PART I: RA 9504 – Tax Exemption of Minimum Wage Earners

PART II: Annualized Withholding Tax
Part I: Taxation of MWEs, DeMinimis & FBT

REPUBLIC ACT 9504
(Amending Sec. 22, 24, 34, 35, 51 & 79 of RA 8424)
Definition of terms

1. **Statutory Minimum Wage (SMW)** - shall refer to the rate fixed by the Regional Tripartite Wage and Productivity Board (RTWPB) as defined by the Bureau of Labor and Employment Statistics (BLES) of the Department of Labor and Employment (DOLE). The RTWPB of each region shall determine the wage rates in the different regions based on established criteria and shall be the basis of exemption from income tax for this purpose.

2. **Minimum Wage Earner (MWE)** - shall refer to a worker in the private sector paid the statutory minimum wage, or to an employee in the public sector with compensation income of not more that the statutory minimum wage in the non-agricultural sector where he/she is assigned.”
Minimum wage earners shall be exempt from the payment of income tax on their taxable income. Provided further, that:

1. holiday pay;
2. overtime pay;
3. nightshift differential pay and
4. hazard pay.

received by such minimum wage earners shall likewise be exempt from income tax.
RULES ON THE INCOME TAX EXEMPTION

1. An employee who receives/earns additional compensation such as:

1. Commissions;
2. Honoraria;
3. Fringe Benefits;
4. Benefits in excess of the allowable statutory amount of P30,000;
5. Taxable allowances;
6. Other taxable income other than the SMW, holiday pay, overtime pay, hazard pay and night shift differential pay

shall not enjoy the privilege of being a MWE. Entire earnings are NOT EXEMPT from income tax and consequently subject to the withholding tax;
2. **Minimum Wage Earners** receiving other income, such as income from the conduct of trade, business or practice of profession, except income subject to final tax, in addition to compensation income **ARE NOT EXEMPTED** from income tax for the entire earnings.

This rule, notwithstanding, the SMV, Holiday pay, Overtime Pay, Night shift differential pay and hazard pay shall still be exempt from withholding tax.
## PERSONAL AND ADDITIONAL EXEMPTIONS UNDER RA 9504

### I. PERSONAL EXEMPTIONS:

1. SINGLE/ widow/widower/Legally separated w/ no qualified dependents
2. HEAD OF FAMILY
3. MARRIED

### II. ADDITIONAL EXEMPTIONS

*for Qualified Dependent Children (QDC)*

<table>
<thead>
<tr>
<th>RA 9504</th>
<th>P50,000.00</th>
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<tr>
<td>P50,000.00</td>
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<tr>
<td>P50,000.00</td>
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</tbody>
</table>

P25,000.00 each child, maximum of four (4) children
HAZARD PAY of MWEs

Hazard pay shall mean the amount paid by the employer to MWEs who were actually assigned to danger or strife-torn areas, disease-infested places, or in distressed or isolated stations and camps, which expose them to great danger of contagion or peril to life.

Any hazard pay paid to MWEs which does not satisfy the above criteria is deemed subject to income tax and consequently to withholding tax.
In case of hazardous employment, a list of MWEs who received the hazard pay shall be attached to the Monthly Remittance Return of Withholding Tax on Compensation (BIR Form 1601C) for return periods March, June, September and December.

For private sector employer - a copy of the list submitted to nearest DOLE office showing the names of MWEs who received the hazard pay.

For public sector employer - a copy of DBM circular or equivalent, as to who are allowed to receive hazard pay.
Income Tax Exemption of “De Minimis Benefits” (as amended by RR 5-2011)
Definition of De Minimis Benefits:

The term “DE MINIMIS” benefits which are exempt from the fringe benefits tax shall, in general, be limited to facilities or privileges furnished or offered by an employer to his employees that are of relatively small value and are offered or furnished by the employer merely as a means of promoting the health, goodwill, contentment or efficiency of his employees.

The amount of “De Minimis” Benefits conforming to the ceiling herein prescribed shall not be considered in determining the P30,000 ceiling of "other benefits" provided under Section 32(b)(7)(e) of the Code. However, if the employer pays more than the ceiling prescribed by these regulations, the excess shall be taxable to the employee receiving the benefits only if such excess is beyond the P30,000.00 ceiling.

The following shall be considered as De Minimis benefits not subject to income tax as well as withholding tax on compensation income of both managerial and rank and file employees:
NOT TAXABLE -
(De Minimis Benefits)

a) Monetized unused vacation leave credits of private employees not exceeding ten (10) days during the year;

b) Monetized value of vacation and sick leave credits paid to government officials and employees;

c) Medical cash allowance to dependents of employees not exceeding ₱750.00 per employee per semester or ₱125 per month;

d) Rice subsidy of ₱1,500 or (one) 1 sack of 50-kg rice per month amounting to not more than ₱1,500;

e) Uniforms & clothing allowance not exceeding ₱4,000 per annum;
f. Actual yearly medical assistance not exceeding P10,000 per annum;

g. Laundry Allowance not exceeding P300/mo.;

h. Employee 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 P10,000 received by the employee under an established written plan which does not discriminate in favor of highly paid employees;
i. Christmas Gifts and Major Anniversary Celebrations not exceeding P5,000 per employee per annum;

j. Daily meal allowance for overtime work and night/graveyard shift not exceeding 25% of the Basic Minimum Wage on per region basis.

* All other benefits given by employers which are not included in the above enumeration shall not be considered as “de minimis benefits”, and hence, shall be subject to income tax as well as w/tax on compensation.
TAXABLE AND NOT TAXABLE COMPENSATION INCOME

TAXABLE

A. REGULAR COMPENSATION

1. Basic Salary
2. Transportation Allowance
3. Representation Allowance
4. COLA
5. Other remuneration paid regularly per payroll period, including Honorarium

B. SUPPLEMENTARY COMPENSATION

1. Fees, including director’s fees
2. Commissions
3. Overtime Pay
4. Taxable Retirement Pay
5. Taxable Separation Pay
6. Taxable Money Value of Leave Credits
7. Taxable Fringe Benefits of Rank and file employees.
8. Taxable monetized unused vacation and sick leave.
9. Other supplemental compensation.
Exclusions from gross income under Section 32(B)

1. Proceeds of life insurance;
2. Return of premium;
3. Gifts, Bequests, and Devises;
4. Compensation for injuries or sickness;
5. Income exempt under treaty;
6. Retirement Benefits, pensions, gratuities (RA 7641/Reasonable private benefit plan; separation pay due to death, sickness or any cause beyond the control of the employee; SSS/GSIS, etc.);
7. Miscellaneous Items (Prizes/rewards for works on religious, scientific, sports, etc.; 13th mo pay/other benefits; ind. cont to SSS/GSIS/PagIbig/Union /dues.)
Taxation of Fringe Benefits
Fringe Benefits Tax (FBT) (RR 3-98)

Any good, service, or other benefit furnished or granted by an employer in cash or in kind, in addition to basic salaries, to an individual employees (except rank and file employee)

- **FBT RATE:** Final W/Tax based on Grossed up monetary value x tax rate
  (Divide by 68% x 32% FBT rate)
Fringe Benefits granted/furnished to managers and supervisors:

1. Housing
2. Vehicle of any kind
3. Expense Account
4. Household personnel
5. Interest on loan less than market value
6. Holiday and Vacation expense
7. Expenses for foreign travel
8. Education assistance
9. Life or health insurance in excess of what the law allows
END OF PART I
PART 2

Withholding Tax on Compensation/Annualized Computation
Annualized Withholding Tax

Step 1 - Determine the taxable regular and supplementary compensation paid to the employee for the entire calendar year;

Step 2 - If the employee has previous employments within the year, add the amount of taxable regular and supplementary compensation paid to the employee by the previous employer;
Step 3- Deduct from the aggregate amount of compensation computed in step 2 the amount of the total personal and additional exemptions of the employee;

**Personal Exemptions:**
- Single - P 50,000
- Head of the Family - P 50,000
- Married - P 50,000

**Additional Exemption:**
- P25,000 for each qualified dependent child not exceeding four (4).
Step 4 - Deduct the amount of premium payment on Health and/or Hospitalization Insurance of employees who have presented evidence that they have paid the same during the taxable year.

Note: The deductible amount shall not exceed P2,400/annum or P200/month whichever is lower and total family gross income does not exceed P250,000 for the calendar year.
**Annualized Withholding Tax**

**Step 5-** Compute the amount of tax on the difference arrived at in Step 4.

<table>
<thead>
<tr>
<th>Over</th>
<th>But not Over</th>
<th>Amount Rate</th>
<th>of Excess Over</th>
</tr>
</thead>
<tbody>
<tr>
<td>not over</td>
<td>10,000</td>
<td>5%</td>
<td>10,000</td>
</tr>
<tr>
<td>10,000</td>
<td>30,000</td>
<td>500 + 10%</td>
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</tr>
<tr>
<td>30,000</td>
<td>70,000</td>
<td>2,500 + 15%</td>
<td>30,000</td>
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<tr>
<td>70,000</td>
<td>140,000</td>
<td>8,500 + 20%</td>
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<td>140,000</td>
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<td>22,500 + 25%</td>
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<tr>
<td>250,000</td>
<td>500,000</td>
<td>50,000 + 30%</td>
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</tr>
<tr>
<td>500,000</td>
<td>over</td>
<td>125,000 + 32%</td>
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</table>
Annualized Withholding Tax

Step 6- Determine the deficiency or excess, if any, of the tax computed in Step 5 over the cumulative tax already deducted and withheld since the beginning of the current calendar year.
Format - Annualized Withholding Tax

Gross Compensation Income (present + previous employer) P XXX

Less: Non-Taxable/Exempt Compensation Income
   a.) 13th Month pay and other benefits xx
   b.) Other non-taxable benefits xx
   c.) SSS, GSIS, PHIC, Pag-ibig and Union Dues (employees share only) xx XXX

Less: a.) Personal and Additional Exemption xx
     b.) Health/Hospitalization premium payment (if applicable) xx XXX

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Taxable Compensation Income XXX

Tax Due XXX

Tax Withheld (Jan-Nov.) (Jan.-termination)

Collectible: Tax due > tax withheld → collect before payment of last wage

Refund: Tax due < tax withheld → Refund on or before Jan 15th of the yr/last payment of wage

Break even: Tax due = tax withheld → do not withhold for December salary
Sample Problem

Mr. Jacobson, married with 2 qualified dependent children receives P 15,000.00 monthly compensation (net of SSS, philhealth, HDMF employees contribution). 13th Mo Pay/Other Benefits for the year amounted to P25,000. Tax withheld Jan-Nov. 2009 was P9,800.00

Total Compensation Jan-Nov. 15,000 x 11 mos. P 165,000.00
Add: Compensation to be received in December 15,000.00
Gross Compensation P 180,000.00
Less: Personal Exemption - married P 50,000
  Additional Exemption- 2 x P25,000 50,000
Total Taxable Compensation income P 80,000.00

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Tax Due (using annual IT table) P 10,500.00
Less Tax Withheld from Jan to Nov. 9,800.00
Collectible Withholding Tax for December Salary P 700.00

(Note: 13th Mo Pay/Other Benefits of P25,000 exempt from tax. Threshold amt: P30,000)
Sample Computations on the use of the Withholding Tax Tables:

**EXAMPLE I:** Mr. A, single with no dependent, receives P12,000.00 (net of SSS/GSIS, PHIC, HDMF employee share only) as monthly regular compensation and P5,000.00 as supplementary compensation for January 2009 or a total of P17,000.00.

**COMPUTATION:** Using the monthly withholding tax table (Revised Withholding Tax Tables beginning January 1, 2009), the withholding tax for January 2009 is computed by referring to Table A line 2 S of column 5 (fix compensation level taking into account only the regular compensation income of (P12,000.00) which shows a tax of P708.33 on P10,000.00 plus 20% of the excess of P2,000.00 (P12,000.00 less P10,000.00) plus P5,000.00 supplementary compensation.

<table>
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<th>Regular compensation</th>
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<tr>
<td>Less: compensation level</td>
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<tr>
<td>(line A-2 Column 5)</td>
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<tr>
<td>Excess</td>
<td>P 2,000.00</td>
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<tr>
<td>Add: Supplementary compensation</td>
<td>5,000.00</td>
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<tr>
<td>Total</td>
<td>P 7,000.00</td>
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<tr>
<td>Tax on P10,000.00</td>
<td>P 708.33</td>
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<tr>
<td>Tax on excess (P7,000 x 20%)</td>
<td>P 1,400.00</td>
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<td>Withholding tax for January 2009</td>
<td>P 2,108.33</td>
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<table>
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<th>2</th>
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<th>4</th>
<th>5</th>
<th>6</th>
<th>7</th>
<th>8</th>
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<td>708.33</td>
<td>1,875.00</td>
<td>4,166.67</td>
<td>10,416.67</td>
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<td>+5% over</td>
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<td>+15% over</td>
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<td>+30% over</td>
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<tr>
<td>A. Table for employees without qualified dependent</td>
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<td></td>
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<td>2. S/ME</td>
<td>50.0</td>
<td>1</td>
<td>4,167</td>
<td>5,000</td>
<td>6,667</td>
<td>10,000</td>
<td>15,833</td>
<td>25,000</td>
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</table>
Annual Information Returns (BIR Form 1604CF / 1604 E)  
Including the Alphabetical List of Employees and Income Receipt

1. **Manual submission** - 3 copies of 1604 CF/1604 E + alaphalist of employees and income payees

2. **Diskette submission** - ten (10) or more number of employees or payees who are recipient or income payments subject to creditable and final withholding tax are required to submit

   3.5 inch floppy disk using any of the following options:

   1. Excel Format Provided under Revenue Regulation No. 7-2000 with technical specification with validation module prescribed by BIR.

   2. Own extract program that shall meet the requirements specified in RR 7-2000 with validation module prescribed by BIR.

   3. Data Entry Module using Visual Fox Pro
<table>
<thead>
<tr>
<th><strong>What to use</strong></th>
<th>1604 CF + alphalist</th>
<th>1604 E + alphalist</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>When to submit</strong></td>
<td>on or before Jan 31</td>
<td>on or before March 1</td>
</tr>
<tr>
<td></td>
<td>of the following year</td>
<td>of the following year</td>
</tr>
<tr>
<td><strong>Where to submit</strong></td>
<td>RDO</td>
<td>RDO</td>
</tr>
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<td>LTDO</td>
<td>LTDO</td>
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<td>LTAD</td>
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<tr>
<td><strong>Retention</strong></td>
<td>3 years in a secondary storage (diskette)</td>
<td>3 years in a secondary storage (diskette)</td>
</tr>
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</table>
What are TPs Expectation after Submission of Annual Return

1. TPs file copy of manually submitted BIR Form 1604 CF/1604 E

2. Transmittal form of diskette submitted
Individual qualified for substituted filing
and MUST NOT file BIR Form No. 1700

1. Receiving purely compensation income regardless of amount

2. Working for only one employer in the Philippines for the
calendar year;

3. Income tax has been withheld correctly by the employer (tax due
equals tax withheld)

4. The employee’s spouse also complies with all the three conditions
stated above and

5. Employer filed to BIR the Annual Information Returns on Income
Taxes Withheld (BIR Form 1604CF)

Note: All of the above requisites must be present. “The Annual Information Returns
of Income Taxes Withheld on Compensation and Final Withholding Taxes
(BIR Form No. 1604-CF) filed by their respective employers duly stamped
“Received”, shall be tantamount to the substituted filing of Income tax
returns by said employees
Employees Withholding Statements

What to issue: Certificate of Compensation Payment/
Tax Withheld - Substituted Filing
BIR Form 2316

Who to issue: Employee

When to issue:

a) On or before January 31 of the following calendar year; or
b) On the day of last payment of compensation if terminated

Number of copies: Three (3) Copies

Signed by: Both employer and employee
(under the penalty of perjury)

Note: An extra copy shall be furnished by the employers duly certified by him to his NEW employer in cases of transfer of employment within the taxable year.
Employees Withholding Statements

What to issue: Certificate of Final Withheld on Source  
(BIR Form No. 2306 – For employees receiving Fringe Benefits)

Who to issue: Employee

When to issue: 
  a) On or before January 31 of the following calendar year; or
  b) On the day of last payment of compensation if terminated

Number of copies: Three (3) Copies

Signed by: Both employer and employee  
(under the penalty of perjury)
Certificate of Compensation Payment/ Tax Withheld Substituted Filing

This certificate shall include a certification to the effect that the employer’s filing of BIR Form no. 1604-CF shall be considered a substituted filing of the employee’s income tax return. It shall be signed by both the employees and employer attesting to the fact that the information stated therein has been verified and it true and correct to the best of their knowledge.
END OF PRESENTATION
THANK YOU