## Preface

This guide has been prepared by Constantino Guadalquiver & Co., an independent member of Baker Tilly International. It is designed to provide information about Philippine Taxation to those considering investing or doing business in the Philippines.

Baker Tilly International is one of the leading networks of independently owned and managed accountancy and business advisory firms in the world and is represented by 161 member firms in 137 countries with over 27,000 staff worldwide. Its member firms are high quality accountancy and business services firms, all of whom are committed to providing the best possible service to their clients, both in their own marketplace and across the world.

The Philippine Tax Guide has been designed for the information of readers. While every effort has been made to ensure accuracy, information contained in this booklet may not be comprehensive and readers should not act upon it without seeking professional advice.

Up-to-date advice and general assistance on Philippine matters can be obtained from Constantino Guadalquiver & Co., whose contact details are provided at the end of this booklet

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## Introduction

Domestic corporations and resident citizens are subject to Philippine tax on their worldwide income; foreign corporations, non-resident citizens and aliens are subject to Philippine tax on Philippine source income only.

The general taxation framework for the Philippines is set out in the National Internal Revenue Code of 1997, commonly referred to as the Philippine Tax Code. However, laws relating to tax incentives are generally contained in the statute governing the relevant investment incentive and close regard needs to be had for frequent regulations and rulings issued by the Bureau of Internal Revenue.

BOI and PEZA-registered enterprises may be entitled to a tax holiday in the first four to six years of operation depending whether the registered activity is classified as pioneer or non-pioneer. The tax holiday may be extended to a maximum of two years, at one year per extension. After the tax holiday, PEZA-registered enterprises are generally subject to 5% tax on their gross income (sales less direct costs) in lieu of other local and national taxes.

Taxes are imposed at both national and local government level. The Bureau of Internal Revenue administers national taxes while the treasurer and assessors' offices of different local governments administer local taxes. The Bureau of Customs collects taxes and duties on imports.

Regional area headquarters (RHQ) are not subject to Philippine tax; Regional Operating Head Quarters (ROHQ) are subject to 10% tax on their taxable income.

# 1. Corporate Income Tax

| Corporate Income Tax Rates | Domestic/ Resident Foreign Corporation | Non-resident Foreign Corporation |
|---|---|---|
| Taxable income not subject to special tax rates | 30% | 30% |
| Interest from deposits and yield from deposit substitutes/trust funds and royalties | 20% | 30% |
| Interest on foreign loans | N/A | 20% |
| Interest income derived by a domestic corporation from a depository bank under the expanded foreign currency deposit system | 7.5% | N/A |
| Dividends from domestic corporations | 0 | 15% / 30% |
| Gains on sales of shares of stock not traded on the stock exchange | 5% / 10% | 5% / 10% |

- The corporate tax rate for non-resident foreign corporations indicated above applies in cases where the foreign corporation's country of residence does not have an existing tax treaty with the Philippines or in case there is an existing tax treaty, the treaty rate is greater than the rate provided in the Tax Code of the Philippines.
- The rate is reduced to 7.5% for interest income derived by a domestic corporation from a depository bank under the expanded foreign currency deposit system.
- The rate of 15% applies if the host country exempts the dividend from tax or permits a 20% or greater credit for underlying corporation tax paid by the company paying the dividend.
- The 5% rate applies to the first ₱100,000 of gains annually, with the 10% rate applying to the excess. Shares of stocks in listed companies are subject to a 0.5% tax on the sale proceeds.

Corporations and business taxpayers are required to file and make payments on monthly or quarterly tax returns. Tax deficiencies are subject to a 25% surcharge and 20% interest per annum. For fraud, falsehood or willful violation, the surcharge is 50%. Failure to account properly for withholding tax may result in the underlying payment becoming non-deductible for tax purposes.

**Rates of tax for corporations entitled to special tax privileges**

| Entity | Rates | Tax Base |
|---|---|---|
| Proprietary educational institutions and non-profit hospitals | 10% | Net taxable income provided that the gross income from unrelated trade, business or other activity does not exceed 50% of the total gross income |
| Certain PEZA-registered enterprises | 5% | Modified Gross Income |
| Non-resident owners or lessors of aircraft, machinery and other equipment | 7.5% | Gross Philippine rental, lease, charter fees |
| Non-resident owners of vessels chartered by Philippine nationals and approved by the Maritime Industry Authority | 4.5% | Gross Philippine rentals, lease, charter fees |
| Non-resident cinematographic film owners, lessors or distributors | 25% | Gross Philippine source income |
| Foreign international carriers (air and sea) | 2.5% | Gross Philippine billings |
| Offshore banking units (OBUs) and foreign currency deposit units (FCDUs) authorized by the BSP | 10% | Income from foreign currency transaction with residents |
| Regional Operating Headquarters | 10% | Taxable income |

**Income Tax Rates on Passive Income of Domestic/Resident Corporation**

| | |
|---|---|
| Dividends received from domestic corporations | Not subject to tax |
| Interest on any currency bank deposit and yield or other monetary benefit from deposit substitutes and from trust fund and similar arrangements | 20% of final tax |
| Interest from foreign currency deposits with FCDUs | 7.5% of final tax |
| Gains from the sale or exchange of shares of stock not listed and traded on the local stock exchange | 5% rate applies to the first ₱100,000 of gains annually;10% rate applies in excess of ₱100,000 |
| Gains from the sale or exchange of land or buildings not actually used in business and treated as capital issue | 6% Capital Gains Tax (CGT) on gross selling price or fair market value, whichever is higher |
| Royalties | 20% final tax |

## Other taxes:

**Minimum Corporate Income Tax (MCIT)** - A 2% MCIT on gross income on an annual basis is imposed on corporations whose regular corporate income tax liability is less than the MCIT beginning the fourth taxable year following the year they commenced business operation. Any excess of the MCIT over the normal tax shall be carried forward and credited against the normal tax for the three immediately succeeding taxable years.

**Fringe Benefits Tax** - Fringe benefits granted to supervisory and managerial employees are subject to 32% tax on the grossed-up monetary value of the benefit. Fringe benefits given by OBUs, regional operating headquarters of multinational companies, petroleum contractors and subcontractors to qualified alien employees, and in certain cases to Filipino employees, are taxed at 15% of the grossed-up monetary value of the benefit.

**Branch Profit Remittance Tax** – a 15% tax is imposed on the profit remitted by the Philippine branch to its foreign head office. The tax is based on the total profit applied or earmarked for remittance without any deduction for the tax component thereof. The tax applies whether the remittance of profit is done actually or constructively, as when the Philippine branch did not actually remit such profit because the same was made part of the assigned capital of the foreign head office in the Philippine branch.

**Improperly Accumulated Earnings Tax** - A 10% tax is imposed on the improperly accumulated earnings of a corporation, except in the case of publicly held corporations, bank, and other non-bank financial intermediaries and insurance companies and those companies enjoying preferential rates under special laws. When a corporation allows its earnings or profits to accumulate beyond its reasonable needs, it shall be assumed that the purpose is to avoid tax on stockholders, unless proven to the contrary.

**Value Added Tax (VAT)** - The sale of goods, other properties and services in the Philippines, as well as the importation of goods into the Philippines, are subject to 12% VAT. VAT is imposed on the gross selling price (in the case of the sale of goods) and gross receipts (in the case of the sale of services)

**Stock Transaction Tax** - 0.5% of the gross selling price is imposed on the sale, barter, exchange or other disposition of shares through the facilities of a stock exchange.

## 2. Tax on Individual Income

| | | |
|---|---|---|
| **Non-resident aliens not engaged in trade and business** | Flat income tax rate | 25% |
| **Resident citizens/aliens (gainfully employed)** | Graduated income tax rates | 0% - 32% |
| **Alien individual employed by Regional Area Headquarters, ROHQs, OBUs, Petroleum Service Contractor and Subcontractors** | Final tax rate | 15% |

**Tax Table for individuals earning purely compensation income and individuals engaged in business and practice of profession**

| If taxable income is: | Tax due is: |
|---|---|
| Not over ₱10,000 | 5% |
| Over ₱10,000 but not over ₱30,000 | ₱500 + 10% of the excess over ₱10,000 |
| Over ₱30,000 but not over ₱70,000 | ₱2,500 + 15% of the excess over ₱30,000 |
| Over ₱70,000 but not over ₱140,000 | ₱8,500 + 20% of the excess over ₱70,000 |
| Over ₱140,000 but not over ₱250,000 | ₱22,500 + 25% of the excess over ₱140,000 |
| Over ₱250,000 but not over ₱500,000 | ₱50,000 + 30% of the excess over ₱250,000 |
| Over ₱500,000 | ₱125,000 + 32% of the excess over ₱500,000 |

## 3. Tax Treaties

Tax treaties are seen as a means of encouraging inward investment into the Philippines. They can offer significant tax savings on passive income earned from the Philippines, such as interest and royalties. Withholding tax rates under Philippine treaties remain relatively high by global standards, but are significantly lower than the rates applicable by domestic law. The Bureau of Internal Revenue expects taxpayers to formally apply for tax relief, even if the transactions involved are straightforward.

The following countries have tax treaties with the Philippines:

| | | | |
|---|---|---|---|
| Australia | Finland | Kuwait | Singapore |
| Austria | France | Malaysia | Spain |
| Bahrain | Germany | The Netherlands | Sweden |
| Bangladesh | Hungary | New Zealand | Switzerland |
| Belgium | India | Nigeria | Thailand |
| Brazil | Indonesia | Norway | UK & Northern Ireland |
| Canada | Israel | Pakistan | United Arab Emirates |
| China | Italy | Poland | USA |
| Czech | Japan | Romania | Vietnam |
| Denmark | Korea | Russia | |


CG&Co

Constantino Guadalquiver & Co.

15th Floor, Citibank Tower, Paseo de Roxas, Makati City 1200, Philippines
Tel: +63 848 1051 to 53 • Fax: +63 728 1014 • www.cgco.com.ph

**Jerome Antonio B. Constantino** jabconstantino@cgco.com.ph
**Atty. Casey M. Barleta** cmbarleta@cgco.com.ph



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