Punongbayan & Araullo

An instinct for growth™

Doing business in the Philippines

January 2014

Content

"Beyond technical proficiency and bottom-line figuring, we do our best to engender among our people a deeply moral dimension, that what we do as a professional services firm has something vital to do with improving society, with ensuring the rule of honesty and integrity.

During our regular training courses, and through the various community outreach programs organised by staff with full support from the firm, we keep alive the motivation to achieve high standards in the fulfilment of our corporate social responsibility."

Ma. Victoria C. Españo
Chairperson and CEO

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 is one of the world's leading organisations of independent assurance, tax and advisory firms. These firms help dynamic organizations unlock their potential for growth by providing meaningful, forward looking advice. Proactive teams, led by approachable partners, use insights, experience and instinct to understand complex issues for privately owned, publicly listed and public sector clients and help them to find solutions. More than 35,000 Grant Thornton people across over 100 countries are focused on making a difference to clients, colleagues, and the communities in which they live and work.

If you require any further information, please do not hesitate to contact your nearest Grant Thornton member firm.

This guide has been prepared for the assistance of 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 December 31, 2013.

"Grant Thornton" refers to the brand under which the Grant Thornton member firms provide assurance, tax and advisory services to their clients and/or refers to one or more member firms, as the context requires. Grant Thornton International Ltd (GTIL) and the member firms are not a worldwide partnership. GTIL and each member firm is a separate legal entity. Services are delivered by the member firms. GTIL does not provide services to clients. GTIL and its member firms are not agents of, and do not obligate, one another and are not liable for one another's acts or omissions.

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 (80.9 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 2010 Census of Population, the Philippines has an estimated population of 92.34 million. Population density is estimated at 308 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, 144 chartered cities, 1,490 municipalities, and 42,027 *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 5:00 p.m., from Monday to Friday while there are some banks that are open on weekends. Technology has also 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	Regular holiday	January 1
Chinese New Year	Special non-working day	Variable
Araw ng Kagitingan	Regular holiday	April 9
Maundy Thursday	Regular holiday	Variable
Good Friday	Regular holiday	Variable
Black Saturday	Special non-working day	Variable
Labor Day	Regular holiday	May 1
Independence Day	Regular holiday	June 12
Ninoy Aquino Day	Special non-working day	August 21
National Heroes Day	Regular holiday	August 25
All Saints Day	Special non-working day	November 1
Bonifacio Day	Regular holiday	November 30
Chris Christmas Day	Regular holiday	December 25
Rizal Day	Regular holiday	December 30
Last Day of the Year	Special non-working day	December 31

For the year 2014, December 24 and 26 have also been declared as additional special non-working days by Proclamation No. 655.

Proclamations declaring national holidays for the observance of Eid'l Fitr (End of Ramadan) and Eidul Adha (Feast of Sacrifice) will be issued.

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 2012, the gross national income (GNI) was US$425.2 billion based on purchasing power parity (PPP). Based on PPP, GNI per capita in 2012 was US$4,380. According to the Asian Development Outlook 2013 Update in October, the country's GDP for 2013 was 7.0% and it was nudged up to 6.1% for 2014.

Employment levels

As of April 2013, total employment was at 37.8 million people or 92.5 percent of the estimated 40.9 million persons in the labor force. About 52.6 percent are employed in the services sector, 31.3 percent are in agriculture-related activities, and 16.1 percent are in industry. 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 the 2011 ECA International's Location Ratings Survey , the Philippines was among the top 30 best locations in Asia for expatriates to live. The annual survey conducted among Asian expatriates compares living standards in 265 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 2011 Cost of Living Survey by Mercer, Manila is among the cheaper cities, ranking 134th out of 214 major cities, with the costliest cities ranked higher. Asian cities in the survey include Tokyo (2nd), Osaka (6th), Singapore (8th), Hong Kong (9th), Nagoya (11th), and Seoul (19th) which are among the costliest cities in the region. Southeast Asian cities in the survey include Jakarta (69th), Bangkok (88th), Kuala Lumpur (104th) and Hanoi (136th).

As published by the Global Property Guide in 2013, the average price of condominiums located in the Philippines' premier city center ranges from US$88,000 to US$823,000 for properties as small as 30 square meters and as large as 280 square meters. On the other hand, the monthly rent for condominiums in prime areas ranges from US$540 for a 30-square meter property to US$5,040 for a 280-square meter property.

According to the Asian Development Outlook 2013 Update in October, the country's GDP for 2013 was 7.0% and it was nudged up to 6.1% for 2014

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 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. Insurance companies are 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

All 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 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 or other economic zones. 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 December 2013, the Philippines has 676 banks, with 9,044 branches. Twenty of these are universal banks with 4,739 branches; 16 are commercial banks with 555 branches; 71 are thrift banks with 1,702 branches; an*d 569 are rural and cooperative banks with 2,048 branches.

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

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 PEZA.

Nonbank financial institutions

In the Philippine financial system, banks and NBFIs 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 investment houses, to the extent of 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 Southeast 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 the World Trade Organization (WTO)-GATT.

On November 26, 2013, Executive Order No. 148 was signed amending Section 1 of Executive Order No. 214 and imposing the applicable tariff rates under the ASEAN trade in goods agreement on qualified imports from special economic and/or freeport zones. The amendment states that "products manufactured in qualified special economic and/or freeport zones that enter the Philippine customs territory and qualify under the applicable rules of ASEAN Trade in Goods Agreement (ATIGA) Rules of Origin shall be entitled to the preferential rate of duty under ATIGA applicable to its raw materials based on the value of such raw materials, subject to applicable provisions of the laws governing such special economic and/or freeport zones."

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, purpose, principal office, capital, 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.

Foreign Investment Negative List

The Foreign Investment Negative List (FINL) is a list of activities reserved to Filipinos or corporations partly owned by Filipinos. Example of activities reserved for Filipinos are practice of professions and private security agencies. A recruitment agency that fills posts for local and overseas employment must be at least 75% Filipino owned and private lands must be at least 60% Filipino owned. Activities not included in the FINL may be 100% owned by foreigners.

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.

In addition, certain laws require minimum paid-up capital for companies pursuing regulated activities. These include financing companies where minimum paid-up capital is between P2.5 to P10 million; health maintenance organization (HMO) – P10 million; and investment house – P300 million.

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 (GIS). 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 annual audited financial statements. Otherwise, the financial statements may be attested and sworn to by the treasurer of the corporation.

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.

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 upon 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 among small businesses. 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.

Branches engaging in domestic market enterprise are subject to the same paid-up capital requirements as corporations. Activities of the branch must not be listed in the FINL.

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 into the country an amount necessary to cover its operating expenses, which must be at least US$30,000 prior to SEC regulation.

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.

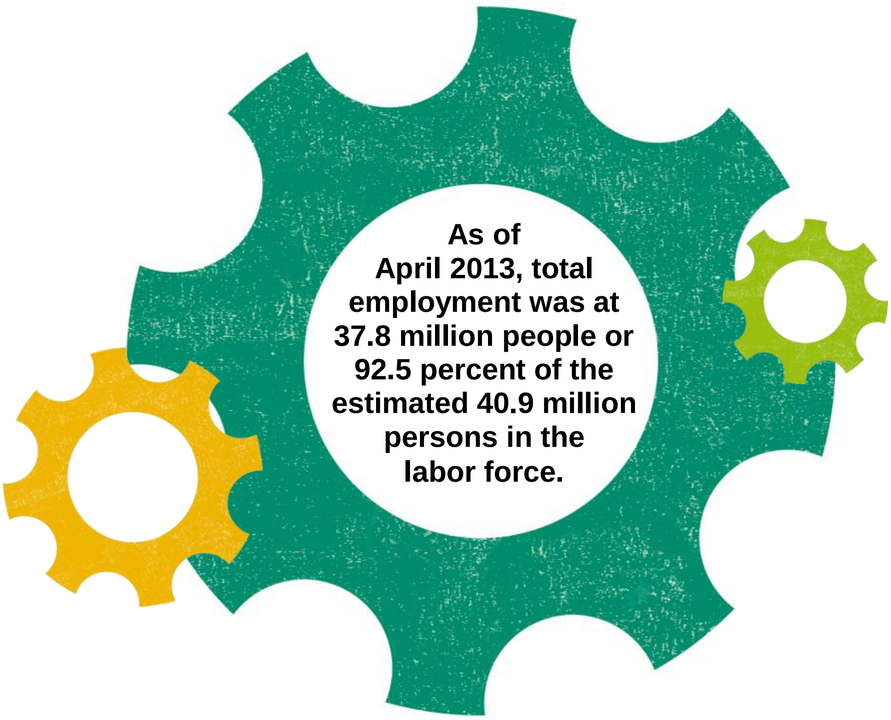
A regional headquarters is similar to a representative office in that neither is allowed to derive income from sources within the Philippines. In addition, regional headquarters are required to remit annually into the country an amount necessary to cover operating expenses in the Philippines, which must 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 People Management Association of the Philippines (PMAP) 2013 Compensation Survey shows the following average monthly salary for four job levels:

Position	Average Monthly Salary
Department Heads / Top Executive	P122,000 to P185,000
Managers	P57,000 to P70,000
Officers / Specialists	P27,000 to P32,000
Assistants / Rank-and-file	P17,000 to P21,000

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 12 regular and 7 special nonworking holidays. *(See page 5 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 no more than 30 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 of 1997 (NIRC), all business entities paying internal revenue taxes must maintain books of account. These consist of journals, ledgers and subsidiary records required for the business. Enterprises subject to VAT are also required to keep subsidiary sales journals and subsidiary purchase journals.

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 and financial reporting framework

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).

Based on the category of companies to which they belong, entities that file financial statements with the SEC shall prepare their financial statements in accordance with the prescribed financial reporting framework, as follows:

- Large and/or publicly-accountable entities – shall use PFRS.

- Small and medium-sized entities – shall use PFRS for Small and Medium-sized Entities (PFRS for SMEs); exempted SMEs are given an option to apply PFRS fully.

- Micro entities – have the option to use PFRS for SMEs, the income tax basis, or accounting standards in effect in the Philippines as of December 31, 2004.

Financial statements

All companies must file their financial statements with the Bureau of Internal Revenue (BIR), 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 (IC), 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 issued by standard-setting body

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. FRSC was created by the Board of Accountancy (BOA) of the Professional Regulation Commission (PRC) to establish accounting standards in the country.

The accounting pronouncements issued by the FRSC 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
- PFRS for SMEs – corresponding to IFRS for SMEs

The above pronouncements adopted by the FRSC are endorsed and approved by the BOA and the PRC, 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.

International standards

For matters not covered by pronouncements of the FRSC, the accounting pronouncements issued by other standard-setting bodies, such as the U.S. Financial Accounting Standards Board, are persuasive in determining accounting principles that may be applied in the preparation of financial statements of Philippine companies.

Government regulatory agencies

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

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 generally 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 accounting policies

Accounting policies should be applied consistently for similar transactions or items within each reporting period and from one period to another, unless a change in accounting policy is required by a PFRS or it results in the financial statements providing information that is reliable and is more relevant to users.

Materiality and aggregation

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

Offsetting

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

Comparative information

Comparative information shall be disclosed with respect to the preceding period for all amounts reported in the current period's financial statements unless a PFRS 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, property, plant and equipment 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 using the effective interest method, less any impairment loss
- Loans and receivables – at amortized cost using the effective interest method, less any impairment loss
- Available-for-sale financial assets – at fair value if such is reliably determinable; at cost less any impairment loss, 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, hence, impairment losses are incurred, when there is any objective evidence of impairment as a result of a loss event whose impact on the estimated future cash flows from a financial asset or a group of financial assets can be reliably estimated. 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, supplies, and purchased components to be used in the production process or in rendering of services, 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 all costs of purchase, costs of conversion, and other costs incurred in bringing the inventories to their present location and condition and is generally determined under one of the following acceptable cost formulas: specific identification, first in, first out (FIFO), or weighted average.

Property, plant and equipment

At initial recognition, an item of property, plant and equipment that qualifies as an asset shall be measured at cost, which comprises its purchase price and any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating for the intended purpose. The costs of obligations for dismantling, removing or restoring the site on which an item of property, plant and equipment is located shall also 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 so that the carrying amount of the asset does not differ materially from its fair value at reporting date.

Investment property

Properties (land or a building, or a part of a building, or both) that are held (by the owner or by the lessee under a finance lease) 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 using either the cost model (i.e., cost less accumulated depreciation and impairment losses), or the fair value model.

Intangible asset

An asset that meets the definition of an intangible asset (i.e., an identifiable non-monetary asset without physical substance) and the recognition criteria (i.e., it is probable that the asset's future economic benefits will flow to the enterprise and the cost of the asset 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 when the criteria for capitalization are met. Expenditures on research (or on the research phase of an internal project) should be recognized as expenses when they are incurred. After initial recognition, an intangible asset shall be measured using either the cost model or the revaluation model.

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 liability method, on temporary differences at the end of a reporting period between the carrying amounts of assets and liabilities -for financial reporting purposes and their tax bases.

Employee benefits
Employee benefits should be accounted for as follows:

- Short-term employee benefits – the undiscounted amount is recognized as an expense when an employee has rendered service in exchange for those benefits

- Post-employment benefits – can be either a defined contribution plan, accounted for based on the required amount of contribution to the plan; or a defined benefit plan, accounted for using the projected unit credit method, generally calculated by independent actuaries

- Other long-term employee benefits – accounted for in the same manner as post-employment benefits, using a simplified method

- 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 and measured in accordance with the nature of the employee benefit (i.e., in the same manner as short-term employee benefits, if expected to be settled within 12 months, or as other long-term employee benefits, if to be settled after 12 months from the end of the reporting period)

Related party disclosures
Detailed disclosures are required on related party transactions during the periods covered by the financial statements, such as the nature of the related party relationship, information about the transactions and outstanding balances, including commitments.

In addition, listed companies and investment houses that are part of a conglomerate or group of companies are required by the SEC to file with their audited financial statements a map showing the relationships between and among the company and its ultimate parent company, middle parent, subsidiaries or co-subsidiaries, and associates.

Further, the SEC requires issuers of securities to the public, listed companies and public companies as defined under SRC to disclose in notes to consolidated financial statements (or in a separate schedule) information for the current reporting period on receivables/payables with related parties that are eliminated during consolidation.

Consolidation of financial statements

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

- the parent itself is a wholly-owned or is a partially-owned subsidiary of another entity and all of its owners have been informed about, and do not object, to the parent not preparing consolidated financial statements
- the parent's debt or equity instruments are not traded in a public market (domestic or foreign)
- the parent did not file, nor is it in the process of filing, its financial statements with a regulatory agency for a public offering of any class of instruments
- the ultimate or any intermediate parent of the parent prepares consolidated financial statements that are available for public use and comply with PFRS

Consolidated financial statements should include the statements of the parent company and all enterprises under its control (i.e., subsidiaries). Under PFRS, an investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

The financial reporting rules under the SRC also require a parent that has a significant foreign subsidiary to submit as well copies of the financial statements of such foreign subsidiary.

Also, the parent is required by the SEC to file its separate (i.e., parent only) audited financial statements prepared in accordance with PFRS along with the consolidated financial statements.

Associated companies

An investor company that is able to exercise significant influence over an investee that is neither a subsidiary nor an interest in a joint venture (i.e., an associate) must use the equity method in accounting for its investment in such associate. 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 holds, directly or indirectly, at least 20 percent of the voting power 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 closing rates as at the end of the reporting period, and exchange differences (i.e., foreign currency gains and losses) arising from the translation are recognized in profit or loss of the reporting entity in the current period, except for exchange differences arising on a monetary item that forms part of the reporting entity's net investment in a foreign subsidiary, which shall be presented in the consolidated financial statements under other comprehensive income and reclassified from equity to profit or loss on disposal of the net investment.

Critical accounting judgments and estimates

In preparing financial statements in accordance with PFRS, management is required to make critical judgments and estimates that affect amounts reported in the financial statements and related notes. Such critical judgments 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 BIR before the prescribed deadlines. Companies with quarterly sales of less than P150,000 may file their tax returns along with their unaudited financial statements.

Corporations required to file financial statements with the SEC include, among others, stock corporations with paid-up capital of at least P50,000, non-stock corporations with total assets of at least P500,000 or gross annual receipts of at least P100,000, and branch offices of stock or non-stock foreign corporations with assigned capital or total assets, respectively, of at least P1 million. Those financial statements are required to be audited by certified public accountants duly accredited by the SEC who shall perform their audits in accordance with Philippine Standards on Auditing (PSAs) issued by the Auditing and Assurance Standards Council (AASC), the body created by BOA to establish auditing standards in the Philippines. The PSAs are adopted by the AASC from the pronouncements of the International Auditing and Assurance Standards Board; the PSAs are also endorsed and approved by BOA/PRC. .

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. Foreign corporations are taxed only on their Philippine-source income.

Tax rates

Domestic and resident foreign corporations are subject to either: (a) regular corporate income tax of 30 percent of their taxable income (gross income less allowable deductions), or (b) minimum corporate income tax equivalent to 2 percent of gross income during the taxable year, whichever is higher.

Nonresident foreign corporations are taxed at 30% of their gross taxable 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 (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 tax 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 in compliance with the transfer pricing regulations in the Philippines issued in 2013. 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 payments 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 tax.

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 2013, the Philippines has tax treaties with 39 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	Tax 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 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 the following tax rates:

- 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 and investments – exempt under certain conditions

- Cash and property dividends from domestic corporations and shares from the distributable net income of a partnership or a joint venture – 10 percent

- Capital gains from sale of shares 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 under certain conditions

- Capital gains from sale of shares 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 their 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 of all types of services for remuneration in the Philippines.

A zero percent VAT generally 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. VAT-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 P1,919,500 annually, or in any 12-month period, must register as a VAT taxpayer.

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. The input VAT (i.e., the VAT paid on purchases) may be credited against the output tax (i.e., VAT on sales) to arrive at the net VAT payable. Any input tax that has not been applied against output tax may be carried forward to the following months or succeeding quarters.

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.

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 P1 million 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.

Donor's 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 when 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.

Improperly accumulated earnings tax (IAET)

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

Local tax

A local business tax is imposed by local government units on business establishments operating within their territorial jurisdiction. The LBT is computed based on the gross sales or receipts of the business establishment for the preceding year at varying rates depending on the business activity.

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.

Contact details

Punongbayan & Araullo is located at the following addresses:

Metro Manila
20th Floor, Tower I, The Enterprise Center
6766 Ayala Avenue, Makati City 1200
Philippines
T +63 2 988-2288
F +63 2 886-5506
E Marivic.Espano@.ph.gt.com

P&A Grant Thornton Outsourcing, Inc.
23rd Floor, Tower I, The Enterprise Center
6766 Ayala Avenue, Makati City 1200
Philippines
T +63 2 864-0741
F +63 2 893-2672
E Jessie.Carpio@.ph.gt.com

Cebu
Unit 603, 6th Floor, Ayala Life-FGU Center
Mindanao Avenue corner Biliran Road
Cebu Business Park, Cebu City 6000
Philippines
T +63 32 231-6090
+63 32 233-0574
F +63 32 231-0693
E Ramil.Nanola@ph.gt.com

Davao
Unit 46, 4th Floor, The Landco-PDCP Corporate Center
J.P. Laurel Avenue, Davao City 8000
Philippines
T +63 82 221-1498 to 99
+63 82 221-1500
F +63 82 221-1498
E Ramil.Nanola@ph.gt.com

Cavite
2nd Floor, Unit E, LTSR Building
No. 13 Gen. Emilio Aguinaldo Highway
Sampaloc 1, Pala-Pala, Dasmariñas, Cavite
Philippines
T +63 2 529-6181
F +63 2 529-6181
E Nelson.Dinio@ph.gt.com

Ma. Victoria C. Españo
Chairperson and CEO

Punongbayan & Araullo

An instinct for growth™

www.punongbayan-araullo.com