



TAX COMPLIANCE GUIDE FOR FREELANCERS AND BUSINESS OWNER

MODULE 1

LESSON 1:


OVERVIEW OF RELEVANT TAXES FOR FREELANCERS





Module 1. Introduction to Tax Compliance for Freelancers and Small Business Owners





Lesson 1. Overview of Relevant
Taxes for Freelancers and Small
Business Owners



What is Income Tax?

Income tax is a tax you pay on the income you earn as a freelancer. If you're registered with the BIR as a self-employed individual or a freelancer, you're required to file your income tax annually, with quarterly filings during the year. It is computed based on your net income, which is the amount you earn after deducting your allowable expenses from your gross income.

Example: Let's say you earned ₱500,000 from freelancing during the year, and you had ₱100,000 in business expenses (such as internet, computer equipment, and office supplies). Your taxable income would be:

$$₱500,000 - ₱100,000 = ₱400,000 \text{ (taxable income)}$$

You will then calculate your tax liability based on the income tax table provided by the BIR. For freelancers, the tax rate follows a progressive system, meaning the higher your income, the higher the percentage of tax you'll pay.



Who Needs to File Income Tax?

All registered freelancers who earn income, whether through digital work, professional services, or online businesses.

Income tax filings are required quarterly and annually using BIR Form 1701 or 1701A, depending on your tax classification (which we'll dive into more in the next lesson).

Important Deadlines:

Quarterly Income Tax: Filed every quarter (April, August, and November).

Annual Income Tax: Filed on or before April 15 of the following year.



What is Percentage Tax?

Percentage tax is a form of tax applied to the gross income of non-VAT registered businesses and individuals. This tax is generally 3% of your gross income, and it's paid every quarter. Unlike income tax, percentage tax does not consider your expenses—it's simply a percentage of your total income.

Example: If you earned ₱500,000 this year and you are a non-VAT registered freelancer, your percentage tax would be:

$$₱500,000 \times 3\% = ₱15,000 \text{ (percentage tax liability).}$$

This ₱15,000 is what you owe in percentage tax for that year, and you will pay it quarterly.



Who Needs to Pay Percentage Tax?

Freelancers earning below ₱3,000,000 annually who choose not to register for VAT.

You will file this tax using BIR Form 2551Q, which we will cover in more detail later in the course.

Important Deadlines:

Percentage tax is filed every quarter using **BIR Form 2551Q**.

Due dates for filing: **every 25th day following the close of the taxable quarter.**



What is Value-Added Tax?

VAT is a 12% tax on the sale of goods, properties, or services. If you are VAT-registered, you will charge your clients an additional 12% on top of your service fees, and you will be responsible for remitting this to the BIR. However, as a VAT-registered freelancer, you can also claim input VAT, which is the VAT you pay on your business expenses, and deduct it from the VAT you owe.

Example: Let's say you invoiced a client for ₱100,000. You would add 12% VAT, which would look like this:

$$\text{₱100,000} + 12\% \text{ VAT} = \text{₱112,000}.$$

You will collect ₱112,000 from your client, and then remit the ₱12,000 to the BIR as VAT.



Who Needs to Register for VAT?

Freelancers earning below ₱3,000,000 annually who choose not to register for VAT.

You will file this tax using BIR Form 2551Q, which we will cover in more detail later in the course.

Important Deadlines:

Monthly VAT: Filed on or before the 20th of the following month.

Quarterly VAT: Filed every quarter.



Key Takeaways

1

Freelancers are required to comply with different tax types depending on their income level and registration status.

2

Income Tax applies to all freelancers based on their net income after deductions.

3

Percentage Tax applies to non-VAT registered freelancers earning below ₱3,000,000 annually, calculated at 3% of gross income.

VAT applies to those earning over ₱3,000,000 annually, calculated at 12% of gross sales, with an option to deduct input VAT.



Learning Activity

To reinforce your understanding, here's a quick activity:

- Identify whether you should be paying income tax, percentage tax, or VAT based on your current or expected freelance income.
- List the forms you expect to file based on the taxes you'll need to pay.



What's Next?

In the next lesson, we will dive deeper into the Types of Taxes Freelancers Must Pay, where we'll discuss the differences between VAT-registered and non-VAT freelancers, income tax brackets, and withholding tax requirements. Stay tuned for Lesson 2!



