

Republic of the Philippines
HOUSE OF REPRESENTATIVES
Quezon City



SEVENTEENTH CONGRESS
First Regular Session
HOUSE BILL NO. 4696

Introduced by HON. LUIS RAYMUND "LRAY" F. VILLAFUERTE, JR.

EXPLANATORY NOTE

The typical Filipino earns a minimum wage of Php 466 a day. But a typical family needs Php 1,200 a day to live. And when the state taxes what little a salaried man earns with a tax base that was set when commodities were cheaper, we are burdened with the dilemma of trying to fit what remains in our pockets. As a new leadership sits at the helm of our country, the need for change is more evident than ever.

18 years since the Tax Code of 1997 was created, the country's personal income tax system remained unchanged. Inflation has driven Filipinos into higher tax income brackets and wage earners are inconvenienced with higher tax liabilities. And despite the Constitution providing that our rule on taxation should be equal and fair, we fail to realize that the longer we maintain this lack of foresight for progression, the more we stay behind with the backward views that plagues our government system.

To be equitable, as the Constitution provides its citizens, is to be fair. In order for our tax system to evolve into a setup that is progressive and just, it demands a reform that allows the Filipino taxpayer to pay according only to their ability to pay. Although the growth in the salary of the average Filipino over the years has doubled, this is merely due to the inflation that rises alongside consumer prices while the rate of tax remained anchored on the 1998 Consumer Price Index of 67.8%. This resulted in the

increase in tax bases of the average Filipino— tax bases which hasn't changed since 1986. As the prices of basic commodities increase (Consumer Price Index has reached 141% in August 2015), we shoulder this rise in cost to pay for necessities while our salary suffers along with unjust tax cuts. A person's spending power lessens despite the need to make ends meet.

For the longest time, there has been a need to adjust the tax bases according to the inflation in the current market. But the National Internal Revenue Code of 1997, and the absence of its amendment, has hindered the opportunity to do so. This *bracket creep* is the result of the lack of initiative from legislators to counter this eventuality. The time to restructure the current state of tax regulation in our country is long overdue, especially as our nation is moving towards inclusive growth. Without a tax reform to combat the fluctuation that the national economy constantly experiences and help the average Filipino to live in comfort and content, change in this country is implausible.

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. No. 9504, to adjust the levels of net taxable income with a simpler, standardized rates that is just and fair. It aims to restructure the income brackets and their corresponding tax rates, as well as align the maximum tax rate of corporate taxpayers. Finally, it aims to establish an adjustment and index mechanism to reflect the fluctuating commodity market.

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



LUIS RAYMUND "LRAY" F. VILLAFUERTE, JR.

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AN ACT AMENDING SECTION 24
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 the House of Representatives of the Philippines in Congress assembled:

SECTION 1. *Title.* This Act shall be known as the "Tax Reform Act"

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

(1) An income tax is hereby imposed:

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

(b) On the taxable income defined in Section 31 of this Code, other than income subject to tax under Subsections (B), (C) and (D) of this Section, derived for each taxable year from all sources within the

Philippines by an individual citizen of the Philippines who is residing outside of the Philippines including overseas contract workers referred to in Subsection (C) of Section 23 hereof; and

(c) On the taxable income defined in Section 31 of this Code, other than income subject to tax under Subsections (B), (C) and (D) of this Section, derived for each taxable year from all sources within the Philippines by an individual alien who is a resident of the Philippines.

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

TAX SCHEDULE 2018

Not over P250,000	0%
Over P250,000 but not over P400,000	20% of the excess over P250,000
Over P400,000 but not over P800,000	P30,000 + 25% of the excess over P400,000
Over P800,000 but not over P2,000,000.....	P130,000 + 30% of the

	excess over P800,000
Over P2,000,000 but not over P5,000,000	P490,000 + 32% of the Excess over P2,000,000
Over P5,000,000	P1,450,000 + 35% of the excess over P5,000,000

TAX SCHEDULE 2019

Not over P250,000	0%
Over P250,000 but not over P400,000	15% of the excess over P250,000
Over P400,000 but not over P800,000	P22,500 + 20% of the excess over P400,000
Over P800,000 but not over P2,000,000	P102,500 + 25% of the excess over P800,000
Over P2,000,000 but not over P5,000,000	P402,500 + 30% of the excess over P2,000,000
Over P5,000,000	P1,302,500 + 35% of the excess over P5,000,000

PROVIDED, THAT AFTER 2019, THE TAXABLE INCOME LEVELS IN THE ABOVE SCHEDULES SHALL BE ADJUSTED ONCE EVERY FIVE (5) YEARS THROUGH RULES AND REGULATIONS ISSUED BY THE SECRETARY OF FINANCE, UPON RECOMMENDATION OF THE COMMISSIONER, AFTER CONSIDERING AMONG OTHERS, THE EFFECT ON THE SAME OF THE FIVE-YEAR CUMULATIVE INFLATION RATE.

For married individuals, the husband and wife, subject to the provision of Section 51 (D) hereof, shall compute separately their individual income tax based on their respective total taxable income: *Provided*, That if any income cannot be definitely attributed to or identified as income exclusively earned or realized by either of the spouses, the same shall be divided equally between the spouses for the purpose of determining their respective taxable income.

[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.]

SEC. 3. *Implementing Rules and Regulations.* – The Secretary of Finance shall, upon the recommendation of the Commissioner of Internal Revenue, promulgate upon the effectivity of this Act the necessary Rules and Regulations for its effective implementation.

SEC. 4. *Separability Clause.* – If any provision of this Act is subsequently declared invalid or unconstitutional, other provisions hereof which are not affected thereby shall remain in full force and effect.

SEC. 5. *Repealing Clause.* – All other laws, acts, presidential decrees, executive orders, issuances, presidential proclamations, rules and regulations or parts thereof, which are contrary to and inconsistent with any provisions of this Act are hereby repealed, amended or modified accordingly.

SECTION 6. *Effectivity Clause.* – This Act shall take effect fifteen (15) days after its complete publication in the Official Gazette or in at least two (2) newspapers of general circulation.

Approved