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Republic of the Philippines
HOUSE OF REPRESENTATIVES
Quezon City

SEVENTEENTH CONGRESS
First Regular Session

HOUSE BILL NO. 2379

Introduced by **HONORABLE ROMERO "MIRO" S. QUIMBO**

EXPLANATORY NOTE

The Philippines currently imposes the highest corporate income tax among the members of the Association of South East Asian Nations (ASEAN), at its current rate of thirty percent (30%). This rate is also higher than the average corporate income tax rate among ASEAN member-countries, which is at twenty-three percent (23%).

Indonesia, the Philippines' closest income comparator, imposes a twenty-five percent (25%) corporate income tax rate; while Vietnam and Cambodia, whose foreign direct investment rates are among the highest in the region, have lower rates at twenty-two percent (22%) and twenty percent (20%), respectively.[1]

But even with the imposition of a high corporate income tax rate, the Philippines registers as one of the countries with the lowest tax effort, at only 13.6 percent of the Gross Domestic Product (GDP) in 2014. In a recent study done by a team from the University of the Philippines-School Economics, it was observed that the Philippines "can potentially lower its tax rate to Cambodia's twenty percent (20%) and achieve a similar tax effort.[2]"

Our current corporate income taxation framework poses a great threat to the Philippines, especially in light of the ASEAN Integration. One of the goals of this integration is to stimulate the flow of capital through trade and foreign direct investments and encourage economic resilience within the region. This is a prime opportunity for the Philippines to boost its economic growth through the influx of capital. However, in order for the country to fully enjoy the benefits of this integration, there is a need to establish a better tax scheme to strengthen its competitiveness.

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[1] Quimbo, Stella, Javier, Xylee et al. "Do investments respond to taxation and incentives? Evidence from the Philippines." June 2016.
[2] Ibid.

In a 2007 study by the Asian Development Bank (ADB), it was identified that the "low levels of investment in and the poor conditions of infrastructures in the Philippines have increased the cost of doing business in the country and had significant adverse effect on the competitiveness and attractiveness of the Philippines as an investment destination.[4]" This is due to the "appropriability" of returns to investments in the Philippines, affected by several factors, including "high tax rates and inefficiencies and lack of transparency in the tax administration."[5]

These concerns on the investment climate in the Philippines has already translated into a dismal performance by the country at the onset of the ASEAN Integration. In the 2015 ASEAN Integration Report, it was observed that there is a deceleration in the regional output growth in 2014, shown in the lower growth rates recorded among the member-countries, one of which is the Philippines.[6]

The UP School of Economics, in one of its studies, has concluded that tax rates is one of the factors considered in making investment decisions. It is also the high tax rates that are cited by firms as among the top reasons for the high cost of doing business, according to the Global Competitiveness Report (2015), as observed in the same study.[7]

With lower tax rates, higher investments are projected, potentially bringing Philippine investment levels closer to the ASEAN member-countries. In turn, this may increase the country's competitiveness, stimulate the country's economic growth, and consequently, encourage the growth within the ASEAN.

This bill seeks to lower the prevailing corporate income tax rates in the Philippines, from thirty percent (30%) to twenty-five percent (25%), to cover both domestic and foreign corporations. Through this bill, we can eliminate one of the country's biggest barriers to economic growth, in order for the citizens to fully and effectively avail of the benefits of the ASEAN Integration, through the infusion of capital into the country.

In view of the foregoing, the passage of this bill is earnestly sought.

ROMERO "MIRO" S. QUIMBO
Representative
Second District Marikina City

[4] Ibid.

[5] Ibid.

[6] ASEAN Secretariat Jakarta. ASEAN Integration Report 2015. ASEAN Integration Monitoring Office (AIMO) and Public Outreach and Civil Society Division (POCS), November 2015. <http://asean.org/storage/2015/12/ASEAN-Integration-Report-2015.pdf, accessed July 26, 2016.>

[7] Quimbo, Ibid.

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HOUSE BILL NO. 2379

Introduced by **HONORABLE ROMERO "MIRO" S. QUIMBO**

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%) 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%) 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 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 [thirty-five percent (35%)] TWENTY FIVE PERCENT (25%) 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, 2009, the rate of income tax shall be thirty percent (30%)].

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(5) Tax on Certain Incomes Received by a Nonresident Foreign Corporation. –
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(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 credit against the tax due from the nonresident foreign corporation taxes deemed to have been paid in the Philippines equivalent to [twenty percent (20%)] TEN PERCENT (10%), which represent the difference between the regular income tax of [thirty-five percent (35%)] TWENTY-FIVE PERCENT (25%) and the fifteen percent (15%) tax on dividends as provided in this subparagraph [Provided, That effective January 1, 2009, the credit against the tax due shall be equivalent to fifteen percent (15%), which represents the difference between the regular income tax of thirty percent (30%) and the fifteen percent (15%) tax on dividends].

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.

Section 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.

Section 6. Effectivity. – This Act shall take effect fifteen (15) days following its publication in at least two (2) newspapers of general circulation.

Approved,