

Republic of the Philippines
HOUSE OF REPRESENTATIVES
Quezon City

TWENTIETH CONGRESS

Second Regular Session

House Bill No. 10517



Introduced by Representative Timothy Joseph Cayton

EXPLANATORY NOTE

Republic Act No. 10963, the *Tax Reform for Acceleration and Inclusion* (TRAIN) Act, exempted the first Two Hundred Fifty Thousand Pesos (PhP 250,000.00) of annual taxable income of individual taxpayers beginning 1 January 2018.¹ That threshold has not been adjusted since and inflation has not stopped. Based on the Consumer Price Index of the Philippine Statistics Authority (2018=100), which stood at 135.4 in June 2026,² the goods and services that cost PhP 250,000.00 in 2018 now cost approximately PhP 338,500.00. Stated inversely, the present exemption retains only about PhP 184,600.00 of its original purchasing power, an erosion of roughly twenty-six percent (26%). Inflation quietly increases their tax burden through automatic withholding while their actual purchasing power stays the same.

In line with national policy priorities to grant individual tax relief, this bill raises the annual tax-exempt income threshold to Three Hundred Fifty Thousand Pesos (PhP 350,000.00). Estimates from the Department of Finance project that the measure will benefit at least 3.13 million workers, lifting approximately 1.2 million earners out of the income tax net entirely and increasing the total tax-exempt workforce to roughly 6.3 million.³

This bill fully adopts the Three Hundred Fifty Thousand Peso (PhP 350,000.00) tax-exempt threshold. By recomputing every bracket base from this new starting point, the schedule delivers a uniform Fifteen Thousand Peso (PhP 15,000.00) tax reduction to all taxpayers above the exempt limit. This design intentionally prevents a notch discontinuity at the threshold, ensuring marginal income is not penalized and tax relief is extended across all income bands.

¹ *Republic Act No. 10963 (2017)*, amending Chapter III, Section 24(A)(2)(a) of the National Internal Revenue Code of 1997, effective 1 January 2018.

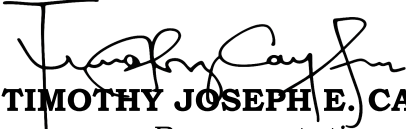
² *Philippine Statistics Authority, Summary Inflation Report, Consumer Price Index (2018=100): June 2026*.

³ Department of Finance, statement of Secretary Frederick D. Go, 29 July 2026, reported in “*Tax relief plan to benefit 3M workers, but cost P66B in foregone revenues — DoF*,” BusinessWorld, 30 July 2026.

To prevent inflation from eroding these gains over time, Section 5 introduces a mandatory indexation mechanism beginning in the taxable year 2030. Every three (3) years, the Secretary of Finance shall adjust all income thresholds, fixed bracket tax amounts, and the tax-exempt benefit ceiling upward using official Philippine Statistics Authority inflation data, with downward adjustments expressly prohibited.

Anchoring each cycle to the three (3) calendar years immediately preceding publication ensures the adjustments rely on final, auditable data without leaving gaps in inflation coverage. This mechanism satisfies the completeness and sufficient-standard tests governing the valid delegation of legislative authority under *Abakada Guro Party List v. Ermita*⁴ because it leaves the Executive with the purely ministerial function of factual ascertainment and arithmetical computation.

In view of the foregoing, the passage of this bill is respectfully and urgently sought.


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⁴ *Abakada Guro Party List v. Ermita*, G.R. No. 168056, September 1, 2005 [Per J. Austria-Martinez, En Banc].

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House Bill No. **10517**

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AN ACT
RAISING THE TAX-EXEMPT INCOME THRESHOLD FOR INDIVIDUAL
TAXPAYERS AND INSTITUTING A MECHANISM FOR PERIODIC
INFLATION INDEXATION, 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 the House of Representatives of the Philippines in Congress assembled:

SECTION 1. Short Title. — *This Act shall be known as the "**Income Tax Exemption Adjustment and Indexation Act.**"*

SEC. 2. Declaration of Policy. — Pursuant to Section 28(1), Article VI of the Constitution, which mandates that the rule of taxation shall be uniform and equitable and that Congress shall evolve a progressive system of taxation, it is hereby declared the policy of the State to protect the purchasing power of Filipino workers and their families, as guaranteed under Section 3, Article XIII and Section 1, Article XII of the Constitution.

Toward this end, the State shall increase the tax-exempt income threshold of individual taxpayers, periodically and automatically adjust income tax thresholds and ceilings to reflect changes in the consumer price index without eroding real income through bracket creep, and strengthen tax administration, compliance, and enforcement so that tax relief is balanced with fiscal stability and revenue integrity.

SEC. 3. Amendment of Section 24(A)(2)(a). — 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 schedule, **BEGINNING TAXABLE YEAR 2027:**

TAXABLE INCOME	TAX DUE
NOT OVER P350,000.00	0%
OVER P350,000.00 BUT NOT OVER P400,000.00	15% OF THE EXCESS OVER P350,000.00
OVER P400,000.00 BUT NOT OVER P800,000.00	P7,500.00 PLUS 20% OF THE EXCESS OVER P400,000.00
OVER P800,000.00 BUT NOT OVER P2,000,000.00	P87,500.00 PLUS 25% OF THE EXCESS OVER P800,000.00
OVER P2,000,000.00 BUT NOT OVER P8,000,000.00	P387,500.00 PLUS 30% OF THE EXCESS OVER P2,000,000.00
OVER P8,000,000.00	P2,187,500.00 PLUS 35% OF THE EXCESS OVER P8,000,000.00

“For married individuals, the husband and wife, subject to the provision of Section 51(D) hereof, shall compute separately their individual income tax based on their respective total taxable income: Provided, That if any income cannot be definitely attributed to or identified as income exclusively earned or realized by either of the spouses, the same shall be divided equally between the spouses for the purpose of determining their respective taxable income.

“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 received by such minimum wage earners shall likewise be exempt from income tax.

“PROVIDED, FINALLY, THAT THE INCOME THRESHOLDS AND THE FIXED AMOUNTS OF TAX IN THE FOREGOING SCHEDULE SHALL BE SUBJECT TO ADJUSTMENT IN ACCORDANCE WITH SUBPARAGRAPH (d) OF THIS SUBSECTION.”

SEC. 4. *Amendment of Section 24(A)(2)(b).* — Section 24(A)(2)(b) of the National Internal Revenue Code of 1997, as amended, is hereby further 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 **THREE HUNDRED FIFTY THOUSAND PESOS (P350,000.00), OR SUCH HIGHER AMOUNT AS MAY BE FIXED PURSUANT TO SUBPARAGRAPH (d) OF THIS SUBSECTION**, in lieu of the graduated income tax rates under paragraph (a) hereof and the percentage tax under Section 116 of this Code.”

SEC. 5. *Amendment of Section 24(A)(2)(c).* — Section 24(A)(2)(c) of the National Internal Revenue Code of 1997, as amended, is hereby further amended by adding a new paragraph at the end thereof, to read as follows:

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

“x x x

“FOR MIXED-INCOME EARNERS, THE APPLICABLE TAX-EXEMPT THRESHOLD SHALL FIRST BE APPLIED TO COMPENSATION INCOME. ONLY THE UNUSED PORTION THEREOF, IF ANY, MAY BE APPLIED TO GROSS SALES OR GROSS RECEIPTS AND OTHER NON-OPERATING INCOME SUBJECT TO THE OPTIONAL EIGHT PERCENT (8%) TAX UNDER PARAGRAPH (b) HEREOF.”

SEC. 6. *New Subparagraph Under Section 24(A)(2); Periodic Adjustment of Thresholds.* — A new subparagraph (d) is hereby inserted under Section 24(A)(2) of the National Internal Revenue Code of 1997, as amended, to read as follows:

“(d) PERIODIC ADJUSTMENT OF THRESHOLDS AND CEILING; PREVENTION OF BRACKET CREEP. — BEGINNING TAXABLE YEAR 2030, AND EVERY THREE (3) YEARS THEREAFTER, THE SECRETARY OF FINANCE, UPON THE RECOMMENDATION OF THE COMMISSIONER OF INTERNAL REVENUE AND USING THE OFFICIAL CONSUMER PRICE INDEX PUBLISHED BY THE PHILIPPINE STATISTICS AUTHORITY, SHALL ADJUST UPWARD:

“(1) THE INCOME THRESHOLDS UNDER PARAGRAPH (a) OF THIS SUBSECTION;

“(2) THE APPLICABLE TAX-EXEMPT AMOUNT UNDER PARAGRAPH (b) OF THIS SUBSECTION; AND

“(3) THE TAX-EXEMPT CEILING UNDER SECTION 32(B)(7)(e) OF THIS CODE.

“THE ADJUSTMENT SHALL BE BASED ON THE CUMULATIVE CHANGE IN THE ANNUAL AVERAGE CONSUMER PRICE INDEX

FOR THE THREE (3) CALENDAR YEARS IMMEDIATELY PRECEDING THE YEAR IN WHICH THE ADJUSTED AMOUNTS ARE PUBLISHED. ADJUSTED INCOME THRESHOLDS SHALL BE ROUNDED UPWARD TO THE NEAREST TEN THOUSAND PESOS (P10,000.00), AND THE ADJUSTED CEILING FOR THIRTEENTH MONTH PAY AND OTHER BENEFITS SHALL BE ROUNDED UPWARD TO THE NEAREST FIVE THOUSAND PESOS (P5,000.00).

“WHENEVER AN INCOME THRESHOLD IS ADJUSTED UNDER THIS PARAGRAPH, THE FIXED AMOUNTS OF TAX SPECIFIED IN PARAGRAPH (a) OF THIS SUBSECTION SHALL BE CORRESPONDINGLY RECOMPUTED SO THAT THE FIXED AMOUNT OF TAX SPECIFIED FOR EACH BRACKET IS EQUAL TO THE CUMULATIVE TAX DUE AT THE UPPER LIMIT OF ALL PRECEDING BRACKETS. THE SCHEDULE UNDER PARAGRAPH (a) OF THIS SUBSECTION SHALL AT ALL TIMES REMAIN CONTINUOUS, AND NO ADJUSTMENT UNDER THIS PARAGRAPH SHALL OPERATE TO CREATE A DISCONTINUITY IN TAX DUE AT ANY BRACKET LIMIT.

“NO ADJUSTMENT UNDER THIS PARAGRAPH SHALL RESULT IN THE REDUCTION OF ANY THRESHOLD OR CEILING. THE ADJUSTMENT SHALL BE MINISTERIAL IN CHARACTER. THE FAILURE OF THE SECRETARY OF FINANCE TO ISSUE THE CORRESPONDING ISSUANCE WITHIN THE PERIOD HEREIN PRESCRIBED SHALL NOT DEFEAT THE ENTITLEMENT OF TAXPAYERS TO THE ADJUSTED THRESHOLDS AND CEILING, WHICH SHALL APPLY BY OPERATION OF LAW; AND RETURNS FILED, AND TAXES WITHHELD AND REMITTED, ON THE BASIS OF THE AMOUNTS COMPUTED IN ACCORDANCE WITH THIS PARAGRAPH SHALL BE DEEMED VALID FOR ALL PURPOSES OF THIS CODE, AND NO PENALTY, SURCHARGE OR INTEREST SHALL ATTACH BY REASON THEREOF.

“THE DEPARTMENT OF FINANCE AND THE BUREAU OF INTERNAL REVENUE SHALL PUBLISH THE ADJUSTED THRESHOLDS AND CEILING NOT LATER THAN 31 OCTOBER OF THE YEAR IMMEDIATELY PRECEDING THEIR EFFECTIVITY.”

SEC. 7. *Amendment of Section 32(B)(7)(e).* — 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 TWENTY THOUSAND PESOS (P120,000.00), WHICH AMOUNT SHALL BE SUBJECT TO ADJUSTMENT IN ACCORDANCE WITH SECTION 24(A)(2)(d) OF THIS CODE.”

SEC. 8. *Revision of Withholding Tax Tables.* — The Secretary of Finance, upon the recommendation of the Commissioner of Internal Revenue, shall revise the withholding tax tables to conform to the schedule under Section 24(A)(2)(a) of the National Internal Revenue Code of 1997, as amended by this Act, not later than 1 December 2026, and thereafter not later than 1 December of the year immediately preceding the effectivity of any adjustment made under Section 24(A)(2)(d) thereof.

SEC. 9. *Implementing Rules and Regulations.* — Within sixty (60) days from the effectivity of this Act, the Secretary of Finance, upon the recommendation of the Commissioner of Internal Revenue, shall promulgate the necessary rules and regulations for its effective implementation: Provided, That the non-issuance of implementing rules and regulations shall not preclude the provisions of this Act from taking effect within the periods herein prescribed.

SEC. 10. *Separability Clause.* — If any provision of this Act is declared invalid or unconstitutional, the provisions not affected thereby shall remain in full force and effect.

SEC. 11. *Repealing Clause.* — All laws, presidential decrees, executive orders, rules and regulations, or parts thereof inconsistent with this Act are hereby repealed, amended or modified accordingly.

SEC. 12. *Effectivity.* — This Act shall take effect fifteen (15) days after its complete publication in the Official Gazette or in a newspaper of general circulation. Provided, That the revised income tax schedules, thresholds, and tax-exempt benefit ceilings shall take effect on 1 January 2027.

Approved,