Republic of the Philippines
HOUSE OF REPRESENTATIVES
Quezon City

SEVENTEENTH (17TH) CONGRESS
First Regular Session

House Bill No. 1537

Introduced by: Rep. BERNADETTE R. HERRERA-DY

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

Explanatory Note

This bill aims to gradually reduce the rate of corporate income tax over a three (3) year period beginning January 1, 2017 and seeks to amend, for these purposes, Sections 27 and 28 of the National Internal Revenue Code of 1997, as amended. This bill is a counterpart version of S.B. 2163 authored by Sen. Sonny Angara during the 16th Congress and accordingly reproduces portions of its explanatory note.

The bill is part of a twin measure to reduce the country's income tax rates for individuals and corporations in preparation for the Association of South East Asian Nations (ASEAN) Integration. In 2007, the Philippines together with Brunei Darussalam, Cambodia, Indonesia, Lao People's Democratic Republic, Malaysia, Myanmar, Singapore, Thailand and Vietnam signed the ASEAN Economic Community (AEC) Blueprint. Each member-state shall adopt and implement the AEC Blueprint which seeks to transform ASEAN into a single market and production base by December 2015.

Harmonization is both a model and requisite for regional integration. At present, ASEAN member-states manifest differences in their corporate and individual Income tax regimes with such differences coming as a result of different levels of development and requirements of governance. The differentiated tax rates would inevitably swing the pendulum as investors and taxpayers shift from a high-tax jurisdiction to a low-tax jurisdiction. Moreover, if the country does not adjust its high corporate income tax rate, it will create massive transfer pricing issues that will translate into revenue loss.

The Philippines holds the distinction of having the highest corporate income tax rate at 30-percent. When the AEC Declaration was signed, some member-states began to lower their corporate income tax rates. For instance, Thailand gradually reduced its corporate income tax rate from 30 percent in 2011, 23 percent in 2012 and 20 percent today. Vietnam also lowered its corporate income tax rate from 25 percent to 22 percent in 2014. It will be reduced further to 20 percent this year.

At present, the average rate among the ASEAN countries hovers at 23.1 percent, with

Singapore having the lowest at 17 percent.

In order for the Philippines to attract capital, it is imperative that the country's onerously high tax rates be reduced. While we expect a revenue shortfall as a short term result of this proposal, we could recoup the same by making the Philippines an attractive investment haven that would expand our tax base, increase economic activity, and create massive employment.

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

REP. BERNADETTE HERRERA-DY

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Be it enacted by the Senate and the 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-NINE PERCENT (29%) BEGINNING JANUARY 1, 2017, TWENTY-SEVEN PERCENT (27%) BEGINNING JANUARY 1, 2018 AND TWENTY-FIVE PERCENT (25%) BEGINNING JANUARY 1, 2019, 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%)]:"

SEC. 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-NINE

PERCENT (29%) BEGINNING JANUARY 1, 2017, TWENTY-SEVEN PERCENT (27%) BEGINNING JANUARY 1, 2018 AND TWENTY-FIVE PERCENT (25%) BEGINNING JANUARY 1, 2019 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%)].

x x x x

"(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-NINE PERCENT (29%) BEGINNING JANUARY 1, 2017, TWENTY-SEVEN PERCENT (27%) BEGINNING JANUARY 1, 2018 AND TWENTY-FIVE PERCENT (25%) BEGINNING JANUARY 1, 2019 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%)].

x x x x

(5) Tax on Certain Incomes Received by a Nonresident Foreign Corporation. –

x x x x

(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 nonresident foreign corporation is domiciled, shall allow a credit against the tax due from the nonresident foreign corporation taxes deemed to have been paid in the Philippines equivalent to [twenty percent (20%)] FOURTEEN PERCENT (14%), which represents the difference between the regular income tax of [thirty-five percent (35%)] TWENTY-NINE PERCENT (29%) BEGINNING JANUARY 1, 2017 and the fifteen percent (15%) tax on dividends as provided in this subparagraph: *Provided*, That effective January 1,[2009] 2018, the credit against the tax due shall be equivalent to [fifteen percent (15%)] TWELVE PERCENT (12%), AND EFFECTIVE JANUARY 1, 2019, EQUIVALENT TO TEN PERCENT (10%), which represents the difference between the regular income tax of [thirty percent (30%)]

TWENTY-SEVEN PERCENT (27%) AND TWENTY-FIVE PERCENT (25%), RESPECTIVELY, and the fifteen percent (15%) tax on dividends;"

SEC 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.

SEC. 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 provisions 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,