

SENATE

S. No. 231

RECEIVED _____


Introduced by **Senator Francis G. Escudero**

AN ACT
PROMOTING BUSINESS GROWTH AND RECOVERY BY REDUCING THE COST
OF BUSINESS COMPLIANCE FOR MICRO, SMALL AND MEDIUM
ENTERPRISES, AMENDING FOR THE PURPOSE THE NATIONAL INTERNAL
REVENUE CODE OF 1997, AS AMENDED

EXPLANATORY NOTE

The Micro, Small and Medium Enterprise (MSME) sector is one of the primary drivers of economic growth in the country. The MSME data from Department of Trade and Industry revealed that in 2023, some 99.63% of the 1,241,733 establishments in the country are classified as MSMEs. During the same year, the sector generated 66.97% of the total establishment-based employment. Additionally, their distribution across industrial sectors and geographic locations enables them to stimulate economic activities outside traditional urban centers, thus aiding government efforts to redistribute wealth, reduce poverty incidence, and develop the Philippine countryside.

Despite its pivotal role in the economy, factors such as the escalating cost of doing business, restricted access to financing and markets, and declining productivity and efficiency are impeding the development of the MSME sector. With limited resources and capabilities, many MSMEs are not adequately equipped to respond to the challenges and opportunities posed by domestic and international markets. This was particularly true during the height of the coronavirus pandemic in 2020, when the number of MSME establishments and their level of employment declined by 42,776 and 129,945, respectively.

To develop an MSME sector capable of contributing to the country's economic and social development, this bill seeks to improve the sector's competitiveness by reducing the compliance cost of tax regulations. First, it seeks to make the optional tax on gross sales or receipts introduced under Republic Act No. 10963, or the Tax Reform for Acceleration and Inclusion (TRAIN) Law, more appealing to MSMEs by reducing the tax rate from eight percent (8%) to five percent (5%) of gross sales or receipts. Second, the bill seeks to simplify the convoluted rates under the creditable withholding tax system by reducing the number of rates be used to two: one percent (1%) for the purchase of goods and properties, and two percent (2%) for the purchase of services.

Through these twin interventions, it is hoped that MSMEs would be afforded additional funds to expand business operations, recruit additional manpower, and mitigate inflation of business inputs, which in turn could facilitate growth and development for all Filipinos.

In view of the foregoing, the approval of this 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. Section 24 of the National Internal Revenue Code of 1997, as
2 amended, is hereby further amended to read as follows:

3 "Sec. 24. *Income Tax Rates.* –

4 "(A) *Rates of Income Tax on Individual Citizen and Individual*
5 *Resident Alien of the Philippines.* –

6 "(1) x x x;

7 "(2) *Rates of Tax on Taxable Income of Individuals.* – The tax
8 shall be computed in accordance with and at the rates established in the
9 following schedule:

10 "(a) x x x;

11 "(b) *Rate of Tax on Income of Purely Self-employed*
12 *Individuals and/or Professionals Whose Gross Sales or Gross*
13 *Receipts and Other Non-operating Income Does Not Exceed the*
14 *Value-added Tax (VAT) Threshold as Provided in Section*

1 ~~[109(BB)]~~ **109(CC)**. – Self-employed individuals and/or
2 professionals shall have the option to avail of ~~[an eight percent~~
3 ~~(8%)]~~ **A FIVE PERCENT (5%)** tax on gross sales or gross
4 receipts and other non-operating income in excess of Two
5 hundred fifty thousand pesos (P250,000) in lieu of the graduated
6 income tax rates under Subsection (A)(2)(a) of this Section and
7 the percentage tax under Section 116 of this Code.

8 “(c) *Rate of Tax for Mixed Income Earners.* - Taxpayers
9 earning both compensation income and income from business or
10 practice of profession shall be subject to the following taxes:

11 “(1) x x x;

12 “(2) All Income from Business or Practice of
13 Profession. –

14 “(a) If Total Gross Sales and/or Gross Receipts and
15 Other Non-Operating Income Do Not Exceed the VAT
16 Threshold as Provided in Section ~~[109(BB)]~~ **109(CC)** of
17 this Code. – The rates prescribed under Subsection
18 (A)(2)(a) of this Section on taxable income, or of ~~[eight~~
19 ~~percent (8%)]~~ **FIVE PERCENT (5%)** income tax based
20 on gross sales or gross receipts and other non-operating
21 income in lieu of the graduated income tax rates under
22 Subsection (A)(2)(a) of this Section and the percentage
23 tax under Section 116 of this Code.

24 “x x x.”

25 Sec. 2. Section 57 of the National Internal Revenue Code of 1997, as amended
26 is hereby further amended to read as follows:

27 “Sec. 57. *Withholding of Tax at Source.* –

28 “(A) x x x;

1 “(B) *Withholding of Creditable Tax at Source.* - The Secretary of
2 Finance may, upon the recommendation of the Commissioner, require
3 the withholding of a tax on the items of income payable to natural or
4 juridical persons, residing in the Philippines, by payor-
5 corporation/persons as provided for by law, at the rate of [~~not more~~
6 ~~than fifteen percent (15%) thereof~~] **ONE PERCENT (1%) FOR THE**
7 **PURCHASE OF GOODS AND PROPERTIES, AND TWO PERCENT**
8 **(2%) FOR THE PURCHASE OF SERVICES INCLUDING THE**
9 **EXERCISE OF PROFESSION AND LEASE OF PROPERTIES,** which
10 shall be credited against the income tax liability of the taxpayer for the
11 taxable year;

12 “x x x.”

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

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

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

23 *Sec. 6. Effectivity.* – This Act shall take effect fifteen (15) days after its
24 publication in the *Official Gazette* or at least two (2) newspapers of general circulation.

Approved,