



Filbert Tsai **DEBIT CREDIT**

By Filbert Tsai

Let's talk about the tax reform in the Philippines

(Conclusion)

There are a lot of previously exempt from value-added tax ('VAT') or zero-rated VAT transactions which are proposed to be disallowed under the Tax Reform for Acceleration and Inclusion ('TRAIN'). However, these transactions are usually not applicable anyway to businesses enterprises. Though these proposed changes in the VAT law are quite significant, let me just skip these and go to one change closer to the heart of startup businesses.

A lot of startup business owners still do a lot of freelance work in order to sustain a bootstrapping business. While previously, self-employed or freelancers including professionals are subject to the 3% other percentage tax ('OPT') in lieu of VAT (when gross sales or gross receipts do not exceed the VAT threshold of Php1,919,500.00) – this is changed now under the proposed tax reform – I can't say for sure if it's for the better or for worse since it depends on your business.

Under the proposed tax changes, self-employed and/or free lances are no longer subject to the 3% OPT. The following summarizes the information that you need to know about the proposed changes:

1. VAT threshold is increased from Php1,919,500 to Php5,000,000 – this is seen as a positive change to allow improved wiggle room for business entities, self-employed and freelancers to pay a 3% OPT instead of being subjected to a heavy burden of 12% VAT.
2. Self-employed and/or freelancers whose gross sales or receipts do not exceed the VAT threshold (Php5 million) is subjected to 8% income tax on gross sales or receipts in excess of Php250,000.
3. Self-employed and/or freelancers whose gross sales or receipts exceed the VAT threshold will be taxed in the same manner as corporations.

Now, is this a good change? If your income is below Php250,000 per year, then definitely this is a good change for you since you don't have to pay anything. Earning below Php400,000 a year, you are still better off with the tax reform, but anything more than that – you will start feeling the pain of the 5% hike in tax rate.

Now, if you're currently earning more than Php1,919,500 – you benefit from the tax savings of 7% (12% VAT less 5% new tax rate). But more than Php5 million, it gets pretty complicated. It's a balance between subjecting your GROSS income to 12% VAT (under the current tax code) and NET income to 30% income tax (under the tax reform).

The tax reform measure passed by the House of Representatives is still subject to Senate deliberations. As a result, there still may be some changes in the tax proposals. However, early understanding of its impact on your business as well as your personal income is crucial to proper financial planning.

For companies who are previously enjoying zero-rated VAT or VAT exempt, read more on these proposed tax measures or drop an email to your accountant or tax advisor. Your preferential transactional tax might have been taken away from you with this tax reform changes.

Filbert Tsai is a Filipino accounting advisor in the UK with global and public sector experience. He's key areas of interests are start-ups and MSMEs. His blog and page, Ask the Accounting Advisor, provide relevant insight for start-ups and MSMEs in the Philippines.

This column accepts contributions from accountants, especially articles that are of interest to the accountancy profession, in particular, and to the business community, in general. These can be e-mailed to boa.secretariat@gmail.com.