



TAX COMPLIANCE GUIDE FOR FREELANCERS AND BUSINESS OWNER

MODULE 4

LESSON 3:

STRATEGIES FOR REDUCING TAX LIABILITY





Module 4. Tax Planning and Saving

Strategies





Lesson 3. Strategies for Reducing Tax Liability



1. Understanding Tax Deductions

A tax deduction reduces your taxable income, meaning you'll pay taxes on a smaller portion of your earnings. For freelancers, claiming deductions is an essential part of tax planning. By keeping track of your business-related expenses, you can offset a significant amount of income that would otherwise be subject to tax.

Deductions are particularly important because they allow you to:

Lower your overall tax liability, reducing the amount of tax you owe to the BIR.

Reinvest more of your earnings into your business.

Avoid overpaying on taxes by accurately accounting for legitimate business expenses.



2. Claiming Home Office Expenses

One of the most common deductions for freelancers is for home office expenses. If you work from home, you're eligible to deduct a portion of your household expenses that are used to maintain your workspace.

a. What Qualifies as a Home Office?

To claim home office deductions, your workspace must be:

Exclusively used for business. This means that the space you're claiming is not used for any personal activities.

A dedicated area in your home, such as a separate room or a section of a room that is clearly used for work.



2. Claiming Home Office Expenses

b. What Expenses Can You Deduct?

You can deduct a portion of your household expenses, including:

Rent or mortgage payments.

Utilities (electricity, internet, water, etc.).

Home maintenance costs (e.g., repairs, cleaning services).

Insurance premiums (if applicable).

Example:

Let's say you use 10% of your home's square footage exclusively as a home office. You can deduct 10% of your rent, utilities, and other related expenses from your taxable income.



2. Claiming Home Office Expenses

c. How to Calculate Home Office Deductions

To calculate your home office deduction:

1. Determine the **percentage of your home** that is used for business. For example, if your home office is 100 square feet in a 1,000-square-foot home, your workspace takes up **a** of your home.
2. Apply this percentage to your eligible household expenses. If your total monthly rent is ₱20,000 and your office space represents 10% of your home, you can deduct **₱2,000 per month** (or ₱24,000 per year) from your taxable income.



3. Claiming Travel Expenses

If your freelance work requires you to travel, you may be able to deduct your business-related travel expenses. This can include local transportation, airfare, accommodation, and meals, as long as the trip is directly related to your business activities.

a. What Qualifies as a Business Travel Expense?

To qualify for a travel expense deduction, the trip must be:

Primarily for business purposes. The main reason for your travel should be related to your work, such as meeting a client, attending a conference, or performing a service on-site.

Well-documented. Keep records such as receipts, itineraries, and proof of business-related activities (e.g., email invitations or meeting agendas).



3. Claiming Travel Expenses

b. Deductible Travel Expenses

Here are some common business travel expenses you can deduct:

Airfare or transportation costs (including taxis, buses, or car rentals).

Lodging and accommodations (hotels, Airbnb, etc.).

Meals (up to 50% of the cost if they are business-related).

Example:

If you attend a conference in another city and spend ₱20,000 on airfare, ₱5,000 on accommodations, and ₱3,000 on meals, you may be able to deduct a portion of these costs from your taxable income.



4. Claiming Equipment and Office Supplies

Freelancers often need equipment and office supplies to run their business, and these expenses can be deducted as business costs.

a. What Equipment Qualifies for Deduction?

You can deduct the cost of business-related equipment, such as:

Computers, laptops, or tablets used for work.

Office furniture like desks and chairs.

Software subscriptions (e.g., Adobe Creative Cloud, QuickBooks).

Printers, scanners, and other office devices.



4. Claiming Equipment and Office Supplies

b. Full Deduction vs. Depreciation

Depending on the cost of the equipment, you may be able to **deduct the full cost** of smaller items (like a printer or office supplies) in the year you purchase them. For more expensive equipment (like computers or office furniture), you may need to **depreciate the cost** over several years.

Example:

If you buy a new laptop for ₱60,000 to use exclusively for work, you may be able to deduct the full cost of the laptop from your taxable income if it meets the BIR's criteria for a full deduction. Otherwise, you'll need to spread the deduction over a few years.



Common Mistakes to Avoid

a. Mixing Personal and Business Expenses

One common mistake freelancers make is trying to deduct expenses that are partially personal. For example, if you use your home office for personal activities or mix personal travel with business travel, the BIR may disallow these deductions.

b. Failing to Keep Records

You must keep accurate records of all business-related expenses, including receipts, invoices, and proof of payment. In the event of an audit, the BIR may require you to show evidence of your deductions.

c. Overstating Deductions

Be cautious not to overstate your deductions. For example, claiming too large a portion of your home as a business expense or deducting personal trips as business travel could raise red flags with the BIR.



Key Takeaways

1

Home office expenses can be deducted if you use a dedicated space in your home exclusively for business.

2

Business-related travel expenses (e.g., transportation, accommodations, and meals) are deductible if the travel is primarily for work.

3

Equipment and office supplies used for your business can also be deducted, either in full or depreciated over time, depending on the cost.



Learning Activity

Review your home office setup and calculate the percentage of your home that is dedicated to business. Then, calculate your eligible home office deductions.

List your business travel expenses from the last quarter and determine which costs you can deduct from your taxable income.

Inventory your business equipment and office supplies. Are there any large purchases you've made that you can deduct this year?



What's Next?

In the next lesson, we'll cover Using Automation Tools for Financial Planning, where we'll introduce various tools that automate tax savings and tracking, reducing errors and improving financial planning. Stay tuned for Lesson 4 of Module 4!



