

Headline	Whats in your first 2018 paycheck		
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What's in your first 2018 paycheck

A few days after President Duterte signed the first tax reform package into law, the Bureau of Internal Revenue (BIR) issued Revenue Memorandum Circular (RMC) No. 105-2017 to prescribe the withholding tax rates on compensation that shall apply beginning Jan. 1.

To supplement the above issuance, the BIR also issued RMC No. 1-2018 to provide guidelines and illustrative examples on how to compute payroll taxes using the new withholding tax rates.

Since personal exemptions were repealed under the TRAIN, taxpayers were presented with a uniform and simplified withholding tax table. As prescribed in the circular, the total amount of monetary and non-monetary compensation paid to employees after segregating the non-taxable benefits and mandatory contributions shall be considered as taxable compensation. The applicable rates on the revised withholding tax table shall be applied depending on the compensation range, after which the predetermined taxes shall be added.

As the issued circular provides limited guidance on the determination of what constitutes the monetary and non-monetary compensation in computing for taxable compensation, guidance must be sought from existing regulations which the BIR also confirmed during the public consultations it held for income tax on Jan. 11.

The existing rules for determining what constitutes taxable compensation can be found in Revenue Regulations (RR) No. 2-98. The definitions contained therein are essentially the same as those in the draft Implementing Rules and Regulations for Republic Act 10963. It defines the term "compensation" as all remuneration for services performed by an employee for his employer under an employer-employee relationship, unless specifically excluded by the Code. The RR further defines regular compensation as including basic salary, fixed allowances for representation, transportation and other allowances paid to an employee per payroll period, while supplementary compensation includes payments to an employee in addition to the regular compensation such as commission, overtime pay, taxable retirement pay, taxable

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bonus and other taxable benefits, with or without regard to a payroll period.

To further understand all of the changes, here are sample calculations of how the new withholding tax rates shall be applied. Let's take a look at what a low, middle and high-level income earner will receive in their paychecks for the first payroll run of the year:

	Low	Mid	High
Total monthly taxable compensation net of mandatory contributions	20,833.33	166,666.67	2,000,000.00
Less: Compensation Range (Minimum)	20,833.33	166,666.67	666,666.67
Excess	-	-	1,333,333.33
Add: Supplemental Compensation	-	-	-
Total taxable compensation for the month	-	-	1,333,333.33
Withholding tax shall be computed as follows:			
Predetermined tax	-	40,833.00	200,833.33
Add: Tax on excess	-	-	466,666.67
Total Withholding tax	-	40,833.00	667,500.00

Based on the illustration, we can draw the following observations:

- An employee who has a monthly income of P20,000 that is net of statutory contributions and other nontaxable benefits and previously taxed at the effective rate of 15 percent (P3,000), will now enjoy tax exemption.
- An employee with a monthly income of P200,000 will also benefit from the TRAIN law with tax savings of approximately four percent of his compensation.

In contrast, an employee who's monthly income is at P2,000,000 will get an additional tax burden of approximately one percent of his compensation.

As the BIR is now looking towards completing the IRR of the TRAIN Law through the recently concluded public consultations, it is expected that more comprehensive guidelines on how to embrace the changes in tax regulations will be made available to all stakeholders soon. It is important that we are all abreast with recent developments as we get on the TRAIN and go full steam ahead with its implementation.

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