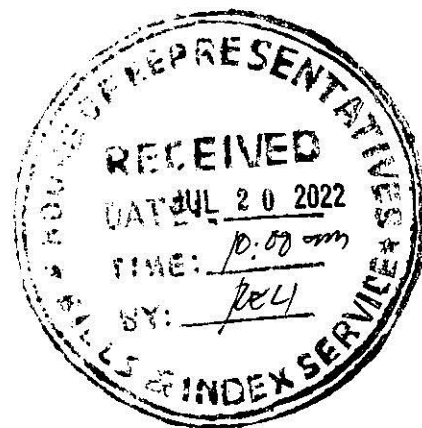


NINETEENTH CONGRESS OF THE)
REPUBLIC OF THE PHILIPPINES)
First Regular Session)



HOUSE OF REPRESENTATIVES

House Bill No. 2178

Introduced by Representative Ralph G. Recto

AN ACT
LOWERING THE COST OF DOING BUSINESS BY ESTABLISHING A
SIMPLIFIED TAX SYSTEM FOR MICRO, SMALL AND MEDIUM ENTERPRISES

EXPLANATORY NOTE

This proposed measure seeks to establish a simplified tax system for micro, small and medium enterprises (MSMEs) for the purpose of lowering the cost of doing business.

The contribution of MSMEs to the country's economic development cannot be overemphasized. They account for 99.51% of the total registered business enterprises operating in the country.¹ In terms of employment, MSMEs generate a total of 5.38 million jobs or 62.66% of the country's total employment.² Moreover, industries falling under these categories propel economic growth by promoting development in the rural areas, thereby bringing in employment opportunities, decentralizing economic activities and redistributing wealth throughout the country.

The bill seeks to impose a tax of 5% based on gross sales or receipts for self-employed and professionals, in lieu of the graduated income tax rates and 3% percentage tax; establish a simplified creditable withholding tax system on the purchase of goods and services; and reduce the frequency of filing the return for percentage tax from quarterly to semi-annually.

¹ 2020 MSME Statistics, Department of Trade and Industry

² 2020 MSME Statistics, Department of Trade and Industry

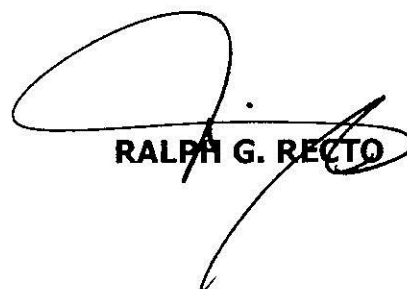
Republic Act No. 10963, or the Tax Reform for Acceleration and Inclusion (TRAIN) Law, introduced an optional 8% tax on gross sales or receipts for self-employed and professionals, in lieu of the graduated income tax rates and 3% percentage tax. However, this option may not be attractive to many MSMEs because of a relatively high tax rate of 8% based on gross sales or receipts.

MSMEs also find it difficult to comply with the complicated requirements of existing tax laws and regulations for the payment of taxes, such as the implementation of creditable withholding tax system using multiple rates. Under the existing system, the complexity of tax compliance forces small businessmen and entrepreneurs to hire accountants and bookkeepers. This would entail additional cost of doing business.

Moreover, this bill seeks to grant a 3-year tax relief for self-employed and professionals with a lower tax rate of 1% based on gross sales or receipts, and 3-year incentive equivalent to 25% additional deduction on labor expense incurred for every employee hired by small and medium enterprises. These tax incentives would help the MSMEs in mitigating the adverse effects of rising commodity prices and soaring inflation.

The purpose and intent of this proposed measure is to lessen the burden of MSMEs in paying the tax and in complying with the requirements of the law for its payment. The objective is to help these industries recover from the crisis brought about by the COVID-19 pandemic, and maximize their time, effort and resources in expanding business operations, thereby stimulating economic growth and generating more jobs throughout the country.

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


RALPH G. RECTO

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

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

3 "SEC. 24. *Income Tax Rates.* –

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

6 "(1) xxx

7 "(2) *Rates of Tax on Taxable Income of Individuals.* - The tax shall be
8 computed in accordance with and at the rates established in the following
9 schedule:

10 "(a) xxx

11 "(b) *Rate of Tax on Income of Purely Self-employed Individuals and/or*
12 *Professionals Whose Gross Sales or Gross Receipts and Other Non-Operating*
13 *Income Does Not Exceed the Value-added Tax(VAT) Threshold as Provided in*
14 *Section 109[~~(BB)~~](CC).* – Self-employed individuals and/or professionals shall
15 [~~have the option to avail of an eight percent (8%)~~] **BE SUBJECT TO A FIVE**
16 **PERCENT (5%)** tax on gross sales or gross receipts and other non-operating
17 income in excess of Two hundred fifty thousand pesos (P250,000) in lieu of the
18 graduated income tax rates under Subsection (A)(2)(a) of this Section and the

percentage tax under Section 116 of this Code[-]: **PROVIDED, THAT EFFECTIVE JULY 1, 2022 UNTIL JUNE 30, 2025, THE TAX RATE HEREIN IMPOSED SHALL BE ONE PERCENT (1%).**

"(c) *Rate of Tax for Mixed Income Earners.* – Taxpayers earning both compensation income and income from business or practice of profession shall be subject to the following taxes:

'(1) *All Income from Compensation.* – The rate prescribed under Subsection (A)(2)(a) of this Section.

"(2) *All Income from Business or Practice of Profession.* –

"(a) *If Total Gross Sales and/or Gross Receipts and Other Non-Operating Income Do Not Exceed the VAT Threshold as Provided in Section 109[~~(BB)~~](CC) of this Code.* – [~~The rates prescribed under Subsection (A)(2)(a) of this Section on taxable income, or eight percent (8%)~~] **FIVE PERCENT (5%)** income tax based on gross sales or gross receipts and other non-operating income in lieu of the graduated income tax rates under Subsection (A)(2)(a) of this Section and the percentage tax under Section 116 of this Code[-]: **PROVIDED, THAT EFFECTIVE JULY 1, 2022 UNTIL JUNE 30, 2025, THE TAX RATE HEREIN IMPOSED SHALL BE ONE PERCENT (1%).**

"(b) *If Total Gross Sales and/or Gross Receipts and Other Non-operating Income Exceeds the VAT Threshold Provided in Section 109[~~(BB)~~](CC) of this Code.* – The rates prescribed under Subsection (A)(2)(a) of this Section.

"xxx"

Sec. 2. Section 34 of the National Internal Revenue Code of 1997, as amended is hereby further amended to read as follows:

"SEC. 34. *Deductions from Gross Income.* – Except for taxpayers earning compensation income arising from personal services rendered under an employer-employee relationship where no deductions shall be allowed under this Section, in computing taxable income subject to income tax under Sections 24(A); 25(A); 26; 27(A), (B), and (C); and 28(A)(1), there shall be allowed the following deductions from gross income:

"(A) *Expenses.* –

1 “(1) *Ordinary and Necessary Trade, Business or Professional Expenses.*—

2 “(a) *In General.* – There shall be allowed as deduction from gross income
3 all the ordinary and necessary expenses paid or incurred during the taxable
4 year in carrying on or which are directly attributable to, the development,
5 management, operation and/or conduct of the trade, business or exercise of a
6 profession, including:

7 “(i) A reasonable allowance for salaries, wages, and other forms of
8 compensation for personal services actually rendered, including the grossed-up
9 monetary value of fringe benefit furnished or granted by the employer to the
10 employee: *Provided*, That the final tax imposed under Section 33 hereof has
11 been paid: **PROVIDED, FURTHER, THAT EFFECTIVE JULY 1, 2022 UNTIL**
12 **JUNE 30, 2025, THERE SHALL BE ALLOWED A TWENTY-FIVE PERCENT**
13 **(25%) ADDITIONAL DEDUCTION ON THE LABOR EXPENSE**
14 **INCURRED FOR EACH NEW EMPLOYEE HIRED BY MICRO, SMALL AND**
15 **MEDIUM ENTERPRISES;**

16 “xxx”

17 Sec. 3. Section 57 of the National Internal Revenue Code of 1997, as amended
18 is hereby further amended to read as follows:

19 “SEC. 57. *Withholding of Tax at Source.* –

20 “(A) xxx

21 “(B) *Withholding of Creditable Tax at Source.* – The Secretary of Finance
22 may, upon the recommendation of the Commissioner, require the withholding
23 of a tax on the items of income payable to natural or juridical persons, residing
24 in the Philippines, by payor-corporation/persons as provided for by law, at the
25 rate of [~~not less than one percent (1%) but not more than thirty two percent~~
26 ~~(32%) thereof, which shall be credited against the income tax liability of the~~
27 ~~taxpayer for the taxable year: *Provided*, That beginning January 1, 2019, the~~
28 ~~rate of withholding shall not be less than one percent (1%) but not more than~~
29 ~~fifteen percent (15%) of the income payment.] **ONE PERCENT (1%) FOR**~~

30 **THE PURCHASE OF GOODS OR PROPERTIES, AND TWO PERCENT**
31 **(2%) FOR THE PURCHASE OF SERVICES INCLUDING THE EXERCISE**
32 **OF PROFESSION AND LEASE OF PROPERTIES, WHICH SHALL BE**

1 **CREDITED AGAINST THE INCOME TAX LIABILITY OF THE TAXPAYER**
2 **FOR THE TAXABLE YEAR.**

3 "xxx"

4 Sec. 4. Section 128 (A)(1) of the National Internal Revenue Code of 1997, as
5 amended is hereby further amended to read as follows:

6 "SEC. 128. *Returns and Payment of Percentage Taxes.* –

7 "(A) *Returns of Gross Sales, Receipts or Earnings and Payment of Tax.*–

8 "(1) *Persons Liable to Pay Percentage Taxes.* – Every person subject to
9 the percentage taxes imposed under this Title shall file a [~~quarterly~~]**SEMI-**
10 **ANNUAL** return of the amount of his gross sales, receipts or earnings and pay
11 the tax due thereon within twenty-five (25) days after the end of each taxable
12 [~~quarter~~] **SEMI-ANNUAL PERIOD**: *Provided*, That in the case of a person
13 whose VAT registration is cancelled and who becomes liable to the tax imposed
14 in Section 116 of this Code, the tax shall accrue from the date of cancellation
15 and shall be paid in accordance with the provisions of this Section.

16 "xxx"

17 Sec. 5. *Implementing Rules and Regulations (IRR).* – Within thirty (30) days
18 from the effectivity of this Act, the Secretary of Finance, upon the recommendation of
19 the Commissioner of Internal Revenue, shall promulgate the necessary rules and
20 regulations for its effective implementation.

21 Sec. 6. *Separability Clause.* – If any provision or part hereof is declared
22 unconstitutional, the remainder of this Act or any provision not affected thereby shall
23 remain in full force and effect.

24 Sec. 7. *Repealing Clause.* – All laws, acts, decrees, executive orders, issuances,
25 and rules and regulations or parts thereof which are contrary to and inconsistent with
26 this Act are hereby repealed, amended or modified accordingly.

27 Sec. 8. *Effectivity.* – This Act shall take effect fifteen (15) days after its complete
28 publication in the *Official Gazette* or in at least two (2) newspapers of general
29 circulation.

 Approved,