

IMPORTANCE OF WITHHOLDING TAX SYSTEMS

- Encourage voluntary compliance
- Reduce cost of collection effort
- Prevent delinquencies and revenue loss
- Prevent dry spells in the fiscal standing of the government by providing stabilized cash flows throughout the taxable year

KINDS OF WITHHOLDING TAXES

- Withholding Tax on Compensation
- Expanded Withholding Tax
- Government Money Payments
- Final Withholding Tax

Duties & Obligations of a Withholding Agent

- To Register
- To deduct and withhold
- To remit the tax withheld
- To file withholding tax returns
- To issue withholding tax certificate

WITHHOLDING TAX ON COMPENSATION

Persons subject to the withholding tax

All employed individuals whether citizens or aliens, deriving income from compensation for services rendered in the Philippines. The employer is constituted as the withholding agent.

Definition of Compensation

"Compensation" means **all remuneration for services performed** by an employee for his employer under an **employer-employee relationship**, unless specifically excluded by the Code.

This definition covers:

- **Salaries, wages (including backwages),**
- **emoluments,**
- **honoraria,**
- **allowances,**



- **commissions,**

- **director's fee if the director is at the same time an employee of the employer,**

- **bonuses, fringe benefits (except those subject to the fringe benefit tax),**

- **pensions and retirement pay (except those excluded pursuant to section 32.(B).(6) of the Tax Code),**

- **fixed or variable transportation representation and other allowances,**

•renumerations for services as employee of a nonresident alien individual or foreign entity, and compensation for services performed outside the Philippines. (Sec. 2.78.1. (A) of RR2-98 as amended)

•Vacation, sick leave allowances and monetization of leave credits (except those considered “de minimis”)

•Hazard pay

•13th month pay (in excess of P30,000 for 13th month pay and other benefits)



- **Profit sharing**

- **Other remuneration received from an employer-employee relationship**

Exemptions from Withholding Tax on Compensation

- **Retirement Benefits under R.A. 7641 and those received by officials and employees of private firms under a reasonable private benefit plan;**
- **Benefits received due to death, sickness or physical disability or retrenchment or cessation of business**
- **Social security benefits, retirement gratuities, pensions and other similar benefits**
- **Benefits due to residents under the law of United States administered by the United States Veterans Administration;**

•SSS and GSIS benefits

- Remuneration for agricultural labor paid in products of the farm**
- Remuneration for domestic services;**
- Remuneration for casual labor;**
- Compensation for services by a citizen or resident of the Philippines for foreign government or an international organization;**
- Actual, moral, exemplary and nominal damages**
- Proceeds of life insurance;**

- **Amount received as return of premium;**
- **Compensation for injuries or sickness thru accident or health insurance;**
- **Income exempt under treaty;**
- **13th month pay and other benefits such as Christmas bonus, productivity incentive bonus, loyalty awards, gifts in cash or in kind including ACA for government employees the aggregate of which shall not exceed P30,000;**

- **RATA and PERA granted to public officers and employees GSIS, SSS, Medicare and other contribution and union dues;**
- **Compensation income of Minimum Wage Earners (MWEs) and Compensation income of employees in the public sector with compensation income of not more than the SMW in the non- agricultural sector (Sec. 2.78.1. (B) of RR 2-98 as amended)**
- **“De minimis” benefits (Sec. 2.78.1. (A)(3) of RR 2-98 as amended)**

Minimum Wage Earners (MWEs)

I. Exempt from Income Tax and from Withholding Tax

- ✓ Persons whose compensation income falls within the **Statutory Minimum Wage as fixed by the Regional Tripartite Wage and Productivity Board (RTWPB)/ National Wages and Productivity Commission (NWPC)** are exempt from income tax, consequently to the withholding tax.
- ✓ **Holiday pay, overtime pay, night shift differential pay and hazard pay earned by MWEs shall likewise be covered by the exemption.**

II. Taxable to Income Tax and subject to Withholding Tax

However, an employee who receives additional compensation income such as:

- **commissions,**
- **honoraria,**
- **fringe benefits in excess of P30,000.00,**
- **taxable allowances and other taxable income other than the SMW, holiday pay, overtime pay, night shift differential pay and hazard pay**

shall not enjoy the privilege of MWE and therefore his/her entire earnings are not exempt from income tax and consequently to the withholding tax.

MWEs receiving other income such as income from conduct of trade, business, or practice of profession, except income subject to final tax, in addition to the compensation income are not exempt from income tax on their entire income earned during the year. ((Sec. 2.78.1.(B), (13) of RR 2-98 as amended)

The same policy applies to those in public sector with compensation income of not more than the statutory minimum wage in the non- agricultural sector applicable to the place where he/she is assigned.

“De Minimis” Benefits

Facilities and privileges (such as entertainment, medical services, or so called “courtesy” discounts on purchases), otherwise known “**de minimis**” **benefits** furnished or offered by an employer to his employees, are **not considered as compensation income subject to income tax and subsequently to the withholding tax** if such facilities or privileges are of relatively of small value and are offered or furnished by the employer merely as a means of promoting the health, goodwill, contentment, or efficiency of his employees.

The following shall be considered de minimis benefits not subject to the income tax and as well as withholding tax on compensation:

- **Monetized unused vacation leave credits of not more than 10 days in case of private employees**
- **Monetized value of vacation and sick leave credits paid to government officials and employees**
- **Medical cash allowance to dependents of employees not exceeding P750 per employee per semester or P125 per month**
- **Rice subsidy of P 1,500 or one (1) sack of 50kg rice per month amounting to not more than P 1,500**

- **Uniforms and clothing allowance not exceeding P 5,000 per annum**
- **Actual medical assistance not exceeding P 10,000 per annum (to cover medical and healthcare needs, annual medical/executive check-up, maternity assistance and routine consultations)**
- **Laundry allowance not exceeding P300 per month**
- **Employee achievement awards (e.g., for length of service or safety achievements), in the form of tangible personal property other than cash or gift certificate, with an annual monetary value not exceeding P 10,000 received by an employee under an established written plan which does not discriminate in favour of highly paid employees**

- **Gifts during Christmas and major anniversary celebration not exceeding P 5,000 per employee per annum**
- **Daily meal allowance for overtime work and night/ graveyard shift not exceeding twenty five percent (25%) of the basic minimum wage on a per region basis.**

All other benefits given by employers which are not included in the enumeration shall not be considered as “de minimis” benefits, and hence shall be subject to income tax as well as withholding tax on compensation income.

The ceiling amount of the de minimis benefits shall not be considered in the computation of exempt P30,000 13th month pay and other benefits. However, any excess of the de minimis benefits over their respective ceilings shall be considered as part of the other benefits subject to tax only on the excess over the P30,000.

Computation of Withholding Tax on Compensation

- **Determine total monetary and non monetary compensation paid to the employee**
- **Deduct the following:** 13th month pay, productivity incentives, Christmas bonus and other benefits of P 30,000 or less; and employee's contribution to SSS, GSIS, HDMF, PHIC and union dues

- **Segregate taxable income into :**
 - A. **Regular compensation** (basic salary, fixed allowances for representation, transportation and other allowances paid to the employee per payroll period)
 - B. **Supplementary compensation** (commission, overtime pay, taxable retirement pay, taxable bonus and other taxable benefits)
- **Use the appropriate Withholding Tax Tables (See Sec. 2.79. (B) (3) of RR 2-98 as amended)**

Personal and Additional Exemption

Basic personal exemption (single, married, head of family)	P50,000
Additional exemption for each qualified dependent <u>CHILD</u> (maximum of 4 children)	P25,000 Per child

Note: **Husband** is the proper claimant of the additional exemption unless he explicitly waives his right in favor of the wife in BIR Form Nos. 1902 or 2305

Premium Payments on Health and Hospitalization Insurance of an Individual Taxpayer

Two Thousand Four Hundred Pesos (P2,400.00) per family or Two Hundred Pesos (P200.00) a month paid during the taxable year

Conditions:

1. **Family's gross income** must not be more than Two Hundred Fifty Thousand Pesos (P250,000.00) for the taxable year;
2. In case of married employees, only the spouse claiming additional exemption for the dependent children shall be entitled; and
3. Substantiation such as policy contracts and official receipts paid, must be shown/submitted.

Year-end Adjustment

On or before the calendar year and prior to the payment of the compensation for last payroll period, the employer shall determine the sum of the taxable regular and supplementary compensation paid to each employee for the whole year and must ensure that the **tax due is equal to tax withheld.**

Annualized Withholding Tax

(Year-End Adjustment)

PURPOSE:

Tax due = Tax Withheld

WHEN:

- On or before the **end of the calendar year**, prior to the payment of compensation for the last payroll period.
- If **terminated**, on the day which the last payment of compensation is made.

Requisites for individuals qualified for
SUBSTITUTED FILING OF ITR
and must not file BIR Form No. 1700

1. Receiving **purely compensation income** regardless of amount;
2. Working for only **one employer** in the Philippines for the calendar year;
3. Income tax has been withheld correctly by the employer (**tax due equals tax withheld**);
4. The employee's **spouse also complies with all the three conditions stated above**;
5. **Employer filed BIR Form 1604-CF** (Annual Information Returns on Income Taxes Withheld with ALPHALISTS);
6. The **employer issues BIR Form No. 2316** for each employee

Note: All of the above requisites must be present. The Annual Information Return of Income Taxes Withheld on Compensation and Final Withholding Taxes (BIR Form No. 1604-CF) filed by their respective employers duly stamped "Received", shall be tantamount to the substituted filing of income tax returns by said employees.

REVENUE REGULATIONS

NO. 11-2013 issued on
June 6, 2013 prescribes the
filing/submission of hard copy
of the Certificate of
Compensation Payment/Tax
Withheld (BIR Form 2316)
covering employees who are
qualified for substituted filing

- In cases covered by substituted filing, the employer shall furnish each employee with the original copy of BIR Form No. 2316 and **file/submit to the BIR the duplicate copy not later than February 28 following the close of the calendar year.**
- Any employer/withholding agent, including the government or any of its political subdivisions and government-owned and -controlled corporations, who/which fails to comply with the said filing/submission of BIR Form 2316 within the time required by the Regulations, may be held liable under Section 250 of the Tax Code. Failure to comply with the said filing/submission within the required time for two consecutive years shall be dealt with in accordance with Section 255 of the Tax Code.

- **Sec. 250 of the Tax Code-“In the case of each failure to file an information return, statement or list, or keep any record, or supply any information required by this Code or by the Commissioner on the date prescribed therefor, unless it is shown that such failure is due to reasonable cause and not to willful neglect, there shall, upon notice and demand by the Commissioner, be paid by the person failing to file, keep or supply the same, one thousand pesos (P1,000) for each such failure: Provided, however, That the aggregate amount to be imposed for all such failures during a calendar year shall not exceed twenty-five thousand pesos (P25,000).**

- **Sec. 255 of the Tax Code-“Any person required under this Code or by rules and regulations promulgated thereunder to pay any tax, make any return, keep any record, or supply correct and accurate information, who wilfully fails to pay such tax, make such return, keep such record, or supply such correct and accurate information, or withhold or remit taxes withheld, or refund excess taxes withheld on compensation, at the time or times required by law or rules and regulations shall, in addition to other penalties provided by law, upon conviction thereof, be punished by a fine of not less than Ten Thousand Pesos (P10,000.00) and suffer imprisonment of not less than one (1) year but not more than ten (10) years.” In settlement under this situation, the compromise fee shall be P1,000 for each BIR Form No. 2316 not filed without any maximum threshold.**

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- **The Regulations shall take effect beginning with the calendar year 2013**