



TAX COMPLIANCE GUIDE FOR FREELANCERS AND BUSINESS OWNER

MODULE 1

LESSON 3:

PENALTIES FOR NON-COMPLIANCE





Module 1. Introduction to Freelance Tax

Compliance





Lesson 3. Penalties for Non-Compliance



1. Penalties for Late Filing

Let's start with the most common issue: late filing of tax returns. Whether it's your income tax return (BIR Form 1701), percentage tax (BIR Form 2551Q), or VAT returns (BIR Form 2550M/2550Q), missing the filing deadline can lead to a variety of penalties.

What Happens if You File Late?

Surcharge: A 25% surcharge on the amount of tax due if you fail to file on time. This means that if you owe ₱10,000 in taxes but file late, you'll have to pay an additional ₱2,500 as a penalty.

Interest: On top of the surcharge, the BIR will charge 12% annual interest on the unpaid tax. This is computed from the date the tax was due until the date you actually pay.

Compromise Penalty: This is an additional fine that ranges from ₱1,000 to ₱50,000, depending on your tax liability and the severity of the infraction.



Example:

Let's say you owe ₱20,000 in taxes but missed the filing deadline by 30 days. Here's what you'd owe:

Tax due: ₱20,000

Surcharge (25%): ₱5,000

Interest (12% annual): ₱200 (for 30 days late)

Compromise penalty: ₱1,000

Total penalty for filing late: ₱6,200 on top of your tax due of ₱20,000.

How to Avoid Late Filing Penalties

Always mark your tax deadlines on your calendar and set reminders.

Use the BIR **eBIRForms** or **EFPS** to file your taxes electronically, avoiding last-minute stress.

Consider creating a buffer period, aiming to file a few days before the deadline to prevent technical issues from causing delays.



2. Penalties for Non-Payment or Underpayment

Next, let's talk about penalties related to non-payment or underpayment of taxes. These penalties apply if you file your returns but fail to pay the full amount due.

What is Non-Payment or Underpayment?

Non-payment: If you fail to pay the amount you owe when filing your tax returns, you will be penalized for not paying on time.

Underpayment: If you pay less than the actual amount due (whether due to error or intentional misreporting), the BIR will consider this underpayment, and you'll be penalized accordingly.



Penalties for Non-Payment and Underpayment

Surcharge (25%): Just like late filing, you'll incur a 25% surcharge on the unpaid or underpaid tax.

Interest (12% annual): The BIR will charge 12% interest on the unpaid portion from the due date until the tax is fully paid.

Compromise Penalty: Similar to late filing, there is an additional compromise penalty, which can vary based on the amount of tax underpaid or unpaid.



Example:

If your tax liability is ₱50,000, but you only paid ₱30,000, the remaining ₱20,000 will be considered underpayment. Let's assume you correct this a month later. Here's what you'll owe:

Remaining tax due: ₱20,000

Surcharge (25%): ₱5,000

Interest (12% annual): ₱200

Compromise penalty: ₱1,000

Total penalties: ₱6,200.



How to Avoid Non-Payment and Underpayment Penalties

Double-check your calculations before submitting your tax returns. If you're unsure, seek help from a professional accountant or use reliable bookkeeping software.

Always set aside money for your taxes throughout the year, so you're prepared to pay in full when the time comes.



3. Correcting Errors in Tax Filings

Mistakes happen, even to the most diligent of us. If you realize you've made an error in your tax return after you've filed it, there's a process for correcting it.

How to Correct Filing Errors

The BIR allows taxpayers to file an **amended return** to correct errors in their original submission. This could be necessary if:

You accidentally **underreported your income**.

You missed **deductions** you were entitled to.

You realized you filed the wrong form.



The Amended Return Process

- 1. Identify the mistake:** Review your original filing and determine exactly where the error occurred.
- 2. Prepare an amended return:** Download the relevant BIR form (e.g., **1701A**, **2551Q**, etc.), and correct the mistake.
- 3. File the amended return:** Submit it electronically using **eBIRForms** or **EFPS**. Be sure to pay any additional taxes that may be due.
- 4. Pay additional tax (if necessary):** If your corrected return results in more tax due, pay the amount immediately to avoid penalties. If you overpaid, the BIR may issue a refund or tax credit.



Key Takeaways



1

Late filing of tax returns incurs penalties such as a 25% surcharge, 12% interest, and a compromise penalty.

2

Non-payment or underpayment of taxes also leads to penalties, with similar charges as late filing.

3

Amended returns allow you to correct errors, but it's important to act promptly to avoid penalties.



Learning Activity

Think about your most recent tax filing experience.

Was there a time when you filed late or paid less than you owed? Reflect on what could have caused the delay or mistake.

Consider setting up a system to ensure you never miss a deadline—whether it's using reminders, a tax calendar, or automating payments.



What's Next?

In the next lesson, we'll explore Key Terms and Concepts in Tax Compliance. You'll learn important terms like taxable income, deductions, and exemptions, which are critical for understanding how your tax liability is calculated. Stay tuned for Lesson 4!



