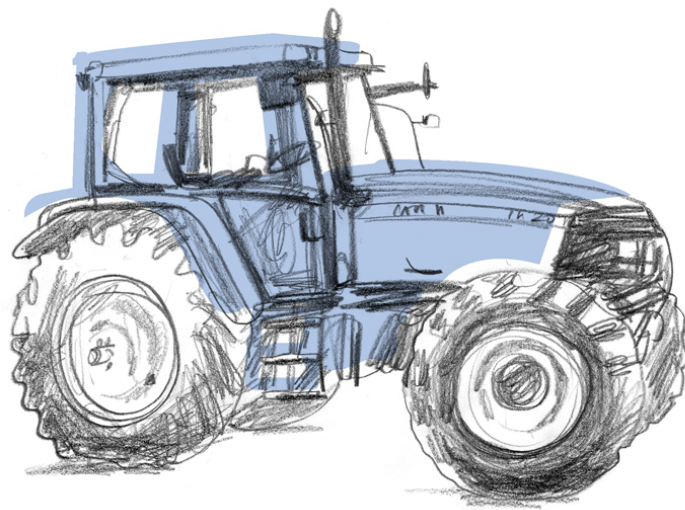


If you are planning on **doing business in the Philippines**, knowledge of the investment environment and information on the legal, accounting and taxation frameworks are essential to keep you on the right track.



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Foreword

Punongbayan & Araullo (P&A), a member firm within Grant Thornton International Ltd, is a leading public accounting firm in the Philippines with a proven track record of providing high-quality professional services. P&A provides value-added services to clients using leading-edge systems in a culture demanding the highest standards of quality, integrity and competence.

Grant Thornton International is one of the world's leading organisations of independently owned and managed accounting and consulting firms providing assurance, tax and specialist advisory services to privately held businesses and public interest entities.

The strength of each local firm is reflected in the quality of the international organisation. All Grant Thornton International member firms share a commitment to providing the same high quality service to their clients wherever they choose to do business.

This guide is meant to assist those interested in doing business in the Philippines. It does not cover the subject exhaustively but is intended to answer some of the important, broad questions that may arise. When specific problems occur in practice, it will often be necessary to refer to the laws and regulations of the Philippines and to obtain appropriate accounting and legal advice.

This guide contains only brief notes and includes legislation in force as of October 31, 2008.

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Country profile

Summary

The Philippines is a unique mosaic of East and West. Filipinos are basically of Malay descent, although over the centuries the population has been enriched by infusions of Chinese, Arabic, Spanish and American blood. This varied ancestry can be discerned in the physical features of the people and in their cultural values, customs and traditions, songs, dances, food and festivals. More than 90 percent of Filipinos are Christian, and the large majority (82.9 percent) of the Christian population is Catholic. The remaining 10 percent practice Islam or indigenous religions.

Geography and population

Situated in Southeast Asia, the Philippines is one of the largest archipelagos in the world, composed of some 7,107 islands grouped into three geographic regions: Luzon in the north, Visayas in the middle, and Mindanao in the south. Manila, the national capital, is on the island of Luzon. Based on the results of the 2007 Census of Population, the Philippines has an estimated population of 88.57 million. Population density is estimated at 295 per square kilometer of land.

Political and legal system

The constitution provides for a presidential system of government composed of three separate and equal branches: the bicameral legislative branch composed of the House of Representatives and the Senate; the executive branch headed by the president; and the judicial branch headed by the Supreme Court. The three branches of government operate independently under a system of checks and balances.

The country consists of regions, provinces, chartered cities, municipalities, and *barangays* (villages). The Philippines has 17 regions, 81 provinces, 136 chartered cities, 1,494 municipalities, and 41,995 *barangays*. The *barangays* are the smallest political unit. Local governments are responsible for these smaller political units and are similar to the executive branch in structure and function. A province is headed by a governor, while a city or municipality is headed by a mayor. A city or municipality is composed of *barangays*, each headed by a *barangay* captain. All heads of local government are assisted by a board of councilmen.

Entities doing business in the Philippines must operate under laws at the national and local levels. These laws govern antitrust and securities matters, labor relations, banking and finance, insurance, product safety and quality requirements, advertising and sales practices, and environmental standards. National laws also govern such matters as corporation and partnership structures and operations.

Language

The country's official national language is Filipino, although English is almost universally understood and is the medium of communication in business, schools and government. There are eight major dialects spoken by the majority of Filipinos: Tagalog, Cebuano, Ilocano, Hiligaynon or Ilonggo, Bicolano, Waray, Pampango, and Pangasinense. There are about 76 to 78 major language groups, with more than 500 dialects. Spanish, Chinese and Arabic are also spoken by small minorities. Dates are written MM/DD/YY. A full stop (period) is used for the decimal point, and long numbers are written with a comma (99,999,999.00).

Business hours/time zone

Normal business hours are for eight hours, generally from 8:00 a.m. to 5:00 p.m., Monday to Friday, with lunch break from noon to 1:00 p.m. Some private enterprises are open on Saturdays. Commercial banks are generally open for client transactions from 9:00 a.m. to 3:00 p.m., and savings banks from 9:00 a.m. to 5:00 p.m. (Monday to Friday), although technology has enabled certain services to be available 24 hours a day, seven days a week. Philippine time is eight hours ahead of the Greenwich Mean Time (GMT) and 13 hours ahead of the U.S. Eastern Standard Time (EST).

Public holidays

The Philippines observes the following public holidays:

New Year's Day	January 1
Araw ng Kagitingan	April 9
Maundy Thursday	<i>Variable</i>
Good Friday	<i>Variable</i>
Labor Day	May 1
Independence Day	June 12
Ninoy Aquino Day	August 21
National Heroes Day	<i>Last Sunday of August</i>
All Saints Day	November 1
Bonifacio Day	November 30
Eid ul-Fitr (End of Ramadan)	<i>Variable</i>
Christmas Day	December 25
Rizal Day	December 30
Last Day of the Year	December 31

Under Republic Act 9492, observance dates of public holidays may be moved to the nearest Monday through a presidential proclamation.

Economy

The Philippines has a free market economy with an active private sector. The government has privatized most government-owned or -controlled corporations and continues to pursue structural reforms liberalizing imports, deregulating vital industries, and relaxing investment rules.

The country believes in strengthening its industries to compete globally. The country has also been actively attracting investments, largely through legislation that aims to invite foreign participation in key areas of the domestic economy. The government is pursuing policies to integrate the Philippines more closely into the regional and world economies while recognizing the need to provide safety nets for displaced workers.

Economic growth

In 2008, the gross national income (GNI) was US\$352.71 billion based on purchasing power parity (PPP). Based on PPP, GNI per capita in 2008 was US\$3,900. The country fared relatively better than others during the global financial crisis that began in 2008, as it never registered any economic contraction. Real economic growth for 2008 was 3.8 percent, down from the 7.1 percent growth of 2007. For 2009, growth is estimated at 1.1 percent.

Employment levels

As of October 2008, total employment was at 34.5 million people. About 49.6 percent are employed in the services sector, 35.7 percent are in agriculture-related activities, and 14.7 percent are in industry. In January 2010, the employment rate was 92.8 percent. Many are English-speaking and highly trainable. Resident foreign firms and overseas contractors who employ Filipinos attest to their capabilities as blue-collar workers, technicians, professionals and managers.

Living standards

According to ECA International's Location Ranking Survey in 2008, the Philippines was among the top 25 best locations in Asia for expatriates to live. The annual survey conducted among Asian expatriates compares living standards in 49 Asian locations based on categories such as climate, air quality, health services, housing and utilities, isolation, social network and leisure facilities, infrastructure, personal safety and political tensions.

Among the advantages cited by the expatriates in the Philippines were the mix of Western culture and Asian traditions, making it easier for them to interact with the locals and adapt to their surroundings; access to recreational activities; availability of educational facilities; and value-for-money housing and shopping.

Cost of living

Living costs vary widely; the cost of living in Metro Manila is the highest in the entire country. But no matter where you are in the Philippines, the cost of living will be dramatically lower than in a comparable area in a Western nation. Based on the 2008 Cost of Living Survey by Mercer, Manila is among the cheaper cities, ranking 110th out of 143 major cities, with the costliest cities ranked higher. Asian cities in the survey include Tokyo (2nd), Seoul (5th), and Hong Kong (6th), which are among the costliest cities in the region. South East Asian cities in the survey include Jakarta (82nd), Hanoi (91st) and Bangkok (105th).

As published by the Global Property Guide, the average price of apartments located in the Philippines' premier city centre is US\$ 1,998 per square metre. Condominium prices range from US\$64,000 to US\$480,000 for properties as small as 30 square metres and as large as 280 square metres. On the other hand, the monthly rent for condominiums in prime areas ranges from US\$499 for a 30-square metre property to US\$3430 for a 280-square metre property.

Regulatory environment

Restrictions on foreign ownership

Investments have been substantially liberalized in the past few years. The few restrictions that remain generally arise because of constitutional limitations and health and security reasons. Under the 1991 Foreign Investments Act (FIA), domestic enterprises may be 100 percent foreign-owned, provided that no incentives are sought and the enterprise's activity does not appear on the FIA's negative lists. Full foreign ownership is also allowed in cases of corporations that enter into "financial and technical assistance agreements" (FTAAs) with the government in relation to large-scale mining exploration and utilization under the Philippine Mining Act of 1995 (RA 7942).

On the other hand, foreign ownership of financing companies is limited to 60 percent. Ownership of insurance companies is open to majority foreign ownership, although minimum capital requirements increase with the degree of foreign ownership. Up to 60 percent foreign ownership is allowed in domestically incorporated banks and investment houses. Rural banking is completely closed to foreigners.

Government approvals and registration

Corporations and partnerships should be registered with the Securities and Exchange Commission (SEC). Single proprietorships should register their business name with the Bureau of Trade Regulation and Consumer Protection of the Department of Trade and Industry (DTI). Export firms locating in any of the country's special economic zones should register with the Philippine Economic Zone Authority (PEZA). Foreign investments for purposes of capital repatriation and profit remittances must be registered with the Bangko Sentral ng Pilipinas (BSP). Customs-bonded warehouses should be registered with the Bureau of Customs (BOC). Business licenses should be secured from the local government office in the city or municipality where the business is to be located.

Competition rules/consumer protection

The Philippines encourages competition for a healthy business environment. Its laws prohibit unfair trade practices, and its Constitution provides that "the state shall regulate or prohibit monopolies when public interest so requires. No combinations in restraint of trade or unfair competition shall be allowed." This intent is bolstered by Republic Act No. 5455, which regulates businesses in the Philippines by providing that the entry of foreign investors in the country should not pose a clear and present danger of promoting monopolies or combinations in restraint of trade.

Other anti-monopoly laws are Republic Act 3247, the Law on Monopolies and Combinations, and the Revised Penal Code. The objective of these laws is to promote efficiency through desirable competition that will result in increased output and lower prices of goods and services.

Import and export controls

The Philippines has been liberalizing its markets through a progressive tariff reduction program and a shift to a tariff quota system as part of its commitments under the General Agreement on Tariffs and Trade (GATT) Uruguay Round. The import duties on most products are now significantly lower than in the past, when the government's policy was oriented towards protectionist import substitution.

Most goods are freely exportable, unless the trade is prohibited under international agreements. Certain commodities are regulated or prohibited from being imported for reasons of public health and safety, national security, international commitments, and development of local industry. Regulated commodities require clearances from government agencies prior to their importation. Prohibited commodities may not be imported under any circumstance.

All commodity exporters may retain 100 percent of the foreign exchange proceeds from exports and may freely use these for any purpose.

Price controls

Price controls are generally not imposed on commodities. However, under Republic Act 7581 or the Price Act, the President can impose a price ceiling on basic commodities if any event causes artificial and unreasonable increases in the prices of basic or prime commodities. The Price Act also empowers the DTI to procure, purchase, import, or stockpile any basic or prime commodity and to devise ways and means of distributing these goods at reasonable prices in areas where there is a shortage of supply or a need to effect changes in prevailing prices.

Use of land

Foreigners are allowed to lease private land for a period of up to 75 years. They can also purchase condominium units and townhouses up to 40 percent of the total available in a single proprietary block. It is generally necessary to obtain permission from the local government for new construction, renovations, or changes in land use.

Exchange control

The BSP has fully liberalized foreign exchange policies, allowing full and immediate repatriation of capital and remittance privileges of income by foreign investors subject, however, to certain precautionary conditions under the Anti-Money Laundering Act. Foreign exchange may be freely sold and purchased outside the banking system. Foreign exchange expenditures obtained from the banking system no longer require the prior approval of the BSP. Similarly, foreign exchange may be sold by authorized agent banks without prior approval of the BSP for payment on foreign exchange transactions, except for certain foreign currency loans still covered by BSP regulations. Foreign exchange receipts, acquisitions, or earnings may be sold for pesos (even to unauthorized agent banks or outside the banking system); retained; deposited in foreign currency accounts (whether in the Philippines or abroad); or used for any other purpose.

Government incentives

Government incentives are generally granted under the Omnibus Investment Code of 1987, which integrates the country's basic laws on investments and is administered by the Board of Investments (BOI). Fiscal and non-fiscal incentives are granted to enterprises located in areas that are given high priority by the government, such as export-oriented ventures, projects locating in less-developed areas, and enterprises registered with the PEZA. Incentives generally given include fiscal incentives (e.g., income tax holiday, additional deduction of labor expenses from taxable income subject to

certain conditions, and various tax exemptions and tax credits); non-fiscal incentives (e.g., simplification of customs procedures for imports and exports); and incentives specific to regional or area headquarters. Additional incentives are available to enterprises engaged in selected economic activities as specified by special laws.

Finance

Summary

The Philippine financial system is composed of banks and nonbank financial institutions.

Banking institutions

These include commercial banks (both universal and ordinary), thrift banks (savings and mortgage banks, private development banks, and stock savings and loan associations), rural banks and government banks. Universal banks are allowed to perform commercial banking and investment functions. As of the end of March 2010, the Philippines had 779 banks, with 7,884 branches. Nineteen of these were universal banks with 4,000 branches, 19 were commercial banks with 507 branches; 74 were thrift banks with 1,265 branches; and 667 were rural and cooperative banks with 2,112 branches.

The BSP is an independent monetary authority with regulatory and supervisory power over banks and nonbank financial institutions.

An application for authority to operate a bank in the Philippines must be approved by the country's Monetary Board – the BSP's highest policy-making body – and the Governor of the BSP.

The services of commercial banks include loans and discounts, which may be secured or unsecured, receivables financing, letter of credit financing with or without trust arrangements, real estate and chattel mortgage bonds, among various services.

Foreigners may hold local currency in interest-bearing demand and time deposits with authorization from the BSP. No approval is required for the conversion of peso deposits into foreign exchange for remittance abroad. Foreigners may also hold foreign currency in interest-bearing time deposits. No approval is required for its subsequent remittance abroad, including interest.

All public and private sector publicly-guaranteed obligations from foreign creditors, offshore banking units (OBUs), and foreign currency deposit units (FCDUs) require prior BSP approval.

Loans requiring BSP approval shall, as much as possible, finance export-oriented projects, projects registered with the BOI, or other projects that may be declared priority under the country's socioeconomic development plan.

Foreign firms are allowed to access domestic credit without limitation. However, export-oriented firms, firms in vital industries, and BOI-registered firms are required to maintain a certain debt-equity ratio by the BOI and the PEZA.

Nonbank financial institutions

Banks and nonbank financial institutions (NBFIs) in the Philippine financial system have interrelated activities. NBFIs are either affiliates or subsidiaries of banks and other NBFIs. These institutions include investment houses, financing companies, investment companies, securities dealers/brokers, lending investors, government NBFIs, venture capital corporations, nonstock savings and loan associations, pawnshops, and credit card companies.

Investment houses are governed by Presidential Decree No. 129, the “Investment Houses Law,” which grants such institutions the exclusive authority to underwrite securities. Another relevant law is Republic Act 8366, passed in 1997, which increased foreign equity participation to 60 percent and the minimum capitalization of investment houses to P300 million. It also allowed foreign nationals to become members of the board of directors of an investment house, to the extent of the foreign participation in the equity of the enterprise.

NBFIs are classified into two groups: (1) NBFIs with quasi-banking (QB) functions, and (2) NBFIs without QB functions. NBFIs that perform QB functions are supervised and regulated by the BSP, while those without QB functions are under the regulation and supervision of the SEC.

Capital markets

The Philippine Stock Exchange (PSE) is a private organization that provides a market for the buying and selling of securities. The PSE maintains two trading floors: one in Makati City and another one in its head office in Pasig City. Even with two trading floors, the PSE achieves a one-price, one-market Exchange through the MakTrade System. This is a single-order-book system that tallies all orders in one computer and ensures that these orders match with the best bid/best offer regardless of which floor the orders were placed. MakTrade likewise allows the PSE to facilitate the trading of securities in a broker-to-broker market through automatic order and trade routing and confirmation. It also keeps an eye on any irregularities in the transactions with its market regulation and surveillance databases.

The Philippine Central Depository, established in March 1995, provides the securities settlement system for both debt and equity instruments of the stock exchange. The Securities Clearing Corporation of the Philippines (SCCP) assumes the role of settlement coordinator and risk manager for broker transactions, and administrator of the trade guaranty fund. SCCP is the clearing and settlement agency for depository-eligible trades in the Exchange.

Classified into Banks and Financial Services, Commercial and Industrial, Property, Mining and Oil sectors, companies are listed either on the Exchange’s First Board, Second Board, or the newly created Small and Medium Enterprises Board. With the increasing calls for good corporate governance, the PSE has adopted an online daily disclosure system to improve the transparency of listed companies and to protect the investing public.

A year after the enactment of the Securities Regulation Code in 2000, which called for the Exchange’s conversion into a stock corporation, the PSE was transformed from a nonstock, member-governed organization into a shareholder-based, revenue-earning company.

Imports

Summary

Most goods may be imported into the Philippines. There are no restrictions on country of origin unless, for reasons of health and safety, the government restricts imports from a certain country, and unless an embargo against an exporting country has been declared by the United Nations.

Import restrictions

An importer must be able to classify the commodity or item he intends to import based on the following classifications: liberalized, regulated, or prohibited items. Liberalized items are those that are allowed to be imported and require no import clearance prior to shipment into the Philippines. All items not listed as prohibited or regulated are classified as liberalized.

Regulated items are those that require import clearance or permit prior to shipment into the Philippines. These items are listed in Central Bank Circular No. 1389, as amended, series of 1993. These include rice, penicillin, color reproduction machines, refined petroleum products, pesticides, radioactive materials, motor vehicle parts, and Philippine currency in excess of P10,000.

Prohibited items are goods that are not allowed to be imported under existing Philippine laws. These items, listed in Section 101 of the Tariff and Customs Code of the Philippines, include those banned for reasons of public health, safety and morals, national security, and international obligations.

Import licenses are not required, but a release certificate, signed by an authorized bank, is needed before imported goods are cleared through the BOC.

Imports into the Philippines are no longer subject to Pre-Shipment Inspection (PSI). All imports are processed by the BOC in accordance with the Automated Customs Processing System. Shipments of qualified importers are processed under a new advanced processing facility known as Super Green Lane, which allows “ship to truck” release.

Customs duties

Goods are subject to customs duties based on the rates prescribed by the Philippine Tariff and Customs Code. Under Executive Order 334 dated January 3, 2001, the Tariff Commission adopted a more flexible 0%-3%-5%-7%-10%-15%-20%-25%-30%-35%-40%-45%-50%-55%-60%-65% tariff structure. Most items (78%) fall under the 0%-5% tariff range. By 2004, the percentage of items under this category increased to 98%.

The Philippines participates in the Common Effective Preferential Tariff (CEPT) scheme of the Association of South East Asian Nations (ASEAN). The CEPT is a cooperative arrangement among ASEAN member states to reduce intra-regional tariffs and remove non-tariff barriers beginning in January 1993. However, products in the “sensitive list” (e.g., unprocessed agricultural products) will have a longer time frame for implementation. The phased reduction in tariffs that the government is implementing is in line with its commitments under this scheme. Tariff rates are also being implemented to conform to the import liberalization program and commitments under World Trade Organization (WTO)-GATT.

Business entities

Summary

Business entities allowed to organize and operate in the Philippines may take one of six forms: corporation, partnership, sole proprietorship, branch, representative office, or regional headquarters.

Corporation

Formation

The SEC is the primary government agency administering the registration and operation of domestic corporations under the Corporation Code. The incorporators, who must number at least five but not more than 15, must subscribe to the Articles of Incorporation and file documents specifying the company name and purpose, principal office, capital, distribution, and certain other information with the SEC.

The filing fee for the registration of a new corporation is one-fifth of 1 percent of the authorized capital stock. A legal fee of 1 percent of the filing fee and a minimum research fee also apply.

Minimum capital/capital maintenance

The law does not impose a minimum authorized capital stock, but it requires that at least 25 percent of the authorized capital stock be subscribed at the time of incorporation, and that at least 25 percent of the total subscribed capital must be paid-up. In all instances, however, the minimum paid-up capital for a corporation should be at least P5,000. If the subscriber is an alien or a nonresident foreign corporation, the amount subscribed must be fully paid up.

A domestic market enterprise with foreign equity participation exceeding 40 percent is required to have a minimum paid-up capital of US\$200,000. This amount may be reduced to US\$100,000 if the enterprise involves advanced technology as determined by the Department of Science and Technology, or if it employs at least 50 direct employees.

Management and officers

Corporate powers are exercised by the board of directors. Board members are elected by the shareholders. Majority of the directors must be residents of the Philippines and every one of them must own at least one share of the capital stock of the corporation. The corporate secretary must be a resident citizen but need not be a director.

Filing requirements

Every enterprise registered with the SEC is required to submit on an annual basis the General Information Sheet and the Audited Financial Statements of the company.

Dissolution

A corporation is considered dissolved when its existence is terminated, its charter is extinguished, and its assets are distributed among creditors and stockholders. The Corporation Code provides for two methods of corporate dissolution: voluntary and involuntary. Corporations may be dissolved voluntarily by shortening the corporate term through an amendment to the articles of incorporation, or by majority vote of the board of directors and the vote of stockholders owning at least two-thirds of the outstanding capital stock. If creditors are affected, a petition for dissolution approved by the vote of stockholders owning at least two-thirds of the outstanding capital stock must be filed with the SEC, which then conducts a hearing to consider the petition.

Corporations may be dissolved involuntarily by the following actions:

- Filing a verified complaint with the SEC on grounds authorized by law (such as serious misrepresentation of corporate activities to the prejudice of the general public, fraud in procurement of a certificate of incorporation, or continuous inoperation for at least five years)
- Failure of the corporation to organize and commence business within two years from the date of issuance of the certificate of incorporation
- Expiration of corporate term
- Dissolution through legislative action

Upon dissolution, the rights of stockholders to corporate assets are subordinated to the rights of creditors. The interests of the stockholders in the remaining assets are in proportion to their stockholdings. Holders of stock preferred as to assets must be paid before holders of common stock or stock preferred as to dividends.

Liquidation must take place within three years after a corporation is dissolved. The purposes of liquidations are to prosecute actions on behalf of the corporation, defend suits filed against the corporation, dispose or convey corporate property or assets, and settle with the corporation's debtors and creditors.

Corporations may be liquidated by the board of directors, by trusteeship or by receivership. If liquidation is made through a trusteeship or a receivership, the prescribed three-year period within which the liquidation process must be completed does not apply. The three-year count automatically ceases on appointment of a trustee or a receiver.

Partnership

In a partnership, two or more persons contribute money, property, ideas, and other things of value to a common fund, with the intent to divide the resulting profits among themselves.

A partnership is either general or limited, depending on the liability of the partners. It is general if all the partners are personally liable for the obligations of the partnership when its assets are exhausted. It is limited if at least one partner has limited personal liability. In the latter case, at least one other partner must have unlimited liability.

A partnership has a legal personality separate from that of each partner. However, it does not enjoy the right of succession; consequently, the death of a general partner dissolves the partnership.

The SEC administers the laws on partnerships. SEC registration is required for partnerships with capital that is in excess of P3,000. The fee for filing the partnership articles is one-fifth of 1 percent of the partnership capital, but not less than P1,000.

Sole proprietorship

A sole proprietorship is a one-person form of business organization common in the retail trade. The sole proprietor has unlimited liability and is therefore accountable for all debts incurred by the operation.

Foreign investors may establish sole proprietorships if they observe the applicable Philippine laws. This form of organization is, however, advisable for small-scale enterprises only.

Other entities commonly used by foreign investors

Branches

A foreign corporation may conduct business or engage in trade in the Philippines through a branch, which is a mere extension of the legal personality of the foreign corporation. Because a branch does not have an existence independent from the foreign corporation, the assets of the head office are exposed to the liabilities of the branch. Contracts between head offices and their branches are not allowed under the single-identity concept. The operation and liquidation of a branch are similar to the operation and liquidation of a corporation.

Representative offices

The activities of a representative office are limited to information dissemination, promotion of products, and facilitation of orders of the head office's customers. A representative office is not allowed to intervene or take part in any manner in the pricing or distribution of the products of its head office. It is also not allowed to derive income from within the Philippines. Accordingly, a representative office is not subject to Philippine income tax.

A representative office is required by law to remit annually into the country an amount necessary to cover its operating expenses, which must be at least US\$30,000.

Regional headquarters

A foreign firm engaged in international trade with affiliates, subsidiaries, or branch offices in the Asia-Pacific region may establish its regional headquarters in the Philippines. A regional headquarters serves as a supervisory, communication and coordinating center for the firm's affiliates, subsidiaries, or branches in the region. It is not allowed to participate in any manner in the management of any subsidiary or branch office that the foreign entity may have in the Philippines.

A regional headquarters is similar to a representative office in that neither is allowed to derive income from sources within the Philippines. In addition, regional headquarters are required to remit annually into the country an amount necessary to cover operating expenses in the Philippines, which must be at least US\$50,000.

Regional operating headquarters

A regional operating headquarters (ROHQ) is a foreign business entity allowed to derive income from within the Philippines by performing the following services to its affiliates, subsidiaries, or branches in the Philippines, in the Asia-Pacific region, and in other foreign markets:

- General administration and planning
- Business planning and coordination
- Sourcing/procurement of raw materials and components
- Corporate finance advisory services
- Marketing control and sales promotion
- Training and personnel management
- Logistics services
- Research and development services, and product development
- Technical support and maintenance
- Data processing and communication
- Business development

An ROHQ, however, may not engage, directly or indirectly, in soliciting or marketing of goods and services, whether on behalf of its mother company, branches, affiliates, subsidiaries or any other company. In addition, it is required to remit an initial investment of US\$200,000.

Labor

Wages

Data from the Employers Confederation of the Philippines' Corporate Compensation Survey 2006 show the following average annual total compensation for four general positions:

Position	Average Annual Salary
Executive	P1,179,360.00
Managerial	436,200.00
Supervisory	252,720.00
Rank and file	167,361.00

Social security

The Social Security System (SSS) was created to provide private-sector employees and their families with protection against the hazards of disability, sickness, old age and death. All private employees, including resident foreign employees, are compulsorily covered from the date of employment. Standard social security benefits include disability pension, retirement pension, funeral benefit, sickness allowance, maternity and paternity leave, and miscellaneous loans.

Pensions

Compulsory retirement age is 65 years. An employee may also retire upon reaching the retirement age established in the collective bargaining agreement or other applicable employment contract. In the absence of such retirement plan or agreement, an employee may retire upon reaching the age of 60 if he has served the company for at least five years. Retirement pay is equivalent to at least one-half month's salary for every year of service.

Fringe benefits

Holiday, vacation and sick pay

There are 11 regular and three special nonworking holidays. (*See page 3 for a list of these holidays.*)

Employees are entitled to their regular daily wage on these days. Most companies give two weeks of paid vacation for each year of service. (Under the law, every employee who has rendered at least one year of service is entitled to a yearly service incentive leave of five days with pay.) Although it is not required by law, most companies also give two weeks of paid sick leave.

13th-month pay

Annual payment of a 13th-month salary is mandatory. Employees who resign or are separated from the company before the time of payment of the 13th-month salary are entitled to this benefit in proportion to the length of time they worked with the company during the year.

Maternity leave

Companies are required to pay female employees a daily maternity benefit for 60 days in case of normal delivery, and 78 days in case of Caesarean delivery. The maternity benefit (which companies advance to the employee and is subsequently reimbursed by the SSS) is a fraction of the employee's monthly salary computed according to specific guidelines. Many companies advance the employee's full salary and shoulder the amount that is not reimbursed by the SSS.

Paternity leave

Every married male employee is granted seven days of paternity leave for each of the first four deliveries of his legitimate spouse with whom he lives. This paid leave is not reimbursed by the SSS.

Solo parent leave

In addition to the leave privileges under existing laws, a solo parent employee [as defined under the Solo Parents Welfare Act of 2000 (RA 8972)] who has rendered service of at least one year is entitled to not more than seven working days of parental leave.

Healthcare

Health insurance is automatic and compulsory for SSS members. The benefits include allowances for hospitalization, surgery, medicine and doctor's fees.

Although not required by law, many companies provide additional benefits in the form of premiums for health insurance, or reimbursable or fixed amounts of medical allowances. Employees are not taxed on premiums paid by employers for group health or hospitalization insurance and on medical benefits or reimbursements up to P10,000 per year.

Employment protection legislation

Individual employee rights are governed by the Labor Code, the basic policies of which are to protect labor, promote full employment, ensure equal work opportunities regardless of sex, race or creed, and regulate the relations between workers and employers. Supplemental laws include the Magna Carta for Disabled Persons, Special Protection of Children Against Child Abuse and Discrimination, the Wage Rationalization Act, and the Anti-Sexual Harassment Act, among others.

Unions

The Constitution and the Labor Code guarantee workers' rights to self-organization. Union membership is most common in the manufacturing sector. One of the usual objectives of unions is to secure from the employer a labor contract that defines the rights and duties of both management and workers. The contract typically covers wages, hours of work, and working conditions.

Foreign nationals

Entry visas and work permits are required for foreign personnel hired on either a permanent or temporary basis. The government has liberalized visa requirements for foreign entrants to encourage foreign participation in the economic development of the Philippines.

Entry visa

Foreign nationals may come to the Philippines for reasons of business, pleasure, or health with a temporary visitor's visa that allows stays for periods of 59 days, extendable to six months. To extend their stay, visitors must register with the Bureau of Immigration or with the office of the municipal or city treasurer in areas outside of Manila. Executive Order No. 408 allows foreign nationals, except some specifically restricted nationalities, to stay in the Philippines for up to 21 days without a visa.

Work permits

In general, foreign nationals seeking employment in the Philippines, whether residents or nonresidents, must secure alien employment permits from the Department of Labor and Employment (DOLE). An employment permit is valid for one year from the date of issue and may be renewed subject to the approval of the DOLE. Executives of area or regional headquarters and offshore banking units, as well as treaty trader visa holders, are exempt from the requirement to obtain alien employment certificates.

A local employer who wishes to employ a foreign national must apply for a permit with the DOLE on behalf of the foreign national. The petitioning company must prove that the foreign national possesses the required skills for the position and that no Filipino is available who is competent, able and willing to do the specific job for which the foreign national is desired.

Financial reporting and audit

Statutory requirements

Books and records

Under the National Internal Revenue Code (NIRC), all business entities paying internal revenue taxes must maintain books of account. These consist of a journal, a ledger and subsidiary records required for the business. Enterprises subject to VAT are also required to keep a subsidiary sales journal and a subsidiary purchase journal.

In addition to maintaining accounts, a corporation is required under the Corporation Code to keep at its principal place of business the following items: records of all business transactions, minutes of meetings of shareholders and directors, and a stock and transfer book. These records may be inspected by shareholders during regular office hours.

Method of accounting

Companies should use the accrual basis of accounting, except for cash flow information, in preparing financial statements presented in accordance with Philippine Financial Reporting Standards (PFRS). Entities that qualify as non-publicly accountable entities (NPAEs) are given the option not to adopt PFRS fully.

Financial statements

All companies must file their financial statements with the tax authorities along with their corporate income tax returns. In addition, companies are required to submit audited financial statements to the SEC. Regulated companies, including banks, finance companies, insurance companies, investment houses, and public utilities must also submit monthly, quarterly, or annual reports to the appropriate agencies such as the BSP, the Insurance Commission, and the PSE.

Sources of accounting principles

Governing statutes

Legal requirements governing accounting and reporting practices of businesses in the Philippines are set forth in the NIRC, the Corporation Code, and the Securities Regulation Code (SRC). In addition, special regulations on accounting and reporting apply to certain businesses, such as banks, insurance companies, finance companies, pre-need companies, and public utilities.

Standards of professional associations

Accounting pronouncements adopted by the Financial Reporting Standards Council (FRSC) from the pronouncements issued by the International Accounting Standards Board (IASB), are the primary source of accounting principles in the Philippines.

These accounting pronouncements consist of the following:

- PFRS – corresponding to International Financial Reporting Standards
- Philippine Accounting Standards (PAS) – corresponding to International Accounting Standards
- Philippine Interpretations – corresponding to interpretations of existing standards issued by the International Financial Reporting Interpretations Committee (IFRIC) of the IASB

The PFRS, PAS and Philippine Interpretations adopted by the FRSC are endorsed and approved by the Board of Accountancy and the Professional Regulation Commission, and form part of the rules and regulations followed by all certified public accountants in the Philippines. These pronouncements are also adopted by the SEC as part of its rules and regulations. Further, these pronouncements apply to all business enterprises; some also apply to not-for-profit organizations.

International standards

For matters not covered by PFRS, PAS and Philippine Interpretations, the accounting pronouncements issued by other standard-setting bodies, such as the U.S. Financial Accounting Standards Board, are persuasive in determining PFRS in the Philippines.

Government regulatory agencies

Government agencies such as the SEC, the BSP, and the Insurance Commission issue regulation manuals and memorandum circulars covering businesses under their supervision. These regulations prescribe the accounting treatment for certain transactions and additional disclosure requirements.

Accounting standards

The most significant financial reporting standards and practices in the Philippines are summarized below.

Fundamental concepts

The following are some of the fundamental concepts:

Going concern

An entity is usually deemed to be a going concern. When preparing financial statements, management shall make an assessment of an entity's ability to continue as a going concern, and if the entity intends to liquidate or curtail materially the scale of its operation, or has no realistic alternative to doing so, its financial statements may have to be prepared on a different basis. The basis on which the financial statements are prepared should be disclosed.

Accrual basis of accounting

An entity shall prepare its financial statements, except for cash flow information, using the accrual basis of accounting.

Consistency of presentation

Financial reporting standards should be applied consistently from one period to another, but a change in presentation is allowed on the condition that such change provides information that is reliable and is more relevant to the users of the financial statements, and the revised structure is likely to continue so that the comparability of the statements is not impaired.

Materiality and aggregation

Each material class of similar items shall be presented separately in the financial statements.

Offsetting

Assets and liabilities, and income and expenses, shall not be offset unless required or permitted by a standard or an interpretation.

Comparative information

Comparative information shall be disclosed with respect to the previous period for all amounts reported in the financial statements unless a standard or an interpretation permits or requires otherwise.

Asset valuation

Assets are usually valued at cost, fair value or the lower of cost and net realizable value.

If the recoverable amount of a non-financial asset, such as investment property, fixed asset or intangible asset, is lower than its carrying amount, an impairment loss is recognized to reduce the carrying amount of the asset to the recoverable amount. Such impairment loss may be reversed if there is a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized (with the exception of impairment loss on goodwill, which is no longer allowed to be reversed).

Financial instruments

A financial asset or financial liability should be recognized when, and only when, the entity becomes a party to the contractual provisions of the financial instrument. Financial assets and liabilities are measured initially at fair value plus transaction costs, except for financial assets and liabilities carried at fair value through profit or loss, which is measured initially at fair value.

Other than those designated and effective as hedged items, which are subject to other measurement requirements under PFRS, financial assets are subsequently measured depending on their classification, as follows:

- Financial assets at fair value through profit and loss – at fair value
- Held-to-maturity investments – at amortized cost
- Loans and receivables – at amortized cost
- Available-for-sale financial assets – at fair value if such is reliably determinable; at cost if fair value is not reliably determinable

All financial assets, except for those at fair value through profit or loss, are subject to review for impairment at least at each reporting date. Financial assets are impaired when there is any objective

evidence that a financial asset or a group of financial assets is impaired. Different criteria to determine impairment are applied for each category of financial assets.

Financial liabilities are measured subsequently at amortized cost using the effective interest method, except for financial liabilities held for trading or designated at fair value through profit or loss, that are carried subsequently at fair value.

Inventory

Inventories include raw materials and purchased components, work-in-process and finished products or merchandise held for sale in the ordinary course of business. Inventories are valued at the lower of cost and net realizable value. Cost includes both direct and indirect costs and is generally determined under one of the following methods: specific identification, first in, first out (FIFO), or weighted average. The last in, first out (LIFO) method is not an acceptable method to measure the cost of inventories.

Property, plant and equipment

At initial recognition, an item of property, plant and equipment that qualifies as an asset shall be measured at cost. The costs of dismantlement, removal or restoration to install an item of property, plant and equipment should form part of the initial cost of such item.

After initial recognition, property, plant and equipment may be carried at cost or at revalued amount less any accumulated depreciation and any accumulated impairment losses. For property, plant and equipment that are carried at revalued amounts, revaluations are required to be made with sufficient regularity such that the carrying amount of the asset does not differ materially from its fair value at the balance sheet date.

Investment property

Properties (land or a building, or a part of a building, or both) that are held to earn rentals or for capital appreciation or both, rather than for use in the production or supply of goods or services, for administrative purposes, or for sale in the ordinary course of business, should be presented as investment property in the financial statements. An investment property should be recorded initially at cost, and subsequently measured either at cost less accumulated depreciation and impairment losses, or at fair value.

Intangible asset

Intangible asset that meets the recognition criteria (i.e., it is probable that the asset's future economic benefits will flow to the enterprise and the cost can be measured reliably) must be recorded at cost on the date of acquisition. Internally generated intangibles should be expensed, except for certain costs incurred during the development phase, which may be capitalized. Expenditures on research (or on the research phase of an internal project) should be recognized as expenses when they are incurred.

An entity should assess whether the useful life of an intangible asset is finite or infinite. Intangible assets with finite useful lives are amortized on a systematic basis over their useful lives, while intangible assets with indefinite useful lives are not amortized but are tested for impairment at least annually. The useful life is deemed indefinite if there is no foreseeable limit to the period over which the asset is expected to generate net cash flows. Goodwill is not amortized but is tested for impairment, generally on an annual basis.

Depreciation and amortization of non-financial assets

Non-financial assets, such as property, plant and equipment and intangible assets that are carried at cost or at revalued amounts, and investment property that are carried at cost, are subject to annual depreciation and amortization. Depreciation of non-financial assets should be computed on a rational, systematic basis over the useful life of the asset, regardless of the earnings of the enterprise, and should commence when such assets are available for use. Permissible depreciation methods include the straight-line, the diminishing balance, and the sum-of-the-units methods. If an asset is revalued, depreciation should be based on the revalued amount.

Impairment of non-financial assets

If the recoverable amount of a non-financial asset is lower than its carrying amount, an impairment loss is recognized to reduce the carrying amount of the asset to the recoverable amount. Such impairment loss may be reversed if there is a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized (with the exception of impairment loss on goodwill, which is not allowed to be reversed).

Earnings per share

Corporations whose securities are publicly traded on securities exchanges or over-the-counter markets, and those that are in the process of offering their securities to the public, must present basic earnings per share (EPS) on the face of the income statement and disclose additional information concerning EPS. This requirement also applies to other enterprises that are required to comply with the reportorial provisions of the SRC.

Income taxes

Income taxes comprise of current income tax and deferred income tax. Current income tax is calculated according to the tax rates and the tax laws applicable to the periods to which they relate, based on the taxable profit for the year. Deferred income tax is calculated using the "balance sheet liability method," which is based on the differences between the carrying amounts of assets and liabilities in the balance sheet and their tax bases.

Employee benefits

Employee benefits should be accounted for as follows:

- Short-term employee benefits – the undiscounted amount of which is recognized as an expense when an employee has rendered service in exchange for those benefits
- Post employment benefits – can be either defined contribution plan, accounted for based on the required amount of contribution to the plan or defined benefit plan, accounted for using the Projected Unit Credit Method
- Other long-term employee benefits – accounted for in the same manner as post-employment benefits
- Termination benefits – recognized when, and only when, the entity is demonstrably committed to either terminate the employment of employees before the normal date of retirement, or provide termination benefits as a result of an offer made in order to encourage voluntary redundancy

Related party disclosures

Detailed disclosures are required on related party transactions, such as the nature of the relationship with such related parties, information about transactions, and outstanding balances.

Consolidation of financial statements

A parent company is required to present consolidated financial statements, except when it meets any of the following conditions:

- the parent itself is a wholly-owned or partially-owned subsidiary of another entity
- the parent's debt or equity instruments are not traded in a public market
- the parent did not file, nor is it in the process of filing for, an initial public offering
- the ultimate or any intermediate parent of the parent prepares consolidated financial statements available for public use that comply with PFRS

Consolidated financial statements should include the statements of the parent company and all enterprises under its control. Control is defined under PFRS as the power to govern the financial and operating policies of the enterprise so as to obtain benefits from its activities. The financial reporting rules under the SRC also require qualified companies to file consolidated financial statements prepared in accordance with the PFRS.

Associated companies

An investor company that is able to exercise significant influence over the investee must use the equity method of accounting. Under this method, the investor's share in the investee's net income must be included as a separate item in the investor's income statement. Significant influence is presumed if the investor owns at least 20 percent of the voting shares of the investee. However, if the reporting company does not exert significant influence on the other company, the investment shall be accounted for under the PFRS applicable to financial instruments.

Functional currency and foreign currency translation

Financial statements shall be prepared in the entity's functional currency, which is the currency of the primary economic environment in which the entity operates. Foreign currency monetary items should be translated at the exchange rates prevailing on the balance sheet date, and all foreign currency gains and losses arising from the translation are recognized in income in the current period.

Critical accounting judgments and estimates

In preparing financial statements in accordance with the PFRS, management is required to make critical judgments and estimates that affect amounts reported in the financial statements and related notes. Such critical judgment and estimates are required to be disclosed in the financial statements.

Audit requirements

Under the NIRC, all corporations, partnerships, or persons with gross quarterly sales, output, receipts or earnings in excess of P150,000 must have their financial statements examined annually by independent certified public accountants. Audited financial statements of these companies, along with their tax returns, must be filed with the Bureau of Internal Revenue (BIR). Companies with quarterly sales of less than P150,000 may file their tax returns along with their unaudited financial statements.

The SEC requires companies with paid-up capital of at least P50,000 and nonstock corporations with assets of at least P500,000 or receipts of at least P100,000 to file audited financial statements. If less, the financial statements may be attested and sworn to by the treasurer of the corporation.

Tax

Summary

The laws, regulations, and cases governing taxation in the Philippines, both at the national and local government levels, are complex and ever-changing. Potential investors in the Philippines should obtain tax advice.

Companies

Liability to tax

Domestic corporations (i.e., those incorporated under Philippine laws) are subject to tax on their worldwide taxable income, which includes income derived from foreign branches, regardless of whether such income is repatriated or not. Foreign corporations are taxed only on their Philippine-source income.

Tax rates

Domestic and resident foreign corporations are taxed at 30 percent of their taxable income (gross income less allowable deductions), subject to a minimum corporate income tax equivalent to 2 percent of gross income during the taxable year.

The 30 percent rate also applies to nonresident foreign corporations, but is computed on gross income.

Certain types of income and corporations are subject to special tax rates, as follows.

For domestic corporations:

- Proprietary educational institutions and hospitals – 10 percent of taxable income
- Interest from deposits and yield or any other monetary benefit from deposit substitutes and from trust funds and similar arrangements, and royalties – 20 percent
- Interest from foreign currency deposits with local banks – 7.5 percent
- Income derived by banks under the Foreign Currency Deposit System from foreign currency transactions with residents – 10 percent
- Dividends received from domestic corporations – exempt

- Net capital gains from sale of shares of stocks not traded in the stock exchange – 5 percent on the first P100,000; 10 percent on the excess
- Sale of lands and buildings (capital assets) – 6 percent on the gross selling price or fair market value, whichever is higher

For resident foreign corporations:

- International carriers doing business in the Philippines – 2.5 percent of gross Philippine billings
- Interest income derived by offshore banking units from foreign currency loan transactions with residents – 10 percent
- Branch profit remittances to head office – 15 percent
- Regional or area headquarters and regional operating headquarters of multinational companies – 10 percent of taxable income
- Interest from deposits and yield or any other monetary benefit from deposit substitutes and from trust funds and similar arrangements, and royalties from Philippine sources – 20 percent
- Dividends received from domestic corporations – exempt
- Net capital gains from sale of shares of stocks not traded in the stock exchange – 5 percent on the first P100,000; 10 percent on the excess

For nonresident foreign corporations:

- Owners, lessors, or distributors of motion pictures – 25 percent on gross income
- Owners of vessels – 4.5 percent of gross rentals, lease, or charter fees from leases or charters to Filipino citizens or corporations
- Lessors of aircraft, machineries and other equipment – 7.5 percent on their rentals, charter fees, and other fees from Philippine sources
- Interest on foreign loans – 20 percent
- Dividends from domestic corporations – 30 percent, or 15 percent if the home country of the nonresident foreign corporation does not impose a tax on foreign-source dividends, or allows a credit equivalent for taxes deemed paid in the Philippines of at least 15 percent
- Net capital gains from sale of shares of stocks not traded in the stock exchange – 5 percent on the first P100,000; 10 percent on the excess

Tax base (differences between book and taxable profits)

Taxable income is computed in accordance with International Accounting Standards subject to adjustments required by provisions in the tax law. Because of these adjustments, the amount of taxable income frequently differs from the amount of income for financial reporting purposes.

Taxable year

A corporation may choose a calendar or fiscal year for its taxable year depending on which would more accurately reflect its taxable income.

Groups of companies

Philippine law does not allow nor require the filing of consolidated returns, or the relieving of losses within a group of companies. Each company is an independent entity that must file its own tax return and pay its own taxes.

Related companies must transact on arm's-length basis. Attribution of revenue and expenses between branches and head office is allowed subject to certain conditions. Interest is not allowed as a deduction for income tax purposes if paid to related entities such as:

- to an individual owning, whether directly or indirectly, more than 50 percent of the outstanding stock of the corporation, or
- between two corporations with a common individual shareholder owning more than 50 percent of the value of the outstanding stock of each, if either one of the corporations is a personal holding company or a foreign personal holding company.

Filing of tax returns

Domestic and resident foreign corporations must file quarterly income tax returns within 60 days after the end of each of the first three quarters of the tax year, and must file a final or adjusted return on or before the 15th day of the fourth month following the end of the tax year.

A corporation may employ either the calendar year or its fiscal year as basis for filing its annual income tax return. Prior approval from the Commissioner of Internal Revenue is required in case of change in accounting period.

Taxes due from nonresident foreign corporations are required to be withheld at source by the payor. They are not required to file an income tax return in the Philippines for such income.

Use of losses

Losses actually sustained during the taxable year (if incurred in trade or business) and not compensated for by insurance or other forms of indemnity of property are deductible from gross income. Capital losses can only offset capital gains.

The net operating loss of a corporation for a taxable year may be carried over as a deduction from gross income for three taxable years immediately following the year of loss if the loss has not previously been offset as a deduction from gross income. The loss carryover is allowed only if no substantial change in the ownership of the business has occurred.

Dividends

Dividends received by a domestic or resident foreign corporation from another domestic corporation are not subject to tax. Those received from foreign corporations are treated as ordinary income and are subject to the regular corporate tax.

Dividends received by nonresident foreign corporations from domestic corporations are generally subject to a final withholding tax of 30 percent. The rate may be reduced to 15 percent if the country of domicile of the recipient does not impose a tax on foreign-source dividends, or if it allows a credit for taxes deemed paid in the Philippines equivalent to 15 percent. The rates may also be reduced under an applicable tax treaty.

Withholding taxes

Withholding taxes are classified as either creditable or final. Most income are subject to withholding taxes.

Where the withholding is creditable, the income recipient files an income tax return and computes his tax liability at the end of the taxable period. The tax withheld may be credited against the income tax due.

In the case of final withholding taxes, the amount of income tax withheld is constituted as a full and final payment of the income tax due from the payee on the said income. Income payments to nonresident foreign corporations are subject to final withholding taxes.

Effect of treaties

Tax treaties between the Philippines and various countries reduce the incidence of double taxation. Preferential tax rates and exemptions are available under tax treaties. Provisions of these treaties take precedence over domestic tax laws in cases where the treaty rates are lower. As of the year 2008, the Philippines has tax treaties with 37 countries.

Foreign income

Domestic corporations are taxed on worldwide income, while foreign corporations, whether resident or nonresident, are taxed only on income from sources within the Philippines.

Individuals

Resident citizens are subject to tax on worldwide income. Nonresident citizens and aliens are taxed only on income from Philippine sources.

Tax rates

Graduated rates are imposed on the taxable income of citizens, resident aliens, and nonresident aliens doing business in the Philippines. A nonresident alien doing business in the Philippines is one who stays in the Philippines for an aggregate period of more than 180 days in a calendar year. The applicable marginal rates are as follows:

Taxable range	Marginal rates
Up to P10,000	5%
Over P10,000 but not over P30,000	10%

Over P30,000 but not over P70,000	15%
Over P70,000 but not over P140,000	20%
Over P140,000 but not over P250,000	25%
Over P250,000 but not over P500,000	30%
Over P500,000	32%

Residence criteria

A person who comes to the Philippines for a definite purpose that is promptly accomplished is not deemed to be a resident. A person who comes for a definite purpose requiring an extended stay and who establishes a temporary home in the Philippines is considered a resident. Aliens who reside in the Philippines with no definite intention regarding the length of their stay are considered resident, even if they intend to return to another country to live. Aliens who acquire residence in the Philippines remain residents until they depart with the intention of abandoning that residence.

Personal exemptions allowed to a nonresident are equal to those allowed by the tax laws of the nonresident's country of citizenship to nonresident Filipinos.

Other types of income of citizens and resident aliens are subject to schedular rates, as follows:

- Interest from bank deposits and yield from deposit substitutes and similar arrangements, royalties, prizes and other winnings, from Philippine sources – 20 percent
- Interest from foreign currency deposits in a local bank – 7.5 percent
- Interest income from long-term deposits – exempt
- Cash and property dividends from domestic corporations and shares from the distributable net income of a partnership or joint ventures – 10 percent
- Capital gains from sale of share of stock not traded through the local stock exchange – 5 percent on the first P100,000; 10 percent on the excess
- Capital gains from sale of real property – 6 percent of the gross selling price or fair market value, whichever is higher

Taxation of non-residents

The following rates apply to other income of nonresident aliens doing business within the Philippines:

- Cash and property dividends from a domestic corporation or from a regional operating headquarter of a multinational company, share in the distributable net income of a partnership or joint venture, royalties, prizes and other winnings – 20 percent

- Interest income from long-term deposits – exempt
- Capital gains from sale of share of stock not traded through the local stock exchange – 5 percent on the first P100,000; 10 percent on the excess

Nonresident aliens not doing business in the Philippines are taxed at 25 percent on income from Philippine sources.

A preferential rate of 15 percent applies to alien employees of regional or area headquarters and regional operating headquarters of multinational companies, offshore banking units, and petroleum service contractors and subcontractors.

Payment dates/filing of tax returns

For individuals, the tax year is the calendar year. An income tax return must be filed on or before April 15 of the year following the tax year. Spouses compute their individual income tax liabilities separately based on their respective taxable income, although they file joint tax returns.

Individuals earning pure compensation income from a single employer during the year are exempt from the requirement to file an income tax return, subject to certain conditions. Likewise, an individual whose sole income has been subjected to final withholding tax is not required to file an income tax return.

Internal revenue taxes may be paid over the counter, by bank debit, or by check.

Effect of treaties

Compensation for personal services, whether dependent or independent, may be exempt from income tax if conditions set by tax treaties are met.

Value Added Tax/Sales tax

A 12 percent VAT is imposed on the sale, barter, exchange, or lease of goods and properties; importation of goods; and sale or performance of services within the Philippines. The term “goods and properties” includes all types of property, whether personal (tangible and intangible) or real property. The phrase “sale or performance of services” means the performance for third parties of all types of services for remuneration in the Philippines.

A 0 percent VAT applies to exports. Taxpayers engaged in zero-rated transactions are entitled to refunds or tax credits for VAT paid (input tax) on their purchases of goods, properties and services. Exempt status is also granted to certain transactions and entities.

Individuals or entities with expected or actual gross sales or gross receipts in excess of P1.5M annually, or in any 12-month period, must register and pay the applicable registration fee within 30 days before the start of the business, or within 30 days after the end of month when the threshold is reached.

All persons liable to VAT are required to file monthly VAT declarations and quarterly VAT returns that shall serve as the final adjusted return for the quarter. Excess VAT payments in the quarterly returns may be carried forward to the following months or quarter.

Other taxes

Documentary stamp tax (DST)

DST must be paid with respect to certain documents specified in the Philippine Tax Code, including bonds, debentures, certificates of indebtedness, stock certificates, and deeds of sale conveying real property.

Property taxes

Local government units impose real property taxes of two types: a basic tax and a Special Education Fund Tax. The rate is generally 1 percent for real properties located in the provinces, and 2 percent for real properties located in a city or municipality within Metro Manila.

Estate tax

The estate tax is imposed at progressive rates ranging from 5 percent to 20 percent. Net estates not exceeding P200,000 are exempt from estate tax. A standard deduction equivalent to P1M is allowed in computing net estate, aside from actual funeral, judicial and other expenses subject to conditions. An estate tax return must be filed within six months after the decedent's death. The tax due must be paid at the time of filing.

Estate taxes paid by citizens or residents to a foreign country are creditable against Philippine estate tax, subject to certain limitations.

Gift tax

Donor's tax is imposed at progressive rates ranging from 2 percent to 15 percent. Cumulative net gifts of up to P100,000 in a calendar year are exempt from donor's tax. If a donee or beneficiary is a stranger, the rate is 30 percent. Corporate donations are subject to the 30 percent rate.

Gifts made to the government and certain accredited institutions are exempt from the donor's tax.

Donor's taxes paid to a foreign country by a citizen or resident at the time of donation are creditable.

A gift tax return should be filed by the donor within 30 days after the date each gift is made. The tax due must be paid at the time of filing.

Tax on capital gains

Land and buildings

A final tax of 6 percent is imposed on the gross selling price or fair market value, whichever is higher, of land or buildings sold by a domestic corporation if such property is treated as a capital asset.

Other capital assets

In general, gains from the sale or disposition of capital assets, other than land or buildings, are taxed as business income. In the case of individuals, only 50 percent of the gain is taxed if the asset is held for more than 12 months. Capital losses are deductible only to the extent of capital gains.

Improperly accumulated earnings tax (IAET)

The IAET tax is equal to 10 percent of the improperly accumulated taxable income.

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