AN ACT
PROVIDING TAX RELIEF TO THE LABOR SECTOR BY EXPANDING THE
COVERAGE OF EXCLUSIONS FROM GROSS INCOME AND INCREASING THE
AMOUNTS OF DE MINIMIS BENEFITS EXEMPT FROM TAX AMENDING FOR
THE PURPOSE SECTIONS 32(B) AND 33 OF THE NATIONAL INTERNAL
REVENUE CODE OF 1997, AS AMENDED, AND FOR OTHER PURPOSES

Explanatory Note

This bill seeks to amend Sections 32 and 33 of the National Internal Revenue Code (NIRC) of 1997, as amended, as follows:

(a) Excluding from gross income the amounts received by natural and juridical persons as indemnity for any loss or injury suffered;
(b) Incorporating a proviso on de minimis benefits into the NIRC of 1997; and
(c) Removing the tax advantage of managerial employees over rank-and-file employees on fringe benefits.

The role of human capital in developing the economy has been widely acknowledged. This is one of the reasons that Congress has enacted pro-labor laws such as Republic Act No. 9504 which increased the basic personal exemption and exempted minimum wage earners from the payment of income tax. While our current tax system provides for some relief to our workers by reducing their income tax burden, it still needs to be enhanced to address other issues and concerns besetting the labor sector.

Workers are sometimes compensated in the form of back wages, allowances and benefits by virtue of a labor dispute award. While it is clearly stated in Revenue Memorandum Circular No. 39-2012 that such remunerations are taxable, other amounts
received by the worker as part of recoveries for physical and nonphysical injuries or damages obtained due to the dispute should not be treated as part of those remunerations. Moreover, other types of damages awarded by courts should also be explicitly included in the list of exclusions from gross income since these do not constitute part of the worker’s rendered service to his employer.

The incorporation of the provision on *de minimis* benefits lifted from Revenue Regulations No. 5-2011 secures its continued implementation by institutionalizing it in the Tax Code. The ceiling amounts therein provided, however, are proposed to be adjusted every three years based on their current Consumer Price Index (CPI) values.

The proposed removal of the tax advantage of managerial employees over rank-and-file employees with respect to fringe benefits is a move that would reduce the income divide between these groups of employees. More than ever, the words of President Ramon Magsaysay that *those who have less in life should have more in law* ring true.

We owe it to our labor force to craft laws that ensure they get effectively what are due them by expanding and strengthening the mechanisms through which they can find relief from the taxes that take off significant amounts from their meager monthly take home pay.

In view of the foregoing, immediate approval of this bill is earnestly sought.

VILMA SANTOS-RECTO
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Be it enacted by the Senate and House of Representatives of the Philippines in Congress
assembled:

Section 1. Section 32(B) of the National Internal Revenue Code of 1997, as amended,
is hereby further amended to read as follows:

"Sec. 32. Gross Income. –

"(A) xxx

"(B) Exclusions from Gross Income. – The following items shall not be
included in gross income and shall be exempt from tax under this Title:

"(1) xxx

"(2) xxx

"(3) xxx

"(4) xxx

"(5) DAMAGES AWARDED BY COURTS, BOARDS OR
OFFICERS EXERCISING JUDICIAL OR QUASI-
JUDICIAL FUNCTIONS. – AMOUNTS RECEIVED AS
INDEMNITY BY NATURAL OR JURIDICAL PERSONS
FOR ANY LOSS OR INJURY SUFFERED, SUCH AS,
BUT NOT LIMITED TO:

(A) DAMAGES RECEIVED BY EMPLOYEES AS
COMPENSATION FOR PHYSICAL AND

1
NONPHYSICAL INJURIES ACQUIRED DURING
LABOR DISPUTES;
(B) DAMAGES TO PERSONAL OR FAMILY
RIGHTS;
(C) DAMAGES FOR SLANDER AND LIBEL;
(D) AWARD FOR LOSS OF LIFE; AND
(E) DAMAGES FOR INJURIES TO THE GOODWILL
OF A TAXPAYER'S BUSINESS, UNLESS THE
AMOUNT AWARDED EXCEEDS THE VALUE OF
GOODWILL.

"\{(5)-(6) xxx
"\{(6)-(7) xxx
"\{(7)-(8) Miscellaneous Items. –
"(a) xxx
"(b) xxx
"(c) xxx
"(d) xxx
"(e) xxx
"(f) xxx
"(g) xxx
"(h) xxx

"(i) DE MINIMIS BENEFITS. – THESE SHALL BE
LIMITED TO FACILITIES OR PRIVILEGES
FURNISHED OR OFFERED BY AN EMPLOYER
TO HIS EMPLOYEES, BOTH MANAGERIAL
AND RANK-AND-FILE, THAT ARE OF
RELATIVELY SMALL VALUE AND ARE
OFFERED OR FURNISHED BY THE
EMPLOYER MERELY AS A MEANS OF
PROMOTING THE HEALTH, GOODWILL,
CONTENTMENT, OR EFFICIENCY OF HIS
EMPLOYEES, SUCH AS, BUT NOT LIMITED
TO, THE FOLLOWING:
“(I) MONETIZED VALUE OF VACATION AND SICK LEAVE CREDITS PAID TO PRIVATE EMPLOYEES NOT EXCEEDING TEN (10) DAYS DURING THE YEAR;

“(II) MONETIZED VALUE OF VACATION AND SICK LEAVE CREDITS PAID TO GOVERNMENT OFFICIALS AND EMPLOYEES;

“(III) MEDICAL CASH ALLOWANCE TO DEPENDENTS OF EMPLOYEES NOT EXCEEDING ONE THOUSAND FIVE HUNDRED PESOS (P1,500) PER SEMESTER OR TWO HUNDRED FIFTY PESOS (P250) PER MONTH;

“(IV) RICE SUBSIDY OF TWO THOUSAND PESOS (P2,000) OR ONE (1) SACK OF 50-KG. RICE PER MONTH AMOUNTING TO NOT MORE THAN P2,000;

“(V) UNIFORM AND CLOTHING ALLOWANCE NOT EXCEEDING SIX THOUSAND PESOS (P6,000) PER ANNUM;

“(VI) ACTUAL MEDICAL ASSISTANCE TO COVER MEDICAL AND HEALTH CARE NEEDS, ANNUAL MEDICAL/EXECUTIVE CHECK UP, MATERNITY ASSISTANCE, AND ROUTINE CONSULTATIONS, NOT EXCEEDING TWENTY-FIVE THOUSAND PESOS (P25,000) PER ANNUM;
“(VII) LAUNDRY ALLOWANCE NOT EXCEEDING SIX HUNDRED PESOS (P600) PER MONTH;

“(VIII) EMPLOYEE ACHIEVEMENT AWARDS FOR LENGTH OF SERVICE OR SAFETY ACHIEVEMENT, WHICH MUST BE IN THE FORM OF A TANGIBLE PERSONAL PROPERTY OTHER THAN CASH OR GIFT CERTIFICATE, WITH AN ANNUAL MONETARY VALUE NOT EXCEEDING TWENTY THOUSAND PESOS (P20,000) RECEIVED BY THE EMPLOYEE UNDER AN ESTABLISHED WRITTEN PLAN WHICH DOES NOT DISCRIMINATE IN FAVOR OF HIGHLY PAID EMPLOYEES;

“(IX) GIFTS OR PRIZES GIVEN DURING CHRISTMAS AND MAJOR ANNIVERSARY CELEBRATIONS NOT EXCEEDING TEN THOUSAND PESOS (P10,000) PER EMPLOYEE PER ANNUM;

“(X) DAILY MEAL ALLOWANCE FOR OVERTIME WORK NOT EXCEEDING TWENTY-FIVE PERCENT (25%) OF THE BASIC MINIMUM WAGE.”

PROVIDED, THAT NOT LATER THAN THREE (3) YEARS AFTER THE EFFECTIVITY OF THIS ACT AND EVERY THREE (3) YEARS THEREAFTER, THE AMOUNTS STATED UNDER SUBSECTIONS (III), (IV), (V), (VI), (VII), (VIII), AND (IX) HEREIN SHALL BE ADJUSTED TO THEIR PRESENT VALUE USING THE CONSUMER PRICE INDEX (CPI) AS PUBLISHED BY THE PHILIPPINE STATISTICS AUTHORITY (PSA)
WITHIN THIRTY (30) DAYS FROM THE EFFECTIVITY THEREOF.

"(J) FRINGE BENEFITS TO RANK-AND-FILE EMPLOYEES – BENEFITS GIVEN TO THE RANK-AND-FILE EMPLOYEES, WHETHER GRANTED UNDER A COLLECTIVE BARGAINING AGREEMENT OR NOT."

Sec. 2. Section 33 of the National Internal Revenue Code of 1997, as amended, is hereby further amended to read as follows:

"SEC. 33. Special Treatment of Fringe Benefits. –

"(A) xxx

"(B) Fringe Benefit Defined. – For purposes of this Section, the term ‘fringe benefit’ means any good, service or other benefit furnished or granted in cash or in kind by the employer to an individual employee [except rank-and-file employees as defined herein] such as, but not limited to, the following:

"(1) Housing;

"(2) Expense account;

"(3) Vehicle of any kind;

"(4) Household personnel, such as maid, driver and others;

"(5) Interest on loan at less than market rate to the extent of the difference between the market rate and actual rate granted;

"(6) Membership fees, dues and other expenses borne by the employer for the employee in social and athletic clubs or other similar organizations;

"(7) Expenses for foreign travel;

"(8) Holiday and vacation expenses;

"(9) Educational assistance to the employee or his dependents; and

"(10) Life or health insurance and other non-life insurance premiums or similar amounts in excess of what the law allows.

"(C) Fringe Benefits Not Taxable. – The following fringe benefits are not taxable under this Section:

"(1) Fringe benefits which are authorized and exempted from tax under special laws;
“(2) Contributions of the employer for the benefit of the employee to
retirement, insurance and hospitalization benefit plans;

“(3) Benefits given to the rank-and-file employees, whether granted
under a collective bargaining agreement or not; and

“(4) De minimis benefits as defined in the rules and regulations to be
promulgated by the Secretary of Finance, upon recommendation
of the Commissioner] SECTION 32 (B)(8)(I) HEREOF.

“The Secretary of Finance is hereby authorized to promulgate, upon
recommendation of the Commissioner, such rules and regulations as are
necessary to carry out efficiently and fairly the provisions of this Section,
taking into account the peculiar nature and special need of the trade, business
or profession of the employer.”

SEC. 3. Implementing Rules and Regulations (IRR). – Within sixty (60) days upon
approval of this Act, the Secretary of Finance shall issue the IRR for the effective
implementation of this Act.

Sec. 4. 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. Repealing Clause. – All laws, orders, issuances, circulars, rules and
regulations or parts thereof, which are inconsistent with the provisions of this Act are hereby
repealed or modified accordingly.

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

Approved,