HOUSE OF REPRESENTATIVES
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Republic of the Philippines
HOUSE OF REPRESENTATIVES
Quezon City

SEVENTEENTH CONGRESS
First Regular Session

HOUSE BILL NO. 5384

Introduced by **HON. LUIS RAYMUND "LRAY" F. VILLAFUERTE, JR.**

EXPLANATORY NOTE

The Philippines currently has the highest corporate income tax within the Association of Southeast Asian Nations (ASEAN) at 30% of net taxable income—a rate which far outstrips the region's average of 23%. Within the ASEAN, Indonesia and Malaysia follow at 25%, Vietnam at 22%, and Thailand and Cambodia at 20%; Singapore, on the other hand, imposes the lowest corporate income tax rate at 17%. Despite this, the Philippines' tax effort is still lower than that of most countries in the region, reaching only 13.72% of Gross Domestic Product in 2016.

The Philippines also lags behind its neighbors in terms of Foreign Direct Investments (FDI) inflows. The World Economic Forum's 2016-2017 Global Competitiveness Report notes that "tax rates" and "tax regulations" are among the five "most problematic factors for doing business" in the Philippines; understandably, investors prefer countries with similar production capacities but lower tax rates. In contrast, Singapore, which has the lowest corporate income tax rate in the region, attracts the most FDI, which is a crucial factor in generating jobs, bringing in new technologies, and promoting economic growth.

The country also has an opportunity to benefit from the flow of capital through trade and investment that greater economic integration within the ASEAN seeks to bring—but it might find itself unable to do so given its current corporate income tax framework. It should be noted that with the signing of the ASEAN Economic Community Declaration, many member-countries have already lowered their respective corporate income tax rates in preparation—and it is imperative for the Philippines to immediately reform its taxation system to make sure it is competitive and attractive to investors.

Thus, this bill seeks to amend Sections 27 and 28 of the National Internal Revenue Code of 1997, as amended, by reducing the corporate income tax from 30% to 25%.

In light of the foregoing, the immediate passage of this bill is earnestly sought.

LUIS RAYMUND "LRAY" F. VILLAFUERTE, JR.

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HOUSE BILL NO. 5384

Introduced by **HON. LUIS RAYMUND "LRAY" F. VILLAFUERTE, JR.**

AN ACT REDUCING THE COPORATE INCOME TAX RATE, AMENDING SECTIONS 27 AND 28 OF THE NATIONAL INTERNAL REVENUE CODE OF 1997, AS AMENDED, AND FOR OTHER PURPOSES

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

SECTION 1. Section 27 (A) of the National Internal Revenue Code of 1997, as amended, is hereby further amended to read as follows:

"**SEC. 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-FIVE PERCENT (25%)** 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%).]."

SECTION 2. Section 28 of the National Internal Revenue Code of 1997, as amended, is hereby further amended to read as follows:

"**SEC. 28. Rates of Income Tax on Foreign Corporations.** –

(A) Tax on Resident Foreign Corporations. –

(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-FIVE PERCENT (25%)** 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%)].

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"(B) Tax on Nonresident 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%)] **TWENTY-FIVE PERCENT (25%)** 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 subparagraph 5(c) [: Provided, That effective January 1, 2009, the rate of income tax shall be thirty percent (30%)]."

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"(5) Tax on Certain Incomes Received by a Nonresident Foreign Corporation. -

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"(b) Intercorporate Dividends. - A final withholding tax 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 nonresident foreign corporation is domiciled, shall allow a credit against the tax due from the nonresident foreign corporation taxes deemed to have been paid in the Philippines equivalent to [twenty percent (20%)] **TEN PERCENT (10%)**, which represents the difference between the regular income tax of [thirty-five percent (35%)] **TWENTY-FIVE PERCENT (25%)** and the fifteen percent (15%) tax on dividends as provided in this subparagraph [:

Provided, that effective January 1, 2009, the credit against the tax due shall be equivalent to fifteen percent (15%), which represents the difference between the regular income tax of thirty percent (30%) and the fifteen percent (15%) tax on dividends]."

SECTION 3. ***Implementing Rules and Regulations.*** Within thirty (30) days of the effectivity of this law, the Secretary of Finance shall, upon the recommendation of the Commissioner of Internal Revenue, promulgate and publish the necessary rules and regulations for the effective implementation of this Act.

SECTION 4. ***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.

SECTION 5. ***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.

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

Approved,