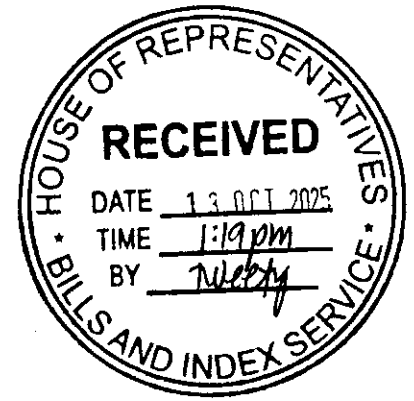


Republic of the Philippines
HOUSE OF REPRESENTATIVES
Quezon City, Metro Manila

TWENTIETH CONGRESS
First Regular Session

HOUSE BILL NO. 5496



Introduced by **Representative Jose Manuel "JM" F. Lagdameo**

EXPLANATORY NOTE

The rising cost of medical care in the Philippines continues to expose many families to severe financial distress, especially when confronted with catastrophic illnesses. While government assistance programs provide support, these interventions often cover only a portion of hospital bills and medical expenses, leaving families to absorb significant out-of-pocket expenses and exposing them to the risks of intergenerational debt and psychosocial strain.

Under current tax laws, individuals who have already shouldered these expenses remain fully taxed on their income, with no recognition of the extraordinary burden imposed by catastrophic illnesses.

The "Catastrophic Medical Expenditure Exclusion Act" seeks to address this concern by allowing the exclusion from an individual's gross income of medical expenses incurred due to catastrophic illness, subject to proper documentation and a reasonable ceiling. By doing so, the measure directly acknowledges the realities faced by households coping with severe medical challenges while ensuring safeguards for transparency and accountability. By excluding these expenses from taxable income, the government offers needed relief to citizens without incurring additional public spending.

This legislation complements existing health and social protection programs by integrating a tax mechanism that supports the broader objective of easing the financial burdens of catastrophic illness. It is consistent with the State's constitutional mandate to promote social justice, protect the health of the people, and ensure fairness and equity in taxation.

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


JOSE MANUEL "JM" F. LAGDAMEO
Representative
Second District, Davao del Norte

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

TWENTIETH CONGRESS
First Regular Session

HOUSE BILL NO. 5496

Introduced by **Rep. Jose Manuel “JM” F. Lagdameo**

AN ACT
EXCLUDING FROM GROSS TAXABLE INCOME THE MEDICAL EXPENSES
INCURRED DUE TO CATASTROPHIC ILLNESSES, AMENDING FOR THE
PURPOSE REPUBLIC ACT NO. 8424, OR THE NATIONAL INTERNAL REVENUE
CODE, AND FOR OTHER PURPOSES

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

SECTION 1. *Short Title.* – This Act shall be referred to as the "*Catastrophic Medical Expenditure Exclusion Act*".

SEC. 2. *Declaration of Policy.* – Article XIII, Section 11 of the Constitution provides: “The State shall adopt an integrated and comprehensive approach to health development which shall endeavor to make essential goods, health, and other social services available to all the people at affordable cost.” The same provision mandates that “[t]here shall be priority for the needs of the under-privileged, sick, elderly, disabled, women, and children.”

Further, Article XII, Section 1 of the Constitution states that “The goals of the national economy are a more equitable distribution of opportunities, income, and wealth.”

Finally, Article VI, Section 28 of the Constitution provides that the rule of taxation shall be uniform and equitable.

Recognizing the disproportionate impact of medical hardship on vulnerable populations, including the consequences of intergenerational debt and psychosocial strain, it is the policy of the State to:

- (a) promote equitable access to financial relief for individuals and families burdened by catastrophic illness; and
- (b) strengthen the State’s social protection framework by integrating health-related tax exclusions into the broader continuum of care for people suffering from catastrophic illnesses.

SEC. 3. New sub-sections under Section 22, Chapter I (Definitions), Title II (Tax on Income) of the NIRC, as amended, is hereby amended to read as follows:

xxx

“(II) CATASTROPHIC ILLNESS REFERS TO A SEVERE ILLNESS REQUIRING PROLONGED HOSPITALIZATION OR RECOVERY AS DETERMINED BY THE DEPARTMENT OF HEALTH. THESE INCLUDE, BUT ARE NOT LIMITED TO, CANCER, PSYCHIATRIC CONDITIONS, HEART ATTACK OR STROKE. THESE ILLNESSES USUALLY INVOLVE HIGH COSTS OF BILLS AND MEDICAL EXPENSES CAUSING FINANCIAL HARDSHIP WHICH MAY INCAPACITATE THE PERSON FROM BEING PRODUCTIVE;

“(JJ) CASE RATE REFERS TO THE FIXED-RATE OR AMOUNT THAT THE PHILIPPINE HEALTH INSURANCE CORP. (PHILHEALTH) WILL REIMBURSE FOR A SPECIFIC ILLNESS/CASE AS DEFINED BY PHILHEALTH.”

SEC. 4. A new sub-section designated as Section 32(B)(7)(i) under Chapter VI (Computation of Gross Income), Title II, of the National Internal Revenue Code of 1997 (NIRC), as amended, is hereby inserted to read as follows:

“Section 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) Miscellaneous Items. –

xxx

“(I) CATASTROPHIC ILLNESS EXPENDITURE. - THESE ARE THE OUT-OF-POCKET EXPENSES INCURRED BY AN INDIVIDUAL FOR HEALTH CARE DUE TO CATASTROPHIC ILLNESSES THAT AFFECTED THE TAXPAYER, SPOUSE, COMMON-LAW PARTNER, OR CHILD, THAT SHALL BE LIMITED TO THE PORTION OF MEDICAL EXPENSE IN EXCESS OF THE APPLICABLE PHILHEALTH CASE RATE FOR THE DIAGNOSED ILLNESS, SUBJECT TO A CEILING OF EITHER (1) P1,000,000 (ONE MILLION PESOS) OR (2) FORTY PERCENT (40%) OF THE TAXPAYER’S GROSS INCOME, WHICHEVER IS LOWER: PROVIDED, THAT IN THE CASE OF A TAXPAYER WITH A SPOUSE OR COMMON-LAW PARTNER WHO ALSO CONTRIBUTED TO THE EXPENSES, THE ONE WITH A LOWER TAXABLE INCOME SHALL BE CONSIDERED THE BENEFICIARY OF THIS PROVISION.

“EXPENSES SHALL NOT BE ELIGIBLE FOR EXCLUSION IF THEY ARE REIMBURSED OR PAID FOR BY ANY INSURANCE, EMPLOYER, THIRD PARTY, OR GOVERNMENT CASH ASSISTANCE PROGRAM, INCLUDING BUT NOT LIMITED TO, THE MEDICAL ASSISTANCE PROGRAM OF THE DEPARTMENT OF HEALTH (DOH), THE ASSISTANCE TO INDIVIDUALS IN CRISIS SITUATIONS (AICS) OF THE DEPARTMENT OF SOCIAL WELFARE AND DEVELOPMENT (DSWD), MALASAKIT CENTER SUBSIDIES, OR ANY OTHER NATIONAL OR LOCAL GOVERNMENT-FUNDED FINANCIAL AID FOR MEDICAL EXPENSES.

“THE P1,000,000 (ONE MILLION PESOS) CEILING SHALL BE SUBJECT TO PERIODIC REVIEW BY THE BUREAU OF INTERNAL REVENUE (BIR) IN CONSULTATION WITH THE DEPARTMENT OF ECONOMY, PLANNING, AND DEVELOPMENT (DEPDEV), DEPARTMENT OF FINANCE (DOF), AND THE DOH EVERY FIVE (5) YEARS WITH THE VIEW TO RECOMMEND TO THE CONGRESSIONAL OVERSIGHT COMMITTEE A CHANGE IN THE SAID AMOUNT.

“THE DOH IN CONSULTATION WITH PHILHEALTH AND OTHER STAKEHOLDERS SHALL FORMULATE AND PERIODICALLY REVIEW EVERY FIVE (5) YEARS A LIST OF ILLNESSES CLASSIFIED UNDER CATASTROPHIC ILLNESS AS DEFINED IN THIS ACT.”

SEC. 5. Section 79(A) of the NIRC, as amended, is hereby amended to read as follows:

“Section 79. *Income Tax Collected at Source.* –

(A) *Requirement of Withholding.* – Except in the case of a minimum wage earner as defined in Section 22(HH) of this code, every employer making payment of wages shall deduct and withhold upon such wages a tax determined in accordance with the rules and regulations to be prescribed by the Secretary of Finance, upon recommendation of the Commissioner.

WHEN AN EMPLOYED TAXPAYER QUALIFIES FOR THE EXCLUSION OF CATASTROPHIC ILLNESS EXPENDITURE UNDER SECTION 32(B)(7)(I) OF THIS ACT, THE EMPLOYER SHALL EXCLUDE THE ELIGIBLE AMOUNT FROM GROSS INCOME PRIOR TO COMPUTING AND WITHHOLDING THE TAX DUE, SUBJECT TO THE EMPLOYEE’S SUBMISSION OF SUFFICIENT DOCUMENTATION, INCLUDING MEDICAL CERTIFICATION, CERTIFICATION FROM THE DOH THAT THE CASE IS CONSIDERED CATASTROPHIC ILLNESS, OFFICIAL RECEIPTS, AND PROOF THAT THE EXPENSES ARE ELIGIBLE UNDER SECTION 32(B)(7)(I) AS MAY BE REQUIRED BY THE BIR.

SEC. 6. A new sub-section designated as Section 245(k) under Chapter III (Rules and Regulation), Title IX (Compliance Requirements) of the NIRC, as amended, is hereby inserted to read as follows:

“Section 245. Specific Provisions to be Contained in Rules and Regulations. – The rules and regulations of the Bureau of Internal Revenue shall, among other things, contain provisions specifying, prescribing or defining:

xxx

“(K) THE MANNER IN WHICH HOSPITALS SHALL REFLECT IN THEIR BILLING STATEMENTS THE AMOUNTS COVERED BY THE APPLICABLE PHILHEALTH CASE RATE AND OTHER FINANCIAL ASSISTANCE PROGRAMS PROVIDED BY THE NATIONAL OR LOCAL GOVERNMENT IN RELATION TO THE COMPUTATION OF THE CATASTROPHIC ILLNESS EXPENDITURE UNDER SECTION 32(B)(7)(I) OF THIS ACT. SUCH AMOUNTS SHALL BE ITEMIZED AND INDICATED AND SHALL BE MADE AVAILABLE TO THE PATIENT PRIOR TO DISCHARGE OR SETTLEMENT.”

SEC. 7. *Implementing Rules and Regulations.* – The Bureau of Internal Revenue, in cooperation and consultation with relevant government agencies and other stakeholders, shall promulgate the rules and regulations for the proper implementation of this Act within ninety (90) days from the effectivity of this Act.

SEC. 8. *Separability Clause.* – If any provision of this Act shall be deemed unconstitutional or invalid, the other provisions not affected there shall remain in force and effect.

SEC. 9. *Repealing Clause.* – All Acts, Presidential Decrees, Executive Orders and Administrative Orders, Rules and Regulations and other such issuances or parts thereof which are inconsistent with the provisions of this Act are hereby repealed or modified accordingly.

SEC. 10. *Effectivity.* - This Act shall take effect fifteen (15) days after its publication in the Official Gazette or in at least two (2) newspapers of general circulation.

Approved,