN THE
PHILIPPINES ON INCOME DERIVED FROM
SOURCES WITHIN THE PHILIPPINES.

xxx

(B) xxx

(C) xxx

(D) xxx

1 (E) MINIMUM INCOME TAX ON SELF-EMPLOYED AND
2 PROFESSIONALS. -
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4 (1) IMPOSITION OF TAX. - A MINIMUM INCOME TAX OF
5 FIVE PERCENT (5%) OF THE GROSS INCOME AS OF
6 THE END OF THE TAXABLE YEAR, AS DEFINED
7 HEREIN, IS HEREBY IMPOSED ON A SELF-EMPLOYED
8 INDIVIDUAL AND/OR PROFESSIONAL UNDER THIS
9 TITLE, BEGINNING ON THE FOURTH TAXABLE YEAR
10 IMMEDIATELY FOLLOWING THE YEAR IN WHICH SAID
11 SELF-EMPLOYED INDIVIDUAL AND/OR
12 PROFESSIONAL COMMENCED BUSINESS
13 OPERATIONS, WHEN THE MINIMUM INCOME TAX IS
14 GREATER THAN THE TAX COMPUTED UNDER
15 SUBSECTION (A) (2) (B) OF THIS SECTION FOR THE
16 TAXABLE YEAR.
17

18 (2) CARRY FORWARD OF EXCESS MINIMUM TAX. - ANY
19 EXCESS OF THE MINIMUM INCOME TAX OVER THE
20 NORMAL INCOME TAX AS COMPUTED UNDER
21 SUBSECTION (A) (2) (B) OF THIS SECTION SHALL BE
22 CARRIED FORWARD AND CREDITED AGAINST THE
23 NORMAL INCOME TAX FOR THE THREE (3)
24 IMMEDIATELY SUCCEEDING TAXABLE YEARS.
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26 (3) RELIEF FROM THE MINIMUM INCOME TAX UNDER
27 CERTAIN CONDITIONS. - THE SECRETARY OF
28 FINANCE IS HEREBY AUTHORIZED TO SUSPEND THE
29 IMPOSITION OF THE MINIMUM INCOME TAX ON ANY
30 SELF-EMPLOYED INDIVIDUAL AND/OR
31 PROFESSIONAL WHO SUFFERS LOSSES ON
32 ACCOUNT OF PROLONGED LABOR DISPUTE, OR
33 BECAUSE OF FORCE MAJEURE, OR BECAUSE OF
34 LEGITIMATE BUSINESS REVERSES.
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36 THE SECRETARY OF FINANCE IS HEREBY
37 AUTHORIZED TO PROMULGATE, UPON
38 RECOMMENDATION OF THE COMMISSIONER, THE
39 NECESSARY RULES AND REGULATIONS THAT SHALL
40 DEFINE THE TERMS AND CONDITIONS UNDER WHICH
41 THE IMPOSITION OF THE MINIMUM INCOME TAX MAY
42 BE SUSPENDED IN A MERITORIOUS CASE.
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45 (4) GROSS INCOME DEFINED. - FOR PURPOSES OF
46 APPLYING THE MINIMUM INCOME TAX PROVIDED

1 UNDER THIS SUBSECTION, THE TERM 'GROSS
2 INCOME' SHALL MEAN GROSS SALES LESS SALES
3 RETURNS, DISCOUNTS AND ALLOWANCES AND
4 COST OF GOODS SOLD. 'COST OF GOODS SOLD'
5 SHALL INCLUDE ALL BUSINESS EXPENSES DIRECTLY
6 INCURRED TO PRODUCE THE MERCHANDISE TO
7 BRING THEM TO THEIR PRESENT LOCATION AND
8 USE.
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11 FOR A TRADING OR MERCHANDISING CONCERN, 'COST OF
12 GOODS SOLD' SHALL INCLUDE THE INVOICE COST OF THE
13 GOODS SOLD, PLUS IMPORT DUTIES, FREIGHT IN
14 TRANSPORTING THE GOODS TO THE PLACE WHERE THE
15 GOODS ARE ACTUALLY SOLD INCLUDING INSURANCE WHILE
16 THE GOODS ARE IN TRANSIT.
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19 FOR A MANUFACTURING CONCERN, 'COST OF GOODS
20 MANUFACTURED AND SOLD' SHALL INCLUDE ALL COSTS OF
21 PRODUCTION OF FINISHED GOODS, SUCH AS RAW
22 MATERIALS USED, DIRECT LABOR AND MANUFACTURING
23 OVERHEAD, FREIGHT COST, INSURANCE PREMIUMS AND
24 OTHER COSTS INCURRED TO BRING THE RAW MATERIALS
25 TO THE FACTORY OR WAREHOUSE.
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28 IN THE CASE OF TAXPAYERS ENGAGED IN THE SALE OF
29 SERVICE, 'GROSS INCOME' MEANS GROSS RECEIPTS LESS
30 SALES RETURNS, ALLOWANCES, DISCOUNTS AND COST OF
31 SERVICES. 'COST OF SERVICES' SHALL MEAN ALL DIRECT
32 COSTS AND EXPENSES NECESSARILY INCURRED TO
33 PROVIDE THE SERVICES REQUIRED BY THE CUSTOMERS
34 AND CLIENTS INCLUDING (A) SALARIES AND EMPLOYEE
35 BENEFITS OF PERSONNEL, CONSULTANTS AND
36 SPECIALISTS DIRECTLY RENDERING THE SERVICE AND (B)
37 COST OF FACILITIES DIRECTLY UTILIZED IN PROVIDING THE
38 SERVICE SUCH AS DEPRECIATION OR RENTAL OF
39 EQUIPMENT USED AND COST OF SUPPLIES."
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43 **SEC. 3.** Section 27 (A) and (E) (1) of the National Internal Revenue Code of
44 1997, as amended, is hereby further amended to read as follows:
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"SEC. 27. Rates of Income Tax on Domestic Corporations. –

(A) *In General.* – Except as otherwise provided in this Code, an income tax of [thirty-five] TWENTY-FIVE percent [(35%)] (25%) is hereby imposed upon the taxable income derived during each taxable year from all sources within and without the Philippines by every corporation, as defined in Section 22 (B) of this Code and taxable under this Title as a corporation, organized in, or existing under the laws of the Philippines[: *Provided, That* effective January 1, 2009, the rate of income tax shall be thirty percent (30%)].

xxx

(E) *Minimum Corporate Income Tax on Domestic Corporations. –*

(1) *Imposition of Tax.* – A minimum corporate income tax of [two] FIVE percent [(2%)] (5%) of the gross income as of the end of the taxable year, as defined herein, is hereby imposed on a corporation taxable under this Title, beginning on the fourth taxable year immediately following the year in which such corporation commenced its business operations, when the minimum income tax is greater than the tax computed under Subsection (A) of this Section for the taxable year.

xxx."

SEC. 4. Section 28 (A) (1), (2) and (B) (1) of the National Internal Revenue Code of 1997, as amended, is hereby further amended to read as follows:

"SEC. 28. Rates of Income Tax on Foreign Corporations. -

(A) *Tax on Resident Foreign Corporations. –*

(1) *In General.* – Except as otherwise provided in this Code, a corporation organized, authorized, or existing under the laws of any foreign country, engaged in trade or business within the

Philippines, shall be subject to an income tax equivalent to [thirty-five] TWENTY-FIVE percent [(35%)] (25%) of the taxable income derived in the preceding taxable year from all sources within the Philippines[: *Provided*, That effective January 1, 2009, the rate of income tax shall be thirty percent (30%)].

xxx

(2) *Minimum Corporate Income Tax on Resident Foreign Corporations.* – A minimum corporate income tax of [two] FIVE percent [(2%)] (5%) of gross income, as prescribed under Section 27 (E) of this Code, shall be imposed, under the same conditions, on a resident foreign corporation taxable under paragraph (1) of this Subsection.

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(B) *Tax on Nonresident Foreign Corporations.* –

(1) *In General.* – Except as otherwise provided in this Code, a foreign corporation not engaged in trade or business in the Philippines shall pay a tax equal to [thirty-five] TWENTY-FIVE percent [(35%)] (25%) of the gross income received during each taxable year from all sources within the Philippines, such as interests, dividends, rents, royalties, salaries, premiums (except reinsurance premiums), annuities, emoluments or other fixed or determinable annual, periodic or casual gains, profits and income, and capital gains, except capital gains subject to tax under subparagraph 5(c)[: *Provided*, That effective January 1, 2009, the rate of income tax shall be thirty percent (30%)].

xxx.”

SEC. 5. Section 34 of the National Internal Revenue Code of 1997, 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

1 services rendered under an employer-employee relationship where
2 no deductions shall be allowed under this Section other than under
3 Subsection (M) hereof, in computing taxable income subject to
4 income tax under Sections [24 (A)] 24 (A) (2) (B); 25 (A); 26; 27 (A),
5 (B) and (C); and 28 (A) (1), there shall be allowed the following
6 deductions from gross income:
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12 **SEC. 6. Implementing Rules and Regulations.** – The Secretary of Finance shall,
13 upon the recommendation of the Commissioner of Internal Revenue, promulgate
14 upon the effectivity of this Act the necessary Rules and Regulations for its
15 effective implementation.
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18 **SEC. 7. Separability Clause.** – If any provision of this Act is subsequently
19 declared invalid or unconstitutional, other provisions hereof which are not
20 affected thereby shall remain in full force and effect.
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23 **SEC. 8. Repealing Clause.** - All laws, acts, presidential decrees, executive
24 orders, issuances, presidential proclamations, rules and regulations or parts
25 thereof which are contrary to and inconsistent with any provisions of this Act are
26 hereby repealed, amended or modified accordingly.
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29 **SEC. 9. Effectivity Clause.** - This Act shall take effect fifteen (15) days after its
30 complete publication either in the Official Gazette, or in at least two (2)
31 newspapers of general circulation.

Approved,