

Abolishment of the P7,800 interest tax exemption

One of the changes brought by the new Income Tax Act (ITA) is the removal of the P7,800 exemption on the first P7,800 interest earned by resident individuals from banks and building societies. Under the previous law, the first P7,800 bank and building societies interest payable to resident individuals was exempt from tax. That exemption has now been removed, meaning that many individual taxpayers are likely to pay more tax than before. We will analyse this matter in detail below. In this article, words importing the masculine shall be deemed to include the feminine.

Impact on individual taxpayers

These days, saving money is one of the best ways for people to plan for the future. Many individuals keep their savings with banks and other financial institutions because their money earns interest. In the past, saving with banks was even more attractive because resident individuals did not pay tax on the first P7,800 of interest earned each year. This exemption provided a tax benefit to individuals by allowing a portion of their interest income to be received tax-free. This is not the same anymore as the new ITA has removed this exemption. This means that interest earned by resident individuals will now be taxed from the first thebe. As a result, many people are likely to pay more tax on their bank interest than they did before. While this change may not be welcomed by taxpayers, it expands the tax base and is expected to increase government revenue from interest income.

A change already seen

This is not the first time the exemption has been withdrawn. With effect from 1 July 2021, the P7,800 exemption was abolished for resident companies, meaning that they became liable to tax on interest income from the first thebe they earned. The new ITA extends this change to resident individuals as well. As a result, the exemption is no longer available to either resident companies or resident individuals, bringing all resident taxpayers who earn interest from banks and building societies under the same tax treatment, save for exempt ones.

However, it is important to note that the withholding tax applicable to interest paid by a bank or building society to a resident individual remains a final tax. This means that the individual is not required to declare that interest income when filing an income tax return.

Action required

Banks will therefore need to update their systems to reflect this change. If they fail to do so, they may deduct less withholding tax than required from the affected individuals. As withholding agents, they may be held liable for any tax that should have been deducted. In addition, interest may be charged on the outstanding tax.

As Yours Truly and team say goodbye, remember to pay to Ceaser what belongs to him!

Tax hint: If you have never had a tax audit/review conducted by a tax consultancy firm to check whether you are tax compliant, or should it be apparent that you are not certain that your tax affairs are good order, then don't wait for the taxman to pounce on you, as that can

be very costly. Contact us today so we can help you fix your tax affairs whilst you still have time.

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