

REPUBLIC OF THE PHILIPPINES  
DEPARTMENT OF FINANCE  
**BUREAU OF INTERNAL REVENUE**  
Quezon City

May 21, 2018

**REVENUE MEMORANDUM ORDER NO. 23-2018**

**SUBJECT** : Prescribing Policies, Guidelines and Procedures in the Availment of the Eight Percent (8%) Income Tax Rate Option for Individuals Earning from Self-Employment and/or Practice of Professions

**TO** : All Internal Revenue Officials, Employees and Others Concerned

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**I. Objective**

This Order is being issued to prescribe policies, guidelines and procedures in availing the eight percent (8%) income tax rate option of individuals earning from self-employment/business and/or practice of profession relative to the implementation of the Republic Act No. 10963, otherwise known as “Tax Reform for Acceleration and Inclusion (TRAIN) Act”.

**II. Policies and Guidelines**

**Eight Percent (8%) Income Tax Rate Option for Individuals**

1. In general, income of self-employed individuals (includes Single Proprietors, Professionals and Mixed Income Earners) is subject to the graduated income tax rates as provided under Section 24 (A)(2)(a) of the NIRC, as amended.
2. Self-employed individuals earning income purely from self-employment/business and/or practice of profession whose gross sales and/or receipts and other non-operating income does not exceed the Value-Added Tax (VAT) threshold of Three Million Pesos (P 3,000,000.00) shall have the option to avail of the following:
  - a. Graduated income tax rates as provided under Section 24 (A)(2)(a) of the NIRC, as amended; or
  - b. Eight percent (8%) tax on gross sales or receipts and other non-operating income in excess of Two Hundred Fifty Thousand Pesos (P 250,000.00) in lieu of the graduated income tax rates and percentage tax under Section 116 under the NIRC, as amended.
3. Individuals earning income both from compensation and from self-employment (business or practice of profession) or Mixed Income Earners shall apply the following income tax rates:
  - 3.1 The compensation income shall be subject to graduated income tax rates as provided under Section 24 (A)(2)(a) of the NIRC, as amended; and
  - 3.2 The income from business or practice of profession shall be subject to the following:
    - a. If the gross sales/receipts and other non-operating income do not exceed the VAT threshold, the individual has the option to be taxed at:
      - i. Graduated income tax rates as provided under Section 24 (A)(2)(a) of the NIRC, as amended; or

- ii. Eight percent (8%) income tax rate based on gross sales/receipts and other non-operating income in lieu of the graduated income tax rates and percentage tax under Section 116 of the NIRC, as amended.
  - b. If the gross sales/receipts and other non-operating income exceeds the VAT threshold, the individual shall be subject to the graduated income tax rates prescribed under Section 24 (A)(2)(a) of the NIRC, as amended.
4. The following criteria should all be satisfied to be able to qualify and avail of the 8% income tax rate option:
- a. Individuals (Single Proprietor or Professional or Mixed Income Earner) earning from self-employment and/or practice of profession;
  - b. Taxpayers whose gross sales/receipts and other non-operating income did not exceed the P3,000,000 VAT threshold during the taxable year;
  - c. Taxpayers registered and subject only to percentage tax under Section 116 of the NIRC, as amended; or taxpayers exempt from VAT or other percentage taxes; and
  - d. Must have signified their intention to elect the 8% income tax rate thru any of the enumerations under Section II(7) of this Order.
5. The 8% income tax rate option is not available to the following individual taxpayers and correspondingly shall be taxed based on the graduated income tax rates prescribed under Section 24 (A)(2)(a) of the NIRC, as amended.
- a. Purely Compensation Income Earners;
  - b. VAT-registered taxpayers, regardless of the amount of gross sales or receipts and other non-operating income;
  - c. Taxpayers exempt from VAT or other percentage taxes whose gross sales/receipts and other non-operating income exceeded the P3,000,000 VAT threshold during the taxable year;
  - d. Taxpayers who are subject to Other Percentage Taxes under Title V of the Tax Code, as amended, except those subject under Section 116 of the same Title;
  - e. Partners of a General Professional Partnership (GPP);
  - f. Individuals enjoying income tax exemption.

Individual person who is exempted from income tax such as those registered Barangay Micro Business Enterprises (BMBEs) is bound to the choice that it made to avail itself the privilege under Republic Act No. 9178 for the entire period of its registration with the BIR pursuant to Department Order No. 17-04.

The BMBE cannot avail both BMBE status (exempted from income tax, but liable to other internal revenue tax) and the 8% income tax rate option (in lieu of the graduated income tax rates and percentage tax) at the same time, since taxpayers are not allowed to avail of double or multiple tax exemption under different laws, unless specifically provided by law.

- 6. At the beginning of each taxable year, all individuals are subjected to graduated income tax rates as provided under Section 24 (A)(2)(a) of the NIRC, as amended. Self-employed individuals who opted to avail of the 8% income tax rate is effective only for the current taxable year when the election has been made, and shall be automatically subjected to the graduated income tax rates at the beginning of the succeeding taxable years. Thus, the availment of the 8% income tax rate option is required to be signified and selected every taxable year, if the taxpayer wishes to be covered by such income tax rate.

7. Self-employed individuals shall signify the intention to elect the 8% income tax rate in filing any of the following:

7.1 New Business Registrant

- a. Upon registration using BIR Form No. 1901 and/or 1701Q; or
- b. On the initial quarter return (BIR Form No. 2551Q and/or 1701Q) of the taxable year after the commencement of a new business/practice of profession.

7.2 Existing Individual Business Taxpayers

- a. Filing of BIR Form 1905 (Application for Registration Information Update) at the beginning of the taxable year, to end-date the form type of quarterly percentage tax. Provided that an option to avail the eight percent income tax rate shall be selected in filing the initial quarterly income tax return for income tax purposes; or
- b. 1<sup>st</sup> Quarterly Percentage Tax Return; and/or
- c. 1<sup>st</sup> Quarterly Income Tax Return.

Otherwise, the graduated income tax rates shall apply.

8. The income tax rate option, once elected, shall be irrevocable, and no amendment of option shall be made for the taxable year it has been made.

e.g. Mr. A elected the 8% income tax rate option on February 14, 2019 by filing BIR Form 1905. Later, before the due date on filing of the 1<sup>st</sup> Quarterly Percentage Tax Return or 1<sup>st</sup> Quarterly Income Tax Return, Mr. A had a change of heart to be taxed at the graduated rates. Can Mr. A signify the option to be taxed at the graduated rates in filing his 1<sup>st</sup> Quarterly Percentage Tax Return or 1<sup>st</sup> Quarterly Income Tax Return or re-filing the BIR Form 1905 before filing his 1<sup>st</sup> Quarterly Percentage Tax Return?

The answer is no. The election made on February 14, 2019 is irrevocable and no amendment of option shall be made for the said taxable year. Beginning 2020, Mr. A is automatically subjected to the graduated income tax rates, unless opted to elect the 8% income tax rate by signifying his intention.

9. Self-employed individual who is qualified and availed of the 8% income tax rate option is:

- a. Required to file the Quarterly Income Tax Return, unless exempted by any revenue issuances;
- b. Required to file the Annual Income Tax Return [Financial Statement (FS) is not required to be attached];
- c. Not required to file the Quarterly Percentage Tax Return;
- d. Required to signify the intention to avail the 8% income tax rate every taxable year.
- e. Required to maintain books of accounts and issue receipts/invoices;

A taxpayer shall automatically be subjected to graduated income tax rates, liable to VAT prospectively and attached an audited FS in filing of the annual income tax return, if the gross annual sales and/or receipts exceed the amount of Three Million Pesos (P 3,000,000.00) anytime during the current taxable year when the option was made. S/he shall immediately update his/her registration within the month following the month s/he exceeded the VAT threshold to reflect the change in tax profile from non-VAT to a VAT taxpayer. Percentage tax shall be imposed from the beginning of the year until taxpayer is liable to VAT.

10. Taxable income for individuals earning income from self-employment/practice of profession shall be based on:
- a. The net taxable income, if taxpayer opted to be taxed at graduated rates or has failed to signify the 8% income tax rate option;
  - b. The gross sales/receipts and other non-operating income in excess of P250,000, if the 8% income tax rate is availed by self-employed individuals earning income from purely self-employment and/or practice of profession. However, in case of Mixed Income Earner, the taxable income is based on the gross sales/receipts and other non-operating income without the P250,000 reduction, if the option availed is the 8% income tax rate.

**Two Hundred Fifty Thousand Pesos (P250,000) Reduction from Taxable Gross Sales/Receipts and Other Non-Operating Income**

11. The provision under Section 24(A)(2)(b) of the Tax Code, as amended, which allows an option of 8% income tax rate on gross sales/receipts and other non-operating income in excess of P250,000.00 is available only to self-employed individuals earning income purely from self-employment and/or practice of profession. The P250,000 reduction from taxable gross sales/receipts and other non-operating income is not applicable to mixed income earners since it is already incorporated in the first tier of the graduated income tax rates applicable to compensation income.
12. For Mixed Income Earner, the excess of the P250,000.00 over the actual taxable compensation income is not deductible against the taxable income from business/practice of profession under the 8% income tax rate option.

The total tax due shall be the sum of the tax due from compensation computed using the graduated income tax rates and the tax due from self-employment/practice of profession resulting from the multiplication of the 8% income tax rate with the total of the gross sales/receipts and other non-operating income.

**Registration Information Update**

13. Self-employed individual may signify the intention to elect the 8% income tax rate option by filing an Application for Registration Information Update (BIR Form No. 1905) at the beginning of the taxable year.
14. Self-employed individual availing the 8% income tax rate option shall still be registered with “Percentage Tax – Quarterly” tax type, and the 2551Q form type shall be end-dated. On the beginning of the following/each year, the 2551Q form type shall be automatically registered in the BIR registration system, to confirm that the taxpayer is subject to graduated income tax rates on the beginning of the year and required to file the quarterly percentage tax return, unless an application for registration information update to avail the 8% income tax rate for the said taxable year has been submitted to the concerned Revenue District Office or by selecting the 8% income tax rate option in filing the 1<sup>st</sup> Quarterly Percentage or Income Tax Return.
15. A Non-VAT individual taxpayer who availed of the 8% income tax rate and subsequently his cumulative gross sales and/or receipts exceeded the Three Million Pesos (P 3,000,000.00) threshold during the taxable year shall be liable to pay income tax under the graduated income tax rates. The income tax shall be computed under the graduated income tax rates and shall be allowed a tax credit for the previous quarter/s income tax payment/s under the 8% income tax rate option. Taxpayer shall be required to update his/her registration immediately within the month following the month s/he exceeded the VAT threshold. Taxpayer shall automatically be liable to VAT prospectively starting the first

day of the month following the month when the threshold is breached. The taxpayer shall pay the required percentage tax covering the sales/receipts and other non-operating income, from the beginning of the taxable year or commencement of business/practice of profession until the time the taxpayer becomes liable to VAT.

16. A VAT-registered person whose gross sales and/or receipts for three (3) consecutive years did not exceed the amount of Three Million Pesos (P 3,000,000.00), may update his registration from VAT to Non-VAT in order to qualify and avail the 8% income tax rate option, on or before the first quarter of a taxable year, following rules and regulations on registrations, updates, verification, and the inventory and cancellation of VAT invoices/receipts.

### **III. Procedures**

#### **A. Self-Employed Individual Availing of the 8% Income Tax Rate**

##### **A.1 New Business Registrant**

1. Submit *Application for Registration by accomplishing BIR Form No. 1901*, to the concerned Revenue District Office having jurisdiction over the place of residence or where the Head Office is located, together with the complete documentary requirements.

##### **A.2 Registration Information Update**

1. Submit *Application for Registration Information Update* by accomplishing *BIR Form No. 1905*, to the concerned Revenue District Office where the self-employed individual is registered, together with the Certificate of Registration (COR) for replacement or updating.

*(Note: The updating or replacement of the COR is only for the first time availment of the 8% income tax rate. There is no need to replace the COR in the succeeding years.)*

#### **B. Revenue District Office - Client Support Section shall:**

1. Receive the *Application for Registration (BIR Form No. 1901)* or *Application for Registration Information Update (BIR Form No. 1905)* of self-employed individuals availing of the 8% income tax rate option together with the COR.
2. Validate if the taxpayer is qualified to avail of the 8% income tax rate option pursuant to Section II(4) of this Order.
3. For existing taxpayers and new business registrants availing of the 8% income tax rate option during registration of business:

##### **3.1 Integrated Tax System**

- a. Tag the 8% income tax rate option by selecting “8% Income Tax Rate” in the List of Values under the Special Code field;
- b. Add/Update the following applicable ATCs in the 1701 and 1701Q form types:
  - i. II015 Business Income - 8% IT Rate;
  - ii. II017 Income from Profession – 8% IT Rate; or
  - iii. II016 Mixed Income – 8% IT Rate

- c. Register tax type: Percentage Tax – Quarterly;
- d. Add form type 2551Q and applicable ATC;
- e. End-date form type 2551Q: filing end-date = 03/31/20xx or the last day of the applicable quarter, if the new business registrant registers after the first quarter.

### **3.2 Electronic Tax Information System - Taxpayer Registration System**

- a. In the Incentive Details Tab:
    - i. Tag the 8% income tax rate option by selecting “8% Income Tax Rate” in the List of Values under the Investment Promotion Agency;
    - ii. Number of years = 1
    - iii. Incentive end date = 12/31/20xx
  - b. Add/Update the following applicable ATCs in the 1701 and 1701Q form types:
    - i. II015 Business Income - 8% IT Rate;
    - ii. II017 Income from Profession – 8% IT Rate; or
    - iii. II016 Mixed Income – 8% IT Rate
  - c. Register tax type: Percentage Tax – Quarterly;
  - d. Add form type 2551Q and applicable ATC;
  - e. Suspend form type 2551Q: filing end-date = 03/31/20xx or the last day of the applicable quarter, if the new business registrant registers after the first quarter.
4. Generate COR with “PT” printed on the face of the certificate and manually print the reminder at the bottom portion of the certificate:

*“If qualified and opted to avail of the 8% income tax rate, the filing of quarterly percentage tax return is not required for the current taxable year the option was made.”*

5. Release the new COR to the taxpayer.

## **C. Information Systems Project Management Service (ISPMS)/ Information Systems Development & Operations Service (ISDOS) shall:**

### **C.1 Integrated Tax System**

- 1. Add the “8% Income Tax Rate option” in the List of Values under the Special Code field.
- 2. Create and run a script that will:
  - 2.1 Automatically “end-date/suspend” the form type 2551Q when the individual taxpayers file the BIR Form No. 2551Q/1701Q and when the “8% income tax rate” check-box is selected for the 1<sup>st</sup> quarter period and tag the “8% income tax rate option” LOV under the special code field. This will remain suspended until the end of the taxable year. The tax type “PT” should not be removed in the Certificate of Registration when printed.
  - 2.2 Automatically open the filing end-date or lift the suspension of 2551Q and remove the tagging of “8% income tax rate option” LOV under the special code field, starting January 01 of the succeeding year, for all individual taxpayers who elected the 8% income tax rate option thru manual tagging, filing of 2551Q and/or 1701Q.
  - 2.3 No stop-filer/open cases shall be generated for the 2551Q return for the taxable year when the 8% income tax rate option was made.

### **C.2 Electronic Tax Information System - Taxpayer Registration System**

1. Add the “8% Income Tax Rate option” in the List of Values under the Investment Promotion Agency field in the Incentive Details tab.
2. Create and run a script that will:
  - 2.1 Automatically “suspend” the form type 2551Q when the individual taxpayers file the BIR Form No. 2551Q/1701Q and when the “8% income tax rate” check-box is selected for the 1<sup>st</sup> quarter period and tag the “8% income tax rate option” in the List of Values under the Investment Promotion Agency field in the Incentive Details tab. This will remain suspended until the end of the taxable year. The tax type “PT” should not be removed in the Certificate of Registration when printed.
  - 2.2 Automatically open the filing end-date or lift the suspension of 2551Q and remove the tagging of “8% income tax rate option” in the List of Values under the Investment Promotion Agency field in the Incentive Details tab, starting January 01 of the succeeding year, for all individual taxpayers who elected the 8% income tax rate option thru manual tagging, filing of 2551Q and/or 1701Q.
  - 2.3 No stop-filer/open cases shall be generated for the 2551Q return for the taxable year when the 8% income tax rate option was made.

### **IV. Transitory Provision**

Pending the enhancement of the Electronic Tax Information System - Taxpayer Registration System, Revenue District Offices under Revenue Region No. 8 – Makati City shall use the Integrated Tax System in registration and updates of individuals availing of the 8% income tax rate option under Section III (B).

### **V. Effectivity**

This Order shall take effect immediately.

(Original Signed)  
**CAESAR R. DULAY**  
Commissioner of Internal Revenue

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