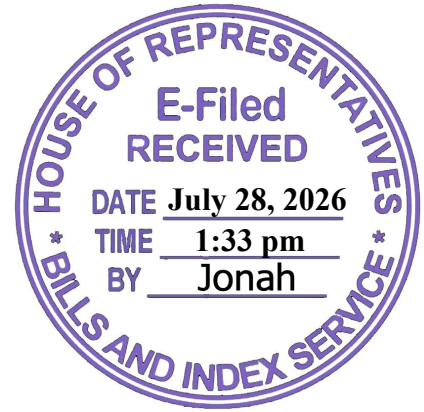


Republic of the Philippines
HOUSE OF REPRESENTATIVES
Quezon City

TWENTIETH CONGRESS
Second Regular Session

HOUSE BILL NO. 10275



Introduced by Representative Jose Manuel F. Alba

EXPLANATORY NOTE

Every Filipino worker knows the value of honest labor. Each peso earned represents time away from family, daily sacrifice, and the hope of building a better life. Yet for many middle-income earners, the present tax system takes a significant portion of their income even before they are able to meet the basic needs of their households.

The current individual income tax structure exempts only the first Two Hundred Fifty Thousand Pesos (PhP 250,000.00) of annual taxable income. This threshold was introduced under the Tax Reform for Acceleration and Inclusion (TRAIN) Law, which took effect in 2018. While this reform provided much-needed relief at the time, the real value of the PhP 250,000.00 exemption has since been substantially eroded by inflation.

Using the 2018-based Consumer Price Index as reference, the purchasing power of the peso has fallen to approximately Seventy-Five Centavos (PhP 0.75) as of the latest available 2026 data. In practical terms, the same basket of goods and services that could be purchased for PhP 250,000.00 in 2018 would require approximately PhP 333,000.00 today. Conversely, the present PhP 250,000.00 tax-free threshold now carries only about PhP 187,500.00 in 2018 purchasing power. Thus, without any legislative adjustment, inflation has effectively reduced the real value of the tax exemption by about Twenty-Five Percent (25%).

This means that the tax system has become heavier on workers not because Congress imposed a new tax, but because the tax-free threshold has remained fixed while the cost of living has continued to rise. Food, fuel, transportation, rent, utilities, education, and health care have become more expensive, while the amount of income protected from taxation has stayed the same.

This situation has created an unfair burden on the working and middle class. Many workers receive salary increases only to find that their additional income is reduced by taxes and inflation. This phenomenon, commonly known as bracket creep, weakens the purchasing power of Filipino families and undermines the purpose of wage increases and promotions.

This bill seeks to provide meaningful and structural tax relief by increasing the annual tax-free income threshold of individual taxpayers to One Million Pesos (PhP 1,000,000.00) through a phased and fiscally responsible schedule. Under this measure, the tax-free threshold shall be increased as follows:

PhP 400,000.00 beginning taxable year 2026;

PhP 800,000.00 beginning taxable year 2027; and

PhP 1,000,000.00 beginning taxable year 2028 and thereafter.

This measure is inspired by the principle that ordinary Filipinos should be allowed to keep more of what they earn. Thus, the proposed Act is aptly titled "Tax-Free First Million Act." It reflects the simple but powerful idea that the fruits of honest work should first serve the needs of Filipino families.

The bill likewise increases the tax-exempt ceiling for thirteenth month pay and other benefits from Ninety Thousand Pesos (PhP 90,000.00) to One Hundred Fifty Thousand Pesos (PhP 150,000.00), thereby allowing employees to enjoy more of the benefits intended for them.

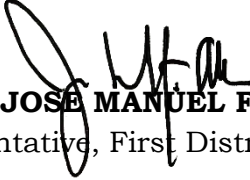
To prevent the same inequity from recurring in the future, this measure provides for periodic inflation-based adjustment of income tax thresholds and relevant exemptions. This ensures that the tax system remains responsive to actual economic conditions and does not silently impose a higher burden on workers merely because of inflation.

At the same time, the bill recognizes the need to preserve government revenues for essential public services. Accordingly, it directs the Department of Finance and the Bureau of Internal Revenue to implement a Tax Relief and Revenue Integrity Plan focused on digitalization, risk-based audits, improved collection efficiency, taxpayer assistance, enforcement against tax evasion, and stronger compliance from high-risk and high-capacity taxpayers.

This bill does not seek to weaken the revenue base of the State. Rather, it seeks to make the tax system fairer by giving relief to compliant workers and ordinary income earners while strengthening enforcement against non-compliance.

By increasing take-home pay, protecting family income, and promoting a more equitable tax system, this measure will help improve household welfare, stimulate domestic consumption, encourage savings, and restore fairness for millions of Filipino taxpayers.

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


JOSE MANUEL F. ALBA
Representative, First District of Bukidnon

Republic of the Philippines
HOUSE OF REPRESENTATIVES
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AN ACT

INCREASING THE ANNUAL INCOME TAX EXEMPTION THRESHOLD OF INDIVIDUAL TAXPAYERS TO ONE MILLION PESOS (P1,000,000.00) THROUGH A PHASED AND INDEXED TAX RELIEF SCHEDULE, INCREASING THE TAX-EXEMPT CEILING FOR THIRTEENTH MONTH PAY AND OTHER BENEFITS, STRENGTHENING TAX ADMINISTRATION TO PRESERVE REVENUE ADEQUACY, AMENDING FOR THE PURPOSE SECTIONS 24 AND 32 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 "Tax-Free First Million Act."

SEC. 2. Declaration of Policy. — It is hereby declared the policy of the State to promote a fair, progressive, efficient, and responsive tax system that protects the purchasing power of Filipino families, supports the working and middle class, encourages productivity, and ensures that tax relief is accompanied by responsible revenue administration.

Toward this end, the State shall increase the tax-free income threshold of individual taxpayers in a phased and fiscally responsible manner, periodically adjust income tax thresholds to reflect inflation, and strengthen tax administration, compliance, and enforcement to preserve revenue adequacy for essential public services.

SEC. 3. Amendment of Section 24(A)(2)(a) of the National Internal Revenue Code of 1997, as Amended. — Section 24(A)(2)(a) of Republic Act No. 8424, otherwise known as the National Internal Revenue Code of 1997, as amended, is hereby further amended to read as follows:

"SEC. 24. Income Tax Rates. -

"(A) Rates of Income Tax on Individual Citizen and Individual Resident Alien of the Philippines. -

"x x x

"(2) Rates of Tax on Taxable Income of Individuals. -

"(a) The tax shall be computed in accordance with and at the rates established in the following schedules:

"(1) Beginning taxable year 2026:

Taxable Income	Tax Due
Not over PhP 400,000.00	0%
Over PhP 400,000.00 but not over PhP 800,000.00	20% of the excess over PhP 400,000.00
Over PhP 800,000.00 but not over PhP 2,000,000.00	PhP 80,000.00 plus 25% of the excess over PhP 800,000.00
Over PhP 2,000,000.00 but not over PhP 8,000,000.00	PhP 380,000.00 plus 30% of the excess over PhP 2,000,000.00
Over PhP 8,000,000.00	PhP 2,180,000.00 plus 35% of the excess over PhP 8,000,000.00

"(2) Beginning taxable year 2027:

Taxable Income	Tax Due
Not over PhP 800,000.00	0%
Over PhP 800,000.00 but not over PhP 2,000,000.00	25% of the excess over PhP 800,000.00
Over PhP 2,000,000.00 but not over PhP 8,000,000.00	PhP 300,000.00 plus 30% of the excess over PhP 2,000,000.00
Over PhP 8,000,000.00	PhP 2,100,000.00 plus 35% of the excess over PhP 8,000,000.00

"(3) Beginning taxable year 2028 and thereafter:

Taxable Income	Tax Due
Not over PhP 1,000,000.00	0%
Over PhP 1,000,000.00 but not over PhP 2,000,000.00	25% of the excess over PhP 1,000,000.00
Over PhP 2,000,000.00 but not over PhP 8,000,000.00	PhP 250,000.00 plus 30% of the excess over PhP 2,000,000.00
Over PhP 8,000,000.00	PhP 2,050,000.00 plus 35% of the excess over PhP 8,000,000.00

"Provided, That the Secretary of Finance, upon recommendation of the Commissioner of Internal Revenue, shall revise the withholding tax tables to conform with the applicable schedule for each taxable year: Provided, further, That no individual taxpayer shall be subject to a higher income tax solely by reason of the transition to the foregoing schedules."

SEC. 4. Amendment of Section 24(A)(2)(b) of the National Internal Revenue Code of 1997, as Amended. — Section 24(A)(2)(b) of the National Internal Revenue Code of 1997, as amended, is hereby amended to read as follows:

"(b) Rate of Tax on Income of Purely Self-Employed Individuals and/or Professionals Whose Gross Sales or Gross Receipts and Other Non-Operating Income Do Not Exceed the Value-Added Tax Threshold. - Self-employed individuals and/or professionals shall have the option to avail of an eight percent (8%) tax on gross sales or gross receipts and other non-operating income in excess of the applicable tax-free income threshold under paragraph (a) hereof for the taxable year, in lieu of the graduated income tax rates under paragraph (a) hereof and the percentage tax under Section 116 of this Code.

"For mixed-income earners, the applicable tax-free income threshold shall first be applied to compensation income. Only the unused portion, if any, of such

threshold may be applied to gross sales or gross receipts and other non-operating income subject to the optional eight percent (8%) tax."

SEC. 5. Increase in the Tax-Exempt Ceiling for Thirteenth Month Pay and Other Benefits. — Section 32(B)(7)(e) of the National Internal Revenue Code of 1997, as amended, is hereby further amended to read as follows:

"(e) Thirteenth Month Pay and Other Benefits. - Gross benefits received by officials and employees of public and private entities: Provided, That the total exclusion under this subparagraph shall not exceed One Hundred Fifty Thousand Pesos (PhP 150,000.00), which amount shall be subject to adjustment under Section 6 of the Tax-Free First Million Act."

SEC. 6. Inflation Adjustment and Prevention of Bracket Creep. — Beginning taxable year 2031, and every three (3) years thereafter, the Secretary of Finance, upon recommendation of the Commissioner of Internal Revenue and using the latest official Consumer Price Index data of the Philippine Statistics Authority, shall adjust upward the income thresholds under Section 24(A)(2)(a), the applicable threshold under Section 24(A)(2)(b), and the tax-exempt ceiling under Section 32(B)(7)(e) of the National Internal Revenue Code of 1997, as amended.

The adjustment shall be based on cumulative inflation for the immediately preceding three (3) calendar years. The adjusted income tax thresholds shall be rounded to the nearest Ten Thousand Pesos (PhP 10,000.00), while the adjusted tax-exempt ceiling for thirteenth month pay and other benefits shall be rounded to the nearest Five Thousand Pesos (PhP 5,000.00).

No adjustment under this section shall result in a reduction of any threshold or ceiling.

The Department of Finance and the Bureau of Internal Revenue shall publish the adjusted thresholds not later than 31 October of the year preceding their effectivity.

SEC. 7. Tax Relief and Revenue Integrity Plan. — Within ninety (90) days from the effectivity of this Act, the Department of Finance and the Bureau of Internal Revenue shall submit to the Committees on Ways and Means of both Houses of Congress a Tax Relief and Revenue Integrity Plan to support the implementation of this Act.

The Plan shall include, but shall not be limited to:

(a) full digitalization of taxpayer registration, filing, payment, invoicing, receipting, audit selection, and taxpayer services;

(b) expansion of electronic invoicing and lawful data matching, subject to existing laws on data privacy, taxpayer rights, and due process;

(c) risk-based audits focused on high-risk, high-capacity, and non-compliant taxpayers, rather than compliant compensation income earners;

(d) strengthened collection of delinquent accounts, enforcement against tax evasion, and prosecution of fraudulent schemes;

(e) improved coordination and lawful data-sharing among relevant government agencies for tax compliance purposes;

(f) periodic review of tax expenditures, leakages, and enforcement gaps;

(g) policy recommendations on international tax cooperation, base erosion, profit shifting, and the taxation of multinational enterprises, consistent with treaties and international commitments; and

(h) recommended legislation, if necessary, to strengthen access to financial information for tax enforcement purposes, subject to strict safeguards, judicial or administrative due process, and protection of taxpayer rights.

SEC. 8. Withholding Tax Transition; Credit or Refund of Excess Withholding. — For taxable year 2026, employers and withholding agents shall apply the revised withholding tax tables within sixty (60) days from the issuance of the implementing rules and regulations.

Any excess tax withheld by reason of the transition to the new tax schedule shall be credited against succeeding withholding tax liabilities of the same employee or taxpayer, or refunded through the year-end adjustment or other procedures prescribed by the Bureau of Internal Revenue.

SEC. 9. Taxpayer Information and Assistance. — The Bureau of Internal Revenue shall conduct a nationwide taxpayer information campaign explaining the new tax thresholds, withholding rules, optional eight percent (8%) tax treatment, treatment of mixed-income earners, and the procedures for crediting or refunding excess withholding.

SEC. 10. Congressional Oversight. — The Department of Finance and the Bureau of Internal Revenue shall submit to the Committees on Ways and Means of both Houses of Congress an annual report on the implementation of this Act, including its impact on taxpayers, revenue collections, compliance rates, withholding adjustments, refunds or credits, and revenue integrity measures undertaken.

SEC. 11. Implementing Rules and Regulations. — Within sixty (60) days from the effectivity of this Act, the Secretary of Finance, upon recommendation of the Commissioner of Internal Revenue, shall promulgate the necessary rules and regulations for the effective implementation of this Act.

SEC. 12. Separability Clause. — If any provision of this Act is declared unconstitutional or invalid, the remaining provisions not affected thereby shall remain in full force and effect.

SEC. 13. Repealing Clause. — All laws, decrees, executive orders, rules and regulations, issuances, or parts thereof inconsistent with this Act are hereby repealed, amended, or modified accordingly.

SEC. 14. Effectivity. — This Act shall take effect fifteen (15) days after its publication in the Official Gazette or in a newspaper of general circulation.

Approved,