



TAX COMPLIANCE GUIDE FOR FREELANCERS AND BUSINESS OWNER

MODULE 1

LESSON 5:

UNDERSTANDING THE IMPORTANCE OF BIR REGISTRATION





Module 1. Introduction to Freelance Tax

Compliance





Lesson 5. Understanding the Importance of BIR Registration



1. Why Freelancers Must Register with the BIR

When you work as a freelancer, the government considers you to be self-employed. This means that you are responsible for declaring and paying your taxes independently, unlike an employee whose employer withholds and remits taxes on their behalf.

BIR registration is a legal requirement for freelancers, whether you're working online as a content creator, providing services as a virtual assistant, or running a small business. Here's why registration is critical:



a. Legal Compliance

First and foremost, registering with the BIR is a legal obligation under Philippine tax laws. Whether you're earning ₱50,000 or ₱5,000,000 per year, the BIR requires all self-employed individuals and businesses to register and declare their income.

Example:

If you're working as a freelance graphic designer and earning ₱200,000 annually, even if it's a side hustle, you're still required to register with the BIR, file tax returns, and pay income tax. The BIR sees you as a small business, and like any business, you need to follow tax regulations.



b. Issuing Official Receipts

Once registered, you'll be able to issue official receipts (ORs) to your clients. This is essential for both individual and corporate clients, especially those who need documentation for their own tax filings.

Without an official receipt, you won't be able to provide legal proof of income, which may cause potential clients to refuse to work with you or withhold a portion of your payment for taxes.

Example:

Let's say you're a social media manager working with a local business that requires official receipts to claim expenses for their business. Without being BIR-registered, you won't be able to issue them a valid OR, and they may choose another service provider.



c. Access to Benefits and Credibility

Being registered with the BIR gives you access to potential tax deductions and ensures that you're compliant with national tax laws. It also builds credibility with your clients. Many larger businesses prefer working with freelancers who are registered because it ensures a smoother working relationship, especially when it comes to taxes and documentation.



2. The BIR Registration Process for Freelancers

Steps for Registration:

- 1. Secure a TIN (Taxpayer Identification Number):** If you don't already have a TIN, you'll need to apply for one using **BIR Form 1901**. This form is specifically for self-employed individuals, including freelancers.
- 2. Obtain a COR (Certificate of Registration):** Once your TIN is set up, you'll need to apply for a **Certificate of Registration (BIR Form 0605)**. This certificate indicates that you're officially registered with the BIR and outlines your tax obligations, including whether you're a VAT or non-VAT taxpayer.



Steps for Registration:

3. Apply for Books of Accounts: Freelancers are required to maintain **Books of Accounts**, where you'll record your business transactions. These can be manual ledgers or computerized systems.

4. Secure Authority to Print Receipts (ATP): To issue official receipts, you'll need to apply for **Authority to Print Receipts and Invoices (ATP)**. Once granted, you can have your receipts printed by an accredited printer. Alternatively, you can use the BIR's e-receipts if you prefer to go digital.

Example:

Maria, a freelance copywriter, registered with the BIR using Form 1901 and received her TIN. She then applied for her Certificate of Registration and is now able to issue official receipts to her clients. This not only makes her business compliant but also builds trust with her clients.



3. Consequences of Not Registering

While the registration process may seem tedious, failing to register with the BIR can lead to serious consequences. Let's look at some of the risks of non-compliance.

a. Fines and Penalties

The BIR imposes steep penalties for freelancers who fail to register and pay their taxes.

These fines can include:

₱5,000 to ₱20,000 for failure to register.

Additional penalties for non-payment or incorrect filings, including surcharges and interest on unpaid taxes.



b. Loss of Business Opportunities

Many clients, particularly corporate clients, require official receipts for accounting and tax purposes. Without being registered and having the ability to issue ORs, you could lose business opportunities.

Example:

John, an unregistered freelance web developer, misses out on a lucrative contract with a large corporation because they require official receipts for payments. John's failure to register with the BIR costs him the client and the income he could have earned.



c. Risk of Audit

Unregistered freelancers are at risk of being flagged for a BIR audit. This can be stressful and costly, as the BIR may assess your income retroactively and demand payment for taxes owed, plus penalties.



Key Takeaways

1

Registering with the BIR is mandatory for all freelancers to ensure legal compliance and build credibility with clients.

2

Once registered, you can issue official receipts, which are essential for working with professional clients and businesses.

3

Failing to register can lead to heavy fines, lost business opportunities, and potential BIR audits.



Learning Activity

Think about your current freelance business:

Do you already have a TIN and COR? If not, start planning your BIR registration process.

If you are registered, ensure that your **Books of Accounts** are up to date and that you're ready to issue official receipts for your next client.



What's Next?

In the next module, we'll take a deep dive into the BIR Forms freelancers must use to file their taxes. Lesson 1 of Module 2 will cover Filing Quarterly and Annual Income Tax Using BIR Form 1701Q and 1701, where we'll teach you how to properly fill out these forms and report your income accurately. Stay tuned for Module 2!



