

SENATE

S. NO. 380

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Introduced by Senator Antonio "Sonny" F. Trillanes IV

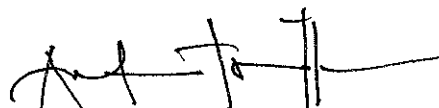
EXPLANATORY NOTE

The National Internal Revenue Code (NIRC) taxes professionals and self-employed individuals, such as lawyers and doctors, the same rate as wage earners. However, unlike wage earners who are not allowed deductions except for personal and additional exemptions, self-employed individuals and professionals enjoy a full array of itemized deductions from gross income allowed to corporations.

Around eighty percent (80%) of tax revenues derived from individual taxpayers is collected from the wage earners or salaried taxpayers. Only twenty percent (20%) is collected from self-employed individuals and professionals. In terms of tax paid on gross income, the effective tax rate for wage earners is 15.25%, thus a wage earner receiving a gross income of P200,000 pays a tax of P30,500 while a self-employed individual or professional who has a gross income of P200,000 pays only P2,280 or a measly 1.14% effective tax rate.

This bill seeks to provide a uniform and equitable taxation by limiting the allowable deductions for self-employed individual or professional to address the imbalance of taxation between wage earners and self-employed individuals or professionals. The bill also proposes to grant self-employed individuals and professionals an *optional standard deduction* of forty percent (40%) of gross income. In addition to the limit on allowable deductions and *optional standard deduction*, this bill also defines "self-employed individuals" and "professionals".

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


ANTONIO "SONNY" F. TRILLANES IV
Senator

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AN ACT
ADOPTING THE SIMPLIFIED NET INCOME TAXATION SCHEME FOR
INDIVIDUALS ENGAGED IN TRADE/ BUSINESS AND/ OR PRACTICE OF
PROFESSION, AMENDING FOR THE PURPOSE 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.

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

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

5 "X X X"

6 "(HH) X X X"

7 **"(II) THE TERM 'SELF-EMPLOYED INDIVIDUALS' SHALL**
8 **MEAN PERSONS WHO, INDEPENDENT OF EMPLOYER-EMPLOYEE**
9 **RELATIONSHIP, DERIVE INCOME FROM TRADE OR BUSINESS OR**
10 **FROM THE PURSUIT OF AN OCCUPATION.**

11 **"(JJ) THE TERM 'PROFESSIONALS' SHALL MEAN PERSONS**
12 **WHO, INDEPENDENT OF EMPLOYER-EMPLOYEE RELATIONSHIP,**
13 **DERIVE INCOME FROM THEIR PROFESSION, THE PRACTICE OR**
14 **EXERCISE OF WHICH REQUIRES AN EXAMINATION AND/OR**
15 **LICENSE FROM A GOVERNMENT AGENCY."**

16
17 **SEC. 2.** Section 24 of the NIRC of 1997, as amended, is hereby further amended
18 to read as follows:

19 **"SEC. 24. Income Tax Rates –**

1 “(A) *Rates of Income Tax on Individual Citizen and Individual Resident*
2 *Alien of the Philippines.* –

3 “(1) x x x

4 “x x x; and

5 “(c) x x x.

6 “(2) Rates of Tax on Taxable Income of Individuals. –

7 “x x x.

8 “(3) **SIMPLIFIED NET INCOME TAX FOR SELF-EMPLOYED**
9 **INDIVIDUALS AND FOR PROFESSIONALS. – AN INCOME TAX**
10 **FOLLOWING THE PRESCRIBED RATE FOR INDIVIDUALS UNDER**
11 **THE PRECEDING PARAGRAPH IS HEREBY IMPOSED UPON THE**
12 **TAXABLE INCOME DERIVED DURING EACH TAXABLE YEAR**
13 **FROM ALL SOURCES WITHIN AND WITHOUT THE PHILIPPINES BY**
14 **AN INDIVIDUAL RESIDENT CITIZEN AND FROM ALL SOURCES**
15 **WITHIN THE PHILIPPINES BY AN INDIVIDUAL NONRESIDENT**
16 **CITIZEN AND INDIVIDUAL RESIDENT ALIEN ENGAGED IN TRADE,**
17 **BUSINESS OR PRACTICE OF PROFESSION.”**

18 “x x x”

19
20 **SEC. 3.** Section 34 of the NIRC of 1997, as amended, is hereby further amended,
21 to read as follows:

22 “**SEC. 34. *Deductions from Gross Income.*** – Except for taxpayers
23 earning compensation income arising from personal services rendered under an
24 employer-employee relationship where no deductions shall be allowed under this
25 Section other than under Subsection (M) hereof, in computing taxable income
26 subject to income tax under Sections [24(A);] [25(A);] [26;] 27(A), (B) and (C);]
27 and 28(A)(1), there shall be allowed [the following] AS deductions from gross
28 income [:] **THE TERMS SPECIFIED IN PARAGRAPHS (A) TO (J) OF**
29 **THIS SECTION: PROVIDED, HOWEVER, THAT IN COMPUTING**
30 **TAXABLE INCOME SUBJECT TO TAX UNDER SECTION 24(A)(3) IN**
31 **THE CASE OF SELF-EMPLOYED INDIVIDUALS OR**
32 **PROFESSIONALS, ONLY THE FOLLOWING DEDUCTIONS SUBJECT**
33 **TO SUBSTANTIATION, SHALL BE ALLOWED:**

34 “(A) **A REASONABLE ALLOWANCE FOR SALARIES AND**
35 **OTHER COMPENSATION;**

1 **“(B) A REASONABLE ALLOWANCE FOR SUPPLIES AND**
2 **UTILITIES INCURRED, IN THE PURSUIT OF THE TAXPAYER’S**
3 **TRADE OR BUSINESS, PROFESSION OR OCCUPATION;**

4 **“(C) A REASONABLE ALLOWANCE FOR RENTALS AND/ OR**
5 **PAYMENTS WHICH ARE REQUIRED AS CONDITION FOR THE**
6 **CONTINUED USE OR POSSESSION OF PROPERTY TO WHICH THE**
7 **TAXPAYER HAS NOT TAKEN OR IS NOT TAKING TITLE OR IN**
8 **WHICH HE HAS NO EQUITY OTHER THAN THAT OF A LESSEE,**
9 **USER OR POSSESSOR, IN THE PURSUIT OF THE TAXPAYER’S**
10 **TRADE OR BUSINESS, PROFESSION OR OCCUPATION;**

11 **“(D) INTEREST PAID OR ACCRUED WITHIN A TAXABLE**
12 **YEAR ON LOANS CONTRACTED FROM ACCREDITED FINANCIAL**
13 **INSTITUTIONS WHICH MUST BE PROVEN TO HAVE BEEN**
14 **INCURRED, IN THE PURSUIT OF THE TAXPAYER’S TRADE OR**
15 **BUSINESS, PROFESSION OR OCCUPATION;**

16 **“(E) TAXES PAID OR INCURRED WITHIN THE TAXABLE**
17 **YEAR, IN THE PURSUIT OF THE TAXPAYER’S TRADE OR BUSINESS,**
18 **PROFESSION OR OCCUPATION, EXCEPT:**

19 **“(1) THE INCOME TAX PROVIDED FOR UNDER THIS TITLE;**

20 **“(2) INCOME TAXES IMPOSED BY AUTHORITY OF ANY**
21 **FOREIGN COUNTRY;**

22 **“(3) ESTATE AND DONOR’S TAXES; AND**

23 **“(4) TAXES ON REAL PROPERTY NOT USED IN THE**
24 **TAXPAYER’S TRADE OR BUSINESS, PROFESSION OR**
25 **OCCUPATION.**

26 **“(F) A REASONABLE ALLOWANCE FOR DEPRECIATION, OR**
27 **THE EXHAUSTION, WEAR AND TEAR OF PROPERTY USED IN THE**
28 **PURSUIT OF THE TAXPAYER’S TRADE OR BUSINESS, PROFESSION**
29 **OR OCCUPATION;**

30 **“(G) A REASONABLE ALLOWANCE FOR RESEARCH AND**
31 **DEVELOPMENT NOT IN EXCESS OF FIVE PERCENT (5%) OF GROSS**
32 **INCOME, IN THE PURSUIT OF THE TAXPAYER’S TRADE OR**
33 **BUSINESS, PROFESSION OR OCCUPATION; AND**

34 **“(H) CONTRIBUTION MADE TO THE GOVERNMENT AND**
35 **ACCREDITED RELIEF ORGANIZATIONS FOR THE**

1 **REHABILITATION OF CALAMITY STRICKEN AREAS DECLARED**
2 **BY THE PRESIDENT.”**

3 “(A) *Expenses.* –

4 “x x x.

5 “(L) *Optional Standard Deduction.* – In lieu of the deductions allowed
6 under the preceding Subsections, an individual subject to tax under Section 24,
7 other than a nonresident alien, may elect a standard deduction in an amount not
8 exceeding forty percent (40%) of his gross [sales or gross receipts, as the case
9 may be] **INCOME.** x x x

10 “(M) x x x.

11 “x x x”

12
13 **SEC. 4. *Disposition of Incremental Revenue from the Implementation of this***
14 ***Act.*** – The amount of incremental revenue derived from this Act, shall be allocated and
15 used exclusively for the following purposes:

16 (1) Nine billion two hundred million pesos (Php9.2 billion) for the
17 rehabilitation and development of Region VI (Western Visayas);

18 (2) One billion pesos (Php1.0 billion) for public tertiary education to finance
19 the capital outlay of state universities and colleges, annually, upon effectivity of this Act,
20 with the Commission on Higher Education (CHED) as the implementing agency;

21 (3) One billion pesos (Php1.0 billion) for the construction, expansion, repair
22 and development of sea ports and piers, and the development of the shipping industry,
23 annually, upon effectivity of this Act, with the Philippine Ports Authority (PPA) as the
24 implementing agency; and

25 (4) Five billion pesos (Php5.0 billion) shall be appropriated annually, upon
26 effectivity of this Act, as a “National Standby Calamity Fund”.

27 “Incremental Revenue” shall mean the difference between the revenue collection
28 derived from self-employed individuals and professionals in taxable year 2007 and in
29 taxable year 2008.

30 The incremental revenue for the succeeding years, shall be computed using
31 taxable year 2007 as the base year.

32 Such allocations shall be segregated as separate trust funds by the National
33 Treasury and shall be over and above the annual appropriations for similar purposes.

34

1 **SEC. 5. *Mandatory Registration by Self-Employed Individuals and***
2 ***Professionals.*** – All self-employed individuals and professionals, as defined in this Act,
3 shall register with the appropriate Government licensing and/ or regulatory agency, for
4 purposes of the unified list of taxpayers who are self-employed individuals and
5 professionals: *Provided*, that the Social Security System (SSS), the Professional
6 Regulations Commission (PRC), the Department of Trade and Industry (DTI)-Board of
7 Investments (BOI), and other licensing and/ or regulatory agencies, shall be required to
8 submit on a quarterly basis to the Bureau of Internal Revenue (BIR), a list of self-
9 employed individuals or professionals registered with such agency.

10
11 **SEC. 6. *Applicability Clause.*** – This Act shall apply to income earned or paid to,
12 and deductions incurred or paid by, self-employed individuals and professionals,
13 effective beginning taxable year 2008.

14
15 **SEC. 7. *Separability Clause.*** - If any provision of this Act is declared
16 unconstitutional or invalid, the remainder thereof not affected thereby shall continue to be
17 in full force and effect.

18
19 **SEC. 8. *Repealing Clause.*** - All laws, decrees, orders, rules and regulations or
20 other issuances or parts thereof inconsistent with the provisions of this Act are hereby
21 repealed, amended or modified accordingly.

22
23 **SEC. 9. *Effectivity.*** - This Act shall take effect fifteen (15) days after its
24 publication in at least two (2) newspapers of general circulation.

Approved,