

15 OCT 22 P1:50

SENATE
S.B. 2994

RECEIVED BY: *J*

Introduced by Senator Poe

AN ACT
RESTRUCTURING THE INCOME BRACKETS AND RATES OF TAX IMPOSED ON TAXABLE INCOME OF INDIVIDUALS, AMENDING FOR THE PURPOSE SECTIONS 24, 32, 33, 34 AND 35 OF THE 1997 NATIONAL INTERNAL REVENUE CODE OF THE PHILIPPINES, AS AMENDED

EXPLANATORY NOTE

Tax reform is urgently needed in our country. The Philippine tax law on individual income taxes has remained unchanged since 1997. In the meantime, consumer price index and inflation have lowered the purchasing power of most Filipinos.

The present tax system is out of date, onerous, and out of sync with tax systems in integrating ASEAN region¹. As reported, the government is utilizing the high income tax rate system to address the need for increased education and infrastructure spending. Ditto, accordingly, it is not adjusting the taxation because the "rising deficit would cause a potential downgrade by international ratings agencies, hence the unchanged income tax system."²

It is in this situation that this legislation is submitted, the income bracket has not been adjusted to inflation since the law was passed in 1997. The tax bracket should immediately be revised to include automatic adjustments of nominal figures with inflation. In the words of the Research Education and Institution Development (REID) Foundation, "those who were presumed to be high middle class and rich in the 1997, and therefore taxed heavily, are not the same income class today. They may be very much poor and most especially the middle income class."³

The Philippines has one of the highest tax rates in ASEAN. But when the ASEAN Economic Community (AEC) Blueprint was signed in 2007, Thailand and Vietnam reduced their tax rates to more attractive levels. The country should follow the example.

The legislation is a counterpart version of the policy measure filed by Rep. Neri Colmenares in the House of Representatives and as reproduced from the same bill's Explanatory Note: A great majority of Filipinos would have to content themselves with meager salaries. Official data from the National Wages Productivity Commission show that as of January 2015, the daily minimum wage rate in Metro Manila, the highest nationwide, is at P466 per day, while the lowest is at P213 received by agricultural and non-agricultural workers in the Ilocos region. These translate to an

¹ Quoted from the article, "Why PH has 2nd highest income tax in ASEAN?" written by Chrisee dela Paz, www.rappler.com, October 1, 2015

² Ibid, www.rappler.com

³ Ibid, quoting REID's Research Fellow Balbieran

annual income of about P123,000 for minimum wage earners in Metro Manila and about P56,232 for the Ilocos region.

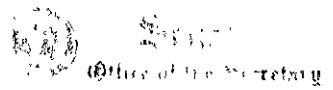
While a minimum wage earner is tax-exempt, such dismal levels of income are still way below the Family Living Wage or “the minimum amount needed by a family of six members to meet its daily food and non-food needs, plus a 10 percent allocation for savings.” As of August 2014, Family Living Wage is at P1,086 daily (P396,390 annually) as shown by independent think-tank Ibon Foundation estimates. Compounding such situation is the prevailing tax system where by getting additional income no matter how small in excess of the minimum wage, the whole income now becomes taxable.

Thus, the call to equitably adjust and restructure the income tax rates and tax brackets to provide immediate relief to individual taxpayers.

The most immediate enactment of this legislation is earnestly sought.



GRACE POE



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

1 **SECTION 1.** It is observed in our jurisdiction that taxes is the lifeblood of the government and
2 that it should be just, equitable, progressive, uniform and must be a tool of social justice. As such,
3 the adjustment and restructuring of income tax rates and tax brackets must be advanced providing
4 economic relief to individual taxpayers.

5
6 **SECTION 2.** Section 24 of the 1997 National Internal Revenue Code, as amended, is hereby
7 further amended to read as follows:

8
9 "SEC. 24. Income Tax Rates. –

10
11 "(A) xxx

12
13 "(1) xxx

14
15 "(2) Rates of Tax on Taxable Income of Individuals. The tax shall be computed in accordance with
16 and at the rates established in the following schedule:

17
18

Not over P396,000	Exempt
Over P396,000but not overP640,000	10% of the excess over P396,000
Over P640,000but not overP1,000,000	P24,400 + 15% of the excess over P640,000
Over P1,000,000 but not overP1,650,000	P78,400 + 20% of the excess over P1,000,000
Over P1,650,000but not over P2,700,000	P208,400 + 25% of the excess over P1,650,000
Over P2,700,000	P470,900 + 30% of the excess over P2,700,000

19
20
21
22
23
24

"PROVIDED, THAT EVERY THREE (3) YEARS THEREAFTER, THE AMOUNTS HEREIN STATED SHALL BE ADJUSTED TO THEIR PRESENT VALUE USING THE CONSUMER PRICE INDEX, AS PUBLISHED BY THE PHILIPPINE STATISTICS AUTHORITY.

1 “xxx
2
3 “[Provided, That minimum wage earners as defined in section 22 (HH) of this Code shall be
4 exempt from the payment of income tax on their taxable income: Provided, further, That the
5 holiday pay, overtime pay, night shift differential pay and hazard pay received by such minimum
6 wage earners shall likewise be exempt from income tax.]
7

8
9 xxx.”

10
11 **SECTION 3.** Section 32 of the 1997 National Internal Revenue Code, as amended, is hereby
12 further amended to read as follows:

13
14 “SEC. 32. Gross Income. –

15
16
17 “(A) xxx

18
19 “(B) xxx

20
21
22 “(1) xxx

23
24
25 “xxx

26
27
28 “(7) Miscellaneous Items. –

29
30
31 “(a) xxx

32
33
34 “xxx

35
36
37
38 “[e] 13th Month Pay and Other Benefits. – Gross benefits received by officials and employees of
39 public and private entities: Provided, however, That the total exclusion under this subparagraph
40 shall not exceed Thirty thousand pesos (P30,000) which shall cover:

41
42 “(i) Benefits received by officials and employees of the national and local government pursuant to
43 Republic Act No. 6686;

44
45 “(ii) Benefits received by employees pursuant to Presidential Decree No 851, as amended by
46 Memorandum Order No. 28, dated August 13, 1986;

47
48 “(iii) Benefits received by officials and employees not covered by Presidential Decree No 851, as
49 amended by Memorandum Order No. 28, dated August 13, 1986;

50
51 “(iv) Other benefits such as productivity incentives and Christmas bonus: Provided, further, That
52 the ceiling of Thirty thousand pesos (P30,000) may be increased through rules and regulations
53 issued by the Secretary of Finance, upon recommendation of the Commissioner, after considering,
54 among others, the effect on the same of the inflation rate at the end of the taxable year.]
55

56 “[f] GSIS, SSS, Medicare, and Other Contributions. – GSIS, SSS, Medicare and Pag-Ibig
57 contributions, and union dues of individuals.]

1 “[g] (e) Gains from Sale of Bonds, Debentures or other Certificate of Indebtedness. – Gains
2 realized from the sale or exchange or retirement of bonds, debentures or other certificate of
3 indebtedness with a maturity of more than five (5) years.

4
5 “[h] (f) Gains from Redemption of Shares in Mutual Fund. – Gains realized by the investor upon
6 redemption of shares of stock in a mutual fund company as defined in Section 22(BB) of this Code.

7
8 xxx.”

9
10 **SECTION 4.** Section 33 of the 1997 National Internal Revenue Code, as amended, is hereby
11 further amended to read as follows:

12
13 “SEC. 33. Special Treatment of Fringe Benefits. –

14
15 “(A) Imposition of Tax. – A final tax of [thirty-four percent (34%) effective January 1, 1998;
16 thirty-three percent (33%) effective January 1, 1999; and thirty-two percent (32%) effective
17 January 1, 2000 and thereafter,]THIRTY PERCENT (30%) is hereby imposed on the grossed-up
18 monetary value of fringe benefit furnished or granted to the employee [(except rank-and-file
19 employees as defined herein)] by the employer, whether an individual or a corporation (unless the
20 fringe benefit is required by the nature of, or necessary to the trade, business or profession of the
21 employer, or when the fringe benefit is for the convenience or advantage of the employer). The
22 tax herein imposed is payable by the employer which tax shall be paid in the same manner as
23 provided for under Section 57(A) of this Code. The grossed-up monetary value of the fringe benefit
24 shall be determined by dividing the actual monetary value of the fringe benefit by [sixty-six percent
25 (66%) effective January 1, 1998; sixty-seven percent (67%) effective January 1, 1999; and sixty-
26 eight percent (68%)effective January 1, 2000 and thereafter:]SEVENTY PERCENT (70%):
27 Provided, however, That fringe benefit furnished to employees and taxable under Subsections (B),
28 (C), (D) and (E) of Section 25 shall be taxed at the applicable tax imposed thereat: Provided,
29 further, That the grossed-up MONETARY value of the fringe benefit shall be determined by
30 dividing the actual monetary value of the fringe benefit by the difference between one hundred
31 percent (100%) and the applicable rates of income tax under Subsections (B), (C), (D) and (E) of
32 Section 25.

33
34 “(B) Fringe Benefits Defined. – For purposes of this Section, the term “fringe benefit” means any
35 good, service, or other benefit furnished or granted in cash or in kind by an employer to an
36 individual employee [(except rank-and-file employees as defined herein)] such as, but not limited
37 to, the following:

38
39 “xxx

40
41 “(C) Fringe Benefits Not Taxable. – The following fringe benefits are not taxable under this
42 Section:

43
44 “(1) xxx

45
46 “(2) xxx

47
48 “[3] Benefits given to the rank-and-file employees, whether granted under a collective bargaining
49 agreement or not; and]

50
51 “[4] (3) De minimis benefits as defined in the rules and regulations to be promulgated by the
52 Secretary of Finance, upon recommendation of the Commissioner.

53
54 xxx.”

55
56 **SECTION 5.** Section 34 of the 1997 National Internal Revenue Code, as amended, is hereby
57 further amended to read as follows:

1 “SEC. 34. Deductions from Gross Income. – Except for taxpayers earning compensation income
2 arising from personal services rendered under an employer-employee relationship where no
3 deductions shall be allowed under this section [other than under Subsection (M) hereof], in
4 computing taxable income subject to income tax under Sections 24(A); 25(A); 26; 27(A), (B) and
5 (C); and 28(A)(1), there shall be allowed the following deductions from gross income:

6
7 “(A) xxx

8
9 “xxx

10
11 “[L] Optional Standard Deduction. – In lieu of the deductions allowed under the preceding
12 Subsections, an individual subject to tax under Section 24, other than a nonresident alien, may
13 elect a standard deduction in an amount not exceeding forty percent (40%) of his gross sales or
14 gross receipts, as the case may be. In the case of a corporation subject to tax under section 27(A)
15 and 28(A)(1), it may elect a standard deduction in an amount not exceeding forty percent (40%)
16 of its gross income as defined in Section 32 of this Code. Unless the taxpayer signifies in his return
17 his intention to elect the optional standard deduction, he shall be considered as having availed
18 himself of the deductions allowed in the preceding Subsections. Such election when made in the
19 return shall be irrevocable for the taxable year for which the election is made: Provided, That an
20 individual who is entitled to and claimed for the optional standard deduction shall not be required
21 to submit with his tax return such financial statements otherwise required under this Code:
22 Provided, further, That except when the Commissioner otherwise permits, the said individual shall
23 keep such records pertaining to his gross sales or gross receipts, or the said corporation shall keep
24 such records pertaining to his gross income as defined in Section 32 of this Code during the taxable
25 year, as may be required by the rules and regulations promulgated by the Secretary of Finance,
26 upon recommendation of the Commissioner.]

27
28 “[M] Premium Payments on Health and/or Hospitalization Insurance of an Individual Taxpayer.
29 – The amount of premiums not to exceed Two thousand four hundred pesos (P2,400) per family
30 or Two hundred pesos (P200) a month paid during the taxable year for health and/or hospitalization
31 insurance taken by the taxpayer himself, including his family, shall be allowed as a deduction from
32 his gross income: Provided, That said family has a gross income of not more than Two hundred
33 fifty thousand pesos (P250,000) for the taxable year: Provided, finally, That in the case married
34 taxpayers, only the spouse claiming the additional exemption for dependents shall be entitled to
35 this deduction.]

36
37 xxx.”

38
39 **SECTION 6.** Section 35 of the 1997 National Internal Revenue Code, as amended, is hereby
40 deleted and in its place, a new Section 35 is inserted to read as follows:

41
42 “SEC. 35. OPTIONAL STANDARD DEDUCTION. – IN LIEU OF THE DEDUCTIONS
43 ALLOWED UNDER THE PRECEDING SECTION, AN INDIVIDUAL SUBJECT TO TAX
44 UNDER SECTION 24, OTHER THAN A NONRESIDENT ALIEN, AND A CORPORATION
45 SUBJECT TO TAX UNDER SECTION 27(A) AND 28(A)(1), MAY ELECT A STANDARD
46 DEDUCTION IN AN AMOUNT NOT EXCEEDING FORTY PERCENT (40%) OF ITS GROSS
47 INCOME AS DEFINED IN SECTION 32 OF THIS CODE. UNLESS THE TAXPAYER
48 SIGNIFIES IN HIS RETURN HIS INTENTION TO ELECT THE OPTIONAL STANDARD
49 DEDUCTION, HE SHALL BE CONSIDERED AS HAVING AVAILED HIMSELF OF THE
50 DEDUCTIONS ALLOWED IN THE PRECEDING SUBSECTIONS. SUCH ELECTION WHEN
51 MADE IN THE RETURN SHALL BE IRREVOCABLE FOR THE TAXABLE YEAR FOR
52 WHICH THE ELECTION IS MADE: PROVIDED, THAT AN INDIVIDUAL WHO IS
53 ENTITLED TO AND CLAIMED FOR THE OPTIONAL STANDARD DEDUCTION SHALL
54 NOT BE REQUIRED TO SUBMIT WITH HIS TAX RETURN SUCH FINANCIAL
55 STATEMENTS OTHERWISE REQUIRED UNDER THIS CODE: PROVIDED, FURTHER,
56 THAT EXCEPT WHEN THE COMMISSIONER OTHERWISE PERMITS, THE SAID
57 INDIVIDUAL OR CORPORATION SHALL KEEP SUCH RECORDS PERTAINING TO HIS

1 GROSS INCOME AS DEFINED IN SECTION 32 OF THIS CODE DURING THE TAXABLE
2 YEAR, AS MAY BE REQUIRED BY THE RULES AND REGULATIONS PROMULGATED
3 BY THE SECRETARY OF FINANCE, UPON RECOMMENDATION OF THE
4 COMMISSIONER.

5
6 **SECTION 7. Repealing Clause.** – All laws, executive and administrative orders or parts thereof,
7 inconsistent with any provision of this Act are hereby repealed or modified accordingly.

8
9 **SECTION 8. Effectivity.** – This Act shall take effect after fifteen (15) days following the
10 completion of its publication in the Official Gazette or in a national newspaper of general
11 circulation.

12
13
14 Approved,

15
16