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Tax Reform for Acceleration and Inclusion (TRAIN)



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Income tax

Revised income tax table for individuals

	Effective: 1 January 2018	Effective: 1 January 2023
Not over PHP250,000	0%	0%
Over PHP250,000 but not over PHP400,000	20% of the excess over PHP250,000	15% of the excess over PHP250,000
Over PHP400,000 but not over PHP800,000	PHP30,000 +25% of the excess over PHP400,000	PHP22,500 +20% of the excess over PHP400,000
Over PHP800,000 but not over PHP2m	PHP130,000 +30% of the excess over PHP800,000	PHP102,500 +25% of the excess over PHP800,000
Over PHP2m but not over PHP8m	PHP490,000 +32% of the excess over PHP2m	PHP402,500 +30% of the excess over PHP2m
Over PHP8m	PHP2,410,000 +35% of the excess over PHP8m	PHP2,202,500 +35% of the excess over PHP8m



Optional taxation for self-employed and professionals (SEPs)

SEPs whose gross sales/receipts and other non-operating income do not exceed PHP3m (new VAT threshold) may opt to be taxed at:

- Graduated rates; or
- 8% based on gross sales and/or gross receipts and other non-operating income in excess of PHP250,000 in lieu of graduated rates and percentage tax



Failure to signify the intention to elect the 8% optional taxation in the 1st quarter of the taxable year shall be considered as having availed of the graduated rates and such shall be irrevocable for the taxable year.



Taxation of mixed income earners

Mixed income earners are subject to:

- Graduated rates on their compensation income;
- If their gross sales/receipts and other non-operating income

- ✓ exceed PHP3m – graduated rates
- ✓ do not exceed PHP3m – at the taxpayer’s option, either:
 - 8% based on gross sales and/or gross receipts and other non-operating income in lieu of graduated rates and percentage tax; or
 - graduated rates

Other amendments to income taxation

Employees of RHQs, ROHQs, OBUs, and Petroleum Service Contractors and Subcontractors

The 15% preferential tax rate shall not apply to employees of ROHQs, RHQs, OBUs, and Petroleum Service Contractors and Subcontractors which registered with the Securities and Exchange Commission after 1 January 2018.

Vetoed

- Present and future qualified employees of existing RHQs/ROHQs, OBUs, or Petroleum Service Contractors and Subcontractors shall be entitled to the 15% preferential rate.



Revenue Regulations (RR) No. 8-2018 provides that employees of RHQs, ROHQs, OBUs, and Petroleum Service Contractors and Subcontractors shall be subject to graduated tax rates.



New passive income tax rates

PCSO and lotto winnings exceeding PHP10,000 of citizens and resident aliens	20%
Interest income on FCDU deposits of citizens, resident aliens, and domestic corporations	15%
Capital Gains Tax (CGT) on sale of unlisted shares by citizens, resident aliens, non-resident aliens, and domestic corporations	15%



Escalations

- Exempt 13th-month pay and other benefits increased to PHP90,000
- Fringe benefits tax rate increased to 35%



Deletions

- Personal and additional exemptions
- Deductions for premiums paid on health and/or hospitalization insurance
- Exemption of PCSO from corporate income tax

Miscellaneous provisions

- Simplified individual and corporate income tax returns (ITR), i.e., max. of 4 pages
- Individuals earning purely compensation income from only one employer are not required to file annual ITR
- BIR Form No. 2316 stamped “received” by the Bureau of Internal Revenue (BIR) tantamounts to substituted filing of ITR of employees
- Quarterly Alphabetical List of Payees (QAP) shall accompany BIR Form Nos. 1601-EQ and 1601-FQ¹

Filing deadlines

- **Final (FWT) and expanded/creditable (EWT/CWT) withholding taxes**
 - last day of the month following the close of the quarter during which taxes were withheld thru BIR Form Nos. 1601-EQ (for EWT/CWT) and 1601-FQ (for FWT)¹
 - remittance every 10th and 15th of the following month (for manual and electronic filers, respectively) during which taxes were withheld, regardless of the amount withheld, thru BIR Form Nos. 0619-E (for EWT/CWT) and 0619-F (for FWT)¹
- **For individuals**
 - Second installment payment of the income tax due – 15 October
 - Filing of declaration of estimated income tax – 15 May



Filing of annual ITR - 15 April (unchanged) [Sec. 51(C), Tax Code]¹

Amendments to the existing withholding tax regulations¹

- An individual whose gross income exceeds PHP3m or is VAT-registered, regardless of the gross income amount, is subject to 10% CWT rate on his/her gross professional fees, or any other form of remuneration for services rendered.
- Sworn declarations regarding the income payees’ gross sales/receipts are required to be submitted by income payee to income payors/withholding agents and by income payors/withholding agents to the BIR.
- Inclusion of identified top 5,000 individuals and taxpayers identified as medium taxpayers, and those under the Taxpayer Account Management Program to “top withholding agents” who shall withhold 1% and 2% withholding tax on income payments on supplies of goods and services, respectively
- Adjustment on the thresholds for certain de minimis benefits

¹ RR No. 11-2018

Donor's and estate tax

Donor's tax

- Flat rate of 6%
- PHP250,000 exempt gifts
- A sale, exchange, or other transfer made in the ordinary course of business (bona fide, at arm's length, and free from any donative intent transaction) shall be considered as made for an adequate and full consideration.
- PHP10,000 exempt dowry is repealed

Estate tax

- Flat rate of 6%

Citizens and resident aliens

- Removed allowance for deductions of funeral expenses, judicial expenses, and medical expenses
- Increased allowance for deduction of family home to PHP10m
- Increased standard deduction to PHP5m

Non-resident aliens

- Removed allowance for deduction of expenses, losses, indebtedness, and taxes
- Standard deduction of PHP500,000

6%

final tax on withdrawals from a decedent's bank account

Filing deadlines

- **Estate tax return** – One year from decedent's death
- **Installment payment of estate tax** – within two years from the statutory date for its payment without civil penalty and interest

Miscellaneous provisions

1. All transfers subject to estate tax or estates consisting of registered or registrable property require filing of estate tax returns.
2. Estate tax returns showing a gross value exceeding PHP5m must be certified by a CPA.

✕ **Deletion**

- Written notice of death for gross estate exceeding PHP20,000

VAT/Percentage tax

VAT threshold

- VAT registration threshold increased to PHP3m.
- Lease of residential unit exemption threshold increased to PHP15,000 and no longer subject to automatic adjustment.
- Threshold for VAT-exempt sale of residential lot reverted to PHP1.5m. However, RR No. 13-2018 recognizes the adjusted threshold in 2011 which is PHP1.9m.
- Threshold for VAT-exempt sale of house & lot and other residential dwellings reverted to PHP2.5m. RR No. 13-2018 recognizes the adjusted threshold in 2011 which is PHP3.2m.
- Beginning 2021, threshold of VAT-exempt sale of house & lot and other residential dwellings will be reduced to PHP2m and sale of low-cost housing and sale of residential lot will be subject to VAT.

VAT zero-rated sale of goods/services

Vetoed

VAT zero-rating on the following:

- Sale and delivery of goods to registered enterprises within separate customs territory and within Tourism Enterprise Zones (TIEZA)
- Services rendered to registered enterprises within a separate customs territory and registered enterprises within TIEZA

VAT Zero-Rating on Sales of Goods/Services to Philippine Economic Zone Authority Locators

- The VAT zero-rating incentive being enjoyed by PEZA locators shall remain in full force and effect.²

Percentage tax

- Stock Transaction Tax (STT) on sale of listed shares increased to 0.6%
- Monthly filing of percentage tax returns reverted to quarterly filing

Vetoed

- SEPs with total annual gross sales and/or gross receipts not exceeding PHP500,000 are exempt from 3% percentage tax.

² PEZA Memorandum Circular No. 2018-003

Upon establishment of an enhanced VAT refund system, 12% VAT on:

- Sale of raw materials or packaging materials to a nonresident buyer for delivery to a resident local export-oriented enterprise
- Sale of raw materials or packaging materials to export-oriented enterprise whose export sales exceed 70% of total annual production
- Those considered export sales under Executive Order No. 226, otherwise known as the Omnibus Investment Code of 1987, and other special laws
- Processing, manufacturing or repacking of goods for other persons doing business outside the Philippines which goods are subsequently exported, where the services are paid for in acceptable foreign currency and accounted for in accordance with the rules and regulations of the BSP
- Services performed by subcontractors and/ or contractors in processing, converting, or manufacturing goods for an enterprise whose export sales exceed 70% of total annual production

Additional VAT exemptions

- Sale or lease of goods and services to senior citizens and persons with disabilities³
- Sale of medicines prescribed for diabetes, hypertension, and high cholesterol (beg. 2019)
- Sale of gold to BSP
- Transfers of property pursuant to Section 40(C)(2) of the Tax Code
- Association dues, membership fees, other assessments and charges collected by homeowners' association and condominium corporations

Miscellaneous provisions

- Beginning January 2023 - quarterly payment and filing of VAT returns
- Beginning January 2021 - creditable withholding of VAT by government, its political subdivision & instrumentalities
- Until 31 December 2021 - amortization of input VAT on capital goods
- Within 90 days - grant of refund of creditable input taxes
- Existing VAT-registered taxpayer whose gross sales/receipts did not exceed PHP3m may continue to be VAT-registered taxpayer and avail of the "Optional Registration for Value-Added Tax of Exempt Person". Such option shall be irrevocable for the next three years.⁴

³ Under the Expanded Senior Citizens Act and the Act Expanding the Benefits and Privilege of Persons with Disabilities

⁴ RR No. 13-2018

Invoicing and Bookkeeping

- Books of accounts with gross annual sales, earnings, receipts or output exceeding PHP3m must be audited by an independent CPA.
- Each sale of merchandise or services valued at PHP100 or more must be issued duly registered receipts or invoices.
- Taxpayers engaged in export, e-commerce, and those under the jurisdiction of the Large Taxpayers Services shall issue electronic receipts or invoices within five years after the TRAIN law's effectivity, i.e., on or before 1 January 2023.

Processing of VAT Claims⁵

- The 90-day period prescribed to process VAT claims shall start from the actual date of filing of the application with complete documents duly received and shall be applied prospectively. The denial of claim shall be communicated in writing within the said period.
- Failure to submit the relevant documents and to present the accounting records shall result in non-acceptance of the application and denial of the claim, respectively.

⁵ Revenue Memorandum Circular No. 17-2018

Excise tax



Mineral Products

- Non-metallic and metallic **4%**
- Indigenous petroleum **6%**
- Coal and Coke

2018	2019	2020
PHP50	PHP100	PHP150
/metric ton	/metric ton	/metric ton

PHP50 /metric ton **PHP100** /metric ton **PHP150** /metric ton



Cigars and Cigarettes

Effective 1 January 2018	PHP32.50 per pack
Effective 1 July 2018	PHP35 per pack
Effective 1 January 2020	PHP37.50 per pack
Effective 1 January 2022	PHP40 per pack

Vetoed

- Incremental revenues from tobacco taxes shall be subject to Section 3 of the Act to Promote the Development of the Farmer in the Virginia Tobacco Producing Provinces.



Sweetened beverage

Beverages using purely caloric and purely non-caloric sweeteners or a mixture of both **PHP6** per liter

Using purely high fructose corn syrup **PHP12** per liter

Using purely coconut sap sugar/steviol glycosides **Exempt**

The following products are not considered excisable products:

- All milk products
- 100% natural fruit juices and natural vegetable juices
- Meal replacement and medically indicated beverages
- Ground coffee, instant soluble coffee, and pre-packaged powdered coffee products



Non-essential Services

5% excise tax

is imposed on gross receipts (net of excise tax and VAT) on invasive cosmetic procedures and surgeries directed solely towards altering or enhancing the patient's appearance.

Procedures necessary to ameliorate a deformity arising from, or directly related to, a congenital or developmental defect or abnormality, a personal injury resulting from an accident or trauma, or disfiguring disease, tumor, virus or infection are exempt from this tax.



Automobile

	Normal Tax Rate	Hybrid Vehicle Tax Rate
Not over PHP600,000	4%	2%
Over PHP600,000 to PHP1m	10%	5%
Over PHP1m to PHP4m	20%	10%
Over PHP4m	50%	25%

Removals of the following vehicles are exempt from excise tax:

- Purely electric vehicles; and
- Pick-ups



Fuel

	Diesel	Unleaded	LPG
2018	PHP2.50 per liter	PHP7.00 per liter	PHP1.00 per liter
2019	PHP4.50 per liter	PHP9.00 per liter	PHP2.00 per liter
2020	PHP6.00 per liter	PHP10.00 per liter	PHP3.00 per liter

Vetoed

- Petroleum products used as input, feedstock or as raw material in the manufacture of petrochemical products, or the refining of petroleum products, or as replacement fuel for natural gas fired combined cycle power plants are exempt from excise tax.



Excise taxes on other manufactured oils & fuels also changed.

Documentary stamp tax



Most of the DST rates have doubled except DST on debt instruments which increased by only 50% and DST on real properties which remained unchanged.



DST shall also be collected in donations of real properties except for transfers exempt from donor's tax.

Others



The determination of the fair market value of real properties requires mandatory consultation from both public and private appraisers and with prior notice to affected parties. No zonal valuation adjustment will be valid unless published or posted.



Interest imposed shall be double the legal interest rate. Delinquency and deficiency interests shall not be imposed simultaneously.

Proposed Package 2 of the Comprehensive Tax Reform Program (H.B. No. 7458)

Reduction of corporate income tax rates

- Regular corporate income tax (RCIT) rate for domestic corporations, resident foreign corporations (RFCs), and non-resident foreign corporations (NRFCs) shall be reduced by 1% point every year beginning 1 January 2019. RCIT rate shall not be lower than 20%.

Income taxation of domestic corporations

- Removal of preferential income tax rate of 10% for proprietary educational institutions and hospitals
- Removal of income tax exemption of local water districts

Income taxation of RFCs

- Removal of lower income tax rate for OBUs and ROHQs and income tax exemption of RHQs
- Increase of tax rate from 7 ½% to 15% for interest income derived from a depository bank under the expanded foreign currency deposit system
- Flat rate of 15% CGT on sale of shares of stock not traded in the stock exchange

Income taxation of NRFCs

- Removal of special income tax rates granted to cinematographic film owners, lessors or distributors, owners/lessors of vessels chartered by Philippine nationals, and owners/lessors of aircraft, machineries and other equipment
- Flat rate of 15% CGT on sale of shares of stock not traded in the stock exchange

Reduction of optional standard deduction (OSD) rate

- Reduction of the OSD rate from 40% to 20% of gross income for individuals (except non-resident aliens) and corporations (except NRFCs)

Value-added Tax

- Removal of the option to apply for the “issuance of a tax credit certificate” which leaves only the option to “apply for refund”

Percentage tax

- Removal of the PHP10m gross receipts threshold for radio and/or television broadcasting companies
- Inclusion of telecommunication companies in the scope of 3% franchise tax
- Requirement to VAT-register for radio and/or television broadcasting and telecommunication companies

Additional provisions on tax incentives

- All export activities and strategic investments, including those intended for the domestic market under the Strategic Investments Priority Plan (SIPP), whether located inside or outside Ecozones and Freeport, eligible for registration in the respective Investment Promotion Agencies (IPAs) and which will qualify for incentives upon evaluation and review by the Fiscal Incentives Review Board (FIRB) may only be granted income tax and customs duty incentives.

Income tax incentives

- Income tax holiday (ITH) for a period not exceeding three years
- Preferential tax rate of 15% on taxable income with additional allowable deductions on investment, research and development, training, labor, infrastructure developments, etc.
- Five-year combined period to avail the incentives (i.e., ITH and 15% preferential tax rate)
- Superior non-fiscal incentives, as may be defined in the SIPP may be granted in lagging areas, and areas recovering from armed conflict or a major disaster

Customs duty incentives

- Registered enterprises qualified for incentives may be allowed a maximum of five years exemption on customs duty on the importation (including consignment) of capital equipment, machinery, spare parts exclusively used for capital equipment and machinery, raw materials used in manufacturing / processing of products, and source documents
- VAT and local taxes shall not be used as investment tax incentives
- The tax incentives available to eligible enterprises shall be applicable to the registered activity or project only. Income derived from non-registered activity or project shall be subject to appropriate taxes

- Those under ITH shall be allowed to continue availing such incentive for the remaining ITH period or for a period of five years, whichever comes first
- Those under the 5% Gross Income Tax (GIT) incentive shall be allowed to continue based on the following schedule:

2 years

for registered activities under the 5% GIT regime for more than ten years

3 years

for registered activities under the 5% GIT regime for five to ten years

5 years

for registered activities under the 5% GIT regime for less than five years

- Certain laws granting tax incentives are amended or repealed. These laws cover agriculture and fisheries, banks and financial institutions, enterprises registered under the Board of Investments and Special Economic Zones, export-oriented industries, etc.



NOTE: Package 2 of the Comprehensive Tax Reform Program, which covers corporate income taxes and incentives granted to enterprises are currently undergoing deliberations for possible amendment and rationalization. The effectivity date of the tax reform law will depend on the timely completion of consultations from stakeholders and formal congressional deliberations.

Let's talk



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