

October - December 2011

Outsourcing brief



Contents

- 02 **Year-end tax reminders**
- 04 **BIR Issuances**
- 05 **2012 Holidays**
- 06 **PhilHealth Circular**
- 07 **Pag-IBIG advisory**
- 07 **DOLE Department Order**
- 08 **Highlight on P&A Grant Thornton services**
 - Accounting services

Year-end tax reminders

By Diendo M. Dupal

As we usher in 2012, here are some of the important reminders that taxpayers should prioritize in relation to year-end activities:

Year-end close

Companies following a calendar-year accounting period should conduct year-end adjustments and close the company's books. The year-end closing should also include preparation for the year-end withholding tax obligations, such as the annualization of compensation of employees, and compliance requirements such as registration of books of accounts and submission of inventory lists.

Business renewals

BIR and LGU registrations should be renewed.

Annual income tax

Income tax forms

Taxpayers should be familiar with the new forms and the changes on the information required to be declared in the new income tax returns (BIR Form 1700, 1701 and 1702).

For individual taxpayers, the disclosure of other income shall become mandatory for calendar year 2012 onwards. Beginning 2012, individual taxpayers are well advised to keep evidence or records of their tax-exempt income and income that is subjected to final withholding tax to ensure compliance with the disclosure requirements.

For corporate taxpayers, the new BIR Form 1702 may seem complicated and confusing. However, note that some of the details needed in the form are related to the tax activity profile of the corporate taxpayer and tax relief/exemption, among others. Hence, taxpayers should just ensure that the required information under the new BIR Form 1702 are readily available and shall be indicated in the income tax return due for filing with the BIR.

e-FPS filers

Corporate taxpayers who are enrolled under the electronic filing and payment system (e-FPS) should always be on the lookout for BIR announcements on the availability of the new BIR forms in the e-FPS before the filing in April 2012. Unavailability of enhanced forms in the e-FPS does not exempt e-taxpayers from filing and paying their income tax due on or before the prescribed due dates.

Historically, in Revenue Memorandum Circular (RMC) No. 72-2005, the BIR still requires taxpayers to file through the e-FPS using the existing e-FPS form and subsequently submit duly accomplished hard copies of all applicable enhanced forms, together with the Filing Reference Number Page, to the Revenue District Office (RDO)/Large Taxpayers Office (LTO) where they are registered within 15 days after e-filing and e-payment.

Once the enhanced forms are available in the e-FPS, e-filers are required to amend the previously filed tax returns in e-FPS within five days from the date of announcement via the BIR website by encoding the contents of the manual return previously filed. For the 2011 income tax return filing, taxpayers should keep themselves abreast of any BIR announcements or issuances on the guidelines and reminders in filing using the new income tax forms.

Disclosure requirements

Compliance with disclosure requirements under Revenue Regulations No. (RR) 15-2010. Corporate taxpayers who are adopting the fiscal year ending September 30, October 31 and November 30 will be complying for the first time with the additional disclosures in the financial statements, which are due for filing on January 16, February 15 and March 15, respectively.



Year-end tax reminders

Donation

Recently, we witnessed the devastation caused by Typhoon Sendong in Southern Philippines. Though true charity should not expect a benefit in return, it is not selfish to take advantage of the tax breaks available to donors.

For tax purposes, it is best to course donations to the government or any of its agencies or political subdivision to avail of exemption from donor's tax. Exemption is also extended to donations to educational, charitable, religious, cultural or social welfare institutions, accredited nongovernment organizations, trust or philanthropic organizations and research institutions or organizations. Otherwise, the company as donor will be subject to donor's tax. For both individual and corporate donors, the donor's tax is 30% of the amount of cash or fair market value of the property. Only donations by individuals to relatives are entitled to the graduated rates ranging from 2% to 15%.

As regards the deductibility of the donation, a donor that is engaged in business or practice of profession is allowed to claim the donation to an accredited donee entity as full deduction if all of the conditions prescribed under RR No. 13-98 are met. Otherwise, deductibility shall be subject to limitations — 10% of taxable income for an individual donor, and 5% for a corporate donor. Donations made by individuals who do not have any business of their own are not deductible.



Evaluation of tax planning opportunities

This is also the best time of year when taxpayers are encouraged to evaluate certain tax positions and plan for actions that may impact not only the current taxable year but also the subsequent years.

Tax credit certificates

Taxpayers should now be able to forecast whether they have overpaid certain income taxes and should plan on how to dispose of such overpayments, i.e., whether to apply for refund or tax credit certificate or carry-over for the next taxable year. The prescriptive period for the refund of most taxes is two years from date of payment.

The BIR has prohibited the transfer or assignment of tax credit certificates (TCCs). For income tax overpayments, aside from the irrevocability of option rule and the lengthy procedures for claiming tax refunds, the prohibition of transfer or assignment of TCCs is yet another challenge for corporate taxpayers to ensure tax efficient and timely decisions are in place to fully maximize its benefits to the company.

Improperly accumulated earnings tax

Corporate taxpayers who are subject to improperly accumulated earnings tax (IAET) should evaluate their retained earnings position. The IAET for taxable year 2010 is due on January 15, 2012. Under Revenue Memorandum Circular No. (RMC) 35-2011, the earnings that may be retained without being subject to the IAET is just 100% of the paid-up capital or the amount contributed to the corporation representing the par value of the shares of stock, excluding any excess capital over and above the par or additional paid-in capital. Hence, this is the best time of the year for companies to evaluate whether to declare dividends so as not to be penalized with the IAET.

As tax rules become more complex each year, and as the BIR demands more accountability from company officers, tax preparation and compliance should be done with more care and attention. Certainly, most of the taxpayers don't want to be thinking about taxes and tax filing during the holiday season. As it cannot be avoided that the holidays coincide with the tax yearend, corporate officers involved in tax compliance should already accept this reality. In the longer term, advanced planning should always be considered to avoid errors in the preparation of tax filing reports caused by last-minute and stressful yearend activities.

(The author is a Manager with Punongbayan & Araullo's Tax Advisory & Compliance Division.)

BIR Issuances

Disclosure of other income in ITR deferred to 2012

The Bureau of Internal Revenue (BIR) has deferred to taxable year 2012 the requirement for individuals to disclose their other income in the enhanced BIR income tax returns (BIR Forms 1700 and 1701).

For taxable year 2011, the disclosure shall be optional for individual taxpayers whose annual returns are due on or before April 15, 2012.

The disclosure requirement shall become mandatory for income tax filing covering and starting calendar year 2012, for which a return is required to be filed in 2013. Thus, beginning calendar year 2012, individual taxpayers are well advised to keep evidence or records of their tax-exempt income and income that is subjected to final withholding tax to ensure compliance with the disclosure requirements.

(Revenue Regulations No. 19-2011, December 13, 2011)

Revocation of BIR Rulings on voluntary contributions to SSS, GSIS, Pag-IBIG and PhilHealth

In RMC 53-2011, the BIR has set the effectivity and application of the revocation of BIR Ruling Nos. 002-99, DA-184-04, DA-569-04 and DA-087-06 relative to the coverage of the exemption from income tax of contributions to the Social Security System, Government Service Insurance System, Home Development Mutual Fund (also known as Pag-IBIG) and Philippine Health Insurance Corporation (also known as PhilHealth) in relation to the issuance of RMC 27-2011. The fourth from the last paragraph of the RMC is amended to read as follows:

“Therefore, the contributions referred to Section 32(B)(f) of the NIRC of 1997 cover only *the mandatory/compulsory contributions* of the concerned employees to SSS, GSIS, PHIC and HDMF. Thus, this Office holds that *voluntary contributions to these institutions in excess of the amount considered compulsory* are not excludible from the gross income of the taxpayer and hence, **not** exempt from income tax and withholding tax. Consequently, the exemption from withholding tax on compensation referred to in Section 2.78.1(B)(12) of RR 2-1998 shall apply only to *mandatory/compulsory* GSIS, SSS, Medicare and Pag-ibig contributions.” (emphasis supplied)

The taxability of the voluntary contributions of employees to SSS, GSIS, PHIC and HDMF shall apply to employees' contributions beginning July 1, 2011.

(Revenue Memorandum Circular No. 53-2011, November 4, 2011)



STOCK EXCHANGE					
SYM	LAST	CHG	BID	ASK	VOL
ABM	-31.50				
BWEST	+25.92	+0.23	31.50	31.75	26,595
CAN	+46.88	-0.09	25.90	25.92	6,374
COR	-42.65	-0.57	45.10	46.90	210,384
DOM	+678.00	0.32	42.33	42.65	5,418
FFG	-27.48	678.00	0.00	0.00	0.00
HVAS	+102.48	0.09	27.48	27.48	32,420
LIN	+125.17	-0.12	102.48	102.60	49,231
MOS	+9.97	5.67	125.17	125.20	34,863
NYD	-75.44	-0.04	9.96	9.97	1,377
		-0.29	75.43	75.44	3,823

2012 Holidays

Proclamation No. 295: Declaring the regular holidays, special (non-working) days and special holidays (for all schools) for 2012

The Office of the President, through Proclamation No. 295, released the list of holidays (regular and special) for the year 2012, namely:

Regular holidays

New Year's Day	January 1 (Sunday)
Maundy Thursday	April 5
Good Friday	April 6
Araw ng Kagitingan	April 9 (Monday)
Labor Day	May 1 (Tuesday)
Independence Day	June 12 (Tuesday)
National Heroes Day	August 27 (Last Monday of August)
Bonifacio Day	November 30 (Friday)
Christmas Day	December 25 (Tuesday)
Rizal Day	December 30 (Sunday)

Special (non-working) days

Chinese New Year	January 23 (Monday)
Ninoy Aquino Day	August 21 (Tuesday)
All Saints Day	November 1 (Thursday)
Additional special (non-working) day	November 2 (Friday)
Last day of the Year	December 31 (Monday)

Special holiday (for all schools)

EDSA Revolution Anniversary

February 25 (Saturday)

The proclamations declaring national holidays for the observance of Eid'l Fitr and Eidul Adha shall be issued after the approximate dates of the Islamic holidays have been determined in accordance with the Islamic calendar (Hijra) or the lunar calendar, or upon Islamic astronomical calculations, whichever is possible or convenient. The National Commission of Muslim Filipinos (NCMF) will inform the Office of the President on which day the holidays will fall.

(Presidential Proclamation No. 295, s. 2011)



PhilHealth Circular

The Philippine Health Insurance Corporation (PhilHealth) Board, through Resolution No. 1571, series 2011, approved the increases in the annual premium contributions effective calendar year (CY) 2012.

The move is in line with the implementation of the Universal Health Care or *Kalusugan Pangkalahatan Program*, which aims to support the attainment of universal health care by eventually having all Filipinos assigned to a Primary Care Provider and giving members and their qualified dependents the option to avail of no balance billing health care services.

Furthermore, PhilHealth supports the attainment of the Millennium Development Goals (MDGs) health targets by 2015.

New premium contributions

Type	New premiums per annum	Remarks
Sponsored program	P2,400 per annum effective January 1, 2012	National Household Targeting System for Poverty Reduction (NHTS-PR) identified poor families of the Department of Social Welfare and Development
Partial subsidy scheme	P2,400 per annum effective July 1, 2012	with conditions (see Note 1)
Individually paying and overseas workers program	P2,400 per annum effective July 1, 2012	with conditions (see Note 2)
Employed sector	3% of the monthly basic salary of the employee effective January 1, 2013	with conditions (see Note 3)

Notes:

1. For partial subsidy scheme
 - a. For local government units (LGUs)/Sponsors who enroll following the calendar year and who pay their contribution within the first semester of CY 2012, the annual premium contributions shall be computed at an annual premium of P1,200.
 - b. For LGUs/Sponsors who enroll following the calendar year within the first semester of CY 2012, sign a Memorandum of Agreement, and commit to pay their contributions for two consecutive years, the annual premium contribution shall be computed at P 1,200.

- c. Applicable terms and conditions of the Memorandum of Agreement executed among and between the various LGUs and/or Sponsors prior to CY 2012 to implement the sponsored program shall be recognized by the corporation until CY 2012.

2. For individually paying and overseas workers program

- a. For members who pay their contributions within the first semester of CY 2012, the annual premium contributions shall be computed at an annual premium contribution of P1,200.
- b. For members who sign a policy contract within the first semester of CY 2012 and commit to pay their contributions for two consecutive years, the annual premium contribution shall be computed at P1,200.

- c. Self-employed professionals earning an average monthly income of more than P25,000 shall continue to pay their annual premium contribution of P3,600.

3. Employed sector

Premium contributions from the formal sector employees and their employers shall be computed at 3% of the basic monthly salary of the employee effective January 1, 2013, and shall be continually shared equally by its employer. This, provided that the monthly salary base is determined at P7,000 with the minimum annual contribution of P2,520 and the monthly salary ceiling is determined at P50,000.

Benefits

All case rate packages may be availed of by all NHIP members provided they comply with the requirements for benefit availment.

Sponsored program and partial subsidy scheme members and their qualified dependents shall be entitled to the Primary Care (then Outpatient Consultation and Diagnostic) Benefit Package and the regular NHIP benefits including the No Balance Billing policy.

(PhilHealth Circular No 022, s. 2011)

Pag-IBIG advisory

Penalty condonation for delinquent housing borrowers

The Home Development Mutual Fund (HDMF or Pag-IBIG Fund) Board of Trustees has approved a program allowing the Fund to condone the penalties incurred by housing loan borrowers. The penalty condonation will start in January 2012, as announced by Vice President Jejomar Binay, who chairs the Pag-IBIG Fund Board.

The program is designed to provide delinquent borrowers an opportunity to make good on their housing loan obligations.

According to Vice President Binay, Pag-IBIG's mandate is to help Filipino workers realize their dream of owning their homes. This is the reason why Pag-IBIG's housing loan programs provide for the most convenient terms and conditions with interest as low as 6% per annum and payment terms as long as 30 years.

"We are providing our delinquent borrowers an opportunity to make good on their housing loan obligations. We hope that our members realize that when they borrow money from the Fund, and from any other lending institutions, they have obligations to fulfill. As members they also have a responsibility to keep the Fund secure... I strongly encourage them to avail themselves of this final opportunity that we are offering."

Vice President Jejomar Binay
Chair, Pag-IBIG Fund Board

DOLE Department Order

Rules implementing Articles 106 to 109 of the Labor Code, as amended

The Department Order issues the implementing rules and guidelines governing contracting and subcontracting arrangements. "Contracting" or "subcontracting" refers to an arrangement whereby a principal agrees to put out or farm out to a contractor the performance or completion of a specific job, work or service within a definite or predetermined period, regardless of whether such job, work or service is to be performed or completed within or outside the premises of the principal.

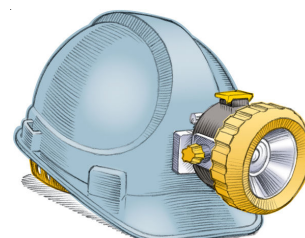
The Department Order states that contracting and subcontracting arrangements are expressly allowed by law and are subject to regulations for the promotion of employment and the observance of the rights of workers to just and humane conditions of work, security of tenure, self-organization and collective bargaining. It also mentions that labor-only contracting is prohibited.

The Department Order applies to all parties of contracting and subcontracting arrangements where an employer-employee relationship exists, i.e., such a relationship exists between the contractor and the employees it engaged to perform the specific job, work or service being contracted. It also applies to

cooperatives that engage in contracting or subcontracting arrangements. Contractors and subcontractors referred to in the Department Order are prohibited from engaging in recruitment and placement activities. Under the Department Order, all persons or entities (including cooperatives) acting as contractors are required to register with the Regional Office of the Department of Labor and Employment where they principally operate.

For the full version of the Department Order, please refer to the website of the Department of Labor and Employment (DOLE): www.dole.gov.ph

(Department Order No. 18-A, s. 2011)



Highlight on P&A Grant Thornton services

Accounting services

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At P&A Grant Thornton Outsourcing, Inc. (P&A Grant Thornton), part of our practice involves handling accounting services for several companies from a wide range of industries. Our approach is highly flexible.

You may opt to outsource all your accounting functions, or pass on to us choice activities, such as:

- Processing invoice and collections, which involves transcribing your pro forma billings and collections to official accountable forms of sales invoices and official receipts
- Processing payments, which involves a three-way matching of purchase order, delivery receipt and sales invoice, and preparation of check vouchers. This may include signing of checks and other forms of payment, maintaining trust accounts on your behalf, monitoring cash flows and preparing cash reports.
- Maintaining inventory records and assisting in the inventory count
- Compiling and reviewing source documents supporting your financial transactions
- Recording your financial transactions and preparing pertinent adjustments
- Preparing financial reports and supporting schedules
- Preparing statutory and other reports
- Preparing tax returns and related schedules for withholding, value added and income taxes
- Filing tax returns and payment of the corresponding taxes manually or electronically

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