

SENATE

S. No. 230

RECEIVED 

Introduced by **Senator Francis G. Escudero**

AN ACT
PROMOTING BUSINESS COMPETITIVENESS BY PROVIDING TEMPORARY
TAX RELIEF TO SINGLE PROPRIETORSHIPS, COOPERATIVES,
PARTNERSHIPS OR CORPORATIONS CLASSIFIED AS MICRO, SMALL AND
MEDIUM ENTERPRISES

EXPLANATORY NOTE

Despite its pivotal role in the economy, Micro, Small and Medium Enterprises (MSMEs) are particularly vulnerable to external shocks. This vulnerability was particularly highlighted at the height of the coronavirus pandemic, which induced restrictions in business operations and decline in consumer demand. Such negative impact on cash flows caused temporary and permanent closure of MSMEs and the displacement of their employees. Based on the published figures by the Department of Trade and Industry, MSME establishments and MSME employment declined by 42,776 and 129,945 from 2019 to 2020, respectively.

While the most devastating impact of the pandemic has since passed and businesses are starting to reopen and recover, they still remain particularly vulnerable to factors such as the escalating cost of doing business and limited access to financing and markets, among others. As such, there is a need for the government to cushion MSMEs against the lingering impact of the pandemic and to bolster their resilience against future shocks.

To address this concern and to adhere to the state policy of promoting, supporting, strengthening and encouraging the growth and development of MSMEs in all productive sectors of the economy, the government can incentivize their continued operation in the country. This bill seeks to provide MSMEs a three-year exemption from income tax and authorizes the deduction from taxable income an amount

equivalent to twenty-five percent (25%) of labor expenses by MSMEs within three (3) years following the effectivity of the proposed measure. The twin tax relief provision in this proposed measure can provide qualified enterprises with additional resources for continuing business activities, hiring more people, and expanding business operations.

Ultimately, these incentives are but small investments to catalyze the growth of the MSME sector and aid in government efforts to reduce poverty incidence, increase employment rate and pump-prime economic activities in the post-pandemic Philippines.

In view of the foregoing, the passage of the measure is earnestly sought.


FRANCIS G. ESCUDERO

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

1 Section 1. *Grant of Relief from Payment of Income Tax.* – Single
2 proprietorships, cooperatives, partnerships or corporations classified as Micro
3 Enterprises under Republic Act No. 6977, otherwise known as the “Magna Carta for
4 Small Enterprises,” as amended, shall be exempt from income tax: *Provided*, That the
5 exemption from income tax shall be extended to qualified enterprises within the
6 effectivity period as provided under Section 6 of this Act.

7 Sec. 2. *Grant of Authorization to Deduct Labor Expense from Taxable Income.*
8 – In computing taxable income subject to income tax under Sections 24(A); 25(A);
9 26; 27(A), (B), and (C); and 28(A)(1) of the National Internal Revenue Code of 1997,
10 as amended, there shall be allowed a twenty-five percent (25%) additional deduction
11 on the labor expense incurred for each employee hired by single proprietorships,
12 cooperatives, partnerships or corporations classified as Small and Medium Enterprises
13 under Republic Act No. 6977, otherwise known as the “Magna Carta for Small
14 Enterprises”, as amended: *Provided*, That no deduction in the computation of taxable
15 income shall be extended to taxpayers earning compensation income arising from
16 personal services rendered under an employer-employee relationship: *Provided*,

1 *further*, That the additional deduction on the labor expense incurred for each
2 employee shall be extended to qualified enterprises within the effectivity period as
3 provided under Section 6 of this Act.

4 *Sec. 3. Implementing Rules and Regulations.* – Within thirty (30) days from the
5 effectivity of this Act, the Department of Finance shall, in coordination with the Bureau
6 of Internal Revenue, promulgate the rules and regulations to effectively implement
7 the provisions of this Act.

8 *Sec. 4. Separability Clause.* – If any provision or part hereof is declared
9 unconstitutional, the remainder of this Act or any provision not affected thereby shall
10 remain in full force and effect.

11 *Sec. 5. Repealing Clause.* – All laws, acts, decrees, executive orders, issuances,
12 and rules and regulations or parts thereof which are contrary to and inconsistent with
13 this Act are hereby repealed, amended or modified accordingly.

14 *Sec. 6. Effectivity.* – This Act shall take effect on the fiscal year immediately
15 following its publication in the *Official Gazette* or in at least two (2) newspapers of
16 general circulation, and shall remain in full force and effect for three (3) fiscal years,
17 unless otherwise extended through an act of Congress.

Approved,