

Republic of the Philippines
HOUSE OF REPRESENTATIVES
Quezon City

SEVENTEENTH CONGRESS
First Regular Session

HOUSE BILL NO. 1604

HOUSE OF REPRESENTATIVES	
RECEIVED	
DATE:	<u>14 JUL 2016</u>
TIME:	<u>7:25 AM</u>
BY:	<u>[Signature]</u>
REGISTRATION UNIT BILLS AND INDEX SERVICE	

Introduced by REP. TEDDY BRAWNER BAGUILAT

EXPLANATORY NOTE

Article VI, Section 28 of the 1987 Constitution provides that "the rule on taxation shall be uniform and equitable. The Congress shall evolve a progressive system of taxation."

In terms of individual income tax, the Philippines has currently the second highest individual income tax rate at 32 percent in the ASEAN region, next to Thailand and Vietnam's 35 percent. Ms. Rosario Manasan, in a 2016 study published by the Philippine Institute for Development Studies (PIDS), applied the personal income tax rate schedules of the different ASEAN countries to a broad range of alternative gross personal income levels by expressing said tax rate schedules in peso terms using the 2014 purchasing power parity (PPP) exchange rates to illustrate the personal income tax burden in the Philippines as compared to its ASEAN neighbors. The study confirmed "that the effective tax rates as well as the nominal peso tax liability for a broad range (but not the entire range) of gross personal income levels are indeed higher when the Philippine rate schedule is applied compared to those when the rate schedules of the other ASEAN member countries are used."

Also, there is a compelling need to address the resulting *bracket creep* in the personal income tax rate system considering the fact that the Tax Code of 1997, specifically, the income brackets used has remained unchanged since 1998. *Bracket Creep* occurs when inflation drives tax payers into higher income brackets thereby resulting in higher tax liability and lower disposable income in real terms. Eighteen (18) years after, the failure to adjust the income brackets to consider the effects of inflation in the disposable income of an ordinary worker in real terms must be addressed.

According to Mr. Ronilo Balbieran, a research associate from Research, Education, and Institutional Development (REID) Foundation, "those who were presumed to be high middle class and rich in the 1997, and therefore taxed heavily, are not the same income class today. They may be very much poor and most especially the middle income class."

As mandated by the Constitution, this Bill moves Congress to act in evolving a progressive tax system, that is, to tax the people according to their ability to pay. It seeks to address the twin concerns of the Philippines having one of the highest tax rates in the ASEAN Region and the problem of *bracket creep* by proposing a simpler 5-income bracket system and

lowering income tax rates. It seeks to address the disparity caused by inflation and to ease the tax burden caused by bracket creep upon our workers.

For the forgoing reasons, the consideration and approval of this Bill is earnestly urged.



TEDDY BRAWNER BAGUILAT
Representative, Lone District of Ifugao

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HOUSE BILL NO. 1604

Introduced by REP. TEDDY BRAWNER BAGUILAT

AN ACT
ADJUSTING THE LEVEL OF NET TAXABLE INCOME AND NOMINAL TAX RATES FOR
PURPOSES OF PROMOTING THE INDIVIDUAL INCOME TAX, AMENDING SECTION 24 (A)
(2) OF THE NATIONAL INTERNAL REVENUE CODE OF 1997, AS AMENDED, AND FOR
OTHER PURPOSES

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

SECTION 1. Section 24 (A) (2) of the National Internal Revenue Code of 1997, as amended, is hereby further amended to reflect the following rates of tax on taxable income for individual wage and salary earners only.

"Sec. 24. Income Tax Rates. –

" (A) X X X

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

[Not over P10,000]	--	[5%]
[Over P10,000 but not over P30,000]	...	[P500 + 10% of the excess over P10,000]
[Over P30,000 but not over P70,000]	...	[P2,500 +15% of the excess over P30,000]
NOT OVER P300,000	...	EXEMPT
Over [P70,000] P300,000 but not over [P140,000] P600,000	...	[P8,500] 10%
Over [P140,000] P600,000		

but not over [P250,000] P1,000,000	[P22,500] P50,000 + [25%] 15% of the excess over P600,000
Over [P250,000] P1,000,000 but not over [P500,000] P2,500,000	...	[P50,000] P120,000 + [30%] 20% of the excess over P1,000,000
Over [P500,000] P2,500,000	...	P220,000 + 25% of the excess over P2,500,000

"X X X

"X X X

"PROVIDED, FINALLY THAT NOT LATER THAN SIX (6) YEARS AFTER THE EFFECTIVITY OF THIS ACT AND EVERY SIX (6) YEARS, THEREAFTER, THE NET TAXABLE INCOME LEVELS AND NOMINAL TAX RATES HEREIN STATED SHALL BE ADJUSTED TO ITS PRESENT VALUE USING THE CONSUMER PRICE INDEX, AS PUBLISHED BY THE PHILIPPINE STATISTICS AUTHORITY (PSA)."

SEC. 3. *Implementing Rules and Regulations.* – Within sixty (60) days from the effectivity of this Act, the Secretary of the Department of Finance (DoF) and the Commissioner of the Bureau of Internal Revenue (BIR) shall promulgate the necessary rules and regulations to implement the provisions of this Act.

SEC. 4. *Repealing Clause.* – Sections 35 (A) (B) and (C) of the National Internal Revenue Code of 1997, as amended, are hereby repealed. All other existing laws, presidential decrees, executive orders, proclamations or administrative regulations that are inconsistent with the provisions of this Act are hereby amended, modified or repealed accordingly.

SEC. 5. *Separability Clause.* – If any provision of this Act is declared unconstitutional or invalid, other parts or provisions hereof not affected thereby shall continue to be in full force and effect.

SEC. 5. *Effectivity.* – This Act shall take effect fifteen (15) days following its publication in the *Official Gazette* or at least two (2) newspapers of general circulation.

Approved,