



TAX COMPLIANCE GUIDE FOR FREELANCERS AND BUSINESS OWNER

MODULE 2

LESSON 4:

HANDLING WITHHOLDING TAX WITH BIR FORM 2307





Module 2. BIR Forms Explained





Lesson 4. Handling Withholding Tax with BIR Form 2307



1. What is BIR Form 2307?

BIR Form 2307 is known as the Certificate of Creditable Tax Withheld at Source. It is a form that you, as a freelancer, receive from your clients when they withhold a portion of your income and remit it to the BIR on your behalf. Essentially, it serves as proof that a portion of your income has already been withheld for taxes.

When you work with a company or a VAT-registered entity, they are required to withhold a portion of your income—typically 10% or 15% depending on the type of income and your earnings. This withheld amount is then credited toward your annual income tax, reducing the amount of tax you need to pay.



Key Points to Remember:

Who Issues It?: Your client or the business you are working with will issue **BIR Form 2307** to you after withholding tax from your payment.

Why Is It Important?: The amount withheld is **credited against your total tax due** when you file your annual income tax return, so you don't pay the same tax twice.

Example:

If you earn ₱100,000 from a client and they withhold **10%** of your income, the withheld tax would be **₱10,000**. This means they will pay you ₱90,000 and remit the ₱10,000 directly to the BIR. The ₱10,000 is your **tax credit**, and you can use it to reduce your overall income tax liability at the end of the year.



2. How to Apply BIR Form 2307 for Tax Credits

When you receive **BIR Form 2307** from your clients, it's important to know how to properly apply it when filing your taxes to ensure you maximize your **tax credits**.

Step 1: Keep Track of All BIR Form 2307 Receipts

Every time a client withholds tax from your payment, they are required to issue you a **Form 2307**. Make sure you:

Organize and **file** each Form 2307 as you receive it.

Ensure the form includes all necessary information, such as:

Your **TIN** (Taxpayer Identification Number).

The **amount of income** earned.

The **amount of tax withheld**.

Tip: Create a **dedicated folder** (physical or digital) where you store all of your Form 2307s, so you can easily access them when it's time to file your annual tax return.



Step 2: Declare Your Withholding Tax Credits When Filing

When filing your **BIR Form 1701 (Annual Income Tax Return)**, you'll be able to apply the tax withheld as a **credit** against your total income tax liability.

- 1. Gather All BIR Form 2307s:** Before you start filing your annual income tax return, make sure you have all your Form 2307s from the year ready.
- 2. Calculate Your Total Tax Credits:** Add up all the amounts of tax withheld from your income. This is your **total tax credit**.

Example:

If you received Form 2307 showing the following withholdings:

₱5,000 from Client A
₱8,000 from Client B
₱3,000 from Client C

Your total tax credits would be **₱16,000**.



Step 3: Claiming Refunds or Using Excess Credits

If your total **withholding tax credits** exceed your actual tax due, you may be eligible for a **refund** or can carry forward the excess tax credit to the next taxable period.

Example:

If your total income tax liability is ₱30,000, but you've already had ₱35,000 withheld and reported via Form 2307, you can either request a refund for the extra ₱5,000 or apply it as a credit to the next year's tax liability.



3. Common Mistakes to Avoid

When dealing with **BIR Form 2307**, freelancers often make mistakes that can lead to lost tax credits or penalties. Here are a few common pitfalls and how to avoid them:

a. Failing to Collect or File Form 2307

It's easy to forget to ask clients for Form 2307 after receiving payment. However, without this document, you can't claim the withholding tax credits during tax season. Always ensure you receive Form 2307 for every payment where tax was withheld.

b. Not Verifying Information on the Form

Check that the information on Form 2307 is accurate. Ensure the client's TIN, the amount of income, and the tax withheld are correct. Any discrepancies can cause issues when filing your annual return.

c. Losing Form 2307

If you misplace Form 2307, you could lose valuable tax credits. Always keep your tax documents organized and backed up, whether physically or digitally.



Key Takeaways

1

BIR Form 2307 is issued by clients who withhold tax from your income and serves as **proof** of the tax credits you can apply to reduce your tax liability.

2

Always **collect, organize, and verify** your Form 2307 receipts throughout the year to maximize your tax credits.

3

Use the withheld taxes reflected in Form 2307 to **reduce your total tax liability** when filing your annual income tax return.



Learning Activity

Take a moment to:

Review the Form 2307s you've received this year.

Calculate the total amount of withholding tax credits you've earned so far.

If you haven't been collecting them, reach out to your clients and request Form 2307s for any payments where tax was withheld.



What's Next?

In the next module, we'll move on to Mastering Tax Filing with eBIRForms and EFPS. In Lesson 1, we'll cover the Introduction to BIR's eFiling Systems (eBIRForms and EFPS), explaining the differences between these systems and how they benefit freelancers. Stay tuned for Module 3!



