

Republic of the Philippines
HOUSE OF REPRESENTATIVES
Batasan Hills, Quezon City

SEVENTEENTH CONGRESS
First Regular Session

HOUSE BILL No. 57

HOUSE OF REPRESENTATIVES	
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REGISTRATION UNIT BILLS AND INDEX SERVICE	

Introduced by **ACT Teachers Party-List**
Rep. ANTONIO L. TINIO and **Rep. FRANCISCA L. CASTRO**

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 embodies the long-running demand of the Filipino people for lower income taxes unanswered by the past administrations.

The demand for lower income taxes is just and reasonable. For one, the present ten income tax brackets and their corresponding rates were first set way back in 1986. However, consumer prices have increased by 539.53% since then, according to the National Statistics Office.¹ Consequently, the purchasing power of the relatively well-to-do Filipino earning P10,000, for instance, in 1986 is now 539.53% smaller—he or she is poorer more than five times over but is still taxed at the same rate.

¹ As of 2014

To make matters worse, wages and salaries of income earners in both public and private sectors have increased nominally numerous times in the past three decades. To illustrate, the salary of an ordinary employee in 1997 was around P4,400. That same employee would now be earning P9,478, a 115% increase. This low income earner would have been in the second income tax bracket in the 1997 National Internal Revenue Code, but is now in the fourth bracket, and paying a higher tax.

One effect of this “bracket creep” can be seen in the inequitable tax reality now where a middle-level employee with a monthly salary of around P42,000 at the least is paying the same tax as billionaires such as mall magnate Henry Sy and other Forbes 50 occupants. The former may have started in one of the middle brackets in 1986 but eventually went up to the top bracket.

It is therefore high time to adjust the income brackets to account for inflation and enable our citizens to keep up with the rising cost of living, to keep up with the nominal increases of wages and salaries, and to align our system of income taxation more closely with the principles of equitability and progressivity.

Our Constitution mandates government to establish an equitable rule of taxation and to evolve a progressive system of taxation. Equity requires that the distribution of the tax burden be heaviest on those who can afford it, lightest on those who can minimally bear it, even none on those who cannot. Simply put, the rich should pay more, as against the poor who should be made to pay less.

The taxpayer’s ability to pay is likewise the foundation of progressivity. To paraphrase the Supreme Court in a number of decisions, progressive tax is the tool by which government can achieve a redistribution of wealth and thereby realize the social justice provisions in our Constitution. The mandate of progressive taxation is a directive to Congress, just like the directive to give priority to the enactment of laws for the enhancement of human dignity.

The salient provisions of this bill are:

1. An exemption from income taxation of low income taxpayers;
2. A simplified and standardized “all-in” income tax regime for all taxpayers liable under Section 24 (individual citizens and resident aliens) whereby their minimum taxable income is set at P396,000 (the prevailing family living wage of P1,086 per day multiplied by 365 days), which amount already incorporates the various tax deductions and exemptions under the current regime;
3. Restructured and simplified income brackets and their corresponding tax rates, reflective of the principle of progressive taxation;
4. Adjustment of the current highest tax base from P500,000 to P2,700,000 to reflect adjustments in the Consumer Price Index (1986-2014);
5. Creation of a new top bracket of 35% marginal rate for individual taxpayers earning over P5,000,000, which bracket will cover only around 2,452 taxpayers (0.04% of income tax filers), per data from the NTRC;
6. A mandatory and automatic adjustment mechanism, with an interval of three years, for government to index the amounts in the brackets to their present value per the Consumer Price Index; and
7. Alignment of the Optional Standard Deduction (OSD) base for individuals with that for corporations.

This bill is filed without prejudice to a comprehensive income tax reform law that will also encompass corporate income tax, tax administration, tax collection, among others, which will achieve equitable and progressive taxation while increasing funds available for government services and compensating for revenue loss at the same time. It should be emphasized that passage of this legislative proposal, ahead of these reforms that will definitely take more time, will provide for immediate and much-needed economic relief for our people.

Approval of this bill is earnestly sought.



Rep. ANTONIO L. TINIO
ACT Teachers Party-List



Rep. FRANCISCA L. CASTRO
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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 (NIRC)*, as amended, is hereby further amended to read as follows:

"SEC. 24. Income Tax Rates. –

"(A) x x x

"(1) x x x

"(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 BUT NOT OVER P5,000,000	P470,900 + 30% OF THE EXCESS OVER P2,700,000
OVER P5,000,000	P805,000 + 35% OF THE EXCESS OVER P5,000,000

“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.

x x x

“[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.]”

SECTION 2. Section 32 of the *NIRC*, as amended, is hereby further amended to read as follows:

“SEC. 32. Gross Income. —

“(A) x x x

“(B) x x x

“(1) x x x

x x x

“(7) Miscellaneous Items. —

“(a) x x x

x x x

“[(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.”

SECTION 3. Section 33 of the NIRC, 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:

x x x

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

“(1) x x x

“(2) x x x

“[(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.”

SECTION 4. Section 34 of the NIRC, 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) x x x

“[(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.]”

SECTION 5. Section 35 of the NIRC, as amended, is hereby deleted, and 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,