



## ABOUT THE FIRM

Du-Baladad and Associates (**BDB Law**) is a leading global tax law firm in the Philippines, specializing in three core practice areas: **Tax, Legal, and Consulting**. A collaborating firm of Andersen Global, an international association of legally separate, independent member firms comprised of tax and legal professionals worldwide.

We are committed to upholding the highest standards of quality in our tax services. By partnering closely with you, we provide holistic and professional solutions, crafting innovative strategies tailored to meet your unique needs.

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

## CONTACT US

**BDB Law**  
DU-BALADAD AND ASSOCIATES

- +63 2 403 2001
- info@bdblaw.com.ph
- 20th Floor, Chatham House, Rufino cor. Valero Sts., Makati City 1227, Philippines
- bdblaw.com.ph

## 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.[1]

[1] Section 3, Republic Act No. 6977, as amended, Magna Carta for Small Enterprises.

Any business entity or enterprise whose total assets shall not be more than P3,000,000 are considered Barangay Micro Business Enterprise (BMBE)[2] entitled to certain tax incentives such as: exemption from income tax and from the coverage of the Minimum Wage Law, access to finance, training and technology.

[2] Section 3(a), Republic Act No. 9178, Barangay Micro Business Enterprises Act of 2002.

For purposes of availing the special concessions granted to micro and small taxpayers under the tax law, micro and small taxpayers are those whose gross sales are less than P3,000,000 and those whose gross sales are P3,000,000 to less than P20,000,000, respectively.[3]

[3] Section 2, Revenue Regulations No. 8-2024.

## 2. AS AN OWNER OF MSME, DO I NEED TO REGISTER MY BUSINESS?

Yes.

## 3. WHERE DO I REGISTER?

- |   |   |  |
|---|---|--|
| Sole Proprietorship                                   | ➤ | Department of Trade and Industry (DTI)   |
| Partnership/<br>Corporation/One<br>Person Corporation | ➤ | Securities and Exchange Commission (SEC) |

In addition, for those applying as BMBE, apply for BMBE Certification with the DTI through the Negosyo Centers.

## 4. WHAT IS A ONE PERSON CORPORATION?

A One Person Corporation (OPC) is a corporation with a single stockholder. Only a natural person, trust, or an estate may form a One Person Corporation.

## 5. WHO ARE NOT ALLOWED TO FORM AN OPC?

Persons who are engaged in the following types of business are not allowed to incorporate as OPC:

- Banks and quasi-banks;
- Preneed, trust, insurance;
- Public and publicly-listed companies;
- Non-chartered government-owned and controlled corporations;and
- Natural persons who are licensed to exercise a profession, except as otherwise provided by special law.[4]

[4] Section 116, Republic Act No. 11232, Revised Corporation of the Philippines.

## 6. 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 to a Negosyo Center in your locality and ask for assistance. 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.”

## 7. DO I NEED TO REGISTER WITH THE BIR?

Yes.

## 8. WHEN DO I REGISTER WITH THE BIR?

Registration must be made either: 1) on or before the commencement of business; or 2) before payment of any tax due; or 3) before or upon filing of a tax return.[5]

[5] Section 5(A), Revenue Regulations No. 7-2024.

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

## 9. 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.[6]

[6] Section 5(B), Revenue Regulations No. 7-2024.

After registration, secure from the BIR the Certificate of Registration (COR or BIR Form No. 2303) and the “Notice to Issue Invoice.”[7]

[7] Section 5(C), Revenue Regulations No. 7-2024.

## 10. WHAT WILL I DO WITH THE CERTIFICATE OF REGISTRATION (COR) AND THE “NOTICE TO ISSUE RECEIPT/INVOICE” (NIRI)?

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



## 11. DO I NEED TO DO ANYTHING ELSE AFTER REGISTRATION?

Yes. You need to do the following:

- a. Print your invoices – You should apply with the BIR office where you registered for an authority to print invoices. Thereafter, proceed to a BIR accredited printer for the printing of the invoices.
- b. 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.

- c. File tax returns and pay taxes on due date required by law.

## BOOKKEEPING

## 12. 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.

## 13. DOES THE BIR REQUIRE MSME TO OBSERVE THE BIR’S BOOKKEEPING REQUIREMENTS?

Yes. In addition to books of accounts, MSMEs should keep also the supporting documents and other relevant records such as copies of Invoices.

## 14. 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.

## 15. 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.[8]

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.

[8] Section 232(A) of the NIRC.

## 16. 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 five (5) years reckoned from the deadline in filing the tax return, or if filed after the deadline, from the date of the actual filing of the return.[9]

[9] Section 4(A), Revenue Regulations No. 7-2024.

## SALES INVOICES (SI)

### 17. AM I REQUIRED TO ISSUE A SALES INVOICE (SI)?

Yes, if your sale is P500 or more.[10]

[10] Section 237 of the NIRC.

### 18. WHEN DO I ISSUE AN SI? AM I REQUIRED TO ISSUE OFFICIAL RECEIPT (OR)?

You are required to issue an SI whether you are selling goods or properties, OR if you are selling service. You are not required to issue an official receipt.

## FILING AND PAYMENT OF TAXES

### 19. WHAT TAXES SHOULD I PAY?

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

- Quarterly and adjusted annual Income Tax;
- VAT or percentage tax; and
- Withholding taxes.

An MSME is likewise liable to pay local business tax and regulatory fees with the city or municipality having jurisdiction over the place where the business is located.

### 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 P3,000,000, you can choose to pay either of the following:

- 8% of gross sales or gross receipts in excess of P250,000 [11]; or
- The graduated income tax rate (see Table 1).[12]

[11] Section 24(A)(2)(b) of the Tax Code.

[12] Section 24(A)(2)(a) of the Tax Code.

If your annual gross sales or receipts exceed P3,000,000, your income tax shall be computed using the table below.

Table 1. -

Not over P250,000	0%
Over P250,000 but not over P400,000	15% of the excess over P250,000
Over P400,000 but not over P800,000	P22,500 + 20% of the excess over P400,000
Over P800,000 but not over P2,000,000	P102,500 + 25% of the excess over P400,000
Over P2,000,000 but not over P8,000,000	P402,500 + 30% of the excess over P400,000
Over P8,000,000	P2,202,500 + 35% of the excess over P400,000

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

Assume that an MSME had the following financial data for the year 2021:

- 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
<hr/>	
Taxable Income	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
<hr/>	
Taxable Income	P 600,000
Tax Due:	
<b>P22,500 + 20% of the excess over P400,000 (using Table 1)</b>	<b><u>P 62,500</u></b>

## 24. WHAT IS THE DIFFERENCE BETWEEN A SOLE PROPRIETORSHIP AND A ONE PERSON CORPORATION IN TERMS OF TAX CONSEQUENCES?

A sole proprietor shall be taxed either using the schedular rate or the fixed rate of 8% on gross receipts. On the other hand, OPC shall be taxed either using the fixed rate of 25% or 20%.

## 25. HOW MUCH AND WHEN DO I PAY LOCAL BUSINESS TAX AND REGULATORY FEES?

The amount of local business tax and regulatory fees payable to the municipality or city where the business is located vary from each local government unit (LGU).

Local business taxes are imposed based on certain percentage of the gross sales or receipts in the preceding calendar year.<sup>[13]</sup> The regulatory fees should be commensurate with the cost of regulation, inspection and licensing.<sup>[14]</sup>

*[13] Section 143, Republic Act No. 7160, Local Government Code of 1991.*

*[14] Section 147, Republic Act No. 7160, Local Government Code of 1991.*

Local taxes fees and charges accrue on the first day of January of each year but may be paid on a quarterly basis.<sup>[15]</sup>

*[15] Sections 165 and 166, Republic Act No. 7160, Local Government Code of 1991.*

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



## 27. 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.

## 28. HOW DO I COMPUTE OSD?

If sole proprietor, it is 40% of gross sales or receipts.<sup>[16]</sup>

In computing gross sales or receipts, no deduction for direct costs and expenses shall be allowed.

If corporation, it is 40% of gross income.<sup>[17]</sup> Gross income is computed as gross sales/receipts less direct costs.

*[16] Section 34 (L) of the Tax Code.*

*[17] Ibid.*

## VAT/PERCENTAGE TAX

## 29. 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, with few exceptions. A percentage tax, on the other hand, is paid if gross sale or revenue is below the VAT threshold of P3,000,000.

### 30. IF MY ANNUAL GROSS SALE DOES NOT EXCEED P3,000,000, WHAT TAX AND HOW MUCH WILL I PAY?

If your annual gross sales/receipts do not exceed P3,000,000, 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, 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. 21, since the annual gross sales or receipts do not exceed P3,000,000, the tax to be imposed shall be the 3% percentage tax computed as follows:

Gross receipts	P1,000,000
Tax Due: 3% of the gross receipts	P 30,000

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

### 31. WHAT ARE WITHHOLDING TAXES?

Withholding taxes are the tax due from your suppliers but are required to be withheld before releasing payment to your suppliers. 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

### 32. 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), Revenue District Office or authorized tax software provider.

### 33. WHEN DO I PAY MY TAXES? WHAT ARE THE TAX FORMS TO BE USED?

The following are the deadlines for filing and payment:

a. Income Tax — for individuals

BIR FORM	PERIOD COVERED	DEADLINE
1701Q	1st Quarter	May 15
1701Q	2nd Quarter	August 15
1701Q	3rd Quarter	November 15
1701	Annual	April 15 of the following year

b. Income Tax — for corporate

BIR FORM	PERIOD COVERED	DEADLINE
1702Q	1st Quarter	May 30
1702Q	2nd Quarter	August 29
1702Q	3rd Quarter	November 29
1702	Annual	April 15 of the following year

c. Value-Added Tax

BIR FORM	PERIOD COVERED	DEADLINE
2550Q	Quarterly	25th day of the month following the close of each taxable quarter

d. Percentage Tax

BIR FORM	PERIOD COVERED	DEADLINE
2551Q	Quarterly	25th day of the month following the close of each taxable quarter

e. Remittance Return of Income Taxes Withheld

BIR FORM	PERIOD COVERED	DEADLINE
Monthly Remittance of Expanded Withholding Tax	Monthly (for the 1st 2 months of the quarter)	On or before the 10th day following the close of the month (EFPS filers on staggered basis)
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)

### 34. CAN I FILE AND PAY TAXES ELECTRONICALLY?

Yes. You can file and pay your taxes through the use of either eBIR Forms or the Electronic Filing and Payment System (eFPS) of the BIR.<sup>[18]</sup>

“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.

<sup>[18]</sup> Revenue Memorandum Circular No. 4-2021.

## 35. HOW CAN I FILE AND PAY THE TAX RETURNS THROUGH THE EBIRFORMS SYSTEM?

- a. Download the eBIRForms Package;
- b. Accomplish or fill up the tax forms;
- c. Submit the filled-up forms to the Online eBIRForms system;
- d. Pay the corresponding taxes through any of the following:
  - i. Authorized Agent Banks (AABs);
  - ii. Revenue Collection Officers (RCOs) through the Mobile Revenue Collection Officer System (MRCOS) in areas with no AABs; or
  - iii. Electronic Payment by clicking the “ePay” icon in the BIR website.

## 36. 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. Enroll in eFPS; and
- d. Enroll with any eFPS-Authorized Agent Bank (eFPS-AAB) for use of their e-payment system.

## 37. WHAT ARE THE STEPS IN ENROLLING TO EFPS?

- a. Access the BIR website at [www.bir.gov.ph](http://www.bir.gov.ph), using your internet browser.
- b. Click on eFPS icon to go to the eFPS home page.
- c. From the eFPS Login page, click on 'Enroll to eFPS' link. 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.

## 38. 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 ten percent (10%).<sup>[19]</sup> In addition, an interest of 6% per annum is imposed from the date prescribed for payment until the amount is fully paid.<sup>[20]</sup>

In case of failure to issue 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.<sup>[21]</sup>

*[19] Section 248 of the Tax Code.*

*[20] Section 249 of the Tax Code.*

*[21] Section 264 of the Tax Code.*

## 39. 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>