



TAX LAW FOR BUSINESS
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Income-tax return buffet

As April 15 draws near, many employers and employees are rushing to complete their tax records to ensure a smooth and accurate payment of income tax. But it seems that many more employees will join the fray as the substituted filing system of the Bureau of Internal Revenue (BIR) is in peril.

Under the substituted filing system, the filing of an annual income-tax return is not required for those deriving purely compensation income who only have one employer for one calendar year and all their income had been fully subjected to withholding tax by the employer. Under this system, BIR Form 2316, issued by an employer, serves as an employee's income-tax return (ITR). In this BIR form, the employer swears that the details reported therein have been reported under BIR Form 1604-CF, which has been filed with the BIR. The employee, on the other hand, swears that he is qualified for substituted filing, i.e., he receives purely compensation income from one employer during the year and that the total tax due has been correctly withheld by his employer.

Unfortunately, the substituted filing system no longer applies to all employees. If you are an employee who earns an annual compensation income of P500,000 or roughly P41,000 a month, you are now required by a new BIR regulation to file your Annual Information Return (AIR).

On March 4 the BIR issued Revenue Regulations (RR) 2-2011 on the filing of ITR and/or AIR by individuals, estates and trusts. Under the RR, starting taxable year 2010, individuals, estates and trusts required by law to file an ITR are required to file their ITR together with the AIR. The AIR shall include income of individuals, estates and trust subject to final withholding tax and exclusions from the gross income.

The RR also requires the following to file the AIR:

1. Individuals with pure compensation income derived from sources within the Philippines and the income tax on which has been correctly withheld, whose annual taxable income exceeds P500,000 notwithstanding the substituted filing for ITR. But an individual deriving compensation concurrently from two or more employers at any time during the taxable year shall file an ITR.

2. Individuals, estates and trusts whose sole income has been subjected to final withholding tax, with aggregate final tax withheld exceeding P125,000 annually.

3. Individuals whose sole income is exempt from income tax and whose total annual income exceeds P500,000.

This requirement is, likewise, applicable to aliens or Filipino citizens occupying the same positions as the alien employees, who are employed by regional operating headquarters, regional or area headquarters, offshore banking units, petroleum service contractors and subcontractors.

The filing of ITR and/or AIR shall be made where the individual, estate or trust, is required to register or where the individual has his legal residence or place of business on or before April 15 of each year. On the other hand, the filing of AIR only shall be filed on or before May 15 of each year covering income for the preceding taxable year.

Many individuals are being required by RR 2-2011 to file their respective ITR and AIR. This change in policy by the BIR has the ultimate purpose of increasing its source of information. But an increase in the number of ITR and AIR returns filed and piled up on a revenue officer's table do not necessarily translate to increase in revenue.

There are reports that RR 2-2011 is only voluntary this year and will only be made mandatory in the filing of the income-tax returns next year. Hopefully this will give the BIR sufficient time to evaluate the necessity of adding additional requirements to an already complicated tax-filing process in the country.

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