



REPUBLIC OF THE PHILIPPINES
DEPARTMENT OF FINANCE
BUREAU OF INTERNAL REVENUE

BUREAU OF INTERNAL REVENUE
RECORDS MGT. DIVISION

4:55 P.M.

FEB 20 2018

Integre

RECEIVED

Quezon City

January 25, 2018

REVENUE REGULATIONS NO. 8-2018

SUBJECT : Implementing the Income Tax Provisions of Republic Act No. 10963, Otherwise Known as the "Tax Reform for Acceleration and Inclusion (TRAIN)" Act

TO : All Internal Revenue Officers and Other Concerned

SECTION 1. SCOPE. – Pursuant to Section 244 of the National Internal Revenue Code, as amended, and Section 84 of Republic Act (R.A.) No. 10963 otherwise known as the "Tax Reform for Acceleration and Inclusion (TRAIN)" Law, these regulations are hereby promulgated to implement the amended provisions on Title II – Tax on Income of the NIRC.

SECTION 2. DEFINITION OF TERMS. – Words and/or phrases used under these regulations shall mean:

- a. Compensation Income - in general, means all remuneration for services performed by an employee for his employer under an employer-employee relationship, unless specifically excluded by the Code.

The name by which the remuneration for services is designated is immaterial. Thus, salaries, wages, emoluments and honoraria, allowances, commissions (e.g. transportation, representation, entertainment and the like); fees including director's fees, if the director is, at the same time, an employee of the employer/corporation; taxable bonuses and fringe benefits, except those which are subject to the fringe benefits tax under Sec. 33 of the Code and the allowable "*de minimis*" benefits; taxable pensions and retirement pay; and other income of a similar nature constitute compensation income.

- b. Compensation Income Earners – individuals whose source of income is purely derived from an employer-employee relationship.
- c. Employee – an individual performing services under an employer-employee relationship. The term covers all employees, including officers and employees, whether elected or appointed, of the Government of the Philippines, or any political subdivision thereof or any agency or instrumentality.
- d. Employer – any person for whom an individual performs or performed any service, of whatever nature, under an employer-employee relationship. It is not necessary that the services be continuing at the time the wages are paid in order that the status of employer may exist. Thus, for purposes of withholding, a person for whom an

[Handwritten mark]

[Handwritten mark]

individual has performed past services and from whom he is still receiving compensation is an "employer".

- e. Employer and Employee Relationship – exists when a person for whom services were performed (employer) has the right to control and direct an individual who performs the services (employee), not only as to the result of the work to be accomplished but also as to the details, methods and means by which it is accomplished. An employee is subject to the control of the employer not only as to what shall be done, but how it shall be done. It is not necessary that the employer actually exercises the right to direct or control the manner in which the services are performed. It is sufficient that there exists a right to control the manner of doing the work.
- f. Fringe Benefits – means any good, service or other benefit furnished or granted in cash or in kind other than the basic compensation, by an employer to an individual employee (except rank and file employee as defined herein) such as, but not limited to the following:
 - 1. Housing;
 - 2. Expense account;
 - 3. Vehicle of any kind;
 - 4. Household personnel, such as maid, driver and others;
 - 5. Interest on loan at less than market rate to the extent of the difference between the market rate and actual rate granted;
 - 6. Membership fees, dues and other expenses borne by the employer for the employee in social and athletic clubs or other similar organizations;
 - 7. Expenses for foreign travel;
 - 8. Holiday and vacation expenses;
 - 9. Education assistance to the employee or his dependents; and
 - 10. Life or health insurance and other non-life insurance premiums or similar amounts in excess of what the law allows.
- g. Gross Receipts – refers to the total amount of money or its equivalent representing the contract price, compensation, service fee, rental or royalty, including the amount charged for materials supplied with the services, and deposits and advance payments actually or constructively received during the taxable period for the services performed or to be performed for another person, except returnable security deposits for purposes of these regulations. In the case of VAT taxpayer, this shall exclude the VAT component.
- h. Gross Sales – refers to the total sales transactions net of VAT, if applicable, reported during the period, without any other deduction. However, gross sales subject to the 8% income tax rate option shall be net of the following deductions:

**BUREAU OF INTERNAL REVENUE
RECORDS MGT. DIVISION**

4:55 P.M.
FEB 20 2018

RECEIVED

W.
2 / 27

1. Sales returns and allowances for which a proper credit or refund was made during the month or quarter to the buyer for sales previously recorded as taxable sales; and
 2. Discounts determined and granted at the time of sale, which are expressly indicated in the invoice, the amount thereof forming part of the gross sales duly recorded in the books of accounts. Sales discount indicated in the invoice at the time of sale, the grant of which is not dependent upon the happening of a future event, may be excluded from the gross sales within the same month/quarter it was given.
- i. Minimum Wage Earner (MWE)– refers to a worker in the private sector who is paid with a statutory minimum wage (SMW) rates, or to an employee in the public sector with compensation income of not more than the statutory minimum wage rates in the non-agricultural sector where the worker/employee is assigned. Such statutory minimum wage rates are exempted from income tax. Likewise, the exemption covers the holiday pay, overtime pay, night shift differential pay, and hazard pay earned by an MWE.
 - j. Mixed Income Earner – an individual earning compensation income from employment, and income from business, practice of profession and/or other sources aside from employment.
 - k. Non-resident alien engaged in trade and business (NRAETB) – refers to a non-resident alien who shall come to the Philippines and stay for an aggregate period of more than one hundred eighty (180) days during any calendar year.
 - l. Non-resident alien not engaged in trade and business (NRANETB) – refers to a non-resident alien who shall come to the Philippines and stay for an aggregate period of one hundred eighty (180) days or less during any calendar year.
 - m. Rank and File Employee – refers to an employee holding neither managerial nor supervisory position as defined under existing provisions of the Labor Code of the Philippines, as amended.
 - n. Self-employed – a sole proprietor or an independent contractor who reports income earned from self-employment. S/he controls who s/he works for, how the work is done and when it is done. It includes those hired under a contract of service or job order, and professionals whose income is derived purely from the practice of profession and not under an employer – employee relationship.

Professional – a person formally certified by a professional body belonging to a specific profession by virtue of having completed a required examination or course of studies and/or practice, whose competence can usually be measured against an established set of standards. It also refers to a person who engages in some art or sport for money, as a means of livelihood, rather than as a hobby. It includes but is not limited to doctors, lawyers, engineers, architects, CPAs, professional entertainers, artists, professional athletes, directors, producers, insurance agents, insurance adjusters, management and technical consultants, bookkeeping agents, and other recipients of professional, promotional and talent fees.

JS

**BUREAU OF INTERNAL REVENUE
RECORDS MGT. DIVISION**

4:55 P.M.
FEB 20 2018

ehatega

RECEIVED

WS

3/27

- o. Taxable Income – refers to the pertinent items of gross income specified in the Code, less deductions, if any, authorized for such types of income by the Code or other special laws.
- p. VAT Threshold – refers to the ceiling fixed by law to determine VAT registrable taxpayers. The VAT threshold is currently set at three million pesos (₱3,000,000.00), and the same shall be used to determine the income tax liability of self-employed individuals and/or professionals under Sections 24(A)(2)(b) and 24(A)(2)(c)(2) of the Tax Code, as amended.

SECTION 3. INDIVIDUAL CITIZEN AND INDIVIDUAL RESIDENT ALIEN OF THE PHILIPPINES. – In general, the income tax on the individual’s taxable income shall be computed based on the following schedules as provided under Sec. 24(A)(2)(a) of the Tax Code, as amended:

(A) *Income Tax Rates.* –

Effective January 1, 2018 until December 31, 2022:

RANGE OF TAXABLE INCOME		TAX DUE = a + (b x c)		
OVER	NOT OVER	BASIC AMOUNT (a)	ADDITIONAL RATE (b)	OF EXCESS OVER (c)
-	250,000.00	-		-
250,000.00	400,000.00	-	20%	250,000.00
400,000.00	800,000.00	30,000.00	25%	400,000.00
800,000.00	2,000,000.00	130,000.00	30%	800,000.00
2,000,000.00	8,000,000.00	490,000.00	32%	2,000,000.00
8,000,000.00	-	2,410,000.00	35%	8,000,000.00

Effective January 1, 2023 and onwards:

RANGE OF TAXABLE INCOME		TAX DUE = a + (b x c)		
OVER	NOT OVER	BASIC AMOUNT (a)	ADDITIONAL RATE (b)	OF EXCESS OVER (c)
-	250,000.00	-		-
250,000.00	400,000.00	-	15%	250,000.00
400,000.00	800,000.00	22,500.00	20%	400,000.00
800,000.00	2,000,000.00	102,500.00	25%	800,000.00
2,000,000.00	8,000,000.00	402,500.00	30%	2,000,000.00
8,000,000.00	-	2,202,500.00	35%	8,000,000.00

- (B) *Individuals Earning Purely Compensation Income.* – Individuals earning purely compensation income shall be taxed based on the income tax rates prescribed under subsection (A) hereof.

U

BUREAU OF INTERNAL REVENUE
RECORDS MGT. DIVISION

4:55 P.M.
FEB 20 2018

Integr

RECEIVED

Taxable income for compensation earners is the gross compensation income less non-taxable income/benefits such as but not limited to the Thirteenth (13th) month pay and other benefits (subject to limitations, see Section 6(G)(e) of these Regulations), *de minimis* benefits, and employee's share in the SSS, GSIS, PHIC, Pag-ibig contributions and union dues.

Husband and wife shall compute their individual income tax separately based on their respective taxable income; if any income cannot be definitely attributed to or identified as income exclusively earned or realized by either of the spouses, the same shall be divided equally between the spouses for the purpose of determining their respective taxable income.

Minimum wage earners shall be exempt from the payment of income tax based on their statutory minimum wage rates. The holiday pay, overtime pay, night shift differential pay and hazard pay received by such earner are likewise exempt.

Illustration 1: Mr. CSO, a minimum wage earner, works for G.O.D., Inc. He is not engaged in business nor has any other source of income other than his employment. For 2018, Mr. CSO earned a total compensation income of ₱ 135,000.00.

- a. The taxpayer contributed to the SSS, Philhealth, and HDMF amounting to P5,000.00 and has received 13th month pay of P11,000.00. His income tax liability will be computed as follows:

Total Compensation Income		₱ 135,000.00
Less: Mandatory contributions	₱ 5,000.00	
Non-taxable benefits	<u>11,000.00</u>	<u>16,000.00</u>
Taxable income		<u>₱ 119,000.00</u>

*Taxpayer is exempt since he is considered a minimum income earner.

- b. The following year, Mr. CSO earned, aside from his basic wage, additional pay of ₱140,000.00 which consists of the overtime pay- ₱80,000.00, night shift differential- ₱30,000.00, hazard pay- ₱15,000.00, and holiday pay- ₱15,000.00. He has the same benefits and contributions as above.

Total Compensation Income		₱ 135,000.00
Add: Overtime, night shift differential, hazard, and holiday pay		<u>140,000.00</u>
Total Income		₱ 275,000.00
Less: Mandatory contributions	₱ 5,000.00	
Non-taxable benefits	<u>11,000.00</u>	<u>16,000.00</u>
Net taxable income		₱ 259,000.00
Tax due		<u>EXEMPT</u>

* Taxpayer is tax exempt as an MWE. The statutory minimum wage as well as the holiday pay, overtime pay, night shift differential pay and hazard pay received by such MWE are specifically exempted from income tax under the law.

BUREAU OF INTERNAL REVENUE
RECORDS MGT. DIVISION

4:55 P.M.
FEB 20 2018

RECEIVED

5 / 27

(C) **Self-Employed Individuals Earning Income Purely from Self-Employment or Practice of Profession.** – Individuals earning income purely from self-employment and/or practice of profession whose gross sales/receipts and other non-operating income does not exceed the value-added tax (VAT) threshold as provided under Section 109 (BB) of the Tax Code, as amended, shall have the option to avail of:

1. The graduated rates under Section 24(A)(2)(a) of the Tax Code, as amended; **OR**
2. An eight percent (8%) tax on gross sales or receipts and other non-operating income in excess of two hundred fifty thousand pesos (₱250,000.00) in lieu of the graduated income tax rates under Section 24(A) and the percentage tax under Section 116 all under the Tax Code, as amended.

Unless the taxpayer signifies the intention to elect the 8% income tax rate in the 1st Quarter Percentage and/or Income Tax Return, or on the initial quarter return of the taxable year after the commencement of a new business/practice of profession, the taxpayer shall be considered as having availed of the graduated rates under Section 24(A)(2)(a) of the Tax Code, as amended. Such election shall be irrevocable and no amendment of option shall be made for the said taxable year.

The option to be taxed at 8% income tax rate is not available to a VAT-registered taxpayer, regardless of the amount of gross sales/receipts, and to a taxpayer who is subject to Other Percentage Taxes under Title V of the Tax Code, as amended, except those subject under Section 116 of the same Title. Likewise, partners of a General Professional Partnership (GPP) by virtue of their distributive share from GPP which is already net of cost and expenses cannot avail of the 8% income tax rate option.

A taxpayer who signifies the intention to avail of the 8% income tax rate option, and is conclusively qualified for said option at the end of the taxable year [annual gross sales/receipts and other non-operating income did not exceed the VAT threshold (₱3,000,000.00)], shall compute the final annual income tax due based on the actual annual gross sales/receipts and other non-operating income. The said income tax due shall be in lieu of the graduated rates of income tax and the percentage tax under Sec. 116 of the Tax Code, as amended. The Financial Statements (FS) is not required to be attached in filing the final income tax return. However, existing rules and regulations on bookkeeping and invoicing/receipting shall still apply.

A taxpayer shall automatically be subject to the graduated rates under Section 24(A)(2)(a) of the Tax Code, as amended, even if the flat 8% income tax rate option is initially selected, when taxpayer's gross sales/receipts and other non-operating income exceeded the VAT threshold during the taxable year. In such case, his income tax shall be computed under the graduated income tax rates and shall be allowed a tax credit for the previous quarter/s income tax payment/s under the 8% income tax rate option.

In addition, a taxpayer subject to the graduated income tax rates (either selected this as the income tax regime, or failed to signify chosen intention or failed to qualify to be taxed at the 8% income tax rate) is also subject to the applicable business tax, if any. Subject to the provisions of Section 8 of these Regulations, an FS shall be required as an attachment

**BUREAU OF INTERNAL REVENUE
RECORDS MGT. DIVISION**

4:55 P.M.

FEB 20 2018

RECEIVED

6 / 27

to the annual income tax return even if the gross sales/receipts and other non-operating income is less than the VAT threshold. However, the annual income tax return of a taxpayer with gross sales/receipts and other non-operating income of more than the said VAT threshold shall be accompanied by an audited FS.

Taxable income for individuals earning income from self-employment/practice of profession shall be the net income, if taxpayer opted to be taxed at graduated rates or has failed to signify the chosen option. However, if the option availed is the 8% income tax rate, the taxable base is the gross sales/receipts and other non-operating income.

Illustration 2: Ms. EBQ operates a convenience store while she offers bookkeeping services to her clients. In 2018, her gross sales amounted to P800,000.00, in addition to her receipts from bookkeeping services of P300,000.00. She already signified her intention to be taxed at 8% income tax rate in her 1st quarter return.

Her income tax liability for the year will be computed as follows:

Gross Sales – Convenience Store	P 800,000.00
Gross Receipts – Bookkeeping	<u>300,000.00</u>
Total Sales/Receipts	P 1,100,000.00
Less: Amount allowed as deduction under Sec. 24(A)(2)(b)	<u>250,000.00</u>
Taxable Income	<u><u>P 850,000.00</u></u>
 Tax Due:	
8% of P850,000.00	<u><u>P 68,000.00</u></u>

* The total of gross sales and gross receipts is below the VAT threshold of P3,000,000.00.

* Taxpayer's source of income is purely from self-employment, thus she is entitled to the amount allowed as deduction of P250,000.00 under Sec. 24(A)(2)(b) of the Tax Code, as amended.

* Income tax imposed herein is based on the total of gross sales and gross receipts.

* Income tax payment is in lieu of the graduated income tax rates under subsection (A) hereof and percentage tax due, by express provision of law.

Illustration 3: Ms. EBQ above, failed to signify her intention to be taxed at 8% income tax rate on gross sales in her initial Quarterly Income Tax Return, and she incurred cost of sales and operating expenses amounting to P600,000.00 and P200,000.00, respectively, or a total of P800,000.00, the income tax shall be computed as follows:

Gross Sales/Receipts	P 1,100,000.00
Less: Cost of Sales	<u>600,000.00</u>
Gross Income	P 500,000.00
Less: Operating Expenses	<u>200,000.00</u>

BUREAU OF INTERNAL REVENUE
RECORDS MGT. DIVISION

4:55 P.M.

FEB 20 2018

RECEIVED

7/27

Taxable Income ₱ 300,000.00

Tax Due:

On excess (P300,000 - P250,000) x 20% ₱ 10,000.00

* Aside from income tax, Ms. EBQ is likewise liable to pay business tax.

Illustration 4: Mr. JMLH signified his intention to be taxed at 8% income tax rate on gross sales in his 1st Quarter Income Tax Return. He has no other source of income. His total sales for the first three (3) quarters amounted to ₱3,000,000.00 with 4th quarter sales of ₱3,500,000.00.

	1 st Quarter (8% Rate)	2 nd Quarter (8% Rate)	3 rd Quarter (8% Rate)	4 th Quarter
Total Sales	₱ 500,000.00	₱ 500,000.00	₱ 2,000,000.00	₱ 3,500,000.00
Less: Cost of Sales	300,000.00	300,000.00	1,200,000.00	1,200,000.00
Gross Income	₱ 200,000.00	₱ 200,000.00	₱ 800,000.00	₱ 2,300,000.00
Less: Operating Expenses	120,000.00	120,000.00	480,000.00	720,000.00
Taxable Income	<u>₱ 80,000.00</u>	<u>₱ 80,000.00</u>	<u>₱ 320,000.00</u>	<u>₱ 1,580,000.00</u>

Tax due shall be computed as follows:

Total Sales	₱ 6,500,000.00
Less: Cost of Sales	<u>3,000,000.00</u>
Gross Income	₱ 3,500,000.00
Less: Operating Expenses	<u>1,440,000.00</u>
Taxable Income	<u>₱ 2,060,000.00</u>

Income Tax Due

Tax Due under the graduated rates	₱ 509,200.00
Less: 8% income tax previously paid (Q1 to Q3) (₱3,000,000.00 - ₱250,000.00) x 8%	<u>220,000.00</u>
Annual Income Tax Payable	<u>₱ 289,200.00</u>

* The gross receipts exceeded the VAT threshold of ₱3,000,000.00. Taxpayer shall be liable to pay income tax under graduated rates pursuant to Section 24(A)(2)(a) of the Tax Code, as amended.

* Taxpayer shall be allowed an income tax credit of quarterly payments initially made under the 8% income tax option computed net of the allowable deduction of ₱250,000.00 granted for purely business income.

* Taxpayer is likewise liable for business tax(es), in addition to income tax. For this purpose, the taxpayer is required to update his registration from non-VAT to VAT taxpayer. Percentage tax pursuant to Section 116 of the Tax Code, as amended, shall be imposed from the beginning of the year until taxpayer is liable to VAT. VAT shall be imposed prospectively.

**BUREAU OF INTERNAL REVENUE
RECORDS MGT. DIVISION**

4:55 P.M.

FEB 20 2018

RECEIVED

8/27

* Percentage tax due on the non-VAT portion of the sales/receipts shall be collected without penalty, if timely paid on the due date immediately following the month/quarter when taxpayer ceases to be a non-VAT.

Illustration 5: Ms. RPSV is a prominent independent contractor who offers architectural and engineering services. Since her career flourished, her total gross receipts amounted to ₱4,250,000.00 for taxable year 2018. Her recorded cost of service and operating expenses were ₱2,150,000.00 and ₱1,000,000.00, respectively.

Her income tax liability will be computed as follows:

Gross Receipts – (Architectural and Engineering Services)	₱ 4,250,000.00
Less: Cost of Service	<u>2,150,000.00</u>
Gross Income	₱ 2,100,000.00
Less: Operating Expenses	<u>1,000,000.00</u>
Taxable Income	<u>₱ 1,100,000.00</u>
Tax Due:	
On ₱800,000.00	₱ 130,000.00
On excess (P1,100,000.00 - P800,000.00) X 30%	<u>90,000.00</u>
Income Tax Due	<u>₱ 220,000.00</u>

* The gross receipts exceeded the VAT threshold of P3,000,000.00; subject to graduated income tax rates; liable for business tax - VAT, in addition to income tax.

Illustration 6: In 2018, Mr. GCC owns a nightclub and videoke bar, with gross sales/receipts of ₱2,500,000.00. His cost of sales and operating expenses are ₱1,000,000.00 and ₱600,000.00, respectively, and with non-operating income of ₱100,000.00.

His tax due for 2018 shall be computed as follows:

Taxable Income from Business:	
Gross Sales	₱ 2,500,000.00
Less: Cost of Sales	<u>1,000,000.00</u>
Gross Income	₱ 1,500,000.00
Less: Operating Expenses	<u>600,000.00</u>
Net Income from Operation	₱ 900,000.00
Add: Non-operating Income	<u>100,000.00</u>
Taxable Income	<u>₱ 1,000,000.00</u>
Tax Due:	
On ₱800,000.00	₱ 130,000.00
On excess (₱1,000,000.00 - ₱800,000.00) x 30%	<u>60,000.00</u>
Total Income Tax	<u>₱ 190,000.00</u>

BUREAU OF INTERNAL REVENUE
RECORDS MGT. DIVISION

4:55 P.M.

FEB 20 2018

RECEIVED

* The taxpayer has no option to avail of the 8% income tax rate on his income from business since his business income is subject to Other Percentage Tax under Section 125 of the Tax Code, as amended.

* Aside from income tax, taxpayer is liable to pay the prescribed business tax, which in this case is percentage tax of 18% on the gross receipts as prescribed under Sec. 125 of the Tax Code, as amended.

(D) Individuals Earning Income Both from Compensation and from Self-employment (business or practice of profession). – For mixed income earners, the income tax rates applicable are:

1. The compensation income shall be subject to the tax rates prescribed under Section 24(A)(2)(a) of the Tax Code, as amended; **AND**
2. The income from business or practice of profession shall be subject to the following:
 - a. If the gross sales/receipts and other non-operating income do not exceed the VAT threshold, the individual has the option to be taxed at:
 - a.1 Graduated income tax rates prescribed under Section 24(A)(2)(a) of the Tax Code, as amended; **OR**
 - a.2 Eight percent (8%) income tax rate based on gross sales/receipts and other non-operating income in lieu of the graduated income tax rates and percentage tax under Section 116 of the Tax Code, as amended.
 - b. If the gross sales/receipts and other non-operating income exceeds the VAT threshold, the individual shall be subject to the graduated income tax rates prescribed under Section 24(A)(2)(a) of the Tax Code, as amended.

The provision under Section 24(A)(2)(b) of the Tax Code, as amended, which allows an option of 8% income tax rate on gross sales/receipts and other non-operating income in excess of P250,000.00 is available only to purely self-employed individuals and/or professionals. The P250,000.00 mentioned is not applicable to mixed income earners since it is already incorporated in the first tier of the graduated income tax rates applicable to compensation income. Under the said graduated rates, the excess of the P250,000.00 over the actual taxable compensation income is not deductible against the taxable income from business/practice of profession under the 8% income tax rate option.

The total tax due shall be the sum of: (1) tax due from compensation, computed using the graduated income tax rates; and (2) tax due from self-employment/practice of profession, resulting from the multiplication of the 8% income tax rate with the total of the gross sales/receipts and other non-operating income.

Mixed income earner who opted to be taxed under the graduated income tax rates for income from business/practice of profession, shall combine the taxable income from

**BUREAU OF INTERNAL REVENUE
RECORDS MGT. DIVISION**

4:55 P.M.
FEB 20 2018

RECEIVED

10 / 27

both compensation and business/practice of profession in computing for the total taxable income and consequently, the income tax due.

Illustration 7: Mr. MAG, a Financial Comptroller of JAB Company, earned annual compensation in 2018 of ₱1,500,000.00, inclusive of 13th month and other benefits in the amount of ₱120,000.00 but net of mandatory contributions to SSS and Philhealth. Aside from employment income, he owns a convenience store, with gross sales of ₱2,400,000. His cost of sales and operating expenses are ₱1,000,000.00 and ₱600,000.00, respectively, and with non-operating income of ₱100,000.00.

- a. His tax due for 2018 shall be computed as follows if he opted to be taxed at eight percent (8%) income tax rate on his gross sales for his income from business:

Total compensation income	₱ 1,500,000.00
Less: Non-taxable 13 th month pay and other benefits (max)	<u>90,000.00</u>
Taxable Compensation Income	<u>₱ 1,410,000.00</u>
Tax due:	
1. On Compensation:	
On ₱800,000.00	₱ 130,000.00
On excess (P1,410,000 – P800,000) x 30%	<u>183,000.00</u>
Tax due on Compensation Income	<u>₱ 313,000.00</u>
2. On Business Income:	
Gross Sales	₱ 2,400,000.00
Add: Non-operating Income	<u>100,000.00</u>
Taxable Business Income	₱ 2,500,000.00
Multiplied by income tax rate	<u>8%</u>
Tax Due on Business Income	<u>₱ 200,000.00</u>
 Total Income Tax Due (Compensation and Business)	 <u>₱ 513,000.00</u>

* The option of 8% income tax rate is applicable only to taxpayer's income from business, and the same is in lieu of the income tax under the graduated income tax rates and the percentage tax under Section 116 of the Tax Code, as amended.

* The amount of ₱250,000.00 allowed as deduction under the law for taxpayers earning solely from self-employment/practice of profession, is not applicable for mixed income earner under the 8% income tax rate option.

* The P250,000.00 mentioned above is already incorporated in the first tier of the graduated income tax rates applicable to compensation income.

- b. His tax due for 2018 shall be computed as follows if he did not opt for the eight percent (8%) income tax based on gross sales/receipts and other non-operating income:

BUREAU OF INTERNAL REVENUE
RECORDS MGT. DIVISION

4:55 P.M.

FEB 20 2018

RECEIVED

11 / 27

Total compensation income		₱ 1,500,000.00
Less: Non-taxable 13 th month pay and other benefits-max		<u>90,000.00</u>
Taxable Compensation Income		₱ 1,410,000.00
Add: Taxable Income from Business –		
Gross Sales	₱ 2,400,000.00	
Less: Cost of Sales	<u>1,000,000.00</u>	
Gross Income	₱ 1,400,000.00	
Less: Operating Expenses	<u>600,000.00</u>	
Net Income from Operation	₱ 800,000.00	
Add: Non-operating Income	<u>100,000.00</u>	<u>900,000.00</u>
Total Taxable Income		<u>₱ 2,310,000.00</u>

Tax Due:		
On ₱2,000,000.00	₱ 490,000.00	
On excess (₱2,310,000 - 2,000,000) x 32%	<u>99,200.00</u>	
Total Income Tax		<u>₱ 589,200.00</u>

* The taxable income from both compensation and business shall be combined for purposes of computing the income tax due if the taxpayer chose to be subject under the graduated income tax rates.

* In addition to the income tax, Mr. MAG is likewise liable to pay percentage tax of ₱72,000.00, which is 3% of ₱2,400,000.00

- c. On February 2019, taxpayer tendered his resignation to concentrate on his business. His total compensation income amounted to P150,000.00, inclusive of benefits of P20,000.00. His business operations for taxable year 2019 remains the same. He opted for the eight percent (8%) income tax rate.

Total compensation income	₱ 150,000.00
Less: Non-taxable benefits	<u>20,000.00</u>
Taxable Compensation Income	<u>₱ 130,000.00</u>

Tax due:

1. On Compensation:		
On ₱130,000.00 (not over ₱250,000.00)	₱	<u>0.00</u>
2. On Business Income:		
Gross Sales	₱ 2,400,000.00	
Add: Non-operating Income	<u>100,000.00</u>	
Taxable Business Income	₱ 2,500,000.00	
Multiplied by income tax rate	<u>8%</u>	
Tax Due on Business Income		<u>₱ 200,000.00</u>

Total Income Tax Due (Compensation and Business) ₱ 200,000.00

* The option of 8% income tax rate is applicable only to taxpayer's income from business, and the same is in lieu of the income tax under the graduated income tax rates and the percentage tax under Section 116 of the Tax Code, as amended.

**BUREAU OF INTERNAL REVENUE
RECORDS MGT. DIVISION**

4:55 P.M.
FEB 20 2018

RECEIVED

12 / 27

* The amount of ₱250,000.00 which is allowed as deduction under the law for taxpayers earning solely from self-employment/practice of profession, is not applicable for mixed income earner under the 8% income tax rate option.

* The P250,000.00 mentioned above is already incorporated in the first tier of the graduated income tax rates applicable to compensation income. The excess of the P250,000.00 over the actual taxable compensation income is not creditable against the taxable income from business/practice of profession under the 8% income tax rate option.

Illustration 8: Mr. WBV, an officer of AMBS International Corp., earned in 2018 an annual compensation of ₱1,200,000.00, inclusive of 13th month and other benefits in the amount of ₱120,000.00. Aside from employment income, he owns a farm, with gross sales of ₱3,500,000. His cost of sales and operating expenses are ₱1,000,000.00 and ₱600,000.00, respectively, and with non-operating income of ₱100,000.00.

His tax due for 2018 shall be computed as follows:

Total compensation income		₱ 1,200,000.00
Less: Non-taxable 13 th month pay and other benefits (max)		<u>90,000.00</u>
Taxable Compensation Income		₱ 1,110,000.00
Add: Taxable Income from Business –		
Gross Sales	₱ 3,500,000.00	
Less: Cost of Sales	<u>1,000,000.00</u>	
Gross Income	₱ 2,500,000.00	
Less: Operating Expenses	<u>600,000.00</u>	
Net Income from Operation	₱ 1,900,000.00	
Add: Non-operating Income	<u>100,000.00</u>	<u>2,000,000.00</u>
Total Taxable Income		<u>₱ 3,110,000.00</u>
 Tax Due:		
On ₱2,000,000.00		₱ 490,000.00
On excess (₱3,110,000 - ₱2,000,000) x 32%		<u>355,200.00</u>
Total income tax due		<u>₱ 845,200.00</u>

* The taxpayer has no option to avail of the 8% income tax rate on his income from business since his gross sales exceeds the VAT threshold. However, he is still not subject to business tax since the nature of his business transactions is VAT exempt.

(E) **Income Tax Rates on Certain Passive Income.** – The following passive income shall be subject to the following final income tax rates:

- a. Interests from any currency bank deposit and yield or any other monetary benefit from deposit substitutes and from trust funds and similar arrangements – 20%;

BUREAU OF INTERNAL REVENUE
RECORDS MGT. DIVISION

4:55 P.M.
FEB 20 2018

RECEIVED

13 / 27

- b. Interest income received by an individual taxpayer (except a non-resident individual) from a depository bank under the expanded foreign currency deposit system – 15%;
- c. Proceeds of pre-terminated long-term deposit or investment in the form of savings, common or individual trust funds, deposit substitutes, investment management accounts and other investments evidenced by certificates in such form as prescribed by the Bangko Sentral ng Pilipinas (BSP) – the final tax shall be based on the remaining maturity of the investment:
 - Four (4) years but less than five (5) years – 5%
 - Three (3) years but less than four (4) years – 12%; and
 - Less than three (3) years – 20%
- d. Royalties (except royalties on books and other literary works and musical compositions) – 20%
- e. Royalties on books and other literary works and musical compositions – 10%;
- f. Prizes (except prizes amounting to P10,000 or less) – 20%;
- g. Winnings (except Philippine Charity Sweepstakes and Lotto winnings amounting to P 10,000 or less) – 20%;
- h. Cash and Property Dividends – 10%;
- i. Capital Gains from Sale of Shares of Stock not Traded in the Stock Exchange – 15%;
- j. Capital Gains from Sale of Real Property located in the Philippines – 6%.

SECTION 4. INCOME TAX RATES ON NON-RESIDENT ALIEN INDIVIDUAL. -
 The following income tax rates shall be imposed to non-resident alien individual:

- A. Non-resident Alien Engaged in Trade or Business Within the Philippines. – In general, the income tax rates applicable to this taxpayer shall be the rates imposed on individual citizen and a resident alien individual on the taxable income derived within the Philippines;
- B. Non-resident Alien Not Engaged in Trade or Business Within the Philippines – Upon the entire income received from all sources within the Philippines by this taxpayer such as interest, cash and/or property dividends, rents, salaries, wages, premiums, annuities, compensation, remuneration, emoluments, or other fixed or determinable annual or periodic or casual gains, profits, and income, and capital gains. - 25%;
- C. The preferential income tax rate under subsection (C), (D) and (E) of Section 25 of the Tax Code, as amended, shall no longer be applicable without prejudice to the application of preferential tax rates under existing international tax treaties, if warranted. Thus, all concerned employees of the regional or area headquarters and regional operating headquarters of multinational companies, offshore banking units and petroleum service contractor and subcontractors shall be subject to the regular income tax rate under Sec. 24(A)(2)(a) of the Tax Code, as amended.

This is in accordance with the veto message of the President which reads as follows:

**BUREAU OF INTERNAL REVENUE
 RECORDS MGT. DIVISION**

4:55 P.M.
 FEB 20 2018

xxx

xxx

xxx

14/27

RECEIVED

II. DIRECT VETO

By the power vested in me by Article VI, Section 27(2) of the Constitution, which provides that "the President shall have the power to veto any particular item or items in an appropriation, revenue, or tariff bill," I hereby register the following line item vetoes to this law:

A. Reduced income tax rate of employees of Regional Headquarters (RHQs), Regional Operating Headquarters (ROHQs), Offshore Banking Units (OBUs), and Petroleum Service Contractors and Subcontractors.

I am constrained to veto the proviso under Section 6(F) of the enrolled bill that effectively maintains the special tax rate of 15% of gross income for the aforementioned employees, to wit:

"PROVIDED, HOWEVER, THAT EXISTING RHQs/ROHQs, OBUs OR PETROLEUM SERVICE CONTRACTORS AND SUBCONTRACTORS PRESENTLY AVAILING OF PREFERENTIAL TAX RATES FOR QUALIFIED EMPLOYEES SHALL CONTINUE TO BE ENTITLED TO AVAIL OF THE PREFERENTIAL TAX RATE FOR PRESENT AND FUTURE QUALIFIED EMPLOYEES."

While I understand the laudable objective of the proposal, the provision is violative of Equal Protection Clause under Section 1, Article III of the 1987 Constitution, as well as the rule of equity and uniformity in the application of the burden of taxation:

Section 1. No person shall be deprived of life, liberty or property without due process of law, **nor shall any person be denied the equal protection of the laws.**

In line with this, the overriding consideration is the promotion of fairness of the tax system for individuals performing similar work. Given the significant reduction in the personal income tax, the employees of these firms should follow the regular tax rates applicable to other individual taxpayers.

xxx xxx xxx"

Illustration 9: Ms. CCF, an alien employed in MCUD Corporation that is a Petroleum Service Contractor, received compensation income of ₱5,000,000.00 for 2018, inclusive of ₱400,000.00 13th month pay and other benefits.

Computation of Taxable Income:	
Compensation Income	₱ 5,000,000.00
Less: Non-taxable 13 th Month Pay and other benefits (max)	<u>90,000.00</u>
Taxable Compensation Income	<u>₱ 4,910,000.00</u>
Tax Due:	
On ₱2,000,000.00	₱ 490,000.00
On excess (₱4,910,000 - ₱2,000,000) x 32%	<u>931,200.00</u>
Total tax due	<u>₱ 1,421,200.00</u>

* All employees of RHQs/ROHQs/OBUs, and Petroleum Service Contractors and Subcontractors shall be subject to regular income tax rate under Section

**BUREAU OF INTERNAL REVENUE
RECORDS MGT. DIVISION**

4:55 P.M.

FEB 20 2018

RECEIVED

15 / 27

24(A)(2)(a) of the Tax Code, as amended, without prejudice to the application of preferential tax rates under existing international tax treaties, if warranted.

SECTION 5. GOVERNMENT OWNED AND CONTROLLED CORPORATIONS (GOCCS), AGENCIES OR INSTRUMENTALITIES. - Under Section 27(C) of the Tax Code, as amended, GOCCs, Government Agencies or Instrumentalities shall pay such rate of tax upon their taxable income as imposed upon corporations or associations engaged in a similar business, industry, or activity, except for the following:

- a. Government Service Insurance System (GSIS);
- b. Social Security System (SSS);
- c. Philippine Health Insurance Corporation (PHIC); and
- d. Local Water Districts (LWD).

SECTION 6. EXCLUSIONS FROM GROSS INCOME. - The following items shall not be included in gross income and shall be exempt from income taxation:

- A. Life Insurance. - The proceeds of life insurance policies paid to the heirs or beneficiaries upon the death of the insured, whether in a single sum or otherwise, but if such amounts are held by the insurer under an agreement to pay interest thereon, the interest payments shall be included in gross income;
- B. Amount Received by Insured as Return of Premium;
- C. Gifts, Bequests, and Devises;
- D. Compensation for Injuries or Sickness;
- E. Income Exempt under Treaty;
- F. Retirement Benefits, Pensions, Gratuities, etc.;
- G. Miscellaneous Items. -
 - a. *Income derived by Foreign Government;*
 - b. *Income Derived by the Government or its Political Subdivisions;*
 - c. *Prizes and Awards;*
 - d. *Prizes and Awards in Sports Competition;*
 - e. *13th Month Pay and Other Benefits.* - Gross benefits received by officials and employees of public and private entities: Provided, however, That the total exclusion under this item shall not exceed ninety thousand (P90,000.00), which shall cover:

BUREAU OF INTERNAL REVENUE
RECORDS MGT. DIVISION

4:55 P.M.
FEB 20 2018

RECEIVED

16 / 27

- (i) Benefits received by officials and employees of the national and local government pursuant to Republic Act No. 6686;
 - (ii) Benefits received by employees pursuant to Presidential Decree No. 851, as amended by Memorandum Order No. 28 dated August 13, 1986;
 - (iii) Benefits received by officials and employees not covered by Presidential Decree No. 851, as amended by Memorandum Order No. 28 dated August 13, 1986; and
 - (iv) Other benefits such as productivity incentives and Christmas bonus;
- f. *GSIS, SSS, Medicare and Other Contributions;*
- g. *Gains from the Sale of Bonds, Debentures or other Certificate of Indebtedness with a maturity of more than five (5) years; and*
- h. *Gains from Redemption of Shares in Mutual Fund.*

SECTION. 7. SPECIAL TREATMENT OF FRINGE BENEFITS. -- The tax on fringe benefits at the rate of **THIRTY-FIVE PERCENT (35%)** shall be imposed on the grossed-up monetary value of fringe benefits furnished or granted to an employee (except rank and file employees) by the employer, whether an individual or a corporation (unless the fringe benefit is required by the nature of, or necessary to the trade, business or profession of the employer, or when the fringe benefit is for the convenience of or advantage of the employer). The tax herein imposed is payable by the employer, which tax shall be paid in the same manner as provided for under Section 57 (A) of the Tax Code, as amended.

The grossed-up monetary value of the fringe benefit shall be determined by dividing the actual monetary value of the fringe benefit by **SIXTY-FIVE PERCENT (65%)**, effective January 1, 2018 and onwards: *Provided*, that the grossed-up value of the benefit shall be determined by dividing the actual monetary value of the fringe benefit by the difference between one hundred percent (100%) and the applicable tax rates under the aforesaid subsections.

Illustration 10: MRU Company (a domestic employer/company) granted Ms. MHLCO (a Filipino branch manager employee), in addition to her basic salaries, ₱5,000 cash per quarter for her personal membership fees at Country Golf Club. The Fringe Benefits Tax (FBT) shall be computed as follows:

Monetary value of fringe benefit:	₱ 5,000.00
Percentage divisor applicable:	65%
FBT rate:	35%

$$\begin{aligned} \text{FBT} &= (\text{Monetary value of fringe benefit} \div 65\%) \times 35\% \\ \text{FBT} &= (\text{₱}5,000.00 \div 65\%) \times 35\% \\ \text{FBT} &= \text{₱}7,692.31 \times 35\% \\ \text{FBT} &= \text{₱}2,692.31 \end{aligned}$$

**BUREAU OF INTERNAL REVENUE
RECORDS MGT. DIVISION**

4:55 P.M.
FEB 20 2018

RECEIVED

Illustration 11: Same facts but the employee is a non-resident alien individual not engaged in trade or business within the Philippines:

Monetary value of fringe benefit:	₱ 5,000.00
Percentage divisor applicable:	75%
Fringe benefit tax rate:	25%

$FBT = (\text{Monetary value of fringe benefit} \div 75\%) \times 25\%$
 $FBT = (\text{₱}5,000.00 \div 75\%) \times 25\%$
 $FBT = \text{₱}6,666.67 \times 25\%$
 $FBT = \text{₱}1,666.67$

SECTION 8. DEDUCTIONS FROM GROSS INCOME. – In general, there shall be allowed at the option of the taxpayer, itemized deductions or an Optional Standard Deduction (OSD) at the rate of forty percent (40%). In case of individual taxpayers, OSD shall be computed at the rate of forty percent (40%) of gross sales/receipts, as the case may be. Corporations may elect standard deduction in an amount not exceeding forty percent (40%) of its gross income.

However, no deductions shall be allowed to individual taxpayers earning compensation income arising from personal services rendered under an employer-employee relationship, and those who opted to be taxed at 8% income tax rate on their income from business/practice of profession.

The following are the allowable itemized deductions:

- A. Expenses;
- B. Interest;
- C. Taxes;
- D. Losses;
- E. Bad Debts;
- F. Depreciation;
- G. Depletion of Oil and Gas Wells and Mines;
- H. Charitable and Other Contributions;
- I. Research and Development; and
- J. Pension Trusts.

Unless the taxpayer, who is taxable under the graduated income tax rate, signifies in the income tax return the intention to elect the OSD, it shall be considered as having availed of the itemized deductions. Such election of the option, when made in the return, shall be irrevocable for the taxable year for which the return is made. The election to claim either the itemized deductions

**BUREAU OF INTERNAL REVENUE
RECORDS MGT. DIVISION**

4:55 P.M.
FEB 20 2018

RECEIVED

18 / 27

or the OSD for the taxable year must be signified by checking the appropriate box in the income tax return filed for the first quarter or the initial quarter of the taxable year after the commencement of a new business/practice of profession. Once the election is made, it must be consistently applied to all the succeeding quarterly returns and in the final income tax return for the taxable year.

The OSD allowed to individual taxpayers, except non-resident aliens, shall be forty percent (40%) of gross sales/receipts during the taxable year. An individual who is entitled to and claimed for the OSD shall not be required to submit with the tax return such Financial Statements otherwise required under the Tax Code, as amended. A General Professional Partnership (GPP) may avail of the OSD only once, either by the GPP or the partners comprising the partnership.

Illustration 12: Ms. RPSV is a prominent independent contractor who offers architectural and engineering services. Since RPSV's career flourished, her total gross receipts amounted to ₱4,250,000.00 for taxable year 2018. Her recorded cost of service and operating expenses were ₱2,150,000.00 and ₱1,000,000.00, respectively. She opted to avail of the 40% OSD.

OSD will be computed as follows:

Gross Receipts – Architectural and Engineering Services	₱ 4,250,000.00
Multiply by OSD Rate	<u>40%</u>
Deductible OSD	<u>₱ 1,700,000.00</u>

Net Taxable Income will be computed as follows:

Gross Receipts – Architectural and Engineering Services	₱ 4,250,000.00
Less: OSD	<u>1,700,000.00</u>
Net Taxable Income	<u>₱ 2,550,000.00</u>

Income tax liability will be computed as follows:

On ₱2,000,000.00	₱ 490,000.00
On Excess (₱2,550,000.00 – ₱2,000,000.00) x 32%	<u>176,000.00</u>
Income Tax Due	<u>₱ 666,000.00</u>

* The individual taxpayer elected OSD in the computation of her taxable income and the election is irrevocable for the taxable year for which the return was made.

* Taxpayer is not required to submit her financial statements with his tax return.

* The gross receipts exceeded the VAT threshold of ₱3,000,000.00, thus, the taxpayer is subject to the graduated income tax rates and liable for VAT, in addition to income tax.

Illustration 13: Ms. MRU operates a convenience store while she offers bookkeeping services to her clients. In 2018, her gross sales amounted to ₱1,800,000.00, in addition to her gross receipts from bookkeeping services of ₱400,000.00. Her recorded cost of goods sold and operating expenses were ₱1,325,000.00 and ₱320,000.00, respectively.

BUREAU OF INTERNAL REVENUE
RECORDS MGT. DIVISION
4:55 P.M.
FEB 20 2018

RECEIVED

A. Ms. MRU opted to avail of the OSD. The OSD and taxable income shall be computed as follows:

Gross Sales –Convenience Store	₱ 1,800,000.00
Gross Receipts – Bookkeeping	<u>400,000.00</u>
Total	₱ 2,200,000.00
Less: OSD (P2,200,000.00 x 40%)	<u>880,000.00</u>
Net Taxable Income	₱ <u>1,320,000.00</u>

Tax Due:	
On ₱800,000.00	₱ 130,000.00
On Excess (₱1,320,000.00 – ₱800,000.00) x 30%	<u>156,000.00</u>
Total tax due	₱ <u>286,000.00</u>

- * The taxpayer elected OSD in the computation of her taxable income, thus the graduated income tax rate shall be applied.
- * The election of OSD is irrevocable for the taxable year for which the return is made.
- * Taxpayer is not required to submit her financial statements with her tax return.
- * Taxpayer is liable for business tax – Percentage Tax, in addition to income tax.

B. Ms. MRU's income tax liability, if she signifies in her 1st Quarter return her intention to be taxed at 8% income tax rate, will be computed as follows:

Gross Sales –Convenience Store	₱ 1,800,000.00
Gross Receipts – Bookkeeping	<u>400,000.00</u>
Total	₱ 2,200,000.00
Less: Amt. allowed as deduction under Sec. 24(A)(2)(b)	<u>250,000.00</u>
Net Taxable Income	₱ <u>1,950,000.00</u>
Tax Due:	
8% of ₱ 1,950,000.00	₱ <u>156,000.00</u>

- * The gross sales and receipts did not exceed the VAT threshold of ₱3,000,000.00.
- * Taxpayer opted to be taxed at 8% income tax rate on gross sales/receipts.
- * Taxpayer's source of income is purely from self-employment, thus she is entitled to the amount allowed as deduction of P250,000.00.
- * Taxpayer is not liable for percentage tax under Section 116 of the Tax Code, as amended, since the 8% income tax rate is also in lieu of the percentage tax.

BUREAU OF INTERNAL REVENUE
RECORDS MGT. DIVISION
4:55 P.M.
FEB 20 2018

RECEIVED

Illustration 14: The gross sales of GEAL Corporation for 2018 amounted to ₱6,000,000.00, with cost of sales amounting to ₱4,000,000.00. It incurred operating expenses amounting to ₱1,000,000.00, and on the filing of its First Quarter Income Tax Return, it signified its intention to avail of the OSD.

Computation of OSD and Tax Due:	
Gross Sales	₱ 6,000,000.00
<i>Less:</i> Cost of Sales	<u>4,000,000.00</u>
Gross Income	₱ 2,000,000.00
<i>Less:</i> OSD (P2,000,000.00 x 40%)	<u>800,000.00</u>
Taxable Income	<u>₱ 1,200,000.00</u>
Tax Due:	
30% of ₱1,200,000.00	<u>₱ 360,000.00</u>

* OSD for corporation is based on gross income.

* Income tax rate of corporation is currently at 30%.

Determination of the Optional Standard Deduction for General Professional Partnerships (GPPs) and Partners of GPPs.

GPP is not subject to income tax imposed pursuant to Sec. 26 of the Tax Code, as amended. However, the partners shall be liable to pay income tax on their separate and individual capacities for their respective distributive share in the net income of the GPP.

The GPP is not a taxable entity for income tax purposes since it is only acting as a “pass-through” entity where its income is ultimately taxed to the partners comprising it. Section 26 of the Tax Code, as amended, likewise provides that- “For purposes of computing the distributive share of the partners, the net income of the GPP shall be computed in the same manner as a corporation.” As such, a GPP may claim either the itemized deductions allowed under Section 34 of the Code or in lieu thereof, it can opt to avail of the OSD allowed to corporations in claiming the deductions in an amount not exceeding forty percent (40 %) of its gross income.

In computing taxable income defined under Section 31 of the Tax Code, as amended, the following may be allowed as deductions:

- a. Itemized expenses which are ordinary and necessary, incurred or paid for the practice of profession; **OR**
- b. Optional Standard Deduction (OSD).

The distributable net income of the partnership may be determined by claiming either itemized deductions or OSD. The share in the net income of the partnership, actually or constructively received, shall be reported as taxable income of each partner. The partners comprising the GPP can no longer claim further deduction from their distributive share in the net income of the GPP and are not allowed to avail of the 8% income tax rate option since their distributive share from the GPP is already net of cost and expenses.

J

BUREAU OF INTERNAL REVENUE
RECORDS MGT. DIVISION

21 / 27

FEB 20 2018

Integr
RECEIVED

If the partner also derives other income from trade, business or practice of profession apart and distinct from the share in the net income of the GPP, the deduction that can be claimed from the other income would either be the itemized deductions or OSD.

Illustration 15: Mr. JMLH is a partner of AMBS & Co., a general professional partnership, and owns 25% interest. The gross receipts of AMBS & Co. amounted to ₱10,000,000.00 for taxable year 2018. The recorded cost of service and operating expenses of AMBS & Co. were ₱2,750,000.00 and ₱1,500,000.00, respectively.

If AMBS & Co. availed of the OSD, the deductions and net income shall be computed as follows:

Gross Receipts	₱10,000,000.00
Less: Cost of Services	<u>2,750,000.00</u>
Gross Income	₱ 7,250,000.00
Less: OSD (₱7,250,000.00 x 40%)	<u>2,900,000.00</u>
Net Income for distribution to partners	<u>₱ 4,350,000.00</u>

- * There is no income tax liability for AMBS & Co. since it is a general professional partnership under Section 26 of the Tax Code, as amended.
- * The GPP elected OSD in the computation of its net income and its election is irrevocable for the taxable year for which the return is made.
- * The GPP is liable to business tax.

The income tax liability of Mr. JMLH will be computed as follows:

Share in Distributive Profit (₱4,350,000.00 x 25%)	₱ <u>1,087,500.00</u>
Tax Due:	
On ₱800,000.00	₱ 130,000.00
On Excess (₱1,087,500.00 – ₱800,000.00) x 30%	<u>86,250.00</u>
Income Tax Due	<u>₱ 216,250.00</u>

- * Individual partner is not allowed to claim further deduction from his distributive share since this is already net of cost and expenses.
- * Taxpayer is not allowed to avail of the 8% income tax rate option since their distributive share from GPP is already net of cost and expenses.

Illustration 16: Ms. GEAL is a partner of CCF & Co., a general professional partnership, and owns 25% interest. The gross receipts of CCF & Co. amounted to ₱10,000,000.00 for taxable year 2018. The recorded cost of service and operating expenses of CCF & Co. were ₱2,750,000.00 and ₱1,500,000.00, respectively.

BUREAU OF INTERNAL REVENUE
RECORDS MGT. DIVISION

4:55 PM
FEB 20 2018

RECEIVED

22 / 27

The Net Income of CCF & Co. will be computed as follows:

Gross Receipts	₱ 10,000,000.00
Less: Cost of Services	<u>2,750,000.00</u>
Gross Income	₱ 7,250,000.00
Less: Operating Expenses	<u>1,500,000.00</u>
Net Income for distribution to partners	<u>₱ 5,750,000.00</u>

* There is no income tax liability for CCF & Co. being a general professional partnership under Section 26 of the Tax Code, as amended.

* The GPP elected itemized deduction in the computation of its net income and its election is irrevocable for the taxable year for which the return is made.

* The GPP is liable to business tax.

The income tax liability of Ms. GEAL will be computed as follows:

Share in Distributive Profit (₱5,750,000.00 x 25%)	₱ <u>1,437,500.00</u>
Tax Due:	
On P800,000.00	₱ 130,000.00
On Excess (₱1,437,500.00 – ₱800,000.00) x 30%	<u>191,250.00</u>
Income Tax Due	<u>₱ 321,250.00</u>

* Individual Partner is not allowed any deduction on his distributive share since this is already net of cost and expenses.

* Taxpayer is not allowed to avail of the 8% income tax rate option since her distributive share from GPP is already net of cost and expenses.

SECTION 9. INDIVIDUALS NOT REQUIRED TO FILE INCOME TAX RETURN. –

The following individuals are not required to file income tax return:

A. An individual earning purely compensation income whose taxable income does not exceed Two Hundred Fifty Thousand pesos (P250,000.00);

The Certificate of Withholding filed by the respective employers, duly stamped “Received” by the Bureau, shall be tantamount to the substituted filing of income tax returns by said employees.

B. An individual whose income tax has been correctly withheld by his employer, provided that such individual has only one employer for the taxable year – the Certificate of Withholding filed by the respective employers, duly stamped “Received” by the Bureau, shall be tantamount to the substituted filing of income tax returns by said employees;

C. An individual whose sole income has been subjected to final withholding tax;

D. A minimum wage earner as defined in these regulations - The Certificate of Withholding filed by the respective employers, duly stamped “Received” by the

BUPEAU OF INTERNAL REVENUE
RECORDS MGT. DIVISION

4:55 P.M.
FEB 20 2018

RECEIVED

23 / 27

Bureau, shall be tantamount to the substituted filing of income tax returns by said employees

In all cases, all individuals deriving compensation income, regardless of the amount, from two (2) or more concurrent or successive employers at any time during the taxable year, are not qualified for substituted filing. Thus, they are still required to file a return.

SECTION 10. TIME OF FILING OF INDIVIDUAL INCOME TAX RETURN. –

Individuals engaged in business/practice of profession, regardless of amount of sales/receipts, are required to file quarterly income tax return on or before May 15, August 15 and November 15 for the first, second and third quarters of the current year, respectively pursuant to Section 74(A) of the Tax Code, as amended; and to file an annual income tax return, not later than the fifteenth (15th) day of the fourth month following the close of the calendar year or April 15 as provided under Section 51(C)(1) of the Tax Code, as amended.

Illustration 17: Ms. Alona Will, a popular actress, received talent fees from EBQ-Cyril Promotions amounting to ₱20,000,000.00 for 2018. The creditable taxes withheld from the talent fees amounted to ₱1,600,000.00. She incurred costs and expenses amounting to ₱5,000,000.00. Her income tax shall be computed as follows:

Gross Receipts	₱ 20,000,000.00
Less: Costs and Expenses	<u>5,000,000.00</u>
Taxable Income	<u>₱ 15,000,000.00</u>
Tax Due and Payable:	
On ₱8,000,000.00	₱ 2,410,000.00
On Excess (₱15,000,000 – ₱8,000,000) x 35%	<u>2,450,000.00</u>
Total Tax Due	₱ 4,860,000.00
Less: Creditable Taxes Withheld	<u>1,600,000.00</u>
Net Tax Payable	<u>₱ 3,260,000.00</u>

- * Taxpayer is required to file quarterly and annual income tax returns.
- * The creditable tax withheld is deductible from the income tax due.
- * Taxpayer is allowed to pay in two (2) equal installments since the tax due is more than P2,000.00.
- * As a professional actress, taxpayer is also liable to pay business tax.

SECTION 11. INSTALLMENT PAYMENT OF INDIVIDUAL INCOME TAX. – When the tax due is in excess of Two thousand pesos (P2,000.00), the individual may elect to pay the tax in two (2) equal installments, in which case, the first installment shall be paid at the time the annual income tax return is filed and the second installment paid on or before October 15 following the close of the calendar year.

BUREAU OF INTERNAL REVENUE
RECORDS MGT. DIVISION

4:55 P.M.
FEB 20 2018

24 / 27

RECEIVED

If any installment is not paid on or before the date fixed for its payment, the whole amount of the unpaid tax becomes due and payable, together with the delinquency penalties to be reckoned on the original date when the tax is required to be paid.

SECTION 12. REGISTRATION UPDATES. - In relation to Sections 24(A)(2)(b) and 24(A)(2)(c)(2) of the Tax Code, as amended, relative to the option of self-employed individuals and/or professionals to avail of an 8% income tax rate based on gross sales/receipts and other non-operating income, the existing non-VAT taxpayer who is contemplating to avail of the 8% income tax rate at the beginning of the taxable year or before the due date for filing and/or payment of the percentage tax shall file an Application for Registration Information Update (BIR Form No. 1905) to end-date the registered tax type of percentage tax. If the taxpayer is unable to timely update the required registration, s/he shall continue to file the percentage tax return reflecting a zero-amount of tax with a notation that s/he is availing of the 8% income tax rate option for the taxable year. S/he is still required to signify the intention to avail the option on the initial quarterly income tax return for income tax purposes.

On the other hand, if the non-VAT taxpayer opted to be taxed under the graduated income tax rates s/he shall continue to pay the required percentage tax under Sec. 116 of the Tax Code, as amended.

A taxpayer who initially presumed that the gross sales/receipts and other non-operating income for the taxable year will not exceed the P3,000,000.00 VAT threshold but has actually exceeded the same during the taxable year, shall immediately update his/her registration to reflect the change in tax profile from non-VAT to a VAT taxpayer. S/he shall be required to update registration immediately within the month following the month s/he exceeded the VAT threshold. S/he shall be liable to VAT prospectively starting on the first day of the month following the month when the threshold is breached. The taxpayer shall pay the required percentage tax covering the sales/receipts and other non-operating income, from the beginning of the taxable year or commencement of business/practice of profession until the time the taxpayer becomes liable for VAT, without imposition of penalty if timely paid on the immediately succeeding month/quarter. Thus, there may be an instance when a taxpayer files two (2) business tax returns in a month/quarter – i.e., percentage and VAT returns.

A VAT taxpayer who did not exceed the VAT threshold within the immediately preceding three (3) year period, may opt to be a non-VAT taxpayer and avail of the 8% income tax rate option. S/he shall update the registration records on or before the first quarter of a taxable year to reflect the change in registration. However, s/he shall remain liable for VAT for as long as there is no update of registration and VAT-registered invoices/receipts are continuously issued. Registration updates shall be subject to existing rules and regulations on updates, verification, inventory and surrender/cancellation of unused VAT-invoices/receipts.

A non-VAT taxpayer who volunteers to be a VAT taxpayer knowing that sales/receipts and other non-operating income will exceed the VAT threshold within the taxable year, shall update the registration records. Such taxpayer becomes liable to VAT on the day when such updating is made. In this case, the taxpayer shall automatically be subject to the graduated income tax rates if the 8% income tax rate option is initially selected. Any income tax paid under the said flat 8% income tax rate shall be deducted from the income tax due under the graduated income tax rates. The percentage tax due from the beginning of the taxable year or commencement of business/practice of profession shall be paid on the month/quarter immediately following such registration update. However, if the graduated income tax rates is chosen from the beginning,

BUREAU OF INTERNAL REVENUE
RECORDS MGT. DIVISION

4:55 P.M.
FEB 20 2018

RECEIVED

25 / 27

Handwritten initials and signature

then taxpayer ceases to be liable to percentage tax upon registration updates and instead is now liable to VAT.

Illustration 18: Ms. ENA is a newly registered non-VAT taxpayer engaged in merchandising of car accessories on February 1, 2018. In September 2018, her cumulative gross sales/receipts reached three million five hundred pesos (P3,500,000.00).

a. If the taxpayer availed the 8% income tax rate upon her registration with the BIR on February 1, 2018 or upon filing of her first quarterly income tax return, she is required to update her registration and comply with the following:

* Ms. ENA needs to visit BIR Office where she is registered to register as VAT taxpayer or before October 31, 2018, one month from the time that she exceeded the P3,000,000.00 VAT threshold.

* Since she availed the option of 8% income tax rate (not required to file the percentage tax return), she shall file the required percentage tax covering the sales/receipts and other non-operating income, from February 1 to September 30, 2018 due on or before October 20, 2018, without imposition of penalty if timely paid. She is likewise liable to VAT beginning October 1, 2018.

* The taxpayer shall automatically be subjected to the graduated income tax rates from the time the gross sales/receipts and other non-operating income exceeded the VAT threshold.

* The 8% income tax paid by the taxpayer shall be credited/deducted from her annual income tax due using the graduated income tax regime.

b. If the taxpayer did not avail the 8% income tax rate upon her registration with the BIR on February 1, 2018 or upon filing of her first quarterly income tax return, she shall update her registration and comply with the following:

* Since she is subject to the graduated income tax rate, she is required to file the 1st and 2nd quarterly percentage tax returns. The last quarterly percentage tax return that she needs to file should cover the period July 1, 2018 to September 30, 2018, which is due on or before October 20, 2018. She becomes liable to VAT on October 01, 2018.

* The taxpayer needs to visit the BIR Office where she is registered to update her registration profile as VAT taxpayer on or before October 31, 2018, one month from the time that she exceeded the P3,000,000.00 VAT threshold.

U
BUREAU OF INTERNAL REVENUE
RECORDS MGT. DIVISION

4:55 P.M.
FEB 20 2018

Monte
RECEIVED

W
26 / 27

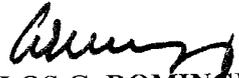
SECTION 13. TRANSITORY PROVISIONS. – In connection with the provision of Section 24(A)(2)(b) and Section 24(A)(2)(c) of the Tax Code, as amended, all existing VAT registered taxpayers whose gross sales/receipts and other non-operating income in the preceding year did not exceed the VAT threshold of P3,000,000.00 shall have the option to update their registration to non-VAT until March 31, 2018, following the existing procedures on registration updates, and the inventory and surrender/cancellation of unused VAT invoices/receipts.

After the above-mentioned date, existing VAT-registered taxpayers who have not exceeded the threshold for the immediately preceding three years, may opt to update their registration to non-VAT following rules and regulations on registration updates, verification, and the inventory and cancellation of VAT invoices/receipts.

SECTION 14. REPEALING CLAUSE. – All revenue issuances that are inconsistent with the provisions of these Regulations are hereby amended, modified or repealed accordingly.

SECTION 15. EFFECTIVITY. – These regulations are effective beginning January 1, 2018, the effectivity date of the TRAIN Law.

001211


CARLOS G. DOMINGUEZ
Secretary of Finance
FEB 15 2018

Recommending Approval:


CAESAR R. DULAY
Commissioner of Internal Revenue
013125

**BUREAU OF INTERNAL REVENUE
RECORDS MGT. DIVISION**

FEB 20 2018


RECEIVED