



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

TWENTIETH CONGRESS
First Regular Session

HOUSE BILL NO. 3783

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."

In line with this constitutional mandate, the State must ensure that its tax policies are equitable and responsive to the realities faced by Filipino workers.

Under Section 34 of the National Internal Revenue Code of 1997 (NIRC), as amended, taxpayers earning compensation income from personal services rendered under an employer-employee relationship are not entitled to any deductions. Their taxable income excludes only the following:

1. Government Service Insurance System (GSIS), the Social Security System (SSS), the Home Development Mutual Fund (HDMF), the Philippine Health Insurance Corporation (PHIC) contributions, and union dues;
2. 13th month pay and other benefits not exceeding P 90,000;
3. Others as enumerated in Section 32 (B) of the NIRC of 1997, as amended such as proceeds of life insurance, retirement benefits, pensions, among others.

In contrast, Self-employed individuals and professionals are entitled to a wide range of deductions necessary to carry on a trade, business, or profession, including:

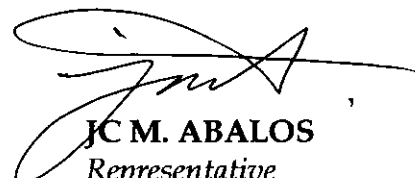
Ordinary and necessary trade, business or professional expenses; Interests; Taxes; Losses; Bad debts; Depreciation; Charitable and other contributions; Research and development; Pension trusts; and Optional Standard Deduction of 40% of gross receipts or gross income, in lieu of items 1 to 9 above.

This creates a disparity in tax treatment. While it is recognized that employees do not incur the same types of business-related expenses – since operational costs are generally shouldered by the employer – employees who render services beyond regular hours or under hazardous conditions face additional burdens that are not sufficiently acknowledged in the current tax regime.

The principle of equity in taxation holds that taxpayers with equal ability to pay should bear equal tax burdens. However, overtime pay, night-shift differential, and hazard pay are compensations earned under extraordinary or strenuous circumstances. Subjecting them to the same tax treatment as regular income undermines this principle, as it fails to recognize the physical, mental, and social costs borne by affected employees.

This bill therefore seeks to amend the relevant provisions of the NIRC to exclude from gross income overtime pay, night-shift differential pay, and hazard pay received by employees. This measure aims to narrow the disparity in tax treatment between compensation earners and self-employed individuals; promote horizontal equity among taxpayers with differing sources of income; and provide moral and financial recognition to employees who undertake additional or hazardous work beyond ordinary expectations.

Moreover, by increasing the take-home pay of affected employees, this measure is expected to enhance their purchasing power, stimulate domestic consumption, and contribute to broader economic activity. In doing so, it not only provides immediate financial relief to workers but also supports inclusive economic growth.



JC M. ABALOS
Representative
4Ps Partylist



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

TWENTIETH CONGRESS
First Regular Session

HOUSE BILL NO. 3783

Introduced by 4Ps Partylist Representative
JC M. ABALOS

**AN ACT EXCLUDING OVERTIME PAY, NIGHT SHIFT DIFFERENTIAL AND
HAZARD PAY FROM THE COMPUTATION OF GROSS INCOME FOR THE
PURPOSES OF INCOME TAXATION, AMENDING SECTION 32, UNDER
REPUBLIC ACT NO. 8424, OTHERWISE KNOWN AS 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. 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. In accordance with Section 9, Article II of the 1987 Constitution, the State recognizes the need to ensure fairness in the tax system and to uphold the principles of equity and social justice in the treatment of income earned by Filipino workers.

In this light, the State acknowledges the disproportionate tax burden borne by compensation income earners, particularly employees who render services under extraordinary, hazardous, or strenuous conditions, such as those who receive overtime pay, night-shift differential, and hazard pay. These forms of compensation reflect personal sacrifices and increased physical, mental, and social costs that are not adequately addressed under the current tax regime.

Accordingly, it is the policy of the State to narrow the disparity in tax treatment between compensation earners and self-employed individuals by granting appropriate tax relief to employees who undertake work beyond ordinary expectations. This measure seeks to uphold the principle of horizontal equity, promote social justice, and provide both moral and financial recognition to the contributions of Filipino workers.

SEC. 2. 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. – The following items shall not be included in gross income and shall be exempt from taxation under this Title:

XXX

(7) OVERTIME, NIGHT-SHIFT DIFFERENTIAL AND HAZARD PAY. – ADDITIONAL COMPENSATION RECEIVED BY EMPLOYEES IN THE FORM OF:

- i. OVERTIME PAY,*
- ii. NIGHT SHIFT DIFFERENTIAL, AND*
- iii. HAZARD PAY.*

PROVIDED, THAT THE TOTAL AMOUNT OF SUCH ADDITIONAL COMPENSATION SHALL NOT EXCEED ONE HUNDRED TWENTY THOUSAND PESOS (₱120,000) ANNUALLY. PROVIDED FURTHER, SUCH AMOUNTS ARE GRANTED IN ACCORDANCE WITH EXISTING LABOR LAWS, RULES, AND REGULATIONS ISSUED BY THE DEPARTMENT OF LABOR AND EMPLOYMENT (DOLE) AND RELATED STATUTES.

[(7)] (8) Miscellaneous Items. –

XXX."

SEC. 3. Implementing Rules and Regulations. – The Department of Finance, in consultation with the Department of Labor and Employment and the Bureau of Internal Revenue shall issue rules and regulations for the faithful and effective implementation of this Act.

SEC. 4. *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. 5. *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. 6. *Effectivity.* — This Act shall take effect fifteen (15) days after its publication in the Official Gazette or in a newspaper of general circulation.

Approved,