

Taxation of Self-employed/Professional Individuals under TRAIN LAW

As implemented by RR 8-2018 and RMO 23-2018

Income Tax Options on Business Income or Income from Profession

	If annual gross sales/ receipts and non-operating income is \leq P3M			If annual gross sales/ receipts and non-operating income is $>$ P3M	
Options	OPTION 1 (8% income tax)	OPTION 2 (Graduated: 0%- 35%)	OPTION 3 (Graduated: 0%- 35%)	OPTION 1 (Graduated: 0%- 35%)	OPTION 2 (Graduated: 0%- 35%)
Tax Base	Receipts + other Income	Net Taxable Income		Net Taxable Income	
Deductions	None	Itemized Deductions	OSD	Itemized Deductions	OSD
Tax Rate	8% in excess of P250K*	Graduated income tax rates of 0% to 35%		Graduated income tax rates of 0% to 35%	
VAT/ Percentage Tax	Exempt	3% Percentage Tax or 12% VAT		12% VAT	
Submission of FS w/ the BIR	No	Yes	No	Yes	No

*For mixed income earner, 8% income tax will be applied on gross receipts and other income without deduction of P250k.

Graduated income tax rates

Taxable Income	(Jan. 1, 2018 to Dec. 31, 2022)	(Jan. 1, 2023 Onwards)
\leq P250K	0%	0%
Over P250K to 400K	20% in excess of P250K	15% in excess of P250K
Over P400K to 800K	P30K + 25% in excess of P400K	P22.5K + 20% in excess of P400K
Over P800K to 2M	P130K + 30% in excess of P800K	P102.5K + 25% in excess of P800K
Over P2M to 8M	P490K + 32% in excess of P2M	P402.5K + 30% in excess of P2M
Over P8M	P2.410M + 35% in excess of P8M	P2.2025M + 35% in excess of P8M



Conditions to elect 8% GRT

- Gross sales/ receipts and non-operating income is \leq P3M
- Non-VAT registered
- Taxpayer not subject to other percentage taxes (e.g. amusement tax)
- 8% tax is elected in the 1st quarter Income Tax Return (ITR), OR 1st Quarter Percentage Tax Return, OR BIR Form 1901 (for new registrants), OR BIR Form 1905 (for existing business taxpayers)

- (choice shall be made every taxable year and shall be irrevocable for the said year)

What to do when gross sales/receipt exceed P3M during the year?

- File next quarterly and annual ITR using 0%-35% graduated income tax rate and credit 8% income tax paid from the previous quarter/s
- Register as VAT taxpayer and issue VAT OR/Invoice
- Pay 3% Percentage Tax on gross sales/ receipts and other non-operating income from the beginning of the year until end of the month when VAT threshold was exceeded
- Pay VAT on receipts starting on the 1st day of the month following the month when the VAT threshold was exceeded

Rules in claiming Optional Standard Deductions (OSD)

- OSD is 40% of gross sales/ receipts
 - OSD is elected in the 1st quarter ITR
- (irrevocable for the taxable year)

Issuance of Receipts

- Transactions valued at P100 or more
- If buyer is VAT registered, issue OR/ Invoice regardless of the amount
- Duplicate OR/ Invoice shall be kept for 10 years

Bookkeeping Requirements

- All Taxpayers shall keep relevant and appropriate set of books which must be BIR approved
- If annual sales exceed P3M, Book of Accounts shall be audited by an iCPA

ITR Filing and Payment

Quarterly filing: May 15, August 15, November 15
Annual Filing : April 15

Installment Payment of tax due in excess of P2,000

1st installment : April 15
2nd installment : October 15

3% Percentage Tax Filing and Payment

Quarterly filing: 25th of the month following the close of the taxable quarter (BIR Form 2551Q)

VAT Filing and Payment

Monthly : 20th (non-eFPS) or 21st - 25th (eFPS), of the following month (BIR Form 2550M)

Quarterly : 25th of the month following the close of the taxable quarter (BIR Form 2550Q)

Effective 2023: VAT Filing shall be limited to quarterly filing and payment

Withholding Tax Filing/Remittance

Expanded/Final Withholding Tax:

- First two months of each calendar quarter: 10th (non-eFPS) or 15th (eFPS), of the following month (BIR Form 0619E/F)
- Quarter: last day of the month following the close of the quarter (BIR Form 1601EQ/ 1601FQ/Alphalist of Payees)

Withholding Tax on Compensation:

- Non-EFPS filing/payment: 10th (Jan. to Nov. returns), 15th (Dec. return) of the following month
- EFPS Filing: 11th - 15th of the following month
- EFPS Payment: 15th (Jan. to Nov. returns), 20th (Dec. return) of the following month