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%)¹.

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

¹ 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\(^2\).

Hence, immediate passage of this bill is earnestly sought.

\[\text{VILMA SANTOS-RECTO}\]

\(^2\) April 2019 Labor Force Survey.
EIGHTEENTH CONGRESS OF THE
REPUBLIC OF THE PHILIPPINES
First Regular Session

HOUSE OF REPRESENTATIVES

4365
H. No. __________

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

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

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

Section 1. Section 32 (B) (7) of the National Internal Revenue Code of 1997, as
amended, is hereby further amended to read as follows:
"Sec. 32. Gross Income. —
"(A) General Definition. —
"(B) Exclusions from Gross Income. —
"(1) XXX
"(2) XXX
"(3) XXX
"(4) XXX
"(5) XXX
"(6) XXX
"(7) Miscellaneous items. —
"(a) XXX
"(b) XXX
"(c-) XXX
"(d) XXX
"(e) XXX
“(F) OVERTIME PAY – COMPENSATION DUE TO HOURS WORKED IN EXCESS OF THE REQUIRED NORMAL WORKING HOURS.

“[(d)] (G) x x x

“[(e)] (H) x x x

“[(f)] (I) x x x.”

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

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decrees, orders, issuances and rules and regulations or parts thereof inconsistent with this Act are hereby amended or repealed accordingly.

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

Approved,