

NINETEENTH CONGRESS OF THE )  
REPUBLIC OF THE PHILIPPINES )  
*First Regular Session* )



**SENATE**

S. No. 54

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Introduced by Senator Francis G. Escudero

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**AN ACT**  
**PROMOTING BUSINESS GROWTH AND RECOVERY BY REDUCING THE COST**  
**OF BUSINESS COMPLIANCE FOR MICRO, SMALL AND MEDIUM**  
**ENTERPRISES, AMENDING FOR THE PURPOSE THE NATIONAL INTERNAL**  
**REVENUE CODE OF 1997, AS AMENDED**

EXPLANATORY NOTE

The Micro, Small and Medium Enterprise (MSME) sector is one of the primary drivers of economic growth. The preliminary MSME Data from the Philippine Statistics Authority revealed that in 2021, some 99.6% of the 1,080,638 establishments in the country are classified as MSMEs. In 2020, the sector generated 63% of the total establishment-based employment and about 36% of all value of goods and services produced in the country. Additionally, their distribution across industrial sectors and geographic locations enables them to stimulate economic activities outside traditional urban centers, thus aiding government efforts to redistribute wealth, reduce poverty incidence, and develop the Philippine countryside.

Despite its pivotal role in the economy, factors such as the escalating cost of doing business, restricted access to financing and markets, and declining productivity and efficiency are impeding the development of the MSME sector. With limited resources and capabilities, many MSMEs are not adequately equipped to respond to the challenges and opportunities posed by domestic and international markets. This is particularly true during the height of the coronavirus pandemic in 2020, where the number of MSME establishments and their level of employment declined by 42,776 and 129,945, respectively.

To develop an MSME sector capable of contributing to the country's economic and social development, this bill seeks to improve the sector's competitiveness by reducing the compliance cost of tax regulations. First, it seeks to make the optional tax on gross sales or receipts introduced under Republic Act No. 10963, or the Tax

Reform for Acceleration and Inclusion (TRAIN) Law, more appealing to MSMEs by reducing the tax rate from eight percent (8%) to five percent (5%) of gross sales or receipts. Second, the bill seeks to simplify the convoluted rates under the creditable withholding tax system by reducing the rates to be used to two: one percent (1%) for the purchase of goods and properties, and two percent (2%) for the purchase of services.

Through these twin interventions, it is hoped that MSMEs would be afforded additional funds to expand business operations, recruit additional manpower, and mitigate inflation of business inputs, which in turn could facilitate growth and development of all Filipinos.

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



**FRANCIS G. ESCUDERO** *sp*

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REVENUE CODE OF 1997, AS AMENDED**

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

1 Section 1. Section 24 of the National Internal Revenue Code of 1997, as  
2 amended, is hereby further amended to read as follows:

3 "SEC. 24. *Income Tax Rates.* –

4 "(A) *Rates of Income Tax on Individual Citizen and Individual Resident*  
5 *Alien of the Philippines.* –

6 "(1) xxx

7 "(2) *Rates of Tax on Taxable Income of Individuals.* - The tax shall be  
8 computed in accordance with and at the rates established in the following  
9 schedule:

10 "(a) xxx

11 "(b) *Rate of Tax on Income of Purely Self-employed Individuals and/or*  
12 *Professionals Whose Gross Sales or Gross Receipts and Other Non-Operating*  
13 *Income Does Not Exceed the Value-added Tax (VAT) Threshold as Provided in*  
14 *Section [~~109(BB)] 109(CC).~~* – Self-employed individuals and/or professionals  
15 shall have the option to avail of [~~an eight percent (8%)] **A FIVE PERCENT**  
16 *(5%)* tax on gross sales or gross receipts and other non-operating income in  
17 excess of Two hundred fifty thousand pesos (P250,000) in lieu of the graduated~~

1 income tax rates under Subsection (A)(2)(a) of this Section and the percentage  
2 tax under Section 116 of this Code.

3 "(c) *Rate of Tax for Mixed Income Earners.* – Taxpayers earning both  
4 compensation income and income from business or practice of profession shall  
5 be subject to the following taxes:

6 "(1) *All Income from Compensation.* – The rate prescribed under  
7 Subsection (A)(2)(a) of this Section.

8 "(2) *All Income from Business or Practice of Profession.* –

9 "(a) *If Total Gross Sales and/or Gross Receipts and Other Non-Operating*  
10 *Income Do Not Exceed the VAT Threshold as Provided in Section [~~109(BB)~~*  
11 ***109(CC)** of this Code.* – The rates prescribed under Subsection (A)(2)(a) of  
12 this Section on taxable income, or [~~eight percent (8%)~~] **FIVE PERCENT (5%)**  
13 income tax based on gross sales or gross receipts and other non-operating  
14 income in lieu of the graduated income tax rates under Subsection (A)(2)(a) of  
15 this Section and the percentage tax under Section 116 of this Code.

16 "xxx"

17 Sec. 2. Section 57 of the National Internal Revenue Code of 1997, as amended  
18 is hereby further amended to read as follows:

19 "SEC. 57. *Withholding of Tax at Source.* –

20 "(A) xxx

21 "(B) *Withholding of Creditable Tax at Source.* – The Secretary of Finance  
22 may, upon the recommendation of the Commissioner, require the withholding  
23 of a tax on the items of income payable to natural or juridical persons, residing  
24 in the Philippines, by payor-corporation/persons as provided for by law, at the  
25 rate of [~~not less than one percent (1%) but not more than thirty-two percent~~  
26 ~~(32%) thereof, which shall be credited against the income tax liability of the~~  
27 ~~taxpayer for the taxable year: *Provided,* That beginning January 1, 2019, the~~  
28 ~~rate of withholding shall not be less than one percent (1%) but not more than~~  
29 ~~fifteen percent (15%) of the income payment.] **ONE PERCENT (1%) FOR**  
30 **THE PURCHASE OF GOODS AND PROPERTIES, AND TWO PERCENT**  
31 **(2%) FOR THE PURCHASE OF SERVICES INCLUDING THE EXERCISE**  
32 **OF PROFESSION AND LEASE OF PROPERTIES, WHICH SHALL BE**~~

1           **CREDITED AGAINST THE INCOME TAX LIABILITY OF THE TAXPAYER**  
2           **FOR THE TAXABLE YEAR.**

3           "xxx"

4           *Sec. 3. Implementing Rules and Regulations (IRR).* – Within thirty (30) days  
5 from the effectivity of this Act, the Department of Finance shall, in coordination with  
6 the Bureau of Internal Revenue, promulgate the rules and regulations to effectively  
7 implement the provisions of this Act.

8           *Sec. 4. Separability Clause.* – If any provision or part hereof is declared  
9 unconstitutional, the remainder of this Act or any provision not affected thereby shall  
10 remain in full force and effect.

11           *Sec. 5. Repealing Clause.* – All laws, acts, decrees, executive orders, issuances,  
12 and rules and regulations or parts thereof which are contrary to and inconsistent with  
13 this Act are hereby repealed, amended or modified accordingly.

14           *Sec. 6. Effectivity.* – This Act shall take effect fifteen (15) days after its complete  
15 publication in the *Official Gazette* or in at least two (2) newspapers of general  
16 circulation.

*Approved,*