



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

SIXTEENTH CONGRESS
Second Regular Session



HOUSE BILL NO. 5213

Introduced by Honorable MARK A. VILLAR

AN ACT
EXEMPTING MARGINAL INCOME EARNERS FROM INCOME TAX AND VALUE
ADDED TAX AMENDING FOR THE PURPOSE SECTIONS 22, 24, 109 (1) AND
236 OF REPUBLIC ACT NO. 8424, OTHERWISE KNOWN AS THE NATIONAL
INTERNAL REVENUE CODE OF 1997, AS AMENDED, AND FOR OTHER
PURPOSES

EXPLANATORY NOTE

In 2008, Republic Act No. 9504 was passed by Congress, exempting minimum wage earners from the payment of income tax. The exemption covers only minimum wage earners or employees with compensation income of not more than the statutory minimum wage. The exemption does not extend to self-employed individuals such as farmers, fishermen, owners of small businesses such as sari-sari stores and carinderias, and other individuals who are not under an employer-employee relationship, whose income is equivalent, if not less than the minimum wage.

The disparity in treatment puts self-employed individuals in a position where their right to equal protection of the laws is prejudiced. For one, they are similarly situated with minimum wage earners in that their income is exactly the same, if not lower than minimum wage earners. And yet, while their counterparts who are employed in the private and public sector are exempted from the payment of income tax, they are not entitled to the same exemption.

For another, even those marginal income earners whose earnings are below the minimum wage rate are required to pay taxes. This is clearly unfair to them because as they are already struggling to earn enough for a living, they are burdened by the fact that they have to pay taxes on their meager earnings.

It is also worth mentioning that Revenue Memorandum Circular No. 7-2014 requires marginal income earners to comply with requirements such as registering their books of accounts, issuing receipts and sales invoices, and filing of their income tax returns. These requirements must be complied with in order for marginal income earners to obtain a Certificate of Registration. These requirements are not only costly but are also burdensome and would entail loss of income opportunity considering that the process would take a whole day or more. Failure to register would subject the marginal income earner to penalties imposed under Revenue Regulation No. 7-2012.

While the aforementioned Revenue issuances are commendable for ensuring compliance with tax laws, their effects are prejudicial to the lower income class, and therefore constitutes a violation of the tenets of social justice.

In order to remove this burden imposed upon marginal income earners, and in order to place them on equal footing with minimum wage earners, this Bill seeks to exempt them from the payment of income taxes.

Further, such a measure provides a more enabling environment for MIEs to thrive and be given a chance to succeed.

In view of the foregoing, the passage of this bill is earnestly sought.



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REVENUE CODE OF 1997, AS AMENDED, AND FOR OTHER PURPOSES

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

SECTION 1. Section 22 of Republic Act No. 8424, as amended, otherwise known as the National Internal Revenue Code of 1997, is hereby further amended by adding the following definition after Subsection (HH) to read as follows:

"SEC 22, Definition-when used in this Title:

"(A) xxx"

"xxx

"(HH) xxx

"(II) THE TERM 'MARGINAL INCOME EARNER' SHALL REFER TO AN INDIVIDUAL WHO IS NOT DERIVING COMPENSATION AS AN EMPLOYEE UNDER AN EMPLOYER-EMPLOYEE RELATIONSHIP BUT ONE WHO IS SELF-EMPLOYED WHOSE GROSS SALES OR RECEIPTS DERIVED FROM THEIR PRINCIPAL SOURCE OF LIVELIHOOD DO NOT EXCEED ONE HUNDRED FORTY THOUSAND PESOS (P140,000.00)."

SECTION 2. Section 24(A) of Republic Act No. 8424, as amended, otherwise known as the National Internal Revenue Code of 1997, is hereby further amended to read as follows:

"SEC. 24. Income Tax Rates. -

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

"(1) xxx"

"(2) xxx"

"x x x"

"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 holiday pay, overtime pay, night shift differential pay and hazard pay received by such minimum wage earners shall likewise be exempt from income tax.

"IN THE CASE OF MARGINAL INCOME EARNERS, AS DEFINED, UNDER SECTION 22 (II) OF THIS CODE, ALL INCOME DERIVED FROM THEIR PRINCIPAL SOURCE OF LIVELIHOOD SHALL ALSO BE EXEMPT FROM INCOME TAX."

SECTION 3. Section 109 (1) of Republic Act No. 8424, as amended, otherwise known as the National Internal Revenue Code of 1997, is hereby further amended to read as follows:

"SEC. 109. Exempt Transactions. (1) Subject to the provisions of Subsection (2) hereof, the following transactions shall be exempt from the value added tax:

"(A) x x x"

"x x x"

"(W) Sale or lease of good or properties or the performance of services other than the transactions mentioned in the preceding paragraphs, the gross annual sales and/or receipts do not exceed the amount of One Million Five Hundred Thousand Pesos (P1,500,000): Provided, That not later than January 31, 2009 and every three (3) years thereafter, the amount herein stated shall be adjusted to its present value using the Consumer Price Index, as Published by the National Statistics Office (NSO);

“(X) SALE OR LEASE OF GOODS AND SALE OF SERVICES BY SELF-EMPLOYED INDIVIDUALS WHOSE GROSS SALES OR RECEIPTS DERIVED FROM THEIR PRINCIPAL SOURCE OF LIVELIHOOD DO NOT EXCEED ONE HUNDRED FORTY THOUSAND PESOS (P140,000.00).”

SECTION 4. Section 236 (B) of Republic Act No. 8424, as amended, otherwise known as the National Internal Revenue Code of 1997, is hereby further amended to read as follows:

“Section 236. Registration Requirements. –

“(A) x x x”

“(B) Annual Registration Fee. – An annual registration fee in the amount of Five Hundred Pesos (500) for every separate or distinct establishment of place of business, including facility types where sales transactions occur, shall be paid upon registration and every year thereafter on or before the last day of January; Provided, however, That cooperatives, individuals earning purely compensation income whether locally or abroad, **MARGINAL INCOME EARNERS**, and overseas workers are not liable to the registration fee herein imposed.”

“x x x”

SECTION 5. Implementing Rules and Regulations. The Secretary of Finance, shall, upon the recommendation of the Commissioner of Internal Revenue, promulgate not later than thirty (30) days upon the effectivity of this Act the necessary rules and regulations for its proper and effective implementation.

SECTION 6. *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 as hereby amended or modified accordingly.

SECTION 7. *Effectivity Clause*. -This Act shall take fifteen (15) days following its publication in the official Gazette or in at least two (2) newspapers of general circulation.

Approved,