

R.G. Manabat & Co.



Doing Business in the Philippines

2025 Investment Guide by R.G. Manabat & Co.



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Foreword

As we move further into 2025, the Philippine economy continues to demonstrate resilience amid a complex global environment. Geopolitical tensions, evolving trade dynamics, and monetary policy shifts around the world present challenges—but also opportunities—for emerging markets like the Philippines. Despite a slower pace of growth projected for the year, key industries such as wholesale and retail trade, finance, insurance, and construction remain critical drivers of the country's economic activity. The government's focus on infrastructure development, fiscal reforms, and digital connectivity continues to lay the groundwork for sustained growth in the long term.

With a youthful, educated workforce and increasing foreign direct investment, the Philippines remains a competitive destination for business and investment. Efforts to improve the business environment, including ongoing regulatory reforms and initiatives like CREATE MORE (Corporate Recovery and Tax Incentives for Enterprises to Maximize Opportunities for Reinvigorating the Economy) and the Build, Build, Build program, continue to support private sector growth and economic recovery.

Looking ahead, the focus remains on fostering inclusive growth, improving productivity, and harnessing the potential of the country's emerging sectors, particularly in technology and digital services. These developments, combined with the government's continued emphasis on sustainable economic practices, will play a crucial role in ensuring that the Philippines remains an attractive investment hub—even as the global landscape continues to evolve.



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Head of Tax
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Message from the Head of Tax

As we navigate the complexities of the Philippine business environment in 2025 and beyond, understanding the evolving tax landscape is crucial for businesses looking to invest and expand in the country. Recent reforms, including the comprehensive adjustments introduced through the CREATE MORE law, have paved the way for a more favorable tax regime that supports business growth and long-term investment.

The CREATE MORE law is a landmark development in the country's tax policy—aimed at attracting more foreign investments, enhancing competitiveness, and supporting the recovery and expansion of domestic enterprises. Through more efficient tax administration and enhanced incentive structures, the law opens new opportunities for businesses to optimize their tax positions. These efforts, coupled with the continued digitalization of tax services, are reshaping how companies engage with the Philippine tax system.

At the same time, regional and global developments are influencing tax policy directions. Heightened geopolitical tensions, the increasing push for supply chain diversification, and the evolving global tax framework are prompting jurisdictions around the world to reassess their fiscal strategies. In this context, the Philippines is taking steps to remain competitive — striking a balance between revenue generation and investment promotion, while aligning with emerging international tax standards.

For investors and businesses, staying ahead of regulatory changes is essential to making informed decisions. Key developments to monitor include ongoing VAT reforms, tax measures targeting the digital economy, and evolving rules tailored to high-growth sectors. These changes are not only designed to improve compliance and transparency but also to streamline processes that make doing business in the Philippines easier.

To support you in navigating this dynamic landscape, this Investment Guide offers a practical overview of recent reforms and their implications for business. We hope it serves as a valuable resource as you assess opportunities and plan for sustainable growth in the Philippine market.

Economic Discussion

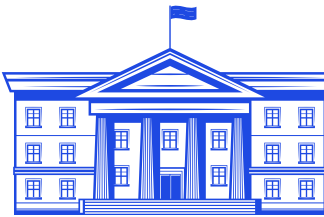
Philippines: Overview



Key Country Facts


The Philippines, an archipelagic country, has over 7,600 islands which are divided into three island groups: Luzon, Visayas and Mindanao. As one of the fastest growing economies in the Southeast Asia region, the Philippines holds immense potential for business expansion and attraction in the years ahead. With a growing middle class, a young and educated population, and a strategic geographic location in Asia, our country presents unparalleled opportunities for growth and investment.

For the first quarter of 2025, the key industries driving GDP growth included wholesale and retail trade, repair of motor vehicles and motorcycles, finance and insurance activities, and manufacturing. All major economic sectors such as agriculture, forestry and fishing, industry, and services posted year-on-year growth during the period.¹




Government

A republic with a presidential form of government wherein power is equally divided among its three branches: executive, legislative and judicial.



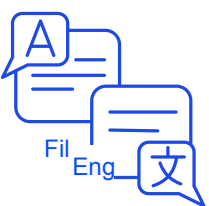
Population²

109 Million
(2020 census)



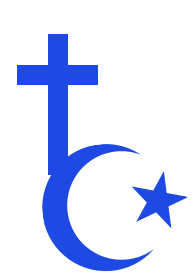
Currency

Philippine Peso (PHP)



Languages

Filipino (official), English



Religions

Christianity, Islam

Main FDI investors



South Korea
PHP 12.36 billion



United States of America
PHP 3.08 billion



China
PHP 2.88 billion

Source: Philippine Statistics Authority. Foreign Investments: First Quarter 2025

Sustaining Growth Amid Global Headwinds

The Philippine economy is expected to see moderate growth in 2025 and 2026. Following a deceleration in the services sector and amid continued external challenges—such as elevated global commodity prices and uncertainty in global economic policies—the Bangko Sentral ng Pilipinas (BSP) has noted that its ongoing monetary policy easing is expected to help cushion the impact of these headwinds.³

Despite the slowdown, the country maintains a strong credit profile, with a Baa2 investment-grade rating from Moody’s and a long-term credit rating of BBB+ from Standard & Poor’s (S&P). S&P also recently upgraded the Philippines’ credit rating outlook from “stable” to “positive,” citing effective policymaking, fiscal reforms, improved infrastructure, and a supportive policy environment that have contributed to resilient economic performance over the past decade.⁴

Economic Performance: Philippines								
Subject Descriptor	Units	Scale	2020	2021	2022	2023	2024	2025
Gross domestic product, constant prices	Percent change	Units	-9.52	5.72	7.58	5.52	5.69	5.48
Gross domestic product per capita, constant prices	National currency	Units	160,602.95	168,423.71	179,787.31	188,065.36	196,557.22	205,139.47

Source: International Monetary Fund, World Economic Outlook Database, April 2025

	2020	2021	2022	2023	2024
Approved Foreign Investments at Current Prices (in million PhP)	112,122.86	192,547.77	241,891.49	889,242.47	543,619.08

Source: Philippine Statistics Authority

¹ Philippine Statistics Authority (2024). GDP Expands by 5.2 Percent in the Fourth Quarter of 2024. Retrieved from: <https://psa.gov.ph/content/gdp-expands-52-percent-fourth-quarter-2024-brings-full-year-2024-gdp-year-year-growth-rate>

² Philippine Statistics Authority (2020). 2020 Census of Population and Housing (2020 CPH) Population Counts Declared Official by the President. Retrieved from: <https://psa.gov.ph/content/2020-census-population-and-housing-2020-cph-population-counts-declared-official-president>

³ The Philippine Star. (2025, March 19). Steady yet modest growth seen for Philippines. Retrieved from: <https://www.philstar.com/business/2025/03/19/2429361/steady-yet-modest-growth-seen-philippines>

⁴ Bangko Sentral ng Pilipinas (2024). S&P Raises Philippine Credit Rating Outlook to Positive. Retrieved from: <https://www.bsp.gov.ph/SitePages/MediaAndResearch/MediaDisp.aspx?ItemId=7327>

Emerging Global Market

In recent years, the Philippine economy has continued to make progress toward inclusive growth. Sustained by steady remittance inflows and a recovering labor market, strong domestic consumption has helped maintain the country's economic momentum. The expansion of key sectors and active investment in infrastructure reflect efforts to enhance competitiveness and attract foreign investment. With a young and growing workforce, alongside ongoing policy reforms and digital advancements, the Philippines remains a compelling destination for investors.

Sound economic policies

The government continues to strengthen the economy by prioritizing increased infrastructure spending, fiscal discipline and investing in the Filipino youth, among other initiatives outlined in the current administration's 8-point agenda for economic renewal and long-term growth.

Regulatory and policy reforms

- CREATE MORE (Corporate Recovery and Tax Incentives for Enterprises to Maximize Opportunities for Reinvigorating the Economy) aims to accelerate economic recovery by streamlining tax administration, implementing Value-Added Tax (VAT) reforms and enhancing taxpayer incentives—fostering a more business-friendly environment in the Philippines.
- Republic Act No. 12023, or the VAT on Digital Services Law, imposes a 12% VAT on non-resident digital service providers. This law aims to level the playing field for local providers and strengthen the Bureau of Internal Revenue's (BIR) authority to collect VAT on digital services.
- Build-Better-More (BBM) is the infrastructure development program of the Marcos Jr. administration which seeks to improve critical infrastructure in the Philippines and advance digital connectivity across the country.
- The enactment of the PPP Code, or "An Act Providing for the Public-Private Partnership of the Philippines", signed as Republic Act No. 11966, aims to establish a stable and predictable environment for collaboration between the public and private sectors to address the gaps in the infrastructure systems.
- Digitalization of vital government services aims to improve the delivery of public services by enhancing both frontline transactions and internal operations through the use of digital platforms and technologies.
- Sustainability-focused investments are set to rise with the PENCAS (Philippine Ecosystem and Natural Capital Accounting System) Act, or Republic Act 11995, which formalizes natural capital accounting in the Philippines. This move aligns economic growth with environmental protection and is expected to attract ESG-driven investors.



Investing in the Philippines

The current administration continues to build on its macroeconomic policies, prioritizing the following areas:

Enhancing critical infrastructure and advancing digital connectivity across the nation.

Promoting private sector involvement and investment to benefit the public.

Expanding local power generation capacity by reducing bureaucratic hurdles to attract energy investments, with the goal of improving power distribution and ensuring competitive energy prices.

Geopolitical Shifts and Investment Outlook

While the Philippines remains a competitive destination for investment in Southeast Asia, global and regional developments are reshaping the business environment. Geopolitical tensions, including evolving trade policies such as U.S. tariffs and shifting regional alliances, are influencing global supply chains and investment decisions. Despite these challenges, the Philippines continues to position itself as an attractive investment hub, balancing economic growth with alignment to international standards, including tax reforms and sustainability goals.

Opportunity for Disruptive Growth

The country’s digital transformation is rapidly reshaping industries, particularly with the rise of e-commerce and technology-driven business models. These innovations, combined with a tech-savvy consumer base, are expected to drive future growth.

The nation’s young demographic and ongoing infrastructure improvements are fueling a shift in consumer behavior as more people embrace technology.

Globally Competitive Workforce

The Philippines benefits from a youthful and growing population, providing a significant talent pool for both local and global businesses.

The country’s high labor productivity is attributed to its strong education system, reflected in high literacy rates and English proficiency.

Rankings

	Ranking*
Ease of Doing Business	95
Corporate Governance Watch (Asia)	11
Corruption Perceptions Index	114
Global Competitiveness Index	52
Global Innovation Index	53

* All rankings are global unless otherwise indicated

Source: Doing Business 2020, The World Bank; CG Watch 2023, CLSA, Asian Corporate Governance Association; Corruption Perceptions Index 2024 Transparency International; Institute of Management Development World Competitiveness Ranking 2024, World Economic Forum; Global Innovation Index 2024, Cornell University, INSEAD and WIPO.

Sustaining Growth

The Philippine economy grew by 5.4% year-on-year in the first quarter of 2025, slightly surpassing the previous quarter's 5.3% growth. However, this was below the 5.7% forecasted by analysts.


According to The World Bank's Philippine Economic Update released in April 2025, the Philippines' economic future depends heavily on its workforce. Strengthening skills, addressing labor shortages, and providing the right incentives remain critical. It is also important to create a supportive environment that enables workers, especially those in key sectors, to perform effectively and contribute to sustained growth.


The Philippines has laid strong policy foundations to support better outcomes in the early years, with both national and local agencies working hand in hand to deliver impact. To further strengthen this, the country is piloting a performance-based grant (PBG) system—an innovative approach that not only provides funding but also motivates local governments to invest more in essential early years services. By linking financial support to measurable outcomes, this mechanism encourages greater accountability and smarter resource use at the local level.

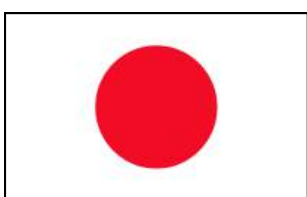
Trade Agreements


The Philippines is a party-signatory for numerous free trade agreements (FTA) (multi-party FTA and bilateral) with different countries.


The Philippines is a member of the Association of Southeast Asian Nations (ASEAN). The ASEAN is a ten-member state association. To date, the ASEAN has concluded FTAs with:


 **Australia**

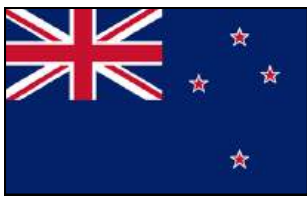
 **Hong Kong**

 **Japan**

 **South Korea**

 **China**

 **India**

 **New Zealand**

Below are the FTAs which the Philippines is a party signatory:

1	Most Favored Nation (MFN)
2	ASEAN-Australia-New Zealand Free Trade Area (AANZFTA)
3	ASEAN-China Free Trade Area (ACFTA)
4	ASEAN-Hong Kong, China Free Trade Agreement (AHKFTA)
5	ASEAN-India Free Trade Area (AIFTA)
6	ASEAN-Japan Comprehensive Economic Partnership Agreement (AJCEPA)
7	ASEAN-Korea Free Trade Area (AKFTA)
8	ASEAN Trade in Goods Agreement (ATIGA)
9	Philippines-Japan Economic Partnership Agreement (PJEPA)
10	Philippines-European Free Trade Association Free Trade Agreement (PH-EFTA FTA)
11	Regional Comprehensive Economic Partnership (RCEP) Agreement
12	Philippines-Korea Free Trade Agreement (PH-KR FTA)

Key Industries



Wholesale and Retail Trade

- Wholesale and retail trade, including the repair of motor vehicles and motorcycles, was one of the main contributors to the Philippines' year-on-year GDP growth in the first quarter of 2025, posting a 6.4% increase.



Finance and Insurance

- Finance and insurance activities posted a strong 7.2% year-on-year growth in the first quarter of 2025, making it one of the top contributors to GDP during the period.
- In February 2025, BSP launched the Financial Cyber Resilience Governance Council (FCRGC), a public-private sector initiative aimed at enhancing the cybersecurity posture of the country's financial sector. This initiative seeks to strengthen the resilience of the financial system by promoting robust cybersecurity practices, governance, and industry collaboration, ensuring a safer environment for financial transactions and investments.



Manufacturing

- The sector posted a 4.1% year-on-year increase in Q1 2025, driven largely by robust output in food, beverages, electrical equipment, machinery and equipment (non-electrical), and printing sectors.
- Industrial production recorded a 3.2% year-on-year gain in January 2025—the strongest since mid-2024—supported by easing lending costs and lower energy prices

Recent key legislations and upcoming changes

Corporate Recovery and Tax Incentives For Enterprises to Maximize Opportunities for Reinvigorating the Economy or CREATE MORE Act (RA No. 12066)

Summary of changes in Income Tax and VAT Provisions

- Reduced corporate income tax (CIT) rate to 20% of net taxable income of registered business enterprise (RBEs) under enhanced deduction regime (EDR)
- VAT zero-rating and VAT exemption on transactions of export-oriented enterprises
- Change from “directly and exclusively used in the registered activity” to “directly attributable to the registered activity” to qualify for incentives
- “Directly attributable” shall refer to goods/services that are incidental to and reasonably necessary for the export activity of the export-oriented enterprise, including janitorial, security, financial, consultancy, marketing, and promotion services, and services rendered for administrative operations such as human resources, legal, and accounting

→ Remedies for VAT refund claims

The law introduced an additional remedy for taxpayers to file a request for reconsideration. In case of full or partial denial of the refund claim, taxpayers have 15 days from receipt of the full or partial denial to file a request for reconsideration. The BIR must decide on this request within 15 days from receipt thereof. Failure to file a request for reconsideration within the 15-day period will render the decision final.

In case of full or partial denial of the request for reconsideration, taxpayers have 30 days from receipt of the decision to appeal to the Court of Tax Appeals (CTA).

If the BIR failed to act on the request for reconsideration, taxpayers have 30 days after the lapse of the 15-day period (for the BIR to decide on the request for reconsideration) to appeal to the CTA.

→ Additional deduction for using e-invoicing and e-sales reporting system

VAT on Digital Services Law (RA No. 12023)

→ Digital services provider (DSP) refers to a resident or non-resident supplier of digital services to a buyer who uses the digital services subject to VAT in the Philippines.

→ Persons and transactions covered: Persons (individual or juridical, resident or non-resident) who in the course of trade or business, supply or deliver digital services, in the Philippines through business to consumer (B2C) transaction or business to business (B2B) transaction, or both.

→ Digital services may include but not limited to:

Online search engine

Online media and advertising

Online marketplace

Online platform

Cloud Service

Digital goods

→ Imposition of VAT on digital services

12% VAT shall be levied, assessed, and collected on the gross sales derived by a DSP from its sale or exchange of digital services in the Philippines.

→ Collection mechanism and rules for VAT on digital services

Resident DSPs shall register with the BIR in accordance with existing rules. Nonresident DSPs are likewise required to register with the BIR, but need not have a local representative in the Philippines. However, it may appoint a resident third-party service provider for purposes of receiving notices, record keeping, filing of tax returns and other reporting obligations. In this case, the nonresident DSP shall notify the BIR in writing of the same within 30 calendar days from the date of appointment.

Resident VAT-registered DSPs shall file the VAT return and pay the VAT due thereon. In the case of a non-resident VAT-registered DSP in a B2B transaction, the buyer of services (i.e., person engaged in business in the Philippines) shall be liable for the: i) electronic filing of the required remittance return; and ii) withholding and remitting the VAT due on its purchase of digital services.

In a B2C transaction, the non-resident VAT-registered DSP shall be directly liable for the: i) the electronic filing of the required remittance return; and ii) paying the VAT due thereon through simplified pay-only regime in the VDS Portal based on its gross sales relating the sale of digital services consumed or used in the Philippines.

If the non-resident DSP is classified as an e-marketplace, it shall also be liable for: i) electronically filing the VAT return; ii) paying the VAT based on the gross sales received by the non-resident participating merchant or seller relating to sales of digital services consumed or used in the Philippines.

VAT on Digital Services Law (RA No. 12023)

→ Invoicing requirements for Nonresident VAT-registered DSPs

Sales or commercial invoices may be electronic and need not be registered with the BIR, provided that the contents are in English language or include an English translation and the following required information are present:

- | | |
|---|--|
| 1 Date of the transaction | 4 Brief description of the transaction |
| 2 Transaction reference number | 5 The total amount with the indication that such amount includes the VAT |
| 3 Identification of the buyer (including the TIN, if any) | |

If the sale includes some services which are subject to VAT, and some are VAT zero-rated or VAT-exempt, the invoice must indicate the breakdown of the sale price showing the taxable, VAT-exempt and VAT zero-rated components. The calculation of the VAT on each portion of the sale shall be shown on the invoice.

The same rules above apply in case a nonresident DSP is classified as an e-marketplace.

→ VAT-exempt Digital Services Transactions:

- ✓ Educational services, including online courses, online seminars, and online trainings rendered by private educational institution, duly accredited by the Department of Education (DepEd), the Commission on Higher Education (CHED), the Technical Education and Skills Development Authority (TESDA) and those rendered by government education institution;
- ✓ Sale of online subscription-based services to DepEd, CHED, TESDA, and educational institution recognized by said government agencies; and
- ✓ Services of bank and non-bank financial intermediaries performing quasi-banking functions, and other non-bank intermediaries that are rendered through different digital platforms.



Internet Transactions Act of 2023

- The Department of Trade and Industry (DTI) shall exercise jurisdiction as to the use of the internet for conducting e-commerce by e-marketplaces, online merchants, e-retailers, digital platforms, and third-party platforms
- A person who engages in e-commerce, who avails of the Philippine market to the extent of establishing minimum contacts herein, shall be subject to applicable Philippine laws and regulations and cannot evade legal liability in the Philippines despite lack of legal presence in the Philippines.
- The DTI, through its Secretary, can issue the following to enforce the provisions of the law:

Subpoena

Compliance order

Takedown order

Blacklist order

Real Property Valuation and Assessment Reform Act (RA No. 12001)

Summary of Salient Provisions

- Establishment of the Philippine Valuation Standards (PVS) to be implemented by the Bureau of Local Government Finance (BLGF)
- The valuation standards shall conform with the international valuation standards and principles. The BLGF shall revise the PVS every three years or as often as may be necessary to ensure that the same is aligned with globally accepted principles and definitions in real property valuation

RPT Amnesty

- Real property tax amnesty which shall cover penalties, surcharges, and interests from all unpaid real property taxes, including Special Education Fund, idle land tax, and other special levy taxes, may be availed within two years from the effectivity of the law, or until 05 July 2026.

Philippine Natural Gas Development Act (RA No. 12120)

- This law covers the Philippines' downstream natural gas industries including liquefied natural gas (LNG) storage, regasification terminal, transmission system, distribution system, and other facilities.
- Incentives on transactions involving natural gas

All downstream facilities, as certified by the Department of Energy, shall undergo a process for possible inclusion in and entitlement to incentives under the Strategic Investment Priority Plan (SIPP), subject to the incentives under National Internal Revenue code (NIRC) as amended by RA No. 11534, otherwise known as CREATE Act, and RA No. 12066 or the CREATE MORE Act.

Ease of Paying Taxes Act or EOPT Act (Republic Act No. 11976)

→ Classification of Taxpayers

Classification	Gross sales	
Micro Taxpayer	Less than PHP 3.0 Million	
Small Taxpayer	PHP 3.0 Million	Less than PHP 20.0 Million
Medium Taxpayer	PHP 20.0 Million	Less than PHP 1.0 Billion
Large Taxpayer	PHP 1.0 Billion and above	

→ Changes in rules on filing of tax returns

- ✓ Filing of tax returns and payment of taxes is to be made electronically or manually, regardless of venue or jurisdiction of the Revenue District Office.
- ✓ Electronic filing of tax return and payment of tax is done using the BIR's electronic platform (Electronic Filing and Payment System/eBIR Forms), ePayment Channels of authorized agent banks (AABs) (e.g. LinkBiz, PesoNet, Upay, MyEG, etc) and authorized tax software providers (for specific returns as certified by the BIR).
- ✓ Manual filing is accomplished by writing or through the aid of electronic equipment but the act of submission and payment is done over-the-counter with any AAB or revenue collection officer (RCO) of the BIR. The RCO can accept payment in cash up to PHP 20,000.00 while check payments may be accepted by the RCO regardless of the amount.

→ Removal of civil penalty in case of filing of return at the wrong venue

The Ease of Paying Taxes Act (EOPT) Act removed the civil penalty of 25% of the amount due in case of filing a return at the wrong venue.

→ Exemption of Overseas Contract Workers (OCW) or Overseas Filipino Workers (OFW) from the requirement to file an income tax return under specific conditions

→ Removal of additional requirements for deductibility of certain income payments

→ Accrual basis for VAT purposes

The EOPT Act adopts the accrual basis of recognizing sales for both sales of goods and services for VAT purposes. All references to “gross selling price”, “gross value in money”, and “gross receipts” shall be referred to as gross sales regardless of whether the sale is for goods or services.

Ease of Paying Taxes Act or EOPT Act (Republic Act No. 11976)

→ Invoicing requirements

Section 2(B) of the EOPT Act mandates a single document for both sale of goods and sale of services. Hence, all references to Sales/Commercial Invoices or Official Receipts shall now be referred to as “Invoice”.

- ✓ A VAT-registered person shall issue a duly registered VAT Invoice, for every sale, barter, exchange, or lease of goods or properties, and for every sale, barter or exchange of services regardless of the amount of the transaction.
- ✓ A VAT Invoice shall be issued as evidence of sale of goods and/or properties and sale of services and/or leasing of properties to customers in the ordinary course of business, whether cash sales or on account (credit), which shall be the basis of the output tax liability of the seller and the input tax claim of the buyer.



Ease of Paying Taxes Act or EOPT Act (Republic Act No. 11976)

→ Updates on the E-Invoicing System

An electronic invoice is a written account evidencing the sale, exchange, or transfer of goods, properties, services and/or lease/use of properties, issued in the ordinary course of business using an accounting/invoicing software or system with invoice management tools that is registered/accredited with the BIR. It is a system generated invoice issued to the buyers electronically in a digital/electronic format.

Under Revenue Regulations (RR) No. 11-2025, in relation to Section 12, 13 and 32 of RA No. 12066 (CREATE MORE Act), the taxpayers mandated to comply with e-invoicing are:

Taxpayers engaged in electronic commerce or internet transactions

Taxpayers under the jurisdiction of the Large Taxpayers Services (LTS)

Taxpayers classified as Large Taxpayers under RA No. 11976 (EOPT Act)

Taxpayers using computerized accounting system (CAS) and computerized books of accounts (CBA) with accounting records and other invoicing software

Upon establishment by the BIR of a system capable of storing and processing the required data to be transmitted to it.

- i. Taxpayers engaged in the export of goods and services
- ii. RBEs availing of tax incentives
- iii. Taxpayers using Point-of-Sale (POS) System
- iv. And other taxpayers as may be required by the Commissioner.

Section 6 of RR No. 11-2025 provided a period of one year from the effectivity of the RR to comply with the electronic invoicing requirements or until 14 March 2026.

Capital Markets Efficiency Promotion Act or CMEPA (RA No. 12214)

On 29 May 2025, President Marcos signed into law Republic Act (RA) No. 12214 or the Capital Markets and Efficiency Promotion Act (CMEPA). As the law takes effect on 1 July 2025, retail and institutional investors, banks and financial service providers need to be informed how the law impacts tax obligations on passive investments.

Final Withholding Tax (FWT)

Any interest, yield, or other monetary benefit earned by a citizen, resident alien, non-resident alien engaged in trade or business in the Philippines, domestic corporation, and resident foreign corporation from any currency bank deposit or deposit substitute, trust funds, and other similar arrangements is subject to a uniform rate of 20% FWT.

Royalties earned as passive income are now subject to 20% FWT. Passive income refers to any income that is earned from sources that do not require a taxpayer's active pursuit and performance of trade or business and is not subject to VAT.

Capital Gains Tax (CGT)

Capital gains derived from the sale, exchange or other disposition of shares of stock in a foreign corporation, except those sold or disposed of through a local or foreign stock exchange, are subject to 15% CGT.

Stock Transaction Tax (STT)

Sale, exchange, or other disposition of shares of stock and other securities listed and traded through a local stock exchange and sale, exchange or other disposition of shares of stock of domestic corporation listed and traded through a foreign stock exchange are subject to a reduced STT rate of 1/10 of 1%.

Documentary Stamp Tax (DST)

Original issuance of shares is subject to a reduced DST rate of 75% of 1%.

Original issuance, redemption, or other disposition of shares in a mutual fund company; and the issuance of a certificate or other evidence of participation in a mutual fund or unit investment trust fund, are exempt from DST.



Capital Markets Efficiency Promotion Act or CMEPA (RA No. 12214)

Exclusions from Gross Income

Gains from the sale, transfer or disposition of bonds excluded from gross income are limited to specific bonds that are issued by the Republic of the Philippines or any of its instrumentalities to finance capital expenditures or programs covered by the Philippine Development Plan or its equivalent and other high-level priority programs of the national government.

Gains realized by the investor upon redemption of shares of stock in a mutual fund company, or units of participation in a mutual fund or unit investment trust fund, are excluded from gross income subject to the condition that prior to redemption, final taxes due on realized gains have been previously withheld at the level of the underlying assets.

Upcoming Laws

Magna Carta For Taxpayers

- A proposed legislation to provide increased protection of taxpayers' rights in complying with their obligation to pay national and local taxes to the government, so that abuses committed against taxpayers are prevented, if not completely eradicated, and taxes are collected responsibly.
- Some of the taxpayer's basic rights in the proposed legislation:
 - ✓ **Right to be informed**
 - ✓ **Right to fair, uniform, and faithful application of laws**
 - ✓ **Right to challenge the position of and be heard by revenue authorities**
 - ✓ **Right to fair and impartial proceedings before the revenue authorities**
 - ✓ **Right to present evidence and witnesses**
 - ✓ **Right to be assisted or represented by qualified professional of their choice**
 - ✓ **Right to timely and expeditious completion and finality of tax audits**
 - ✓ **Right against baseless assessment**
 - ✓ **Right to be given an opportunity for amicable settlement**

Investors' Lease Act

- Proposed legislation extending the period of lease of land of foreign investors in the Philippines from the current period of fifty (50) years renewable once for a period of not more than twenty-five (25) years to the aggregate period of not more than ninety-nine (99) years.
- A foreign investor investing in the Philippines shall be allowed to lease private lands in accordance with the laws of Republic of the Philippines subject to the following conditions:
 - ✓ **The aggregate period of the lease contract shall not exceed ninety-nine (99) years;**
 - ✓ **The leased area shall be used solely for the purpose of the investment upon the mutual agreement of the parties;**
 - ✓ **The lease premises shall comprise such area as may reasonably be required for the purpose of the investment**
 - ✓ **The foreign investor has an approved or registered investment under Republic Act 7042, otherwise known as Foreign Investments Act of 1991, as amended;**
 - ✓ **The lease agreement shall be subject to the approval of the Department of Trade-Board of Investments, except for lease of lands within the economic zones or freeport areas, which shall be subject to the approval of the relevant Investment Promotion Agencies (IPAs);**

Investment Highlights

2022 Strategic Investments Priority Plan (SIPP)

- Upon recommendation of the Bureau of Investments (BOI) and consistent with the requirements of the CREATE Law, the President of the Philippines approved the 2022 SIPP through Memorandum Order No. 61.
- Tier I includes all activities listed in the 2020 SIPP, as outlined in Memorandum Order No. 50, dated 18 November 2020.

→ Tier II includes:

Green Ecosystems

Health related activities

Defense related activities

Industrial value-chain gaps

Food security related activities

→ Tier III includes:

Research and development activities adopting advanced digital production technologies.

Highly technical manufacturing and production of innovative products and services.

Establishment of innovation support facilities.



Philippine Foreign Investments Act

The Foreign Investments Act of 1991, as a general rule, does not have restrictions on the extent of foreign ownership of export-oriented enterprises such as manufacturing entities or service exporters.

However, for domestic market enterprises, certain investment areas and/or activities are subject to foreign equity restrictions in the Philippines.

Under the Twelfth Foreign Investment Negative List (FINL), the following are some of the business activities that are subject to such limitations:

List A: Foreign Ownership is Limited by Mandate of the Constitution and Specific Laws

1 No foreign equity

- Mass media, except recording and internet business (i.e., internet access providers that merely serve as carriers for transmitting, rather than being creators, of message/information)
- Practice of professions, except in cases specifically allowed by law following the prescribed conditions stated therein
- Retail trade enterprises with paid-up capital of less than PHP 25,000,000.00
- Cooperatives except investments of former natural born citizens of the Philippines
- Organization and operation of private detective, watchmen or security guard agencies
- Small-scale mining
- Utilization of marine resources in archipelagic waters, territorial seas and exclusive economic zone, as well as small-scale utilization of natural resources in rivers, lakes, bays and lagoons
- Ownership, operation and management of cockpits
- Manufacture, repair, stockpiling and/or distribution of nuclear weapons
- 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)
- Manufacture of firecrackers and other pyrotechnic devices

Philippine Foreign Investments Act

2 Up to 25% foreign equity

- Private recruitment, whether for local or overseas employment
- Contracts for the construction of defense-related structures

3 Up to 30% foreign equity

- Advertising

4 Up to 40% foreign equity

- Procurement of infrastructure projects
- Exploration, development and utilization of natural resources
- Ownership of private lands
- Operation of public utilities
- Educational institutions other than those established by religious groups and mission boards, for foreign diplomatic personnel and their dependents, and other foreign temporary residents, or for short-term high-level skills development that do not form part of the formal education system

- Culture, production, milling, processing, trading except retailing, of rice and corn and acquiring, by barter, purchase or otherwise, rice and corn and the by-products thereof, subject to period of divestment
- Contracts for the supply of materials, goods and commodities to government-owned or -controlled corporations, company, agency or municipal corporation
- Ownership of condominium units
- Private radio communications network
- Micro and small domestic market enterprises with paid-in equity capital of less than the equivalent of USD200,000.00

Philippine Foreign Investments Act

List B: Foreign Ownership is Limited for reasons of Security, Defense, Risk to Health and Morals, and Protection of Small and Medium-Scale Enterprises

1 Up to 40% Foreign equity

- Manufacture, repair, storage, and/or distribution of products and/or ingredients requiring Philippine National Police
- Manufacture and distribution of dangerous drugs
- Sauna and steam bathhouses, massage clinics and other like activities regulated by law because of risks posed to public health and morals
- All forms of gambling, except those covered by investment agreements with PAGCOR
- Micro and small domestic market enterprises with paid-in equity capital of less than the equivalent of USD200,000
- Micro and small domestic market enterprises:
 - (i) that involve advanced technology;
 - (ii) are endorsed as startup or startup enablers by the lead host agencies, or
 - (iii) with a majority of their direct employees as Filipinos, but in no case shall the number of Filipino employees be less than 15(fifteen), with paid-in equity capital of less than the equivalent of USD100,000

Commonwealth Act No. 108, as amended, or the Anti-Dummy Law, seeks to penalize those who are found in violation of the foreign equity restrictions and evade the nationalization laws of the Philippines. The law prohibits the use of any proxy arrangements to accomplish transactions of foreign nationals that are otherwise not allowed under Philippine laws.

Foreign nationals who intend to put up One-Person Corporations(OPC) are also still subject to the above restrictions on foreign participation.

Tax incentives (CREATE MORE)

RA No. 12066 or the CREATE MORE Act was signed into law on 11 November 2024. This law aims to enhance the tax incentives built by CREATE Act (RA No. 11534).

A company may apply with the appropriate investment promotion agency (IPA) for the registration of its projects and activities to avail of certain tax and duties incentives. IPAs, including the Board of Investments (BOI), Philippine Economic Zone Authority (PEZA), and Subic Bay Metropolitan Authority (SBMA), among others, are in charge of promoting investments, granting and administering tax and non-tax incentives, and overseeing the operations of different economic zones and freeports in accordance with their respective special laws.

Incentives available under CREATE MORE include the following:

Income tax-based incentives

- ➡ Income tax holiday (ITH)
- ➡ 5% Special corporate income tax (SCIT)
- ➡ Enhanced deduction regime (EDR)

Non-income tax-based incentives

- ➡ Duty exemption on importation of capital equipment, raw materials, spare parts, or accessories directly attributable to the registered project or activity, including goods used for administrative purposes.
- ➡ VAT exemption on importation and VAT zero-rating on local purchases directly attributable to the registered project or activity, including expenses incidental thereto.

ITH Incentive

Registered Export Enterprises (REE)	Domestic Market Enterprise (DME)	High-Value Domestic Market Enterprise (HVDME)*
<div><div>✓</div> ITH</div> <div><div>✓</div> May be waived and proceed to 5% SCIT or EDR at start of commercial operations</div> <div><div>✓</div> No creditable withholding tax on income related to registered project or activity, without need of BIR ruling</div> <div><div>✓</div> Registered business enterprise local tax (RBELT) not more than 2% of gross income may be imposed by Local Government Unit</div>	<div><div>✓</div> ITH</div> <div><div>✓</div> May be waived and proceed to EDR only at start of commercial operations</div> <div><div>✓</div> Same</div> <div><div>✓</div> Same</div>	

**Registered DMEs with an investment capital exceeding PHP 15 Billion and engaged in sectors considered import-substituting, or with export sales in the immediately preceding year of at least USD 100 Million or its equivalent in an acceptable foreign currency.*

Tax incentives (CREATE MORE)

RBELT

- To be imposed through an ordinance issued by the concerned Sanggunian
- Applicable during the ITH and EDR, not to be imposed under 5% special corporate income tax incentive (SCIT)
- Shall be imposed as long as the RBE meets the conditions for registration during ITH and EDR
- Determination of compliance by RBE with terms and conditions shall be with IPA
- RBEs certified by BOI as pioneer or non-pioneer shall be exempt from local business tax for six or four years, respectively, from the date of registration.

REE	DME	HVDME
<div><div>✓ 5% SCIT after ITH or immediately at start of commercial operations</div><div>✓ Based on gross income earned (GIE), in lieu of all national and local taxes and local fees and charges</div></div>	Not applicable	

EDR Incentive

REE	DME	HVDME
<div><div>✓ EDR after ITH or immediately at start of commercial operations</div><div>✓ 20% corporate income tax rate on net taxable income derived from registered projects or activities</div><div>✓ RBELT not more than 2% of gross income may be imposed by LGU</div><div>✓ Improved enhanced deductions</div></div>	<div><div>✓ EDR after ITH or immediately at start of commercial operations</div><div>✓ Same</div><div>✓ Same</div><div>✓ Same</div></div>	



Tax incentives (CREATE MORE)

Under EDR, the following may be allowed as additional deductions:

- Depreciation allowance of the assets acquired for the entity's production of goods and services (qualified capital expenditure) - additional 10% for buildings; and additional 20% for machineries and equipment;
- 50% additional deduction on the labor expense incurred in the taxable year;
- 100% additional deduction on research and development expense incurred in the taxable year;
- 100% additional deduction on training expense incurred in the taxable year;
- 50% additional deduction on domestic input expense incurred in the taxable year;
- From 50% additional deduction under CREATE to 100% additional deduction under CREATE MORE on the power expense incurred in the taxable year;
- Deduction for reinvestment allowance to manufacturing and tourism industries (previously provided to manufacturing sector only under CREATE) of 50% of the amount on reinvested undistributed profits within five years from reinvestment;
- Under CREATE MORE, additional deduction of 50% on expenses relating to exhibitions, trade missions, and trade fairs, including promotion of export of goods and services; and
- Enhanced Net Operating Loss Carry-Over (NOLCO) within the next five years immediately following the last year of ITH or year of loss for RBEs electing EDR at start of commercial operations.

Tax incentives (CREATE MORE)

VAT and duty exemption on importation and 0% VAT on local purchases

REE	DEE	HVDME
<p>Duty exemption on importation of capital equipment, raw materials, spare parts or accessories, including goods used for administrative purposes</p> <p>✓ Must meet 70% export sale threshold in immediately preceding year; otherwise, disqualified from availing incentive.</p>	<p>Same</p>	<p>Same</p> <p>✓ Must meet investment capital requirement or export sales threshold in immediately preceding year; otherwise, disqualified from availing incentive</p>
<p>VAT exemption on importation and 0% VAT on local purchases</p> <p>✓ Only applies to goods and services directly attributable to the registered project or activity</p> <p>✓ Must meet 70% export sale threshold in immediately preceding year; otherwise, disqualified from availing incentive</p>	<p>Not applicable</p>	<p>VAT exemption on importation and 0% VAT on local purchases</p> <p>✓ Only applies to goods and services directly attributable to the registered project or activity</p> <p>✓ Must meet the investment capital requirement or export sale threshold in immediately preceding year; otherwise disqualified from availing incentive</p>

Tax incentives (CREATE MORE)

Period of availment of incentives based on location and industry priorities

Extended entitlement to incentives for projects approved by the IPAs			
Location / Industry Tiers	Tier I	Tier II	Tier III
For REEs:			
National Capital Region (NCR)	4 yrs. ITH + 10 yrs. of EDR/SCIT OR 14 yrs. EDR/SCIT	5 yrs. ITH + 10 yrs. of EDR/SCIT OR 15 yrs. EDR/SCIT	6 yrs. ITH + 10 yrs. of EDR/SCIT OR 16 yrs. EDR/SCIT
Metropolitan Areas or Areas Contiguous and Adjacent to NCR	5 yrs. ITH + 10 yrs. of EDR/SCIT OR 15 yrs. EDR/SCIT	6 yrs. ITH + 10 yrs. of EDR/SCIT OR 16 yrs. EDR/SCIT	7yrs. ITH + 10 yrs. of EDR/SCIT OR 17 yrs. EDR/SCIT
All Other Areas	6 yrs. ITH + 10 yrs. of EDR/SCIT OR 16 yrs. EDR/SCIT	7yrs. ITH + 10 yrs. of EDR/SCIT OR 17 yrs. EDR/SCIT	7yrs. ITH + 10 yrs. of EDR/SCIT OR 17 yrs. EDR/SCIT

Tax incentives (CREATE MORE)

Period of availment of incentives based on location and industry priorities

Extended entitlement to incentives for projects approved by the IPAs			
Location / Industry Tiers	Tier I	Tier II	Tier III
For DMEs:			
National Capital Region (NCR)	4 yrs. ITH + 10 yrs. EDR OR 14 yrs. EDR	5 yrs. ITH + 10 yrs. EDR OR 15 yrs. EDR	6 yrs. ITH + 10 yrs. EDR OR 16 yrs. EDR
Metropolitan Areas or Areas Contiguous and Adjacent to NCR	5 yrs. ITH + 10 yrs. EDR OR 15 yrs. EDR	6 yrs. ITH + 10 yrs. EDR OR 16 yrs. EDR	7 yrs. ITH + 10 yrs. EDR OR 17 yrs. EDR
All Other Areas	6 yrs. ITH + 10 yrs. EDR OR 16 yrs. EDR	7 yrs. ITH + 10 yrs. EDR OR 17 yrs. EDR	7 yrs. ITH + 10 yrs. EDR OR 17 yrs. EDR

- Availment of SCIT/EDR (for REEs) or EDR (for DMEs) approved by the IPAs may be extended for up to five years, provided that the RBE maintains at least 10,000 employees during its registration.
- An expansion project may qualify to avail of the SCIT/EDR (for REEs) or EDR (for DMEs) for eight years, subject to certain conditions.

Tax incentives (CREATE MORE)

Period of availment of incentives based on location and industry priorities

Extended entitlement to incentives for projects approved by the FIRB			
Location / Industry Tiers	Tier I	Tier II	Tier III
For REEs:			
National Capital Region (NCR)	4 yrs. ITH + 20 yrs. of EDR/SCIT OR 24 yrs. EDR/SCIT	5 yrs. ITH + 20 yrs. of EDR/SCIT OR 25 yrs. EDR/SCIT	6 yrs. ITH + 20 yrs. of EDR/SCIT OR 26 yrs. EDR/SCIT
Metropolitan Areas or Areas Contiguous and Adjacent to NCR	5 yrs. ITH + 20 yrs. of EDR/SCIT OR 25 yrs. EDR/SCIT	6 yrs. ITH + 20 yrs. of EDR/SCIT OR 26 yrs. EDR/SCIT	7 yrs. ITH + 20 yrs. of EDR/SCIT OR 27 yrs. EDR/SCIT
All Other Areas	6 yrs. ITH + 20 yrs. of EDR/SCIT OR 26 yrs. EDR/SCIT	7 yrs. ITH + 20 yrs. of EDR/SCIT OR 27 yrs. EDR/SCIT	7 yrs. ITH + 20 yrs. of EDR/SCIT OR 27 yrs. EDR/SCIT

Tax incentives (CREATE MORE)

Period of availment of incentives based on location and industry priorities

Extended entitlement to incentives for projects approved by the FIRB			
Location / Industry Tiers	Tier I	Tier II	Tier III
For DMEs:			
National Capital Region (NCR)	4 yrs. ITH + 20 yrs. EDR OR 24 yrs. EDR	5 yrs. ITH + 20 yrs. EDR OR 25 yrs. EDR	6 yrs. ITH + 20 yrs. EDR OR 26 yrs. EDR
Metropolitan Areas or Areas Contiguous and Adjacent to NCR	5 yrs. ITH + 20 yrs. EDR OR 25 yrs. EDR	6 yrs. ITH + 20 yrs. EDR OR 26 yrs. EDR	7 yrs. ITH + 20 yrs. EDR OR 27 yrs. EDR
All Other Areas	6 yrs. ITH + 20 yrs. EDR OR 26 yrs. EDR	7 yrs. ITH + 20 yrs. EDR OR 27 yrs. EDR	7 yrs. ITH + 20 yrs. EDR OR 27 yrs. EDR

- Availment of SCIT/EDR (for REEs) or EDR (for DMEs) approved by the IPAs may be extended for up to 10 years, provided that the RBE maintains at least 10,000 employees during its registration.
- An expansion project may qualify to avail of SCIT/EDR (for REEs) or EDR (for DMEs) for 13 years, subject to certain conditions.

Setting up businesses in the Philippines



The Revised Corporation Code of the Philippines

Republic Act No. 11232, otherwise known as the “Revised Corporation Code of the Philippines,” took effect on 23 February 2019.

The law was enacted with the intention of ushering in provisions that encourage entrepreneurship and contribute to the Philippines’ global competitiveness and ease of doing business. Among the salient features of the law are the establishment of corporations with a single stockholder, perpetual existence of corporations, removal of the minimum number of incorporators, removal of the minimum capital stock, and adoption of electronic monitoring and filing system. The Philippine Congress also sought to strengthen good corporate governance by enhancing provisions on disclosure, transparency, and participation of investors and stockholders. Moreover, the law also provides for alternative modes of communication and voting in absentia.

By codifying progressive corporate concepts and streamlining requirements and procedures, the Philippines hopes to become a more appealing investment destination to foreign investors.

Commonly Used Business Entities

A new corporate entity in the Philippines is required to be registered with the Securities and Exchange Commission (SEC). The SEC is the national government regulatory agency charged with the supervision of the corporate sector, the capital market participants, the securities and investment instruments market, and the protection of the investing public.

Foreign investors can generally operate their businesses in the Philippines through the following types of entities:

Subsidiary or a domestic corporation	A regional or area headquarters (RHQ)
One-person corporation (OPC)	A regional operating headquarters (ROHQ)
Branch office of a foreign corporation	A representative office of a foreign corporation

Main Legal Formalities for Setting Up

Foreign investors intending to enter the domestic market must take into consideration the applicable requirements and the costs of setting up a Philippine corporate entity, keeping in mind that the legal requirements vary from one type of investment vehicle to another.

Domestic corporations

Subsidiary

Foreign investors may incorporate a separate Philippine legal entity through a subsidiary. Current implementing rules require a minimum of two but not more than 15 persons to act as incorporators. Unless otherwise required by law, these incorporators may be natural or juridical persons such as partnerships, associations, and domestic or foreign corporations. The residency requirements for incorporators have been removed under the Revised Corporation Code.

There are no minimum capitalization requirements for stock corporations, except in cases provided by special laws. For instance, the minimum paid-up capitalization requirement for a domestic corporation with more than 40% foreign equity remains to be at least USD 200,000.00. Depending further on the proposed line of business of the investor, the SEC may impose a higher minimum capitalization requirement.

Previously, corporations must have 25% of the authorized capital stock subscribed, and 25% of the subscribed capital stock must be paid up for purposes of incorporation. The requirements now apply only to corporations intending to increase their respective capital stocks.

OPC

The OPC is a domestic corporation with a single stockholder, who can only be a natural person, trust, or estate. The law likewise provides for persons or entities who are prohibited from organizing as OPCs, such as individuals licensed to exercise a profession, banks and quasi-banks, preneed, trust, insurance, public and publicly-listed companies, and non-chartered government owned and controlled corporations.

OPCs can only have a single stockholder and sole director. The said single stockholder and director will also be the President. Other officers of the OPC such as the Corporate Secretary and Treasurer shall be appointed after registration.

There is no prescribed minimum authorized capital stock for OPCs, except as otherwise required by special laws. As with a regular corporation, no portion of an OPC's authorized capital stock is required to be paid up at the time of the incorporation, unless otherwise required by other applicable laws or regulations.

Foreign corporations

Branch Office

A branch office may be set up in the Philippines to carry out the business activities of the head office of a foreign corporation by applying for a license to operate a branch. For a branch office of a foreign corporation, in general, the minimum capitalization requirement is USD 200,000.00. However, depending on the proposed line of business of the investor, the SEC may impose a higher minimum capitalization requirement. The branch is also required to appoint a resident agent. Such agent is not required to be a Filipino but is required to be a Philippine resident.

Security Deposits for Branches

Under the current rules, all branches of foreign corporations duly licensed to do business in the Philippines are required to deposit securities with an actual market value of at least PHP 500,000.00 within 60 days after the issuance of the license to transact business in the Philippines.

Moreover, additional securities shall be deposited within six months after the end of the fiscal year in the following situations:

- a.** if the licensee’s gross income for that fiscal year exceeds PHP 10,000,000.00, additional securities with an actual market value equivalent to 2% of the increase of in such gross income; and
- b.** if the actual market value of the securities deposit or financial instruments has decreased by at least 10% from the time it was deposited, additional securities with an actual market value that would cover the decrease.

Only government debt and equity instruments are the acceptable kinds of securities. Cash, money market placement, time deposits and bank guaranty or standby letter of credit and similar instruments shall not be acceptable as security deposits.

Foreign banking corporations, offshore banking units, foreign insurance corporations, foreign non-stock (including religious) corporations, representative offices, RHQs, and ROHQs are not covered by the security deposit requirement under Philippine laws.

Foreign corporations

RHQ

An RHQ is a branch office of a multinational company engaged in international trade. The RHQ principally serves as a supervision, communications and coordination center for the multinational company's subsidiaries, branches or affiliates in the Asia-Pacific region and other foreign markets, which does not derive income in the Philippines. For RHQs, the required annual inward remittance is at least USD 50,000.00. An RHQ is not required to comply with the security deposit requirement for branches of foreign corporations.

ROHQ

An ROHQ is a special type of branch office of a multinational company allowed to derive income in the Philippines by performing qualifying services to its affiliates, subsidiaries, or branches in the Philippines, Asia-Pacific region and other foreign markets. For ROHQs, the required initial remittance to cover its operations in the Philippines is at least USD 200,000.00. An ROHQ is not required to comply with the security deposit requirement for branches of foreign corporations.

Representative Office

A representative office of a foreign corporation does not derive income from the Philippines, and it is limited mostly to non-income generating activities such as information dissemination, acting as a communication center and promotion of the products of its parent company. For representative offices, the minimum inward remittance is USD 30,000.00. A representative office is not required to comply with the security deposit requirement for branches of foreign corporations.

Resident agent requirements

The appointment of a resident agent is a condition to the issuance of a license for a foreign corporation to transact in the Philippines. Aside from an individual, local or foreigner, residing in the Philippines, the Revised Corporation Code allows a domestic corporation to be designated as a resident agent, provided that it must be of sound financial standing and be of good standing as certified by the SEC. A resident agent plays an important role in managing legal and administrative responsibilities on behalf of foreign corporations acting as the official liaison with government agencies and the judicial system. The failure to appoint or maintain a resident agent is a ground for the revocation of license previously granted to a branch to do business in the Philippines.

Retail Trade Liberalization Act

On 10 December 2021, RA No. 11595 was signed into law and effectively amended RA No. 8762, otherwise known as the “Retail Trade Liberalization Act of 2000”. The law eases the requirements for foreign retail enterprises to engage or invest in the retail trade business in the Philippines.

The salient provisions of the law are as follows:

- The minimum paid-up capitalization requirement is PHP 25,000,000.00 for all foreign retailers.
- For foreign retailers engaged in retail trade through more than one physical store, the minimum investment per store is PHP 10,000,000.00. This requirement, however, does not apply to foreign investors and retailers who are legitimately engaged in retail trade and were not required to comply with the minimum investment per store at the time of the effectivity of RA No. 11595.
- Retail enterprises with more than 80% foreign ownership are no longer required to offer at least 30% of their equity to the public through any stock exchange in the Philippines within eight years from the start of their operations.
- The minimum net worth of the foreign retailers’ parent corporation and the qualification that foreign retailers must have a five-year track record in retailing are no longer required.
- The employment of foreign nationals by foreign retailers must comply with the Labor Code of the Philippines on the determination of non-availability of a competent, able, and willing Filipino citizen.
- Foreign retailers are encouraged to have a stock inventory of products made in the Philippines.



Procedure for Registration with the Securities and Exchange Commission (SEC)

A new corporate entity in the Philippines is required to be registered with the SEC.

The SEC currently utilizes the electronic Simplified Processing of Application for Registration of Company (eSPARC), a fully automated online system designed to streamline the application process for corporate registrations. Through the eSPARC, all corporate applications requiring SEC approval are processed electronically, with feedback and comments from the SEC communicated online.

As part of the registration process, corporations must comply with specific regulatory requirements. SEC Memorandum Circular No. 1-2021 mandates the disclosure of the identities of the person or persons on whose behalf the registration is applied, including nominee incorporators, directors, trustees, and shareholders, along with their full names, country of residence, nationality, and Tax Identification Number (TIN) or passport numbers. If the nominator or principal is a corporation, the disclosure must include its registered name, country of registration, incorporators, directors, beneficial owner, and TIN (if any). For trusts, the trustor(s), trustee(s), beneficiaries, nationality, country of residence, and TIN or passport number must also be provided.

Additionally, all entities under SEC jurisdiction, including corporations, associations, and partnerships, are required to create and designate an official email address and cellphone number for all transactions with the SEC. This ensures efficient communication and access to necessary updates. Failure to comply with this requirement will result in an administrative penalty of PHP 10,000.00.

Upon approval of the draft registration documents for setting up the corporation, the documents may be finalized, executed and notarized. In the event that pre-incorporation documents are executed outside the Philippines, the same has to be notarized and authenticated, or apostilled as applicable, at the place of execution. The eSPARC also integrates with One-day Submission and E-registration of Companies (OneSEC), a platform that facilitates the registration of domestic stock corporations under a streamlined process. Newly registered corporations through eSPARC and OneSEC are also automatically enrolled in the Electronic Filing and Submission Tool (eFAST), ensuring compliance with SEC reporting obligations and enhancing transparency.

The SEC has recently implemented the SEC Zuper Easy Registration (ZERO) within the eSPARC application. SEC ZERO will allow an applicant to digitally authenticate the system-generated forms for incorporation, thereby eliminating the need for physical signing and notarization of the registration documents. Moreover, with SEC ZERO, submission of hard copies of the registration documents will no longer be required for a complete end-to-end paperless registration process. For now, SEC ZERO will be applicable to incorporation of domestic stock corporations. However, the SEC intends to make ZERO applicable to the registration of other types of corporations in the future.

To complete the registration process, corporations must secure a Payment Assessment Form (PAF) before remitting the necessary filing fees via the Electronic System for Payment to SEC (eSPAYSEC). This online payment system simplifies the fee payment process, reducing the need for physical transactions.



Post-SEC Registration

In addition to registration with the SEC, all corporate entities are also required to register with the local government unit (LGU) where the principal office will be located, BIR, Social Security System (SSS), Philippine Health Insurance Corporation (PhilHealth) and the Home Development Mutual Fund (Pag-Ibig Fund).

LGU

Registration with the LGU is necessary to secure the following:

- 1 Barangay Clearance;
- 2 Mayor's Permit from the Mayor's Office; and
- 3 Business License from the Business Permit and Licensing Office (BPLO) from the relevant Municipal/City Hall

BIR

Corporate entities must register with the BIR in order to obtain the following:

- 1 Certificate of Registration;
- 2 Authority to Print (for receipts); and
- 3 Registered manual books of accounts

Social Security Agencies

Registration with social security agencies such as the SSS, PhilHealth, and Pag-Ibig Fund is necessary to comply with the Philippine social security laws, which require mandatory coverage of employees and mandate all employees and employers to be registered with the said agencies. The employer is required to remit proper contributions for employees and also to pay the employer's contribution to the said agencies.

Other Permits

Registration with the BSP of the inward foreign investments for the enjoyment of the repatriation and remittance privileges.

Registration with the BSP to obtain a Bangko Sentral Registration Document (BSRD) is optional. A BSRD is a document issued by the BSP evidencing the registration of foreign investments. In connection to this, only foreign investments registered with the BSP are entitled to capital repatriation or dividend/profit remittances using foreign exchange sourced from the Philippine banking system.

Bureau of Internal Revenue (BIR)

Under existing tax regulations, the default method of keeping books is manual. This means that taxpayers are expected to record their accounting entries by hand in physical books of accounts.

A taxpayer desiring to use computerized accounting records is required to apply for the registration of a computerized accounting system with the BIR. The computerized accounting records may be maintained through loose leaf books or computerized accounting software.

1

Application for permit to use loose leaf books and accounts invoices

→ This method typically refers to keeping records in Microsoft Excel (MS Excel) file and printing out records at the end of the year for binding and submission to the BIR. The BIR does not require any format for the use of loose-leaf books of accounts. Thus, the taxpayer may use any format provided the said format is submitted to the BIR for approval during the application process.

2

Registration of Computerized Accounting System (CAS)

→ Before the taxpayer can use a CAS for its bookkeeping process, the taxpayer is required to inform and register with the Revenue District Office/Large Taxpayers Office where it is registered of its intention to use such system. All the documents pertaining to the applications for the registration of CAS shall be submitted manually or via electronic e-mail. Further, the CAS to be adopted shall strictly comply with the requirements of the BIR or the “Standard Functional and Technical Requirements.”

Bureau of Customs (BoC)

All goods imported into the Philippines are subject to duty and tax upon importation, including goods previously exported from the Philippines, except as otherwise provided for in the Customs Modernization and Tariff Act (CMTA) of 2016 or in other laws.

The BoC requires that importers and customs brokers be duly accredited with the Account Management Office, Intelligence Group of the BoC to allow the said entities to officially transact with the BoC.



Accounting and reporting requirements

Audited Financial Statements (AFS)

Stock corporations with total assets or total liabilities of PHP 600,000.00, and branch offices/representative offices of stock foreign corporations with assigned capital in the equivalent amount of PHP 1,000,000.00 or more, are required to submit AFS with the SEC. If an entity does not meet the threshold, it may submit financial statements certified under oath by the corporation's treasurer or chief financial officer.

Regulated entities, such as banks, insurance companies, public utilities and other corporations with specialized activities, are required to submit AFS to their respective government regulatory agencies in addition to the SEC filing. Foreign companies doing business in the Philippines are also required to comply with this requirement.

Moreover, corporations, companies, partnerships or persons with gross annual sales, earnings, receipts or outputs exceeding PHP 3,000,000.00 shall have their books of accounts audited and examined yearly by an independent Certified Public Accountant (CPA). The AFS is required to be submitted to the BIR as attachment to the annual income tax return.

Requirements of the SEC

All SEC-registered corporations are required to enroll in the SEC Electronic Filing and Submission Tool (eFAST), which may be accessed at (<https://efast.sec.gov.ph>), for the filing of annual reports and other reportorial requirements.

The SEC will not accept submissions over the counter and through courier, in line with the zero-contact policy and automation of business-related transactions.



Revised General Information Sheet (GIS)

All SEC-registered corporations are required to submit a GIS, which has been revised to include information on beneficial owners. This is pursuant to the SEC’s mandate to assist in the implementation of the Anti-Money Laundering Act (AMLA) and the Terrorist Financing Prevention and Suppression Act.

Current rules define beneficial owners as natural persons who ultimately own or control, or exercise ultimate effective control, over the corporation. The definition covers natural persons who actually own or control the corporation, as distinguished from the legal owners. Implementing rules provide for categories by which to determine beneficial ownership.

SEC Filing deadlines

Domestic Stock Corporations

Description	Due Date
General Information Sheet	Within 30 calendar days from date of the actual annual stockholders’ or members’ meeting
AFS stamped “RECEIVED” by the BIR or FS certified under oath by the corporation’s treasurer and/or president, as applicable	Within 120 calendar days after the end of the fiscal year, as indicated in the Financial Statements For One Person Corporations (OPCs), within 120 days from the end of the fiscal year as indicated in the Articles of Incorporation

Additional Requirements for OPCs

Description	Due Date
Report containing explanations or comments by the president on every qualification, reservation, or adverse remark or disclaimer made by the auditor in the latter’s report	Within the period to be prescribed by the SEC
Disclosure of all self-dealings and related party transactions entered into between OPC and the single stockholder	Within the period to be prescribed by the SEC

Branch Offices and Representative Offices of Foreign Corporations

Description	Due Date
GIS	Within 30 calendar days from date of issuance of SEC license and within 30 days from the anniversary date of the issuance of the SEC license thereafter
AFS Stamped “RECEIVED” by the BIR	Within 120 calendar days after the end of the fiscal year, as indicated in the Financial Statements
Notification Update Form	Within 30 days from the occurrence of any change in the principal address, accounting period, list of directors and officers, subsidiaries and affiliates and other notifications to the SEC

Regional Operating Headquarters (ROHQs), Regional Headquarters (RHQs) of Multinational Companies

Description	Due Date
GIS	Within 30 calendar days from the issuance of the certificate of registration and license and within 30 calendar days from the anniversary date of the issuance of the certificate of registration and license thereafter
AFS Stamped “RECEIVED” by the BIR	Within 120 calendar days after the end of the fiscal year, as indicated in the Financial Statements
Notification Update Form	Within 30 days from the occurrence of any change in the principal address, accounting period, list of directors and officers, subsidiaries and affiliates and other notifications to the SEC

Reportorial Requirements of the Local Government Unit (LGU)

Business entities operating in the Philippines are required to renew their business permits on or before 20 January of every year with the LGU having jurisdiction over their places of business. Documentary requirements for the renewal of business permits may vary from one LGU to another. Thus, it is essential to coordinate with the LGU regarding these documentary requirements.

Republic Act No. 11032, or the Ease of Doing Business and Efficient Government Service Delivery Act of 2018, is a law that aims to streamline the current systems and procedures of government services. Going to different offices to submit these requirements takes a lot of time and energy, and for the act to promote efficiency, many LGUs have set up a business one-stop shop (BOSS). It is a single common site or location, or a single online website or portal designated for the Business Permit and Licensing System (BPLS) of a LGU to receive and process applications, receive payments, and issue approved licenses, clearances, permits, or authorizations.

Tax Incentives Management and Transparency Act (TIMTA)

Corporations, Philippine branches of foreign corporations, or other entities incorporated and/or organized and existing under Philippine laws and registered with Investment Promotion Agencies (IPA) such as the BOI, PEZA and other special economic zones are required to file with the applicable IPAs the following:

Description	Due Date
Annual Tax Incentives Report – Income-Based Tax Incentives	Within 30 calendar days from the statutory deadline for filing of the Final Adjustment Return for Income Tax and payment of tax due thereon, if any
Annual Tax Incentives Report – Value-Added Tax (VAT), Excise Tax and Duty-Based Incentives	Within 30 calendar days from the statutory deadline for filing of the Final Adjustment Return for Income Tax and payment of tax due thereon, if any

Tax administration

Filing deadlines for income tax returns. The returns relevant to income taxes and respective filing deadlines are summarized below:

BIR Form Name	Form No.	Deadline of Filing
Quarterly Income Tax Return	1702-Q	Within 60 days following the close of each of the first three quarters of the taxable year whether calendar or fiscal year.
Annual Income Tax Return	1702-RT, 1702-MX and 1702-EX, whichever is applicable	On or before the 15th day of the fourth month following the close of the corporation’s taxable year
Monthly Remittance Form for Creditable Income Taxes Withheld (Expanded)	0619-E	For Non-eFPS taxpayers: on or before the 10th day of the following month the withholding was made. This shall be filed for the first two months of each calendar quarter For eFPS taxpayers: on or before the 11th to 15th day of the following month the withholding was made, depending on the industry grouping
Monthly Remittance Form of Final Income Taxes Withheld	0619-F	
Quarterly Remittance Return of Creditable Income Taxes Withheld (Expanded)	1601-EQ	On or before the last day of the month following the close of the quarter the withholding was made
Quarterly Remittance Return of Final Income Tax Withheld	1601-FQ	

Filing deadlines for income tax returns. The returns relevant to income taxes and respective filing deadlines are summarized below:

BIR Form Name	Form No.	Deadline of Filing
Monthly Remittance Return of Income Taxes Withheld on Compensation	1601-C	<p><i>For the Months of January to November</i></p> <p>For Non-eFPS taxpayers: on or before the 10th day of the following month the withholding was made</p> <p>For eFPS taxpayers: on or before the 11th to 15th day of the following month the withholding was made, depending on the industry grouping</p> <p><i>For the Month of December</i></p> <p>For Non-eFPS taxpayers: on or before January 15th of the following year</p> <p>For eFPS taxpayers: on or before the 11th 15th day of the following month the withholding was made, depending on the industry grouping</p>
Annual Information Return of Creditable Income Taxes Withheld	1604-E	On or before March 1st of the year following the calendar year the income payments subject to expanded withholding taxes or exempt from withholding tax were paid or accrued
Annual Information Return of Creditable Income Taxes Withheld	1604-F	On or before January 31st of the year following the calendar year the income payments subject to final withholding taxes were paid or accrued
Annual Information Return of Income Taxes Withheld on Compensation	1604-C	On or before 31st January of the year following the calendar year the compensation payment and other income payments were paid or accrued

Filing deadlines for income tax returns. The returns relevant to other taxes and respective filing deadlines are summarized below:

BIR Form	Name Form No.	Deadline of Filing
Quarterly Value-Added Tax Return	BIR Form No. 2550-Q	On or before the 25th day of the month following the close of the taxable quarter. Taxpayers may opt to file on a monthly basis using BIR Form No. 2550M.
Value-Added Tax Return for Resident VAT-registered DSP classified as an e-marketplace	BIR Form No. 1600-VT	On or before the 10th of the following month the withholding was made.
Value-Added Tax Return for Nonresident VAT-registered DSP in a B2B Transaction	BIR Form No. 1600-VT	On or before the 10th of the following month the withholding was made; to be filed by the Philippine buyer.
Value-Added Tax Return for Nonresident VAT-registered DSP in a B2C Transaction	BIR Form No. 2550-DS	On or before the 25th day of the month following the close of the taxable quarter; to be filed by the nonresident VAT-registered DSP <i>*Option to file and pay on a monthly basis is available but still required to file the quarterly return and pay the corresponding VAT liability</i>
Value-Added Tax Return for Nonresident VAT-registered DSP classified as an e-marketplace	BIR Form No. 2550-DS	On or before the 25th day of the month following the close of the taxable quarter.
Value-Added Tax Return for Unregistered Nonresident DSP in a B2B Transaction	BIR Form No. 1600-VT	On or before the 10th of the following month the withholding was made.

Filing deadlines for income tax returns. The returns relevant to other taxes and respective filing deadlines are summarized below:

BIR Form	Name Form No.	Deadline of Filing
Excise Tax Return for Alcohol Products	BIR Form No. 2200A	Shall be paid before removal of the products from the place of production. For eFPS taxpayers: The filing of return and payment of excise tax due thereon shall be in accordance with the provisions of existing applicable revenue issuances.
Excise Tax Return for Automobiles and Non-Essential Goods	BIR Form No. 2200AN	
Excise Tax for Petroleum Products	BIR Form No. 2200P	
Excise Tax Return for Sweetened Beverages	BIR Form No. 2200S	
Excise Tax Return for Tobacco Products	BIR Form No. 2200T	
Excise Tax Return for Mineral Products	BIR Form No. 2200M	For each place of production: Shall be paid upon removal of the mineral products from the place of production. On locally produced or extracted: Within fifteen days after the end of the calendar quarter when such products were removed

Filing deadlines for income tax returns. The returns relevant to other taxes and respective filing deadlines are summarized below:

BIR Form	Name Form No.	Deadline of Filing
Documentary Stamp Tax Declaration/Return	BIR Form No. 2000	On or before the 5th day of the month after the close of the taxable month when the documents were signed, issued, accepted, or transferred, except as provided by the rules and regulations promulgated by the Secretary of Finance
Local Business Tax	Relevant forms provided by the Local Government Units (LGUs)	Can be paid annually, on or before January 20th, or quarterly, within the first 20 days of January and of the first month following the end of each subsequent quarter.
Real Property Tax	Relevant forms provided by the LGU.	May be paid annually in full on or before March 31, or in quarterly installments on or before the last day of each quarter. Extension of payment may be granted depending per LGU
Customs Duties	Relevant forms provided by the BoC	Prior to the release of the imported goods from customs custody

General Taxation of Philippine Corporations

Regular Corporate Income Tax (RCIT)

Domestic corporations are subject to 25% RCIT on the taxable income derived during each taxable year from all sources within and without the Philippines. The rate is reduced to 20% if the net taxable income does not exceed PHP 5 Million and the amount of total assets, excluding land on which the particular business entity's office, plant, and equipment are situated during the taxable year, is not more than PHP 100 Million.

Taxable income refers to gross income less allowable deductions.

Minimum Corporate Income Tax (MCIT)

Philippine corporations are also subject to 2% MCIT on the gross income, starting on the 4th year following the year in which the said corporation commenced business operations, when MCIT is greater than the tax computed under the RCIT regime. Any excess of the MCIT over the RCIT shall be carried forward and credited against the normal income tax for the three immediately succeeding taxable years.



Expanded Withholding Tax (EWT)

This is applicable on certain income payments made by domestic corporations to another domestic supplier of goods and services, such as 2% EWT on income payments to certain contractors, and 5% EWT on rental payments of office space.

Withholding Tax on Compensation (WTC)

As an employer, domestic corporations are required to withhold tax on salaries paid to employees at the graduated income tax rates of 0% to 35%.

Final Withholding Tax (FWT)

This is applicable to certain passive income payments and payments to non-resident foreign corporations, such as interest, dividends, royalties, and profits. Some of these are 15% on net capital gains realized during the taxable year from the sale, exchange or other disposition of shares of stock in a domestic corporation except shares sold or disposed of through the stock exchange; and 25% of the gross amount of dividends paid to non-resident foreign parent entity.

Value-Added Tax (VAT)

VAT is an indirect tax levied at the rate of 12% on the sale, barter, exchange, lease of goods or properties, performance of services, including digital services, as well as on the importation of goods into the Philippines. Digital services consumed in the Philippines are subject to VAT, even if provided by nonresident digital service providers (DSPs).

In case of importation, the VAT is based on the total value used by the BoC in determining tariff and customs duties plus excise taxes, if any, and other charges. When customs duties are determined on the basis of the quantity or volume of goods, the VAT shall be based on the landed cost plus excise taxes, if any.

Since the VAT is an indirect tax, the relevant amount may be shifted to the buyer, transferee, or lessee of goods, properties, or services. Although the burden of the payment of VAT is shifted to the purchaser, the seller remains liable for its payment and remittance. A VAT-registered taxpayer 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 goods or services (Output VAT).

Certain sales of goods and services may either be zero-rated or VAT exempt.

VALUE-ADDED TAX		
Description	Output Tax	Input Tax
Any sale, barter, exchange, lease of goods or properties, rendering of services, including digital services, and importation of goods conducted in the course of trade or business by domestic and resident foreign corporations, as well as services provided in the Philippines by non-resident foreign corporations (NRFCs).	12%	Creditable against output tax
Zero-rated sales – These are VATable transactions that do not result in any output tax. Some of these transactions include: <ul style="list-style-type: none">• Export sales; and• 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.	0%	Creditable against output tax; and/or apply for the issuance of a tax refund/credit for unutilized excess input tax related to zero-rated sales
VAT Exempt sales – VAT is not imposed on the sale. The seller is also not allowed to use VAT paid on the purchases related to the VAT-exempt transaction as a credit against its output VAT. Examples of these transactions include: <ul style="list-style-type: none">• Sales subject to percentage tax;• Services of bank, non-bank financial intermediaries performing quasi-banking functions, and other non-bank financial intermediaries, including those rendered through different digital platforms;• Services rendered by regional or area headquarters established in the Philippines by multinational corporations which act as supervisory, communications and coordinating centers for their affiliates, subsidiaries or branches in the Asia Pacific Region and do not earn or derive income from the Philippines;• Transactions which are exempt under international agreements to which the Philippines is a signatory or under special laws; and• Transport of passengers by international carriers.	Exempt	Input tax paid can be claimed as deduction (as part of cost of purchases)

Excise Taxes

Excise taxes are imposed on certain goods manufactured or produced in the Philippines for domestic sale or consumption, or for any other disposition, as well as on certain imported goods. Examples of such goods subject to excise taxes include alcohol products, tobacco products, automobiles, sweetened beverages, mineral products, refined and manufactured mineral oils and fuels, and non-essential or luxury goods. These taxes are also levied on non-essential services performed in the Philippines, such as cosmetic procedures aimed solely at enhancing appearance and not meaningfully contributing to the proper function of the body or preventing or treating illness or disease.

Documentary Stamp Taxes

The documentary stamp tax (DST) is an excise tax levied on documents, instruments, loan agreements and papers, and upon acceptances, assignments, sales, and transfers of the obligation, right, or property incident thereto. Generally, DST is paid by the person making, signing, issuing, accepting or transferring the documents. However, in cases where one party to the taxable document is granted exemption from this tax, the other party not entitled to exemption assumes direct liability for the tax.

Local Business Tax

Consistent with the principle of local autonomy, LGUs have the power to create their own sources of revenue and levy taxes, fees, and charges, which shall accrue exclusively to the local governments. Such power is subject to certain guidelines and limitations as provided by Congress.

Taxes imposed must be uniform, equitable, and devoted to a public purpose. Moreover, the exercise of such taxing powers may not extend to the levy of certain taxes, such as income taxes, DST, customs duties, and excise taxes which are all national taxes imposed under the Tax Code.

Real Property Tax

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 3% of the assessed value of the real property.

Trade and Customs Duties

→ Primary enforcement agency

The primary enforcement agency for trade and customs laws, rules and regulations in the Philippines is the BoC. The BoC is responsible for the assessment and collection of customs duties, taxes, and other fees on imported goods, as well as for implementing policies and regulations related to international trade and customs procedures. This includes the enforcement of the CMTA, which came into effect on 16 June 2016. The primary objective of the CMTA is to modernize customs rules and procedures, facilitating faster trade, reducing opportunities for corruption, improving customs service delivery, and enhancing the supply chain.

The Philippine Tariff Commission (PTC), on the other hand, administers the Philippine tariff schedules and tariff nomenclatures, among other functions. The BoC is under the supervision of the Department of Finance (DOF), while the PTC is an attached agency of the National Economic and Development Authority (NEDA).

The BoC is headed by the Commissioner of Customs and assisted by at least 4 but not more than 6 Deputy Commissioners, 1 Assistant Commissioner, and 17 District Collectors who supervise the country's principal ports of entry.

→ Basis of duties and taxes

Duties and taxes are calculated based on the value of imported goods, with tariff rates specified by Section 1611 of the CMTA. Importation under Philippine law refers to the process of bringing goods from a foreign territory into Philippine territory, whether for consumption, warehousing, or admission.

During the lodgment of goods declarations, the BoC scrutinizes and evaluates the classification, valuation, and documentary requirements of the imported goods. Product nomenclatures classify goods according to criteria such as usage, function, or measurement. Tariff nomenclatures, on the other hand, assign tariff rates to these classifications, enabling determination of the applicable customs duty rate for each product.

The tariff classification of goods is based on the ASEAN Harmonized Tariff Nomenclature (AHTN) of 2022.

Correct classification of commodities can be a challenge because of trade environments and demands. In cases where importers face a challenge in the classification of a commodity, Philippine laws allow an importer to request and obtain a ruling on the tariff classification of imported goods. The application for an advance ruling on the tariff classification shall be filed with the PTC, which shall issue a ruling within 30 days from its receipt of a properly documented application. An application for an advance ruling shall cover only one product or item. The application for advance ruling shall be filed at least 90 days before the importation or exportation of the product or item, as the case may be.



Trade and Customs Duties

→ Primary valuation method

The primary valuation method of the BoC is prescribed in the CMTA. Imported goods shall be valued in accordance with the provisions of the CMTA whenever the applicable conditions prescribed are fulfilled under Title VII, Chapter I of the CMTA.

Methods for Valuation

- 1 Transaction Value System
- 2 Transaction Value of Identical Goods
- 3 Transaction Value of Similar Goods
- 4 Deductive Value
- 5 Computed Value
- 6 Fallback Value

For this guide, we will focus on the primary valuation method of the BoC, the Transaction Value System.

Trade and Customs Duties

Transaction Value System

The transaction value shall be the price actually paid or payable for the goods when sold for export to the Philippines adjusted in accordance with the law.

In determining the transaction value, the following shall be added to the price actually paid or payable for the imported goods:

- ✓ To the extent that they are incurred by the buyer but are not included in the price actually paid or payable for the imported goods:
 - » Commissions and brokerage fees except buying commissions;
 - » Cost of containers;
 - » Cost of packing, whether for labor or materials;
 - » Value, apportioned as appropriate, of the following goods and services: materials, components, parts and similar items incorporated in the imported goods; tools, dies, molds and similar items used in the production of imported goods; materials consumed in the production of the imported goods; and engineering, development, artwork, design work and plans and sketches undertaken elsewhere than in the Philippines and necessary for the production of imported goods, where such goods and services are supplied directly or indirectly by the buyer free of charge or at a reduced cost for use in connection with the production and sale for export of the imported goods; and
 - » Amount of royalties and license fees related to the goods being valued that the buyer must pay either directly or indirectly, as a condition of sale of the goods to the buyer.
- ✓ Value of any part of the proceeds of any subsequent resale, disposal or use of the imported goods that accrues directly or indirectly to the seller;
- ✓ Cost of transport of the imported goods from the port of exportation to the port of entry in the Philippines;
- ✓ Loading, unloading and handling charges associated with the transport of the imported goods from the country of exportation to the port of entry in the Philippines; and
- ✓ Cost of insurance.

All additions to the price actually paid or payable shall be made only on the basis of objective and quantifiable data. Importers may request for valuation rulings by filing the necessary applications with the BoC.

Trade and Customs Duties

Regulated commodities

Goods which are subject to regulation shall be imported or exported only after securing the necessary goods declaration or export declaration, clearances, licenses, and any other requirements, prior to importation or exportation. In case of importation, submission of requirements after arrival of the goods but prior to release from customs custody shall be allowed but only in cases provided for by governing laws or regulations.

For a list of regulated import commodities and details of regulating agencies, this information can be viewed on the Philippine National Trade Repository (PNTR) website (www.pntr.gov.ph). The website also provides detailed information on import procedures and documentary requirements.

Conditionally duty-free importations

The goods enumerated under Section 800 of the CMTA shall be exempt from the payment of import duties upon compliance with the formalities prescribed in the regulations which shall be promulgated by the Commissioner of Customs with the approval of the Secretary of Finance. Examples of these are:

a. Aquatic products such as fishes, crustaceans, mollusks, marine animals, seaweeds, fish oil, roe, caught or gathered by fishing vessels of Philippine registry. Provided, that they are imported in such vessels or in crafts attached thereto and they have not been landed in any foreign territory or, if so landed, that they have been landed solely for transshipment without having been advanced in condition;

b. Medals, badges, cups, and other small goods bestowed as trophies or prizes, or those received or accepted as honorary distinction; and

c. Personal and household effects belonging to returning residents including household appliances, jewelry, precious stones, and other goods of luxury which were formally declared and listed before departure and identified under oath before the District Collector when exported from the Philippines by such returning residents upon their departure therefrom or during their stay abroad; personal and household effects including wearing apparel, goods of personal adornment, toilet goods, instruments related to one's profession and analogous personal or household effects, excluding luxury items, vehicles, watercrafts, aircrafts and animals purchased in foreign countries by residents of the Philippines which were necessary, appropriate, and normally used for their comfort and convenience during their stay abroad, accompanying them on their return, or arriving within a reasonable time which, barring unforeseen and fortuitous events, in no case shall exceed 60 days after the owner's return.

Trade and Customs Duties

Filing import entries

All imported goods shall be subject to the lodgment of either of the two types of goods declaration below:

a. Formal Entry, which covers goods of a commercial nature with Free on Board (FOB) or Free Carrier (FCA) value of not less than **PHP 50,000.00**.

b. Informal Entry, which covers:

- ✓ Goods of a commercial nature with FOB or FCA value of less than PHP 50,000.00; and
- ✓ Personal and household effects or goods, not in commercial quantity, imported in a passenger's baggage or mail.

The applicable goods declaration must be lodged within 15 days from the date of discharge of the last package from the vessel or aircraft. Upon request, the period to file the goods declaration may be extended on valid grounds for another 15 days; provided, that the request is made before the expiration of the original period within which to file the goods declaration. Failure to lodge the goods declaration within the prescribed period constitutes an implied abandonment of the goods.





Trade and Customs Duties

Prior Disclosure Program (PDP)

Previously: Voluntary disclosure program

Given the mandate of Section 1000 of the CMTA, Customs Memorandum Order (CMO) No. 32-2017 reactivated the Post Clearance Audit Group (PCAG) under the BoC, formerly known as Post Entry Audit Group (PEAG). PEAG was created in 2003 under Executive Order (EO) No.160-2003 and tasked to perform post-entry audits of importers for the BoC. In 2013, the functions of PEAG were transferred to the DOF. Section 1000 of the CMTA expressly authorized the BoC to conduct PCAs, thereby returning the conduct of post-entry audits to the BoC.

The PCAG is headed by an Assistant Commissioner of Customs who has direct supervision and control over the management of the operation units of PCAG which include the Trade Information and Risk Analysis Office and Compliance Assessment Office.

The PCAG is the group responsible for the enforcement of Customs Administration Order (CAO) No. 1-2019, otherwise known as the Post Clearance Audit (PCA) and PDP. This order implements Sections 1000 to 1006 of the CMTA and covers the post clearance audit of all records required to be kept by all importers, beneficial or true owners of imported goods, customs brokers, agents and locators as provided for in Section 1003 (a), (b), and (c), Title X of the CMTA and the PDP as a compliance and revenue measure. The CAO governs the conduct of the audit, which generally covers three years from the date of final payment of duties and taxes, or the date the customs clearance is secured by the importer for the particular importation.

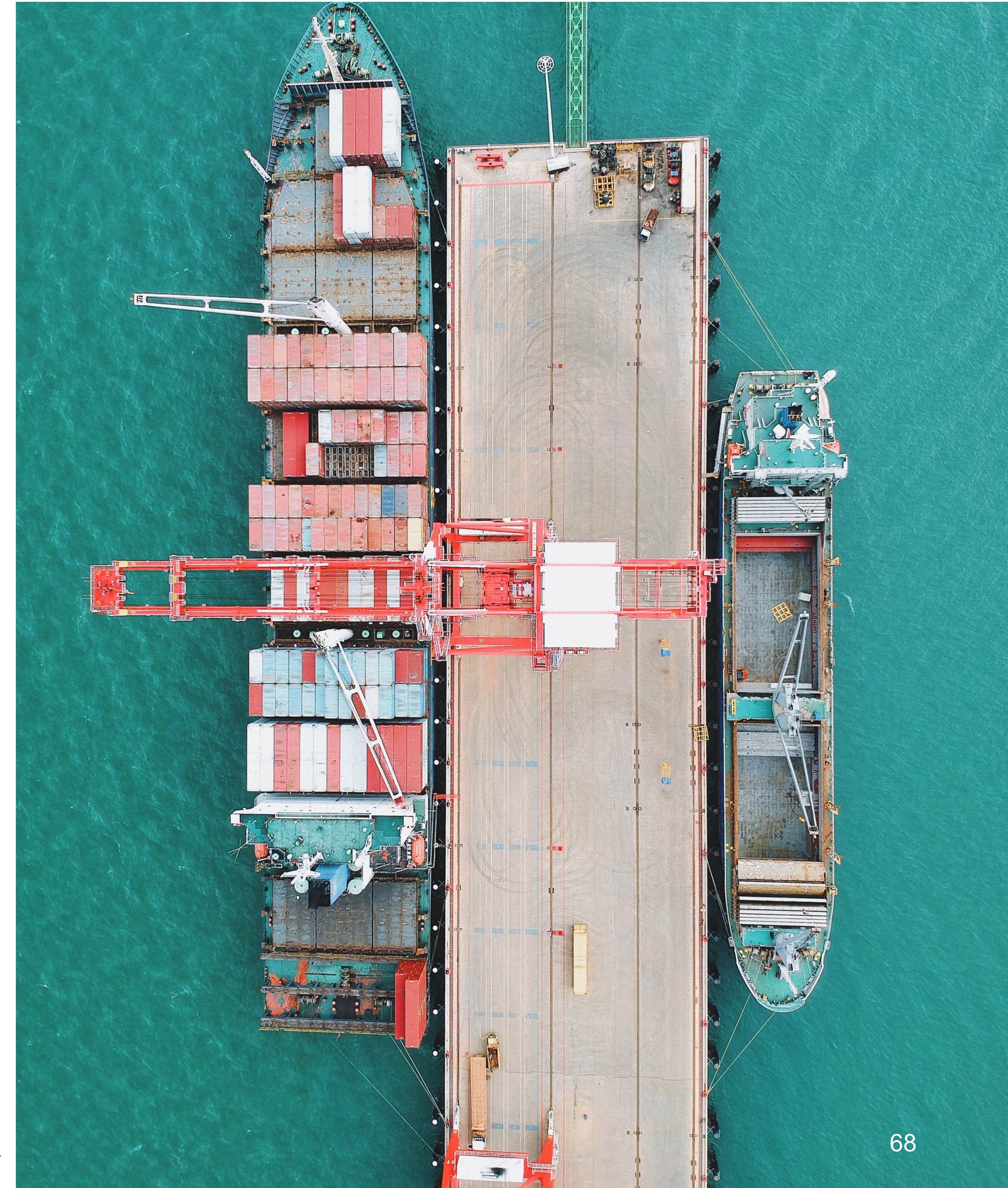
The PCA begins with an Audit Notification Letter (ANL) issued to the company identified for audit. The audit proper shall be commenced not later than 60 calendar days from the service of the ANL. The audit team may require the presentation of the original of the certified true copies of documents submitted for verification of its authenticity. The order mandates that an audit shall be completed within 120 calendar days per year of audit period from the date the importer receives the ANL.

The audit is considered completed when the Final Audit Report (FAR) with Demand Letter or Post Clearance Audit Group – Clean Report of Findings (PCAG-CRF) has been submitted by the audit team. A FAR shall be issued in case the audit team identifies any customs duties deficiency, valuation and classification issues, and compliance issues. On the other hand, the issuance of the PCAG-CRF shall be deemed as proof that the importer subject of the audit has been found to have no deficiency in duties, taxes and other charges and the importer is compliant.

On the other hand, the PDP allows an importer to voluntarily declare any possible issues or non-compliance with customs law, rules and regulations. The importer admits the errors and subsequently tender payment of the deficiency duties, taxes and penalties, if applicable.

The PDP may be availed of without waiting for the issuance of the ANL or, when the importer has received an ANL, submit a duly accomplished application form for prior disclosure stating the errors in goods declaration and tendering payment within a period of 90 calendar days from the receipt of the ANL.

The PCAG shall be the responsible office to verify the completeness of the PDP application form and other supporting documents. Failure to comply with the necessary documentation shall result in the non-acceptance or disapproval of the application.



Trade and Customs Duties

Duty drawback and bonded warehousing

A. Duty Drawback

As provided by CMO No. 16-2023, an importer may apply for Duty Drawback under the following situations:

- Up to a maximum of 99% of the duty imposed by law, for all fuel imported into the Philippines used for propulsion of:
 - a Sea vessel engaged in international trade;
 - b Sea vessel engaged in coastwide trade, provided that the Maritime Industry Authority (MARINA) or any appropriate government agency has authorized the temporary conversion of that vessel to engage in international trade; and
 - c Scheduled flights of international airlines.

A claim and application for Duty Drawback for this situation shall prescribe if it is not filed within one year from the date of importation.

- Up to a maximum of 50% of the duty imposed by law for petroleum oils and oils obtained from bituminous materials, crude oil imported by non-electric utilities, sold directly or indirectly, in the same form or after processing, to electric utilities for the generation of electric power and for the manufacture of city gas.

A claim and application for Duty Drawback for this situation shall prescribe if it is not filed within one year from the date of importation.

- For imported materials including the imported articles used in the packing, packaging, covering, putting up, marking or labelling, in whole or in part, for which duties have been paid, upon exportation of the goods manufactured or produced, subject to the following conditions:

- a The actual use of the imported materials in the production or manufacture of the goods exported with their quantity, value, and amount of duties paid thereon, should be established satisfactorily;
- b The duties refunded or credited shall not exceed 100% of duties paid on the imported materials used provided the wastages of the imported material used is recyclable;
- c There is no determination by the NEDA of the requirement for Certification on Non-availability of locally produced or manufactured competitive substitutes for the imported materials used at the time of importation;
- d The exportation shall be made within one year after the importation of materials used and claim for refund or tax credit shall be filed within six months from the date of exportation; and
- e When two or more products result from the use of the same imported materials, an apportionment shall be made on its equitable basis.

Trade and Customs Duties

Duty drawback and bonded warehousing

A. Duty Drawback contd.

A claim and application for Duty Drawback for this situation shall be filed within 6 months from the date of exportation, with an option to request for a 6-month extension, provided, that the request is made 30 days before the lapse of the original six-month period and the actual filing of the claim shall not exceed one year from the date of exportation.

If the Duty Drawback involves multiple importation or exportations, the prescriptive period shall be counted from the date of the first importation or first exportation, as the case may be.

Approved claims for Duty Drawback shall be paid in the form of Tax Credit Certificates (TCCs) with a five year validity period, subject to revalidation for an additional period of another five years but in no case shall the validity period of the TCC exceed 10 years.

B. Bonded Warehousing

The BoC has also issued CAO No. 01-2022 implementing pertinent provisions of CMTA related to the establishment and supervision of Customs Bonded Warehouse (CBW) and to consolidate all existing CAOs dealing on CBWs.

A CBW refers to a warehouse authorized by the BoC to import, receive, and store goods or materials either for manufacture into finished products for export or storage. Only the BoC is authorized and responsible for the licensing of all CBWs. These warehouses are considered as extension of customs premises concerning the dutiable goods stored thereat for the protection of government revenue.

Free trade agreements

A free trade agreement is an agreement between two or more nations to reduce barriers to imports and exports among them. Under a free trade policy, goods and services can be bought and sold across international borders with little or no government tariffs, quotas, subsidies, or prohibitions to inhibit their exchange.

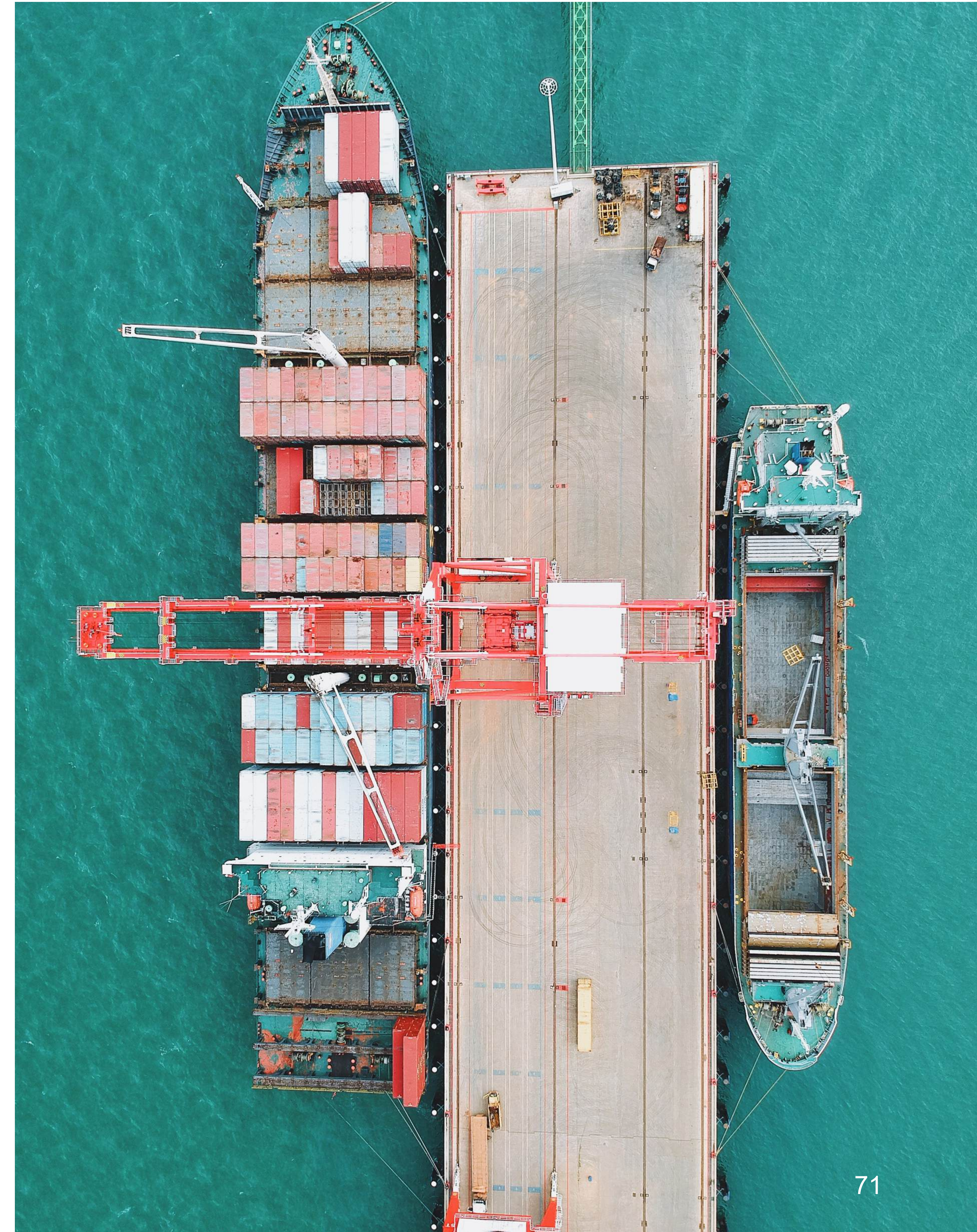
There are three kinds of free trade agreements:

Unilateral – is a commerce treaty that a nation imposes without regard to others. It benefits that one country only. It is unilateral because other nations have no choice in the matter. It is not open to negotiation.

Bilateral – an exchange agreement between two nations or trading groups that gives each party favored trade status pertaining to certain goods obtained from the signatories. The agreement sets purchase guarantees, removes tariffs and other trade barriers.

Multilateral – are commerce treaties between three or more nations. The agreements reduce tariffs and make it easier for businesses to import and export. Since they are among many countries, they are difficult to negotiate.

For export products where the origin cannot be easily ascertained by its nature, the exporter must submit an application for pre-evaluation of every goods for export. The exporter or their duly authorized representative must submit their application for pre-evaluation of export product at least 20 working days prior to the intended exportation of the product.



Free trade agreements

Based on the PTC website⁵, the following are the free trade agreements where the Philippines is a party thereto:

1	ASEAN-Australia-New Zealand Free Trade Area (AANZFTA)	7	ASEAN Trade in Goods Agreement (ATIGA)
2	ASEAN-China Free Trade Area (ACFTA)	8	Philippines-Japan Economic Partnership Agreement (PJEPA)
3	ASEAN-Hong Kong, China Free Trade Agreement (AHKFTA)	9	Philippines-European Free Trade Association Free Trade Agreement: Norway (PH-EFTA FTA: NOR)
4	ASEAN-India Free Trade Area (AIFTA)	10	Philippines-European Free Trade Association Free Trade Agreement: Switzerland/Lichtenstein (PH-EFTA FTA: CHE/LIE)
5	ASEAN-Japan Comprehensive Economic Partnership Agreement (AJCEPA)	11	Philippines-European Free Trade Association Free Trade Agreement: Iceland (PH-EFTA FTA: ISL)
6	ASEAN-Korea Free Trade Area (AKFTA)	12	Regional Comprehensive Economic Partnership (RCEP) Agreement

⁵ Tariff Finder - About (tariffcommission.gov.ph)

International taxation

General tax rate on income payments to non-residents

NRFCs are generally subject to 25% income tax on gross income sourced from within the Philippines, which is withheld at source. However, specific income may be exempt from Philippine income tax or subject to preferential tax rates pursuant to treaties that the Philippines has entered.

Application of Tax Treaty Relief

Administrative requirements are generally applicable whenever treaty benefits are invoked.

The Philippine withholding agent may rely on the treaty rate or exemption after the non-resident payee submits the specific BIR Form (BIR Form No. 0901) and Tax Residency Certificate. Within the last day of the fourth month following the close of the taxable year when the income is paid or transaction is consummated, the Philippine withholding agent should file a Request for Confirmation with the Philippine tax authorities.

Whenever domestic tax rates are applied by the Philippine withholding agent on the income payment, the non-resident income payee may file a Tax Treaty Relief Application (TTRA) with the Philippine tax authorities. Once the TTRA is granted, the non-resident may file for a tax refund.



Countries that have treaties with the Philippines

Listed in the table below are the countries that the Philippines has signed tax treaties ⁶ with as of 31 January 2025 and the relevant tax rates for certain kinds of income.

Country	Dividends (%)	Interest (%)	Royalties (%)	Capital Gains Tax Exemption on Shares
Australia	25/15	15/10	25/15	Yes
Austria	25/10	15/10	15/10	Yes
Bahrain	15/10	10	10/15	Yes
Bangladesh	15/10	15	15	Yes
Belgium	15/10	10	15	Yes
Brazil	25/15	15/10	15/25	No
Brunei ⁷	15/10	15/10	10	Yes
Canada	25/15	15/10	25 <small>The lesser rate is imposed between the 25% FWT and the lowest rate of Philippine tax that may be imposed on royalties of the same kind paid in similar circumstances to a resident of a third State.</small>	Yes
China	15/10	10	15/10	Yes

⁶ The Philippines has a tax treaty with Cambodia which was signed by Philippines Finance Secretary Ralph Recto and Cambodian Deputy Prime Minister and Minister for Foreign Affairs and International Cooperation Prak Sokhonn on 11 February 2025. Please note that the tax treaty has not yet been ratified by the Philippine Senate and is not yet effective.

⁷ Entered into force on 01 January 2025.

Countries that have treaties with the Philippines

Listed in the table below are the countries that the Philippines has signed tax treaties with as of 31 January 2025 and the relevant tax rates for certain kinds of income.

Country	Dividends (%)	Interest (%)	Royalties (%)	Capital Gains Tax Exemption on Shares
Czech Republic	15/10	10	15/10	Yes
Denmark	15/10	10	15	Yes
Finland	15	15/10	25/15	Yes
France	15/10	15/10	15	Yes
Germany	15/10/5	10	10	Yes
Hungary	20/15	15	15 <small>The lesser rate is imposed between the 15% FWT and the lowest rate of Philippine tax that may be imposed on royalties of the same kind paid in similar circumstances to a resident of a third State.</small>	Yes
India	20/15	15/10	15	Yes
Indonesia	20/15	15/10	25/15	Yes
Israel	15/10	10	15 <small>The lesser rate is imposed between the 15% FWT and the lowest rate of Philippine tax that may be imposed on royalties of the same kind paid in similar circumstances to a resident of a third State.</small>	Yes

Countries that have treaties with the Philippines

Listed in the table below are the countries that the Philippines has signed tax treaties with as of 31 January 2025 and the relevant tax rates for certain kinds of income.

Country	Dividends (%)	Interest (%)	Royalties (%)	Capital Gains Tax Exemption on Shares
Italy	15	15/10	25/15	Yes
Japan	15/10	10	15/10	Yes
South Korea	25/10	15/10	15/10	Yes
Kuwait	15/10	10	20	Yes
Malaysia	25/15	15	25/15	Yes
Mexico	15/10/5	12.5	15	Yes
Netherlands	15/10	15/10	15/10	Yes
New Zealand	15	10	15	Yes
Nigeria	15/12.5	10	20	Yes

Countries that have treaties with the Philippines

Listed in the table below are the countries that the Philippines has signed tax treaties with as of 31 January 2025 and the relevant tax rates for certain kinds of income.

Country	Dividends (%)	Interest (%)	Royalties (%)	Capital Gains Tax Exemption on Shares
Norway	25/15	15	25/10/7.5	Yes
Pakistan	25/15	15/10	25/15	Yes
Poland	15/10	10	15	Yes
Qatar	15/10	10	15	Yes
Romania	15/10	15/10	25/15/10	Yes
Russia	15	15	15	Yes
Singapore	25/15	15/10	25/15	Yes
Spain	15/10	15/10	20/15/10	Yes
Sri Lanka	25/15	15	25/15	No

Countries that have treaties with the Philippines

Listed in the table below are the countries that the Philippines has signed tax treaties with as of 31 January 2025 and the relevant tax rates for certain kinds of income.

Country	Dividends (%)	Interest (%)	Royalties (%)	Capital Gains Tax Exemption on Shares
Sweden	15/10	10	15	Yes
Switzerland	15/10	10	15	Yes
Thailand	15/10	15/10	15	Yes
Turkey	15/10	10	15/10	Yes
United Arab Emirates	15/10	10	10	Yes
United Kingdom	25/15	15/10	25/15	Yes
United States of America	25/20	15/10	25/15	Yes
Vietnam	15/10	15	15	No

The treaties provide certain conditions to be met before the preferential tax rates and exemption listed above can be applied.

Transfer pricing and base erosion and profit shifting (BEPS)

Transfer Pricing (TP) Documentation

On 23 January 2013, the Secretary of Finance issued RR No. 02-2013 which provides guidelines in applying the arm's length principle for cross-border as well as domestic transactions between associated enterprises. The preparation of a TP documentation shall be mandatory for the following taxpayers who meet any of the following materiality thresholds:

A. Types of Taxpayers

- a Large taxpayers;
- b Taxpayers enjoying tax incentives (i.e., BOI-registered and economic zone enterprises, those enjoying ITH or subject to preferential income tax rate;
- c Taxpayers reporting net operating losses for the current taxable year and the immediately preceding two consecutive taxable years; and
- d A related party that has transactions with (a), (b) or (c).

B. Materiality Threshold

- a Annual gross sales/revenues for the subject taxable period exceeding PHP 150 Million and the total amount of related party transactions with foreign and domestic related parties exceed PHP 90 Million;
- b Sale of tangible goods involving the same related party exceeding PHP 60 Million within the taxable year;
- c Service transaction, payment of interest, utilization of intangible goods or other related party transaction involving the same related party exceeding PHP 15 Million within the taxable year; or
- d If TP documentation was required to be prepared during the immediately preceding taxable period for exceeding (a) to (c).

The TP documentation is not required to be filed together with the annual income tax return (AITR) but required to be submitted within 30 calendar days upon receipt of request by the Commissioner or their duly authorized representatives pursuant to a duly issued Letter of Authority.

However, nothing prevents the taxpayer from preparing a TP documentation and presenting the same during audit to prove that its related party transactions were conducted at arm's length. Although it may not be required to prepare a TP documentation, a taxpayer still needs to reasonably assess and prove whether its dealings with related parties adhere to the arm's length principle (ALP).

Please note that the Philippines does not require the submission of a Master File as well as the Country-by-Country (CbC) Report before the BIR.

Related Party Transaction (RPT) Form

[BIR Form No. 1709]

To improve and strengthen TP risk assessment and audit, the BIR required taxpayers to disclose all RPTs irrespective of the amount. The BIR Form No. 1709 is used to monitor compliance with the TP documentation.

Taxpayers required to accomplish and file BIR Form No. 1709 are the following:

1. It is required to file an AITR
2. It has transactions with a domestic or foreign related party during the taxable period concerned; and
3. It falls to any of the following categories:
 - a Large taxpayers;
 - b Taxpayers enjoying tax incentives (i.e., BOI-registered and economic zone enterprises, those enjoying ITH or subject to preferential income tax rate;
 - c Taxpayers reporting net operating losses for the current taxable year and the immediately preceding two consecutive taxable years; and
 - d A related party that has transactions with (a), (b) or (c).

The BIR Form No. 1709 must be submitted together with the AITR. A penalty of not less than PHP 1,000.00 but not more than PHP 25,000.00 shall be imposed for failure to file the BIR Form No. 1709 due to reasonable cause and not willful neglect.

Transfer Pricing Audits

Revenue Audit Memorandum Order (RAMO) No. 01-2019, otherwise known as the TP Audit Guidelines, was issued on 27 October 2019 to provide for standardized audit procedures and techniques to be followed by the Revenue Officers of the BIR in the conduct of an audit for taxpayers with RPTs.

The TP Audit Guidelines are also applicable by analogy in relation to transactions between a permanent establishment (PE) and its Head Office or other related branches. For purposes of these guidelines, the PE will be treated by the BIR as a separate and distinct enterprise from its Head Office and other related branches/subsidiaries.

The TP Audit Guidelines also apply to intra-firm transactions where there is a misallocation of profits and costs. There is misallocation when a firm with activities in different tax regimes (i.e., income tax holiday, 5% gross income tax, regular corporate income tax) manipulate revenues and costs to minimize tax liabilities.

The above applications, notwithstanding the TP Audit Guidelines, were issued for the purpose of providing specific guidelines to be followed by the revenue examiners in the actual conduct of a TP audit. It is for internal use and reference by the BIR officials only and does not impose additional or specific regulatory requirement for taxpayers to comply with.

The TP Audit Guidelines seek to enforce the ALP as mandated in Section 5 of RR No. 02-2013 which provides for the Philippine TP Guidelines.

The TP Audit Guidelines also include a discussion on the authority of the BIR to make TP adjustments and how taxpayers are allowed to contest these adjustments. Thus, it is advisable for taxpayers to prepare and maintain a robust and contemporaneous TP documentation.

Transfer Pricing Audits

However, the TP Audit Guidelines do not have a discussion on the calculation of tax deficiencies and the treatment of secondary adjustments. It is expected that the BIR will issue additional guidelines on this matter.

Further, the TP Audit Guidelines have additional discussions on certain RPTs such as business restructuring, intra-group services, intangible asset transactions, cost contribution agreements and interest payment transactions.

For the implementation of the TP Audit Guidelines, the BIR needs to come up with additional revenue regulations or circulars that will further explain or clarify the BIR's TP policies that the TP Audit Guidelines intend to enforce.



Mutual Agreement Procedure (MAP)

On 29 June 2022, the DOF issued RR No. 10-2022 prescribing the guidelines and procedures for requesting MAP assistance in the Philippines. The MAP allows the competent authorities of the contracting parties to resolve disputes arising from difference or difficulties in the interpretation or application of the tax treaty through mutual agreement.

The following are some of the typical TP scenarios requiring MAP Assistance:

The withholding tax rate imposed on an item of income earned by a domestic corporation or resident citizen is beyond the maximum rate fixed under the tax treaty.

A resident citizen or domestic corporation has been or will be subject to taxation not in accordance with the provisions of the applicable tax treaty regarding the amount of profit attributable to the PE or fixed base.

A taxpayer is deemed a resident of the Philippines and of the other contracting state based on domestic laws. This triggers the application of the tiebreaker rules under the applicable tax treaty.

A taxpayer is uncertain whether the convention covers a specific item of income or is unsure of the characterization or classification of the item related to a cross-border issue.

A domestic corporation or a resident citizen is taxed in the other country on the business profit or income from independent services despite not having a PE or a fixed base in that country under the tax convention.

A taxpayer is subject to additional tax in one country because of a TP adjustment to the price of goods or services transferred to or from a related party in the other country.



Base Erosion and Profit Shifting (BEPS) 2.0

On 08 November 2023, the Philippines has accepted the invitation of the Organization for Economic and Development (OECD) and joined the OECD/G20 Inclusive Framework (IF) on BEPS as an Associate in the BEPS Project of the Committee on Fiscal Affairs. As a member of the IF, the Philippines commits to the comprehensive BEPS Package and its consistent implementation. But the Philippines noted in the acceptance letter that the timing of implementation of this BEPS Package may vary depending on the level of development of the countries and jurisdictions. By joining the IF, the Philippines adheres to the Two-Pillar Solution for addressing the tax challenges arising from the digitalization of the economy.

At present, there is no filed legislative bill yet on the implementation of BEPS 2.0 - Pillar 2. However, the Senate Committee on Ways and Means in its Policy Brief dated August 2024 has recognized that there should be an analysis on the implications of the Philippines's subscription to the BEPS Framework. The Policy Brief mentioned that the Philippine government might look into implementing income inclusion rules (IIRs) to ensure that taxes are collected from jurisdictions where subsidiaries might be paying less than the global minimum tax.

Taxation of expatriates

Taxpayer classification by residency

A resident citizen of the Philippines is taxed on his worldwide income. A non-resident citizen and a citizen who is classified as an overseas contract worker, including seamen, are taxed only on income from sources within the Philippines.

Foreign nationals can either be classified as resident alien, non-resident alien engaged in trade or business (NRAETB), or non-resident alien not engaged in trade or business (NRANETB) and are all taxed on income from sources within the Philippines.

For employment income, the source of income is the place where the services are rendered, regardless of the place or manner of payment, the place where contract was negotiated, or the payor's place of residence.



Tax rates

Philippine citizens, resident aliens and NRAETBs are generally taxed on their net taxable income at the graduated income tax rates of 0% to 35%.

The effective graduated income tax table from 1 January 2023 and onwards is as follows:

Taxable income bracket		Total tax on income below bracket	Tax rate on income in bracket
From PHP	To PHP	PHP	Percent
0	250,000	0	0
250,001	400,000	0	15
400,001	800,000	22,500	20
800,001	2,000,000	102,500	25
2,000,001	8,000,000	402,500	30
8,000,001	Over	2,202,500	35

On the other hand, NRANETBs are taxed on their gross income at the final rate of 25%.

General deductions from income

Net taxable income is determined by deducting the allowable deductions from gross income. For individual taxpayers who earn compensation income, they are entitled to a PHP 90,000.00 exclusion on their 13th month pay and other benefits.

Tax Administration

Individual income taxpayers are required to secure a unique Tax Identification Number (TIN) issued by the tax authority which is a required information to be indicated in the tax forms.

Income taxpayers are required to file their annual income tax return on or before 15th of April in the year following the tax year ending 31 December.

Social Security Agreements

The Philippines has social security agreements with Austria, Belgium, Canada, Denmark, France, Germany, Japan, Korea, Luxembourg, Netherlands, Portugal, Quebec, Spain, Sweden, Switzerland, and United Kingdom and Northern Ireland.





Immigration

Business travelers who are classified as non-restricted nationals generally have a 30-day visa free entry privilege to the Philippines and an additional 29-day visa-free stay where a visa waiver is applied for. These individuals are allowed to attend business meetings and seminars, make site visits to client facilities, or explore business opportunities in the Philippines. On the other hand, business travelers who are classified as restricted nationals are required to secure entry visas from the Philippine Consulate in their country of origin.

In general, a work visa and a work permit must be applied for engaging in a professional undertaking or gainful employment. The type of visa required will depend on the registration of the company that the individual will be working for.

Other individual tax

Fringe benefits granted to supervisory and managerial employees are subject to 25% or 35% final tax on the grossed-up monetary value of the fringe benefit depending on the residency of the recipient.

Passive income such as royalties, interest, dividends are subject to corresponding applicable final tax rates.

Self-employed individuals in the Philippines

Self-employed individuals earning income purely from self-employment/business and/or practice of profession whose gross sales and/or receipts and other non-operating income does not exceed the VAT threshold of PHP 3,000,000.00 shall have the option to avail of the following:

a.	Graduated income tax rates of 0% to 35%; or	b.	8% tax on gross sales or receipts and other non-operating income in excess of PHP 250,000.00 in lieu of the graduated income tax rates and percentage tax.
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The following criteria should all be satisfied to be able to qualify and avail of the 8% income tax rate option:

- a

Individuals (Single Proprietor or Professional or Mixed Income Earner) earning from self-employment and/or practice of profession;
- b

Taxpayers whose gross sales/receipts and other non-operating income did not exceed the PHP 3,000,000.00 VAT threshold during the taxable year;
- c

Taxpayers registered and subject only to percentage tax; or taxpayers exempt from VAT or other percentage taxes; and
- d

Must have signified their intention to elect the 8% income tax rate through any of the enumerations as prescribed under the existing regulations.

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