

Republic of the Philippines
HOUSE OF REPRESENTATIVES
Quezon City

SIXTEENTH CONGRESS
Second Regular Session

House Bill No. 4849



Introduced by REPRESENTATIVE ARTHUR C. YAP

EXPLANATORY NOTE

The government generates revenue mainly through personal and income tax collections. Income tax is a tax on a person's income, wages, profits arising from property, practice of profession, conduct of trade or business, less any deductions granted.

Article VI, Section 28 of the 1987 Constitution provides that the rule of taxation shall be uniform and equitable, and that Congress shall evolve a progressive system of taxation. Income taxation is progressive if people with higher incomes pay more than people with lower incomes. Personal income tax rates vary as such.

Today, the Philippines has the status of an emerging economy. In recent years, the country has been steadily growing with the government expecting a full-year GDP (Gross Domestic Product) growth of 6.5 to 7.5 percent in 2014. As the national economy moves towards inclusive growth, the government must create the necessary mechanisms to enable the vast majority of Filipino wage-earners to share and enjoy the fruits of economic growth. However, ordinary Filipinos are still reeling from the pinches of rising prices of commodities and high income taxes.

In December 2013, inflation rate in the Philippines accelerated to 4.1%, the highest rate since 2011, as all commodity prices recorded higher annual increases. The Consumer Price Index (CPI) indicates that a basket of goods worth P 100.00 in 1998 is now worth P 200.00 by the end of 2013, almost doubling in a span of 15 years.

On the other hand, wages have always lagged behind. Recently, the minimum wage rate in Metro Manila has been increased to P466.00 a day. Still, a far cry from the minimum daily cost of living of P 1,200 a day for a family of 6 members. It should be noted that in other regions, although the cost of living does not really vary as compared to Metro Manila, the minimum wages are even much, much lower.

On the other hand, while private enterprises have a social responsibility to ensure that their workers are properly compensated, they also have to struggle with the financial requirements of their undertakings to remain afloat. It is very difficult to burden employers with higher State mandated floor wages.

Thus, the government is always faced with the dilemma of satisfying the growing demands of the labor sector while at the same time not pushing businesses, particularly the small and medium enterprises which comprise a larger portion of the economy, into bankruptcy.

So as not to place the burden of increasing the net salary or “*take home pay*” of workers in the hands of the struggling businesses, Republic Act No. 9504 was passed. Under the said Act, minimum wage earners, or those with ‘statutory minimum wage’ as fixed by the Regional Tripartite Wage and Productivity Board in their respective jurisdictions, are exempt from paying income tax. The exemption covers not only the basic pay but also overtime pay, holiday pay, night shift differential and hazard pay.

Under the said law, while the State suffered a temporary setback, in terms of decrease in collection, such can be offset by an increase in the purchasing power of these workers. As the economy is stimulated, additional tax revenues are generated.

One big issue, however, against Republic Act No. 9504, is that it was not able to review and update the decades old income tax rates under Section 24 (A) (1) of the National Internal Revenue Code. This created a very absurd scenario wherein an employee, who graduates from earning minimum wage, or earns only a little over said floor wage, jumps to paying a very high rate of tax payable.

To appreciate this issue, below is the table of income tax rates under said provision:

"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
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To illustrate, a minimum wage earner in Metro Manila would earn around P145,392 per annum ($P466 \times 26 \text{ working days} \times 12 \text{ months}$). Under the old tax rates, said person is liable to pay taxes at the rate of P22,500 + 25% of the excess over P140,000. Now, under R. A. 9504, he is exempt from paying taxes.

If said person earns just a peso higher than the minimum, e. g. P467 per day, his annual gross income would increase to P145,704. However, his net take home pay would be drastically reduced to P121,778 ($P145,704 - [P22,500 + 25\% \text{ of } 5,704]$). By earning an additional P312 per year, his net income or take home pay was reduced by P23,926.

This absurdity negates any increase that would be granted to an employee. It effectively discourages an employee to ask for a salary that is only a little higher than the minimum.

If there really is a need for an incremental increase in the wages, it may even make the employee and the employer prone to tax evasion. The increase in wages may just be hidden so that taxation can be evaded.

More important, this scenario creates an unprogressive rate of taxation among income earning Filipinos. There becomes an inequitable distribution of wealth among the citizens that is not in accord with the above-cited Constitutional mandate. This is because the highest rate for taxable income remained pegged at a very low amount of P500,000.

Again to illustrate, a person, who may be a senior rank and file employee, a supervisor, low level manager, or even a micro entrepreneur, who merely earns P41,670 per month (*over P500,000 per annum*) will suffer the same taxation as the executive, senior manager, or the professional, or businessman who earns hundreds of thousands or even millions of pesos per month.

There is thus an urgent need for the government to reform the current personal income tax system.

This bill seeks to amend Section 24 of Republic Act No. 8424, also known as the National Internal Revenue Code of 1997, as amended by R. A. 9504. This is by adjusting the levels of net taxable income and reducing the nominal tax rates in the computation of individual income tax.

The amendment will effectively lower the taxes on the low-income earners and allow them a higher net income, thus increasing their purchasing power.

Effectively, the reform will create a more equitable and just tax system for the Filipino taxpayers.

For the foregoing reasons, the immediate consideration and approval of the bill is earnestly urged.

A handwritten signature in black ink, appearing to be 'A. Yap', with a long, sweeping flourish extending upwards and to the right.

ARTHUR C. YAP
Representative

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House Bill No. 4849

Introduced by REPRESENTATIVE ARTHUR C. YAP

AN ACT
CREATING A MORE EQUITABLE, PROGRESSIVE
AND JUST TAX SYSTEM, BY ADJUSTING THE LEVEL
OF NET TAXABLE INCOME AND NOMINAL TAX
RATES OF THE INDIVIDUAL INCOME TAX,
AMENDING FOR THE PURPOSE SECTION 24 (A) (1)
OF REPUBLIC ACT NO. 8424, OTHERWISE KNOWN
AS THE NATIONAL INTERNAL REVENUE CODE OF
1997, AS AMENDED BY REPUBLIC ACT NO. 9504, AND
FOR OTHER PURPOSES

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

1 **SECTION 1.** Section 24 (A) (1) of the National Internal Revenue
2 Code of 1997, as amended, is hereby further amended to read as follows:

3 Section 24. *Income Tax Rates*

4 (A) Rates of Income Tax on Individual Citizen and
5 Individual Resident Alien of the Philippines.

6 (1) An income tax is hereby imposed:

7 (a) On the taxable income defined in Section 31 of this
8 Code, other than income subject to tax under
9 Subsections (B), (C) and (D) of this Section, derived
10 for each taxable year from all sources within and
11 without the Philippines by every individual citizen of
12 the Philippines residing therein;

13 (b) xxxx

14 (c) xxxx

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

MINIMUM WAGE	EXEMPT
MINIMUM WAGE PLUS P1 BUT NOT OVER P100,000	2%
~~[Not over P10,000]~~ MINIMUM WAGE PLUS P100,000 BUT NOT OVER P300,000	P100+5% OF THE EXCESS OVER MINIMUM WAGE PLUS P100,000
~~[Over P10,000 but not over P30,000]~~ MINIMUM WAGE PLUS P300,000 BUT NOT OVER P500,000	P500+10% of the excess over ~~[P10,000]~~ MINIMUM WAGE PLUS P300,000
~~[Over P30,000 but not over P70,000]~~ MINIMUM WAGE PLUS P500,000 BUT NOT OVER	P2,500+15% of the excess over ~~[P30,000]~~ MINIMUM WAGE PLUS P500,000

P1,000,000	
[~~Over P70,000 but not over P140,000~~] MINIMUM WAGE PLUS P1,000,000 BUT NOT OVER P5,000,000	P8,500+20% of the excess over [~~P70,000~~] MINIMUM WAGE PLUS P1,000,000
[~~Over P140,000 but not over P250,000~~] MINIMUM WAGE PLUS P5,000,000 BUT NOT OVER P10,000,000	P22,500+25% of the excess over [~~P140,000~~] MINIMUM WAGE PLUS P5,000,000
[~~Over P250,000 but not over P500,000~~] MINIMUM WAGE PLUS OVER P10,000,000	P50,000+30% of the excess over [~~P250,000~~] MINIMUM WAGE PLUS P10,000,000

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Provided, That minimum wage earners as defined in Section 22 (HH) of this Code shall be exempt from the payment of income tax on their taxable income:

Provided, further, That the **13th MONTH PAY, EARNED SICK, VACATION AND OTHER LEAVE CREDITS CONVERTIBLE TO CASH,** holiday pay, overtime pay, night shift differential pay, **SEPARATION PAY, RETIREMENT PAY** and hazard pay received by such minimum wage earners shall likewise be exempt from income tax.

***PROVIDED, FINALLY,* THAT NOT LATER THAN FIVE (5) YEARS AFTER THE EFFECTIVITY OF THIS ACT AND EVERY FIVE (5) YEARS THEREAFTER, THE NET TAXABLE INCOME LEVELS AND NOMINAL TAX RATES HEREIN STATED SHALL BE ADJUSTED TO ITS PRESENT VALUE USING THE CONSUMER**

PRICE INDEX (CPI) AS PUBLISHED BY THE
NATIONAL STATISTICS OFFICE (NSO).

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SECTION 2. *Implementing Rules and Regulations* - The Department of Labor and Employment, Department of Budget and Management (DBM) and the Bureau of Internal Revenue (BIR) shall promulgate the rules and regulations necessary for the effective implementation of this Act not later than thirty (30) days from the effectivity of this Act.

SECTION 3. *Separability Clause* - If any of the provisions of this Act is declared invalid or unconstitutional, the remaining parts or provisions hereof not affected thereby shall remain in full force and effect.

SECTION 4. *Repealing Clause.* - All laws, decrees, executive orders, proclamations, rules and regulations, and issuances, or parts thereof, inconsistent with the provisions of this Act are hereby repealed or modified accordingly

SECTION 5. *Effectivity Clause.* - This Act shall take effect fifteen (15) days after its publication in at least two (2) national newspapers of general circulation.

Approved.