

SEVENTEENTH CONGRESS OF THE)
REPUBLIC OF THE PHILIPPINES)
First Regular Session)

HOUSE OF REPRESENTATIVES

H. No. 2599

HOUSE OF REPRESENTATIVES	
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Introduced by Representative **Vilma Santos-Recto**
6th District of Batangas

AN ACT
EXCLUDING OVERTIME PAY FROM THE COMPUTATION OF TAXABLE
INCOME AMENDING FOR THIS PURPOSE SECTION 32 (B) (7) OF REPUBLIC ACT
NO. 8424, OTHERWISE KNOWN AS THE NATIONAL INTERNAL REVENUE CODE
OF 1997, AS AMENDED

Explanatory Note

Man does not work like a machine. He cannot work indefinitely. He needs ample time to rest and revitalize in order to prepare for another day's work, while making sure that he performs to the best of his abilities at all times.

This is why labor laws in many countries prescribe a maximum number of work hours. The Philippine Labor Code prescribed the maximum hours of work for employees at eight (8) hours a day for six (6) consecutive days. If the employee works beyond eight (8) hours, the employer is required to pay additional compensation equivalent to the employee's regular wage plus at least twenty-five percent (25%) of his regular wage. If the employee renders overtime on a holiday or rest day, the rate is increased to thirty percent (30%)¹.

Employees in the government are also entitled to overtime pay but they are governed by Civil Service laws and rules.

An employee who renders overtime work puts in additional hours of work and requires greater physical and mental effort. Instead of being able to rest early and spend more time with the family, the employee is forced to extend the working hours to achieve management's goals. Thus, it is only fitting that the employee be properly compensated for additional work hours rendered.

Unfortunately, compensation received for overtime work forms part of an employee's taxable income. This not only limits the full enjoyment of monetary benefits due the employee for putting in more hours of work but also diminishes the value of the additional physical and mental effort contributed.

In order to give due recognition to the hours worked in excess of the prescribed maximum working hours, this bill seeks to exclude overtime pay from the computation of taxable income amending for the purpose Section 32 (B) (7) of Republic Act No. 8424, otherwise known as the "National Internal Revenue Code of 1997", as amended.

This proposal will cost the government foregone revenues. However, more money in taxpayers' pockets will increase disposable income and boost consumer spending which in turn would trigger demand for more goods and services and thereby stimulate activities in the industrial and service sectors and generate more taxes.

¹ Labor Code of the Philippines.

The proposed legislation is expected to benefit an estimated 39.8 M employees from the private and public sector².

Hence, immediate passage of this bill is earnestly sought.



VILMA SANTOS-RECTO

² October 2015 Labor Force Survey.

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

1 **SECTION 1.** Section 32 (B) (7) of Republic No. 8424, otherwise known as the
2 “National Internal Revenue Code of 1997,” as amended is hereby further amended to
3 read as follows:

4 “Sec. 32. Gross Income. –

5 “(A) *General Definition.* – x x x

6 “(B) *Exclusions from Gross Income.* – x x x

7 “(1) x x x

8 “(2) x x x

9 “(3) x x x

10 “(4) x x x

11 “(5) x x x

12 “(6) x x x

13 “(7) Miscellaneous items. -

14 “(a) x x x

15 “(b) x x x

16 “(c) x x x

17 “(d) x x x

18 “(e) x x x

19 “(F) OVERTIME PAY – COMPENSATION
20 DUE TO HOURS WORKED IN EXCESS OF
21 THE REQUIRED MAXIMUM WORKING
22 HOURS.

23 “(G)[(f)] x x x

24 “(H) [(g)] x x x

25 “(I) [(h)] x x x.”

1 **SEC. 2.***Implementing Rules and Regulations.* – The Bureau of Internal Revenue (BIR),
2 Department of Finance (DoF), Department of Labor and Employment (DOLE), and Civil Service
3 Commission (CSC) shall promulgate not later than thirty (30) days upon the effectivity of this
4 Act the necessary rules and regulations for its effective implementation.

5 **SEC. 3.***Repealing Clause.* - All other laws, decrees, orders, issuances and rules and
6 regulations or parts thereof inconsistent with this Act are hereby amended or repealed
7 accordingly.

8 **SEC. 4.***Effectivity.* - This Act shall take effect fifteen (15) days after its publication either
9 in the Official Gazette or in at least two (2) newspapers of general circulation.

Approved,