MGI Asia
Tax update
April 2014

Philippines

Tax Rates

The laws governing taxation in the Philippines are contained within the National Internal Revenue Code (NIRC). This code underwent substantial revision with passage of the Tax Reform Act of 1997. This law took effect on January 1, 1998.

In addition to the tax imposed by the National Government, the local governments are likewise empowered to collect taxes from corporation and individuals. The local taxes are contained in the Local Tax Code of the Philippines.

The following are the taxes imposed on doing business in the Philippines:

On Income Tax	Corporation	Individual
Income Tax Rate	30%	5% to 32%
Minimum Corporate Income Tax - starting on the third year from incorporation	2% of gross profit	
Regional Operating Headquaters (RHQ)	10%	
Educational Institutions	10%	
Dividend Income - Final Tax	Exempt	5% to 10%
Interest Income - Final Tax	20%	20%
Net Operating Loss Carry-over - for three years	yes	yes

Business Taxes	Corporation	Individual
Value Added Tax (VAT) - sales or service income above P1,919,500. Export sales are VAT exempt	12%	12%
Percentage Tax - for VAT exempt	6%	6%
Community Tax - Local tax	P5 to P10,000	P5 to P5,000
Local Taxes on gross receipts	P165 to 2% of gross receipts	P165 to 2% of gross receipts
Property Taxes - Local tax	1% to 2%	1% to 2%

Transaction Taxes	Corporation	Individual
Capital Gains Tax	7%	6%
Documentrary Stamp Tax	.15% to 12.5%	.15% to 12.5%
Donor's Tax	2% to 15%	2% to 15%
Estate Tax	5% to 20%	5% to 20%
Excise Tax	2% to 100%	2% to 100%

Withholding taxes are imposed on expense or income transactions for the government to monitor compliance with the tax code. Expenses which are subject to withholding taxes are disallowed if withholding taxes are not withheld.

Withholding Taxes	Corporation	Individual
Compensation Income		5% to 32%
Payments to Contractors	2%	2%
Rental Payments	5%	5%
Commission Payment	10%	10%
Payment of Professional Fees	10%	10%
Sale of Services	2%	2%
Sale of Goods	1%	1%

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Philippines

Investment Climate

The Philippines Constitution limits ownership of land and certain businesses to Philippines Nationals only. The Philippines Lower House of Congress is moving towards liberalizing the ownership of land and other businesses to allow foreigners 100% ownership. Until the constitution is amended, the foreign investment in the Philippines is governed by the Foreign Investment Act of 1991.

The following are the industries with ownership restrictions:

Industry	Philippines National Ownership	Foreign Ownership of up to
Mass Media	100%	
Practise of Profession	100%	
Retail trade with paid-up capital of less than US$2,500,000.00	100%	
Cooperatives	100%	
Private Security Agencies	100%	
Small scale mining	100%	
Utilization of marine resources	100%	
Ownership of cockpits	100%	
Manufacture, repair, stockpiling of nuclear weapons	100%	
Manufacture of fireworks	100%	
Private radio communication network		20%
Private recruitment for local or overseas employment		25%
Contracts for locally funded public works		25%
Contracts for defense related public works		25%
Advertising		30%
Exploration of natural resources		40%
Ownership of private lands		40%
Ownership of public utilities		40%
Ownership of educational institutions		40%
Lending companies		49%
Finance companies regulated by SEC		60%
Investment houses regulated by SEC		60%

The Philippines government has come up with liberal program of fiscal and non-fiscal incentives to attract foreign capital and technology to complement local resources. It has tasked the Board of Investment, an attached agency of the Department of Trade and Industry, to attract direct foreign investment in the country. Fiscal incentives include tax holidays from (4) to six (6) years and non-fiscal incentives such as employment of foreign national and simplification of customs procedures for the importation of materials, parts and equipment.

Outlook

The Philippines is poised to have a robust growth in the Southeast Asian region according to the World Bank and the International Monetary Fund. The Philippines is expected to grow by 6.5% this year, ahead of its ASEAN neighbours. The government target for 2014 is 6.5% to 7.5%. Last year the economy of the Philippines grew by 7.2%, higher than the 6% to 7% target.

Private consumption and investment were the drivers for the economic growth of the Philippines economy in 2013. For 2014, the government plans to roll out 15 public-private partnership with a total cost of US$14 billion. Public work spending is likewise being intensified to upgrade the basic infrastructures of the country which is the main reason why foreign domestic investment is hard to come by. In addition, tourism projects are being given impetus as the government's drive to lure tourist is being accelerated.

No new taxes are being contemplated by the government but collection of taxes has been stepped up and some tax loopholes are now being plugged. The government is targeting its budget deficit to only 2% of GDP through increased tax collection and more prudent spending in public works.