This report provides helpful information on the current business environment in the Philippines. It is designed to assist companies in doing business and establishing effective banking arrangements. This is one of a series of reports on countries around the world.

Global Banking Service

Report on the Philippines

Contents

RBC Royal Bank®

Important to Know

Official language

- Filipino
- English

Currency

- Peso (PHP)

Bank holidays

2010	
January	1
February	25
April	1, 2, 9
May	1, 10
June	12, 24
August	23, 30
September	11
November	1, 29
December	27, 30, 31

Source: www.goodbusinessday.com.

Types of Business Structure

Under Philippine law, there are several business structures available. Some require a minimum amount of share capital to be paid up before the business can be established. A financial institution must hold the paid share capital in a restricted account until the business is legally established.

Most limited liability businesses are stock corporations which are formed by between five and 15 “incorporators” who must hold at least one share in the businesses. Shareholders in stock corporations can receive dividends or surplus profits based on share ownership. Stock corporations in the Philippines require an initial minimum paid up capital of at least PHP 5,000 at the time of incorporation. Limited liability companies can also be non-stock corporations, which are not-for-profit businesses, where no dividends or surplus profits are paid out to shareholders. Any corporation in the Philippines that is more than 40% foreign owned is considered a foreign entity.

Public limited liability company

A public joint stock corporation’s shares are not registered to their owners and are tradable on a public stock market. Shareholders’ liability is limited to the amount they have invested.

Private limited liability company

Close corporations are limited liability companies in the Philippines where shares are registered to their owners and are therefore not publicly tradable. Close corporations are restricted to a maximum of 20 shareholders. Mining companies, oil companies, stock exchanges, banks, insurance companies, public utilities, educational institutions and all businesses with a vested with public interest are prohibited from becoming close corporations in the Philippines.

General partnership

In a general partnership, all partners have full and joint unlimited liability. This requires no minimum share capital.

Limited partnership

In a limited partnership, some partners enjoy limited liability (silent partners) although they are not permitted to exercise managerial control. Other partners are considered general partners and have unlimited liability. Limited partnerships require no minimum share capital.

Cooperatives

Cooperatives in the Philippines must have at least 15 members, with the board of the cooperative to be made up of at least five individuals.

Branches and representative offices

Non-Philippine companies are entitled to establish a branch or a representative office in the Philippines. A branch office operating in the Philippines carries out the business activities of a head office and must derive its income from a host country. A branch must have a minimum paid up capital of USD 200,000 if it employs less than 50 direct employees. However, if it employs more than 50 staff or is involved in work using advanced technology, the minimum paid up capital required is reduced to USD 100,000.

Representative offices operating in the Philippines deal directly with the clients of its parent company and must be fully subsidized by that company's head office. An initial minimum inward remittance of USD 30,000 is required for all representative offices, to cover operating expenses.

Opening and Operating Bank Accounts

Residency

To be considered resident, a company must be incorporated or licensed to trade or conduct business in the Philippines.

Domestic and foreign currency account restrictions

Residents are permitted to hold foreign currency accounts domestically outside the Philippines but domestic currency accounts are not convertible into foreign currency.

Non-residents are permitted to hold local foreign currency accounts. Local currency accounts are permitted but must be funded by inward remittances in foreign currency, by local currency income or by proceeds from non-resident assets located in the Philippines.

Non-resident domestic currency accounts can be converted into foreign currency but only when the account balance relates to PHP proceeds of the divestment of inward foreign investments registered with the central bank and related accumulated earnings.

Anti-money laundering and counter-terrorist financing rules

- Account opening procedures require formal identification of the account holder. In 2007 the central bank issued a circular advising that first-time customers must present the original and submit a copy of at least two valid photo-bearing ID documents issued and signed by an official authority.
- Financial institutions have to identify individuals performing single transactions or multiple transactions within one banking day aggregating to an amount exceeding PHP 500,000 and report such transactions within five working days.

Supplied by BCL Burton Copeland (www.bcl.com). Data as at August 2009.

Special purpose accounts required by local regulation

None.

Value-added tax (VAT) on banking services

Under Philippine law, financial service providers are subject to VAT at various percentages of gross sales or receipts.

Payment and Collection Instruments

Cheques represent the most popular cashless payment instrument in the Philippines and their usage is increasing in both volume and value, especially for retail-based payments. Electronic funds transfers are also growing rapidly in popularity in the Philippines and many companies are now using electronic funds transfers, as opposed to cheques, to make payroll payments, as well as tax and social security payments. Both cheques and electronic fund transfers are used for business-to-business transactions.

Direct debits are widely available in the Philippines. In recent years they have become a commonly used payment instrument for consumers making low-value, regular payments, such as utility bill payments.

Payment cards, especially credit cards, are used for consumer retail payments and are growing in use. Most debit cards in the Philippines come in the form of ATM cards linked to deposit accounts. A point-of-sale (POS) network allows ATM cardholders to make direct purchases using ATM cards.

Electronic money (e-money) is a rapidly expanding consumer payment instrument. As well as being used for purchasing goods and services, e-money in the Philippines can be used to transfer funds electronically and withdraw funds. To do this the most commonly used e-money instruments available are cash cards, mobile phone e-wallets and stored value cards. E-money instruments in the Philippines are restricted to a maximum monthly load limit of PHP 100,000.

International Payments

International payments, including foreign currency payments and payments to and from parties located outside the Philippines, are processed by using traditional correspondent banking techniques.

Payment Processing Times

Transactions processed (PHP-denominated)	Value dating rules	Cut-off time(s) in local Philippines Time (PHT)
High-value and urgent domestic payments	Settlement in real time with immediate finality	17:45 PHT
Low-value domestic payments	Payments are settled on a next-day basis	16:00 PHT
Cheque payments	MICR-encoded cheques are settled the same day. Other cheques are settled in three days if cleared within the expanded Greater Manila region or within seven days if cleared through another regional clearing unit.	17:00 PHT

Central Bank Reporting

Balance of payments data is reported on a quarterly basis and must include all transactions between residents and non-residents. Transactions by or to residents on accounts held abroad must also be reported.

The Philippine central bank, Bangko Sentral ng Pilipinas (BSP) also carries out a monthly cross-border transactions survey. This contains transactions from residents to non-residents, including transactions settled via resident accounts abroad. This information should be submitted to the BSP 22 days after the end of the reference month.

The BSP also carries out a quarterly survey on foreign direct investment and an annual coordinated portfolio investment survey.

Exchange Arrangements and Controls

Exchange controls in the Philippines are administered by the BSP. Rules on current and capital accounts are consolidated in BSP Circular 1389 of 1993 and its amendments.

The Philippines has gradually deregulated its foreign exchange regime over recent years and foreign exchange can now be traded on a forward basis by banks. However, BSP approval is required for forward transactions involving the sale of foreign exchange to non-residents. Those who are registered with the BSP and are hedging foreign investment are exempt from this rule.

All transactions impacting on trade balances must be conducted through the formal exchange market.

BSP approval is needed for all foreign currency in excess of USD 30,000 purchased by residents for non-trade transactions (other than foreign loans and investments).

Extension of PHP loans to non-residents by banks is prohibited. Foreign exchange purchased from the domestic banking system may be used to service foreign loans and investments registered with the BSP. It is not permitted to use local currency for international payments and receipts, except for imports from and exports to Association of Southeast Asian Nations (ASEAN)* countries.

*ASEAN is an economic, political and social-cultural association whose founding members are Indonesia, Malaysia, Philippines, Singapore and Thailand; other Southeast Asian countries have since become members.

Cross-border payment and settlement of capital transactions in domestic currency exceeding the equivalent of PHP 10,000 is prohibited. Registration with the BSP is needed for outward direct investments exceeding USD 30 million in a year, if the foreign exchange is to be purchased from the domestic banking system.

Cash and Liquidity Management

Including Philippine entities in any international cash or liquidity management structure is difficult because of the existence of restrictions on cross-border transfers.

Physical Cash Concentration

Physical cash concentration is available from all large Philippine and international banks. Resident and non-resident companies can participate, although balance of payment reporting restrictions are applied.

Restrictions on cross-border transfers limit cross-border cash concentration structures in the Philippines.

Notional Cash Pooling

As overdrafts are not permitted in the Philippines, notional pooling is not possible for either residents or non-residents.

Short-term Investment

Bank instruments

Interest-bearing current accounts are generally available in the Philippines. Banks offer time deposits in a range of currencies for terms from 30 days to a year.

Non-bank instruments

Some Philippine companies issue commercial paper, with a range of maturities.

The Philippine government auctions Treasury bills for periods of 91, 182 and 364 days on Monday every two weeks. Money market funds are also available.

Short-term Borrowing

Bank

Traditional overdraft facilities are prohibited in the Philippines. However, some banks provide short-term credit lines.

Non-bank

Commercial paper is issued by companies and is usually a safe form of investment. There is also an active secondary market.

Repurchase agreements are also common in the Philippines.

Taxation

Corporate Taxation

- An income tax rate of 30% is imposed on a company's taxable income.
- Domestic companies are taxed on their worldwide income.
- Resident foreign companies and branches of foreign companies are taxed on their income derived from sources within the Philippines.
- Irrespective of whether foreign or domestically owned, companies are subject to a minimum corporate income tax (MCIT) at a rate of 2% on their gross income from their fourth year of starting their business. Excess MCIT paid over the normal corporate income tax is carried forward and is creditable against normal income tax for the three immediately succeeding taxable years.
- Tax losses can be carried forward over three consecutive taxable years immediately following the year of such loss, provided there is no substantial change of ownership in the business.

Advance Tax Ruling Availability

- Advance tax rulings are available, except for transfer pricing and certain transactions that the tax authorities have declared as no-ruling areas.

Withholding Tax (subject to tax treaties and other exemptions)

- Branch profit remittances to head offices are subject to a 15% branch profit remittance tax.

Payments to	Interest	Dividends	Royalties	Other income
Resident companies	Nil*	Nil	20%	1–15%**
Non-resident companies†	20%	30%	30%	–

* Except interest from bank deposits and foreign currency loans granted by depository banks. ** The rate of withholding tax on other income payments is 1–15%. † A preferential tax rate may be available under applicable tax treaties.

Capital Gains Tax

- Capital losses may only be offset against capital gains.
- A final tax is imposed upon the net capital gains realized during the taxable year from the sale, barter, exchange or other disposition of shares of stock in a domestic corporation, except shares sold or disposed of through the stock exchange at the following rates:

  - not over PHP 100,000, 5%; and
  - on any amount in excess of PHP 100,000, 10%.
- A final tax of 6% based on the gross selling price or current fair market value, whichever is higher, is imposed upon capital gains presumed to have been realized from the sale, exchange or other disposition of real property located in the Philippines, classified as capital assets, including pacto de retro sales and other forms of conditional sales, by individuals (including estates and trusts).

Stamp Duty

- A documentary stamp tax (DST) is levied on financial instruments, including shares, bonds, leases, sale agreements, loan agreements, debentures, certificates of indebtedness, bank cheques, warehouse receipts, bills of lading, letters of credit, mortgages, powers of attorney, insurance policies and proxies.
- The DST return must be filed within ten days of the close of the month when the taxable document was made, signed, issued, accepted or transferred, and the tax thereon must be paid at the same time the aforesaid return is filed.
- The tax return must be filed with, and the tax due be paid through, the authorized agent bank within the territorial jurisdiction of the revenue district office that has jurisdiction over the residence or principal place of business of the taxpayer. In places where there is no authorized agent bank, the return is filed with the revenue district officer collection agent, or duly authorized treasurer of the city or municipality in which the taxpayer has their legal residence or principal place of business.

Thin Capitalization

- There are no formal thin capitalization rules.

Transfer Pricing

- There are draft regulations for transfer pricing rules but they have not been issued to date. Pending the issuance of the transfer pricing regulations, the Tax Office adheres to the Organisation for Economic Co-Operation and Development (OECD) Transfer Pricing Guidelines as a matter of policy.

Sales Taxes / VAT

- There is a general VAT at a rate of 12% on all goods and services (including imports) for sellers with sales exceeding PHP 1.5 million per annum.
- All persons liable to pay VAT must file a quarterly return of the amount of their quarterly gross sales or receipts within 25 days following the close of the taxable quarter using the latest version of the quarterly VAT return. The term “taxable quarter” means the quarter that is synchronized to the income tax quarter of the taxpayer (i.e., the calendar quarter or fiscal quarter).
- Amounts reflected in the monthly VAT declarations for the first two months of the quarter must still be included in the quarterly VAT return, which reflects the cumulative figures for the taxable quarter. However, payments in the monthly VAT declarations are credited in the quarterly VAT return to arrive at the net VAT payable; excess input tax or overpayment at the end of a quarter.
- The monthly VAT declarations (BIR form 2550M) of taxpayers, whether large or small, must be filed and the taxes paid not later than the 20th day following the end of each month. VAT payments are collected monthly.
- Businesses that would not be subject to VAT because their annual sales are PHP 1.5 million or less are subject to a 3% tax on sales.
- Financial service providers are subject to tax at various percentages of gross sales or receipts (gross receipts tax).
- There are excise taxes on various goods, including alcohol and tobacco products, cars, and fuel.

Payroll and Social Security Taxes

- Deductions are made to cover the social security system, health insurance and the Home Development Mutual Fund.

All tax information supplied by Deloitte LLP (www.deloitte.com). Data as at April 1, 2009.

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