



Atty. Jared C. Vicencio

TAX LAW FOR BUSINESS

*BDB Law's "Tax Law for Business" appears in the opinion section of **Business Mirror** every Thursday.*

Dissecting the TRAIN law: A look at the optional flat tax

One of the major changes brought about by Republic Act 10963, otherwise known as the TRAIN law, is the modification of income taxes. In particular, the said law introduced changes to the income-tax scheme governing individuals. Most notable are the changes made to the prevailing income tax- rate bracket. This change has generated a lot of attention among the general populace. It is rather unfortunate, however, that a crucial change in the income-tax scheme has managed to fly under the radar. For all the interest surrounding the changes in the income-tax bracket, not enough spotlight has been shone on the optional flat tax.

Section 24(A) of the current tax code has been modified to include an entirely new provision, namely, an option for self-employed individuals and individuals practicing their profession (SEP) to elect the imposition of a tax rate of 8 percent based on gross sales or gross receipts. This 8-percent flat-tax option, available to SEPs whose gross sales/gross receipts do not exceed the P3,000,000 threshold, is in lieu of income tax and percentage tax. In other words, SEPs who meet the required threshold may elect to be subject to the 8-percent tax rate, which covers their income tax and percentage tax.

The benefits of this additional tax scheme are twofold. First, and the more obvious of the two, is the potential to reduce tax exposure. Given the 8-percent rate, it is significantly lower than the 32 percent prescribed by the income-tax schedule, for income earned amounting to P2,000,000 but not exceeding P8,000,000. Of course, the later scheme takes into consideration allowable deductions, but given the much lower rate of 8 percent as opposed to 32 percent, chances are the taxpayer will end up with a lower tax liability if he/she elects the flat-tax scheme. Also, unlike the graduated tax-rate scheme, the 8 percent already includes percentage taxes. The taxpayer opting to avail himself of the graduated rates will still pay percentage tax on top of income taxes.

The other benefit of availing yourself of the optional flat tax is the simplification of compliance with requirements. Since the said tax scheme already includes percentage tax, then the taxpayer would presumably need to file a single return to cover both income and percentage taxes. This will make tax compliance simpler for individuals who opt for the flat-tax scheme. It should be noted that the Bureau of Internal Revenue Regulations regarding this tax scheme is still pending approval, although a quick examination of the draft proposed regulations would reveal that the rules would not interfere with the application of this provision. Other than special entities specifically subjected to percentage tax, those falling under the value-added tax threshold of P3,000,000 may avail themselves of this tax scheme.

All in all, the small and medium taxpayers will significantly feel the benefits of the flat-tax scheme. The said option not only reduces the cost of doing business, it also eases the burden of administrative compliance.

The author is a senior associate of Du-Baladad and Associates Law Offices (BDB Law), a member-firm of WTS Global.

The article is for general information only and is not intended, nor should be construed as a substitute for tax, legal or financial advice on any specific matter. Applicability of this article to any actual or particular tax or legal issue should be supported therefore by a professional study or advice. If you have any comments or questions concerning the article, you may e-mail the author at jared.vicencio@bdblaw.com.ph or call 403-2001 local 370.