

Ask our Experts:

Philippines Tax Annualization & Year-end Reporting



Article contributed by

Mary Ann Anda

Deputy General Manager (Philippines)



With December being the last payroll month of the year, employers in the Philippines must carry out year-end payroll adjustments or annualization as part of their obligations.

This yearly occurrence is necessary to determine each employee's tax amount due for the year. The annual income tax due includes all salary and other supplementary income, including those from previous employer(s).

To help employers (and employees) navigate tax annualization in the Philippines, we review some of the commonly asked questions.

1

What is Tax Annualization?

Tax annualization is the process of equalising the tax withheld and the tax due on an employee's income during the fiscal year. Companies conduct tax annualization to ensure that employees and the company are paying the correct amount of tax to the Bureau of Internal Revenue (BIR).



2 Important dates to take note of?

By **31 January 2023**, employers must provide their employees with a copy of the BIR- 2316 form.

On or before **28 February 2023**, the BIR-2316 form must be signed by all employees and the employer. The form and any other details must then be submitted to the Bureau of Internal Revenue (BIR).

3 What is the BIR-2316 Form?

The BIR-2316 form, also known as the Certificate of Compensation Payment/Tax Withheld, is an official document that states an employee's gross income and the tax withheld by the employer during the fiscal year. All companies that engaged an employee during the previous year are required to submit the 2316 form to the Bureau of Internal Revenue (BIR). The 2316 form allows the BIR to monitor the company's tax compliance.



4 Why am I receiving large deductions/refunds during the year-end?

Tax deductions are usually calculated based on the gross taxable salary and the BIR's tax table. However, it is essential to note that different tax tables apply depending on the pay cycle in a company. In addition, there is another guide during the tax annualization period, i.e. the **annual tax table**.

Although taxes calculated using both methods will yield the same amount, other elements could affect these calculations:

- Salary adjustments made in the middle of the year
- Frequent absences or prolonged leave
- Salary deductions
- An employee hired in the middle of the year

4 Why am I receiving large deductions/refunds during the year-end?

Therefore, changes may be expected when these factors are considered. Generally, a refund applies when the employee:

- Does not meet the PHP 250,000.00 cap
- Receives a considerable amount of taxable income in the middle of the year
- Is a new hire and joins in the middle of the year

On the other hand, further deductions are likely to be incurred under these circumstances:

- Employee's taxable income bracket changes for the year
- Employee has a previous employer and submits 2316 to the new employer for consolidation.



5 How do I compute my annualized tax?

Before computing the annualized tax, here employers need to:

- Have a complete record of employees' earnings in a year to ensure accurate calculation
- Find out which income is taxable and which is not
- Understand how the gross taxable income is derived, i.e.

$$\text{Gross Taxable Income} = \text{Taxable Income} - \text{Statutory Deductions}$$

5 How do I compute my annualized tax?

Once the gross taxable income is computed, refer to the **annual tax table** below:

Taxable Income	Tax Due
Not over P250,000	0%
Over P250,000 but not over P400,000	20% of the excess over P250,000
Over P400,000 but not over P800,000	P30,000 + 25% of the excess over P400,000
Over P800,000 but not over P2,000,000	P130,000 + 30% of the excess over P800,000
Over P2,000,000 but not over P8,000,000	P490,000 + 32% of the excess over P2,000,000
Over P8,000,000	P2,410,000 + 35% of the excess over P8,000,000

As an example:

If the gross taxable income tax for the entire year is **PHP 450,000**, the tax due will be **PHP 42,500**.

$$\begin{aligned}
 \text{Annual Tax Due} &= \text{PHP } 30,000 + 25\% (\text{PHP } 450,000 - \text{PHP } 400,000) \\
 &= \text{PHP } 30,000 + 25\% (\text{PHP } 50,000) \\
 &= \text{PHP } 30,000 + \text{PHP } 12,500 \\
 &= \underline{\text{PHP } 42,500}
 \end{aligned}$$

Finally, subtract the Annual Tax Due to the Tax Withheld the entire year. This determines if a refund or remaining is due.

In Summary

Conducting the tax annualization ensures that your employees' payroll is accurate, as the Bureau of Internal Revenue requires. Furthermore, as employers in the Philippines act as the Withholding Agent, ensuring that your company fully complies with the relevant tax laws and labour regulations is vital.

The Highlights

Here are some steps required to conduct a tax annualization for your employees.

- 1 Collate payroll data from January to December.
- 2 Determine non-taxable income to exclude from the taxable amount. Some non-taxable income items include:
 - 13th-month pay and other benefits (sum not exceeding the 90K ceiling)
 - De-Minimis benefits (amount not exceeding the cap per benefit)
 - Social insurance (eg: SSS, Philhealth and HDMF) – employee share only
 - Separation pay
 - Salary of minimum wage earners
- 3 Compute the total withholding tax due for the year.
- 4 Subtract the annual tax due from the total taxes withheld.

To ensure your company stays compliant, partner with a reliable payroll outsourcing vendor such as BIPO that has the expertise and local in-country service delivery team.

Alternatively, a flexible cloud-based payroll software like BIPO HRMS with built-in payroll calculation enables you to perform the tax annualization with ease.

Find out how BIPO can conduct tax annualization for your employees. Reach out to our team of payroll and HR experts in the Philippines: hello@biposervice.com

Sources:

<https://www.bir.gov.ph/index.php/tax-information/withholding-tax.html>

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