

**A QUICK AND EASY TAX GUIDE FOR MICRO, SMALL, AND MEDIUM-SIZED ENTERPRISES (MSMEs)**

**1. What is an MSME?**

An MSME refers to any business activity or enterprise engaged in industry, agribusiness and/or services, whether single proprietorship, cooperative, partnership or corporation whose total assets amount to:

- Not more than P3,000,000 for **Micro**;
- P3,000,001 to P15,000,000 for **Small**; and
- P15,000,001 to P100,000,000 for **Medium**.

Any business entity or enterprise whose total assets shall not be more than P3,000,000 are considered *Barangay Micro Business Enterprise* (BMBE) entitled to certain tax incentives such as exemption from income tax and from the coverage of the Minimum Wage Law

**2. As an owner of MSME, do I need to register my business?**

YES

**3. Where do I register?**

- i. Sole Proprietorship – register with the Department of Trade and Industry (DTI);
- ii. Partnership/Corporation – register with the Securities and Exchange Commission; and
- iii. Cooperative – register with the Cooperative Development Authority (CDA).

**4. Do I need to get any license?**

YES. You need to apply for a business permit and license from the local government unit (LGU).

You can go and ask for assistance at Negosyo Centers in your locality. The Negosyo Centers are created to facilitate access to services for MSMEs.

**“Negosyo Centers”**

Under RA No. 10644, a “Negosyo Center” must be established in all provinces, cities and municipalities. It shall be responsible for “promoting ease of doing business and facilitating access to services for MSMEs within its jurisdiction.”

**5. Do I need to register with the BIR?**

Yes.

**6. When do I register with the BIR?**

Registration must be made 1) on or before the commencement of business; or 2) before payment of any tax due; or 3) upon filing of a tax return.

For BMBEs, they should also register with DTI as a BMBE to be able to avail of incentives.

**7. How do I register with the BIR**

Accomplish the Application for Registration or BIR Form 1901, then proceed to the BIR Revenue District Office (RDO) that has jurisdiction over the place of business or the place of residence.

**8. Do I need to pay anything upon registration??**

YES. Pay the registration fee of P500.00.

Then, secure from the BIR the Certificate of Registration (COR or BIR Form No. 2303) and the “Ask for a Receipt” Notice (ARN).

**9. What will I do with the Certificate of Registration (COR) and the ‘Ask for Receipt’ Notice (ARN)?**

You display it in a place that can be easily seen in your place of business.

**10. Do I need to do anything else after registration?**

Yes. *You need to do the following:*

1. Print your receipts – *You should apply with the BIR office where you registered for an authority to print receipts.* Thereafter, proceed to a BIR accredited printer for the printing of the official receipts.

2. Register your books of accounts - You register your books of accounts with the BIR Office where you registered. You can choose to register a manual, loose-leaf or computerized books of accounts.

Small companies normally use manual books of accounts while medium-sized normally use either loose leaf or computerized.

3. File tax returns and pay taxes *on due date required by law.*

**BOOKKEEPING**

**11. What are the required “Books of accounts?”**

The REQUIRED books of accounts include journals, ledgers, cash receipts books, and cash

disbursement books, subsidiary sales journals and subsidiary purchase journals.

**12. Does the BIR require MSME to observe the BIR's bookkeeping requirements?**

Yes. In addition to books of accounts, you should keep also the supporting documents and other relevant information such as copies of Official Receipts and Invoices.

**13. What will I do with the books of accounts?**

All transactions of the business must be recorded in the books of accounts. It must also show the results of operations from which all taxes due the Government may be readily and accurately ascertained and determined at any time of the year.

**14. Do I need a certified public accountant (CPA) to audit my books of accounts?**

Generally, if the gross annual sales, earnings, receipts, or output do not exceed P3,000,000, the books need not be audited and examined by a CPA<sup>1</sup>.

However, under SEC Rule No. 68, as amended, financial statements to be submitted to the SEC must have an attached auditor's report from an independent CPA accredited by both the SEC and the Board of Accountancy (BOA). As such, MSMEs registered with the SEC require the services of a CPA with SEC and BOA accreditation regardless of the amount of gross quarterly sales, earnings, receipts, or output.

**15. How long do I keep these books?**

You are required to preserve the books of accounts, including subsidiary books and other accounting records, for a period of ten (10) years<sup>2</sup>.

Hard copies must be retained for the first five years while only electronic copies of the hard copies are required thereafter<sup>3</sup>.

**SALES INVOICES(SI) AND OFFICIAL RECEIPTS(OR)**

**16. Am I required to issue a SI or OR?**

Yes, if your sale is P100 or more.

**17. When do I issue an OR or SI? Am I required to issue both?**

You are required to issue an SI for sale of goods or properties, and an OR for sale of service. You are

not required to issue both documents, but it is better to do so.

**FILING AND PAYMENT OF TAXES**

**18. What taxes should I pay?**

As an MSME, you are liable to pay the following taxes to the BIR office where you are registered:

1. An annual registration fee;
2. Quarterly and adjusted annual Income Tax;
3. VAT or percentage tax; and
4. Withholding taxes

**19. How much and when do I pay the Annual Registration Fee?**

The annual registration fee amounting to P500 is required to be paid on or before January 31 of each year using BIR Form 0605.

**20. What is an Income Tax?**

Income tax is a tax imposed on your earnings during the year.

**21. How will I compute my income tax?**

The computation of your income tax will depend on whether your business is incorporated or not. If not incorporated, you are considered a sole proprietor and will be subject to tax as self-employed or professional. If incorporated, you will pay the tax imposed on corporations.

**22. If I am a sole proprietor, how do I compute my income tax?**

If you are a sole proprietor and your annual gross sales or receipts do not exceed 3 Million, you can choose to pay either of the following:

1. 8% of gross sales or gross receipts in excess of P250,000; or
2. The graduated income tax rate (see Table 1)

If your annual gross sales or receipts exceed 3 Million, your income tax shall be computed using the table below.

<sup>1</sup> Section 232 of the NIRC

<sup>2</sup> R.R. No. 17-2013

<sup>3</sup> R.R. No. 5-2014

Table 1. -

Not over P250,000	0%
Over P250,000 but not over P400,000	20% of the excess over P250,000
Over P400,000 but not over P800,000	P30,000 + 25% of the excess over P400,000
Over P800,000 but not over P2,000,000	P130,000 + 30% of the excess over P800,000
Over P2,000,000 but not over P8,000,000	P490,000 + 32% of the excess over P2,000,000
Over P8,000,000	P2,410,000 + 35% of the excess over P8,000,000

Below is a sample computation of income tax of an MSME:

Assume that an MSME had the following financial data for the year 2018:

- Gross receipts – P1,000,000;
- Operating expenses – P400,000

Sole Proprietor (self-employed or professionals)  
If the MSME is a sole proprietor, he can opt to pay an 8% of his gross annual sales or receipts or he can pay using the graduated rates using Table 1.

If he opts for the 8%, his tax shall be computed as follows:

<u>8% Gross Income Tax</u>	
Gross receipts	P 1,000,000
Less: Exempt Income	250,000
<u>Taxable Income</u>	P 750,000
Tax Due:	
<b>8% of the excess over P250,000</b>	<b><u>P 60,000</u></b>

If he opts for the graduated income tax, his tax shall be computed as follows:

Gross receipts	P 1,000,000
Less: Operating Expenses*	400,000
<u>Taxable Income</u>	P 600,000
Tax Due:	
<b>P30,000 + 25% of the excess over P400,000 (using Table 1)</b>	<b><u>P 80,000</u></b>

**23. If corporation or a partnership, how will I compute my income tax?**

The income of corporations and partnerships is subject to income tax of 30%.

Sample computation:

Gross receipts	P1,000,000
Less: Operating Expenses*	400,000
<u>Taxable Income</u>	P 600,000

Tax Due:  
**30% of P600,000                      P 180,000**

**24. What about if I was not able to keep the supporting documents of my expenses, can I still deduct them?**

No. To be able to deduct your expenses, you should be able to present proofs such as receipts and invoices.

However, if you are unable to keep all supporting documents, you can opt to use the Optional Standard Deduction (OSD).

**25. What is an optional Standard Deduction (OSD)?**

The OSD is an alternative method of claiming deduction instead of an itemized deduction. It is a standard amount that can be deducted without a need to show proof that it was incurred as an expense.

**26. How do I compute OSD?**

If sole proprietor, it is 40% of gross sales or receipts. In computing gross sales or receipts, no deduction for direct costs and expenses shall be allowed.

If corporation, it is 40% of gross income. Gross income is computed as gross sales/receipts less direct costs.

**VAT/PERCENTAGE TAX**

**27. What is a Value Added Tax (VAT)? How about a Percentage Tax?**

The VAT and Percentage Tax are business taxes. VAT is imposed on almost all sales of goods and services, except a few business which are subject to percentage tax instead of VAT.

However, VAT is imposed only if your gross annual sales or receipts exceed 3Million.

**28. How about if my annual gross sale does not exceed 3 Million, what will I pay? VAT, Percentage Tax or Exempt?**

If your annual gross sales/receipts does not exceed 3 Million, you are not subject to VAT. However you are subject to a 3% percentage tax.

But if you choose to pay the 8% gross income tax instead of the graduated income tax (see Question No. 22), you will not pay VAT or the 3% percentage tax. This is because, the 8% income tax you paid already covers income tax, percentage tax or VAT..

Sample Computation:

Using the same example in Question No. 22, since the annual gross sales or receipts do not exceed P3,000,000 pesos, the tax to be imposed shall be the 3% percentage tax computed as follows:

Gross receipts	P1,000,000
Tax Due: <b>3% of the gross receipts</b>	<b>P 30,000</b>

However, if you are a sole proprietor and you opted to pay the 8% gross income tax, you will not pay the 3% percentage tax or VAT.

#### WITHHOLDING TAXES

##### 29. What are withholding taxes?

The BIR may require you to withhold a tax on your payment to your employees or suppliers, and remit the same to the BIR.

The tax withheld from the compensation of your employees is called a withholding tax on compensation. The tax withheld from your suppliers is called a creditable or a final withholding tax.

#### FILING OF RETURN AND PAYMENT OF TAX

##### 30. Where can I file my tax returns and pay my taxes?

You can file your tax return and pay the tax with any Authorized Agent Bank (AAB) within the jurisdiction of the BIR Office where you are registered.

##### 31. When do I pay my taxes? What are the tax forms to be used?

The following are the deadlines for filing and payment:

###### 1. Annual Registration Fee

BIR Form	Period Covered	Deadline
Form 0605	Annual	On or before January 31 of every year

###### 2. Income Tax — for individuals

BIR Form	Period Covered	Deadline
1701Q	1 <sup>st</sup> Quarter	May 15
1701Q	2 <sup>nd</sup> Quarter	August 15
1701Q	3 <sup>rd</sup> Quarter	November 15
1701	Annual	April 15 of the following year

###### 3. Income Tax — for corporate

BIR Form	Period Covered (Calendar Year)	Deadline
1702Q	1 <sup>st</sup> Quarter	May 30
1702Q	2 <sup>nd</sup> Quarter	August 29
1702Q	3 <sup>rd</sup> Quarter	November 29
1702	Annual	April 15 of the ff. year

###### 4. Value Added Tax

BIR Form	Period Covered	Deadline
2550M	Monthly	20th day of succeeding taxable month (staggered filing for EFPS taxpayers)
2550Q	Quarterly	25th day of the month following the close of each taxable quarter

###### 5. Percentage Tax

BIR Form	Period Covered	Deadline
2551Q	Quarterly	25th day of the month following the close of each taxable quarter

###### 6. Remittance Return of Income Taxes Withheld

BIR Form	Period Covered	Deadline
Monthly Remittance of Expanded Withholding Tax	Monthly (for the 1 <sup>st</sup> 2 months of the quarter)	On or before the 10 <sup>th</sup> day following the close of the month (EFPS filers on staggered basis)

BIR Form	Period Covered	Deadline
Expanded Withholding Tax (1601EQ)	Quarterly	Last day of the month following the quarter during which the withholding was made
Withholding Tax on compensation (1601C)	Monthly	10th day of the succeeding taxable month (staggered filing for EFPS taxpayers)

**32. May I file and pay taxes electronically?**

Yes. BIR’s facilitates electronic filing and payment through the Electronic Filing and Payment System (eFPS).

“eFPS” refers to the system developed and maintained by the (BIR) for electronically filing tax returns, including attachments, if any, and paying taxes due thereon, specifically through the internet.

Taxpayers mandated to use eFPS are as follows:

- ✓ Taxpayer Account Management Program (TAMP) taxpayers;
- ✓ Those required to secure the BIR-ICC and BIR-BCC;
- ✓ National Government Agencies;
- ✓ Licensed Local Contractors;
- ✓ Enterprises enjoying fiscal incentives (PEZA, BOI, etc.);
- ✓ Top 5,000 Individual Taxpayers;
- ✓ Corporations with paid-up capital stock of P10 million and above;
- ✓ Corporations with complete Computerized Accounting System (CAS);
- ✓ Procuring government agencies on withholding VAT and Percentage taxes;
- ✓ Government bidders;
- ✓ Large Taxpayers;
- ✓ Top 20,000 Private Corporations; and
- ✓ Insurance companies and stockbrokers.

Taxpayers not required to use eFPS may voluntarily register to the same.

**33. What are the requirements in availing eFPS?**

- a. Register with BIR-Integrated Tax System;
- b. Submit a Certification from the President of the corporation authorizing two (2) officers to file return and to enroll for availment of the eFPS, as well as a Letter of Intent to avail of eFPS;
- c. Enrollment in eFPS; and
- d. Enrollment with any eFPS-Authorized Agent Bank (eFPS-AAB) for use of their e-payment system.

**34. What are the steps in enrolling to eFPS?**

- a. Access BIR website at [www.bir.gov.ph](http://www.bir.gov.ph), using your internet browser.
- b. Click on eFPS icon to go the eFPS home page.
- c. From the eFPS Login page, click on 'Enroll to eFPS' link.
- d. The eFPS enrollment form appears. Complete the required fields on the Enrollment Form page. Then, click on

the "Submit" button.

eFPS will inform you thru a pop-up message that your enrollment has been successfully received. Then you have to wait for an email message from BIR informing you of the status of your enrollment whether approved or disapproved. Once your account has been activated, you are ready to e-file and e-pay, and perform all the functions within eFPS.

It is important for you to remember your username and password, as well as the correct answer to the challenge question. Keep your username, password and challenge question answer to yourself. Do not make it easy to guess, nor write it down.

**35. Are there penalties if I fail to file and pay my taxes?**

Yes. If you fail to file and pay your taxes on time, you will be required to pay an additional tax (a surcharge) equivalent to twenty-five percent (25%) or fifty percent (50%) of the amount of tax due. In addition, an interest of 12% per annum is imposed from the date prescribed for payment until the amount is fully paid.

In case of failure to issue receipt or sales or commercial invoices, the taxpayer, upon conviction shall be punished by a fine of not less than P1,000 but not more than P50,000 and suffer imprisonment of not less than 2 years but not more than 4 years for each act or omission.

**36. Whom shall I reach if I need assistance?**

You may seek assistance from the BIR office where you are registered or with the local Negosyo Center nearest your locality.

The list of established Negosyo Centers can be accessed via this link: <https://dti.gov.ph/programs-projects/negosyo-center>

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