



HOUSE OF REPRESENTATIVES

H. No. 5521

BY REPRESENTATIVES JAVIER, NOGRALES, DEFENSOR (A.), SUSANO, CODILLA
AND MIRAFLORES, PER COMMITTEE REPORT NO. 1512

AN ACT ADOPTING THE SIMPLIFIED NET INCOME TAXATION
SCHEME FOR INDIVIDUALS ENGAGED IN TRADE/BUSINESS
AND/OR PRACTICE OF PROFESSION, AMENDING FOR THE
PURPOSE 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
2 (NIRC) of 1997, as amended, is hereby further amended by adding the
3 following definitions after Subsection (HH) to read as follows:

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

5 “X X X

6 “(HH) X X X.

7 “(II) THE TERM ‘SELF-EMPLOYED INDIVIDUALS’ SHALL
8 MEAN PERSONS WHO, INDEPENDENT OF EMPLOYER-EMPLOYEE
9 RELATIONSHIP, DERIVE INCOME FROM TRADE OR BUSINESS OR
10 FROM THE PURSUIT OF AN OCCUPATION.

11 “(JJ) THE TERM ‘PROFESSIONALS’ SHALL MEAN PERSONS
12 WHO, INDEPENDENT OF EMPLOYER-EMPLOYEE RELATIONSHIP,

1 **DERIVE INCOME FROM THEIR PROFESSION, THE PRACTICE OR**
2 **EXERCISE OF WHICH REQUIRE AN EXAMINATION AND/OR**
3 **LICENSE FROM A GOVERNMENT AGENCY.”**

4 SEC. 2. Section 24 of the NIRC of 1997, as amended, is hereby
5 further amended to read as 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 “ x x x; and

11 “(c) x x x.

12 “(2) *Rates of Tax on Taxable Income of Individuals.* –

13 “ x x x.

14 **“(3) SIMPLIFIED NET INCOME TAX FOR SELF-EMPLOYED**
15 **INDIVIDUALS AND FOR PROFESSIONALS. – AN INCOME TAX**
16 **FOLLOWING THE PRESCRIBED RATE FOR INDIVIDUALS UNDER**
17 **THE PRECEDING PARAGRAPH IS HEREBY IMPOSED UPON THE**
18 **TAXABLE INCOME DERIVED DURING EACH TAXABLE YEAR FROM**
19 **ALL SOURCES WITHIN AND WITHOUT THE PHILIPPINES BY AN**
20 **INDIVIDUAL RESIDENT CITIZEN AND FROM ALL SOURCES WITHIN**
21 **THE PHILIPPINES BY AN INDIVIDUAL NONRESIDENT CITIZEN AND**
22 **INDIVIDUAL RESIDENT ALIEN ENGAGED IN TRADE, BUSINESS OR**
23 **PRACTICE OF PROFESSION.**

24 “ x x x.”

25 SEC. 3. Section 34 of the NIRC of 1997, as amended, is hereby further
26 amended, to read as follows:

27 “SEC. 34. *Deductions from Gross Income.* – Except for
28 taxpayers earning compensation income arising from personal
29 services rendered under an employer-employee relationship where
30 no deductions shall be allowed under this Section other than under

1 Subsection (M) hereof, in computing taxable income subject to
2 income tax under Sections [24(A);] [25(A);] [26;] 27(A), (B) and
3 (C);] and 28(A)(1), there shall be allowed [the following] AS
4 deductions from gross income[;] **THE ITEMS SPECIFIED IN**
5 **PARAGRAPHS (A) TO (J) OF THIS SECTION: PROVIDED, HOWEVER,**
6 **THAT IN COMPUTING TAXABLE INCOME SUBJECT TO TAX UNDER**
7 **SECTION 24(A)(3) IN THE CASE OF SELF-EMPLOYED INDIVIDUALS**
8 **OR PROFESSIONALS, ONLY THE FOLLOWING DEDUCTIONS**
9 **SUBJECT TO SUBSTANTIATION, SHALL BE ALLOWED:**

10 (A) A REASONABLE ALLOWANCE FOR SALARIES AND
11 OTHER COMPENSATION;

12 (B) A REASONABLE ALLOWANCE FOR SUPPLIES AND
13 UTILITIES INCURRED, IN THE PURSUIT OF THE TAXPAYER'S
14 TRADE OR BUSINESS, PROFESSION OR OCCUPATION;

15 (C) A REASONABLE ALLOWANCE FOR RENTALS AND/OR
16 PAYMENTS WHICH ARE REQUIRED AS CONDITION FOR THE
17 CONTINUED USE OR POSSESSION OF PROPERTY TO WHICH THE
18 TAXPAYER HAS NOT TAKEN OR IS NOT TAKING TITLE OR IN
19 WHICH HE HAS NO EQUITY OTHER THAN THAT OF A LESSEE, USER
20 OR POSSESSOR, IN THE PURSUIT OF THE TAXPAYER'S TRADE OR
21 BUSINESS, PROFESSION OR OCCUPATION;

22 (D) 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 THE PURSUIT OF THE TAXPAYER'S TRADE OR
26 BUSINESS, PROFESSION OR OCCUPATION;

27 (E) TAXES PAID OR INCURRED WITHIN THE TAXABLE
28 YEAR, IN THE PURSUIT OF THE TAXPAYER'S TRADE OR BUSINESS,
29 PROFESSION OR OCCUPATION, EXCEPT:

30 (1) THE INCOME TAX PROVIDED FOR UNDER THIS
31 TITLE;

1 “(2) INCOME TAXES IMPOSED BY AUTHORITY OF ANY
2 FOREIGN COUNTRY;

3 “(3) ESTATE AND DONOR'S TAXES; AND

4 “(4) TAXES ON REAL PROPERTY NOT USED IN THE
5 TAXPAYER'S TRADE OR BUSINESS, PROFESSION OR OCCUPATION.

6 “(F) A REASONABLE ALLOWANCE FOR DEPRECIATION,
7 FOR THE EXHAUSTION, WEAR AND TEAR OF PROPERTY USED IN
8 THE PURSUIT OF THE TAXPAYER'S TRADE OR BUSINESS,
9 PROFESSION OR OCCUPATION;

10 “(G) A REASONABLE ALLOWANCE FOR RESEARCH AND
11 DEVELOPMENT NOT IN EXCESS OF FIVE PERCENT (5%) OF GROSS
12 INCOME, IN THE PURSUIT OF THE TAXPAYER'S TRADE OR
13 BUSINESS, PROFESSION OR OCCUPATION; AND

14 “(H) CONTRIBUTION MADE TO THE GOVERNMENT AND
15 ACCREDITED RELIEF ORGANIZATIONS FOR THE REHABILITATION
16 OF CALAMITY STRICKEN AREAS DECLARED BY THE PRESIDENT.”

17 “(A) *Expenses.* -

18 “ x x x.

19 “(L) *Optional Standard Deduction.* - In lieu of the
20 deductions allowed under the preceding Subsections, an individual
21 subject to tax under Section 24, other than a nonresident alien, may
22 elect a standard deduction in an amount not exceeding forty percent
23 (40%) of his gross [sales or gross receipts, as the case may be]
24 INCOME. x x x

25 “(M) x x x.

26 “ x x x.”

27 SEC. 4. *Disposition of Incremental Revenue from the Implementation*
28 *of this Act.* - The amount of incremental revenue derived from this Act, shall
29 be allocated and used exclusively for the following purposes:

1 (1) Nine billion two hundred million pesos (Php9.2 billion) for the
2 rehabilitation and development of Region VI (Western Visayas);

3 (2) One billion pesos (Php1.0 billion) for public tertiary education, to
4 finance the capital outlay of state universities and colleges, annually, upon
5 effectivity of this Act, with the Commission on Higher Education (CHED) as
6 the implementing agency;

7 (3) One billion pesos (Php1.0 billion) for the construction, expansion,
8 repair and development of sea ports and piers, and the development of the
9 shipping industry, annually, upon effectivity of this Act, with the Philippine
10 Ports Authority (PPA) as the implementing agency; and

11 (4) Five billion pesos (Php5.0 billion), shall be appropriated annually,
12 upon effectivity of this Act, as a 'National Standby Calamity Fund'.

13 'Incremental Revenue' shall mean the difference between the revenue
14 collection derived from self-employed individuals and professionals in taxable
15 year 2007 and the revenue collection in taxable year 2008.

16 The incremental revenue for the succeeding years, shall be computed
17 using taxable year 2007 as the base year.

18 Such allocations shall be segregated as separate trust funds by the
19 National Treasury and shall be over and above the annual appropriations for
20 similar purposes.

21 SEC. 5. *Mandatory Registration by Self-Employed Individuals and*
22 *Professionals.* – All self-employed individuals and professionals, as defined in
23 this Act, shall register with the appropriate Government licensing and/or
24 regulatory agency, for purposes of the unified list of taxpayers who are
25 self-employed individuals and professionals: *Provided, That* the Social
26 Security System (SSS), the Professional Regulations Commission (PRC), the
27 Department of Trade and Industry (DTI)-Board of Investments (BOI), and
28 other licensing and/or regulatory agencies, shall be required to submit on a

1 quarterly basis to the Bureau of Internal Revenue (BIR), a list of self-
2 employed individuals or professionals, registered with such agency.

3 SEC. 6. *Applicability Clause.* – This Act shall apply to income earned
4 or paid to, and deductions incurred or paid by, self-employed individuals and
5 professionals, effective beginning taxable year 2008.

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

9 SEC. 8. *Repealing Clause.* – Any law, presidential decree or issuance,
10 executive order, letter of instruction, administrative order, rule or regulation
11 contrary to or inconsistent with any provision of this Act is hereby repealed or
12 modified accordingly.

13 SEC. 9. *Effectivity Clause.* – This Act shall take effect fifteen (15) days
14 after its publication in the *Official Gazette* or in at least two (2) national
15 newspapers of general circulation, whichever date comes earlier.

Approved,

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