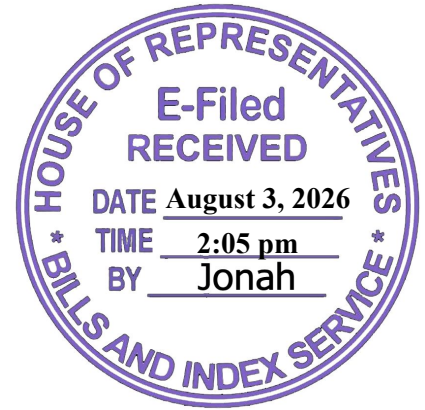


Republic of the Philippines
HOUSE OF REPRESENTATIVES
Quezon City, Metro Manila

TWENTIETH CONGRESS
Second Regular Session

HOUSE BILL NO. 10508



Introduced by:

HON. CHRISTOPHERSON “COCO” M. YAP

AN ACT
EXEMPTING MICRO AND SMALL BUSINESSES FROM THE MINIMUM CORPORATE
INCOME TAX, AMENDING FOR THE PURPOSE SECTION 27 OF THE NATIONAL
INTERNAL REVENUE CODE OF 1997, AS AMENDED, AND FOR OTHER PURPOSES

EXPLANATORY NOTE

Micro and small businesses are the backbone of the Philippine economy. They create jobs, provide livelihoods, support local communities, and encourage entrepreneurship. However, many of these businesses operate with limited capital and small profit margins, making them more vulnerable to economic downturns, rising costs, and unexpected business losses. During difficult times, every peso matters, and unnecessary tax burdens can make it even harder for them to survive and grow.

Under existing tax laws, corporations may be required to pay the Minimum Corporate Income Tax (MCIT) beginning on their fourth year of operations if it is higher than their regular income tax. Unlike the regular corporate income tax, which is based on taxable income or actual profit, the MCIT is based on gross income. As a result, even businesses that earn very little or are struggling financially may still be required to pay the MCIT, placing additional pressure on their cash flow and limiting their ability to recover and continue operating.

This bill seeks to exempt qualified micro and small businesses from paying the MCIT. The exemption is limited only to businesses that fall within the classifications set by law and recognized by the Bureau of Internal Revenue. It does not remove their obligation to register with the BIR, file tax returns, keep proper books of accounts, or

pay the regular corporate income tax and all other applicable national and local taxes. Instead, it simply ensures that small businesses are not required to pay a minimum tax despite having little or no taxable income.

By allowing micro and small businesses to retain more of their working capital, this measure will help them sustain operations, protect jobs, and invest in future growth. It promotes a fairer tax system by recognizing the financial realities faced by smaller enterprises while maintaining their responsibility to comply with tax laws. In view of the foregoing, the immediate passage of this bill is earnestly sought.

In view of the foregoing, **ug sa ngalan sa SERBISYONG TINUORAY**, the undersigned respectfully requests the immediate passage of this measure.


CHRISTOPHERSON "COCO" M. YAP
Representative, Second District of Southern Leyte

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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 “*Micro and Small Business MCIT Exemption Act.*”

SECTION 2. Declaration of Policy. — It is the policy of the State to promote the growth, sustainability, and competitiveness of micro and small businesses, which play an important role in employment generation, local economic development, and inclusive growth.

The State recognizes that the imposition of the minimum corporate income tax may impose an undue burden on micro and small businesses, particularly during periods of low profitability, business reverses, or economic disruption. Accordingly, the State shall provide a targeted exemption from the minimum corporate income tax while maintaining the obligation of qualified businesses to register, keep proper books and records, file tax returns, and pay all other taxes imposed by law.

SECTION 3. Section 27(E) of the National Internal Revenue Code of 1997, as amended, is hereby further amended to read as follows:

“SEC. 27. Rates of Income Tax on Domestic Corporations. —

“X X X

“(E) Minimum Corporate Income Tax on Domestic Corporations. —

*“(1) **Imposition of Tax.** — A minimum corporate income tax of two percent (2%) of the gross income, as defined herein, is hereby imposed on a corporation taxable under this Title, beginning on the fourth taxable year immediately following the year in which such corporation commenced its business operations, whenever the minimum corporate income tax is greater than the tax computed under Subsection (A) of this Section for the taxable year.*

*“**Provided,** That micro and small businesses, as defined under Section 21(B) of this Code and other applicable laws and regulations, shall be exempt from the imposition of the minimum corporate income tax under this Subsection.*

“For purposes of this Subsection, a corporation shall qualify as a micro or small business based on its classification for the taxable year in which the exemption is claimed. The determination of qualification shall be based on the applicable statutory thresholds and rules prescribed under this Code and relevant laws, rules, and regulations.

*“(2) **Carry Forward of Excess Minimum Tax.** — Any excess of the minimum corporate income tax over the normal income tax as computed under Subsection (A) of this Section shall be carried forward and credited against the normal income tax for the three (3) immediately succeeding taxable years: **Provided,** That no carry-forward shall be allowed with respect to an amount of minimum corporate income tax that is not imposed by reason of the exemption granted under paragraph (1) of this Subsection.*

*“(3) **Relief from the Minimum Corporate Income Tax Under Certain Conditions.** — The Secretary of Finance is hereby authorized to suspend the imposition of the minimum corporate income tax on any corporation which suffers losses on account of prolonged labor dispute, or because of force majeure, or because of legitimate business reverses.*

“The Secretary of Finance is hereby authorized to promulgate, upon recommendation of the Commissioner of Internal Revenue, the necessary rules and regulations that shall define the terms and conditions under which the Secretary

may suspend the imposition of the minimum corporate income tax in a meritorious case.

“x x x.”

The existing exemption and relief provisions under Section 27(E) of the National Internal Revenue Code of 1997, as amended, shall remain in full force insofar as they are not inconsistent with this Act.

SECTION 4. Coverage of the Exemption. —

The exemption under this Act shall apply to domestic corporations that qualify as micro or small businesses under Section 21(B) of the National Internal Revenue Code of 1997, as amended, and other applicable laws and regulations.

The exemption shall apply beginning with the taxable year following the effectivity of this Act. A qualified corporation shall remain exempt for as long as it satisfies the applicable classification requirements during the taxable year in which the exemption is claimed.

A corporation that no longer qualifies as a micro or small business shall be subject to the minimum corporate income tax beginning with the taxable year in which it ceases to qualify, subject to the applicable provisions of the National Internal Revenue Code of 1997, as amended.

SECTION 5. Tax Compliance Not Excused. —

The exemption granted under this Act shall not exempt a qualified corporation from:

1. Registration with the Bureau of Internal Revenue;
2. The filing of income tax returns and other required tax returns;
3. The maintenance of books of accounts and other required records;
4. The payment of regular corporate income tax, when applicable; and
5. The payment of all other national and local taxes, fees, and charges imposed by law.

SECTION 6. Implementing Rules and Regulations (IRR). — Within ninety (90) days from the effectivity of this Act, the Secretary of Finance, upon the recommendation of the Commissioner of Internal Revenue, shall promulgate the rules and regulations necessary for its effective implementation.

The implementing rules and regulations shall, among others, prescribe:

1. The documentary and reporting requirements for claiming the exemption;
2. The manner of determining whether a corporation qualifies as a micro or small business;
3. The treatment of corporations that exceed the applicable classification thresholds during the taxable year;
4. The procedures for monitoring compliance; and
5. Safeguards against the improper splitting, merger, or restructuring of businesses solely to obtain or retain the exemption.

The implementing rules and regulations shall not impose conditions that are inconsistent with the exemption granted under this Act.

SECTION 7. Non-Diminution of Existing Benefits. — Nothing in this Act shall be construed as diminishing or impairing any exemption, incentive, privilege, or relief granted under the National Internal Revenue Code of 1997, as amended, or under any other law, unless expressly provided by law.

SECTION 8. Separability Clause. — If any provision of this Act is declared invalid or unconstitutional, the other provisions not affected thereby shall remain in full force and effect.

SECTION 9. Repealing Clause. — All laws, decrees, executive orders, rules, regulations, issuances, or parts thereof inconsistent with the provisions of this Act are hereby repealed, amended, or modified accordingly.

SECTION 10. Effectivity. — This Act shall take effect fifteen (15) days after its publication in the Official Gazette or in a newspaper of general circulation.

Approved,