

Republic of the Philippines
HOUSE OF REPRESENTATIVES
Quezon City

TWENTIETH CONGRESS
Second Regular Session

HOUSE BILL NO. 10578



Introduced by **HON. BRIAN RAYMUND S. YAMSUAN**

AN ACT
EXEMPTING MICRO AND SMALL ENTERPRISES FROM MINIMUM
CORPORATE INCOME TAX, AMENDING FOR THE PURPOSE SECTION 27(E)(1)
OF THE NATIONAL INTERNAL REVENUE CODE OF 1997, AS AMENDED

EXPLANATORY NOTE

Micro and small-sized enterprises (MSEs) are part of the backbone of our country's economy.¹ They generate employment opportunities, encourage local growth and development, and contribute to poverty reduction and the country's gross domestic product. In 2023, there were more than 1.2 million MSE establishments in the country, making up over 99% of the total number of establishments. Moreover, these enterprises generated over 5.4 million jobs, accounting for over 60% of the country's total employment.²

However, MSEs remain vulnerable to economic and environmental circumstances. Difficulties in accessing affordable financing options and the burden of taxation often push MSEs into precarious financial positions.

Under the current National Internal Revenue Code, domestic corporations, including MSEs, are taxed at either (a) 20% or 25% of their taxable income (i.e. gross income less allowable deductions); or (b) the minimum corporate income tax (MCIT) of 2% of their *gross* income beginning with its fourth taxable year, whichever is higher. In practice, MCIT creates an economic burden for struggling small businesses, because

¹ MSMEs: Pillars of Inclusive Growth and Resilience in the Philippine Economy. Bangko Sentral ng Pilipinas Research Academy. Available at https://www.bsp.gov.ph/Inclusive%20Finance/EFLP/EFLP_MSMEs_01a.pdf.

² Cacnio, Faith. (2025). MSMEs: Pillars of Inclusive Growth and Resilience in the Philippine Economy. Available at https://www.bsp.gov.ph/Inclusive%20Finance/EFLP/EFLP_MSMEs_01a.pdf.

it is calculated on gross income, without the benefit of allowable deductions. This means that even with very minimum revenue or with the MSE barely breaking even, it will still need to pay income tax.

Under this proposed measure, MSEs will be exempt from MCIT, thus easing their financial burden. Therefore, if the MSE is struggling and has zero taxable income for a certain year, it will no longer be subjected to corporate income tax. This measure aims to provide the necessary relief to MSEs, help them get the most out of their revenue, which they can use to improve their daily operations, hire more employees, and expand their business, and ultimately achieve long-term stability.

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



BRIAN RAYMUND S. YAMSUAN
Representative
2nd District of Parañaque

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

SECTION 1. Section 27 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. –

(A) In General. – xxx

xxxx

(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 of the end of the taxable year, 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, when the minimum income tax is greater than the tax computed under Subsection (A) of this Section for the taxable year: Provided, That effective July 1, 2020 until June 30, 2023, the rate shall be one percent (1%); **PROVIDED FURTHER, THAT DULY-REGISTERED MICRO**

AND SMALL ENTERPRISES SHALL NOT BE SUBJECT TO TAX UNDER THIS SUBSECTION.

SEC. 2. Implementing Rules and Regulations. - Within sixty (60) days from the effectivity of this Act, the Secretary of Finance shall, upon the recommendation of the Commissioner of Internal Revenue, promulgate the necessary rules and regulations to implement the provisions of this Act.

SEC. 3. Separability Clause.- If any provision of this Act is declared unconstitutional, the remainder hereof not otherwise affected shall remain in full force and effect.

SEC. 4. Repealing Clause. - All laws, decrees, executive orders, rules, regulations, and other issuances or parts thereof which are contrary to or inconsistent with the provisions of this Act are hereby repealed or modified accordingly.

SEC. 5. Effectivity Clause. - This Act shall take effect after fifteen (15) days following its publication in the Official Gazette or in a newspaper of general circulation.

Approved,