

Republic of the Philippines
HOUSE OF REPRESENTATIVES
Quezon City, Metro Manila

SEVENTEENTH CONGRESS
First Regular Session

4134
House Bill No. _____



Introduced by REP. KAKA BAG-AO

EXPLANATORY NOTE

It is quite commendable that minimum wage earners are exempt from the payment of income tax.

However, even the overwhelming majority of employees who earn more than the minimum wage have a very difficult time making both ends meet. Housing is expensive, and families spend a lot on education. Full health insurance coverage, be it by the government or through health maintenance organizations, is unheard of, even as we have the most expensive medicines. Catastrophic medical bills are commonplace.

Thus, there is a need to reduce the tax burden for working people, many of whom rely solely on compensation income.

According to the report of the National Tax Research Center ("Reform Options on the Taxation of Compensation Income Earner and Self-Employed Individuals and Professionals, May - June 2009"), for the period 1998 to 2007, compensation income earners contributed an average of 85% of the collection while individuals engaged in business and practice of professions shared only about 15% of the collection. The report explained that this scenario may be traced to several factors, among which is the manner by which the individual income tax due is computed. While both groups of individuals are subject to the same tax rate schedule provided under Section 24 of the National Internal Revenue Code (NIRC), the determination of their taxable income differs. For compensation income earners, their gross income is reduced only by personal and additional exemption allowances as provided under Section 35 of the NIRC and premium payments for health and hospitalization insurance as allowed under Section 34(M), which is only PHP2,400 per year. For self-employed individuals and professionals, their gross income is reduced not only by the personal and additional exemption allowances enjoyed by compensation income earners but also by the deductible expenses allowed under Section 34 of the NIRC.

Thus, the report mentioned that self-employed individuals and professionals are able to further reduce their income tax liability. It further states that the substantial gap in the tax collection between the two groups of taxpayers can also be traced to the number of taxpayers in each group. Based on the 2007 income tax collection from compensation

income earners (P120.06 billion, or 87% of the total amount of taxes from individuals) and self-employed and professionals (P17.67 billion, or only 13% of the total amount collected from individuals), the average income tax paid by the former was around P 15,000.00 while in the case of the latter, it was only around P 13,000.00.

A reduction of income tax rates for individuals under Section 24 of the National Internal Revenue Code will benefit primarily compensation income tax payers, even as there is a dire need to compel professionals and self-employed individuals to pay the proper amount of taxes.

It is likewise necessary to provide additional deductions for compensation income earners. Thus, in calculating their taxable income they should be allowed to deduct some of their educational and medical expenses from their gross income.

Women income earners with at least one child less than eighteen (18) years of age should be given tax credit since it is typically the mother who takes care of the children and maintains and takes care of the household. Their uncompensated work should at least be partially paid through tax credit.

In terms of efficiency of tax administration, the most efficient and effective mode of income tax collection is through the withholding tax on compensation income of individual employees – way far more efficient and effective than collecting from professionals, self-employed individuals, and corporations. Due to their immense contribution to the economy and society in general, with more reason than that compensation income earners deserve reduction in income tax liability.

Also, compensation income tax payers, being the vast majority of individual income tax payers also contribute immensely to society since they pay a lot in value-added taxes.

While indeed the reduction in the income tax burden of compensation income earners would translate into foregone government revenue, albeit short term, it is incumbent upon the government to recoup these reduction from more effective and efficient exaction of the correct amount of income tax from professionals and self-employed persons, including those operating single proprietorships.

More importantly, taxation is not a zero-sum game. Foregone revenue in terms of reduced income taxes from employees and workers does not mean a definitive reduction in government revenues. Additional take-home pay for individuals due to lower taxes would mean improved capacity of workers to spend for goods and service and additional employment for our people - thus translating into additional collection of VAT, personal income taxes of employees and sole proprietorships and professionals, excise taxes, corporate income taxes, etc.

It must also be mentioned that the government also foregoes revenue when it signs free trade agreements and other economic partnership treaties at the multilateral, regional, and bilateral levels as these agreements invariably entail reduction or total elimination of tariffs. Foregone revenues are also incurred when tax breaks and tax holidays are given in order to attract foreign investors.

This bill proposes to remove the income tax on the first PHP350,000 taxable income of all individuals and lower the over-all effective tax rates of individuals, even as it will

maintain permanent exemption of all minimum wage earners under the current law. This was not arrived at arbitrarily; instead, it is an approximation of the PHP30,000 monthly income that the new administration wishes to exempt.

It will also cushion the increase in income tax that will result from the initiative of the administration to remove the PHP82,000 exemption on 13th month pay and any other bonus.

Under Section 35 (A) of the NIRC each individual is entitled to a basic personal exemption of PHP50,000. Assuming that the person has a dependent, she or he will also be entitled to PHP25,000 in additional exemption per dependent, capped at four (4) dependents under Section 35 (B).

Assuming an individual has no dependent, her/his first PHP402,400 of taxable income (350,000 + 50,000 + 2,400 in "Premium Payments on Health and/or Hospitalization Insurance of an Individual Taxpayer" under Section 34 [M]). This amount divided by 12 months will amount to a monthly exemption of PHP33,533, on top of the exemption of the 13th month pay and bonus, the total of the last two capped at PHP82,000.

If the tax exemption for the 13th month pay is removed, the amount of PHP402,400, when divided by 13 months would amount to almost PHP31,000 which is still higher than the PHP30,000 amount of tax exemption proposed by the government.

More importantly, this bill provides for significantly lower marginal tax rates on taxable income, except that those earning more than PHP1,000,000 in taxable income would continue to have a marginal tax rate of 32%.

For these reasons, compensation income earners and honest self-employed and professionals should benefit from a reduction of tax liabilities and tax rates under Sec. 24 of the NIRC.

The immediate passage of this measure is earnestly sought.



REP. KAKA BAG-AO
Lone District, Dinagat Islands

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House Bill No. **4134**

Introduced by REP. KAKA BAG-AO

AN ACT
AMENDING SECTIONS 24, 34 AND 110 OF REPUBLIC ACT NO. 8424,
OTHERWISE KNOWN AS THE "NATIONAL INTERNAL REVENUE CODE OF
1997", AS AMENDED, REDUCING THE INCOME TAX LIABILITIES OF
INDIVIDUALS AND FOR OTHER PURPOSES

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

SECTION 1. *Short Title.* – This Act shall be known as "*Individual Income Tax Reduction Act of 2016.*"

SEC. 2. *Income Tax Rates.* – Section 24 of Republic Act No. 8424, otherwise known as the "National Internal Revenue Code of 1997", is hereby 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) An income tax is hereby imposed:

- (a) 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 and without the Philippines be every individual citizen of the Philippines residing therein;
- (b) 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 citizen of the Philippines who is residing

outside of the Philippines including overseas contract workers referred to in Subsection(C) of Section 23 hereof; and

- (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) The tax shall be computed in accordance with and at the rates established in the following schedule:

[Not over P10,000	5%
Over P10,000 but not over P30,000	P500+10% of the excess over P10,000
Over P30,000 but not over P70,000	P2,500+15% of the excess over P30,000
Over P70,000 but not over P140,000	P8,500+20% of the excess over P70,000
Over P140,000 but not over P250,000	P22,500+25% of the excess over P140,000
Over P250,000 but not over P500,000	P50,000+30% of the excess over P250,000
Over P500,000	P125,000+34% of the excess over P500,000 in 1998.]

"NOT OVER P350,000	NONE
OVER P350,000 BUT NOT OVER P400,000	18% OF THE EXCESS OVER P350,000
OVER P400,000 BUT NOT OVER P500,000	P9,000+20% OF THE EXCESS OVER P400,000
OVER P500,000 BUT NOT OVER P600,000	P29,000+22% OF THE EXCESS OVER P500,000
OVER P600,000 BUT NOT OVER P700,000	P51,000+24% OF THE EXCESS OVER P600,000
OVER P700,000 BUT NOT OVER P800,000	P75,000+26% OF THE EXCESS OVER P700,000
OVER P800,000 BUT NOT OVER P900,000	P101,000+28% OF THE EXCESS OVER P800,000
OVER P900,000 BUT NOT OVER P1,000,000	P129,000+30% OF THE EXCESS OVER P900,000
OVER P1,000,000	P159,000+32% OF THE EXCESS OVER P1,000,000"

"X X X"

SEC. 3. *Additional Deductions for Compensation Income Earners.* – Section 34 of Republic Act No. 8424 is hereby amended as follows:

“SEC 34. Deductions from Gross Income. –

“x x x”

“(M) x x x”

“(N) DEDUCTION FOR EDUCATIONAL EXPENSES FOR COMPENSATION INCOME EARNERS. – COMPENSATION INCOME EARNERS CAN DEDUCT FROM THEIR GROSS INCOME AN AMOUNT OF NOT MORE THAN TWENTY THOUSAND PESOS (PHP20,000) EACH PERSON FOR HERSELF OR HIMSELF OR HER/HIS CHILDREN, PROVIDED THAT THE TAXPAYER CAN DEDUCT FOR ONLY TWO (2) PERSONS, INCLUDING HIMSELF/HERSELF. THERE SHALL BE NO AGE LIMIT OR CAP FOR THE TAXPAYER NOR FOR THE CHILDREN.”

“(O) DEDUCTION FOR MEDICAL EXPENSES FOR COMPENSATION INCOME EARNERS. – COMPENSATION INCOME EARNERS CAN DEDUCT FROM THEIR GROSS INCOME AN AMOUNT OF NOT MORE THAN A TOTAL OF TWENTY THOUSAND PESOS (PHP20,000) FOR HERSELF OR HIMSELF OR HER/HIS DEPENDENTS.”

SEC. 4. *Tax credit for women taxpayers with at least one child.* – Section 110 of Republic Act No. 8424 is hereby amended as follows:

“SEC. 110. Tax Credits. –

“x x x”

“(C) x x x”

“(D) TAX CREDIT FOR WOMEN INCOME EARNERS WITH AT LEAST ONE CHILD LESS THAN EIGHTEEN (18) YEARS OF AGE. – A TAX CREDIT OF TWENTY THOUSAND PESOS (PHP 20,000) SHALL BE GIVEN TO WOMEN INCOME EARNERS WITH AT LEAST ONE (1) CHILD LESS THAN 18 YEARS OF AGE.”

SEC. 5. *Implementing Rules and Regulations.* – The Secretary of Finance, in consultation with the Commissioner on Internal Revenue, shall promulgate rules and regulations for the effective implementation of this Act.

SEC. 6. *Repealing Clause.* – All laws, decrees, orders, issuances, rules and regulations or parts thereof inconsistent with this Act are hereby repealed or modified accordingly.

SEC. 7. *Separability Clause* – If, for any reason, any section or provision of this Act is declared invalid or unconstitutional, other sections or provisions not affected thereby shall remain in full force and effect.

SEC. 8. *Effectivity.* – This Act shall take effect fifteen (15) days after its publication in at least two (2) newspapers of general circulation.

Approved,