

Republic of the Philippines
House of Representatives
Quezon City, Metro Manila
TWENTIETH CONGRESS
First Regular Session
House Bill No. **2271**



INTRODUCED BY REPRESENTATIVE PM VARGAS

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

EXPLANATORY NOTE

Micro, Small, and Medium-Sized Businesses (MSMEs) are essential to the growth of the Philippine economy. MSMEs immediately aid in reducing poverty by generating employment for the nation's expanding labor population and promoting economic growth, particularly in rural areas. MSMEs serve as a training ground for aspiring business owners as well as a crucial conduit for large corporations as service providers. MSMEs account for 99.5% of all registered business establishments in the nation and employ roughly 63% of the existing labor force. In the past, the sector was responsible for 40% of the nation's Gross Domestic Product (GDP).

The cost of business compliance can be significant for MSMEs which often do not have the same resources as larger businesses, making it challenging for them to compete and grow. By reducing the cost of compliance, the government can help level the playing field and create a more favorable environment for MSMEs to operate.

Reducing the cost of compliance can further benefit MSMEs with improved efficiency, increased productivity, and profitability, essentially improving their competitiveness.

This proposed measure seeks to make business compliance easier with a reduced tax rate from eight percent (8%) to five percent (5%) of gross sales or receipts introduced under Republic Act No. 10963, or the "*Tax Reform for Acceleration and Inclusion (TRAIN) Law*". The bill also aims to simplify the convoluted rates under the creditable withholding tax system by reducing the rates to be used: one percent (1%) for the purchase of goods and properties, and two percent (2%) for the purchase of services. Through these amendments to the National Internal Revenue Code of 1997, this measure hopes to provide additional funds for business expansion for the MSMEs and grow their capability to contribute to economic development.

In view of the foregoing immediate passage of this bill is earnestly sought.



REP. PM VARGAS
Fifth District, Quezon City

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AN ACT

PROMOTING BUSINESS GROWTH AND RECOVERY BY REDUCING THE COST OF BUSINESS COMPLIANCE FOR MICRO, SMALL AND MEDIUM ENTERPRISES (MSMEs), AMENDING FOR THE PURPOSE 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. 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 Citizens and Individual Resident Alien of the Philippines. -

"(1) XXX

"(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) xxx

"(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) *AH Income from Compensation.* - The rate prescribed under Subsection (A)(2)(a) of this Section.

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

"xxx"

SECTION 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) xxx

"(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 less than one percent (1%) but not more than thirty two percent (32%) thereof, which shall be credited against the income tax liability of the taxpayer for the taxable year: Provided, That beginning January 1, 2019, the rate of the withholding shall not be less than one percent (1%) but not more than fifteen percent (15%) of the income payment~~] **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.

“xxx”

SECTION 3. *Implementing Rules and Regulations (IRR)*. – Within thirty (30) days from the effectivity of this Act, the Department of Finance (DOF) shall, in coordination with the Bureau of Internal Revenue (BIR), promulgate the IRR to effectively implement the provisions of this Act.

SECTION 4. *Separability Clause*. – If any provision or part hereof is declared invalid or 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, or inconsistent with, this Act are hereby repealed, amended or modified accordingly.

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

Approved,