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SENATE

S. BILL NO. 2163

RECEIVED BY: *ja*

Introduced by Senator Sonny M. Angara

**AN ACT REDUCING THE CORPORATE INCOME TAX RATE,  
AMENDING SECTIONS 27 AND 28 OF THE NATIONAL INTERNAL  
REVENUE CODE OF 1997, AS AMENDED, AND FOR OTHER PURPOSES**

**Explanatory Note**

This bill seeks to amend Sections 27 and 28 of the National Internal Revenue Code of 1997, as amended, by gradually reducing the rate of corporate income tax over a three (3) year period beginning January 1, 2015.

The bill is part of a twin measure to reduce the country's income tax rates for individuals and corporations in preparation for the Association of South East Asian Nations (ASEAN) Integration. In 2007, the Philippines together with Brunei Darussalam, Cambodia, Indonesia, Lao People's Democratic Republic, Malaysia, Myanmar, Singapore, Thailand and Vietnam signed the ASEAN Economic Community (AEC) Blueprint. Each member-state shall adopt and implement the AEC Blueprint which seeks to transform ASEAN into a single market and production base by December 2015.

Harmonization is both a model and requisite for regional integration. At present, ASEAN member-states manifest differences in their corporate and individual income tax regimes with such differences coming as a result of different levels of development and requirements of governance. The differentiated tax rates would inevitably swing the pendulum as investors and taxpayers shift from a high-tax jurisdiction to a low-tax jurisdiction. Moreover, if the country does not adjust its high corporate income tax rate, it will create massive transfer pricing issues that will translate into revenue losses.

The Philippines holds the distinction of having the highest corporate income tax rate at 30-percent. When the AEC Declaration was signed, some member-states began to lower their corporate income tax rates. For instance, Thailand gradually reduced its corporate income tax rate from 30 percent in 2011, 23 percent in 2012 and 20 percent today. Vietnam also lowered its corporate income tax rate from 25 percent to 22 percent this year. It will be reduced further to 20 percent in 2016.

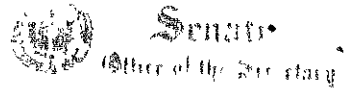
At present, the average rate among the ASEAN countries hovers at 23.1 percent, with Singapore having the lowest at 17 percent.

In order for the Philippines to attract capital, it is imperative that we reduce this stumbling block of having the highest tax rate. While we expect as setback in our revenues as a result of this proposal, we could recoup the same by making the Philippines an attractive investment haven that would expand our tax base, increase economic activities and create massive employment.

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

  
SONNY M. ANGARA

16<sup>th</sup> CONGRESS OF THE REPUBLIC )  
OF THE PHILIPPINES )  
First Regular Session )



14 MAR -5 26:04

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AN ACT REDUCING THE CORPORATE INCOME TAX RATE,  
AMENDING SECTIONS 27 AND 28 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:*

1 SECTION 1. Section 27(A) of the National Internal Revenue Code of 1997, as  
2 amended, is hereby further amended to read as follows:

3 "Sec. 27. Rates of Income Tax on Domestic Corporations. –

4 "(A) In General. – Except as otherwise provided in this Code, an income tax  
5 of [thirty-five percent (35%)] TWENTY-NINE PERCENT (29%) BEGINNING  
6 JANUARY 1, 2015, TWENTY-SEVEN PERCENT (27%) BEGINNING JANUARY 1,  
7 2016 AND TWENTY-FIVE PERCENT (25%) BEGINNING JANUARY 1, 2017, is  
8 hereby imposed upon the taxable income derived during each taxable year from all sources  
9 within and without the Philippines by every corporation, as defined in Section 22(B) of this  
10 Code and taxable under this Title as a corporation, organized in, or existing under the laws  
11 of the Philippines[: *Provided*, That effective January 1, 2009, the rate of income tax shall be  
12 thirty percent (30%)]."

13 SEC. 2. Section 28 of the National Internal Revenue Code of 1997, as amended, is  
14 hereby further amended to read as follows:

15 "SEC. 28. Rates of Income Tax on Foreign Corporations. –

16 "(A) Tax on Resident Foreign Corporations. –

17 (1) In General. – Except as otherwise provided in this Code, a  
18 corporation organized, authorized, or existing under the laws of any foreign  
19 country, engaged in trade or business within the Philippines, shall be subject  
20 to an income tax equivalent to [thirty-five percent (35%)] TWENTY-NINE  
21 PERCENT (29%) BEGINNING JANUARY 1, 2015, TWENTY-SEVEN

1 PERCENT (27%) BEGINNING JANUARY 1, 2016 AND TWENTY-  
2 FIVE PERCENT (25%) BEGINNING JANUARY 1, 2017 of the taxable  
3 income derived in the preceding taxable year from all sources within the  
4 Philippines[: *Provided*, That effective January 1, 2009, the rate of income tax  
5 shall be thirty percent (30%)].

6 X x x

7 “(B) Tax on Nonresident Foreign Corporations. –

8 (1) In General. – Except as otherwise provided in this Code, a  
9 foreign corporation not engaged in trade or business in the Philippines shall  
10 pay a tax equal to [thirty-five percent (35%)] TWENTY-NINE PERCENT  
11 (29%) BEGINNING JANUARY 1, 2015, TWENTY-SEVEN PERCENT  
12 (27%) BEGINNING JANUARY 1, 2016 AND TWENTY-FIVE  
13 PERCENT (25%) BEGINNING JANUARY 1, 2017 of the gross income  
14 received during each taxable year from all sources within the Philippines,  
15 such as interests, dividends, rents, royalties, salaries, premiums (except  
16 reinsurance premiums), annuities, emoluments or other fixed or determinable  
17 annual, periodic or casual gains, profits and income, and capital gains, except  
18 capital gains subject to tax under subparagraph 5(c)[: *Provided*, That effective  
19 January 1, 2009, the rate of income tax shall be thirty percent (30%)].

20 X x x

21 (5) Tax on Certain Incomes Received by a Nonresident Foreign  
22 Corporation. –

23 X x x

24 (b) Intercorporate Dividends. –A final withholding tax at the  
25 rate of fifteen percent (15%) is hereby imposed on the amount of  
26 cash and/or property dividends received from a domestic  
27 corporation, which shall be collected and paid as provided in Section  
28 57(A) of this Code, subject to the condition that the country in which  
29 the nonresident foreign corporation is domiciled, shall allow a credit  
30 against the tax due from the nonresident foreign corporation taxes

1 deemed to have been paid in the Philippines equivalent to [twenty  
2 percent (20%)] FOURTEEN PERCENT (14%), which represents  
3 the difference between the regular income tax of [thirty-five percent  
4 (35%)] TWENTY-NINE PERCENT (29%) BEGINNING  
5 JANUARY 1, 2015 and the fifteen percent (15%) tax on dividends as  
6 provided in this subparagraph; *Provided*, That effective January 1,  
7 [2009] 2016, the credit against the tax due shall be equivalent to  
8 [fifteen percent (15%)] TWELVE PERCENT (12%), AND  
9 EFFECTIVE JANUARY 1, 2017, EQUIVALENT TO TEN  
10 PERCENT (10%), which represents the difference between the  
11 regular income tax of [thirty percent (30%)] TWENTY-SEVEN  
12 PERCENT (27%) AND TWENTY-FIVE PERCENT (25%),  
13 RESPECTIVELY, and the fifteen percent (15%) tax on dividends;”

14 SEC. 3. Implementing Rules and Regulations. - The Secretary of Finance shall  
15 promulgate the necessary rules and regulations for the effective implementation of the  
16 provisions of this Act.

17 SEC. 4. Repealing Clause. - All laws, orders, issuances, circulars, rules and regulations  
18 or parts thereof, which are inconsistent with the provisions of this Act are hereby repealed  
19 or modified accordingly.

20 SEC. 5. Separability Clause. - If any provision of this Act is declared unconstitutional  
21 or invalid, other parts or provisions hereof not affected thereby shall continue to be in full  
22 force and effect.

23 SEC. 6. Effectivity. - This Act shall take effect on January 1, 2015 following its  
24 publication in at least two (2) newspapers of general circulation.

25 *Approved,*