

Republic of the Philippines
HOUSE OF REPRESENTATIVES
Quezon City

Seventeenth Congress
First Regular Session

HOUSE BILL NO. 4068



Introduced by Representative Manuel F. Zubiri

EXPLANATORY NOTE

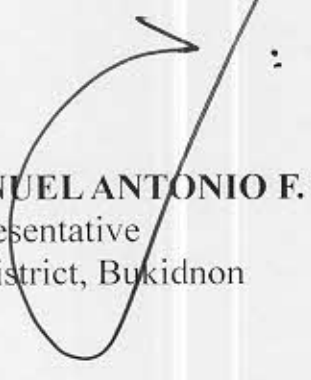
In light of the Philippine Constitution's mandate that "Congress shall evolve a progressive system of taxation", Congress is faced with the constant challenge of instituting taxation mechanisms designed to shift the burden of taxation from taxpayers who are earning less to those who are earning more. One such mechanism is the system of mandatory deductions instituted under Republic Act No. 9504, whereby individual citizens of the Philippines are allowed a mandatory deduction of PHP50,000.00 plus an additional mandatory deduction of PHP25,000.00 for each qualified dependent child up to maximum of four (4) qualified dependent children. This taxation system of mandatory deductions may be considered a mechanism for progressive taxation considering that the impact of any financial benefit afforded by these mandatory deductions on a taxpayer's disposable income is more profoundly felt by those who are earning less compared to those are earning more.

In the setting of the amount of these mandatory deductions, the Supreme Court declared in a 2016 case¹ that "personal exemptions are the theoretical personal, living and family expenses of an individual allowed to be deducted from the gross or net income of an individual taxpayer. These are arbitrary amounts which have been calculated by our lawmakers to be roughly equivalent to the minimum of subsistence, taking into account the personal status and additional qualified dependents of the taxpayer." During inflationary times, there is therefore a need to update the limits of these mandatory deductions for these to accurately reflect the increasing amounts needed for the subsistence of an individual or a family. It is therefore incumbent upon Congress to periodically review the levels of these allowable deductions and determine whether or not these adequately address the current cost of living in the country. As the last adjustments of these personal deductions had been made way back in 2008, it is high time that Congress revisits and revises these mandatory deductions to reflect the present socio-economic needs of the Filipino taxpayer.

¹ Carmelino F. Pansacola v. Commissioner of Internal Revenue, G.R. No. 159991, 16 November 2016

This proposed measure seeks to amend Section 35 (A) and (B) of the National Internal Revenue Code of 1997, as amended, by increasing the current levels of personal and additional exemptions for individual taxpayers. Through this measure, it is hoped that the resulting increase in the disposable income of individual taxpayers, however slight, would go a long way in helping Filipino families meet the ever-increasing cost of food, housing, transportation, health, education and other basic necessities. The expected surge in economic activities brought about by higher consumption spending by Filipino families with greater disposable income is expected to offset the anticipated adverse impact of this measure upon the national government's fiscal position.

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



MANUEL ANTONIO F. ZUBIRI
Representative
3rd District, Bukidnon

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AN ACT
INCREASING THE ALLOWABLE PERSONAL AND ADDITIONAL
EXEMPTIONS OF INDIVIDUAL TAXPAYERS, AMENDING FOR THE
PURPOSE SECTION 35 (A) AND (B) OF REPUBLIC ACT NO. 8424,
OTHERWISE KNOWN AS THE NATIONAL INTERNAL 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 35 (A) and (B) of the National Internal Revenue Code of 1997, as amended, is hereby amended to read as follows:

"SEC. 35. *Allowance of Personal Exemption for Individual Taxpayers.* -

"(A) *In General.* - For purposes of determining the tax provided in Section 24 (A) of this Title, there shall be allowed a basic personal exemption amounting to [Fifty Thousand Pesos (P50,000)] **ONE HUNDRED THOUSAND PESOS (P100,000)** for each individual taxpayer.

"In the case of married individuals where only one of the spouses is deriving gross income, only such spouse shall be allowed the personal exemption.

"(B) *Additional Exemption for Dependents.* - There shall be allowed an additional exemption of [Twenty-five thousand pesos (P25,000)] **FIFTY THOUSAND PESOS (P50,000)** for each dependent not exceeding four (4).

"The additional exemption for dependent shall be claimed by only one of the spouses in the case of married individuals.

"In the case of legally separated spouses, additional exemptions may be claimed only by the spouse who has custody of the child or children: Provided, That the total amount of additional exemptions

that may be claimed by both shall not exceed the maximum additional exemptions herein allowed.

“For purposes of this Subsection, a '*dependent*' means a legitimate, illegitimate or legally adopted child chiefly dependent upon and living with the taxpayer if such dependent is not more than twenty-one (21) years of age, unmarried and not gainfully employed or if such dependent, regardless of age, is incapable of self-support because of mental or physical defect.”

“(C)

“(D)

“(E) NOT LATER THAN SIX (6) YEARS AFTER THE EFFECTIVITY OF THIS ACT AND EVERY SIX (6) YEARS THEREAFTER, THE ALLOWABLE DEDUCTIONS HEREIN STATED SHALL BE ADJUSTED TO ITS PRESENT VALUE USING THE CONSUMER PRICE INDEX, AS PUBLISHED BY THE PHILIPPINE STATISTICS AUTHORITY. (PSA)”

SECTION 2. Separability Clause. - If any provision of this Act is declared invalid or unconstitutional, other provisions hereof which are not affected thereby shall continue to be in full force and effect.

SECTION 3. Repealing Clause. - All provisions of law, orders, decrees, executive orders, including rules and regulations or parts thereof which are contrary to or inconsistent with the provisions of this Act are hereby repealed or modified accordingly.

SECTION. 4. Effectivity Clause. - This Act shall take effect fifteen (15) days following its publication in the Official Gazette or at least two (2) national newspapers of general circulation.

Approved,