

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



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SENATE

S. No. 1631

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Introduced by SENATOR RAMON BONG REVILLA, JR.

**AN ACT
PROMOTING BUSINESS GROWTH AND RECOVERY BY REDUCING THE COST
OF BUSINESS COMPLIANCE FOR MICRO, SMALL AND MEDIUM
ENTERPRISES (MSMEs), AMENDING FOR THE PURPOSE THE NATIONAL
INTERNAL REVENUE CODE OF 1997, AS AMENDED**

EXPLANATORY NOTE

Micro, Small and Medium Enterprises (MSMEs) play a crucial role in developing the Philippine economy. MSMEs directly contribute to poverty reduction by creating jobs for the country's growing labor force, and stimulating economic development particularly in rural areas. MSMEs are training grounds for the new entrepreneurs and act as a valuable link to large enterprises as providers of support services. In the country, MSMEs are 99.5% of registered business establishments and employ about 63% of the current workforce. In the past, 40% of the country's Gross Domestic Product (GDP) was attributed to the sector.

Despite existing policies that provide an enabling environment for their development, the sector remains constrained by the escalating production cost and limited access to financing, among others. This has been even exacerbated by the global pandemic in 2020, where health restrictions have greatly affected mobility and crippled economic activities.

The bill proposes to make the optional tax on gross sales or receipts introduced under Republic Act No. 10963, or the "*Tax Reform for Acceleration and Inclusion (TRAIN) Law*", easier to comply by reducing the tax rate from eight percent (8%) to five percent (5%) of gross sales or receipts. The bill also aims to simplify the convoluted rates under the creditable withholding tax system by reducing the rates to

be used: one percent (1%) for the purchase of goods and properties, and two percent (2%) for the purchase of services. Through these measure, the hope is to provide for additional fund for business expansion for the MSMEs and expanding their capability to contribute to economic development

In view of improving the competitiveness of the MSMEs by reducing the compliance cost of tax regulations, the approval of this measure is earnestly sought


RAMON BONG REVILLA, JR.


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

1 Section 1. Section 24 of the National Internal Revenue Code of 1997, as
2 amended, is hereby further amended to read as follows:

3 "SEC. 24. *Income Tax Rates.* -

4 "(A) *Rates of Income Tax on Individual Citizen and Individual Resident Alien of*
5 *the Philippines.* -

6 "(1) xxx

7 "(2) *Rates of Tax on Taxable Income of Individuals.* - The tax shall be computed
8 in accordance with and at the rates established in the following schedule:

9 "(a) xxx

10 "(b) *Rate of Tax on Income of Purely Self-employed Individuals and/or*
11 *Professionals Whose Gross Sales or Gross Receipts and Other Non-Operating Income*
12 *Does Not Exceed the Value-added Tax (VAT) Threshold as Provided In Section*
13 *[109(BB)]* **109 (CC).** - Self-employed individuals and/or professionals shall have the
14 option to avail of [~~an eight percent (8%)~~] **A FIVE PERCENT (5%)** tax on gross sales
15 or gross receipts and other non-operating income in excess of Two hundred fifty
16 thousand pesos (P250,000) in lieu of the graduated income tax rates under

1 Subsection (A)(2)(a) of this Section and the percentage tax under Section 116 of this
2 Code.

3 "(c) *Rate of Tax for Mixed Income Earners.* - Taxpayers earning both
4 compensation income and income from business or practice of profession shall
5 be subject to the following taxes:

6 "(1) *All Income from Compensation.* - The rate prescribed under Subsection
7 (A)(2)(a) of this Section.

8 "(2) *All Income from Business or Practice of Profession.* -

9 "(a) *If Total Gross Sales and/or Gross Receipts and Other Non-Operating*
10 *Income Do Not Exceed the VAT Threshold as Provided in Section 109(CC) of this*
11 *Code.* - The rates prescribed under Subsection (A)(2)(a) of this Section on taxable
12 income, or [~~eight percent (8%)~~] **FIVE PERCENT (5%)** income tax based on gross
13 sales or gross receipts and other non-operating income in lieu of the graduated
14 income tax rates under Subsection (A)(2)(a) of this Section and the percentage tax
15 under Section 116 of this Code.

16 "xxx"

17

18 Sec. 2. Section 57 of the National Internal Revenue Code of 1997, as amended,
19 is hereby further amended to read as follows:

20 "SEC. 57. *Withholding of Tax at Source.* -

21 "(A) xxx

22 "(B) *Withholding of Creditable Tax at Source.* - The Secretary of Finance may,
23 upon the recommendation of the Commissioner, require the withholding of a tax on
24 the items of income payable to natural or juridical persons, residing in the Philippines,
25 by payor-corporation/persons as provided for by law, at the rate of [~~not less than one~~
26 ~~percent (1%) but not more than thirty two percent (32%) thereof, which shall be~~
27 ~~credited against the income tax liability of the taxpayer for the taxable year: *Provided,*~~
28 ~~That beginning January 1, 2019, the rate of the withholding shall not be less than one~~
29 ~~percent (1%) but not more than fifteen percent (15%) of the income payment] **ONE**
30 **PERCENT (1%) FOR THE PURCHASE OF GOODS AND PROPERTIES, AND**
31 **TWO PERCENT (2%) FOR THE PURCHASE OF SERVICES, INCLUDING THE**
32 **EXERCISE OF PROFESSION AND LEASE OF PROPERTIES, WHICH SHALL BE**~~

1 **CREDITED AGAINST THE INCOME TAX LIABILITY OF THE TAXPAYER FOR**
2 **THE TAXABLE YEAR.**

3 "xxx"
4

5 *Sec. 3. Implementing Rules and Regulations (IRR).* - Within thirty (30) days
6 from the effectivity of this Act, the Department of Finance (DOF) shall, in coordination
7 with the Bureau of Internal Revenue (BIR), promulgate the IRR to effectively
8 implement the provisions of this Act.

9 *Sec. 4. Separability Clause.* - If any provision or part hereof is declared invalid
10 or unconstitutional, the remainder of this Act or any provision not affected thereby
11 shall remain in full force and effect.

12 *Sec. 5. Repealing Clause.* - All laws, acts, decrees, executive orders, issuances,
13 and rules and regulations or parts thereof which are contrary to, or inconsistent with,
14 this Act are hereby repealed, amended or modified accordingly.

15 *Sec. 6. Effectivity.* - This Act shall take effect fifteen (15) days after its
16 publication either in the *Official Gazette* or in at least two (2) newspapers of general
17 circulation in the Philippines.

Approved,