Republic of the Philippines
HOUSE OF REPRESENTATIVES
Quezon City

SEVENTEENTH CONGRESS
First Regular Session

House Bill No. 36

Introduced by REPRESENTATIVE ARTHUR C. YAP

EXPLANATORY NOTE

In the Philippines, the corporate income tax rate is a tax collected from companies, whether domestic, resident foreign or non-resident corporation. Its amount is based on the net income companies obtain while exercising their business activity, normally during one business year. Except for certain passive incomes and incomes of domestic non-profit proprietary educational institutions and hospitals, a corporation is taxed at thirty per cent (30%) of its *taxable* income; that is, its gross income from all sources within and without the Philippines less allowable deductions. Revenues from the corporate taxes are an important source of income for the government.

The Philippines is reputed to have the highest corporate tax rates in the ASEAN region at 30%. Currently, the average rate among the ASEAN countries is around 23%. Partly due to such high corporate tax rates, many corporations resort to tax evasion.

Tax evasion is the use by the taxpayer of illegal or fraudulent means to defeat or reduce the payment of a tax, such as the deliberate failure to report taxable income or property or the deliberate reduction of income that has been received. It is punishable by law. Thus, any person or corporation who willfully neglects to file a return within the period prescribed by the National Internal Revenue Code (NIRC) or willfully files a false or fraudulent return will be liable to certain penalties. The impact on the economy of tax evasion is loss of government revenues and perverse effects on the equity and efficiency goals of the tax system.

This bill seeks to lower corporate tax rates imposed on corporations by two percent (2%) per year for the next five (5) years from its effectivity and settle at a flat rate of 20%. The primary objective of the measure is to remove the incentive for corporate taxpayers to resort to tax evasion and encourage them to voluntarily pay their tax liabilities. It is to be accomplished without leaving any distorting effect on the government's revenue collections based on the doctrine of the Khaldun-Laffer curve.

The Khaldun-Laffer curve is a representation of the relationship between possible rates of taxation and the resulting levels of government revenues and illustrates the concept of taxable income elasticity — that taxable income would change in response to changes in the rate of taxation. It postulates that increasing tax rates beyond a certain point will be counter-productive for raising further tax revenues. Hence, the reverse proposition that decreasing tax rates down to a certain level will in fact be productive in raising tax revenues. While there may be initial losses in government revenues as a result of the proposed measure, such losses could be recovered as investments would come in and generate greater economic activities.

But more importantly, the bill is for the ASEAN regional economic integration in compliance with the ASEAN Economic Community (AEC) Blueprint to which the Philippines is a signatory. It sought to transform ASEAN into a single market starting December 2015. In order to be competitive under such new economic order, it is imperative that the Philippines reduce its high corporate tax rates and become attractive to foreign investments.

For the foregoing reasons, the immediate consideration and passage of this bill, which was previously filed as House Bill 4941 in the Sixteenth Congress by the undersigned, is earnestly urged.

ARTHUR C. YAP
Representative

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AN ACT
REDUCING THE RATES OF INCOME TAX IMPOSED ON CORPORATIONS IN THE PHILIPPINES, AMENDING FOR THE PURPOSE REPUBLIC ACT NO. 8424, OTHERWISE KNOWN AS THE NATIONAL INTERNAL REVENUE CODE OF 1997, AS AMENDED, AND FOR OTHER PURPOSES

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

SECTION 1. Section 27 of Republic Act No. 8424, otherwise known as the National Internal Revenue Code of 1997, as amended, is hereby further amended to read as follows:

Section 27. Rates of Income Tax on Domestic Corporations -

(A) *In General* – Except as otherwise provided in this Code, an income tax of [~~thirty-five percent (35%)~~] **TWENTY-EIGHT PERCENT (28%) BEGINNING JANUARY 1, 2017; TWENTY-SIX PERCENT (26%) BEGINNING JANUARY 1, 2017; TWENTY-FOUR PERCENT (24%) BEGINNING JANUARY 1, 2019; TWENTY-TWO PERCENT BEGINNING JANUARY 1, 2020; AND**

TWENTY PERCENT BEGINNING JANUARY 1, 2021 AND THEREAFTER is hereby imposed upon the taxable income derived during each taxable year from all sources within and without the Philippines by every corporation, as defined in Section 22(B) of this Code and taxable under this Title as a corporation, organized in, or existing under the laws of the Philippines. [~~: Provided, That effective January 1, 2009, the rate of income tax shall be thirty percent (30%).~~]

xxx

SECTION 2. Section 28 of Republic Act No. 8424, otherwise known as the National Internal Revenue Code of 1997, as amended, is hereby further amended to read as follows:

Section 28. Rates of Income Tax on Foreign Corporations -

(A) Tax on Resident Foreign Corporation –

(1)*In General* - Except as otherwise provided in this Code, a corporation organized, authorized, or existing under the laws of any foreign country, engaged in trade or business within the Philippines, shall be subject to an income tax equivalent to [~~thirty-five percent (35%)~~] **TWENTY-EIGHT PERCENT (28%) BEGINNING JANUARY 1, 2017; TWENTY-SIX PERCENT (26%) BEGINNING JANUARY 1, 2018; TWENTY-FOUR PERCENT (24%) BEGINNING JANUARY 1, 2019; TWENTY-TWO PERCENT BEGINNING JANUARY 1, 2020; AND TWENTY PERCENT BEGINNING JANUARY**

1, 2021 AND THEREAFTER, of the taxable income derived in the preceding taxable year from all sources within the Philippines. [~~: Provided, that effective January 1, 2009, the rate of income tax shall be thirty percent (30%)~~]

xxx

(B) Tax on Non-resident Foreign Corporation -

~~(1)~~ *In General* - Except as otherwise provided in this Code, a foreign corporation not engaged in trade or business in the Philippines shall pay a tax equal to [~~thirty-five percent (35%) of~~] **TWENTY-EIGHT PERCENT (28%) BEGINNING JANUARY 1, 2017; TWENTY-SIX PERCENT (26%) BEGINNING JANUARY 1, 2018; TWENTY-FOUR PERCENT (24%) BEGINNING JANUARY 1, 2019; TWENTY-TWO PERCENT BEGINNING JANUARY 1, 2020; AND TWENTY PERCENT BEGINNING JANUARY 1, 2021 AND THEREAFTER,** of the gross income received during each taxable year from all sources within the Philippines, such as interests, dividends, rents, royalties, salaries, premiums,(except reinsurance premiums), annuities, emoluments or other fixed or determinable annual, periodic or casual gains, profits and income, and capital gains, except capital gains subject to tax under sub-paragraph 5(C). [~~: Provided, That effective January 1, 2009, the rate of income tax shall be thirty percent (30%)~~] xxx

(5) *Tax on Certain Incomes Received by a Non-resident Foreign Corporation* -

(a) xxx

(b) Inter-corporate Dividends - A final withholding tax rate at the rate of fifteen percent (15%) is hereby imposed on the amount of cash and /or property dividends received from a domestic corporation, which shall be collected and paid as provided in Section 57 (A) of this Code, subject to the condition that the country in which the non-resident foreign corporation is domiciled, shall allow a credit against the tax due from the non-resident foreign corporation taxes deemed to have been paid in the Philippines equivalent to [~~twenty~~] **THIRTEEN** percent [~~(20%)~~] **(13%)** which represents the difference between the regular income tax of [~~thirty-five~~] **TWENTY-EIGHT** percent [~~(35%)~~] **(28%) BEGINNING JANUARY 1, 2017** and the fifteen percent (15%) tax on dividends as provided in this sub-paragraph; *Provided*, that effective January 1, [~~2009~~] **2018**, the credit against the tax due shall be equivalent to [~~fifteen~~] **ELEVEN** percent [~~(15%)~~] **(11%)** which represents the difference between the regular income tax of [~~thirty~~] **TWENTY-SIX** percent [~~(30%)~~] **(26%)**, and the fifteen percent (15%) tax on dividends [.]; **EFFECTIVE JANUARY 1, 2019, EQUIVALENT TO NINE PERCENT (9%) WHICH REPRESENTS THE DIFFERENCE BETWEEN THE REGULAR INCOME TAX OF TWENTY-FOUR PERCENT (24%) AND THE FIFTEEN PERCENT (15%) TAX ON DIVIDENDS; EFFECTIVE JANUARY 1, 2020, EQUIVALENT TO SEVEN PERCENT (7%) WHICH REPRESENTS THE DIFFERENCE BETWEEN THE REGULAR INCOME TAX OF TWENTY-TWO PERCENT (22%) AND THE FIFTEEN PERCENT (15%) TAX ON DIVIDENDS; EFFECTIVE JANUARY 1, 2021 AND THEREAFTER, EQUIVALENT TO FIVE PERCENT (5%) WHICH REPRESENTS THE DIFFERENCE BETWEEN THE REGULAR INCOME TAX OF TWENTY PERCENT (20%)**

promulgate the rules and regulations necessary for the effective implementation of this Act.

SECTION 4. ***Separability Clause*** - If any of the provisions of this Act is declared invalid or unconstitutional, the remaining parts or provisions hereof not affected thereby shall remain in full force and effect.

SECTION 5. ***Repealing Clause.*** - All laws, decrees, executive orders, proclamations, rules and regulations, and issuances, or parts thereof, inconsistent with the provisions of this Act are hereby repealed or modified accordingly

SECTION 6. ***Effectivity Clause.*** - This Act shall take effect fifteen (15) days after its publication in at least two (2) national newspapers of general circulation.

Approved.