

LAWNUM: RA07496  
DATE : 05/13/92  
TITLE : AN ACT ADOPTING THE SIMPLIFIED NET INCOME TAXATION  
SCHEME FOR THE SELF-EMPLOYED AND PROFESSIONALS ENGAGED IN THE  
PRACTICE OF THEIR PROFESSION, AMENDING SECTIONS 21 AND 29 OF THE  
NATIONAL INTERNAL REVENUE CODE, AS AMENDED

TEXT :

H. No. 34314

Republic of the Philippines  
Congress of the Philippines  
Metro Manila

Fifth Regular Session

Begun and held in Metro Manila, on Monday, the twenty-second  
day of July, nineteen hundred and ninety-one.

[REPUBLIC ACT NO. 7496]

AN ACT ADOPTING THE SIMPLIFIED NET INCOME  
TAXATION SCHEME FOR THE SELF-EMPLOYED AND  
PROFESSIONALS ENGAGED IN THE PRACTICE OF  
THEIR PROFESSION, AMENDING SECTIONS 21 AND  
29 OF THE NATIONAL INTERNAL REVENUE CODE,  
AS AMENDED

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

SECTION 1. It is hereby declared the policy of the State to  
have a uniform and equitable tax system as mandated by the  
Consti-tution. The tax structure must be such that all tax groups  
shall pay their fair share of taxes. The higher income groups  
shall bear a higher tax burden than the low income groups.

SEC. 2. As used herein, the term:

(a) "Self-employed" means persons engaged in business and who derive their personal income from such business. This includes single proprietorships, i. e., manufacturers, traders, market vendors, owners of eateries, farmers and service shops; and

(b) "Professionals" means persons who derive their income from the practice of their profession. This includes lawyers and other persons who are registered with the Professional Regulation Commission such as doctors, dentists, certified public accountants and others similarly situated. The term "professional" also refers to one who pursues an art and makes his living therefrom such as artists, athletes and others similarly situated.

SEC. 3. The first subparagraph of Section 21(a) of the National Internal Revenue Code, as amended, is hereby further amended to read as follows:

"(a) Taxable compensation income. - A tax is hereby imposed upon the taxable compensation income as defined in Section 27, other than the incomes subject to tax under paragraphs (b), (c), (d), (e) and (f) of this section, received during each taxable year from all sources determined in accordance with the following schedule:

"Not over P 2,500	0%
"Over P 2,500 but not over P 5,000	1%
"Over P 5,000 but not over P 10,000	P 25 + 3% of excess over P 5,000
"Over P 10,000 but not over P 20,000	P 175 + 7% of excess over P 10,000
"Over P 20,000 but not over P 40,000	P 875 + 11 % of excess over P 20,000
"Over P 40,000 but not over P 60,000	P 3,075 + 15% of excess over P 40,000
"Over P 60,000 but not over P 100,000	P 6,075 + 19% of excess over P 60,000
"Over P 100,000 but not over P 250,000	P 13,675 + 24% of excess over P 100,000
"Over P 250,000 but not over P 500,000	P 49,675 + 29% of excess over P 250,000

"Over P 500,000 P 122,175 + 35% of  
excess over P 500,000"

SEC. 4. A new paragraph to be known as paragraph (f) is hereby inserted at the end of Section 21 of the National Internal Revenue Code, as amended, which shall read as follows:

"(f) Simplified Net Income Tax for the Self-employed and for Professionals Engaged in the Practice of Profession. - A tax is hereby imposed upon the taxable net income as determined in Section 27 received during each taxable year from all sources, other than income covered by paragraphs (b), (c), (d) and (e) of this section by every individual whether a citizen of the Philippines or an alien residing in the Philippines who is self-employed or practices his profession therein, determined in accordance with the following schedule:

"Not over P 10,000	3%
"Over P 10,000 but not over P 30,000	P 300 + 9% of excess over P 10,000
"Over P 30,000 but not over P 120,000	P 2,100 + 15% of excess over P 30,000
"Over P 120,000 but not over P 350,000	P 15,600 + 20% of excess over P 120,000
"Over P 350,000	P 61,600 + 30% of excess over P350,000"

SEC. 5. The opening paragraph of Section 29 of the National Internal Revenue Code, as amended, is hereby further amended to read as follows:

"In computing taxable income subject to tax under Sections 21(a); 24(a), (b), and (c); and 25(a)(1), there shall be allowed as deductions the items specified in paragraphs (a) to (i) of this section: Provided however, That, in computing taxable income subject to tax under Section 21(f) in the case of individuals engaged in business or practice of profession, only the following direct costs shall be allowed as deductions:

"(a) Raw materials, supplies and direct labor;

"(b) Salaries of employees directly engaged in activities in the course of or pursuant to the business or practice of their profession;

"(c) Telecommunications, electricity, fuel, light and water;

"(d) Business rental;

"(e) Depreciation;

"(f) Contributions made to the Government and accredited relief organizations for the rehabilitation of calamity-stricken areas declared by the President; and

"(g) Interest paid or accrued within a taxable year on loans contracted from accredited financial institutions which must be proven to have been incurred in connection with the conduct of a taxpayer's profession, trade or business.

"For individuals whose cost of goods sold and direct costs are difficult to determine, including professionals as herein defined, a maximum of forty percent (40%) of their gross receipts shall be allowed as deductions to answer for business or professional expenses as the case may be."

SEC. 6. The Secretary of Finance, upon the recommendation of the Commissioner of Internal Revenue, shall promulgate and publish the necessary rules and regulations for the effective implementation of the provisions of this Act.

SEC. 7. If any provision of this Act is declared unconstitutional or the application thereof to any person, circumstance or transaction is held invalid, the validity of the remaining provisions of this Act or the applicability of such provision to other persons, circumstances or transactions shall not be affected thereby.

SEC. 8. The provisions of Sections 21 and 29 of the National Internal Revenue Code, as amended, and all other laws, decrees, orders, rules and regulations, or parts thereof, inconsistent with this Act are hereby repealed or amended accordingly.

SEC. 9. After three (3) years from the effectivity of this Act, the Commissioner of Internal Revenue may implement a withholding tax scheme to further enhance the taxation of the self-employed and professionals as defined under this Act.

In furtherance of this section, the Secretary of Finance, upon the recommendation of the Commissioner of Internal Revenue, shall issue and publish the implementing rules and regulations to implement this mandate.

SEC. 10. This Act shall take effect upon its approval.

Approved,

NEPTALI A. GONZALES  
President of the Senate

RAMON V. MITRA  
Speaker of the House

of Representatives

This Act which originated in the House of Representatives was finally passed by the House of Representatives and the Senate on January 21, 1992 and January 15, 1992, respectively.

ANACLETO D. BADOY, JR.  
Secretary of the Senate

CAMILO L. SABIO  
Secretary General  
House of Representatives

Approved: May 15, 1992

CORAZON C. AQUINO  
President of the Philippines