

Final Withholding Tax, Fringe Benefits, and Final Withholding VAT

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SUMMARY OF TYPES OF INCOME OF INDIVIDUAL TAXPAYERS

Ordinary Income	Operating income Non-operating or other income Passive income abroad Other incomes not subject to FWT and CGT	BASIC INCOME TAX Individuals: Graduated Corporations: RCIT
Passive Income (derived in the Phils.)	Interest income Dividend income Royalty Prizes Winnings	FWT
Capital Gains	Sale of shares of domestic corp. Sale of real properties in the Phils.	CGT Shares of Stock: 15% Real Property: 6%

FINAL WITHHOLDING TAXES (FWT) ON CERTAIN PASSIVE INCOMES OF INDIVIDUAL TAXPAYERS

Applicable only to passive income derived from sources *within the Philippines*, specifically:

1. Interest Income
2. Royalties
3. Dividends
4. Prizes
5. Other winnings

INTEREST INCOME - INDIVIDUAL

	TAXPAYER		
	RC, RA	NRC, NRAETB	NRANET B
a) Interest from any currency bank deposit; and Yield or any other monetary benefit from: i. Deposit substitutes ii. Trust funds iii. Similar arrangement as above	20%	20%	25%
b) Interest from a depositary bank under the expanded foreign currency deposit system (FCDS) beginning January 1, 2018	15%	Exempt	Exempt

INTEREST INCOME - INDIVIDUAL

	TAXPAYER		
	RC, RA	NRC, NRAETB	NRANET B
c) Interest income from LONG-TERM bank deposit or bank investment (at least 5-year maturity) In case of pre-termination of the long-term deposit or investment, depending on the holding period:	Exempt	Exempt	25%
5 years or more	Exempt	Exempt	25%
4 years to less than 5 years	5%	5%	25%
3 years to less than 4 years	12%	12%	25%
Less than 3 years	20%	20%	25%

ROYALTIES - INDIVIDUAL

	TAXPAYER		
	RC, RA	NRC, NRAETB	NRANET B
Royalties from: a. Literary works b. Books c. Musical compositions	10%	10%	25%
Other Royalties	20%	20%	25%

DIVIDENDS - INDIVIDUAL

	TAXPAYER		
	RC, RA	NRC, NRAETB	NRANET B
a) Dividends actually or constructively received from: i. Domestic Corporation ii. Joint Stock Company iii. Insurance or mutual fund company iv. Regional operating headquarters of a multinational company	10%	20%	25%

DIVIDENDS - INDIVIDUAL

	TAXPAYER		
	RC, RA	NRC, NRAETB	NRANET B
b) Share in the distributive net income after tax of a partnership (except GPP)	10%	20%	25%
c) Share in the net income after tax of: 1. Association 2. Joint Account 3. Taxable Joint Venture or Consortium	10%	20%	25%

TAX TREATMENT OF SHARE IN THE NET INCOME OF A PARTNERSHIP

SHARE IN THE NET INCOME OF A PARTNERSHIP

General Partnership

The share in the Partnership's income is treated as a "dividend income" subject to FWT by the partners (generally at 10%)

General Professional Partnership (GPP)

The share in the Partnership's income is NOT treated as a "dividend income". Thus, the share in the GPP's income shall be taxable to the partners on their own individual capacity

Gross income <
P720,000

Subject to
10% CWT

Gross Income >
P720,000

Subject to
15% CWT

TAX TREATMENT OF SHARE IN THE NET INCOME OF A JOINT VENTURE

SHARE IN THE NET INCOME OF A JOINT VENTURE by an individual co-venturer

Taxable JV

The share in the JV's income is treated as a “dividend income” subject to FWT by the individual co-venturers (generally at 10%)

Non-Taxable JV

The share in the JV's income is NOT treated as a “dividend income”. Thus, the share in the income of the JV shall be taxable to the co-venturers on their own individual capacity subject to graduated tax rate

TAX TREATMENT OF SHARE IN THE NET INCOME OF A JOINT VENTURE

Non-taxable joint ventures or consortium are organized for the following purposes:

1. Construction projects
2. Engaged in petroleum, coal, geothermal and other energy operations pursuant to an operating or consortium under a service contract with the Government

PRIZES - INDIVIDUAL

	TAXPAYER		
	RC, RA	NRC, NRAETB	NRANET B
Amount is more than P10,000	20%	20%	25%
Amount is not more than P10,000	Basic Tax	Basic Tax	25%

WINNINGS - INDIVIDUAL

	TAXPAYER		
	RC, RA	NRC, NRAETB	NRANET B
Other Winnings (regardless of amount)	20%	20%	25%
PCSO Winnings CREATE Law Not more than P10,000 More than P10,000	Exempt 20%	Exempt 20%	25% 25%
TRAIN Law Not more than P10,000 More than P10,000	Exempt 20%	Exempt Exempt	25% 25%

WINNINGS - INDIVIDUAL

NOT INCLUDED under “Other Winnings” are winnings exempt from income tax such as:

1. Winnings under Sec. 126 of the Tax Code (Winnings from horse racing) subject only to Percentage Tax of either 4% or 10%, as the case may be
2. Prizes and awards under Sec. 32(B)(7)(c) of the Tax Code, made primarily in recognition of religious, charitable, scientific, educational, artistic, literary, or civic achievement but only if:
 - a. The recipient was selected without any action on his part to enter the contest or proceeding
 - b. The recipient is not required to render substantial future services as a condition to receiving the prize or award
3. All prizes and awards under Sec. 32(B)(7)(d) of the Tax Code, granted to athletes in local and international sports competitions and tournaments whether held in the Philippines or abroad and sanctioned by their national sports associations

SUMMARY OF TYPES OF INCOME OF CORPORATE TAXPAYERS

Ordinary Income	Operating income Non-operating or other income Passive income abroad Other incomes not subject to FWT and CGT	BASIC INCOME TAX DC: 25%; 20% RCIT RFC: 25% RCIT NRFC: 25% FWT
Passive Income (derived in the Phils.)	Interest income Dividend income Royalty	FWT
Capital Gains	Sale of shares of domestic corp. Sale of real properties in the Phils.	CGT Shares of Stock: 15% Real Property: 6%

FINAL WITHHOLDING TAXES (FWT) ON CERTAIN PASSIVE INCOMES OF CORPORATE TAXPAYERS

Applicable only to passive income derived from sources *within the Philippines*, specifically:

1. Interest Income
2. Royalties
3. Dividends

INTEREST INCOME - CORPORATION

	TAXPAYER		
	DC	RFC	NRFC
a) Interest from any currency bank deposit; and Yield or any other monetary benefit from: i. Deposit substitutes ii. Trust funds iii. Similar arrangement as above	20%	20%	25%
b) Interest from a depositary bank under the expanded foreign currency deposit system (FCDS) beginning January 1, 2018	15%	15%	Exempt

ROYALTIES - CORPORATION

	TAXPAYER		
	DC	RFC	NRFC
ROYALTIES	20%	20%	25%

Non-
taxable

DIVIDENDS - CORPORATION

*Section 4 of RR No. 5-2021 provides that:

SECTION 4. INCOME TAX RATES ON CERTAIN PASSIVE INCOME. xxx

xxx	However, if the country in which the non-resident foreign corporation is domiciled, allows a tax credit equivalent to the difference between the regular income tax rate of 25% under Section 28(B)(1) of the Tax Code (25%) and the fifteen percent (15%) tax on intercorporate dividends or does not impose tax on dividends, the rate to be imposed shall be 15%	15%	January 1, 2021
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DIVIDENDS - CORPORATION

**** Section 42(A)(2)(b) of the Tax Code, provides that:**

SEC. 42. *Income from Sources Within the Philippines.* -

(A) *Gross Income from Sources Within the Philippines.* - xxx

(1) *Interests.* - xxx

(2) *Dividends.* - xxx

(a) xxx

(b) From a foreign corporation, unless **less than fifty percent (50%) of the gross income of such foreign corporation for the **three-year period** ending with the close of its taxable year preceding the declaration of such dividends or for such part of such period as the corporation has been in existence) was derived from sources within the Philippines as determined under the provisions of this Section:**

DIVIDENDS - CORPORATION

*** Section 5 of RR No. 5-2021 proves that:

SECTION 5. EXEMPTION FROM INCOME TAX OF FOREIGN-SOURCED DIVIDENDS RECEIVED BY DOMESTIC CORPORATIONS. In general, foreign-sourced dividends received by domestic corporations are subject to income tax. However, the same shall be exempt if all of the following conditions concur:

- A. The dividends actually received or remitted into the Philippines are reinvested in the business operations of the domestic corporation within the next taxable year from the time the foreign-source dividends were received or remitted;
- B. The dividends received shall only be used to fund the working capital requirements, capital expenditures, dividend payments, investment in domestic subsidiaries, and infrastructure project; and

DIVIDENDS - CORPORATION

[cont.] C. The domestic corporation holds directly at least twenty percent (20%) in value of the outstanding shares of the foreign corporation and has held the shareholdings uninterrupted for a minimum of two (2) years at the time of the dividends distribution. In case the foreign corporation has been in existence for less than two (2) years at the time of dividends distribution, then the domestic corporation must have continuously held directly at least twenty percent (20%) in value of the foreign corporation's outstanding shares during the entire existence of the corporation.

Absent any one of the above conditions, the foreign-sourced dividends shall be considered as taxable income of the domestic corporation in the year of actual receipt or remittance, subject to surcharges, interest, and penalties, as applicable.

TAX TREATMENT OF SHARE IN THE NET INCOME OF A JOINT VENTURE

SHARE IN THE NET INCOME OF A JOINT VENTURE by a co-venturer Corporation

Taxable JV

Taxable as a corporation (25% or 20% for MSME).
The share in income by the co-venturer corporation is treated as inter-corporate. Thus, exempt from income tax

Non-Taxable JV

NOT Taxable as a corporation (Exempt)
The share in income by the co-venturer corporation is NOT treated as inter-corporate. Thus, subject to RCIT

TAX TREATMENT OF FRINGE BENEFITS, DE MINIMIS, AND 13TH MONTH PAY

BENEFITS

TAXABLE FRINGE BENEFITS

DE MINIMIS BENEFITS (REGARDLESS OF RANK)

13TH MONTH PAY AND OTHER BENEFITS (REGARDLESS OF RANK)

Rank
and File

Managerial/
Supervisory

Within the
ceiling

In excess
of ceiling

1st P90,000

In excess
of P90,000

Subject to
graduate
d rate

Subject to
FBT

Exempt

SPECIAL TREATMENT OF FRINGE BENEFIT

SEC. 33. *Special Treatment of Fringe Benefit.* –

(A) Imposition of Tax. – Effective January 1, 2018 and onwards, a final tax of **thirty-five percent (35%)** is hereby imposed on the grossed-up monetary value of fringe benefit furnished or granted to the employee (except rank and file employees defined herein) by the employer, whether an individual or a corporation (unless the fringe benefit is required by the nature of, or necessary to the trade, business or profession of the employer, or when the fringe benefit is for the convenience or advantage of the employer). The tax herein imposed is payable by the employer which tax shall be paid in the same manner as provided for under Section 57 (A) of this Code. The grossed-up monetary value of the fringe benefit shall be determined by dividing the actual monetary value of the fringe benefit by **sixty-five percent (65%)** effective January 1, 2018 and onwards: Provided, however, That fringe benefit furnished to employees and taxable under Subsections (B), (C), (D) and (E) of Section 25 shall be taxed at the applicable rates

SPECIAL TREATMENT OF FRINGE BENEFIT

[cont.] imposed thereat: Provided, further. That the grossed -up monetary value of the fringe benefit shall be determined by dividing the actual monetary value of the fringe benefit by the difference between one hundred percent (100%) and the applicable rates of income tax under Subsections (B), (C), (D), and (E) of Section 25.

(B) Fringe Benefit Defined. - For purposes of this Section, the term 'fringe benefit' means any good, service or other benefit furnished or granted in cash or in kind by an employer to an individual employee (except rank and file employees as defined herein) such as, but not limited to, the following:

- (1) Housing;
- (2) Expense account;
- (3) Vehicle of any kind;
- (4) Household personnel, such as maid, driver and others;

SPECIAL TREATMENT OF FRINGE BENEFIT

- [cont.] (5) Interest on loan at less than market rate to the extent of the difference between the market rate and actual rate granted;
- (6) Membership fees, dues and other expenses borne by the employer for the employee in social and athletic clubs or other similar organizations;
- (7) Expenses for foreign travel;
- (8) Holiday and vacation expenses;
- (9) Educational assistance to the employee or his dependents; and
- (10) Life or health insurance and other non-life insurance premiums or similar amounts in excess of what the law allows.

SPECIAL TREATMENT OF FRINGE BENEFIT

(C) Fringe Benefits Not Taxable. - The following fringe benefits are not taxable under this Section:

- (1) Fringe benefits which are authorized and exempted from tax under special laws;
- (2) Contributions of the employer for the benefit of the employee to retirement, insurance and hospitalization benefit plans;
- (3) Benefits given to the rank and file employees, whether granted under a collective bargaining agreement or not; and
- (4) De minimis benefits as defined in the rules and regulations to be promulgated by the Secretary of Finance, upon recommendation of the Commissioner.

FORMULA IN COMPUTING THE FRINGE BENEFIT TAX AND MONETARY VALUE (TRAIN LAW)

	EMPLOYEE	
	RC, NRC, RA, NRA-ETB	NRA-NETB
Monetary value	Pxx	Pxx
Divide by GUMVF	65%	75%
Gross-up monetary value (GUMV)	Pxx	Pxx
x FBT Rate	35%	25%
Fringe benefit tax	Pxx	Pxx

MONETARY VALUE - IN GENERAL

BENEFIT	MONETARY VALUE
Money	Amount of money
Non-cash property with transfer of ownership	Higher of FMV vs. ZV, if applicable
Non-cash property without transfer of ownership	Depreciation value
Employer lends money free of interest	Principal x 12%
Employer lends money at a rate lower than 12%	Principal x (12%-Actual Rate)

MONETARY VALUE - HOUSING BENEFIT

HOUSING BENEFIT	VALUATION
1. Employer leases a residential property for the use of an employee	Rental paid x 50%
2. Employer owns a residential property for the use of the employee	Higher of FMV in the Real property declaration or Zonal Value x 5% x 50%
3. Employer purchases residential property in installment for use of employee	Acquisition cost, exclusive of interest x 5% x 50%
4. Employer purchases residential property and transfers ownership to employee	Higher of Acquisition cost or Zonal Value as determined by the CIR

MONETARY VALUE - HOUSING BENEFIT

HOUSING BENEFIT	VALUATION
[cont.] 5. Employer purchases residential property and transfers ownership to employee on a lesser amount	FMV in the Real property declaration or Zonal Value as determined by the CIR less cost to the employee

MONETARY VALUE - MOTOR VEHICLE

MOTOR VEHICLE	VALUATION
1. Employer owns and maintains a fleet of motor vehicles for the use of the business and employees	Acquisition cost of vehicles not normally used for business divided by 5 years x 50%
2. Employer leases/maintains a fleet of motor vehicles for the use of the business and the employees	Amount of rental payments not normally used for business purposes x 50%
3. Employer purchases vehicle in the name of the employee	Acquisition cost
4. Employer provides employee with cash for the purchase of the vehicle, and ownership is placed in the name of the employee	Cash received

MONETARY VALUE - MOTOR VEHICLE

MOTOR VEHICLE	VALUATION
[cont.] 5. Employer purchase the vehicle on installment and ownership is placed in the name of the employee	Acquisition cost exclusive of interest divided by 5 years
6. Employer shoulders a portion of the amount of the purchase price of vehicle and ownership is placed in the name of the employee	Amount shouldered by employer

FINAL WITHHOLDING VAT

Section 4-114-2 of RR No. 13-2018, as amended, provides that:

“SEC.4-114-2. *Withholding of VAT on Government Money Payments and Payments to Non-Residents.*

(a) Withholding of Value-added Tax. - The Government or any of its political subdivisions, instrumentalities, or agencies, including government-owned or -controlled corporation (GOCCs) shall, before making payment on account of each purchase of goods and services which are subject to the value-added tax imposed in Sections 106 and 108 of this Code, deduct and withhold the value-added tax imposed in Sections 106 and 108 of this Code, deduct and withhold a final value-added tax at the rate of five percent (5%) of the gross payment thereof: provided, that **beginning January 1, 2021, the VAT withholding system under this subsection shall shift from final to a creditable system: xxx”**

FINAL WITHHOLDING VAT

B. Filing and Payment. — The government or any of its political subdivisions, instrumentalities or agencies, including GOCCs who are required to withhold creditable VAT shall use the "Monthly Remittance Return of Value-Added Tax Withheld" (BIR Form No. 1600-VT) for filing and remittance of the amount withheld. However, for those using the eFPS, they shall still use BIR Form No 1600 due to unavailability of BIR Form No. 1600-VT.

C. Proof of Withholding. - The government or any of its political subdivisions, instrumentalities or agencies, including GOCCs who are required to withhold creditable VAT shall issue the Certificate of Creditable Tax Withheld at Source (BIR Form No. 2307) using Alphanumeric Tax Code (ATC) No. WVo10 for purchases of goods or WVo20 for purchases of services. Thus, the Certificate of Final Tax Withheld at Source (BIR Form No. 2306) shall no longer be issued for

FINAL WITHHOLDING VAT

[cont.] this purpose.

The BIR Form No. 2307 shall be used as proof by VAT taxpayers in claiming for VAT credit in their monthly and quarterly VAT declarations. Erroneous use of the same (i.e.; reflected as tax credit in the quarterly and annual Income Tax Return) shall result in disallowance of the withheld amount and forfeiture of the same in favor of the Government.