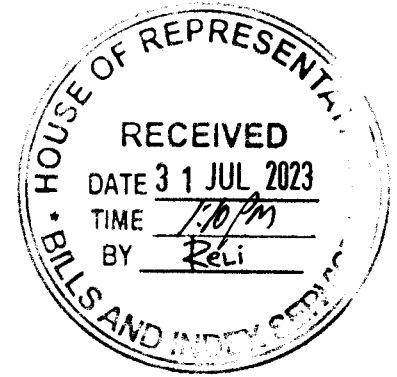


NINETEENTH CONGRESS OF THE)
REPUBLIC OF THE PHILIPPINES)
Second Regular Session)



HOUSE OF REPRESENTATIVES

House Bill No. 8653

Introduced by Representative Ralph G. Recto

AN ACT
ENHANCING THE EASE OF DOING BUSINESS BY EXEMPTING MICRO, SMALL
AND MEDIUM ENTERPRISES FROM THE PAYMENT OF PERCENTAGE TAX

EXPLANATORY NOTE

The contribution of micro, small and medium enterprises (MSMEs) to the country's economic development cannot be overemphasized. They account for 99.58% of the total registered business enterprises operating in the country.¹ In terms of employment, MSMEs generate a total of 5.46 million jobs or 64.67% 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.

Percentage tax is a business tax imposed on persons or entities who sell or lease goods, properties or services in the course of trade or business. Section 116 of the National Internal Revenue Code of 1997 (NIRC), as amended, imposes a three percent (3%) percentage tax on persons or entities whose gross annual sales or receipts are exempt from the payment of value-added tax (VAT) as provided under Section 109 (CC) of the NIRC, and who are not VAT-registered.

¹ 2021 MSME Statistics, Department of Trade and Industry

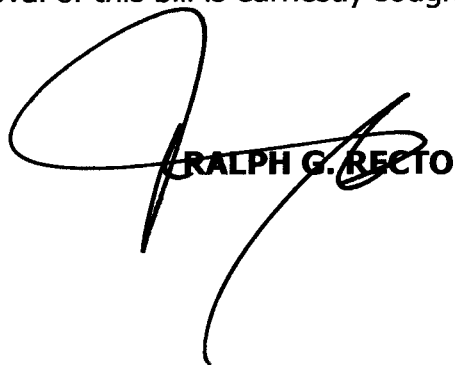
² 2021 MSME Statistics, Department of Trade and Industry

MSMEs whose gross annual sales or receipts do not exceed P3 million and who are not VAT-registered, are exempt from the payment of VAT. However, generally they are still liable to pay the 3% percentage tax under Section 116 of the NIRC. By the nature of percentage tax as a business tax, its imposition may be more burdensome than VAT because the liability to pay and the burden of the said tax may fall on one and the same person or entity.

Aside from the burden of paying the percentage tax, MSMEs also find it difficult to comply with the complicated requirements of existing tax laws and regulations for the payment of taxes. This would entail additional cost of doing business and such cost may be substantial to some taxpayers especially to small entrepreneurs.

This bill seeks to exempt MSMEs from the payment of percentage tax by repealing Section 116 of the NIRC on Tax on Persons Exempt from VAT. 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 116 of the National Internal Revenue Code of 1997, as
2 amended, is hereby repealed and the succeeding Sections are renumbered
3 accordingly.

4 ~~"[SEC. 116. Tax on Persons Exempt from Value Added Tax (VAT).— Any~~
5 ~~person whose sales or receipts are exempt under Section 109(CC) of this Code~~
6 ~~from the payment of value added tax and who is not a VAT-registered person~~
7 ~~shall pay a tax equivalent to three percent (3%) of his gross quarterly sales or~~
8 ~~receipts: *Provided,* That cooperatives, shall be exempt from the three percent~~
9 ~~(3%) gross receipts tax herein imposed: *Provided, further,* That effective July~~
10 ~~1, 2020 until June 30, 2023, the rate shall be one percent (1%).]"~~

11 Sec. 2. Section 128 (A)(1) of the National Internal Revenue Code of 1997, as
12 amended is hereby further amended to read as follows:

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

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

15 "(1) *Persons Liable to Pay Percentage Taxes. –* Every person subject to
16 the percentage taxes imposed under this Title shall file a quarterly return of the
17 amount of his gross sales, receipts or earnings and pay the tax due thereon
18 within twenty-five (25) days after the end of each taxable quarter [~~:-*Provided,*~~

1 ~~That in the case of a person whose VAT registration is cancelled and who~~
2 ~~becomes liable to the tax imposed in Section 116 of this Code, the tax shall~~
3 ~~accrue from the date of cancellation and shall be paid in accordance with the~~
4 ~~provisions of this Section].~~

5 "xxx"

6 Sec. 3. *Implementing Rules and Regulations (IRR).* – Within thirty (30) days
7 from the effectivity of this Act, the Secretary of Finance, upon the recommendation of
8 the Commissioner of Internal Revenue, shall promulgate the necessary rules and
9 regulations for its effective implementation.

10 Sec. 4. *Separability Clause.* – If any provision or part hereof is declared
11 unconstitutional, the remainder of this Act or any provision not affected thereby shall
12 remain in full force and effect.

13 Sec. 5. *Repealing Clause.* – All laws, acts, decrees, executive orders, issuances,
14 and rules and regulations or parts thereof which are contrary to and inconsistent with
15 this Act are hereby repealed, amended or modified accordingly.

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

 Approved,