

Republic of the Philippines  
HOUSE OF REPRESENTATIVES  
*Quezon City*

SEVENTEENTH CONGRESS  
First Regular Session

House Bill No. 39

HOUSE OF REPRESENTATIVES
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REGISTRATION UNIT BILLS AND INDEX SERVICE

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Introduced by REPRESENTATIVE ARTHUR C. YAP

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**EXPLANATORY NOTE**

The government generates revenue mainly through personal and income tax collections. Income tax is a tax on a person's income, wages, profits arising from property, practice of profession, conduct of trade or business, less any deductions granted.

Article VI, Section 28 of the 1987 Constitution provides that the rule of taxation shall be uniform and equitable, and that Congress shall evolve a progressive system of taxation. Income taxation is progressive if people with higher incomes pay more than people with lower incomes. Personal income tax rates vary as such.

Today, the Philippines has the status of an emerging economy. In recent years, the country has been steadily growing with the government expecting a full-year GDP (Gross Domestic Product) growth of 6.5 to 7.5 percent in 2014. As the national economy moves towards inclusive growth, the government must create the necessary mechanisms to enable the vast majority of Filipino wage-earners to share and enjoy the fruits of economic growth. However, ordinary Filipinos are still reeling from the pinches of rising prices of commodities and high income taxes.

In December 2013, inflation rate in the Philippines accelerated to 4.1%, the highest rate since 2011, as all commodity prices recorded higher annual increases. The Consumer Price Index (CPI) indicates that a basket of goods worth P 100.00 in 1998 is now worth P 200.00 by the end of 2013, almost doubling in a span of 15 years.

On the other hand, wages have always lagged behind. Recently, the minimum wage rate in Metro Manila has been increased to P466.00 a day. Still, a far cry from the minimum daily cost of living of P 1,200 a day for a family of 6 members. It should be noted that in other regions, although the cost of living does not really vary as compared to Metro Manila, the minimum wages are even much, much lower.

On the other hand, while private enterprises have a social responsibility to ensure that their workers are properly compensated, they also have to struggle with the financial requirements of their undertakings to remain afloat. It is very difficult to burden employers with higher State mandated floor wages.

Thus, the government is always faced with the dilemma of satisfying the growing demands of the labor sector while at the same time not pushing businesses, particularly the small and medium enterprises which comprise a larger portion of the economy, into bankruptcy.

So as not to place the burden of increasing the net salary or “*take home pay*” of workers in the hands of the struggling businesses, Republic Act No. 9504 was passed. Under the said Act, minimum wage earners, or those with ‘statutory minimum wage’ as fixed by the Regional Tripartite Wage and Productivity Board in their respective jurisdictions, are exempt from paying income tax. The exemption covers not only the basic pay but also overtime pay, holiday pay, night shift differential and hazard pay.

Under the said law, while the State suffered a temporary setback, in terms of decrease in collection, such can be offset by an increase in the purchasing power of these workers. As the economy is stimulated, additional tax revenues are generated.

One big issue, however, against Republic Act No. 9504, is that it was not able to review and update the decades old income tax rates under Section 24 (A) (1) of the National Internal Revenue Code. This created a very absurd scenario wherein an employee, who graduates from earning minimum wage, or earns only a little over said floor wage, jumps to paying a very high rate of tax payable.

To appreciate this issue, below is the table of income tax rates under said provision:

"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+32% of the excess over P500,000
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To illustrate, a minimum wage earner in Metro Manila would earn around P150,072, per annum ( $P481 \times 26 \text{ working days} \times 12 \text{ months}$ ). Under the old tax rates, said person is liable to pay taxes at the rate of P22,500 + 25% of the excess over P140,000. Now, under R. A. 9504, he is exempt from paying taxes.

If said person earns just a peso higher than the minimum, e. g. P481 per day, his annual gross income would increase to P150,384. However, his net take home pay would be drastically reduced to P125,288 ( $P150,384 - [P22,500 + 25\% \text{ of } 10,384]$ ). By earning an additional P312 per year, his net income or take home pay was reduced by P25,096.

This absurdity negates any increase that would be granted to an employee. It effectively discourages an employee to ask for a salary that is only a little higher than the minimum.

If there really is a need for an incremental increase in the wages, it may even make the employee and the employer prone to tax evasion. The increase in wages may just be hidden so that taxation can be evaded.

More important, this scenario creates an unprogressive rate of taxation among income earning Filipinos. There becomes an inequitable distribution of wealth among the citizens that is not in accord with the above-cited Constitutional mandate. This is because the highest rate for taxable income remained pegged at a very low amount of P500,000.

Again to illustrate, a person, who may be a senior rank and file employee, a supervisor, low level manager, or even a micro entrepreneur, who merely earns P41,670 per month (*over P500,000 per annum*) will suffer the same taxation as the executive, senior manager, or the professional, or businessman who earns hundreds of thousands or even millions of pesos per month.

There is thus an urgent need for the government to reform the current personal income tax system.

This bill seeks to amend Section 24 of Republic Act No. 8424, also known as the National Internal Revenue Code of 1997, as amended by R. A. 9504. This is by adjusting the levels of net taxable income and reducing the nominal tax rates in the computation of individual income tax.

The amendment will effectively lower the taxes on the low-income earners and allow them a higher net income, thus increasing their purchasing power. The reform will also ensure that the government will be able to collect a larger share of income from those who can afford to pay more. For both objectives, no additional financial burden is needed to be imposed on employers.

Effectively, the reform will create a more equitable and just tax system for a majority of Filipino taxpayers while ensuring that the government is still able to raise revenues for its important programs.

For the foregoing reasons, the immediate consideration and approval of the bill, which was filed as House Bill No. 4849 in the Sixteenth Congress by the undersigned, is earnestly urged.



**ARTHUR C. YAP**  
Representative

Republic of the Philippines  
HOUSE OF REPRESENTATIVES  
*Quezon City*

SEVENTEENTH CONGRESS  
First Regular Session

House Bill No.        39

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Introduced by REPRESENTATIVE ARTHUR C. YAP

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AN ACT  
CREATING A MORE EQUITABLE, PROGRESSIVE AND  
JUST TAX SYSTEM, BY ADJUSTING THE LEVEL OF  
NET TAXABLE INCOME AND NOMINAL TAX RATES  
OF THE INDIVIDUAL INCOME TAX, AMENDING FOR  
THE PURPOSE SECTION 24 (A) (1) OF REPUBLIC ACT  
NO. 8424, OTHERWISE KNOWN AS THE NATIONAL  
INTERNAL REVENUE CODE OF 1997, AS AMENDED  
BY REPUBLIC ACT NO. 9504, AND FOR OTHER  
PURPOSES

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

1       **SECTION 1.** Section 24 (A) (1) of the National Internal Revenue  
2 Code of 1997, as amended, is hereby further amended to read as follows:  
3       Section 24. *Income Tax Rates*  
4       (A) Rates of Income Tax on Individual Citizen and Individual  
5       Resident Alien of the Philippines.  
6       (1) An income tax is hereby imposed:  
7       (a) On the taxable income defined in Section 31 of this  
8       Code, other than income subject to tax under  
9       Subsections (B), (C) and (D) of this Section, derived  
10       for each taxable year from all sources within and

1 without the Philippines by every individual citizen of  
2 the Philippines residing therein;

3 (b)xxxx

4 (c)xxxx

5 The tax shall be computed in accordance with and the rates  
6 established in the following schedule:

MINIMUM WAGE	EXEMPT
MINIMUM WAGE PLUS P1 BUT NOT OVER P100,000	2%
<del>[Not over P10,000]</del> MINIMUM WAGE PLUS P100,000 BUT NOT OVER P300,000	P100+5% OF THE EXCESS OVER MINIMUM WAGE PLUS P100,000
<del>[Over P10,000 but not over P30,000]</del> MINIMUM WAGE PLUS P300,000 BUT NOT OVER P500,000	P500+10% of the excess over <del>[P10,000]</del> MINIMUM WAGE PLUS P300,000
<del>[Over P30,000 but not over P70,000]</del> MINIMUM WAGE PLUS P500,000 BUT NOT OVER P1,000,000	P2,500+15% of the excess over <del>[P30,000]</del> MINIMUM WAGE PLUS P500,000
<del>[Over P70,000 but not over P140,000]</del> MINIMUM WAGE PLUS P1,000,000 BUT NOT OVER P5,000,000	P8,500+20% of the excess over <del>[P70,000]</del> MINIMUM WAGE PLUS P1,000,000
<del>[Over P140,000 but not over P250,000]</del> MINIMUM WAGE PLUS P5,000,000 BUT NOT OVER P10,000,000	P22,500+25% of the excess over <del>[P140,000]</del> MINIMUM WAGE PLUS P5,000,000

<p><del>[Over P250,000 but not over P500,000]</del>  <b>MINIMUM WAGE PLUS P10,000,000 BUT NOT OVER P50,000,000</b></p>	<p>P50,000+30% of the excess over <del>[P250,000]</del> <b>MINIMUM WAGE PLUS P10,000,000</b></p>
<p><del>[Over P500,000]</del>  <b>MINIMUM WAGE PLUS OVER P50,000,000</b></p>	<p>P125,000+32% of the excess over <del>[P500,000]</del> <b>MINIMUM WAGE PLUS P50,000,000</b></p>

1       xxx

2                       *Provided*, That minimum wage earners as defined  
3       in Section 22 (HH) of this Code shall be exempt from the  
4       payment of income tax on their taxable income: *Provided*,  
5       *further*, That the **13<sup>th</sup> MONTH PAY, EARNED SICK,**  
6       **VACATION AND OTHER LEAVE CREDITS**  
7       **CONVERTIBLE TO CASH**, holiday pay, overtime pay,  
8       night shift differential pay, **SEPARATION PAY,**  
9       **RETIREMENT PAY** and hazard pay received by such  
10      minimum wage earners shall likewise be exempt from  
11      income tax.

12                      **PROVIDED, FINALLY, THAT NOT LATER**  
13      **THAN FIVE (5) YEARS AFTER THE**  
14      **EFFECTIVITY OF THIS ACT AND EVERY FIVE**  
15      **(5) YEARS THEREAFTER, THE NET TAXABLE**  
16      **INCOME LEVELS AND NOMINAL TAX RATES**  
17      **HEREIN STATED SHALL BE ADJUSTED TO ITS**  
18      **PRESENT VALUE USING THE CONSUMER**

