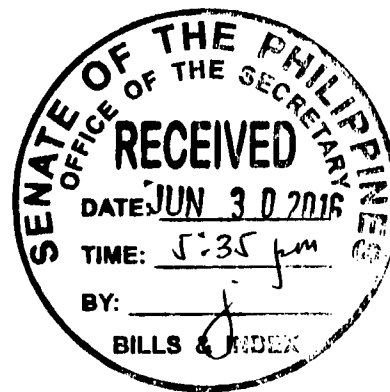


SEVENTEENTH CONGRESS OF THE REPUBLIC)
OF THE PHILIPPINES)
First Regular Session)



SENATE
S.B. No. 169

Introduced by: Senator Paolo Benigno "Bam" A. Aquino IV

AN ACT
ESTABLISHING A SIMPLIFIED TAX REGIME FOR SMALL BUSINESSES, AND FOR THIS
PURPOSE AMENDING CERTAIN PROVISIONS OF THE NATIONAL INTERNAL REVENUE
CODE

EXPLANATORY NOTE

The key to achieving prosperity for impoverished Filipino families is a strong micro, small and medium enterprise sector. A strong MSME sector also, in turn, strengthens a country's economy and guards against foreign financial crises.

Currently, MSMEs already account for roughly 32-35% of the country's GDP. Sadly, despite the growth in number of small enterprises in the Philippines, few are able to sustain their operation and create long-term success.

For this reason, our office has pushed for a number of policies to improve the support system for this vital sector and we will continue to do so until our country's business environment is ripe for local entrepreneurs to succeed.

This particular legislation deals with the tricky subject of taxation.

According to a joint study by PwC and the World Bank, Paying Taxes 2016¹, the Philippines is on the 126th spot out of 189 economies in Ease of Paying Taxes.

This must change, which is why we are asserting the Small Business Tax Reform Act as a measure to simplify tax procedures and unburden our small businesses of the complex tax process.

Proposed measures include a simpler bookkeeping, a special lane and assistance desk for small businesses, exemption from tax audit, annual filing of returns, and payment in installment.

This bill also proposes the lowering of the income tax rate for small businesses and an exemption from VAT, among other methods of stimulating growth in small businesses as opposed to hindering it.

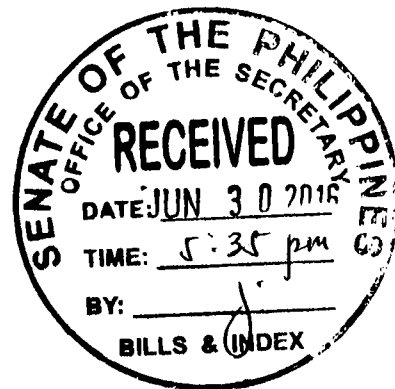
¹ <http://www.pwc.com/gx/en/services/tax/paying-taxes-2016.html>

Let's streamline our tax system and boost the chances of our local enterprises to succeed and, in turn, generate prosperity and livelihood for more and more Filipinos.

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


Senator Paolo Benigno "Bam" A. Aquino IV

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

1 **SECTION 1. Short Title.** - This Act shall be referred to as the "*Small Business Tax*
2 *Reform Act.*"

3 **SEC. 2. Declaration of Policy.** - It is hereby declared the policy of the State to foster
4 national development, promote inclusive growth, and reduce poverty by encouraging the
5 establishment of micro and small enterprises that facilitate local job creation, production
6 and trade in the country. MSMEs increase income for poor households and build both
7 business equity and personal assets over a period of time. To this end, the State shall
8 strengthen their growth and development by simplifying the procedure for their tax
9 compliance and providing incentives rather than penalties for their voluntary compliance.
10 The increase of micro and small enterprises in the formal economy shall increase formal
11 employment; hence, broadening the taxpayer base.

12 **SEC. 3. Definition of Terms.** – As used in this Act, the following terms shall mean:

13 (a) *Allowable Deductions* - the definition used in Sec. 34 of the Tax Code;

14 (b) *BIR* - the Bureau of Internal Revenue;

15 (c) *Gross Income* - the definition used in Sec. 32 of the Tax Code, as all income derived
16 from whatever source, including (but not limited to) the following items:

- 17 i. Compensation from services in whatever form paid, including, but not
18 limited to fees, salaries, wages, commissions, and similar items;
19 ii. Gross income derived from the conduct of trade or business or the
20 exercise of a profession;
21 iii. Gains derived from dealings in property;
22 iv. Interests;

- 1 v. Rents;
- 2 vi. Royalties;
- 3 vii. Dividends;
- 4 viii. Annuities;
- 5 ix. Prizes and winnings;
- 6 x. Pensions; and
- 7 xi. Partner's distributive share from the net income of the general
- 8 professional partnership;

9 (d) *Small businesses* – micro and small enterprises as defined by Section 3 of RA 9501 or
10 the Magna Carta for Micro, Small and Medium Enterprises, whose annual gross
11 revenue does not exceed fifty million pesos (P50,000,000.00);

12 (e) *Taxable Income* - pertinent items of gross income as specified in Section 32 of the
13 Tax Code, less the deductions and/or personal and additional exemptions, if any,
14 authorized for such types of income by the Tax Code or other special laws;

15 *Tax Code* - the National Internal Revenue Code of 1997 or Republic Act 8424.

16 **SEC. 4. Taxpayer Service.** – Every Revenue District Office (RDO) shall have a lane or a
17 special assistance desk dedicated to small businesses. This lane shall have an officer who
18 shall assist small business in their application, registration, processing of documents and
19 other inquiries.

20 As part of taxpayer service, the BIR shall deploy self-service tools that will enable
21 taxpayers to determine their own tax liabilities. The BIR shall also provide free and
22 accessible tax information and education to small businesses, such as booklets, flyers, public
23 consultations and regular tax seminars. Further, the BIR shall establish a hotline to serve all
24 taxpayers.

25 BIR documents and forms shall be made available in Filipino, which shall be
26 accessible to small businesses.

27 **SEC. 5. Registration.** – All small businesses as defined and classified under this Act
28 shall be required to register their businesses with the BIR.

29 Where the application for registration has been filed but is not acted upon by the BIR
30 within fifteen (15) days from the date of filing, the application shall be deemed approved.

31 **SEC. 6. Registration Fees.** - A registration fee in the amount of five hundred pesos (P500)
32 for small businesses shall be settled every three (3) years.

33 **TAX TYPE**

34 **SEC. 7. Taxation.** – Small businesses shall be taxed as follows:

- 35 a) **Income Tax** – All small businesses shall be exempt from payment of income tax
36 for the first three (3) years of its operation from date of establishment. Any
37 income earned thereafter shall be subject to the following income tax rates:

Taxable Income		Income Tax Rate
Over	But Not Over	
	P300,000	Exempt
P300,000	P10,000,000	10%

1 For purposes of computing the taxable income, net operating losses incurred during
2 the first three (3) years of operation shall be carried over as a deduction from gross income
3 for the next five (5) taxable years.

4 b) Value-added tax (VAT) or Percentage Tax – The sale and lease of goods,
5 properties or services arising in the course of trade or business of small
6 businesses shall be exempt from VAT or percentage tax.

7 c) Expanded creditable withholding tax – Small businesses shall be exempt from
8 withholding tax obligation under Section 57 (B) of the Tax Code.

9 d) Local taxes – Local government units are strongly encouraged to reduce the
10 amount of local taxes, fees and charges imposed on small businesses.

11 The amounts stated above shall be subject to periodic adjustment based on the
12 prevailing consumer price index.

13 **SEC. 8. *Optional Standard Deduction.*** – Small businesses may elect a standard
14 deduction of forty percent (40%) of their gross income.

15 Unless the taxpayer signifies in his return his intention to elect the itemized
16 deductions, he shall be considered as having availed himself of the Optional Standard
17 Deduction as allowed in the under Section 34 of the Tax Code.

18 Upon availment of the Optional Standard Deduction, taxpayer is exempt from
19 regular audit of allowable deductions.

20 **COMPLIANCE REQUIREMENTS**

21 **SEC. 9. *Bookkeeping Requirements, Financial Statements and Schedule of Audits.*** -
22 All small businesses covered by this act shall be required to keep and use a simplified set of
23 bookkeeping records that at the minimum, will contain the following accounts: cash receipts
24 and cash disbursements.

25 The Board of Accountancy (BOA) and the Philippine Institute of Certified Public
26 Accountants (PICPA) shall prescribe simplified accounting methods and books of accounts
27 for small businesses whose taxable income does not exceed ten million pesos
28 (P10,000,000).

1 Small businesses shall be exempt from tax audit but may be subject to random
2 compliance mapping once every three (3) years. The BIR Commissioner's selection of
3 returns via computer-generated random sampling shall be witnessed by a representative
4 from a Civil Service Organization (CSO), a business organization and/or an accredited tax
5 association.

6 **SEC. 10. Tax Filing.** – Small businesses shall file their VAT Returns or Percentage Tax
7 Returns and Income Tax Returns annually.

8 **SEC. 11. Tax Payment.** – Small businesses may settle their tax dues and registration
9 fees at any BIR office, accredited bank, payment center and government financial
10 institution.

11 Small businesses may elect to pay their tax dues in two (2) equal installments in
12 which case, the first installment shall be paid at the time the tax return is filed and the
13 second installment, on or before July 15 following the close of the calendar year.

14 **SEC. 12. Penalties for using Small Business status to evade taxes.** – Any person who
15 is proven to have abused or misused this law for purposes of evading taxes shall be subject
16 to sanctions and penalties for tax evasion, on top of the tax due with interest.

17 **SEC. 13. Implementing Rules and Regulations.** – Within sixty (60) days from the
18 effectivity of this Act, the Secretary of the Department of Finance (DoF) and the
19 Commissioner of the Bureau of Internal Revenue (BIR) shall promulgate the necessary rules
20 and regulations to implement the provisions of this Act.

21 **SEC. 14. Separability Clause.** – Should any provision herein be declared
22 unconstitutional, the same shall not affect the validity of the other provisions of this Act.

23 **SEC. 15. Repealing Clause.** – Sections 34 (L), 232 (a), 235, 236 (b), 237 of Republic
24 Act 8424 are hereby amended. All laws, decrees, orders, rules, and regulations or other
25 issuances or parts inconsistent with the provisions of this Act are hereby repealed or
26 modified accordingly.

27 **SEC. 16. Effectivity.** – This Act shall take effect fifteen (15) days after its publication
28 in the *Official Gazette* or in two (2) newspapers of general circulation in the Philippines.

29 *Approved,*