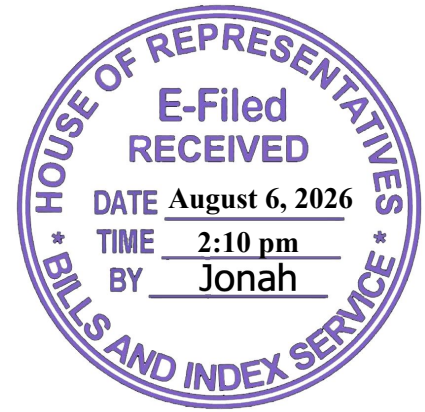


Republic of the Philippines
HOUSE OF REPRESENTATIVES
Constitution Hills, Quezon City

TWENTIETH CONGRESS
Second Regular Session

HOUSE BILL NO. **10665**



Introduced by 2nd District of Iloilo Representative
HON. KATHRYN JOYCE F. GORRICETA, M.D.

AN ACT
GRANTING ADDITIONAL INCOME TAX EXEMPTION FOR GOVERNMENT EMPLOYEE BONUSES AND INCENTIVE BENEFITS, AMENDING FOR THE PURPOSE SEC. 32(B)(7)(e) OF THE NATIONAL INTERNAL REVENUE CODE OF 1997, AS AMENDED, AND FOR OTHER PURPOSES

EXPLANATORY NOTE

The Constitution mandates the State to promote social justice, afford full protection to labor, and pursue a progressive system of taxation. These principles require that tax policy remain fair, responsive, and sensitive to the real economic conditions of workers, including those in government service.

Republic Act No. 10963, or the TRAIN Law, amended the National Internal Revenue Code and retained the tax-exempt ceiling of Ninety Thousand Pesos (₱90,000.00) for benefits covered under the tax category of 13th month pay and other benefits. For government employees, this generally includes the Year-End Bonus and other similar benefits, such as productivity incentives, cash gift, and other authorized bonuses or incentives.

While the ₱90,000.00 ceiling provided relief when enacted, it has become increasingly outdated. Since the implementation of TRAIN in 2018, inflation has eroded the purchasing power of the peso. Based on accumulated inflation from 2018 to 2025, the amount of ₱90,000.00 in 2018 would need to be approximately ₱121,500.00 in 2025 to preserve the same purchasing power. In effect, the real value of the existing ceiling has substantially declined.

This decline has been worsened by recent increases in the prices of fuel, food, transport, utilities, and other basic goods. In 2022, diesel prices rose from a monthly average of at least ₱51 per liter at the start of the year to more than ₱84 per liter in June, contributing to higher transport, logistics, and commodity costs. More recently, the Philippine Statistics Authority reported that inflation reached 7.2% in April 2026, driven mainly by food and non-alcoholic beverages, transport, and housing, water, electricity, gas, and other fuels.

Government employees are directly affected by these rising costs. However, several of their common benefits, including the Year-End Bonus, Mid-Year Bonus, Cash Gift, Productivity Enhancement Incentive, Service Recognition Incentive, and similar authorized incentives, may be aggregated under the same ₱90,000.00 ceiling. Once the combined amount exceeds the ceiling, the excess becomes taxable compensation income, reducing the intended value of benefits meant to provide relief, recognize service, and support productivity.

The proposed additional exemption is also fiscally measured. Based on Civil Service Commission data, the government had about 2.1 million career and non-career personnel as of June 2025. If all such personnel were to fully utilize the proposed additional ₱50,000.00 exemption, the maximum tax base excluded from taxable income would be approximately ₱105 billion. Applying the current graduated individual income tax rates, the indicative annual revenue foregone may range from about ₱15.7 billion at a 15% marginal tax rate to ₱26.2 billion at a 25% marginal tax rate, or up to ₱31.5 billion at a 30% marginal tax rate. The actual fiscal impact is expected to be lower, as not all government employees receive benefits exceeding the existing ₱90,000.00 ceiling, not all are in taxable brackets, and not all would fully utilize the additional exemption.

This bill therefore seeks to grant additional tax relief by providing a separate and modest tax-exempt ceiling for covered government employee bonuses and incentive benefits. While the measure may result in an estimated annual revenue foregone of approximately ₱21 billion, this amount represents direct relief returned to public servants by allowing them to retain a greater portion of benefits already authorized and appropriated for them. The proposal does not create a new compensation item or require a separate cash outlay, but simply maximizes the real value of existing incentives intended to recognize service, support productivity, and ease the burden of rising household expenses.

By preserving the value of government employee incentives, this measure supports the welfare of public servants, strengthens morale in the bureaucracy, and promotes a fairer tax treatment of benefits granted in recognition of government service. The modest reduction in tax collection is outweighed by the immediate and tangible relief to government employees and their families, especially amid inflation, reduced purchasing power, and the continuing rise in the prices of basic goods

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


KATHRYN JOYCE F. GORRICETA, M.D.

Representative
2nd District of Iloilo

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PURPOSE SEC. 32(B)(7)(e) 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 “*Government Employee Incentive Tax Relief Act.*”

SEC. 2. *Declaration of Policy.* It is hereby declared the policy of the State to protect the real value of compensation and benefits granted to government employees, promote fairness in the taxation of employee incentives, and ensure that bonuses and incentive benefits intended to provide economic relief, recognize public service, and enhance productivity are not unduly diminished by taxation.

SEC. 3. *Amendment to the National Internal Revenue Code.* SEC. 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, however, That the total exclusion under this subparagraph shall not exceed Ninety Thousand Pesos (₱90,000.00), which shall cover:

- i. Benefits received by officials and employees of the national and local government pursuant to Republic Act No. 6686;
- ii. Benefits received by employees pursuant to Presidential Decree No. 851, as amended by Memorandum Order No. 28, dated August 13, 1986;
- iii. Benefits received by officials and employees not covered by Presidential Decree No. 851, as amended by Memorandum Order No. 28, dated August 13, 1986; and
- iv. Other benefits such as productivity incentives and Christmas bonus.

Provided, further, That qualified officials and employees of the national government, local government units, government-owned or -controlled corporations, government financial institutions, and other government

agencies and instrumentalities shall be entitled to an additional exclusion from gross income in an amount not exceeding Fifty Thousand Pesos (₱50,000.00) per taxable year for covered government employee bonuses and incentive benefits.

For purposes of the immediately preceding paragraph, covered government employee bonuses and incentive benefits shall include the Year-End Bonus, Mid-Year Bonus, Cash Gift, Productivity Enhancement Incentive, Service Recognition Incentive, when authorized, and other similar monetary bonuses or incentives granted pursuant to law, executive issuance, Department of Budget and Management circular, Civil Service Commission rules, or the annual General Appropriations Act.

Provided, finally, That the additional exclusion granted under this subparagraph shall be separate from and in addition to the Ninety Thousand Pesos (₱90,000.00) exclusion provided herein, and any amount received in excess of the applicable exclusions shall form part of taxable compensation income subject to the applicable income tax and withholding tax rules.”

SEC. 4. *Covered Government Employee Bonuses and Incentive Benefits.* For purposes of this Act, Covered Government Employee Bonuses and Incentive Benefits shall refer to the following benefits granted to qualified government officials and employees pursuant to law, executive issuance, Department of Budget and Management circular, Civil Service Commission rules, or the annual General Appropriations Act:

- a. Year-End Bonus;
- b. Mid-Year Bonus;
- c. Cash Gift;
- d. Productivity Enhancement Incentive;
- e. Service Recognition Incentive, when authorized; and
- f. Such other similar annual or periodic monetary bonuses, incentives, or benefits as may be jointly determined by the Department of Finance, Bureau of Internal Revenue, Department of Budget and Management, and Civil Service Commission.

SEC. 5. *Separate Treatment from Existing Tax Exemption.* The additional tax exemption granted under this Act shall be treated separately from, and in addition to, the existing tax-exempt ceiling for thirteenth month pay and other benefits under SEC. 32(B)(7)(e) of the National Internal Revenue Code of 1997, as amended.

Nothing in this Act shall be construed to reduce, impair, or remove any existing tax exemption, exclusion, or preferential tax treatment granted under existing laws, rules, or regulations.

SEC. 6. *Review and Adjustment of Exemption Ceiling.* The Department of Finance, in coordination with the Bureau of Internal Revenue, Department of Budget and Management, and Civil Service Commission, shall review the tax-exempt ceiling provided under this Act every three (3) years, taking into account inflation, purchasing power, fiscal impact, revenue performance, and the compensation policy of the government.

The Department of Finance may recommend to Congress the adjustment of the exemption ceiling whenever warranted.

SEC. 7. *Implementing Rules and Regulations.* Within ninety (90) days from the effectivity of this Act, the Department of Finance, Bureau of Internal Revenue, Department of Budget and Management, and Civil Service Commission shall jointly issue the necessary rules and regulations for the effective implementation of this Act.

SEC. 8. *Separability Clause.* If any provision of this Act is declared unconstitutional or invalid, the remaining provisions not affected thereby shall continue to be in full force and effect.

SEC. 9. *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. 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,