

Ease of Paying Taxes Act

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 One Asia Lawyers Philippines Team
 (Japan) Lawyer Yasuaki Nanba
 (Philippines) Lawyer Masami Oba
 (Philippines) Lawyer Cainday, Jennebeth Kae

Introduction

On 5 January 2024, Republic Act No. (R.A.) 11976 or the Ease of Paying Taxes (EOPT) Act was signed into law, seeking to modernize and streamline tax administration and strengthen taxpayer rights.

The amendments introduced in the EOPT Act seeks to improve compliance with tax regulations and replace antiquated procedures, as well as increase revenue collection and enhance the country’s economic and social environment for growth.



The salient provisions of the EOPT Act are discussed below.

1. Taxpayer classifications

Previously, the National Internal Revenue Code (NIRC) classified taxpayers only as large taxpayers with gross sales of at least 1 Billion Pesos, and non-large taxpayers. The EOPT Act now classifies taxpayers into the large, medium, small, and micro taxpayers, with the following thresholds for gross sales:

Classification	Gross Sales
Micro	Less than Three Million Pesos (Php 3,000,000.00)
Small	Three Million Pesos (Php 3,000,000.00) to less than Twenty Million Pesos (Php 20,000,00.00)
Medium	Twenty Million Pesos (Php 20,000,000.00) to less than One Billion Pesos (Php 1,000,000,000.00)
Large	One Billion Pesos (Php 1,000,000,000.00) and above

The amendment of taxpayer classifications is significant because the EOPT Act provides special concessions for micro and small taxpayers, including:

- 1) Income Tax Return (ITR) shall consist of a maximum of two (2) pages
- 2) Reduced rate of 10% for civil penalties under Sec. 248 of the NIRC
- 3) Interest rate reduced by 50% for interest imposed under Sec. 249 of the NIRC
- 4) Fine reduced to Five Hundred Pesos (Php 500.00) penalty for failure to file certain information returns
- 5) Compromise penalty rate reduced by at least 50% for violations of invoicing/printing of invoices

2. Venue of Filing and Payment

Tax returns may now be filed and taxes paid with any Authorized Agent Banks (AAB), Revenue District Office (RDO) through Revenue Collection Officer (RCO), or authorized tax software

provider. Previously, the venue for filing and payment was limited to the city or municipality having jurisdiction over the location of the principal office. Accordingly, the surcharge imposed on wrong venue filing has been removed.

3. Value-Added Tax

a) Base of VAT

The value-added tax on both the sale of goods or properties *and* the sale of services and use or lease of properties is now based on gross sales. However, the definition of gross sales varies as follows:

'Gross sales' for sale of goods or properties	'Gross sales' for sale of services and use or lease of properties
The total amount of money or its equivalent value in money which the purchaser pays or is obligated to pay to the seller in consideration of the sale, barter or exchange of the goods or properties, excluding the value-added tax. The excise tax, if any, on such goods or properties shall form part of the gross sales.	The total amount of money or its equivalent representing the contract price, compensation, service fee, rental or royalty, including the amount charged for materials supplied with the services during the taxable quarter for the services performed for another person, which the purchaser pays or is obligated to pay to the seller in consideration of the sale, barter, or exchange of services that has already been rendered by the seller and the use or lease of properties that have already been supplied by the seller, excluding value-added tax and those amounts earmarked for payment to third party or received as reimbursement for payment on behalf of another which do not redound to the benefit of the seller as provided under relevant laws, rules or regulations: <i>Provided</i> , That for long-term contracts for a period of 1 year or more, the invoice shall be issued on the month in which the service, or use of lease of properties is rendered or supplied.

b) Sales Allowances and Sales Discounts

The EOPT Act now allows the taxpayer to deduct the value of services rendered for which allowances were granted from the gross sales for the quarter in which a refund is made or a credit memorandum or refund is issued. Sales discount granted and indicated in the invoice at the time of sale, if without condition, may also be excluded from the gross sales within the same quarter it was given.

c) Output VAT Credit on Uncollected Receivables

A seller of goods and services may deduct the output VAT pertaining to uncollected receivables from its output VAT on the next quarter, after the lapse of the agreed upon period to pay, provided that:

- 1) The seller has fully paid the VAT on the transaction; and
- 2) The VAT component of the uncollected receivables has not been claimed as allowable deduction.

d) Invoicing Requirement

A VAT-registered person shall issue a VAT invoice for every sale, barter, exchange, or lease of goods or properties, and for every sale, barter or exchange of services.

With this amendment, the requirement of Official Receipts for sale of services and use or lease of properties has now been removed. Thus, the VAT invoice is now sufficient documentation for substantiation of input tax and output VAT liability. Further, the Business Style of the

purchaser is no longer required to be included in the invoice.

e) **Refund of Input Tax**

The EOPT Act now classifies VAT refund claims as low-, medium-, and high-risk claims, based on amount of VAT refund claim, tax compliance history, and frequency of filing VAT refund claims, among others. Medium- and high-risk claims shall be subject to audit or other verification processes by the Bureau of Internal Revenue (BIR). In any case, the BIR is given ninety (90) days from the submission of complete documents to act on a claim for refund.

4. Other Percentage Taxes

The tax base for the following percentage taxes has likewise been changed as follows:

Percentage Tax	Previous Tax Base	Tax Base under EOPT
Sec. 116. Persons Exempt from VAT	Gross sales or receipts	Gross sales
Sec. 117. Domestic Carriers and Keepers of Garages	Gross receipts	Gross sales
Sec. 118. International Carriers	Gross receipts	Gross sales
Sec. 119. Franchises	Gross receipts	Gross Sales
Sec. 120. Overseas Dispatch, Message or Conversation Originating from the Philippines	The amount paid for services	The amount billed for services

5. Remedies

Prior to the EOPT Act, the NIRC did not provide a period within which the BIR should act on a claim for tax refund. Under the EOPT, the taxpayer must file a claim for credit or refund of taxes erroneously paid or penalties imposed within two (2) years after the payment of the tax or penalty. The BIR is then given 180 days from submission of complete documents to act on such claim. The taxpayer may then file an appeal with the Court of Tax Appeals (CTA) within 30 days from the lapse of the 180-day period.

6. Repeal of Additional Requirements for Deductibility of Certain Payments

The EOPT Act repealed Section 34(K) of the NIRC, which previously required the withholding of taxes as an additional requirement for deductibility of expenses from gross income.

7. Other Provisions

- a) From ten (10) years, the period for preserving books of account has been reduced to **five (5) years**, from the day following the deadline for filing a return, or if filed after the deadline, from the date of the filing of the return, for the taxable year when the last entry was made in the books of account.
- b) The requirement to pay an Annual Registration Fee of Five Hundred Pesos (Php500.00) for every registered business has been removed.
- c) No fees shall be imposed for securing an authority to print sales or commercial invoices from the BIR.

- d) The threshold for the issuance of invoices was increased from One Hundred Pesos (Php100.00) to Five Hundred Pesos (Php500.00), to be adjusted every 3 years using the consumer price index, as published by the Philippine Statistics Authority (PSA).

Taxpayers are given 6 months from the effectivity of the Implementing Revenue Regulations to comply with the amendments on VAT and Other Percentage Taxes. It is recommended for businesses to verify if they will benefit from any of the changes under this law, and transition to compliance with the new regulations.

Finally, the EOPT Act seeks to institutionalize efficiency into the tax administration system. The BIR is thus tasked to adopt an integrated digitalization strategy by providing an integrated and automated system for basic tax services, setting up electronic and online systems for exchanging data between offices, and building up its technology capabilities, including the creation of data centers, basic messaging and electronic mail facilities, encryption systems and cyber-security systems. The BIR shall likewise develop an Ease of Paying Taxes and digitalization roadmap to ensure ease of compliance with tax laws, including the adoption of simplified tax returns, streamlining of tax processes, reduction of tax or documentary requirements, and digitalization of BIR services.

The EOPT Act is a welcome development to enhance taxpayer convenience. Along with tax reforms from recent years and stronger efforts to adopt digitalization across industries, the Philippines is expected to maintain its fast-growing economy and further raise its growth potential as more comprehensive measures facilitate the ease of doing business in the country.

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< Authors >

	<p>Yasuaki Nanba One Asia Lawyers – Osaka Office (Partner) Lawyer (Japan)</p> <p>He handles all aspects of corporate legal affairs, including personnel and labor matters, dispute resolution, intellectual property, and insolvency cases for a wide range of companies in Japan, from small and medium-sized enterprises to publicly listed companies. For individual clients, he handles a wide range of general civil cases, including labor disputes, traffic accidents, divorces, and inheritances related cases, as well as criminal cases, including disclosure of sender's information posted on the Internet and jury trials. In addition, he handles construction disputes such as construction defects and claims for additional contractor fees, as well as consultation and dispute cases from boards of directors and condominium unit owners concerning condominium management. In administrative matters, he has served as an advisor to the City of Osaka on debt management and collection, and has provided individual consultation and training on debt management and collection from local governments. He has also served as an assistant to a comprehensive external auditor for several years and has received an award for his utilization.</p> <p>yasuaki.nanba@oneasia.legal</p>
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	<p>Masami Oba One Asia Lawyers Group – Oba Law, Philippine local counsel Lawyer (Philippines)</p> <p>Worked for a corporate and taxation law firm and handled matters for both local and international clients, representing them in tax litigation and administrative proceedings, as well as rendering legal advice on taxation, foreign investments and corporate law. With One Asia Lawyers, he advises on investment and expansion into the Philippines, along with matters of regulatory compliance such as data privacy, labor, and corporate law.</p> <p>masami.oba@oneasia.legal +63 917-811-9944</p>
	<p>Cainday, Jennebeth Kae One Asia Lawyers Group – Jennebeth Kae B. Cainday Attorney-at-Law Lawyer (Philippines)</p> <p>Worked as an international tax lawyer and advisor for the largest audit and tax firm in the Philippines. She provided transfer pricing, business restructuring and tax advisory services to multinational companies. She then joined One Asia Lawyers Group, where he is based in Tokyo and advises clients on Philippine law.</p> <p>cainday.jennebeth@oneasia.legal +63 917-514-9733</p>