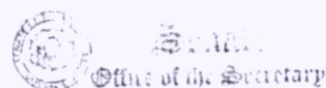


EIGHTEENTH CONGRESS OF THE)
REPUBLIC OF THE PHILIPPINES)
First Regular Session)



'19 JUL 23 P5:11

SENATE
S. B. No. 702

RECEIVED BY _____

Introduced by Senator SONNY ANGARA

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

This bill seeks to amend Sections 27 and 28 of the National Internal Revenue Code of 1997, as amended, by gradually reducing the rate of corporate income tax over a three-year period beginning January 1, 2020.

This bill was originally filed in the 16th Congress, refiled in the 17th Congress and is part of a twin measure to reduce the country's income tax rates for individuals and corporations in consideration of the Association of South East Asian Nations (ASEAN) Integration which seeks to transform ASEAN into a single market and production base effective 2016. The income tax for individuals has been lowered with the passage of Republic Act No 10663, otherwise known as the Tax Reform for Acceleration and Inclusion (TRAIN) Act.

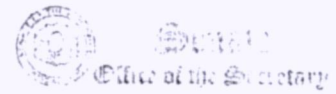
The Philippines currently holds the distinction of having the highest corporate income tax rate at 30 percent (30%). When the ASEAN Economic Community (AEC) Declaration was signed in 2007, some member-states began to lower their corporate income tax rates. Thailand gradually reduced its corporate income tax rate from 30 percent in 2011 to 23 percent in 2012, and down to 20 percent in 2013. Vietnam also lowered its corporate income tax rate from 25 percent to 22 percent last year and further reduced it to 20 percent. The differentiated tax rates would inevitably swing the pendulum as investors and taxpayers shift from a high-tax jurisdiction to a low-tax jurisdiction. At present, the average rate among the ASEAN countries is at 22.5 percent, with Singapore having the lowest at 17 percent.

In order for the Philippines to become more competitive in the region, it is imperative that we reduce this stumbling block. A recent study by Dr. Stella Quimbo of the UP School of Economics showed that while a decrease in corporate income tax rate will initially lead to lower corporate income tax collection, the offset will come in the form of greater net collections given the projected increase in investments when corporate income tax rates are reduced. The study showed that a percentage point reduction in tax rates will lead to P30.6 billion increase in investments. Instead of looking at the possible revenue loss, the government must regard the reduction in corporate income tax rates as a means to attract foreign direct investments and boost job generation in the country.

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



SONNY ANGARA



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AN ACT
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AND 28 OF THE NATIONAL INTERNAL REVENUE CODE OF 1997, AS
AMENDED, AND FOR OTHER PURPOSES

Be it enacted by the Senate and the 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 income tax of
5 ~~[thirty five percent (35%)]~~ **TWENTY-NINE PERCENT (29%) BEGINNING**
6 **JANUARY 1, 2020, TWENTY-SEVEN PERCENT (27%) BEGINNING**
7 **JANUARY 1, 2021 AND TWENTY-FIVE PERCENT (25%) BEGINNING**
8 **JANUARY 1, 2022**, is hereby imposed upon the taxable income derived during
9 each taxable year from all sources within and without the Philippines by every
10 corporation, as defined in Section 22(B) of this Code and taxable under this
11 Title as a corporation, organized in, or existing under the laws of the
12 Philippines [~~; Provided, That effective January 1, 2009, the rate of income tax~~
13 ~~shall be thirty percent (30%)~~].

14 XXX."

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

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

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

1 (1) In General. – Except as otherwise provided in this Code, a
2 corporation organized, authorized, or existing under the laws of any foreign
3 country, engaged in trade or business within the Philippines, shall be subject
4 to an income tax equivalent to [~~thirty-five percent (35%)~~] **TWENTY-NINE**
5 **PERCENT (29%) BEGINNING JANUARY 1, 2020, TWENTY-SEVEN**
6 **PERCENT (27%) BEGINNING JANUARY 1, 2021 AND TWENTY-FIVE**
7 **PERCENT (25%) BEGINNING JANUARY 1, 2022** of the taxable income
8 derived in the preceding taxable year from all sources within the Philippines[
9 Provided, That effective January 1, 2009, the rate of income tax shall be thirty
10 percent (30%)].

11 XXX

12 "(B) Tax on Nonresident Foreign Corporations. –

13 (1) In General. – Except as otherwise provided in this Code, a foreign
14 corporation not engaged in trade or business In the Philippines shall pay a tax
15 equal to [~~thirty-five percent (35%)~~] **TWENTY-NINE PERCENT (29%)**
16 **BEGINNING JANUARY 1, 2020, TWENTY-SEVEN PERCENT (27%)**
17 **BEGINNING JANUARY 1, 2021 AND TWENTY-FIVE PERCENT (25%)**
18 **BEGINNING JANUARY 1, 2022** of the gross income received during each
19 taxable year from all sources within the Philippines, such as interests,
20 dividends, rents, royalties, salaries, premiums (except reinsurance premiums),
21 annuities, emoluments or other fixed or determinable annual, periodic or casual
22 gains, profits and income, and capital gains, except capital gains subject to tax
23 under subparagraph 5(c)[~~Provided, That effective January 1, 2009, the rate~~
24 ~~of income tax shall be thirty percent (30%)~~].

25 XXX

26 (5) Tax on Certain Incomes Received by a Nonresident Foreign
27 Corporation. –

28 (a) x x x

29 (b) Intercorporate Dividends. – A final withholding tax at the rate of
30 fifteen percent (15%) is hereby imposed on the amount of cash and/or property
31 dividends received from a domestic corporation, which shall be collected and
32 paid as provided in Section 57(A) of this Code, subject to the condition that the

1 country in which the nonresident foreign corporation is domiciled, shall allow a
2 credit against the tax due from the nonresident foreign corporation taxes
3 deemed to have been paid in the Philippines equivalent to [~~twenty percent~~
4 (~~20%~~)] **FOURTEEN PERCENT (14%)**, which represents the difference
5 between the regular income tax of [~~thirty five percent (35%)~~] **TWENTY-NINE**
6 **PERCENT (29%) BEGINNING JANUARY 1, 2020** and the fifteen percent
7 (15%) tax on dividends as provided in this subparagraph: *Provided*, That
8 effective January 1, [~~2009~~] 2021, the credit against the tax due shall be
9 equivalent to [~~fifteen percent (15%)~~] **TWELVE PERCENT (12%), AND**
10 **EFFECTIVE JANUARY 1, 2022, EQUIVALENT TO TEN PERCENT (10%),**
11 which represents the difference between the regular income tax of [~~thirty~~
12 ~~percent (30%)~~] **TWENTY-SEVEN PERCENT (27%) AND TWENTY-FIVE**
13 **PERCENT (25%), RESPECTIVELY**, and the fifteen percent (15%) tax on
14 dividends.

15 XXX.”

16 Sec. 3. *Implementing Rules and Regulations.* – The Secretary of Finance shall
17 promulgate the necessary rules and regulations for the effective implementation of
18 the provisions of this Act.

19 Sec. 4. *Separability Clause.* – If any portion or provision of this Act is
20 subsequently declared invalid or unconstitutional, other provisions hereof which are
21 not affected thereby shall remain in full force and effect.

22 Sec. 5. *Repealing Clause.* – All other laws, acts, presidential decrees, executive
23 orders, presidential proclamations, issuances, rules and regulations, or parts thereof
24 which are contrary to or inconsistent with any of the provisions of this Act are hereby
25 repealed, amended, or modified accordingly.

26 Sec. 6. *Effectivity.* – This Act shall take effect on January 1, 2020 following its
27 publication in the *Official Gazette* or in a newspaper of general circulation.

Approved,