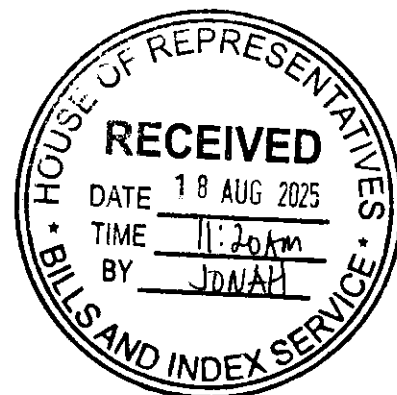




Republic of the Philippines
HOUSE OF REPRESENTATIVES
Batasan Hills, Quezon City

TWENTIETH CONGRESS
First Regular Session

HOUSE BILL NO. 3782

Introduced by 4Ps Partylist Representative
JC M. ABALOS

EXPLANATORY NOTE

Section 9, Article II of the 1987 Constitution provides that: "The State shall promote a just and dynamic social order that will ensure the prosperity and independence of the nation and free the people from poverty through policies that provide adequate social services, promote full employment, a rising standard of living, and an improved quality of life for all."

Pursuant to this constitutional directive, it is imperative that the State continuously reviews and updates its tax laws to ensure that they remain fair, equitable, and responsive to economic realities—particularly those affecting Filipino workers.

Despite stable employment, modest savings, and a measure of financial security, middle-income households are often unprepared for the overwhelming cost of treating a critical illness. Medical expenses extend well beyond hospitalization, encompassing diagnostics, long-term medications, specialized therapies, and rehabilitative care. While public health insurance offers some relief, it typically covers only a fraction of these costs, leaving families to shoulder the rest through out-of-pocket payments, borrowing, or even liquidating assets.

Under the National Internal Revenue Code (NIRC), as amended, allowable deductions for purposes of computing taxable income generally include expenses, interest, taxes, losses, and other costs incurred in the ordinary course of trade,

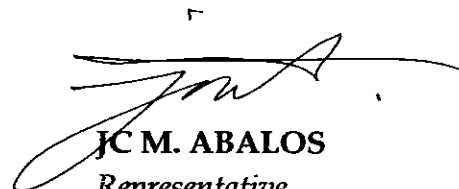
business, or the practice of a profession. However, personal and living expenses, including premiums paid for life or critical illness insurance which are intended to safeguard individuals against extraordinary events such as serious illness, are not recognized as deductible items in determining an individual's taxable income.

The intent of this legislation is to provide immediate and targeted tax relief that can soften the financial impact of such medical events. Unlike ordinary health expenses, critical illness-related costs are often urgent, unpredictable, and financially destabilizing, with long-term effects on a household's income, productivity, and overall well-being.

By expressly allowing the deduction of critical illness-related expenses from gross income, this bill affirms a key principle: that tax policy should not only serve the purpose of revenue generation but also act as a tool for social protection—particularly in moments of extreme vulnerability. It reinforces the notion that taxpayers should not be taxed on income that has effectively been exhausted by necessary and extraordinary medical expenditures.

Moreover, this bill aligns with the goals of the Universal Health Care (UHC) Act by reinforcing financial protection mechanisms for families. While structural reforms to the health care system continue, the tax system must evolve in parallel to address the immediate and real costs borne by Filipino families.

In acknowledging the lived realities of those navigating serious health conditions, this bill offers a concrete and compassionate response: to recognize, through tax relief, the extraordinary burdens borne by taxpayers who are striving to survive—not just physically, but financially.



JC M. ABALOS
Representative
4Ps Partylist



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HOUSE BILL NO. 3782

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AN ACT
ALLOWING THE DEDUCTION OF QUALIFIED MEDICAL EXPENSES
INCURRED FOR CRITICAL ILLNESS FROM GROSS INCOME, AMENDING
SECTIONS 22, 32 AND 34 OF REPUBLIC ACT NO. 8424, OTHERWISE KNOWN
AS THE NATIONAL INTERNAL REVENUE CODE OF 1997, AS AMENDED

SEC. 1. *Declaration of Policy.* – The State upholds a just and dynamic social order that promotes national prosperity and independence, and seeks to free the people from poverty through equitable economic and fiscal measures. Pursuant to Section 9, Article II of the 1987 Constitution, the State recognizes the importance of ensuring fairness in the tax system and of upholding the principles of equity and social justice, particularly in the treatment of income earned by Filipino workers and families.

In this light, it is the policy of the State to strengthen social protection through tax measures that respond to the real and pressing challenges faced by households during periods of extraordinary hardship. Recognizing the severe and often unpredictable financial burden caused by critical illnesses, the State shall provide targeted tax relief to affected individuals and families by allowing the deduction of qualified medical expenses from taxable income.

In alignment with Republic Act No. 11223, otherwise known as the “Universal Health Care Act,” the State recognizes that all Filipinos are guaranteed access to promotive, preventive, curative, rehabilitative, and palliative care through publicly

financed health services, including PhilHealth benefit packages. However, recognizing that critical illnesses often involve costs that exceed the scope or timeliness of public support, this Act seeks to provide secondary financial protection by allowing the deduction of residual, out-of-pocket medical expenses for certified critical illnesses from gross income. This measure aims to close the gap between the actual cost of care and available coverage, without diminishing the primary role of public health financing in ensuring universal health access.

SEC. 2. Section 22 of the NIRC, as amended, is hereby further amended to read as follows:

“SEC. 22. Definitions. – XXX

(MM) **CRITICAL ILLNESS.** – REFERS TO A SERIOUS HEALTH CONDITION AS DEFINED AND CERTIFIED BY THE DEPARTMENT OF HEALTH (DOH), INCLUDING BUT NOT LIMITED TO CANCER, STROKE, HEART ATTACK AND CEREBROVASCULAR DISEASES.

(NN) **QUALIFIED MEDICAL EXPENSES** - REFERS TO THE PORTION OF MEDICAL AND HOSPITAL EXPENSES RELATED TO THE DIAGNOSIS, TREATMENT, OR MANAGEMENT OF A CERTIFIED CRITICAL ILLNESS THAT IS ACTUALLY PAID OUT-OF-POCKET BY THE TAXPAYER, AFTER DEDUCTING ANY AMOUNTS COVERED OR REIMBURSED BY PHILIPPINE HEALTH INSURANCE CORPORATION (PHILHEALTH), PRIVATE HEALTH INSURANCE, EMPLOYER-SPONSORED HEALTH PLANS, OR ANY FINANCIAL ASSISTANCE, SUBSIDY, OR GRANT PROVIDED BY THE FOLLOWING GOVERNMENT AGENCIES:

1. DEPARTMENT OF HEALTH (DOH)
2. DEPARTMENT OF SOCIAL WELFARE AND DEVELOPMENT (DSWD)
3. PHILIPPINE CHARITY SWEEPSTAKES OFFICE (PCSO)
4. OFFICE OF THE VICE PRESIDENT (OVP)
5. OFFICE OF THE PRESIDENT (OP)

XXX.”

SEC. 3. Section 32 of the NIRC, as amended, is hereby further amended to read as follows:

“SEC. 32. Gross Income. – XXX

(B) Exclusions from Gross Income. – XXX

(4) Compensation for Injuries or Sickness. - amounts received, through Accident or Health Insurance or under Workmen's Compensation Acts, as compensation for personal injuries or sickness, plus the amounts of any damages received, whether by suit or agreement, on account of such injuries or sickness. PROVIDED, THAT NO DEDUCTION UNDER SECTION 34 (M) SHALL BE ALLOWED FOR ANY EXPENSE CORRESPONDING TO THE AMOUNTS EXCLUDED FROM GROSS INCOME UNDER THIS SUBSECTION.

XXX."

SEC. 4. Section 34 of the NIRC, as amended, is hereby further amended to read as follows:

"SEC. 34. Deductions from Gross Income. - XXX

(M) *QUALIFIED MEDICAL EXPENSES. -*

(1) *IN GENERAL - MEDICAL AND HOSPITAL EXPENSES PAID OR INCURRED WITHIN THE TAXABLE YEAR FOR THE DIAGNOSIS, TREATMENT, OR MANAGEMENT OF A CERTIFIED CRITICAL ILLNESS SHALL BE ALLOWED AS DEDUCTION FROM GROSS INCOME:*

(a) *THE DEDUCTION SHALL APPLY ONLY TO OUT-OF-POCKET MEDICAL EXPENSES ACTUALLY PAID BY THE TAXPAYER WITHIN THE TAXABLE YEAR, AND NOT REIMBURSED OR OTHERWISE COMPENSATED THROUGH INSURANCE PROCEEDS OR AMOUNTS EXCLUDED FROM GROSS INCOME UNDER SECTION 32(B)(4);*

(b) *THE ILLNESS MUST BE CERTIFIED AS A CRITICAL ILLNESS BY THE DEPARTMENT OF HEALTH (DOH) OR AN ACCREDITED MEDICAL BOARD, IN ACCORDANCE WITH GUIDELINES TO BE JOINTLY ISSUED BY THE DOH AND THE BIR.*

PROVIDED, 'QUALIFIED MEDICAL EXPENSES' SHALL INCLUDE COSTS RELATED TO HOSPITALIZATION, SURGERIES, THERAPIES, PRESCRIBED MEDICATIONS, DIAGNOSTIC PROCEDURES, MEDICAL EQUIPMENT, AND

OTHER MEDICALLY NECESSARY EXPENSES ASSOCIATED WITH A CERTIFIED CRITICAL ILLNESS, AS MAY BE FURTHER DEFINED BY IMPLEMENTING RULES AND REGULATIONS.

PROVIDED, FURTHER, THAT IN DETERMINING THE DEFINITION OF 'CRITICAL ILLNESS' AND THE SCOPE OF 'QUALIFIED MEDICAL EXPENSES,' THE DOH SHALL BE GUIDED BY THE RECOMMENDATIONS AND FINDINGS OF THE HEALTH TECHNOLOGY ASSESSMENT (HTA) PROCESS INSTITUTIONALIZED UNDER SECTION 34 OF UNIVERSAL HEALTH CARE ACT, AND ITS IMPLEMENTING RULES AND REGULATIONS. ONLY THOSE DRUGS, PROCEDURES, SERVICES, AND MEDICAL DEVICES POSITIVELY RECOMMENDED BY THE HTA SHALL BE ELIGIBLE FOR DEDUCTION UNDER THIS SUBSECTION.

(2) *SUBSTANTIATION REQUIREMENTS* - THE EXPENSES MUST BE SUPPORTED BY OFFICIAL RECEIPTS, MEDICAL CERTIFICATES, AND SUCH DOCUMENTATION AS MAY BE PRESCRIBED BY THE BUREAU OF INTERNAL REVENUE (BIR) THROUGH APPROPRIATE REGULATIONS.

(3) *LIMITATION ON DEDUCTIONS* - THE AMOUNT DEDUCTIBLE SHALL BE LIMITED TO THE PORTION OF TOTAL QUALIFIED MEDICAL EXPENSES THAT EXCEEDS THE APPLICABLE THRESHOLD, BASED ON THE TAXPAYER'S GROSS INCOME, AS FOLLOWS:

- (a) FOR TAXABLE INCOME OVER ₱250,000 BUT NOT EXCEEDING ₱800,000 - 10% OF GROSS INCOME;
- (b) OVER ₱800,000 BUT NOT EXCEEDING ₱2,000,000 - 7.5% OF GROSS INCOME;
- (c) OVER ₱2,000,000 BUT NOT EXCEEDING ₱8,000,000 - 5% OF GROSS INCOME;
- (d) OVER ₱8,000,000 - 3% OF GROSS INCOME.

PROVIDED, THAT THE TOTAL AMOUNT CLAIMED AS DEDUCTION UNDER THIS SUBSECTION SHALL NOT EXCEED FIFTY PERCENT (50%) OF THE TAXPAYER'S GROSS INCOME, OR SUCH REASONABLE CAP AS MAY BE SET BY THE BIR.

PROVIDED FURTHER, THE SECRETARY OF FINANCE, IN CONSULTATION WITH THE DEPARTMENT OF HEALTH AND THE PHILIPPINE STATISTICS AUTHORITY, MAY REVIEW AND ADJUST THE THRESHOLD PERCENTAGES OR ALLOWABLE EXPENSE CAP EVERY THREE (3) YEARS, TAKING INTO CONSIDERATION INFLATION, WAGE LEVELS, AND OTHER RELEVANT INDICATORS.

XXX.”

SEC. 5. *Implementing Rules and Regulations.* – The Department of Finance, in consultation with the Department of Health and Bureau of Internal Revenue, shall issue rules and regulations for the faithful and effective implementation of this Act.

SEC. 6. *Separability Clause.* – If any part or provision of this Act is held invalid or unconstitutional, the other provisions not affected thereby shall remain in force and effect.

SEC. 7. *Repealing Clause.* – All laws, executive orders, issuances, decrees, rules and regulations inconsistent with or contrary to the provisions of this Act are deemed amended, modified or repealed accordingly.

SEC. 8. *Effectivity.* – This Act shall take effect fifteen (15) days after its publication in the Official Gazette or in a newspaper of general circulation.

Approved,