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The Philippines—Outsourcing's new destination

A Guide for Businessmen and Investors 2011-2012

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and Investors 2011-2012

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Chairman's Message

In your hands is the latest edition of Manabat Sanagustin & Co., CPAs' investment guide that is published yearly. We took great care in preparing this publication so that it may be useful to you. More than just a guide on how you can start setting up your business in the Philippines, this publication presents some of the most dynamic industries in the Philippines.

This year's issue presents information from the outsourcing industry, both facts and experiential knowledge from some of the country's leading outsourcing executives. Get to know their insights as they share with us key points on what attracted them to invest here and why the Philippines is outsourcing's next destination.

I hope you find this publication useful. Should you wish to talk about some of the information in this guide, do not hesitate to call Manabat Sanagustin & Co., CPAs. Our professionals are always ready to assist you on this concern.

Roberto G. Manabat
Chairman & CEO
Manabat Sanagustin & Co., CPAs

Preface

Investing in the Philippines

Cost optimization will always continue to be one of the main drivers of growth. But companies should remember that cost optimization should also be balanced by the objective of achieving high quality results.

Providing both cost-effiency and a highly talented labor pool the Philippines is an attractive investment destination, especially for outsourcing in the Asia Pacific region. Aside from its competitive salary rates, the Philippines offers the lowest real estate rental rates in the region which is only one-twelfth of the rental costs in Hong Kong but with the quality of infrastructure at par with some of the best in Asia.[1]

This guide provides an overview of the Philippines' dynamic business environment, with special emphasis on the outsourcing industry. Key executives from a few of the top outsourcing companies in the Philippines have shared their experience on why their organizations chose the Philippines as their destination of choice and the resulting positive impact on their businesses.

This publication is intended for existing and prospective business investors in the Philippines. We hope that the information contained in this publication will benefit you and your organization maximize numerous investment opportunities that the Philippines offers. As well, we at Manabat Sanagustin & Co., CPAs stand ready to provide you with the necessary navigational tools to help you map your businesses' course to success in the Philippines.

[1] "BPOs continue to boost property leasing market *"http://www.businessmirror.com.ph/home/companies/13088-bpos-continue-to-boost-property-leasing-market*

The Philippine Outsourcing Industry

In this Chapter:

- The Philippines — A highly competitive destination for Outsourcing
- Why the Philippines?
- Client and Workforce
- Investment Incentives
- Outsourced but not out-taxed — outsourcing industry tax challenges
- Philippine IT-BPO industry can grow to US$25 billion, 1.3 million jobs by 2016

Manabat Sanagustin & Co., CPAs

The Philippines — A highly competitive outsourcing destination

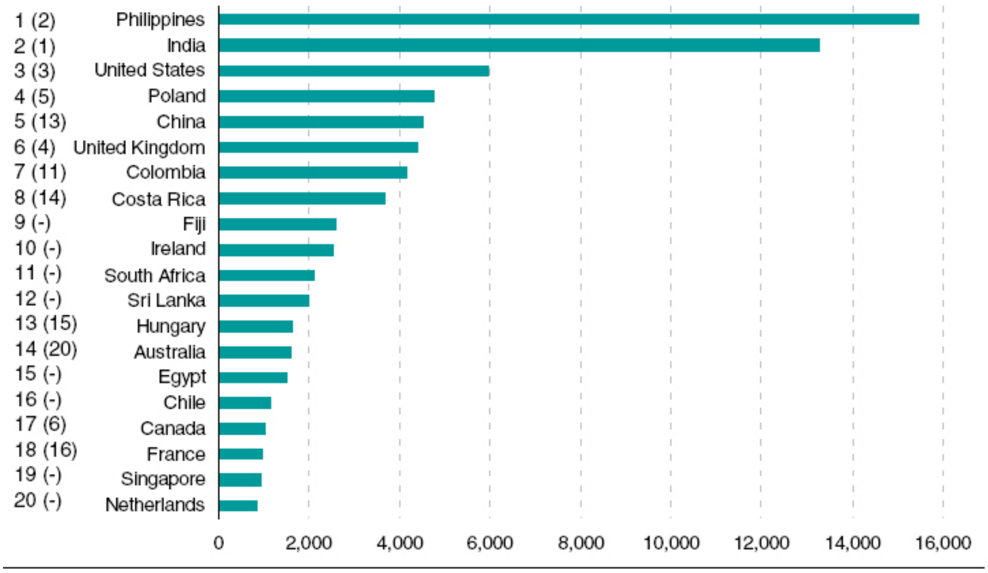
The outsourcing sector has been tagged by the Philippine government as the country's newest sunshine industry. With its massive expansion over the last 10 years, it is considered as one of the fastest growing sectors within the economy and has generated thousands of jobs.

According to the 2010 IBM Global Location Trend Annual Report, the Philippines has surpassed India as the leader in business support functions such as shared services and business process outsourcing (BPO).[1] To date, the country is one of the leading destinations in the BPO industry, not only in call center services but also in the non-voice sector such as financial services, healthcare and knowledge processing to name a few. It is also an emerging player in the IT services market with companies focusing on niche segments such as animation, wed design, and software development.

The BPO industry in the Philippines first first took root in the 1990s, but grew in earnest at the start of this decade. As late as 2004, the industry was only about US$1.5 billion, but grew at almost 50 percent annually for several years. It is now estimated to be growing at about 30 percent annually reaching US$9 billion in 2009. Initially, while the focus was on voice-services centered BPOs, growth over the last few years has expanded to a

[1] 2010 IBM Global Location Trend Report p. 7

Top ranking destination countries by estimated jobs in business support services — 2009



Source:
2010 IBM Global Location Trend Report

wider range of activities such as legal services, medical transcription, finance & accounting, controllership, human resources and other shared services. Many of the pioneer outsourcing operations are located in Metro Manila, but there is significant growth in secondary cities such as Baguio, Cebu, Iloilo, Dumaguete, Bacolod, Lipa and Davao.

The advantage of outsourcing is that it helps to increase the companies' flexibility by transforming its fixed costs into variable costs. Management is then able to focus on building its core business functions. The key lies in knowing which of these main value drivers companies need to focus on – customer intimacy, product leadership, or operational excellence. Focusing on one of these drivers can help a company create a competitive edge. Another way by which outsourcing increases organizational flexibility is by increasing the speed of business processes. Finally, flexibility is seen as a stage in the organizational life cycle. An organization can maintain growth goals while avoiding standard business bottlenecks. Outsourcing therefore allow firms to retain their entrepreneurial speed and agility, which they would otherwise sacrifice.

As the outsourcing industry in the Philippines evolve, companies outsourcing to the Philippines are also shifting their strategies to follow the knowledge process outsourcing (KPO) model.

KPO is the exact opposite of BPO. Whereas in BPO, companies outsource non-core functions, KPO enables their clients to unlock their top-line growth by outsourcing their core work to locations that have a highly skilled and relatively inexpensive talent pool.[2]

KPO is about "intellectual arbitrage." This differentiates KPO from information technology outsourcing (ITO) and BPO, both of which emphasize cost arbitrage. KPO is characterized by niche offerings, highly skilled staff and a relatively small scale. It cuts into the traditional "core competencies" of many organizations.[3]

A wide array of industries are now adopting the KPO model, outsourcing their core functions. Leading the charge into the Philippines' KPO industry are financial giants **Citibank, Deutsche Bank** and **JP Morgan Chase**.

The Philippine outsourcing industry's KPO sector is fast becoming a major contributor for growth. According to an article from *kpo.com*, back office or non-voice contributed $1.1 billion to the country's total outsourcing revenue in 2009.[4]

The KPO or non-voice sector in the Philippines is growing at a faster rate than the traditional voice services sector. Furthermore, according to the Business Process Association of the Philippines (BPAP), in the next four or five years, the voice and the non-voice sectors of the Philippine outsourcing will be of the same size.

[2]KPMG Thought Leadership: Knowledge Process Outsourcing- Unlocking top-line growth by outsourcing "the core", p. I
[3]Ibid p. I
[4] Philippine KPO companies showing growing competitiveness in the global market- *http://www.kpo.com/resource-center/articles/philippine-kpo-companies-showing-growing-competitiveness-in-the-global-market/*

Why the Philippines?

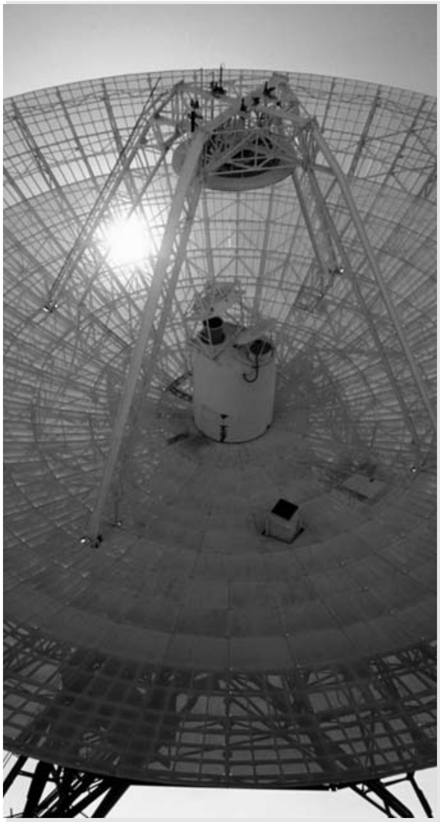
The outsourcing industry in the Philippines primarily caters to markets from the United States, United Kingdom and Australia which means that it requires a labor force proficient in the English language. Much of the attention on the Philippines is attributed to its main strengths: strong English-speaking skills and awareness of western business culture.

Rahul Malhotra, Finance Leader Genpact Philippines LLC

A number of Fortune 500 companies have chosen the Philippines as the main destination of business support functions thanks to other noticeable strengths such as competitive labor rates (which can be a tenth to a fifth of that for a domestic US operation), higher tax incentives, high literacy rates and a stable telecommunications infrastructure.[1] Being the third largest English-speaking country in the world, the Philippines is considered as one of the most competitive outsourcing destinations in the world.

"In terms of cost of doing business, the Philippines is 4-5 percent higher than India," said **Genpact Philippines LLC** (Genpact) Finance Leader Rahul Malhotra. "But given the quality of talent in the Philippines, prospective clients do not mind paying the premium especially as far as voice processes are concerned. The same holds true for non-voice processes. China on the other hand is relatively more costly. Right now, the Philippines is keeping tremendous focus on growing its non-voice segment in the outsourcing industry."

Office occupancy costs are also relatively low. Costs for prime real estate in central business districts are about half that of the US and lower than what one finds in large Indian cities. In the Philippines, tax rates are generally at par with US, but the outsourcing sector has numerous tax incentives that minimize the impact. Communications facilities also cost about 50 percent less than that of the US.



Telephony Infrastructure

Telephony in the Philippines is one of the most stable in the Asia Pacific region. The Philippines has access to radiotelephone services and submarine cables. Telephony infrastructure includes fixed line, cellular communication, cable and satellite infrastructure, and fiber optics. Mobile network services are one of the leading industries in the country where 99 percent of the population are covered. Fixed line services subscription on the other hand is estimated be at 73 million subscribers as of 2010.

Fiber optic cable is the primary backbone network that provides a redundant international connectivity. The Philippines has multiple internet gateways and is connected through submarine cables that link to major continents like Asia, Middle East, Europe, and US. Small and medium-enterprise connection speeds vary from about 700Kbps to about 20Mbps. Businesses have access to enterprise connection speeds that utilize high-speed optic fiber and submarine cables that can accommodate large amounts of data exchange. One of the country's leading telecommunication services provider offers up to 1000 Gbps connectivity capacity.

Sources:
CIA World Factbook
The Global Information Technology Report / World Economic Forum
PLDT Corporate Services (*www.pldtcorporate.com*)
Department of Trade and Industry (*www.dti.gov.ph*)
Trading Economics (*www.tradingeconomics.com*)

[1]http://www.sourcingline.com

According to **Deutsche Knowledge Services (DKS)** CEO David Keen the Philippines right now is a great place to be for their industry. The Philippine government provides excellent support to the industry, it being one of the primary contributors to the economy. He further added that one of the main reasons DKS set up a Regional Operating Headquaters in the Philippines is because of the stability of the rule of law. This is evident in the consistency of regulations that affect their industry.

Emerson Group's experience in the Philippines started with Embedded Computing Power and has been in the country since 1994. A Fortune 500 company, the Emerson Group is a global leader in manufacturing and technology that offers a wide range of products and services in the areas of network power, process management, industrial automation, climate technologies, and tools and storage businesses. The Emerson Group is recognized widely for its engineering capabilities and management excellence. For the Emerson Group the Philippines is an excellent location as a design and manufacturing center. The Emerson Group has several entities in the country: manufacturing in Cavite and Laguna; call centers / backroom operations in Ortigas; and an electric systems design center in Eastwood in Quezon City. To date, they employ almost 9,000 workers, 5,000 of which are in factory operations; 300 for design; 1,500 for voice and 1,000 for non-voice.

Melissa Manlapig, Financial Controller of **PCCW Teleservices (Philippines) Inc**. states "PCCW caters primarily to English-speaking countries like the US, UK, Australia and New Zealand. PCCW wanted to penetrate that market and the best vehicle to do that was the Philippines." The company chose the Philippines primarily because of the workforce's excellent English communication skills. "Filipinos

Office Spaces

By 2015, the forecasted total supply of office spaces is estimated to be 6 million square meters in Metro Manila alone. Most of the development in Prime and Grade A office spaces will take place in the business districts of Ortigas Center in Pasig City and Bonifacio Global City in Taguig City.

Amidst the projected increase in investments and continuous influx of outsourcing companies in the Philippines, average annual demand for office spaces is expected to be approximately 75,000 square meters. In terms of the number of seats for the outsourcing industry, there are 350,000 seats in the country to date.

In the Metro Manila business districts of Alabang, the cities of Makati, Mandaluyong, Pasay, Quezon, San Juan and Taguig the total vacancy rate is at an average of 6 percent among Prime and Grade A offices.

Rental rates in the Philippines increased at an average of about 15% from January 2009 to January 2010. Ortigas Center in Pasig City and Quezon City posted a high of 30%-35% increase in rental rates during the same period. Prime and Grade A office spaces in Makati City are pegged at a monthly cost of PhP 800 per square meter, the highest among the business districts in Metro Manila, followed by about PhP 700 per square meter in Bonifacio Global City in Taguig City. Other Metro Manila business districts are averaged at PhP 400 per square meter. Although, these rates are forecasted to remain constant until 1Q 2012, especially in Makati City, a gradual increase in rental rates of about 20% is expected from 2Q 2012 to 2013.

Source:
Jones Lang LaSalle Leechiu (JLLL) Research & Consulting

speak idiomatic American English better and accent neutralization is better here than in other countries." PCCW Teleservices has nearly 20 years of experience in running contact centers and business process outsourcing programs, operating over 9,000 seats across Asia and the Americas. PCCW Teleservices helps companies – large and small, local and multinational – to provide end-to-end total BPO solutions in a broad range of languages.

Similarly, Rahul Malhotra of Genpact says "The Philippines is a focus area for us. We started operations in Manila 5 years ago and the attraction for this region was and continues to be the availability and quality of the talent pool, culture attuned to the west, ecosystem capabilities and the growth potential. The Philippines is certainly a preferred operating location for our customers as it is not only a cultural fit with its affinity to western culture but it is also closer to the customer's center of operation."

"Genpact has significant presence in the voice segment of the outsourcing & offshoring industry ," continues Malhotra. "Globally we have a significant presence in the non-voice areas, especially finance and accounting and this is going to be the key focus area for Genpact Philippines as the future growth strategy."

JP Morgan Chase and Co.,'s Senior Country Operations Officer Karen Batungbacal-De Venecia also has a positive view about investing in the Philippines. According to her, the quality of work in the Philippines is at par or even better than any other location in the world. In the Philippines companies have access to CPAs, masteral and doctorate degree holders at a more cost effective rate than most locations around the globe.

She further added that although the Philippines has slightly higher costs than its primary competitor India, JP Morgan Chase & Co,'s decision to invest in the Philippines was driven with the belief that the Philippines presents the best option where optimal cost and high quality of work go hand in hand.

Batungbacal-De Venecia says, "Where else can you find people with excellent talent, are well-educated, and with a high attention to detail at a fraction of the cost?"

Only in the Philippines.

Niteesh Sharma, Emerson Network Power Shared Services Director for Asia Pacific

Client and Workforce

In 1998, the Emerson Group, then called Aztec, partnered with the University of the Philippines (UP) and Mapua Institute of Technology (Mapua) to sponsor a course in Power Electronics.

"We developed the Power Electronics course with UP and Mapua because at the time, no university in the country offered it. If we didn't do it, we would have to send the engineers to the U.S. which will be very costly. Everything is sponsored for those that take the course from the laboratory fees, the tuition, all the equipments, etc. Even our CEO comes and gives a lecture to the students once a year." Niteesh Sharma, Emerson Network Power Shared Services Director for Asia Pacific proudly declares. "Graduates of this course become Design Engineers who in turn design power supplies for Emerson's customers. We sponsor their schooling and then hire most of the graduates, around 20-25 of them at a time. Between UP and Mapua, we have around 300 people working for us. It's a win-win situation."

PCCW is client oriented. "We hire people depending on the requirements of the accounts. We have technical accounts, we have customer service accounts so it depends on the requirements of the client," says Melissa Manlapig, Financial Controller of PCCW Teleservices (Philippines) Inc. "The positions we hire are not really generic, they are tailor-fit to the requirements of each of our clients."

"We are also targeting to acquire clients of our Hong Kong office. Our US counterpart also has clients in the technology sector and we also have a partner involved in the financial sector. That's where our clients are coming from," Manlapig continues. PCCW Teleservices provides innovative call center and business process outsourcing solutions improving customer value for clients across a variety of industries. PCCW's areas of specialization are: financial services and insurance, telecommunications and cable, technology, travel, lifestyle and entertainment.

Genpact's Malhotra maintains that one of the advantages of having Genpact in the Philippines is that the talent pool is adequately trained and very well qualified for the outsourcing industry. The voice skills and the accent neutralization of the Philippine workforce has put the country as a leading outsourcing destination for prospective outsourcers. Another factor is the camaraderie between the employees, "They are very friendly here." "There's a definite bond between the people. Unless people are happy in their work and environment, they will not deliver."

The Philippine KPO sector— fast becoming a globally competitive sector in the Philippine outsourcing industry

In recent years, the number of Philippine knowledge process outsourcing (KPO) companies has been increasing as the country's outsourcing industry matures. Unlike traditional BPO firms, KPO companies provide higher value services that require advanced research as well as analytical, interpretation and technical skills.

According to *kpo.com's* interview with BPAP's Executive Director for Information and Research Gillian Joyce Virata, the Philippine KPO sector comprised mainly of non-voice related services, in the next four to five years, will likely grow to the same size as that of the traditional voice-related services sector.[1]

JP Morgan Chase & Co. (JPMCC) in 2005 launched its Global Service Center (GSC) in the Philippines. Their GSC provides a wide variety of strategic support including analytics, underwriting, finance and banking services, back-office services, research, IT-support, training functions to its clients around the world for the Card Services, Retail Financial Services – Home Lending and Consumer Banking, and Treasury and Security Services lines of business.

Banking and financial services giant **Deutsche Bank** also set up KPO operations in the Philippines in 2005 through wholly-owned subsidiary **Deutsche Knowledge Services (DKS)**. DKS provides accounting, reporting, profit and loss, cost, reconciliation, MIS, risk control, information technology and operations services (including confirmations and settlements) to Deutsche Bank's global operations.

The backbone of growth in the Philippines' KPO sector is the relatively inexpensive yet highly qualified workforce.

During an interview with JPMCC Senior Country Operations Officer Karen Batungbacal-De Venecia, she was asked whether the Philippines can continue providing an adequate number of financial services skilled people for her operations despite the entry of other large players such as DKS**,** and Baker & McKenzie. She simply replied "the Philippines has a population of over 100,000,000."

According to 2006 data from the Professional Regulation Commission, The country has over 100,000 Certified Public Accountants, 95,000 licensed physicians, 40,000 medical technologists, 40,000 dentists, 26,000 electrical engineers, 22,000 electrical and communications engineers, 22,000 chemical engineers, 16,000 architects. All in all, KPO companies in the Philippines have access to a huge resource of licensed professionals in various fields.

While the Philippines will continue to service voice processes from other countries, it is simultaneously advancing its capability to handle non-voice process of greater complexity. Already many multinational companies like JPMCC and DKS are talking about Philippine KPO companies in the same light as Indian KPO companies.

Top: David Keen, CEO, Deutsche Knowledge Services
Bottom: Karen Batungbacal-De Venecia, Senior Country Operations Officer, JP Morgan Chase & Co.

[1]Philippine KPO companies showing growing competitiveness in the global market- *http://www.kpo.com/resource-center/articles/philippine-kpo-companies-showing-growing-competitiveness-in-the-global-market/*
[2]Ibid

Investment Incentives

The BPO and information technology-enabled services (ITES) sectors fall under the government's Investment Priorities Plan (IPP), a list of promoted areas of investments issued annually by the Board of Investments (BOI) under the Department of Trade and Industry (DTI). As such, investors in the local information and communications technology (ICT) industry enjoy fiscal incentives such as income-tax holidays, exemption from taxes and duties on spare parts, additional deductions from taxable income, and exemption from wharfage dues and export taxes, duties, imports, and fees. The government's investment policies likewise provide non-fiscal incentives to ICT investors, which include employment of foreign nationals in supervisory, technical, or advisory positions; simplified customs procedures; and duty-free importation of consigned equipment.

The **Philippine Board of Investments (BOI, http://www.boi.gov.ph)**, an attached agency of Department of Trade and Industry (DTI) is the lead government agency responsible for the promotion of investments in the Philippines. Taking the lead in the promotion of investments, BOI assists Filipino and foreign investors to venture in desirable areas of economic activities and offers a separate range of incentives to ICT investors, which include the following:

1. Income-tax holiday (ITH) for a period of six years from commercial operations of pioneer enterprises and four years for non-pioneer, with possible extension of two years but not to exceed eight years.

2. Employment of foreign nationals under the Article 39(h) of Executive Order (EO) No. 226, otherwise known as the Omnibus Investments Code Article 39(h) allows a registered enterprise, subject to the provisions of the Immigration Act, to employ foreign nationals in supervisory, technical, or advisory position for a period not exceeding five years from its registration, extendible for limited periods at the discretion of BOI, provided that when the majority of the capital stock of a registered enterprise is owned by foreign investors, the positions of the president, treasurer, and general manager or their equivalents may be retained by foreign nationals beyond the five-year period. Moreover, Article 39(h) provides that foreign nationals under employment contract, their spouses, and unmarried children under 21 years of age shall be permitted to enter and 0reside in the Philippines during the period of employment.

3. Additional deduction on labor expense - Article 39(b) of EO 226 provides that for the first five years from registration, a registered enterprise is to be allowed an additional deduction from the taxable income of 50 percent 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 set by the BOI.

4. Unrestricted use of consigned equipment.

The **Philippine Economic Zone Authority (PEZA, http://www.peza.gov.ph)** is a government corporation set up to oversee the promotion of world-class economic zones (ecozones) and the establishment of ready-to-occupy locations for foreign investments. The agency has put in place additional incentives for ecozone locators and IT investors, developers, and operators. For ecozone and IT locators, the following incentives are offered:

1. ITH for four years for non-pioneer IT enterprises, or six years for pioneer IT enterprises.
2. After the ITH period, the option to pay a special five (5) percent tax on gross income earned, in lieu of all national and local taxes.
3. Exemption from payment of import duties and taxes on imported machinery and equipment and raw materials.
4. Additional deduction equivalent to 50 percent of training expenses, chargeable against the three percent share of the national government in the special five (5) percent tax on gross income.
5. Permanent resident status for foreign investors with initial investments of US$150,000 or more.
6. Employment of non resident aliens required in the operations of the IT enterprise.
7. Other incentives, as may be determined by the PEZA Board.

"We have found it relatively easy to do business here in the Philippines," said Genpact's Rahul Malhotra. "We have a regular interaction with agencies like PEZA and have found them to be thoroughly professional. The reason for this is that the rules and regulations formulated for the BPO industry are well documented and leave no room for ambiguity."

In addition to the government's proactive support and the cooperation of individual BPO firms, private groups like the Business Processing Association of the Philippines (BPAP) – the umbrella organization for information technology and business process outsourcing (IT-BPO) in the Philippines, and sector-specific organizations boosts the Philippines' value proposition as the top choice for ICT investment, assuring investors of cost-effective investment and efficient operations.

Outsourced but not out-taxed– outsourcing industry tax challenges

In 2010, the Philippines surpassed India as the world leader in business support functions such as shared services and business process outsourcing (BPO). The 2010 IBM Global Location Trend reports that the Philippines has now replaced India as the country with the most number of people employed by BPOs. Analysts agree that this increased growth is likely to continue this year with conservative estimates putting revenues at US$10 billion this year.

This growth may be attributed in part to the grant by the government of very generous tax incentives for outsourcing-related investments, as well as the existence of a highly skilled talent pool with good English-speaking and problem solving skills. The rapid improvement in telecommunications and information technology infrastructure, coupled with efforts of the public and private sector to target multinational corporations, have undoubtedly contributed to attracting investors to set up outsourcing firms to provide services to the insurance, banking, information technology, medical, legal and other business sectors.

Many outsourcing companies are structured as entities enjoying certain fiscal incentives, such as in the case of outsourcing firms organized as regional operating headquarters (ROHQs), which enjoy a preferential tax rate of 10 percent of net income. They may also be organized as an entity operating under the jurisdiction of the Philippine Economic Zone Authority (PEZA), thus enjoying an income tax holiday which may be for a period of four up to eight years or a five percent preferential tax in lieu of all other taxes.

One of the challenges faced by outsourcing companies is the increased competition among its players in hiring competent and highly skilled managers and technical personnel from local talent. The market for good talent has become quite competitive such that outsourcing players offering a competitive compensation package may have a distinct advantage in terms of getting the best talent from a gradually shrinking home-grown talent pool. Thus, the proper taxation of compensation and benefits received by technical managers of outsourcing firms will certainly be a factor in an outsourcing company's ability to offer a competitive compensation package. One such advantage enjoyed by outsourcing firms that are organized as ROHQs is that Filipino employees occupying managerial and highly technical positions are entitled to a preferential final withholding tax rate of 15 percent on their gross compensation. This is in contrast to regular personal income tax rates that can go as high as 32 percent.

Revenue Regulation No. 11-2010 provides four criteria which will qualify an employee for the preferential rate. These are:

- Position test - the employee must be occupying a managerial or a technical position;
- Function test - the employee must actually be functioning as a managerial or technical employee;
- Compensation threshold test - the employee must "have received, or is due to receive under a contract of employment, a gross annual compensation of at least Php975,000 (whether or not this is actually received)"; and
- Exclusivity test -The employee must be exclusively working for the ROHQ and Regional Headquarters (RHQ) as a regular employee and not just as a consultant or contractual personnel.

The regulations also do away with the requirement of securing a Bureau of

Internal Revenue (BIR) Ruling to confirm whether a particular Filipino employee in an RHQ or ROHQ should be considered occupying a managerial or highly technical position.

Emmanuel P. Bonoan, Manabat Sanagustin & Co., CPAs Vice Chairman for Tax says, "The advantage of this regulation is that it severely limits discretion on the part of revenue examiners when dealing with ROHQs and RHQs. It also does away with the bureaucratic process of having to request for BIR approval." Bonoan knows whereof he speaks — he was instrumental in crafting the regulations with ROHQ/RHQ industry association PAMURI* and the BIR.

Another challenging aspect of an outsourcing company's tax management is making sense of the allowable tax deductions for an outsourcing company organized under PEZA. Such firms are only allowed to deduct direct costs enumerated under the PEZA rules. However, most outsourcing companies consider software related expenses and communications costs as major expense components in their operations which, under the PEZA regulations may not necessarily qualify as allowable deductions. This may be because PEZA regulations were issued at a time when information technology and the outsourcing sector were virtually non-existent and most PEZA enterprises were engaged in manufacturing for export. There is therefore a need to reevaluate and update PEZA regulations on allowable deductions to keep up with the realities of the outsourcing industry.

Despite these challenges, much has been done by Philippine tax authorities to address issues related to the outsourcing industry. In 2008, the BIR issued a ruling which clarified the withholding taxes due on the various outsourced or offshored services such as bookkeeping, payroll services, data processing and staff outsourcing. This ruling takes out the guess work in determining the proper withholding tax applicable on the various services. In addition, for purposes of considering the sale of services to a PEZA registered outsourcing company, a supplier no longer needs to get a certification from the BIR to confirm that the sale is subject to value added tax at zero percent rates.

*Philippine Association of Multinational Companies' Regional/Operating Headquarters, Inc.

The following article is from **Philippines: The New Outsourcing Hub**, a publication on the outsourcing industry in the Philippines by Manabat Sanagustin & Co., CPAs, the Business Process Association of the Philippines (BPAP) and TeamAsia

Philippine IT-BPO industry can grow to US$25 billion, 1.3 million jobs by 2016

The Philippine IT-BPO Road Map 2016 says potential future gains depend on a stronger public-private partnership and accelerated talent development

Philippine IT-BPO annual revenues could more than double to US$25 billion—equivalent to a 10 percent share of the global market—by 2016, according to an industry road map released by the Business Processing Association of the Philippines (BPAP). However, the road map's authors said the industry must accelerate its talent development initiatives and obtain stronger government support to meet that goal. If it does, the IT-BPO industry could employ up to 1.3 million Filipinos and account for nine percent of GDP.

Dubbed, "Philippine IT-BPO Road Map 2011–2016: Driving Global Leadership," the road map was developed by a joint venture between Everest Group and Outsource2Philippines in conjunction with the BPAP and its partner associations and members. Funding was provided by the Philippine government through the Commission on Information and Communications Technology (CICT). Work on the road map began in August 2010 and was supported by extensive interviews from numerous industry stakeholders, a survey of over 200 outsourcing companies, including primary and secondary research.

"The study found that the industry can grow from US$9 billion in annual revenues and approximately 500,000 direct employees today to US$20 billion and 900,000 employees by 2016 if current conditions are sustained and with a lot of hard work," Oscar Sañez, then BPAP president and CEO said. "But the study indicates that we can grow at an even faster rate and achieve US$25 billion in revenue and 1.3 million employees by 2016 if we can significantly strengthen our partnership with the government and improve both the quantity and quality of our talent supply," Sañez ended.

According to Gaurav Gupta, Managing Partner of Everest Group (India), the Philippine IT-BPO sector is benefiting from strong global demand and

"The study found that the industry can grow from US$9 billion in annual revenues and approximately 500,000 direct employees today to US$20 billion and 900,000 employees by 2016 if current conditions are sustained and with a lot of hard work."

- Oscar Sañez,
Former President and CEO, BPAP
2007–2011

Gaurav Gupta, Managing Partner, Everest Group (India)

numerous competitive advantages, but the industry and government can dramatically enhance the Philippines' value proposition by working together more closely in key areas. "This includes initiatives in the area of educational and training incentives and reforms, enhanced visibility of the Philippine country brand internationally, and better appreciation among Filipinos of the opportunities available in the IT-BPO industry and the kinds of jobs that are being created," Gupta said.

He also stated that increased international visibility is necessary to enhance awareness of the range of non-voice, complex services delivered from the Philippines, and drive investment. Because the range of jobs being created by the industry is broad—and includes complex legal, financial, analytical, and other high-level work—more Filipinos will consider career opportunities in the industry. "While traditional voice and IT services will continue to grow at a healthy pace, we believe that we will see even stronger growth in non-voice services," Gupta concluded.

To support the expansion and development of the industry, the road map identified five priority activities for BPAP, according to its Senior Executive Director, Gillian Joyce G. Virata. "Priorities include driving standards and accreditation to ensure a better match between the skills of graduates with the requirements of industry; more aggressive internal marketing of the industry to the local talent pool; strengthening awareness of the Philippine value proposition in IT, voice, and non-voice BPO services in existing and new markets; advocating high-impact public policies; and strengthening our partnership with the government to fund key programs such as study-to-work training programs," Virata said.

The road map was developed in consultation with BPAP's partner associations, including the Animation Council of the Philippines, the Game Developers Association of the Philippines, the Philippine Software Industry Association, and the Healthcare Information Management Outsourcing Association of the Philippines, as well as many of the leading contact center companies who are members of BPAP and the Contact Center Association of the Philippines (CCAP).

Executives representing enabling sectors such as telecom, training and recruitment, and real estate management, as well as key government officials, also participated in the development of the road map, according to Gupta.

> "While traditional voice and IT services will continue to grow at a healthy pace, we believe that we will see even stronger growth in non-voice services."
>
> —Gaurav Gupta
Managing Partner,
Everest Group (India)

The Business Process Association of the Philippines (BPAP)

The Business Processing Association of the Philippines (BPAP) is the umbrella organization for the fastest-growing industry in the Philippines: Information Technology and Business Process Outsourcing (IT-BPO). BPAP serves as the one-stop information and advocacy gateway for the country's key outsourcing & offshoring services sector and has over 200 company members, including 5 association members.

BPAP's thrust is to promote the competitive advantages and the growth potential of the Philippines in existing and new areas of outsourcing and supports the industry in areas such as offshore marketing, education and training, security and privacy, legislation and public policy, among others. It aims to create a supportive environment for the Philippine outsourcing industry and strengthen the Philippine case to be the preferred IT-BPO destination by the end of the decade.

Source: Business Process Association of the Philippines

PAMURI
PHILIPPINE ASSOCIATION OF MULTINATIONAL COMPANIES' REGIONAL/OPERATING HEADQUARTERS, INC.

The Philippine Association of Multinational Companies' Regional/Operating Headquarters, Inc. (PAMURI)

The Philippine Association of Multinational Companies Regional/Operating Headquarters, Inc. (PAMURI) is a chamber of commerce type organization for regional offices of Foreign Multinational Companies operating under the Omnibus Investment Code of 1987. It was organized in 1981 with the initiative of foreign and Filipino executives, and with the support of the Department of Trade and Industry(DTI). It has a membership base of around a hundred foreign multinational companies (MNC) comprising about 35 different nationalities.

A MNC's regional headquarters (RHQ), as defined in the Code, is a non-revenue generating administrative branch which principally acts as a supervisory, communications and coordination center for the subsidiaries, branches or affiliates of a multinational company in the Asia-Pacific region. It does not earn or derive income from the host country. All its expenses are financed by the head office or parent company through a foreign currency inwardly remitted into the Philippines. The other type is the (revenue generating) Regional Operating Headquarters (ROHQ), of which is subject to only 10 percent income tax on taxable income. Visa incentives and personal income tax on expatriates are the same with RHQ.

Regional offices contribute substantially to the country's foreign exchange reserves. An average regional office makes an annual inward remittance of USD 200,000. The current 150 regional offices operating in the country bring in a total of USD 30 Million equivalent to PHP 1.44 Billion. Additionally, each regional office directly employs an average of 4 Filipinos, and attracts to the country an average of 300 visitors per year, each of whom stays approximately 15 days. These visits, outside of regular dollar remittances, increase local spending in terms of accommodation living costs and local travel.

PAMURI assists in promoting the country as the regional center of foreign investment and business operations by maintaining a continuing dialogue with government on matters affecting the operations of member regional headquarters. The association promotes a close relationship among regional office management by providing a forum for discussion and solution of common concerns.

In 1986, when the government under President Corazon Aquino reviewed the country's investment policies, PAMURI actively took part in the discussions to accentuate the relevance of the RHQ program as a basic component of the country's investment promotion policy. As a result, the existing rules on RHQs, including the bulk of prior incentives, were incorporated in the 1987 Omnibus Investment Code (Executive Order No. 226). Recently, E.O. No. 226 was amended by R.A. No. 8756 which included and authorized the establishment of a new entity for foreign multinational companies called "Regional Operating Headquarters (ROHQ)".

As a simple statement of mission, PAMURI Members and Board of Directors quote themselves as the Philippine Ambassadors to Southeast Asian business operations. PAMURI members perceive that adopting a more consistent policy on foreign investments, minimizing bureaucratic red tape and graft, and upgrading the country's telecommunication systems, roads and related infrastructure are the most immediate measures the government should take to shift its investment build-up program to higher gear.

Source: PAMURI

The Philippine Investment Climate

In this Chapter:

- Investment Climate
- Basic Rights and Guarantees of Investors
- Foreign Exchange Regime
- Limitations of Foreign Investments

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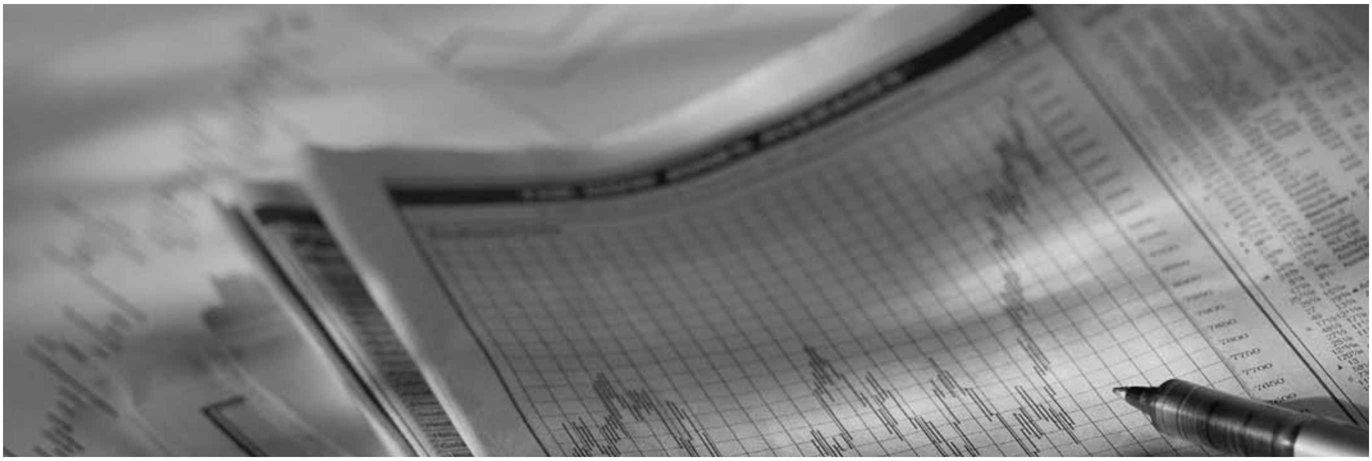

Investment Climate

All investments are welcomed in the Philippines. However, limitations are placed on the extent of foreign ownership on enterprises engaged in certain economic activities.

Major laws on investments include the Omnibus Investments Code, the Foreign Investments Act, and Special Economic Zone Act. The Omnibus Investments Code (Executive Order No. 226 or the Investments Code), which was enacted in 1987, consolidated all laws on investments in the Philippines. The Investments Code was enacted to encourage investments in preferred economic areas by extending fiscal incentives and other benefits. A set of amendments to the Code, which is expected to bring in more investments to the country, was set as priority legislation.

Republic Act No. 7042 (RA 7042) or the Foreign Investments Act (FIA) was enacted in 1991 in recognition of the vital role that foreign capital plays in the country's economic development. The FIA, which seeks to encourage foreign investments in areas that contribute to the development of the Philippines, prescribed procedures for registration of enterprises doing business in the Philippines, and other regulations.

The Special Economic Zone Act of 1995 (RA 7916) was enacted in 1995 to promote investments in the countryside. Enterprises located in these economic zones are entitled to fiscal incentives and other benefits.

Basic Rights and Guarantees of Investors

Under the Investments Code, all investors and registered enterprises are entitled to the following basic rights and guarantees, subject to the guidelines of the Bangko Sentral ng Pilipinas (BSP):

- Right to repatriate the entire proceeds of liquidation of the investment;
- Right to remit profits, capital gains and dividends;
- Right to obtain foreign exchange to meet foreign exchange obligations;
- Freedom from expropriation by the government of the property without just compensation;
- Freedom from requisition of the property represented by the investment or of the property of enterprises without just compensation.

Foreign Exchange Regime

Generally, the Philippines has adopted a liberal foreign exchange regime. Unless the foreign exchange are proceeds of an unlawful activity, any natural person or legal entity may remit to or from the Philippines any amount of foreign exchange that it already possesses or which are purchased from sources other than the Philippine banking system. Depending on the amount of foreign exchange, the transferor may need to comply with rules on the declaration of the remittance.

Upon registration, the Bangko Sentral ng Pilipinas (BSP) will issue a Bangko Sentral Registration Document (BSRD) for each investment registered. The BSRD may be used to purchase foreign currency from the banking system for the dividend or profit distribution or for divestment without need of approval from the BSP. Foreign borrowings of the private sector require prior approval by and registration with the BSP and is also required if these loans will be serviced with foreign exchange sourced from the Philippine banking system. Foreign loans refer to all obligations (whether given in cash or in kind) owed by Philippine residents to non-resident entities, including advances from foreign parent companies and affiliates. Generally, approval of foreign loans are granted for those classified by the BSP as eligible projects. These include:

- Export-oriented projects;
- Board of Investments-registered projects;
- Projects listed in the Investment Priorities Plan;
- Projects listed in the Medium-Term Public Investment Program; and
- Other projects that may be declared priority by the National Economic and Development Authority, Congress, or the Monetary Board.

The BSRD is issued by the BSP upon the applicant's submission of the prescribed registration documents and compliance with the terms and conditions of the BSP approval of the loan, including utilization of loan proceeds which should be in accordance with the approved purpose or project. The BSRD will allow the borrower to purchase foreign exchange from the Philippine banking system to service the approved and registered foreign loan.

The private sector may generally purchase foreign exchange from the Philippine banking system to finance the importation of goods or the payment of other costs of doing business such as service fees, consultancy fees, shipping expenses, royalty payments, salaries of expatriate employees and similar expenses without need of prior approval or registration of the transaction with the BSP. However, BSP regulations require such purchaser of foreign exchange to exhibit documentary support of the transaction and proof that any applicable withholding taxes have been paid.

SEVENTH REGULAR FOREIGN INVESTMENT NEGATIVE LIST

LIST A. FOREIGN OWNERSHIP IS LIMITED BY MANDATE OF THE CONSTITUTION AND SPECIFIC LAWS

No Foreign Equity

1. Mass media except recording (Art. XVI, Sec. 11 of the Constitution; Presidential Memorandum dated 04 May 1994)
2. Practice of all professions
   a. Engineering
      i. Aeronautical engineering
      ii. Agricultural engineering
      iii. Chemical engineering
      iv. Civil engineering
      v. Electrical engineering
      vi. Electronics and communication engineering
      vii. Geodetic engineering
      viii. Mechanical engineering
      ix. Metallurgical engineering
      x. Mining engineering
      xi. Naval architecture and marine engineering
      xii. Sanitary engineering
   b. Medicine and allied professions
      i. Medicine
      ii. Medical technology
      iii. Dentistry
      iv. Midwifery
      v. Nursing
      vi. Nutrition and dietetics
      vii. Optometry
      viii Pharmacy
      ix. Physical and occupational therapy
      x. Radiologic and x-ray technology
      xi. Veterinary medicine
   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

(Art. XII, Sec. 14 of the Constitution; Sec. 1 of RA 5181)

3. Retail trade enterprises with paid-up capital of less than U$$2,500,000 (Sec. 5 of RA 8762) Full foreign participation is allowed for retail trade enterprises:
   (a) with paid-up capital of US$2,500,000 or more provided that investments for establishing a store is not less than US$830,000; or
   (b) specializing in high end or luxury products, provided that the paid-up capital per store is not less than US$250,000
4. Cooperatives (Ch. III, Art. 26 of RA 6938)
5. Private security agencies (Sec. 4 of RA 5487)
6. Small-scale mining (Sec. 3 of RA 7076)
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 (Art. XII, Sec. 2 of the Constitution)
8. Ownership, operation, and management of cockpits (Sec. 5 of PD 449)

9. Manufacture, repair, stockpiling and/or distribution of nuclear weapons
   (Art. II, Sec. 8 of the Constitution)

10. Manufacture, repair, stockpiling and/or distribution of biological, chemical and radiological weapons and anti-personnel mines
   (various treaties to which the Philippines is a signatory and conventions supported by the Philippines)

11. Manufacture of firecrackers and other pyrotechnic devices (Sec. 5 of RA 7183)

Up to Twenty Percent (20%) Foreign Equity

12. Private radio communications network (RA 3846)

Up to Twenty-Five Percent (25%) Foreign Equity

13. Private recruitment, whether for local or overseas employment (Art. 27 of PD 442)

14. Contracts for the construction and repair of locally-funded public works
   (Sec. 1 of Commonwealth Act No. 541, Letter of Instruction No. 630) except:
   (a) Infrastructure/development projects covered in RA 7718; and
   (b) Projects which are foreign-funded or assisted and required to undergo international competitive bidding (Sec. 2 (a) of RA 7718).

15. Contracts for the construction of defense-related structures (Sec. 1 of CA 541)

Up to Thirty Percent (30%) Foreign Equity

16. Advertising (Art. XVI, Sec. 11 of the Constitution)

Up to Forty Percent (40%) Foreign Equity

17. Exploration, development and utilization of natural resources (Art. XII, Sec. 2 of the Constitution)
   Full foreign participation is allowed through financial or technical assistance agreement with the President

18. Ownership of private lands (Art. XII, Sec. 7 of the Constitution; Ch. 5, Sec. 22 of CA 141; Sec.4 of RA 9182)

19. Operation and management of public utilities (Art. XII, Sec. 11 of the Constitution; Sec. 16 of CA 146)

20. Ownership/establishment and administration of educational institutions (Art. XIV, Sec. 4 of the Constitution)

21. Culture, production, milling, processing, trading excepting retailing, of rice and corn and acquiring, by barter, purchase or otherwise, rice and corn and the byproducts thereof (Sec. 5 of PD 194;Sec. 15 of RA 8762) Full foreign participation is allowed provided that within the 30-year period from start of operation, the foreign investor shall divest a minimum of 60 percent of their equity to Filipino citizens (Sec. 5 of PD 194; NFA Council Resolution No. 193 s. 1998)

22. Contracts for the supply of materials, goods and commodities to government-owned or controlled corporation, company, agency or municipal corporation (Sec. 1 of RA 5183)

23. Project Proponent and Facility Operator of a BOT project requiring a public utilities franchise (Art. XII, Sec. 11 of the Constitution; Sec. 2a of RA 7718)

24. Operation of deep sea commercial fishing vessels (Sec. 27 of RA 8550)

25. Adjustment Companies (Sec. 323 of PD 612 as amended by PD 1814)

26. 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 (Sec. 5 of RA 4726)

Up to Sixty Percent (60%) Foreign Equity

27. Financing companies regulated by the Securities and Exchange Commission

28. Investment houses regulated by the SEC
   (Sec. 6 of RA 5980 as amended by RA 8556; PD 129 as amended by RA 8366) No foreign national may be allowed to own stock in financing companies or investment houses unless the country of which he is a national accords the same reciprocal rights to Filipinos

LIST B. FOREIGN OWNERSHIP IS LIMITED FOR REASONS OF SECURITY, DEFENSE, RISKTO HEALTH AND MORALS AND PROTECTION OF SMALL AND MEDIUM-SCALE ENTERPRISES

Up to Forty Percent (40 %) Foreign Equity

1. Manufacture, repair, storage, and/or distribution of products and/or ingredients requiring Philippine National Police (PNP) clearance:

   a) Firearms (handguns to shotguns), parts of firearms and ammunition therefor, instruments or implements used or intended to be used in the manufacture of firearms
   b) Gunpowder
   c) Dynamite
   d) Blasting supplies
   e) Ingredients used in making explosives:
      i. Chlorates of potassium and sodium
      ii. Nitrates of ammonium, potassium, sodium, barium, copper (11), lead (11), calcium and cuprite
      iii. Nitric acid
      iv. Nitrocellulose
      v. Perchlorates of ammonium, potassium and sodium
      vi. Dinitrocellulose
      vii. Glycerol
      viii. Amorphous phosphorus
      ix. Hydrogen peroxide
      x. Strontium nitrate powder
      xi. Toluene
   f) Telescopic sights, sniper scope and other similar devices

However, the manufacture or repair of these items may be authorized by the Chief of the PNP to non-Philippine nationals; provided that a substantial percentage of output, as determined by the said agency, is exported. Provided further that the extent of foreign equity ownership allowed shall be specified in the said authority/clearance (RA 7042 as amended by RA 8179)

2. Manufacture, repair, storage and/or distribution of products requiring Department of National Defense (DND) clearance:

   a) Guns and ammunition for warfare
   b) Military ordnance and parts thereof (e.g., torpedoes, depth charges, bombs, grenades, missiles)
   c) Gunnery, bombing and fire control systems and components
   d) Guided missiles/missile systems and components
   e) Tactical aircraft (fixed and rotarywinged), parts and components thereof
   f) Space vehicles and component systems
   g) Combat vessels (air, land and naval) and auxiliaries
   h) Weapons repair and maintenance equipment
   i) Military communications equipment
   j) Night vision equipment
   k) Stimulated coherent radiation devices, components and accessories
   l) Armament training devices
   m) Other as may be determined by the Secretary of the DND

However, the manufacture or repair of these items may be authorized by the Secretary of the DND to non-Philippine nationals; Provided that a substantial percentage of output, as determined by the said agency, is exported. Provided further that the extent of foreign equity ownership allowed shall be specified in the said authority/clearance (RA 7042 as amended by RA 8179).

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, e.g. race track operation
6. Domestic market enterprises with paid-in equity capital of less than the equivalent of US$200,000
7. Domestic market enterprises which involve advanced technology or employ at least fifty (50) direct employees with paid-inequity capital of less than the equivalent of US$100,000 (RA 7042 as amended by RA 8179)

The investment climate is also influenced by other laws such as the Intellectual Property Act of 1997, the E-commerce Act, The Retail Trade Liberalization Act of 2000, and the New Revised Securities Act.

Setting up in the Philippines

In this Chapter:

- Forms of Businesses
- Investment Incentives
- Work Regulations
- Visas and Work Permits
- Statutory Holidays
- Estimated Cost of Doing Business

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Forms of Businesses

Foreign investment in the Philippines comes in the form of subsidiaries, branch offices, and representative offices.

The Foreign Investment Negative List may limit the form of business in which foreign investors may engage. Further, there are certain minimum paid-in capital requirements depending on the type of entity established, as well as minimum requirements in the number of shareholders, board members and local representation.

Representative offices are not allowed to engage in any profit-making business activities and are limited to performing promotional and liaison functions only.

Investors may set up a presence in the Philippines by incorporating a Philippine legal entity as a subsidiary or to open a business office such as a branch office or representative office. Whether an investor will set up a subsidiary or elects to open a branch or representative office, it will need to register with the Philippine Securities and Exchange Commission and with various government offices.

Phase I. Securing Securities and Exchange Commission (SEC) approval of the Articles of Incorporation and By-laws

1. Preparation and drafting of documents to be submitted to the SEC such as the Articles of Incorporation and By-laws

2. Submission and filing of documents with the SEC

3. Necessary appearances and representations with the SEC to facilitate the approval of the articles of incorporation and by-laws

4. Submission of periodic progress reports to inform the company of its status

5. Preparation and drafting of other documents that may be requested by the SEC relative to the approval of the articles of incorporation and by-laws

Phase II. Post – SEC Registration with Other Government Agencies

1. Registration with the Bureau of Internal Revenue (BIR) for the purpose of obtaining the corporation's Taxpayer's Identification Number (TIN) and a Tax Withholding Agent, and registering its Books of Accounts

2. Registration with the Local Government Unit (LGU) in order to obtain the following:

    a. Mayor's permit and business license

    b. Community tax certificate

    c. Public liability insurance/comprehensive general liability insurance of the office.

    d. Barangay clearance.

3. Registration with the Social Security System (SSS) and the Pag-ibig Fund (if there are already any employees on board) so as to comply with the Philippine social security laws, which require all employers and their employees to be registered with the systems and to remit the proper contributions.

Forms of Businesses

Subsidiary. Investors may set up a presence in the Philippines by incorporating a Philippine legal entity as a subsidiary or to open a business office such as a branch office or representative office.

If the investor chooses not to incorporate a separate Philippine legal entity, it may set up under various options:

Branch Office - carries out the business activities of the head office of a foreign corporation. It is thus considered as a foreign corporation organized and existing under foreign laws. Its income is derived from the host country.

A branch office is required to put up a minimum paid up capital of US$200,000.00, which can be reduced to US$100,000.00 if (a) activity involves advanced technology, or (b) company employs at least 50 direct employees. Registration with the SEC is mandatory.

Representative Office - a foreign corporation organized and existing under foreign laws. It is fully subsidized by its head office and does not derive income from the host country. It is created to undertake such activities as information dissemination, acts as a communication center, promote company products, and serves as quality control of products to export for the parent company.

The initial minimum inward remittance of US$30,000.00 is required to cover its operating expenses and must be registered with the SEC.

Regional or Area Headquarters (RHQ) - are offices 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 the Asia-Pacific Region and other foreign markets and which does not earn or derive income in the Philippines

Under present tax laws, RHQs are not subject to Philippine income taxes, subject to compliance with the limitations provided for by law, with respect to their activities and operations. With respect to Value-Added Tax (VAT), RHQs are exempted, while the sale or lease of goods and property and the rendition of services to RHQs shall be subject to zero percent (0%) VAT rate.

Regional Operating Headquarters (ROHQ) - are offices of multinational companies allowed to derive income in the Philippines by performing qualifying services to its affiliates, subsidiaries or branches in the Philippines, in the Asia-Pacific Region and in other foreign markets.

They are allowed to engage in any of the following services:

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

ROHQs are subject to a preferential tax rate of 10 percent of their taxable income, plus branch profit remittance tax. ROHQs are also subject to 12 percent VAT, unless entitled to zero-rating. Under Philippine laws, the sale of services to a non-resident, which is paid for in acceptable foreign currency in accordance with the rules and regulations of the BSP, is subject to VAT at zero rate.

Expatriate employees of Regional or Area Headquarters or Regional Operating Headquarters are exempted from immigration and registration fees and duties on their personal and household effects. They may also receive multi-entry visas, renewable annually, and are subject to a preferential tax of 15 percent on their gross income derived from their employment with the regional office.

Whether an investor will set up a subsidiary or elects to open a branch or representative office, it needs to register with the Philippine Securities and Exchange Commission and with various government offices. These other offices include:

- The Bureau of Internal Revenue (BIR) to obtain the Taxpayer's Identification Number (TIN) and a Tax Withholding Agent, and registering its Books of Accounts.

- The Local Government Unit (LGU) in order to obtain the following:

    a. Mayor's permit and business license

    b. Community tax certificate

    c. Public liability insurance/ comprehensive general liability insurance of the office

    d. Barangay clearance.

- The Social Security System (SSS), the Philippine Health Insurance Corporation (Philhealth) and the Pag-ibig Fund (if there are already any employees on board) to comply with the Philippine social security laws.

SEC Registration Requirements
Minimum Paid-Up Capital Requirement

Based on Industry:

Break Bulk Agent	Php 250,000
Cargo Consolidator	Php 400,000
Financing Company	
Metro Manila and other First Class Cities	Php 10,000,000
Other Classes Cities	Php 5,000,000
Municipalities	Php 2,500,000
Freight Forwarders	
Domestic	Php 250,000
International	Php 2,000,000
Health Maintenance Organization	Php 10,000,000
Insurance	
Insurance Broker	Php 20,000,000
Reinsurance Broker	Php 20,000,000
Insurance Broker and Reinsurance Broker	Php 50,000,000
Life Insurance Company	Php 1,000,000,000
Non-Life Insurance Company	Php 1,000,000,000
Reinsurance Company	Php 2,000,000,000
Investment Adviser/Manager	Php 10,000,000
Investment Company	Php 50,000,000
Investment House	Php 300,000,000
Mining	Php 2,500,000
Non-Vessel operating common carrier	Php 4,000,000
Pawnshop	Php 100,000

Pre-need Plan Issuer	Php	100,000,000
Pre-need Plan Agent	Php	5,000,000
Recruitment for Local Employment		
Corporation	Php	500,000
Partnership	Php	200,000
Recruitment for Overseas Employment	Php	2,000,000
Retail: Trade with Foreign Equity	Php	2,500,000
School (for stock corporations)		
Elementary Education	Php	1,000,000
Elementary and Secondary Education	Php	2,500,000
Elementary, Secondary, Tertiary, Post/ Graduate Education	Php	5,000,000
Security Agency	Php	500,000
Securities Broker/Dealer (New/ SRO member)	Php	100,000,000
Securities Broker/Dealer (Existing/ SRO member)	Php	10,000,000
Securities Broker/ Dealer in Proprietary Shares (Non-SRO member)	Php	5,000,000
Special Purpose Vehicles	Php	31,250,000
Special Purpose Corporation	Php	5,000,000
Transfer Agent	Php	1,000,000

Based on Foreign Equity:

Domestic Corporation with more than 40 percent Foreign Equity		
Domestic Market Enterprise	US$	200,000
Export Market Enterprise	Php	5,000
Foreign Branch Office		
Domestic Market Enterprise	US$	200,000
Export Market Enterprise	Php	5,000
Partnership with Foreign Partner		
Domestic Market Enterprise	US$	200,000
Export Market Enterprise	Php	3,000
Foreign Representative Office	US$	30,000
Regional Area Headquarterss (RHQ)	US$	50,000
Regional Operating Headquarters (ROHQ)	US$	200,000

Investment Incentives

The Philippines offers a system of incentives available to enterprises that register with the Board of Investments (BOI) or with the Philippine Economic Zone Authority (PEZA). The nature and extent of incentives received by enterprises will depend on the nature of their business activities in the Philippines.

Investment Priorities Plan 2011—Priority Investment Areas

The coverage, description and entitlement to incentives of the following listed activities shall be defined and clarified in the General Policies and Specific Guidelines to be issued by the Board of Investments (BOI).

The extent of entitlement to incentives shall be based on the project's net value added job generation, multiplier effect and measured capacity.

A. Preferred Activities

1. Agriculture/Agribusiness and Fishery
This covers commercial production and commercial processing of agricultural and fishery products (including their by-products and wastes).

This also covers agriculture and fishery-related activities such as irrigation, post harvest, cold storage, blast freezing, and production of fertilizers.

2. **Creative Industries/Knowledge-Based Services**
This covers business process outsourcing(BPO) activities, IT and IT-enabled services, and film and performing arts production.

3. **Shipbuilding**
This covers the construction and repair of ships. This also covers shipbreaking/ shiprecycling.

4. **Mass Housing**
This covers the development of low-cost mass housing.

5. **Energy**
This covers the exploration, development, and/or utilization of indigenous energy sources and other energy sources adopting environmentally -friendly technologies.

6. **Infrastructure**
This covers transport, water logistics, waste management facilities, physical infrastructure (tollways, railways and telecommunication facilities) and pipeline projects for oil and gas.

7. **Research and Development**
This covers R&D activities and the establishment of testing laboratories, Centers of Excellence (COE) and technical vocational education and training institutions.

8. **Green Projects**
This covers the manufacture/assembly of goods, 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.

9. **Motor Vehicles**
This covers the manufacture/assembly of motor vehicles, including alternative fuel vehicles (AFVs) and electronic vehicles (EVs) but excluding 2-stroke motorcycles, and manufacture of motor vehicles parts and components.

10. **Tourism**
This covers tourism enterprises that are outside the tourism enterprises zone (TEZs) and are engaged in the following:
   1. Tourist transport services whether for land, sea and air transport for tourist use;
   2. Establishment and operation of:
      -Accomodation 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 facilities (MICE) facilities;
      -Amusement parks;
      -Adventure and eco-tourism 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; and
      -Tourism training centers and institutes.
   3. Development of retirement villages.

11. **Strategic Projects**
This covers projects that exhibit very high social economic returns that will significantly contribute to the country's economic development.

12. **PPP Projects**
This covers projects under the Public-Private Partnership (PPP) Program of the government.

12. **Disaster Prevention, Mitigation and Recovery Projects**
This covers projects that will prevent or mitigate adverse impacts of calamities and disasters (e.g. installation of flood control systems, installation of early warning systems for typhoons, earthquake occurences, tsunami, volcanic eruptions, oil spill cleanup, etc.).

This further covers training for disaster preparedness, mitigation or recovery rehabilitation/reconstruction.

Investment incentives are available to the following enterprises registered with the BOI:

- Enterprises engaged in preferred projects listed under the current Investment Priorities Plan (IPP)
- Multinational companies establishing regional or area headquarters in the Philippines
- Multinationals setting up regional operating headquarters
- Multinational companies establishing regional warehouses in the Philippines
- Enterprises located in less developed areas and
- Enterprises located in special economic zones.

The following incentives are available to BOI-registered enterprises

Fiscal Incentives

BOI-registered firms are given a number of incentives in the form of tax exemptions and concessions.

More specifically, the fiscal incentives include the following:

- Income Tax holiday - exemption from the payment of income taxes counted from the start of commercial operations
  six (6) years - for new projects with pioneer status
  four (4) years - for new projects with non-pioneer status
  Three (3)years - for expansion projects
- Tax credit for taxes and duties on raw materials used in the manufacture, processing or production of export
- Additional deduction for labor expense
- Tax and duty free importation of breeding stocks and genetic materials

• Tax credit on domestic breeding stocks and genetic materials

• Tax credit for taxes and duties on raw materials, supplies and semi-manufactured products and forming part thereof

• Exemption for wharfage dues and any export tax, duty, impost and fees

• Tax and duty exemption of imported spare parts and supplies

BOI-registered enterprises may import machineries, equipment, spare parts, and accessories provided the following conditions are met:

• The machinery, equipment, spare parts and accessories to be imported are not manufactured domestically in sufficient quantity, of comparable quality and at reasonable prices;

• Said machinery, equipment, spare parts, and accessories are reasonably needed and will be used exclusively by the enterprise in the registered activity. The BOI under some instances, may authorize the temporary use of machinery or equipment in a non-registered activity to maximize usage thereof or its permanent use in a non-registered activity, upon payment of the proportionate duties thereon;

• The approval of the BOI was obtained by the registered enterprise for the importation of such machinery, equipment, spare parts, and accessories before the purchase order is made or before the corresponding letters of credits were opened; and

• The rated capacity of the machinery or equipment, if applicable, to be imported is within the registered capacity of the registered enterprise.

Non-Fiscal Incentives

BOI-registered enterprises are also entitled to the following non-fiscal incentives:

• Employment of foreign nationals

• Simplified customs procedures

• Unlimited use of consigned equipment

• Access to bonded manufacturing/trading warehouse system

• Government assistance on manpower training

Incentives for BOI-Registered Enterprises Engaged in Activities Not Listed in the IPP

An enterprise may still be entitled to the incentives listed above even if the activity is not listed in the IPP so long as:

• At least 50 percent of its production is for export – if Filipino-owned enterprise

• At least 70 percent of its production is for export – if majority foreign-owned (more than 40 percent foreign equity)

Additional Incentives for Enterprises Located in Less Developed Areas

For BOI-registered enterprises locating in less developed areas, (whether proposed or in an existing venture geared for expansion), the following additional incentives are available:

• The same set of incentives given to pioneer registered enterprises;
.
• 100 percent of the expenses for necessary and major infrastructure undertaken in the course of operation shall be allowed as deduction from taxable income;

• An additional deduction from taxable income of 100 percent of the wages corresponding to the increment in the number of direct labor for skilled and unskilled workers in the year of availment as against the previous year is observed.

Export Processing Zones

For investors registered with the Philippine Economic Zone Authority (PEZA), 100 percent foreign ownership is allowed. However, total production must be entirely for export. In certain instances, and subject to the approval of the PEZA, up to 30 percent of the production may be sold in the domestic market.

PEZA-registered export and free trade enterprises are given the following incentives:

• Corporate income tax exemption for four (4) years to a maximum of eight (8) years

• Exemption from duties and taxes on imported capital equipment, spare parts, materials, and supplies

• After the lapse of the Income Tax Holiday (ITH), in lieu of all national and local taxes, except real estate taxes on land owned by developers, a special five (5) percent tax rate based in gross income

• Exemption from wharfage dues, export tax impost, and fees

• Tax credit on domestic capital equipment;

• Tax and duty-free importation of breeding stocks and genetic materials;

• Additional deduction for training expenses (labor and management);

• Permanent resident status for foreign investors and immediate members of the family;

• Employment of foreign nationals;

• Additional deduction for labor expense (50 percent of wages corresponding to increment in number of direct labor subject to certain conditions);

• Simplified import-export procedure

Currently, the government-owned Export Processing Zones (EPZs) are:

1. Bataan Export Processing Zone (BEPZ) – Mariveles, Bataan

2. Baguio City Economic Zone (BCEZ) – Loakan Road, Baguio City

3. Mactan Economic Zone (MEZ) – Lapu-Lapu City, Mactan, Cebu

4. Cavite Economic Zone (CEZ) – Rosario, Cavite

5. Cagayan Economic Zone (CEZ) – Santa Ana and Aparri

6. Zamboanga City Special Economic Zone (ZCSEZ) – Zamboanga City

Special Economic Zones

The Philippine government has vested specific areas with special status to attract investors. These areas, referred to as special economic zones or ecozones, were created for industrial expansion, employment generation, promotion of export products, foreign exchange generation and transfer of technology.

Ecozone developers, operators, facilities, utilities, tourism and domestic market

enterprises are given the following incentives:

- Exemption from national and local taxes except real estate taxes on land owned by developers, in lieu thereof, special tax of five (5) percent based on gross income
- Additional deduction for training expense (labor and management)
- Permanent resident status for foreign investor and family
- Other incentives available under the Investments Code as may be determined by the PEZA Board.

The following types of ecozones have been organized:

- Free Trade Zones (FTZ). FTZs are designated areas adjacent to a port of entry. Goods may be unloaded for immediate transshipment or stored, repackaged, sorted, or otherwise processed without being subject to import duties. However, goods become taxable the moment they are transferred from the FTZ to a non-free trade area.
- Export Processing Zones (EPZ). EPZs are specialized industrial estates located physically and administratively outside customs territories. Activities in these estates are largely export- oriented industries. Enterprises located in EPZs are allowed to import capital equipment and raw materials free from duties, taxes, and other import restrictions.
- Industrial Estates. Industrial estates are designated areas that are subdivided and developed according to a comprehensive plan under single management. These estates also have provisions for basic infrastructure and utilities, with available factory buildings and facilities.
- Tourist/Recreational Centers.These are areas within an ecozone where tourist facilities such as hotels, apartelles, tourist inns, pensions, resorts, sports and/or recreational facilities are provided for both local and foreign tourists, travelers, and investors.

Subic Bay Freeport

Among other special economic zones are two of the more attractive investment locations -- the Subic Bay Freeport Zone and the Clark Special Economic Zone. The Subic Bay Freeport (SBF) is a special economic and free port area established under the "Bases Conversion and Development Act of 1992." The Act provides for a comprehensive economic development program for the Subic Bay area. The SBF is located Northwest of Manila. Its harbor opens to the South China Sea. It covers approximately 60,000 hectares and includes the former U.S. Subic Naval Base.

The following special tax and non-tax incentives have been drawn up for both domestic and foreign investors who operate within the SBF:

- ***Liberal tax laws.*** Investors are exempted from all national and local taxes except for a five (5) percent tax on gross income. Gross income is defined as sales less the cost of direct salaries, raw materials, intermediate goods, finished goods, supplies and fuel used for production, depreciation, lease payments or other expenditures on equipment used in production, financing charges associated with fixed assets, and rent and utility charges.
- ***Foreign exchange***. Investors are allowed full repatriation of profits.
- ***Special customs territory***. The SBF is classified as a special customs territory allowing the free movement of goods and capital. Tax and duty-free importation of raw materials, capital, and equipment are allowed in the SBF.

- *Permanent resident status.* In cases when an investment of US$250,000 or more is made, the foreign investor, spouse and unmarried children below 21 years old will be granted permanent residency status.

- *Liberalized banking and financial markets*. Banking and finance regulations have been liberalized with the establishment of foreign currency deposit units within the SBF. Exchange transactions have also been relaxed, allowing free markets for foreign exchange, gold, securities, and futures.

Clark Special Economic Zone

In 1993, then President Fidel V. Ramos created the Clark Development Corporation (CDC) to oversee the conversion of the former US Air Base in Clark Field into an international aviation complex and special economic zone. Dubbed as the "Clark Special Economic Zone" (CSEZ), it is located in the provinces of Pampanga and Tarlac, about 80 kilometers north of Manila and about 70 kilometers from Subic Bay and covers an area of around 28,000 hectares.

The CSEZ has extensive infrastructure and support facilities ideal for an international aviation complex. In addition, land is available for industrial and agro-industrial development. Infrastructure projects such as telecommunications, power, international airport, housing and industrial units have been developed.

Enterprises located in the CSEZ enjoy similar liberal tax laws as those provided within the SBF.

Other incentives include the free flow or movement of goods and capital, tax and duty-free importation of machineries, equipment, raw materials, supplies and all other articles including finished goods and other incentives applicable in Economic Processing Zones.

Tourism Enterprise Zone

Investors may establish tourism enterprises such as:

- travel and tour services;
- tourist transport services;
- tour guides;
- adventure sports services;
- convention organizers;
- accommodation establishments;
- tourism estate management services;
- restaurants,shops and department stores;
- sports and recreational centers;
- spas;
- museums and galleries;
- theme parks;
- convention centers; and
- zoos

New enterprises and existing enterprises in Tourism Zones are entitled to an income tax holiday for a period of six (6) years from the start of business operations. The income tax holiday may be extended if the enterprise undertakes a substantial expansion or upgrade of its facilities prior to the expiration of the first six (6) years. The extension shall consider the cost of such expansion or upgrade in relation to the original investment, but shall in no case exceed an additional six (6) years.

Tourism enterprises shall be allowed to carry over as deduction from the gross income for the next six (6) consecutive years immediately following the year of the loss, their net operating losses for any taxable year immediately preceding the current taxable year which had not been previously offset as deduction from gross income.

After the ITH, new enterprises shall be liable to a tax of five (5) percent on its gross income which shall be in lieu of all other national taxes, license fees, imposts and assessments, except real estate taxes and such fees as may be imposed by Tourism Infrastructure and Enterprise Zone Authority (TIEZA).

Tourism enterprises shall likewise be entitled to a 100 percent exemption from all other taxes and customs duties on importation of capital equipment, transportation and accompanying spare parts and goods actually consumed in the course of services actually rendered by or through registered enterprises within a TEZ.

Other Incentives

Renewable Energy Act of 2008

Renewable Energy Developers of renewable energy facilities, including hybrid systems, in proportion to and to the extent of the renewable energy component, for both power and non-power applications, as duly certified by the DOE, in consultation with the BOI, shall be entitled to the following incentives:

- Income tax holiday for first seven (7) years of commercial operations
- Duty-free importation of machines, equipments and materials within 10 years upon the issuance of certification
- Special realty tax rates on equipment and machinery
- Net operation loss carry over for the first three years from the start of commercial operations
- Corporate tax rate of 10 percent after the seven years of income tax holiday
- Zero percent VAT on the sale of fuel or power
- Cash incentive for missionary electrification
- Tax exemption of proceeds of carbon credit sales
- Tax credit on domestic capital equipment and services.

Those accredited by the DOE are entitled to the following benefits:

- Tax and duty-free importation of component parts and materials
- Tax credit on domestic capital components, parts and materials
- Zero percent VAT on transactions with local suppliers of goods properties and services.

Registration with the Board of Investments (BOI)

An investor whose chosen activity is found in the Investment Priorities Plan (IPP), or for export and who wishes to avail of incentives, may register with the BOI. This can be done simultaneously with the filing of a certificate with the SEC (for partnerships and corporations) or the Bureau of Trade Regulations and Consumer Protection (for single proprietorships).

An investor who does not seek incentives and/or whose chosen activities do not qualify for incentives (i.e., the activity is not listed in the IPP and does not export at least 70 percent of production) can apply directly with the SEC for the registration of its articles of incorporation or partnership. The investor has to be guided by the Foreign Investment Negative List (FINL), which covers investment areas/activities opened to foreign investors and/or reserved to Filipino nationals.

Requirements

- SEC Certificate (Articles of Incorporation/Partnership and By-Laws); DTI Registration (Sole Proprietorship)
- Audited Financial Statement and Income Tax Return (past three years)
- Board Resolution to authorized company representative
- Accomplished Application Form 501 and Project Report

Registration Procedure

- File BOI Form 501 with supporting documents and filing fee
- Evaluation of Application and Preparation of Evaluation Report (including Publication of Notice of Filing of Application, plant visit)
- Presentation to the BOI Management Committee
- BOI Governing Board Confirmation
- Letter advice to Applicant of Board Action
- If approved, send letter of approval and pre-registration requirements
- Applicant complies with the pre-registration requirements
- Preparation and issuance of Certificate of Registration upon payment by applicant of Registration Fee
- Release of Certificate of Registration

Registration with the Philippine Economic Zone Authority (PEZA)

Registration Requirements for Export Enterprises/IT Enterprises

- Duly accomplished and notarized application form
- SEC (Articles of Incorporation and By-Laws)/ DTI Registration (Sole Proprietorship)
- Board Resolution/ Special Power of Attorney for Representative
- Document/ Clearance to use the land subject of this application or Reservation

Registration Procedure

- Submit application form
- Evaluation and Recommendation for approval of the PEZA Board
- PEZA Board approval
- Submission of pre-registration requirements
- Signing of Registration Agreement
- Submission of Post-Registration requirements
- Start of Commercial Application

Registration Requirements For Ecozone Developers

- Duly accomplished and notarized application form
- SEC Registration and Articles of Incorporation
- Audited Financial Statements (for the last three years of operation, where applicable)
- Board Resolution/Special Power of Attorney designating the company's authorized representative to PEZA
- Project Study
- Vicinity map reflecting the various land uses and important verifiable landmarks within one (1) kilometer radius of the project site
- Proof of land ownership or any perfected contract/document confirming the applicant's authority/clearance to use the land for economic zone development and related purposes
- If the applicant is not the registered owner, a perfected contract/ document confirming the applicant's authority/ clearance to apply for and use the land for ecozone and related purposes is required
- Endorsement from the Sangguniang Bayan/Panlungsod for the development of the proposed economic zone (i.e., all local government units of all municipalities and cities with areas included in the proposed economic zone)
- Certification from the Department of Agriculture that the area for the proposed economic zone is not or has ceased to be economically feasible and sound for agricultural purposes (i.e., the area is marginal for agricultural use)
- DAR Conversion Clearance or Exemption Certificate (or HLURB Zoning Certification, whichever is applicable) and if the proposed area is zoned as agricultural on or before 15 June 1988, a DAR Conversion Clearance/Order is required. However, if the zoning of the area is non-agricultural on or before said date, a DAR Exemption Certificate or HLURB Zoning Certification shall be required
- Other documents that may be required

Registration Procedure

- Submit application with attachments
- Evaluation
- Submission to PEZA Board
- Board Approval
- Submission of Presidential Proclamation Requirement
- Endorsement from Malacañang
- Issuance of Presidential Proclamation
- Submit Pre-Registration Requirements
- Registration Agreement Signing

Registration with the SBMA

Requirements

- Duly Accomplished SBF Application Form
- Letter of Intent/Business Proposal
- Business Proposal
- Audited Financial Statement
- Company Information/Brochures
- Client/ Supplier List
- Financial projections
- SEC Certificate (Articles of Incorporation and By-Laws)/DTI Registration (Sole Proprietorship)
- Certification of deposits and credit standing
- Draft Sublease Agreement (for sub-lease)
- List of Assets for SBF Operations

Registration Procedure

- Submission of Letter of Intent and Application for Registration
- Evaluation
- Presentation to the SBMA Chairman and Board
- Board Approval
- Registration requirements completion
- Issuance of Certificate of Registration

Work Regulations

All employees are entitled to a minimum wage fixed by the Regional Wage Boards, with wages varying with the skill and experience of the workers and the location of the workers (see page 58 for average monthly wage rates of selected occupations in selected non-agricultural industries in Metro Manila).

Employees are also entitled to the following benefits mandated by the Labor Code of the Philippines:

- 13th month salary
- minimum retirement benefits
- service incentive leave
- overtime pay
- holiday pay
- night shift differential and other entitlements

In addition, large establishments sometimes provide sick, vacation, and holiday leaves; private pension plans; year-end bonuses; subsidized meals; rice and transportation allowances; uniforms and group hospitalization; and life insurance benefits. An employee may be required to work for a maximum period of eight (8) hours a day or 48 hours a week. Regulations provide for an overtime premium ranging from 10 percent to 200 percent, depending on the overtime hours undertaken if regular overtime (25 percent), on a night shift (10 percent), or on a holiday-related leave (200 percent). The law also provides for paid maternity and paternity leaves. Further, no employer may terminate a regular employee except for a just or authorized cause. If termination is due to retrenchment, ill health, or certain other causes, the employee is entitled to separation pay.

Employees and employers regularly share contributions to the Social Security System, Employees' Compensation Program, PhilHealth, and Home Development Mutual Fund or Pag-Ibig Fund. The majority of workers in the manufacturing sector are organized into trade unions. As a result, there is a significant protection for workers that includes the right for workers to organize unions, conduct strikes, and collaborate in collective bargaining agreements. The major instrument in resolving labor disputes has been collective bargaining.

Visas and Work Permits

Generally, foreign visitors, whether on business or pleasure, are not required to secure a visa if they will stay in the Philippines for a period not exceeding 21 days, have a return travel ticket or a ticket to their next port of destination and their passports are valid for a period at least six (6) months beyond their contemplated period of stay. Should a foreign visitor without a visa need to stay longer, he may request an extension from the Bureau of Immigration.

Foreign visitors may obtain a pre-arranged visa from the Philippine embassy or consulate in their country of origin. Temporary visitor visas grant a foreign visitor to stay in the Philippines for a period of 59 days. Such period may be extended through the Bureau of Immigration. Foreign visitors may also avail of the Pre-Arranged Visa Upon Arrival program of the Philippine Bureau of Immigration. In case of the latter, foreign visitors are required to coordinate with legitimate Philippine organizations which will vouch for their character and assist them in filing the necessary applications with the Bureau of Immigration. Applicants are then informed whether they would be able to receive a single or multiple entry visa upon their arrival in the Philippines.

Foreign citizens intending to work in the Philippines generally need to obtain a work permit from the Department of Labor and Employment and the corresponding work visa.

Specific laws also grant visa incentives to investors or specific types of foreign employees.

For instance, a foreign citizen intending to invest in the Philippines may apply for a Special Investors Resident Visa (SIRV) if such investor commits to invest at least US$75,000.00 and who can meet the following other requirements:

- He has not been convicted of a crime involving moral turpitude;
- He is not afflicted with any dangerous or contagious disease;
- He has not been institutionalized for any mental disorder or disability

A foreign citizen may also receive the Special Visa for Employment Generation (SVEG) if he is able to employ at least ten (10) Filipino citizens in a lawful and sustainable trade, enterprise or industry. The visa privileges may extend to the qualified foreigner's spouse and dependent unmarried child/children below eighteen (18) years of age whether legitimate, illegitimate or adopted. The foreign citizen must meet the following requirements:

- The foreigner shall actually, directly or exclusively engage in viable and sustainable commercial investment/enterprise in the Philippines, exercises/performs management acts or has the authority to hire, promote and dismiss employees;
- He evinces a genuine intention to indefinitely remain in the Philippines;
- He is not a risk to national security;
- The foreigner's commercial investment/enterprise must provide actual employment to at least ten (10) Filipinos in accordance with Philippine labor laws and other applicable special laws.

The above-mentioned requirements must be continually satisfied by the foreigner for him/her to continue to be a holder of the SVEG.

It may also be important to note that foreign citizens employed by Regional Headquarters or Regional Operating Headquarters, their spouses and unmarried children below 21 years of age are entitled to receive multiple-entry visas, valid for one year, extendible on a yearly basis.

Statutory Holidays

Fixed dates

January 1	- New Year's Day
April 9	- Araw ng Kagitingan
May 1	- Labor Day
June 12	- Independence Day
November 1	- All Saints' Day
November 30	- Andres Bonifacio Day
December 25	- Christmas Day
December 30	- Rizal Day
December 31	- Last day of the year

National Heroes' Day - Last Monday of August
End of Ramadan (Eid'l-Fitr) - Usually held in November
Maundy Thursday, Good Friday and Black Saturday

Also included in the list of nationwide special non-working days are February 25 (Anniversary of EDSA People Power Revolution) and August 21 (Martyrdom of Benigno Aquino). There are a number of non-working or unscheduled holidays that may also be announced on short notice.

General Tips in Doing Business in the Philippines

- The greater Manila area accounts for about 70 percent of the Philippines' main consumer market. Manila is the principal commercial, industrial and financial center.
- Apart from Manila, the other main inter-regional centers are Cebu, Davao, Zamboanga and Iloilo.
- Large trading companies in the Philippines handle a high percentage of import orders. However, as each trading house may represent several hundred overseas companies, they are not able to carry extensive stocks and also act as indentors and agents.
- In business negotiations, all the essential details should be discussed and documented to avoid any future misunderstandings. Try to include an arbitration clause or other method for settling disputes.
- The best months to travel to the Philippines are during off-peak travel seasons which are from October to November and January to March. Try to avoid traveling two weeks before and after Christmas and the week before and after Easter.
- Business hours are generally from 8:00 a.m. to 5:00 p.m., Mondays to Friday, for both government and private offices, with many companies adding a 1/2 working day on Saturday.

SECURITIES AND EXCHANGE COMMISSION (SEC)	
Registration of Corporation and Partnerships	**Main Fees to be Paid**
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 Php 1,000
Legal Research	**1% of the filing fee but not less than Php 1,000**
By-laws(Fixed)	Php 500
Non-Stock Corporations	
Filing Fee of Articles of Incorporation	Php 500
By-laws	Php 500
Partnerships	
Articles of Partnership	1/5 of 1% of the authorized Capital stock of the subscription price of the subscribed capital stock whichever is higher but not less than Php 1,000
Legal Research	1% of the Filing Fee but not less than Php 10

Source: Board of Investments

BOARD OF INVESTMENTS (BOI)	
Registration for Incentives Availment under Executive Order No. 226	
Filing Fees for Application for Registration (under Book 1)	**Main Fees to be Paid**
Project costs not exceeding Php 4 Million	Php 1,500
Project costs exceeding Php 4M but not over Php 20M	Php 3,000
Project costs exceeding Php 20M but not over Php 50M	Php 4,500
Project costs exceeding Php 50M	Php 6,000
Fees for Certificate of Registration	1/10 of 1% of project cost but not less than Php 3,000 and not to exceed Php 15,000

DEPARTMENT OF TRADE AND INDUSTRY (DTI)	
Business Name Registration (Bureau of trade regulation and Consumer Protection)	**Main Fees to be Paid**
Application Fees	Php 315 to 515
Single Proprietorship Partnership/Corporation	Php 300 Php 500
Documentary stamp	Php 15
Sole Proprietorship under FIA	Php 5,800
Business Name Registration Fee	Php 300
Filing fee	Php 500
FIA Registration Fee	Php 5,000

CLARK DEVELOPMENT CORPORATION (CDC)	
Business Name Registration (Bureau of Trade Regulation and Consumer Protection - BTRCP)	
1. Registration of Enterprises	Php 315- 515
Project Costs not exceeding Php 4 million	Php 2,000
Permit to Operate (Annually)	Php 1,000
Temporary Permit to Operate	Php 500
2. Processing and issuance of Environmental Compliance Certificate (ECC)	Php 300
3. Construction	In accordance with the National Building Code by CDC

***Note**: Regular fees including Clark Special Economic Zone Locations Association shall also be charged to cover expenses for security, road lighting, garbage collection, etc.*

PHILIPPINE ECONOMIC ZONE AUTHORITY (PEZA)	
1. Application	
1. Registration of Ecozone Enterprises	
a. Application for New Project (non-pioneer)	Php 3,500
b. Application for New Project (pioneer)	Php 6,000
c. Application for any Amendments in Registration	Php 1200
d. Application for Conversion from Non-pioneer to Pioneer	Php 2,400
e. Application for Expansion for Production Capacity	Php 2,400
2. Registration Fees	
a. Registration for New Projects	Php 6,000
b. Registration for Expansion of Project - New Project	Php 6,000
c. Telecom Services and Other Utilities	Php 6,000 + 10% of monthly gross revenues from operations
d. All other Services Enterprise	Php 3,600
II. Processing fees	
Available Incentives	
a. Endorsement of 5% Gross Income Tax and of Income Tax Holiday	Php 1,200
b. Extension of ITH Entitlement Period	Php 1,200

Certification/True Copies	
1. Certificate of registration	Php 120
2. Filing Approval of Application	Php 120
3. Other Documents	Php 120

Labor Cost

Manpower Resources (Labor):

The laws on labor standards and employment relations are consolidated in the Labor Code of the Philippines. The salient points of employment conditions and employee benefits under the Philippine labor laws are as follows:

REGION	WO No./ DATE OF EFFECTIVITY	NON-AGRICULTURE	AGRICULTURE	
			Plantation	Non-Plantation
NCR a/	WO 16/May 26, 2011	P 426.00	P 389.00	P 389.00
CAR b/	WO 14/January 1, 2011	255.00 - 272.00	238.00 - 254.00	238.00 - 254.00
I c/	WO 14/January 20, 2011	228.00 - 248.00	228.00	200.00
II d/	WO 14/February 16, 2011	237.00 - 245.00	225.00 - 233.00	225.00 - 233.00
III e/	WO 16/June 24, 2011	279.00 - 330.00	264.00 - 300.00	244.00 - 284.00
IV-A f/	WO 14/January 15, 2011	253.00 - 337.00	233.00 - 312.00	213.00 - 292.00
IV-B g/	WO 05/Nov. 11, 2010	252.00 - 264.00	210.00 - 219.00	190.00 - 199.00
V h/	WO 14/ Nov. 1, 2010	204.00 - 247.00	215.00 - 225.00	195.00 - 205.00
VI i/	WO 19/ July 15, 2011	235.00 - 277.00	245.00	235.00
VII j/	WO15/Sept 1, 2010	240.00 - 285.00	220.00 - 267.00	220.00 - 267.00
VIII k/	WO 16/June 1, 2011	248.00	223.00-229.00	208.50
IX l/	WO 16/ Sept. 9, 2010	255.00	230.00	210.00
X m/	WO 15/August 22, 2010	254.00 - 269.00	242.00 - 257.00	242.00 - 257.00
XI n/	WO 16/Sept. 1, 2010	286.00	276.00	276.00
XII o/	WO 16/Oct. 31, 2010	260.00	240.00	235.00
XIII p/	WO 10/August 25, 2010	243.00	233.00	213.00
ARMM q/	WO 12/ August 20, 2010	222.00	222.00	222.00

Hours of Work	Eight (8) hours per day or 48 hours per week. Rest periods of short duration during work hours shall be counted as hours worked.
Work Day	A day is the 24-hour period which commences from the time the employee regularly starts to work.
Minimum Wage (Manufacturing Sector)	The minimum wage rate for agricultural and non-agricultural workers in every region are determined by the Regional Tripartite Wages and Productivity Board.

Overtime (OT) Remuneration

Overtime premium is allotted for work exceeding the maximum prescribed period. The OT rates per hour for overtime work rendered on the specified days:

Fringe Benefits

This refers to goods, services, or other benefits furnished by an employer in cash or kind, in adddition to basic salaries; to managerial or supervisory employees such as but not limited to the following:

- Housing;
- Expense Account;
- Vehicle of Any Kind;
- Household personnel, such as maid, driver and others;
- Interest on loans at less than market rate to the extent of the difference between the market rate and actual rate granted;
- Membership fees, dues and other expenses borne by the employer for the employee in social and athletic clubs or other similar organizations;
- Expenses for foreign travel;
- Holiday and vacation expenses;
- Educational assistance to the employee or his dependents; and
- Life or health insurance and other non-life insurance premiums or similar amounts in excess of what the law allows.

Managerial employees refer to those who are given powers or prerogatives to lay down and execute managerial policies and or to hire, transfer, suspend, lay-off, recall, discharge, assign, or discipline employees.

Supervisory employees are those who effectively recommend such managerial actions if the exercise of such authority is not merely routinary or clerical in nature but requirres the use of independent judgment.

Category	Computation (in Philippine Pesos)
OT Work on Regular Day	125% of Rate/Hour
OT Work during Rest Day or Special Public Holiday	First 8 Hours: 130% of Rate/Hour In excess of the First 8 Hours: 130% of Rate/Hour + 30% of (130% of Rate/Hour)
OT work on Special Public Holiday falling on employee's rest day	First 8 Hours: 150% of Rate/Hour In Excess of the First 8 hours: 150% of Rate/Hour+30% of(150% of Rate/Hour)
OT work on Regular Holiday	First 8 Hours: 200% of Rate/Hour In Excess of the First 8 hours: 200% of Rate/Hour+30% of(200% of Rate/Hour)
OT work on Rest Day falling on a Regular Holiday	First 8 Hours: 260% of Rate/Hour In Excess of the First 8 hours: 260% of Rate/Hour+30% of(260% of Rate/Hour)

Utility Costs

Water Rates	
Water - Residential (Maynilad-West Zone/Manila Water-East Zone) First 10 Cu.m, In excess of 10/cu.m.	Php 76.13 Php 13.01
Water - Industrial - PHILEA Member i.e. First 1000 cu.m. In excess of 1000 cu. M.	Php 8.90- 18/ cu.m. Php 10.60- 20/ cu.m.

Sewage Treatment	
First 1000 cu.m	Php 8.50-18/ cu.m. or 50% of actual water charges

Source: Philippine Ecozone Association

Communication Service

Telecommunication Rates	
Telephone Rental (PLDT Rates) Residential - Installation - Monthly Billing (estimated) Business - Installation - Monthly Billing (estimated)	 Php 1,999 Php 760 (+12% VAT) Php 3,500 Php 1,500 (+12% VAT)

International Calls	PLDT Rates
ASEAN/ Hongkong/ Japan/ Macao/ South Korea 1st Minute Succeeding minutes	US $0.40 US $0.40
Australia/ New Zealand 1st Minute Succeeding minutes	US $0.40 US $0.40
USA/ Canada 1st Minute Succeeding minutes	US $0.40 US $0.40
France/ Germany/ Italy/ Spain/ U.K. 1st Minute Succeeding minutes	US $0.40 US $0.40
China and India 1st Minute Succeeding minutes	US $0.40 US $0.40
Kuwait/ UAE/ Bahrain/ Saudi Arabia 1st Minute Succeeding minutes	US $0.40 US $0.40

Fax Charges

	Local	**International**
Fax Charges	US$ 0.40/copy	US$ 0.80/copy
256 KB Frame relay w/ local loop (Manila to W. Europe)	US$ 22 to 27/mo.	

Cellular Mobile Phone System				
Carrier	**Local SMS**	**Local Calls**	**International SMS**	**International Calls**
Globe				
Smart	Php 1	Php 6.50 same network and Php 7.50 other networks or landline	Php 15	US$ 0.40/min.

Internet Service Fees

Installation Fee (Email Account)	Free to Php 800
Installation Fee (Web Account)	Php 500
Subscription Rates (varies depending on the type of subscription plan – monthly, quarterly, semi-annual & annual and number of hours to be used by the company)	Php 253 to 100,000

Accounting, Auditing and Taxation

In this Chapter:

- Books of Accounts and Records
- SEC Requirements
- Audit of Accounts
- Tax Administration
- Income Taxes
- Value Added Tax
- Local Taxes
- Land and Property Tax
- Philippine Trade and Customs Environment
- Transfer Pricing

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Books of Accounts and Records

In the Philippines, all natural and juridical persons required by law to pay internal revenue taxes shall maintain and keep proper books of accounts and records of all business transactions. These books and records include, among others

- business transactions;
- correspondences;
- books of inventories and balances;
- contracts;
- journals;
- ledgers;
- income tax returns;
- financial statements; and
- other subsidiary books as required by business.

For taxation purposes, all books of accounts are required to be preserved for a period of three (3) years after the last day prescribed by law for filing the return, or provided that in a case where a return is filed beyond the period prescribed by law, the three year period shall be counted from the day the return was filed. Philippine internal revenue officers are authorized to inspect books of accounts. The inspection is generally made only once in a taxable year. The authority to do so is limited to the same period.

Philippine laws, under certain conditions, provide any director, trustee, stockholder or member of a corporation the right to inspect corporate books and records. Books and records of a corporation are ordinarily kept in the custody of the corporate secretary.

Generally Accepted Accounting Principles

Generally accepted accounting principles in the Philippines (Philippine GAAP) are currently based on International Financial Reporting Standards (IFRS) which are issued by the International Accounting Standards Board (IASB).

IFRS have been gradually phased into the Philippine financial reporting system. Full adoption of IFRS came in 2005. The Financial Reporting Standards Council (FRSC), the accounting-standard setting body in the Philippines, issues standards in a series of pronouncements called Philippine Financial Reporting Standards (PFRS). PFRS consist of PFRS [which correspond to IFRS], Philippine Accounting Standards (PAS) [which correspond to International Accounting Standards (IAS)] and Philippine Interpretations. Among others, the Philippine Securities and Exchange Commission (SEC) and the Bangko Sentral ng Pilipinas (BSP) adopted, as part of their rules, these IASB-prescribed standards effective 2005. As a result, Philippine companies, particularly those dealing with the investing public, prepare their financial statements in accordance with the new financial reporting framework based on IFRS.

While the goal or strategy was for all Philippine companies to be 100 percent IFRS-compliant or to adopt the international standards as is, some companies or specific industries needed more time to adopt some of these new accounting standards while others needed specific exemptions. Some of these are the following:

- Non-publicly Accountable Entities or NPAEs– Philippine version of Small and Medium-sized Entities or SMEs allowed an option of not adopting IFRS.

- On pension accounting, upon first-time adoption of PFRS, companies allowed to amortize pension transition obligation over up to five years, as opposed to an immediate hit to retained earnings.

- Exemption from applying tainting rule for a specific set of financial instruments. For example, the Exchange Bond program of the Philippine government.

• Commodity derivative contracts of mining companies as of January 1, 2005 "grandfathered" and exempted from the fair value requirements of IAS 39 if all certain conditions are met.

• Pre-need companies allowed to use another comprehensive set of accounting principles.

• Deviation from IFRS of certain BSP-prescribed accounting rules for banks. For example, banks provide for bad debts based on rules prescribed by the BSP including expected losses while IFRS considers the present value of projected cash flows and only incurred losses; losses from sales of non-performing assets under the Philippine Special Purpose Vehicle law are amortized over a period of time while IFRS would recognize those losses in the year of sale; and investment properties are valued at cost while IFRS allows either cost or fair value.

SEC Requirements

As a rule, the SEC requires all corporations with gross sales or revenue of Php 10M and above to file, among others, four (4) copies and a diskette of the Audited Financial Statements, duly stamped as "received" by the BIR within 120 days from the end of the fiscal year indicated in the corporate By-Laws. For corporations whose securities are registered under the Securities Regulation Code, the due date shall be 105 days from the end of their operating period. A certification that the diskette containing the Audited Financial Statements has the basic and material data in the Audited Financial Statements, executed under oath by the corporate treasurer, shall also be submitted.

Within the same period, corporations with less than PhP 10M gross sales or revenue have the option to file the Audited Financial Statements with diskettes. Otherwise, they shall file printed copies of the said documents, among others.

Audit of Accounts

Corporations, companies or persons whose gross quarterly sales, earnings, receipts or output exceed One Hundred Fifty Thousand Pesos (Php150,000), may file their annual income tax returns accompanied by balance sheets, profit and loss statements, schedules listing income-producing properties and the corresponding income therefrom, and other relevant statements duly certified by an independent CPA, which shall be considered as sufficient compliance with the filing and accomplishment of the Account formation Return required by law.

Regulated entities, such as banks, insurance companies, public utilities, and other corporations in specialized activities, are required to submit audited financial statements to their respective government regulatory agencies in addition to the SEC filing. Generally, foreign corporations duly licensed to do business in the Philippines are required to submit annual reports of their operations, as well as financial statements showing assets, liabilities and net worth within 120 days after the end of the fiscal year of the licensee. Foreign corporations are also required to comply with reportorial requirements prescribed by other government bodies under whose jurisdiction they fall.

Tax Administration

Philippine taxes are imposed on two levels – at the national government level and the local government level (i.e., provinces, cities and municipalities). Taxes at the national level are collected under the National Internal Revenue Code (NIRC), the Tariff and Customs Code (TCC), and under other special laws. The NIRC is administered by the BIR while the TCC is administered by the Bureau of Customs (BOC). Both bureaus are under the administrative supervision of the Department of Finance. Local government taxes are governed by the Local Government Code and is administered by the Treasurer and Assessor's Offices of the local government unit concerned.

The different taxes collected under the NIRC are:

1. Income tax
2. Value added tax
3. Excise tax
4. Estate and donor's tax
5. Other percentage taxes
6. Documentary stamp tax

Income Taxes

The definition of taxable income and the applicable tax rates depend on the category of the taxpayer.

Domestic corporations

A corporation is deemed to be a domestic corporation if it is organized under the laws of the Philippines. Domestic corporations are taxed on net income derived from sources within and outside the Philippines. The regular corporate income tax rate is 30 percent.

In determining its taxable income, a domestic corporation may reduce its gross income by the deductions allowed under the NIRC or by the optional standard deduction of 40 percent of its gross income.

Domestic corporations are liable for a 2 percent Minimum Corporate Income Tax (MCIT) on its gross income beginning on the fourth year after it commences business operations, when such MCIT is greater than tax computed under the regular corporate income tax regime. Any excess of the MCIT over the regular corporate income tax shall be carried forward and credited against the regular income tax for the three immediately succeeding taxable years.

Foreign corporations

Corporations not organized under the laws of the Philippines are classified as foreign corporations. They may either be a resident foreign corporation – one that is engaged in trade or business in the Philippines – or a non-resident foreign corporation.

Resident foreign corporations are taxed on their net income derived from sources within the Philippines at the rate of 30 percent.

In determining its taxable income, a resident foreign corporation may reduce its gross income by the deductions allowed under the NIRC or by the optional standard deduction of 40 percent of its gross income.

In addition to the regular corporate income tax, a resident foreign corporation is also liable for the branch profit tax. Profits remitted out of the Philippines by a branch to its head office are generally subject to a branch profit tax of 15 percent. This rate may be reduced if the non-resident foreign corporation is able to claim the benefit of a tax treaty. Profits remitted by a branch registered with the Philippine Economic Zone Authority (PEZA) and other special economic zones are exempt from the branch profits remittance tax.

Resident foreign corporations are also liable for the MCIT in the same manner as domestic corporations.

Certain resident foreign corporations are subject to different income tax regimes: Income derived by offshore banking units (OBUs) from foreign currency transactions with non-residents, other OBUs and local commercial banks are exempt from all types of taxes except the final tax of 10 percent on their interest income derived from foreign currency loans granted to residents other than OBUs or local commercial banks. International carriers are subject to a 2.5 percent final tax based on gross Philippine billings unless reduced by the application of a tax treaty

Non-resident foreign corporations are taxed on their gross income from Philippine sources at the rate of 30 percent.

Certain non-resident foreign corporations are subject to different income tax regimes. Non-resident cinematographic film owners, lessors or distributors are subject to 25 percent final withholding tax on their gross income from Philippine sources. The gross rentals, lease or charter fees of non-resident owners or lessors of vessels chartered by Philippine nationals from leases or charters as approved by the Maritime Industry Authority are subject to 4.5 percent final withholding tax. Non-resident lessors of aircraft, machineries and other equipment are subject to a 7.5 percent final withholding tax unless reduced by the application of a tax treaty.

Individuals

Resident Philippine citizens are taxed on their worldwide income. Individual non-resident Philippine citizens and Philippine citizens classified as overseas contract workers, including seamen, are taxed only on income from Philippine sources. Resident and non-resident aliens are taxed only on income from sources in the Philippines.

Philippine citizens, resident aliens and non-resident aliens engaged in trade or businesses in the Philippines are generally taxed under a progressive scale between 5 percent to 32 percent after the application of deductions and exemptions enumerated by the NIRC. In determining their taxable income, individual taxpayers who are not purely compensation earners, except non-resident aliens, may reduce their gross income by the optional standard deduction of 40 percent of their gross income or gross receipts.

Certain passive incomes are not subject to the general personal income tax rate but to final taxes.

Some resident aliens may avail of special tax rates under the NIRC or under special laws. For example, alien individuals employed by Regional or Area Headquarters or Regional Operating Headquarters, Offshore Banking Units and Petroleum Service Contractor and Subcontractor are taxed at a rate of 15 percent of their salaries and remuneration. Filipinos occupying the same positions may be taxed similarly.

Treatment of Dividends, Royalties and Interest Income

Dividends received by domestic corporations or resident foreign corporations from domestic corporations are not taxed.

Cash dividends and property dividends received by non-resident foreign corporations from domestic corporations are subject to a 30 percent withholding tax. This tax may be reduced to 15 percent if the country of the non-resident foreign corporate shareholder allows as a tax credit, the taxes deemed to have been paid in the Philippines equivalent to 15 percent.

Gross dividends in cash or property received by Philippine citizens and resident alien individuals are subject to tax at 10 percent. Cash or property dividends from domestic corporations received by non-resident alien individuals engaged in Philippine trade or business are subject to a 20 percent final withholding tax while those received by non-resident aliens not engaged in trade or business in the Philippines is subject to a 25 percent final withholding tax.

Royalties received by domestic and resident foreign corporations are normally subject to a 20 percent final withholding tax, except royalties from books, other literary works, and musical compositions where the final withholding tax is 10 percent. Royalties received by non-resident foreign corporations are generally subject to a final withholding tax of 30 percent unless reduced by the application of a tax treaty.

Royalties received by Philippine citizens, resident alien individuals, non-resident alien individuals engaged in trade or business in the Philippines are subject to a 20 percent final withholding tax, except royalties from books, other literary works, and musical compositions where the final withholding tax is 10 percent. Royalties received by non-resident aliens not engaged in trade or business in the Philippines are subject to a final withholding tax of 25 percent. The rate imposed on non-resident aliens may be reduced by the application of a tax treaty.

Interest received by domestic and resident foreign corporations are normally subject to a 20 percent final withholding tax, except that interest received from a depositary bank under the expanded foreign currency deposit system shall be subject to a final withholding tax of 7.5 percent. Interest on foreign loans received by non-resident foreign corporations is subject to a 20 percent final withholding tax unless reduced by an applicable tax treaty.

Interest received by Philippine citizens, resident alien individuals and non-resident aliens engaged in Philippine trade or business are normally subject to a 20 percent final withholding tax, except that interest received from a depositary bank under the expanded foreign currency deposit system shall be subject to a final withholding tax of 7.5 percent. Interest received by non-resident aliens not engaged in trade or business in the Philippines is subject to a 25 percent final withholding tax. The rate imposed on non-resident aliens may be reduced by the application of a tax treaty.

Treatment of Capital Gains

Capital gains realized by domestic, resident and non-resident foreign corporations are generally subject to the normal corporate tax rate of 30 percent. Capital gains realized by Philippine citizens, resident aliens and non-resident aliens engaged in trade or business in the Philippines are generally subject to the progressive scale of five to 32 percent. Capital gains realized by non-resident aliens not engaged in trade or business in the Philippines are subject to a 25 percent withholding tax.

Net capital gains realized by domestic corporations, resident foreign corporations and non-resident foreign corporations are subject to a capital gains tax of 5 percent for net capital gains not over PhP 100,000 and 10 percent on any amount in excess of PhP 100,000. However, shares of stock which are treated as capital assets listed and traded through the Philippine Stock Exchange are not subject to capital gains tax. Instead, a transaction tax of ½ of 1 percent is imposed on the gross selling price or gross value of the shares of stock sold. The same rule applies to Philippine citizens, resident aliens and non-resident aliens (whether or not engaged in trade or business in the Philippines).

Capital gains from the sale, exchange or disposition of real property treated as capital assets of domestic corporations are subject to a 6 percent tax based on gross selling price or fair market value of the real property sold, whichever is higher. The same rule applies to Philippine citizens, resident aliens and non-resident aliens (whether or not engaged in trade or business in the Philippines).

Foreign Tax Relief and Tax Treaties

The Philippine taxation system provides for comprehensive double taxation relief for taxes incurred in territories outside the Philippines, both under the provisions of Philippine tax laws and under double taxation agreements. Under the NIRC, a taxpayer may elect to take a credit or deduction for foreign income tax. The amount of foreign tax credit, however, is subject to conditions and limitations depending on the foreign country to which the taxes were paid.

The Philippines currently has tax treaties with 35 countries, namely: Australia, Austria, Bahrain, Bangladesh, Belgium, Brazil, Canada, China, Czech Republic, Denmark, Finland, France, Germany, Hungary, India, Indonesia, Israel, Italy, Japan, Korea, Malaysia, the Netherlands, New Zealand, Norway, Pakistan, Romania, Russia, Singapore, Spain, Sweden, Switzerland, Thailand, the United Kingdom, the United States of America and Vietnam.

Value Added Tax

Any person who, in the course of trade or business, sells, barters, exchanges, leases goods or properties, renders services and imports goods shall be subject to VAT at the rate of either 12 percent or zero percent. Some transactions are VAT exempt.

The VAT is imposed on the gross selling price or gross value in money of the goods or properties sold, bartered or exchanged, or the gross receipts derived from the sale or exchange of services, including lease of properties. In the case of importation, the tax is based on the total value used by the Bureau of Customs (BOC) in determining tariff and customs duties plus excise taxes and other charges, provided that where the customs duties are determined on the basis of the quantity or volume of the goods, the VAT shall be based on the landed cost plus excise taxes, if any.

VAT is an indirect tax which may be passed on to the buyer, transferee or lessee of the goods, properties or services. A VAT payer is generally able to use the VAT on its purchases (Input VAT) as a credit to offset its VAT liabilities arising from the sale of its goods or service (Output VAT).

Zero rated transactions

If a transaction is categorized as zero rated for VAT purposes, the VAT-registered seller is entitled to a refund or tax credit of input tax paid on his purchases related to the zero-rated transaction. These transactions are:

- Export sales
- Foreign currency denominated sales
- Sales to persons or entities whose exemption under special laws or international agreements to which the Philippines is a signatory effectively subjects such sales to zero rate.

VAT-exempt transactions

If a transaction is categorized as an exempt transaction, the seller does not impose VAT on the sale of the goods. It is also not able to use any VAT that it paid from its purchases related to the exempt transaction as a credit against its Output VAT. Neither is the taxpayer able to claim a refund for the Input VAT related to its VAT exempt sales.

Local Taxes

Local government units may create their own sources of revenue by levying taxes, fees, and charges provided that the taxes so imposed are uniform, equitable, and devoted to a public purpose which will inure to the benefit of the collecting local government unit. Business transactions which may be subject to local taxation include manufacturers, traders, exporters, banks, financial institutions, insurance companies, as well as contractors performing all kinds of services within the territorial jurisdiction of the collecting local government unit, such as but not limited to general engineering services, publishing, quarrying, dressmaking, lessors, retail or wholesale distributors, and persons engaged in the exercise or practice of a profession requiring government examination.

Land and Property Taxes

Owners or administrators of land, as well as buildings and improvements erected thereon, are assessed a property tax by the local government unit of the place where the property is located. A percentage of the fair market value, based on the classification of the property, is used as a tax base. The rates vary depending on the locality and classification or use of the property being assessed. However, the total rates shall not exceed three percent of the assessed value of the real property.

Philippine Trade and Customs Environment

The primary enforcement agency with respect to cross border trade is the Philippine Bureau of Customs (BoC).

As a member of the World Trade Organization (WTO), the country uses the transaction value method as the primary basis for the valuation of imported goods for customs purposes. It is also a member of the World Customs Organization (WCO) and uses the Harmonized System for the tariff classification of its imports and exports.

Although tariffs in the Philippines are already considerably low (having a weighted average tariff rate of 3.2 percent in 2006), non-tariff barriers such as import restrictions, import licensing requirements, labeling, complex customs regulations, and other administrative requirements continue to remain a concern for companies.

Customs rules can be complex in the Philippines and certain details can be overlooked at the border which can later on be uncovered during an audit, and result in substantial costs.

The BoC is now more aggressively conducting post-entry audits in the Philippines, but allows companies to undertake a voluntary disclosure for a waiver of penalties.

Various duty savings opportunities may be leveraged in the Philippines from a clear understanding of Customs rules and practice.

Basis of Duties and Taxes

Duties are assessed in the Philippines on a Cost-Insurance-Freight (CIF) basis.

The primary mode of customs valuation in the Philippines is the transaction value. Any doubts cast by the BoC on the said value may lead to the use of other valuation methodologies under the WTO appraisement hierarchy.

Excise taxes apply to importation of certain commodities such as alcohol, cigarettes, fuel, and automobiles. The excise tax rate and base varies from product to product.

A 12 percent Value Added Tax is imposed on importations based on the landed cost (i.e. value of goods + duties + excise + post import charges)

Regulated commodities

A number of commodities require special permits and licenses from certain government agencies prior to their importation to Philippines. Examples of these are food and medicines, animal products, plant products, refrigerators/air-conditioners, and construction materials.

Filing an import entry

Import entries are filed with the BoC regardless of whether the imported articles are subject to duties or not. Entries should be covered by a verifiable evidence of payment (e.g. Letter of Credit). A customs broker generally undertakes the filing process and accomplishes the Import Entry and Internal Revenue Declaration (IEIRD). Payment of duties and taxes are usually coursed through authorized agent banks.

Current risks to companies

Philippine customs rules are complex, frequently amended and, oftentimes, subject to varying interpretations. The BoC Post Entry Audit Group is becoming more active and is expected to issue more audit notification letters to companies in the future.

Voluntary Disclosure Program

The BoC is currently extending an opportunity for companies that have not yet been audited to voluntarily disclose erroneous declarations and pay the deficiency taxes and duties in order to avail of a waiver of penalties and be granted least priority status in future audit selections.

Conditionally duty free importations

Subject to certain conditions (among them the posting of bonds) a number of items may be imported free of duty into the country such as exhibit pieces, demonstration units, and articles for repair to be re-exported thereafter. Articles previously exported from the Philippines that did not undergo any processing abroad may also be imported free of duty subject to certain conditions.

Duty drawback and bonded warehousing

Duties paid on imported materials that were used in the production of an exported product may be reclaimed, usually in the form of tax credit certificates. Customs bonded warehouses are also available for export oriented enterprises to avail of duty exemptions on importer raw materials for their export production. Currently, however, there is a prevailing moratorium on the establishment of additional bonded warehouses. Instead, companies may enlist for allocations under existing common bonded warehouses.

Free Trade Agreements

The Philippines is party to various FTAs which include the ASEAN Free Trade Agreement (AFTA), the ASEAN-China FTA, the ASEAN-Korea FTA, the ASEAN-Australia/New Zealand FTA and the Japan-Philippines Economic Partnership Agreement (JPEPA). Negotiations are underway for more possible FTA arrangements which would offer lower duty rates.

In order to qualify for preferential duty rates, a company must comply with the rules of origin for that particular FTA. These rules have varied criteria (e.g. regional value added content, change in tariff classification) which apply to different products under different FTAs.

Investment Incentives

Companies that are registered with the Philippine Board of Investments (BOI) may be allowed to import capital equipment and spare parts duty free if these are pertinent to its registered business activity.

Special Economic Zones

Export oriented locators in Special Economic Zones under the Philippine Economic Zone Authority (PEZA) are allowed to import raw materials and capital equipment free of duties and taxes. In order to be a locator, these enterprises are required to export at least 70 percent of their total production.

Transfer Pricing

Section 50 of Tax Code provides that in the case of two or more organization, trades or businesses (whether or not incorporated and whether or not organized in the Philippines) owned or controlled directly or indirectly by the same interests, the Commissioner of Internal Revenue is authorized to distribute, apportion or allocate gross income or deductions between or among such organization, trade or business, if he determines that such distribution, apportionment or allocation is necessary in order to prevent evasion of taxes or clearly to reflect the income of any such organization, trade or business.

The Bureau of Internal Revenue (BIR) has recognized that Section 50 places a controlled taxpayer in tax parity with an uncontrolled taxpayer by determining the arm's-length price of inter-company transactions.

However, while Section 50 has been cited as the basis for transfer pricing rules, to date, the Philippines does not have transfer pricing regulations. The BIR has not imposed requirements in relation to transfer pricing documentation and/or transfer pricing-related disclosures in the tax returns. Neither has the BIR conducted transfer pricing audits.

Nevertheless, a draft of the transfer pricing regulations has been made as early as 2006. The draft is pending revisions.

Moreover, the BIR has stated that as a matter of policy, it subscribes to the Transfer Pricing Guidelines for Multinational Enterprises and Tax Administrations, issued by the Organization for Economic Cooperation and Development. Accordingly, until the said transfer pricing regulations are issued, any and all concerns shall be resolved in accordance with the principles laid down by the said guidelines.

The BIR has also applied Section 50 of the Tax Code for inter-company loans or advances. Where one member of a group of controlled entities makes a loan or advances directly or indirectly, or otherwise becomes a creditor of another member of such group, and charges no interest, or charges interest at a rate which is not equal to an arm's length rate, the Commissioner of Internal Revenue may make appropriate allocations to reflect an arm's-length interest rate for the use of such loan or advance. The arm's length interest rate shall be the rate of interest which was charged or would have been charged at the time the indebtedness arose in independent transaction with or between unrelated parties under similar circumstances. All relevant factors will be considered, including the amount and duration of the loan, the security involved, the credit standing of the borrower, and the interest rate prevailing at the situs of the lender or creditor for comparable loans. For purposes of determining the arm's length rate in domestic transactions, the interest rate to be used is the Bank Reference Rate prescribed by the Bangko Sentral ng Pilipinas (the Philippine Central Bank).

Getting Listed in the Philippine Stock Exchange

In this Chapter:

- Initial Public Offering
- Requirements
- Fees

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Getting listed in the Philippine Stock Exchange (PSE) means being included in its certified registry and being admitted for trading. Once listed, a private closed company is transformed to a publicly-held and traded company. This means that the shares of the company are offered for purchase by the public.

Public offering can be done either by primary or secondary listing. By primary offering, shares are offered to the public for the first time and involves the original sales of shares by the issuing company. Secondary offering, on the other hand, is the sale of the shares of the company's existing stock holders.

Shares can also be listed on trading boards without public offering.

Initial Public Offering

Initial Public Offering (IPO) refers to the first time tradable shares securities are sold or distributed to the public.

The PSE enforces rigorous rules and procedures in being listed in its registry. A company may opt to apply for listing in any of the three (3) trading boards – First Board, Second Board, and Third Board. Listed below are the requirements, as specified by the PSE.

Minimum Offering

<table>
<tr><th>First Board</th><th>Second Board</th><th>SME Board</th></tr>
<tr><td colspan="2">Unless otherwise provided by law or government regulation, the minimum offering to the public for initial listing shall be based on the following schedule:</td><td rowspan="7">The minimum offering to the public for initial listing shall be twenty percent (20 percent) of the authorized capital stock. Provided, that the existing shareholders prior to listing of securities shall maintain fifty-one percent (51 percent) ownership within the next three years following listing date.</td></tr>
<tr><td>Market Capitalization</td><td>Public Offer</td></tr>
<tr><td>Not exceeding Php 400M</td><td>33% or Php 50M whichever is higher</td></tr>
<tr><td>Over Php 400M to Php 1B</td><td>25% or Php 100M whichever is higher</td></tr>
<tr><td>Over Php 1B to Php 5B</td><td>20% of Php 250M whichever is higher</td></tr>
<tr><td>Over Php 5B to Php 10B</td><td>15% or Php 750M whichever is higher</td></tr>
<tr><td>Over Php 10B</td><td>10% or Php 1B whichever is higher</td></tr>
</table>

Requirements

General Requirements

Basic Guidelines

First Board	Second Board	SME Board
a. A track record of profitable operations for three (3) full fiscal years; or b. A market capitalization of Php 500M, provided that it has a five-year operating history; or c. Net tangible assets of Php 500M, provided that it has a five-year operating history.	a. The applicant company must demonstrate its potential for superior growth to the PSE; b. It must have an operating history of at least one (1) year prior to its listing; and c. At listing, the market capitalization of the company must be at least Php 250M.	The applicant company shall be evaluated based on the following: a. The integrity and capability of the company's management and its controlling stockholders; b. The company's prospects of further growth and profitability; c. The viability of the business and sustainability of the projected earning stream; and d. The company's lack of existing material conflicts of interest.

Track Record Requirements

First Board	Second Board	SME Board
A company must have a cumulative consolidated pre-tax profit of at least at least Php 50M and a minimum pre-tax profit of Php 10M for each of the three (3) full fiscal years immediately preceding the application for listing. For purposes of this rule, pre-tax profit shall not include non-recurring and extraordinary income, nor shall it be reduced by non-recurring and extraordinary loss. The applicant must further be engaged in materially the same businesses and must have a proven track record of management throughout the last three (3) years prior to the filing of the application. Exceptions to the three-year track record rule: a. The applicant company has been operating for at least ten (10) years prior to the filing of the application. The applicant company shall have a cumulative pre-tax profit of at least Php 50M, excluding non-recurring and extraordinary income and/or loss, for the last three (3) fiscal years immediately preceding the application for listing. No net operating loss must have been registered in the fiscal year immediately preceding the filing of the application. b. The applicant company is a newly formed holding company which uses the operational track record of its subsidiary(ies). The company, however, is prohibited from divesting its shareholdings in the said subsidiary(ies) for a period of three (3) years from the listing of its securities. The prohibition shall not apply if a divestment plan is approved by majority of the applicant company's stockholders.	None, but must demonstrate a potential for superior growth, through the submission of Statement of Active Business Pursuits and Objectives.	The applicant company should have been operational for at least one (1) year with positive net operating income (income before interest, taxes, depreciation and amortization-EBITDA) during the last financial year.

Numerical Criteria

First Board	Second Board	SME Board
Authorized Capital Stock- Minimum - Php 400,000,000 Subscription and Paid-up- Minimum - Php 100,000,000 Minimum Par Value - Php 1	Authorized Capital Stock- Minimum - Php 100,000,000 Subscription and Paid-up- Minimum - Php 25,000,000.00 Condition on Paid-up: at least 75% of the paid-up must have already been disbursed to the project, venture or business referred to in the business plan Minimum Par Value - Php 1	Authorized Capital Stock- Minimum - Php 20,000,000 Maximum -Php 100,000,000 Subscription and Paid-up- Minimum - 25% of the ACS * The applicant company should have net tangible assets of at least Php 5M. The net tangible assets requirement is not applicable to information technology companies. Minimum Par Value - Php 1

Operating History

First Board	Second Board	SME Board
For a track record of profitable operations - at least three (3) full fiscal years prior to the filing of the listing application if with track record. For a market capitalization or net tangible assets of Php 500M - at least five (5) years.	At least one (1) year prior to listing	At least one (1) year from filing

Listing Documents

Financial Statements

First Board	Second Board	SME Board
Audited FS for the last three (3) full fiscal years of the company and its subsidiaries prepared by an independent auditor together with a schedule of the aging of its accounts receivable	Audited FS for the last three (3) full fiscal years of the company and its subsidiaries prepared by an independent auditor	When applicable, audited FS for the last three (3) full fiscal years of the applicant company and its subsidiaries

Statement of Active Business Pursuits and Objectives

First Board	Second Board	SME Board
Not required	*Statement of Active Business Pursuits and Objectives* - detailed report on its active business pursuits. It shall describe the technical and commercial aspects of the applicant company's business operations. Active business pursuits is defined as the activities undertaken and will be undertaken by the applicant company in order to advance its business. As a general rule, financial projections are not required, but should there be references made in the Statement to future profits or losses, or any other item that would be construed to indicate forecasts, then the applicant company is required to include financial projections in the Statement duly reviewed by an independent accounting firm. For listing applications received within the first three (3) quarters of the applicant company's fiscal year, the period of discussion should cover the previous and current fiscal years and the next two (2) fiscal years. With respect to listing applications received within the fourth quarter of the applicant company's fiscal year, the discussion should cover the previous and current fiscal years and the next three (3) fiscal years.	

Requirements for Continuing Listing

a. Unstructured Reports
b. Structured Reports
   1. 200 copies of the Annual Report (SEC Form 17-A) – 105 days after the end of the fiscal year, or such other time as the SEC, by rule, shall prescribe

   2. 200 copies of Quarterly Report (SEC Form 17-Q) – 45 days from end of the first three quarters

   3. One copy of the Annual list of Stockholders (should include the name of shareholders with the corresponding number of shareholdings and its percentage to the total issued and outstanding shares, address, nationality, and total number of stockholders) – within five (5) trading days after the record date of the Annual Stockholders' Meeting

   4. One copy of the Top 100 Stockholders (should include the name of shareholders with the corresponding number of shareholdings and its percentage to the total issued and outstanding shares) – within 15 calendar days after the end of each quarter of the calendar year

   5. Duplicate original of other information, documents, and reports submitted to the SEC

Restrictions

First Board	Second Board	SME Board
As a general rule, a subsidiary or parent company of an existing listed issuer will not be considered suitable for listing if the assets and operations of the applicant are substantially the same as those of the existing listed issuer. In arriving at a decision, the PSE will consider the applicant's business or commercial reasons for listing.		

Others

First Board	Second Board	SME Board
A newly formed holding company which invokes the operational track record of its subsidiary(ies) to qualify for the track record exception letter b, is prohibited from divesting its shareholdings in the said subsidiary(ies) for a period of three (3) years from the listing of its securities. The prohibition shall not apply if a divestment plan is approved by majority of the applicant company's stockholders.	Holding companies or companies whose earnings are derived exclusively from passive income are not qualified to list under the Second Board.	1. **The PSE shall not allow the listing on the SME Board of any holding, portfolio, and passive income company.** For purposes of this rule, holding, portfolio and passive income company shall mean a company that confines its activities to owning stocks in, and supervising management of other companies and whose source of income are mainly dividends, equitized earnings, and interest earnings from its investments. 2. **No change in primary purpose** - the applicant company shall not be allowed to change its primary purpose stated in its Articles of Incorporation for a period of five (5) years following its listing. The PSE reserves the right to delist listed companies whose objective(s) and purpose(s) as stated in its Articles of Incorporation submitted to the PSE have been amended within the specified period. 3. **No Offering of Secondary Securities** - the applicant company is prohibited from offering secondary securities during the IPO. For purposes of this rule, secondary securities shall mean securities originally held by the existing shareholders prior to IPO. 4. **Non-waiving of Pre-Emptive Rights** - the applicant company's Articles of Incorporation and By-Laws shall explicitly provide for pre-emptive rights of the stockholders, provided that, upon listing, the company shall in no way secure waiver of such rights from the stockholders by way of a corporate action.

Fees

Processing Fees

<table>
<tr><th>First Board</th><th>Second Board</th><th>SME Board</th></tr>
<tr><td colspan="2">Upon application, the applicant company shall pay a non-refundable processing fee of Php 50,000 plus other incidental expenses.</td><td>Upon application, the applicant company shall pay a non-refundable processing fee of P20,000 plus other incidental expenses.</td></tr>
</table>

Listing Fees

<table>
<tr><th>First Board</th><th>Second Board</th><th>SME Board</th></tr>
<tr><td colspan="2">
<table>
<tr><td>First Php 5B</td><td>1/10 of 1% or Php 500,000 whichever is higher</td></tr>
<tr><td>Second Php 5B</td><td>Php5M + 1/20 of 1% of excess over Php 5B</td></tr>
<tr><td>Third Php 5B</td><td>Php 7.5M + 1/30 of 1% of excess over Php 10B</td></tr>
<tr><td>Fourth Php 5B</td><td>Php 9.166666M + 1/40 of 1% of excess over Php 15B</td></tr>
<tr><td>Excess Php 20B</td><td>Php 10.416666M + 1/50 of 1% of excess over Php 20B of market value of shares applied for listing based on offer price</td></tr>
</table>
If the exact offer price is still to be determined from a price range set by the applicant company, the maximum price in the price range shall be used as basis for the computation of the listing fees. As soon as the exact offer price is determined, the PSE shall reimburse the excess amount within 15 calendar days.
Applicant companies shall pay the listing fee as soon as practicable which in no case shall be later than 15 calendar days from receipt of the Notice of Approval from the PSE. If the applicant company fails to pay within the prescribed period, the applicant company shall incur a surcharge of 25 percent plus 1 percent interest (based on the listing fee) for every day of delay.
</td><td> Fixed listing fee of Php 50,000
If the company fails to pay within the prescribed period, a surcharge of 25 percent plus one percent interest (based on the listing fee) for everyday of delay shall be imposed. </td></tr>
</table>

Annual Listing Maintainance Fees

<table>
<tr><th>First Board</th><th>Second Board</th><th>SME Board</th></tr>
<tr><td colspan="2"> 1/100 of one percent of market capitalization as of the last trading day of the immediately preceding year, but in no case to be less than Php 200,000.00 nor more than Php 1M for each listed company.
To be paid on or before January 15 of each year, with an allowable grace period of one week.
The listed company shall be assessed a fine of Php 1,000.00 for every calendar day of delay. If the company fails to remit the maintenance fee by February 15 of that same year, the PSE shall discontinue assessing the company the fine but it shall automatically suspend the company from trading for two (2) months or until April 15. If the listed company still fails to pay the required fee after April 15, the listed company shall be considered for delisting in accordance with the Delisting Rules of the Exchange. </td>
<td> Php 100.00 for every Php 1M market capitalization of listed shares as of the last trading day of the immediately preceding year, but in no case shall it be less than Php 20,000 nor more than Php 200,000.
The listed company shall be assessed a fine of Php 1,000.00 for every calendar day of delay. If the company fails to remit the maintenance fee by February 15 of that same year, the PSE shall discontinue assessing the company the fine but it shall automatically suspend the company from trading for two (2) months or until April 15. The company shall be delisted without prejudice to the payment of the proportionate maintenance fees of the PSE. </td></tr>
</table>

Annual Maintainance Fee for Subscription Warrants

<table>
<tr><th>First Board</th><th>Second Board</th><th>SME Board</th></tr>
<tr><td colspan="3"> The annual maintenance fee for Subscription Warrants shall be based on the total funds which would be raised from the full exercise of the warrants, to wit:
<table>
<tr><th>Percentage of Existing Issued Share Capital Subject to To Warrants</th><th colspan="3">Total Funds Which Would be Raised on Full Exercise of the Warrants</th></tr>
<tr><td></td><td>Not Exceeding Php 500M</td><td>Not Exceeding Php 1B</td><td>Above Php 1B</td></tr>
<tr><td>Not exceeding 10%</td><td>Php 150,000</td><td>Php 250,000</td><td>Php 300,000</td></tr>
<tr><td>Not exceeding 50%</td><td>Php 150,000</td><td>Php 250,000</td><td>Php 400,000</td></tr>
<tr><td>Not exceeding 100%</td><td>Php 250,000</td><td>Php 300,000</td><td>Php 450,000</td></tr>
<tr><td>Over 100%</td><td>Php 300,000</td><td>Php 400,000</td><td>Php 600,000</td></tr>
</table>
</td></tr>
</table>

* **NOTE:** *All fees indicated are exclusive of VAT.*

Source: www.pse.com.ph/index.html

About Manabat Sanagustin & Co., CPAs

In this Chapter:

- About Manabat Sanagustin & Co., CPAs
- History
- Services
- Audit Services
- Tax
- Advisory Services

About Manabat Sanagustin & Co., CPAs

Manabat Sanagustin & Co., CPAs is the Philippine member firm of KPMG International, a Swiss cooperative, and is one of the fastest growing practices in the Asia Pacific. We offer Audit, Tax and Advisory services to our clients and work closely with them to help them in their business.

History

The partnership of Manabat Sanagustin & Co., CPAs and KPMG International began with a vision. Spurred by the desire to bring the country's professional services to global renown, Dr. Jaime Laya and Mario Mananghaya entered into an affiliation with KPMG International in 1998.

Spurred by an ambitious vision to create the ultimate firm of choice and offer the highest quality of professional business services, they further steered the business to grow to a strong 300-man firm in 2004. Dr. Jaime Laya retired in that same year while Mr. Mananghaya continued to manage the business until his retirement in 2006.

In 2007, led by new and dynamic leaders, Roberto G. Manabat (Chairman & CEO), Emmanuel P. Bonoan (COO & Vice-Chair, Tax) and Jorge Ma. S. Sanagustin (Vice-Chair, Audit), Manabat Sanagustin & Co., CPAs has taken on the exciting challenge to bring about more innovation in a very competitive industry. Today, dedication, drive and unflinching adherence to the tenets of quality burn in the hearts and minds of more than 700 men and women whose professionalism and passion for achievement cut them above the rest.

The pioneering vision of its leaders continue to live on. Manabat Sanagustin & Co., CPAs, as the Philippine member firm of the KPMG network of independent firms, takes immense pride in this partnership. More than the prestige it lends to the firm, this global link enables Manabat Sanagustin & Co., CPAs to access resources and expertise to provide service beyond the extra mile.

Services

The Firm brings to its clients technical skills, solid practical experience and wide industry and sector knowledge which help clients develop a competitive edge. It applies a rigorous approach in providing audit, tax, and advisory services to assist its clients in defining their business, business goals or investments and works with them to achieve those objectives.

We work closely with other regional KPMG member-firm offices to bring the wealth of experience closer to our clients and at the same time deliver value-added services to them as needed.

We understand that each industry has its own issues and special challenges. Through education, industry focused training and years of firsthand experience, our professionals have gained an in-depth understanding of a wide range of key industries and issues faced by each industry.

Audit

Our Audit practice provides independent and objective assurance on information, transactions and processes. We offer Financial Statement Audits, Attestation Services & agreed-upon procedures. Audit quality is our top priority.

Our partners and professionals are trained to look closely at various aspects of financial reporting so they are able to isolate risk. Integrity, quality and independence are the building blocks of KPMG's approach.

Our audit process does more than assess the financial information. It enables our professionals to give appropriate consideration to the unique elements of the business whose financial statements are being audited, its culture, the industry in which it competes, competitive pressure, and the risk inherent within those elements.

In our commitment to share industry relevant experience and knowledge, we have a separate audit group devoted to servicing the needs of financial institutions clients.

Tax

Attitudes to tax are changing. Organizations of all sizes are ever more exposed to new trends in tax regulation, not just locally but globally. By thinking beyond the present and beyond borders to deliver long-lasting value, our member firms' understanding of tax governance, specialist skills and deep industry knowledge help our clients to stay competitive and compliant.

Business Tax

- Corporate and Business Tax
- International Corporate Tax
- Indirect Tax
- Mergers & Acquisitions
- Transfer Pricing
- Global Tax Management
- Legal Services
- Bookkeeping services
- Payroll Services

Personal Tax

- Taxation Services to Individuals (excluding IES)
- International Executive Services

Advisory

Business is a series of decisions, some of which can make or break an organization. All of them have the potential to affect performance and competitiveness.

Quality and timely business decisions result from adequate information, careful analysis and a realistic appreciation of risk.

The quality of decision making (including strategy formulation) and the effectiveness of its execution feeds directly into performance levels, the creation and preservation of value and governance standards.

Of course, organizations are always responsible for their own business decisions. However, many choose to augment their internal resources with the knowledge, experience, market insights and judgment of skilled and trusted advisers.

Transactions and Restructuring

To help make your company more robust, it may be worth considering divesting struggling and non-core assets and take advantage of lower prices to make strategic acquisitions. You might also be considering expanding into other markets, either domestically or internationally.

Given the difficult business conditions of recent times, a change of approach may be needed as previously good clients may have become bad debts, credit not being readily available and some suppliers no longer able to supply. Equally, for some businesses, the tougher business conditions have resulted in underperformance from either an operational or financial perspective. Now is the time to address such issues to position your business for any upturn.

Services Offered

Corporate Finance
- Mergers & Acquisition Advice
- Financing
- Valuations
- Projects

Transaction Services
- Buy-side Assistance
- Sell-side Assistance

Restructuring
- Operational Restructuring
- Financial Restructuring
- Insolvency
- Turnaround Executive Management
- Crisis management
- Cash management

Non-core Advisory Services
- Bookkeeping and Payroll Services
- Systems and ERP Implementation
- Recruitment

Performance and Technology

Successful organizations, whether they are businesses or public sector entities continually examine their performance, cost and policy drivers, seeking out opportunities to enhance their efficiency and take advantage of opportunities arising from technological innovation and changes in regulation, consumer behaviours, demographic trends and economic conditions.

Effective business and government leaders typically concentrate on key value drivers.

Services Offered

Business Performance Services
- Financial Management
- Business Effectiveness
- People and Change

IT Advisory
- ERP Advisory
- IT Attestation
- IT Project Advisory
- IRM in External Audit
- IRM in Internal Audit
- IT Strategy & Performance
- IT Sourcing Advisory
- Information Protection and Business Continuity Advisory

Risk and Compliance

Risk management can’t be boiled down to a single metric or key performance indicator. Yet that doesn’t mean that a disciplined and inclusive approach to risk management isn’t one of the keys to sustainable organizational success.

Organizations of all kinds are being expected to get better at identifying, understanding and managing the risks they face. To varying degrees, all organizations are exposed to risks.

Given the breadth and complexity of the typical organizational risk profile, it’s increasingly recognized that risk management can’t be the responsibility of a single individual or department — rather it has to be embedded across the organization, starting with the board and the CEO.

Services Offered

Accounting Advisory Services
- Financial Reporting Advisory
- Financial Reporting Processes Advisory

Internal Audit Risk & Compliance Services
- Internal Audit
- Enterprise Risk Management
- Contract Compliance
- Governance, Regulatory & Compliance
- Sustainability

Financial Risk Management
- Credit Risk
- Market Risk
- Capital Adequacy & Regulatory Services
- Financial Instruments
- Actuarial Services & Financial Statement Support
- Operational Risk
- Insurance Risk
- Economic Capital Management Accounting

Forensic
- Investigations Fraud
- Regulatory Compliance (including Anti-money laundering and anti bribery and corruption
- Corporate Intelligence
- Fraud Risk Management
- Intellectual property and Contract Governance
- Dispute Advisory Services
- Forencsic Technology service

Appendix

In this Chapter:

- Recent History: Democratization
- Languages
- Geography
- Climate
- Population
- Education
- Political and Legal System
- Overview of Economic Indicators
- Peso-Dollar Exchange
- Inflation Rates
- Government Agencies and Private Organizations' Contact Information
- Partner Directory

Recent History: Democratization

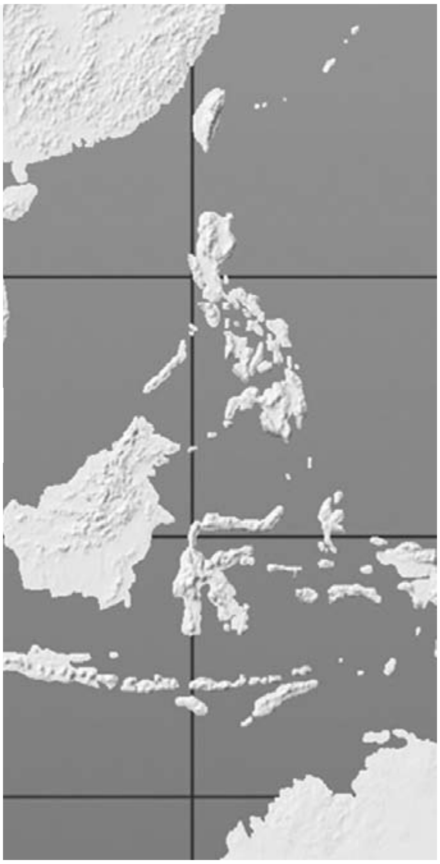
- The Philippines officially became a Republic in 1946
- The year 1986 was a landmark year in the country's efforts to become a self-governing, full-fledged democratic country when President Ferdinand Marcos was ousted from power and President Corazon Aquino assumed the presidency
- The Aquino Presidency (1986-1992) was marked by a revival of democratic institutions and the restoration of civil liberties
- National reconciliation was the highlight of the Ramos Presidency (1992-1998) as well as continuing political and economic reforms initiated by the previous administration
- The short lived Estrada Presidency (1998-2001) governed via a platform of populism with poverty alleviation as its centerpiece
- Former President Gloria Macapagal-Arroyo's presidency (2001-2010) has made the economy the focus of her presidency. There was steady economic growth in terms of GDP, fiscal reforms have allowed the government to make headway in its development initiatives
- Benigno Aquino III, who was elected on 10 May 2010, is the current President of the Republic of the Philippines. His main platform is good governance and the elimination of corrupt practices in the government. The Philippine economy expanded by 7.3 percent in 2010, the highest since democracy was restored to the country more than 2 decades ago. The strong growth came during a period of peaceful political transition for the Philippines, as Benigno Aquino easily won presidential elections in May last year and succeeded Gloria Arroyo as the nation's leader

Languages

- Over 87 languages and dialects belonging to the Malayo-Polynesian linguistic family
- Three principal languages: Cebuano, Tagalog, and Ilocano. Filipino is the official language
- English is the language of business and government
- In January 2003, President Gloria Macapagal-Arroyo ordered the Department of Education to restore English as the medium of instruction in all schools and universities

Geography

- Located in Southeast Asia
- Area: 300,000 sq. km. (117,187 square miles)
- Three major geographical areas: Luzon, Vizayas, Mindanao
- Capital City (2005 estimate): Manila (pop. 11.29 million in the metropolitan area);
- Other Cities - Davao City (1.33 million); Cebu City (0.82 million)
- Terrain: Archipelago composed of 7,107 Islands, 65 percent mountainous, with narrow coastal lowlands



Climate

- Tropical, sitting astride a typhoon belt.
- Three seasons: Rainy (June to October); Cool and Dry (November to February); Hot and Dry (March-May)
- Average Temperature: 27 degrees Celsius (81 degrees Fahrenheit); Average Humidity: 78 percent.
- Year-round Average Temperature Range: 23-32 degrees Celsius.

Population

- 101,833,938 (July 2011 est.)
- Population growth rate: 2.04 percent (National Statistics Office, POPCEN 2007 data)
- Languages spoken: Filipino, English, and other regional dialects

Education

- 10 years of Public Elementary and High School education subsidized by the government
- English is part of the curriculum and is the medium of instruction for most subjects
- One of the highest literacy rates in Asia : Simple Literacy Rate: 88.6 percent: Functional Literacy Rate: 84.1 percent (2003 FLEMMS, National Statistics Office, Department of Education)

Political and Legal System

- Type: Republic
- Independence: 1946
- Current constitution: Ratified on 11 February 1987
- Branches: Executive-President and Vice President; Legislative-Bicameral legislature; Judicial-independent
- Administrative Subdivisions: 15 regions and Metro Manila (National Capital Region), 79 provinces, 115 cities
- Political Parties: Liberal Party, Lakas-Kabalikat ng Malayang Pilipino-Christian Muslim Democrats, Nationalist People's Coalition, Nacionalista Party, Pwersa ng Masang Pilipino, Laban ng Demokratikong Pilipino, Kilusang Bagong Lipunan, Partido ng Demokratiko Pilipino-Lakas ng Bayan, and other small parties
- Suffrage: Universal, but not compulsory, at age 18

Overview of Economic Indicators

2010 Official Economic Performance

- GDP : $188.7 billion (2010 est.)
- Real GDP growth rate: 7.3%
- GDP per capita : $3,500 (2010 est.)
- Trade: Exports - $51.43 billion
  Imports - $60.51 billion

Source: Bangko Sentral ng Pilipinas
National Statistical Coordination Board

Peso-Dollar Exchange

2010 Performance

The peso remained strong in 2010 posting an average exchange rate of PhP45.12 to USD 1. This growth is 5.6 percent higher than the PhP 47.64 to the USD 1 average rate that the currency posted in 2009. The Philippines' growth in the BPO sector, tourism, the strong inflow of remittances from Overseas Filipino Workers and growth in export performance were key factors in the Philippine currency's strength against the US Dollar.

Source: Bangko Sentral ng Pilipinas

Inflation Rates

2010 Performance

In 2010, the Philippines achieved an inflation rate of 3.8 percent which was higher than the 3.2 percent average in 2009 but still well within the forecasted range of 3.5 to 5.5 percent. Due to positive supply conditions in the domestic market, the country enjoyed lower food inflation compared to 2009 with the average rate for food, beverage and tobacco slowing down to 3.0 percent from 5.8 percent in 2009. However, lower food inflation was offset by higher non-food inflation due to a dramatic increase in the prices of electricity and petroleum products. Non-food inflation accelerated to 4.6 percent from the previous year's 0.7 percent. This increase was reflective of increased generation costs and power rates from the Wholesale Electricity Spot Market and the National Power Corporation. Fuel, transportation and communication services also increased due to higher global crude oil prices.

Source: Bangko Sentral ng Pilipinas

The following are the contact information of government agencies and private organizations that can provide information and assistance to investors.

Bangko Sentral ng Pilipinas (BSP)
Central Bank Building, A Mabini St., Malate, Manila
Tel. No.: +63 2 524 7011
Fax No.: +63 2 523 6210
Website: http://www.bsp.gov.ph

Board of Investments (BOI)
Industry and Investments Building, 385 Sen. Gil Puyat Ave., Makati City
Tel. Nos.: +63 2 897 6682 , 890 1332 and 895 3641
Fax No.: +63 2 895 3512
Website: http://www.boi.gov.ph

Bureau of Labour and Employment Statistics
3F, DOLE Building, Gen. Luna cor. Muralla Sts., Intramuros, Manila
Tel. No.: +63 2 527 3000 loc. 315
Fax No.: +63 2 527 5506
Website: http://www.bles.dole.gov.ph

Clark Development Corporation
Building 2122 Elpidio Quirino St., Clark Special Economic Zone, Clark Field, Pampanga
Tel. No.: +63 45 599 9000
Website: http://www.clark.com.ph

Department of Trade and Industry
DTI International Building, 375 Senator Gil Puyat Avenue, Makati City
Tel. No.: +63 2 751 0384
Fax No.: +63 2 895 6487
Website: http://www.dti.gov.ph

Export Assistance Network
Bureau of Export Trade Promotion, Department of Trade and Industry
DTI International Building, 375 Sen. Gil Puyat Ave., Makati City
Tel. No.: +63 2 890 4723 and 890 4693
Fax No.: +63 2 899 0111
Website: http://www.dti.gov.ph/contentment/66/68/59.jsp

Intellectual Property Office (IPO)
IPO Building, 351 Senator Gil Puyat Ave, Makati, Metro Manila
Tel. Nos.: +63 2 752 5450 to 65
Fax No.: +63 2 897-1724
Website: http://www.ipophil.gov.ph

International Tax Affairs Division of the Bureau of Internal Revenue
Room 811, National Office Building, Bureau of Internal Revenue, Diliman, Quezon City
Tel. Nos.: +63 2 927 0022 and 926 5729
Fax No.: +63 2 926 3420
Website: http://www.bir.gov.ph

National Economic and Development Authority (NEDA)
NEDA sa Pasig Building, Blessed Maria Escriva Drive, Pasig City
Tel. Nos.: +63 2 631 0945 to 68
Fax No.: +63 2 631 3747
Website: http://www.neda.gov.ph

National Statistical Coordination Board (NSCB)
Midland Buendia Building, 403 Senator Gil Puyat Ave, Makati City
Tel. Nos.: +63 2 895 2436 or 2767
Fax No.: +63 2 890 8456
Website: http://www.nscb.gov.ph

National Statistics Office (NSO)
Solicarel Bldg., R. Magsaysay Blvd, Sta. Mesa, Manila
Tel. Nos.: +63 2 716 0807 or 0734
Fax No.: +63 2 713 7074
Website: http://www.census.gov.ph

Optical Media Board (OMB)
35 Scout Limbaga Street, Quezon City
Tel. No.: +63 2 374 0176
Fax No.: +63 2 374 0217

Philippine Chamber of Commerce and Industry (PCCI)
3rd Floor, ECC Building, 355 Sen. Gil Puyat Avenue, Makati City
Tel. No.: +63 2 896 4549
Fax No.: +63 2 899 1727
Website: http://www.philippinechamber.com

Philippine Economic Zone Authority (PEZA)
6F Almeda Building III, Roxas Blvd cor. San Luis St., Pasay City
Tel. Nos.: +63 2 551 3454 or 3455
Fax No.: +63 2 891 6380
Website: http://www.peza.gov.ph

Philippine Export-Import Credit Agency (PHILEXIM) and
Trade and Investment Development Corporation of the Philippines (TIDCORP)
4F Citibank Plaza, 8741 Paseo de Roxas, Makati City
Tel. No.: +63 2 893 4204
Fax No.: +63 2 893 4852
Website: http://www.philexim.gov.ph

Philippine Franchise Association
Unit 701 OMM Citra, San Miguel Ave., Ortigas, Pasig City
Tel. Nos.: +63 2 687 0366 to 67
Fax No.: +63 2 687 0635
Website: http://www.philippinefranchiseassociation.com.

Philippine Retailers Association
Unit 2610 Jollibee Plaza, F. Ortigas Jr. Rd, Ortigas, Pasig City
Tel. No.: +63 2 687 4180 and 687 4181
Fax No.: +63 2 636 0825
Website: http://www.philretailers.com

Privatization Council
Department of Finance Building, BSP Complex, A Mabini St., Malate, Manila
Tel. No.: +63 2 524 1633 and 524 5727
Fax No.: +63 2 523-5143

Privatization Management Office
Privatization Management Office Building, 104 Gamboa St, Legaspi Village, Makati City
Tel. No.: +63 2 893 1209 and 893 2383
Fax No.: +63 2 893 3453
Website: http://www.dof.gov.ph/eservices.asp?id=10.

Securities and Exchange Commission (SEC)
SEC Building, EDSA near Ortigas Ave, Greenhills, Mandaluyong, Metro Manila
Tel. Nos.: +63 2 584 7256 and 584 1119
Fax No.: +63 2 725 5239
Website: http://www.sec.gov.ph

Small Business Guarantee and Finance Corp (SBGFC)
17F 139 Corporate Center, 139 Valero St., Salcedo Village, Makati City
Tel. No.: +63 2 751 1888
Fax No.: +63 2 813 5726
Website: http://www.sbgfc.org.ph

Subic Bay Metropolitan Authority (SBMA)
Building 229, Waterfront Road, Subic Bay Freeport Zone
Tel. No.: +63 47 252 4895, 252 4381, 252 4382, 252 4000 and 252 4004
Fax No.: +63 47 252 3014
Website: http://www.sbma.com

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KPMG
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The Philippines— Outsourcing's new destination

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