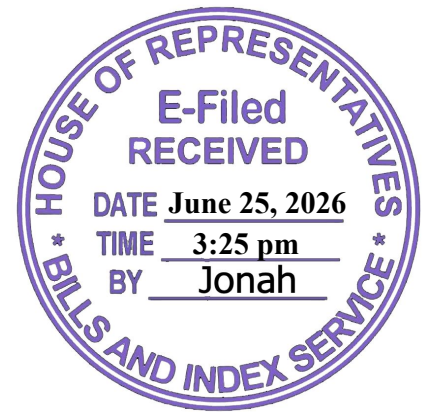


TWENTIETH CONGRESS OF THE)
REPUBLIC OF THE PHILIPPINES)
First Regular Session)



HOUSE OF REPRESENTATIVES

HOUSE BILL NO. 9949

Introduced by Rep. CARMELO G. LAZATIN, JR.

AN ACT

AMENDING REPUBLIC ACT NO. 8424, OTHERWISE KNOWN AS THE NATIONAL INTERNAL REVENUE CODE OF 1997, AS AMENDED, TO EXCLUDE FROM GROSS INCOME CERTAIN OVERTIME PAY, NIGHT SHIFT DIFFERENTIAL PAY, AND HAZARD PAY RECEIVED BY COMPENSATION EARNERS, SUBJECT TO LIMITATIONS

EXPLANATORY NOTE

Many Filipinos render services beyond the regular eight-hour workday, sometimes on holidays in hazardous and strenuous circumstances. This reflects both their dedication and hard work to their jobs and the need for additional compensation to meet daily necessities.

However, under the current income tax system, overtime pay, hazard pay and night-shift differential pay, generally form part of an employee's gross income and are subject to income taxation, except where the law expressly provides otherwise. Notably, the National Internal Revenue Code (NIRC), as amended, already exempts minimum wage earners (MWEs) from income tax and likewise exempts their holiday pay, overtime pay, night shift differential pay, and hazard pay.

This measure seeks to extend calibrated tax relief to compensation earners regardless of wage level by excluding from gross income certain overtime pay, night shift differential pay, and hazard pay that are mandated under applicable labor laws and regulations, subject to statutory limitations. To avoid diminishing the benefits already granted by law to MWEs, this measure likewise provides that nothing herein shall be construed to reduce or limit the existing tax exemptions of MWEs under the NIRC.

This proposed amendment is intended to increase employees' take-home pay for additional work rendered and hazardous assignments undertaken, strengthen household purchasing power, and support broader economic activity.

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


CARMELO G. LAZATIN, JR.



Republic of the Philippines

House of Representatives

Quezon City, Metro Manila

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

1 *Section 1. Declaration of Policy.* – It is the policy of the State to promote a just and dynamic
2 social order that will ensure the prosperity and independence of the nation and free the people from
3 poverty through policies that provide adequate social services, promote full employment, a rising
4 standard of living, and an improved quality of life for all.

5
6 Toward this end, the State shall endeavor to provide relief to compensation earners who
7 render services beyond the required eight (8) hours or who receive labor-mandated additional
8 compensation for night work or hazardous assignments, by granting an appropriate tax relief
9 scheme. This measure likewise promotes fairness in the tax treatment of labor-mandated additional
10 compensation and increases employees' take-home pay.

11
12 *Section 2. Amendment of Section 32 of the National Internal Revenue Code.* – Section 32 of the
13 National Internal Revenue Code of 1997, as amended, is hereby further amended to read as
14 follows:
15

1 “Section 32. Gross Income - xxx

2
3 (B) *Exclusions from Gross Income.* – The following items shall not be included in
4 gross income and shall be exempt from taxation under this title:

5
6 xxx

7
8 (8) *Overtime Pay, Night Shift Differential Pay, and Hazard Pay.* — Overtime pay,
9 night shift differential pay, and hazard pay received by an employee as additional
10 compensation mandated under applicable labor laws and regulations shall be
11 excluded from gross income: Provided, That this exclusion shall apply to
12 employees deriving purely compensation income: Provided, further, That for
13 employees who are not minimum wage earners (MWE) as defined under Section 22
14 (HH) of this Code, the total amount excluded under this paragraph shall not exceed
15 fifty percent (50%) of the employee’s annual basic salary.

16
17 *For purposes of this paragraph, “annual basic salary” refers to the employee’s*
18 *fixed basic pay for the taxable year as shown in the employer’s payroll records,*
19 *exclusive of 13th month pay and other benefits.*

20
21 *Nothing herein shall be construed to reduce or limit the income tax exemption*
22 *granted to minimum wage earners (MWEs), including the exemption of their*
23 *holiday pay, overtime pay, night shift differential pay, and hazard pay, as provided*
24 *under this Code, as amended.*

25
26 xxx”

27
28 Section 3. *Implementing Rules and Regulations.* – Within ninety (90) days from the effectivity of
29 this Act, the Department of Finance and the Bureau of Internal Revenue in consultation with the
30 Department of Labor and Employment and other concerned agencies, shall promulgate the
31 implementing rules and regulations to effectively carry out the provisions of this Act.

32
33 Section 4. *Separability Clause.* – If any provision of this Act is declared unconstitutional or
34 invalid, the other provisions not affected thereby shall remain in full force and effect.

35
36 Section 5. *Repealing Clause.* – All laws, decrees, orders, rules and regulations, or parts thereof,
37 which are inconsistent with the provisions of this Act are hereby repealed or modified accordingly.

38
39 Section 6. *Effectivity Clause.* – This Act shall take effect fifteen (15) days after its publication in
40 the Official Gazette or in a newspaper of general circulation.

41
42 Approved,