

Republic of the Philippines
HOUSE OF REPRESENTATIVES
Quezon City

FIFTEENTH CONGRESS

First Regular Session

HOUSE BILL NO. 3927

Introduced by Representative Hermilando I. Mandanas

EXPLANATORY NOTE

This bill seeks to amend Section 27 (A) of the National Internal Revenue Code (NIRC) of 1997, as amended, which provides for income tax rates on domestic corporations. Under the present law, the President may allow the option to be taxed based on the gross income upon the recommendation of the Secretary of Finance when the following conditions have been satisfied: (1) A tax effort ratio of twenty percent (20%) of Gross National Product (GNP); (2) A ratio of forty percent (40%) of income tax collection to total tax revenues; (3) A VAT tax effort of four percent (4%) of GNP; and (4) A 0.9 percent (0.9%) ratio of the Consolidated Public Sector Financial Position (CPSFP) to GNP. However, the concurrence of these conditions are hardly attainable.

The proposal simplifies corporate income taxation by removing all of these unattainable requisites in taxing corporation based on gross income. This bill provides another option on the part of corporate taxpayers in paying their income. Taxpayers need not substantiate and specify all of the allowable deductions which entail tedious compliance and administration process and is perceived to be susceptible to abuse or manipulation by both taxpayers and tax examiners. Every item of expense can be subjected to scrutiny as to whether or not such is really a necessary or legitimate expense. This situation greatly erodes the tax base and consequently reduces the tax take of the government.

In consistency with one of the principles of a sound tax system, proper and efficient administration of the government and its enforcement with the least inconvenience to the taxpayer will be achieved. With this measure, tax administration will be much easier.

Further, areas of discretion are minimized as the tax examiners shall validate only the accuracy of the taxpayer's declared gross sales/receipts and cost of goods sold or cost of services. Cost of goods sold are business expenses directly incurred to produce merchandise. On the other hand, cost of services are all direct cost and expenses necessarily incurred to provide services required by the customers and clients.

It would lessen paper work for both the taxpayer and tax examiner as substantiation requirement will be significantly reduced. More taxpayers will be encouraged to file their returns. And with more taxpayers, tax collection will consequently increase.

The gain in terms of improved tax compliance and collection will definitely contribute to the country's economic stability.

Hence, approval of this bill is earnestly recommended.



HON. HERMILANDO I. MANDANAS
Second District of Batangas

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AN ACT
SIMPLIFYING THE AVAILMENT OF THE GROSS INCOME TAX FOR
CORPORATIONS AMENDING FOR THE PURPOSE SECTION 27 (A) OF THE
NATIONAL INTERNAL REVENUE CODE (NIRC) OF 1997, AS AMENDED

Be it enacted by the Senate and 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. - x x x

x x x

x x x

["Provided, further, That the President, upon the recommendation of the Secretary of Finance, may, effective January 1, 2000, allow corporations the option to be taxed at fifteen percent (15%) of gross income as defined herein, after the following conditions have been satisfied:

"(1) A tax effort ratio of twenty percent (20%) of Gross National Product (GNP);

"(2) A ratio of forty percent (40%) of income tax collection to total tax revenues;

"(3) A VAT tax effort of four percent (4%) of GNP; and

"(4) A 0.9 percent (0.9%) ratio of the Consolidated Public Sector Financial Position (CPSFP) to GNP.]

PROVIDED FURTHER, THAT CORPORATIONS HAVE THE OPTION TO BE TAXED AT EIGHTEEN PERCENT (18%) OF GROSS INCOME.

"The option to be taxed based on gross income shall be available only to firms whose ratio of cost of sales to gross sales or receipts from all sources does not exceed fifty-five percent (55%).

"The election of the gross income tax option by the corporation shall be irrevocable for three (3) consecutive taxable years during which the corporation is qualified under the scheme.

"For purposes of this Section, the term '**gross income**' derived from business shall be equivalent to gross sales less sales returns, discounts and allowances and '**cost of goods sold**.' Cost of good sold' shall include all business expenses directly incurred to produce the merchandise to bring them to their present location and use.

"For a trading or merchandising concern, '**cost of goods sold**' shall include the invoice cost of the goods sold, plus import duties, freight in transporting the goods to the place where the goods are actually sold, including insurance while the goods are in transit.

"For a manufacturing concern, '**cost of goods manufactured and sold**' shall include all costs of production of finished goods, such as raw materials used, direct labor and manufacturing overhead, freight cost, insurance premiums and other costs incurred to bring the raw materials to the factory or warehouse.

"In the case of taxpayers engaged in the sale of service, '**gross income**' means gross receipts less sales returns, allowances, [and] discounts AND COST OF SERVICES. '**COST OF SERVICES**'

SHALL MEAN ALL DIRECT COSTS AND EXPENSES NECESSARILY INCURRED TO PROVIDE THE SERVICES REQUIRED BY THE CUSTOMERS AND CLIENTS INCLUDING (A) SALARIES AND EMPLOYEE BENEFITS OF PERSONNEL, CONSULTANTS AND SPECIALISTS DIRECTLY RENDERING THE SERVICE AND (B) COST OF FACILITIES DIRECTLY UTILIZED IN PROVIDING THE SERVICE SUCH AS DEPRECIATION OR RENTAL OF EQUIPMENT USED AND COST OF SUPPLIES; *PROVIDED, HOWEVER*, THAT IN THE CASE OF BANKS, '**COST OF SERVICES**' SHALL INCLUDE INTEREST EXPENSE.

SEC. 2. *Implementing Rules and Regulations.* – The Secretary of Finance shall, upon the recommendation of the Commissioner of the Bureau of Internal Revenue, promulgate the necessary rules and regulations for the effective implementation of this Act.

SEC. 3. *Repealing Clause.* – All laws, decrees, executive orders, rules and regulations or parts thereof which are contrary to or inconsistent with this Act are hereby repealed, amended or modified accordingly.

SEC. 4. *Effectivity.* – This Act shall take effect fifteen (15) days after its publication in the Official Gazette or in any two newspapers of general circulation.

Approved,