

Off to a Good Start: Ease of Paying Taxes Act Signed into a Law

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Gone are the days of waiting in long queues and jampacked Revenue District Offices (“RDO”) of the Bureau of Internal Revenue (“BIR”) which could easily eat up half of our day just to file tax returns and pay taxes. The Ease of Paying Taxes Act (“EPTA”) has finally set in stone that taxpayers (“TPs”) are now given the option to file and pay their taxes through authorized agent banks, RDO (through the Revenue Collection Officer) or online platforms (i.e., through Authorized Software Providers). The option to pay taxes to the city or municipal treasurer was removed in order to encourage the shift to electronic payment. This is a much-anticipated advancement as we see more and more of the public heavily relying on online payment platforms and QR codes. This technological leap is primarily designed to provide TPs with efficient and accessible ways of paying their taxes, ultimately reducing the time and effort required for compliance. The modernization of the process is a welcome development to everyone.

An additional development under the EPTA are as follows:

- a. Removal of requirement to pay annual registration fees;
- b. Cancellation of BIR registration is effected by mere electronic or manual filing without the need to conduct an audit; and
- c. Transfer of BIR registration is effected by mere electronic or manual filing but any pending audit shall be continued by the same RDO.

Another key feature of the EPTA is the harmonization of the rules on the value-added tax (“VAT”) treatment of sales of goods and services. Previously, sale of goods or properties required the issuance of VAT invoice while sale of services required the issuance of a VAT official receipt. Today, only a sales invoice is required for both – eliminating the confusion for business owners in the process.

The mandatory issuance of invoices for each sale will also be increased from PhP100.00 to PhP 500.00, except for VAT-registered TPs who are still required to issue invoices regardless of the amount. However, this does not mean that TPs are exempted from paying taxes on sales below PhP500.00 as they are still required to collate transactions below PhP500.00 and issue one invoice at the end of each day.

EPTA also introduced a classification of TPs based on gross sales (*i.e.*, micro, small, medium, or large) to form a tax system responsive to each classification’s needs. A TP is classified as follows:

Classification	Gross Sales
Micro	Less than PhP3,000,000
Small	PhP3,000,000 to less than PhP20,000,000
Medium	PhP20,000,000 to less than PhP1,000,000,000
Large	PhP1,000,000,000 and above

The EPTA further grants the following special concessions to micro and small TPs:

- a. Maximum of 2-pages for Income Tax Returns (“ITR”);
- b. Reduction of rate of civil penalties to 10% (Section 248 of the Tax Code);
- c. Reduction of interest rate by 50% (Section 249);
- d. Reduction of penalty for failure to file information returns to PhP500.00; and
- e. Compromise penalty rate of at least 50% for violations in: (i) invoicing requirements; (ii) issuance of invoices; and (iii) e-sales reporting system.

Similarly, VAT refunds will also be classified into low-, medium-, and high-risk claims which are based on the amount claimed, tax compliance history, and frequency of filing of claims, among others. With respect to claims for tax refund, the failure of the Commissioner of Internal Revenue (“CIR”) to act on the application within 90 days shall be deemed a denial of the application and the TP may appeal the case to the Court of Tax Appeals within 30 days from receipt of denial or expiration of the 90-day period.

While it appears that many of the changes introduced by EPTA have previously been addressed by jurisprudence or circulars, incorporating them into our laws ensures clarity and consistency in implementation. Below is a summary of some of the other notable amendments:

- Overseas Contract Workers (“OCW”) are not required to file their income tax returns.
- Withholding of taxes is no longer a requirement for deductibility of certain expenses. Also, a new provision simplifying the timing of withholding taxes was added. TPs are required to deduct and withhold tax at the time income has become payable (no longer when the income is paid/becomes payable, or when it is accrued, whichever comes first). Taxes withheld shall be maintained in a separate account and not commingled with any other funds of the withholding agent.
- Claims for tax refund or credit on creditable withholding taxes may only be permitted upon showing: (1) that the income payment was declared as gross income; and (2) proof of proper withholding.

- The rule on the irrevocability of the exercise of the option to carry over excess income tax paid to succeeding quarters does not extend to TPs whose businesses cease to exist or are dissolved. They may file an application for refund which the BIR shall decide within 2 years from date of dissolution/cessation.
- There is a change of terminology used as basis for the computation of VAT. From “gross selling price/gross value in money”, it now refers to “gross sales.” However, the definition remains the same.
- Amounts earmarked for payment to 3rd parties or received as reimbursement for payment which do not redound to the benefit of the seller shall not be subject to VAT.
- If a VAT-registered person issues a VAT invoice to another VAT-registered person with lacking information (note: business style no longer required to be indicated in the invoice) such as the amount of tax, TIN, etc., the issuer will be liable for non-compliance. However, the VAT shall still be allowed to be used as input tax credit on the part of the purchaser.
- For filing of returns for TPs subject to Other Percentage Tax, the TP shall file a consolidated return for all branches or places of business. Prior to the amendment, the TP had the option to file either a separate or consolidated return. Moreover, the basis of the imposition of Other Percentage Tax is no gross sales.
- Books of account are now required to be preserved only for a period of 5 years (previously 10 years).

Indeed, the country is off to a good start this 2024 as we move towards a more efficient, responsive, and taxpayer-centric tax system.

Note: The Department of Finance has yet to issue the Implementing Rules and Regulations of the EPTA.