

Republic of the Philippines
HOUSE OF REPRESENTATIVES
Quezon City
TWENTIETH CONGRESS
First Regular Session



HOUSE BILL NO. 2100

Introduced by **REP. BERNADETTE "DETTE" G. ESCUDERO**

AN ACT
PROMOTING BUSINESS GROWTH AND RECOVERY BY REDUCING THE
COST OF BUSINESS COMPLIANCE FOR MICRO, SMALL AND MEDIUM
ENTERPRISES, AMENDING FOR THE PURPOSE THE NATIONAL INTERNAL
REVENUE CODE OF 1997, AS AMENDED

EXPLANATORY NOTE

Pursuant to Article XII of the 1987 Constitution on National Economy and Patrimony, it is the declared duty of the State to promote a sustained, self-reliant, and inclusive national economy through the equitable distribution of opportunities, income, and wealth. In line with this mandate, the State is compelled to provide support and ensure the growth and development of all sectors and industries, including Micro, Small, and Medium Enterprises (MSMEs), given their vital role in national development.

The MSME sector is widely recognized as the bedrock of the Philippine economy. In Sorsogon City alone, local government data indicates that around 1,000 MSMEs are engaged in manufacturing and processing—comprising at least 20% of the city's total registered businesses. Nationally, data from the Department of Trade and Industry (DTI) for fiscal year 2023 shows that MSMEs account for 99.6 percent of the country's 1,076,279 total business establishments, collectively generating approximately 67 percent of establishment-based employment. This translates to over 6.35 million jobs, underscoring the sector's critical role in productivity, employment generation, and inclusive growth.

Beyond their contribution to national output, MSMEs are instrumental in catalyzing regional development. Their broad geographic presence and diverse sectoral participation support the government's goals of decongesting urban centers, redistributing wealth, reducing poverty, and promoting balanced national growth. However, despite their importance, MSMEs continue to face significant challenges, both internal to the sector and in relation to the policies that govern them.

Among the most pressing issues are the rising cost of doing business, limited access to credit and financing, restricted market reach, and stagnant productivity. In addition, complex tax regulations and burdensome compliance requirements constrain MSMEs' ability to sustain and expand operations.

This bill seeks to amend relevant provisions of Republic Act No. 10963, or the Tax Reform for Acceleration and Inclusion (TRAIN) Law, to ease the tax burden on MSMEs and improve their competitiveness. Specifically, the measure proposes two key reforms:

1. **Reducing** the optional income tax rate on gross sales or receipts from **eight percent (8%) to five percent (5%)**, thereby encouraging broader use of the simplified tax regime among eligible MSMEs; and
2. **Streamlining** the creditable withholding tax system into **two tiers**: one percent (1%) on the purchase of goods and properties, and two percent (2%) on the purchase of services.

These reforms aim to lower compliance costs, simplify tax administration, and allow MSMEs to redirect savings toward business expansion, job creation, and operational resilience. Enhanced financial flexibility will also help MSMEs reinvest capital, cushion against inflation, and withstand global market volatility.

Ultimately, by empowering the MSME sector through simpler, fairer, and more supportive tax mechanisms, the State reaffirms its constitutional mandate to promote equitable economic growth, foster entrepreneurship, and uphold the right of small enterprises to meaningful participation in national development.

In view of the foregoing, immediate and favorable consideration of this measure is earnestly sought.



HON. BERNADETTE "DETTE" G. ESCUDERO

Representative
1st District, Sorsogon

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

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

"Sec. 24. Income Tax Rates. –

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

"(1) x x x;

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

"(a) x x x;

*"(b) Rate of Tax on Income of Purely Self-employed Individuals and/or Professionals Whose Gross Sales or Gross Receipts and Other Non-operating Income Does Not Exceed the Value-added Tax (VAT) Threshold as Provided in Section ~~[109(BB)]~~ **109(CC)**. – Self-employed individuals and/or professionals shall have the option to avail of ~~[an eight-percent (8%)]~~ **A FIVE PERCENT (5%)** tax on gross sales or gross receipts and other non-operating income in excess of Two hundred fifty thousand pesos (P250,000) 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.*

"(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) x x x;

"(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)]~~ **109(CC)** of this Code. – The rates prescribed under Subsection (A)(2)(a) of this Section on taxable income, or of ~~[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.

"x x x."

Sec. 2. Section 57 of the National Internal Revenue Code of 1997, as amended is hereby further amended to read as follows:

"Sec. 57. *Withholding of Tax at Source.* –

"(A) x x x;

"(B) *Withholding of Creditable Tax at Source.* - The Secretary of Finance may, upon the recommendation of the Commissioner, require the withholding of a tax on the items of income payable to natural or juridical persons, residing in the Philippines, by payor-corporation/persons as provided for by law, at the rate of ~~[not more than fifteen percent (15%) thereof]~~ **ONE PERCENT (1%) FOR THE PURCHASE OF GOODS AND PROPERTIES, AND TWO PERCENT (2%) FOR THE PURCHASE OF SERVICES INCLUDING THE EXERCISE OF PROFESSION AND LEASE OF PROPERTIES,** which shall be credited against the income tax liability of the taxpayer for the taxable year;

"x x x."

Sec. 3. Implementing Rules and Regulations. – 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 this Act.

Sec. 4. Separability Clause. – If any provision of this Act or the application of such provision to any person or circumstance is declared invalid, the remainder of the Act or the application of such provision to other persons or circumstances shall not be affected thereby.

Sec. 5. Repealing Clause. – All laws, decrees, administrative issuances, rules and regulations, and orders or parts thereof inconsistent with this Act are deemed repealed or modified accordingly.

Sec. 6. Effectivity. – This Act shall take effect after fifteen (15) days following the completion of its publication in the *Official Gazette* or in two (2) national newspapers of general circulation, whichever comes first.

Adopted,