REVENUE REGULATIONS NO. 8-2018 issued on February 20, 2018 implements the amended provisions on Income Tax pursuant to Republic Act No. 10963 (Tax Reform for Acceleration and Inclusion or TRAIN Law).

The Income Tax on the individual’s taxable income shall be computed based on the following schedules as provided under Sec. 24(A)(2)(a) of the Tax Code, as amended:

Effective January 1, 2018 until December 31, 2022:

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<th>RANGE OF TAXABLE INCOME</th>
<th>TAX DUE = a + (b x c)</th>
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Effective January 1, 2023 and onwards:

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Individuals earning purely compensation income shall be taxed based on the Income Tax rates prescribed under subsection (A) of these Regulations. Taxable income for compensation earners is the gross compensation income less non-taxable income/benefits such as but not limited to the thirteenth (13th) month pay and other benefits (subject to limitations specified in Section 6(G)(e) of these Regulations), de minimis benefits, and employee’s share in the SSS, GSIS, PHIC, Pag-ibig contributions and union dues.

Husband and wife shall compute their individual Income Tax separately based on their respective taxable income. If any income cannot be definitely attributed to or identified as income exclusively earned or realized by either of the spouses, the same shall be divided equally between the spouses, for the purpose of determining their respective taxable income.

Minimum wage earners shall be exempt from the payment of Income Tax based on their statutory minimum wage rates. The holiday pay, overtime pay, night shift differential pay and hazard pay received by such earner are likewise exempt.

Individuals earning income purely from self-employment and/or practice of profession, whose gross sales/receipts and other non-operating income does not exceed the Value-Added Tax (VAT) threshold as provided under Section 109 (BB) of the Tax Code, as amended, shall have the option to avail of: a) the graduated rates under Section 24(A)(2)(a) of the Tax Code, as amended; or b) the eight percent (8%) tax on gross sales or receipts and other non-operating income in excess of Two Hundred Fifty Thousand Pesos (₱ 250,000.00), in lieu of the graduated
income tax rates under Section 24(A) and the Percentage Tax under Section 116 all under the Tax Code, as amended.

Unless the taxpayer signifies the intention to elect the 8% Income Tax rate in the 1st Quarter Percentage and/or Income Tax Return, or on the initial quarter return of the taxable year after the commencement of a new business/practice of profession, the taxpayer shall be considered as having availed of the graduated rates under Section 24(A)(2)(a) of the Tax Code, as amended. Such election shall be irrevocable and no amendment of option shall be made for the said taxable year.

The option to be taxed at 8% Income Tax rate is not available to a VAT-registered taxpayer, regardless of the amount of gross sales/receipts, and to 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. Likewise, partners of a General Professional Partnership (GPP) by virtue of their distributive share from GPP, which is already net of cost and expenses, cannot avail of the 8% Income Tax rate option.

A taxpayer who signifies the intention to avail of the 8% Income Tax rate option, and is conclusively qualified for said option at the end of the taxable year (annual gross sales/receipts and other non-operating income did not exceed the VAT threshold [₱ 3,000,000.00]) shall compute the final annual Income Tax due based on the actual annual gross sales/receipts and other non-operating income. The said Income Tax due shall be in lieu of the graduated rates of Income Tax and the Percentage Tax under Sec. 116 of the Tax Code, as amended. The Financial Statements (FS) is not required to be attached in filing the final Income Tax Return. However, existing rules and regulations on bookkeeping and invoicing/receipting shall still apply.

A taxpayer shall automatically be subject to the graduated rates under Section 24(A)(2)(a) of the Tax Code, as amended, even if the flat 8% Income Tax rate option is initially selected, when taxpayer’s gross sales/receipts and other non-operating income exceeded the VAT threshold during the taxable year. In such case, his/her Income Tax shall be computed under the graduated Income Tax rates and shall be allowed a tax credit for the previous quarter/s Income Tax payment/s under the 8% Income Tax rate option.

In addition, a taxpayer subject to the graduated Income Tax rates (either selected this as the Income Tax regime, or failed to signify chosen intention or failed to qualify to be taxed at the 8% Income Tax rate) is also subject to the applicable business tax, if any. Subject to the provisions of Section 8 of these Regulations, an FS shall be required as an attachment to the annual Income Tax return even if the gross sales/receipts and other non-operating income is less than the VAT threshold. However, the annual Income Tax return of a taxpayer with gross sales/receipts and other non-operating income of more than the said VAT threshold shall be accompanied by an audited FS.

Taxable income for individuals earning income from self-employment/practice of profession shall be the net income, if taxpayer opted to be taxed at graduated rates or has failed to signify the chosen option. However, if the option availed is the 8% income tax rate, the taxable base is the gross sales/receipts and other non-operating income.

For mixed income earners, the Income Tax rates applicable are the following:

a. The compensation income shall be subject to the tax rates prescribed under Section 24(A)(2)(a) of the Tax Code, as amended; and

b. The income from business or practice of profession shall be subject to the following:
   b.1 If the gross sales/receipts and other non-operating income do not exceed the VAT threshold, the individual has the option to be taxed at: a) graduated Income Tax rates prescribed under Section 24(A)(2)(a) of the Tax Code, as amended; or b) Eight Percent (8%) Income Tax rate based on gross sales/receipts and other non-
operating income in lieu of the graduated Income Tax rates and Percentage Tax under Section 116 of the Tax Code, as amended.

b.2 If the gross sales/receipts and other non-operating income exceeds the VAT threshold, the individual shall be subject to the Graduated Income Tax rates prescribed under Section 24(A)(2)(a) of the Tax Code, as amended.

The provision under Section 24(A)(2)(b) of the Tax Code, as amended, which allows an option of 8% Income Tax rate on gross sales/receipts and other non-operating income in excess of ₱250,000.00 is available only to purely self-employed individuals and/or professionals. The said ₱250,000.00 is not applicable to mixed income earners since it is already incorporated in the first tier of the graduated Income Tax rates applicable to compensation income. Under the said graduated rates, the excess of the ₱250,000.00 over the actual taxable compensation income is not deductible against the taxable income from business/practice of profession under the 8% Income Tax rate option.

The total tax due shall be the sum of the: a) tax due from compensation, computed using the graduated Income Tax rates; and b) tax due from self-employment/practice of profession, resulting from the multiplication of the 8% Income Tax rate with the total of the gross sales/receipts and other non-operating income.

Mixed income earner who opted to be taxed under the graduated Income Tax rates for income from business/practice of profession shall combine the taxable income from both compensation and business/practice of profession in computing for the total taxable income and consequently the Income Tax due.

The following passive income shall be subject to the final Income Tax rates:

a. Interests from any currency bank deposit and yield or any other monetary benefit from deposit substitutes and from trust funds and similar arrangements – 20%

b. Interest income received by an individual taxpayer (except a non-resident individual) from a depository bank under the expanded foreign currency deposit system – 15%

c. Proceeds of pre-terminated long-term deposit or investment in the form of savings, common or individual trust funds, deposit substitutes, investment management accounts and other investments evidenced by certificates in such form as prescribed by the Bangko Sentral ng Pilipinas – the final tax shall be based on the remaining maturity of the investment:
   c.1 Four (4) years but less than five (5) years – 5%
   c.2 Three (3) years but less than four (4) years – 12%; and
   c.3 Less than three (3) years – 20%

d. Royalties (except royalties on books and other literary works and musical compositions) – 20%

e. Royalties on books and other literary works and musical compositions – 10%

f. Prizes (except prizes amounting to ₱10,000 or less) – 20%

g. Winnings (except Philippine Charity Sweepstakes and Lotto winnings amounting to ₱10,000 or less) – 20%

h. Cash and Property Dividends – 10%

i. Capital Gains from Sale of Shares of Stock not Traded in the Stock Exchange – 15%

j. Capital Gains from Sale of Real Property located in the Philippines – 6%

The following Income Tax rates shall be imposed to non-resident alien individual:

a. The rates imposed on individual citizen and a resident alien individual on the taxable income derived within the Philippines shall be applicable to non-resident alien engaged in trade or business within the Philippines;

b. Upon the entire income received from all sources within the Philippines by the non-resident alien not engaged in trade or business within the Philippines such as
interest, cash and/or property dividends, rents, salaries, wages, premiums, annuities, compensation, remuneration, emoluments, or other fixed or determinable annual or periodic or casual gains, profits, and income, and capital gains. - 25%;

c. The preferential income tax rate under subsection (C), (D) and (E) of Section 25 of the Tax Code, as amended, shall no longer be applicable without prejudice to the application of preferential tax rates under existing international tax treaties, if warranted. Thus, all concerned employees of the regional or area headquarters and regional operating headquarters of multinational companies, offshore banking units and petroleum service contractor and subcontractors shall be subject to the regular Income Tax rate under Sec. 24(A)(2)(a) of the Tax Code, as amended. This is in accordance with the veto message of the President.

Under Section 27(C) of the Tax Code, as amended, Government-Owned and -Controlled Corporations (GOCCs), Government Agencies or Instrumentalities shall pay such rate of tax upon their taxable income as imposed upon corporations or associations engaged in a similar business, industry, or activity, except for the following:

a. Government Service Insurance System (GSIS);
b. Social Security System (SSS);
c. Philippine Health Insurance Corporation (PHIC); and
d. Local Water Districts (LWD).

The items that shall not be included in gross income and shall be exempt from income taxation are the following:

a. Life Insurance. – The proceeds of life insurance policies paid to the heirs or beneficiaries upon the death of the insured, whether in a single sum or otherwise, but if such amounts are held by the insurer under an agreement to pay interest thereon, the interest payments shall be included in gross income;
b. Amount received by insured as Return of Premium;
c. Gifts, bequests, and devises;
d. Compensation for injuries or sickness;
e. Income exempt under treaty;
f. Retirement benefits, pensions, gratuities, etc.;
g. Miscellaneous items
   g.1 Income derived by foreign government;
   g.2 Income derived by the government or its political subdivisions;
   g.3 Prizes and awards;
   g.4 Prizes and awards in sports competition;
   g.5 13th month pay and other benefits. – Gross benefits received by officials and employees of public and private entities. Provided, however, that the total exclusion under this item shall not exceed ninety thousand (₱ 90,000.00), which shall cover the following:
      (i) Benefits received by officials and employees of the national and local government pursuant to Republic Act No. 6686;
      (ii) Benefits received by employees pursuant to Presidential Decree No. 851, as amended by Memorandum Order No. 28 dated August 13, 1986;
      (iii) Benefits received by officials and employees not covered by Presidential Decree No. 851, as amended by Memorandum Order No. 28 dated August 13, 1986; and
      (iv) Other benefits such as productivity incentives and Christmas bonus;
   g.6 GSIS, SSS, Medicare and other contributions;
g.7 Gains from the sale of bonds, debentures or other Certificate of Indebtedness with a maturity of more than five (5) years; and
g.8 Gains from redemption of shares in mutual fund.

The tax on fringe benefits at the rate of thirty-five percent (35%) shall be imposed on the grossed-up monetary value of fringe benefits furnished or granted to an employee (except rank-and-file employees) by the employer, whether an individual or a corporation (unless the fringe benefit is required by the nature of, or necessary to the trade, business or profession of the employer, or when the fringe benefit is for the convenience of or advantage of the employer). The tax herein imposed is payable by the employer, which tax shall be paid in the same manner as provided for under Section 57 (A) of the Tax Code, as amended.

The grossed-up monetary value of the fringe benefit shall be determined by dividing the actual monetary value of the fringe benefit by sixty-five percent (65%), effective January 1, 2018 and onwards. Provided, that the grossed-up value of the benefit shall be determined by dividing the actual monetary value of the fringe benefit by the difference between one hundred percent (100%) and the applicable tax rates.

In general, there shall be allowed, at the option of the taxpayer, itemized deductions or an Optional Standard Deduction (OSD) at the rate of forty percent (40%). In case of individual taxpayers, OSD shall be computed at the rate of forty percent (40%) of gross sales/receipts, as the case may be. Corporations may elect standard deduction in an amount not exceeding forty percent (40%) of its gross income.

However, no deductions shall be allowed to individual taxpayers earning compensation income arising from personal services rendered under an employer-employee relationship, and those who opted to be taxed at 8% Income Tax rate on their income from business/practice of profession. The following are the allowable itemized deductions:

a. Expenses;
b. Interest;
c. Taxes;
d. Losses;
e. Bad Debts;
f. Depreciation;
g. Depletion of oil and gas wells and mines;
h. Charitable and other contributions;
i. Research and development; and
j. Pension trusts.

Unless the taxpayer, who is taxable under the graduated Income Tax rate, signifies in the Income Tax return the intention to elect the OSD, it shall be considered as having availed of the itemized deductions. Such election of the option, when made in the return, shall be irrevocable for the taxable year for which the return is made. The election to claim either the itemized deductions or the OSD for the taxable year must be signified by checking the appropriate box in the Income Tax return filed for the first quarter or the initial quarter of the taxable year after the commencement of a new business/practice of profession. Once the election is made, it must be consistently applied to all the succeeding quarterly returns and in the final income tax return for the taxable year.

The OSD allowed to individual taxpayers, except non-resident aliens, shall be forty percent (40%) of gross sales/receipts during the taxable year. An individual who is entitled to and claimed for the OSD shall not be required to submit with the tax return such FS otherwise required under the Tax Code, as amended. A General Professional Partnership (GPP) may avail of the OSD only once, either by the GPP or the partners comprising the partnership.
GPP is not subject to Income Tax imposed pursuant to Sec. 26 of the Tax Code, as amended. However, the partners shall be liable to pay Income Tax on their separate and individual capacities for their respective distributive share in the net income of the GPP.

The GPP is not a taxable entity for Income Tax purposes since it is only acting as a “pass-through” entity where its income is ultimately taxed to the partners comprising it. Section 26 of the Tax Code, as amended, likewise provides that “For purposes of computing the distributive share of the partners, the net income of the GPP shall be computed in the same manner as a corporation.” As such, a GPP may claim either the itemized deductions allowed under Section 34 of the Code or in lieu thereof, it can opt to avail of the OSD allowed to corporations in claiming the deductions in an amount not exceeding Forty Percent (40%) of its gross income.

In computing taxable income defined under Section 31 of the Tax Code, as amended, the following may be allowed as deductions:

a. Itemized expenses which are ordinary and necessary, incurred or paid for the practice of profession; or
b. Optional Standard Deduction (OSD).

The distributable net income of the partnership may be determined by claiming either itemized deductions or OSD. The share in the net income of the partnership, actually or constructively received, shall be reported as taxable income of each partner. The partners comprising the GPP can no longer claim further deduction from their distributive share in the net income of the GPP and are not allowed to avail of the 8% Income Tax rate option since their distributive share from the GPP is already net of cost and expenses.

If the partner also derives other income from trade, business or practice of profession apart and distinct from the share in the net income of the GPP, the deduction that can be claimed from the other income would either be the itemized deductions or OSD.

The following individuals are not required to file Income Tax Return since the Certificate of Withholding filed by the respective employers, duly stamped “Received” by the BIR, shall be tantamount to the substituted filing of Income Tax returns:

a. An individual earning purely compensation income whose taxable income does not exceed Two Hundred Fifty Thousand Pesos (₱ 250,000.00);
b. An individual whose Income Tax has been correctly withheld by his employer, provided that such individual has only one employer for the taxable year; and
c. A minimum wage earner.

An individual whose sole income has been subjected to Final Withholding Tax is also not required to file Income Tax Return. In all cases, all individuals deriving compensation income, regardless of the amount, from two (2) or more concurrent or successive employers at any time during the taxable year, are not qualified for substituted filing. Thus, they are still required to file a return.

Individuals engaged in business/practice of profession, regardless of amount of sales/receipts, are required to file Quarterly Income Tax Return on or before May 15, August 15 and November 15 for the first, second and third quarters of the current year, respectively pursuant to Section 74(A) of the Tax Code, as amended; and to file an annual Income Tax Return not later than the fifteenth (15th) day of the fourth month following the close of the calendar year or April 15 as provided under Section 51(C)(1) of the Tax Code, as amended.

When the tax due is in excess of Two Thousand Pesos (₱ 2,000.00), the individual may elect to pay the tax in two (2) equal installments, wherein the first installment shall be paid at the time the annual Income Tax Return is filed and the second installment paid on or before October 15 following the close of the calendar year.
If any installment is not paid on or before the date fixed for its payment, the whole amount of the unpaid tax becomes due and payable, together with the delinquency penalties to be reckoned on the original date when the tax is required to be paid.

In relation to Sections 24(A)(2)(b) and 24(A)(2)(c) of the Tax Code, as amended, relative to the option of self-employed individuals and/or professionals to avail of an 8% Income Tax rate based on gross sales/receipts and other non-operating income, the existing non-VAT taxpayer who is contemplating to avail of the 8% Income Tax rate at the beginning of the taxable year or before the due date for filing and/or payment of the Percentage Tax shall file an Application for Registration Information Update (BIR Form No. 1905) to end-date the registered tax type of Percentage Tax. If the taxpayer is unable to timely update the required registration, s/he shall continue to file the Percentage Tax return reflecting a zero-amount of tax with a notation that s/he is availing of the 8% Income Tax rate option for the taxable year. S/he is still required to signify the intention to avail the option on the initial Quarterly Income Tax Return for Income Tax purposes. On the other hand, if the non-VAT taxpayer opted to be taxed under the graduated Income Tax rates, s/he shall continue to pay the required Percentage Tax under Sec. 116 of the Tax Code, as amended.

A taxpayer who initially presumed that the gross sales/receipts and other non-operating income for the taxable year will not exceed the ₱3,000,000.00 VAT threshold but has actually exceeded the same during the taxable year shall immediately update his/her registration to reflect the change in tax profile from non-VAT to a VAT taxpayer. S/he shall be required to update registration immediately within the month following the month s/he exceeded the VAT threshold and shall be liable to VAT prospectively starting on the first day of the month following the month when the threshold is breached. The taxpayer shall pay the required Percentage Tax covering the sales/receipts and other non-operating income, from the beginning of the taxable year or commencement of business/practice of profession until the time the taxpayer becomes liable for VAT, without imposition of penalty if timely paid on the immediately succeeding month/quarter. Thus, there may be an instance when a taxpayer files two (2) business tax returns in a month/quarter – i.e., Percentage and VAT returns.

A VAT taxpayer who did not exceed the VAT threshold within the immediately preceding three (3) year period may opt to be a non-VAT taxpayer and avail of the 8% Income Tax rate option. S/he shall update the registration records on or before the first quarter of a taxable year to reflect the change in registration. However, s/he shall remain liable for VAT for as long as there is no update of registration and VAT-registered invoices/receipts are continuously issued. Registration updates shall be subject to existing rules and regulations on updates, verification, inventory and surrender/cancellation of unused VAT-invoices/receipts.

A non-VAT taxpayer who volunteers to be a VAT taxpayer, knowing that sales/receipts and other non-operating income will exceed the VAT threshold within the taxable year, shall update the registration records. Such taxpayer becomes liable to VAT on the day when such updating is made. In this case, the taxpayer shall automatically be subject to the graduated Income Tax rates if the 8% Income Tax rate option is initially selected. Any Income Tax paid under the said flat 8% Income Tax rate shall be deducted from the Income Tax due under the graduated Income Tax rates. The Percentage Tax due from the beginning of the taxable year or commencement of business/practice of profession shall be paid on the month/quarter immediately following such registration update. However, if the graduated Income Tax rate is chosen from the beginning, then taxpayer ceases to be liable to Percentage Tax upon registration updates and, instead, is now liable to VAT.

In connection with the provision of Section 24(A)(2)(b) and Section 24(A)(2)(c) of the Tax Code, as amended, all existing VAT-registered taxpayers whose gross sales/receipts and other non-operating income in the preceding year did not exceed the VAT threshold of
P3,000,000.00 shall have the option to update their registration to non-VAT until March 31, 2018, following the existing procedures on registration update, and the inventory and surrender/cancellation of unused VAT invoices/receipts. After the said date, existing VAT-registered taxpayers who have not exceeded the threshold for the immediately preceding three years may opt to update their registration to non-VAT following rules and regulations on registration updates, verification, and the inventory and cancellation of VAT invoices/receipts.

These regulations are effective beginning January 1, 2018, the effectivity date of the TRAIN Law.