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SENATE

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S.B. No. **2261**

(In substitution of HBN 5296, taking into consideration SB Nos. 5, 72, 74, 446, 447, 794, 795, 879, 985, 1197, 1198, 1320, 1339, 1577, 1917, 2038, and 2210)

Prepared by the Committee with Senators Flavio, L. Estrada, Osmeña III, Villar, J. Estrada, Enrile, Recto, Biazon and Madrigal as authors thereof.

AN ACT

**AMENDING SECTIONS 24, 31, 34, 35 AND 110 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:*

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

3 "SEC. 24. *Income Tax Rates.* -

4 (A) *Rates of Income Tax on Individual Citizen and Individual Resident*  
5 *Alien of the Philippines.* -

6 "(1) An income tax is hereby imposed:

7 "(a) x x x.

8 "(b) x x x.

9 "(c) On the taxable income defined in Section 31 of this Code, other  
10 than income subject to tax under Subsections (B), (C), and (D) of this Section,  
11 derived for each taxable year from all sources within the Philippines by an  
12 individual alien who is a resident of the Philippines.

13 "(2) **SCHEDULE OF TAX ON TAXABLE INCOME OF**  
14 **INDIVIDUALS.** - The tax shall be computed in accordance with [and at the  
15 rates established in] the following schedule:

16 ["Not over P10,000..... 5%]

17 ["Over P10,000 but not over P30,000..... P500+10% of excess over  
18 P10,000]

1 ["Over P30,000 but not over P70,000..... P2,500+15% of excess  
2 over P30,000]

3 ["Over P70,000 but not over P140,000..... P8,500+20% of excess  
4 over P70,000]

5 ["Over P140,000 but not over P250,000.. P22,500+25% of excess  
6 over P140,000]

7 ["Over P250,000 but not over P500,000.. P50,000+30% of excess  
8 over P250,000]

9 ["Over P500,000 P125,000+34% of excess  
10 over P500,000 in 1998]

11 **"NOT OVER P144,000.....0%**

12 **"OVER P144,000.....35% OF THE EXCESS**  
13 **OVER P144,000.**

14 *Provided*, That **THE ABOVE SCHEDULE SHALL TAKE**  
15 **EFFECT ON JANUARY 01, 2007: PROVIDED, FURTHER, THAT**  
16 effective January 1, 2009 [1999], the [top marginal] rate **OF THIRTY-FIVE**  
17 **PERCENT (35%)** shall be **REDUCED TO** thirty[-three] percent (**30[33]%**).  
18 [and effective January 1, 2000, the said rate shall be thirty-two percent  
19 (32%).]

20 "For married individuals, the husband and wife, subject to the provision  
21 of Section 51(D) hereof, shall compute separately their individual income tax  
22 based on their respective total taxable income: *Provided*, That if any income  
23 cannot be definitely attributed to or identified as income exclusively earned or  
24 realized by either of the spouses, the same shall be divided equally between  
25 the spouses for the purpose of determining their respective taxable income.

26 "x x x."

27 SEC. 2. Section 31 of the National Internal Revenue Code of 1997, as amended, is  
28 hereby further amended to read as follows:

1           “SEC. 31. *Taxable Income Defined.* – The term “taxable income” means  
2           the pertinent items of gross income specified in this Code, less the deductions  
3           [and/or personal and additional exemptions, if any,] authorized for such types  
4           of income by this Code or other special laws.”

5           SEC. 3. Section 34(L) of the National Internal Revenue Code of 1997, as amended,  
6           is hereby further amended to read as:

7           “SEC. 34. *Deductions from Gross Income.* – Except for taxpayers  
8           earning compensation income arising from personal services rendered under an  
9           employer-employee relationship where no deductions shall be allowed under  
10          this Section other than under Subsection (M) hereof, in computing taxable  
11          income subject to income tax under Sections 24(A); 25(A); 26; 27(A), (B) and  
12          (C); and 28(A)(1), there shall be allowed the following deductions from gross  
13          income:

14           “(A)   x x x

15           “x x x.

16          “(L) *Optional Standard Deduction.* - In lieu of the deductions allowed under  
17          the preceding Subsections, an individual subject to tax under Section 24, other than a  
18          nonresident alien, may elect a standard deduction in an amount not exceeding  
19          **FORTY [ten] percent (40[10]%)** of his gross income **AS DEFINED IN SECTION**  
20          **32 OF THE CODE.** Unless the taxpayer signifies in his return his intention to elect  
21          the optional standard deduction, he shall be considered as having availed himself of  
22          the deductions allowed in the preceding Subsections. Such election when made in  
23          the return shall be irrevocable in the taxable year for which the return is made:  
24          *Provided,* That an individual who is entitled to and claimed for the optional standard  
25          deduction shall not be required to submit with his tax return such financial  
26          statements otherwise required under this Code: *Provided, further,* That except when  
27          the Commissioner otherwise permits, the said individual shall keep such records  
28          pertaining to his gross income **AS DEFINED IN SECTION 32 OF THE CODE**

1 during the taxable year, as may be required by the rules and regulations promulgated  
2 by the Secretary of Finance, upon recommendation of the Commissioner.”

3 **“A CORPORATION SUBJECT TO TAX UNDER SECTIONS 27(A)**  
4 **AND 28(A)(1) OF THE CODE MAY ALSO AVAIL ITSELF OF THE**  
5 **OPTIONAL STANDARD DEDUCTION PROVIDED IN THE PRECEDING**  
6 **PARAGRAPH.”**

7 *“(M) Premium Payments on Health and/or Hospitalization Insurance of an*  
8 *Individual Taxpayer. - x x x.*

9 *“x x x.”*

10 SEC. 4. Section 35 of the National Internal Revenue Code of 1997, as amended, is  
11 hereby deleted.

12 [*“SEC. 35. Allowance of Personal Exemption for Individual Taxpayer.-]*

13 [*“(A)In General. -- For purposes of determining the tax provided in*  
14 *Section 24 (A) of this Title, there shall be allowed a basic personal exemption*  
15 *as follows:]*

16 [*“For single individual or married individual*  
17 *judicially decreed as legally separated with*  
18 *no qualified dependents P20,000]*

19  
20 [*“For head of family P25,000]*

21 [*“For each married individual P32,000]*

22 [*“x x x]*

23 [*“(B)Additional Exemption for Dependents. -- There shall be allowed an*  
24 *additional exemption of Eight thousand pesos (P8,000) for each dependent not*  
25 *exceeding four.]*

26 [*“x x x.]*

27 [*“(C) Change of Status. - x x x.]*

28 [*“x x x.”]*

29 [*“(D) Personal Exemption Allowable to Nonresident Alien Individual. --*

1           x x x.”]

2           SEC. 5. The succeeding sections of the National Internal Revenue Code are hereby  
3 renumbered accordingly.

4           SEC. 6. Section 110(B) of the National Internal Revenue Code of 1997, as amended,  
5 is hereby further amended as follows:

6                   “SEC. 110. *Tax Credits.*

7                   “(A) *Creditable Input Tax.* - x x x.

8                   “(B) *Excess Output or Input Tax.* – If at the end of any taxable quarter the  
9 output tax exceeds the input tax, the excess shall be paid by the VAT-registered  
10 person. If the input tax exceeds the output tax, the excess shall be carried over  
11 to the succeeding quarter or quarters.[: *Provided, That the input tax inclusive of*  
12 *input VAT carried over from the pervious quarter that may be credited in every*  
13 *quarter shall not exceed seventy percent (70%) of the output VAT: Provided,*  
14 *however, That] A[a]ny input tax attributable to zero-rated sales by a VAT-*  
15 *registered person may at his option be refunded or credited against other*  
16 *internal revenue taxes, subject to the provisions of Section 112.”*

17                   “x x x. “

18           SEC. 7. *Implementing Rules and Regulations.* – The Secretary of Finance shall, upon  
19 recommendation of the Commissioner of Internal Revenue, promulgate within thirty (30)  
20 days from the date of approval of this Act, the rules and regulations necessary for the  
21 implementation of this Act.

22           SEC. 8. *Separability Clause.* – If any provision of this Act is declared invalid or  
23 unconstitutional, other provisions hereof which are not affected thereby shall continue to  
24 be in full force and effect.

25           SEC. 9. *Repealing Clause.* – Any law, presidential decree or issuance, executive  
26 order, letter of instruction, administrative order, rule or regulation contrary to, or  
27 inconsistent with any provision of this Act is hereby repealed or modified accordingly.

28           SEC. 10. *Effectivity Clause.* – This Act shall take effect on January 01, 2007.

Approved,