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# Ask Our Experts: Tax Annualization in the Philippines

**Presenters:** Mary Ann ANDA &  
Vivien Claire CALAPAN

**Organiser:** **BIPO** | Make Life Easier.

# Speakers



## **Mary Ann ANDA** **Deputy General Manager, Philippines**

- Mary Ann Anda is Deputy General Manager with BIPO, based in Philippines
- Over 10 years of HR experience specializing in Human Resources, Payroll, Outsourcing and Project Management
- Has Country Experience Processing Payroll for US, Australia – New Zealand, Singapore, Malaysia, Thailand and Philippines



## **Vivien Claire CALAPAN** **HR Service Delivery Manager – Global Payroll** **Outsourcing Team, Philippines**

- Vivien Claire is HR Service Delivery Manager with BIPO, based in Philippines.
- She earned her Bachelor's Degree in Financial Accounting and worked for payroll industry locally and internationally for over 15 years.



# Solutions to Empower your Business

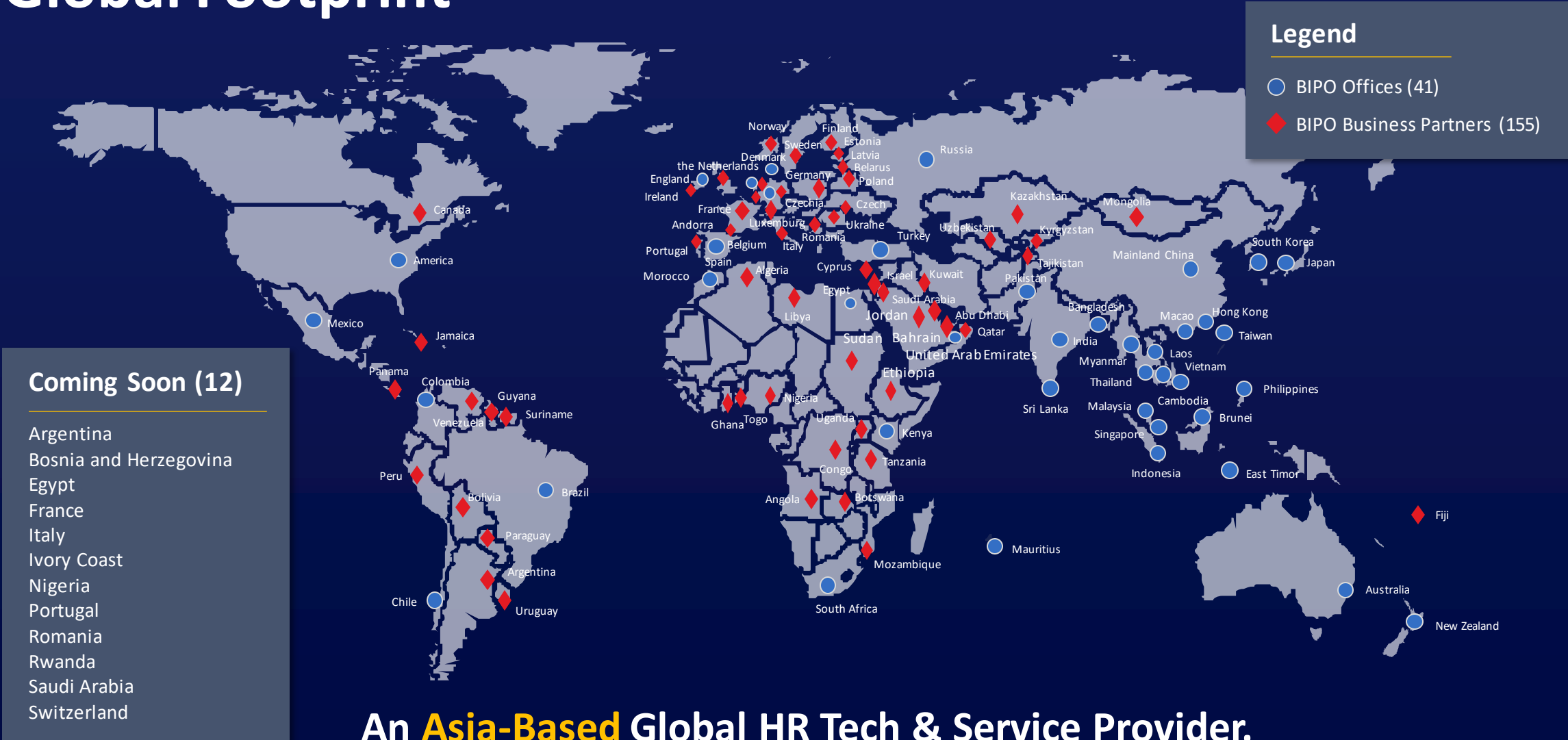
## Products & Services

- BIPO Human Capital Management Solutions
- Global Payroll Outsourcing
- Employer of Record (EOR) & HR Outsourcing Support
- Contractor Management



3,300+ International clients

# Global Footprint



An **Asia-Based** Global HR Tech & Service Provider.

# Total HR Solutions for your Global Workforce



**10+**  
Years of  
experience

**460,000**  
Users  
globally

**150+**  
Countries  
covered for EOR

Payment in  
**200**  
Currencies

**900+**  
Employees  
worldwide

**40+**  
International  
offices

**21**  
Payroll engines  
across countries

More than  
**3,300**  
Clients

## Leader in Asia

- Based in **Asia**, with **global reach**
- Helping global companies. expand **into and out of Asia**
- Core USP: 18 specialist **payroll engines** in Asia.

## Recognised by Peers





# About BIPO Service Philippines

- Established in 2017
- Operations commenced in 2018
- Office Location: Mandaluyong City

## Services We Provide

- Recruitment Services
- HR Consultancy
- Expatriate Services
- Employer of Record (EOR)
- Payroll Outsourcing
- HR Technology & Outsourcing Services



# Awards & Accolades



## Centuro INT-X Awards – UK

- Most Inspirational Global Expansion



## Gold

- Best Payroll Software - **Singapore & Malaysia**
- Best HRMS (Enterprise) - **Singapore & Malaysia**
- Best HRMS (SMB) - **Malaysia**
- Best Employer of Record Service Provider - **Malaysia**



## Human Capital & Performance Awards 2022 - Indonesia

- Best HC Technology Strategy (System Provider Industries)
- Best Overseas Strategy (System Provider Industries)



## HRM Asia Readers' Choice Awards 2022 Best HR Tech

- Cloud Solution - **Gold**
- Time & Attendance Management System - **Gold**
- Human Resource Information System - **Silver**
- Payroll Solution - **Silver**



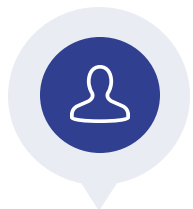
## Best of the Best Awards – Indonesia

- HR Tech - HR Outsourcing

# About BIPO

- Supported by a professional team of experienced local talents, BIPO's service network **Enterprises and SMEs** scale with ease, **with or without a local HR**.
- Our integrated, one-stop HR service model offers comprehensive solutions for businesses – from global recruitment options, outsourced HR functions, local HR legal consulting to HR compliance management. Stay compliant, achieve efficiency and simplify overseas deployment and global mobility process with cost control.

## Without Overseas Business Entity Established



Employer of Record  
(EOR)



HR Compliance  
Consultancy



Dedicated local  
support and  
communication



Work Permit  
Application

## With Overseas Business Entity Established



Local salary  
computation



HR Compliance  
Consultancy



Dedicated local  
support and  
communication



Work Permit  
Application

**Payroll & People Solutions**





## Objectives

01

Understanding the Concept of Tax Annualization

02

To Explore the Process of Tax Annualization

03

To Discuss Best Practices and Strategies

04

To Clarify Reporting Requirements to the BIR



# Understanding the Concept of Tax Annualization

# Significance of Tax Annualization

## Compliance Regulations

Companies meet regulatory requirements set forth by the BIR.

## Payroll and Financial Accuracy

Providing a clear picture of the company's tax liabilities and ensuring transparency in financial statements.

## Avoidance of Discrepancies and Audits

If done correctly, minimizes the likelihood of Tax Discrepancies.

## Enhance Credibility and Trust

Compliance fosters a positive relationship with regulatory authorities.

## Risk Mitigation and Governance

It minimizes the risk of legal repercussions, thereby safeguarding the company's reputation and operations.

## Equitable Distribution of Tax Burden

Tax Deficit among the employees.



# **Tax Annualization / Pre Annualization**

# Tax Annualization / Pre-Annualization

**Tax annualization** refers to the process of determining an employee's annual income tax liability based on their **year-to-date earnings** and other relevant factors. The primary purpose of tax annualization is to **ensure that an individual's income tax dues are correctly calculated and paid in compliance with the country's tax laws.**

In the regular processing of payroll, withholding tax due is normally computed using the Withholding Tax Table.

Withholding Tax Table			
Weekly	Semi-monthly	Monthly	Annualize

More or less the amount of taxes paid at the end of the year will mostly be the same but there are some factors wherein the annual tax computation may vary.

- Bonuses
- Commission
- Overtime Pays



# Tax Annualization / Pre-Annualization

REVISED WITHHOLDING TAX TABLE						
Effective January 1, 2023 and onwards						
DAILY	1	2	3	4	5	6
Compensation Range	₱685 and below	₱685 - ₱1,095	₱1,096 - ₱2,191	₱2,192 - ₱5,478	₱5,479 - ₱21,917	₱21,918 and above
Prescribed Withholding Tax	0.00	0.00 +15% over ₱685	₱61.65 +20% over ₱1,096	₱280.85 +25% over ₱2,192	₱1,102.60 +30% over ₱5,479	₱6,034.30 +35% over ₱21,918
WEEKLY	1	2	3	4	5	6
Compensation Range	₱4,808 and below	₱4,808 - ₱7,691	₱7,692 - ₱15,384	₱15,385 - ₱38,461	₱38,462 - ₱153,845	₱153,846 and above
Prescribed Withholding Tax	0.00	0.00 +15% over ₱4,808	₱432.60 +20% over ₱7,692	₱1,971.20 +25% over ₱15,385	₱7,740.45 +30% over ₱38,462	₱42,355.65 +35% over ₱153,846
SEMI-MONTHLY	1	2	3	4	5	6
Compensation Range	₱10,417 and below	₱10,417 - ₱16,666	₱16,667 - ₱33,332	₱33,333 - ₱83,332	₱83,333 - ₱333,332	₱333,333 and above
Prescribed Withholding Tax	0.00	0.00 +15% over ₱10,417	₱937.50 +20% over ₱16,667	₱4,270.70 +25% over ₱33,333	₱16,770.70 +30% over ₱83,333	₱91,770.70 +35% over ₱333,333
MONTHLY	1	2	3	4	5	6
Compensation Range	₱20,833 and below	₱20,833 - ₱33,332	₱33,333 - ₱66,666	₱66,667 - ₱166,666	₱166,667 - ₱666,666	₱666,667 and above
Prescribed Withholding Tax	0.00	0.00 +15% over ₱20,833	₱1,875.00 +20% over ₱33,333	₱8,541.80 +25% over ₱66,667	₱33,541.80 +30% over ₱166,667	₱183,541.80 +35% over ₱666,667

# Factors Affecting Tax Annualization

## Key Factors Influencing Annual Income Tax Computation:

01

### Salary Adjustments

- Regular Salary Changes
- Salary Increments

02

### Bonuses and Incentives

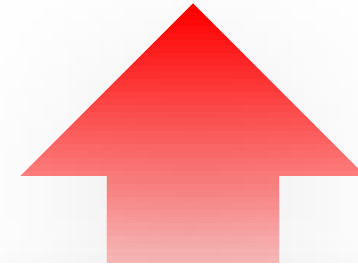
- Performance Bonus
- Non-Monetary Benefits

03

### Deductions and Exemptions

- Standard Deductions
- Non-Monetary Benefits

## Impact on Tax Computation:



**Higher Taxable Income**

**Lower Taxable Income**



# Annualized the Withholding Method

01

When the Employer and Employee Relationship is terminated before end of the calendar Year.

02

When computing for the year-end adjustment, the employer shall determine the amount to be withheld from the compensation or in the end of December of the current calendar year in accordance with the following procedures.

## Documentation and Information Required for Tax Annualization:

Employee Earnings Data

Deductions and Exemptions

Taxable Income Information



# **Steps in Performing Tax Annualization**

# Annualized the Withholding Method

## Step 1

Determine the Taxable Regular and Supplementary Compensation paid to the employee for the entire calendar year.

Regular Taxable Income	Supplementary Taxable Income	Non-Taxable Income
Basic Salary	Commission	13 <sup>th</sup> Month Pay and Other Benefits (Ceiling is 90,000)
Fixed Allowance	Profit Sharing	De Minimis Benefits (RR No. 11-2018 for the threshold)
Housing Allowance	Taxable 13 <sup>th</sup> Month Pay (Above 90K)	Statutory Benefits
Mobile Allowance	Overtime Pay	
Transportation Allowance	Taxable De Minimis Allowance	



## Step 2

- Waiver, in absence of the BIR 2316

## Current Year

[illegible]

# Annualized the Withholding Method

## Step 3

Compute the Amount of Tax on the Amount arrived in Step 2 (Less Statutory Contributions), in accordance with the applicable schedules.

## Step 4

Determine the Tax Deficit / Refund, if any, of the tax computed in step 3 over the cumulative withholding tax already deducted and withheld since the beginning of the current calendar year.

### Tax Deficit

Tax Computed in Step 3 > Amount of Cumulative Tax already deducted and withheld. Hence it is very helpful we do the pre-annualization, should there be any deficit it will be spread out the to the remaining months.

### Tax Refund

Tax Computed in Step 3 < Amount of Cumulative Tax already deducted and withheld. The excess tax shall be refunded back to the employee not later than January 25 of the following year. However, in case of termination of employment before December, the refund shall be given to the employee at the payment of the last compensation during the year.

The annualized computation done for each employee shall be reflected by the employer at the Alphabetical List attached to BIR Form No. 1604C.

# Sample Illustration

**Employee:** Rodrigo Dutuerte

**Hire Date:** Feb 14, 2021

**Payout:** December 2023

## Step 1

## Step 2

Months	Remarks	Regular				Supplementary			Gross Taxable	Statutory	Taxable Income	Regular Tax	Direct Tax	Total Tax
		Basic Pay	A_E_HOUSE_ALL W_T\HousingAllo wance_T	A_PH_E_SECON DMENT\Second mentAllowance	Total	Taxable Bonus	Other Taxable Income	Total						
Previous ER Projection	Actual							-	-	-	-	-	-	-
January	Actual	92,308.34	-	-	92,308.34	-	90,944.17	90,944.17	183,252.51	(3,050.00)	180,202.51	(37,602.45)	0%	(37,602.45)
February	Actual	92,308.34	-	-	92,308.34	-	-	-	92,308.34	(3,050.00)	89,258.34	(14,189.64)	0%	(14,189.64)
March	Actual	92,308.34	-	-	92,308.34	-	2,620.38	2,620.38	94,928.72	(3,050.00)	91,878.72	(14,844.73)	0%	(14,844.73)
April	Actual	92,308.34	-	-	92,308.34	-	-	-	92,308.34	(3,050.00)	89,258.34	(14,189.64)	0%	(14,189.64)
May	Actual	92,308.34	-	-	92,308.34	-	-	-	92,308.34	(3,050.00)	89,258.34	(14,189.64)	0%	(14,189.64)
June	Actual	92,308.34	-	-	92,308.34	-	23,785.00	23,785.00	116,093.34	(3,050.00)	113,043.34	(20,135.89)	0%	(20,135.89)
July	Actual	92,308.34	-	-	92,308.34	-	26,666.67	26,666.67	118,975.01	(3,050.00)	115,925.01	(20,856.30)	0%	(20,856.30)
August	Actual	92,308.34	-	-	92,308.34	-	-	-	92,308.34	(3,050.00)	89,258.34	(14,189.64)	0%	(14,189.64)
September	Actual	92,308.34	-	-	92,308.34	33,693.17	-	33,693.17	126,001.51	(3,050.00)	122,951.51	(22,443.58)	0%	(22,443.58)
October	Actual	97,385.30	-	-	97,385.30	-	2,334.23	2,334.23	99,719.53	(3,050.00)	96,669.53	(15,873.09)	0%	(15,873.09)
November	Actual	97,385.30	-	-	97,385.30	51,231.13	-	51,231.13	148,616.43	(3,050.00)	145,566.43	(28,097.31)	0%	(28,097.31)
December	Current	97,385.30	-	-	97,385.30	-	-	-	97,385.30	(3,050.00)	94,335.30	(15,289.52)	25%	(15,289.52)
<b>Total</b>		<b>1,122,930.96</b>	<b>-</b>	<b>-</b>	<b>1,122,930.96</b>	<b>84,924.30</b>	<b>146,350.45</b>	<b>231,274.75</b>	<b>1,354,205.71</b>	<b>(36,600.00)</b>	<b>1,317,605.71</b>			<b>(231,901.43)</b>

### Income Tax Tables under TRAIN Law

(Part 2 – Applicable from Year 2023 Onwards)

Source: BIR and www.PinoyMoneyTalk.com

ANNUAL INCOME	TAX RATE
P250,000 and below	None (0%)
Above P250,000 to P400,000	15% of excess over P250,000
Above P400,000 to P800,000	P22,500 + 20% of excess over P400,000
Above P800,000 to P2,000,000	P102,500 + 25% of excess over P800,000
Above P2,000,000 to P8,000,000	P402,500 + 30% of excess over P2,000,000
Above P8,000,000	P2,202.5 million + 35% of excess over P8 million

Should be Annual Tax

231,901.43

Tax Deducted (Jan-Nov)

216,611.91

Remaining Tax for Deduction

15,289.52

Tax Deduction per Payout

15,289.52

Tax Due

-

# Sample Illustration

**Employee:** Juan Dela Cruz

**Hire Date:** July 1, 2023

**Payout:** November 2023

**Step 1**

**Step 2**

Months	Remarks	Regular				Supplementary			Gross Taxable	Statutory	Taxable Income	Regular Tax	Direct Tax	Total Tax
		Basic Pay	A_E_HOUSE_ALL W_T\HousingAllo wance_T	A_PH_E_SECON DMENT\Second mentAllowance	Total	Taxable Bonus	Other Taxable Income	Total						
Previous ER	Actual										474,575.84	(37,415.17)		(37,415.17)
Projection								-	-	-	-	-	-	-
January	Actual	-	-	-	-	-	-	-	-	-	-	-	0%	-
February	Actual	-	-	-	-	-	-	-	-	-	-	-	0%	-
March	Actual	-	-	-	-	-	-	-	-	-	-	-	0%	-
April	Actual	-	-	-	-	-	-	-	-	-	-	-	0%	-
May	Actual	-	-	-	-	-	-	-	-	-	-	-	0%	-
June	Actual	-	-	-	-	-	-	-	-	-	-	-	0%	-
July	Actual	190,000.00	-	-	190,000.00	-	159,605.91	159,605.91	349,605.9	(3,050.00)	346,555.91	(87,508.47)	0%	(87,508.47)
August	Actual	190,000.00	-	-	190,000.00	-	-	-	190,000.0	(3,050.00)	186,950.00	(39,626.70)	0%	(39,626.70)
September	Actual	190,000.00	-	-	190,000.00	-	-	-	190,000.0	(3,050.00)	186,950.00	(44,230.03)	0%	(44,230.03)
October	Actual	190,000.00	-	-	190,000.00	-	-	-	190,000.0	(3,050.00)	186,950.00	(44,230.02)	0%	(44,230.02)
November	Current	190,000.00	-	-	190,000.00	48,452.92	-	48,452.92	238,452.9	(3,050.00)	235,402.92	(44,230.02)	25%	(12,113.23)
December	Projected	190,000.00	-	-	190,000.00	-	-	-	190,000.0	(3,050.00)	186,950.00	(44,230.02)	0%	(44,230.02)
<b>Total</b>		<b>1,140,000.00</b>	<b>-</b>	<b>-</b>	<b>1,140,000.00</b>	<b>48,452.92</b>	<b>159,605.91</b>	<b>208,058.83</b>	<b>1,348,058.8</b>	<b>(18,300.00)</b>	<b>1,804,334.67</b>		<b>(353,583.67)</b>	

## Income Tax Tables under TRAIN Law

(Part 2 – Applicable from Year 2023 Onwards)

Source: BIR and www.PinoyMoneyTalk.com

ANNUAL INCOME	TAX RATE
P250,000 and below	None (0%)
Above P250,000 to P400,000	15% of excess over P250,000
Above P400,000 to P800,000	P22,500 + 20% of excess over P400,000
Above P800,000 to P2,000,000	P102,500 + 25% of excess over P800,000
Above P2,000,000 to P8,000,000	P402,500 + 30% of excess over P2,000,000
Above P8,000,000	P2.2025 million + 35% of excess over P8 million

Should be Annual Tax

353,583.67

Tax Deducted (Jan-Oct)

265,123.62

Remaining Tax for Deduction

88,460.05

Tax Deduction per Payout

44,230.02

Tax Due

-

# Sample Illustration

Employee: Melissa Cruz

Hire Date: July 1, 2023

Payout: December 2023

Step 1

Step 2

Months	Remarks	Regular				Supplementary			Gross Taxable	Statutory	Taxable Income	Regular Tax	Direct Tax		Total Tax
		Basic Pay	A_E_HOUSE_ALL W_T\HousingAllo wance_T	A_PH_E_SECON DMENT\Second mentAllowance	Total	Taxable Bonus	Other Taxable Income	Total							
Previous ER	Actual										-	-			-
Projection								-	-	-	-	-			-
January	Actual	-	-	-	-	-	-	-	-	-	-	-	0%	-	-
February	Actual	-	-	-	-	-	-	-	-	-	-	-	0%	-	-
March	Actual	-	-	-	-	-	-	-	-	-	-	-	0%	-	-
April	Actual	-	-	-	-	-	-	-	-	-	-	-	0%	-	-
May	Actual	-	-	-	-	-	-	-	-	-	-	-	0%	-	-
June	Actual	-	-	-	-	-	-	-	-	-	-	-	0%	-	-
July	Actual	190,000.00	-	-	190,000.00	-	159,605.91	159,605.91	349,605.91	(3,050.00)	346,555.91	(87,508.47)	0%	-	(87,508.47)
August	Actual	190,000.00	-	-	190,000.00	-	-	-	190,000.00	(3,050.00)	186,950.00	(39,626.70)	0%	-	(39,626.70)
September	Actual	190,000.00	-	-	190,000.00	-	-	-	190,000.00	(3,050.00)	186,950.00	(44,230.03)	0%	-	(44,230.03)
October	Actual	190,000.00	-	-	190,000.00	-	-	-	190,000.00	(3,050.00)	186,950.00	(44,230.02)	0%	-	(44,230.02)
November	Actual	190,000.00	-	-	190,000.00	48,452.92	-	48,452.92	238,452.92	(3,050.00)	235,402.92	(56,343.26)	0%	-	(56,343.26)
December	Current	190,000.00	-	-	190,000.00	-	-	-	190,000.00	(3,050.00)	186,950.00	-	25%	-	-
Total		1,140,000.00	-	-	1,140,000.00	48,452.92	159,605.91	208,058.83	1,348,058.83	(18,300.00)	1,329,758.83			(271,938.48)	

Income Tax Tables under TRAIN Law	
(Part 2 – Applicable from Year 2023 Onwards)	
Source: BIR and www.PinoyMoneyTalk.com	
ANNUAL INCOME	TAX RATE
P250,000 and below	None (0%)
Above P250,000 to P400,000	15% of excess over P250,000
Above P400,000 to P800,000	P22,500 + 20% of excess over P400,000
Above P800,000 to P2,000,000	P102,500 + 25% of excess over P800,000
Above P2,000,000 to P8,000,000	P402,500 + 30% of excess over P2,000,000
Above P8,000,000	P2.2025 million + 35% of excess over P8 million

Should be Annual Tax	234,939.71
Tax Deducted (Jan-Nov)	309,353.65
Remaining Tax for Deduction	-
Tax Deduction per Payout	-
Tax Refund in Dec	36,998.77





# **Year-End Compliance Requirements**

# Year Compliance Requirements

## Specific Requirements and Deadlines by BIR

Forms / Requirements	Description	Responsibility	Deadline
BIR2316	Annual Income Tax Form	Employers	31 Jan
BIR1604-CF	Summarizing annual compensation income and taxes withheld from employees	Employers	31 Jan
Alphalist of Employees and Compensation (DAT FILE)	Detailed list of employee information, income, and taxes withheld	Employers	31 Jan
2316 (DVD), Annex B and Annex C submission to BIR		Employers	28 Feb
BIR1604-E	For reporting creditable income taxes withheld other than on compensation	Employers	31 Mar

# Year Compliance Requirements

Common Challenges Faced During Tax Annualization:

**Accuracy of Data Compilation**

**Compliance with Changing Regulations**

**Complexity in Calculations**

**Time Constraints and Deadlines**

# Understanding Tax Annualization

- **Tax annualization** plays a pivotal role in accurately computing annual income tax obligations for employees in the Philippines.
- **Compliance with BIR regulations regarding reporting and documentation** is crucial for businesses to avoid penalties and ensure transparency.
- Understanding factors such as **salary adjustments, bonuses, and deductions** is essential in determining taxable income and its impact on tax liabilities.
- Efficient practices, staying updated with **tax laws, and seeking professional advice** are vital for accurate tax annualization.

**Q&A**



# THANKS



Fill in the form to receive the webinar deck!  
<https://bit.ly/bipowebinarfeedback2023>



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