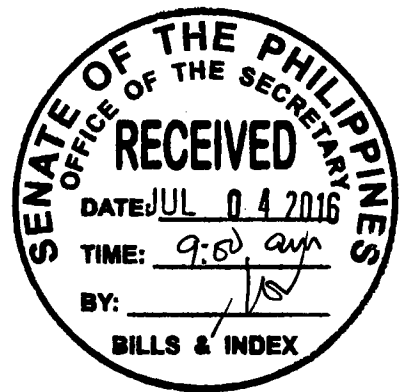


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SEVENTEENTH CONGRESS OF THE)
REPUBLIC OF THE PHILIPPINES)
First Regular Session)

SENATE

S. No. 267



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

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.

The adjustments come almost two decades after the amendments were last introduced in 1997 and with the Consumer Price Index (CPI) 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 P19,077.00 per month or an annual income of P228,924.00 will have to pay annual income tax of P3,946.20

only as compared to paying P32,231.00 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 schedule for corporate taxpayers similar to those provided for the individual taxpayers. The basis for adopting this tax system is to align income taxation for corporations with the constitutional mandate of a progressive system of taxation and the rule on uniform and equitable taxation.

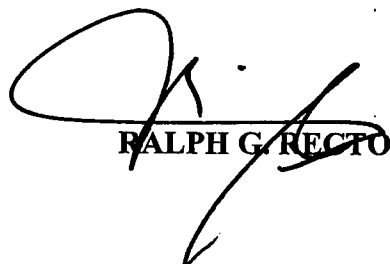
Under the Corporation Code, a duly organized corporation is clothed with a personality separate and distinct from the persons composing it. Therefore, being a juridical person, a corporation is recognized by law as a person similar to a natural person. Thus, a corporation can sue and be sued in its corporate 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.

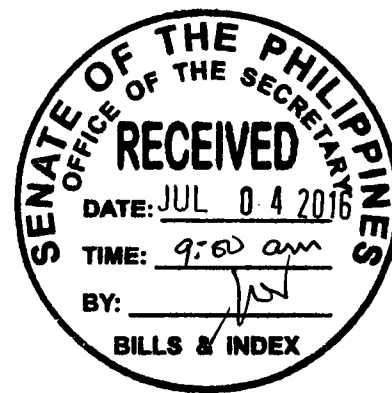
It is noteworthy that this proposed measure seeks to provide a uniform graduated income tax schedule for individual and corporate taxpayers. The intent is to simplify income taxation for all taxpayers and to make the same easier to comprehend. A tax is a burden on the taxpayer, it being an enforced proportional 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

S. No. 267

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 House of Representatives of the Philippines in Congress assembled:

SECTION 1. Section 24(A)(2) of the National Internal Revenue Code of 1997, as amended, is hereby further amended to read as follows:

“Sec. 24. *Income Tax Rates.* –

“(A) x x x

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

“[Not over P10,000]	... [5%]
“[Over P10,000 but not over P30,000]	... [P500 + 10% of the excess over P10,000]
“[Over P30,000 but not over P70,000]	... [P2,500 + 15% of the excess over P30,000]
“[Over P70,000 but not over P140,000]	... [P8,500 + 20% of the excess over 70,000]
“[Over P140,000 but not over P250,000]	... [P22,500 + 25% of the excess over P140,000]
“[Over P250,000 but not over P500,000]	... [P50,000 + 30% of the excess over P250,000]
“[Over P500,000]	... [P125,000 + 32% of the excess over P500,000]
“NOT OVER P300,000	... 5%
“OVER P300,000 BUT NOT OVER P600,000	... P15,000 + 10% OF THE EXCESS OVER P300,000
“OVER P600,000 BUT NOT OVER P900,000	... P45,000 + 15% OF THE EXCESS OVER P600,000
“OVER P900,000 BUT NOT OVER P1,200,000	... P90,000 + 20% OF THE EXCESS OVER P900,000

1 “SEC. 35. Allowance of Personal Exemption for Individual Taxpayer. –

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

6 “x x x

7 “**PROVIDED, THAT NOT LATER THAN SIX (6) YEARS AFTER THE**
8 **EFFECTIVITY OF THIS ACT AND EVERY SIX (6) YEARS THEREAFTER, THE**
9 **PRESIDENT OF THE PHILIPPINES SHALL ADJUST THE AMOUNT HEREIN**
10 **STATED TO ITS PRESENT VALUE USING THE CONSUMER PRICE INDEX (CPI),**
11 **AS PUBLISHED BY THE PHILIPPINE STATISTICS AUTHORITY (PSA).”**

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

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

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

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

 Approved,