

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



15 SEP 29 P2 24

SENATE

S. No. 2974

RECEIVED BY: *J.*

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Introduced by Senator Ralph G. Recto

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**AN ACT**  
**INSTITUTING INCOME TAX REFORM FOR INDIVIDUAL AND CORPORATE**  
**TAXPAYERS, AMENDING FOR THIS PURPOSE SECTIONS 24(A)(2), 27(A) AND**  
**35(A) OF THE NATIONAL INTERNAL REVENUE CODE OF 1997, AS AMENDED,**  
**AND FOR OTHER PURPOSES**

**Explanatory Note**

One of the inherent powers of the State is the power of taxation. However, there are limitations on the exercise of such power. Section 28, Article VI of the 1987 Philippine Constitution provides that the rule of taxation shall be uniform and equitable and that Congress shall evolve a progressive system of taxation.

Jurisprudence is replete with cases explaining that uniformity of taxation and the equal protection clause require that all subjects or objects of taxation similarly situated are to be treated alike both in privileges and liabilities. A progressive system of taxation as well as the concept of equity in taxation suggest that the tax rates should be based on the taxpayer's ability to pay. Therefore, a tax system is progressive when the tax rate increases as the tax base increases.

The steady increase in the prices of consumer goods and services in the country over the years hinders most Filipinos in meeting the demands of daily living. The rise in commodity prices has undoubtedly weakened the purchasing power of our people's hard-earned money.

Individuals earning compensation income not only have to deal with the weakening effects of inflation but also with the huge deductions in their salaries, one of which is due to income tax.

This bill seeks to amend Section 24(A)(2) of the National Internal Revenue Code of 1997 (NIRC), as amended, by adjusting the levels of net taxable income and the nominal tax rates for purposes of computing the individual income tax. It also seeks to amend Section 35(A) of the NIRC, as amended, by adjusting the basic personal exemption for each individual taxpayers from P50,000 to P150,000 to counter the steady increase of prices of consumer goods and services and to help our hardworking middle class in meeting the demands of daily living.

Furthermore, in the case of married individuals, under the bill, the taxpayer spouse may claim an exemption for his or her spouse even though the latter did not earn any gross income for the taxable year and did not file a return for as long as the said spouse is living exclusively with the taxpayer spouse. This, however, does not categorize the said spouse as a dependent, but merely as a recognition of his or her efforts in the care and maintenance of the family and of the household which is akin to the recognition accorded by the Family Code in cases contemplated under Article 147 thereof. In short, all married individuals may claim a maximum amount of allowable personal exemption up to P300,000 whether the other spouse is employed or not.

The adjustments come almost two decades after the amendments were last introduced in 1997 and with the Consumer Price Index moving upward in steady fashion. Without a CPI-

adjusted tax levels and rates, the increases in income enjoyed by salaried individuals to keep them in step with inflation every year push these taxpayers into higher tax brackets, leading them to pay more taxes. This "bracket creep" is a result of income taxes growing faster than income does despite the fact that Congress has not legislated laws increasing income taxes, and despite the fact that Congress has even enacted a law in favor of minimum wage earners.

With the passage of this bill, a government employee occupying a Salary Grade 11 position or its equivalent (Teacher 1, Police Officer III, etc.) earning a basic salary of P18,549.00 per month or an annual income of P222,588.00 will have to pay annual income tax of P7,258.80 only as compared to P30,647.00 under the existing income tax bracket as provided under the NIRC, as amended.

Also, this bill seeks to amend Section 27(A) of the NIRC, as amended, to replace the unitary or single income tax rate with a graduated income tax rates for corporate taxpayers similar to those provided for the individual taxpayers and exempt from income tax the taxable income not exceeding P150,000.00. The basis for adopting this tax system is to align income taxation for corporation with the constitutional mandate of a progressive system of taxation and the rule on uniform and equitable taxation.

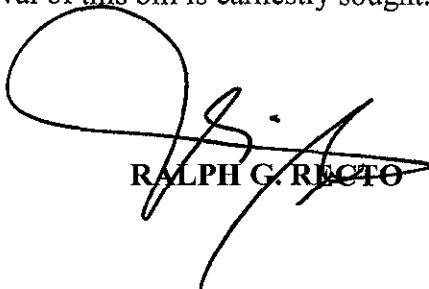
Under the Corporation Code, a duly organized corporation is clothed with a personality separate and distinct from the persons composing it. Therefore, being a juridical person, a corporation is recognized by law as a person similar to a natural person. Thus, a corporation can sue and be sued in its corporate name, and it can also purchase, receive, take or grant, hold, convey, sell, lease, pledge, mortgage and otherwise deal with real and personal property. Therefore, it is but proper that for purposes of taxation, a corporation should be treated like an individual. Like an individual taxpayer, a corporate taxpayer should be afforded a system of income taxation based on its ability to pay.

It is noteworthy that this proposed measure seeks to provide a uniform graduated income tax bracket for individual and corporate taxpayers. The intent is to simplify income taxation for all taxpayers and to make the same easier to comprehend. A tax is a burden on the taxpayer, it being an enforced proportional contribution to finance the operation of the government and other public needs. To ease the burden, a simplified system for the payment of taxes should be provided.

This bill also proposes to automatically index the taxable income levels and nominal tax rates to inflation every six years without need for legislative action. This would perpetuate equity in the tax system and help ensure that the tax system treats individual and corporate taxpayers the same way from year to year.

The purpose and intent of this bill is to make taxation more equitable and uniform, and to ease the burden of the taxpayers in complying with the requirements of the law for the payment of taxes. The objective is to broaden the tax base and this can be done by encouraging more businessmen, self-employed individuals, professionals, enterprises, corporations and other income earners to voluntarily file their income tax returns (ITRs) and pay the corresponding correct taxes thereon.

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

  
RALPH G. RECTO

SENATE

15 SEP 29 P2 24

S. No. 2974

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Introduced by Senator Ralph G. Recto

AN ACT

INSTITUTING INCOME TAX REFORM FOR INDIVIDUAL AND CORPORATE TAXPAYERS, AMENDING FOR THIS PURPOSE SECTIONS 24(A)(2), 27(A) AND 35(A) 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 24(A)(2) 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) x x x

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

7 "[Not over P10,000] ... [5%]

8 "[Over P10,000 but ... [P500 + 10% of the  
9 not over P30,000] excess over P10,000]

10 "[Over P30,000 but ... [P2,500 + 15% of the  
11 not over P70,000] excess over P30,000]

12 "[Over P70,000 but ... [P8,500 + 20% of the  
13 not over P140,000] excess over 70,000]

14 "[Over P140,000 but ... [P22,500 + 25% of the  
15 not over P250,000] excess over P140,000]

16 "[Over P250,000 but ... [P50,000 + 30% of the  
17 not over P500,000] excess over P250,000]

18 "[Over P500,000] ... [P125,000 + 32% of the  
19 excess over P500,000]

20 "NOT OVER P1,000,000 ... 10%

21 "OVER P1,000,000 BUT ... P100,000 + 15% OF THE  
22 NOT OVER P2,000,000 EXCESS OVER P1,000,000

23 "OVER P2,000,000 BUT ... P250,000 + 20% OF THE  
24 NOT OVER P3,000,000 EXCESS OVER P2,000,000

25 "OVER P3,000,000 ... P450,000 + 25% OF THE  
26 EXCESS OVER P3,000,000

1 "x x x

2 "x x x

3 **"PROVIDED, FINALLY, THAT NOT LATER THAN SIX (6) YEARS AFTER**  
4 **THE EFFECTIVITY OF THIS ACT AND EVERY SIX (6) YEARS THEREAFTER, THE**  
5 **PRESIDENT OF THE PHILIPPINES SHALL ADJUST THE TAXABLE INCOME**  
6 **LEVELS AND NOMINAL TAX RATES HEREIN STATED TO ITS PRESENT VALUE**  
7 **USING THE CONSUMER PRICE INDEX, AS PUBLISHED BY THE PHILIPPINE**  
8 **STATISTICS AUTHORITY (PSA)."**

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

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

12 **"(A) In General. –** Except as otherwise provided in this Code, an income tax [of  
13 thirty-five percent (35%)] is hereby imposed upon the taxable income derived each taxable year  
14 from all sources within and without the Philippines by every corporation, as defined in Section  
15 22(B) of this Code and taxable under this Title as a corporation, organized in, or existing under  
16 the laws of the Philippines[: *Provided, That* effective January 1, 2009, the rate of income tax  
17 shall be thirty percent (30%)]. **THE TAX SHALL BE COMPUTED IN ACCORDANCE**  
18 **WITH AND AT THE RATES ESTABLISHED IN THE FOLLOWING SCHEDULE:**

19	<b>"NOT OVER P1,000,000</b>	<b>... 10%</b>
20	<b>"OVER P1,000,000 BUT</b>	<b>... P100,000 + 15% OF THE</b>
21	<b>NOT OVER P2,000,000</b>	<b>EXCESS OVER P1,000,000</b>
22	<b>"OVER P2,000,000 BUT</b>	<b>... P250,000 + 20% OF THE</b>
23	<b>NOT OVER P3,000,000</b>	<b>EXCESS OVER P2,000,000</b>
24	<b>"OVER P3,000,000</b>	<b>... P450,000 + 25% OF THE</b>
25		<b>EXCESS OVER P3,000,000</b>

26 **"PROVIDED, THAT A CORPORATE TAXABLE INCOME NOT EXCEEDING**  
27 **ONE HUNDRED FIFTY THOUSAND PESOS (P150,000.00) SHALL BE EXEMPT**  
28 **FROM INCOME TAX."**

29 **"PROVIDED, FURTHER, THAT NOT LATER THAN SIX (6) YEARS AFTER**  
30 **THE EFFECTIVITY OF THIS ACT AND EVERY SIX (6) YEARS THEREAFTER, THE**  
31 **PRESIDENT OF THE PHILIPPINES SHALL ADJUST THE TAXABLE INCOME**  
32 **LEVELS AND NOMINAL TAX RATES HEREIN STATED TO ITS PRESENT VALUE**  
33 **USING THE CONSUMER PRICE INDEX, AS PUBLISHED BY THE PHILIPPINE**  
34 **STATISTICS AUTHORITY (PSA)."**

35 "x x x

36 **SEC. 3.** Section 35(A) of the National Internal Revenue Code of 1997, as amended, is  
37 hereby further amended to read as follows:

38 **"SEC. 35. Allowance of Personal Exemption for Individual Taxpayer. –**

1           “(A) In General. – For purposes of determining the tax provided in Section 24 (A) of this  
2 title, there shall be allowed a basic personal exemption amounting to [Fifty thousand pesos  
3 (P50,000) for each individual taxpayer.] **ONE HUNDRED FIFTY THOUSAND PESOS**  
4 **(P150,000) FOR EACH INDIVIDUAL TAXPAYER.**

5           [In the case of married individual where only one of the spouses is deriving gross income,  
6 only such spouse shall be allowed the personal exemption.] **“MARRIED INDIVIDUALS**  
7 **MAY FILE THEIR INCOME TAXES EITHER JOINTLY OR SEPARATELY. IN CASE**  
8 **OF JOINT FILING, THE BASIC PERSONAL EXEMPTION MAY BE CLAIMED BY**  
9 **BOTH SPOUSES. IN CASE OF SEPARATE FILING, A TAXPAYER MAY STILL**  
10 **CLAIM THE PERSONAL EXEMPTION FOR THE SPOUSE NOTWITHSTANDING**  
11 **THE FACT THAT THE LATTER IS NOT GAINFULLY EMPLOYED, HAD NO GROSS**  
12 **INCOME AND DID NOT FILE A RETURN: PROVIDED, THAT THE SAID SPOUSE IS**  
13 **LIVING EXCLUSIVELY WITH THE TAXPAYER.”**

14           **“PROVIDED, FURTHER, THAT NOT LATER THAN SIX (6) YEARS AFTER**  
15 **THE EFFECTIVITY OF THIS ACT AND EVERY SIX (6) YEARS THEREAFTER, THE**  
16 **PRESIDENT OF THE PHILIPPINES SHALL ADJUST THE AMOUNT HEREIN**  
17 **STATED TO ITS PRESENT VALUE USING THE CONSUMER PRICE INDEX, AS**  
18 **PUBLISHED BY THE PHILIPPINE STATISTICS AUTHORITY (PSA).”**

19           **SEC. 4. Implementing Rules and Regulations.** - The Secretary of Finance, shall, upon the  
20 recommendation of the Commissioner of Internal Revenue, promulgate not later than thirty (30)  
21 days upon the effectivity of this Act the necessary rules and regulations for its proper and  
22 effective implementation.

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

26           **SEC. 6. Repealing Clause.** - All laws, orders, issuances, circulars, rules and regulations or  
27 parts thereof, which are inconsistent with the provisions of this Act are hereby repealed or  
28 modified accordingly.

29           **SEC. 7. Effectivity.** - This Act shall take effect fifteen (15) days after its publication in the  
30 *Official Gazette* or in at least two (2) newspapers of general circulation.

Approved,