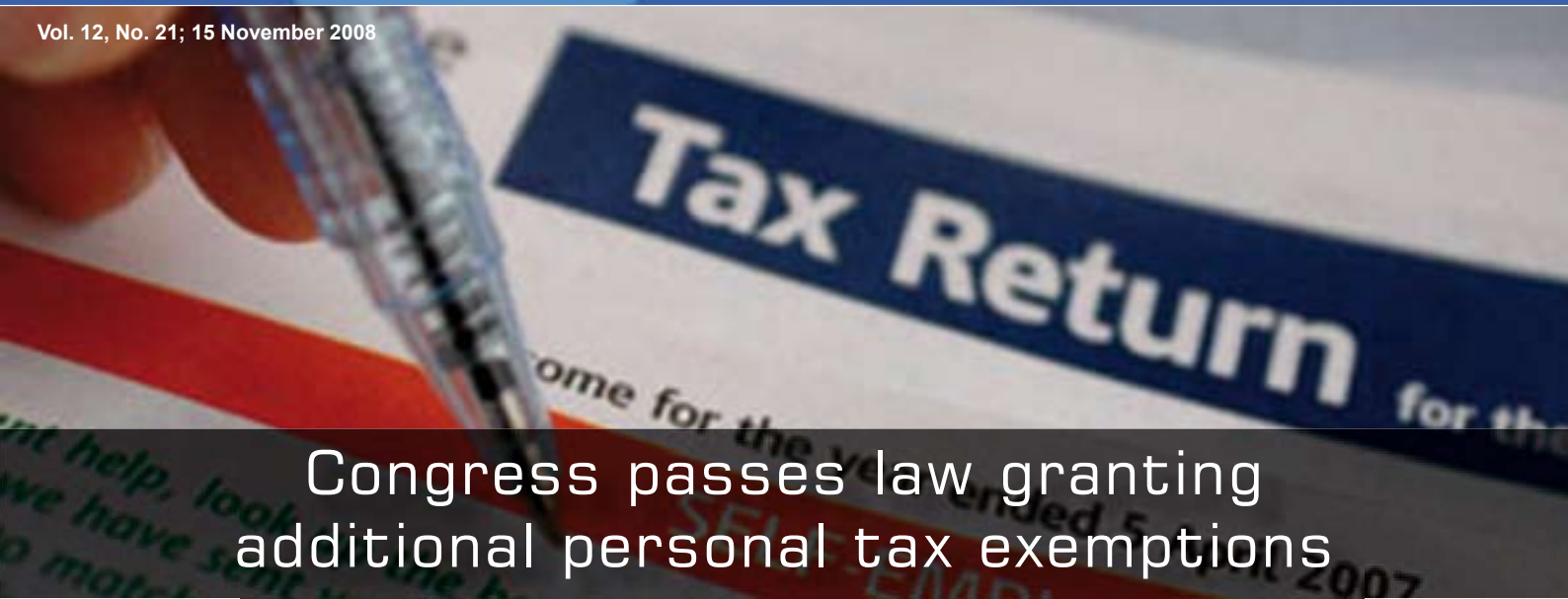


# DevPulse

NEDA Development Advocacy Factsheet

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Vol. 12, No. 21; 15 November 2008



## Congress passes law granting additional personal tax exemptions

Congress recently passed a law that increases the tax exemptions of lower and middle-income Filipinos. After months of deliberations in both Houses of Congress, Republic Act (RA) 9504 was signed into law by President Gloria Arroyo on June 17 and took effect on July 6 this year. RA 9504 amends Sections 22, 24, 34, 35 and 79 of RA 8424, also known as the National Internal Revenue Code of 1987. The Implementing Rules and Regulations (IRR) were subsequently released on September 24.

RA 9504's highlights include the exemption of minimum wage earners from paying the income tax, increase in exemptions for single, head of family and married taxable persons, and the availability of an optional standard deduction from gross income. The IRR also states that individual taxpayers regardless of status are entitled to PhP50,000 personal exemption.

The law is one of government's latest attempts at easing the burden on middle and low income taxpayers so they can have more money to spend on food, clothing, education and other necessities. It is also expected to soften the impact of the global economic crisis on average Filipinos.

	January 1 to July 5	July 6 to December 31	Total
Single	PhP10,000	PhP25,000	PhP35,000
Head of Family	12,500	25,000	37,500
Married	16,000	25,000	41,000
Additional exemption for every qualified dependent	4,000	12,500	16,500

Transitory personal and additional exemptions

### Minimum wage earners exempted

Minimum wage earners, or those earning the minimum salary rate fixed by the Regional Tripartite Wage and Productivity Board and defined by the Bureau of Labor and Employment Statistics of the Department of Labor and Employment, are exempt from paying income taxes. The law also exempts them from paying taxes on holiday pay, overtime pay, night shift differential pay and hazard pay.

However, their exemptions will be lifted if they earn extra income beyond PhP30,000.

Income	Tax rate
PhP10,000 and below	5 percent
PhP10,001 to PhP30,000	PhP500 plus 10 percent of excess over PhP10,000
PhP30,001 to PhP70,000	PhP2,500 plus 15 percent of excess over PhP30,000
PhP70,001 to PhP140,000	PhP8,500 plus 20 percent of excess over PhP70,000
PhP140,001 to PhP250,000	PhP22,500 plus 25 percent of excess over PhP140,000
PhP250,001 to PhP500,000	PhP50,000 plus 30 percent of excess over PhP250,000

Existing tax schedule

“For those with changes in exemptions, such as that of having an additional dependent child, or for those with successive employment for taxable year 2008, the additional apportioned exemption for January 1 to July 5, 2008 shall be applied for the first semester and the applicable apportioned exemption for July 6 to December 31, 2008 shall be applied on the second semester”

- Implementing Rules and Regulations

## Exemptions for married workers and those with dependents

For married individuals, husband and wife will compute their individual income taxes separately. Meanwhile, all individuals whether single or married, “shall be allowed an additional exemption PhP25,000 for each qualified dependent child,” provided that the number of dependents does not exceed four. The IRR defines a dependent as “a legitimate, illegitimate, or legally adopted child chiefly dependent upon and living is taxpayer if such dependent is not more than 21 years of age, unmarried and not gainfully employed or if such dependent, regardless of age, is incapable of self-support because of mental or physical defect.”

The husband is the proper claimant of the additional exemption for qualified dependents, unless he waives his right in favor of his wife. The employer is also responsible for determining whether the child being claimed as dependent is qualified.

## Optional standard deduction

Individual or corporate tax payers not covered by the exemptions or those subject to tax according to the table above may opt for a standard deduction. The maximum standard deduction allowed under the law is 40 percent of gross sales or gross receipts. The standard deduction will not be imposed unless the taxpayer signifies in his/her tax return his/her intention to use a standard deduction. Once the option is availed, it shall be irrevocable for the taxable year.

## Tax schedule

RA 9504 did not change the tax schedule indicated in RA 8424. The law merely increased the taxpayers’ exemptions.

The tax schedule in RA 8424, as well as RA 9504, is on the table above.

## Other provisions

According to RA 9504’s IRR, transitory personal and additional exemptions applicable for 2008 are as follows:

For January 1 to July 5, 2008, single taxpayers are entitled to deductions worth PhP10,000, head of family at PhP12,500 and married individuals at PhP16,000. The taxpayer will likewise enjoy a deduction of PhP4,000 for each qualified dependent child, provided that the number of dependents does not exceed four.

For July 6 to December 31, the pro-rated personal exemption regardless of status is PhP25,000, plus PhP12,500 for each qualified dependent child not exceeding four children.