



GLOBAL EXPANSION

GLOBAL
EMPLOYER
GUIDE

PHILIPPINES





Basic Country Facts

Full name

- Republic of the Philippines

Capital

- Manila

Main Languages

- Filipino
- English

Population

- 106.7 million

Monetary unit

- Philippine Peso

Internet domain

- .ph

International dialing code

- +63

Currency

- Philippine Peso



STATUTORY LABOR REQUIREMENTS

Probation Period

- Under Article 281 of the Labor Code of the Philippines, probationary employment shall not exceed six (6) months from the date the employee started working, unless it is covered by an apprenticeship agreement stipulating a longer period.

Annual Leave

- Philippine employees are legally entitled to 5 days of paid 'service incentive leave', which can be used for vacation or sick leave.
- However, employers sometimes offer 15 days of paid vacation and 15 days of paid sick leave for most professional level positions in the Philippines.

Public Holidays

- New Year's Day (1st January)
- Chinese New Year (25th January)
- Bataan Day (9th April)
- Maundy Thursday (9th April)
- Good Friday (10th April)
- Labor Day (1st May)
- Eid al-Fitr
- Philippines Independence Day (12th June)
- Eid al-Adha
- National Heroes' Day (in Philippines) (31st August)
- Bonifacio Day (30th November)
- Feast of the Immaculate Conception (8th December)
- Christmas Day (25th December)
- Rizal Day (30th December)

Maternity Leave

- All working mothers — including those employed in the informal sector — can take up to 105 days of paid maternity leave (up from 60 days for normal childbirth or 78 days for a cesarean delivery) for each pregnancy, provided they've made at least three monthly contributions to the Social Security System (SSS) in the 12 months preceding the semester of the birth and have notified their employer.

Paternity Leave

- Notwithstanding any law, rules and regulations to the contrary, every married male employee in the private and public sectors shall be entitled to a paternity leave of seven (7) days with full pay for the first four (4) deliveries of the legitimate spouse

Sick Leave

- Philippine employees are legally entitled to 5 days of paid 'service incentive leave', which can be used for vacation or sick leave.

Work Hours

- The normal hours work of an employee shall not exceed 8 hours a day.
- However, Health Personnel shall have a maximum of 40 hours a week.



Overtime

- Overtime pay is an additional pay of 25% of a covered employee's hourly rate for work performed beyond eight (8) hours a day or for overtime work.
- If health personnel are made to work in excess of 40 hours, they are entitled to 30% additional pay.

Notice Period

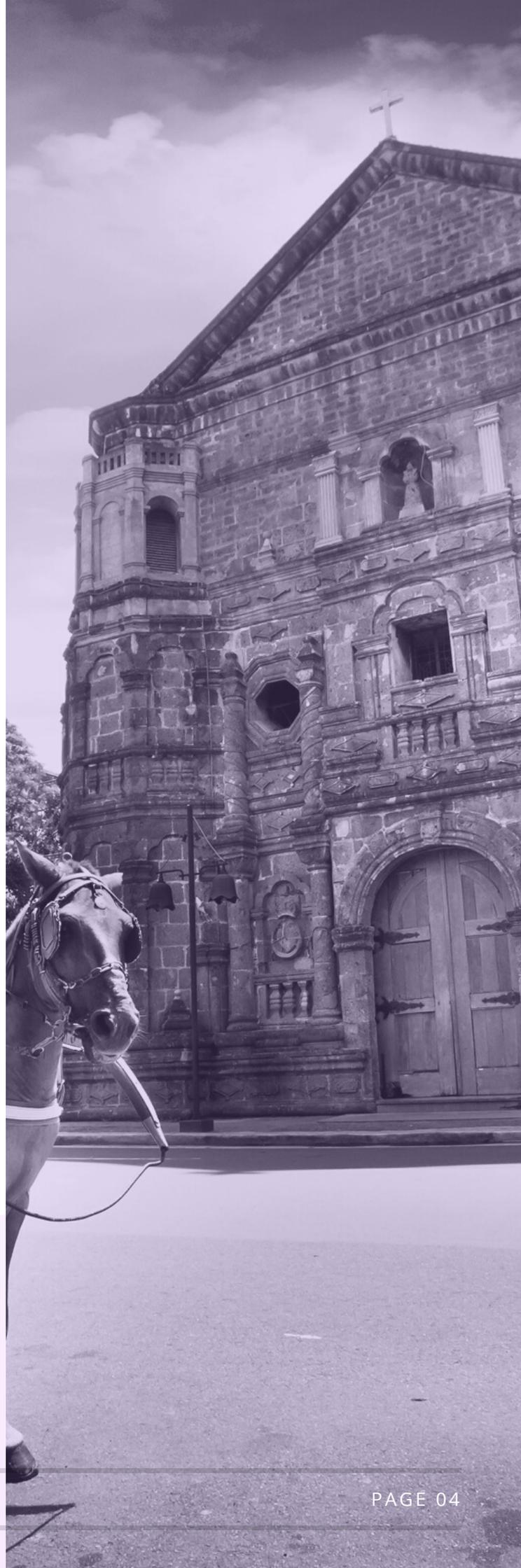
- As per Philippine laws, particularly the Labor Code, employees resigning on their own volition need to give their companies a notice of 30 days.

Severance

- In case of termination due to the installation of labor saving devices or redundancy, the employee affected is entitled to a separation pay equivalent to at least his one (1) month pay or to at least one (1) month pay for every year of service, whichever is higher.

13th Month

- Under Presidential Decree No. 851, employers from the private sector in the Philippines are required to pay their rank-and-file employees a Thirteenth 13th Month Pay not later than December 24 every year.
- The 13th month pay is equivalent to one twelfth (1/12) of an employee's basic annual salary.





Income Tax

- Resident citizens are subject to tax on worldwide income.
- Nonresident citizens, resident aliens and nonresident aliens are subject to tax on income from Philippine sources.
- Bureau of Internal Revenue (BIR) Ruling 517-2011 declared that employees of a Philippine entity who are working abroad for most of the tax year but remain on the local payroll are not nonresident citizens.
- Accordingly, payments to them are subject to withholding tax in the Philippines.
- Employment income received for services provided in the Philippines is subject to tax in the Philippines regardless of where the compensation is paid.
- Remuneration for services remains classified as compensation even if paid after the employer-employee relationship is ended
- Gross income includes compensation, income from the conduct of a trade, business or profession, and other income, including gains from dealings in property, interest, rent, dividends, annuities, prizes, pensions and partners' distributive shares.
- Net taxable compensation and business income of resident and nonresident citizens, resident aliens, and nonresident aliens engaged in a trade or business are consolidated and taxed at the following graduated rates.

Net taxable income		Tax on Lower Amount (PHP)	Rate on Excess (%)
Exceeding (PHP)	Not Exceeding (PHP)		
0	250,000	0	0
250,000	400,000	0	20
400,000	800,000	30,000	25
800,000	2,000,000	130,000	30
2,000,000	8,000,000	490,000	32
8,000,000	-	2,410,000	35

- Effective from 1 January 2023, the following will be the graduated rates.

Net taxable income		Tax on Lower Amount (PHP)	Rate on Excess (%)
Exceeding (PHP)	Not Exceeding (PHP)		
0	250,000	0	0
250,000	400,000	0	15
400,000	800,000	22,500	20
800,000	2,000,000	102,500	25
2,000,000	8,000,000	402,500	30
8,000,000	-	2,202,500	35

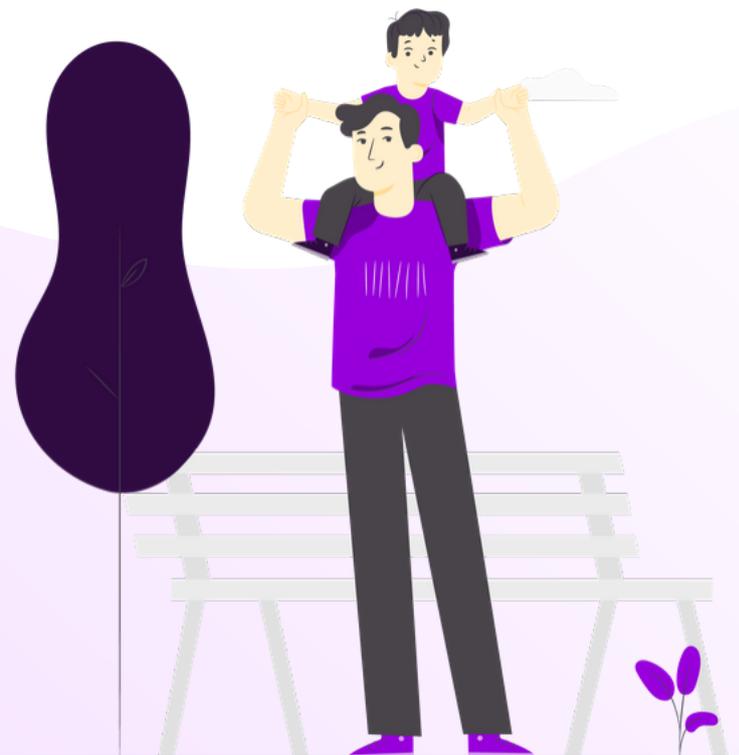




Social Security

- All individuals working in the Philippines must pay social security contributions.
- The employee's contribution is approximately 4% of salary and is withheld by the employer.
- The employer's contribution is approximately 8% of employees' salaries.
- Coverage is mandatory for self-employed persons and Overseas Filipino Workers.
- The minimum monthly salary subject to social security contributions is PHP1,000.
- The maximum monthly contributions are PHP1,630 for employers and PHP800 for employees, which apply to employees receiving monthly compensation of PHP19,750 or more.

Contribution	Employee	Employer
Social Security Contribution	4%	8%



Deductible Expenses

Employment Expenses

- Aliens, whether residents or not, who are receiving only salary or compensation income are not allowed any deduction against such income.

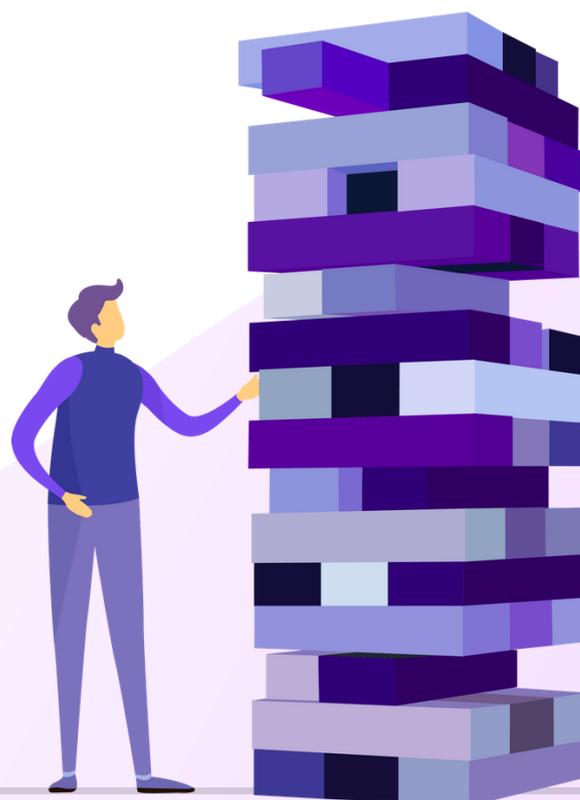
Personal Deductions

- Home mortgage interest, medical expenses, contributions, and other personal expenses cannot be claimed as deductions for income tax purposes.
- However, social security contributions, up to the prescribed amount of maximum mandatory contributions, are excluded from gross income.

Business Deductions

- In the case of individuals engaged in business or the practice of a profession, and who opted to be taxed at the regular graduated income tax rates, the following expenses are allowed as deductions from gross income:
 - All ordinary and necessary expenses paid or incurred during the taxable year in connection with the trade, business, or profession, including raw materials, supplies, and direct labor.
 - Wages and other forms of compensation for personal services actually rendered, including the grossed-up monetary value of fringe benefits and travel expenses incurred in the pursuit of the trade or profession.
 - Business rentals.

- Interest paid or incurred within a taxable year in connection with the conduct of a taxpayer's profession, trade, or business, less an amount equal to a certain percentage of the interest income subject to final tax.
 - Entertainment, amusement, and recreation expenses
 - Taxes.
 - Losses.
 - Bad debts.
 - Depreciation.
 - Charitable and other contributions, subject to certain limitations.
 - Research and development (R&D) expenditures.
- In lieu of these allowable deductions, an individual, other than a non-resident alien, may elect an optional standard deduction (OSD) not exceeding 40% of gross business or professional income.



Deductible Expenses

Employment Expenses	<ul style="list-style-type: none"> • Aliens, whether residents or not, who are receiving only salary or compensation income are not allowed any deduction against such income.
Personal Deductions	<ul style="list-style-type: none"> • Home mortgage interest, medical expenses, contributions, and other personal expenses cannot be claimed as deductions for income tax purposes.
Business Deduction	<ul style="list-style-type: none"> • All ordinary and necessary expenses paid or incurred during the taxable year in connection with the trade, business, or profession, including raw materials, supplies, and direct labor. • Wages and other forms of compensation for personal services actually rendered, including the grossed-up monetary value of fringe benefits and travel expenses incurred in the pursuit of the trade or profession. • Business rentals. • Interest paid or incurred within a taxable year in connection with the conduct of a taxpayer's profession, trade, or business, less an amount equal to a certain percentage of the interest income subject to final tax. • Entertainment, amusement, and recreation expenses • Taxes. • Losses. • Bad debts. • Depreciation. • Charitable and other contributions, subject to certain limitations. • Research and development (R&D) expenditures. <p>In lieu of these allowable deductions, an individual, other than a non-resident alien, may elect an optional standard deduction (OSD) not exceeding 40% of gross business or professional income</p>



Immigration

Alien Employment Permit

- Unless specifically exempted or excluded, all foreign nationals desiring to work in the Philippines must obtain an AEP from the DOLE.
- AEPs are normally valid for one year, but may be extended annually to cover the foreign national's length of employment, up to a maximum of five years.
- Local employers who desire to employ a foreign national must apply for the AEP on the foreign national's behalf with the regional office of the DOLE having jurisdiction over the employee's place of work.
- The petitioning company must prove that the foreign national possesses the required skills for the position.
- Educational background, work experience and other relevant factors are considered in evaluating the application.
- The petitioning company must prove that no Filipino is available who is competent, able and willing to do the specific job and that the employment of the foreign national is in the best interest of the public.
- The AEP is not an exclusive authority for a foreign national to work in the Philippines.
- It is just one of the requirements in the issuance of a work visa to legally engage in gainful employment in the country.
- Companies that are listed in the "Tenth Regular Foreign Investment Negative List" must comply with the Understudy Training Program and Anti-Dummy conditions of the authorities, which require them to obtain an "Authority to Employ Alien" from the Department of Justice (DOJ) based on the DOJ Ministry Order No. 210, series of 1980.

Temporary work permit

- The Subic Bay Metropolitan Authority (SBMA) may issue a temporary work permit (TWP) to foreign expatriates in order to immediately legalize a foreign national's status as an investor or worker in the Subic Bay Freeport Zone.
- The permit is issued while the foreign national's investor or work visa application is still in process.
- It is valid for three months and may be extended every three months, subject to a maximum total extension of one year.



Type of Visa	Documentation	Validity	Eligibility
Alien Employment Permit	<ul style="list-style-type: none"> • Duly notarized application form; • Letter of request sent to DOLE; • Secretary's Certificate electing foreign national to position (for non-resident foreign nationals with elective positions); • Authenticated passport with current visa; • Photocopy of Mayor's Permit; and • Photocopy of Business Permit. 	1 year (may be extended up to a maximum of 5 years)	<ul style="list-style-type: none"> • Unless specifically exempted or excluded, all foreign nationals desiring to work in the Philippines must obtain an AEP from the DOLE. • Educational background, work experience and other relevant factors are considered in evaluating the application.
Temporary Work Permit	<ul style="list-style-type: none"> • Completed application form • Valid Passport • Passport photos 	3 months	<ul style="list-style-type: none"> • The Subic Bay Metropolitan Authority (SBMA) may issue a temporary work permit (TWP) to foreign expatriates in order to immediately legalize a foreign national's status as an investor or worker in the Subic Bay Freeport Zone.



Value Added Tax (VAT)

- VAT is due on the sale, exchange or lease of goods, property or services by a taxable person.
- VAT in the Philippines is administered by the Bureau of Internal Revenue.
- The standard VAT rate is 12%
- Certain goods and services such as export sales and foreign currency denominated sales are subject to 0% VAT

VAT	
Standard Rate	12%
Zero Rate	0%

Withholding Tax

Dividends

- Dividends distributed by a Philippine company to a nonresident are taxed at a rate of 15% provided the country of the foreign corporate recipient allows a tax credit of 15%.
- Otherwise, the dividends are taxed at a rate of 30%
- The withholding tax may be reduced under an applicable tax treaty

Interest

- Interest paid to a nonresident is subject to a 20% withholding tax
- The rate may be reduced under a tax treaty



Royalties

- Royalty payments made to a nonresident are subject to a 30% withholding tax, unless the rate is reduced under a tax treaty
- A 20% final withholding tax is levied on royalty payments made to a domestic or resident foreign corporation

Technical Service Fees

- Technical service fees, which may be treated as royalties in some cases, are subject to 30% withholding tax, unless the rate is reduced under a tax treaty
- Fees treated as royalties also are subject to final withholding VAT of 12%, unless specifically exempt under the law

WHT

Dividends	15%/ 30%
Interest	20%
Royalties: -	
Nonresident	30%
Resident	20%
Technical Service	30%



Termination

- Employers may dismiss workers for just cause, in which case there no mandatory severance. Management must conduct an investigation and have strong evidence to prove cause.
- Termination causes that would be deemed just cause include:
 - serious misconduct
 - willful disobedience
 - gross and habitual neglect of duty
 - fraud or breach of trust
 - commission of a crime or offense against the employer, his family or representative
- As per Philippine laws, particularly the Labor Code, employees resigning on their own volition need to give their companies a notice of 30 days.
- In case of termination due to the installation of labor saving devices or redundancy, the employee affected is entitled to a separation pay equivalent to at least his one (1) month pay or to at least one (1) month pay for every year of service, whichever is higher.

Statutory Benefits

- These are mandatory benefits as postulated by law
- These include probationary period, annual leave, public holidays, sick leave, maternity leave, paternity leave, overtime pay, notice period, severance pay and 13th month pay
- Statutory benefits also include social security benefits

Statutory Benefits

Probationary Period

Annual Leave

Public Holidays

Maternity Leave

Paternity Leave

Sick Leave

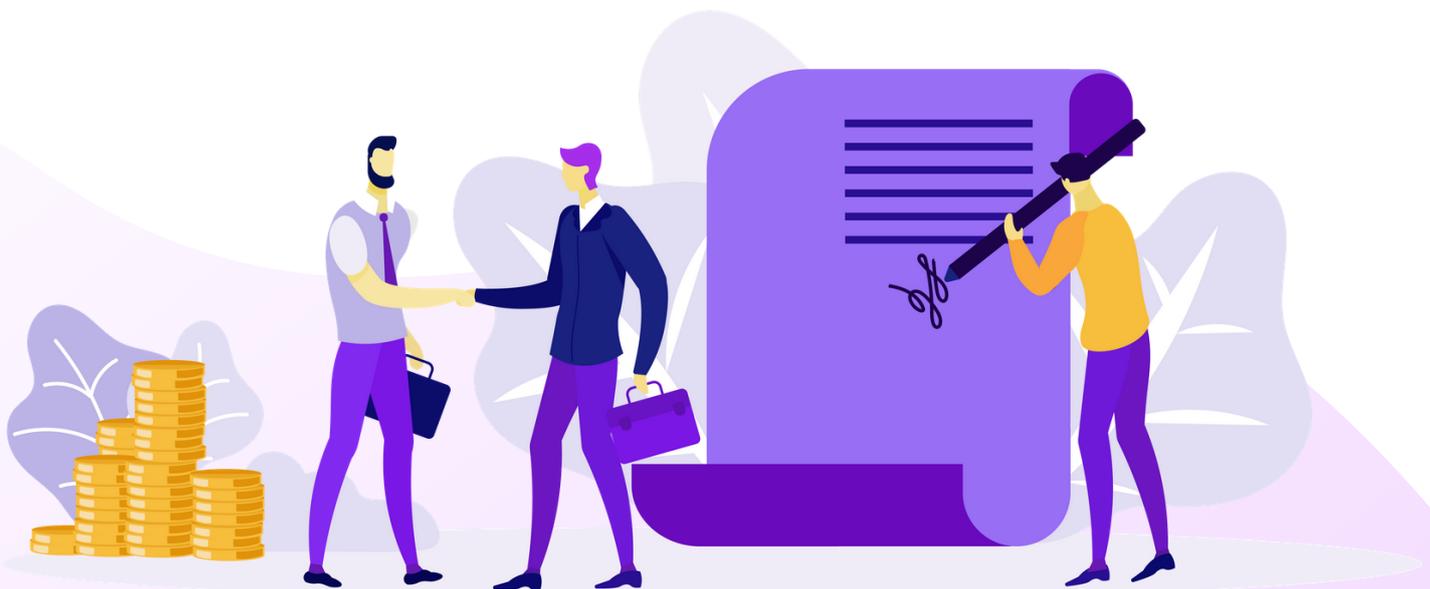
Overtime Pay

Notice Period

Severance Pay

13th month pay

Social Security Benefits





Payments and Invoicing

- The tax year runs from 1 January to 31 December.
- Unless impracticable, a husband and wife must file one consolidated income tax return, but the tax is computed separately. Income that cannot be definitely attributed or identified as exclusive income of either spouse is divided equally between them.
- Generally, this results in lower combined tax liability than when the tax is jointly computed.
- Substituted filing is available for qualified employees.
- In such case, the Certificate of Compensation Payment/Tax Withheld (Bureau of Internal Revenue [BIR] Form 2316) filed by the employer and duly stamped 'received' by the BIR shall be tantamount to substituted filing of the Annual Income Tax Return of the employees.
- Substituted filing shall apply only to employees who meet all of the following conditions:
 - the employee receives purely compensation income (regardless of amount) during the taxable year,
 - the employee receives the income only from one employer in the Philippines during the taxable year,
 - the amount of tax due from the employee at the end of the year equals the amount of tax withheld by the employer, and
 - the employee's spouse also complies with all three mentioned conditions.
- Substituted filing, however, will not apply to non-resident aliens engaged in trade or business in the Philippines.
- All individual taxpayers who do not qualify for substituted filing are required to file their returns on a calendar-year basis. The return must be filed on or before 15 April of the succeeding year.

Ease of Doing Business

- The ease of doing business index is an index created by Simeon Djankov, an economist at the Central and Eastern Europe sector of the World Bank Group.
- Higher rankings (a low numerical value) indicate better, usually simpler, regulations for businesses and stronger protections of property rights.
- According to the World Bank Philippines ranked 95th in the World in 2019 in terms of ease of doing business.



GLOBAL
EMPLOYER
GUIDE
PHILIPPINES

