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

SENATE OF THE PHILIPPINES
OFFICE OF THE SECRETARY
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SENATE

Senate Bill No. 125

Introduced by Senator Juan Miguel F. Zubiri

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

With the ASEAN Economic Integration soon to take effect, it is timely for the Philippines to revisit and make changes to its corporate and income tax structures. In the ASEAN region, the Philippines has the highest corporate tax at 30 percent, followed by Indonesia with 25 percent, Thailand with 23 percent; Vietnam with 22 percent and Cambodia with 20 percent. Singapore levies the lowest rate of 17 percent and attracts the most foreign direct investments (FDI). And it is no surprise that the Philippines, with the highest tax rate, receives the least FDI among its ASEAN neighbors.

If we intend to compete in the "single market and production base" in the ASEAN region, it is imperative that we adopt measures to make the Philippines economy at par with its neighbors as a choice location for foreign investors. In addition to addressing inadequate infrastructure, bureaucratic inefficiencies, high cost of power and corruption, the Philippine government can push for competitive tax rates for businesses in the country to attract the entry of new investors and encourage the expansion of existing ones.

In a recent study presented by Commissioner Stella Quimbo of the Philippine Competition Commission, it would appear that any reduction in corporate income tax will most likely result in increased investments. Based on her research, a one-percentage point reduction in corporate income tax would translate to more investments ranging from 6.1 percent to 7.9 percent, or from P31 billion to P33 billion. She further said that high tax rates do not necessarily translate into higher revenue collections.

In view of the foregoing, this bill seeks to reduce the corporate income tax rates to be implemented by January 1, 2018 to bring the corporate income tax rate to 25 percent from the present 30 percent.

Any foregone revenue as a consequence of the reduction of the corporate income tax rate will be offset by the projected increase in economic activities and employment opportunities arising from increase in investments. Moreover, an expansion of the tax base as a result of this measure may bode well for increased revenue collections in the long term.

The immediate approval of this bill is therefore earnestly sought.

JUAN MIGUEL F. ZUBIRI

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

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

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

"(A) *In General* - Except as otherwise provided in this Code, an income tax of [thirty-five percent (35%)] **TWENTY-FIVE PERCENT (25%) BEGINNING JANUARY 1, 2018,** is hereby imposed upon the taxable income derived during each taxable year from all sources within and without the Philippines by every corporation, as defined in Section 22(B) of this Code and taxable under this Title as a corporation, organized in, or existing under the laws of the Philippines [: Provided, That effective January 1, 2009, the rate of income tax shall be thirty percent (30%).]"

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

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

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

(1) *In General.* - Except as otherwise provided in this Code, a corporation organized, authorized, or existing under the laws of any foreign country, engaged in trade or business within the Philippines, shall be subject to an income tax equivalent to [thirty-five percent (35%)] **TWENTY-FIVE PERCENT (25%) BEGINNING JANUARY 1, 2018,** of the taxable income derived in the

preceding taxable year from all sources within the Philippines **[**: Provided, That effective January 1, 2009, the rate of income tax shall be thirty percent (30%).**]**

Xxx

"(B) *Tax on Non-resident Foreign Corporations.* –

(1) *In General.* - Except as otherwise provided in this Code, a foreign corporation not engaged in trade or business In the Philippines shall pay a tax equal to **[**thirty-five percent (35%)**]** **TWENTY-FIVE PERCENT (25%) BEGINNING JANUARY 1, 2018,** of the gross income received during each taxable year from all sources within the Philippines, such as interests, dividends, rents, royalties, salaries, premiums (except reinsurance premiums), annuities, emoluments or other fixed or determinable annual, periodic or casual gains, profits and income, and capital gains, except 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%).**]**

Xxx

(5) *Tax on Certain Incomes Received by a Non-resident Foreign Corporation.* -

Xxx

(b) *Intercorporate Dividends.* - -A final withholding tax at the rate of fifteen percent (15%) is hereby imposed on the amount of cash and/or property dividends received from a domestic corporation, which shall be collected and paid as provided in Section 57(A) of this Code, subject to the condition that the country in which the non-resident foreign corporation is domiciled, shall allow a credit against the tax due from the non-resident foreign corporation taxes deemed to have been paid in the Philippines equivalent to **[**twenty percent (20%)**]** **TEN PERCENT (10%)**, which represents the difference between the regular income tax of **[**thirty-five percent (35%)**]** **TWENTY-FIVE PERCENT (25%) BEGINNING JANUARY 1, 2018,** and the fifteen percent (15%) tax on dividends as provided in this subparagraph:

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

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

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

SEC. 6. Effectivity. - This Act shall take effect on January 1, 2017 following its publication in at least two (2) newspapers of general circulation.

Approved.