Republic of the Philippines
HOUSE OF REPRESENTATIVES
Quezon City

Seventeenth Congress
First Regular Session

HOUSE BILL NO. 3835

Introduced by Representative Manuel F. Zubiri

EXPLANATORY NOTE

With the ASEAN Economic Integration and the anticipated influx of increased regional competition among the ASEAN member-states nearing operational reality, there is a great need for the Philippines to revisit and examine its prevailing corporate income tax rates and structures to further enhance the country's capacity to effectively compete and prevail against its neighbors within the region. Within ASEAN, the Philippines has the highest corporate tax at 30 percent, followed by Indonesia with 25 percent, Thailand with 23 percent; Vietnam with 22 percent and Cambodia with 20 percent. As Singapore levies the lowest income tax rate of 17 percent, it should therefore come as no surprise that the said nation attracts the most foreign direct investments (FDI) to its shores. Conversely, the Philippines, with the highest income tax rate, receives the lowest FDI among its ASEAN neighbors year on year.

To effectively meet and surmount the challenges posed by a unified ASEAN market, it is incumbent upon the Philippine Government to institute and implement such measures as may be necessary to attract foreign direct investments. While it may take considerable time, resources, and political will to upgrade the country's ageing infrastructure, address bureaucratic inefficiencies, lower the high cost of power, and minimize, if not entirely eliminate, the incidence of corruption, the Philippine government can immediately push for the restructuring of corporate income tax rates in the country to attract new investments – both foreign and local - and encourage the expansion of existing ones.

In a recent study presented by Commissioner Stella Quimbo of the Philippine Competition Commission, any reduction in corporate income tax are expected to result in an increase in both domestic and foreign investments. Based on her research, Commissioner Quimbo explained that a one-percentage point reduction in corporate income tax would translate to a dramatic rise in investments ranging from 6.1 percent to 7.9 percent, or from P31 billion to P33 billion. Through the same report, Commissioner Quimbo dispelled the notion that high tax rates would automatically translate into higher revenue collections.

In view of the foregoing, this proposed measure seeks to reduce the corporate income tax rates to be implemented starting from January 1, 2018 in order to bring down the corporate income tax rate to 25 percent from the present 30 percent. Any foregone tax revenue resulting from this proposed measure's reduction of the corporate income tax rate is expected to be offset by an anticipated expansion in the country's economic activities and creation of employment opportunities due to the consequential increase in foreign and local direct investments. Moreover, the expected increase in the country's economic activity is also expected to broaden the tax base, thereby resulting in increased revenue collections in the long term.

The immediate approval of this bill is therefore earnestly sought.

MANUEL ANTONIO F. ZUBIRI
Representative
3rd District, Bukidnon

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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 House of Representatives of the Philippines in Congress assembled:

SECTION 1. Section 27(A) of the National Internal Revenue Code of 1997, as amended, is hereby further 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 [thirty-five percent (35%)] **TWENTY-FIVE PERCENT (25%) BEGINNING JANUARY 1, 2018,** 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, 2009, the rate of income tax shall be thirty percent (30%).]"

SECTION 2. Section 28 of the National Internal Revenue Code of 1997, as amended, is hereby further 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 [thirty-five percent (35%)] **TWENTY-FIVE PERCENT (25%) BEGINNING JANUARY 1, 2018,** of the taxable income derived in the preceding taxable year from all sources within the Philippines [: Provided, That effective January 1, 2009, the rate of income tax shall be thirty percent (30%).]

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"(B) *Tax on Non-resident 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 [thirty-five percent (35%)] **TWENTY-FIVE PERCENT (25%) BEGINNING JANUARY 1, 2018,** 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 19 January 1, 2009, the rate of income tax shall be thirty percent (30%).]

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(5) *Tax on Certain Incomes Received by a Non-resident Foreign Corporation.* -

Xxx

(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 non-resident foreign corporation is domiciled, shall allow a credit against the tax due from the non-resident foreign corporation taxes deemed to have been paid in the Philippines equivalent to [twenty percent (20%)] **TEN PERCENT (10%)**, which represents the difference between the regular income tax of [thirty-five percent (35%)] **TWENTY-FIVE PERCENT (25%) BEGINNING JANUARY 1, 2018,** and the fifteen percent (15%) tax on dividends as provided in this subparagraph:

SECTION 3. Implementing Rules and Regulations. - The Secretary of Finance shall promulgate the necessary rules and regulations for the effective implementation of the provisions of this Act.

SECTION 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 in at least two (2) newspapers of general circulation.

Approved.