Batas Pambansa Blg. 135: New Dog and Old Tricks

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The enactment of Batas Pambansa Blg. 135 paved the way for two major changes in the Philippine tax system. First, from a global and unitary approach of taxing income, the new system provided for a schedular manner of taxing the same. Second, it imposed upon entities a tax on the gross income instead of the net and hence, a sizeable number of taxpayers have been burdened by it.

The implementation of such a new system is a response to the evil sought to be remedied by the law, that is, the oftentimes unwarranted erosion of the income tax base as a result of a wide latitude of discretion given to both the tax authority, on the one hand and the taxpayer, on the other. In this Article, the Author analyzes the amendments and their impact on the taxpayers. Subsequently, he presents legal methods of avoiding tax liabilities albeit the presence of the new law on the matter.

This Article first discusses the schedular approach and how it affects three categories of taxes imposed, namely, the compensation income of individuals, their business income and lastly, what has been called as the passive income. The aim of the law is then presented, which is achieved by providing novel changes where there are no deductions for employees, new tax rates on taxable compensation income and restricted deductions for business and professionals.

In sum, the Author brings to the fore the idea that albeit the promulgation of Batas Pambansa Blg. 135 and the methods it uses to achieve its purpose, still there exists legally viable techniques by which tax can be avoided by those wanting to reduce their income tax liabilities.