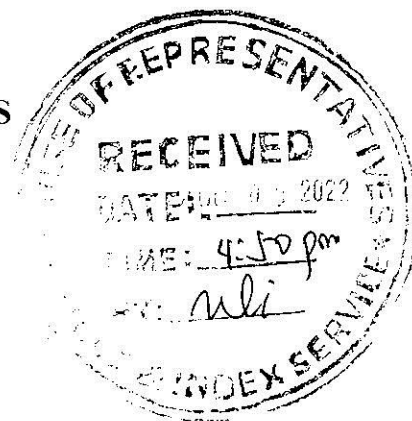




Republic of the Philippines
HOUSE OF REPRESENTATIVES
Quezon City, Metro Manila

NINETEENTH CONGRESS
First Regular Session

House Bill No. 3165



Introduced by **HON. JOSEPHINE VERONIQUE “Jaye” R. LACSON - NOEL**
HON. FLORENCIO GABRIEL G. NOEL

EXPLANATORY NOTE

It is the policy of the State to stimulate inclusive economic growth by sustaining equal employment opportunities amongst those who are unemployed or underemployed, establish a rising income generation and provide for a higher standard of living for every Juan Dela Cruz. Sadly, this policy has been constantly reminded for by the several government administrations there are no plan of strategies that has taken place nor implemented.

Economic forecasts since 2010 has shown that big investors are bound to invest huge amount of capital in order to generate jobs and revenues. However, many failed to forewarn the growing demands for the micro, small or medium enterprises (MSMEs) in our country. Taking into account its significant potential to relevantly contribute to our annual gross domestic product, the Department of Trade and Industry (DTI) made the growth of MSMEs a legislative priority. As a result, the Philippine MSME sector became a critical driver for the economic growth of our country.⁽¹⁾

2014 figures of the Philippine Statistics Authority (PSA) would show that there are 946,988 establishments in our country. Of these, 99.6% or 942,925 establishments are MSMEs and the remaining 0.4% or 4,063 establishments are large enterprises. Of the total number of MSMEs, 90.3% or 851,765 establishments are micro enterprises; 9.3% or 87,283 establishments are small enterprises; and 0.4% or 3,886 establishments are medium enterprises. In that same year, the MSMEs generated a total of 4,891,836 jobs against the 2,897,421 for the large enterprises. of these, 30.5% or 2,372,678 jobs were generated by micro enterprises; 25.5% or 1,986,823 by the small enterprises; and 6.8% or 532,335 by the medium enterprises.⁽²⁾

1. National Economic and Development Authority. (2011). *Philippine Development Plan 2011-2016*.
2. Department of Trade and Industry. (2014). *MSME Statistics*.

MSMEs dominate the business sector in terms of number of establishments, and as a result, dubbed as the backbone of the economic development through investment, job creation, local taxation, productivity enhancement and technological innovation.

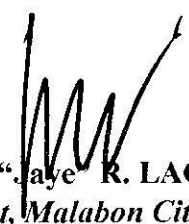
Despite the impressive performance of MSMEs for years, their financial capability has remained constrained by various factors that prevents them, not just only for surviving or growing, but from realising their potentials in a highly competitive environment.⁽³⁾

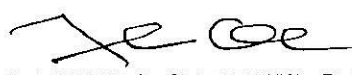
In 2018, the present administration passed into law the Ease of Doing Business Act and this has significantly changed and improved the state of our MSMEs. However, we barely scratched the surface and we are still very far to get at par with our neighbouring economies.

This bill seeks to exempt the micro, small or medium enterprises from national and/or local taxes arising from its first five (5) years, for micro or small, and first two (2) years, for medium enterprise, of its operations provided that these enterprises are newly registered businesses and that they do not have any previous or other existing registered businesses and are not affiliates, subsidiaries or franchises of any existing company.

This bill aims: 1. to encourage micro, small or medium enterprise to get organised; 2. to give these enterprises the proper time to stand on its own; and 3. to recognise their valuable role towards nation-building.

IN VIEW OF THE FOREGOING, approval of this bill is earnestly sought.


JOSEPHINE VERONIQUE "Jaye" R. LACSON - NOEL
Lone District, Malabon City


FLORENCIO GABRIEL G. NOEL
An Waray Party-list



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

NINETEENTH CONGRESS
First Regular Session

House Bill No. 3165

Introduced by **HON. JOSEPHINE VERONIQUE “Jaye” R. LACSON - NOEL**
HON. FLORENCIO GABRIEL G. NOEL

**AN ACT EXEMPTING
MICRO AND SMALL ENTERPRISES FROM NATIONAL AND LOCAL TAXES
ARISING FROM THE FIRST FIVE (5) YEARS OF ITS OPERATIONS; MEDIUM
ENTERPRISES FROM NATIONAL OR LOCAL TAXES ARISING FROM THE FIRST
TWO (2) YEARS OF ITS OPERATIONS.**

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

SECTION 1. *Short Title.* - This act shall be known as the “*MSME Tax Exemption
Act of 2022.*”

SECTION 2. *Declaration of State Policy.* - It is hereby declared the policy of the
State to promote a just and dynamic social order that will ensure the prosperity and independence
of the nation and free the people from poverty through policies that provide adequate social
services, promote full employment, a rising standard of living, and an improved quality of life
for all.⁽⁴⁾

Further, through the goals of the national economy, the state can provide 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.

⁴ 1987 Constitution of the Philippines. Article II, Section 9.

It shall foster the promotion of industrialization and full employment based on sound agricultural development and agrarian reform, through industries that make full and efficient use of human and natural resources, and which are competitive in both domestic and foreign markets. However, the State shall protect Filipino enterprises against unfair foreign competition and trade practices.

In the pursuit of these goals, all sectors of the economy and all regions of the country shall be given optimum opportunity to develop. Private enterprises, including corporations, cooperatives, and similar collective organizations, shall be encouraged to broaden the base of their ownership.⁽⁵⁾

These policies are created in order to facilitate the inclusive growth of our economy by fostering a stable macroeconomic environment and well-balanced fiscal, monetary and trade policies. As a result, we can achieve a higher standard of living.

SECTION 3. *Definition.* - As used in this Act, the following terms shall mean:

“Micro Enterprises” - shall refer to newly registered business engaged in industry, agribusiness and/or services that has (1) an asset the size up to P3,000,000.00; and (2) an employment size up to 9 employees, whether a single proprietorship, co-operative, partnership or corporation.

“Small Enterprise” - shall refer to newly registered business engaged in industry, agribusiness and/or services that has: (1) an asset size of P3,000,001.00 up to P15,000,000.00; and (2) an employment size from 10 to 99 employees, whether a single proprietorship, co-operative, partnership or corporation.

“Medium Enterprise” - shall refer to newly registered business engaged in industry, agribusiness and/or services that has: (1) an asset size of P15,000,001.00 up to P100,000,000.00; and (2) an employment size from 100 to 199 employees, whether a single proprietorship, co-operative, partnership or corporation.⁽⁶⁾

SECTION 4. *Exemption from Taxes and Fees.* -

a. A micro or small enterprises shall be exempt from all national and local taxes for the first five (5) years of its operation, provided that:

1. The micro or small enterprise is a newly registered enterprise and not an affiliate, subsidiary or a franchise of any existing company;
2. In the case of a sole proprietorship, the proprietor of the micro or small enterprise shall not have any previous or other existing registered businesses;

5. 1987 Constitution of the Philippines. Article XII, Section 1.

6. RA 9501 or the Magna Carta for Micro, Small and Medium Enterprises.

3. In the case of a partnership, either of the partners of the micro or small enterprise shall not have any previous or existing registered businesses; and
 4. In the case of a corporation, each stockholder of the medium enterprise shall have at least a five percent (5%) share in stocks and the corporation shall have no nominal stockholders or stockholders holding the shares in trust for others. Provided further that, all stockholders of the micro or small enterprise shall not have held shares of any previous or existing corporation with at least a five percent (5%) share therein, nor registered any former or existing sole proprietorship or any partners of the partnership.
- b. A medium enterprise shall be exempt from all national or local taxes, whichever is lower, for the first two (2) years of its operation, provided that:
1. The medium enterprise is a newly registered enterprise and not an affiliate, subsidiary or a franchise of any existing company;
 2. In the case of a sole proprietorship or partnership, the proprietor or the partners of the medium enterprise shall not have any previous or other existing registered companies, partnerships or businesses; and
 3. In the case of a corporation, each stockholder of the medium enterprise shall have at least a five percent (5%) share in stocks and the corporation shall have no nominal stockholders or stockholders holding the shares in trust for others. Provided further that, all stockholders of the start-up enterprise shall not have held shares of any previous or existing corporation with at least a five percent (5%) share therein, nor registered any former or existing sole proprietorship or partnership.

SECTION 5. *Implementing Rules and Regulations.* - The Bureau of Internal Revenue together with the Department of Trade and Industry shall create the necessary IRR within thirty (30) days after the effectivity of this act, and thereafter coordinate with Local Government Units the necessary rules and regulations for its effective implementation.

SECTION 6. *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.

SECTION 7. *Repealing Clause.* - All laws, acts, presidential decrees, executive orders, issuances, presidential proclamations, rules and regulations or parts thereof which are contrary to and inconsistent with any provision of this Act are hereby repealed, amended or modified accordingly.

SECTION 8. *Effectivity.* - This act shall take effect fifteen (15) days after its complete publication either in the Official Gazette or in at least two (2) newspaper of general circulation.

Approved,