


THIRTEENTH CONGRESS OF THE }
REPUBLIC OF THE PHILIPPINES }
Second Regular Session

6 JUN -8 2011

SENATE
S. No. 2400 RECEIVED BY: 

INTRODUCED BY HON. MANNY VILLAR

EXPLANATORY NOTE

The bill exempts minimum wage earners from income tax and lowers the income tax of low middle income earners. It increases by fifty percent (50%) the personal exemptions enjoyed by every taxpayer. It also aims to reduce the tax gap or tax leakage on individual income taxation by adopting the Simplified Net Income Tax for the Self-Employed (SNITS) for individuals engaged in trade/business and/or practice of their profession. It offers a forty percent (40%) optional standard deduction (OSD) to professionals and self-employed in lieu of the expenses/deductions which are difficult to determine. The expected incremental revenues from SNITS will balance off the revenue implication of the restructuring of income tax rates and increase in personal exemptions. The measure provides for the legal basis of *de minimis* benefits in individual income taxation.

Approval of this measure is earnestly sought.


MANNY VILLAR

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**AN ACT RESTRUCTURING THE INCOME TAXATION FOR INDIVIDUALS BY
CREATING A NEW SECTION SEC. 34-A, REPEALING SUBSECTION (L) OF
SECTION 34, AND AMENDING SECTIONS 22, 24, 32 AND 35, ALL UNDER THE
NATIONAL INTERNAL REVENUE CODE OF 1997, AS AMENDED**

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

SECTION 1. Section 22 of the National Internal Revenue Code (NIRC) of 1997, as amended, is hereby further amended by adding the following definitions after subsection (FF) to read as follows:

"Sec. 22. Definitions. - When used in this Title:

"(FF) The term long-term deposit or investment certificates shall refer to certificate of time deposit or investment in the form of savings, common or individual trust funds, deposit substitutes, investment management accounts and other investments with a maturity period of not less than five (5) years, the form of which shall be prescribed by the Bangko Sentral ng Pilipinas (BSP) and issued by banks only (not by nonbank financial intermediaries and finance companies) to individuals in denominations of Ten thousand pesos (P10,000) and other denominations as may be prescribed by the BSP.

"(GG) "SELF-EMPLOYED" MEANS PERSONS ENGAGED IN TRADE OR BUSINESS AND WHO DERIVED THEIR PERSONAL INCOME FROM SUCH TRADE OR BUSINESS. THIS INCLUDES SINGLE PROPRIETORSHIPS, SUCH AS BUT NOT LIMITED TO MANUFACTURERS, TRADERS, MARKET VENDORS OWNERS OF EATERIES, FARMERS AND SERVICE SHOPS; AND

"(HH) "PROFESSIONALS" MEANS PERSONS WHO DERIVE THEIR INCOME FROM THE PRACTICE OF THEIR PROFESSION. THIS INCLUDES LAWYERS AND OTHER PERSONS WHO ARE REGISTERED WITH THE PROFESSIONAL REGULATION COMMISSION SUCH AS DOCTORS, DENTISTS, CERTIFIED PUBLIC ACCOUNTANTS, ARCHITECTS AND OTHERS SIMILARLY SITUATED. THE TERM "PROFESSIONALS" ALSO REFER TO THOSE WHO PURSUE AN ART OR SPORTS AND MAKE THEIR LIVING THEREFROM SUCH AS ARTISTS, ATHLETES AND OTHERS SIMILARLY SITUATED."

SEC. 2. Subsection (A) of Section 24 of the National Internal Revenue Code of 1997, as amended, on income tax of individuals, is hereby further amended to read as follows:

"Sec. 24. Income Tax Rates. -

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

"(1) x x x

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

"(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 P 10,000 but not over P30, 000.....	P500 + 10% of excess over P10,000]
[" Over P30,000 but not over P70, 000.....	P2,500 + 15% of excess over P30, 000]
[" Over P70, 000 but not over P140,000	P8,500 + 20% of excess over P70, 000]
[" Over P140,000 but not over P250,000.....	P22,500 + 25% of excess over P140,000]
[" Over P250, 000 but not over P500,000.....	P50, 000 +30% of excess over P250,000]
[" Over 500,000.....	... P125,000 + 34% of excess over P500, 000 in 1998)
"NOT OVER P55, 000.....	0%
"OVER P55, 000 BUT NOT OVER P150, 000	25% OF THE EXCESS OVER P55, 000
"OVER P150,000 BUT NOT OVER P250,000.....	P23,750 + 28% OF EXCESS OVER P150,000
"OVER P250,000 BUT NOT OVER P350,000.....	P51,750 + 31% OF EXCESS OVER P250,000
"OVER P350,000 BUT NOT OVER P500,000.....	P82,750 + 33% OF EXCESS OVER P350,000
"OVER P500,000.....	P132,250 + 35% OF EXCESS OVER P500,000

["Provided, That effective January 1, 1999, the top marginal rate shall be thirty-three percent (33%) and effective January 1, 2000, the said rate shall be thirty-two percent (32%).]

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

"(3) SIMPLIFIED NET INCOME TAX FOR THE SELF-FEMPLOYED ENGAGED IN TRADE/BUSINESS AND FOR PROFESSIONALS ENGAGED IN THE PRACTICE OF PROFESSION - AN INCOME TAX FOLLOWING THE PRESCRIBED RATE FOR INDIVIDUALS UNDER THE PRECEDING PARAGRAPH IS HEREBY IMPOSED UPON THE TAXABLE INCOME DERIVED DURING EACH TAXABLE YEAR FROM ALL SOURCES WITHIN AND WITHOUT THE PHIPPINES BY AN INDIVIDUAL RESIDENT CITIZEN

AND FROM ALL SOURCES WITHIN THE PHILIPPINES BY AN INDIVIDUAL NONRESIDENT CITIZEN AND INDIVIDUAL RESIDENT ALIEN ENGAGED IN TRADE, BUSINESS AND/OR PRACTICE OF PROFESSION. "

SEC. 3. Section 32 (B) of the National Internal Revenue Code of 1997, as amended, is hereby further amended to read as follows:

"SEC. 32. Gross Income. –

"x x x

"(B) Exclusions from Gross Income. - The following items shall not be included in gross income and shall be exempt from taxation under this Title:

"x x x

"(7) Miscellaneous Items. –

"x x x

"(h) Gains from Redemption of Shares in Mutual Fund - Gains realized by the investor upon redemption of shares of stock in a mutual fund company as defined in Section 22 (BB) of this Code.

"(i) *"DE MINIMIS"* BENEFITS- PRIVILEGES OR FACILITIES FURNISHED OR OFFERED BY AN EMPLOYER TO ITS EMPLOYEES THAT ARE OF RELATIVELY SMALL VALUE AND ARE OFFERED OR FURNISHED BY THE EMPLOYER MERELY AS A MEANS OF PROMOTING THE HEALTH, GOODWILL, CONTENTMENT, OR EFFICIENCY OF ITS EMPLOYEES, SUCH AS BUT NOT LIMITED, TO THE FOLLOWING:

- (1) MONETIZED UNUSED VACATION LEAVE CREDITS OF EMPLOYEES NOT EXCEEDING TEN (10) DAYS DURING THE YEAR;
- (2) MEDICAL CASH ALLOWANCE;
- (3) RICE SUBSIDY GRANTED BY AN EMPLOYER TO ITS EMPLOYEES;
- (4) UNIFORMS GIVEN TO EMPLOYEES BY THE EMPLOYER;
- (5) MEDICAL BENEFITS GIVEN TO THE EMPLOYEES BY THE EMPLOYER;
- (6) LAUNDRY ALLOWANCE;
- (7) EMPLOYEE ACHIEVEMENT AWARDS GIVEN FOR INSTANCE FOR LENGTH OF SERVICE OR SAFETY ACHIEVEMENT, WHICH MUST BE IN THE FORM OF A TANGIBLE PERSONAL PROPERTY OTHER THAN CASH OR GIFT CERTIFICATE, WITH AN ANNUAL MONETARY VALUE NOT EXCEEDING ONE-HALF (1/2) MONTH OF THE BASIC SALARY OF THE EMPLOYEE RECEIVING THE AWARD UNDER AN ESTABLISHED WRITTEN PLAN WHICH DOES NOT DISCRIMINATE IN FAVOR OF HIGHLY PAID EMPLOYEES;
- (8) CHRISTMAS AND MAJOR ANNIVERSARY CELEBRATIONS FOR EMPLOYEES AND THEIR GUESTS;
- (9) COMPANY PICNICS AND SPORTS TOURNAMENTS IN THE PHILIPPINES AND ARE PARTICIPATED EXCLUSIVELY BY EMPLOYEES; AND
- (10) FLOWERS, FRUITS, BOOKS OR SIMILAR ITEMS GIVEN TO EMPLOYEES UNDER SPECIAL CIRCUMSTANCES SUCH AS, BUT NOT LIMITED TO ILLNESS, MARRIAGE, AND BIRTH OF A BABY.

SEC. 4. Chapter VII, Title II of the National Internal Revenue Code of 1997, as amended, is hereby further amended by adding a new section to be known as Section 34- to read as follows:

"SEC. 34-A. DEDUCTIONS FROM THE GROSS REVENUES OF SELF-EMPLOYED AND/OR PROFESSIONALS- IN COMPUTING THE TAXABLE INCOME SUBJECT TO TAX UNDER SUBSECTION 24(A)(3) IN THE CASE OF INDIVIDUALS ENGAGED IN TRADE/BUSINESS AND/OR PRACTICE OF PROFESSION, ONLY THE FOLLOWING EXPENSES/DEDUCTIONS INCURRED IN DOING BUSINESS SHALL BE ALLOWED TO BE SUBTRACTED FROM THE GROSS REVENUES OF SUCH INDIVIDUALS:

"(A) SALES DISCOUNTS

"(B) SALES RETURNS AND ALLOWANCES

"(C) RAW MATERIALS, SUPPLIES, AND DIRECT LABOR;

"(D) SALARIES OF EMPLOYEES DIRECTLY ENGAGED IN ACTIVITIES IN THE COURSE OF OR PURSUANT TO THE BUSINESS, TRADE OR PRACTICE OF THEIR PROFESSION;

(E) TELECOMMUNICATIONS, ELECTRICITY, FUEL AND WATER: PROVIDED, THAT THE TOTAL AMOUNT OF THESE EXPENSES SHOULD NOT EXCEED TEN PERCENT (100%) OF GROSS INCOME OF SUCH INDIVIDUAL;

"(F) BUSINESS RENTALS;

"(G) DEPRECIATION IN ACCORDANCE WITH SUBSECTION 34 (F) HEREOF;

"(H) CONTRIBUTIONS MADE TO THE GOVERNMENT OR ANY OF ITS AGENCIES OR ANY POLITICAL SUBDIVISION THEREOF EXCLUSIVELY FOR PUBLIC PURPOSES OR TO ACCREDITED DOMESTIC CORPORATIONS OR ASSOCIATIONS ORGANIZED AND OPERATED EXCLUSIVELY FOR RELIGIOUS, CHARITABLE, SCIENTIFIC, YOUTH AND SPORTS DEVELOPMENT, CULTURAL OR EDUCATIONAL PURPOSES OR FOR THE REHABILITATION OF VETERANS, OR TO SOCIAL WELFARE INSTITUTIONS OR TO NONGOVERNMENT ORGANIZATIONS, IN ACCORDANCE WITH SUBSECTION 34(H) HEREOF"

"(I) INTEREST PAID OR ACCRUED WITHIN A TAXABLE YEAR ON LOANS CONTRACTED FROM ACCREDITED FINANCIAL INSTITUTIONS WHICH MUST BE PROVEN TO HAVE BEEN INCURRED IN CONNECTION WITH THE CONDUCT OF A TAXPAYER'S PROFESSION, TRADE OR BUSINESS IN ACCORDANCE WITH SUBSECTION 34(B) HEREOF;

"(J) FREIGHT, HANDLING AND TRUCKING;

"(K) INSURANCE EXPENSE;

"(L) PROFESSIONAL FEES;

"(M) SSS, GSIS, PHILHEALTH, AND HDMF (PAG-IBIG) CONTRIBUTIONS; AND

"(N) TAXES AND LICENSES IN ACCORDANCE WITH SUBSECTION 34(C) HEREOF;

"FOR INDIVIDUALS ENGAGED IN TRADE/BUSINESS AND/OR PRACTICE OF THEIR PROFESSION WHOSE EXPENSES/DEDUCTIONS ENUMERATED IN THE PRECEDING PARAGRAPH ARE DIFFICULT TO DETERMINE, SAID INDIVIDUAL SHALL BE ALLOWED AN OPTIONAL STANDARD DEDUCTION EQUIVALENT TO FORTY PERCENT (40%) OF HIS GROSS REVENUES IN LIEU OF THE SAID EXPENSES/DEDUCTIONS PROVIDED HEREIN. UNLESS THE TAXPAYER SIGNIFIES IN HIS RETURN HIS INTENTION TO ELECT THE OPTIONAL STANDARD DEDUCTION, HE SHALL BE CONSIDERED AS HAVING AVAILED HIMSELF OF THE EXPENSES/DEDUCTIONS PRESCRIBED UNDER THIS SECTION. SUCH ELECTION WHEN MADE IN THE RETURN SHALL BE IRREVOCABLE FOR THE TAXABLE YEAR FOR, WHICH THE RETURN IS MADE: PROVIDED, THAT AN INDIVIDUAL WHO IS ENTITLED TO AND CLAIMED FOR THE OPTIONAL STANDARD DEDUCTION SHALL NOT BE REQUIRED TO SUBMIT WITH HIS TAX RETURN SUCH FINANCIAL STATEMENTS OTHERWISE REQUIRED UNDER THIS CODE; PROVIDED, FURTHER THAT EXCEPT WHEN THE COMMISSIONER OTHERWISE PERMITS, THE SAID INDIVIDUAL SHALL KEEP SUCH RECORDS PERTAINING TO THIS GROSS REVENUES DURING THE TAXABLE YEAR, AS MAY BE REQUIRED BY THE RULES AND REGULATIONS PROMULGATED BY THE SECRETARY OF FINANCE, UPON RECOMENDATION OF THE COMMISSIONER.

SEC. 5. Subsection (L) of Section 34 of the NIRC of 1997, as amended, is hereby repealed.

SEC. 6. Subsections (A) and (B) of Section 35 of the National Internal Revenue Code of 1997, as amended, are hereby further amended to read as follows:

"SEC. 35 Allowance of Personal Exemption for Individual Taxpayer.

"(A) In General - For purposes of determining the tax provided in Section 24 (A) of this Title, there shall be allowed a basic personal exemption as follows:

"For single individual or married individual judicially decreed as legally separated with no qualified dependents [P20, 000] P30, 000

"For head of family " [P25,000] P37,500

"For each married individual [P32,000] P48,000

"x x x

"(B) Additional/ Exemption for Dependents. - There shall be allowed an additional exemption of Eight thousand pesos (P8, 000)] TWELVE THOUSAND PESOS (P12, 000) for each dependent not exceeding four (4).

"x x x

SEC. 7. Separability Clause. – If any provision of this Act is declared invalid or unconstitutional, other provisions hereof which are not affected thereby shall continue to be in full force and effect.

SEC. 8. Repealing Clause. - Any law, presidential decree or issuance, executive order, letter of instruction, administrative order, rule or regulation contrary to, or inconsistent with any provision of this Act is hereby repealed or modified accordingly.

SEC. 9. Effectivity Clause. - This Act shall take effect after fifteen (15) days from its publication in the Official Gazette or in at least two (2) national newspapers of general circulation, whichever date comes earlier.

Approved,