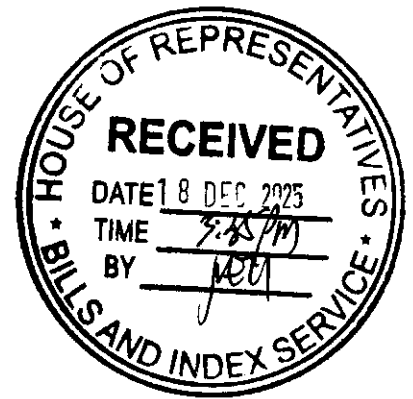


Republic of the Philippines
HOUSE OF REPRESENTATIVES
Batasan Hills, Quezon City

TWENTIETH CONGRESS
First Regular Session

House Bill No. 6983



Introduced by Abang Lingkod Party-list Representative
Manuel "Manman" O. Ko

EXPLANATORY NOTE

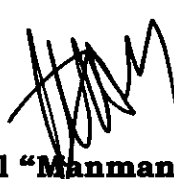
Micro, small, and medium enterprises (MSMEs) constitute the backbone of the Philippine economy, representing the vast majority of registered business establishments nationwide and providing livelihood to millions of Filipino workers. Notwithstanding their indispensable economic role, MSMEs continue to face disproportionate challenges in tax compliance. The complexity of regulatory requirements, the cost of professional accounting services, and the burden of detailed documentary submissions impose obligations that are often misaligned with the operational realities of small businesses. As a result, many MSMEs are discouraged from formalization, encounter barriers to growth, or remain unable to comply fully with tax registration and reporting standards, thereby diminishing voluntary compliance and limiting their access to government support programs.

The existing tax framework under the National Internal Revenue Code (NIRC), as amended by the TRAIN Law (Republic Act No. 10963) and the CREATE Act (Republic Act No. 11534), continues to be structured primarily around graduated income taxation, VAT or percentage tax reporting, and detailed financial documentation requirements. While the TRAIN Law introduced an optional eight percent (8%) flat tax regime for certain self-employed individuals and professionals, this simplification measure has reached only a limited segment of the MSME sector. Many micro and small businesses either remain unaware of this option or lack the administrative capability to properly avail of it. Moreover, small enterprises operating as juridical entities derive minimal benefit from existing simplification measures, as they remain subject to corporate income tax rules that require full financial statement audits and complex income computations, often at compliance costs disproportionate to their actual earnings.

In recognition of these persistent challenges, Congress enacted the Ease of Paying Taxes Act (Republic Act No. 11976) to improve taxpayer classification, moderate penalties, and expand electronic filing mechanisms. Consistent with this mandate, the Bureau of Internal Revenue issued Revenue Regulations No. 8-2024, formally classifying taxpayers as Micro, Small, Medium, or Large enterprises based on annual gross sales or receipts. While these reforms represent a positive step towards better administration and enforcement, they stop short of establishing a comprehensive statutory system of tax simplification specifically tailored to the circumstances of micro and small enterprises. Taxpayer classification alone does not resolve the continuing burdens posed by overlapping tax regimes, complex record-keeping requirements, and filing procedures that remain ill-suited to the scale and capacity of MSMEs.

This bill seeks to bridge that legislative gap by institutionalizing a coherent and practical framework for simplified taxation and compliance for micro and small enterprises. By aligning existing reforms under the TRAIN Law, CREATE Act, and the Ease of Paying Taxes Act into a unified statutory mechanism, the proposed measure aims to reduce compliance barriers, promote business formalization, strengthen voluntary participation in the tax system, and ensure that compliance obligations correspond reasonably to the scale of enterprise operations.

The immediate passage of this bill is imperative not only to provide meaningful relief to MSMEs but also to promote equity in taxation, enhance regulatory efficiency, and expand the formal business sector. In doing so, the measure supports sustainable economic growth, broadens the national revenue base through increased compliance rather than increased taxation, and advances the constitutional policy of fostering inclusive development across the nation



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AN ACT PROVIDING TAX RELIEF AND SIMPLIFICATION MEASURES FOR MICRO, SMALL, AND MEDIUM ENTERPRISES (MSMEs), AMENDING FOR THE PURPOSE CERTAIN PROVISIONS OF THE NATIONAL INTERNAL REVENUE CODE OF 1997, AS AMENDED, AND FOR OTHER PURPOSES

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

SECTION 1. Short Title. – This Act shall be known as the “*MSME Simplified Taxation and Compliance Act*”

SECTION 2. Declaration of Policy. – It is the policy of the State to support the growth and formalization of micro, small, and medium enterprises (MSMEs), reduce administrative burdens, promote voluntary compliance, and improve revenue collection efficiency.

SECTION 3. Definition of Terms. – For purposes of this Act:

- (a) *MSME* – refers to enterprises defined under RA 9501 (Magna Carta for MSMEs), as further classified under the Ease of Paying Taxes Act (RA 11976) and its implementing rules.
- (b) *Microenterprise* – Business with total assets not exceeding ₱3,000,000.
- (c) *Small Enterprise* – Business with total assets exceeding ₱3,000,000 but not exceeding ₱20,000,000.
- (d) *Medium Enterprise* – Business with total assets exceeding ₱20,000,000 but not exceeding ₱100,000,000.

(e) *BMBE* – Barangay Micro Business Enterprise as defined under RA 9178.

(f) *Simplified MSME Tax Regime (SMTR)*- refers to an optional tax compliance mechanism allowing eligible taxpayers to use standardized gross-based taxation in lieu of detailed income tax computation and traditional business tax filing requirements, subject to existing NIRC thresholds.

SECTION 4. Coverage and Eligibility. – The SMTR shall be available to:

1. Micro enterprises under RA 9501 and RA 11976 classifications;
2. Non-VAT-registered small enterprises not exceeding VAT registration thresholds; and
3. BMBEs, who may voluntarily opt into the Regime upon formal waiver of RA 9178 exemptions.

Participation in the Regime shall be purely voluntary and revocable subject to BIR rules.

SECTION 5. Simplified MSME Tax Regime. – In lieu of the graduated income tax rates or percentage tax applicable under the NIRC, as amended:

a. Micro enterprises may elect to pay a flat 8% tax on gross sales or receipts, consistent with existing options under Section 24(A)(2)(b) of the NIRC, as amended.

b. Small enterprises eligible under this Act may elect to pay a simplified gross-based tax at a rate not exceeding 8%, to be determined by the Bureau of Internal Revenue pursuant to revenue regulations, ensuring revenue neutrality compared with existing corporate income tax collections.

c. Taxpayers under the SMTR shall be exempt from:

1. *Percentage tax filing;*
2. *Submission of audited financial statements, except for monitoring and verification purposes; and*
3. *Quarterly income tax calculation based on net income.*

d. Taxpayers exceeding VAT thresholds shall automatically revert to the VAT regime and standard income taxation beginning the succeeding taxable year.

SECTION 6. Harmonization with Existing Laws. – Nothing in this Act shall be construed to repeal or diminish the effects of:

- a. *RA 11976 (Ease of Paying Taxes Act);*

- b. RA 11534 (CREATE Act);
- c. RA 9178 (BMBE Act); or
- d. TRAIN Law amendments to the NIRC.

Any MSME opting into the SMTR shall waive overlapping exemptions to prevent double incentives or revenue loss.

SECTION 7. Simplified Documentary Requirements. – Eligible MSMEs shall:

- a. Maintain basic books of accounts or digital records reflecting gross sales or receipts;
- b. Use BIR-accredited point-of-sale systems, e-receipts, or e-commerce sales data where applicable;
- c. Be exempt from formal accounting audits except during BIR investigations or industry compliance checks.

SECTION 8. Electronic Filing and Automated Reporting. – Eligible MSMEs shall be encouraged to use the BIR's electronic filing and payment. All participants in the SMTR shall file and pay taxes via the BIR Electronic Filing and Payment System (EFPS) or ORUS platforms, or other officially authorized portals.

The BIR shall establish simplified templates and automated tools for standardized reporting.

SECTION 9. Incentives for Compliance. – Participants who maintain continuous compliance for at least twelve (12) months shall be entitled to:

- a. Reduced administrative penalties consistent with RA 11976;
- b. Priority processing for government permits and renewals;
- c. Eligibility for business support programs coordinated by the DTI including financial literacy training, credit facilitation, and market-access initiatives.

SECTION 10. Capacity Building. – The Department of Trade and Industry (DTI), in coordination with BIR, shall provide technical assistance, annual workshops, and advisory services to guide MSMEs on simplified tax compliance and financial reporting.

SECTION 11. Appropriations. – The amount necessary for initial implementation, IT system upgrades, and capacity-building programs shall be sourced from the BIR's annual appropriations.

SECTION 12. Implementing Rules and Regulations. – Within ninety (90) days from the effectivity of this Act, the BIR shall promulgate the necessary rules and regulations for effective implementation of this Act.

SECTION 13. *Separability Clause.* – If any provision of this Act is declared unconstitutional, the remaining provisions shall remain in full force and effect.

SECTION 14. *Repealing Clause.* – All laws, presidential decrees, executive orders, and issuances inconsistent with this Act are hereby repealed or modified accordingly.

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

Approved,