

SIXTEENTH CONGRESS OF THE )  
REPUBLIC OF THE PHILIPPINES )  
First Regular Session )



Senate  
Office of the Secretary

13 JUL -1 P5:21

SENATE

S. No. 256

RECEIVED BY: *ja*

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Introduced by Senator Ralph G. Recto

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### Explanatory Note

Section 9, Article II of our Constitution states that: "The State shall promote a just and dynamic social order that will ensure the prosperity and independence of the nation and free the people from poverty through policies that provide adequate social services, promote full employment, a rising standard of living, and an improved quality of life for all."

Corollary to this, it is also the State's policy to affirm labor as a primary social economic force by protecting the rights of workers and promote their welfare.

Because of these policies, our laws exclude the mandated 13th month pay and the Christmas bonus from the coverage of income taxes, but only up to the extent of P30,000. Hence, the excess would form part of an individual's gross income and would be subject to the income tax.

Specifically, Section 32 (B) (7) (e) of the National Internal Revenue Code, as amended exempts from income tax the benefits found under Presidential Decree No. 851 as amended by Memorandum Order No. 28 or the 13th Month Pay Law; Republic Act No. 6686 or the Law Authorizing the Grant of Christmas Bonus to National and Local Government Officials and Employees; and other benefits such as productivity incentives and other Christmas bonuses to the extent of P30,000.

The P30,000 ceiling was first introduced in 1994 upon the effectivity of Republic Act No. 7833. At that time, the lowest monthly basic salary for government employees (Salary Grade 1, Step 1) was P2,800 and that of the President of the Philippines (Salary Grade 33) was at P25,000. At present, the basic salaries have been adjusted such that SG-1 Step 1 now stands at P9,000 and SG-33 is at P120,000.

While there have been increases in the legislated pay scale of private and government personnel, the P30,000 cap for the income tax exemption of the 13<sup>th</sup> month pay and Christmas bonuses have remained the same. This amount no longer mirrors prevailing circumstances.

This bill therefore aims to increase that ceiling to P75,000 to make it more responsive to the needs of the times. If adjustments for inflation were reckoned from 1994, the National Tax Research Center (NTRC) and National Economic Development Authority (NEDA) peg the exemption ceiling estimates as of 2011 at P72,000<sup>1</sup> and P75,000<sup>2</sup> respectively.

Furthermore, the bill also provides that the ceiling of P75,000 shall be adjusted to its present value using the Consumer Price Index (CPI) as published by the National Statistics Office (NSO), three years after the measure's effectivity and every three years thereafter.

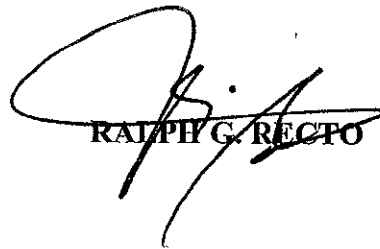
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<sup>1</sup> NTRC position paper dated 23 March 2011

<sup>2</sup> NEDA position paper dated 06 February 2012

The law should always be responsive to the needs of the people. An increase in the ceiling of the 13<sup>th</sup> Month Pay and other benefits to be exempted from income tax is one of the reliefs the people need during these hard times.

Due to the foregoing, the passage of this measure is sincerely sought.



RAIPH G. RECTO

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SENATE

S. No. 256

RECEIVED BY: *[Signature]*

Introduced by Senator Ralph G. Recto

AN ACT  
INCREASING THE CEILING OF THE 13TH MONTH PAY, CHRISTMAS BONUS  
AND OTHER BENEFITS EXCLUDED FROM THE COMPUTATION OF GROSS  
INCOME FOR THE PURPOSES OF INCOME TAXATION, AMENDING FOR THE  
PURPOSE SECTION 32 (B), CHAPTER VI 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.** Section 32 (B), Chapter VI of the National Internal Revenue Code of the  
2 Philippines (R.A. No. 8424) is hereby amended as follows:

3           **SEC. 32. Gross Income. –**

4           **“(A) General Definition. – xxx**

5                   “ x x x

6           **(B) Exclusions from Gross Income. –** The following items shall not be included in  
7 gross income and shall be exempt from taxation under this title:

8                   “ x x x

9           **“(7) Miscellaneous Items. –**

10                   “ x x x

11                   (e) 13<sup>th</sup> Month Pay and Other benefits. – Gross benefits received by  
12 officials and employees of public and private entities: *Provided, however,* That  
13 the total exclusion under this subparagraph shall not exceed [Thirty thousand  
14 pesos (₱ 30,000)] **SEVENTY-FIVE THOUSAND PESOS (₱75,000)** which  
15 shall cover:

16                   (i) Benefits received by officials and employees of the national  
17 and local government pursuant to Republic Act No. 6686;

1 (ii) Benefits received by employees pursuant to Presidential  
2 Decree No. 851, as amended by Memorandum Order No. 28,  
3 dated August 13, 1986;

4 (iii) Benefits received by officials and employees not covered by  
5 Presidential decree No. 851, as amended by Memorandum  
6 Order No. 28, dated August 13, 1986; and

7 (iv) Other benefits such as productivity incentives and Christmas  
8 bonus: [*Provided, further,* That the ceiling of Thirty thousand  
9 pesos (₱ 30,000) may be increased through rules and  
10 regulations issued by the Secretary of Finance, upon  
11 recommendation of the Commissioner, after considering  
12 among others, the effect on the same of the inflation rate at  
13 the end of the taxable year.]

14 *PROVIDED*, THAT NOT LATER THAN THREE YEARS AFTER  
15 THE EFFECTIVITY OF THIS ACT AND EVERY THREE (3) YEARS  
16 THEREAFTER, THE AMOUNT HEREIN STATED SHALL BE  
17 ADJUSTED TO ITS PRESENT VALUE USING THE CONSUMER PRICE  
18 INDEX, AS PUBLISHED BY THE NATIONAL STATISTICS OFFICE  
19 (NSO).

20 "x x x."

21 **SEC. 2. Repealing Clause.** – All laws, decrees, resolutions, orders or ordinances or parts  
22 thereof inconsistent with this Act, are hereby repealed, amended or modified accordingly.

23 **SEC. 3. Effectivity.** – This Act shall take effect fifteen (15) days after its publication in  
24 the Official Gazette or in at least two (2) newspapers of general circulation.

Approved,