

EIGHTEENTH CONGRESS OF THE )  
REPUBLIC OF THE PHILIPPINES )  
*First Regular Session* )



Senate  
Office of the Secretary

SENATE

'19 JUL 17 P6:07

S. No. 595

RECEIVED

Introduced by Senator Ralph G. Recto

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**AN ACT**  
**INSTITUTING INCOME TAX REFORM FOR CORPORATE TAXPAYERS,**  
**AMENDING FOR THIS PURPOSE SECTIONS 27(A) AND 28 OF THE**  
**NATIONAL INTERNAL REVENUE CODE OF 1997, AS AMENDED**

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 suggests 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.

This bill seeks to amend Sections 27(A) and 28 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 Revised 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.

Also, this bill seeks to lower the corporate income tax rate from the current unitary or single income tax rate of 30% with graduated rates ranging from 5% to 25%. In the ASEAN Region, the average corporate income tax rate is at 22.4%. Among the ASEAN-member countries, the Philippines has the highest corporate income tax rate at 30% while Singapore has the lowest rate at 17%.<sup>1</sup> This would help the country in becoming more attractive to foreign direct investments.

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.

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

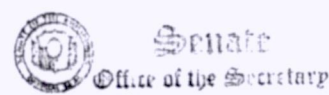


**RALPH G. RECTO**

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<sup>1</sup> Comparative Corporate Income Taxation in ASEAN Member-Countries (NTRC Tax Research Journal, Vol. XXX.1 January-February 2018)



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**AMENDING FOR THIS PURPOSE SECTIONS 27(A) AND 28 OF THE**  
**NATIONAL INTERNAL REVENUE CODE OF 1997, AS AMENDED**

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

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

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

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

11                   **THE TAX SHALL BE COMPUTED IN ACCORDANCE WITH AND AT**  
12                   **THE RATES ESTABLISHED IN THE FOLLOWING SCHEDULE:**

TAXABLE INCOME	TAX RATE
"NOT OVER P400,000	... 5%
"OVER P400,000 BUT NOT OVER P800,000	... P20,000 + 10% OF THE EXCESS OVER P400,000
"OVER P800,000 BUT	... P60,000 + 15% OF THE

1	NOT OVER P2,000,000	EXCESS OVER P800,000
2	"OVER P2,000,000 BUT	... P240,000 + 20% OF THE
3	NOT OVER P8,000,000	EXCESS OVER P2,000,000
4	"OVER P8,000,000	... P1,440,000 + 25% OF THE
5		EXCESS OVER P8,000,000

6 "xxx"

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

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

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

11 "(1) *In General.* – Except as otherwise provided in this Code, [a]  
12 **AN INCOME TAX IS HEREBY IMPOSED UPON THE TAXABLE**  
13 **INCOME DERIVED IN THE PRECEDING TAXABLE YEAR FROM ALL**  
14 **SOURCES WITHIN THE PHILIPPINES BY EVERY** corporation  
15 organized, authorized, or existing under the laws of any foreign country,  
16 engaged in trade or business within the Philippines~~], shall be subject to~~  
17 ~~an income tax equivalent to thirty five percent (35%) of the taxable~~  
18 ~~income derived in the preceding taxable year from all sources within the~~  
19 ~~Philippines: *Provided,* That effective January 1, 2009, the rate of income~~  
20 ~~tax shall be thirty percent (30%)]~~. **THE TAX SHALL BE COMPUTED IN**  
21 **ACCORDANCE WITH AND AT THE RATES ESTABLISHED IN THE**  
22 **FOLLOWING SCHEDULE:**

23	TAXABLE INCOME	TAX RATE
24	"NOT OVER P400,000	... 5%
25	"OVER P400,000 BUT	... P20,000 + 10% OF THE
26	NOT OVER P800,000	EXCESS OVER P400,000
27	"OVER P800,000 BUT	... P60,000 + 15% OF THE
28	NOT OVER P2,000,000	EXCESS OVER P800,000
29	"OVER P2,000,000 BUT	... P240,000 + 20% OF THE
30	NOT OVER P8,000,000	EXCESS OVER P2,000,000
31	"OVER P8,000,000	... P1,440,000 + 25% OF THE
32		EXCESS OVER P8,000,000

"xxx

"(B) *Tax on Nonresident Foreign Corporation.* –

"(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%)** 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 January 1, 2009, the rate of income tax shall be thirty percent (30%)].~~"

Sec. 3. *Implementing Rules and Regulations (IRR).* – Within thirty (30) days from the effectivity of this Act, the Secretary of Finance, upon the recommendation of the Commissioner of Internal Revenue, shall promulgate the necessary rules and regulations for its effective implementation.

Sec. 4. *Repealing Clause.* – All laws, acts, decrees, executive orders, issuances, and rules and regulations or parts thereof which are contrary to and inconsistent with this Act are hereby repealed, amended or modified accordingly.

Sec. 5. *Effectivity.* – This Act shall take effect fifteen (15) days after its complete publication in the *Official Gazette* or in at least two (2) newspapers of general circulation.

Approved,