

MR. LEIDO. With pleasure, Mr. Speaker.

MR. TUPAZ. Mr. Speaker, as public officials, we are now and then buffeted by some unfair reports in the papers. But when I was reading the news item about the Gentleman's so-called midnight approval of certain franchises, I came across several names of corporations which have been personally known to me because most of my practice—when I was still actively practicing law before I became elected to this Assembly—were concentrated in the Ministry of Natural Resources.

Am I correct, Mr. Speaker, when I say that of the many franchises mentioned in the papers, all of them are not new franchises but actually are renewals?

MR. LEIDO. Mr. Speaker, if I may answer the Gentleman from Agusan? He is correct in his recollection that all these licenses cited were renewals of existing licenses.

MR. TUPAZ. Am I correct in the assertion that when it comes to the renewal of licenses, actually not much judgment is involved as far as the Ministry of Natural Resources is concerned in the sense that this renewal of licenses would only entail, on the part of the Minister, the director and the staff members involved, a discovery or a scrutiny of whether or not they have followed certain rules and regulations in the past? When there is a finding that the applicants have followed certain rules and regulations in the past, then their applications will automatically be approved, Mr. Speaker, as renewed licenses?

MR. LEIDO. Not only to limit my reply to my own experience, but basically, as the Gentleman has stated, in the case of an application for renewal, one does examine whether the corporation or individual requesting for renewal of license has complied with the regulations, the laws and policies which may entitle him to request once again for the privilege to be granted these licenses.

MR. TUPAZ. Am I correct, Mr. Speaker, when I say that whether it is a renewed license or an original license, this so-called midnight approval of licenses and franchises is practically impossible because the process of getting these licenses would involve many months of bureaucratic processing? The papers will have to travel from the district level to the regional level, then up to the ministerial level and then back again to the bureau, and from the bureau, back to the district official involved in the particular area where the timber license is obtained?

MR. LEIDO. Mr. Speaker, the Gentleman is correct. In fact, I think saying that four months is the time it takes is even very generous.

MR. TUPAZ. Yes, Mr. Speaker.

MR. LEIDO. From the very same article on which I raise this point of personal privilege, it was cited there that one application was initiated in 1980.

MR. TUPAZ. Yes, Mr. Speaker.

MR. LEIDO. As the Gentleman said, midnight awards are unknown as far as timber license agreements are concerned because by the time that the timber license agreement is ready for finalization or signature of the Minister, I would say an average of one-and-a-half to two years has elapsed.

MR. TUPAZ. Thank you very much, Mr. Speaker.

THE PRESIDING OFFICER (Mr. Bateria). The Acting Floor Leader is recognized.

#### CONSIDERATION OF C. B. NO. 34 PERIOD OF SPONSORSHIP AND DEBATE

MR. ALBANO. Mr. Speaker, last night, by the unanimous consent of the Batasan, we approved a special order to calendar for today Cabinet Bill No. 34, which is the subject of Committee Report No. 254. Therefore, I move that we now consider that committee report on Cabinet Bill No. 34.

THE PRESIDING OFFICER (Mr. Bateria). Is there any objection? (*Silence*) The Chair hears none; the motion is approved.

Consideration of Cabinet Bill No. 34 is now in order. With the permission of the Body, the Secretary will read only the title of the bill without prejudice to inserting in the Record the whole text thereof.\*

THE SECRETARY-GENERAL. Cabinet Bill No. 34, entitled:

AN ACT AMENDING CERTAIN PROVISIONS OF THE NATIONAL INTERNAL REVENUE CODE OF 1977, AS AMENDED, AND FOR OTHER PURPOSES.

MR. ALBANO. Mr. Speaker, the Honorable Frisco F. San Juan, member of the Committee on Finance, will now sponsor the bill. I ask that he be recognized.

THE PRESIDING OFFICER (Mr. Bateria). The Gentleman from Rizal is recognized to sponsor the bill, Cabinet Bill No. 34.

MR. SAN JUAN. Thank you, Mr. Speaker.

\* See Appendix of this R.B. for the whole text of C.B. No. 34

To help your humble servant, may I request authority for the members of the technical panel from the BIR and from the MPRC to come to the hall and assist this humble servant.

THE PRESIDING OFFICER (Mr. Baterina). The technical panel of the BIR is requested to come forward to assist the Gentleman from Rizal in the interpellations.

### SUSPENSION OF SESSION

MR. SAN JUAN. May I ask for a suspension of the session for them to come to the hall, Mr. Speaker?

THE PRESIDING OFFICER (Mr. Baterina). The Chair declares a recess.

### RESUMPTION OF SESSION

THE PRESIDING OFFICER (Mr. Baterina). The session is resumed.

The Gentleman from Rizal is recognized.

### SPONSORSHIP SPEECH OF MINISTER SAN JUAN

MR. SAN JUAN. Mr. Speaker, your humble servant stands before his peers with a deep sense of apprehension. Among the few things dreaded by members of the legislature is the task of sponsoring a tax measure. In their representative capacity, the Members of the legislature normally look at tax measures with critical and analytical eyes because somehow they are made to explain these measures to their constituents and the subject matter of tax is not normally welcomed by our constituents. However, this afternoon it might be my good fortune to sponsor, in behalf of the Finance Committee, your Finance Committee, a measure which although in the general category of a tax measure, is not principally designed to raise revenues for the government as it is designed to rationalize our income taxation, as it is to simplify income tax administration and to minimize discretion in the allowance of deductions on the part of the taxpayer and the examiner.

Hopefully, therefore, your humble servant looks forward to coming into an agreement with the Members of the Chamber to enact the measure in the shortest possible time.

Now, how can it be claimed that the measure simplifies tax administration? Let me explain, Mr. Speaker.

In the first place, income tax is categorized into three as provided for in the measure. They are Category 1, the Compensation Income or income arising from employee-employer relationship; the second category would be business income or income from business, trade, or the exercise of profession and the like; and the third would be passive and other incomes like dividends from corporations, interests from deposits and the like. Of course, there is a fourth category of income which is called the Corporate Income, but it is not intended in this measure to revise or make any proposed changes on our corporate income tax.

Let me, at this point, explain what is embraced by compensation income. Compensation income, as I explained earlier, is one that arises from an employee-employer relationship and examples may be given, but not exclusive of others. Some examples are: salaries, wages, compensation, emoluments and honoraria. The second example would be bonuses; third, are allowances; fourth, are nonmonetary compensation given to certain employees or officers of companies or corporations. The fifth are fees to include director's fees and the like; taxable pensions and other incomes of a similar nature.

The second category, which I earlier mentioned, as business income is income from trade or business or from the exercise of profession; gain from sales or exchange of capital assets except gain arising from the sale of real property, which is already covered by Batas Pambansa Blg. 37, and gain arising from stock transactions covered by P.D. No. 1739. Included in this coverage are commissions, rental incomes and other incomes not covered by Category 1.

The third category of income covered by the measure is what we call the passive incomes which are interest from deposits, dividends from corporations, royalties, prizes and other winnings, with some exceptions.

Why do we say that this measure should be readily acceptable to our people? The reason, Mr. Speaker, is that we are herein proposing a modified gross income for fixed-income people or those which are covered by Category 1. And the manner of payment shall be by withholding from source and therefore our taxpayers would be relieved of the cumbersome process of preparing their income tax returns at the end of the year. They will no longer fall in line in front of internal revenue offices during the last days of payment of income tax, a scene that is always covered by our newspapers during the last days of the filing of income tax. Our taxpayers shall be relieved of this tortuous process.

Furthermore, we intend to retain what is provided for in P.D. No. 1773 wherein personal exemptions have been increased. Before the operation of P.D. No. 1773, tax exemptions were as follows:

For single, it was ₱1,800. Under P.D. No. 1773, which is actually the first step in the adjustment of our income taxation, it was raised to ₱3,000.

For head of the family, from ₱3,000, it was raised to ₱4,500.

For married individuals, from ₱3,000 to ₱6,000.

And allowance for dependents increased from ₱1,000 to ₱2,000.

The rates also have been proposed to be changed. At present the rates range from 3% to 70% of the taxable income of the citizen or a resident alien. In the bill before the Assembly, Mr. Speaker, the rate is changed and greatly reduced from 1% to a maximum of 35%. So, therein we can readily see the difference between the old rate which goes as high as 70% as against the rate now with a maximum of 35%.

Category 2 on business income, the rates are much reduced. In the present law, there is no differentiation between a business income and a compensation income, and they are all taxed from 3% to 70%.

In the measure before the Body, Mr. Speaker, we segregate what is called the business income, and the tax thereon ranges from 5% to 60%. Aside from the reduced rate we are proposing a schedular mode of taxation in the sense that we no longer would lump together the mixed income of our taxpayers; those who have compensation income and business income. In the present law they are all lumped together and the rates are made to apply. In the bill before us, Mr. Speaker, we separate the fixed or compensation income and the rates are applied to that. Then for business income, we again begin from zero, and the new rate is made to apply, instead of having it applied on the lumped incomes. Instead of lumping together the two incomes, these are taxed separately and, consequently, a lesser tax will result.

Mr. Speaker, on passive income, this is done in order to harmonize the present measure with existing laws, P.D. No. 1739 and P.D. No. 1800, both of which affect interest income and other passive incomes because these were all made and issued by the President in the form of decrees in connection with the reforms in our banking laws.

We said, Mr. Speaker, that there is a feature here that reduces the discretion of the taxpayer and

the income tax collector in the determination of deductions, and this will apply only to compensation income, Mr. Speaker. Deductions are built into the rates. So, after the individual exemptions have been removed from the income of a taxpayer, then the rest would be taxable income and there is no room there for deductions which are often the subject of negotiation between the taxpayer and the tax collector. In fact, it has been said that it is that aspect of our tax system which is dreaded by our citizenry who file their taxes; that, rightly or wrongly, they seem to fear the visits or the summons of our tax officials in order to explain their tax returns. Therefore, that feature will already be absent. There will no longer be that fear suffered by our people.

In that respect, I would like perhaps to say at this point that a certain wise man once said: "If a leader would like to free his people from hunger, he must first free them from fear." This is a measure that complies with this wise man's advice that we free our people from fear.

And so, Mr. Speaker, there is also a resulting ease in the computation of tax liability. Furthermore, as I explained earlier, the withholding of tax from source will be very, very convenient both for the taxpayers and the tax collectors.

Mr. Speaker, there is one little disturbing thought about the bill. That the bill may result in an erosion of our tax base or a diminution of government's income arising from much reduced rates and the fact that we are to use the schedular method of taxation rather than the global. Truth to tell, Mr. Speaker, there is indeed to be this reduction of government collection. However, it is hoped that with the simplified administration of our tax laws, then our tax collectors may be able to spend more time in the examination of tax returns of people who usually do not pay the right amount of tax.

I am glad, Mr. Speaker, that in this Assembly present are people who pay their taxes correctly and, therefore, I find no reason why we should have some difficulties in the passage of the measure.

Mr. Speaker, with these words and for the foregoing reasons, we hope and I look forward extravagantly to the speedy approval of this bill.

Thank you, Mr. Speaker.

MR. LEGASPI. Mr. Speaker.

THE PRESIDING OFFICER (Mr. Bateria). The Gentleman from Cebu is recognized.

MR. LEGASPI. Thank you, Mr. Speaker.

Will the sponsor yield to a few questions?

THE PRESIDING OFFICER (Mr. Baterina). He may, if he so desires.

MR. SAN JUAN. Very willingly, to the Gentleman from Region VII.

MR. LEGASPI. Thank you, Mr. Speaker.

Mr. Speaker, how much would be generated out of this Cabinet Bill No. 34?

MR. SAN JUAN. Mr. Speaker, your humble servant cannot put his finger on the exact amount because, as I said, there is even fear that there might be a resulting loss on account of the diminution of the rates and because of the application of a schedular mode of taxation. So herein lies my apprehensions and I am sorry I cannot answer the question of the Gentleman from Region VII categorically.

MR. LEGASPI. Mr. Speaker, will the Gentleman admit that all taxable compensation incomes would then be subject to tax?

MR. SAN JUAN. They would be subject to tax, Mr. Speaker. Of course, the income of a citizen or a resident alien in the country will have to be subjected to certain exemptions which are already provided for in the law and the resulting balance will be the only amount that will be subject to tax. That is only the taxable portion of his gross compensation income.

MR. LEGASPI. Will the Gentleman admit, Mr. Speaker, that without this amendment, at present, deductions are allowed and, therefore, those which are subject to deduction are not computed with respect to the tax to be paid?

MR. SAN JUAN. Mr. Speaker, may I be permitted to explain further to the Gentleman from Region VII? Those in fixed income groups or who receive salaries and wages, are not allowed any deductions, Mr. Speaker. They are allowed personal exemptions and in our tax laws these are differentiated. Exemptions are different from deductions. Exemptions are those given to: a single individual, ₱3,000; a married person, ₱6,000, and every child of minor age up to the fourth child, ₱2,000. Those are the exemptions. And then after those are removed from the income of a person or a taxpayer, the rate that I had read earlier, Mr. Speaker, would then be applied. Deductions, however, are present for business income or income arising from trade or exercise of profession. On top of exemptions, business is allowed to deduct cost-related expenses.

MR. LEGASPI. Mr. Speaker, I am referring to the law before the amendment by which compensation income may turn out to be totally exempt from income taxation. With this new amendment, there is a taxation of compensation income; that is, income from salaries, etc., minus personal exemption. The difference is the taxable base under the present amendment.

MR. SAN JUAN. That is right, Mr. Speaker.

MR. LEGASPI. But before the amendment, the taxable base is taxable income minus deductions minus further personal exemptions.

MR. SAN JUAN. That is right, Mr. Speaker. The Gentleman from Region VII is correct, Mr. Speaker, but in the studies made by our authorities, the reduced rate was made to apply in exchange for or in lieu of permitting deductions, because precisely allowing or disallowing deductions had been the cause of too much negotiations between the taxpayer and the tax collector. And so, in exchange for that or in lieu thereof, we imposed a lower rate, but we do not and will not recommend the deductions which were before entertained.

MR. LEGASPI. Mr. Speaker, then the sponsor admits that before this amendment, incomes coming from compensations such as salaries and bonuses are exempt from taxation because of the allowable deductions, and instead of increasing the allowable deductions or the exempt income of the taxpayer, the government, by this amendment, increases the taxable base?

MR. SAN JUAN. That is right, Mr. Speaker. Viewed from that perspective, that is correct.

MR. LEGASPI. So, the government gets benefits out of this amendment?

MR. SAN JUAN. Not really in the form of income, Mr. Speaker, because the studies show that there will be a diminution of government take using the statistics of 1978. We stand to lose, Mr. Speaker, because of the application of this rate.

MR. LEGASPI. Mr. Speaker, considering that compensation income is now taxed, does the sponsor believe that this is in accordance with the Constitution as a progressive system of taxation or is this a retrogressive one?

MR. SAN JUAN. Mr. Speaker, this is very much a progressive step or a step towards progressive taxation. What is progressive taxation anyway? Progressive tax, as I understand it, is a tax scheme where a greater part of government income from the tax is taken from those with big incomes and a lesser part is taken from the larger

majority of our people who do not make as much income as the rest. In other words, this measure is a kind of an implementation of a theory that tax laws should not merely be designed to collect tax, but it should be made to respond to the demands of the time for wealth or income to be sort of re-distributed to have less gap between those who have and those who do not have.

MR. LEGASPI. Is that taxation of gross income not only taxation of entire income but also of return on capital used in generating that income?

MR. SAN JUAN. Mr. Speaker, we are speaking at this point of business income, I suppose, and of capital that is used by a businessman.

MR. LEGASPI. No, I submit, Mr. Speaker, that a taxpayer who is paid salary and bonus is not entirely receiving salary and bonus without using capital. I am still referring to compensation income.

MR. SAN JUAN. Yes, what would be capital and nonmonetary capital, Mr. Speaker?

MR. LEGASPI. Mr. Speaker, the use of a car to earn salary or other properties in order to earn salary, for example, would still be a devoting of capital in order to obtain income?

MR. SAN JUAN. That is right, Mr. Speaker, but let me assure the Gentleman from Region VII that in the studies which resulted in the rates recommended, those have been properly considered.

MR. LEGASPI. Thank you, Mr. Speaker.

Now, on page 4, lines 8 and 9, with respect to royalties and prizes not in excess of P3,000.00, does it mean, Mr. Speaker, that these are exempt from the requirement of withholding or is there still a requirement of withholding, but on a different tax rate?

MR. SAN JUAN. They are not covered by withholding if the prizes, royalties and winnings are below P3,000.00 with the exception of sweepstakes winnings which are covered by another law and are exempt from tax, Mr. Speaker.

MR. LEGASPI. And so, do I understand, Mr. Speaker, that since the P3,000-prize is not subject to withholding, it has to be added as part of taxable income of the taxpayer? If it is added as taxable income of the taxpayer, would it be net taxable income or is it still compensation income?

#### SUSPENSION OF SESSION

MR. SAN JUAN. May I ask for a suspension, Mr. Speaker?

THE PRESIDING OFFICER (Mr. Bateria). The Chair declares a recess.

#### RESUMPTION OF SESSION

THE PRESIDING OFFICER (Mr. Bateria). The session is resumed.

Gentleman from Rizal.

MR. SAN JUAN. Mr. Speaker, the Gentleman from Region VII has brought up a subject which is in a gray area, and so I consulted our panel, Mr. Speaker. Royalties, prizes and other winnings below P3,000.00 would not be subject to withholding tax, but they have to be reported as income of the individual under Category 2. Those under Category 2 or other incomes not covered by Category 1 are to be reported, Mr. Speaker, and, consequently, if the aggregate is within a bracket where a tax has to be paid, then a corresponding tax will have to be collected.

MR. LEGASPI. Mr. Speaker, did the sponsor state that compensation income will be subject to withholding and a final tax on it will be imposed and no longer subject to any income tax return?

THE PRESIDING OFFICER (Mr. Bateria). Will the Gentleman kindly repeat?

MR. LEGASPI. Did the sponsor state that compensation income is subject to withholding and there is no need anymore to file a return because the tax thereon withheld is a final tax?

MR. SAN JUAN. That is the proposal in the bill, Mr. Speaker. It will be a final tax with certain exceptions. The exceptions are when the taxpayer has multiple sources of income, or if within the year, there has been a change in his status or in his earning capacity or actually in his earnings. Then it would not be a final withholding tax; otherwise, it will be final, and a return is to be made but not in the form that is currently prescribed. But it will be a simpler one which will be used by our government merely for purposes of data gathering, not for the imposition of a tax.

MR. LEGASPI. Assuming, Mr. Speaker, that the compensation income consists of salary, and in that same taxable year the taxpayer received a prize not in excess of P3,000.00, how would he file his return considering the fact that salary as compensation income is already subject to a final tax?

MR. SAN JUAN. Yes, Mr. Speaker. It is subject to a final tax, but he has to make a report on the prize he won, and if the total earnings will result in a taxable income, then he has to pay the tax corresponding to the amount earned by him.

MR. LEGASPI. Mr. Speaker, with respect to the system of withholding, it appears that all sources of income of a taxpayer are subject to withholding. It seems very unfair on the part of the government to entrust the matter of collection to the taxpayer. Could not the government devise a way by which it will not impose this obligation upon the taxpayer?

MR. SAN JUAN. Mr. Speaker, that matter has been studied, but the prevailing opinion is that since this is a tax paid by an employee, perhaps, to assist the government, the employer will have to be utilized. His services will have to be used, there being no way we can conceive of where tax collectors of government, perhaps, if they are to be maintained in their current strength, can still execute all of these without the help of the employer.

MR. LEGASPI. Mr. Speaker, one of the characteristics of a good tax measure is administrative feasibility; that is, the facility by which the tax could be paid. But it appears that all of these are being entrusted by the government to the taxpayer. The taxpayer keeps all the records; the taxpayer collects; and the taxpayer pays to the government what is due. Is it not rather unfair for the government which has a collecting arm like the Bureau of Internal Revenue to give this task of paying the withholding tax to the taxpayer, without even giving a commission?

MR. SAN JUAN. Mr. Speaker, any answer to the statement of the Gentleman from Region VII will be just as good—it is a question of opinion. And as I said, in our opinion, this would be the most expedient way of collecting the tax; that is, to collect it at source because the scheme of withholding is precisely anchored on the theory that you collect the tax at source. And since the source of income under Category 1 is the employer, then withholding should be done by him.

MR. LEGASPI. That is precisely the common objection, Mr. Speaker, that in making the employer the withholding agent, the government is practically shifting its obligation or duty to collect the tax, and it is now entrusting all the mechanics of collection to the withholding agent.

MR. SAN JUAN. Mr. Speaker, that is now the practice here; we are now withholding tax on our income. And if it will ease the mind of the Gentleman from Region VII, may I say that this is practiced in practically all other countries. Where there is withholding, the employer is tasked with the duty of withholding the tax that should be given or paid to the government.

MR. LEGASPI. At present there are few incomes subject to withholding, but with all these bills

now, with these amendments which are being introduced, it seems that all kinds of income will be subject to withholding.

MR. SAN JUAN. No, Mr. Speaker, only those which are covered by Category 1 and Category 3 on passive incomes are subjected to withholding. Incomes arising from business or exercise of profession or practice of trade are not subject to withholding.

MR. LEGASPI. Mr. Speaker, is line 7 on page 5 with respect to adjusted gross income on income earned outside the Philippines?

MR. SAN JUAN. Yes, Mr. Speaker.

MR. LEGASPI. Income earned within the Philippines is either in the category of compensation income or net taxable income, is that right, Mr. Speaker?

MR. SAN JUAN. That is right, Mr. Speaker.

MR. LEGASPI. Mr. Speaker, in the paragraph concerning adjusted gross income, there is an allowance for a deduction of the total amount of the national income tax actually paid to the government of the foreign country of his residence. That is on page 6, lines 6 and 7?

MR. SAN JUAN. Yes, Mr. Speaker.

MR. LEGASPI. Will this rule out the choice of a tax credit?

MR. SAN JUAN. Of a tax credit?

MR. LEGASPI. Yes, Mr. Speaker.

MR. SAN JUAN. No, Mr. Speaker. If the Gentleman will refer to page 3, the same provision is found, only that we had to transpose it to page 5 and number it as (f) just for style. But we are not making any new changes here. This is a current provision of law and it appears only in capital letter because we transpose this from one part of the law to another.

With regard to crediting tax paid in another country, this is now the practice and we still allow it.

MR. LEGASPI. Do I take it, Mr. Speaker, that the taxpayer outside of the Philippines can deduct from his gross income the total national taxes paid in the country of his residence and at the same time claim a tax credit for taxes paid to that foreign country on the income tax due on compensation income or net taxable income? Is that right, Mr. Speaker?

MR. SAN JUAN. The situation is when a citizen is abroad, Mr. Speaker.

MR. LEGASPI. Yes.

MR. SAN JUAN. Now, since P.D. No. 69 in 1973, when the government thought that it should encourage Filipino citizens who are earning abroad to remit their income here and to pay taxes in the Philippines instead of taking the risk of evading, we have prescribed a very low rate of tax for them. On top of this, whatever they pay as taxes to the foreign government is still creditable to them.

MR. LEGASPI. Do I take it, Mr. Speaker, that a foreign tax paid to a foreign country may be claimed as a deduction in order to adjust gross income and, at the same time, may be used as a credit against Philippine income taxes on taxes due on compensation income or on net taxable income?

MR. SAN JUAN. The answer is yes, Mr. Speaker, this is permitted.

MR. LEGASPI. Thank you, Mr. Speaker.

Mr. Speaker, with reference to page 7, starting with line 9, to page 8, it would seem that foreigners employed by certain companies are taxed less than Filipino citizens. May we know the rationale of this provision?

MR. SAN JUAN. Mr. Speaker, the lines and the paragraphs referred to by the Gentleman from Region VII all refer to parts of the law as it is now and we do not seek to make any amendments thereon. There will be no change from what is the current practice, and perhaps a dialogue on that would not serve any useful purpose at the present time.

MR. LEGASPI. I should think not, Mr. Speaker, in view of the fact that the tax rates which are for Filipinos have just been amended by Cabinet Bill No. 34.

MR. SAN JUAN. Mr. Speaker, since the Gentleman is insisting on the rationale behind this, let this humble Representation make the following statement: It is true in the instances covered by these paragraphs that these aliens are given a much reduced rate of tax, but the government has objectives other than the mere collection of income. For the information of the Gentleman from Region VII, it has been and still is the intention of the government to encourage multinationals to establish their regional offices in the Philippines. The theory there is that we would like to make the country the hub of business activities in Asia, for if we become such a hub, there will be a resultant effect on the economy of the country—more income of govern-

ment, because these people, instead of spending their money or funds in other countries, would be spending them in the Philippines. We wish to attract them. And this is our policy for multinationals; this is our policy for offshore banking units; this is our policy for petroleum service contractors.

MR. LEGASPI. I understand, Mr. Speaker, that incentives should be given to corporations, but this concerns employees of corporations and this discriminates against Filipino citizens because, while Filipinos are subject to the progressive rate of taxation scheme, foreigners, who are employees of multinationals and other companies included in the qualification, are paying a fixed rate only. So the matter of encouraging multinationals is not quite an argument.

MR. SAN JUAN. That happens to be the argument, Mr. Speaker. It may not be acceptable to the Gentleman from Region VII, but that is not part of the plan of government.

Mr. Speaker, if we encourage corporations, multinationals, offshore banking units or service contractors to keep their offices in the Philippines but we do not give certain relaxed rates of tax to be collected from their employees, then one act may negate the other and the result is zero. So, if we are to induce multinationals to hold or keep offices in the Philippines, we have to look at this in its completeness, in its totality and not make one negate the result of the other.

And so, Mr. Speaker, aside from giving encouragement to foreign companies to engage in business in the Philippines, we do likewise give incentives to their employees. Very often a corporation might want to come but their employees may not, so we will be back to not getting the desired result from our policy. To be consistent, therefore, the law is there and, as I said, our committee has not chosen to change the law as it is now.

MR. LEGASPI. Thank you, Mr. Speaker.

On page 11, line 17, in the definition of gross compensation income, with respect to pensions as part of gross compensation income, pensions are included as gross compensation income. Will this modify the exemption of retirement pensions given on page 13, line 6 or is this just being complemented by that provision?

MR. SAN JUAN. Mr. Speaker, there are pensions which are taxable and these are the ones paid out of schemes that have not been registered with the Bureau of Internal Revenue—with the government.

If the pension is registered with the government, it is exempt from tax, Mr. Speaker.

MR. LEGASPI. Thank you, Mr. Speaker.

With respect to allowances for transportation, which are considered gross compensation income, are these still subject to the tax considering the fact that these are amounts received and actually spent for employment purposes of the taxpayer?

MR. SAN JUAN. They are covered, Mr. Speaker; they are taxable, but allowances given to employees in the nature of a reimbursement for actual expenses incurred in pursuance of their job are not covered.

MR. LEGASPI. Do I take it, Mr. Speaker, that an Assemblyman who receives an allowance for transportation will now be taxed—on this allowance?

MR. SAN JUAN. Mr. Speaker, the answer is still the same; for Assemblyman or not, if the allowance is commutable, it will be taxable. If, however, it is given in the form of a reimbursement of expense incurred in the pursuit of his duty or work as an employee, then it is not taxable, Mr. Speaker.

MR. LEGASPI. Therefore, this enclosure of gross compensation income will depend on whether the allowance for transportation is commutable or not?

MR. SAN JUAN. That is right, Mr. Speaker.

MR. LEGASPI. If it is not commutable, it is not part of gross compensation income?

MR. SAN JUAN. That seems to be the logical consequence, Mr. Speaker.

MR. LEGASPI. Thank you, Mr. Speaker.

On page 12, line 3, in the definition of gross income, there is something about dealings in property. Will these include capital gains or capital gains still embraced under another tax measure?

MR. SAN JUAN. On capital gains, Mr. Speaker, there is a final tax now on the sale of real property. But dealings in property here are those which are not their stock in trade, and income from that will have to be part of gross income.

MR. LEGASPI. So that capital gains, Mr. Speaker, will not be considered part of taxable income?

MR. SAN JUAN. It is separate. Capital gains from property is not part of that, Mr. Speaker, because in the present law that is already subjected to a final tax.

MR. LEGASPI. Thank you, Mr. Speaker.

I notice the right to deduct medical care expenses, tuition fees paid in high school and the allowance of a working wife, even on income which is not compensation income is being taken away. May we know the reason for this?

MR. SAN JUAN. Mr. Speaker, the non-allowance of these deductions would apply only to compensation income. But on business income, certain of those expenses may qualify as deductions. Those are not allowable deductions from compensation income because, as we said, all of those were considered to build into the rates, and that is why the rates were lowered.

MR. LEGASPI. But it seems from Cabinet Bill No. 34, Mr. Speaker, that the provision itself is deleted by the placing of brackets in the provision on page 16, line 28 up to page 18, line 13, which indicates that it is deleted from the existing provision.

MR. SAN JUAN. Mr. Speaker, that close bracket on line 13 is paired with the open bracket on line 5, and that is on proof of deductions. Since we are not allowing deductions, proof does not have to be given.

MR. LEGASPI. No, this provision, Mr. Speaker, on page 16, line 28, up to page 18, line 13, refers to the allowable deductions against gross income which is not compensation income.

MR. SAN JUAN. Yes, Mr. Speaker, but the theory proposed in the bill is that only business cost-related expenses are allowed as deductions.

MR. LEGASPI. But the taxpayer, Mr. Speaker, is also a private individual who has his own medical care expenses and children in high school. The original law or the existing law allows a deduction even to taxpayers who are not earning income entirely from compensation.

MR. SAN JUAN. A fellow who earns through business or trade or the exercise of profession is still allowed exemptions. For himself, if he is married, it is ₱6,000. If he is a head of the family, it is ₱4,500. If he is a bachelor, it is ₱3,000. The increases in those exemptions are supposed to take care of all of these, which are no longer allowed.

MR. LEGASPI. Thank you, Mr. Speaker.

It seems that in the category of taxes the requirement is that the taxes must be in connection with the taxpayer's line of business, and a tax paid on another line of business may not be claimed as a deduction, is that right?

MR. SAN JUAN. Of course, Mr. Speaker. Is the Gentleman speaking of tax paid?

MR. LEGASPI. Yes.

MR. SAN JUAN. Only taxes paid in connection with the business for which income has been earned, Mr. Speaker. The key to deductions would be the words "business cost-related." In other words, a cost that is claimed to be deductible is related to the business for which income has been earned. If it is not business cost-related, that expense will not be allowed. And since the tax from one activity is not related to another activity, then certainly that tax will not be allowed for the other activity.

MR. LEGASPI. That is what I wanted to clear up, Mr. Speaker. So, it is the sponsor's thinking or opinion that a taxpayer cannot claim a deduction from a tax paid in another line of his activity?

MR. SAN JUAN. Mr. Speaker, what is deducted and allowed to be deducted in one activity practically is allowed in the totality of the deduction because these are all lumped together as business income.

MR. LEGASPI. Is it not, Mr. Speaker, that a tax paid on a transportation business can only be claimed as a deduction with respect to income earned in the transportation business and cannot be claimed as a deduction on a general merchandising business?

MR. SAN JUAN. Excuse me, Mr. Speaker.

Mr. Speaker, from the example given by the Gentleman from Region VII, a person appears to have multiple sources of income. He has a transportation business; he has a store, Mr. Speaker. The income of the individual from his transportation business and his income from the sari-sari store will be lumped together as one income. And, therefore, the business cost-related expense for one will ultimately be removed also from the lumped income of the business incomes of the individual.

MR. LEGASPI. So that, Mr. Speaker, there is no sense in using the phrase, "particular line of business or activity," considering the fact that taxes, whatever the business, may still be claimed as a deduction on income earned from a different business?

#### SUSPENSION OF SESSION

MR. SAN JUAN. Mr. Speaker, it is very important that that phrase be there, because if it is not, certain expenses may be claimed as deduction, which could not qualify as deduction.

May I ask for a suspension, Mr. Speaker?

THE PRESIDING OFFICER (Mr. Baterina). The Chair declares a recess.

#### RESUMPTION OF SESSION

THE PRESIDING OFFICER (Mr. Baterina). The session is resumed.

The sponsor is recognized.

MR. SAN JUAN. Mr. Speaker, I think the Gentleman from Region VII has a statement to make in connection with his last question.

MR. LEGASPI. Yes, I was mistaken, Mr. Speaker. I was referring to interest losses. I thought similar provisions existed with respect to taxes and, therefore, withdraw that question. That will be all.

Thank you, Mr. Speaker.

THE PRESIDING OFFICER (Mr. Baterina). The question is withdrawn.

The Gentleman from the Agricultural Labor Sector is recognized.

MR. BAYOT. Thank you, Mr. Speaker.

Will the honorable sponsor yield to just one clarificatory question?

THE PRESIDING OFFICER (Mr. Baterina). He may, if he so desires.

MR. SAN JUAN. Gladly, Mr. Speaker.

MR. BAYOT. Mr. Speaker, the proposed bill carries with it a provision that would tax yields from deposits in banks. Is that true, Mr. Speaker?

MR. SAN JUAN. That is right, Mr. Speaker, among the passive incomes that are to be taxed.

MR. BAYOT. Mr. Speaker, would the Gentleman please tell me specifically the rationale of why the yields from savings or time deposits are taxed?

MR. SAN JUAN. Because those are incomes, Mr. Speaker. They are incomes, and they are now subject to final withholding tax with the exception of interest earnings below ₱800 per bank.

MR. BAYOT. Does not the Gentleman think, Mr. Speaker, that this, in a way, would discourage savings?

MR. SAN JUAN. No, Mr. Speaker, because the tax is very much less than what the deposit makes by way of interest earnings. We are only taxing the earnings so that when a deposit is made, the depositor will surely make money and the tax we will take is only a part of his earnings. It will never go beyond his earnings.

MR. BAYOT. Does the Gentleman agree with me, if I say that the banking system is a mechanism

by which we are able to control the supply of money? Does he agree with me then?

MR. SAN JUAN. I cannot disagree with the Gentleman, Mr. Speaker.

MR. BAYOT. In times of inflation, Mr. Speaker, is it not that it is a good practice to encourage savings?

MR. SAN JUAN. It may be that for all occasions, it is good.

MR. BAYOT. Because if too much money is in circulation, Mr. Speaker, it tends to inflate prices so that the banking system serves as a mechanism of the national government to control money supply. Does the Gentleman agree with me, Mr. Speaker?

MR. SAN JUAN. Mr. Speaker, your humble servant is not an expert on economics, but from my little knowledge of the workings of banking institutions, certainly the Gentleman is correct in his statement that whenever there are funds or monies deposited in banks, they are available for utilization by the country for developmental activities.

MR. BAYOT. Yes, Mr. Speaker.

MR. SAN JUAN. Rather than being kept in the homes, where they are idle, the money supply is given momentum if they are deposited in banks.

MR. BAYOT. May I cite to the Gentleman a very specific example, Mr. Speaker? Sometimes the national government or the National Treasury floats bonds in order to encourage savings. That is one way of encouraging savings, Mr. Speaker, is that not true?

MR. SAN JUAN. Yes, Mr. Speaker.

MR. BAYOT. Will the yields from these bonds be taxed also? Will they be the same as the savings deposits or the time deposits yield? Will they be taxed also?

MR. SAN JUAN. Mr. Speaker, we have laws governing taxes on bonds. There are certain bonds which are exempt; there are others which are not exempt. I suppose they cannot be equated with savings or deposits in banks because in the case of bonds, there are specific maturity periods before they could be converted again to cash. In the case of savings deposits, those can be withdrawn any time.

MR. BAYOT. But the principle, Mr. Speaker, is still there, that in our desire to be able to influence the people to save, we want them to be attracted to the mechanism so that they would save. If we are going to impose taxes on these, then would we

not, in a way, be defeating the purpose of the bill, considering that specifically at this time we need to control the supply of money and by so doing we need to encourage savings? Maybe in the near future, Mr. Speaker, we can propose this, but in my opinion, I think this is too premature considering that we need to control our money supply as of the moment. Does the Gentleman agree with me, Mr. Speaker?

MR. SAN JUAN. I would like to agree with the Gentleman from the Agricultural Labor Sector, but I am constrained not to, because, in fact, this is now a practice. The bill merely incorporates what P.D. No. 1800 and P.D. No. 1739 have already imposed.

MR. BAYOT. So, in a way, Mr. Speaker, what the Gentleman is saying is that this has always been the practice in the past—that we have been taxing yields on savings and time deposits.

MR. SAN JUAN. Mr. Speaker, not very long ago, anyway, but it is still in the past.

MR. BAYOT. But just because we have been practicing this, can we not stop it in the meantime?

MR. SAN JUAN. That will not be advisable, Mr. Speaker, because the present law imposes tax on income and, therefore, all incomes are aggregated be they interest earnings, dividends, compensation income, income from business or trade. We all lump these together and impose a rate of 3 percent to a maximum of 70 percent.

In exchange for this cumbersome practice which leads to uncertainties, it is proposed to segregate from the income of the individual the deposit income, which in this example of the Gentleman are interest earnings from bank deposits, which are taxed at source; that is, in the bank. They are taxed at 15 percent, if they are savings deposits and 20 percent if they are time deposits. And, certainly, this is very much lower than if it will be part of the income of the individual, which may ultimately be subjected to a 40 percent or 60 percent or, sometimes, 70 percent tax. So this is simpler and easier, Mr. Speaker, and the proposition of the Gentleman may not be advisable.

MR. BAYOT. Mr. Speaker, one last question to the distinguished Gentleman, if he would allow it. Has the Gentleman noticed that recently interest rates have been going as high as 21 percent in the United States, as high as 18 percent in Singapore, and until now on our time deposits in the Philippines the interest has been pegged to only 10 percent and to 11 percent sometimes? Does the Gentleman think if we still tax these savings and time deposits, we will still be able to attract hard currency?

MR. SAN JUAN. Attract hard currency?

MR. BAYOT. Considering that money is going out now to those countries that offer higher interest rates?

In Singapore, Mr. Speaker, they are not taxing yields on savings and time deposits, because their primary reason is to attract hard currency. If we are going to adopt that here in the Philippines, does the Gentleman not think, Mr. Speaker, that we will be telling these people in a way, "Do not deposit your money here, deposit it outside?"

MR. SAN JUAN. Mr. Speaker, expanding our imagination a little bit might lead to a partial "yes" answer to the question of the Gentleman, but in a real sense, foreigners who have, let us say, dollar accounts in foreign banks will not deposit their dollars in the Philippines just to be able to earn interest from our own banks. They will come here only to invest in certain businesses where they may earn more, but we cannot conceive of people transferring their accounts to the Philippines just for the purpose of earning interest from deposits. It is very far from practical.

MR. BAYOT. Mr. Speaker, I beg to disagree with the sponsor because there are people who make their livelihood from that system. When they find that in country "A," let us say, the interest rates are high, they transfer their money there. When they find that interest in country "B" is a little bit higher there, they will transfer their money to that country. There are people who make a living from that transaction. And if they see that we tax savings and time deposits here, I can say, as sure as the sun rises tomorrow morning, we will not be able to attract those people here. Even if they have money to invest here, with these rules we have, we cannot induce them to invest, Mr. Speaker.

MR. SAN JUAN. As I said, Mr. Speaker, I cannot really visualize a foreigner who would deposit his money here just for the earnings from it; maybe he would invest it in business where he will earn more.

MR. BAYOT. Mr. Speaker, I am through with my questions, although I have one wish, that I may be allowed to submit my proposal during the period of amendments, if possible, and that this provision be laid on the table in the meantime anyway. We can always amend the bill if the time comes when it is already necessary for us to touch on savings and time deposits.

Thank you, Mr. Speaker.

MR. SAN JUAN. Mr. Speaker, let me assure the young Gentleman that I will consider his suggestion,

and I will study it in depth so that I can have a better response to him the next time it comes up.

MR. BAYOT. Thank you very much, Mr. Speaker.

MR. SAN JUAN. Thank you, Mr. Speaker.

THE PRESIDING OFFICER (Mr. Bateria). The Chair will recognize the Assemblywoman from Region IV.

MRS. REYES. Mr. Speaker, may I ask the sponsor some clarificatory questions?

MR. SAN JUAN. Very willingly, to the Lady from Region IV, Mr. Speaker.

MRS. REYES. On page 4, line 30, may I ask, Mr. Speaker, for an example of a bank interest which is exempt from income taxation?

MR. SAN JUAN. Yes, Mr. Speaker, on line 28, it says, "does not exceed P800.00 a year or P200.00 per quarter." That is not taxed anymore. That is the example, Mr. Speaker.

MRS. REYES. Mr. Speaker, in connection with the tax on bank interests, a person in any given time would be exempt from taxation on interest income that does not exceed P800.00 or P200.00 per quarter? So, I would gather, Mr. Speaker, that any person may have several deposits in several banks in order to avoid the payment of taxes on interests in his savings. Is that correct, Mr. Speaker?

MR. SAN JUAN. That is possible, Mr. Speaker, but it might be very cumbersome for a man, just to avoid a little tax, to open bank accounts in several banks just to be able to evade the tax imposed here and, possibly, a taxpayer will just keep this account and will let go whatever the bank withholds from his interest earnings.

MRS. REYES. Considering that Metro Manila has several banks, Mr. Speaker, I think that it would not be cumbersome for residents of Metro Manila to avail of such scheme in order to avoid some tax benefits such as this. Does not the Gentleman think that it will be prejudicial to a citizen in the rural areas where there are very limited banking facilities?

MR. SAN JUAN. Mr. Speaker, the Lady is correct, but in the operations, she may not be entirely right, because, in the first place, this is an old provision of law. The law now prescribes this and your committee had chosen not to disturb the provision of the law. We realize, Mr. Speaker, that a person, in order to lessen his tax payment, might open an account in certain places and let it earn only up to P800.00 in a certain bank, and the same in another bank. But how much would the deposit of a person

be if his interest earning will only be about ₱800.00 a year, at 14 percent, let us say?

To know the amount that will be deposited if the earnings would be ₱800.00 a year or ₱200.00 a quarter . . .

MRS. REYES. How much would a person deposit in a bank in order to gain ₱800.00?

MR. SAN JUAN. That is exactly what I am asking them so that they can punch their calculator correctly.

MRS. REYES. Shall we compute it at 10 percent?

MR. SAN JUAN. To earn ₱800.00 at 10 percent from a deposit, the amount will have to be ₱8,000.00. So, for every ₱8,000.00, the taxpayer or the depositor will have to go to another bank, make another deposit and then go to another bank.

MRS. REYES. But, Mr. Speaker, if a person has ₱80,000, he would have an income of ₱8,000 at the rate of 10 percent, if the ₱80,000 is placed in ten banking institutions in Metro Manila.

MR. SAN JUAN. That is right, Mr. Speaker.

MRS. REYES. A person residing in a rural area or in a province where there is only a bank or two would not be able to avail of the same. Considering that we want to help the people in the rural areas, and I presume that they need more help than people in urban areas, then I think this would be prejudicial to the former.

MR. SAN JUAN. In a sense, the Lady is correct, Mr. Speaker. But as I said, this is too little an amount for a taxpayer to go to the trouble of having several accounts of ₱8,000.00 in ten banks and then before he can withdraw from one bank, he has to ride a jeepney to go to another bank. With the cost of fuel now, maybe what he would try to withhold from the government will be much less than what he will pay for transportation just to move from one bank to another, Mr. Speaker.

MRS. REYES. Mr. Speaker, on page 11, line 18, will the Gentleman cite an example of this non-monetary compensation?

MR. SAN JUAN. Nonmonetary compensation is considered part of gross income.

MRS. REYES. Yes.

MR. SAN JUAN. Suppose, Mr. Speaker, a company gives out free lunch. That is not a monetary compensation, and has to be quantified.

MRS. REYES. Who would quantify such a compensation, Mr. Speaker?

MR. SAN JUAN. The employer should, because if the employer does not, then that will not be allowed as a business expense or business cost-related expense. But if he makes a report, then that would be taken as a deduction from his income. If he spends for the lunch of his employees but does not specify the amount for this and does not withhold the corresponding amount from the employee, then he cannot report that as an allowable business deduction. So, it is the employer or the company that should make the quantification, Mr. Speaker.

MRS. REYES. Mr. Speaker, are transportation expenses allowable as deduction from income from compensation, gross compensation?

MR. SAN JUAN. No, Mr. Speaker, that cannot be allowed. The only amount that is deducted from the income of an individual is for exemptions which are given to taxpayers, and no other amounts are allowed to be deducted from gross compensation income.

MRS. REYES. Mr. Speaker, transportation cannot be deductible from compensation income?

MR. SAN JUAN. No, Mr. Speaker. It has been built into the rates while the rates have been reduced from a 70 percent maximum to 35 percent maximum.

MRS. REYES. What would the Gentleman call the transportation expenses given to the Members of the Batasang Pambansa?

MR. SAN JUAN. I understand it is transportation expense. How would the Lady want me to call it?

MR. ALBANO. Mr. Speaker.

THE PRESIDING OFFICER (Mr. Bateria). The Acting Floor Leader is recognized.

#### SUSPENSION OF SESSION

MR. ALBANO. With the permission of the Members on the floor, may I ask for a recess?

THE PRESIDING OFFICER (Mr. Bateria). The Chair declares a recess.

#### RESUMPTION OF SESSION

THE PRESIDING OFFICER (Mr. Bateria). The session is resumed.

Gentlewoman from Region IV.

MRS. REYES. Mr. Speaker, I withdraw that question but I will ask another clarificatory question.

According to this Act, there could be several schedules of payments, and they are differentiated by the type of income and there would be different tax rates according to the kind of income, Mr. Speaker.

MR. SAN JUAN. That is right, Mr. Speaker.

MRS. REYES. In the reconciliation of such total incomes, Mr. Speaker, if an individual has different sources and different types of income, from compensation and from business and from compensation, where would the individual allowance be deducted in the consideration of the taxes due on such income, Mr. Speaker?

MR. SAN JUAN. Mr. Speaker, if I understand the Assemblywoman correctly, she visualizes an individual who has compensation income and also income from business. Maybe he is a doctor or an accountant. He has a firm and he earns from the exercise of his profession and the man is also owner of shares of corporations and, therefore, he earns dividends. The question is: where will allowances for transportation be deductible?

MRS. REYES. No, Mr. Speaker. In the determination of the tax for the total net income of an individual, where would the deduction of personal allowances be considered in his income from compensation? Or can we deduct it from his income from other sources because of the difference in the schedule of taxation?

MR. SAN JUAN. Is the Lady referring to the exemptions for being married, for being head of family, let us say, or for having children?

MRS. REYES. Yes, Mr. Speaker.

MR. SAN JUAN. The answer, Mr. Speaker, is like this. If he has compensation income, these exemptions will first be deducted from his income arising from compensation, rather than from that arising from his employment. May I start again from the beginning? When a fellow has different incomes and the question now is how he will remove from his income the amount allowed as exemptions granted by law for being married or for being the head of a family or for having children, the answer is: these exemptions are first deducted from his compensation income. If, however, the compensation income is less than the exemptions, then there is a carryover. The carryover is allowed to be deducted from his business income.

If his business income is still insufficient, then he does not pay any tax at all except regarding the passive income which shall be subjected to final withholding, the income from interest, the income from dividends. These are subjected to final with-

holding. I think all of these are found on page 10 of the bill, Mr. Speaker, from lines 1 to 4, and they are all in capital letters. I read:

"IN THE CASE OF AN INDIVIDUAL WHO DERIVES COMPENSATION AND OTHER INCOMES, THE AMOUNT OF PERSONAL AND ADDITIONAL EXEMPTIONS GRANTED UNDER THIS SECTION SHALL BE DEDUCTED FIRST FROM THE GROSS COMPENSATION INCOME. ANY EXCESS THEREOF SHALL BE DEDUCTED FROM OTHER INCOME."

I think this is a better explanation than what I said earlier.

MRS. REYES. So this will be regardless of whether his principal source of income is actually from a business, and he would only be perhaps a part-time employee?

MR. SAN JUAN. Yes, we begin with the compensation income, Mr. Speaker, and then any excess is passed on to his other income.

MRS. REYES. Thank you very much, Mr. Speaker.

MR. SAN JUAN. Thank you, Mr. Speaker.

MR. VILLEGAS. Mr. Speaker.

THE PRESIDING OFFICER (Mr. Baterina). The Gentleman from Negros Oriental is recognized.

MR. VILLEGAS. Thank you, Mr. Speaker.

Will the distinguished sponsor yield to some clarificatory questions?

THE PRESIDING OFFICER (Mr. Baterina). The sponsor may yield, if he wishes.

MR. SAN JUAN. Very willingly, Mr. Speaker, to the Gentleman from Region VII.

MR. VILLEGAS. Thank you, Mr. Speaker.

Did I hear it correctly, Mr. Speaker, that the answer of the distinguished sponsor to the question of my distinguished colleague from Cebu is that the internal revenue authorities do not have an estimate of how much revenues will be collected under this bill, Mr. Speaker?

MR. SAN JUAN. They have estimates, Mr. Speaker, but as I said, I cannot answer categorically because there are many things that can come up which may derail the estimates of the government in this bill. It should be understood, Mr. Speaker, that the model used in the studies was income of government in 1978. Between 1978 and the present, there have been other laws, decrees that affect

taxation on income. And so, at best, those are educated guesses that have been given to us. But we cannot, for sure, say that those will be the result and effect.

Mr. Speaker, in this regard we have here a situation that will not permit us of a single indisputable conclusion on a matter which is scientifically established or backed up by irrefutable evidence. No, Mr. Speaker. That is why I was hedging a direct as well as a categorical reply, because under the circumstances, I cannot do so, Mr. Speaker.

MR. VILLEGAS. Mr. Speaker, I did not ask for an accurate figure. I would like to cite to the distinguished sponsor that, for instance, every year we have estimated collections of revenues, and I would presume that to be especially so in a vital legislation such as this where the entire nation is affected. I do not think that the internal revenue authorities renege on their duties of providing the necessary data and information to help in the legislation of the proposed bill. So, I was asking only for an estimate, Mr. Speaker, not an accurate figure by itself.

MR. SAN JUAN. If estimates, Mr. Speaker, then let me say what our studies have come to reveal. It is estimated that there might be a revenue gain of about 6 percent or thereabouts on compensation income. But then there might be a loss of up to about 30 percent also on business income. And so the result may be a loss altogether. But, hopefully, Mr. Speaker, with the simplification of the tax administration and with less room for negotiation and with more time available, our tax collectors can really examine what may be questionable returns from corporations, from businessmen, and we might recoup whatever losses we might suffer as a result of this simplification of our tax system.

MR. VILLEGAS. Mr. Speaker, the answer of the distinguished sponsor is a little defensive of his position. Actually, Mr. Speaker, I am asking that question because the estimate must be made on the basis of the taxation as proposed in this bill. I am struck again by the fact, Mr. Speaker, that the distinguished sponsor stated that we are going to gain 6 percent on tax on compensation income when, before this law, we did not even have compensation income to speak of, purely because it is all in lump sum, lumped together, and the taxation rate is applied on the net taxable income rather than on compensation income. So, I cannot see how he can possibly make an estimate of a 6-percent increase purely on compensation income.

MR. SAN JUAN. Mr. Speaker, the answer is real; it is factual, the studies on these matters date back to 1976. It is a five-year effort on the part of

our tax experts who studied these very well and they have used the model of tax returns from year to year until they were convinced that possibly the models of 1978 would be the closest to the discussion and so they decided rather to use the 1978 returns for a certain area. Why can they not segregate in their studies what is compensation income from business income? That can be done by looking at the income tax returns of our taxpayers and it is so indicated there; only it is a very laborious process and so cumbersome but in spite of this, Mr. Speaker, they were able to quantify and segregate what would be compensation income and what would be business income and now they have come up with this estimate. The Gentleman might ask: "Why are we gaining?" I say, "Yes, we are gaining a little or we expect to gain a little, but certainly these gains will have to come from people with high income rather than from people with low income." I say this because, Mr. Speaker, most of those people with high income file their returns by availing of itemized deductions whereas the low income people file their income tax returns using the optional standard deductions where they do not have to gather receipts as against people who itemize.

From the experience of our tax collectors, Mr. Speaker, they find that there are many things that would not have been allowed on closer scrutiny which had been allowed under itemized deductions. This will not apply anymore, and so the result, Mr. Speaker, after examining all proposals and different rates, is that we have chosen the present rates to be the closest acceptable rates, and which are understandable by our people.

MR. VILLEGAS. Mr. Speaker, I am very satisfied with the answer. I am also satisfied that the internal revenue authorities do not renege on their duty of compiling the data and information.

MR. SAN JUAN. Of course, they do not.

MR. VILLEGAS. Mr. Speaker, my next point is this. The distinguished sponsor stated that under this proposed law the government will collect more, about 6 percent more, from tax on compensation income. However, Mr. Speaker, I do not know how the distinguished sponsor could possibly explain this considering that under the proposed bill, as a matter of fact, the government will be charging a 70 percent lower tax than what is in the existing law. Mr. Speaker, may I say this? As cited in the sponsor's studies, for instance, in the case of a taxpayer earning P10,000, under the proposed bill, he would pay only P200, but in the existing law, he would have paid P628. Again, Mr. Speaker, on compensation income, in the case of some individuals earning P60,000 as salaries, under the proposed bill,

they would pay only P6,100, whereas under the existing law, they would have paid P18,000. In short, Mr. Speaker, the salaried employee today, under this bill, would pay only 30 percent of what he would have paid under the existing law. May I know, Mr. Speaker, how the government will possibly be collecting more revenues under the proposed bill than under the existing law?

MR. SAN JUAN. Mr. Speaker, the Gentleman is speaking of ordinary wage earners who file their income tax returns by availing of the optional standard deduction and that was what I was trying to explain earlier. These people normally do not take receipts for their expenses. They do not bother to support their expenditures with receipts and so they avail of the optional standard deduction which had been increased recently from 6 percent to 10 percent; that is, optional standard deduction, without a ceiling. That is right. So, the result is that under this bill they will pay less. And the Gentleman's question now is: How come that we shall collect more?

MR. VILLEGAS. Yes, correct, Mr. Speaker.

MR. SAN JUAN. It is because of the high-income people who normally file their income tax returns by availing of the itemized deductions. For these itemized deductions, many of them will not now be allowed, and if they are not allowed even if the rate is reduced, they will have to pay a little more than what they are paying now. The result is that in totality the government is expected to make a little gain.

MR. VILLEGAS. Mr. Speaker, I have to seek the Gentleman's indulgence on this. The public would know that, in effect, this bill would really charge less than what the existing law charges. In other words, under this proposed bill the low income group and the middle income group will only pay 30 percent of what they used to pay.

MR. SAN JUAN. Mr. Speaker, we will not say by so many percent because there are many elements that will have to be considered—the amount of exemptions, the number of children, whether the taxpayer is married or not or whether he is head of the family or not, and so on. But the general statement is that the taxpayer with compensation income who used to file his income tax returns by availing of the optional standard deductions will certainly pay less under this bill than under the present law. However, the high income people who use itemized deductions in the making of their income tax returns will have to pay a little more.

MR. VILLEGAS. I beg to disagree with the distinguished sponsor because my premise was made

on the basis, Mr. Speaker, of a taxable compensation income. I have taken into account things being equal. In other words, we have an income which is subject to tax after we shall have removed the exemption already, the personal exemption of a salaried employee. And I have come to the conclusion based on the brochure that was distributed, that under this bill, we will be paying only 30 percent than what we are paying today. And with respect to the higher income group, that is, on the group beyond the P150,000 level annually, they are going to pay only 40 percent of what they would have to pay today under the present law. The thrust of my question, Mr. Speaker, actually is with respect to how really this 6 percent gain would have been made under the conditions, under the lower rates, the effective rates, under the rates of taxation that we are proposing under this bill; how we could have gained 6 percent. The distinguished sponsor replied that this is so because they would not have been able to avail of the deductions which they used to do so before.

MR. SAN JUAN. Yes, Mr. Speaker, that is right.

MR. VILLEGAS. I have also compared, Mr. Speaker, the business income in relation to the effective rate of taxation under the existing law. And I have found, Mr. Speaker, that the business income to the effective rate of taxation under the bill, Mr. Speaker, is only 70 percent of what the existing law effectively provides. Mr. Speaker, since we are still going to have the business income where there will be deductions, and considering, Mr. Speaker, that the business income taxation under the proposed bill is only 70 percent of the present rate of the existing law, does the sponsor think it will not endanger the revenue collections of the government even while we assume that everybody will be paying their taxes correctly and that collections will be made properly?

MR. SAN JUAN. Mr. Speaker, there are two matters which the Gentleman has brought up. One is with the new rates which are low for compensation income, how come that we can entertain any hope at all that our tax take will increase by 6 percent?

MR. VILLEGAS. That is correct, Mr. Speaker.

MR. SAN JUAN. And I answered the Gentleman that because the loopholes cannot be availed of now by the taxpayer and because the resultant effect, Mr. Speaker, is that especially as regard to people who itemize their expenses, they can no longer avail of itemized deductions and the result is that there will be more people who will pay their taxes now than before because many of our taxpayers are able

to evade tax; they do not come up with a taxable income after itemizing their expense, and so, they escape taxation. Under this bill, even if the rate is low, those gentlemen can no longer avail of itemized deductions and so, they will now be compelled to pay their tax to the government. The result is that the government's take will be more, hopefully by about 6 percent.

Now, the second question brought up by the Gentleman is with regard to business income. Under our present law, so many expenses, which are not strictly business cost-related, are able to get into the allowable deductions. With the present bill, only business cost-related expenses will be allowed as deductions. As a result, even if the rates are lower, the tax take may be more, although in our studies in the initial period, we may still suffer some losses. But as we gain experience, as we are able to zero in on people who normally try to evade tax payment, then the government shall be able to get more. And that is the hope that we entertain in the future. But initially, maybe on the first year or so, we might suffer a loss on business income.

MR. VILLEGAS. I want to assure the distinguished sponsor that I am not against this bill. In fact, I am in favor of this bill because it lowers taxes on all categories. As long as we have previously paid our taxes properly, we will definitely be in favor of this bill. But for certain clarifications only, in the case of the computation of what is compensation income, that is, on page 11, lines 14 up to 20 . . .

MR. SAN JUAN. Yes, Mr. Speaker.

MR. VILLEGAS. Is it my understanding, Mr. Speaker, that this compensation income as defined here is a new definition in the sense that there are items here which are not taxable in the existing law? For instance, I will cite pensions, allowances for transportation, representation, entertainment, nonmonetary compensation fees. Now my question is, under existing laws, are these items also taxable?

MR. SAN JUAN. Mr. Speaker, in the present law, the problem arises from the lumping together of compensation income with business income and passive income. They are all put together and then subjected, after being lumped together, to a rate that ranges from 3 percent to 70 percent. In the present instance, we will separate, as one category, compensation income alone and, therefore, we come up with the rate on page 11 on what is compensation income on the appropriate income of the individual.

We aggregate therefrom the business income of the person. And when it comes to compensation income, certainly all of these enumerated here would be taxable.

MR. VILLEGAS. Mr. Speaker, my impression is that under existing law these items, such as allowances for transportation, representation, entertainment, nonmonetary compensation fees are supposed to be deductions from our income. Under this bill, however, they are now part of an income instead, so that the taxpayer will have to pay for these items which today are supposed to be even deductions and are not supposed to be included in the computation of the income of an individual, is it not, Mr. Speaker?

MR. SAN JUAN. Mr. Speaker, as I said, the difficulty is in the categorization of income now. In the old law, compensation income is lumped with business income, and lumped with passive income and altogether form the taxable income of an individual. Certain deductions are allowed. In the present instance, we segregate these. We have compensation income, and the only allowed reduction is the exemptions whatsoever. Now, therefore, in the present bill, bonuses, honoraria, wages, allowances, are taxable. However, in the present law these are sometimes availed of as deductions or allowable deductions if they are used in connection with the business of the individual, as in the case of a businessman who would entertain a possible client. If he gets a receipt for that, it is an allowable deduction. Now that is completely segregated from compensation income and is treated differently in business income.

MR. VILLEGAS. I will, therefore, reform my question, Mr. Speaker: Is it the statement of the distinguished sponsor that allowances for transportation, representation, entertainment and nonmonetary compensation fees which today are not there, but let us say entertainment, representation, allowances for transportation, under existing law, are they considered part of our income?

MR. SAN JUAN. They are income, Mr. Speaker, especially representation if it is commutable. A fixed amount every month that a fellow gets is taxable. Allowance for transportation, if it is a certain amount every month, is also taxable. Those are taxable income because they are commutable income. They are all income, Mr. Speaker, and they are taxable.

MR. VILLEGAS. And under existing law, transportation expenses and some entertainment and representation expenses are also deductible from the income.

MR. SAN JUAN. That is true, Mr. Speaker, because of the lumping together of compensation income with business income and with passive income.

MR. VILLEGAS. The Gentleman has clarified the matter very well, Mr. Speaker, to my satisfaction.

MR. SAN JUAN. Thank you, Gentleman from Region VII.

MR. VILLEGAS. Mr. Speaker, I go to page 34, lines 11 to 17. It provides that for purposes of determining such ceilings or limitations, the Minister of Finance shall consider the following factors: (1) adequacy of the prescribed limits on the actual expenditures requirements of each particular industry; (2) effects of inflation on expenditure levels; provided, no ceilings shall further be imposed on items of expense already subject to ceilings under the present law.

My first question, Mr. Speaker, is: Are these regulatory powers of the Minister of Finance general in nature? What is the meaning and the intention of the proponent by this provision?

MR. SAN JUAN. Mr. Speaker, by way of explanation, this particular portion refers to business income, and our committee was tempted to prescribe certain ceilings for allowable deductions on the different industries. Let us say, for a certain industry, we would allow only so much as expense for transportation, but in another business, that allowance may be bigger, in the case of people who will have to do a lot of traveling in their trade, though there are some which are sedentary in nature. And so we said: Is it possible that we can determine by percentage of income the allowable deductions? How much should be allowed for transportation for this or that industry? For lack of statistics, we could not arrive at a definite answer to that. In the same manner, we could not answer how much should be allowed for advertisement. There are some businesses which call for heavy promotions and advertisement. And there are some which do not need as much. So, the question is: Are there statistics available to government so that instead of leaving it to negotiations between the taxpayer and the tax collector on how much should be allowed for this industry for transportation or for representation or for advertisement, we say we allow so much percentage of the income, and that is all? But we could not come up with a definite answer to that, Mr. Speaker. Where there are not enough data available to government, we look forward to a period of time in the future when due to more time that will then be available to our tax collectors, which time was used before in examining compensa-

tion income, they will possibly zero in on these items of expense of businessmen and come up later on with scientifically established or scientifically based recommendations on how much, by way of definite percentages, can be allowed for this industry as against another industry on these very questionable items of expense of representation, travel and promotions or advertisement. And so we thought, Mr. Speaker, that we can possibly give this authority to the Minister of Finance to promulgate appropriate regulations, provided, however, that these things mentioned in the paragraph that the Gentleman had read would be observed because without this provision, Mr. Speaker, we might be charged with undue delegation of power of the legislature. With these guidelines, then such a charge cannot be made to apply to the Batasang Pambansa.

MR. VILLEGAS. In other words, Mr. Speaker, the purpose of this new power to the Ministry is to minimize, if not completely avoid, the abuses on deductions that are sometimes availed of by taxpayers, is it not?

MR. SAN JUAN. We hope that that will be the result, Mr. Speaker.

MR. VILLEGAS. And, secondly, Mr. Speaker, is it also our impression that this new power now to the Ministry is to be used only to regulate deductions pertaining to an entire industry and not to a particular individual taxpayer concerned in every case?

MR. SAN JUAN. Mr. Speaker, the idea here is to establish allowable deductions on an industry-to-industry basis.

MR. VILLEGAS. Thank you, Mr. Speaker.

My last point, Mr. Speaker, is on page 7, lines 1 to 8.

MR. SAN JUAN. Page 7, lines 1 to 8. That is the first paragraph, Mr. Speaker?

MR. VILLEGAS. Yes, Mr. Speaker. I notice that in the other provisions of this bill the rate of taxation on passive income of deposits, for instance, or dividends of resident aliens or Filipinos is only 15 percent.

MR. SAN JUAN. Fifteen percent for savings and 20 percent for time deposits and yields from deposits and the like.

MR. VILLEGAS. Yes, Mr. Speaker. How come that when it comes to a nonresident alien, we are charging 30 percent. Let me state a premise, Mr. Speaker. One of the reasons why Hongkong has so many deposits from outsiders is because of its rate of taxation on deposits of foreigners or nonresidents.

and, in fact, I understand that they are charging only 15 percent.

May I know whether I am correct, Mr. Speaker, in my remarks, and I would like to find out from the distinguished sponsor why there is a nonuniform or a different rate for the same income if earned by a nonresident and another rate if it is earned by a resident alien, when, after all, both of them are aliens?

MR. SAN JUAN. Mr. Speaker, in the paragraph read by the Gentleman, a final tax of 30 percent is slapped on income from dividends, interest, royalties, prizes and other winnings of nonresident aliens because they are not in the country and it is very probable that they will be able to escape taxation. Since they are not in the Philippines, we cannot run after them, so the moment we find that we can tax, we tax them. Aliens who are here are available for a review of their returns and, therefore, it is highly probable that we can impose on them the correct amount of tax on total income. But for a foreigner who does not live here, if we have the opportunity to slap a tax and a final one at that, let it be so. Otherwise, we will not be able to get hold of him later on.

MR. VILLEGAS. Mr. Speaker, that was not my point. My point was on the different rates of taxation, not on the matter of withholding. I agree with the withholding, but it was only on the rate.

MR. SAN JUAN. On the rate?

MR. VILLEGAS. Yes.

MR. SAN JUAN. Why is it high?

MR. VILLEGAS. Higher, because the nonresident alien has to pay a higher rate than a resident alien.

MR. SAN JUAN. Yes, my answer is, in all probability, the nonresident alien will be able to escape taxation.

MR. VILLEGAS. Even with a withholding, Mr. Speaker?

#### SUSPENSION OF SESSION

MR. SAN JUAN. On withholding, of course, it is difficult to say that he can still escape that. But to be more precise, Mr. Speaker, may I consult with the staff?

May I ask for a recess?

THE PRESIDING OFFICER (Mr. Bateria). The Chair declares a recess.

#### RESUMPTION OF SESSION

THE PRESIDING OFFICER (Mr. Bateria). The session is resumed.

Gentleman from Rizal.

MR. SAN JUAN. Mr. Speaker, I have replied to the Gentleman from Region VII to the best of my knowledge on why we have to impose this tax on nonresident aliens and whether there is wisdom in it or not, I would say that there are good reasons for it, one of which I have told the Gentleman. I hope he is satisfied with the reply, Mr. Speaker.

MR. VILLEGAS. I am satisfied, Mr. Speaker, not only with the answer but also with all the answers of the distinguished sponsor.

Thank you, Mr. Speaker.

MR. SAN JUAN. Thank you, Mr. Speaker.

MR. FERNANDEZ (F.). Mr. Speaker.

THE PRESIDING OFFICER (Mr. Bateria). The Gentleman from Cebu is recognized.

MR. FERNANDEZ (F.). Thank you, Mr. Speaker.

Will the distinguished sponsor yield to a few clarificatory questions?

MR. SAN JUAN. As usual, Mr. Speaker, I am honored to engage the Gentleman in a dialogue.

MR. FERNANDEZ (F.). Mr. Speaker, may we say that one problem area in tax collection is that of the under-declaration of income by taxpayers?

MR. SAN JUAN. That is right, Mr. Speaker, that is one.

MR. FERNANDEZ (F.). Yes, and under-declaration of income occurs more often in cases of income derived from business, from the exercise of a profession, from the exercise of a trade or vocation, because the income here is not fixed, is that not correct, Mr. Speaker?

MR. SAN JUAN. That is correct, Mr. Speaker.

MR. FERNANDEZ (F.). And, conversely, we can say that the problem of under-declaration of income could hardly exist, if it could exist at all, on incomes which are fixed and which we are now categorizing under Cabinet Bill No. 24 as compensation income, is that not correct, Mr. Speaker?

MR. SAN JUAN. Normally, that would be correct, Mr. Speaker, especially if we can segregate; as we are now proposing to segregate compensation income from business income, because a taxpayer may state his total income correctly, so he is not under-declaring his total income but because of

deductions here and there, the resultant taxable income becomes very much less than what it should be.

MR. FERNANDEZ (F.). Yes, but that would bring us to another problem area; that is, the deductions. Because of the discretion of the taxpayer, as well as of the collecting agency, there is a problem that would arise with the system of deductions, is that not correct, Mr. Speaker?

MR. SAN JUAN. That is right, Mr. Speaker.

MR. FERNANDEZ (F.). Under Cabinet Bill No. 34, we are retaining the system of deductions insofar as the business income is concerned. Is that not correct?

MR. SAN JUAN. Not quite correct, Mr. Speaker, because we are now limiting these deductions to business cost-related expenses.

MR. FERNANDEZ (F.). Yes, but, nevertheless, we are retaining the system of deductions.

MR. SAN JUAN. Yes, the system is being retained.

MR. FERNANDEZ (F.). Yes, the system is retained in the category of income which, we have said, is not fixed and because it is not fixed, gives rise to the possibility of under-declaration and, therefore, to a problem in tax collection, is that not correct?

MR. SAN JUAN. That is right, Mr. Speaker.

MR. FERNANDEZ (F.). On the other hand, insofar as fixed income is concerned, which is now categorized as compensation income, we are doing away with the deduction system or the system of deduction, is that not correct?

MR. SAN JUAN. That is correct, Mr. Speaker.

MR. FERNANDEZ (F.). That being the case, may we not, therefore, say that we are retaining the system of deduction in a class of income where the possibility of tax evasion exists whereas we are doing away with the system of deduction in a class of income where that possibility does not exist?

MR. SAN JUAN. In a certain way, the Gentleman is correct, Mr. Speaker.

MR. FERNANDEZ (F.). And may we not, therefore, say that Cabinet Bill No. 34 in that respect discriminates against the more honest taxpayer?

MR. SAN JUAN. No, Mr. Speaker.

MR. FERNANDEZ (F.). And that it penalizes the more honest taxpayer than the less honest taxpayer?

MR. SAN JUAN. No, Mr. Speaker, on this point I will have to disagree with the Gentleman from Region VII because we have a preferred rate for compensation income which ranges from 1 percent to 35 percent as against the range in business income, which is from 5 percent to 60 percent. In other words, while in the earlier questioning of the Gentleman from Region VII this Representation agreed with him, in the conclusion we do not because between the premise and the conclusion are other elements which the Gentleman had not considered.

MR. FERNANDEZ (F.). And may we know what are those other elements?

MR. SAN JUAN. I just explained one of them, Mr. Speaker.

MR. FERNANDEZ (F.). The preferred rate?

MR. SAN JUAN. That, first, there is a difference in rate. And, second, the nature of income is totally different. While one arises from employment where he will not have to purchase something which later on he will have to sell, which in the case of a business income, acquisition cost will have to be deducted from the amount of money that comes to him because not all of that would be income, part of that is merely the restitution of capital, it is only the income portion that we are going to tax. And, therefore, necessarily we have to allow deductions in business income which are not present in compensation or fixed income.

MR. FERNANDEZ (F.). Now let us talk about that other factor regarding the difference between a compensation income and a business income. Is it the contention of the sponsors that a person earning a fixed compensation income does not incur cost in order to earn that income?

MR. SAN JUAN. He does, Mr. Speaker.

MR. FERNANDEZ (F.). And in the same way that we allow the deduction of cost of income earned from business, should we not allow a deduction of cost on income earned from compensation?

MR. SAN JUAN. It does not follow in the same vein, Mr. Speaker, because with regard to employment income, there are not present therein the conditions that may be found in business income. The conditions are very different, Mr. Speaker.

MR. FERNANDEZ (F.). Yes, the conditions may be different, but just the same there are costs involved, is that not correct, Mr. Speaker?

MR. SAN JUAN. Yes, in a way there are costs involved, Mr. Speaker?

MR. FERNANDEZ (F.). And if we talk about costs and the deduction of costs from what is earned, should it not logically follow that whatever the income is, the costs should be deducted?

MR. SAN JUAN. Mr. Speaker, by way of explaining to the Gentleman, since he will readily agree that compensation income is far different from business income, we have to propose a different way of taxing one from the other. In compensation income we had built into the rates—that is why we have lower rates—the estimates on what can be allowed an individual for necessary expenses in performing his work as an employee. Maybe he goes to office, he pays for his transportation. Maybe he has to buy clothes. Those we have considered, Mr. Speaker, and, therefore, we said that those items of expense had been built into the rates. So that we now come with a favorable rate for compensation income and in doing so, we were able to reduce the area of discretion on the part of the taxpayer and on the part of the tax collector on what should be allowed as expense and what should be disallowed. In other words, there is the income, and you apply this rate after removing the exemptions, and that is it. I wish it could be done in the same manner for business income, but up to this point in time we have not yet arrived at a formula that can be made almost in the same manner as the formula used in permitting certain expenses to be built into the rates of tax to be imposed. I wish we could do it and, therefore, we come up with a truly gross income. But as the Gentleman can see, Mr. Speaker, this is a modified gross income tax for compensation income, which is still a net income method, when it comes to business income.

MR. FERNANDEZ (F.). Is it, therefore, the position of the sponsors of the bill that while they claim that the cost of an individual in earning his compensation has been built into what is referred to as the preferred rates, the extent to which these have been built into them does not actually approximate the benefit that the individual would stand to gain under the present system of deductions under the existing law?

MR. SAN JUAN. Mr. Speaker, the study shows that the rates herein proposed would be favorable ordinarily to our taxpayers who derive income out of compensation. Statistics show, Mr. Speaker, that most of them use the optional standard deduction in making their returns. And the charts available to the Members of the Batasan would show that in almost all instances, maybe in all instances, a taxpayer who uses the optional standard deduction will pay less under this scheme than in the present law.

MR. FERNANDEZ (F.). But how about those who use itemized deductions, Mr. Speaker?

MR. SAN JUAN. Mr. Speaker, there is a little problem in that, because those who itemize are sometimes not paying the right tax to the government. And, consequently, they may have to pay a little more than what they are paying under the existing law.

MR. FERNANDEZ (F.). But even those who are paying the right taxes under itemized deductions would still be paying more under the present rates, is that not correct?

MR. SAN JUAN. I am not very sure, Mr. Speaker, because what is right and what is not right by way of amount of tax paid is something very relative. However, if it is true that the taxpayer is very religiously observing the law, approximately what he will pay under this bill will be about the same as what he would be paying under the existing law.

MR. FERNANDEZ (F.). I see. Under the existing law, one of the deductions that a taxpayer can claim under a system of itemized deduction is the amount corresponding to the basic high school tuition fees of any of his children at the rate of ₱250 per child, is that not correct?

MR. SAN JUAN. That is correct, Mr. Speaker.

MR. FERNANDEZ (F.). Supposing a taxpayer, a married man with four children, earns ₱14,250 in one year, applying the exemptions, he is entitled to ₱6,000 as head of the family. He is entitled to ₱2,000 per child, and times four, would be ₱8,000; so he is entitled to a total exemption of ₱14,000. Now, as I said, he is earning ₱14,250. He has one child in high school for whom he paid ₱300.00 in tuition fee. But he is entitled under existing law to a deduction of ₱250 and, therefore, under existing law, he does not have a taxable income, is that not correct?

MR. SAN JUAN. That is right, Mr. Speaker, under the example given by the Gentleman.

MR. FERNANDEZ (F.). Yes, but then under Cabinet Bill No. 34, he is not entitled to the deduction of ₱250. So, he will pay income tax on ₱250, is that not correct?

MR. SAN JUAN. That is correct, Mr. Speaker.

MR. FERNANDEZ (F.). And so, in that sense, therefore, Cabinet Bill No. 34, hits the low income taxpayer, is that not correct?

MR. SAN JUAN. Mr. Speaker, the Gentleman might have missed a statement which I made during

the sponsorship of the bill. That Cabinet Bill No. 34 is merely a sequel to a complete plan, which is tied up with the increase in the exemptions because formerly the exemptions granted by law to our taxpayers were very much lower than what is now provided as a result of P.D. No. 1773, and this was tied up with Cabinet Bill No. 34, only that we did not have enough time to lump them together into one law. So that Cabinet Bill No. 34 is actually a sequel to the decree issued by the President. Taken together, the decree and the bill, in totality, is a big relief to our taxpayers.

MR. FERNANDEZ (F.). Mr. Speaker, may I know from the distinguished sponsor whether the President in promulgating the decree increasing the tax exemptions announced that the increase in the tax exemptions was conditioned upon our people's accepting a new tax rate under Cabinet Bill No. 34?

MR. SAN JUAN. Mr. Speaker, the President did not announce, but I wish to assure the Gentleman that it was part of an overall plan. Actually, the Prime Minister had advised this humble Representation that in truth this is a sequel to the decree I earlier mentioned, P.D. No. 1773.

MR. FERNANDEZ (F.). Be that as it may, Mr. Speaker, let us not argue whether it is a sequel or not. The fact is that under the present law now existing, a family man of four children is entitled to total exemptions of P14,000 plus the deductions under the existing law. Now, in my example, a family man earning P14,250 with one child in high school, under Cabinet Bill No. 34, would be paying a tax on P250 whereas under the existing law he would not be paying anything. Is that not correct?

MR. SAN JUAN. That is correct, Mr. Speaker.

MR. FERNANDEZ (F.). So, in that sense, Cabinet Bill No. 34 would hit the low income earner. Is that not correct?

MR. SAN JUAN. May I know from the Gentleman how much tax this person would pay?

MR. FERNANDEZ (F.). Let us disregard the amount of the tax. It may be small as far as the sponsors are concerned but to the taxpayer that is nevertheless substantial. The fact is that he would be paying taxes where he is not paying taxes now.

Now, another question in the same example. Supposing that family man has two of his four children in high school and then during the year his four children got sick, got hospitalized, for each of whom he spent medical expenses amounting to more than P500 each but under the law he is entitled only to P500 each, or a total of not more than P2,000.

Let us say he is earning P16,500, under the present law, he would not be paying taxes on his income. Is that correct?

MR. SAN JUAN. Yes, Mr. Speaker.

MR. FERNANDEZ (F.). But then, under Cabinet Bill No. 34, he would be paying a tax on P2,500. Is that not correct?

MR. SAN JUAN. Mr. Speaker, maybe when final refinements are made on the bill, these examples will apply because we will now begin, and there have been submitted to our committee certain rates that would start from zero, instead of starting from 1 percent, and when we start from zero, the cases indicated by the Gentleman from Cebu will no longer be material.

MR. FERNANDEZ (F.). Is the distinguished sponsor referring to possible amendments to the provisions of Cabinet Bill No. 34?

MR. SAN JUAN. Yes, Mr. Speaker, on the rates.

MR. FERNANDEZ (F.). Yes, but as of now without those amendments, my examples would be valid, would they not?

MR. SAN JUAN. Not very valid, Mr. Speaker.

MR. FERNANDEZ (F.). I think, I have made my point. That is all.

Thank you very much, Mr. Speaker.

MR. MONTEMAYOR. Mr. Speaker.

THE PRESIDING OFFICER (Mr. Bateria). The Gentleman from Pangasinan, the Honorable Jeremias U. Montemayor, is recognized.

MR. MONTEMAYOR. Thank you, Mr. Speaker.

Will the distinguished sponsor yield to a few clarificatory questions?

MR. SAN JUAN. Very willingly, Mr. Speaker, to the Gentleman from Region I.

MR. MONTEMAYOR. Mr. Speaker, my questions will deal mainly on not so much the textual meaning of the bill but on its ultimate intent and the basic policy. I notice that under the schedular system there are three groups of taxpayers. Is there any intention to tax one or the other group more heavily or more lightly than the others?

MR. SAN JUAN. I would not know how to answer the Gentleman, Mr. Speaker, except by citing provisions of the bill.

MR. MONTEMAYOR. May I explain the questions, Mr. Speaker? For example, under the first group

compensation income, we have rates ranging from 1 percent to 35 percent.

MR. SAN JUAN. Yes, Mr. Speaker.

MR. MONTEMAYOR. And then under the second group, we have, I think, between 5 percent and 60 percent. And under the third group, we have another percentage system.

MR. SAN JUAN. We have 15 percent for savings and 20 percent for time deposits and deposit substitutes.

MR. MONTEMAYOR. Yes, Mr. Speaker. In the final effect, is it the intention to impose a heavier burden on one group than on the other group or groups? Or is there no such intention, the intention being to impose a uniform burden more or less?

MR. SAN JUAN. Mr. Speaker, there is an intent to favor or to lessen the tax on salaried people as against those who earn from the practice of profession or by trading or engaging in business. There is such an intention on the part of government because, as earlier pointed out, it is easy to quantify the salaries of people and, therefore, applying a tax on them at a lower rate may be fair to the government and to the taxpayer. When it comes to business taxes, Mr. Speaker, it is very difficult to arrive at the right amount that a fellow or a taxpayer should pay. Therefore, there is more employment of government manpower and manhours of work in determining how much a fellow should pay and, consequently, we slap a higher rate of tax on him. Furthermore, Mr. Speaker, we would like to say that as an intention of government, we are proposing herein a lighter burden for all the categories, only that we may have to have more people now than before who should pay taxes because of the elimination of deductions which were allowed before and not allowed now. More people will pay tax, although rate-wise, the rate is lower now than before.

MR. MONTEMAYOR. Thank you, Mr. Speaker, for the very enlightening answer.

It would seem that the distinguished sponsor's answer, Mr. Speaker, is borne out by the estimate that under the first group we expect a gain of 6 percent or so from the expectation that more of this group will be motivated to pay their income tax.

MR. SAN JUAN. Yes, Mr. Speaker, on compensation income.

MR. MONTEMAYOR. But under the second group we expect a loss.

MR. SAN JUAN. Initially, we expect a loss, but because our tax collectors will be relieved of a tedious task in reviewing income as compensation income, then they will have more time to give to business income and, eventually, we might come up with more income from business than we are now getting, and, therefore, this would result in what we term as a real progressive income because those are the people in business who earn more and, therefore, they should contribute more for the upkeep of government than those who earn less.

MR. MONTEMAYOR. Thank you, Mr. Speaker.

But for the first year, we would not have firm estimates as to whether we can offset the loss under the second group by any gain under the first group.

MR. SAN JUAN. We may not be able to offset the loss by the gain, Mr. Speaker.

MR. MONTEMAYOR. Mr. Speaker, I notice in the Explanatory Note the term "progressive" system of income taxation. I understand by the term progressive system one that, among other things, taxes the richer and the more affluent sectors more heavily relative to the poorer and the less well-off.

MR. SAN JUAN. That is right, Mr. Speaker. That is almost the correct definition of a progressive tax although Mr. Jose, an expert on taxation, says in the *Tax Monthly*: "Progressive tax system is one where a larger fraction of income is taken by the system from larger incomes than from smaller incomes." It is the same, I think, in substance.

MR. MONTEMAYOR. In other words, Mr. Speaker, taxation can be used and is actually being used as an instrument to achieve the social goals of the Constitution. Is that not right?

MR. SAN JUAN. That is correct, Mr. Speaker. As Section 17 of Article VIII requires us to evolve a progressive tax system, this is in compliance with that mandate, Mr. Speaker.

MR. MONTEMAYOR. Mr. Speaker, according to the repeated declarations of the top leadership of our country, agrarian reform is the cornerstone of the New Society. Of course, a cornerstone is not only a stone in the corner; it is a foundation stone and it is put in the corner so that all the other stones will be aligned to it. Now, taxation policy, fiscal policy, fiscal programs, are some of the stones in the structure.

In some countries, Mr. Speaker, agrarian reform is accomplished merely by the taxation policy. For example, in such countries, land that is tenanted is taxed heavily and land that is cultivated by the

tiller is taxed lightly. Income coming from rental of land is taxed heavily but the agricultural income of the tiller is taxed lightly. If taxation policy, Mr. Speaker, is an instrument to achieve constitutional goals, and agrarian reform is the cornerstone of our New Society, and is a program that is mandated by our Constitution, would the sponsor be amenable to an amendment to this bill so that the second group will be more sophisticatedly classified, so that income from landlords on tenanted lands, lands that are owned by those who are not tilling the land, will be taxed more heavily, while the income of the self-cultivating tenant will be taxed lightly? What would be the sponsor's reaction to that idea, Mr. Speaker?

MR. SAN JUAN. Mr. Speaker, that might be a complicated process and I cannot, at the moment, say categorically that it will be acceptable because in the first place, this Representation is of the belief that we no longer have tenants in the Philippines. We have removed tenancy as a feature of our agricultural society; we do not have tenants anymore. We have leasehold arrangements between landowners and the tillers but we do not have tenants anymore.

So, perhaps, the Gentleman who is more authoritative on this would say that, of course, we do not have that anymore and so the proposition he mentioned about tenanted land being taxed heavily may not apply to the Philippine situation at this time.

MR. MONTEMAYOR. Mr. Speaker, I am really shocked by the distinguished sponsor's understanding about the existence or nonexistence of tenancy in the Philippines. There are about 2 million tenants in the Philippines and, of these, 60 percent are rice and corn tenants, so that would make rice and corn tenants 1,200,000. Of these 1,200,000 less than 50 percent will be given lands under Operation Land Transfer. Assuming that it is fully implemented, that would mean that only about 30 percent, at most, of all the tenants in the country will become landowners under Operation Land Transfer.

MR. SAN JUAN. I am sorry that I have shocked the Gentleman with my ignorance, but as I admitted earlier, he is more authoritative on the subject matter. I was merely relying on a proclamation of the President declaring tenancy to be a dead matter in the country and, perhaps, it is still under implementation, but I am sad to note that we still have some tenants.

MR. MONTEMAYOR. I cannot blame the distinguished sponsor too much because sometimes the press releases are too general and overoptimistic in tenor. Anyway, if the distinguished sponsor

feels that my question is too novel at this time, I would merely like to re-echo the policy that the New Society is supposed to be a rebellion of the poor. Nevertheless, landlord influence is still strong.

Is it so hard, therefore, to implement or to draft a law like the one I am contemplating even in the New Society which is for a rebellion of the poor, and wherein land reform is supposed to be the cornerstone?

MR. SAN JUAN. It is desirable, but perhaps the remedy would not be in an income tax law but in a real property tax law.

MR. MONTEMAYOR. That could be a good consideration, except that perhaps we could attack the problem on both fronts, not only on the property tax front but also on the income tax front. But I will not press this proposal, Mr. Speaker, because perhaps it has never been thought of before.

MR. SAN JUAN. It was considered, Mr. Speaker, but the opinion was that the matter can better be taken care of in real property taxation rather than on income taxation. In fact, our committee was confronted with certain ideas about presumptive tax on agricultural income on land. If land is not used, then what would be the income if that land had been properly used and then we slapped a tax on that. But we thought that we are not prepared for those matters at this point in time, Mr. Speaker.

MR. MONTEMAYOR. I was only hoping, Mr. Speaker, that when the President announces a policy so basic, when he says that "land reform is the cornerstone of the New Society," everyone would take it seriously.

MR. SAN JUAN. We do take it seriously, Mr. Speaker. We do not say we are not taking it seriously. In fact, I was thinking of it so seriously that I thought we did not have any more tenants.

MR. MONTEMAYOR. That is a good way of speaking about it, Mr. Speaker, I mean, if we could only abolish tenancy by merely thinking seriously about it, but the fact is the tenants are still here.

Moving to another question of basic policy, I understand, Mr. Speaker, that while we are now talking about income tax . . .

MR. SAN JUAN. That is right.

MR. MONTEMAYOR. Income tax is direct tax. But I understand that 70 percent of tax revenue in the Philippines comes from indirect taxes, meaning to say, sales taxes, etc. whereby people contribute to the government indirectly by the purchase or use of consumer goods.

Now, I bring this matter up, Mr. Speaker, because we are having a bigger and bigger budget for each passing year, and we want to raise more revenues and, as a matter of fact, some of us are surprised why this proposed tax is not principally intended to raise more revenues. But our budget is growing every year, the demand for government services is increasing, the teachers are asking for higher salaries, the doctors are asking for higher salaries, the workers are asking for higher wages. Therefore, one would expect that the government should raise more revenues. Considering, Mr. Speaker, that indirect taxes are the biggest sources of tax revenue, should we not give more emphasis on increasing the income of the common people so that they can buy more, and by buying more, they can contribute more indirect taxes and thereby enlarge the revenue of government more effectively. I would like to seek the Gentleman's reaction to this, Mr. Speaker.

MR. SAN JUAN. Mr. Speaker, we fully subscribe to the thesis of the Gentleman that we should increase income in the countryside. Since these people comprise the greater segment of our society, there will be more volume in trade and, consequently, economy of the country can improve because as their buying power is increased, they will have more to spend. We can have more market for the produce of industry, and, consequently, an improvement in the economy. We cannot differ with the Gentleman on that, Mr. Speaker.

MR. MONTEMAYOR. Thank you, Mr. Speaker. As the distinguished sponsor will notice, Mr. Speaker, I am going a little into economic policy because, basically, taxation policy will have to affect and be affected by economic policy. But I am coming to my last point, Mr. Speaker, that to increase the taxing capacity of this government and the tax paying capacity of our people, it is not enough that we increase production but that we also distribute the fruits of production more and more equitably. May I be allowed to give a clearer premise for my question, Mr. Speaker? If we increase the income of one person, he can buy and use only one or two shirts; but if we spread income to 100 persons, they can buy 100 shirts more. When 100 people buy 100 more shirts, they pay more taxes to government through the sales tax and they can provide a greater market for industry and, therefore, they could expand industry more than if we enrich only one. Would the distinguished sponsor, therefore, agree that social justice is not only a social imperative but also an economic imperative?

MR. SAN JUAN. I cannot agree with the Gentleman more, Mr. Speaker.

MR. MONTEMAYOR. Thank you, Mr. Speaker.

And does not the distinguished sponsor think we should so devise our system of taxation in order to implement that principle, Mr. Speaker?

MR. SAN JUAN. That is under consideration, Mr. Speaker, one of which would be adding the value to tax which would hit people who are accustomed to purchasing consumer goods especially the luxurious items at that.

MR. MONTEMAYOR. Thank you, Mr. Speaker.

MR. SAN JUAN. That is under study, Mr. Speaker.

MR. MONTEMAYOR. Thank you, Mr. Speaker.

THE PRESIDING OFFICER (Mr. Bateria). The Gentleman from Cebu, the Honorable Hilario G. Davide, is recognized.

MR. DAVIDE. Would the distinguished sponsor yield to some questions, Mr. Speaker?

MR. SAN JUAN. Very willingly, to the Gentleman from Cebu. I always profit from conversations with him, Mr. Speaker.

MR. DAVIDE. Thank you, Mr. Speaker.

We notice from the proposed measure that for the compensation-income individuals there will be no more deductions, but for the business-income individuals, deductions are retained as presently provided for. As a consequence, the effects would be revenue gains of 6.1 percent of present take from compensation income under a modified gross income tax scheme and revenue loss due to the proposed taxation of business income. My first question is: How will this gain of 6.1 percent be accomplished?

MR. SAN JUAN. That would be accomplished, Mr. Speaker, in spite of the lower rates, because high income people who normally avail of itemized deductions cannot anymore avail of the same privilege and the result is that they will have to pay more by way of tax to the government, so that in totality even if the rich are less, in effect, high income people will have to pay more.

MR. DAVIDE. Before, were the itemized deductions not mostly resorted to by the fixed income group and fewer of the business group?

MR. SAN JUAN. Mr. Speaker, in the law now in force the incomes of taxpayers are all lumped together—compensation, business, passive. And so, as they are put together, we cannot say anymore that it is only the compensation-income people who itemize, but it can be said that practically high income people, whether they are highly paid as executives or whether they earn plenty from the

exercise of a profession or trade or business, resort to itemized deduction and the result is that they pay less than what they should.

MR. DAVIDE. On the basis of the statistics of the Bureau of Internal Revenue, would it not be reflected that there were more itemized deductors from the fixed income group or the compensation-income group than from the business-income group?

MR. SAN JUAN. Mr. Speaker, it is very hard to make that conclusion because people who earn out of business or in the exercise of profession will have to support their claim for deductions with proofs or receipts and in so doing, they are itemizing.

MR. DAVIDE. But, definitely, Mr. Speaker, would there be no sufficient statistics to show that the optional standard deductors were mostly from the fixed income group?

MR. SAN JUAN. On optional standard deduction, that is right, Mr. Speaker.

MR. DAVIDE. And now these optional standard deductors and itemized deductors will be lumped up for the compensation-income group and they will not be entitled to any deduction anymore?

MR. SAN JUAN. No more, Mr. Speaker.

MR. DAVIDE. So we have here a situation where those who had been complying with the law before, in order to avoid further troubles, would resort to optional standard deduction, suffering a disadvantage because of the removal of the deductible items while, on the other hand, we have the business group who shall continue to avail of the deductible items.

MR. SAN JUAN. Mr. Speaker, earlier, the Gentleman was speaking of people who have the same type of income, meaning they all earn wages, compensation income; and we have one group who use optional standard deduction as against another group within that same category who use itemized deduction. The proposal of Cabinet Bill No. 34 will be a relief to those who have compensation income but are using optional standard deduction, although it will hit a little hard the people who have compensation income but are accustomed to using itemized deduction in the preparation of their income tax returns.

MR. DAVIDE. How many percent of the taxpayers in the country were actually used to optional standard deduction and were from the fixed income or the compensation-income group and, therefore, would be hit by this measure?

MR. SAN JUAN. Mr. Speaker, I wonder if the Gentleman has with him the brochures or the mate-

rials distributed. But if he will only turn to Table II on page 22, he will see there the answers to his various questions on how many and what would be the effect, because on Table II, on compensation income filers, it says that under the present law all filers total 518,284 using the 1978 returns. Now those who opted to use the standard deduction number 252,223 as against those who itemized, 266,061.

Under our Cabinet Bill No. 34, there will be more taxpayers because those who are able to evade tax because of itemization will now be paying their taxes and that the number increased by 199,055, so that the total number of tax filers would be 717,339. And it is estimated that of that number 252,223 would be those who avail of optional standard deduction and those who normally itemize would be 465,199. This is where the increase comes, Mr. Speaker.

MR. DAVIDE. In other words, the effect of this bill will be to hit 48.67 percent of the filers.

MR. SAN JUAN. Forty-eight point sixty-seven percent?

MR. DAVIDE. Yes, they would be hit by the bill?

MR. SAN JUAN. No, Mr. Speaker, it will be the 51.33 percent.

MR. DAVIDE. But is it not a fact that under this bill both the standard optional deductors and the itemized deductors belonging to the compensation group will be affected?

MR. SAN JUAN. Yes, Mr. Speaker. But the effect is that those who use the optional standard deduction system would pay less under this bill than they would in the law now in force whereas those who use the itemized deduction will pay more.

MR. DAVIDE. Now, in that respect, Mr. Speaker, are we applying a very definite standard to make the rule of taxation uniform and equitable in the light of the different rates which are provided and taking into account that one group would not be entitled to deduction and the other group will be entitled to deduction?

MR. SAN JUAN. Mr. Speaker, there is a difference in the nature of the income and so uniformity cannot apply, Mr. Speaker. One gets income out of an employee-employer relationship, whereas in the other it is the exercise of trade or profession.

MR. DAVIDE. That may be insofar as the rule of uniformity is concerned, uniform for the same category, but what about the requirement of equitableness, that is, equity since, among others, it is

required that the rule of taxation shall be equitable? Where can we get the equity here?

MR. SPEAKER, the constitutional mandate is not addressed to just one category. It speaks of the rule of taxation, meaning applicable to all. On the basis of this scheme presented where can we see the equity, if on the one hand, one group is not entitled to deduction, yet, on the other hand, another group will be entitled to deduction?

MR. SAN JUAN. Mr. Speaker, the uniformity can be explained in this wise.

MR. DAVIDE. No, Mr. Speaker. I am more interested in equity, not in uniformity.

MR. SAN JUAN. On equity. Yes, Mr. Speaker. Equity could be explained in this wise. All people with compensation income which ranges from a certain amount to a certain amount would have to pay a uniform rate. It will apply to all of them because they are under the same set of circumstances. But when the set of circumstances changes, uniformity cannot apply, Mr. Speaker, or it will become absurd.

MR. DAVIDE. Taxes are an obligation to the government and, therefore, every citizen must be charged equitably, meaning to say, that equity as a rule in taxation should not go into the source of the income but on the burden imposed upon the citizen. In this particular case, it is not burdensome to one group but burdensome to another. Now, where also lies the progressive character of the taxation presented?

MR. SAN JUAN. May I get the question, Mr. Speaker?

MR. DAVIDE. Where lies the progressive character of this taxation measure as presented?

MR. SAN JUAN. The progressivity comes, Mr. Speaker, in that a higher rate is prescribed for higher incomes as against those with less incomes. Is that not progressivity, Mr. Speaker?

MR. DAVIDE. But, Mr. Speaker, is it not that those upon whom are imposed a higher rate are entitled to deductions, but those who are receiving a lower rate are not entitled to deduction?

MR. SAN JUAN. No, Mr. Speaker. Let us look at the rate prescribed for compensation income. It ranges from 1 percent to 35 percent, and so it is progressive because we collect a higher rate of tax from people who earn more compared to people who earn less. Now, for those who earn from the exercise of a trade or profession or business, it is also progressive because those who earn less will pay less and those who earn more will pay more

because the rate ranges from 5 percent to 60 percent.

MR. DAVIDE. Yes.

MR. SAN JUAN. So, there is the progressivity, Mr. Speaker.

MR. DAVIDE. Yes, but the honorable Gentleman forgot that the range of 5 percent to 60 percent would begin from not over P10,000 while the rate for the compensation-income group would not be over P5,000. There is already a difference in the starting bracket and, Mr. Speaker, in the progressive character besides.

MR. SAN JUAN. Mr. Speaker, in order to lay the premise correctly, one is gross as against the other, which is net.

MR. DAVIDE. Precisely. That establishes only . . .

MR. SAN JUAN. That is because there is no other way.

MR. DAVIDE. That establishes only the basis for the absence of equity and justice.

MR. SAN JUAN. No, no, Mr. Speaker.

MR. DAVIDE. And that also establishes the basis for the absence of a progressive character for, especially, if it is true that the scheme presented here is progressive, why is it that in one area there is a gain of 6.1 percent and in the other there is a loss?

MR. SAN JUAN. Mr. Speaker, it is indeed progressive, but in the application of this progressive tax, people who used to cheat will not be able to cheat and so we take more. The result is a higher income. But it does not do violence to the quality of progressivity of the system or of the tax.

MR. DAVIDE. I am glad, Mr. Speaker, that the word "cheat" had been mentioned. Is it not a fact that there were less cheaters among the fixed income groups or the compensation groups than among the business groups who were entitled to deductions?

MR. SAN JUAN. I would not come to that conclusion so easily because in the present law all of these incomes are lumped together into one and a tax rate is imposed on the lumped income and so I would not make the accusation that one group cheats and the other does not.

MR. DAVIDE. But would the Gentleman agree with me that by leaving the business income group to an advantageous situation where it will be entitled to deductions he is not actually curtailing in area for graft and corruption?

MR. SAN JUAN. Mr. Speaker, again the conclusion of the Gentleman is too harsh to be realistically true. Deductions are allowed for business income which cannot be done away with by the very nature of the activities that result in the income for the individual.

MR. DAVIDE. So, in short, Mr. Speaker, insofar as graft and corruption is concerned, the bill only limits the number of people who may give bribes or who may corrupt.

MR. SAN JUAN. No, Mr. Speaker, because as envisioned here, even the deductions will be limited to business cost-related expenses.

MR. DAVIDE. If that is so, Mr. Speaker, the situation will be the same even if we do not present this bill because expenses are limited, but for as long as we leave the authority to determine what should be allowed as deductions, then for so long shall we retain the area for graft and corruption. And, therefore, in this particular case, since we try to limit the number of people who will be entitled to deductions, we only limit the number of people who could be subject to graft and corruption.

In any case, I will go to another point.

MR. SAN JUAN. Mr. Speaker, just before departing from this point, because we would not like to leave a wrong impression to the Members of this Chamber, it is precisely the idea that business income will be subject to more scrutiny and, as I mentioned earlier, a point in time may be reached when for particular industries, deductions can be standardized by figures that can be gathered over the years. And when these are standardized, then we just relate deductions to certain percentages of income. When that happens, that will be another step towards lessening the discretion between the taxpayer and the tax collector insofar as business income is concerned. But as we have admitted earlier, we are not yet ready, Mr. Speaker, at this point, to make such a categorization of allowable deductions per industry. In due time, there might be, and so there is a part in the bill which authorizes the Minister of Finance to prescribe such ceilings or limitation on allowable deductions on condition that certain guidelines are observed.

MR. DAVIDE. Now may I invite the sponsor's attention, Mr. Speaker, to page 4, line 16 and line 18 including line 15?

MR. SAN JUAN. Yes, Mr. Speaker.

MR. DAVIDE. What are these yields from deposit substitutes and yields from trust funds and similar arrangements?

MR. SAN JUAN. Mr. Speaker, I think if I am not wrong, this will refer to money market placements; yields from trust funds—this is now a new feature in our banking community as some persons would leave their money with the banks and keep it as a trust fund which the bank can invest and, in turn, these amounts yield income to the owner of the said amounts which were entrusted to the bank. These refer to that kind of passive income. So, these are not strictly interest; they are not interest; they are not dividends; they are yields from deposit substitutes and yields from trust funds and arrangements of that sort.

MR. DAVIDE. So, similar arrangements would include money market placement?

MR. SAN JUAN. Yes, Mr. Speaker.

MR. DAVIDE. And what are the others?

MR. SAN JUAN. Those that I have mentioned. If the Gentleman has, and I presume he has, some savings, instead of merely keeping the money as savings in the bank, he can give instructions to his bank that it will be treated not as savings but as a trust account which the bank will be free to invest, and then income thereon would be taxable under this section.

MR. DAVIDE. If money is placed in the money market, say, Philfinance, by a government official?

MR. SAN JUAN. I will not advise that it be done, Mr. Speaker.

MR. DAVIDE. Let us assume that it will be. It is stated that 17 percent is recorded as interest income, but there is an amount for the official to keep, because actually Philfinance may be paying more. How shall we charge that one retained by the government official? Shall it be included here?

MR. SAN JUAN. How shall we charge?

MR. DAVIDE. Yes.

MR. SAN JUAN. We charge him for graft.

MR. DAVIDE. Now, for purposes of this bill, aside from charging him under Republic Act No. 3019?

MR. SAN JUAN. Mr. Speaker, if such a thing happens and it can be proven, not only will he face charges for graft and corruption, but he will also be slapped an income tax evasion for his undeclared income. It will be on top of his declared income.

MR. DAVIDE. On page 10, Mr. Speaker, lines 1 to 4, could we be accommodated with a reason

as to why the exemptions shall first be deducted from the gross compensation income and not from the other incomes?

MR. SAN JUAN. That is for ease in the management of our tax law, Mr. Speaker. If it is uniformly done that all exemptions should first be deducted from compensation income, it is easier for our tax collectors to determine and quantify the tax due from business income.

MR. DAVIDE. Can we not give an option to the taxpayer as to where to deduct the exemptions from?

MR. SAN JUAN. No, Mr. Speaker, because the Gentleman will kindly remember that the proposition here calls for the final withholding of compensation income and this is collected from source. So, the advantage is there of having collected this tax earlier and this is determined more easily.

MR. DAVIDE. Is it not a fact that the reason is not to determine it more easily but because if it would be charged against the other income, the individual will actually obtain more advantages because of the higher bracket?

MR. SAN JUAN. The Gentleman is also correct, Mr. Speaker. There is a higher bracket for business income than for compensation income. That is correct, Mr. Speaker.

MR. DAVIDE. On page 11, lines 16 and 17, and specifically on the phrase "such as but not limited to the following," which is just a definition by enumeration, may we be enlightened as to what others will be included in the phrase "such as but not limited to the following"?

MR. SAN JUAN. Of possible examples of income?

MR. DAVIDE. Yes, so we could have a clear interpretation of the law when this takes effect because this only tries to enumerate.

MR. SAN JUAN. Other incomes which are not covered by Category 1 will be included here, Mr. Speaker.

MR. DAVIDE. Does it, therefore, include retirement benefits, gratuities and any amount received from the employer as a consequence of separation from the service due to death?

MR. SAN JUAN. When they are not specifically exempted, Mr. Speaker, they are covered; they are included, Mr. Speaker.

MR. DAVIDE. So, although there is a definition here of the income arising out of employee-employer relationship, it will still have to admit to certain exceptions?

MR. SAN JUAN. Yes, when the exceptions are so stated by law.

MR. DAVIDE. May we know for the moment, Mr. Speaker, what are these possible incomes arising out of employer-employee relationship which should not be included in the computation of the gross compensation income?

MR. SAN JUAN. Pensions paid out of registered provident fund systems which are registered with the government are not. You cannot collect tax from that even if they are pensions which are a result of an employee-employer relationship when a fellow retires. If the system has not been registered, the pension is taxable.

MR. DAVIDE. If an employee was dismissed from the service by an employer, and the dismissal was established to be for a cause which is not just, and there is an order or a decision for the payment of damages, would such damages be excluded from the computation of the gross compensation income?

MR. SAN JUAN. Damages?

MR. DAVIDE. Yes.

MR. SAN JUAN. I think they are taxable, Mr. Speaker, because it is clear that is income.

MR. DAVIDE. But does not the sponsor realize that is practically not an income because it is a penalty for the wrongful termination and actually he is being deprived of a further employment?

MR. SAN JUAN. Nevertheless, he received money, and that is income, Mr. Speaker.

Anyway, may I ask our panel to study this as I entertain the Gentleman on his other questions so that when the correct and sure answer comes up, then it can be made available to him.

#### SUSPENSION OF SESSION

THE PRESIDING OFFICER (Mr. Bateria). The Chair declares a recess.

#### RESUMPTION OF SESSION

THE PRESIDING OFFICER (Mr. Bateria). The session is resumed.

The sponsor is recognized.

MR. SAN JUAN. Mr. Speaker, on the question of the Gentleman whether compensation paid to individuals as a restitution of damages is taxable or not, the answer, Mr. Speaker, is that those are not taxable under the present laws. However, in a case where a fellow is dismissed from work, as in the example given, any portion of the award to him

would cover, let us say, back wages. Then that portion will be taxable.

MR. DAVIDE. There is another point. Would amounts received by way of damages arising from delicts or quasi-delicts or violations of contractual obligations be deductible?

MR. SAN JUAN. This is on business income. Will the Gentleman please repeat his question?

MR. DAVIDE. Would amounts received by way of damages arising from delicts or quasi-delicts or violation of contractual obligations, like exemplary damages, moral damages, nominal damages, be taxable or deductible items for purposes of business income or compensation income?

MR. SAN JUAN. May I ask the Deputy Minister of Finance to answer the question, Mr. Speaker?

THE PRESIDING OFFICER (Mr. Bateria). The Deputy Minister of Finance is recognized to answer the question.

MR. ROMAN. Thank you, Mr. Speaker.

If I understand the question, it is whether or not any amount which one may have to pay for having committed a delict or quasi-delict may be claimed as a deduction from his taxes?

MR. DAVIDE. Yes. Supposing he is a compensation-income individual, would it be excluded from the computation of his income? Or, even if he is just a business-income individual, would it be deducted for purposes of computing the income subject to tax?

MR. ROMAN. The amount that he had been ordered to pay by the court, for instance?

MR. DAVIDE. It may be ordered by the court or may be because of a compromise agreement or an amicable settlement.

MR. ROMAN. On grounds of equity, he should not be allowed to deduct this because, if he were allowed to deduct the same, he would be benefiting from his own wrongdoing. A person guilty of a quasi-delict or a delict is obviously either guilty of a crime of fault or negligence or bad faith, and if he is ordered by a competent authority to pay, by that reason itself, he cannot claim this as a deduction; otherwise, the conclusion is because of his own wrongdoing he would be benefited tax-wise.

MR. DAVIDE. But would the one receiving the award, be liable to pay a tax?

MR. ROMAN. The one receiving the award presumably has been damaged as a result of the crime,

fault or negligence or bad faith of the other party and so following the concept of restitution, this cannot be considered as income in the tax sense of the word.

MR. DAVIDE. Thank you for the information.

Now I will go to another point, Mr. Speaker.

THE PRESIDING OFFICER (Mr. Bateria). The Gentleman from Rizal, the sponsor, is now going to be interpellated.

MR. DAVIDE. This refers to page 34. On the proposed amendment granting authority to the Minister of Finance to determine ceilings or limitations, there is a proviso reading as follows:

"Provided, further, that no ceilings shall further be imposed on items of expense already subject to ceilings under present law."

What is meant by "present law"? Is that the law now under amendment?

MR. SAN JUAN. The law in force, yes, and the law existing; and if it is not repealed or modified by this bill, that would be the present law.

MR. DAVIDE. On the assumption that the Minister will exercise this prerogative, what would not be affected by reason of the provision?

MR. SAN JUAN. What would not be affected?

MR. DAVIDE. Yes, meaning to say, items which we cannot increase anymore or he cannot touch. We assume that we approve this measure as worded. What would be the items provided by the other law which cannot be touched by the authority of the Minister of Finance?

MR. SAN JUAN. Mr. Speaker, the law which we approved, Batas Pambansa Blg. 45 on donations and contributions cannot be amended or modified by the rules and regulations which the Minister of Finance may prescribe.

MR. DAVIDE. Is it not a fact that under Batas Pambansa Blg. 45 on donations an authority is granted to the Minister of Finance to determine also the scope of the law?

MR. SAN JUAN. No, he is only called upon to prepare the rules and regulations that will govern the enforcement of Batas Pambansa Blg. 45. But it is not to modify the law . . .

MR. DAVIDE. Not necessarily to modify the law, but to increase the area of coverage?

MR. SAN JUAN. It could be by regulation granted him under Batas Pambansa Blg. 45.

MR. DAVIDE. Precisely, Mr. Speaker, if the reference here of the proviso would be, among others, to that particular law, that law already includes the authority to the Prime Minister, and, therefore, if reference of the proviso would be to that particular law, we are practically prohibiting the Minister to exercise that authority under Batas Pambansa Blg. 45.

MR. SAN JUAN. I do not follow, Mr. Speaker, because precisely this provision in the bill now honors, because it says that which is currently prescribed in existing law.

MR. DAVIDE. I am only trying to point out the fact that probably we will be limiting the authority of the Minister of Finance.

MR. SAN JUAN. No, Mr. Speaker, we are not.

MR. DAVIDE. To determine the ceiling under certain laws where he himself had already the authority?

MR. SAN JUAN. No, sir, the exception is where ceilings had already been prescribed by law. Contributions in Batas Pambansa Blg. 45 are examples. Depletion for mining—that is also covered. There are already ceilings prescribed for that—amortization of development costs incurred in explorations, oil explorations, and those are already prescribed by law. The Minister of Finance is not authorized to make changes thereon.

MR. DAVIDE. And, finally, this is the last point—on page 41, on the proviso sought to be incorporated to Section 73, exempting from liability a compensation-income taxpayer, if the condition stated here would take place, and the condition is that the tax withheld from such compensation income is final. How would we determine the finality if, for instance, there are several sources of the income?

MR. SAN JUAN. Mr. Speaker, multiple sources of income would not be considered taxable on the final withholding scheme. In other words, they are still subject to review because precisely in the bill there is this provision that the Minister of Finance is given authority to prescribe regulation on how to determine the tax due on income that comes from multiple sources and never will they be considered covered by the final withholding scheme.

MR. DAVIDE. So what will be covered by the final withholding scheme under the proviso of Section 73?

MR. SAN JUAN. Fixed income, where there has been no change in the circumstances of the taxpayer, and where a sole source of income is present; in other words, there is only one employer and there has been no change in the rate of income. There has

been no change in the circumstances of the individuals, let us say, for instance, no additional child was born. Then it is final. Where a girl got married, she changes her circumstance, it may not be final.

MR. DAVIDE. Who shall determine as to whether or not it has become final or it is final?

MR. SAN JUAN. The employer should be informed by the employee of any change in circumstance so that corresponding adjustments can be made from the amount to be withheld from him but that will be subject to verification at the end of the year.

MR. DAVIDE. So, in other words, the exemption provided for here will have to depend on certain rules and regulations to be prescribed by the Minister of Finance?

MR. SAN JUAN. That is correct, Mr. Speaker.

MR. DAVIDE. Would that not be giving the Minister of Finance the authority to determine the liability—the penal liability of the taxpayer?

MR. SAN JUAN. The penal liability is not for the Minister of Finance to prescribe.

MR. DAVIDE. My point, Mr. Speaker, is this: the tax of an individual who has a fixed income, say, he is an employee, would be withheld, and yet he may be liable under the proposal.

MR. SAN JUAN. Yes, if he did not state or if there was fraud or deceit in the facts that he will present to his employer.

MR. DAVIDE. But it is the employer paying the salary.

MR. SAN JUAN. Yes, but he may say that he is married when he is not, in which case he is liable to be charged accordingly by the government. He may say that he has four children when in truth he has only two. So there might be connivance. It cannot be final in that sense, Mr. Speaker, because there is fraud.

MR. DAVIDE. In other words, before this exemption can apply, there must be a clear and specific order that the matter is final?

MR. SAN JUAN. No, there will be no order to that effect, Mr. Speaker.

MR. DAVIDE. So this is self-executory?

MR. SAN JUAN. It should be, Mr. Speaker.

MR. DAVIDE. And, finally, Mr. Speaker, if an individual receives compensation income and, at the same time, business income, would he be required to file two income tax returns; one, as a compensation

income individual, and another, as a business income individual?

MR. SAN JUAN. On his compensation income, Mr. Speaker, he makes a return but it is not in the nature of the return that we are accustomed to doing. The return there is merely informative, to be a basis for statistics of government. The real tax return that he has to make is that which should cover his business income.

MR. DAVIDE. In other words, the Bureau of Internal Revenue will not prepare one return indicating the three categories of income here?

MR. SAN JUAN. No, Mr. Speaker. When it comes to the third category, passive income, it is final and it is taxed at source, so there is no return to be made on that. On business income, yes, the taxpayer has to make a return.

MR. DAVIDE. On compensation income?

MR. SAN JUAN. On his compensation income—none, Mr. Speaker.

MR. DAVIDE. None?

MR. SAN JUAN. In the nature that we are accustomed to; it will be for information only.

MR. DAVIDE. If there is none, Mr. Speaker, how can we determine the applicability of the exemption clause under the penal provision?

MR. SAN JUAN. Will the Gentleman please repeat his question?

MR. DAVIDE. If for a compensation-income individual, there is no need to file an income tax return, how would we determine the applicability of the exemption under the penal provision clause of the law?

MR. SAN JUAN. The regulation to be prescribed by the Minister of Finance will cover this, Mr. Speaker, so that there would be appropriate instructions to the employer on how withholding under this scheme will have to be implemented.

MR. DAVIDE. So we expect the necessary form?

MR. SAN JUAN. Yes, Mr. Speaker.

MR. DAVIDE. Thank you, Mr. Speaker.

MR. SAN JUAN. There will be regulations to that effect, Mr. Speaker.

MR. CAMARA. Mr. Speaker.

THE PRESIDING OFFICER (Mr. Bateria). What is the pleasure of the Gentleman from the National Capital Region?

MR. CAMARA. Mr. Speaker, will the distinguished sponsor yield to a few clarificatory questions?

THE PRESIDING OFFICER (Mr. Bateria). The sponsor may do so, if he so desires.

MR. SAN JUAN. Willingly, Mr. Speaker.

MR. CAMARA. Mr. Speaker, we received a copy of this booklet, which is entitled: "Highlights of the Substitute Bill to Cabinet Bill 34: A Proposal to Re-structure the Individual Income Tax Including the Modified Gross Income Tax Concept." May we know, Mr. Speaker, if this is part of the report of the committee?

MR. SAN JUAN. Yes, Mr. Speaker, although it is actually an aid or a guide to the sponsors. But what were lifted from the bill because those highlights are the main features, Mr. Speaker, of the bill which seeks to amend the present law.

MR. CAMARA. Thank you, Mr. Speaker.

I would just like to go on record that this booklet is part of the report of the committee and I would like to point out a minor discrepancy between this booklet and the committee report as mimeographed, specifically on the proposed tax rate schedule. In the committee report mimeographed, on page 3, line 21, it says "Not over P5,000," whereas on page 8 of the booklet it starts with "less than P5,000." I think there is a difference between "not over P5,000" and "less than P5,000."

MR. SAN JUAN. The rates for taxable compensation income?

MR. CAMARA. That is correct, Mr. Speaker.

MR. SAN JUAN. Yes, Mr. Speaker, and as I had announced earlier, there will be an amendment to this which shall be submitted so that the rate shall begin with zero.

MR. CAMARA. No. I would like to emphasize the words "Not over" and "Less than," Mr. Speaker. There is a difference between the two.

MR. SAN JUAN. Yes.

MR. CAMARA. Which do we pick up here, "not over" or "less than"?

MR. SAN JUAN. In both cases, Mr. Speaker, that will not apply when the final amendment is made

because, as I said, we will begin with a zero income and a zero percentage and, therefore, we will no longer have "Not over." It will be perhaps "Not over P5,000," but not more than so and so or something like that.

MR. CAMARA. So, it would be zero to five?

MR. SAN JUAN. Maybe less than five; I have not been informed yet of the exact wording of the proposed amendment.

MR. CAMARA. Yes, I just want to point out, Mr. Speaker, that there is a difference between "less than five" and "over five."

MR. SAN JUAN. That is right, Mr. Speaker.

MR. CAMARA. Thank you, Mr. Speaker.

Now, I would like to refer the sponsor to page 12 of the bill, Mr. Speaker, on the definition of "Gross Income." I would like to relate this, Mr. Speaker, to page 33, line 15, Gross Income. That is for the optional standard deduction.

On the definition on page 12, Mr. Speaker, may I read the definition? "Gross income includes gains, profits, and income derived from professions, vocations, trades, businesses, commerce," and so on. Now it mentions trades, business, commerce.

On page 33, specifically, in Section (k), on line 12, it mentions optional standard deduction, which will be allowed on Category 2, which is business income and income from profession. Mr. Speaker, I would like to clarify this definition as against the gross income from compensation.

Mr. Speaker, in the case of compensation, whatever is the salary received by an individual is his gross income, is that correct?

MR. SAN JUAN. Yes, Mr. Speaker, to include other possible income like bonus, or some fees of a director, if he is a director of a company, as part of gross income, Mr. Speaker.

MR. CAMARA. In short, whatever amount received by the employee from his employer is his gross income?

MR. SAN JUAN. That is right, Mr. Speaker.

MR. CAMARA. In business, Mr. Speaker, it is not the gross receipts or the gross sales which is considered as the gross income, is that correct, Mr. Speaker?

MR. SAN JUAN. No, Mr. Speaker, because gross receipts need not be gross income.

MR. CAMARA. It is not the gross income, in case of business, is it not?

MR. SAN JUAN. In case of business, it is not.

MR. CAMARA. It is not. Yes, because in the case of business, we still have to deduct the cost.

MR. SAN JUAN. Of goods, that is right, Mr. Speaker.

MR. CAMARA. I am just trying to point out, Mr. Speaker, that in the definition on page 12, I believe there is a need for distinguishing this gross income from trade and business and commerce as against the other gross income from compensation and other gross income, wherein a cost still has to be deducted. And for purposes of the optional standard deduction, I believe there should be a clarification, a provision in the bill that will clarify this gross income from business or commerce or trade, because the gross sales from business could be misconstrued as the gross income of an individual.

MR. SAN JUAN. No, Mr. Speaker, because when it comes to the gross income of an individual who is employed, the bill terms that as gross compensation income as differentiated from gross income for business or exercise of trade or profession. So, one is a gross compensation income and the other is gross income, but both are differently described and defined.

MR. CAMARA. All right, Mr. Speaker. But supposing we exclude the gross compensation income from this definition. It is not included here, but it includes income derived from profession.

MR. SAN JUAN. That is gross income, Mr. Speaker, because that is on Category 2, but not gross compensation.

MR. CAMARA. For instance, Mr. Speaker, a doctor receives a P5,000-fee from his patient, is that his gross income?

MR. SAN JUAN. As a fee?

MR. CAMARA. Yes, doctor's fee, medical fee.

MR. SAN JUAN. Yes.

MR. CAMARA. Is the P5,000 his gross income?

MR. SAN JUAN. That is gross income but not gross compensation income because there is no element of employee-employer relationship, Mr. Speaker.

MR. CAMARA. Correct, Mr. Speaker. The thing I am trying to point out is that in the case of the

income derived from profession, for instance, and vocation as against income from trade or business, there is no cost to be deducted.

MR. SAN JUAN. No cost to be deducted on gross compensation?

MR. CAMARA. Yes, no cost of operation or cost of sale, cost of the product sold from which the gross sales or gross receipts were derived.

MR. SAN JUAN. I am sorry, Mr. Speaker, but I could not follow the Gentleman. Would he repeat the premise and the question?

MR. CAMARA. May I repeat, Mr. Speaker? There seems to be two kinds of gross income here, for purposes of optional standard deduction of which a clarification is needed—in the case of gross income from trade or business, because in one kind of gross income here, there is no cost to be deducted to determine the gross income, whereas in the case of business or trade, there is a cost to be deducted to arrive at the gross income.

MR. SAN JUAN. That is right, Mr. Speaker, that is correct. So, in one kind of gross income, no deduction will be allowed for the cost, whereas in the other case, the cost is an allowable deduction. But in both cases, they are gross incomes.

MR. CAMARA. Correct, Mr. Speaker. As I said, I am relating it to that provision on optional standard deduction. For purposes of clear guidance, I believe, of the taxpayer, since gross income is also used under this section on optional standard deduction, there should be a clarification on the gross income from business or trade as against gross income from profession and others wherein there is no cost to be deducted.

MR. SAN JUAN. We are not always certain that there will be no cost to be deducted, Mr. Speaker. But the rule is that only business cost-related expenses will be deducted and after a provision is made to that effect, then the rate is made to apply on the taxable income.

MR. CAMARA. I understand, Mr. Speaker. But I am trying to point out that on page 12, paragraph (b), the gross income is being defined here which includes income derived from professions, vocations, trade, business, commerce, sales or dealings and so on and so forth. Now not all of these incomes require the deduction of costs.

MR. SAN JUAN. No, Mr. Speaker, there is a difference between gross receipt and income. But whether it is income from exercise of profession or income arising from trade, they are both incomes

and there are costs to both. Even if it is income from the exercise of profession, there can be costs.

MR. CAMARA. That is why I ask the Gentleman, Mr. Speaker, whether the fee of the doctor of P5,000 he received from his patient, is already his gross income and his answer was in the affirmative. Where is the cost there? There is no cost. It is his gross income already.

MR. SAN JUAN. No, Mr. Speaker. Suppose he is a lawyer and he rents an office. That is an expense that is certainly deductible. Now, here is a fellow who engages in merchandising. The cost of merchandise that he sells is deductible and the balance is his income. This fellow who is in merchandising and the lawyer will be taxed at the same rate on the resulting income after allowable deductions have been removed from their gross receipts.

MR. CAMARA. In that event, Mr. Speaker, therefore, we agree that under paragraph B on page 12, there is a cost to be deducted.

MR. SAN JUAN. Yes, because it does not say here "gross receipts." It says gain, profits and income derived.

MR. CAMARA. If that is so, Mr. Speaker, thank you very much. I will shift to another question.

On interest, on page 18, there is a new amendment on line 28 up to line 29, in capital letters, it says, "INCURRED IN CONNECTION WITH THE TAXPAYER'S TRADE OR BUSINESS," which means that for interest to be deducted, it has to be incurred in connection with his trade or business?

MR. SAN JUAN. That is right, Mr. Speaker.

MR. CAMARA. Heretofore, I understand that interest incurred by the taxpayer, even if it is not in connection with his business is allowed as a deduction. Is that correct, Mr. Speaker?

MR. SAN JUAN. Mr. Speaker, the idea is still that such interest payments to be deducted should be business-cost-related. However, the language of the law is not so clear as to portray the real intent, and, therefore, some taxpayers are able to go around the provision of law which is not clear. It is now the intention to make it clear so that it can no longer be resorted to by some smart taxpayers, to reduce the tax that they have to pay.

MR. CAMARA. For instance, Mr. Speaker, here is a taxpayer. Here is a businessman; he had to borrow money from the money market. The money that he borrowed from the money market is partly used in his business and partly used for his per-

sonal purposes. Do we understand that we have to distinguish these two groups of interest payments made by the taxpayer for purposes of this provision?

MR. SAN JUAN. The taxpayer in the Gentleman's example, Mr. Speaker, will have to show proof of just how much of the fund he borrowed was used in his business or in the exercise of his profession, and how much he used for his own personal affairs. And, certainly, the burden of proof will have to be on him, otherwise he might run afoul of the law if he claims that all of it was used for business when that is not so.

MR. CAMARA. In other words, Mr. Speaker, this proposed amendment is meant to exclude all interests other than that incurred in connection with business.

MR. SAN JUAN. That is right, Mr. Speaker.

MR. CAMARA. Thank you, Mr. Speaker.

On page 20, line 2, Mr. Speaker, on losses incurred by the taxpayer, the words in capital letters are, "IN CONNECTION WITH THE TAXPAYER'S TRADE OR BUSINESS."

MR. SAN JUAN. Yes, but this line refers to taxes paid, not losses, Mr. Speaker.

MR. CAMARA. I am sorry, yes, to taxes, correct; these are taxes. Again, this provision is meant to exclude other taxes paid, for instance, what a taxpayer pays in real estate tax on his property which he uses as his residence. Do we understand that under this provision now this taxpayer cannot be allowed anymore to deduct from his income the real estate tax that he paid for the lot and house that he is using at present?

MR. SAN JUAN. For his residence, Mr. Speaker?

MR. CAMARA. Right.

MR. SAN JUAN. That will not be allowed.

MR. CAMARA. It can no longer be allowed under this provision?

MR. SAN JUAN. It cannot be allowed, Mr. Speaker.

MR. CAMARA. Thank you, Mr. Speaker.

This refers to losses. May I read from line 8, page 24, Mr. Speaker?

"If incurred in trade, profession or business, provided, however, that a loss representing the excess over the income of allowable expenses and other deductions directly or approximately attributable or re-

lated to the production or earning of such income from a particular line of business or activity, shall not be allowed as a deduction from or offset against income derived from other sources."

I am particularly interested, Mr. Speaker, in this phrase, "shall not be allowed as a deduction from or offset against income derived from other sources."

We have here, Mr. Speaker, a businessman who has three kinds of business. He has a farm; he has a factory; he has a trading house. The trading house made money; the factory lost money; the farm lost money. And the losses in the factory and in the farm are bigger than the income of the trading business but these businesses belong to the same man. Under this provision, do we understand, Mr. Speaker, that the losses in the farm and the factory cannot offset the income from the trading business?

MR. SAN JUAN. Mr. Speaker, in the first place, this is a part of the law where we do not intend to introduce amendments. But my understanding, Mr. Speaker, is that losses in one trade or in one business cannot be applied against income in another business and this was the subject of an earlier legislation which this Batasan approved. I think it was about two years ago when we had the omnibus amendment to the Internal Revenue Code that this element came into the law, that losses from one business cannot be charged against the income or gain in another.

MR. CAMARA. Yes, Mr. Speaker, thank you for that.

But does not the sponsor believe, Mr. Speaker, that it appears a bit unfair to the taxpayer because, after all, the three businesses belong to him.

MR. SAN JUAN. I do not know about the unfairness, Mr. Speaker, but if it is unfair, the Gentleman and I are both guilty because we were already Members of the Batasan that approved that into law.

MR. CAMARA. Thank you, Mr. Speaker.

On page 30, line 20, on donations to the government, Mr. Speaker, I would like to know if, under this provision, the political subdivisions mentioned here includes the barangay, especially the urban barangay; the barangay in the city and municipalities, which were not called barangays before. We understand that before Martial Law, there were no such barangays within cities and municipalities. Now, my question is: Do these words "political subdivisions" include the

barangays in cities and municipalities? I am just asking for a clarification because this still is a part of the bill.

MR. SAN JUAN. There are political subdivisions, and if barangays are political subdivisions, then, they are. However, there are other requirements before they could qualify for deduction, Mr. Speaker, and these are found in the succeeding lines of the same paragraph, "which conditions should be satisfied before qualifying for allowable deductions."

MR. CAMARA. In other words, we still have to prove that the barangays in a city or municipality are political subdivisions?

MR. SAN JUAN. No, Mr. Speaker, there are other requirements, if the Gentleman will only read further down the line: "in both instances may such donations be allowed to be deductible from the taxable income of the donor."

MR. CAMARA. I saw that, Mr. Speaker, but I am particularly interested in the definition of the word "political subdivision." I was just wondering whether it really included the barangays in the city, for instance, the City of Manila, and in other cities which were created after Martial Law, but were not originally called barangay or barrio.

MR. SAN JUAN. In the opinion of this humble servant, they are political subdivisions. They are political subdivisions, but the overriding elements are those found in the succeeding line whether or not such a donation can qualify.

MR. CAMARA. Thank you, Mr. Speaker, I have only two or three questions left.

On page 37, line 32, Mr. Speaker, on the withholding tax on royalties, prizes and other winnings, may we know if winnings from raffles, for instance, conducted by charitable organizations like the Red Cross, the Anti-TB Society, Philippine Tuberculosis Society, are still subject to this withholding tax on winnings?

MR. SAN JUAN. If their amount is in excess of P3,000, they are, because even if the organization that conducts the raffle is tax-exempt, the fellow who won is not tax-exempt. The only exception is on winnings in the Sweepstakes, which is provided for in another part of the bill.

MR. CAMARA. Would the committee be willing to accept an amendment to the effect that if the prize is won from a charitable organization, the prize is to be exempted from this withholding tax?

MR. SAN JUAN. I am sorry, Mr. Speaker, but at this early part of our legislative work on this

bill, a warning can already be said that the committee will not accept such an amendment.

MR. CAMARA. Thank you, Mr. Speaker.

May we go back to page 34? This is on those who are required to file income tax. On lines 22 to 23, page 34, has the minimum amount of P1,800 been amended to P3,000?

MR. SAN JUAN. Yes, Mr. Speaker, but that is a result of the first stage in the reform, and this is from P.D. No. 1773.

MR. CAMARA. I understand, Mr. Speaker. But what I would like to bring up here is the personal exemption of an individual, who is single, of P3,000.00. If he files his income tax return with an income of P3,000, he is granted an exemption of P3,000 and even not considering his optional standard deduction, he will have nothing to pay.

MR. SAN JUAN. None.

MR. CAMARA. Mr. Speaker, maybe the committee has already its position on this, but I was thinking of the possibility of exempting people who are very obviously going to be tax-free on their income because their income is equal to or even less than the personal exemption after deducting the optional standard deduction, and, therefore, they would have nothing to pay.

MR. SAN JUAN. There is no optional standard deduction when it comes to compensation income, although there can be on business income and we would like to differentiate one from the other.

MR. CAMARA. Anyway, even without the deduction, Mr. Speaker, considering that his exemption is only P3,000, as a single individual and his income is only P3,000, still he has nothing to pay.

MR. SAN JUAN. Nothing to pay, Mr. Speaker.

MR. CAMARA. And I was just wondering if it would be saving a lot of work if these people who, after all, will not be taxed should not be required to file their income tax return anymore.

MR. SAN JUAN. If they are employees, they are not asked to file their income tax returns anymore, Mr. Speaker, because in our scheme of withholding, these are all taken care of and the individual need not file his income tax return.

MR. CAMARA. Thank you, Mr. Speaker.

Finally my last question, Mr. Speaker. On page 43, starting from line 11, referring to income tax collected at source, up to line 26, these two paragraphs more or less mention the requirement for

withholding and there is a practice, Mr. Speaker, that if a businessman who is an employer fails to withhold the withholding tax from the salary of his employee, the employer is denied the deduction of that salary expense from his income tax return.

MR. SAN JUAN. Please restate, Mr. Speaker, I can not follow.

MR. CAMARA. I do not know whether there is a decree or a regulation of the BIR, but BIR examiners do not allow the salary of an employee to be deducted from the income of the employer, if the latter fails to withhold the tax from his employee's salary.

MR. SAN JUAN. Yes, because he did not show that as an expense. How can that be allowed as a deduction? That is the penalty for the employer who connives with an employee to evade tax.

MR. CAMARA. Mr. Speaker, there may not necessarily be a connivance between the employer and the employee.

But supposing the employer failed to withhold and he filed his income tax return and deducted that salary of his employee from his income and when the examiner comes around and noticed that he failed to withhold, the employer offered: "I will pay the withholding tax. After all the income will be declared by my employee and I will pay the withholding tax." But even under the circumstance, Mr. Speaker, the employer is not allowed to deduct that expense, which becomes a double penalty on the employer, because aside from paying the tax, the withholding tax, he is not allowed the expense item.

MR. SAN JUAN. Because of his own neglect, Mr. Speaker, he has to face the consequence. The Gentleman will please understand that in the scheme of withholding, the government is able to avail of the funds withheld earlier and when the government is denied this early use of tax that should have been collected, then whoever is answerable for it will have to pay the corresponding penalty.

MR. CAMARA. Yes, Mr. Speaker. But does not the Gentleman realize that he is penalized twice? He paid the tax and he is not allowed the deduction. So, there is double penalty.

MR. SAN JUAN. Mr. Speaker, paying the tax is not a penalty.

MR. CAMARA. No, the tax is supposed to have been withheld from the employee.

MR. SAN JUAN. Yes.

MR. CAMARA. And the employee was the one supposed to pay that.

MR. SAN JUAN. Yes.

MR. CAMARA. But the employer offered to pay the tax.

MR. SAN JUAN. If he is offering to pay it, it is not a penalty.

MR. CAMARA. But it includes interest and surcharges, Mr. Speaker.

MR. SAN JUAN. Of course.

MR. CAMARA. And so it is very apparent that there is double penalty.

MR. SAN JUAN. He would have been happier if he had just withheld the tax.

MR. CAMARA. That is true, but the trouble is he forgot.

MR. SAN JUAN. Forgot? I hope he will not forget frequently, Mr. Speaker.

MR. CAMARA. Well, thank you very much, Mr. Speaker.

MR. MONFORT. Mr. Speaker.

THE PRESIDING OFFICER (Mr. Baterina). What is the pleasure of the Gentleman from Region VI?

MR. MONFORT. Mr. Speaker, will the honorable sponsor answer a few clarificatory questions?

MR. SAN JUAN. Very willingly, to the Gentleman from Region VI and my constituent in Rizal.

MR. MONFORT. Thank you.

Mr. Speaker, on March 22, 1979, this humble Representation introduced a resolution, Resolution No. 60, which reads:

"RESOLUTION NO. 60 REQUESTING HIS EXCELLENCY, PRESIDENT FERDINAND E. MARCOS, TO DIRECT THE BUREAU OF INTERNAL REVENUE TO CREATE AN *AD HOC* COMMITTEE COMPOSED OF EXPERTS IN TAXATION, FOR THE PURPOSE OF DRAFTING A NEW AND REALISTIC TAXATION SYSTEM FOR THE PHILIPPINES BASED ON THE CONCEPT OF INCOME TAX ON GROSS INCOME.

"WHEREAS, Philippine laws and statutes on taxation covering individuals, corporations, and other business concerns are no longer

applicable to the present economic imperatives and found wanting in parity between the incomes earned by taxpayers, and the continued increase of prices of commodities;

"WHEREAS, because of such a disparity between the capacity of earning on the part of these individuals, corporations and other business concerns and the continued escalation of prices of commodities, particularly oil, payment for annual income tax by these taxpayers becomes a burden and thereby contributes to a gradual dislocation of their respective economic well-being, which, in turn, contributes to the downtrend of our national economy;

"WHEREAS, despite the efforts of the government to make this system of taxation viable and conciliatory to the economic condition now prevailing all over the country, as a result of crises and complications from without, this problem, from year to year, persists and multiplies in its impact on the nation's economy;

"WHEREAS, if the tax be levied on individuals, corporations, and other business concerns, on gross income, the government will be able to realize an improvement of its current tax collection system, not only in terms of its simplification by doing away with numerous unnecessary phases, but also an increase in the total collected revenue as well."

Now, Mr. Speaker, that is just a part of the gist of the resolution. My question, therefore, is this: While this resolution intends to simplify or give us the convenience of the computerization and does away with the predatory tendencies of the BIR people, to simplify the computation of collections so that we will have more receipts, will the sponsor say we will really attain this purpose in the present Cabinet Bill No. 34, that of doing away with unnecessary computation, or simplifying it, or doing away with income tax returns for those in the low income group, who ought not to pay taxes, and of doing away with graft and corruption?

MR. SAN JUAN. Mr. Speaker, with the exception of the word "predatory," I have reason to take pride in claiming the Gentleman from Region VI as my constituent in the province of Rizal.

In fact, Mr. Speaker, exactly the purpose or one of the purposes of the bill, I would not say "one," but the purposes herein coincide with the aims declared in the draft resolution of the Gentleman on the floor.

Mr. Speaker, I also have to be thankful to the Gentleman for doing the work of our Secretary-General in reading the resolution because he would have just asked the Secretary-General and he would have been saved the trouble. But as is usual with the Gentleman, he does not shirk from any work if it is necessary, and he demonstrated it again tonight. Mr. Speaker, very easily the Gentleman from Region VI can qualify as coauthor of the measure together with the Cabinet.

MR. MONFORT. Mr. Speaker, we will do it one by one. For the record, I welcome being a coauthor of this bill, if the Gentleman wants. But for the record, I would like to thank the President and the Prime Minister, the Minister of Finance, and the Commissioner of the Bureau of Internal Revenue, who is here, the Honorable Ruben Ancheta, for responding at least to this resolution two years ago on March 22, 1979. I would like to hear the comment of the Deputy Minister of Finance who went to the sponsor just a while ago.

MR. SAN JUAN. Mr. Speaker, the honorable Deputy Minister of Finance has told me to congratulate the Gentleman for his thoughts and to express appreciation for the efforts exerted.

MR. MONFORT. That is on the record. I happened to have those beautiful thoughts, although I am just a doctor of medicine, though my wife is more or less a finance expert of their conglomerates. And when one associates with finance and treasury, he learns what is good.

MR. SAN JUAN. That is right, Mr. Speaker.

MR. MONFORT. So that answers the honorable sponsor as to why I happened to have these beautiful thoughts two years ago, although I am just a doctor of medicine.

Now, with the kind indulgence of my colleagues, I hope the Acting Floor Leader will not give me the sign to stop, otherwise, I will rattle on. I will lose my trend of thought on predatory tendencies, graft and corruption, that we would like to remove from the bottom to the upper echelons in government.

Now, to lend color to this occasion, I will ask the Gentleman another beautiful question.

I have no copy of that bill but anyway I can still memorize. This has reference to page 9 or whatever; it is about Muslims anyway. Under their laws, Muslims are allowed to marry two or three or four times if they are financially capable, and their children or dependents are legitimate. The

Muslim laws in this country are recognized in the equal clause protection of the Constitution. Therefore, we will discuss the equal clause protection.

Now, why will this bill allow only four legitimate dependents here when they have legitimate dependents of six, ten or a dozen? That is a constitutional issue.

MR. SAN JUAN. Mr. Speaker, we are not enforcing . . .

MR. MONFORT. By the way, Mr. Speaker, that is a very serious issue.

MR. PANGANDAMAN. Mr. Speaker, for a point of information.

THE PRESIDING OFFICER (Mr. Bateria). Will the Gentleman state his point of order?

MR. PANGANDAMAN. Not a point of order, but a point of information.

THE PRESIDING OFFICER (Mr. Bateria). Will the Gentleman state his parliamentary inquiry, therefore?

MR. PANGANDAMAN. Thank you, Mr. Speaker.

Mr. Speaker, I rise on a point of information on the statement of Assemblyman Monfort that children of Muslims with their No. 2, No. 3 wives are also legitimate. Since they are legitimate, they are all protected by this law. But, Mr. Speaker, it is better for Muslims to have two, three or four wives with their legitimate children than non-Muslims who have so many wives but not registered? And in fairness to the non-Muslim children, what . . .

### SUSPENSION OF SESSION

THE PRESIDING OFFICER (Mr. Bateria). The Chair declares a recess.

### RESUMPTION OF SESSION

THE PRESIDING OFFICER (Mr. Bateria). The session is resumed.

Gentleman from Region VI.

MR. MONFORT. Mr. Speaker, may I continue? I was just interrupted by the request of my good friend from Mindanao.

THE PRESIDING OFFICER (Mr. Bateria). The Gentleman may proceed.

MR. MONFORT. What I am trying to refer to is on page 9, Subsection (c), additional exemption for

dependents. It is stated here that there will be only four legal dependents that will be allowed exemption or deduction. What about Muslims who, under Muslim laws, are allowed to have three or four wives, and, therefore, could have a number of legitimate dependents? It will not only be four but maybe a dozen.

MR. SAN JUAN. I cannot imagine, Mr. Speaker, how many.

MR. MONFORT. This is included in the civil code.

MR. SAN JUAN. Mr. Speaker, we do not distinguish here between Christians and Muslims. This is a requirement of law which should be applicable to all citizens of the Philippines irrespective of religion.

MR. MONFORT. All right, what I mean by Muslims are Filipino Muslims.

MR. SAN JUAN. Yes, Mr. Speaker.

MR. MONFORT. I just tried to give the specification, Filipino Muslims.

MR. SAN JUAN. Yes, Mr. Speaker, we do not distinguish between them and any other citizen of the country. In fact, during the deliberation of the committee there were serious discussions on that point, Mr. Speaker, and ultimately because of probable constitutional considerations, it was thought best not to make any such distinctions, especially after a research was made and it was revealed that even in Malaysia or Indonesia where there are Muslims and multi-racial communities, there are no distinctions between classes of races of the citizens. In other words, no special privileges are given to minorities. So it is also the case at hand. We cannot distinguish between one group as against the other. We are not imposing any restrictions here on the number of marriages; it is only on the number of children that can qualify for exemption. For marriages to beget twelve children—these are allowed, except that for purposes of exemption only four out of the twelve can qualify.

MR. MONFORT. Thank you, Mr. Speaker, I just made that observation for future reference because the sponsor is talking about the laws.

I have some more questions, but I will limit myself to one or two because I think everybody is in a hurry now. Is the system proposed in the present Cabinet Bill No. 34 flexible in such a way that it can adapt to existing changes, the socioeconomic changes of our country?

MR. SAN JUAN. There is a provision here for indexation of exemption to that extent. It is flex-

ible and it can be made to adjust. There is a provision here where the Minister of Finance can prescribe certain limits to allowable deductions from business income under certain conditions. So it can be responsive to any given situation, Mr. Speaker, where the need for change may be present. The bill can authorize our Minister of Finance to react accordingly.

MR. MONFORT. Thank you, Mr. Speaker.

In this Cabinet Bill No. 34, our gross taxation is practically from 1 percent to 35 percent for Filipino residents or for Filipinos residing here, but for nonresidents or those abroad and who are paid in dollars, why do we tax them 1 percent to 3 percent? Of course, the Gentleman might say that we will be encouraging the inflow of dollars, so on and so forth. So, aside from the reason of dollars, which I have gathered, I would like to have a further answer from the sponsor.

MR. SAN JUAN. Mr. Speaker, in the first place, although that portion of the bill appears here in capital letters, as if these were amendments, actually this is a present provision of the law, which is found only in a certain section and which we transposed to another, and because of the transposition, we have to put them in capital letters. But the real situation, Mr. Speaker, is that this is an existing provision of law.

MR. MONFORT. Yes, although there is an existing provision of law, does not the sponsor think that the disparity is big?

MR. SAN JUAN. Then we have to reason out, Mr. Speaker, that when that was adopted earlier, the reasons were pointed out very clearly and these were to induce our brother Filipinos who might be abroad to send their earnings to the Philippines and improve our dollar reserves and to induce them to file their income taxes here because while they are there abroad, especially if the country where they are in does not have a treaty with us, we cannot run after them at all and so the preferred rates were thought to be an inducement for them to file their income tax returns with the Philippine government. Mr. Speaker, it is to their advantage that they declare their income while abroad and be subjected to a preferential rate than not to declare them, and later on for the government to find that they have earned so much and, therefore, to subject them to a tax in the rate now provided in this bill which is 1 percent to 35 percent. Suppose they do not file their income tax returns now, they do not pay, but when they come home at some future time, the government learns of the income that they had not declared, then they will be liable to pay and the rate to be used is higher;

it is 1 percent to 35 percent. So, it is better that they pay their tax now on this preferential rate. I hope that satisfies the Gentleman, Mr. Speaker.

MR. MONFORT. Partly, anyway. As I said, I advanced the dollar answer. But I said, the disparity is too big, and if there is a provision of law, we can amend that provision anyway.

My last question is: For example, what would a person pay under the existing law compared to what is in the proposed bill, if, say he has a gross income of P10,000.00 or P20,000.00 or P50,000.00 or P100,000.00?

MR. SAN JUAN. Mr. Speaker, the tax to be paid under this provision of the bill would be less than what the taxpayer would be paying if the taxpayer uses the optional standard deduction. But if the taxpayer uses the itemized deduction now, then when the bill becomes a law, he may have to pay a little more. For the information of the Gentleman, Mr. Speaker, in the brochures or materials distributed to the Members of the Batasan, there are tables to show the effects of this bill on the taxpayer, and may I suggest that at some leisure time the Gentleman look at this chart to convince himself further of the merits of the proposal at hand so that he can be one of those who would support the bill wholeheartedly?

MR. MONFORT. Mr. Speaker, I will stop here, but for the record, if a courtesy also is given to Assemblymen, for example, who introduced resolutions of this nature as a recognition and in response also to their hardships and their burning the midnight candle, if this will be honored, and we promise that we will try to work hard that this Chamber under the Fourth Republic be independent as a legislative body.

Thank you.

MR. SAN JUAN. We shall be so guided, Mr. Speaker.

MR. ALBANO. Mr. Speaker.

THE PRESIDING OFFICER (Mr. Bateria). What is the pleasure of the Acting Floor Leader.

MR. ALBANO. There are no more Members of the Batasan who would interpellate, so, I move that we close the period of sponsorship.

THE PRESIDING OFFICER (Mr. Bateria). Is there any objection? (*Silence*) The Chair hears none; the period of sponsorship is hereby terminated.

MR. ALBANO. Mr. Speaker, no Member of the Batasan has registered to speak against this bill, I, therefore, move to close the period of debate.

THE PRESIDING OFFICER (Mr. Baterina). Is there any objection? (*Silence*) The Chair hears none; the period of debate is closed.

#### SUSPENSION OF CONSIDERATION OF C. B. NO. 34

MR. ALBANO. Mr. Speaker, I move that we suspend consideration of Cabinet Bill No. 34 until three o'clock tomorrow afternoon.

THE PRESIDING OFFICER (Mr. Baterina). Is there any objection? (*Silence*) The Chair hears none; the motion is approved.

#### RECONSIDERATION OF APPROVAL OF JOURNAL

MR. ALBANO. Mr. Speaker, the Secretariat has called the attention of the Steering Committee on certain corrections on the Journal, and so I move that we reconsider the approval of yesterday's Journal.

THE PRESIDING OFFICER (Mr. Baterina). Is there any objection? (*Silence*) There being none, the approval of the Journal of yesterday's session is hereby reconsidered.

MR. ALBANO. On page 15, Mr. Speaker, on the heading "Inquiry of Mr. Davide," after the second line, add the following words after "P5 million," AND THERE BEING NO OBJECTION, THE BODY APPROVED THE COMMITTEE AMENDMENT.

THE PRESIDING OFFICER (Mr. Baterina). Is there any objection? (*Silence*) The Chair hears none; the amendment is approved.

MR. ALBANO. On page 54, Mr. Speaker, on the heading of "Continuation of Committee Amendments," on Item No. 1, change the figure "3" in "On page 3" to 4.

THE PRESIDING OFFICER (Mr. Baterina). Is there any objection? (*Silence*) The Chair hears none; the amendment is approved.

#### APPROVAL OF JOURNAL

MR. ALBANO. With these corrections, Mr. Speaker, I move that we approve the Journal of yesterday's session.

THE PRESIDING OFFICER (Mr. Baterina). Is there any objection? (*Silence*) There being none, the Journal of yesterday's session is approved.

#### ADJOURNMENT OF SESSION

MR. ALBANO. Mr. Speaker, I move that we adjourn until three o'clock tomorrow afternoon.

THE PRESIDING OFFICER (Mr. Baterina). The session is adjourned until three o'clock tomorrow afternoon.

*It was 8:26 p.m.*