



Philippines – Tax Reform Brings Many Changes for Individuals

On 19 December 2017, Philippine President Rodrigo Duterte signed into law the first package of the comprehensive tax reform program called “Tax Reform for Acceleration and Inclusion (TRAIN),” now Republic Act No. 10963.¹ Included in TRAIN are major amendments to personal income tax provisions in the National Internal Revenue Code of 1997.

WHY THIS MATTERS

Republic Act No. 10963 provides for new tax deadlines, new tax rate tables, removal of individual exemptions and limitations on qualifications for preferential tax rates. The changes in the income tax rates will negatively impact high income earners while low- to middle-income earners will see an increase in net pay. The new law may lead to significant changes in international assignment costs for employers with assignees in the Philippines.

New withholding tax rates on compensation have also been released by the Bureau of Internal Revenue (BIR) and need to be applied by all employers beginning 1 January 2018.

Highlights

The table on the following page summarizes the changes made to personal income tax provisions.

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| Income Tax Rates for Individuals | New graduated tax rates at 0%, 20%, 25%, 30%, 32%, and 35% will be in effect from 1 January 2018 until 31 December 2022. New graduated tax rates will also be in effect from 1 January 2023 onwards. A comparison of the current and new tax tables is provided in the Appendix. |
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| Income tax rates of self-employed persons and/or professionals whose gross sales or gross receipts and other non-operating income are at or below the VAT threshold of PHP 3,000,000 | A taxpayer whose gross sales/receipts are at or below the VAT threshold shall have the option to avail of the 8% income tax on gross sales or receipts and other non-operating income in excess of PHP 250,000, in lieu of the graduated income tax rates and percentage tax. |
| Tax for Mixed Income Earners | <ul style="list-style-type: none"> • Compensation income shall be subject to the graduated tax rates on compensation income. • Income from business or practice of profession: <ul style="list-style-type: none"> ○ If total gross sales and/or gross receipts and other non-operating income do not exceed the VAT threshold, it shall be subject to the graduated tax rates on taxable income OR the 8% tax on gross sales/receipts and other non-operating income, at the option of the taxpayer; ○ If total gross sales and/or gross receipts and other non-operating income exceed the VAT threshold, it shall be subject to graduated rates on compensation income. |
| Exclusion from Gross Income | The exclusion for 13th month pay and other benefits is increased from PHP 82,000 to PHP 90,000. |
| Fringe Benefit Tax (FBT) | The FBT rate is increased from 32% to 35% and the gross-up factor in computing the grossed-up monetary value of the fringe benefit is 65%. |
| Optional Standard Deduction (OSD) for individuals earning business income | <p>An individual subject to the graduated tax rates, other than a nonresident alien, may elect to claim the OSD in an amount not exceeding 40% of his/her gross sales/receipts or gross income, respectively.</p> <p>“GPPs” and the partners comprising such partnership may avail of the OSD only once (either by the GPP or the partners).</p> |
| Premium payments on health and/or hospitalization insurance of an individual taxpayer | Deleted |
| PHP 50,000 for personal exemption and PHP 25,000 additional exemption per qualified dependent | Deleted |
| Individuals not required to file income tax returns (“ITR”) | <ul style="list-style-type: none"> • An individual whose taxable income does not exceed PHP 250,000. • Employees receiving purely compensation income from only one employer, the income tax of which has been withheld correctly, shall not be required to file an annual ITR. The certificate of withholding filed by the employer, duly stamped “received” by the BIR, shall be tantamount to the substituted filing of the ITR. |

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| Installment payment of income tax | The first installment shall be paid at the time the return is filed and the second installment on or before 15 October following the close of the calendar year. |
| Deadlines for tax declaration of individuals | The last day for the declaration of income for the current year shall be moved from 15 April to 15 May of the following year. Likewise, the deadline of the fourth quarter payment for individuals earning self-employed income shall be moved to 15 May of the following year. |
| Tax on sale, barter, or exchange of shares of stocks listed and traded through the local stock exchange or through initial public offering | Stock transaction tax will be increased from 1/2 of 1% to 6/10 of 1%. |
| Tax on capital gains from sale of shares of stock not traded in the Stock Exchange | Capital gains tax will be increased from 5% (for amounts up to PHP 100,000) and 10% (for amounts in excess of PHP 100,000) to a fixed rate of 15%. |

KPMG NOTE

The president did however veto some important provisions affecting individuals.

Republic Act No. 10963 had included a provision for present and future qualified employees of existing Regional Headquarters (RHQs), Regional Operating Headquarters (ROHQs), Offshore Banking Units (OBUs) and Petroleum Service Contractors and Subcontractors, which continued their entitlement to the preferential tax rate of 15 percent. The law also provided an exemption from the percentage tax beginning 1 January 2019, for self-employed individuals and professionals whose total gross annual sales/receipts do not exceed PHP 500,000. The president vetoed this.

With the presidential veto, employees of existing RHQs, ROHQs, OBUs, and Petroleum Service Contractors and Subcontractors may be subject to the new income tax rates.

It should be noted that various interpretations regarding the vetoed provisions exist and it remains uncertain whether Congress will override the veto. Congress is in recess and sessions will resume on 15 January 2018.

This newsletter does not include changes in business and transfer taxes. Moreover, the Department of Finance (DOF) has yet to issue the implementing rules and regulations and professional advice must be sought in interpreting the law. KPMG in the Philippines will endeavor to keep readers informed of further developments.

FOOTNOTE:

1 To see the press release from the Department of Finance with a link to the text of the law, click [here](#).

APPENDIX A

| Old Individual Tax Rates | | New Individual Tax Rates under Republic Act No. 10963 | | | |
|--------------------------|----------------------------|---|--------------------------------|------------------------|--------------------------------|
| | | 1 January 2018 – 31 December 2022 | | 1 January 2023 onwards | |
| Tax Rate | If taxable income is: | Tax Rate | If taxable income is: | Tax Rate | If taxable income is: |
| 5% | PHP 0 to PHP 10,000 | 0% | PHP 0 to PHP 250,000 | 0% | PHP 0 to PHP 250,000 |
| 10% | PHP 10,001 to PHP 30,000 | 20% | PHP 250,001 to PHP 400,000 | 15% | PHP 250,001 to PHP 400,000 |
| 15% | PHP 30,001 to PHP 70,000 | 25% | PHP 400,001 to PHP 800,000 | 20% | PHP 400,001 to PHP 800,000 |
| 20% | PHP 70,001 to PHP 140,000 | 30% | PHP 800,001 to PHP 2,000,000 | 25% | PHP 800,001 to PHP 2,000,000 |
| 25% | PHP 140,001 to PHP 250,000 | 32% | PHP 2,000,001 to PHP 8,000,000 | 30% | PHP 2,000,001 to PHP 8,000,000 |
| 30% | PHP 250,001 to PHP 500,000 | 35% | PHP 8,000,001 or more | 35% | PHP 8,000,001 or more |
| 32% | PHP 500,001 or more | | | | |

Source: R.G. Manabat & Co.

PHP 1 = USD 0.01985
 PHP 1 = EUR 0.01665
 PHP 1 = GBP 0.0147
 PHP 1 = AUD 0.0254

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