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Republic of the Philippines
HOUSE OF REPRESENTATIVES
Quezon City

SEVENTEENTH CONGRESS
First Regular Session

H. B. No. 1653

Introduced by HONORABLE BELLAFLOR J. ANGARA-CASTILLO

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, 2017.

This bill was originally filed in the 16th 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 Philippines currently holds the distinction of having the highest corporate income tax rate at 30 percent. 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 starting this year. 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 ₱30.6 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, the passage of this bill is earnestly sought.

BELLAFLOR J. ANGARA-CASTILLO
Representative
Lone District, Province of Aurora

SEVENTEENTH CONGRESS OF THE)
REPUBLIC OF THE PHILIPPINES)
FIRST REGULAR SESSION)

H. B. No. 1658

Introduced by HONORABLE BELLAFLOR J. ANGARA-CASTILLO

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

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

SECTION 1. The first paragraph of Section 27(A) of the National Internal Revenue Code of 1997, as amended, is hereby amended to read as follows:

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

"(A) *In General.* – Except as otherwise provided in this Code, an income tax of TWENTY-NINE PERCENT (29%) EFFECTIVE JANUARY 1, 2017, is hereby imposed upon the taxable income derived during each taxable year from all sources within and without the Philippines by every corporation, as defined in Section 22(B) of this Code and taxable under this Title as a corporation, organized in, or existing under the laws of the Philippines: *Provided,* THAT EFFECTIVE JANUARY 1, 2018, THE RATE OF INCOME TAX SHALL BE TWENTY-SEVEN PERCENT (27%); AND EFFECTIVE JANUARY 1, 2019 AND THEREAFTER, THE RATE SHALL BE TWENTY-FIVE PERCENT (25%)."

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

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

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

"(1) *In General.* – Except as otherwise provided in this Code, a corporation organized, authorized, or existing under the laws of any foreign country, engaged in trade or business within the Philippines, shall be subject to an income tax equivalent to TWENTY-NINE PERCENT (29%) EFFECTIVE JANUARY 1, 2017, of the taxable income derived in the preceding taxable year from all sources within the Philippines: *Provided,* That EFFECTIVE JANUARY 1, 2018, THE RATE OF INCOME TAX SHALL BE TWENTY-SEVEN PERCENT (27%); AND EFFECTIVE JANUARY 1, 2019 AND THEREAFTER, the rate shall be TWENTY-FIVE PERCENT (25%).

"x x x

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

(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 TWENTY-NINE PERCENT (29%) EFFECTIVE JANUARY 1, 2017 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, 2018, THE RATE OF INCOME TAX SHALL BE TWENTY-SEVEN PERCENT (27%); AND EFFECTIVE JANUARY 1, 2019 AND THEREAFTER, THE RATE SHALL BE TWENTY-FIVE PERCENT (25%).

"x x x

"(5) *Tax on Certain Incomes Received by a Nonresident Foreign Corporation.* –

"x x x

"(b) *Intercorporate Dividends.* – A final withholding tax at the rate of Fifteen Percent (15%) is hereby imposed on the amount of cash and/or property dividends received from a domestic corporation, which shall be collected and paid as provided in Section 57(A) of this Code, subject to the condition that the country in which the nonresident foreign corporation is domiciled, shall allow a credit against the tax due from the nonresident foreign corporation taxes deemed to have been paid in the Philippines equivalent to FOURTEEN PERCENT (14%), which represents the difference between the regular income tax of TWENTY-NINE PERCENT (29%) EFFECTIVE JANUARY 1, 2017 and the fifteen percent (15%) tax on dividends as provided in this subparagraph: *PROVIDED,* THAT EFFECTIVE JANUARY 1, 2018, THE CREDIT AGAINST THE TAX DUE SHALL BE EQUIVALENT TO TWELVE PERCENT (12%), AND EFFECTIVE JANUARY 1, 2019, EQUIVALENT TO TEN PERCENT (10%), WHICH REPRESENTS THE DIFFERENCE BETWEEN THE REGULAR INCOME TAX OF TWENTY-SEVEN PERCENT (27%) AND TWENTY-FIVE PERCENT (25%), RESPECTIVELY, AND THE FIFTEEN PERCENT (15%) TAX ON DIVIDENDS."

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

SEC. 4. *Repealing Clause.* All laws, orders, issuances, circulars, rules and regulations or parts thereof, which are inconsistent with the provisions of this Act are hereby repealed or modified accordingly.

SEC. 5. *Separability Clause.* If any provision of this Act is declared unconstitutional or invalid, other parts or provisions hereof not affected thereby shall continue to be in full force and effect.

SEC. 6. *Effectivity.* This Act shall take effect on January 1, 2017 following its publication after its publication in the Official Gazette or in at least two (2) newspapers of general circulation.

Approved,