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# *House Bill on Tax Reform for Acceleration and Inclusion*

## **In brief**

Last 17 January 2017, House Representative Dakila Carlo E. Cua introduced and filed House Bill (HB) No. 4774, the proposed Tax Reform for Acceleration and Inclusion, which aims to create a tax system that is simpler, fairer and more efficient, characterized by low rates and a broad base that promotes investment, job creation and poverty reduction.

As discussed in the explanatory notes of the bill, the tax reform program consists of several packages with each package balancing trade-offs and helping to ensure timely enactment. HB No. 4774 is the first package which seeks to lower personal income taxes, broaden the value added tax (VAT) base, adjust the excise taxes on petroleum and automobiles, and reduce the rates of estate and donor's tax. The bill also includes these tax administration measures: (a) mandatory use of fuel marking; (b) mandatory issuance of e-receipts; (c) mandatory interconnection of large and medium firms' point of sales machines and accounting systems with the Bureau of Internal Revenue (BIR); (d) mandatory use of GPS locks when transporting cargo from ports to economic zones and free ports; and (e) relaxation of bank secrecy for fraud cases.

Tax Particulars	Current tax rules	Proposed tax reform
<b>Commissioner's authority to inquire and receive taxpayer's information held by financial institutions</b>	Sec. 6 (F) Commissioner's authority to inquire and receive information on bank deposit accounts held by financial institutions over the following: <ol style="list-style-type: none"> <li>a. A decedent to determine his gross estate;</li> <li>b. Any taxpayer who has filed an application for compromise of his tax liability;</li> <li>c. A specific taxpayer or taxpayers, subject to a request for the supply of tax information from a foreign tax authority.</li> </ol>	Additional coverage of Commissioner's authority over the following: <ol style="list-style-type: none"> <li>a. A specific taxpayer or taxpayers, upon an obligation to exchange tax information to a foreign tax authority, whether on request, automatic or spontaneous;</li> <li>b. Any taxpayer against whom a criminal case is initiated for                             <ol style="list-style-type: none"> <li>1. tax evasion offenses; and</li> <li>2. failure to file return, supply correct and accurate information, pay tax, withhold and remit tax, and refund excess taxes withheld on compensation offenses.</li> </ol> </li> </ol>
<b>Adjustments in the personal income taxation</b>		
<b>On minimum wage earners (MWEs) provisions</b>	Sec. 22 (GG) and (HH) on the definition of statutory minimum wage and statutory minimum wage earner <hr/> Sec. 24 (A) (2) MWEs are exempt from income tax on their compensation, holiday pay, overtime pay, night shift differential pay and hazard pay.	Deletion of the definitions <hr/> Removal of tax exemption provisions on earnings by MWEs

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<b>On personal income tax table</b>	Sec. 24 (A) (2) Personal income tax table for both compensation-income earners, and self-employed and/or professionals:	<b>Separate tax table</b>																										
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		<i>Effective 1 July 2017</i>																										
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<b>On personal income tax table</b>		<p>After 2020, the taxable income levels shall be adjusted once every five years based on the rules and regulations issued by the Secretary of Finance.</p> <p>B. For self-employed and/or professionals</p> <table border="1" data-bbox="1024 621 1471 982"> <thead> <tr> <th data-bbox="1032 621 1089 642">Basis</th> <th data-bbox="1256 621 1292 642">Tax</th> </tr> </thead> <tbody> <tr> <td data-bbox="1032 657 1235 762">Gross sales or gross receipts is below VAT threshold (i.e., PHP3,000,000)</td> <td data-bbox="1256 657 1455 783">8% income tax on gross sales or gross revenues (in lieu of VAT and percentage tax)</td> </tr> <tr> <td data-bbox="1032 800 1227 873">Gross sales or gross receipts is above VAT threshold</td> <td data-bbox="1256 800 1455 972">Shall be taxed in the same manner as corporations as to applicable tax rate, minimum income tax and allowable deductions</td> </tr> </tbody> </table>	Basis	Tax	Gross sales or gross receipts is below VAT threshold (i.e., PHP3,000,000)	8% income tax on gross sales or gross revenues (in lieu of VAT and percentage tax)	Gross sales or gross receipts is above VAT threshold	Shall be taxed in the same manner as corporations as to applicable tax rate, minimum income tax and allowable deductions
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<b>On passive income on other winnings</b>	Sec. 24 (B) (1) Philippine Charity Sweepstakes Office (“PCSO”) and lotto winnings are exempt from 20% final withholding tax.	Removal of the tax exemption on winnings from PCSO and lotto						
<b>On alien individuals and qualified Filipinos employed by specific employers</b>	<p>Sec. 25 (C) (D) and (E) A rate of 15% final withholding tax on the gross compensation income of alien individuals and qualified Filipinos employed by the following employers:</p> <ol style="list-style-type: none"> <li>a. Regional or area headquarters and regional operating headquarters of multinational companies;</li> <li>b. Offshore banking units;</li> <li>c. Petroleum contractors and subcontractors.</li> </ol>	Removal of fifteen percent (15%) income tax						
<b>On fringe benefit tax given to non-rank and file employees</b>	<p>Sec. 33 (A)</p> <ul style="list-style-type: none"> <li>• Fringe benefits given to non-rank and file employees are subject to 32% final tax rate.</li> <li>• The grossed-up monetary value is determined by dividing the actual monetary value by 68%.</li> </ul>	<ul style="list-style-type: none"> <li>• Fringe benefits given to non-rank and file employees are subject to 30% final tax rate.</li> <li>• The grossed-up monetary value is determined by dividing the actual monetary value by 70%.</li> <li>• In 2020 onwards, the fringe benefit shall form part of the gross income subject to regular income tax rates.</li> </ul>						

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<b>On optional standard deduction (OSD)</b>	Sec. 34. (L) In lieu of the itemized allowable deductions, an individual subject to tax, other than a nonresident alien, may elect an OSD of forty percent (40%) of gross sales or gross receipts.	Decrease of OSD to 20% of gross sales or gross receipts																																			
<b>On income tax deductions and exemptions</b>	<p>Sec. 35 and 79 (D) Exemptions on the following:</p> <ul style="list-style-type: none"> <li>• PHP50,000 worth of personal exemption</li> <li>• PHP25,000 worth per qualified dependent child</li> </ul> <p>Sec. 34 (M)</p> <ul style="list-style-type: none"> <li>• PHP2,400 per year or PHP200 per month worth of premium payments on health and/or hospitalization</li> </ul>	Removal of the exemptions enumerated in the preceding column																																			
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<b>On estate tax rates</b>	<p>Sec. 84 Estate tax table:</p> <table border="1" data-bbox="462 961 992 1276"> <thead> <tr> <th>Over</th> <th>But not over</th> <th>This tax shall be</th> <th>Plus</th> <th>Of the Excess Over</th> </tr> </thead> <tbody> <tr> <td></td> <td>PHP200,000</td> <td>Exempt</td> <td></td> <td></td> </tr> <tr> <td>200,000</td> <td>500,000</td> <td>0</td> <td>5%</td> <td>200,000</td> </tr> <tr> <td>500,000</td> <td>2,000,000</td> <td>15,000</td> <td>8%</td> <td>500,000</td> </tr> <tr> <td>2,000,000</td> <td>5,000,000</td> <td>135,000</td> <td>11%</td> <td>2,000,000</td> </tr> <tr> <td>5,000,000</td> <td>10,000,000</td> <td>465,000</td> <td>15%</td> <td>5,000,000</td> </tr> <tr> <td>10,000,000</td> <td>And over</td> <td>1,215,000</td> <td>20%</td> <td>10,000,000</td> </tr> </tbody> </table>	Over	But not over	This tax shall be	Plus	Of the Excess Over		PHP200,000	Exempt			200,000	500,000	0	5%	200,000	500,000	2,000,000	15,000	8%	500,000	2,000,000	5,000,000	135,000	11%	2,000,000	5,000,000	10,000,000	465,000	15%	5,000,000	10,000,000	And over	1,215,000	20%	10,000,000	<ul style="list-style-type: none"> <li>• Removal of the estate tax table</li> <li>• Estate tax rate fixed at six percent (6%) based on net estate.</li> </ul>
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<b>On estate tax deductions</b>	<p>Sec. 86 (A) and (B) The following are allowed deductions for:</p> <p>A. Citizens or residents</p> <ol style="list-style-type: none"> <li>1. Expenses, losses, indebtedness and taxes;</li> <li>2. Vanishing deductions;</li> <li>3. Transfers for public use;</li> <li>4. Family home amounting to PHP1,000,000;</li> <li>5. Standard deduction;</li> <li>6. Medical expenses;</li> <li>7. Amount received by heirs under Republic Act (R.A.) No. 4917.</li> </ol> <p>B. Nonresident estates</p> <ol style="list-style-type: none"> <li>1. Expenses, losses, indebtedness and taxes;</li> <li>2. Vanishing deductions;</li> <li>3. Transfers for public use.</li> </ol>	<p>The following are the retained allowable deductions:</p> <p>A. Citizens or residents</p> <ol style="list-style-type: none"> <li>1. Vanishing deductions;</li> <li>2. Transfers for public use;</li> <li>3. Family home (but amount increased to PHP3,000,000);</li> <li>4. Standard deduction.</li> </ol> <p>B. Nonresident estates</p> <ol style="list-style-type: none"> <li>1. Vanishing deductions;</li> <li>2. Transfers for public use.</li> </ol>																																			

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<b>On donor's tax rates</b>	Sec. 99 (A) and (B) Donor's tax rates are as follows:	<ul style="list-style-type: none"> <li>Retention of the tax exemption on PHP100,000 annual net gifts</li> <li>Removal of the donor's tax table</li> <li>Donor's tax rate fixed at six percent (6%) based on annual net gifts, regardless of whether the donee is a stranger or not.</li> </ul>																																											
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<b>Expansion of the VAT base</b>		
<b>On zero-rated sale of goods</b>	Sec. 106 (A) (2) Export sales include the following:	<ul style="list-style-type: none"> <li>Removal of the enumerated list of export sales in the preceding column, except for item 5</li> <li>Item 5 is still considered export sales provided that the goods, supplies, equipment and fuel shall be used for international shipping and air transport operations.</li> <li>Direct exports by a registered export producer of exports products, or the sales of export products to another producer or to an export trader are considered export sales provided that such sales are evidenced by landing certificates or similar commercial documents.</li> <li>Foreign currency denominated sales and sales to persons or entities exempted under special laws are excluded from zero-rated sales.</li> </ul>
	<ol style="list-style-type: none"> <li>Sale of raw materials or packaging materials to a nonresident buyer;</li> <li>Sale of raw materials or packaging materials to an export-oriented enterprise whose export sales exceed seventy percent (70%) of total annual production;</li> <li>Sale of gold to the Bangko Sentral ng Pilipinas;</li> <li>Those considered export sales under Executive Order No. 226, otherwise known as the "Omnibus Investment Code of 1987", and other special laws.</li> <li>The sale of goods, supplies, equipment and fuel to persons engaged in international shipping or international air transport operations.</li> </ol> <p>Other zero-rated sales of goods are as follows:</p> <ol style="list-style-type: none"> <li>Foreign currency denominated sale;</li> <li>Sales to persons or entities exempted under special laws or international agreements</li> </ol>	

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<b>On zero-rated sales of services</b>	<p>Sec. 108 (B) Zero-rated sales of services include:</p> <ol style="list-style-type: none"> <li>1. Services rendered to persons or entities exempted under special laws or international agreements;</li> <li>2. Services rendered to persons engaged in international shipping or international air transport operations;</li> <li>3. Services performed by subcontractors and/or contractors in processing, converting, of manufacturing goods for an enterprise whose export sales exceed seventy percent (70%) of total annual production;</li> <li>4. Sale of power or fuel generated through renewable sources of energy such as, but not limited to, biomass, solar, wind, hydropower, geothermal, ocean energy, and other emerging energy sources using technologies such as fuel cells and hydrogen fuels.</li> </ol>	<ul style="list-style-type: none"> <li>• Removal of the enumerated list of zero-rated sale of services in the preceding column, except for item 2</li> <li>• Item 2 will qualify for zero-rated sale of services if these services are exclusively for international shipping and air transport operations.</li> </ul>
<b>On VAT exemptions</b>	<p>Sec. 109 (1) VAT exemptions include the following transactions:</p> <ul style="list-style-type: none"> <li>• Importation of professional instruments, etc. belonging to persons coming to settle in the Philippines, for their personal use;</li> <li>• Transactions which were VAT exempt under special laws;</li> <li>• Sales by agricultural cooperatives;</li> <li>• Gross receipts from lending activities by credit or multi-purpose cooperatives;</li> <li>• Sale of real property utilized for low-cost and socialized housing;</li> <li>• Lease of residential unit with monthly rental of Php12,800;</li> <li>• Importation of fuel, goods, and supplies by persons engaged in international shipping of air transport operations;</li> <li>• Sales by qualified non-agricultural, non-electric and non-credit cooperatives.</li> </ul>	<ul style="list-style-type: none"> <li>• Removal of VAT exemption on transactions enumerated in the preceding column</li> <li>• Addition of VAT exemption for importation of professional instruments, etc. for personal use of overseas Filipinos and for sale of power or fuel generated through renewable sources of energy.</li> <li>• VAT threshold increased to PHP3,000,000.</li> </ul>
<b>On VAT invoicing and accounting requirements</b>		<ul style="list-style-type: none"> <li>• Electronically generated VAT invoices and receipts shall be recognized for input VAT purposes.</li> </ul>

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<b>Adjustments in excise taxation</b>																																																																																			
<b>On excise tax of petroleum products</b>	Sec. 148 The following items have the corresponding excise tax rates:	The following are the revised excise tax rates effective corresponding periods:																																																																																	
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<b>On excise tax of petroleum products</b>		<p>Note the following:</p> <ol style="list-style-type: none"> <li>Excise taxes paid on the purchased feedstock (bunker) used in the manufacture of excisable articles and forming part thereof shall be credited against the excise tax due therefrom.</li> <li>Lubricating oils and greases produced from basestocks and additives on which the excise tax has already been paid shall no longer be subject to excise tax.</li> <li>Locally produced or imported oils previously taxed but are subsequently reprocessed, rerefined or recycled shall be subject to applicable excise taxes.</li> <li>Excise tax rates shall be increased by four percent (4%) every year effective 1 January 2020 based on revenue regulations issued by the Secretary of Finance, unless the average Dubai crude oil price in the month preceding the scheduled indexation exceeds one hundred US dollars per barrel.</li> </ol>																																			
<b>On mandatory marking of petroleum products</b>	No current tax rules on the same	All petroleum products shall be marked with the official marking agent designated by the Department of Finance.																																			
<b>On excise tax on automobiles</b>	Sec. 149 Excise tax imposed on automobiles are as follows:	Imposition of the following increased excise taxes:																																			
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Tax Particulars	Current tax rules	Proposed tax reform
<b>Keeping of Books of Accounts</b>	<p>Sec. 232(A)</p> <ul style="list-style-type: none"> <li>Those whose quarterly sales, earnings, receipts, or output do not exceed PHP50,000 shall keep and use simplified set of bookkeeping records.</li> <li>Those whose gross quarterly sales, earnings, receipts or output exceed PHP150,000 shall have their books of accounts audited and examined yearly by independent Certified Public Accountants (CPAs) and their income tax returns accompanied with a duly accomplished Account Information Form (AIF).</li> </ul>	<ul style="list-style-type: none"> <li>Those whose quarterly sales, earnings, receipts, or output do not exceed PHP250,000 shall keep and use simplified set of bookkeeping records.</li> <li>Those whose gross quarterly sales, earnings, receipts or output exceed PHP750,000 shall have their books of accounts audited and examined yearly by independent CPAs and their income tax returns accompanied with a duly accomplished AIF.</li> <li>The Secretary of Finance, upon recommendation of the Commissioner of Internal Revenue, shall require the mandatory interconnection of certain books of accounts to the BIR systems.</li> </ul>
<b>Issuance of Receipts or Sales or Commercial Invoices</b>	<p>Sec. 237</p> <ul style="list-style-type: none"> <li>For each sale of merchandise or service rendered valued at PHP25 or more, a receipt or invoice shall be issued, prepared at least in duplicate.</li> </ul>	<ul style="list-style-type: none"> <li>For each sale of merchandise or service rendered valued at PHP25 or more, an electronic receipt or invoice shall be generated and transmitted to the BIR upon sale to properly determine the correct taxes to be paid.</li> <li>In the case of sales, receipts or transfers in the amount of one hundred pesos (PHP100.00) or more, or regardless of amount, where the sale or transfer is made by a person liable to VAT to another person also liable to VAT; or where the electronic receipt is issued to cover payment made as rentals, commissions, compensations or fees, electronic receipts or electronic invoices shall be issued.</li> <li>The issuance to the buyer of an electronic receipt or electronic invoice shall be accomplished.</li> </ul>

Tax Particulars	Current tax rules	Proposed tax reform
<b>Electronic Sales Reporting System</b>	No current tax rules on the same	<ul style="list-style-type: none"> <li>• The BIR shall create an electronic system that will link sales and purchase data entered on cash register/point-of-sales machines (CRM/POS machines) of VAT-registered taxpayers to the Bureau's servers for simultaneous reporting of sales and purchase data.</li> <li>• VAT-registered taxpayers shall acquire CRM/POS machines and secure said machines' linkage to the BIR's servers at their expense within one year and six months from effectivity of the law.</li> <li>• The BIR shall establish electronic interconnectivity electronic interconnectivity with appropriate government agencies within one year and six months from the effectivity of the law.</li> </ul>
<b>On crimes, other offenses and forfeitures</b>	No current tax rules on the same	<p><b>A. Failure to link Sales and Purchase data Entered on CRM/POS Machines to the BIR's Servers Due to Negligence or Intent to Defraud the Government</b></p> <ul style="list-style-type: none"> <li>• Any VAT registered taxpayer who fails to utilize CRM/POS machines connected to the Bureau's servers in the taxpayer's business operations/ transactions due to negligence or with intent to defraud the government shall pay a penalty amounting to one-half of one percent (1/2 of 1%) of the annual net income as reflected in the VAT-registered taxpayer's audited financial statement for the second year preceding the current taxable year for each day of violation;</li> <li>• The payment of the above penalty shall be made simultaneously with the payment for VAT on a monthly basis. Should the aggregate number of days of violation exceed one-hundred eighty (180) days within a taxable year, an additional penalty of permanent closure of the VAT-registered taxpayer shall be imposed.</li> </ul>

Tax Particulars	Current tax rules	Proposed tax reform
<b>On crimes, other offenses and forfeitures</b>		<b>B. Automated Sales Suppression Devices</b> Criminal liability shall be incurred by any person who shall purchase, use, possess, sell or offer to sell, update, upgrade, keep or maintain any software or device designed for, or is capable of:  <ol style="list-style-type: none"><li>1. Suppressing the creation of electronic records of sale transactions that a taxpayer is required to keep under existing tax laws and/or regulation; or</li><li>2. Modifying, hiding, or deleting electronic records of sales transactions and providing a ready means of access to them.</li></ol>
<b>Earmarking of incremental revenues</b>	No current tax rules on the same	The bill provides for specific allocation of incremental revenues generated to specific government agencies and programs.

Tax Particulars	Current tax rules	Proposed tax reform
<b>Repealed sections of special laws</b>		<p>The following provisions of special laws are proposed to be repealed:</p> <ol style="list-style-type: none"> <li>a. Section 9, with respect to the VAT, of R.A. 9511 or the National Grid Corporation of the Philippines Act;</li> <li>b. Articles 60 and 61 (1) with respect to the VAT, and Articles 61 (2)(b) of R.A. 9520 or The Philippine Cooperative Code of 2008;</li> <li>c. Section 9 of R.A. 10744 or the Credit Surety Fund Cooperative Act of 2015;</li> <li>d. Section 4(a) and (b) and Section 19(a) of R.A. 9295 or the Domestic Shipping Development Act of 2004;</li> <li>e. Section 11(a) and (b) of R.A. 10073 or the Girl Scout of the Philippines Charter of 2009;</li> <li>f. Section 22(b) of R.A. 10747 or Rare Diseases Act of the Philippines;</li> <li>g. Section 13(1) and (2), with respect to the VAT, of P.D. 1869 s. 1983 or the Franchise and Powers of The Philippine Amusement and Gaming Corporation;</li> <li>h. Section 15(g) of R.A. 9513 or the Renewable Energy Act of 2008;</li> <li>i. Last paragraph of Section 8 of R.A. 7278 or the Boy Scout of the Philippines with respect to the VAT;</li> <li>j. Section 16 (a) and (b), and Section 17 (a) of P.D. 972 s. 1976 or the Coal Development Act of 1976, with respect to excise tax and VAT;</li> <li>k. Section 33(a) of R.A. 7277, as amended by R.A. 10754 or the Magna Carta for Persons with Disability;</li> <li>l. Section 22(B) of R.A. 10165 or the Foster Care Act of 2012;</li> <li>m. Section 4 of R.A. 1169 or “An Act Providing For Charity Sweepstakes, Horse Races and Lotteries”.</li> </ol>

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## *Let's talk*

For a discussion on how these proposed changes may affect you and your business, please contact:



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