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Six income tax changes riding on the TRAIN

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I stopped writing about the TRAIN because it had been the subject of my column frequently. It felt like eating the same food over and over again and I lost my appetite. But, I was intrigued by a message that almost went viral on "8 TRAIN Tax Reforms Items That You Probably Didn't Know." I was quite amused by how taxpayers found many of the reforms irrelevant because they are retired, do not have anything to donate, do not invest in the stock market, and, do not bet on the lotto. I chuckled at why changes in the estate taxes should not bother us "because you should be dead by then." I realized that for most taxpayers, taxes only matter insofar as how they are personally affected. The effects of taxes on income redistribution, growth, stability, and allocation of resources are way beyond their concerns. I would probably be asked "Dude, what are you talking about?"

And so, I will not attempt to talk about the effects of TRAIN and would simply focus on the changes it brought on taxpayers.

1. For the poor and minimum wage-earners, the TRAIN will not affect them. They have been exempt from paying the income tax through all these years. But they will feel its effects on the increase in prices because the excise tax rates on oil products have been increased. This is also true for retired personnel - without any wage, there is no tax to withhold.

2. But for those of us who are still part of the labor force, TRAIN brought so many changes. True, the personal and additional exemptions are no more. Formerly, each taxpayer was given an exemption of P50,000 which was equivalent to the minimum subsistence level. Each dependent (with a maximum of 4) was entitled to an additional exemption of P25,000. The TRAIN took the exemptions away and replaced them with a 0% tax rate on incomes of P250,000 and below. This is equivalent to giving each taxpayer with an exemption worth P250,000, regardless of status, i.e. those who are single, married, widow, with or without dependent, will enjoy the same amount of exemption. This is a substantial give-away.

2. More income tax reliefs are given with the reduction in the number and width of the income tax bands. The 7 income tax brackets were reduced to 6. More importantly, the tax schedule was adjusted to reflect reality. It was made in 1996 when the peso had more value. Twenty-two years later, the first taxable bracket starts at P250,001 with the highest bracket at over P8.0 million. In 1996, the taxable income range was from P10,000 to over P500,000. Talk about progress and inflation! The width of the tax brackets was expanded likewise and so with the range of tax rates. From a 5% to 32% tax schedule, the range is now from 0 to 35%.

3. Bonuses, like the 13th month

* TAX REFORM FOR ACCELERATION
AND INCLUSION (TRAIN)

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pay, will be exempt up to ₱90,000, up from ₱82,000. When this matter was first raised by the Senate in 1996, the proposal was to exempt the entire 13th month. But blame the DOF, especially me, who objected and insisted on putting a cap on the exemption. I had always been a dude and was concerned about the effect of taxes on equity, whatever that means.

3. Yes, the deadline for filing the income tax has been moved from April 15 to May 15. But this does not mean much for wage-earners with a single income source. Their income tax due has already been withheld and they do not need to file any income tax return. At the very least, this is one great relief from the PAYE system, i.e. Pay as you earn.

4. PAYE also applies to interest income, dividends, income from shares of stocks, and winnings. These are called passive incomes because there is very little sweat involved in earning them. And before you make a howl, compare the amount of efforts in winning a lotto vs earning a salary from an 8-hour work everyday.

The 20% tax on interest income stays. And so with the 10% tax on dividends. The TRAIN increased the tax on interest income from dollar deposits from 7.5% to 15%. The tax rate on capital gains, or the increase in the value of shares from corporations that are not traded in the stock exchange was raised to 15%. (These

are closed and family corporations.) The advantage on investing in publicly listed corporations is retained with a 0.6% of 1.0%, up from 0.5%. (I cannot help in making a side comment. How do legislators decide on the tax rates? If I were one, which I would never be, of course, I would legislate a uniform tax rate for all passive incomes to level the playing field.)

PCSO and lotto winnings above ₱10,000 are now subject to a 20% tax. Before the TRAIN, they used to be exempt.

5. Next year, the maximum amount of tax that can be withheld will be lowered from 32% to only 15%.

6. A choice has been given to the self-employed with gross sales of ₱3.0 million or below. They can now opt to be taxed at 8% of their gross sales or gross receipts OR they can choose to be taxed under the regular income tax regime. Should they choose the 8.0% tax option, they are relieved from paying the 3.0% tax which VAT-exempt taxpayers are required to pay.

In sum the income tax features of TRAIN provides a generous bonanza for taxpayers. The tax reliefs would cause government some ₱147.0 billion in foregone revenues. Thus, the tremendous pressure to raise revenues from other sources, and in this case, from indirect taxes. Next week, we will take a look at the hows.

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HUGE COMMENT OUTRIGHT
BY WALTER STORM