

Republic of the Philippines
HOUSE OF REPRESENTATIVES
Batasan Hills, Quezon City

NINETEENTH CONGRESS
First Regular Session

HOUSE BILL No. 1855



Introduced by
ACT Teachers Party-List Rep. FRANCE L. CASTRO,
GABRIELA Women's Party Rep. ARLENE D. BROSAS,
and **KABATAAN Party-List Rep. RAOUL DANNIEL A. MANUEL**

**THE TAX REFORM ACT FOR THE MASSES AND THE MIDDLE CLASS
(TRAMM)**

EXPLANATORY NOTE

Poverty thresholds in the Philippines might be notoriously low, but the actual number of poor Filipinos is understated. Segments of those classified in government databases as low-income-but-not-poor or middle-income households are, in reality, poor, especially if multidimensional perspectives on poverty will be used as metrics. For example, the current official poverty threshold (₱12,082 for a family of five) automatically excludes families with earnings equivalent to the monthly minimum wage from being listed as poor.

The establishment of a progressive tax system—a State policy declared by the Philippine Constitution but never implemented by the government—could help achieve the goals of redistributing wealth among broader segments of the population, by shifting the tax burden away from personal incomes or compensation and poor and middle-class consumption (especially since wages as a percentage of GDP in the Philippines have been falling in recent years, compared with the world median¹), and towards corporate income and wealthy people's expenditures.

Unfortunately, past so-called “tax reform” laws, namely, TRAIN and CREATE, offered little benefits to poor and middle-class families while giving away further bonanzas for the very wealthy few. For example, tax exemptions for couples and those with dependents were abolished, while corporate tax rates were reduced. The Philippine government, while refusing to grant tax exemptions for poor and middle class families, has been very generous

¹ GovData360, World Bank. *Wage bill as percentage of GDP*,
(https://govdata360.worldbank.org/indicators/hf255cdb8?country=PHL&indicator=42339&viz=line_chart&years=2000,2017)

in giving tax exemptions and incentives to big corporations,² on top of the usual business incentives.

Senator Sonny Angara lamented such a system³ where “(m)any of the rich often gain more wealth through dividends and stock options. Often it is through dividends and stock options, which are taxed at lower rates than income. The wealthy often have holding companies, too, which enjoy bigger tax deductions than families and individuals. Often, the ultra-wealthy have corporations large enough to qualify for fiscal incentives, like tax holidays or cuts for chosen industries or investments.”

As a result, the Philippines remains among the most unequal or inequalitarian societies in the world, with the income shares of the poorest and richest segments of the population almost stagnant for decades now. Personal income tax rates for the poor and middle class citizens in the Philippines are even higher than rates in Singapore. The Philippines’ tax brackets are also less than the number of tax brackets in Malaysia, Singapore, Thailand, and Vietnam. Moreover, unlike in the said countries where additional personal allowances and/or tax exemptions for dependents are available, there are no personal allowances and/or tax exemptions for dependents in the Philippines.

Country	Personal Income Tax Range	Number of Tax Brackets	Amount of Annual Income Exempted from Tax	Personal Allowances and/or Tax Exemptions for Dependents
Malaysia	1% to 30%	12	RM 5,000 (P62,510)	Available ⁴
Singapore	2% to 20%	10	S\$ 20,000 (P795,028)	Available ⁵
Thailand	5% to 35%	7	THB 150,000 (P233,521)	Available ⁶
Vietnam	5% to 35%	7	None	Available ⁷
Philippines	0% to 35%	5	P250,000	None

This proposed “Tax Reform Act for the Masses and the Middle Class (TRAMM)” would help address such imbalance, in favor of poor and middle-class households in the country that bear most of the tax burden but are unable to reap benefits from the economic system, while the richest clans gobble up much of the wealth that the former have mostly

² For recent examples, see: <https://www.cnnphilippines.com/business/2020/10/12/Senate-approves-San-Miguel-Bulacan-Airport-franchise.html?fbclid=IwAR1B83RB9Ml6pkC02yv87AYjiO7NyImVNm7fZspRserpl8Fj6BpIyhXIPMA> and <https://www.dof.gov.ph/firb-grants-tax-perks-to-converge-3-more-telcos/>

³ <https://opinion.inquirer.net/77762/overtaxing-working-middle-classes>

⁴ See <https://taxsummaries.pwc.com/malaysia/individual/deductions>

⁵ See <https://www.iras.gov.sg/taxes/individual-income-tax/basics-of-individual-income-tax/tax-reliefs-rebates-and-deductions/tax-savings-for-married-couples-and-families> and <https://www.iras.gov.sg/taxes/individual-income-tax/basics-of-individual-income-tax/tax-reliefs-rebates-and-deductions/tax-reliefs>

⁶ See <https://taxsummaries.pwc.com/thailand/individual/deductions#:~:text=Personal%20allowances,born%20in%20or%20after%202018.>

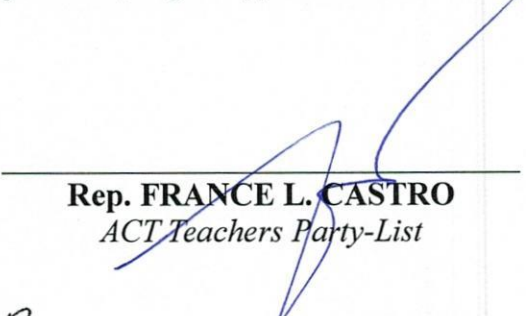
⁷ See <https://taxsummaries.pwc.com/vietnam/individual/deductions>

created. Much-needed reforms are sought, namely, setting a 20% maximum personal income tax rate for individual citizens, the exemption of the first ₱400,000 of their incomes, bringing back additional exemptions for dependents (this time, senior citizens and persons with disabilities may be claimed as dependents), raising of the cap for tax-free bonuses to ₱150,000, and the mandate for the Bureau of Internal Revenue to set up a progressive, 10-bracket (in the minimum) personal income tax schedule.

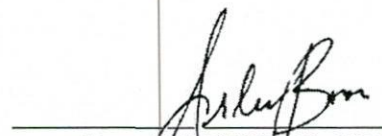
Rising prices and untamed inflation rates in the past few years all the more justify the need for a tax reform package that would reduce the income tax rates of the overburdened Filipino working class families. Reducing income tax rates for working families will not only improve their way of life, but also strengthen their purchasing power which will boost overall domestic demand for consumer goods. Thus, this will be helpful to the economy in general, too.

This bill, which is specifically for certain aspects of the income taxation of resident and non-resident Filipino individuals, is pushed alongside House Bill 568 or *An Act Reversing Regressive and Anti-Poor Taxation*, other bills on consumption taxes like those on oil and petrol products, and other bills on pro-people tax reform, also filed by the Makabayan bloc.

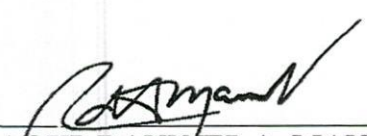
For the foregoing reasons, urgent approval of this bill is sought.



Rep. FRANCE L. CASTRO
ACT Teachers Party-List



Rep. ARLENE D. BROSAS
GABRIELA Women's Party



Rep. RAOUL DANNIELA A. MANUEL
KABATAAN Party-List

Republic of the Philippines
HOUSE OF REPRESENTATIVES
Batasan Hills, Quezon City

NINETEENTH CONGRESS
First Regular Session

HOUSE BILL No. 1855

Introduced by
ACT Teachers Party-List Rep. FRANCE L. CASTRO,
GABRIELA Women's Party Rep. ARLENE D. BROSAS,
and **KABATAAN Party-List Rep. RAOUL DANNIEL A. MANUEL**

**THE TAX REFORM ACT FOR THE MASSES AND THE MIDDLE CLASS
(TRAMM)**

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

SECTION 1. Short Title. This Act shall be known as "*Tax Reform Act for the Masses and the Middle Class (TRAMM).*"

SEC. 2. Declaration of State Policy. The policies of the State to evolve for the Filipino a progressive system of taxation and to establish a national economy that works towards a more equitable distribution of opportunities, income, and wealth; a sustained increase in the amount of goods and services produced by the nation for the benefit of the people; and an expanding productivity as the key to raising the quality of life for all, especially the underprivileged are hereby being reiterated.

SEC. 3. Maximum Personal Income Tax Rate for Individual Citizens. The maximum personal income tax rate for individual citizens is hereby set at 20% of the taxable income.

SEC. 4. Personal Income Tax Exemption. The first Four Hundred Thousand Pesos (P400,000) of every individual citizen's annual individual income is exempted from personal income tax.

SEC. 5. *Progressive Personal Income Tax Rate.* The Bureau of Internal Revenue shall release a progressive personal income tax schedule with rates ranging from 1% to 20% of the taxable income, and with at least ten (10) brackets.

SEC. 6. *13th Month Pay and Similar Benefits as Deductions from Gross Income.* Gross benefits received by individual citizens who are officials and employees of public and private entities shall not be included in gross income and shall be exempt from taxation under Title II of the National Internal Revenue Code, as amended: *Provided, however,* That the total exclusion under this Section shall not exceed One Hundred Fifty Thousand Pesos (₱150,000) which shall cover:

- (1) Benefits received by officials and employees of the national and local government pursuant to Republic Act No. 6686;
- (2) Benefits received by employees pursuant to Presidential Decree No. 851, as amended by Memorandum Order No. 28, dated August 13, 1986;
- (3) Benefits received by officials and employees not covered by Presidential Decree No. 851, as amended by Memorandum Order No. 28, dated August 13, 1986; and
- (4) Other benefits of similar nature such as 14th month pay, productivity incentives, and Christmas bonus.

SEC. 7. *Additional Personal Exemption for Dependents.* In addition to the exemption provided for under Section 4 of this Act, there shall be allowed for individual citizens an additional exemption of Twenty-Five Thousand Pesos (₱25,000) for each dependent not exceeding five (5).

The additional exemption for dependents 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 disability. Individual citizens may also claim as dependents (1) their senior citizen parents or relatives, not exceeding two (2), and (2) their parents, children, and relatives who are persons with disability, not exceeding two (2).

SEC. 8. *Implementing Rules and Regulations.* The Bureau of Internal Revenue, in consultation with representatives of civil society organizations, shall promulgate the necessary implementing rules and regulations for the effective implementation of this Act not later than ninety (90) days upon the effectivity of this Act.

SEC. 9. *Separability Clause.* If any part or provision of this Act is held unconstitutional or invalid, the other parts or provision hereof which are not affected thereby shall continue to be in full force and effect.

SEC. 10. *Repealing Clause.* All laws, decrees, executive orders, proclamations, rules and regulations, and other issuances, or parts thereof which are inconsistent with the provisions of this Act, are hereby repealed or modified accordingly.

SEC. 11. *Effectivity Clause.* This Act shall take effect upon its publication in at least two (2) national newspapers of general circulation.

Approved,