

BIPO TIMES

February 2024 Vol. 78

www.biposervice.com

Tax Annualization in the Philippines

Overview

Tax annualization in the Philippines refers to the process of calculating an individual's annual income tax liability. This involves assessing and adjusting the tax obligations for the entire year based on the income earned during a specific period. The objective is to provide a more accurate representation of the taxpayer's yearly tax liability, considering various factors such as bonuses, allowances, and deductions.

The annualization process ensures that individuals fulfill their tax obligations in accordance with Philippine tax laws, and it often involves breaking down the steps of computation, discussing best practices, and outlining reporting requirements to the Bureau of Internal Revenue (BIR). Overall, tax annualization plays a crucial role in maintaining tax accuracy and compliance for employees in the Philippines.

Basic Country Facts



Capital
Manila



Population
115.5 million
[The World Bank](#)



Currency
Philippine Peso (PHP, also ₱)



GDP per Capita
USD \$3,498.50 (as of 2022)
[The World Bank](#)

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, minimises the likelihood of Tax Discrepancies.
- **Enhance Credibility and Trust:** Compliance fosters a positive relationship with regulatory authorities.
- **Risk Mitigation and Governance:** It minimises 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 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.**

Withholding Tax Table			
Weekly	Semi-monthly	Monthly	Annualize

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

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

Source: [Bureau of Internal Revenue \(BIR\)](#)

Factors Affecting Tax Annualization

Key Factors Influencing Annual Income Tax Computation:

1. **Salary Adjustments**
 - Regular Salary Changes
 - Salary Increments
2. **Bonuses and Incentives**
 - Performance Bonus
 - Non-Monetary Benefits
3. **Deductions and Exemptions**
 - Standard Deductions
 - Non-Monetary Benefits



Impact on Tax Computation:



Annualized the Withholding Method

1. When the Employer and Employee relationship is terminated before end of the calendar year.
2. 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	13th 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 13th Month Pay (Above 90K)	Statutory Benefits
Mobile Allowance	Overtime Pay	
Transportation Allowance	Taxable De Minimis Allowance	

Step 2

Requires previous Employer Record within the year. If the employee has previous employment/s within the year, add the amount of taxable regular and supplementary compensation paid to the employee by the present employer doing the annualized computation to the taxable income received from the previous employer.

- Waiver, in absence of the BIR 2316

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 Refund
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 to the remaining months.	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.

Year Compliance Requirements

Specific Requirements and Deadlines by BIR

Forms / Requirements	Description	Responsibility	Deadline
BIR2316	Annual Income Tax Form	Employers	31 Jan
BIR1604-CF	Summarising annual compensation income and taxes withheld from employees	Employers	31 Jan
Alpha list 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

Common Challenges Faced During Tax Annualization

Accuracy of Data Compilation	Consolidation this information requires meticulous attention to detail. Errors and discrepancies in data entry could significantly impact the final tax calculations. It may lead potentially to incorrect filings and penalties.
Compliance with Changing Regulations	Staying compliant with ever-evolving tax laws and regulations poses a significant challenge. What was acceptable last year might not be applicable this year. Usually in the Philippines, they will release a memo few days before the deadline.
Complexity in Calculations	Tax Annualization involves intricate calculations that can often be overwhelming. Navigating through these calculations requires a deep understanding of how the taxes are being calculated and the good thing is we have different software and services like BIPO who can help especially at the yearend.
Time Constraints and Deadlines	Time is of the essence when it comes to Tax Annualization. Meeting deadlines amidst complex calculations, data compilation, and compliance obligations can be daunting.

In Summary – 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.

Article contributed by

Mary Ann Anda
Deputy General Manager, Philippines
E: mary.anda@biposervice.com

Vivien Claire Calapan
HR Service Delivery Manager, Philippines
E: vivien.calapan@biposervice.com

Around the World with BIPO

At BIPO, we are committed to facilitating international business growth. Here's a quick look at how we foster discussions with the business community, sharing our expertise at local events across the region!

Europe

10 Jan

Navigating the Labour Market in Spain & Portugal with Monica Preciado



Thailand

16 Jan

UOB Economic Outlook & Invest Thailand 2024 with Albert Liew



25 Jan

Oracle Executive Connect Thailand 2024

ORACLE

Laos

10-14 Jan

Lao Digital Week



Singapore

16 Jan

French Chamber of Commerce Frenchfounders Networking Event



19 Jan

HRTech.sg People Analytics Masterclass with Henry Liew



Indonesia

30 Jan

Ask Our Experts: Indonesia's Omnibus Law on Job Creation with Mario Widjaja



About BIPO

Established in 2010 and headquartered in Singapore, BIPO is a global payroll and people solutions provider. Our comprehensive **total HR solutions** include our Human Capital Management (HCM) suite, Global Payroll Outsourcing (GPO) and Employer of Record (EOR) service across **150+ global markets**.

Connect with our experts today: hello@biposervice.com

Copyright © 2024 BIPO Service. All rights reserved.

Find out more



www.biposervice.com



www.facebook.com/biposvc



www.linkedin.com/company/bipo-svc

