

EIGHTEENTH CONGRESS OF THE )  
REPUBLIC OF THE PHILIPPINES )  
*First Regular Session* )



**HOUSE OF REPRESENTATIVES**

H. No. 4365

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Introduced by Rep. Vilma Santos-Recto  
6th District of Batangas

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**AN ACT**  
**EXCLUDING OVERTIME PAY FROM THE COMPUTATION OF TAXABLE**  
**INCOME AMENDING FOR THIS PURPOSE SECTION 32 (B) (7) OF THE**  
**NATIONAL INTERNAL REVENUE CODE OF 1997, AS AMENDED**

**EXPLANATORY NOTE**

Man does not work like a machine. He cannot work indefinitely. He needs ample time to rest and revitalize in order to prepare for another day's work, while making sure that he performs to the best of his abilities at all times.

This is why labor laws in many countries prescribe a maximum number of work hours. The Philippine Labor Code prescribed the normal hours of work for employees at eight (8) hours a day for six (6) consecutive days. If the employee works beyond eight (8) hours, the employer is required to pay additional compensation equivalent to the employee's regular wage plus at least twenty-five percent (25%) of his regular wage. If the employee renders overtime on a holiday or rest day, the rate is increased to thirty percent (30%)<sup>1</sup>.

Employees in the government are also entitled to overtime pay but they are governed by Civil Service laws, rules and regulations.

An employee who renders overtime work puts in additional hours of work and requires greater physical and mental effort. Instead of being able to rest early and spend more time with the family, the employee is forced to extend the working hours to achieve the

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<sup>1</sup> Labor Code of the Philippines.

organization's goals. Thus, it is only fitting that the employee be properly compensated for additional work hours rendered.

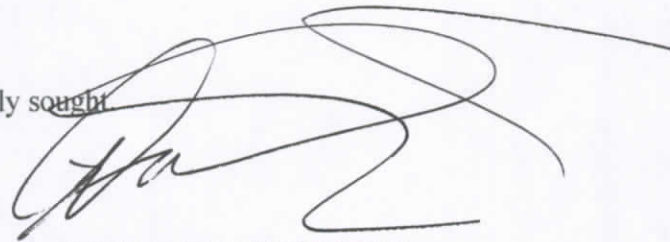
Unfortunately, compensation received for overtime work forms part of an employee's taxable income. This not only limits the full enjoyment of monetary benefits due the employee for putting in more hours of work but also diminishes the value of the additional physical and mental effort exerted.

In order to give due recognition and compensation to the hours worked in excess of the prescribed working hours, this bill seeks to exclude overtime pay from the computation of taxable income amending for the purpose Section 32 (B) (7) of the National Internal Revenue Code of 1997, as amended.

This proposal will cost the government foregone revenues. However, more money in taxpayers' pockets will increase disposable income and boost consumer spending which in turn would trigger demand for more goods and services thereby stimulate activities in the industrial and service sectors and eventually generate more taxes.

The proposed legislation is expected to benefit an estimated 26.7 million wage and salary workers from the private and public sector<sup>2</sup>.

Hence, immediate passage of this bill is earnestly sought



**VILMA SANTOS-RECTO**

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<sup>2</sup> April 2019 Labor Force Survey.

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

1           Section 1.     Section 32 (B) (7) of the National Internal Revenue Code of 1997, as  
2 amended, is hereby further amended to read as follows:

3                   “Sec. 32. Gross Income. –

4                   “(A) *General Definition.* – x x x

5                   “(B) *Exclusions from Gross Income.* – x x x

6                   “(1) x x x

7                   “(2) x x x

8                   “(3) x x x

9                   “(4) x x x

10                  “(5) x x x

11                  “(6) x x x

12                  “(7) *Miscellaneous items.* –

13                  “(a) x x x

14                  “(b) x x x

15                  “(c-) x x x

16                  “(d) x x x

17                  “(e) x x x

1                   “(F) **OVERTIME PAY – COMPENSATION DUE TO HOURS**  
2                   **WORKED IN EXCESS OF THE REQUIRED NORMAL WORKING**  
3                   **HOURS.**

4                   “~~(F)~~ (G) x x x

5                   “~~(G)~~ (H) x x x

6                   “~~(H)~~ (I) x x x.”

7                   Sec. 2. *Implementing Rules and Regulations.* – Within thirty (30) days from the  
8                   effectivity of this Act, the Secretary of Finance, upon the recommendation of the  
9                   Commissioner of Internal Revenue, shall promulgate the necessary implementing rules and  
10                  regulations for its effective implementation.

11                  Sec. 3. *Repealing Clause.* – All other laws, decrees, orders, issuances and rules and  
12                  regulations or parts thereof inconsistent with this Act are hereby amended or repealed  
13                  accordingly.

14                  Sec. 4. *Effectivity.* – This Act shall take effect fifteen (15) days after its publication  
15                  either in the *Official Gazette* or in at least two (2) newspapers of general circulation.

                  Approved,