

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

TWENTIETH CONGRESS
Second Regular Session

HOUSE BILL NO. 10367



Introduced by Representative AGATHA PAULA "AGAY" A. CRUZ

EXPLANATORY NOTE

For many Filipino families, every peso of take-home pay is already allocated to food, transportation, electricity, rent, education, medicine, and other basic needs. A fair tax system must therefore consider not only how much a taxpayer earns on paper, but how much that income can actually buy.

Under the Tax Reform for Acceleration and Inclusion Act, annual taxable income not exceeding ₱250,000 is subject to a 0% income tax rate, while the combined tax-exempt ceiling for 13th month pay and other benefits were pegged at ₱90,000. These fixed amounts have not been systematically updated to keep pace with subsequent increases in consumer prices or to reflect changing economic conditions.

The effects of inflation are felt most clearly in household expenses. In June 2026, national headline inflation stood at 6.4%, bringing the average inflation rate for the first half of the year to 4.8%.¹ Inflation experienced by households belonging to the bottom 30 percent of the income distribution reached 8.0 percent.² Food, housing and utilities, and transportation were among the principal contributors to the increase in prices faced by lower-income families.³

When income tax brackets remain fixed while prices and nominal wages increase, workers may become taxable or move into higher tax brackets even without any real improvement in their purchasing power. A salary adjustment intended merely to cover higher grocery, transport, and utility costs should not automatically be treated as a corresponding increase in the taxpayer's ability to pay.

This bracket creep has been identified by a study of the University of the Philippines Center for Integrative and Development Studies as a source inequity that

¹ *Summary Inflation Report Consumer Price Index (2018=100): June 2026*, PHILIPPINE STATISTICS AUTHORITY, 7 July 2026, available at <https://psa.gov.ph/content/summary-inflation-report-consumer-price-index-2018100-june-2026>

² *Summary Inflation Report Consumer Price Index for the Bottom 30% Income Households (2018=100): June 2026*, PHILIPPINE STATISTICS AUTHORITY, 7 July 2026, available at <https://psa.gov.ph/content/summary-inflation-report-consumer-price-index-bottom-30-income-households-2018100-june-2026>

³ *Summary Inflation Report Consumer Price Index for the Bottom 30% Income Households (2018=100): June 2026*, PHILIPPINE STATISTICS AUTHORITY, 7 July 2026, available at <https://psa.gov.ph/content/summary-inflation-report-consumer-price-index-bottom-30-income-households-2018100-june-2026>

disproportionately burdens wage and salary workers. The study emphasized that inflation adjustment should be accompanied by improvements in tax administration and compliance to address its revenue implications.⁴

This bill adopts a measured and people-centered response. It increases the 0% taxable income ceiling from ₱250,000 to ₱350,000, adjusts the succeeding, and aligns the relevant threshold for qualified self-employed individuals and professionals. It also raises the combined tax-exempt ceiling for 13th month pay and other benefits from ₱90,000 to ₱120,000.

For minimum wage earners, the measure extends the exemption to premium pay for work performed on rest days and to their lawful share in service charges. More importantly, it provides for the periodic adjustment of personal income tax brackets, exemptions, and related thresholds based on the Consumer Price Index published by the Philippine Statistics Authority.

The proposal remains mindful of fiscal sustainability. A Congressional Policy and Budget Research Department study found that the TRAIN Law reduced tax liabilities for most compensation earners but also narrowed the tax base and increased the share of the burden borne by higher-income taxpayers.⁵ Taxpayer relief must therefore be balanced with the government's continuing need to fund education, health care, infrastructure, social protection, and other essential public services.

For Filipino workers, inflation should not result in a higher tax burden when their real purchasing power has not increased. By updating and periodically adjusting personal income-tax thresholds, this measure ensures that the tax system remains responsive to the actual economic circumstances of the people it serves.

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


AGATHA PAULA "AGAY" AGUILAR CRUZ
Representative, Fifth Legislative District of Bulacan

⁴ Quimbo, S. and Javier, X., *Rethinking the Taxation of Compensation Income in the Philippines*, 2017, available at <https://cids.up.edu.ph/wp-content/uploads/2022/03/ppj-16-17-quimbo-2017.pdf>

⁵ Yap, D. and Santos, E., CPBRD Policy Brief No. 2025-04, *Progressivity, Fairness, and Efficiency: An Evaluation of the Impact of the TRAIN Law on the Distribution of the Income Tax Burden*, CONGRESSIONAL POLICY AND BUDGET RESEARCH DEPARTMENT, 2025, available at <https://cpbrd.congress.gov.ph/wp-content/uploads/2025/03/PB2025-04-IMPACT-OF-THE-TRAIN-LAW-1.pdf>

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AN ACT
ADJUSTING AND PROVIDING FOR THE PERIODIC INDEXATION OF
PERSONAL INCOME TAX BRACKETS AND RELATED THRESHOLDS,
AMENDING FOR THE PURPOSE SECTIONS 24, 32, AND 51 OF THE NATIONAL
INTERNAL REVENUE CODE OF 1997, AS AMENDED

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

1 **Section 1. Short Title.** – This Act shall be known as the “Personal Income Tax
2 Indexation and Worker Relief Act.”

3
4 **Section 2. Declaration of Policy.** – It is the policy of the State to maintain a personal
5 income tax system that is progressive, uniform, equitable, simple to administer, and
6 responsive to changes in the cost of living.
7

8 The State recognizes that inflation may increase nominal wages and incomes
9 without producing a corresponding increase in real purchasing power. To prevent
10 taxpayers from becoming subject to higher tax burdens solely because of inflation, the
11 personal income tax thresholds and the tax-exempt ceiling for 13th month pay and other
12 benefits shall be periodically adjusted through an objective and predictable mechanism
13 established by law.
14

15 Consistent with this, the State shall protect low- and middle-income taxpayers
16 from the unintended effects of bracket creep; preserve the progressivity of the personal
17 income tax system; ensure substantially equal tax treatment of similarly situated
18 compensation earners, self-employed individuals, and professionals; limit tax exemptions
19 to reasonable, clearly defined, and administratively verifiable forms of income; minimize
20 compliance costs for taxpayers, employers, withholding agents, and the government; and
21 balance taxpayer relief with the need to maintain adequate and sustainable revenues for
22 essential government services and national development.
23

Section 3. Section 24(A)(2) 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. –

(1) x x x

(2) Rates of Tax on Taxable Income of Individuals. – The tax shall be computed in accordance with and at the rates established in the following schedule:

(a) Tax Schedule Effective January 1, 2018 until December 31, 2022:

[Not over ₱250,000	0%]
[Over ₱250,000 but not over ₱400,000	20% of the excess over ₱250,000]
[Over ₱400,000 but not over ₱800,000	₱30,000 plus 25% of the excess over ₱400,000]
[Over ₱800,000 but not over ₱2,000,000	₱130,000 plus 30% of the excess over ₱800,000]
[Over ₱2,000,000 but not over ₱8,000,000	₱490,000 plus 32% of the excess over ₱2,000,000]
[Over ₱8,000,000	₱2,410,000 plus 35% of the excess over ₱8,000,000]

~~[Tax Schedule Effective January 1, 2023 and onwards:]~~

[Not over ₱250,000	0%]
[Over ₱250,000 but not over ₱400,000	15% of the excess over ₱250,000]
[Over ₱400,000 but not over ₱800,000	₱22,500 plus 20% of the excess over ₱400,000]
[Over ₱800,000 but not over ₱2,000,000	₱102,500 plus 25% of the excess over ₱800,000]
[Over ₱2,000,000 but not over ₱8,000,000	₱402,500 plus 30% of the excess over ₱2,000,000]
[Over ₱8,000,000	₱2,202,500 plus 35% of the excess over ₱8,000,000]

TAX SCHEDULE EFFECTIVE JANUARY 1, 2027 AND ONWARDS:

NOT OVER ₱350,000 0%

OVER ₱350,000 BUT NOT OVER ₱500,000	15% OF THE EXCESS OVER ₱350,000
OVER ₱500,000 BUT NOT OVER ₱1,000,000	₱22,500 PLUS 20% OF THE EXCESS OVER ₱500,000
OVER ₱1,000,000 BUT NOT OVER ₱2,500,000	₱122,500 PLUS 25% OF THE EXCESS OVER ₱1,000,000
OVER ₱2,500,000 BUT NOT OVER ₱8,000,000	₱497,500 PLUS 30% OF THE EXCESS OVER ₱2,500,000
OVER ₱8,000,000	₱2,147,500 PLUS 35% OF THE EXCESS OVER ₱8,000,000

x x x

Provided, That minimum wage earners as defined in Section 22(HH) of this Code shall be exempt from the payment of income tax on their taxable income: *Provided, further*, That the holiday pay, overtime pay, night shift differential pay, ~~and~~ hazard pay, **PREMIUM PAY FOR WORK PERFORMED ON REST DAYS AND SPECIAL DAYS, AND SHARE IN SERVICE CHARGES** received by such minimum wage earners shall likewise be exempt from income tax.

FOR PURPOSES OF THE IMMEDIATELY PRECEDING PARAGRAPH, "SHARE IN SERVICE CHARGES" SHALL REFER TO THE AMOUNT DISTRIBUTED TO A COVERED WORKER PURSUANT TO ARTICLE 96 OF PRESIDENTIAL DECREE NO. 442, AS AMENDED, OTHERWISE KNOWN AS THE "LABOR CODE OF THE PHILIPPINES."

(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 Does Not Exceed the Value-Added Tax Threshold as Provided in Section 109(BB). – 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 ~~[Two]~~ **THREE** hundred fifty thousand pesos ~~[(₱250,000)]~~ **(₱350,000), AS ADJUSTED UNDER PARAGRAPH (D) OF THIS SUBSECTION**, in lieu of the graduated income tax rates under Subsection (A)(2)(a) of this Section and the percentage tax under Section 116 of this Code.

(c) Rate of Tax for Mixed Income Earners. — x x x

(d) PERIODIC ADJUSTMENT OF TAXABLE INCOME LEVELS. —

BEGINNING JANUARY 1, 2030, AND EVERY THREE (3) YEARS THEREAFTER, THE TAXABLE INCOME LEVELS PROVIDED UNDER THIS SUBSECTION SHALL BE ADJUSTED BASED ON THE PREVAILING CONSUMER PRICE INDEX PUBLISHED BY THE PHILIPPINE STATISTICS AUTHORITY.

THE SECRETARY OF FINANCE, UPON THE RECOMMENDATION OF THE COMMISSIONER OF INTERNAL REVENUE AND IN CONSULTATION WITH THE PHILIPPINE STATISTICS AUTHORITY, SHALL DETERMINE AND PUBLISH THE ADJUSTED TAXABLE INCOME LEVELS AND THE CORRESPONDING INCOME TAX AND WITHHOLDING TAX TABLES BEFORE THE BEGINNING OF THE APPLICABLE TAXABLE YEAR.

THE MANNER OF COMPUTING AND IMPLEMENTING THE ADJUSTMENT SHALL BE PRESCRIBED IN THE IMPLEMENTING RULES AND REGULATIONS.

x x x.

Section 4. Section 32(B)(7)(e) 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 taxation under this Title:

(1) x x x

x x x

(7) Miscellaneous Items. —

(a) x x x

x x x

(e) 13th Month Pay and Other Benefits. — Gross benefits received by officials and employees of public and private entities: *Provided*, however, That the total exclusion under this subparagraph shall not exceed ~~[Ninety thousand pesos (P90,000)]~~ **ONE HUNDRED TWENTY**

1 THOUSAND PESOS (₱120,000), AS PERIODICALLY ADJUSTED IN
2 ACCORDANCE WITH THIS SUBPARAGRAPH, which shall cover:

3
4 (i) x x x;

5
6 (ii) x x x;

7
8 (iii) x x x; and

9
10 (iv) Other benefits such as productivity incentives and Christmas bonus:
11 **PROVIDED, THAT BEGINNING JANUARY 1, 2030, AND**
12 **EVERY THREE (3) YEARS THEREAFTER, THE ONE HUNDRED**
13 **TWENTY THOUSAND PESO (₱120,000) CEILING SHALL BE**
14 **ADJUSTED BASED ON THE PREVAILING CONSUMER PRICE**
15 **INDEX PUBLISHED BY THE PHILIPPINE STATISTICS**
16 **AUTHORITY. THE ADJUSTED CEILING SHALL BE**
17 **DETERMINED AND PUBLISHED BY THE SECRETARY OF**
18 **FINANCE, UPON THE RECOMMENDATION OF THE**
19 **COMMISSIONER OF INTERNAL REVENUE AND IN**
20 **CONSULTATION WITH THE PHILIPPINE STATISTICS**
21 **AUTHORITY.**

22
23 x x x.

24
25 **Section 5. *Implementing Rules and Regulations.*** – Within sixty (60) days from the
26 effectivity of this Act, the Secretary of Finance shall, upon the recommendation of the
27 Commissioner of Internal Revenue and in consultation with the Philippine Statistics
28 Authority, promulgate the necessary rules and regulations to implement the provisions
29 of this Act.

30
31 **Section 6. *Separability Clause.*** – If any part of this Act is declared unconstitutional
32 or invalid, the remainder thereof not otherwise affected shall remain in full force and
33 effect.

34
35 **Section 7. *Repealing Clause.*** – All laws, executive orders, presidential decrees,
36 administrative orders, rules and regulations, revenue regulations, revenue memorandum
37 orders, revenue memorandum circulars, and other issuances, or parts thereof,
38 inconsistent with or contrary to the provisions of this Act are hereby repealed or amended
39 accordingly.

40
41 **Section 9. *Effectivity.*** – This Act shall take effect fifteen (15) days after its
42 publication in the *Official Gazette* or in a newspaper of general circulation.

43
44 ***Approved,***