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SENATE
S. No. 825

RECEIVED BY: 

Introduced by Senator Ralph G. Recto

AN ACT
EXEMPTING MARGINAL INCOME EARNERS FROM INCOME TAX AND VALUE-ADDED TAX, AMENDING FOR THE PURPOSE SECTIONS 22, 24, 109 (1) AND 236 OF THE NATIONAL INTERNAL REVENUE CODE OF 1997, AS AMENDED, AND FOR OTHER PURPOSES

Explanatory Note

This bill aims to provide the needed refuge for our country's marginal income earners (MIE) who are suddenly placed in a position where they might find it more difficult to provide for their daily subsistence if their meager income were to be taxed by the BIR.

In 2008, Congress passed Republic Act No. 9504 wherein one of its salient features was to exempt minimum wage earners from the payment of income tax. While this measure is laudable, there is, however, another sector in the labor force and economy that deserves similar tax treatment and these are the MIEs.

The MIEs, as defined under tax regulations, are those individuals not deriving compensation as an employee under an employer-employee relationship and are self-employed and deriving gross sales or receipts not exceeding One hundred thousand pesos (P100,000) in any 12-month period. The threshold amount is increased to P150,000 under the bill to provide for inflation and to place the status of MIEs at par with minimum wage earners in Metro Manila who are now earning close to P150,000 annually.

Among the individuals classified by the regulations as MIEs are as follows: a) agricultural growers/producers (farmers/fishermen) selling directly to ultimate consumers; b) small sari-sari stores; c) small *carinderias* or "*turo-turos*"; and d) drivers/operators of a single unit tricycle. This sector captures a huge part of the lower income class (at least 75% of the population) wherein income from their principal source of livelihood is barely enough for their subsistence.

It is worth noting that while MIEs individually operate in small scale, collectively, they are recognized as major contributors to the economy as this sector provides income opportunities to those who are unemployed. Moreover, based on the success stories of many tycoons, this sector is seen as a seedbed of entrepreneurship and provides a strong potential for small businesses to grow into large enterprises.

Unfortunately, the Bureau of Internal Revenue's issuance of Revenue Memorandum Circular No. 7-2014, which clarified the issues on the registration and compliance requirements of MIEs, somehow seemed to undermine the daily economic hardships being experienced by the MIEs. The said circular required MIEs to comply with the following requirements: a) register their business with the Bureau of Internal Revenue (BIR); b) register their book of accounts; c)

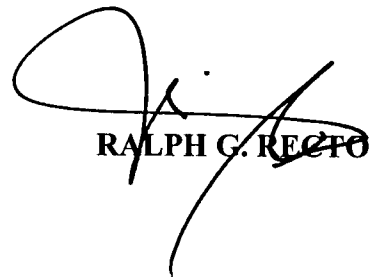
issue receipts/sales invoices; and d) file the appropriate income tax return and pay the tax due thereon.

It is undeniable that aside from imposing income tax on the income of MIEs, registration of business with the BIR entails costs and not to mention loss of income opportunity for MIEs since the application for registration can be cumbersome as it includes submission of other documentary requirements which can be retrieved only from other government agencies, such as authenticated Birth Certificate from the Philippine Statistics Authority, Mayor's Business Permit from the local government unit concerned, and Certificate of Registration from the Department of Trade and Industry.

It is for this reason that MIEs view RMC No. 7-2014 as an exercise of fiscal power by the government that has confiscatory effects.

Therefore, in recognition of the importance of MIEs to our economy and to alleviate their sorry plight, this proposed bill seeks to exempt MIEs from the payment of income tax and value-added tax and to institutionalize their exemption from the registration requirements under the Tax Code.

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




RALPH G. RECTO

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

1 **Section 1.** Section 22 of Republic Act No. 8424, as amended, otherwise known as the
2 National Internal Revenue Code of 1997, is hereby further amended by adding the following
3 definition after Subsection (HH) to read as follows:

4 “SEC. 22. **Definitions.** – When used in this Title:

5 “(A) x x x”

6 “x x x

7 “(HH) x x x

8 “(II) THE TERM ‘MARGINAL INCOME EARNER’ SHALL REFER TO
9 AN INDIVIDUAL WHO IS NOT DERIVING COMPENSATION AS AN
10 EMPLOYEE UNDER AN EMPLOYER-EMPLOYEE RELATIONSHIP BUT
11 ONE WHO IS SELF-EMPLOYED WHOSE GROSS SALES OR RECEIPTS
12 DERIVED FROM THEIR PRINCIPAL SOURCE OF LIVELIHOOD
13 DO NOT EXCEED ONE HUNDRED FIFTY THOUSAND PESOS (P150,000.00).”

14 **Section 2.** Section 24 (A) of Republic Act No. 8424, as amended, otherwise known as the
15 National Internal Revenue Code of 1997, is hereby further amended to read as follows:

16 “Section 24. **Income Tax Rates.** –

17 “(A) Rates of Income Tax on Individual Citizen and Individual Resident
18 Alien of the Philippines. –

1 “(1) x x x”

2 “(2) x x x”

3 “x x x”

4 “*Provided*, That minimum wage earners as defined in Section 22 (HH) of this
5 Code shall be exempt from the payment of income tax on their taxable income;

6 *Provided, further*, That the holiday pay, overtime pay, night shift differential pay
7 and hazard pay received by such minimum wage earners shall likewise be exempt
8 from income tax.

9 “IN THE CASE OF MARGINAL INCOME EARNERS AS DEFINED
10 UNDER SECTION 22 (II) OF THIS CODE, ALL INCOME DERIVED FROM
11 THEIR PRINCIPAL SOURCE OF LIVELIHOOD SHALL ALSO BE EXEMPT
12 FROM INCOME TAX.”

13 **Section 3.** Section 109 (1) of Republic Act No. 8424, as amended, otherwise known as
14 the National Internal Revenue Code of 1997, is hereby further amended to read as follows:

15 “Section 109. **Exempt Transactions.** – (1) Subject to the provisions of Subsection (2)
16 hereof, the following transactions shall be exempt from the value-added tax:

17 “(A) x x x

18 “x x x

19 “(W) Sale or lease of goods or properties or the performance of services other than
20 the transactions mentioned in the preceding paragraphs, the gross annual sales and/or
21 receipts do not exceed the amount of One million five hundred thousand pesos
22 (P1,500,000): *Provided*, That not later than January 31, 2009 and every three (3) years
23 thereafter, the amount herein stated shall be adjusted to its present value using the
24 Consumer Price Index, as published by the National Statistics Office (NSO);

25 “(X) SALE OR LEASE OF GOODS AND SALE OF SERVICES BY MARGINAL
26 INCOME EARNERS AS DEFINED UNDER SECTION 22 (II) OF THIS CODE.”

27 “x x x”

28 **Section 4.** Section 236 (B) of Republic Act No. 8424, as amended, otherwise known as
29 the National Internal Revenue Code of 1997, is hereby further amended to read as follows:

1 “Section 236. **Registration Requirements.** –

2 “(A) x x x

3 “(B) *Annual Registration Fee.* – An annual registration fee in the amount of Five
4 hundred pesos (P500) for every separate or distinct establishment of place of business,
5 including facility types where sales transactions occur, shall be paid upon registration
6 and every year thereafter on or before the last day of January; *Provided, however,* That
7 cooperatives, individuals earning purely compensation income whether locally or abroad,
8 MARGINAL INCOME EARNERS, and overseas workers are not liable to the
9 registration fee herein imposed.”

10 “xxx”

11 **Section 5. *Implementing Rules and Regulations.*** – The Secretary of Finance, shall, upon
12 the recommendation of the Commissioner of Internal Revenue, promulgate not later than thirty
13 (30) days upon the effectivity of this Act the necessary rules and regulations for its proper and
14 effective implementation.

15 **Section 6. *Repealing Clause.*** – All laws, Acts, Presidential Decrees, Executive Orders,
16 issuances, presidential proclamations, rules and regulations or parts thereof which are contrary to
17 and inconsistent with any provision of this Act are hereby repealed, amended or modified
18 accordingly.

19 **Section 7. *Effectivity.*** – This Act shall take effect fifteen (15) days after its complete
20 publication either in the Official Gazette, or in at least two (2) newspapers of general circulation.

21 *Approved,*