

LEGAL ALERT

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Author

Felix Sy

Managing Partner
Insights Philippines
Legal Advisors (IPLA)
felix.sy@insights-law.com

Lorybeth Baldrias-Serrano

Partner
Insights Philippines
Legal Advisors (IPLA)
lorybeth.serrano@insights-law.com



Philippine Tax Code Amendments Passed

On 19 December 2017, Rodrigo Duterte, President of the Philippines, signed into law Republic Act No. 10963 or, better known as the Tax Reform for Acceleration and Inclusion Act (“TRAIN”). TRAIN takes effect on 1 January 2018 and amends the 1997 National Internal Revenue Code of the Philippines (“NIRC”). TRAIN aims to simplify the Philippine tax system fairer and more progressive and efficient, by making sizable cuts in personal income tax (“PIT”) rates, expanding the Value Added Tax (“VAT”) base and adjusting excise taxes on oil, automobiles and other products. Poor and low income families are expected to benefit from these changes.

A key component of TRAIN is the lowering of PIT rates. While the NIRC exempts those with an annual salary below PHP10,000 (approximately USD200) from income taxes, the threshold for income tax exemption has been raised to PHP250,000 (approximately USD 5007) under TRAIN. TRAIN also adjusted the income tax brackets and raised the maximum PIT from 32% to 35% for top income bracket of those who earn over PHP 8 million. A further reduction in PIT rates also is expected to take effect beginning 2023.

ANNUAL SALARY	TAX SCHEDULE (2018-2022)	TAX SCHEDULE (2023)
Not over PHP250,000	0%	0%
Over PHP250,000 but not over PHP400	20% of excess over PHP250,000	15% of excess over PHP250,000
Over PHP400,000 but not over PHP800,000	PHP30,000 + 5% of the excess over PHP400,000	PHP22,500 + 20% of the excess over PHP400,000
Over PHP800,000 but not over PHP 2 million	PHP130,000 + 30% of the excess over PHP800,000	PHP102,500 + 25% of the excess over PHP800,000
Over PHP 2 million but not over PHP 8 million	PHP490,000 + 32% of the excess over PHP2 million	PHP402,500 + 30% of the excess over PHP2 million
Over PHP 8 million	PHP2,410,000 + 35% of the excess over PHP8 million.	PHP202,500 + 35% of the excess over PHP8 million

Under TRAIN, self-employed professionals, with earnings below PHP3 million per year can opt to pay an 8% flat tax in lieu of PIT and percentage taxes.

EARNINGS	TAX
PHP250,00 and below	0%
Below PHP3 million VAT Threshold	8% flat tax on gross sales*
Over PHP3 million	Subject to PIT Schedule

*with an option to choose 8% flat tax or PIT schedule plus percentage taxes

Other highlights of TRAIN include:

1. The threshold for compulsory registration as a VAT taxpayer and VAT on real property transactions was raised from PHP1.915 million to PHP3 million. VAT exemptions on raw food, agricultural products, health and education as well as those for senior citizens and persons with disabilities have been retained, with additional exemptions beginning 2019 for sale of drugs for diabetes, high cholesterol and hypertension.
2. TRAIN also intends to impose a “sweetened beverage tax” of PHP6 per liter on drinks using artificial sweeteners and PHP12 per liter on drinks using high fructose corn syrup. All kinds of milk natural fruit and vegetable juices and medically indicated beverages, as well as those sweetened using coco sugar and stevia are exempted from the “sweetened beverage tax.”

3. There will also be an increase in tax rates on vehicles, which hike up prices of luxury cars. The new rates are as follows:

VEHICLE PRICE	HYBRID CARS	NON-HYBRID CARS
Up to PHP 600,000	2%	4%
Over PHP 600, 000 to PHP 1 million	5%	10%
Over PHP 1 million to PHP 4 million	10%	20%
Over PHP 4 million	25%	50%

4. Cosmetic procedures, except those used to correct deformities from birth, disease or due to accidents, will be taxed at 5%.
5. Excise taxes on coal will also be raised from PHP10 to PHP50 per metric ton in 2018. The rates will increase to PHP100 per metric ton and PHP150 per metric ton in 2019 and 2020, respectively.

With the passage of TRAIN, the Philippine economy is expected to be boosted by 0.5% to 1.1 % by 2022.

TRAIN is the first of 5 tax reform bill packages that aims to make the Philippine tax system fairer, simpler and more efficient. The next package is intended to be passed by July 2018 on matters such as estate tax amnesty, a general tax amnesty, proposed adjustments to the Motor Vehicle Users Charge and changes to banking secrecy laws and automatic exchanges of information.

If you have any questions or require any additional information, please contact [Felix Sy](#), [Lorybeth Baldrias Serrano](#) or the ZICO Law partner you usually deal with.

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