

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

TWENTIETH CONGRESS
First Regular Session

HOUSE BILL NO. 1736



Introduced by **Representative Ryan S. Recto**

EXPLANATORY NOTE

This bill seeks to amend Section 27 of the National Internal Revenue Code (NIRC) of 1997, as amended, by exempting micro and small enterprises (MSEs) with net taxable income not exceeding P400,000 from the corporate income tax. The measure also seeks to exempt MSEs from the imposition of minimum corporate income tax (MCIT).

It goes without saying that MSEs are indeed the backbone of the economy as they contribute significantly to employment generation and overall national development. According to the Department of Trade and Industry's (DTI) 2023 Philippine Micro, Small and Medium Enterprises (MSME) Statistics, of the recorded 1,246,373 business enterprises in the country, 99.63% (1,241,733) are MSMEs, while 0.37% (4,640) are large enterprises.

Aside from that, MSMEs provide 63% of employment to the Philippine labor force and contribute to 40% of the country's Gross Domestic Product (GDP), as per the United Nations Development Programme's MSME Value Chain Rapid Response Survey (2020).

However, this particular sector is not without challenges. They are often faced with limited access to financial resources, intense competition, and a heavy tax burden that hinders them from experiencing their full economic potential. The current tax

regime being imposed in the country offers some concessions, however, this is not without challenges.

This proposed measure aims to address such concerns by amending Section 27(A) of the aforementioned law. While the general corporate income tax remains at twenty-five (25%), this measure proposes that only the net taxable income in excess of Four Hundred Thousand Pesos (P400,000.00) shall be subject to income tax. This amendment provides for an income tax exemption for the first P400,000.00 of net taxable income for all domestic corporations, with a direct and substantial benefit to MSEs by reducing their taxable base.

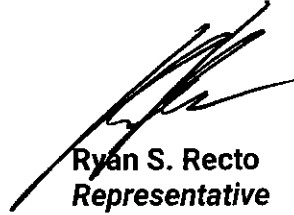
The bill also proposes to amend Section 27(E) that concerns the Minimum Corporate Income Tax on Domestic Corporations of the said law. While the existing law imposes a minimum corporate income tax (MCIT) of two percent (2%) of gross income, this piece of legislation proposes that MSEs shall not be subject to tax under this particular subsection.

This exemption from MCIT will alleviate MSEs from tax obligations that can be particularly burdensome, most especially during periods of low profit or during their first few months of operations. This allows them to retain more capital for reinvestment into their growth, such as expanding operations, hiring more staff or developing new products and services. Furthermore, it encourages new entrepreneurial ventures by reducing initial financial pressures, thereby fostering a more dynamic and competitive business environment.

Beyond financial relief, this reform also sends a strong signal of government support for small business resilience and long-term viability. It acknowledges the vital role MSEs play in driving grassroots economic activity and aims to create a more enabling ecosystem where innovation, adaptability and community-level enterprise can thrive. The measure envisions that more of our fellow countrymen who operate or work in sari-sari stores, groceries, and convenience stores are able to thrive and contribute to a more vibrant emerging economy. This strategic approach to tax reform, by fostering growth among MSEs, aligns with the broader objective

of the law for the payment of taxes. The objective is to broaden the tax base and this can be done by encouraging more self-employed individuals, professionals, business enterprises and other income earners to voluntarily file their income tax returns (ITRs) and pay the corresponding correct taxes thereon.

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



Ryan S. Recto
Representative
6th District, Batangas

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HOUSE OF REPRESENTATIVES
Quezon City, Metro Manila

TWENTIETH CONGRESS
First Regular Session

HOUSE BILL NO. 1735

Introduced by **Representative Ryan S. Recto**

AN ACT
GRANTING ECONOMIC RELIEF TO MICRO AND SMALL ENTERPRISES, AMENDING
FOR THE PURPOSE SECTION 27 OF THE NATIONAL INTERNAL REVENUE CODE OF
1997, AS AMENDED

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

Section 1. *Short Title.* – This Act shall be known as the “Economic Relief for Micro and Small Enterprises Act”.

Sec. 2. Section 27 of the National Internal Revenue Code of 1997, as amended, is hereby further amended to read as follows:

“SEC. 27. Rates of Income Tax on Domestic Corporations. –

(A) In General. - Except as otherwise provided in this Code, an income tax rate of twenty-five percent (25%) effective July 1, 2020, is hereby imposed upon the taxable income derived during each taxable year from all sources within and without the Philippines by every corporation, as defined in Section 22(B) of this Code and taxable under this Title as a corporation, organized in, or existing under the laws of the Philippines: *Provided, That* corporations with net taxable income not exceeding Five million pesos (P5,000,000.00) and with total assets not exceeding One hundred million pesos (P100,000,000.00), excluding land on which the particular business

entity's office, plant, and equipment are situated during the taxable year for which the tax is imposed, shall be taxed at twenty percent (20%): *Provided, further,* That registered business enterprises under the enhanced deductions regime as provided in Section 249(C) of this Code shall be taxed at a rate equivalent to twenty percent (20%) on their taxable income derived from registered projects or activities during each taxable year[-]: **PROVIDED, FINALLY, THAT ONLY THE NET TAXABLE INCOME IN EXCESS OF FOUR HUNDRED THOUSAND PESOS (P400,000) SHALL BE SUBJECT TO INCOME TAX UNDER THIS SECTION.**

"xxx

(E) *Minimum Corporate Income Tax on Domestic Corporations.* –

(1) *Imposition of Tax.* – A minimum corporate income tax of two percent (2%) of the gross income as of the end of the taxable year, as defined herein, is hereby imposed on a corporation taxable under this Title, beginning on the fourth taxable year immediately following the year in which such corporation commenced its business operations, when the minimum income tax is greater than the tax computed under Subsection (A) of this Section for the taxable year: *Provided,* That effective July 1, 2020 until June 30, 2023, the rate shall be one percent (1%): **PROVIDED, FURTHER, THAT THE MICRO AND SMALL ENTERPRISES SHALL NOT BE SUBJECT TO TAX UNDER THIS SUBSECTION.**

"xxx"

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

Sec. 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.

Sec. 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.

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

Approved,