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[G.R. No. 184450, January 24, 2017]

JAIME N. SORIANO, MICHAEL VERNON M. GUERRERO, MARY ANN L. REYES, MARAH SHARYN M. DE CASTRO AND CRIS P. TENORIO, PETITIONERS, VS. SECRETARY OF FINANCE AND THE COMMISSIONER OF INTERNAL REVENUE, RESPONDENTS.

[G.R. No. 184508]

SENATOR MANUEL A. ROXAS, PETITIONER, VS. MARGARITO B. TEVES, IN HIS CAPACITY AS SECRETARY OF THE DEPARTMENT OF FINANCE AND LILIAN B. HEFTI, IN HER CAPACITY AS COMMISSIONER OF THE BUREAU OF INTERNAL REVENUE, RESPONDENTS.

[G.R. No. 184538]

TRADE UNION CONGRESS OF THE PHILIPPINES (TUCP), REPRESENTED BY ITS PRESIDENT, DEMOCRITO T. MENDOZA, PETITIONER, VS. MARGARITO B. TEVES, IN HIS CAPACITY AS SECRETARY OF THE DEPARTMENT OF FINANCE AND LILIAN B. HEFTI, IN HER CAPACITY AS COMMISSIONER OF THE BUREAU OF INTERNAL REVENUE, RESPONDENTS.

[G.R. No. 185234]

SENATOR FRANCIS JOSEPH G. ESCUDERO, TAX MANAGEMENT ASSOCIATION OF THE PHILIPPINES, INC. AND ERNESTO G. EBRO, PETITIONERS, VS. MARGARITO B. TEVES, IN HIS CAPACITY AS SECRETARY OF THE DEPARTMENT OF FINANCE AND SIXTO S. ESQUIVIAS IV, IN HIS CAPACITY AS COMMISSIONER OF THE BUREAU OF INTERNAL REVENUE, RESPONDENTS.

D E C I S I O N

SERENO, C.J.:

Before us are consolidated Petitions for Certiorari, Prohibition and Mandamus, under Rule 65 of the 1997 Revised Rules of Court. These Petitions seek to nullify certain provisions of Revenue Regulation No. (RR) 10-2008. The RR was issued by the Bureau of Internal Revenue (BIR) on 24 September 2008 to implement the provisions of Republic Act No. (R.A.) 9504. The law granted, among others, income tax exemption for minimum wage earners (MWEs), as well as an increase in personal and additional exemptions for individual taxpayers.

Petitioners assail the subject RR as an unauthorized departure from the legislative intent of R.A. 9504. The regulation allegedly restricts the implementation of the MWEs' income tax exemption only to the period starting from 6 July 2008, instead of applying the exemption to the entire year 2008. They further challenge the BIR's adoption of the prorated application of the new set of personal and additional exemptions for taxable year 2008. They also contest the validity of the RR's alleged imposition of a condition for the availment by MWEs of the exemption provided by R.A. 9504. Supposedly, in the event they receive other benefits in excess of P30,000, they can no longer avail themselves of that exemption. Petitioners contend that the law provides for the unconditional exemption of MWEs from income tax and, thus, pray that the RR be nullified.

ANTECEDENT FACTS

R.A. 9504

On 19 May 2008, the Senate filed its Senate Committee Report No. 53 on Senate Bill No. (S.B.) 2293. On 21 May 2008, former President Gloria M. Arroyo certified the passage of the bill as urgent through a letter addressed to then Senate President Manuel Villar. On the same day, the bill was passed on second reading IN the Senate and, on 27 May 2008, on third reading. The following day, 28 May 2008, the Senate sent S.B. 2293 to the House of Representatives for the latter's concurrence.

On 04 June 2008, S.B. 2293 was adopted by the House of Representatives as an amendment to House Bill No. (H.B.) 3971.

On 17 June 2008, R.A. 9504 entitled "An Act Amending Sections 22, 24, 34, 35, 51, and 79 of Republic Act No. 8424, as Amended, Otherwise Known as the National Internal Revenue Code of 1997," was approved and signed into law by President Arroyo. The following are the salient features of the new law:

1. It increased the basic personal exemption from P20,000 for a single individual, P25,000 for the head of the family, and P32,000 for a married individual to P50,000 for each individual.
2. It increased the additional exemption for each dependent not exceeding four from P8,000 to P25,000.
3. It raised the Optional Standard Deduction (OSD) for individual taxpayers from 10% of gross income to 40% of the gross receipts or gross sales.
4. It introduced the OSD to corporate taxpayers at no more than 40% of their gross income.
5. It granted MWEs exemption from payment of income tax on their minimum wage, holiday pay, overtime pay, night shift differential pay and hazard pay.^[1]

Section 9 of the law provides that it shall take effect 15 days following its publication in the *Official Gazette* or in at least two newspapers of general circulation.

Accordingly, R.A. 9504 was published in the *Manila Bulletin* and *Malaya* on 21 June 2008. On 6 July 2008, the end of the 15-day period, the law took effect.

RR 10-2008

On 24 September 2008, the BIR issued RR 10-2008, dated 08 July 2008, implementing the provisions of R.A. 9504. The relevant portions of the said RR read as follows:

SECTION 1. Section 2.78.1 of RR 2-98, as amended, is hereby further amended to read as follows:

Sec. 2.78.1. *Withholding of Income Tax on Compensation Income.*

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The amount of '*de minimis*' benefits conforming to the ceiling herein prescribed shall not be considered in determining the P30,000.00 ceiling of 'other benefits' excluded from gross income under Section 32 (b) (7) (e) of the Code. Provided that, the excess of the '*de minimis*' benefits over their respective ceilings prescribed by these regulations shall be considered as part of 'other benefits' and the employee receiving it will be subject to tax only on the excess over the P30,000.00 ceiling. **Provided, further, that MWEs receiving 'other benefits' exceeding the P30,000.00 limit shall be taxable on the excess benefits, as well as on his salaries, wages and allowances, just like an employee receiving compensation income beyond the SMW.**

x x x x x x x x x

(B) *Exemptions from Withholding Tax on Compensation.* - The following income payments are exempted from the requirements of withholding tax on compensation:

x x x x x x x x x

(13) Compensation income of MWEs who work in the private sector and being paid the Statutory Minimum Wage (SMW), as fixed by Regional Tripartite Wage and Productivity Board (RTWPB)/National Wages and Productivity Commission (NWPC), applicable to the place where he/she is assigned.

The aforesaid income shall likewise be exempted from income tax.

'*Statutory Minimum Wage*' (SMW) shall refer to the rate fixed by the Regional Tripartite Wage and Productivity Board (RTWPB), as defined by the Bureau of Labor and Employment Statistics (BLES) of the Department of Labor and Employment (DOLE). The RTWPB of each region shall determine the wage rates in the different regions based on established criteria and shall be the basis of exemption from income tax for this purpose.

Holiday pay, overtime pay, night shift differential pay and hazard pay earned by the aforementioned MWE shall likewise be covered by the above exemption. **Provided, however, that an employee who receives/earns additional compensation such as commissions, honoraria, fringe benefits, benefits in excess of the allowable statutory amount of P30,000.00, taxable allowances and other taxable income other than the SMW, holiday pay, overtime pay, hazard pay and night shift differential pay shall not enjoy the privilege of being a MWE and, therefore, his/her entire earnings are not exempt from income tax, and consequently, from withholding tax.**

MWEs receiving other income, such as income from the conduct of trade, business, or practice of profession, except income subject to final tax, in addition to compensation income are not exempted from income tax on their entire income earned during the taxable year. This rule, notwithstanding, **the SMW, holiday pay, overtime pay, night shift differential pay and hazard pay shall still be exempt from withholding tax.**

For purposes of these regulations, hazard pay shall mean the amount paid by the employer to MWEs who were actually assigned to danger or strife-torn areas, disease-infested places, or in distressed or isolated stations and camps, which expose them to great danger of contagion or peril to life. Any hazard pay paid to MWEs which does not satisfy the above criteria is deemed subject to income tax and consequently, to withholding tax.

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SECTION 3. Section 2.79 of RR 2-98, as amended, is hereby further amended to read as follows:

Sec. 2.79. Income Tax Collected at Source on Compensation Income. -

(A) *Requirement of Withholding.* - Every employer must withhold from compensation paid an amount computed in accordance with these Regulations. Provided, that no withholding of tax shall be required on the SMW, including holiday pay, overtime pay, night shift differential and hazard pay of MWEs in the private/public sectors as defined in these Regulations. **Provided, further, that an employee who receives additional compensation such as commissions, honoraria, fringe benefits, benefits in excess of the allowable statutory amount of P30,000.00, taxable allowances and other taxable income other than the SMW, holiday pay, overtime pay, hazard pay and night shift differential pay shall not enjoy the privilege of being a MWE and, therefore, his/her entire earnings are not exempt from income tax and, consequently, shall be subject to withholding tax.**

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For the year 2008, however, being the initial year of implementation of R.A. 9504, there shall be a transitory withholding tax table for the period from July 6 to December 31, 2008 (Annex "D") determined by prorating the annual personal and additional exemptions under R.A. 9504 over a period of six months. Thus, for individuals, regardless of personal status, the prorated personal exemption is P25,000. and for each qualified dependent child (QDC), P12,500.

x x x x x x x x x

SECTION 9. Effectivity. -

These Regulations shall take effect beginning July 6, 2008. (Emphases supplied)

The issuance and effectivity of RR 10-2008 implementing R.A. 9504 spawned the present Petitions.

G.R. No. 184450

Petitioners Jaime N. Soriano et al. primarily assail Section 3 of RR 10-2008 providing for the prorated application of the personal and additional exemptions for taxable year 2008 to begin only effective 6 July 2008 for being contrary to Section 4 of Republic Act No. 9504.^[2]

Petitioners argue that the prorated application of the personal and additional exemptions under RR 10-2008 is not "the legislative intendment in this jurisdiction."^[3] They stress that Congress has always maintained a policy of "full taxable year treatment"^[4] as regards the application of tax exemption laws. They allege further that R.A. 9504 did not provide for a prorated application of the new set of personal and additional exemptions.^[5]

G.R. No. 184508

Then Senator Manuel Roxas, as principal author of R.A. 9504, also argues for a *full taxable year* treatment of the income tax benefits of the new law. He relies on what he says is clear legislative intent In his "Explanatory Note of Senate Bill No. 103," he stresses "the very spirit of enacting the subject tax exemption law"^[6] as follows:

With the poor, every little bit counts, and by lifting their burden of paying income tax, we give them opportunities to put their money to daily essentials as well as savings. **Minimum wage earners can no longer afford to be taxed and to be placed in the cumbersome income tax process in the same manner as higher-earning employees.** It is our obligation to ease their burdens in any way we can.^[7] (Emphasis Supplied)

Apart from raising the issue of legislative intent, Senator Roxas brings up the following legal points to support his case for the full-year application of R.A. 9504's income tax benefits. He says that the pro rata application of the assailed RR