

Republic of the Philippines
HOUSE OF REPRESENTATIVES
Quezon City

SEVENTEENTH CONGRESS
First Regular Session

HOUSE BILL No. 323

HOUSE OF REPRESENTATIVES

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Introduced by **BAYAN MUNA Rep. CARLOS ISAGANI T. ZARATE**

AN ACT
RESTRUCTURING THE INCOME BRACKETS AND RATES OF TAX IMPOSED
ON TAXABLE INCOME OF INDIVIDUALS, AMENDING FOR THE PURPOSE
SECTIONS 24, 32,33, 34 AND 35 OF THE 1997 NATIONAL INTERNAL REVENUE
CODE OF THE PHILIPPINES, AS AMENDED

EXPLANATORY NOTE

This Bill, originally filed as House Bill 5401 by Rep. Neri Colmenares and Rep. Carlos Zarate of the Bayan Muna Partylist during the 16th Congress and entitled "*An Act Restructuring The Income Brackets And Rates Of Tax Imposed On Taxable Income Of Individuals, Amending For The Purpose Sections 24, 32,33, 34 And 35 of The 1997 National Internal Revenue Code Of The Philippines, As Amended*", intends to institute a progressive taxation system and to alleviate the plight of our people who for the longest time have been overtaxed, yet underpaid.

On July 31, 1986, Executive Order No. 37 was issued by then President Corazon Aquino amending certain provisions of the old NIRC, introducing for the first time a consolidated tax table for pure compensation income earners, professionals and businessmen/self-employed individuals. Under said amendment, taxpayers were divided into ten (10) income brackets, the top tax base set at P500,000.

Since 1986, however, these tax bases remain substantially unchanged. Meanwhile, based on the 1986 to 2014 Consumer Price Index published by the NSO, national consumer prices have already increased by 539.53% since 1986. **Thus, the P500,000 top tax base, if adjusted to its present value, is now equivalent to P2.697 million.**

With the current income tax brackets and tax rates, the Philippines effectively imposes the highest personal income tax in the entire Association of Southeast Asian Nations (ASEAN) region. A study presented by the Tax Management Association of the Philippines reveals that while a Filipino individual earning P500,000 annually is taxed at 32%, our ASEAN neighbors with equivalent income are taxed at the following rates: Vietnam - 20%; Cambodia - 20%; Laos - 12%; Malaysia - 11%; Thailand- 10%; Singapore - 2%;and Brunei - no taxes.

Against such backdrop, a great majority of Filipinos would have to content themselves with meager salaries. 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.” As of August 2014, Family Living Wage is at P1,086 daily (P396,390 annually) as shown by independent think-tank Ibon Foundation estimates. 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 has been advanced not only by taxpayers themselves but even by tax managers and practitioners. In fact, even the tax collecting agencies-- the Department of Finance and the Bureau of Internal Revenue -- recognize the need for such tax adjustments.

All told, this bill, or seeks to:

1. Exempt low income families/earners from income taxation;
2. Fix, simplify and standardize the minimum taxable income among the varied types of individual taxpayers at P396,000 (the prevailing family living wage of P1,086 per day multiplied by 365 days), incorporating therein the various tax deductions/exemptions;
3. Restructure and simplify the income brackets and their corresponding tax rates;
4. Reduce and align the maximum tax rate with that of corporate taxpayers (from 32% to 30%);
5. Adjust the top tax base -- from P500,000 to P2,700,00 -- to reflect adjustments in the Consumer Price Index (1986-2014);
6. Establish an automatic adjustment/indexation mechanism (interval of 3 years); and
7. Align the Optional Standard Deduction (OSD) base for individuals with the OSD base for corporations;

Passage of this bill is thus earnestly sought.

Approved,


Rep. CARLOS ISAGANI T. ZARATE
Bayan Muna Party-list

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SECTIONS 24, 32,33, 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. 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 NOT LATER THAN JANUARY 1, 2019 AND EVERY THREE (3) YEARS THEREAFTER, THE AMOUNTS HEREIN STATED SHALL BE ADJUSTED TO THEIR PRESENT VALUE USING THE CONSUMER PRICE INDEX, AS PUBLISHED BY THE NATIONAL STATISTICS OFFICE.

“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 2. Section 32 of the 1997 National Internal Revenue Code, as amended, is hereby further amended to read as follows:

“SEC. 32. **Gross Income.** –

“(A) xxx

“(B) xxx

“(1) xxx

“xxx

“(7) *Miscellaneous Items.* –

“(a) xxx

“xxx

“[(e) *13th Month Pay and Other Benefits.* – Gross benefits received by officials and employees of public and private entities: *Provided, however*, That the total exclusion under this subparagraph shall not exceed Thirty thousand pesos (P30,000) which shall cover:

“(i) Benefits received by officials and employees of the national and local government pursuant to Republic Act No. 6686;

“(ii) Benefits received by employees pursuant to Presidential Decree No 851, as amended by Memorandum Order No. 28, dated August 13, 1986;

“(iii) Benefits received by officials and employees not covered by Presidential Decree No 851, as amended by Memorandum Order No. 28, dated August 13, 1986;

“(iv) Other benefits such as productivity incentives and Christmas bonus: *Provided, further*, That the ceiling of Thirty thousand pesos (P30,000) may be increased through rules and regulations issued by the Secretary of Finance, upon recommendation of the Commissioner, after considering, among others, the effect on the same of the inflation rate at the end of the taxable year.]

“[(f) *GSIS, SSS, Medicare, and Other Contributions.* – GSIS, SSS, Medicare and Pag-Ibig contributions, and union dues of individuals.]

“[(g)] (e) *Gains from Sale of Bonds, Debentures or other Certificate of Indebtedness.* – Gains realized from the sale or exchange or retirement of bonds, debentures or other certificate of indebtedness with a maturity of more than five (5) years.

“[(h)] (f) *Gains from Redemption of Shares in Mutual Fund.* – Gains realized by the investor upon redemption of shares of stock in a mutual fund company as defined in Section 22(BB) of this Code.

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, a new Section 35 is hereby 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,