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TAX LAW FOR BUSINESS

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Tax on compensation income, in a nutshell

Republic Act 10963, otherwise known as the Tax Reform for Acceleration and Inclusion (TRAIN) Act, was signed into law on December 19, 2017, and took effect on January 1, 2018. Several tax reforms were introduced, such as imposing excise tax on sugar-sweetened beverages and cosmetic procedures.

By the passage of the law, several provisions of the National Internal Revenue Code of 1997 were amended.

One of the salient features that directly affect most employees is the change in the tax rates on compensation income from the previous 5 percent to 32 percent depending on the income.

Under the TRAIN Act, the new tax schedule is as follows:

Annual Salary	Tax Rate from January 1, 2018 to December 31, 2022	Tax Rate from January 1, 2023 onwards
Not over P250,000	0%	0%
Over P250, 000 but not over P400,000	20% of the excess over P250,000	15% of the excess over P250,000
Over P400,000 but not over P800,000	P30,000 + 25% of the excess over P400,000	P22,500 + 20% of the excess over P400,000
Over P800,000 but not over P2,000,000	P130,000 + 30% if the excess over P800,000	P102,500 + 25% if the excess over P800,000
Over P2,000,000 but not over P 8,000,000	P490,000 + 32% of the excess over P2,000,000	P402,500 + 30% of the excess excess over P2,000,000
Over P8,000,000	P2,410,000 + 35% of the excess of P8,000,000	P 2,202,500 + 35% of the excess of P 8,000,000

In furtherance to the TRAIN Act, the Bureau of Internal Revenue issued Revenue Memorandum Circular (RMC) 1-2018 to prescribe procedures for employers in withholding tax from compensation paid to employees on a daily, weekly, semimonthly and monthly payroll period. The RMC included a tax table showing the compensation range in a given payroll period and the corresponding withholding tax.

Noticeably, the new table does not include anymore the impact of personal and additional exemptions. This is so because Section 35 of the Tax Code had been repealed by the TRAIN Act. Nonetheless, the impact is still a lowered tax.

Assuming that an employee receives P20,000 in a month, prior to the effectivity of the TRAIN Act, his employer is required to withhold P1,500 monthly for income tax (P500 + 10 percent of P10,000 in excess of the P10,000 threshold). Whereas in the TRAIN Act, his compensation is already exempt from tax (P20,000 x 12 = P240,000) considering that the income is below P250,000 annually.

As compared to the old tax rate, an employee who is paying P18,000 for income tax annually may now take home the entire amount and use the same for his other personal expenses.

Let’s take the case of an employee who receives P35,000 monthly. In a month, under the old law, he is required to pay P3,250 for income tax with a total of P39,000 in a year. Under the TRAIN

Act, the employee is only required to pay a total of P35,000 or P2,916 monthly. A cut of P4,000 is not bad at all.

The RMC likewise prescribes a rate of 8 percent creditable withholding tax on income payments to self-employed individuals or professionals. The rate is applicable to: 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; and 6. Commission of independent and/or exclusive sales representatives and marketing agents of companies.

The TRAIN Act is one step forward to achieving the government's aim for change by lowering, if not eliminating, the personal-income taxes of the labor force. As Benjamin Franklin once said, "In this world, nothing is certain but death and taxes."

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