



## TAX COMPLIANCE GUIDE FOR FREELANCERS AND BUSINESS OWNER

### MODULE 1

## LESSON 2:

# TYPES OF TAXES FREELANCERS MUST PAY





# **Module 1. Introduction to Freelance Tax**

## **Compliance**





## Lesson 2. Types of Taxes

### Freelancers Must Pay



## 1. VAT-Registered vs Non-VAT Freelancers

### VAT-Registered Freelancers

If your gross income exceeds ₱3,000,000 annually, you are required by law to register as a VAT taxpayer. As a VAT-registered freelancer, you will:

Charge 12% VAT on top of your service fees to clients.

Submit monthly and quarterly VAT filings using BIR Form 2550M (monthly) and BIR Form 2550Q (quarterly).

Collect input VAT from your business expenses, which can be used to offset the VAT you

**Example:**  
collect from your clients.

Let's say you've earned ₱4,000,000 in a year from freelance work. You'll be required to charge your clients 12% VAT on your services. If you charged a client ₱100,000 for a project, the total invoice would be ₱112,000. The ₱12,000 is VAT, which you will need to remit to the BIR. However, if you purchased a laptop for your business and paid ₱60,000 including ₱6,000 in VAT, you can deduct the ₱6,000 from the VAT you owe.



### 1. VAT-Registered vs Non-VAT Freelancers

#### Non-VAT Freelancers (Percentage Tax Payers)

If your annual gross income is ₱3,000,000 or less, you have the option to register as a non-VAT taxpayer. Instead of charging VAT, you will pay 3% Percentage Tax on your gross receipts every quarter. This is calculated on your total sales without considering your business expenses, so you cannot deduct anything.

#### Example:

If you earned ₱500,000 during the year, as a non-VAT registered freelancer, you'll pay:

$₱500,000 \times 3\% = ₱15,000$  in percentage tax.

This ₱15,000 must be paid quarterly using BIR Form 2551Q.



## 2. Income Tax Brackets

Whether you're VAT-registered or non-VAT registered, you're still required to pay income tax. The Philippines follows a progressive income tax system, which means the more you earn, the higher the tax rate you'll pay. Income tax is filed annually using BIR Form 1701 or 1701A for self-employed individuals.

**Income up to ₱250,000: 0% (no tax due)**

**₱250,001 to ₱400,000: 15% of the amount exceeding ₱250,000**

**₱400,001 to ₱800,000: 20% of the amount exceeding ₱400,000**

**₱800,001 to ₱2,000,000: 25% of the amount exceeding ₱800,000**

**₱2,000,001 to ₱8,000,000: 30% of the amount exceeding ₱2,000,000**

**Over ₱8,000,000: 35% of the amount exceeding ₱8,000,000**



## 2. Income Tax Brackets

### Example:

If you earn ₱700,000 in a year, you'll pay:

No tax on the first ₱250,000.

15% on the amount between ₱250,001 and ₱400,000:  $₱150,000 \times 15\% = ₱22,500$ .

20% on the amount between ₱400,001 and ₱700,000:  $₱300,000 \times 20\% = ₱60,000$ .

So your total income tax liability will be:  $₱22,500 + ₱60,000 = ₱82,500$ .

### Deadlines for Filing Income Tax

**Quarterly Income Tax:** Filed on April 15, August 15, and November 15.

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



### 3. Withholding Tax for Freelancers

As a freelancer, you may also encounter withholding tax. Clients who hire you may withhold a portion of your income as part of their tax obligations and remit it to the BIR on your behalf. This tax can be used as tax credits to reduce your income tax liability.

#### How Withholding Tax Works

If your client is a registered company, they may withhold 10% or 15% of your professional fees, depending on the amount you earn.

You will receive a BIR Form 2307 from your client as proof of the tax withheld. You can then use this form to deduct the withheld amount from your income tax liability at the end of the year.





## 3. Withholding Tax for Freelancers

### Example:

If you invoice a client for ₱50,000 and they withhold 10%, they will remit ₱5,000 to the BIR on your behalf. The remaining ₱45,000 will be paid to you. At the end of the year, you can use the ₱5,000 withholding tax as a credit against your income tax, reducing the amount you owe.

### Important Forms

**BIR Form 2307:** For claiming tax credits on withheld income.



# Key Takeaways

**1**

**VAT vs. Non-VAT:** If you earn over ₱3,000,000 annually, you must register for VAT. If not, you can opt for percentage tax.

**2**

**Income Tax:** Freelancers follow a progressive income tax system, with rates ranging from 0% to 35% depending on income.

**3**

**Withholding Tax:** If your client withholds tax, you can use it as a tax credit to reduce your annual income tax liability.



# Learning Activity

Take a few minutes to reflect on the following:

- Identify whether you are VAT-registered or non-VAT registered based on your current or expected annual income.
- Calculate your estimated income tax based on your projected freelance earnings for the year.



# What's Next?

In the next lesson, we'll cover Penalties for Non-Compliance, including what happens if you miss a filing deadline, underpay your taxes, or need to correct an error in your returns. You'll learn how to avoid costly mistakes and stay in good standing with the BIR. Stay tuned for Lesson 3!



