

Headline	Employee tax perks at stake		
MediaTitle	The Philippine Star		
Date	10 Oct 2017	Language	English
Section	Business	Journalist	Armin Joyce M. De Chavez
Page No	B8	Frequency	Daily



Employee tax perks at stake

All is fair in tax reform. This is the clear message of the first package of the comprehensive tax reform program initiated by the Department of Finance (DOF) dubbed as the Tax Reform for Acceleration and Inclusion (TRAIN). One of the TRAIN's objectives is to simplify the country's personal income tax system by lowering income tax rates and broadening the tax base brackets.

Despite the major differences among the provisions of the original proposal by the DOF, the approved House Bill 5636 and the proposed Senate Bill 1592, all versions

TOP OF MIND



ARMIN JOYCE M. DE CHAVEZ

are consistent to have a simpler, fairer and more efficient income tax system for individuals. Taking a closer look into the tax reform, it aims to abolish the tax perks and incentives given to certain employees and apply uniform tax rates to individual taxpayers.

While most individuals are currently taxed at the graduated income tax rates of five percent to 32 percent, some individuals enjoy lower income tax rates based on the current tax laws. Under Section 25

(C), (D) and (E) of the National Internal Revenue Code (NIRC), a 15 percent final withholding tax is imposed on the gross compensation income of alien individuals and qualified Filipinos employed by the following employers:

Regional or area headquarters and regional operating headquarters of multinational companies.

Offshore Banking Units.

Petroleum service contractor and subcontractors.

The 15 percent preferential tax rate is applied to alien employees holding managerial or technical positions. The same tax treatment is applied to Filipino employees who meet the requirements of the eligibility test as provided in Revenue Regulations No. 11-2010.

However, under the approved House Bill 5636, the above provision on preferential tax rate is repealed. The qualified employees will be considered as regular taxpayers subject to the graduated income tax rates. The same tax treatment is adopted in the Senate version, but includes a grandfather clause wherein the preferential tax rate shall continue to apply to employees who are already enjoying the tax treatment until the end of their current employment. The proposed changes will apply to all future cases beginning Jan. 1, 2018.

Headline	Employee tax perks at stake		
MediaTitle	The Philippine Star		
Date	10 Oct 2017	Language	English
Section	Business	Journalist	Armin Joyce M. De Chavez
Page No	B8	Frequency	Daily

Significantly, both versions aim to put employees earning the same level of income under the same tax rates regardless of where they are employed. Since qualified employees for the preferential tax rate are those holding managerial or technical positions and are categorized as high income earners, the deletion of the 15 percent preferential rate will result to higher income tax rates for them regardless of the tax reform version that will prevail.

Another change in personal income taxation will be the treatment of fringe benefits. As regulated in Section 33 of the NIRC, fringe benefits received by non-rank and file employees are subject to Fringe Benefit Tax (FBT). It is the obligation of the employer to withhold the FBT rate of 15 percent, 25 percent or 32 percent on the gross monetary value of the fringe benefits depending on the classification of the individual who receives the benefits.

In this regard, House Bill 5636 calls for the reduction of the FBT rate from 32 percent to 30 percent by Jan. 1, 2018 and onwards for all regular individual taxpayers. Eventually, fringe benefits shall form part of the gross income subject to regular income tax rates effective 2022 and thereafter. This will result in the lowering of the overall tax burden for the employer. Moreover, the actual monetary value of the fringe benefit and not the grossed-up monetary value shall be allowed as a deduction for the employer. On the other hand, no similar provisions for fringe benefits were included in Senate Bill 1592.

In order to achieve the objective of the tax reform, some individual taxpayers will suffer their fair share of disappointments as some changes are to their disadvantage. Moreover, business entities who also enjoy the attention of job seekers because of the tax perks should now think of new ways to win and retain employees. Indeed, the government is breaking new ground with the tax reform initiative and will surely keep us at the edge of our seats until it is finally passed into a new law.

Armin Joyce M. De Chavez is a supervisor from the tax group of KPMG R.G. Manabat & Co. (KPMG RGM&Co.), the Philippine member firm of KPMG International. KPMG RGM&Co. has been recognized as a Tier 1 tax practice, Tier 1 transfer pricing practice, Tier 1 leading tax transactional firm and the 2016 National Transfer Pricing Firm of the Year in the Philippines by the International Tax Review.

This article is for general information purposes only and should not be considered as professional advice to a specific issue or entity.

The views and opinions expressed herein are those of the author and do not necessarily represent the views and opinions of KPMG International or KPMG RGM&Co. For comments or inquiries, please email ph-inquiry@kpmg.com or rgmanabat@kpmg.com.