

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

TWENTIETH CONGRESS
First Regular Session

HOUSE BILL NO. 7896



Introduced by 2nd District of Iloilo Representative
HON. KATHRYN JOYCE F. GORRICETA, M.D.

AN ACT
EXCLUDING OVERTIME PAY FROM TAXABLE INCOME AND
AMENDING THE NATIONAL INTERNAL REVENUE CODE OF 1997, AS
AMENDED

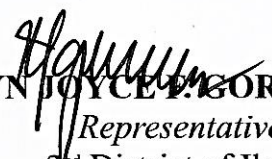
EXPLANATORY NOTE

Article XIII, Section 3 of the 1987 Constitution mandates the State to afford full protection to labor, while Article II, Section 9 directs the State to promote a rising standard of living and an improved quality of life for all. Yet under the present tax system, overtime pay earned by most workers is included in gross income under the National Internal Revenue Code (NIRC) and is therefore subject to income tax, reducing the value of the additional labor they render beyond regular working hours.

Minimum wage earners are already exempt from tax on overtime pay, but the majority of Filipino workers do not enjoy the same benefit. This bill addresses this by amending Section 32(B) of the NIRC to classify overtime pay as an excluded item from gross income, which legally removes it from the computation of taxable income and ensures that employees receive their overtime compensation in full.

By increasing workers' disposable income and recognizing the physical and mental effort involved in overtime work, this measure promotes social equity, strengthens consumer spending, and supports broader economic activity, consistent with the Constitution's commitment to the welfare and dignity of labor.

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


KATHRYN JOYCE F. GORRICETA, M.D.
Representative
2nd District of Iloilo

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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. ***Short Title.*** This Act shall be known as the “*Tax-Free Overtime Pay Act.*”

SEC. 2. ***Declaration of Policy.*** It is the policy of the State to promote the welfare of workers, recognize their effort and ensure fair compensation for services rendered beyond regular working hours. Overtime work entails additional physical and mental exertion that warrants full monetary recognition. Excluding overtime pay from taxable income shall enhance workers’ disposable earnings, stimulate economic activity and further social equity consistent with the principles enshrined in the Constitution.

SEC. 3. Section 32(B)(7) of the National Internal Revenue Code of 1997, as amended, is hereby further amended to read as follows:

“SEC. 32. Gross Income. —

(A) General Definition. — x x x

(B) Exclusions from Gross Income. — The following items shall not be included in gross income and shall be exempt from income tax:

x x x

(7) Miscellaneous Items. —

x x x

(j) OVERTIME PAY. COMPENSATION RECEIVED BY AN EMPLOYEE FOR WORK PERFORMED IN EXCESS OF THE NORMAL EIGHT-HOUR WORK PERIOD, INCLUDING THE OVERTIME PREMIUM MANDATED UNDER THE LABOR CODE OF THE PHILIPPINES AND RELATED LAWS.”

SEC. 4. ***Definition of Overtime Pay.*** For purposes of this Act, overtime pay refers to compensation required under Article 87 of the Labor Code of the Philippines, including the applicable wage premium for hours worked beyond the normal eight-hour work period.

SEC. 5. ***Implementing Rules and Regulations.*** Within sixty (60) days from the effectivity of this Act, the Department of Finance, in coordination with the Bureau of Internal Revenue, shall promulgate the rules and regulations necessary to implement the provisions of this Act, including reporting procedures for employers to ensure proper withholding compliance.

SEC. 6. ***Repealing Clause.*** All laws, decrees, executive orders, rules and regulations inconsistent with this Act are hereby repealed or modified accordingly.

SEC. 7. ***Effectivity.*** This Act shall take effect fifteen (15) days after its publication in the Official Gazette or in a newspaper of general circulation.

Approved,