

Doing business in the Philippines

Seizing opportunities



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The Philippines

Why do business in the Philippines?

Uncertainty continues to weigh down the global economy outlook. The International Monetary Fund (IMF) notes that global growth will still be weak in 2014, and that while advanced economies are showing signs of pick up, emerging market economies, which still account for most global growth, are losing more momentum than previously thought.

Despite the grim prognosis, the Philippine economy remains a standout. Nine months into 2013, the country's Gross Domestic Product (GDP) has grown by 7.4%, faster than the 6.7% expansion in the same period a year ago and among the fastest across Asia. The country's economic managers remain optimistic that the 7% growth projection for 2013 can still be achieved, notwithstanding the damage caused by natural calamities in the fourth quarter. The government is forecasting GDP growth to be between 6.5% and 7.5% in 2014, with some analysts even projecting a sustained annual expansion of as much as 10% until the end of the decade provided fiscal and economic roadblocks are taken care of.

The strong performance of the Philippine economy is largely driven by the industry and services group, with construction; manufacturing; financial intermediation; real estate, renting, and business activity; and other services as the primary growth drivers. On the demand side, increased household and government spending, together with an upsurge in capital formation, contributed to the economy's solid showing.

Business confidence in the Philippines remains bullish according to the latest Business Expectations Survey conducted by the Bangko Sentral ng Pilipinas (Central Bank of the Philippines). Although the overall confidence index (CI) slightly dipped in the third quarter relative to the second quarter, the Central Bank expects the country's business outlook to hit an all-time high by the last quarter of 2013. Expectations have been buoyed by the anticipated brisker business during the Christmas season, the continued increase in orders and projects resulting in higher production volumes, and the expansion of businesses and new product lines. Favorable macroeconomic fundamentals and the country's investment-grade rating have further boosted business confidence.

Moody's Investor Service's recent upgrading of the Philippine's credit rating to Baa3 completes its climb to investment rank, underpinning the positive investment outlook in doing business in the country. Earlier this year, three major credit raters, namely, Fitch Ratings, Standard & Poor's Rating Services (S&P), and the Japan Credit Rating Agency Ltd. (JCRA), gave the country investment-grade status.

The global business community is also taking notice of the Philippines's robust growth outlook. According to the World Economic Forum (WEF), the country is ranked 59th out of 148 economies in the 2013-2014 global competitiveness index, jumping six places from the previous year's ranking. This follows two consecutive years of 10-notch jumps, which is among the largest ranking gains posted by any country.

The Philippines also offers generous incentives to qualified enterprises. These include income tax holidays of up to six years, tax and duty free importation of raw materials and equipment subject to certain conditions, and simplification of customs procedures, among others.

Robust growth supported by sound economic fundamentals, rising business confidence, improved competitiveness outlook, and a multitude of business incentives have made the Philippines both an ideal and leading investment destination. The country offers unique and sustainable opportunities for growth in a global environment struggling with volatility and diminished economic prospects.



Country snapshot

Geography

The Philippines is located in Southeast Asia, around 800 kilometers from the Asia mainland. It is one of the largest archipelagos in the world, with over 7,100 islands and a total land area of approximately 300,000 square kilometers. The country is divided into three main geographic areas: Luzon, where Metro Manila is located, Visayas and Mindanao.

Climate

The Philippines has a tropical climate with three seasons: summer, or the hot dry season, from March to May, the rainy season from June to November, and the cool dry season from December to February. Temperatures usually range from 21°C to 32°C, with the yearly temperature averaging 26.6°C in Metro Manila. The driest month is February, with 13 mm average rainfall, while the wettest month is July, with 432 mm average rainfall.

Population

The population of the Philippines in 2013 is estimated at 98.7 million. Outside Metro Manila, the most populous cities are Metro Cebu, Metro Davao, Zamboanga, Cagayan de Oro and General Santos.

Language

Filipino is constitutionally designated as the national language of the Philippines and, along with English, as one of two official languages. Many other languages and dialects are spoken all over the country.

Currency

Philippine Peso (PHP); PHP1 = 100 centavos
The average exchange rate between January and November 2013 was PHP42.28:USD1

Time

8 hours ahead of Greenwich Mean Time (GMT)

Public holidays

New Year's Day (January 1), Maundy Thursday and Good Friday (varies), Araw ng Kagitingan or Valor Day (April 9), Labor Day (May 1), Independence Day (June 12), Ninoy Aquino Day (August 21), National Heroes Day (August 27), All Saints Day, (November 1), Bonifacio Day (November 30), Eid ul-Adha (varies), Eid ul-Fitr (varies) Christmas Day (December 25), Rizal Day (December 30), Last Day of the Year (December 31).

Political structure

The Philippines has a presidential system of government, the president being limited to a single six-year term. Congress is modeled on the United States system and comprises two directly elected bodies: the Senate and the House of Representatives. The judicial power is vested in the Supreme Court which can rule on the constitutionality of government actions.

Foreign trade

The Philippines has opened its economy to foreign markets and established a network of free trade agreements with several countries. Its main merchandise exports are electronic products (primarily semiconductors), woodcraft and furniture, metal components, and apparel and clothing accessories. On the other hand, its main imports are electronic products, mineral fuels and lubricants, transport equipment, and industrial machinery and equipment. The country's major trading partners are Japan, the United States, the People's Republic of China and Singapore.

Selected key investment sectors

There are numerous business opportunities for those who want to invest in the Philippines. These are highlighted in the Investment Priorities Plan (IPP) which identifies priority investment areas which the government is actively promoting. The IPP is prepared annually by the Board of Investments (BOI), in consultation with the appropriate government agencies and the private sector, and approved by the President. The 2012 IPP lists infrastructure and public-private partner (PPP) projects, knowledge-based services such as BPO and IT and IT-enabled services, energy, green projects, iron and steel, and hospital/medical services, among others, as preferred activities. Investments in these areas are entitled to certain incentives and benefits.

In addition, the current administration under President Benigno C. Aquino III has identified the following five (5) priority areas for job generation and economic development: outsourcing, infrastructure, tourism, agriculture and fisheries, and semi-conductor and electronics. The national budget is aligned to provide massive support to these priority areas so that these sectors can expand significantly.

Outsourcing

The outsourcing industry is the fastest growing industry in the Philippines today. From revenues of USD3.2 billion in 2006, the industry is expected to post earnings of USD16.0 billion by the end of 2013, growing annually by almost 26% during the period. Moreover, it is responsible for directly employing 960,000 workers this year, up from 777,000 direct employees in 2012. According to the Information Technology and Business Process Association of the Philippines (IBPAP), the local outsourcing industry is forecasted to generate revenues of USD25.0 billion, equivalent to 10% of the global market, and directly employ 1.3 million workers by 2016.

A wide range of outsourcing services are provided in the Philippines through large multinational companies that outsource certain operations to their Philippine office, third party providers that offer their services to external clients, and local independent companies that provide services to international companies. The major services of the local outsourcing industry are the following:

- Voice-based business process outsourcing (contact center) -- inbound and outbound services such as sales and technical support
- Non-voice BPO (back office or knowledge process outsourcing) -- services related to finance, accounting or human resources
- IT outsourcing -- analysis, design and customization of systems software
- Health information management -- transcription services for interpreting oral dictation of health and legal professionals
- Engineering services outsourcing -- design for civil works, buildings, electronics
- Animation -- animation/creative services
- Game development

Voice-based BPO services continue to dominate the industry, employing two-thirds of the entire industry workforce. The Philippines has already overtaken India as the global leader in this sector. While voice BPO continues to enjoy healthy growth, impressive performance is seen in the delivery of higher value knowledge-based, non-voice services such as software product development, animation, game development, health information management, and financial and accounting services.

The United States has traditionally been the main source of outsourcing revenues and contracts. However, other markets have since been tapped such as Japan, Australia, New Zealand and the United Kingdom.

The Philippines is globally regarded as a top offshoring destination alongside India. This may be attributed to its cost competitiveness, large base of young college graduates every year, highly trainable talent with strong English speaking capabilities, and availability of needed physical and IT facilities. In addition, the government has been supporting the industry by identifying it as a priority investment area and including it in the IPP. This is aimed at attracting direct foreign investments by offering fiscal and non-fiscal benefits to qualified investors. Other incentives are also given to companies that locate in designated zones of the Philippine Economic Zone Authority (PEZA).

Infrastructure

The Aquino Administration has identified the country's inadequate infrastructure network as a critical constraint to economic growth. Hence, it has committed to accelerate infrastructure development by fast-tracking the roll-out of various projects across the country.

The government is appropriating PHP399.4 billion (USD9.2 billion), or 3% of GDP, for infrastructure spending in 2014. This represents a 35% jump from the PHP295 billion infrastructure budget approved for 2013. According to Economic Planning Secretary Arsenio Balisacan, the government will be hiking the budget for infrastructure projects every year until 2016, in which infrastructure spending is projected to hit PHP820 billion or 5% of GDP.

Bulk of the budget allocated for infrastructure spending will go to the Transport Infrastructure Development Program, a PHP180-billion initiative led by the Department of Transportation and Communications (DOTC) and supported by the Departments of Public Works and Highways (DPWH), Agriculture (DA), Science and Technology (DOST), and the Metro Manila Development Authority (MMDA). Among the projects that will receive funding include roads and bridge networks, ports and airports, and flood control and drainage facilities. The DPWH has been designated as the primary implementing agency to finance local and foreign-assisted infrastructure projects.

Because of the huge investment requirements of the infrastructure sector, coupled with the country's tight fiscal situation, the government is tapping the private sector for the financing, construction, operation, maintenance and rehabilitation of major infrastructure in high-priority areas such as transportation, power and water under PPP.

Under President Aquino's administration, five PPP projects so far had been awarded: the Daang Hari-South Luzon Expressway Link, School Infrastructure Project Phases I and II, the Ninoy Aquino International Airport Expressway Project Phase II, and the Modernization of the Philippine Orthopedic Center. Other PPP projects that have been rolled out are the Cavite-Laguna Expressway of the DPWH; Light Rail Transit (LRT) Line 1 Cavite Extension Operation & Maintenance (O&M), Contactless Automatic Fare Collection System, Integrated Transport System and Mactan International Airport Terminal of the DOTC; and the Bulacan Bulk Water Supply Project of the Metropolitan Waterworks and Sewerage System. At least 37 other infrastructure projects are in the pipeline.

Various incentives are available to qualified PPP projects under the Omnibus Investment Code (OIC) and other pertinent laws.

Although solicited proposals are being actively promoted, the government is allowed to process unsolicited proposals provided that the project involves a new concept or technology and/or is not included in the List of Priority Projects of any government agency or local government unit; will not require direct government guarantee, subsidy or equity; and will be subject to Swiss Challenge.

Tourism

The tourism industry has remained resilient in the face of global and national economic, social and political events. In 2012, visitor arrivals reached 4.3 million, an increase of 9% from 2011 arrivals of 3.9 million. For the first eight months of 2013, tourist arrivals have reached 3.18 million. This is the fastest the country has hit the three million tourist arrivals figure. The top visitor markets during this period are South Korea, the United States, Japan, the People's Republic of China and Australia.

For the years 2000 to 2011, tourism direct gross value added (TDGVA) average share to the country's GDP was around 6%. TDGVA in 2011 reached PHP571.3 billion, 10% percent higher than the previous year's PHP518.5 billion. Shopping had the biggest share to TDGVA at 23%, followed by accommodation (11%), and entertainment and recreation (7%). Other significant tourism-related industries were travel agencies, food and beverage, and transport. Employment in tourism industries was estimated at 3.8 million in 2011.

Inbound tourism expenditures of non-resident visitors within the Philippines amounted to PHP124.5 billion in 2011, 14% higher than the PHP109.2 billion recorded in the previous year. Expenditures went primarily to shopping, food and beverage, and accommodation. On the other

hand, domestic tourism expenditures of resident visitors were six times as much as inbound tourism expenditure, showing that its economic contribution is substantially more important than that of inbound tourism.

To further support the country's tourism sector, the government is earmarking PHP14.4 billion to make tourist destinations more accessible. This amount covers 167 kilometers of roads for construction and rehabilitation

The Philippines is one of the emerging players in the multi-billion dollar medical tourism industry which currently is dominated in Asia by Singapore, India, Malaysia and Thailand. In 2009, the local health and wellness industry was estimated to have posted gross revenues of PHP80 billion, PHP67 billion of which were from hospital activities and medical and dental practices.

The country's top tertiary hospitals have state-of-the-art medical facilities and at least eight are accredited by various international accreditation agencies. These hospitals are staffed with highly qualified doctors, nurses, therapists and other medical personnel.

Other competitive advantages of the Philippines in medical tourism are cost competitiveness, the Filipinos' high level of English communication skills, and the people's unique culture of compassion and service which many patients look for in providers of healthcare services.

Republic Act (RA) No. 9593, or The Tourism Act of 2009, declares a national policy for tourism as an engine of investment, employment, growth and national development. Among others, it mandates the Tourism Infrastructure and Enterprise Zone Authority (TIEZA, formerly the Philippine Tourism Authority), an attached agency to the Department of Tourism, to designate, regulate and supervise Tourism Enterprise Zones (TEZs) established under this Act, as well as develop, manage and supervise tourism infrastructure projects in the country.

TEZ Operators and registered Tourism Enterprises within the TEZ may avail of incentives such as income tax holiday; gross income taxation of 5% in lieu of national and local taxes, except real estate taxes; exemption from all taxes and customs duties on importation of capital investment and equipment; and employment of foreign nationals in executive, supervisory, technical or advisory positions. A separate set of incentives is given to registered Tourism Enterprises outside the TEZ.

Foreign investments in the Philippines

Attracting foreign investment has been a government policy since the 1980s, and the Philippine Congress has passed several laws to attract foreign capital. RA 7042, otherwise known as the Foreign Investments Act of 1991 (FIA), as amended by RA 8179, is the law that governs foreign investments in the Philippines, except in banking and other financial institutions which are governed and regulated by the BSP. The FIA declares that it is the policy of the State to attract, promote and welcome productive investments from foreign individuals, partnerships, corporations and governments in activities which significantly contribute to national industrialization and socio-economic development to the extent that foreign investment is allowed by the Constitution and the relevant laws.

All investors and enterprises are entitled to the basic rights and guarantees provided in the Philippine Constitution. In addition, Philippine laws provide certain rights for foreign investors, including the following:

- Right to repatriate the entire proceeds of the liquidation of the investment
- Right to remit earnings from the investment
- Right to remit sums as may be necessary to meet the payments of interest and principal on foreign loans and obligations arising from technological assistance contracts
- Freedom from expropriation except for public use or in the interest of national welfare or defense and upon payment of just compensation

The FIA liberalized the entry of foreign investments into the country. In general, foreigners can invest up to 100% equity in corporations, partnerships and other entities in the Philippines, except in areas included in the Foreign Investments Negative List (FINL). The FINL lists investment areas and activities reserved to Filipino nationals where foreign investments are prohibited or limited to a certain percentage.

The FINL is composed of two lists, as follows:

- List A consists of areas of activities reserved to Philippine nationals where foreign ownership is limited by mandate of the Constitution and specific laws
- List B consists of areas of activities where foreign ownership is limited for reasons of security, defense, risk to health and morals and protection of small- and medium- scale enterprises

Amendments to List A may be made at any time to reflect changes in specific laws while amendments to List B may not be made more often than once every two years.

A Philippine national is defined as a citizen of the Philippines; or a domestic partnership or association wholly owned by citizens of the Philippines; or a corporation organized under the laws of the Philippines of which at least 60% of the capital stock outstanding is owned and held by citizens of the Philippines; or a corporation organized abroad and registered as doing business in the Philippines under the Corporation Code of which 100% of the capital stock outstanding is wholly owned by Filipinos; or a trustee of funds for pension or other employee retirement or separation benefits, where the trustee is a Philippine national and at least 60% of the fund will accrue to the benefit of Philippine nationals. Where a corporation and its non-Filipino stockholders own shares of stock in an enterprise registered with the Securities and Exchange Commission (SEC), at least 60% of the capital stock outstanding must be owned and held by citizens of the Philippines and at least 60% of the members of the Board of Directors must be citizens of the Philippines, in order that the corporation shall be considered a Philippine national. For purposes of determining compliance, the required percentage of Filipino ownership shall be applied to both (a) the total number of outstanding shares of stock entitled to vote in the election of directors, and (b) the total number of outstanding shares of stock, whether or not entitled to vote in the election of directors.

Under the FIA, non-Philippine nationals may own up to 100% of a domestic market enterprise or an export enterprise unless foreign ownership is prohibited or limited by the Constitution and existing laws or the FINL. A domestic market enterprise is defined as an enterprise which produces goods for sale or renders services to the domestic market entirely or, if exporting a portion of its output, fails to consistently export at least 60% of such output. On the other hand, an export enterprise is a manufacturer, processor, or service (including tourism) enterprise that exports 60% or more of its output, or a trader that purchases products domestically and exports 60% or more of such purchases.

If a non-Philippine national invests in a domestic market enterprise, the paid-in capital must not be less than the peso equivalent of USD200,000. This requirement is reduced to the peso equivalent of USD100,000 if the investment will involve advanced technology as determined by the Department of Science and Technology, or will employ at least 50 direct employees.

Ninth Regular Foreign Investment Negative List

| List A: Foreign ownership is limited by mandate of the Constitution and specific laws | | List B: Foreign ownership is limited for reasons of security, defense, risk to health and morals, and protection of SMEs | |
|--|---|--|---|
| <p>No foreign equity</p> <ol style="list-style-type: none"> 1. Mass media except recording 2. Practice of all professions <ol style="list-style-type: none"> a) Engineering b) Medicine and allied professions c) Accountancy d) Architecture e) Criminology f) Chemistry g) Customs brokerage h) Environmental planning i) Forestry j) Geology k) Interior design l) Landscape architecture m) Law n) Librarianship o) Marine deck officers p) Marine engine officers q) Master plumbing r) Sugar technology s) Social work t) Teaching u) Agriculture v) Fisheries w) Guidance counseling x) Real estate service y) Respiratory therapy z) Psychology 3. Retail trade enterprises with paid-up capital of less than USD2,500,000 4. Cooperatives 5. Private security agencies 6. Small-scale mining 7. Utilization of marine resources in archipelagic waters, territorial sea, and exclusive economic zone as well as small-scale utilization of natural resources in rivers, lakes, bays, and lagoons | <ol style="list-style-type: none"> 8. Ownership, operation and management of cockpits 9. Manufacture, repair, stockpiling and/or distribution of nuclear weapons 10. Manufacture, repair, stockpiling and/or distribution of biological, chemical and radiological weapons and anti-personnel mines 11. Manufacture of firecrackers and other pyrotechnic devices <p>Up to 20% foreign equity</p> <ol style="list-style-type: none"> 1. Private radio communications network <p>Up to 25% foreign equity</p> <ol style="list-style-type: none"> 1. Private recruitment, whether for local or overseas employment 2. Contracts for the construction and repair of locally-funded public works except: <ol style="list-style-type: none"> a) Infrastructure/development projects, and b) Projects which are foreign funded or assisted and required to undergo international competitive bidding 3. Contracts for the construction of defense-related structures <p>Up to 30% foreign equity</p> <ol style="list-style-type: none"> 1. Advertising <p>Up to 40% foreign equity</p> <ol style="list-style-type: none"> 1. Exploration, development and utilization of natural resources | <ol style="list-style-type: none"> 2. Ownership of private lands 3. Operation and management of public utilities 4. Ownership/establishment and administration of educational institutions 5. Culture, production, milling, processing, trading excepting retailing, of rice and corn and acquiring, by barter, purchase or otherwise, rice and corn and the by-products thereof 6. Contracts for the supply of materials, goods and commodities to government-owned or controlled corporation, company, agency or municipal corporation 7. Project proponent and facility operator of a BOT project requiring a public utilities franchise 8. Operation of deep sea commercial fishing vessels 9. Adjustment companies 10. Ownership of condominium units where the common areas in the condominium project are co-owned by the owners of the separate units or owned by a corporation <p>Up to 30% foreign equity</p> <ol style="list-style-type: none"> 1. Lending companies <p>Up to 60% foreign equity</p> <ol style="list-style-type: none"> 1. Financing companies regulated by the SEC 2. Investment houses regulated by the SEC | <p>Up to 40% foreign equity</p> <ol style="list-style-type: none"> 1. Manufacture, repair, storage, and/or distribution of products and/or ingredients requiring Philippine National Police clearance 2. Manufacture, repair, storage and/or distribution of products requiring Department of National Defense clearance 3. Manufacture and distribution of dangerous drugs 4. Sauna and steam bathhouses, massage clinics and other like activities regulated by law because of risks posed to public health and morals 5. All forms of gambling, except those covered by investment agreements with the Philippine Amusement and Gaming Corporation (PAGCOR) pursuant to RA 9487 or the PAGCOR Charter 6. Domestic market enterprises with paid-in equity capital of less than the equivalent of USD200,000 7. Domestic market enterprises which involve advanced technology or employ at least 50 direct employees with paid-in equity capital of less than the equivalent of USD100,000 |

Investor incentives

To encourage investments particularly in preferred sectors of the economy, the Philippines offers various incentive schemes to qualified enterprises depending on the location and the registration of the proposed business activity. The more significant incentive programs are those provided to enterprises registered with the BOI under the OIC, and PEZA and other economic and freeport zones. Incentives are also provided to regional or area headquarters (RHQ) and regional operating headquarters (ROHQ).

Enterprises registered with the Board of Investments

The BOI, an agency attached to the Department of Trade and Industry (DTI), is the lead government agency responsible for the promotion of investments in the Philippines. Under the OIC, an investor may register with the BOI to enjoy certain incentives and other benefits provided that the investment is in a preferred area of economic activity specified by the BOI in the IPP.

To qualify to register with the BOI, the applicant must meet the following requirements:

1. A citizen of the Philippines, if the applicant is a natural person; or organized under Philippine laws and at least 60% of its capital is owned and controlled by citizens of the Philippines, if a partnership or any other association; or organized under Philippine laws and at least 60% of the capital stock outstanding and entitled to vote is owned and held by Philippine nationals and at least 60% of the members of the Board of Directors are citizens of the Philippines, if a corporation or cooperative.

If the applicant does not possess the required degree of ownership by Philippine nationals, the following must be established:

- a. It proposes to engage in a pioneer project which, in the opinion of the BOI, cannot be readily and adequately performed by Philippine nationals, or if the applicant is exporting at least 70% of its total production.
- b. It obligates itself to attain the status of a Philippine national within 30 years from date of registration. A registered enterprise which exports 100% of its total production need not comply with this requirement.
- c. The pioneer area it will engage in is one that is not within the activities reserved by the Constitution or other laws of the Philippines to Philippine citizens or corporations owned and controlled by Philippine citizens.

2. The applicant is proposing to engage in a preferred project listed or authorized in the current IPP within a reasonable time or, if not so listed, at least 50% of its total production is for export or it is an existing producer which will export part of production; or that the enterprise is engaged or is proposing to engage in the sale abroad of export products bought by it from one or more export producers; or the enterprise is engaged or proposing to engage in rendering technical, professional or other services or in exporting television and motion pictures and musical recordings made or produced in the Philippines.
3. The applicant is capable of operating on a sound and efficient basis and of contributing to the national development of the preferred area in particular and of the national economy in general.

2012 Investment Priorities Plan

The 2012 IPP contains the following priority investment areas:

A. Preferred Activities

1. *Agriculture/Agribusiness and Fishery*
Commercial production and commercial processing of agricultural and fishery products (including their by-products and wastes), and agriculture- and fishery-related activities such as irrigation, post harvest, cold storage, blast freezing, and production of fertilizers
2. *Creative Industries/Knowledge-based Services*
BPO activities, IT and IT-enabled services that involve original content
3. *Shipbuilding*
Construction and repair of ships, shipbreaking/ship recycling
4. *Mass Housing*
Development of low-cost mass housing, manufacture of modular housing components preferably using indigenous materials
5. *Iron and Steel*
Basic iron and steel products, long steel products (billets and reinforcing steel bars) and flat hot-cold-rolled products
6. *Energy*
Exploration, development, and/or utilization of indigenous energy sources and other energy sources adopting environmentally-friendly technologies
7. *Infrastructure*
Transport, water, logistics, waste management facilities, physical infrastructure (tollways, railways and telecommunication facilities) and PPP projects

8. *Research and Development*
Research and development activities, and the establishment of testing laboratories, centers of excellence, and technical vocational education and training institutions
9. *Green Projects*
Manufacture/assembly of goods and the establishment of energy efficiency-related facilities, the utilization of which would significantly lead to either the efficient use of energy, natural resources or raw materials; minimize/prevent pollution; or reduce greenhouse gas emissions
10. *Motor Vehicles*
Manufacture/assembly of motor vehicles, including alternative fuel vehicles (AFVs) and electric vehicles (EVs), but excluding 2-strokes motorcycles, and manufacture of motor vehicles parts and components
11. *Strategic Projects*
Projects that exhibit very high social economic returns that will significantly contribute to the country's economic development
12. *Hospital/Medical Services*
Establishment and operation of primary and secondary hospitals
13. *Disaster Prevention, Mitigation and Recovery Projects*
Projects that will prevent or mitigate adverse impacts of calamities and disasters, projects to rehabilitate areas affected by calamities, and training for disaster preparedness, mitigation or recovery/rehabilitation/reconstruction

B. Mandatory List

This covers activities that require their inclusion in the IPP as provided for under existing laws.

1. *Industrial Tree Plantation*
Extensive plantation of forest land of tree crops (except fruit trees) for commercial and industrial purposes
2. *Exploration, Mining, Quarrying and Processing of Minerals*
Exploration and development of mineral resources, mining/quarrying and processing of metallic and non-metallic minerals
3. *Publication or Printing of Books/Textbooks*
Printing, re-printing, publication and content development of books or textbooks
4. *Refining, Storage, Marketing and Distribution of Petroleum Products*
Refining, storage, distribution and marketing of petroleum products
5. *Ecological Solid Waste Management*
Establishment of waste recycling facilities

6. *Clean Water Projects*
Establishment of wastewater treatment facilities, and sewage collection integrated with treatment facilities and the adoption of water pollution control technology, cleaner production and water minimization
7. *Rehabilitation, Self-Development and Self-Reliance of Persons with Disability*
Manufacture of technical aids and appliances for the use and/or rehabilitation of persons with disability, and the establishment of special schools, homes, residential communities or retirement villages solely to suit the needs and requirements of persons with disability
8. *Renewable Energy*
Development of renewable energy facilities, including hybrid systems, and manufacture, fabrication and supply of locally-produced renewable energy equipment and components
9. *Tourism*
Covers tourism enterprises that are outside the TEZs and are engaged in the following:
 - a. Tourist transport services whether for land, sea and air transport for tourist use;
 - b. Establishment and operation of:
 - Accommodation establishments such as but not limited to hotels, resorts, apartment hotels, tourist inns, motels, pension houses, private homes for homestay, ecolodges, condotels, serviced apartments, and bed and breakfast facilities
 - Convention and exhibition facilities or "meetings, incentives, conventions and exhibition" (MICE) facilities
 - Amusement parks
 - Adventure and ecotourism facilities
 - Sports facilities and recreational centers
 - Theme parks
 - Health and wellness facilities such as but not limited to spas, tertiary hospitals, and ambulatory clinics
 - Agri-tourism farms and facilities
 - Tourism training centers and institutes
 - c. Development of retirement villages
 - d. Restoration/preservation and operation of historical shrines, landmarks and structures

C. Export Activities

This covers the following:

1. *Manufacture of export products*
2. *Services exports*
3. *Activities in support of exporters*

D. ARMM List

This covers priority investment areas that have been determined by the Regional Board of Investments of the Autonomous Region of Muslim Mindanao (RBOI-ARMM).

Fiscal incentives

- Income tax holiday consisting of exemption from income taxes for six years from commercial operation for pioneer firms and four years for non-pioneer firms. Such exemption may be extended for another year in certain cases subject to guidelines prescribed by the BOI.
Expanding firms are entitled to income tax exemption for a period of three years from commercial operations proportionate to their expansion. However, the firm shall not be entitled to additional deduction for incremental labor expense during the period that it is availing of the incentive.
- For the first five years from registration, additional deduction from the taxable income of 50% of the wages corresponding to the increment in the number of direct labor for skilled and unskilled workers if the project meets the prescribed ratio of capital equipment to number of workers.
- Exemption from all taxes and duties on the importation of breeding stocks and genetic materials within ten years from date of registration or commercial operation.
- Exemption from customs duties and national internal revenue taxes on the importation of required supplies and spare parts for consigned equipment or those imported tax- and duty-free by a registered enterprise with a bonded manufacturing warehouse.
- Exemption from wharfage dues, and export tax, duty, impost and fees on exports by a registered enterprise of its non-traditional export products.
- Tax credit equivalent to the taxes and customs duties paid on the supplies, raw materials and semi-manufactured products used in the manufacture, processing or production of export products.
- Tax credit equivalent to 100% of the value of taxes and customs duties that would have been waived on the breeding stocks and genetic materials had these items been imported to a registered enterprise which purchases breeding stocks and genetic materials from a domestic producer.

- For registered enterprises located in a less-developed area:
 - a. Entitlement to incentives available to pioneer enterprises
 - b. Deduction from taxable income equivalent to 100% of the cost of necessary and major infrastructure work

Non-fiscal incentives

- Simplification of customs procedures for the importation of equipment, spare parts, raw materials and supplies, and exports of processed products.
- Unrestricted use of machinery, equipment and spare parts consigned to a registered enterprise subject to the posting of a re-export bond.
- Employment of foreign nationals in supervisory, technical or advisory positions for up to five years from registration, extendible for limited periods at the discretion of BOI. If the majority of the capital stock of the registered enterprise is owned by foreign investors, the positions of president, treasurer and general manager may be retained by foreign nationals beyond the set period.
- Access to the bonded warehousing system, subject to customs rules and regulations.

Enterprises registered with the Philippine Export Zone Authority

PEZA is the government agency tasked to promote investments, extend assistance, register, grant incentives to and facilitate the business operations of investors in export-oriented manufacturing and service facilities inside selected areas throughout the country proclaimed by the President as PEZA Special Economic Zones or Ecozones. Ecozones are highly developed or have the potential to be developed into agro-industrial, industrial, tourist/recreational, commercial or financial centers. Enterprises that register with PEZA and locate their operations within Ecozones are granted incentives even more extensive than those granted under the OIC to those enterprises registered with BOI.

The following enterprises are eligible to register with PEZA:

1. *Export manufacturing enterprise*
Manufactures, assembles or processes resulting in the exportation of at least 70% of production

2. *IT enterprise*
Provides IT services of which 70% of total revenues is derived from clients abroad. Among the eligible IT service activities are IT-enabled services such as BPO, call centers, data encoding, transcribing and processing; software development and application; for business, media, e-commerce, education, entertainment; and content development for multi-media or internet purposes.
3. *Tourism enterprise*
Operates sports and recreation centers, accommodation, convention and cultural facilities, and other special interest attraction activities/ establishments, with foreign tourists as primary clientele.
4. *Medical tourism enterprise*
Provides medical health services, endorsed by the Department of Health, with foreign patients as primary clientele.
5. *Agro-industrial export manufacturing enterprise*
Processes and/or manufactures agricultural products resulting in the exportation of its production.
6. *Agro-industrial bio-fuel manufacturing enterprise*
Manufactures agricultural crops and eventual commercial processing which shall result in the production of clean energy such as bio-fuels and the like.
7. *Logistics service enterprise*
Operates a warehouse facility for the storage, deposit, safekeeping of goods for PEZA-registered export manufacturing enterprises; and/or imports or locally sources raw materials, semi-finished goods for resale to PEZA-registered export manufacturing enterprises for use in their export manufacturing activities, or for direct export, or for consignment to PEZA-registered export manufacturing enterprises and eventual export.
8. *Economic zone developer and operator*
Develops, operates and maintains Ecozones such as Manufacturing Ecozones, IT Parks, Tourism Ecozones, Medical Tourism Ecozones, Agro-industrial Ecozones, Retirement Ecozones, including required infrastructure, facilities and utilities.
9. *Facilities enterprise*
Constructs, operates and manages buildings and other facilities inside Ecozones for lease to PEZA-registered enterprises.
10. *Utilities enterprise*
Establishes, operates and maintains light and power systems, water supplier and distribution systems inside Ecozones.

Depending on the type of enterprise and business activity, an enterprise operating within an Ecozone is entitled to incentives granted to PEZA-registered enterprises under the OIC or Presidential Decree No. 66 creating the Export Processing Zone Authority (now PEZA), in addition to other incentives. These incentives include the following:

- Income tax holiday of four years for a non-pioneer project and six years for a pioneer project, or three years for an expansion project
- 5% special tax on gross income and exemption from all national and local taxes upon expiry of the income tax holiday
- Tax and duty free importation of raw materials, capital equipment, machinery and spare parts
- Tax credit on import substitution
- Exemption from wharfage dues and export tax, impost or fees
- Value-added tax (VAT) zero-rating of local purchases of goods and services
- Tax credits for exporters using local materials as inputs as provided by the Export Development Act of 1994
- Additional deduction for incremental labor and training expenses
- Simplified import-export procedures
- Employment of non-resident foreign nationals in supervisory, technical or advisory positions

Enterprises registered with the Subic Bay Metropolitan Authority and the Clark Development Corporation

The Subic Bay Freeport and Special Economic Zone (Subic Bay Freeport or SBF), is a special economic and freeport zone managed and operated by the Subic Bay Metropolitan Authority (SBMA). Occupying the former United States Naval facility, it was created under the Bases Conversion Development Act of 1992 and envisioned to be a self-sustaining tourism, industrial, commercial, financial and investment center to attract and promote foreign investments, and generate employment opportunities in the area. It was also established to be operated and managed as a separate customs territory ensuring free flow or movement of goods and capital within, into and exported out of the SBF.

Investors can register with SBMA either as an SBF Enterprise or an SBF Regional Enterprise. An SBF Regional Enterprise is any multinational company whose purpose is to engage in regional and/or international trade/services and business activities, and establishes within the SBF its seat of management and the situs of its business transactions.

Enterprises registered with SBMA and located within SBF can avail of the following incentives, among others:

- Five percent final tax on gross income earned in lieu of all local and national taxes
- Tax and duty-free importation of capital equipment, raw materials, supplies and spare parts
- Allowable income from sources within the Philippine customs territory of up to 30% of total income
- Liberalized foreign ownership requirements
- Visa-free entry for 14 days, renewable
- Special visas to foreign nationals

Similar to SBF, the Clark Special Economic Zone (CSEZ) was created under the Bases Conversion Development Act of 1992. In 2007, under RA 7227, a portion of the CSEZ was declared the Clark Freeport Zone (CFZ) to be operated and managed as a separate customs territory ensuring free flow or movement of goods and capital equipment within, into and exported out of the CFZ. Today, CSEZ is known simply as CFZ.

Enterprises that intend to locate within the CFZ should register with the Clark Development Corporation (CDC). Generally the same set of incentives is given to investors located within the SBF and the CFZ.

In addition, Special Ecozones may be created by the President within the CFZ, subject to the concurrence by resolution of the local government units directly affected and upon recommendation of PEZA. Duly registered business enterprises in Special Ecozones created within the CFZ shall be entitled to the same tax and duty incentives under the OIC, provided that for the purpose of administering these incentives, PEZA shall register, regulate and supervise all registered enterprises within the Special Ecozones.

Regional or Area Headquarters and Regional Operating Headquarters

Under RA 8756, various incentives are available to multinational companies establishing an RHQ or ROHQ in the Philippines. Foreign personnel of RHQs and ROHQs are also eligible for certain incentives.

An RHQ is defined as an office whose purpose is to act as an administrative branch of a multinational company engaged in international trade which principally serves as a supervision, communications and coordination center for its subsidiaries, branches or affiliates in foreign markets and does not earn or derive income in the Philippines.

An RHQ can benefit from the following incentives:

- Exemption from paying income tax. An annual information return of a tax-exempt corporation shall be filed with the Bureau of Internal Revenue (BIR) to effect exemption.
- Exemption from VAT. In addition, the sale or lease of goods and property and the rendition of services to RHQs shall be subject to 0% VAT rate.
- Exemption from local taxes, fees or charges imposed by a local government unit except real property tax on land improvements and equipment.
- Tax and duty free importation of equipment and materials for training and conferences and which are not locally available, subject to prior approval of the BOI

An ROHQ is defined as a foreign business entity which is allowed to derive income in the Philippines by performing qualifying services to its affiliates, subsidiaries or branches in the Philippines and in other foreign markets.

An ROHQ can avail of the following incentives:

- Subject to a preferential income tax rate of 10% of taxable income
- Exemption from local taxes, fees or charges imposed by a local government unit except real property tax on land improvements and equipment.
- Tax and duty free importation of equipment and materials for training and conferences and which are not locally available, subject to prior approval of the BOI

Expatriates of RHQs and ROHQs, their respective spouses and unmarried children under 21 years old are issued multiple entry special visas valid for a period of three years and extendible for another three years subject to certain requirements. Foreign personnel can enjoy tax and duty free importation of personal and household effects provided that these arrive within 90 days before or after conversion of the expatriate's admission category to multiple entry visa. They are subject to withholding tax of 15% on compensation income, the same tax treatment of which is applicable to Filipinos employed and occupying the same positions as the expatriates although Filipinos have the option to be taxed at either 15% of gross income or at the regular tax rate on their taxable income.

Setting up and operating a business

Forms of business organization

There are three principal forms of business organization in the Philippines: sole proprietorship, partnership and corporation.

Sole proprietorship

A sole proprietorship is a business owned by an individual who has full authority in the company and full control of its assets, and is personally responsible for all liabilities. The sole proprietor has unlimited liability, as the law basically treats the business and the owner as one and the same.

As a general rule, foreigners may put up single proprietorships in the Philippines in business activities where the constitution and the laws do not impose any restriction or limitation on ownership equity.

A sole proprietorship must register with the Bureau of Trade Regulation and Consumer Protection, an agency under the DTI.

Partnership

A partnership may be organized by at least two individuals who bind themselves to contribute money or industry to a common fund, with the intention of pursuing a common business objective and dividing the profits among themselves. A partnership is a juridical entity, which means that it has a personality distinct and separate from that of the partners. As a general rule, the liability of partners in a partnership organization is unlimited in the sense that the all the partners are liable even with respect to their individual properties after the assets of the partnership have been exhausted. In the case, however, of a limited partnership, the law allows the limitation of the liability of certain partners to the extent of the amount contributed to the partnership. A foreign investor may invest as a limited or general partner in a partnership.

A partnership is required to be registered with the SEC.

Corporation

A corporation is a juridical entity established under the Corporation Code and regulated by SEC with a personality separate and distinct from that of its stockholders. The liability of the shareholders of a corporation is limited to the amount of their share capital.

Foreign investors may establish a domestic corporation subject to restrictions and limitations on foreign ownership under the Constitution and laws of the Philippines. The domestic corporation may be a wholly-owned subsidiary or a joint venture with a Philippine national as partner.

If a foreign company chooses not to incorporate a separate Philippine legal entity, it may establish its presence in the Philippines through various investment vehicles.

Branch office

Instead of organizing a domestic corporation, a foreign company may decide to conduct business in the Philippines by establishing a branch to carry out the business activities of its head office. Being merely an extension office, the branch is managed by its parent company through its representative who need not be a citizen of the Philippines.

The branch must have a minimum paid in capital of USD200,000, which may be reduced to USD100,000 if the activities involve advanced technology or if it employs at least 50 direct employees. A branch that is considered as an export enterprise is not subject to minimum assigned capitalization requirements.

A branch has to obtain a license to do business in the Philippines from the SEC. In general, branches and subsidiaries are subject to the same registration fees, requirements for business licenses and investment, and tax rates. However, a 15% branch profits tax is levied on the after-tax profits remitted by a branch to its head office.

Representative office

A representative office deals directly with the clients of its head office. It is not permitted to engage in trading activities in the Philippines and is limited to undertaking activities for its head office such as information dissemination and promotion of the head office's products. A representative office does not derive income from the host country and is therefore fully subsidized by its head office. A minimum inward remittance of USD30,000 is required.

A representative office must secure a license from the SEC to do business in the Philippines.

Regional or area headquarters

An RHQ acts as an administrative branch of a multinational company engaged in international trade. It serves as a supervisory, communication and coordinating center for subsidiaries, affiliates and branches in the Asia-Pacific region and other foreign markets. It does not derive any income from Philippine sources and does not participate in the management of any subsidiary or branch office that the multinational company have in the Philippines. At least USD50,000 must be remitted into the Philippines every year to cover operating expenses.

An RHQ must register with and obtain a license from the SEC.

Regional operating headquarters

An ROHQ is a foreign business entity that is permitted to derive income in the Philippines by carrying out qualifying services to its affiliates, subsidiaries or branches in the Asia-pacific region and other foreign markets. Such activities include general administration and planning; business planning and coordination; corporate finance advisory services; marketing control and sales promotion; logistics services; research and development, and product development; technical support and maintenance; and data processing and communication. An initial remittance of at least USD200,000 into the Philippines is required.

An ROHQ must register with and obtain a license from the SEC.

Organizing a corporation

Requirements of a corporation

Capitalization

At least 25% of the authorized capital must be subscribed and issued, and at least 25% of the subscribed capital must be paid-up, the amount of which must not be less than PHP5,000.

In general, a foreign-owned domestic corporation, or one whose foreign equity exceeds 40%, is required to have a paid-in capital of at least USD200,000 which must be remitted into the Philippines. This requirement may be reduced to USD100,000 if it involves advance technology or employs at least 50 direct employees. An export-oriented enterprise may ask for an exemption from this requirement.

Types of shares

Capital may be divided into multiple classes of shares, with varying property and voting rights. Typical classifications are common and preferred, and "A" and "B" shares. Only Filipinos may hold "A" shares, while foreigners may hold "B" shares. Issues of B shares are subject to foreign equity limits imposed on the particular activity of the corporation and with respect to the FINL.

Control is usually by simple majority, but approval by two-thirds of the shareholders is required to increase capital, amend the articles of incorporation or declare dividends.

Incorporators

Five to 15 incorporators are required, majority of whom must be residents of the Philippines, unless other laws allow otherwise. Each incorporator must subscribe to at least one share in the corporation.

Directors

Five to 15 directors are required, majority of whom must be residents of the Philippines, unless other laws allow otherwise. Each director must own at least one share in the corporation.

Corporate officers

As a general rule, the corporate officers of a corporation consist of the president who is required to be a member of the board of directors, the corporate treasurer, and the corporate secretary who is required to be both a resident and a citizen of the Philippines. Other corporate officers may be designated under the by-laws of the corporation.

Registering a corporation

A corporation is required to register with the SEC. Among others, the SEC registers, regulates, licenses and supervises all corporations doing business in the Philippines, including foreign corporations operating as a branch, representative office, RHQ or ROHQ.

The following primary documents are to be submitted to the SEC when applying for incorporation:

- the name verification slip
- the articles of incorporation and by-laws, and
- the treasurer's affidavit indicating that the necessary capital has been subscribed to and paid up

Proof of inward remittance by non-resident aliens and foreign corporate subscribers who want to register their investment with the BSP is required for corporations with foreign equity.

The issuance of a certificate of incorporation from the SEC signifies the commencement of corporate existence and juridical personality of a corporation. However, before starting actual operations, the company must also register with other government agencies such as the BIR, the Social Security System (SSS), the Home Development Mutual Fund (HDMF) and the Philippine Health Insurance Corporation (PhilHealth). Business licenses must be obtained from the local government unit where its principal office will be located. If the corporation is being organized as a bank or other financial intermediary, a certificate of authority is necessary from the Monetary Board of the BSP.

It is recommended that foreign investors register all inward transfers of foreign exchange for investment purposes with the BSP to facilitate future profit remittances and capital repatriation through the domestic banking system.

In addition to registering with the SEC, a qualified investor has to register with the BOI if it is seeking incentives from the government under the OIC. Among others, a project study is required using the outline prescribed by the BOI.

An entity that will locate in any of the special economic zones and freeport authorities must also register with the appropriate agency such as PEZA, SBMA and CDC to avail of incentives.

Rules on mergers and acquisitions

Philippine law does not restrict mergers per se, and there is no legal distinction between horizontal mergers (within the same industry) and vertical mergers (between firms at different points on the production or distribution chain).

Mergers of share corporations, however, normally cannot bypass the SEC, since they usually necessitate changes in the companies' articles of incorporation and equity structures, which require notification to the SEC. The Corporation Code requires trustees of the merging firms to submit the plan to their shareholders, and shareholders representing at least two-thirds of the outstanding capital shares of each corporation should approve the plan to be able to proceed. Once approved, the articles of merger or consolidation must be submitted to the SEC, which may require a hearing if the proposed merger or consolidation is seen to be inconsistent with the Corporation Code or any existing laws.

The Securities Regulation Code requires a company pursuing an M&A transaction with a listed company to offer to buy shares held by minority stockholders. If it intends to acquire at least 35% of the voting rights of the listed company at any one time, it is required to make a tender offer. The tender offer is also required if the intention is to acquire at least 30% of the voting rights of the listed company over a period of one year.

Under the FIA, a foreign company may merge or acquire a local company unless foreign ownership is prohibited or limited by the Constitution and existing laws or the FINL.

Enterprises registered with the BOI or operating under special incentives must notify the BOI or the appropriate agency of any intent to merge with other companies. If a foreign company operating in the Philippines is involved in a merger or consolidation in its home country, it must file a copy of the articles of merger

or consolidation with the SEC. If the foreign company doing business in the Philippines has been absorbed, it must apply for a new license to operate in the country.

Most M&A transactions in the Philippines do not require special statutory or regulatory approval. In most cases, the parties only need to obtain corporate approvals to authorize the transaction and comply with general rules and regulations to execute and implement it. However, special regulations apply in M&As in certain regulated industries such as banking, insurance and telecommunications where the respective regulatory body needs to regulate and approve their proposed transaction.

Accounting and reporting requirements

Business records required by law

Corporations should maintain a stock and transfer book duly registered with the SEC, and books of accounts registered with the BIR consisting of the following:

- General ledger
- General journal
- Purchase journal
- Sales journal
- Cash receipts/disbursements journal

Books must be maintained in Filipino, English or Spanish. Accounting records may also be kept in functional currency.

The adoption of a computer-based accounting is allowed subject to certain conditions and requires a permit from the BIR.

The accounting year or period of the company is fixed in its by-laws and must be used consistently. Any change requires prior approval by the SEC and the BIR. Corporate records should be open to inspection by any stockholder and representative of the SEC, BIR and government agency regulating the business of the company during their routine examination.

Preparation of financial statements

The contents of financial statements are determined through the use of the Philippine Financial Reporting Standards (PFRS) or other comprehensive basis of accounting as may be allowed or prescribed by regulations.

Frequency of reporting

Companies should prepare and submit audited financial statements to the concerned government agencies (e.g., SEC, BIR) annually. Some companies such as banks, insurance companies and investment houses are also required to prepare and submit interim audited financial statements to the appropriate agencies such as the BSP and the Insurance Commission.

Listing on the Philippine Stock Exchange

A company may offer and list its shares on the Philippine Stock Exchange (PSE) and become a listed or publicly-owned company. Under the revised listing rules of the PSE, listing means the admission of securities for trading and the inclusion in the certified registry of the Exchange.

Usually, a company decides to go public to be able to access capital markets to raise money to meet working capital needs, invest in facilities and equipment, acquire other businesses, or pay existing debt. Moreover, raising new capital through an additional public offering is easier and less expensive when the company is already listed on the PSE.

A company may be listed on any of the following: First Board, Second Board or Small- and Medium-Enterprises (SME) Board, depending on market capitalization and other criteria. Listed companies are classified into the following sectors: Financial, Industrial, Holding Firms, Property, Services, and Mining and Oil.

A company that wishes to list on the Exchange is required to submit its listing application and all documentary requirements to the PSE, and concurrently file its registration statement with the SEC. Certain criteria and requirements have to be met including those relating to track record, operating history, capital structure and minimum public offer. The applicant has the discretion to determine the offer price, except when listing on the SME Board where the price will be subject to the approval of PSE.

Upon listing, the company has to comply with certain disclosure requirements on a continuing basis. These include annual and quarterly reports, top 100 stockholders, foreign ownership, as well as disclosures on any information about transactions made by the company or its officials that may affect, among others, the economic or financial performance of, or equity situation in the company.



Taxation

Business taxation

Overview

The basic source of Philippine tax law is the National Internal Revenue Code (NIRC) of 1997, as amended. Cities, municipalities and barangays where the corporation is located also have the authority to tax corporations pursuant to the Local Government Code (LGC) of 1991. The taxes, licenses, and fees imposed by these local governments differ from those imposed by the NIRC.

Companies doing business in the Philippines are generally subject to corporate income tax, minimum tax, withholding taxes, VAT, documentary stamp tax and property tax. Branches of foreign entities in the Philippines are taxed on profits remitted to the foreign head office.

Residence

A corporation is a resident if it is incorporated in the Philippines or, in case of foreign corporations, if it establishes a branch in the Philippines.

Taxable income and rates

Philippine (domestic) corporations are taxed at 30% of taxable income from all sources.

Resident and non-resident foreign corporations are taxed at 30% on gross income from Philippine sources.

ROHQs are taxed at a rate of 10% of taxable income.

For domestic and resident foreign corporations, a minimum corporate income tax (MCIT) of 2% of gross income is imposed beginning on the 4th taxable year following the year of commencement of operations. The MCIT will be due when it is greater than the tax computed using the regular rate. Any excess of MCIT over the normal income tax may be carried forward and credited against the normal income tax for the following three taxable years.

Different rates apply to specific types of businesses such as:

- International carriers doing business in the Philippines - 2.5% final tax on gross Philippine billings
- Offshore banking units - 10% final tax on onshore income and interest income derived from foreign currency loans granted to residents
- Non-resident owner or lessor of vessels chartered by Philippine nationals - 4½% on gross rentals
- Non-resident owner or lessor of aircraft, machineries and other equipment - 7½% of gross rentals or fees
- Non-resident cinematographic film owner, lessor, or distributor - 25% of gross income from Philippine sources

Foreign corporations with registered branches in the Philippines are subject to 15% tax on profits earmarked by the branch for remittance to the head office.

A tax of 10% is imposed on domestic and resident foreign corporations as penalty for any improperly accumulated income.

Withholding taxes for domestic and resident foreign corporations include the following:

- 20% final tax on interest in bank deposits and deposit substitutes
- 7½% final tax on interest income received from a depository bank under the expanded foreign currency deposit system
- 6% final tax on sale of real property not used in business (domestic corporation only)
- 32% final tax on the grossed-up monetary value of fringe benefits given to supervisory and managerial employees
- 5% on net capital gains for sale of shares not traded in the stock exchange that is not over PHP100,000.00. The excess over PHP100,000.00 shall be subject to a further 10% final tax

Intercorporate dividends from a domestic corporation to another domestic corporation and from a domestic corporation to a resident foreign corporation are exempt from income tax.

Withholding taxes for non-resident foreign corporations include the following:

- 20% final tax on interest on foreign loans
- 5% on net capital gains for sale of shares not traded in the stock exchange that is not over PHP100,000.00. The excess over PHP100,000.00 shall be subject to a further 10% final tax
- Intercorporate cash and property dividend from a domestic corporation to a non-resident foreign corporation is generally subject to 30% final tax. The tax rate may be reduced to 15% if the country where non-resident foreign corporation is domiciled allows a tax credit against the tax due from the other contracting non-resident foreign corporation (domestic corporation) equal to 15% deemed to have been paid in the Philippines

Double taxation relief

Tax treaties

The Philippines has a broad tax treaty network, the aim of which is to eliminate double taxation and provide for reduced rates of withholding tax on dividends, interest and royalties. The treaties generally follow the Organization for Economic Cooperation and Development (OECD) model treaty, which provides relief from double taxation on all types of income and limits the taxation by one country of companies resident in the other and protecting company resident in one country from discriminatory taxation in the other. The treaties also generally contain OECD-compliant exchange of information provisions.

Tax treaty relief is not automatic. A confirmatory tax treaty relief ruling must be lodged first from the International Tax Affairs Division (ITAD) of the BIR before the provisions of the tax treaty are applied. Such application and request for ruling must state the nature, mechanics and conditions of the specific transaction applied and must be submitted together with the necessary documentation as required by ITAD.

Anti-avoidance rules

Transfer pricing

The Philippines have specific transfer pricing laws which subscribes to the OECD Transfer Pricing Guidelines.

The transfer pricing regulations seek to rationalize the manner in which arm's length transactions are established by looking for contracts between unrelated parties that are comparable to contracts entered into by related parties. Comparability takes into account the characteristics of property or services, functionality, contractual terms, economic circumstances and business strategies. The regulations acknowledge transfer pricing methodologies such as the comparable uncontrolled price, resale price, cost plus, profit split and transactional net margin methods. It further states that the best transfer pricing method is that which provides the most reliable measure of an arm's length result.

The rules also provide for advance pricing agreements.

Philippine tax treaty network

| | | | |
|----------------|-----------|----------------|----------------------|
| Australia | Denmark | Japan | Russia |
| Austria | Finland | Korea (R.O.K.) | Singapore |
| Bahrain | France | Malaysia | Spain |
| Bangladesh | Germany | Netherlands | Sweden |
| Belgium | Hungary | New Zealand | Switzerland |
| Brazil | India | Norway | Thailand |
| Canada | Indonesia | Pakistan | United Arab Emirates |
| China | Israel | Poland | United Kingdom |
| Czech Republic | Italy | Romania | United States |
| Vietnam | | | |

Thin capitalization

The Philippines does not have thin capitalization rules, although the SEC usually allows a 75:25 debt-to-equity ratio.

Controlled foreign companies

The Philippines does not have controlled foreign company (CFC) rules.



Administration

Tax year

Corporations may use the calendar year or their own fiscal year as the basis for filing income tax returns.

Filing and payment

The Philippines operates a self-assessment system. Corporate income tax payments are due and payable within 60 days of the close of each of the first three quarters of the taxable year. A final return covering the total taxable income of the corporation for the preceding calendar or fiscal year must be filed on or before the 15th day of the fourth month after the close of the firm's taxable year. The final tax return must include the audited financial statements of the company. Late payments incur a surcharge equivalent to 25%, annual interest of 20%, and compromise penalty all based on the amount due.

Statute of limitations

The general statute of limitations for the government to audit a taxpayer's return is three (3) years from the last day of filing the return or date the return is filed (if filed after the last day). However, in the case of false or fraudulent tax return, with intent to evade tax, and failure to file the return, the statute of limitations shall be ten (10) years from the date of discovery of the falsity, fraud in the return or failure to file the return.

The filing of an amended return restarts the period. For collection purposes, the period of limitation to collect the taxes is five (5) years as from the date of the assessment by the tax authorities.

Tax authorities

The BIR, which falls under the Department of Finance, administers and enforces the taxation system. The Commissioner of the BIR has exclusive jurisdiction to interpret the provisions of the Philippine tax code, as well as authority to decide disputed assessments, grant refunds of taxes, fees and other charges and penalties, modify payment of tax and abate or cancel a tax liability. Taxpayers can appeal decisions by the Commissioner directly to the Court of Tax Appeals.

The Commissioner issues administrative guidance, which may be relied on in interpreting the tax code, which comes in the form of regulations, orders, rulings, circulars and BIR rulings.

Other taxes on business

Local income tax

Municipalities and cities may impose a local business tax on the gross receipts of certain businesses. Local business taxes are payable either annually or quarterly.

Withholding taxes

Dividends

Dividends paid by a domestic corporation to its foreign parent are generally taxed at 30%. However, if the home country of the recipient allows an additional credit of 15% as tax deemed paid in the Philippines, the tax is reduced to 15%. The rate may be reduced under a tax treaty.

Interest

Interest paid to non-resident corporations is subject to a withholding tax of 20% on interest for foreign loans unless the rate is reduced under a tax treaty. A 10% withholding tax applies to interest paid by local companies and certain other entities on loans from offshore banking units.

Royalties

Royalties paid to non-resident corporations are subject to a withholding tax of 30% unless the rate is reduced under a tax treaty.

Branch remittance tax

A branch profit remittance tax at the rate of 15% is imposed on profits remitted abroad by a Philippine branch of a foreign corporation to its head office. However, the branch remittance tax does not apply to the following cases:

- Profit remitted by a firm registered with the PEZA
- Interest, dividends, rents, capital gains, royalties, technical services fees, annuities, emoluments, premiums or other fixed or determinable income are not considered as branch profits unless such income items are effectively connected with the conduct of the firm's business in the Philippines

Wage tax/social security contributions

A corporate employer is required to withhold tax on the compensation of its employees.

Resident corporations (domestic or foreign) are also liable for a 32% tax on the grossed-up monetary value of fringe benefits to non-rank-and-file employees, unless the fringe benefits is necessary for the trade, business or profession of the company, or when the fringe benefits are for the convenience or advantage of the employer.

Both the employer and the employee must make social security contributions. The employee portion is withheld from the salary by the employer. The employer contribution is deductible for corporate income tax purposes. Both the employer and the employee pay monthly contributions to the SSS, PhilHealth and HDMF corresponding to the salaries of those covered employees. The employee portion is withheld by the employer from the employee's salary.

Other income

The withholding tax on technical assistance and service fees for services carried out in the Philippines is 30%. The rates on income from rentals and leases are as follows:

- Payments to non-resident cinematographic film owners, lessors or distributors - 25%
- Rentals, lease or charter fees from leases or charters of vessels to Philippine citizens or corporations - 4.5%
- Rentals, charters and other fees from the lease of aircraft, machinery and other equipment - 7.5%.

Indirect taxes

Value added tax

VAT is levied on the supply of goods and the provision of services, and on importation. VAT taxpayers are normally entitled to deduct VAT on the goods and services they acquire if they are used to produce other goods and services subject to VAT or if VAT was paid on transactions related to international trade or on deductible transactions conducted outside the Philippines.

The VAT rate is 12% while a number of transactions are exempt. A zero percent (0%) VAT rate applies to the export of goods and services related to processing, manufacturing or repackaging goods for export (if paid in foreign currency accounted for under the rules of the Philippine Central Bank). As such, zero rating applies to sales of raw materials and services rendered by contractors and subcontractors to export firms registered with the BOI.

VAT registration is mandatory for all taxpayers whose taxable transactions in the Philippines exceed PHP 1,919,500.

The VAT return/declaration must be filed by the 20th day following the close of the month (for the monthly returns) and not later than the 25th day following the close of each taxable quarter (for quarterly returns).

Capital tax

The Philippines does not levy capital duty.

Real estate tax

A property tax is levied on real property at a rate that depends on the location of the property. The tax should not exceed 3% of the assessed value per the tax declaration.

Gratuitous transfers of property are subject to a donor's tax at graduated rates ranging from 2% to 15% or 30% of the fair market value of the property at the time of the donation.

In addition to real property tax, local governments impose tax on nearly all businesses operating within their jurisdictions. Rates vary but are usually a small percentage of gross annual sales.

Transfer tax

A local transfer tax on real property is levied at a rate of 50% of 1% of the gross sales price or fair market value of the property, whichever is higher, on the transfer or sale of real property.

Stamp duty

A documentary stamp tax is imposed on instruments such as bonds and certificates of indebtedness, share certificates, sales agreements, bank drafts, bills of exchange, letters of credit, insurance policies, bills of lading, lease agreements, mortgages, charter parties and warehouse receipts. The rate of the stamp tax is either fixed or based on the value of the document.

Customs and excise duties

All articles imported from a foreign country into the Philippines are subject to duty upon each importation, even though previously exported from the Philippines. Unless duly authorized by the government or its legal representative, certain items may not be imported (ammunitions, firearms, among others).

Excise taxes, both specific and ad valorem, are levied on wines and spirits, beer, cigarettes and tobacco products, lubricating oils and grease, processed gas, waxes, denatured alcohol, cinematographic films, saccharine, coal, cars, non-essential goods, mineral products, naphtha and other similar products of distillation, asphalt, and petroleum and other fuel products.

The Labor Code of the Philippines consolidates all labor and social laws to protect labor, promote employment and human resources development, and ensure industrial peace. The Labor Code contains provisions regulating conditions of work, specifically on employment of women and minors, and imposes general occupational health and safety standards for certain types of work.

Employee rights and remuneration

Wages and benefits

RA 6727, also known as the Wage Rationalization Act, provides for regional tripartite wage and productivity boards to determine and fix minimum wage rates on the regional, provincial and industrial levels.

The minimum daily wage rate in Metro Manila (the National Capital Region) as of October 2013 is PHP466 for non-agricultural workers and Php429 for agricultural workers. The rate includes basic pay and cost of living allowance. Outside Metro Manila, minimum daily wage rates for non-agricultural workers range from PHP205 (in Region V – Bicol Region) to PHP349.50 (in Region IV-A – Cavite, Laguna, Batangas and Quezon provinces).

Some types of establishments such as distressed companies, new business enterprises, service establishments employing less than ten persons and companies affected by natural disasters are exempt from complying with the orders of the wage boards. Companies seeking exemptions have to apply with the regional wage boards which will conduct public hearings prior to making a decision.

Basic benefits of employment that employers are required to provide to their employees include the following:

- **13th month pay**
All rank and file employees, with certain exceptions, are entitled to a 13th month pay equivalent to 1/12 of the basic salary received within the year which must be given not later than December 24 of every year.
- **Contribution to the Social Security System (SSS)**
Both the employer and the employee are required to contribute for the social security benefits (sickness, maternity, disability, death/funeral, and retirement) of the latter. The amount of contribution depends on the employee's monthly salary and is based on the Social Security System Contribution Schedule. Beginning January 1, 2014, the employer's monthly contribution for each employee ranges from PHP80.70 to PHP1,208.70 for each employee.

Minimum daily wage rates for non-agricultural workers in selected cities and provinces

| City/Province | Wage rate in PHP |
|------------------------------------|------------------|
| National Capital Region | 429 - 466 |
| Baguio City | 260 - 280 |
| Aurora, Bataan, Pampanga, Zambales | 285 - 336 |
| Cavite, Laguna, Batangas | 255 - 349.50 |
| Iloilo, Bacolod | 235 - 277 |
| Cebu, Bohol | 282 - 327 |
| Cagayan de Oro | 306 |
| Davao | 301 |
| General Santos | 270 |

Note: Rate includes basic pay and cost of living allowance (COLA) as of October 2013

Source: National Wages and Productivity Commission, Department of Labor and Employment

- **Contribution to the National Health Insurance Program (NHIP)**
Both the employer and the employee are required to contribute for the medical insurance of the latter. The employer's monthly contribution depends on the employee's monthly salary and is based on the Philhealth Premium Contribution Schedule. Beginning January 1, 2014, the employer's monthly contribution for each employee ranges from PHP105 to PHP750.
- **Contribution to the Home Development and Mutual Fund (HDMF or the Pag-ibig Fund)**
Both the employer and the employee are required to contribute to the latter's Pag-ibig Fund which provides access to housing programs, and savings and short-term loan benefits. Currently, the maximum employer counterpart contribution is set at Php100.00 per month for each employee.
- **Service incentive leave**
Every employee who has rendered at least one year of service is entitled to a yearly service incentive leave of five days with pay.
- **Maternity leave**
A female employee is entitled to 60 calendar days maternity leave with full pay for normal delivery and 78 calendar days for caesarean delivery for the first four deliveries/miscarriages. The maternity benefit shall be for the account of SSS although the employer is mandated to advance the maternity leave benefit to the employee.
- **Paternity leave**
Unlike the maternity leave benefit which is for the account of SSS, the paternity leave benefit is for the account of the employer. Legally married male employees are entitled to seven days of paternity leave with full pay for each of the first four legitimate children.

- **Parental leave**

In addition to any other existing leave privileges being given by the company, parental leave of not more than seven working days every year shall be given to any solo parent employee who has rendered service of at least one year.

Managerial and supervisory employees may enjoy additional fringe benefits which are furnished by the employer in cash or in kind. Examples of such benefits are housing, vehicle, expense account and membership fees in social clubs.

Working hours and overtime and holiday pay

The normal hours of work of any employee shall not exceed eight hours a day. The normal workweek in manufacturing is 44 to 48 hours, while other sectors observe a 40-hour workweek. Employees are required to have at least one day of rest after every six consecutive normal work days.

The minimum overtime rate is 25% over the hourly rate. Work performed on a rest day or a regular legal holiday shall be paid 200% of the basic salary for the first eight hours, and an additional 30% of the hourly rate for work in excess of eight hours. Employees are paid their normal daily wage during unworked regular holidays.

There is a “no work, no pay policy” for special non-working holidays. Therefore, employees who do not work on these days are not entitled to receive payment, unless there is a provision in the collective bargaining agreement, or a company practice or policy that permits such compensation. Employees who work on these days are entitled to 130% of their daily rate for the first eight hours, and a 30% premium thereafter. If the special non-working holiday falls on the employees’ rest day, they are entitled to 150% of their regular daily rate for the first eight hours, and a 30% premium thereafter.

Night-shift employees must be paid least 10% more than the regular wage rate for each hour of work performed between 10 pm and 6 am.

Retirement

The retirement age of a private sector employee is primarily determined by the existing collective bargaining agreement, other applicable employment contract or retirement plan. In the absence of any such agreement, contract or retirement plan, an employee may decide on an optional retirement upon reaching the age of 60 years or more if he has served for at least five years in the company, but not beyond 65 years which is the compulsory retirement age. Upon retirement of an

employee, whether optional or compulsory, his services may be continued or extended on a case to case basis upon agreement of the employer and employee.

Qualified employees shall be entitled to retirement benefits under RA 7641 in the absence of any applicable agreement, contract or retirement plan. Under RA 7641, the retirement pay for every private sector employee should be equivalent to at least one-half of his or her monthly salary multiplied by the number of years of service. The term one-half month salary shall mean 15 days plus one-twelfth (1/12) of the 13th month pay and the cash equivalent of not more than five days of service incentive leaves.

In case there is such an agreement, contract or retirement plan, the employee shall be entitled to the retirement benefits provided for in such agreement, contract or retirement plan, which shall not be less than what is provided for under RA 7641.

Retail, service and agricultural establishments employing fewer than 10 persons are exempt from providing the required retirement benefits.

Termination of employment

Under the Labor Code, an employer may terminate an employee for any of the following just causes:

1. Serious misconduct or willful disobedience by the employee of the lawful orders of his employer or representative in connection with his work
2. Gross and habitual neglect by the employee of his duties
3. Fraud or willful breach by the employee of the trust reposed in him by his employer or duly authorized representative
4. Commission of a crime or offense by the employee against the person of his employer or any immediate member of his family or his duly authorized representatives
5. Other causes analogous such as dishonesty, abandonment and conflict of interest



The employer is required to observe proper termination process to give the employee ample opportunity to respond to the charges against him and to defend himself.

The termination of an employee for just cause does not entitle the employee to any termination pay provided in the Labor Code, without prejudice, however, to whatever rights, benefits and privileges he may have under the applicable individual or collective bargaining agreement with the employer or voluntary employer policy or practice.

The employer may also terminate an employee due to the installation of labor-saving devices, redundancy, retrenchment to prevent losses or the closing or cessation of operation of the establishment or undertaking. An employee who is terminated due to installation of labor-saving devices or redundancy shall be entitled to a separation pay equivalent to at least his one month pay or at least one month pay for every year of service, whichever is higher. In the case of retrenchment to prevent losses and in cases of closures or cessation of operations of establishment or undertaking not due to serious business losses or financial reverses, the separation pay shall be equivalent to one month pay or at least one-half month pay for every year of service, whichever is higher.

Labor-management relations

The Labor Code contains several provisions which are beneficial to labor. Among others, it provides the guidelines in the organization and membership in labor unions as well as in collective bargaining. Employees, with certain exceptions such as managerial and confidential employees, have the right to self-organization and to form, join or assist labor organizations for purposes of collective bargaining. Strikes are also authorized as long as they comply with the strict requirements under the Labor Code, and workers who organize or participate in illegal strikes may be subject to dismissal. On the other hand, employers have the right to lock out employees under valid grounds.

Most unions are in the manufacturing sector. As of June 2013, there were 10 labor centers that host 135 labor federations and 7,349 independent unions unaffiliated with any federation in the private sector. Labor federations can be established by at least 10 unions covered by collective-bargaining agreements.

Employment of foreigners

Although it is the government's policy to prioritize the use of local human resources, it permits the employment of foreign nationals consistent with its policy to attract foreign investors. Visa requirements for certain categories of aliens have been liberalized to allow them to work in the Philippines.

All foreigners, whether residents, non-residents or refugees, have to secure an Alien Employment Permit (AEP) from the Department of Labor and Employment to authorize them to work in the Philippines. This covers all foreigners who intend to engage in gainful employment in the Philippines; foreign professionals who are allowed to practice their profession in the Philippines under reciprocity and other international agreements; and holders of Special Investors Resident Visa (SIRV), Special Retirees Resident Visa (SRRV), Treaty Traders Visa (9d) or Special Non-Immigrant Visa (47(a)2) as long as they occupy any executive, advisory, supervisory, or technical position in any establishment.

Those exempted from this requirement include members of the diplomatic community, foreign government officials accredited by the Philippine government, officers and other staff of international organizations of which the Philippine government is a cooperating member, and their legitimate spouses interested to work in the Philippines. Also exempted are foreigners elected as members of the Governing Board of a corporation in the Philippines as long as they do not occupy any other position and their functions are limited to voting in the affairs of the corporation.

The AEP is issued after it has been determined that no Filipino citizen is available who is competent, able and willing at the time of application to perform the services for which the alien will be employed, and that the admission of the alien will be beneficial to the public interest.

Work visas

Foreigners seeking employment, do business and/or invest in the Philippines may apply for authorization to work or other appropriate visa provided for under the Philippine Immigration Act, as amended, or other applicable special laws.

Pre-arranged Employment Visa

A foreigner who will be occupying an executive, technical, managerial or highly confidential position in a company for at least one year, not to exceed five years, may apply for a pre-arranged employment visa under Section 9(g) of the Philippine Immigration Act. This type of visa is valid for the duration of the AEP or the employment contract, whichever is shorter.

Pending the approval of the application for this type of visa, a foreigner may apply for a Special Work Permit which is normally valid for a period of three months from date of issuance.

Treaty Trader Visa

Under Section 9(d) of the Philippine Immigration Act, a foreigner may enter the Philippines as a treaty trader if he is a national of a country with which the Philippines has a reciprocal agreement for the admission of treaty traders or investors. At present, the Philippines has such an agreement with the United States, Japan and Germany.

A treaty trader refers to any treaty investor or an alien employed by a treaty investor in a supervisory/executive position and who is of the same nationality as the majority shareholder of the sponsoring firm.

Multiple Entry Special Visas

Under the OIC, foreign personnel of RHQs or ROHQs of multinational companies, their respective spouses, and unmarried children under 21 years of age, if accompanying them, shall be issued a multiple entry special visa to enter the Philippines valid for a period of three years.

Under Presidential Decree No. 1034, foreign personnel of offshore banking units of foreign banks duly licensed by the BSP, their spouses and unmarried children under 21 years of age, if accompanying them, shall also be issued a multiple entry special visa valid for a period of one year.

Special Non-immigrant Visas

A special non-immigrant visa shall be issued to foreigners based on public interest or public policy considerations, pursuant to Section 47(a)(2) of the Philippine Immigration Act. This covers those who will be employed by companies registered with PEZA and the BOI, and those who will be temporarily assigned to work in government projects such as those involving power generation, oil exploration and infrastructure projects.

Special Subic-Clark Work Visa

Special multiple entry visas shall be given to foreign executives and other foreign nationals who possess highly technical skills who will be employed by locators within SBF and CFZ. Holders of this type of visa are exempt from exit clearance certificates, re-entry permits and special return certificates.

Resident/Investor visas

Aside from work visas, other types of visas are available to foreign nationals which will allow them to work in the Philippines, subject to certain restrictions and requirements.

Special Investor's Resident Visa

A Special Investor's Resident Visa (SIRV) entitles the holder to stay indefinitely in the Philippines with multiple entry privileges, as long as the required investment is maintained. The SIRV is issued by the Bureau of Immigration (BI) upon the endorsement of the BOI.

The foreigner must invest at least USD75,000 (reduced to USD50,000 if for an investment in a qualified tourist-related project or tourism establishment as determined by the Department of Tourism) in publicly-listed corporations, companies engaged in areas listed in the IPP, and/or companies in the manufacturing and service sectors.

Special Resident Retiree's Visa

The Special Resident Retiree's Visa (SRRV) is issued to foreigners and overseas Filipinos by the BI under the Retirement Program of the Philippine Retirement Authority (PRA). It entitles the holder to multiple-entry privileges with the right to stay indefinitely in the Philippines as long as the required minimum dollar deposit requirement (depending on age and other categories) is maintained.

Special Visa for Employment Generation

A Special Visa for Employment Generation (SVEG) may be granted to a qualified non-immigrant foreigner who will employ at least 10 Filipinos in a lawful and sustainable enterprise, trade or industry. Qualified foreigners who are granted the SVEG shall be considered special non-immigrants with multiple entry privileges and conditional extended stay, without need of prior departure from the Philippines.

Special Subic-Clark Investor's Visa

The Special Subic-Clark Investor's Visa (SS-CIV) entitles a qualified investor to a resident status which will allow him to stay indefinitely at the SBF or the CFZ and multiple entries into the Philippines without the need for exit clearance certificates, re-entry permits and special return certificates. The visa remains valid as long as the investment of not less than USD250,000 is maintained within the SBF or the CFZ.

Cost of doing business

Registration, application and filing fees

Securities and Exchange Commission

Registration Fees

| Registration of Corporations and Partnerships | Main Fees to be Paid (In PHP) |
|---|---|
| Stock Corporations | |
| Filing Fee | 1/5 of 1% of the Authorized Capital Stock or the subscription price of the subscribed capital stock whichever is higher but not less than PHP1,000.00 |
| Legal Research Fee | 1% of the Filing Fee but not less than PHP10.00 |
| By-Laws (fixed) | 500.00 |
| Stock and Transfer Book | 150.00 |
| Non-Stock Corporations | |
| Filing Fee of Articles of Incorporation | 500.00 |
| By-Laws | 500.00 |
| Membership Book | 75.00 |
| Partnership | |
| Recording Fee for Articles of Partnership | 1/5 of 1% of the Partnership's capital but not less than PHP1,000.00 |
| Legal Research Fee | 1% of the Filing Fee but not less than PHP10.00 |

Source: Securities and Exchange Commission

Board of Investments

Filing/Application Fees

| Classification | Project Cost | Micro and Small Enterprise Fees (In PHP) | Regular Fees (In PHP) |
|-----------------------|---|--|-----------------------|
| New/ Expansion | | | |
| Micro | Not exceeding PHP3 million | Waived | 1,500 |
| Small | Exceeding PHP3 million but not over PHP4 million | 375 | 1,500 |
| | Exceeding PHP4 million but not over PHP15 million | 750 | 3,000 |
| | Exceeding PHP15 million but not over PHP20 million | Na | 3,000 |
| Medium | Exceeding PHP20 million but not over PHP50 million | Na | 4,500 |
| | Exceeding PHP50 million but not over PHP100 million | Na | 6,000 |
| | Over PHP100 million | Na | 6,000 |
| Existing | | | |
| Assets | | | |
| Micro | Not exceeding PHP3 million | Waived | 1,500 |
| Small | Exceeding PHP3 million but not over PHP15 million | 375 | 1,500 |
| Medium | Exceeding PHP15 million but not over PHP100 million | Na | 1,500 |
| Large | Over PHP100 million | Na | 1,500 |

Source: BOI (Guidelines/Procedures for Registration – Under Book 1 of the Omnibus Investments Code of 1987 Executive Order No. 226)

Registration Fees

| Classification | Project Cost | Micro and Small Enterprise Fees (In PHP) | Regular Fees (In PHP) |
|------------------------|---|---|--|
| New/ Expansion | | | |
| Micro | Not exceeding PHP3 million | Waived | |
| Small | Exceeding PHP3 million but not over PHP15 million | 25% of 0.1% of project cost. But not less than PHP3,000 | 1/10 of 1% of project cost, but not less than PHP3,000; and not to exceed PHP15,000. |
| Medium | Exceeding PHP15 million but not over PHP100 million | Na | |
| Large | Over PHP100 million | Na | |
| Existing Assets | | | |
| Micro | Not exceeding PHP3 million | Waived | 3,000 |
| Small | Exceeding PHP3 million but not over PHP15 million | 750 | 3,000 |
| Medium | Exceeding PHP15 million but not over PHP100 million | Na | 3,000 |
| Large | Over PHP100 million | Na | 3,000 |

Source: BOI (Guidelines/Procedures for Registration – Under Book 1 of the Omnibus Investments Code of 1987 Executive Order No. 226)

Costs in PEZA Ecozones

Registration and processing fees

| I. Application | (In PHP) |
|---|---|
| 1. Registration of Ecozone Enterprises | |
| a. Application of New Project (Non-Pioneer) | 3,600.00 |
| b. Application of New Project (Pioneer) | 6,000.00 |
| c. Application for any Amendments in Registration | 1,200.00 |
| d. Application for Conversion from Non-Pioneer to Pioneer | 2,400.00 |
| e. Application for Expansion for Production Capacity | 2,400.00 |
| 2. Registration Fees | |
| a. Registration of New Projects | 6,000.00 |
| b. Registration for Expansion of Project (New Project) | 3,600.00 |
| c. Telecom Services and Other Utilities | PHP6,000 +10% of monthly gross revenues from operations |
| d. All other Services Enterprise | 3,600.00 |
| II. Processing Fees | (In PHP) |
| Availment of Incentives | |
| a. Endorsement of 5% Gross Income Tax and of Income Tax Holiday (ITH) | 1,200.00 |
| b. Extension of ITH Entitlement Period | 1,200.00 |
| III. Certification/True Copies | (In PHP) |
| a. Certificate of Registration | 120.00 |
| b. Filing approval of application | 120.00 |
| c. Other Documents | 120.00 |

Power

The Ecozone Rate Program (ERP) granting special electricity rates to companies located inside certain high-load factor PEZA-accredited economic zones within Meralco franchise areas was terminated in December 2012. In its place is retail competition and open access (RCOA) which is expected to lower electricity costs of contestable customers (CC) whose monthly average peak demand is at least one megawatt (1 MW). Under the RCOA, CCs have the freedom to directly enter into a retail supply contract (RSC) with power suppliers that have the least costly electricity rates. The full implementation of the RCOA started on 26 June 2013, following a six-month transition period that allowed CCs to enter into RSCs with their preferred power suppliers.

RCOA is expected to lower electricity costs of contestable customers (CC) whose monthly average peak demand is at least one megawatt (1 MW). Under the RCOA, CCs have the freedom to directly enter into a retail supply contract (RSC) with power suppliers that have the least costly electricity rates. The full implementation of the RCOA started on 26 June 2013, following a six-month transition period that allowed CCs to enter into RSCs with their preferred power suppliers.

Below are the indicative average contract prices, as well as the minimum contract period, of major retail electricity suppliers.

Costs in Subic Bay Freeport

| Retail Electricity Supplier | Indicative Average Contract Price (PHP/kWh) | Minimum Contract Period (Years) |
|-----------------------------------|---|---------------------------------|
| Aboitiz Energy Solutions Inc. | 4.5977 | 10-25 |
| Advent Energy Inc. | 4.59771 | 10-25 |
| DirectPower Services Inc. | 6.0-7.502 | 5 |
| KRATOS RES Inc. | 5.00-5.50 | 1 |
| Manila Electric Company | 4.44-4.91 | 1 |
| Masinloc Power Partners | See note 3 | 5 |
| Prism Energy Inc. | 4.59771 | 10-25 |
| SEM-Calaca RES Corp. | See note 4 | 1 |
| TeaM Philippines Energy Corp. | See note 5 | 1 |
| Trans-Asia Oil Energy Dev't Corp. | 3.00-10.00 | 1 |
| San Miguel Electric Corp. | 5.50-7.50 | 1 |

Notes:

1. At 100% LF (load factor)
2. Indicative Contract Price only based on the customer's profile; excluding line rental, other WESM fees, monthly adjustments (i.e. Philippine CPI, Newcastle Coal Index, USD/PHP Exchange), all DU (distribution unit) pass through charges, and all taxes
3. Prices subject to Customer's Load Factor, Capacity, Credit Rating and Contract Term
4. Depending on negotiated price from generator (source of power)
5. Contract Price will depend on the following factors at the time of offer: Cost of generation, consumption pattern, contract period, backup provision, delivery point, credit and other associated risks.

Source: Department of Energy FGD on RCOA for Contestable Customers (May 2013)

Water

The indicative water rates for PEZA Industrial Parks are as follows:

Cebu: Potable P 25.00 to P 48 per m³

Non-Potable P 30 per m³

Laguna: 1st 1,000 m³ meter P 6.00 to P18.00 per m³

Above 1,000 m³ P 8.50 to P 20.00 m³

Batangas: 1st 1,000 m³ P8.00 per m³

Above 1,000 m³ P10.00 per m³

Source: <http://www.peza.gov.ph> accessed on 29 November 2012

Costs in Subic Freeport

As of October 2012

Lease rates

| Subic Bay Industrial Park (SBIP-SBDMC) | (sq.m. / month) (In USD) | |
|--|-----------------------------|----------------------|
| Industrial Land | 75.00 | 50 years |
| Subic Bay Techno Park (STEP) | | |
| Lot | 120.00 lumpsum | 42 years / month |
| Office Space | 12.00 sq.m./ month | + PHP 60 monthly due |
| Factory | 5.00 sq.m./ month | |

Power

| Customer Type | Residential | Commercial (small) | Commercial (large) | Industrial | Street Light (In PHP) |
|--------------------------------------|-------------|--------------------|--------------------|------------|-----------------------|
| Generation Charges | | | | | |
| Generation Charge PhP/kWh | 4.5911 | 4.5911 | 4.5911 | 4.5911 | 4.5911 |
| Transmission Charge PhP/kWh | 1.0609 | 1.003 | 0.9511 | 0.9194 | 1.0817 |
| System Loss Charge PhP/kWh | 0.2341 | 0.2317 | 0.2296 | 0.2283 | 0.235 |
| Distribution Charges | | | | | |
| Distribution System Charge PhP/kWh | 1.8352 | 1.7333 | 0.8623 | 0.6029 | 1.2376 |
| Supply Charges | | | | | |
| Supply System Charge PhP/kWh | 0.1324 | | | | |
| Retail Customer Charge PhP/Meter/Mo. | | 205.9 | 391.1 | 3,479.31 | 97.68 |
| Metering Charges | | | | | |
| Metering System Charge PhP/kWh | 0.236 | | | | 1.2006 |
| Retail Customer Charge | 5 | 173.02 | 678.11 | 1,175.25 | 161.13 |
| Interclass Cross Subsidy | | | | | |
| (1/3 Removal) PhP/ kWh | - | - | - | - | - |
| Universal Charges | | | | | |
| Missionary Electrification PhP/kWh | 0.1163 | 0.1163 | 0.1163 | 0.1163 | 0.1163 |
| Environmental Charge PhP/kWh | 0.0025 | 0.0025 | 0.0025 | 0.0025 | 0.0025 |

Common Use Service Area (CUSA) Fee (In PHP)

The CUSA is a fee imposed on locators and residents to primarily recover the cost of municipal services. It is billed together with the rent and will be included in the rental bill of the locators and residents. It is imposed only on SBMA's direct lessees who shall have full and primary responsibility for payment; direct lessees have the option of passing the fee to their sub-lessees.

The CUSA is based on land area, not floor area.

| Districts | Commercial Rate (PHP/sq.m./mo.) | *Residential Rate (PHP/housing unit/mo.) |
|---------------------------|---------------------------------|--|
| Binictican | 4.50 | 1,200.00 |
| Kalayaan Heights | 6.50 | 1,200.00 |
| Central Business District | 9.50 | 1,200.00 |
| Ilanin Forest East | 4.50 | |
| Ilanin Forest West | 4.50 | |
| Cubi-Triboa | 7.50 | 1,200.00 |
| Subic Port | 6.50 | |
| Subic Gateway | 4.50 | |

*Inclusive of garbage collection

Discounts to locators occupying 1 hectare and above:

| Area (HAS) | Discount |
|-------------------------------------|----------|
| 1 - 5HAS | 10% |
| 5.01 - 10 | 15% |
| 10.01 - 15 | 20% |
| 15.01 - 20 | 25% |
| 20 - 100 | 30% |
| 101 - above | 40% |
| Utility companies (power and water) | 100% |

Water and Sewerage (In PHP)

| | | |
|------------------------------------|-----------------|---------------|
| Residential Rate | 0-10 cu. m. | 18.78 |
| | 11-30 cu. m. | 20.66 |
| | 31-60 cu. m. | 28.17 |
| | 61-100 cu. m. | 32.87 |
| | Over 100 cu. m. | 37.54 |
| Standing Charge | | 461.63 |
| Hotels | 0-50 cu. m. | 34.64 |
| | 51-100 cu. m. | 38.08 |
| | 101-300 cu. m. | 43.26 |
| | 301-500 cu. m. | 46.73 |
| | Over 500 cu. m. | 50.21 |
| Standing Charge | | 461.63 |
| Commercial & Industrial | 0-50 cu. m. | 34.10 |
| | 51-100 cu. m. | 37.52 |
| | 101-300 cu. m. | 42.62 |
| | 301-500 cu. m. | 46.04 |
| | Over 500 cu. m. | 49.45 |
| Standing Charge | | 461.63 |

Telecom Rates (In PHP)

| | Residential | Business |
|-------------------|-------------|----------|
| Installation Rate | 500 | 800 |
| Monthly Rate | 540 | 950 |
| Security Deposit | 2,000 | 5,000 |

Residential DSL (In PHP)

| | | |
|---------------------|-----------|--------------|
| Xperience | Up to 1mb | 999 |
| Xcite | Up to 2mb | 1,995 |
| Xal | Up to 3mb | 3,000 |
| Installation | | 1,200 |

Business DSL (In PHP)

| | | |
|---------------------|-------------|--------------|
| Bizlite | Up to 3.5mb | 4,000 |
| Jr. | Up to 4.5mb | 8,000 |
| Sr. | Up to 5.0mb | 14,500 |
| Installation | | 1,200 |

Cable TV (In PHP)

| | |
|---------------------------------------|---------------|
| Installation Fee | 2,500.00 |
| Monthly Rate | 550.00 |
| Monthly Rate plus per additional line | 125.00 |

Source: <http://www.mysubicbay.com.ph/cost-of-doing-business> accessed on 24 October 2013



Costs in Clark Freeport Zone

Clark Development Corporation (In PHP)

| i. One-Time Fees | |
|--|-----------------------------|
| 1. Business Registration | |
| Certificate of Registration and Tax Exemption (CRTE)* | 2,000.00 |
| Registration Certificate (RC), annually -Business permit without tax incentives | 2,000.00 |
| Authority to Purchase (ATP) | 1,000.00 |
| 2. Environmental Permit | |
| Certificate of Environmental Compliance | 500.00 |
| Special Exit Pass (Hazardous Waste) | 500.00 |
| Exit Pass for Recyclable/Scrap Materials (Non Hazardous Wastes) | 50.00 |
| 3. Sanitary Permit | |
| Small scale | 300.00 |
| Medium scale | 400.00 |
| Large scale | 500.00 |
| Health card (per person) | 60.00 |
| 4. Fire and Safety Inspection Permit (FSIP) | |
| | 500.00 |
| ii. Regular Fees | |
| 1. Import Permits | |
| No Commercial Value | 50.00 |
| With Commercial Value | |
| Up to USD1,000 | 100.00 |
| USD1,001 to USD10,000 | 150.00 |
| USD10,001 to USD50,000 | 300.00 |
| USD50,001 to USD100,000 | 350.00 |
| USD100,001 to USD500,000 | 500.00 |
| USD500,001 and above | 700.00 |
| Temporary Transfer | 50.00 |
| Vehicle Importation of Tax-Exempt vehicles (TEV) | 3% of import/bring in value |
| 2. Bring In Permits | |
| For commercial use | 200.00 |
| For non-commercial use | 50.00 |

| | |
|--|-----------|
| 3. Bring out Permits | |
| Samples (NCV) | 50.00 |
| Local sale | |
| USD10,000 and below | 500.00 |
| Above USD10,000 | 1,000.00 |
| Constructive Export | |
| USD10,000 and below | 200.00 |
| Above USD10,000 | 300.00 |
| Return to source | 50.00 |
| Scrap/Waste, per permit | 200.00 |
| Temporary transfer to CBW Non-CBW | 50.00 |
| Imported Vehicle | 50.00 |
| 4. Immigration-related Fees** | |
| Special Working Permit (SWP) New and Renewal | USD20.00 |
| Probational Permit to Work (New) | USD10.00 |
| Subic-Clark Working Visa (SCWV) | |
| New | USD100.00 |
| Renewal | USD50.00 |
| Subic-Clark Investors Visa (SCIV) New | USD50.00 |
| Dependents Visa (DV) | |
| New | USD75.00 |
| Renewal | USD50.00 |
| Alien Employment Permit (AEP) | |
| New and Renewal | USD10.00 |

*Penalties will only apply if locator/employer fails to justify to the full satisfaction of CDC, DOLE, and BI why the alien failed to renew AEP of Visa. Hence, CDC shall not issue endorsement without the clearance of both agencies.

**Fees and charges are subject to change without prior notice.

As of September 2013

Lease rates

Industrial

Land: Starts at USD0.65/sq.m./mo.

Building: Starts at USD2.00/sq.m./mo., depending on location and condition of structure

Commercial

Land: Starts at USD2.00/sq.m./mo., depending on location

Building: Starts at USD3.00/sq.m./mo., depending on location and condition of structure

Power

Clark's power supply is sourced directly from the Luzon Grid through San Miguel Energy Corp. (SMEC) via the National Grid Corporation of the Philippines (NGCP), as connected to Mexico, Pampanga's Grid substation (80MW capacity). Clark's noted peak demand is at 60.26 MW.

Average rate: PHP6.917/kw

Telecommunications

| | |
|---------------|---------------------|
| Commercial | PHP936.41/ month |
| Residential | PHP542.19/month |
| National | PHP 3.75/min. |
| International | USD 0.36/min. |

Source: PLDT Clark

Water and sewerage (In PHP)

| Industrial/Commercial: | |
|---|--------|
| First 0-10 cu. m. | 218.21 |
| Next 11-20 cu. m. | 23.49 |
| Next 21-30 cu. m. | 24.88 |
| Above 31 cu. m. | 26.26 |
| Residential: | |
| First 0-10 cu. m. | 109.11 |
| Next 11-20 cu. m. | 11.78 |
| Next 21-30 cu. m. | 12.44 |
| Above 31 cu. m. | 13.09 |
| Sewer charges - 40% of total water bill | |

Source: CWC

Waste disposal (In PHP)

| Particulars | Garbage Fee |
|---|--------------|
| Medium and Small volume waste generators, per bag (standard 30"x36"x0.02mm) | PHP20.00 |
| Large volume waste generators PHP360/m ³ x 32m ³ (1 bin) | PHP11,520.00 |
| Per ton tipping fee for locators/ enterprises not using the standard CILA bag and container bin systems | PHP1,200.00 |

Source: Clark Development Corporation

Contacts

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