

### **State policy on taxation under RA 8424:**

#### **Answer.**

- a) To promote sustainable economic growth through rationalization of Philippine internal revenue tax system and tax administration.
- b) To provide as much as possible an equitable relief to a greater number of taxpayers.
- c) To create a robust environment for business to enable them to compete better in regional and global market.
- d) To ensure that Government can provide the needs of the people within its territorial jurisdiction.

### **Power of Taxation defined:**

**Answer.** It is an attribute of sovereignty and emanates from necessity.

- a. As a power - It refers to the inherent power of the state to demand enforced contribution upon its subjects and objects within its territorial jurisdiction for public purpose to support the government,
- b. As a process - It is the legislative act of laying **a tax** to **raise** income for the government to defray its necessary expenses. It is the means whereby the government distributes the burden of its coat **among** those who enjoy its **benefits**.

### **The underlying principles behind the power of taxation:**

- a. Principle *of* Necessity - The existence *of* the government is a necessity, and it cannot continue without means to support itself.
- b. Lifeblood Doctrine - Taxes are the lifeblood *of* the government without which it can neither exist nor endure. Without money the government cannot *deliver* services to the people or function and serve the people.

### **Fundamental principles *of* taxation:**

- a. Each subject *of* every state ought to contribute to the support of the government as nearly as possible In proportion to the revenue which they respectively enjoy under Its protection (Ability-to-pay Principle),
- b. The tax measure ought to be so construed as both to take out and keep out of the pockets of. the people ~s little as possible, over and above what It brings into the public treasury (uniform and equitable).
- c. The taxes which each person must pay ought, as respect to the time and manner of payment and the sum to be paid, to be certain and not arbitrary (just).
- d. The tax measure ought to be levied at the time and in **the way** it is most likely to be convenient to the taxpayer **who pays** it (convenient).

### **The importance of taxation:**

**Answer.** Taxes are indispensable to state existence. Without taxation the state cannot raise revenue to support itself, to pay *for* governmental services, its financial obligations and deliver basic services to the people. Neither can the police power and power of eminent power be effectively and permanently exercised without the power of taxation. **(Lifeblood Doctrine)**

Purpose of taxation (**also referred to as the Primary Purpose Rule**):

**Answer.**

1. Primary - to raise or **generate revenues and to mobilize** resources.

2. **Secondary** or Regulatory -

- To regulate the conduct of businesses or professions
- To achieve economic and social stability
- To protect local industries

3. Compensatory -

- Reduces inequalities in wealth distribution
- Key instrument of social control
- Strengthens anemic enterprises
- Provides incentives
- Check inflation
- Tools on international bargains
- Promotes science and inventions
- Use as implement in the exercise of police power to promote general welfare

**The power of taxation should be exercised for• public purpose. When la there a "public purpose"?**

**Answer.** The purpose for which the tax is laid must not only directly benefit but also indirect benefit or bring advantage to the people. A tax measure is for a public purpose when:

- a. it is designated to support the services of the government
- b. it is designed to realize governmental goals or objectives
- c. It is designed to address public needs,
- d. It is for the purpose of responding to calamities or disasters or other emergencies.
- e. It is designed to benefit the majority of the people such as housing, education, and health programs, among others.
- f. It enhances the social justice program of the government
- g. The expenditure of public funds has a transcendental importance and far-reaching implication.
- h. It is for building of roads and bridges.
- i. Promotion of science and technology.
- j. Support to inventors and their inventions; and
- k. Development of the youth.

## **Tax in the Philippines**

Taxation in the Philippines is the system by which the government collects money from individuals and businesses to fund public services such as education, healthcare, infrastructure, and national defense. The primary agency responsible for tax collection and enforcement is the **Bureau of Internal Revenue (BIR)**.

Two major forms of internal revenue taxes are **Income Tax** and **Business Tax**.

### **Income Taxation**

## Definition

**Income tax** is a tax imposed on the **income earned** by individuals, estates, trusts, and corporations during a taxable year. The tax is based on the **ability to pay**, meaning the higher the income, the higher the tax imposed.

## Basic Process of Income Taxation

### 1. Earning of Income

Income is first earned through lawful means, such as employment, business operations, or investments.

*Example:*

An employee earns a monthly salary of ₱30,000, or a business earns ₱1,200,000 in annual gross receipts.

### 2. Determination of Taxable Income

Not all income earned is automatically taxable. The taxpayer must determine **taxable income**, which is computed as:

**Gross Income**  
**LESS: Allowable Deductions or Exemptions**  
**= Taxable Income**

Allowable deductions may include:

- Business expenses
- Cost of sales
- Depreciation
- Certain allowable deductions under tax laws

For individuals earning purely compensation income, the employer usually withholds the tax through the **withholding tax system**.

### 3. Filing of Income Tax Return (ITR)

The taxpayer must file an **Income Tax Return (ITR)** declaring income, deductions, and tax due.

- Individuals and corporations file annually
- Self-employed individuals may also file quarterly

### 4. Payment of Tax to the BIR

- After filing, any tax due must be paid to the BIR through authorized banks, electronic platforms, or BIR payment channels.
- Failure to file or pay results in **penalties, interest, and surcharges**.

## Business Taxation

**Business tax** is a tax imposed on **transactions or business activities**, regardless of whether the business earns a profit or suffers a loss. It focuses on **sales, receipts, or transactions**, not net income.

### Basic Process of Business Taxation

#### 1. Registration of Business with the BIR

Before operating, a business must:

- Register with the BIR
- Secure a Certificate of Registration (COR)
- Register books of accounts
- Apply for Authority to Print Receipts

#### 2. Issuance of Official Receipts

- Businesses must issue **official receipts or sales invoices** for every transaction to properly document sales and comply with tax rules.

#### 3. Filing of Business Tax Returns

Businesses are required to file:

- Monthly or quarterly VAT/Percentage Tax returns
- Summary of sales and purchases (for VAT-registered taxpayers)

#### 4. Payment of Business Taxes

- Taxes are paid regularly based on declared gross sales or receipts, regardless of whether the business earns profit.

### Income vs Business Taxation

| Aspect           | Income Tax                 | Business Tax                |
|------------------|----------------------------|-----------------------------|
| Basis of Tax     | Net income or profit       | Gross sales or transactions |
| Profit Required? | Yes                        | No                          |
| Applies To       | Individuals & corporations | Businesses engaged in trade |
| Frequency        | Annual / Quarterly         | Monthly / Quarterly         |
| Focus            | Ability to pay             | Business activity           |

**Possible source of Income for tax purposes:**

- a. Those derived from labor or service
- b. Those derived from capital
- c. Those derived from both labor and capital
- d. Those derived from sale or exchange of property
- e. Those derived from illegal

**“Source” for tax purposes defined:**

Answer. It refers to the activity, property or labor that gave rise or produced the income, or the origin of the income.

Illustration:

- a. If the income is derived from labor or services - The source of the income is the place where the labor or service is performed.
- b. If the income is derived from capital - The source of income is the place where the capital is employed or used.
- c. If income is derived from the sale of real property - The source of the income is the place where the real property is located.

Classification of Income as to source:

- a. Income from within the Philippines - interests on bonds/notes, dividends; compensation for labor or services; rentals and royalties from property; gains, profits, and income from sale of real and/or personal property.
- b. Income from outside of the Philippines - Interest, dividends; compensation for labor or services; rentals or royalties; Gains, profits, and income from sale of real or personal property.
- c. Income from sources partly within and partly without the Philippines, such as - gains, profits and income from transportation or other services rendered partly within and partly outside the country; sale of personal property produced within and sold outside or vice-versa.
- d. Professional Income
- e. Business Income
- f. Passive Income
- g. Capital gains or Income from sale or disposition of capital asset
- h. illegal income, and
- i. Income from whatever source.

"Income from whatever source derived" defined:

All income not expressly excluded or exempted from the class of taxable income, irrespective of the voluntary or involuntary action of the taxpayer in producing the said income, and regardless of the source of the income, is taxable. (Gutierrez vs. Collector, 101 Phil. 713)

Examples:

- a. Income from illegal gambling, theft, embezzlement, drug trafficking and smuggling,
- b. Income or gain from expropriation of property
- c. Compensation for damages representing loss of expected profits
- d. Bad debts previously written-off but subsequently paid
- e. Taxes previously deducted as an expense and subsequently refunded.