



## HOUSE OF REPRESENTATIVES

H. No. 5296

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BY REPRESENTATIVES DUAVIT, SYJUCO, ENRILE, MAGTUBO, BARBERS, SALCEDA, CASIÑO, OCAMPO, VIRADOR, MAZA, BELTRAN, MARIANO, HONTIVEROS-BARAQUEL, AGUJA, ROSALES, LAPUS, TEVES, ABAD, CABILAO, CHATTO, OLAÑO, LAGMAN, JOSON, DE GUZMAN, DOMOGAN, DUMARPA, VILLAFUERTE, ALVAREZ (A.), MANGUDADATU, PETILLA, CODILLA, AMIN, GULLAS, REYES (V.), UY (R.), UMALI (A.V.), ROMUALDO, SUSANO, HATAMAN, ABAYON, ABLAN, ABUBAKAR, AGARAO, AGBAYANI, APOSTOL, AQUINO (A.), ARBISON, BANAAG, BATERINA, BERSAMIN, BULUT, CAGAS, CARMONA, CASTELO DAZA, CELESTE, CHUNGALAO, COJUANGCO (M.), DADIVAS, DEFENSOR (A.), DEL MAR, ECLEO, ESPINA, FUENTEBELLA, GARCIA (V.), GIDAYA, GOLEZ, GOZOS, JALA, JAWORSKI, KINTANAR, MACIAS, MALANYAON, MARTINEZ, NIEVA, NOEL, NOGRALES, ORTEGA, REAL, REMULLA (G.), RODRIGUEZ, SALAPUDDIN, SEACHON-LANETE, UNICO, VALDEZ, VARGAS, VIOLAGO, WACNANG, YAPHA AND ZUBIRI, PER COMMITTEE REPORT NO. 1581

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AN ACT RESTRUCTURING THE INCOME TAXATION FOR INDIVIDUALS BY CREATING A NEW SECTION, SECTION 34-A, REPEALING SUBSECTION (L) OF SECTION 34 AND AMENDING SECTIONS 22, 24, 32 AND 35, ALL UNDER THE NATIONAL INTERNAL REVENUE CODE OF 1997, AS AMENDED

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

1           SECTION 1. Section 22 of the National Internal Revenue Code (NIRC)  
2 of 1997, as amended, is hereby further amended by adding the following  
3 definitions after subsection (FF) to read as follows:

4           “SEC. 22. *Definitions.* – When used in this Title:

5           “x x x

6           “(FF) The term ‘long-term deposit or investment  
7 certificate’ shall refer to certificate of time deposit or investment  
8 in the form of savings, common or individual trust funds, deposit  
9 substitutes, investment management accounts and other  
10 investments with a maturity period of not less than five (5) years,  
11 the form of which shall be prescribed by the Bangko Sentral ng  
12 Pilipinas (BSP) and issued by banks only (not by nonbank  
13 financial intermediaries and finance companies) to individuals in  
14 denominations of Ten thousand pesos (P10,000) and other  
15 denominations as may be prescribed by the BSP.

16           “(GG) THE TERM ‘SELF-EMPLOYED’ SHALL MEAN  
17 PERSONS ENGAGED IN TRADE OR BUSINESS AND WHO DERIVED  
18 THEIR PERSONAL INCOME FROM SUCH TRADE OR BUSINESS.  
19 THIS INCLUDES SINGLE PROPRIETORSHIPS SUCH AS, BUT NOT  
20 LIMITED TO, MANUFACTURERS, TRADERS, MARKET VENDORS,  
21 OWNERS OF EATERIES, FARMERS AND SERVICE SHOPS.

22           “(HH) THE TERM ‘PROFESSIONALS’ SHALL MEAN  
23 PERSONS WHO DERIVE THEIR INCOME FROM THE PRACTICE  
24 OF THEIR PROFESSION. THIS INCLUDES LAWYERS AND OTHER  
25 PERSONS WHO ARE REGISTERED WITH THE PROFESSIONAL  
26 REGULATION COMMISSION SUCH AS DOCTORS, DENTISTS,  
27 CERTIFIED PUBLIC ACCOUNTANTS, ARCHITECTS AND OTHERS  
28 SIMILARLY SITUATED. THE TERM ‘PROFESSIONALS’ SHALL  
29 ALSO REFER TO THOSE WHO PURSUE AN ART OR SPORTS AND

1 MAKE THEIR LIVING THEREFROM SUCH AS ARTISTS,  
2 ATHLETES AND OTHERS SIMILARLY SITUATED.”

3 SEC. 2. Subsection (A) of Section 24 of the NIRC of 1997, as  
4 amended, on income tax of individuals, is hereby further amended to read as  
5 follows:

6 “SEC. 24. *Income Tax Rates.* –

7 “(A) *Rates of Income Tax on Individual Citizen and*  
8 *Individual Resident Alien of the Philippines.* –

9 “(1) x x x

10 “(c) On the taxable income defined in Section 31 of this  
11 Code, other than income subject to tax under Subsections (B),  
12 (C) and (D) of this Section, derived for each taxable year from  
13 all sources within the Philippines by an individual alien who is a  
14 resident of the Philippines.

15 “(2) **RATES OF TAX ON TAXABLE INCOME OF**  
16 **INDIVIDUALS.** – The tax shall be computed in accordance with  
17 and at the rates established in the following schedule:

18	[“Not over P10,000 .....	5%]
19	[“Over P10,000 but not over P30,000 .....	P500 + 10% of the
20		excess over P10,000]
21	[“Over P30,000 but not over P70,000 .....	P2,500 + 15% of the
22		excess over P30,000]
23	[“Over P70,000 but not over P140,000 .....	P8,500 + 20% of the
24		excess over P70,000]
25	[“Over P140,000 but not over P250,000 ... ..	P22,500 + 25% of the
26		excess over P140,000]
27	[“Over P250,000 but not over P500,000 .....	P50,000 + 30% of the
28		excess over P250,000]
29	[“Over P500,000 .....	P125,000 + 34% of the
30		excess over P500,000
31		in 1998].

1	"NOT OVER P55,000 .....	0%
2	"OVER P55,000 BUT NOT OVER P150,000....	25% OF THE EXCESS
3		OVER P55,000
4	"OVER P150,000 BUT NOT OVER P250,000...	P23,750 + 28% OF THE
5		EXCESS OVER P150,000
6	"OVER P250,000 BUT NOT OVER P350,000...	P51,750 + 31% OF THE
7		EXCESS OVER P250,000
8	"OVER P350,000 BUT NOT OVER P500,000...	P82,750 + 33% OF THE
9		EXCESS OVER P350,000
10	"OVER P500,000.....	P132,250 + 35% OF THE
11		EXCESS OVER P500,000.

12           [*Provided*, That effective January 1, 1999, the top  
 13 marginal rate shall be thirty-three percent (33%) and effective  
 14 January 1, 2000, the said rate shall be thirty-two percent (32%).]

15           "For married individuals, the husband and wife, subject to  
 16 the provision of Section 51(D) hereof, shall compute separately  
 17 their individual income tax based on their respective total taxable  
 18 income: *Provided*, That if any income cannot be definitely  
 19 attributed to or identified as income exclusively earned or  
 20 realized by either of the spouses, the same shall be divided  
 21 equally between the spouses for the purpose of determining their  
 22 respective taxable income.

23           **"(3) SIMPLIFIED NET INCOME TAX FOR THE SELF-**  
 24 **EMPLOYED ENGAGED IN TRADE/BUSINESS AND FOR**  
 25 **PROFESSIONALS ENGAGED IN THE PRACTICE OF PROFESSION.**  
 26 **– AN INCOME TAX FOLLOWING THE PRESCRIBED RATE FOR**  
 27 **INDIVIDUALS UNDER THE PRECEDING PARAGRAPH IS HEREBY**  
 28 **IMPOSED UPON THE TAXABLE INCOME DERIVED DURING EACH**  
 29 **TAXABLE YEAR FROM ALL SOURCES WITHIN AND WITHOUT**  
 30 **THE PHILIPPINES BY AN INDIVIDUAL RESIDENT CITIZEN AND**

1 FROM ALL SOURCES WITHIN THE PHILIPPINES BY AN  
 2 INDIVIDUAL NONRESIDENT CITIZEN AND INDIVIDUAL  
 3 RESIDENT ALIEN ENGAGED IN TRADE, BUSINESS AND/OR  
 4 PRACTICE OF PROFESSION.”

5 SEC. 3. Section 32(B) of the NIRC of 1997, as amended, is hereby  
 6 further amended to read as follows:

7 “SEC. 32. *Gross Income.* –

8 “x x x

9 “(B) *Exclusions from Gross Income.* – The following  
 10 items shall not be included in gross income and shall be exempt  
 11 from taxation under this Title:

12 “x x x

13 “(7) *Miscellaneous Items.* –

14 “x x x

15 “(e) *13<sup>th</sup> Month Pay and Other Benefits.* – Gross  
 16 benefits received by officials and employees of public and  
 17 private entities: *Provided, however,* That the total exclusion  
 18 under this subparagraph shall not exceed [Thirty thousand pesos  
 19 (P30,000)] **FORTY-FIVE THOUSAND PESOS (P45,000)** which  
 20 shall cover:

21 “x x x

22 “(iv) Other benefits such as productivity incentives and  
 23 Christmas bonus: *Provided, further,* That the ceiling of [Thirty  
 24 thousand pesos (P30,000)] **FORTY-FIVE THOUSAND PESOS**  
 25 **(P45,000)** may be increased through rules and regulations issued  
 26 by the Secretary of Finance, upon recommendation of the

1 Commissioner, after considering, among others, the effect on the  
2 same of the inflation rate at the end of the taxable year.

3 "x x x

4 "(h) *Gains from Redemption of Shares in Mutual Fund.*

5 -- Gains realized by the investor upon redemption of shares of  
6 stock in a mutual fund company as defined in Section 22(BB) of  
7 this Code.

8 "(i) *'DE MINIMIS' BENEFITS. - PRIVILEGES OR*  
9 *FACILITIES FURNISHED OR OFFERED BY AN EMPLOYER TO HIS*  
10 *EMPLOYEES THAT ARE OF RELATIVELY SMALL VALUE AND*  
11 *ARE OFFERED OR FURNISHED BY THE EMPLOYER MERELY AS*  
12 *A MEANS OF PROMOTING THE HEALTH, GOODWILL,*  
13 *CONTENTMENT OR EFFICIENCY OF HIS EMPLOYEES, SUCH AS,*  
14 *BUT NOT LIMITED TO, THE FOLLOWING:*

15 "(i) MONETIZED UNUSED VACATION LEAVE CREDITS  
16 OF EMPLOYEES NOT EXCEEDING TEN (10) DAYS DURING THE  
17 YEAR;

18 "(ii) MEDICAL CASH ALLOWANCE;

19 "(iii) RICE SUBSIDY GRANTED BY AN EMPLOYER TO  
20 HIS EMPLOYEES;

21 "(iv) UNIFORMS GIVEN TO EMPLOYEES BY THE  
22 EMPLOYER;

23 "(v) MEDICAL BENEFITS GIVEN TO THE EMPLOYEES  
24 BY THE EMPLOYER;

25 "(vi) LAUNDRY ALLOWANCE;

26 "(vii) EMPLOYEE ACHIEVEMENT AWARDS GIVEN FOR  
27 INSTANCE FOR LENGTH OF SERVICE OR SAFETY  
28 ACHIEVEMENT, WHICH MUST BE IN THE FORM OF A TANGIBLE  
29 PERSONAL PROPERTY OTHER THAN CASH OR GIFT

1 CERTIFICATE, WITH AN ANNUAL MONETARY VALUE NOT  
2 EXCEEDING ONE-HALF (1/2) MONTH OF THE BASIC SALARY OF  
3 THE EMPLOYEE RECEIVING THE AWARD UNDER AN  
4 ESTABLISHED WRITTEN PLAN WHICH DOES NOT  
5 DISCRIMINATE IN FAVOR OF HIGHLY PAID EMPLOYEES;

6 "(viii) CHRISTMAS AND MAJOR ANNIVERSARY  
7 CELEBRATIONS FOR EMPLOYEES AND THEIR GUESTS;

8 "(ix) COMPANY PICNICS AND SPORTS TOURNAMENTS  
9 IN THE PHILIPPINES AND ARE PARTICIPATED EXCLUSIVELY BY  
10 EMPLOYEES; AND

11 "(x) FLOWERS, FRUITS, BOOKS OR SIMILAR ITEMS  
12 GIVEN TO EMPLOYEES UNDER SPECIAL CIRCUMSTANCES SUCH  
13 AS, BUT NOT LIMITED TO, ILLNESS, MARRIAGE AND BIRTH OF  
14 A BABY."

15 SEC. 4. Chapter VII, Title II of the NIRC of 1997, as amended, is  
16 hereby further amended by adding a new section to be known as Section 34-A  
17 to read as follows:

18 "*SEC. 34-A. DEDUCTIONS FROM THE GROSS REVENUES*  
19 *OF SELF-EMPLOYED AND/OR PROFESSIONALS. – IN COMPUTING*  
20 *THE TAXABLE INCOME SUBJECT TO TAX UNDER SUBSECTION*  
21 *24(A)(3) IN THE CASE OF INDIVIDUALS ENGAGED IN*  
22 *TRADE/BUSINESS AND/OR PRACTICE OF PROFESSION, ONLY*  
23 *THE FOLLOWING EXPENSES/DEDUCTIONS INCURRED IN DOING*  
24 *BUSINESS SHALL BE ALLOWED TO BE SUBTRACTED FROM THE*  
25 *GROSS REVENUES OF SUCH INDIVIDUALS:*

26 "(A) SALES DISCOUNTS;

27 "(B) SALES RETURNS AND ALLOWANCES;

28 "(C) RAW MATERIALS, SUPPLIES AND DIRECT LABOR;

1           “(D) SALARIES OF EMPLOYEES DIRECTLY ENGAGED  
2           IN ACTIVITIES IN THE COURSE OF OR PURSUANT TO THE  
3           BUSINESS, TRADE OR PRACTICE OF THEIR PROFESSION;

4           “(E) TELECOMMUNICATIONS, ELECTRICITY, FUEL  
5           AND WATER: *PROVIDED*, THAT THE TOTAL AMOUNT OF  
6           THESE EXPENSES SHOULD NOT EXCEED TEN PERCENT (10%)  
7           OF GROSS INCOME OF SUCH INDIVIDUAL;

8           “(F) BUSINESS RENTALS;

9           “(G) DEPRECIATION IN ACCORDANCE WITH  
10          SUBSECTION 34(F) HEREOF;

11          “(H) CONTRIBUTIONS MADE TO THE GOVERNMENT OR  
12          ANY OF ITS AGENCIES OR ANY POLITICAL SUBDIVISION  
13          THEREOF EXCLUSIVELY FOR PUBLIC PURPOSES, OR TO  
14          ACCREDITED DOMESTIC CORPORATIONS OR ASSOCIATIONS  
15          ORGANIZED AND OPERATED EXCLUSIVELY FOR RELIGIOUS,  
16          CHARITABLE, SCIENTIFIC, YOUTH AND SPORTS  
17          DEVELOPMENT, CULTURAL OR EDUCATIONAL PURPOSES, OR  
18          FOR THE REHABILITATION OF VETERANS, OR TO SOCIAL  
19          WELFARE INSTITUTIONS, OR TO NONGOVERNMENT  
20          ORGANIZATIONS, IN ACCORDANCE WITH SUBSECTION 34(H)  
21          HEREOF;

22          “(I) INTEREST PAID OR ACCRUED WITHIN A TAXABLE  
23          YEAR ON LOANS CONTRACTED FROM ACCREDITED FINANCIAL  
24          INSTITUTIONS WHICH MUST BE PROVEN TO HAVE BEEN  
25          INCURRED IN CONNECTION WITH THE CONDUCT OF A  
26          TAXPAYER'S PROFESSION, TRADE OR BUSINESS IN  
27          ACCORDANCE WITH SUBSECTION 34(B) HEREOF;

28          “(J) FREIGHT, HANDLING AND TRUCKING;

29          “(K) INSURANCE EXPENSE;



1                   “(L) PROFESSIONAL FEES;

2                   “(M) SSS, GSIS, PHILHEALTH, AND HDMF  
3 (PAG-IBIG) CONTRIBUTIONS; AND

4                   “(N) TAXES AND LICENSES IN ACCORDANCE WITH  
5 SUBSECTION 34(C) HEREOF.

6                   “FOR INDIVIDUALS ENGAGED IN TRADE/BUSINESS  
7 AND/OR PRACTICE OF THEIR PROFESSION WHOSE  
8 EXPENSES/DEDUCTIONS ENUMERATED IN THE PRECEDING  
9 PARAGRAPH ARE DIFFICULT TO DETERMINE, SAID INDIVIDUAL  
10 SHALL BE ALLOWED AN OPTIONAL STANDARD DEDUCTION  
11 EQUIVALENT TO FORTY PERCENT (40%) OF HIS GROSS  
12 REVENUES IN LIEU OF THE SAID EXPENSES/DEDUCTIONS  
13 PROVIDED HEREIN. UNLESS THE TAXPAYER SIGNIFIES IN HIS  
14 RETURN HIS INTENTION TO ELECT THE OPTIONAL STANDARD  
15 DEDUCTION, HE SHALL BE CONSIDERED AS HAVING AVAILED  
16 HIMSELF OF THE EXPENSES/DEDUCTIONS PRESCRIBED UNDER  
17 THIS SECTION. SUCH ELECTION WHEN MADE IN THE RETURN  
18 SHALL BE IRREVOCABLE FOR THE TAXABLE YEAR FOR WHICH  
19 THE RETURN IS MADE: *PROVIDED*, THAT AN INDIVIDUAL WHO  
20 IS ENTITLED TO AND CLAIMED FOR THE OPTIONAL STANDARD  
21 DEDUCTION SHALL NOT BE REQUIRED TO SUBMIT WITH HIS  
22 TAX RETURN SUCH FINANCIAL STATEMENTS OTHERWISE  
23 REQUIRED UNDER THIS CODE: *PROVIDED, FURTHER*, THAT  
24 EXCEPT WHEN THE COMMISSIONER OTHERWISE PERMITS,  
25 THE SAID INDIVIDUAL SHALL KEEP SUCH RECORDS  
26 PERTAINING TO HIS GROSS REVENUES DURING THE TAXABLE  
27 YEAR, AS MAY BE REQUIRED BY THE RULES AND  
28 REGULATIONS PROMULGATED BY THE SECRETARY OF  
29 FINANCE, UPON THE RECOMMENDATION OF THE  
30 COMMISSIONER.”

1 SEC. 5. Subsection (L) of Section 34 of the NIRC of 1997, as  
2 amended, is hereby repealed.

3 SEC. 6. Subsections (A) and (B) of Section 35 of the NIRC of 1997, as  
4 amended, are hereby further amended to read as follows:

5 "SEC. 35. *Allowance of Personal Exemption for*  
6 *Individual Taxpayer.* –

7 "(A) *In General.* – For purposes of determining the tax  
8 provided in Section 24(A) of this Title, there shall be allowed a  
9 basic personal exemption as follows:

10 "For single individual or married  
11 individual judicially decreed as  
12 legally separated with no  
13 qualified dependents.....[P20,000] **P30,000**

14 "For head of family..... [P25,000] **P37,500**

15 "For each married individual..... [P32,000] **P48,000**

16 "x x x

17 "(B) *Additional Exemption for Dependents.* – There  
18 shall be allowed an additional exemption of [Eight thousand  
19 pesos (P8,000)] **TWELVE THOUSAND PESOS (P12,000)** for each  
20 dependent not exceeding four (4).

21 "x x x."

22 SEC. 7. *Separability Clause.* – If any provision of this Act is declared  
23 invalid or unconstitutional, other provisions hereof which are not affected  
24 thereby shall continue to be in full force and effect.

25 SEC. 8. *Repealing Clause.* – Any law, presidential decree or issuance,  
26 executive order, letter of instruction, administrative order, rule or regulation

1 contrary to, or inconsistent with any provision of this Act is hereby repealed or  
2 modified accordingly.

3       SEC. 9. *Effectivity Clause.* – This Act shall take effect fifteen (15) days  
4 after its publication in the *Official Gazette* or in at least two national  
5 newspapers of general circulation, whichever date comes earlier.

Approved,

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