



International Tax Fundamentals: US, Japan & Philippines Compared

Welcome! Understanding taxes can seem intimidating, but it's just a matter of learning a few key rules. To make this practical, our examples feature some of our team members—Jenelie, Patricia, Cris, and Zyrine—in everyday situations. Our goal is to make this topic clear and straightforward.

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BEFORE This Lesson...



Price Tag Confusion

You might see a price tag for \$10 but pay more at the register, and not be sure why the final amount is higher.



Paycheck Uncertainty

You may look at your paycheck and wonder why your take-home pay (net pay) is so much lower than your salary (gross pay). The deductions might seem like a mystery.



Tax Overwhelm

You might think a "tax is a tax," without a clear idea of the difference between sales tax, VAT, and income tax, or how they vary between countries like the US, Japan, and the Philippines.



Calculation Intimidation

Financial terms like "tax rate" or "withholding" might seem confusing, and you may be unsure how to calculate percentages or what they mean for your personal finances.



AFTER This Lesson...

Price & Receipt Clarity

You will be able to calculate the final cost of a product, including sales tax or VAT, to understand exactly what you are paying and why.

Paycheck Confidence

*You will be able to identify the main deductions on a paycheck and understand the fundamental difference between **Gross Pay** and **Net Pay**.*

Global Tax Awareness

You will understand the three main categories of taxes and be able to explain the key differences in the tax systems of the United States, Japan, and the Philippines.

Financial Calculation Skill

You will have the confidence to use basic formulas to calculate tax amounts for both sales transactions and payroll, turning confusing concepts into simple, repeatable steps.



1. What Are Taxes?

A Simple Explanation

*Think of a country as a very large household. Just like a household needs money for groceries, housing, and utilities, a country needs money to pay for things that benefit everyone. A **tax** is the primary way governments (both national and local) collect this money.*

Both businesses and individuals pay taxes on various activities, including what they earn, what they sell, and what they buy.



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The Main Purposes of Taxes



Funding Public Services

This includes roads, schools, hospitals, parks, and national defense.



Supporting Social Security

Taxes fund programs for retirement (like pensions), disability, and public healthcare.



Promoting Economic Stability

Governments can adjust tax policies to manage the economy and reduce large gaps in income between citizens.

In any accounting role, you will constantly work with tax calculations, especially those related to sales and employee payroll.



2. The Three Main Categories of Taxes

Taxes generally fall into three buckets based on what is being taxed.



Taxes on Consumption (What You Buy)

This is a tax added to the price of goods and services.

- **Japan:** Consumption Tax
- **United States:** Sales Tax
- **Philippines:** Value Added Tax (VAT)



2. Taxes on Income or Profit (What You Earn)

This tax is calculated on the earnings of individuals and businesses.

- **Corporate Income Tax:** A tax on a company's profits.
- **Individual Income Tax:** A tax on a person's wages, salaries, and other earnings.



3. Taxes Withheld from Payroll (Taxes Taken from Your Paycheck)

Also known as "pay-as-you-go" tax, this is money that an employer deducts directly from an employee's salary and pays to the government on their behalf.

- **Japan:** Includes Income Tax, Residence Tax, and Social Insurance premiums.
- **United States:** Includes Federal Income Tax, Social Security Tax, and Medicare Tax.
- **Philippines:** Known as Withholding Tax on Compensation.

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3. A Closer Look: Taxes in Japan

Consumption Tax

- **Standard Rate (as of 2025):** 10%. A reduced rate of 8% applies to essential items like certain foods and beverages.
- **How it Works:** It's added at the point of sale. If an item is priced at ¥1,000, the tax is ¥100, making the total ¥1,100.

Income Tax

- **System:** Japan uses a **progressive tax system**. This means the tax rate increases as a person's income increases. Someone with a higher income pays a larger percentage of that income in taxes.
- **Example:** For an annual income of ¥3 million (approx. \$20,000 USD), the tax rate is relatively low, around 5-10%. For very high incomes, the rate can go up to 45%.



Withholding Tax from Payroll

Process: Employers are required to calculate and deduct income tax and social insurance premiums from employee paychecks each month. This simplifies the process for employees.



4. A Closer Look: Taxes in the United States

Sales Tax

- **A Key Difference:** *There is no national sales tax. Each state, and sometimes even cities and counties, sets its own rate.*
- **Rate Variation:** *Rates can range from 0% (in states like Delaware and Montana) to over 10% in some areas once local taxes are added.*
- **Example (California):** *The statewide rate is 7.25%, but local taxes in cities like Los Angeles can push the total rate higher.*



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Federal Income Tax

System: *The U.S. also uses a progressive system with tax brackets. For 2025, rates range from 10% for the lowest earners to 37% for the highest.*



State Income Tax

- **Another Layer:** *In addition to federal income tax, most states also have their own income tax.*
- **Example (California):** *State income tax rates range from 1% to 13.3%.*
- **Example (Texas):** *Texas is one of a few states with 0% state income tax. This makes a big difference in an employee's take-home pay.*



Important Payroll Taxes: Social Security & Medicare

These federal taxes fund retirement, disability, and healthcare benefits. For 2025, the rates are:

Social Security



*6.2% paid by the employee, but only on income up to **\$177,900** for the year.*

Medicare



1.45% paid by the employee, with no income limit.



5. A Closer Look: Taxes in the Philippines

VAT (Value Added Tax)

- **Standard Rate (as of 2025):** 12%.
- **How it Works:** VAT is applied at each stage of production and distribution, but the final consumer ultimately pays it. It's built into the retail price of most goods and services.



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Withholding Tax (from Payroll)

- **System:** The Philippines uses a progressive system with rates up to 35% for the highest earners.
- **Process:** The employer is responsible for deducting and remitting this tax monthly.



Corporate Income Tax

Standard Rate (as of 2025): 25%. A lower rate of 20% applies to some small and medium-sized businesses to support their growth.



6. Summary of Key Tax Differences (2025)

<i>Tax Type</i>	<i>Japan</i>	<i>United States</i>	<i>Philippines</i>
<i>Consumption Tax</i>	<i>10% (with 8% reduced rate)</i>	<i>Sales Tax (0-10%+, varies by state/city)</i>	<i>VAT 12%</i>
<i>Individual Income Tax</i>	<i>Progressive (5% to 45%)</i>	<i>Federal (10% to 37%)- State (0% to 13.3%)</i>	<i>Progressive (0% to 35%)</i>
<i>Payroll Withholding</i>	<i>Income Tax, Residence Tax, Social Insurance</i>	<i>Federal Tax, Social Security (6.2%), Medicare (1.45%)</i>	<i>Withholding Tax on Compensation</i>



7. Tax Calculation Examples: Sales Transactions

Let's break down the math step-by-step. The key is to first calculate the tax amount and then add it to the original price.

Formula:

01

Tax Amount = Sales Price \times Tax Rate

02

Total Cost = Sales Price + Tax Amount



Japan Example:

Jenelie sells a vintage guitar from her collection for \$1,000.

01

Calculate the Consumption Tax

The rate is 10%, which is 0.10 as a decimal. \$1,000 (Sales Price) \times 0.10 (Tax Rate) = \$100 (Tax Amount)

02

Calculate the Total Cost

\$1,000 (Sales Price) + \$100 (Tax Amount) = \$1,100 (Total Cost)





U.S. (California) Example:

Patricia sells a rare retro video game to a buyer in California for \$1,000.

01

Calculate the Sales Tax

California's rate is 7.25%, which is 0.0725 as a decimal. $\$1,000$ (Sales Price) \times 0.0725 (Tax Rate) = \$72.50 (Tax Amount)

02

Calculate the Total Cost

$\$1,000$ (Sales Price) + \$72.50 (Tax Amount) = \$1,072.50 (Total Cost)





Philippines Example:

Zyrine's food stall caters an event, selling \$1,000 worth of her famous Sisig.

01

Calculate the VAT

The rate is 12%, which is 0.12 as a decimal. $\$1,000$ (Sales Price) \times 0.12 (Tax Rate) = $\$120$ (Tax Amount)

02

Calculate the Total Cost

$\$1,000$ (Sales Price) + $\$120$ (Tax Amount) = $\$1,120$ (Total Cost)



8. Payroll and Withholding Calculation Examples

*This example shows a simplified calculation of an employee's **Net Pay** (also known as take-home pay).*

Formula:

01

Total Deductions = Tax 1 + Tax 2 + Tax 3 (and so on)

02

Net Pay = Gross Pay - Total Deductions



United States Example:

Let's calculate the net pay for an employee in the U.S. earning a **Gross Pay** of \$3,000 for the month.

01

Calculate each payroll tax deduction

- **Federal Tax:** We'll use an estimated flat rate of 10% for this example. Note: In reality, this is calculated using complex tax tables, not a flat rate. $\$3,000 \times 0.10 = \300
- **Social Security Tax:** The rate is 6.2% (0.062). $\$3,000 \times 0.062 = \186
- **Medicare Tax:** The rate is 1.45% (0.0145). $\$3,000 \times 0.0145 = \43.50

02

Calculate the Total Deductions

$\$300$ (Fed Tax) + $\$186$ (Soc Sec) + $\$43.50$ (Medicare) = $\$529.50$

03

Calculate the Net Pay

$\$3,000$ (Gross Pay) - $\$529.50$ (Total Deductions) = $\$2,470.50$ (Net Pay) (This excludes state income tax and other deductions like health insurance.)



9. Professional Tips & Common Pitfalls

Always Check the Rate



Tax rates change. Sales tax rates can even vary between two stores across the street from each other if they are in different city limits. Always use the correct, current rate.

Gross vs. Net



*Be crystal clear whether you are talking about an amount **before tax (Gross)** or **after tax (Net)**. This is a common point of confusion.*

Taxes vs. Other Deductions



Remember that payroll deductions often include more than just taxes (e.g., health insurance premiums, retirement contributions).

10. Practice Problems

Use the step-by-step method from Section 7 and 8 to solve these.



Q1. (Japan)

Jenelie buys a collection of K-drama merchandise for \$500. The consumption tax is 10%. What is the total price?



Q3. (Philippines)

Cris goes café hopping and buys chicken wings for her friends, with the bill coming to \$600 before tax. The VAT is 12%. What is the total amount she pays?



Q2. (US: California)

Patricia buys a new makeup kit from a California-based company for \$800. The sales tax is 7.25%. What is the total price?



Q4. (Payroll: Philippines)

Zyrine, a video editor, has a gross pay of \$1,200. If her total withholding tax deduction is 10%, what is her net pay for the month?



11. Answers and Explanations

A1. (Japan) Total is \$550.

Tax Amount: $\$500 \times 0.10 = \50

Total Cost: $\$500 + \$50 = \$550$

A2. (US: California) Total is \$858.

Tax Amount: $\$800 \times 0.0725 = \58

Total Cost: $\$800 + \$58 = \$858$

A3. (Philippines) Total is \$672.

Tax Amount: $\$600 \times 0.12 = \72

Total Cost: $\$600 + \$72 = \$672$

A4. (Payroll: Philippines) Net pay is \$1,080.

Total Deduction: $\$1,200 \text{ (Gross Pay)} \times 0.10 \text{ (Tax Rate)} = \120

Net Pay: $\$1,200 \text{ (Gross Pay)} - \$120 \text{ (Deduction)} = \$1,080$



12. Summary



Taxes are essential for funding public services and are calculated based on what we earn and spend.



*The basic formula is always **Base Amount** × **Tax Rate**.*



***Japan** is known for its 10% consumption tax.*



*The **United States** has a complex, layered system where you can pay federal, state, and local taxes on both income and sales.*



*The **Philippines** features a 12% VAT on goods and services.*



*In payroll, it is critical to distinguish between **Gross Pay** (total earnings) and **Net Pay** (what you take home after deductions).*



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