

Philippines income tax rates essay sample

[Economics](#), [Tax](#)



The above rates also apply to individuals who derive income from business (including capital gains from the sale transfer or exchange of shares in a foreign corporation) or from the practice of a profession. Individuals occupying managerial and highly technical positions employed by RHQs, ROHQs, multinational companies, offshore business units and petroleum service contractors/subcontractors are taxed at 15% on their gross income. Income is divided into the following three categories which are taxed separately, as summarized below. Compensation employment income: This income is taxed at progressive rates on gross income after deduction of personal and additional exemptions but without deductions for expenses. Passive income: This income (i. e. dividends, certain interest, royalties, etc.) is subject to final withholding tax only. Business income and professional income: This income is taxed at progressive rates on net business income, or income from the practice of a profession, i. e. after deduction of certain specified expenses and any excess of personal and additional exemptions over compensation income.

TAXABLE INCOME

RESIDENT CITIZENS

Resident citizens of the Philippines are taxed on all their net income derived from sources within and without the Philippines.

ALIEN INDIVIDUALS

An alien individual, whether a resident or not of the Philippines, is taxable only on income derived from sources within the Philippines. Resident aliens are taxed in the same manner as resident citizens on income sourced within the Philippines. Tax is generally withheld in sufficient amounts from salary

and wages to satisfy the final tax liability. If not, then the balance must be paid when filing the return, which is required on or before 15 April of the year following the year of income. In some cases, income tax liability may be paid in two equal installments.

OPTIONAL STANDARD DEDUCTION (OSD)

Except for individuals earning compensation income, resident citizens, non-resident citizens, and resident aliens shall be allowed to claim OSD in lieu of the itemized deductions of ordinary and necessary expenses paid or incurred during the year. The OSD allowed shall be a maximum of 40% of gross sales or gross receipts without deduction of the cost of sales or cost of services.

The computation and the payment using the OSD shall likewise apply at the time of filing of the quarterly income tax return.

Basis – Resident citizens are taxed on worldwide income; resident aliens and nonresidents pay tax only on Philippine source income. However, foreign individuals can avail themselves of preferential tax treatment or may be exempt from income tax under applicable tax treaties, subject to a confirmatory ruling from the BIR.

Residence – All citizens are ordinarily considered resident unless they meet the requirements to be deemed nonresident. The residence of foreign workers is generally established when the aggregate length of stay in any calendar year exceeds 180 days.

Tax Filing status – Married couples in the Philippines who do not derive income purely from compensation always must file a joint income tax return.

Taxable income – Taxable personal income is all income less allowable deductions and personal exemptions. It includes compensation, business income, capital gains (arising from the sale of real property and share transactions), dividends, interest, rents, royalties, annuities, pensions and a partner's distributive share of the net income of general professional partnerships. Minimum wage earners (MWEs) are exempt from the payment of income tax on their taxable income. Holiday pay, overtime pay, night shift differential pay and hazard pay received by such MWEs also is exempt. However, an employee who receives/earns additional compensation, such as commissions, honoraria, fringe benefits, benefits in excess of the non-taxable ceiling of PHP 30, 000 taxable allowances and taxable income other than the exempt remuneration mentioned above do not qualify as an MWE and, therefore, his/her entire earnings are not exempt from income tax. In lieu of itemized deductions, an individual may elect to use the optional standard deduction (OSD), which may not exceed 40% of the total gross income, in computing taxable income for the taxable quarter/year. However, once an election is made to use the OSD, it is irrevocable for the taxable year for which the return is made.

Capital gains – An individual is subject to capital gains tax on the sale of real property at a rate of 6% of the gross sales price or current fair market value, whichever is higher. An individual is also subject to capital gains tax on the sale of shares not traded on the stock exchange at a rate of 5% of the net gain not exceeding PHP 100, 000, and 10% on the excess. Gains derived from the sale of shares listed and traded on the stock exchange are taxed at one-half of 1% of the gross sales price.

Tax Deductions and tax allowances – Subject to certain restrictions, deductions are granted for premium payments on health and/or hospitalization insurance. Personal allowances are available to the taxpayer and his/her spouse, and qualified dependent children.

Other taxes on individuals:

Capital duty – No

Stamp duty – Various rates of duty apply depending on the type of document. Capital acquisitions tax – No

Real property tax – A property tax is imposed on real property at a rate that depends on the property's location. The tax should not exceed 3% of the assessed value per the tax declaration. Inheritance/estate tax – Tax is imposed on the net estate of both residents and nonresidents at rates between 5% and 20%. Net wealth/net worth tax – No

Social security contributions – The employee is required to pay monthly contributions (ranging from PHP 33.30 to PHP 500) to the social security system based on his/her salary bracket.

Administration and compliance:

Philippines Tax year – Philippines tax year is the calendar year Tax Filing and payment of tax – Tax returns are due on or before 15 April after the close of the tax year. Tax on compensation income is withheld monthly by the employer either manually or through the Electronic Filing and Payment System on or before the 10th day of the month following the month in which withholding was made for the months of January to November, and on or before 15 January of the following year for the month of December.

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Individuals receiving only compensation income from one employer during the taxable year may qualify for substituted filing provided the amount of tax due equals the amount of tax withheld by the employer at the end of the taxable calendar year. In case of married individuals, the same requirements must be met to qualify for substituted filing. Penalties - Late payments incur a penalty equal to 25% of the amount due. Annual interest of 20% is assessed on the unpaid amount from the due date until fully paid. A compromise penalty will be based on the tax due exclusive of the 25% surcharge and 20% interest.