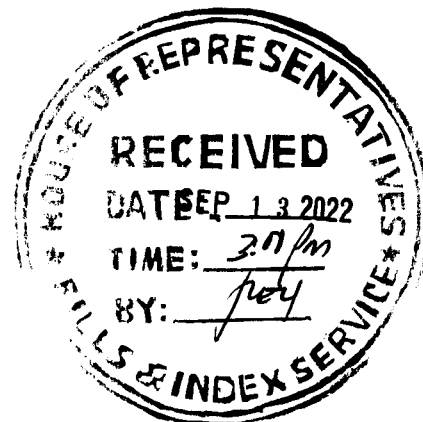




Republic of the Philippines
House of Representatives
Quezon City, Metro Manila

NINETEENTH CONGRESS
First Regular Session

HOUSE BILL No. 4756



Introduced by HONORABLE ERNESTO "ERNIX" M. DIONISIO, JR.

EXPLANATORY NOTE

In a 2020 Statistics Studies conducted, it was reported by the Philippine Statistics Authority (PSA), that there are a total of 957,620 business enterprises operating in the country and of these, there are 952,969 or around 99.51% Micro, Small, and Medium Enterprises (MSMEs) and around 4,651 or 0.49% large enterprises. Further, there are 850,127 or 88.77% micro-enterprises in the total number of MSME establishments, followed by small enterprises at 98,126 or 10.25% and medium enterprises at 4,716 or 0.49%¹

When the COVID-19 Pandemic struck, these micro, small, and medium enterprises experienced the first blow of the economic stoppage brought about by the pandemic. According to a study conducted by the Asian Development Bank Institute, 59.5% of microenterprises had no sales in March 2020 which is brought about by the temporary closure of businesses. Further followed by small firms at 44.8% and medium-sized firms at 35.8%. The same study reported that MSMEs that continued operation during the lockdown recorded a significant drop in their sales: 27.7% in micro, 43.6% in small, and 41.0% in medium-sized firms².

According to the United Nations Philippines, MSMEs comprise 99.5% of business establishments in the Philippines and are employing 63% of the country's workforce. As a result, therefore, MSMEs play a crucial role in the recovery of the Philippine economy from the crisis brought about by the pandemic³.

The MSMEs were directly hit by the adverse effects brought about by the pandemic. Businesses closed down, operations halted and income was lost. The State

¹ 2020 MSME Statistics at <https://www.dti.gov.ph/resources/msme-statistics/> (last accessed September 11, 2022).

² Covid-19 Impact on Micro, Small, and Medium-Sized Enterprises under the Lockdown: Evidence from a Rapid Survey in the Philippines, Shigehiro Shinozaki and Lakshman N. Rao, February 2021.

³ MSME Sector is key to COVID-19 inclusive recovery for PH at <https://philippines.un.org/en/93680-msme-sector-key-covid-19-inclusive-recovery-ph> (last accessed September 11, 2022).

must implement laws pertaining to the protection and support of MSMEs to strengthen and encourage the development and recovery of MSMEs.

This bill aims to grant MSMEs tax exemption with regard to the payment of income tax for a period of three years. The grant of tax exemption in favor of MSMEs will give them temporary relief from more expenses and hopefully will enable them to cut back their losses and regain financial stability. Further, a deduction of 25% from the taxable income with regard to payment of labor expenses is also sought to be granted in favor of MSMEs.

MSMEs suffered a huge loss as a result of the pandemic and as a key sector in the economy of the Philippines, it is the duty of the State to implement laws that will give assistance and support the recovery of MSMEs. For this reason, immediate approval of this bill is necessary.



ERNESTO "ERNIX" M. DIONISIO, JR.
Assistant Majority Floor Leader
Congressman
First Congressional District of Manila



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House of Representatives
Quezon City, Metro Manila

NINETEENTH CONGRESS
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HOUSE BILL No. 4756

Introduced by HONORABLE ERNESTO “ERNIX” M. DIONISIO, JR.

AN ACT
TO PROMOTE BUSINESS COMPETITIVENESS BY PROVIDING TAX RELIEF TO
SINGLE PROPRIETORSHIPS, COOPERATIVES, PARTNERSHIPS OR
CORPORATIONS CLASSIFIED AS MICRO, SMALL AND MEDIUM
ENTERPRISES

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

SECTION 1. Grant of Relief from Payment of Income Tax. - Single proprietorships, cooperatives, partnerships or corporations classified as Micro Enterprises under Republic Act No. 6977, otherwise known as the “*Magna Carta for Small Enterprises*,” as amended, shall be exempt from income tax: *Provided*, That the exemption from income tax shall be extended to qualified enterprises within the effectivity period as provided under Section 6 of this Act.

SECTION 2. Grant of Authorization to Deduct Labor Expense from Taxable Income. - In computing taxable income subject to income tax under Sections 24(A); 25 (A); 26; 27(A), (B), and (C); 28 (A)(1) of the National Internal Revenue Code of 1997, as amended, there shall be allowed a twenty-five percent (25%) additional deduction on the labor expense incurred for each employee hired by single proprietorships, cooperatives, partnerships or corporations classified as Small and Medium Enterprises under Republic Act No. 6977, otherwise known as the “*Magna Carta for Small Enterprises*”, as amended: *Provided*, That no deduction in the computation of taxable income shall be extended to taxpayers earning compensation income arising from personal services rendered under an employer-employee relationship: *Provided, further*, That the additional deduction on the labor expense incurred for each employee shall be extended to qualified enterprises within the effectivity period as provided under Section 6 of this Act.

SECTION 3. Implementing Rules and Regulations (IRR). - Within thirty (30) days from the effectivity of this Act, the Department of Finance shall, in coordination

with the Bureau of Internal Revenue, promulgate the rules and regulations to effectively implement the provisions of the Act.

SECTION 4. Separability Clause. - If any provision or part hereof is declared unconstitutional, the remainder of this Act or any provision not affected thereby shall remain in full force and effect.

SECTION 5. Repealing Clause. - All laws, acts, decrees, executive orders, issuances, and rules and regulations or parts thereof which are contrary to and inconsistent with this Act are hereby repealed, amended or modified accordingly.

SECTION 6. Effectivity. - This Act shall take effect on the fiscal year immediately following its publication in the *Official Gazette* or in at least two (2) newspapers of general circulation, and shall remain in full force and effect for three (3) fiscal years unless otherwise extended through an act of Congress.