

About the Firm

Du-Baladad and Associates (BDB Law) is a leading global tax law firm in the Philippines, specializing in three core practice areas: **Tax, Legal, and Consulting.**

We are committed to upholding the highest standards of quality in our tax services. By partnering closely with you, we provide holistic and professional solutions, crafting innovative strategies tailored to meet your unique needs.



Contact us at

info@bdblaw.com.ph

More Information

20F Chatham House, Rufino cor. Valero Sts.
Makati City, 1227, Philippines

+632-8403-2001

www.bdblaw.com.ph

BDB Law
DU-BALADAD AND ASSOCIATES

collaborating with **Andersen Global**
in the Philippines

DISCLAIMER:

The contents of this flyer is for general information only and is not intended, nor should be construed as a substitute for tax, legal or financial advice on any specific matter.

PRIMER ON DOING BUSINESS IN THE PHILIPPINES

Digital Economy Edition



WHY THE PHILIPPINES?



● SURGING DIGITAL ECONOMY

The digital economy amounted to \$35.4 billion in 2023, contributing to 8.4% of GDP. This is expected to reach \$150 billion by 2030.



● DYNAMIC WORKFORCE

The Philippines is home to a large pool of young, highly educated, adaptable, and tech-savvy professionals. English proficiency and strong work ethics also contribute to the attractiveness of the Filipino workforce.



● PUBLIC AND PRIVATE INITIATIVES

The government is actively working on policy improvements to support digital transformation. This includes, among others, the digitalization of all essential public services, enhancement of infrastructure and internet connectivity, and strengthening of cybersecurity.

On the other hand, private sector investments have increased significantly especially on financial technology, e-commerce, and data centers.



● COMMERCIAL OPPORTUNITIES

- | | |
|---|---|
| <input checked="" type="checkbox"/> Artificial Intelligence | <input checked="" type="checkbox"/> Software and Services |
| <input checked="" type="checkbox"/> Cybersecurity | <input checked="" type="checkbox"/> Enterprise Applications |
| <input checked="" type="checkbox"/> Smart Cities | <input checked="" type="checkbox"/> Data Hosting and Processing |
| <input checked="" type="checkbox"/> Open RAN | <input checked="" type="checkbox"/> Telecommunications |

Getting Started



Preliminaries. Preparation of Articles of Incorporation, By-Laws and other relevant supporting documents.

Submission of Application. Apply for registration and submit the relevant documents to the Securities and Exchange Commission. Upon approval of the registration and payment of fees, the Certificate of Incorporation shall be issued.

Tax Registration. Apply for registration with the Bureau of Internal Revenue and secure the Tax Identification Number, Certificate of Registration, and Authority to Print accounting records.

Local Government Registration. Secure local permits and clearances from the local government units having jurisdiction over the registered business address.

Other Registrations. Apply for registration with the Social Security System, Philippine Health Insurance Corporation, and the Home Development Mutual Fund in relation to the social benefits of the employees. In addition, investments in the country may also be registered with the Bangko Sentral ng Pilipinas.

Nationality Restrictions



Land ownership is limited to Filipino citizens and corporations that are at least 60% owned by Filipino citizens.



Generally, foreign investors are allowed to invest in all types of business activities up to 100%. However, some areas of economic activities are restricted, either wholly or partially, from foreigners. These areas are referred to in the latest Foreign Investment Negative List.

Common Types of Business Entities

Domestic Corporation

- ✓ Organized and registered under Philippine laws
- ✓ Capable of perpetual existence with limited liability
- ✓ No capitalization requirement except in certain instances
 - ➔ If a domestic market enterprise is more than 40% foreign owned, the required capital is at least US\$200,000.00
 - ➔ Required capital may be reduced to US\$100,000.00 if involving advanced technology

Branch of Foreign Corporations

- ✓ Organized in a foreign country and licensed to do business in the Philippines
- ✓ No independent existence
- ✓ Requires capital of at least US\$200,000.00 except if export-oriented

Regional Operating Headquarters

- ✓ Registered to service its affiliates, subsidiaries, or branches in a foreign country
- ✓ Allowed to derive income in the Philippines but is prohibited from offering its services other than to its related parties
- ✓ Requires capital of at least US\$200,000.00, subject to reduction upon compliance with certain requirements

Regional Headquarters

- ✓ Registered to act as a supervisory, communications, and coordinating center for its affiliates, subsidiaries, or branches in the region
- ✓ Not allowed to derive income in the Philippines
- ✓ Requires capital of at least US\$50,000.00

Representative Office

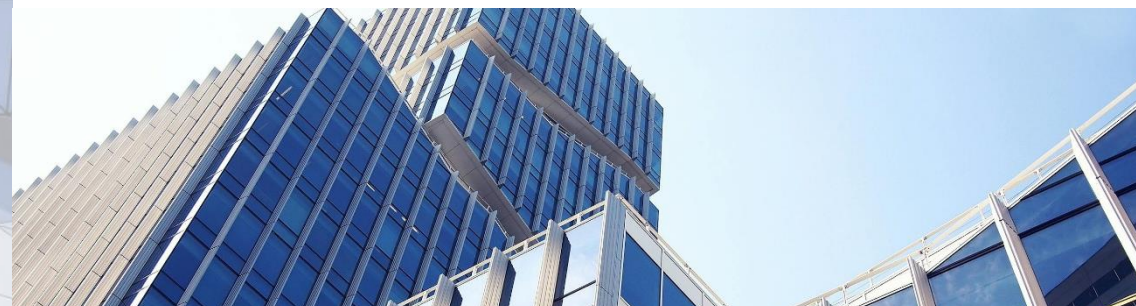
- ✓ Deals with the clients of the parent company for purposes of information dissemination, promotion, and quality control
- ✓ Not allowed to derive income in the Philippines
- ✓ Requires capital of at least US\$30,000.00

Partnership

- ✓ Generally treated similar to domestic corporations with separate personality from the individual partners
- ✓ Requires capital of at least US\$200,000.00 if considered a domestic market enterprise with foreign partners

Basic Corporate Taxes

Tax Type	Rate	Particulars
Regular Corporate Income Tax	25% (or 20% if certain conditions are met)	Imposed on the net taxable income
Dividends Tax	Exempt or 15%	Intercorporate dividends between domestic corporations are exempt from tax. However, dividends paid to nonresident foreign corporations are taxable subject to the provisions of the applicable tax treaty, if any.
Branch Profit Remittance Tax	15%	Imposed on any profit remitted by the branch of a foreign corporation to the Head Office
Value-Added Tax	12% or 0%	Generally imposed at 12% on all sales of goods and/or services within the Philippines. For export sales, VAT will be imposed at 0%.
Percentage Tax	3%	Imposed on taxpayers who are not VAT-registered and whose annual gross sales does not exceed Php3,000,000.00.
Documentary Stamp Tax	Various	Imposed on certain documents and transactions including subscriptions in shares of stocks, debts, and other securities





Basic Personal Taxes

Tax Type	Rate	Particulars
Individual Income Tax (Citizens, Resident Aliens, and Nonresident Aliens Engaged in Trade or Business in the Philippines)	0% to 35%	Graduated income tax rate applied against the taxable income
Individual Income Tax (Nonresident Aliens Not Engaged in Trade or Business in the Philippines)	25%	Imposed on the gross income from Philippine sources
Fringe Benefits Tax	35%	Imposed on the grossed-up monetary value of fringe benefits (except those granted to rank-and-file employees)

Expatriates



VISA. Foreign nationals may come to the Philippines for pleasure, business, or health with a Temporary Visitor's Visa ("9A") that allows stay for a period not exceeding fifty-nine (59) days. To extend their stay, visitors must secure extensions of stay with the Bureau of Immigration.



Work Permit. In general, all foreign nationals seeking gainful employment in the Philippines, whether resident or nonresident, must secure an Alien Employment Permit from the Department of Labor and Employment. A local employer who wishes to employ a foreign national must apply for the permit on behalf of the foreign national.

Other Tax Considerations



Tax Incentives. Domestic corporations that will register with any Investment Promotion Agency may be entitled to certain tax incentives, which may include:

- ☑ Income tax holiday
- ☑ Special corporate income tax or enhanced deductions
- ☑ Duty and value-added tax exemptions on importations
- ☑ Value-added tax at 0% on local purchases



Telecommuting. Availment of tax incentives will not be affected by telecommuting/work-from-home arrangements if it will cover not more than 50% of the entity's workforce.



Tax Treaties. The Philippines has existing tax treaties with various countries which provide for tax relief on income derived from the Philippines. Currently, the Philippines has 43 existing tax treaties with other countries.



Value-Added Tax on Digital Services. The digital services of nonresident digital service providers are subject to 12% if consumed/utilized within the Philippines. The nonresident digital service provider is likewise required to register for value-added tax purposes.



Withholding Tax on Online Sales of Goods and Services. Remittances of e-marketplace operators and digital financial service providers to merchants shall be subject to withholding tax.



Transfer Pricing. The Philippine tax authority adopts the use of the arm's length principle as the most appropriate standard to determine transfer prices of related parties. The transfer price must be determined using the different methodologies as prescribed by the Organization for Economic Co-operation and Development.



Employee Stock Option Plans. Equity grants under equity plans, once exercised or availed of by the grantee-employees, are considered compensation to be subjected to personal income taxes.