

Amway Philippines, LLC. - Philippine Branch

ABO Training

February 28, 2024

The SGV Purpose

Nurture leaders and enable businesses for a better Philippines.

#SGVforABetterPhilippines



Discussion Outline

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Basic principles of income taxation

2

Income tax rates

3

Computation of taxable income

4

Administrative requirements

01

Basic principles of income taxation

National Internal Revenue Code of 1997



Income Tax is a tax on a person's income, emoluments, profits arising from property, practice of profession, conduct of trade or business or on the pertinent items of gross income specified in the Tax Code of 1997 (Tax Code), as amended, less the deductions if any, authorized for such types of income, by the Tax Code, as amended, or other special laws.

INCOME TAX

Basic principles - gross income

Gross income

Compensation
for services, in
whatever form
paid

Trade or
business or the
exercise of a
profession

Gains derived
from dealings in
property

Interest

Rents

Royalties

Dividends

Annuities

Prizes and
winnings

Pensions

Partner's
distributive
share from the
net income of
GPP

INCOME TAX

Basic principles - gross income

Gross income - distributors

Taxpayer classification	Compensation income	Commission income from Amway	Distributors' sales	Income from practice of profession
Distributors not employed by Amway and with no other employment/source of income (SELF-EMPLOYED)		✓	✓	
Distributors employed by Amway (MIXED INCOME EARNER)	✓	✓	✓	
Distributors not employed by Amway/with no other employment and engaged in practice of profession (SELF-EMPLOYED)		✓	✓	✓

INCOME TAX

Basic principles - gross income

Exclusions from gross income

Miscellaneous Items

- Passive income subject to final taxes (e.g., interest from banks)
- 13th month pay and other benefits up to P90,000
- Prizes from religious, charitable, scientific, educational, artistic, literary, or civic achievement
- Prizes and awards granted to athletes in local and international sports competition
- Statutory contributions, and union dues of individuals
- Gains from the sale or retirement of certificate of indebtedness with a maturity of more than five (5) years.
- Gains realized by the investor upon redemption of shares of stock in a mutual fund company

De minimis benefit in excess of the prescribed limit

De minimis

In excess of prescribed ceiling

Other Benefits

subject to P90,000 ceiling

Aggregate
 \leq P90,000

EXEMPT

Aggregate
 $>$ P90,000

Excess over P90,000 =
Taxable

INCOME TAX

Basic principles - gross income

Exclusions from gross income

De Minimis benefit enumerated under RMC No. 50-2018

- Monetized unused vacation leave credits of private employees not exceeding ten (10) days during a year;
- Monetized value of vacation and sick leave credits paid to government officials and employees;
- Medical cash allowance to dependents of employees not exceeding P 1,500.00 per semester or P 250.00 per month;
- Rice subsidy of P 2,000.00 or one sack of 50 kg. Rice per month amount to not more than P2,000.00;
- Uniform and clothing allowance not exceeding P 6 000 per annum;
- Actual medical assistance, e.g., medical allowance to cover medical and healthcare needs, annual medical/executive check-ups, maternity assistance, and routine consultations, not exceeding P 10,000 per annum;
- Laundry allowance not exceeding P 300 per month;
- Employees achievement awards, e.g. for length of service or safety achievement, which must be 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 the employee under an established written plan which does not discriminate in favor of highly paid employees;
- Gifts made during Christmas and major anniversary celebrations 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.
- Benefits received by an employee by virtue of a collective bargaining agreement (CBA) and productivity incentive schemes provided that the total monetary value received from both CBA and productivity incentive schemes combined do not exceed P 10,000.00 per employee per taxable year.

General rule



Taxpayers must:

- (1) point to specific provisions of the statute authorizing the deduction.
- (2) prove he is entitled for deductions are strictly construed against them

Methods of deduction

Itemized Deduction

**Optional Standard
Deduction (OSD)**

Method of deduction (OSD)



Individuals

may elect an OSD of 40% of gross sales/receipts except for those who opted to be taxed at 8% income tax on their income from business/practice of profession

Exception: Non-Resident Alien

Method of deduction (OSD)

Example:

Suppose a retailer of goods, whose accounting method is under the accrual basis has a gross sales of P1,000,000 with a cost of sales amounting to P800,000. The computation of the OSD for corporations shall be determined as follows:

• Basis of the OSD - Gross sales	P1,000,000
• x OSD rate (maximum)	<u>40%</u>
• OSD amount	<u>P 400,000</u>

INCOME TAX

Basic principles - deductions

Method of deduction (Itemized deduction)



Expenses - general requirements

1

Ordinary and necessary expenses (those that are related to business and not personal expenses)

3

Substantiated by adequate proof

2

Not contrary to law, morals, public policy or order

4

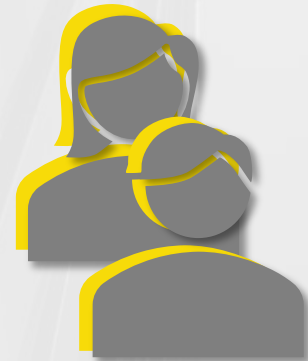
Withholding taxes are properly withheld and remitted on time*

**Repealed pursuant to Ease of Paying Taxes Act (Republic Act No. 11976)*

02

Income tax rates

Sources of income - INDIVIDUALS



Self-employed

Individuals receiving income from the conduct of trade or business and/or practice of profession

Mixed Earners

Individuals receiving compensation income and income from the conduct of trade or business and/or practice of profession

Purely Compensation Income

Individuals receiving purely compensation income from a single employer

INCOME TAX

Applicable rates

Revised income tax rates

TRAIN: January 1, 2023 onwards

Range of taxable income		Tax due = a + (b x c)		
Over	Not over	Basic amount (a)	Additional rate (b)	Of excess over (c)
-	250,000	-		-
250,000	400,000	-	15%	250,000
400,000	800,000	22,500	20%	400,000
800,000	2,000,000	102,500	25%	800,000
2,000,000	8,000,000	402,500	30%	2,000,000
8,000,000	-	2,202,500	35%	8,000,000

Applicability of 8% income tax rate

1

Individuals (Single Proprietor or Professional or Mixed Income Earner) earning from self-employment and/or practice of profession;

3

Taxpayers registered and **SUBJECT ONLY TO PERCENTAGE TAX** under Section 116 of the NIRC, as amended; or taxpayers exempt from VAT or other percentage taxes; and

2

Taxpayers whose gross sales/receipts and other non-operating income **DID NOT** exceed the P 3,000,000 VAT threshold during the taxable year;

4

Must have signified their intention to elect the 8% income tax rate

Applicability of 8% income tax rate



The option to be taxed at 8% is not available to the following:

Purely Compensation Income Earners

Taxpayers exempt from VAT or other percentage taxes whose gross sales/receipts and other non-operating income exceeded the P 3,000,000 VAT threshold during the taxable year

Partners of a General Professional Partnership (GPP) cannot avail of the 8% income tax rate option because their distributive share from the GPP is already net of cost and expenses

A VAT-registered taxpayer, regardless of the amount of gross sales/receipts

A taxpayer who is subject to other percentage taxes under Title V of the Tax Code, as amended, except those subject under Section 116 of the same Title

Individuals enjoying income tax exemption.

INCOME TAX

Applicable rates

Taxability of different sources of income



Individuals earning income purely from self-employment or practice of profession



Income does not exceed the VAT threshold

IS GROSS SALES
OR
GROSS RECEIPTS > P3M?



Income exceeds the VAT threshold

Option

Graduated income
tax rates

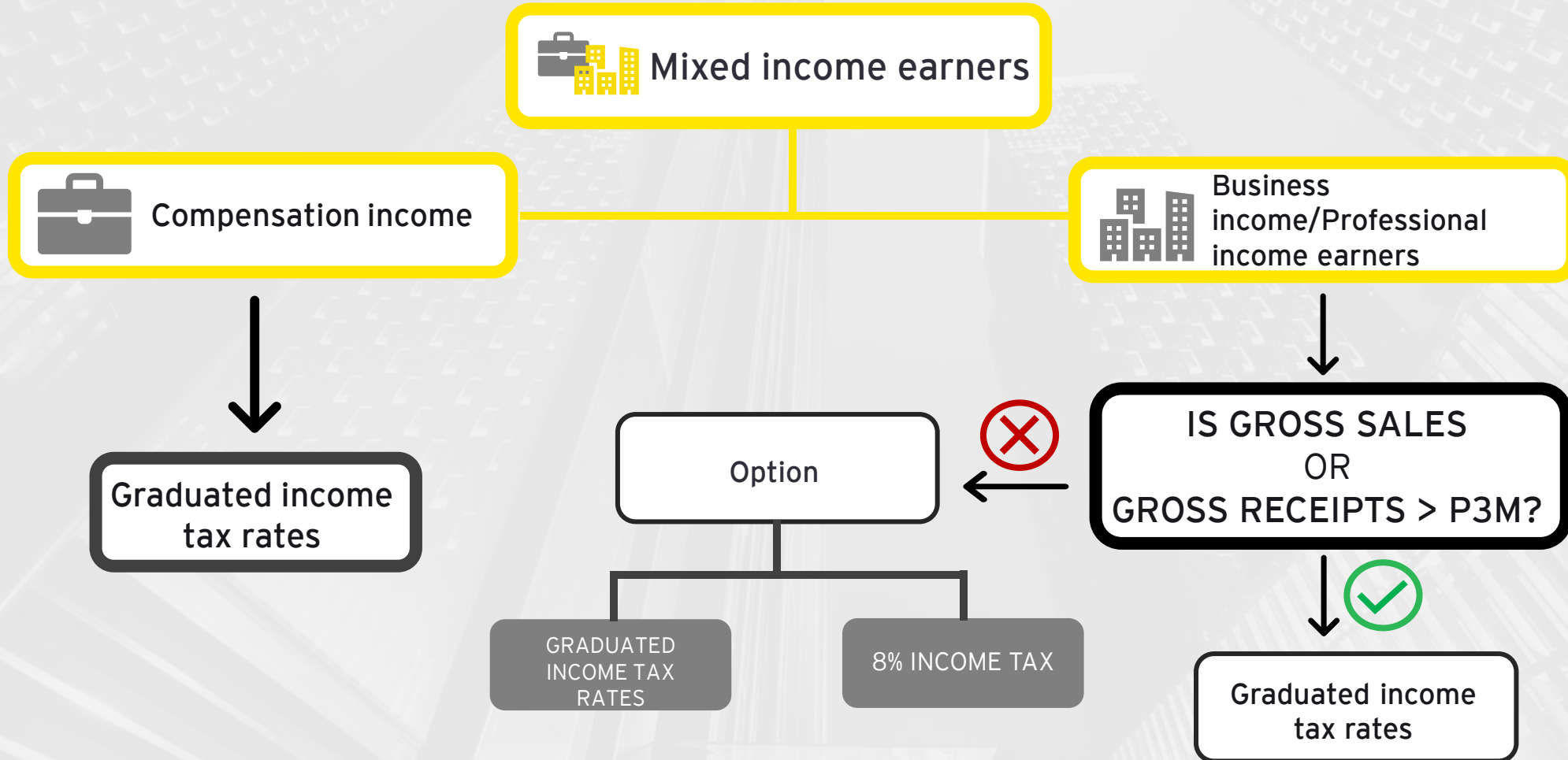
GRADUATED
INCOME TAX RATES

8% INCOME TAX

INCOME TAX

Applicable rates

Taxability of different sources of income



INCOME TAX

Applicable rates

Tax base of self-employed individuals/professionals

Applicable tax rate

Graduated rates

8% tax on gross sales/receipts and other non-operating income

Self-employed individuals

Mixed income earner

Tax base

Net taxable income

Gross sales/receipts and other non-operating income in excess of P 250,000

Gross sales/receipts and other non-operating income without the P 250,000 reduction

03

Computation of taxable income

INCOME TAX

Computation of taxable income

Revenue Regulations No. 8-2018



Application of graduated tax rates vs
8% rate option
*(for self-employed individuals not exceeding
the VAT threshold)*

INCOME TAX

Computation of taxable income

ILLUSTRATION: Computation of income tax due using 8% tax rate

Mr. DDG is an Amway distributor while he offers bookkeeping services to his clients. In 2023, his gross sales amounted to P800,000 and commission income amounted to P20,000, in addition to his receipts from bookkeeping services of P300,000. He already signified his intention to be taxed at 8% income tax rate in his 1st quarter return.

Computation of tax due

Gross sales - Amway	P 800,000
Gross receipts - Bookkeeping	<u>300,000</u>
Total sales/receipts - from operation	1,100,000
Non-operating income (Commissions)	<u>20,000</u>
Total income	1,120,000
Less: Amount allowed as deduction under Sec. 24(A)(2)(b)	<u>250,000</u>
Taxable income	P 870,000*
Tax due (8% of P 870,000.00)	P 69,600

*Exempt from 3% percentage tax

INCOME TAX

Computation of taxable income

ILLUSTRATION: Computation of income tax due using graduated tax rates

Mr. DDG above, failed to signify his intention to be taxed at 8% income tax rate on gross sales in his initial Quarterly Income Tax Return, and he incurred cost of sales and operating expenses amounting to P600,000 and P200,000, respectively, or a total of P800,000.

Computation of tax due

Gross sales/receipts	P1,100,000**
Less: Cost of sales	<u>600,000</u>
Gross income	P500,000
Less: Operating expenses	<u>200,000</u>
Net income from operation	P 300,000
Add: Commission income	20,000**
Total taxable income	P 320,000
Tax due [On excess (P320,000 - P250,000) x 15%*]	P 10,500

*Tax rate effective January 1, 2023 and onwards

**Liable also to 1% percentage tax until June 30, 2023, thereafter, 3% percentage tax will apply

INCOME TAX

Computation of taxable income

Revenue Regulations No. 8-2018



Application of graduated tax rates
*(for self-employed individuals exceeding
the VAT threshold)*

INCOME TAX

Computation of taxable income

ILLUSTRATION: Computation of income tax due using graduated tax rates

Mr. DDG is an Amway distributor while he offers bookkeeping services to his clients. For the year 2023, he has the following data:

Gross sales	P 3,500,000
Commission income	200,000
Bookkeeping income	300,000
Cost of sales	600,000
Operating expenses	200,000

Since he breached the 3M gross sales/receipts threshold, he is mandated to use the graduated tax rate pursuant to RR No. 8-2018.

INCOME TAX

Computation of taxable income

ILLUSTRATION: Computation of income tax due using graduated tax rates

Computation of tax due

Gross sales-Amway	P3,500,000
Gross receipts-bookkeeping	<u>300,000</u>
Total gross sales/receipt	3,800,000**
Less: Cost of sales	<u>600,000</u>
Gross income	P3,200,000
Less: Operating expenses	<u>200,000</u>
Net income from operation	3,000,000
Add: Commission income	<u>200,000**</u>
Total taxable income	P3,200,000
On excess [(P3,200,000 - P2,000,000) x 30%*]	360,000
Basic amount based on income tax table	<u>402,500</u>
Total tax due	P 762,500

*Tax rate effective January 1, 2023 and onwards

**Liable also to 12% VAT

Revenue Regulations No. 8-2018



Application of graduated tax rates vs 8%
rate option
*(for mixed income individuals not exceeding
the VAT threshold)*

INCOME TAX

Computation of taxable income

ILLUSTRATION: Computation of income tax due for mixed income earner

Mr. DDG, a Financial Comptroller of DTM Company, earned the following for the year 2023:

Compensation income (inclusive of 13 th month and other benefits amounting to 120,000 but net of mandatory contributions).	P 1,500,000
Gross sales	2,000,000
Commission income	200,000
Cost of sales	600,000
Operating expenses	200,000

INCOME TAX

Computation of taxable income

ILLUSTRATION: Computation of income tax due using 8% tax rate on business income and graduated tax rates on compensation income

Option adopted: 8% income tax on business tax

Total compensation income	P1,500,000
Less: Non-taxable 13 th month pay and other benefits (max)	<u>90,000</u>
Taxable compensation income	P1,410,000
Tax due:	
1. On compensation	
On P800,000.00	P102,500
On excess $(P1,410,000 - P800,000) \times 25\%^*$	<u>152,500</u>
Tax due on compensation income	P255,000

**Tax rate effective January 1, 2023 and onwards*

INCOME TAX

Computation of taxable income

ILLUSTRATION: Computation of income tax due using 8% tax rate on business income and graduated tax rates on compensation income (cont'd)

Continuation:

2. On business income

Gross sales	P 2,000,000
Add: Non-operating income	<u>200,000</u>
Taxable business income	2,200,000**
Multiplied by income tax rate	<u>8%</u>
Tax due on business income	P 176,000
Total income tax due (Compensation and Business)	P 431,000

**Exempted on 3% percentage tax

INCOME TAX

Computation of taxable income

ILLUSTRATION: Computation of income tax due using graduated tax rates on both business and compensation income

Option adopted: Graduated income tax rates

Total compensation income		P1,500,000
Non-taxable 13 th month pay and other benefits (max)		<u>90,000</u>
Taxable compensation income		P1,410,000
<i>Add:</i> Taxable income from business		
Gross sales		P2,000,000*
<i>Less:</i> Cost of sales		<u>600,000</u>
Gross income		P1,400,000
<i>Less:</i> Operating expenses		<u>200,000</u>
Net Income from operation	1,200,000	
Non-operating income	<u>200,000*</u>	P1,400,000
Total taxable income		P2,810,000

*Liable also to 1% percentage tax until June 30, 2023, thereafter, 3% percentage tax will apply

INCOME TAX

Computation of taxable income

ILLUSTRATION: Computation of income tax due using graduated tax rates on both business and compensation income (*cont'd*)

Continuation:

Tax Due

On P2,000,000	P 402,500
On excess (P2,810,000 - P2,000,000) x 30%	<u>243,000</u>
Total income tax	P 645,500

Revenue Regulations No. 8-2018



Application of graduated tax rates
*(for mixed income individuals exceeding the
VAT threshold)*

INCOME TAX

Computation of taxable income

ILLUSTRATION: Computation of income tax due using graduated tax rates on both business and compensation income

Mr. DDG, a Financial Comptroller of DTM Company, earned the following for the year 2023:

Compensation income (inclusive of 13 th month and other benefits amounting to 120,000 but net of mandatory contributions).	P 1,500,000
Gross sales	3,500,000
Commission income	200,000
Cost of sales	600,000
Operating expenses	200,000

INCOME TAX

Computation of taxable income

ILLUSTRATION: Computation of income tax due using graduated tax rates on both business and compensation income (*cont'd*)

Total compensation income		P1,500,000
Non-taxable 13 th month pay and other benefits (max)		<u>90,000</u>
Taxable compensation income		P1,410,000
<i>Add:</i> Taxable income from business		
Gross sales		P3,500,000*
<i>Less:</i> Cost of sales		<u>600,000</u>
Gross income		P2,900,000
<i>Less:</i> Operating expenses		<u>200,000</u>
Net Income from operation	2,700,000	
Non-operating income	<u>200,000*</u>	P2,900,000
Total taxable income		P4,310,000

*Liable also to 12% VAT

INCOME TAX

Computation of taxable income

ILLUSTRATION: Computation of income tax due using graduated tax rates on both business and compensation income (*cont'd*)

Continuation:

Tax due

On P2,000,000.00	P402,500
On excess (P4,310,000 - P2,000,000) x 30%	<u>693,000</u>
Total income tax due	P1,095,500

INCOME TAX

Computation of taxable income

Revenue Regulations No. 8-2018



Application of 8% tax rate while breaching the VAT threshold in succeeding quarters

INCOME TAX

Computation of taxable income

ILLUSTRATION: Computation of income tax due

Mr. DDG signified his intention to be taxed at 8% income tax rate on gross sales in his 1st quarter income tax return. He has no other source of income. His total sales for the first three (3) quarters amounted to P3,000,000 with 4th quarter sales of P3,500,000

	1st QUARTER	2nd QUARTER	3rd QUARTER	4th QUARTER
	(8% rate)	(8% rate)	(8% rate)	
Total sales	P 500,000	P 500,000	P 2,000,000	P 3,500,000
Less: Cost of sales	(300,000)	(300,000)	(1,200,000)	(1,200,000)
Gross income	200,000	200,000	800,000	2,300,000
Less: Operating expenses	(120,000)	(120,000)	(480,000)	(720,000)
Taxable income	80,000	80,000	320,000	1,580,000

INCOME TAX

Computation of taxable income

ILLUSTRATION: Computation of income tax due using graduated rates

Tax due shall be computed as follows:

Total sales	P	6,500,000
Less: Cost of sales		3,000,000
<hr/>		
Gross income		3,500,000
<hr/>		
Less: Operating expenses		1,440,000
Taxable income	P	2,060,000

Income tax due

Tax due under the graduated rates (2,060,000-2,000,000 x 30%) + 402,500	P	420,500
Less: 8% Income tax previously paid (Q1 to Q3) (3,000,000 - 250,000) x 8%		220,000
Annual income tax payable	P	200,500

INCOME TAX

Computation of taxable income

ILLUSTRATION: Computation of income tax due using graduated rates (cont'd)



The gross receipts exceeded the VAT threshold of 3M. Taxpayer shall be liable to pay income tax under graduated rates pursuant to Section 24(A)(2)(a) of the Tax Code, as amended.

Taxpayer shall be allowed an income tax credit of quarterly payments initially made under the 8% income tax option computed net of the allowable deduction of P250k granted for purely business income

INCOME TAX

Computation of taxable income

ILLUSTRATION: Computation of income tax due using graduated rates (cont'd)



Taxpayer is likewise liable for business tax(es), in addition to income tax. For this purpose, the taxpayer is required to update his registration from non-VAT to VAT taxpayer. Percentage tax pursuant to Section 116 of the Tax Code, as amended, shall be imposed from the beginning of the year until taxpayer is liable to VAT. VAT shall be imposed prospectively.

Percentage tax due on the non-VAT portion of the sales/ receipts shall be collected without penalty, if timely paid on the due date immediately following the month/ quarter when taxpayer ceases to be a non-VAT taxpayer.

04

Administrative requirements

Tax return filing and payment

Individuals

2 Page
ITR

- ▶ **Personal profile and Information**
- ▶ **Gross sales receipts/ Compensation income**
- ▶ **Allowable deductions/ Taxable income**
- ▶ **Income tax due and payable**

Tax return filing and payment

Persons exempt from filing individual ITR



- ▶ Taxable income does not exceed **PHP 250,000**
- ▶ Persons qualified for **substituted filing**

Tax return filing and payment

Substituted filing of ITR



Requisites

- ✓ 1 employer in the Philippines
- ✓ Income tax correctly withheld
- ✓ Purely compensation income earner

INCOME TAX

Administrative requirements

BIR Form 1701 & 1701A

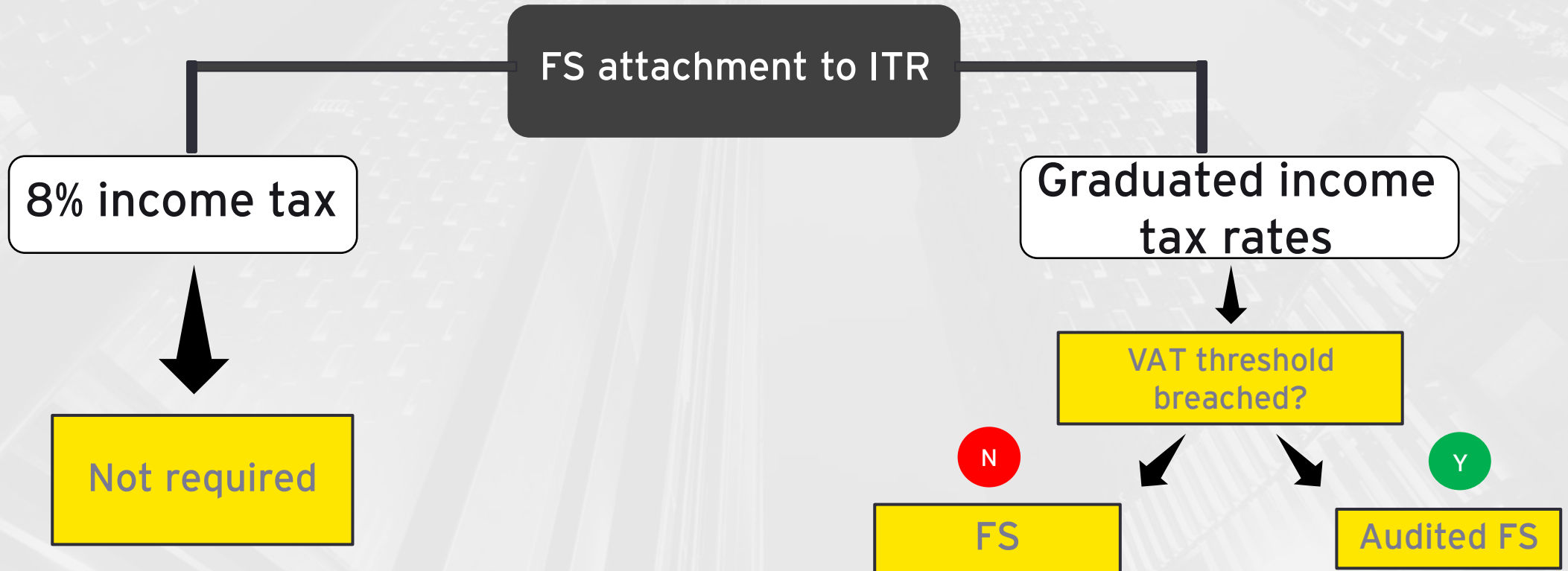
BIR Form 1701	BIR Form 1701A
<p>Annual Income Tax Return For Individuals (including MIXED Income Earner), Estates and Trusts</p> <p> 1701 Jan 2018 final with rates.pdf</p>	<p>Annual Income Tax Return For Individuals Earning Income PURELY from Business/Profession (Those under the graduated income tax rates with OSD as mode of deduction OR those who opted to avail of the 8% flat income tax rate)</p> <p> 1701A Jan 2018 v5 with rates.pdf</p>

INCOME TAX

Administrative requirements

Tax return filing and payment

Individuals



INCOME TAX

Administrative requirements

Tax return filing and payment



Deadline for individual income tax declaration

PERIOD	DEADLINE	
1 st Q	May 15 th	of the same taxable year
2 nd Q	August 15 th	of the same taxable year
3 rd Q	November 15 th	of the same taxable year
4 th (ANNUAL)	April 15 th	15 days after the close of the taxable year

INCOME TAX

Administrative requirements

Tax return filing and payment

Particulars	Deadline
 <p>Deadline of 2nd installment payment*</p>	 <p>15 following the close of the calendar year</p>

**When a tax due is in excess of Two thousand pesos (PHP 2,000), the taxpayer other than a corporation (i.e., individual taxpayer), may elect to pay the tax in two (2) equal installments.*



Questions?

Thank you.

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