

Tax Reform for Acceleration and Inclusion (TRAIN)

13 February 2018

TRAIN history

- **House Bill (HB) No. 4774** – first version of the TRAIN bill introduced and filed on 17 January 2017
- **HB No. 5636** – substitute bill approved on 3rd and final reading on 31 May 2017
- **Senate Bill No. 1592** – approved on 3rd and final reading on 28 November 2017
- **Bicameral conference committee report** – ratified: 13 December 2017; transmitted to the Office of the President: 18 December 2017
- **Date signed** – 19 December 2017
- **Date published on the Official Gazette** – 27 December 2017
- **Effectivity** – 1 January 2018

New individual income tax table

Old law	
Not over PHP10,000	5%
Over 10,000 but not over 30,000	PHP500 + 10% of the excess over 10,000
Over 30,000 but not over 70,000	PHP2,500 + 15% of the excess over P30,000
Over 70,000 but not over 140,000	PHP8,500 + 20% of the excess over P70,000
Over 140,000 but not over 250,000	PHP22,500 + 25% of the excess over PHP140,000
Over 250,000 but not over 500,000	PHP50,000 + 30% of the excess over PHP250,000
Over 500,000	PHP125,000 + 32% of the excess over P500,000

	TRAIN Law (2018-2022)	TRAIN Law (2023 onwards)
Not over PHP250,000	0%	0%
Over 250,000 but not over PHP400,000	20% of the excess over PHP250,000	15% of the excess over PHP250,000
Over PHP400,000 but not over PHP800,000	PHP30,000+ 25% of the excess over PHP400,000	PHP22,500+ 20% of the excess over PHP400,000
Over PHP800,000 but not over PHP2,000,000	PHP130,000+ 30% of the excess over PHP800,000	PHP102,500+ 25% of the excess over PHP800,000
Over P2,000,000 but not over PHP8,000,000	PHP490,000+ 32% of the excess over P2,000,000	PHP402,500+ 30% of the excess over PHP2,000,000
Over PHP8,000,000	PHP2,410,000+ 35% of the excess over PHP8,000,000	PHP2,202,500+ 35% of the excess over PHP8,000,000

Sample computation

Old law vs. TRAIN

	Old law	TRAIN law (2018-2022)	TRAIN law (2023)
Base salary net of mandatory contributions	750,000	750,000	750,000
Less:			
Basic exemption	(50,000)		
Additional exemption (max)	(100,000)		
Exempt 13th month pay	(82,000)	(90,000)	(90,000)
Net taxable income	518,000	660,000	660,000
Applicable tax rate:			
Basic tax	125,000	30,000	22,500
excess at 32%	5,760	at 25% 65,000	at 20% 52,000
Tax Due	130,760	95,000	74,500
Effective tax rate	17.43%	12.67%	9.93%

Sample computation

Old law vs. TRAIN

	Old law	TRAIN law (2018-2022)	TRAIN law (2023)
Base salary net of mandatory contributions	5,000,000	5,000,000	5,000,000
Less:			
Basic exemption	(50,000)		
Additional exemption (max)	(100,000)		
Exempt 13th month pay	(82,000)	(90,000)	(90,000)
Net taxable income	4,768,000	4,910,000	4,910,000
Applicable tax rate:			
Basic tax	125,000	490,000	402,500
excess at 32%	1,365,760	at 32%	at 30%
Tax Due	1,490,760	1,421,200	1,275,500
Effective tax rate	29.82%	28.42%	25.51%

Sample computation

Old law vs. TRAIN

	Old law	TRAIN law (2018-2022)	TRAIN law (2023)
Base salary net of mandatory contributions	8,500,000	8,500,000	8,500,000
Less:			
Basic exemption	(50,000)		
Additional exemption (max)	(100,000)		
Exempt 13th month pay	(82,000)	(90,000)	(90,000)
Net taxable income	8,268,000	8,410,000	8,410,000
Applicable tax rate:			
Basic tax	125,000	2,410,000	2,202,500
excess at 32%	2,485,760	at 35% 143,500	at 35% 143,500
Tax Due	2,610,760	2,553,500	2,346,000
Effective tax rate	30.71%	30.04%	27.60%

Self-employed and professionals (SEPs)

SEPs earning PHP3m (new VAT threshold) and below may opt to be taxed at:

- 8% based on gross sales and/or gross receipts and other non-operating income ***in excess of PHP250,000*** in lieu of graduated rates and percentage tax;
or
- Graduated rates + percentage tax

SEPs earning more than PHP3m

- Subject to graduated tax rates + VAT

Sample computation

8% vs. graduated rates

	At 8%	At graduated rates (2018-2022)
Gross sales/receipts	PHP3,000,000	PHP3,000,000
Exempt	(250,000)	-
Net taxable income*	2,750,000	1,800,000
Basic tax		130,000
30%		<u>300,000</u>
Income tax		430,000
Percentage tax (3%)		90,000
Total tax due	PHP220,000	PHP520,000

**assuming the taxpayer elects OSD of 40%*

VAT de-registration for SEPs

Advisory to Purely Self-Employed Individuals and/or Professionals who are VAT-registered Taxpayers and whose Gross Sales/Receipts and Other Non-Operating Income do not exceed PHP3m

- May elect to change status from VAT to Non-VAT by filing BIR Form No. 1905 on or before ***31 March 2018***.
- To signify intention to be taxed at 8% in the 1st quarter return of the taxable year. Such election shall be ***irrevocable for the taxable year***.
- If no election is made, the taxpayer shall be considered as having availed of the graduated rates.

Taxation of mixed income earners

- **Compensation income:** graduated rates; and
- **Business and other non-operating income:**
 - If gross sales/receipts exceed PHP3,000,000 – graduated rates
 - Not exceeding PHP3,000,000 – at the taxpayer's option, either:
 - 8% based on gross sales and/or gross receipts and other non-operating income in lieu of graduated rates and percentage tax; or
 - graduated rates

Sample computation

Mixed income earner

	TRAIN (2018-2022)	
	Graduated rates	8% on income from business
Gross compensation income (net of mandatory contributions)	PHP1,000,000	PHP1,000,000
Exempt 13th month pay and other benefits	<u>(90,000)</u>	<u>(90,000)</u>
Net taxable compensation	PHP910,000	PHP910,000
Gross sales/receipts from profession/business	3,000,000	3,000,000
Taxable income from profession/business*	<u>1,800,000</u>	
Combined taxable income	2,710,000	
Graduated rates:		On compensation income:
Basic tax	490,000	130,000
32% / 30%	<u>227,200</u>	<u>33,000</u>
Income tax	717,200	
Percentage tax on business income	90,000	
Tax on compensation income		163,000
8% tax on business income (net of P250K exemption)		240,000
Tax due	PHP807,200	PHP403,000

*assuming the professional elects OSD of 40%

Other amendments to individual taxation

Exempt 13th month pay and other benefits

- Increased to **PH₱90,000** from PH₱82,000.

Fringe benefit tax (FBT)

- Rate increased to **35%**. Grossed-up monetary value is 65%.

Allowance for personal (and additional) exemption and allowed deduction for premiums paid on health and/or hospitalization insurance

- Repealed

Other amendments to individual taxation (continued)

Capital gains tax on sale of shares of stock not traded in the stock exchange

- Increased to **15%** from 5%/10%

Interests, Royalties, Prizes, and Other Winnings

- PCSO and lotto winnings exceeding P10,000 is subject to the 20% final tax.
However, no amendment was made for PCSO and lotto winnings of nonresident alien individuals.
- Interest income from a depository bank under the expanded foreign currency deposit system is subject to a final tax of **15%** from 7.5%.

Stock transaction tax

- Increased to **0.60%** from 0.50%

Exemption Allowed to Estates and Trusts

- Repealed.

Other amendments to individual taxation (continued)

Employees of ROHQ, RHQ, OBU, and Petroleum Service Contractor and Subcontractor enjoying preferential tax rate of 15%

- **RA 10963, Sec. 6 (F)**: Preferential tax treatment shall not apply to employees of special corporations registering with the Securities and Exchange Commission beginning 1 January 2018.

Present and future qualified employees of existing ROHQ, RHQ, OBU, and Petroleum service contractors and subcontractors as of 31 December 2017 shall continue to enjoy preferential tax treatment. (Vetoed)

- **BIR Tax Advisory (31 Jan 2018)**: All employees of special corporations enjoying preferential tax treatment prior to 2018 are now subject to regular income tax rates.

Individual income tax returns

- An individual not engaged in the business or practice of profession, whose taxable income does not exceed PHP250,000, is ***not required*** to file an income tax return.
- Purely compensation income earner, ***1 employer*** – no need to file an annual ITR. The certificate of withholding filed by the employer to the BIR is tantamount to substituted filing.
- Simplified income tax return consisting of ***4 pages*** containing the following information:
 - Personal profile and information;
 - Total gross sales, receipts or income from compensation for services rendered, conduct of trade or business, or the exercise of profession except income subject to final tax;
 - Allowable deductions;
 - Taxable income as defined under Section 31;
 - Income tax due and payable.

Individual income tax returns – filing deadlines

- The second installment of the tax due to be paid on or before **15 October** following the close of the calendar year.
- Deadline for filing of the declaration of estimated income (first installment) is on or before **15 May** of the same taxable year.
- RA 10963, Sec. 20(B): The fourth installment shall be paid on or before **15 May** of the following calendar year when the final adjusted income tax return is due to be filed.

Note: Section 51 (C) of the Tax Code was not amended by the TRAIN law. This means that the annual filing of the income tax returns shall still be on or before 15 April of the succeeding taxable year.

Change in CWT rate on income payments to self-employed individuals or professionals

Under RMC No. 1 – 2018, the following income payments to self-employed individuals and professionals shall be subject to 8%:

1. Professional fees, talent fees, commissions, etc. for services rendered by individuals
2. Income distribution to beneficiaries of estates and trusts
3. Income payment to certain brokers and agents
4. Income payments to partners of general professional partnership
5. Professional fees paid to medical practitioners
6. Commission of independent and/or exclusive sales representatives, and marketing agents of companies

Other amendments

Keeping of books of accounts

Books of accounts with annual sales, earnings, receipts or output ***exceeding PHP3,000,000*** must be audited by a CPA.

Registration requirements

The following are the persons required to register for VAT:

- Those whose gross sales or receipts for the past 12 months, ***other than those that are VAT-exempt***, have exceeded PHP3,000,000; or
- If there are reasonable grounds to believe that the gross sales or receipts for the next 12 months, other than those that are VAT-exempt, will exceed PHP3,000,000.
- Persons who elected to pay the 8% tax on gross sales/receipts in lieu of the graduated income tax rates, ***shall not be allowed to avail of the option to register*** for VAT.

Estate tax

A flat tax rate of 6% is imposed based on the net value of the estate.

Deductions allowed

- Deductions for funeral expenses, judicial expenses, and medical expenses are repealed
- Standard deduction (SD) is increased to PHP5m from PHP1m (for non-residents, SD is PHP500,000)
- Family home deduction is increased to PHP10m from PHP1m

Final withholding tax on withdrawals from a decedent's bank account

- Banks with knowledge of the death of a person who has a bank deposit account shall allow withdrawals from the decedent's bank account subject to a 6% final withholding tax.
- Shall be remitted using BIR Form 1602 (per Operations Memorandum No. 2018-01-02)

Estate tax

Estate tax returns

- All transfers subject to estate tax, or transfers of property regardless of value where the clearance from the BIR is required for the transfer of ownership, shall file an estate tax return.
- Estate tax returns showing a gross value exceeding **PHP5,000,000** (previously PHP2,000,000) shall be certified by a CPA.
- Filing the estate tax return shall be made within **1 year** from the decedent's death.
- Installment payment of the estate tax due is allowed within 2 years from the statutory date of payment without incurring civil penalty and interest.
- Filing of notice of death has been **repealed**.

Donor's tax

- A flat tax rate of **6%** is imposed based on the net donations for gifts exceeding PHP250,000 ***regardless of the relationship between donor and donee.***
- Exemption of dowries or gifts made on account of marriage amounting to PHP10,000 was ***repealed.***

Excise taxes

Automobiles

Old Law

Over	Up to	Basic Tax Due	In excess of lower limit
	PHP600,000		2%
P600,000	1,100,000	PHP12,000	20%
1,100,000	2,100,000	112,000	40%
2,100,000		512,000	60%

TRAIN

Over	Up to	Basic Tax Due	Excise tax rate
	600,000	-	4%
600,000	1,000,000	-	10%
1,000,000	4,000,000	-	20%
4,000,000		-	50%

- ***Hybrid vehicles*** shall be subject to ***50% of the applicable excise tax rates***
- ***Purely electric vehicles and pick-ups*** shall be ***exempt*** from excise tax on automobiles

Excise taxes – sample computation

Automobiles

	Old law	TRAIN
Sample price – TIER 1	PHP560,000	P560,000
Basic	-	
2%	11,200	
4%		22,400
Tax due	11,200	22,400
Effective rate	2%	4%

	Old law	TRAIN
Sample price – TIER 2	PHP865,000	PHP865,000
Basic	12,000	
20%	53,000	
10%		86,500
Tax due	65,000	86,500
Effective rate	8%	10%

Excise taxes – sample computation (continued)

Automobiles

	Old law	TRAIN		Old law	TRAIN
Sample price – TIER 3	PHP1,555,000	P1,555,000	Sample price – TIER 4	PHP18,500,000	P18,500,000
Basic	112,000		Basic	512,000	
40%	182,000		60%	9,840,000	
20%		311,000	50%		9,250,000
Tax due	294,000	311,000	Tax due	10,352,000	9,250,000
Effective rate	19%	20%	Effective rate	56%	50%

Documentary stamp taxes

Description	Old law	TRAIN
Original issue of shares	1.00	2.00
Sales, agreements to sell, or transfer shares	0.75	1.50
Certificates of profits or interest in property	0.50	1.00
Bank checks, drafts, certificates of deposits	1.50	3.00
All Debt Instruments	1.00	1.50
Annuities and pre-need plans	0.50 / 0.20	1.00 / 0.40
Certificates	15 per certificate	30 per certificate
Warehouse receipts	15.00 per warehouse receipt (valued at 200 or more)	30.00 per warehouse receipt (valued at 200 or more)
Jai-alai, horse race tickets, lotto, or other authorized number games	0.10 on every 1.00 cost of the ticket	0.20 on every 1.00 cost of the ticket

Documentary stamp taxes (continued)

Description	Old law	TRAIN
Bills of lading or receipts	PH ₱ 1.00 for bill/receipts not exceeding PH ₱ 1,000; or PH ₱ for bill/receipts exceeding PH ₱ 1,000	PH ₱ 2.00 for bill/receipts not exceeding PH ₱ 1,000; or PH ₱ 20.00 for bill/receipts exceeding PH ₱ 1,000
Proxies	PH ₱ 15.00 on each proxy of voting	PH ₱ 30.00 on each proxy of voting
Powers of attorney	PH ₱ 5.00 on each power of attorney; except for acts connected with claims due to/from the government	PH ₱ 10.00 on each power of attorney; except acts connected with claims due to/from the government
Leases and other hiring agreements	PH ₱ 3.00 for the first P2,000 + P1.00 for every P1,000 thereafter	PH ₱ 6.00 for the first PH ₱ 2,000 + PH ₱ 2.00 for every PH ₱ 1,000 thereafter
Mortgages, pledges, and deeds of trust	PH ₱ 20.00 for the first PH ₱ 5,000 + PH ₱ 10.00 on every P5,000 thereafter	PH ₱ 40.00 for the first PH ₱ 5,000 + PH ₱ 20.00 on every PH ₱ 5,000 thereafter

Documentary stamp taxes

DST on Life Insurance	Old law	TRAIN
Does not exceed PH₱100,000	Exempt	Exempt
Exceeds 100,000 but does not exceed 300,000	10.00	20.00
Exceeds 300,000 but does not exceed 500,000	25.00	50.00
Exceeds 500,000 but does not exceed 750,000	50.00	100.00
Exceeds 750,000 but does not exceed 1,000,000	75.00	150.00

- DST is also imposed on donations of real property except those exempt from donor's tax under Section 101 (A) and (B).

Other amendments

➤ **Interest**

- Double the legal interest rate.

➤ **Penalty provisions for attempting to evade or defeat tax**

- Increased fine to not ***less than PHP500,000*** (previously PHP30,000) but ***not more than PHP10,000,000*** (previously P100,000) and imprisonment of ***not less than 6 years*** (previously 2 years) but not ***more than 10 years*** (previously 4 years).

➤ **VAT**

➤ **Excise taxes**

Questions?

Thank you

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