HOUSE OF REPRESENTATIVES
RECEIVED
DATE: 13 JUL 2016
TIME: 3:30PM
BY:
REGISTRATION UNIT
BILLS AND INDEX SERVICE

Republic of the Philippines
HOUSE OF REPRESENTATIVES
Quezon City

SEVENTEENTH (17TH) CONGRESS
First Regular Session

House Bill No. 1536

Introduced by: Rep. BERNADETTE R. HERRERA-DY

AN ACT
RESTRUCTURING THE INCOME BRACKETS AND RATES OF TAX IMPOSED ON TAXABLE INCOME OF INDIVIDUALS, AMENDING FOR THE PURPOSE SECTIONS 24, 33, 34 AND 35 OF THE 1997 NATIONAL INTERNAL REVENUE CODE OF THE PHILIPPINES, AS AMENDED

EXPLANATORY NOTE

This bill aims to reduce the burden of taxation on individuals. This bill is a consolidation of a number of prior House and Senate bills, and reproduces in part and builds upon these earlier versions.[1]

Philippine income tax rates remains to be among the highest in the ASEAN region. According to the Tax Management Association of the Philippines (TMAP), a Filipino individual earning Php 500,000 annually is taxed at 32%, whereas, equivalent incomes are taxed lower in the rest of the region; Vietnam and Cambodia at 20%, Laos at 12%, Malaysia at 11%, Thailand at 10%, and Singapore at 2%. This will be disadvantageous for the incoming ASEAN Economic Integration (AEC).

Official data from the National Wages Productivity Commission show that as of January 2015, the daily minimum wage rate in Metro Manila, the highest nationwide, is at P466 per day, while the lowest is at P213 received by agricultural and non-agricultural workers in the Ilocos region. These translate to an annual income of about P123,000 for minimum wage earners in Metro Manila and about P56,232 for the Ilocos region.

While a minimum wage earner is tax-exempt, such dismal levels of income are still way below the Family Living Wage or "the minimum amount needed by a family of six members to meet its daily food and non-food needs, plus a 10 percent allocation for savings." Compounding such situation is the prevailing tax system where by getting additional income no matter how small in excess of the minimum wage, the whole income now becomes taxable.

Thus, the call to equitably adjust and restructure the income tax rates and tax brackets to provide immediate relief to individual taxpayers. Reducing the individual's tax burden will translate to greater investment in health, education, and other basic necessities, and will generally increase one's disposable income.

Because income tax brackets remained frozen since 1997 without having been adjusted for current prices, individual taxpayers continue to suffer from a "bracket creep". Consumer Price Index (CPI) data suggests that commodity prices have almost doubled from 1998 to 2013. salaries have also moved together with the rise in commodity prices. Since tax brackets have not

---

[1] *See, e.g.,* S.B. 1994 (16th Congress, Sen. Poe); H.B. 5401 (16th Congress, Reps. Colmenares & Zarate).

been adjusted, more workers are being pushed into higher tax brackets and face higher tax rates. Those who are not generally considered high earners are now paying income tax applicable to billionaires. Purchasing power has drastically weakened. This situation is more apparent for selected professions such as teachers. 2001 data shows 61% of the teachers are in bracket 4. By 2013, only 21% remained and most of them have been pushed into brackets 5 and 6. If left uncorrected, this will diminish the progressivity of the taxation system.

This bill seeks to introduce automatic indexation for inflation every 6 years without need for additional legislation. Other features of this bill includes an increase of the tax-exempt bracket. Increasing the tax bracket will protect those beyond minimum wage earners and will include low earners.

Premises considered, immediate passage of this bill is earnestly sought.

BERNADETTE HERRERA-DY

Republic of the Philippines
HOUSE OF REPRESENTATIVES
Quezon City

SEVENTEENTH (17TH) CONGRESS
First Regular Session

House Bill No. 1536

Introduced by: Rep. BERNADETTE R. HERRERA-DY

AN ACT
RESTRUCTURING THE INCOME BRACKETS AND RATES OF TAX IMPOSED ON TAXABLE INCOME OF INDIVIDUALS, AMENDING FOR THE PURPOSE SECTIONS 24, 33, 34 AND 35 OF THE 1997 NATIONAL INTERNAL REVENUE CODE OF THE PHILIPPINES, AS AMENDED

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

SECTION 1. It is observed in our jurisdiction that taxes is the lifeblood of the government and that it should be just, equitable, progressive, uniform and must be a tool of social justice. As such, the adjustment and restructuring of income tax rates and tax brackets must be advanced providing economic relief to individual taxpayers.

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

"SEC. 24. Income Tax Rates. –

"(A) xxx

"(1) xxx

"(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 P396,000	Exempt
Over P396,000 but not over P640,000	10% of the excess over P396,000
Over P640,000 but not over P1,000,000	P24,400 + 15% of the excess over P640,000
Over P1,000,000 but not over P1,650,000	P78,400 + 20% of the excess over P1,000,000
Over P1,650,000 but not over P2,700,000	P208,400 + 25% of the excess over P1,650,000
Over P2,700,000	P470,900 + 30% of the excess over P2,700,000

"PROVIDED, THAT EVERY SIX (6) YEARS THEREAFTER, THE AMOUNTS HEREIN

STATED SHALL BE ADJUSTED TO THEIR PRESENT VALUE USING THE CONSUMER PRICE INDEX, AS PUBLISHED BY THE PHILIPPINE STATISTICS AUTHORITY.

"xxx

"[Provided, That minimum wage earners as defined in section 22 (HH) of this Code shall be exempt from the payment of income tax on their taxable income: Provided, further, That the holiday pay, overtime pay, night shift differential pay and hazard pay received by such minimum wage earners shall likewise be exempt from income tax.]

xxx."

SECTION 3. Section 33 of the 1997 National Internal Revenue Code, as amended, is hereby further amended to read as follows:

"SEC. 33. Special Treatment of Fringe Benefits. –

"(A) Imposition of Tax. – A final tax of [thirty-four percent (34%) effective January 1, 1998; thirty-three percent (33%) effective January 1, 1999; and thirty-two percent (32%) effective January 1, 2000 and thereafter,]THIRTY PERCENT (30%) is hereby imposed on the grossed-up monetary value of fringe benefit furnished or granted to the employee [(except rank-and-file employees as defined herein)] by the employer, whether an individual or a corporation (unless the fringe benefit is required by the nature of, or necessary to the trade, business or profession of the employer, or when the fringe benefit is for the convenience or advantage of the employer). The tax herein imposed is payable by the employer which tax shall be paid in the same manner as provided for under Section 57(A) of this Code. The grossed-up monetary value of the fringe benefit shall be determined by dividing the actual monetary value of the fringe benefit by [sixty-six percent (66%) effective January 1, 1998; sixty-seven percent (67%) effective January 1, 1999; and sixty-eight percent (68%)effective January 1, 2000 and thereafter:]SEVENTY PERCENT (70%): Provided, however, That fringe benefit furnished to employees and taxable under Subsections (B), (C), (D) and (E) of Section 25 shall be taxed at the applicable tax imposed thereat: Provided, further, That the grossed-up MONETARY value of the fringe benefit shall be determined by dividing the actual monetary value of the fringe benefit by the difference between one hundred percent (100%) and the applicable rates of income tax under Subsections (B), (C), (D) and (E) of Section 25.

"(B) Fringe Benefits Defined. – For purposes of this Section, the term "fringe benefit" means any good, service, or other benefit furnished or granted in cash or in kind by an employer to an individual employee [(except rank-and-file employees as defined herein)] such as, but not limited to, the following:

"xxx

"(C) Fringe Benefits Not Taxable. – The following fringe benefits are not taxable under this Section:

"(1) xxx

"(2) xxx

"[(3) Benefits given to the rank-and-file employees, whether granted under a collective bargaining agreement or not; and]

"[(4)] (3) De minimis benefits as defined in the rules and regulations to be promulgated by the Secretary of Finance, upon recommendation of the Commissioner.

xxx."

SECTION 4. Section 34 of the 1997 National Internal Revenue Code, as amended, is hereby further amended to read as follows:

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

"(A) xxx

"xxx

"[(L) Optional Standard Deduction. – In lieu of the deductions allowed under the preceding Subsections, an individual subject to tax under Section 24, other than a nonresident alien, may elect a standard deduction in an amount not exceeding forty percent (40%) of his gross sales or gross receipts, as the case may be. In the case of a corporation subject to tax under section 27(A) and 28(A)(1), it may elect a standard deduction in an amount not exceeding forty percent (40%) of its gross income as defined in Section 32 of this Code. 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 deductions allowed in the preceding Subsections. Such election when made in the return shall be irrevocable for the taxable year for which the election 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 his gross sales or gross receipts, or the said corporation shall keep such records pertaining to his gross income as defined in Section 32 of this Code during the taxable year, as may be required by the rules and regulations promulgated by the Secretary of Finance, upon recommendation of the Commissioner.]

"[(M) Premium Payments on Health and/or Hospitalization Insurance of an Individual Taxpayer. – The amount of premiums not to exceed Two thousand four hundred pesos (P2,400) per family or Two hundred pesos (P200) a month paid during the taxable year for health and/or hospitalization insurance taken by the taxpayer himself, including his family, shall be allowed as a deduction from his gross income: Provided, That said family has a gross income of not more than Two hundred fifty thousand pesos (P250,000) for the taxable year: Provided, finally, That in the case married taxpayers, only the spouse claiming the additional exemption for dependents shall be entitled to this deduction.]

xxx."

SECTION 5. Section 35 of the 1997 National Internal Revenue Code, as amended, is hereby deleted and in its place, a new Section 35 is inserted to read as follows:

"SEC. 35. OPTIONAL STANDARD DEDUCTION. – IN LIEU OF THE DEDUCTIONS ALLOWED UNDER THE PRECEDING SECTION, AN INDIVIDUAL SUBJECT TO TAX UNDER SECTION 24, OTHER THAN A NONRESIDENT ALIEN, AND A CORPORATION SUBJECT TO TAX UNDER SECTION 27(A) AND 28(A)(1), MAY ELECT A STANDARD DEDUCTION IN AN AMOUNT NOT EXCEEDING FORTY PERCENT (40%) OF ITS GROSS INCOME AS DEFINED IN SECTION 32 OF THIS CODE. 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 DEDUCTIONS ALLOWED IN THE PRECEDING SUBSECTIONS. SUCH ELECTION WHEN MADE IN THE RETURN SHALL BE IRREVOCABLE FOR THE TAXABLE YEAR FOR WHICH THE ELECTION 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 OR CORPORATION SHALL KEEP SUCH RECORDS PERTAINING TO HIS GROSS INCOME AS DEFINED IN SECTION 32 OF THIS CODE DURING THE TAXABLE YEAR, AS MAY BE REQUIRED BY THE RULES AND REGULATIONS PROMULGATED BY THE SECRETARY OF FINANCE, UPON RECOMMENDATION OF THE COMMISSIONER.

SECTION 6. ***Repealing Clause.*** – All laws, executive and administrative orders or parts thereof, inconsistent with any provision of this Act are hereby repealed or modified accordingly.

SECTION 7. ***Effectivity.*** – This Act shall take effect after fifteen (15) days following the completion of its publication in the Official Gazette or in a national newspaper of general circulation.

Approved,