

**DOING BUSINESS**

IN THE PHILIPPINES



*The network  
for doing  
business*

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# 1 – INTRODUCTION

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UHY is an international organisation providing accountancy, business management and consultancy services through financial business centres in around 99 countries throughout the world.

Business partners work together through the network to conduct transnational operations for clients as well as offering specialist knowledge and experience within their own national borders. Global specialists in various industry and market sectors are also available for consultation.

This detailed report providing key issues and information for investors considering business operations in the Philippines has been provided by the office of UHY representatives:

UHY M.L. AGUIRRE & CO., CPAs  
Unit 1806 Cityland Pasong Tamo Tower,  
2210 Chino Roces Ave., Makati City, Philippines

Phone +632 555 0834 / +632 892 2568  
Website [www.mlaguirre.org](http://www.mlaguirre.org)  
Email [ask@mlaguirre.org](mailto:ask@mlaguirre.org)

You are welcome to contact Messrs. [Michael L. Aguirre](#) and [Eliseo A. Aurellado](#) ([ask@mlaguirre.org](mailto:ask@mlaguirre.org)) for any inquiries you may have.

Information in the following pages has been updated so that they are effective at the date shown, but inevitably they are both general and subject to change and should be used for guidance only. For specific matters, investors are strongly advised to obtain further information and take professional advice before making any decisions. This publication is current at December 2017.

We look forward to helping you do business in the philippines.

## 2 – BUSINESS ENVIRONMENT

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### BACKGROUND

The Philippines is one of the world's largest archipelago nations. It is situated in Southeast Asia in the Western Pacific Ocean and is composed of 7,107 islands. Generally, these islands are classified into three main geographical areas – Luzon, Visayas and Mindanao.

There are 12 metropolitan cities all over the Philippines, with three main cities: Metro Manila, Metro Cebu and Metro Davao.

The Philippines' time zone is 8 hours ahead of Greenwich Mean Time (GMT).

### POPULATION

The Philippines has a population of over 103.3 million as of 2016 census, with a population growth rate of 2.04%, one of the highest in Asia. It also ranks 12 in the list of countries by population. This is expected to increase to 110 million in 2020 and 148 million in 2050.

Population density is 334 people per km<sup>2</sup> and 50% of population is located in urban areas.

The Philippines is a mix of different influences throughout its history, predominantly Spanish and American. The original inhabitants now form part of the minority while the largest groups are Tagalog, Ilocano, Visayan, Bicolano, Moro, and Kapampangan, representing major geographical areas. Other nationalities can be found which include Chinese, American, Spaniard, Indian, Japanese, Arab, and Korean.

### LANGUAGE

Main languages are Filipino (national language) and English and over 300 dialects. English is considered an official language for purposes of communication and instruction.

### STANDARD OF LIVING

Cost of living is economical and inexpensive. The Philippines has a topography consisting of mountainous terrains, dense forests, plains, and coastal areas. It is rich in biodiversity and natural resources. The climate is tropical and is particularly hot during summers with temperatures reaching into the 90's F.

### EMPLOYMENT

Labour workforce in the Philippines is 60.7 million as of January 2017 with an unemployment rate of 5.7%.

### GROSS DOMESTIC PRODUCT

GDP as of 2017 is USD 348.6 billion with a growth rate of 6.7%.

### CONSUMER PRICE INDEX (CPI)

Inflation rate is 3.4% as of 2017.

### INTEREST RATES

91-day T-bill rate is 1.958% and special deposit account (SDA) rate is 2.5% as of October, 2017.

### CURRENCY

The unit currency is Philippine Peso, quoted as PhP.

### GOVERNMENT

The Philippines is a democratic and republican State whereby the President is both the head of state and the head of government. He is elected by the people for a term of six years and cannot be re-elected.

### THREE BRANCHES OF GOVERNMENT

The democratic government revolves around three separate and sovereign yet interdependent branches: the legislative branch (the law-making body), the executive branch (the law-enforcing body), and the judicial branch (the law-interpreting body). Executive power is exercised by the government's agencies under the leadership of the President. Legislative power is vested in both the local government units and the two-chamber congress—the Senate (the upper chamber) and the House of Representatives (the lower chamber). Judicial power is vested in the courts with the Supreme Court of the Philippines as the highest judicial body.

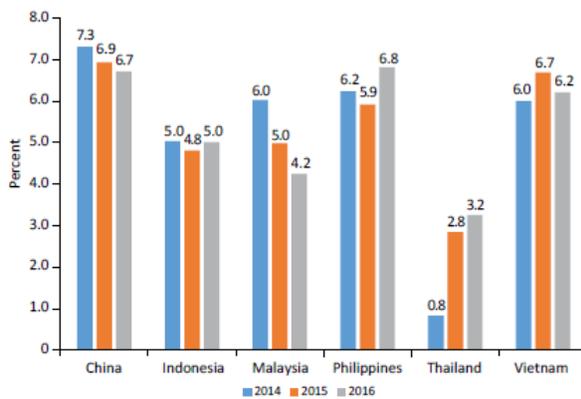
### MARKET CONDITIONS

#### INDUSTRY SECTORS

Major industries in the Philippines are mining and quarrying, manufacturing, construction, and electricity, gas and water supply. In recent years, there has been a significant increase in the services sector, mainly in the BPO industry due to the quality of Filipino manpower. The global investment advisory firm of Tholons named Manila the third top BPO city in the world, behind only Bangalore and Mumbai, in its annual ranking of the top 100 global outsourcing destinations.

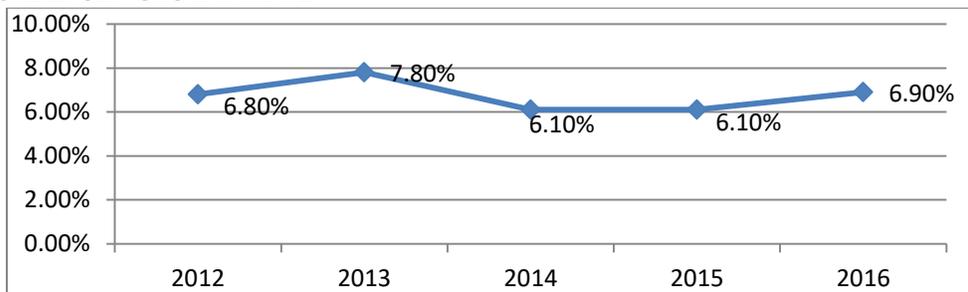
#### KEY ECONOMIC INDICATORS

**Figure 1: The Philippines' economy performed well in 2016 relative to regional comparators...**



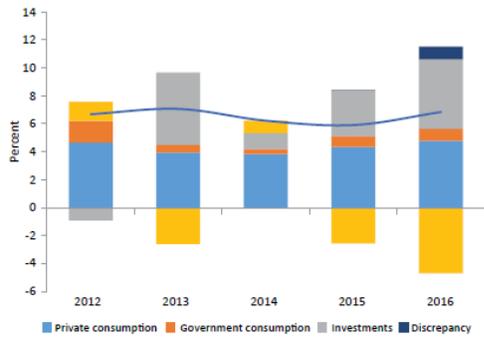
Source: World Bank

**FIGURE 2: GDP GROWTH RATE**



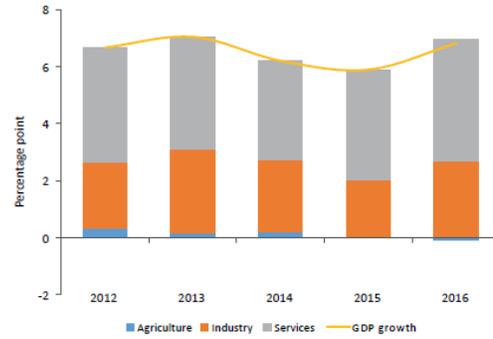
Source: Philippine Statistics Authority (PSA)

**Figure 3: Robust domestic demand drove growth in 2016, fueled by investment and consumption**



Source: Philippine Statistics Authority (PSA)

**Figure 4: Services and industry contributed the most to overall growth, as the agriculture sector continued to struggle**



Source: PSA

## BANKING

The Philippines' central bank is Bangko Sentral ng Pilipinas (BSP). The primary objective of the BSP is to maintain price stability conducive to a balanced and sustainable economic growth. The BSP also aims to promote and preserve monetary stability and the convertibility of the national currency.

## BUSINESS ENVIRONMENT CONTROLS

### SECURITIES AND EXCHANGE COMMISSION

The main function of the Securities and Exchange Commission (SEC) is to strengthen the corporate and capital market infrastructure of the Philippines, and to maintain a regulatory system, based on international best standards and practices, that promote the interests of investors in a free, fair and competitive business environment.

### BUREAU OF INTERNAL REVENUE

The Bureau of Internal Revenue (BIR) is the main collecting agency of the Philippines. It enforces tax laws and imposes fines, penalties and forfeitures in accordance with its supervisory and police powers conferred upon it by the National Internal Revenue code and special laws.

## 3 – FOREIGN INVESTMENT

The Philippines has evolved into an “Economic Powerhouse of Asia” due to the commitment of its government to resolve glitches in its administration. Thus, foreign investors choose the country as one of the top destinations to conduct business.

Foreign Direct Investment (FDI) has been rising steadily for the past years as can be shown in the following table.

Foreign Direct Investment	2014	2015	2016
<b>FDI Inward Flow</b> ( <i>million USD*</i> )	5,740	4,937	7,912
<b>FDI Stock</b> ( <i>million USD**</i> )	56,646	58,522	64,249
<b>Number of Greenfield Investments***</b>	171	179	170
<b>FDI Inwards</b> ( <i>in % of GFCF****</i> )	9.8	7.9	10.9
<b>FDI Stock</b> ( <i>in % of GDP</i> )	19.9	20.0	21.1

Source: UNCTAD

*FDI inflows for Philippines by each country and each sector, in percentage (%)*

Main Investing Countries	2016, in %	Main Invested Sectors	2016, in %
<b>The Netherlands</b>	22.6	<b>Electricity, Gas, Steam and Air Conditioning Supply</b>	31.5
<b>Australia</b>	14.8	<b>Real Estate</b>	20.9
<b>USA</b>	14.3	<b>Manufacturing</b>	19.9
<b>Japan</b>	12.4	<b>Transport and storage</b>	15.0
<b>Singapore</b>	11.0	<b>Administrative and Support Service Activities</b>	3.9
<b>South Korea</b>	7.4	<b>Water Supply</b>	3.7
<b>Germany</b>	2.2	<b>Electricity, Gas, Steam and Air Conditioning Supply</b>	31.5
<b>UK</b>	2.2	<b>Real Estate</b>	20.9

Source: *Philippine Statistics Authority*

### INVESTING IN THE PHILIPPINES

The Philippines has various incentives and benefits which foreign companies can enjoy while doing business in the country.

#### FOREIGN INVESTMENTS ACT

The Philippines developed the Foreign Investments Act (R.A. 7042, 1991) to ease up the entry of foreign investments. Foreign investors can own up to 100% equity in local business establishments under certain conditions except for those exclusively reserved for Filipinos.

Foreign investments are secured in the Philippines through the following rights:

- Repatriation of investments
- Remittance of earnings

- Freedom from expropriation
- Non-requisition of investment

#### PHILIPPINE ECONOMIC ZONE AUTHORITY (PEZA)

Entities registered under PEZA are required to locate their operations inside the economic zone to be entitled to incentives to include the following:

- Income Tax Holiday (ITH) for four (4) years for Non-pioneer enterprises, or six (6) years for Pioneer enterprises;
- A 5% tax on gross income after ITH, in lieu of all national and local taxes, except real property taxes;
- Additional deduction equivalent to 50% of training expenses, chargeable against the 3% share of the national government in the special 5% tax on gross income;
- Exemption from Branch Profit Remittance tax for PEZA-registered branches of foreign corporations.
- Permanent resident status for foreign investors with initial investments of US\$ 150,000.00 or more;
- Simplified Import – Export Procedures (Electronic Import Permit System and Automated Export Documentation System).
- Non-resident Foreign Nationals may be employed by PEZA-registered Economic Zone Enterprises in supervisory, technical or advisory positions.
- Special Non-Immigrant Visa with Multiple Entry Privileges for non-resident Foreign Nationals, their spouses and dependents in a PEZA-registered Economic Zone with Visa Facilitation Assistance.

#### BOARD OF INVESTMENTS (BOI)

Entities registered under this agency are not required to be located in specific investment places. Some of the benefits under this agency are:

- Three (3) to eight (8) year income tax holidays;
- Four (4) to six (6) year exemption from local business taxes for pioneer and non-pioneer industries;
- Exemption from Taxes and Duties on Imported Spare Parts;
- Exemption from Wharf Dues and Export Tax, Duty, and Impost Fees;
- Simplification of customs procedures for the importation of equipment, spare parts, raw materials, and supplies and exports of processed products.
- Importation of consigned equipment for a period of 10 years from date of registration, subject to posting of a re-export bond.
- The privilege to operate a bonded manufacturing/trading warehouse subject to Customs rules and regulations.

TABLE 1

*BOI and PEZA registration fees*

BOARD OF INVESTMENT (BOI)	AMOUNT (PHP)	PHILIPPINE ECONOMIC ZONE AUTHORITY (PEZA)	AMOUNT (PHP)
1. Filing fees for application for registration:		1. Application Fees	
• Project cost not exceeding PhP 4Million	1,500.00	• Application of New Project (Non-Pioneer)	3,600.00
• Project cost exceeding PhP 4Million but not over PhP 20Million	3,000.00	• Application of New Project (Pioneer)	6,000.00
• Project cost exceeding PhP 20Million but not over PhP 50Million	4,500.00		
• Project cost exceeding PhP 50Million	6,000.00	2. Registration Fees	
		• Registration of New Projects	6,000.00
2. Fee for Certificate of Registration			
• 1/10 of 1% of project cost but not less than P 3,000.00 and not to exceed P 15,000.00			

## 4 – SETTING UP A BUSINESS

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The Philippines is one of the best choices for investors because of its booming economy and growth in various industries such as Agricultural, Industrial, and Service sectors. Investors have high assurance that their investments in the chosen endeavours are worth it. Industries such as Manufacturing, Real Estate, Mining, Business Process Outsourcing, Gaming, Casino, Distribution and Banking and Finance are promising areas for investment in the country.

Below are the forms of business organizations that can be established under Philippine Laws:

- Sole proprietorship - a business entity owned by one person. It is taxed and reported on the owner's personal income tax return, since the owner and the sole proprietorship are considered as one entity.
- Partnership - the Civil Code of the Philippines defines this organization as a legal entity whereby two or more persons bind themselves to contribute money, property, or industry to a common fund, with the intention of dividing the profits among themselves. One disadvantage of forming a partnership is that its liability extends to the partners' personal properties.
- Limited partnerships can be formed for as long as there is one general partner who is liable to the extent of his personal assets.
- Corporations – This can only be established by at least five (5) and not to exceed fifteen (15) persons. All incorporators must be natural persons and of legal age. Majority of the incorporators must be residents of the Philippines. The law requires that the total capital stock to be subscribed at the time of incorporation should be at least twenty – five percent (25%) of the authorized capital stock and that the paid-up capital should be 25% of the subscribed amount, or a minimum of PHP 5,000.

Other organizations that can be set up under foreign laws:

- Domestic subsidiary
- Branch
- Representative office
- Regional or area headquarters
- Regional operating headquarters
- Joint ventures
- Purchase of shares in an existing corporation
- Technology transfer arrangement
- Management contract

### REGISTRATION

All business' trade names should be registered under the Department of Trade and Industry regardless of the type or form of business organization.

### REGISTERING FOR TAX

All businesses must have their own Tax Identification Number (TIN) and must submit income tax returns quarterly and annually to the BIR. For sole proprietorships, the TIN of the owner is used for tax purposes.

### BUSINESS LICENSE AND PERMITS

Businesses are required to secure licenses and permits to operate. These are obtained from the Local Government Unit (LGU) where the company operates.

## 5 – LABOUR

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The laws on labour standards and employment relations are consolidated in the Labour Code of the Philippines. The salient points of employment conditions and employee benefits under Philippine laws are as follows:

- **Hours of Work.** Eight (8) hours per day or 48 hours per week. Rest periods of short duration during work hours shall be counted as hours worked.
- **Meal periods.** Every employer shall give his employees not less than sixty (60) minutes time-off for their regular meals.
- **Night shift differential.** Every employee is entitled to a night shift differential of not less than ten percent (10%) of his regular wage for each hour of work performed between ten o'clock in the evening and six o'clock in the morning.
- **Work Day.** A work day is the 8-hour period which commences from the time the employee regularly starts to work.
- **Overtime work.** An additional compensation equivalent to an employee's regular wage plus at least twenty-five percent (25%) shall be given if the employee does overtime work. Work performed beyond eight hours on a holiday or rest day shall be paid an additional compensation equivalent to the rate of the first eight hours on a holiday or rest day plus at least thirty percent (30%) thereof.

### MANDATORY EMPLOYMENT CONTRIBUTION

- **13<sup>th</sup> Month Pay:** Employers are required to give their employees a 13<sup>th</sup> month pay equivalent to at least one (1) month salary. 13<sup>th</sup> month pay should be given not later than December 24 of every calendar year.
- **Home Development and Mutual Fund (HDMF):** Companies/employers are also required to contribute at least P100.00 per month to HDMF for employee benefits. Companies/employers remit this contribution plus that of the employee's which will be deducted from their payroll, in accordance with the periodic remittance schedule provided by HDMF.
- **National Health Insurance Program (NHIP):** As mandated by Republic Act 7835 on Medicare Program which is administered by the Philippine Health Insurance Corporation (Philhealth), both employers and employees are to contribute for the medical insurance/benefits of the employees in accordance with the schedule provided by Philhealth.
- **Social Security System (SSS):** As mandated by law, both employer and employees are to contribute for the social security benefits of the employees in accordance with a schedule provided by SSS.

### EMPLOYMENT MARKET

As of 2016, the Philippines' total population registered at 103.3 million. It is expected to increase to 148 million in 2050. As of January 2017 Census, there are 60.7 million in the labour force. Unemployment rate is 6.6%.

## 6 – TAXATION

The country's taxation system is governed by a two-decade old Tax Reform Act of 1997, passed into law on December 11, 1997. It became effective on 01 January 1998 and is enforced by the BIR. The law is aimed at expanding the country's tax base and maintaining the healthy fiscal standing of the government. As of this writings, the senate bill 1592, was just posted and approved, which highlighted tax cut on individual income tax for those earners aggregating 250K income a year. TRAIN is set to take effect into law in early 2018.

Philippine Taxation varies among the taxable entities. Tax treatments on income of different entities can be found in Appendix II.

### NEW TAXES FOR CORPORATIONS UNDER THE TAX REFORM ACT OF 1997

#### MINIMUM CORPORATE INCOME TAX (MCIT)

A 2% MCIT on gross profit 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 of start of business operations. Any excess of the MCIT over the normal tax shall be carried forward and credited against the normal tax for the three (3) 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 fringe 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 fringed benefit.

#### 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, banks, and other non-bank financial intermediaries and insurance companies. 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.

#### BRANCH PROFIT REMITTANCE TAX (BPRT)

A Philippine branch of a foreign corporation is an alternative to a subsidiary when repatriation of profits is desired under lower tax rates. In a branch set-up, the Philippine branch's operational profit shall be subject to 15% final withholding tax without the need of a prior BIR ruling.

#### INDIVIDUAL TAX

INDIVIDUAL TAXATION	RATES
Non-resident aliens not engaged in trade and business -- flat income tax rate	25%
Non-resident aliens employed by Regional Headquarters (RHQ) or Area Headquarters and Regional Operating Headquarters (ROH), Offshore Banking Units (OBUs), Petroleum Service Contractor and Subcontractor	15%
Resident citizens/aliens (gainfully employed) -- Graduated income tax rates (Appendix III)	0%-32%

The following individuals shall not be required to file an income tax return:

- An individual whose gross compensation income does not exceed his total personal and additional exemptions;
- An individual whose compensation derived from one year employment does not exceed P60,000 and the corresponding income tax has been correctly withheld;

- An individual whose income has been subjected to final withholding tax (alien employee as well as Filipino employee occupying the same position as that of the alien employee of regional or area headquarters and regional operating headquarters of multinational companies, petroleum service contractors and sub-contractors, and offshore banking units, non-resident alien not engaged in trade or business), and
- An individual who is exempt from income tax.

Married individuals shall file a single income tax return for the taxable year to include the income of both spouses, separately computing their individual income tax based on their respective taxable income. Where it is impracticable for the spouses to file one return, each spouse may file a separate return.

#### REAL PROPERTY ESTATE TAX

Sale of Real Property is subject to 6% final income tax based on the Selling price, Fair Market Value of the Real Property at the time of sale, and the Zonal Value as determined by the Commissioner of Internal Revenue, whichever is the highest.

#### VALUE ADDED TAX (VAT)

Sale of goods, other properties, and services in the Philippines, as well as importation of goods to the Philippines, are subject to the 12% VAT. VAT is imposed on the gross selling price (in case of sale of goods) and gross receipts (in case of sale of services).

#### TAX RATE

- For output tax (0% or 12%) depending on the export orientation of the business
- For input tax on importation of goods or local purchases of goods, properties or services, including lease or use of properties, in the course of trade or business (0% or 12% depending on tax incentives enjoyed by the taxable entity)
- For creditable input tax on advance VAT payments made by the seller/owner of refined sugar and importer/miller of wheat/flour (12%)

#### STOCK TRANSACTION TAX

1/2 of 1% of gross selling price is imposed on the sale, barter, exchange or other disposition of shares through the facilities of stock exchange, which shall be paid by the seller or transferor.

#### PERCENTAGE TAX

- Banks - income from lending and financial leasing activities is taxed at 1%, 3%, or 5% of gross receipts depending on the maturity date of the instruments; tax exempt if maturity period is over seven years.
- Life insurance companies doing business in the Philippines -- 5% of the total premium collected.
- Electric, water and gas utilities -- 2% of gross receipts.
- Domestic common carriers of passengers -- 3% of gross receipts
- International carriers -- 3% of gross receipts
- Finance companies - income from lending and financial leasing activities is taxed at 1%, 3%, or 5% of gross receipts depending on the maturity date of the instruments; tax-exempt if maturity period is over seven years
- Other non-VAT registered businesses -- 3% of gross sales or gross receipts not exceeding P550,000.

#### TAXES WITHHELD AT SOURCE

##### WITHHOLDING TAX

- **Withholding tax on compensation** is the tax withheld from income payments to individuals arising from an employer-employee relationship.
- **Expanded Withholding Tax** is a kind of withholding tax which is prescribed on certain income payments and is creditable against the income tax due of the payee for the taxable quarter/year in which the particular income was earned.

- **Final Withholding Tax** is a kind of withholding tax which is prescribed on certain income payments and is not creditable against the income tax due of the payee on other income subject to regular rates of tax for the taxable year. Income Tax withheld constitutes the full and final payment of the Income Tax due from the payee on the particular income subjected to final withholding tax.
- **Withholding Tax on Government Money Payments (GMP) - Percentage Tax** is the tax withheld by National Government Agencies (NGAs) and instrumentalities, including government-owned and controlled corporations (GOCCs) and local government units (LGUs), before making any payments to non-VAT registered taxpayers/suppliers/payees.
- **Withholding Tax on GMP - Value Added Taxes (GVAT)** is the tax withheld by National Government Agencies (NGAs) and instrumentalities, including government-owned and controlled corporations (GOCCs) and local government units (LGUs), before making any payments to VAT registered taxpayers/suppliers/payees on account of their purchases of goods and services.

#### DOUBLE TAX AGREEMENTS

The Philippines has 41 Double Tax Agreement (DTA) with various countries. Rates and any limitations are based on each DTA.

The countries that have DTA with the Philippines are listed in Appendix IV.

#### TRANSFER PRICING

Tax treatment of transfer pricing in the Philippines is covered by BIR Revenue Regulation (RR) 2-2013, which applies to both domestic and cross-border transactions. The RR's main purpose is to provide guidelines in applying the arm's length principle on transactions between associated or affiliated enterprises.

Arm's length pricing methodologies that may be used are:

- Comparable Uncontrolled Price (CUP) Method
- Resale Price Method (RPM)
- Cost Plus Method (CPM)
- Profit Split Method (PSM)
- Transaction Net Margin Method (TNMM)

An Advance Pricing Arrangement is a facility available to taxpayers who are engaged in cross-border transactions. It is an agreement entered into between the taxpayer and BIR to determine in advance an appropriate set of criteria to ascertain the transfer prices of controlled transactions over a fixed period of time to reduce the risk transfer pricing examination and double taxation.

Documentation requirements that must be satisfied include retention of supporting documents, contemporaneous, and details the following:

- Organization structure
- Nature of business / industry and market conditions
- Controlled transactions
- Assumptions, strategies, policies
- Cost contribution arrangements
- Comparability, functional and risk analysis
- Selection of the transfer pricing method
- Application of the transfer pricing method
- Background documents
- Index to documents

## 7 – ACCOUNTING & REPORTING

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Philippine Accounting Standards, which are adapted from International Accounting Standards, are imposed by the Philippine Financial Reporting Standards Council (PFRSC) and approved by the Securities and Exchange Commission (SEC). The disclosure requirements of statutory reports to be submitted by Philippine entities to various users of financial statements are extensive and detailed in nature.

Every registered company is required to keep complete books of accounts, journals, ledgers and necessary documents to record cash receipts and disbursements and to support all the transactions entered into its books. An entity should keep all of its business and accounting records for a period not less than 5 years.

### **FINANCIAL STATEMENTS**

A complete set of financial statements should be prepared annually for submission to various government agencies. The standard requires a complete set of financial statements to comprise a statement of financial position, statement of profit or loss and other comprehensive income, statement of changes in equity, and statement of cash flows.

Listed companies should submit its complete set of financial statements, accompanied by a report issued by an independent Certified Public Accountant, to the Securities and Exchange Commission, government agencies, and other applicable users as necessary. Independent Certified Public Accountants, either individual, firm or professional partnership, should be accredited by various regulating bodies regulating a specific industry including the Securities and Exchange Commission (Group A, B, and C), Bangko Sentral ng Pilipinas (Central Bank), Board of Accountancy, Cooperative Development Authority, and Insurance Commission.

Description of the SEC groupings can be found in Appendix V.

## 8 – UHY REPRESENTATION IN THE PHILIPPINES

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### CONTACT DETAILS

UHY M.L. Aguirre & Co. CPAs  
 1806 Cityland  
 Pasong Tamo Tower  
 2210 Chino Roces Ave.  
 Makati City  
 Manila  
 Philippines  
 Tel: +632 892 2568  
 Fax: +632 804 3986  
 www.mlaguirre.org

Year established: 2006  
 PCAOB registered?: Yes  
 Number of partners: 2  
 Total staff: 50

### ABOUT US

Timely Business Advice

### BRIEF DESCRIPTION OF FIRM

We are industry professionals with substantial expertise in providing auditing, taxation, corporate and advisory services. We guarantee that our services conform to high standards of quality, integrity and professionalism.

### SERVICE AREAS

- STATUTORY AUDIT SERVICES
- ASSURANCE & BUSINESS ADVISORY
- TAX & TAX INCENTIVE
- CORPORATE ADVISORY

### SPECIALIST SERVICE AREAS

- STATUTORY AUDIT SERVICES
  - Statutory Audit services (interim, year-end audit)
  - Due Diligence Review
  - Internal Control Review
  - Litigation Support
  - Cash and Fraud Audit
  - Business Process & Operations Review
  - Costing Structure & Methodology Review
  - Special Purpose Audit on Account Balances
  - Special Audit on Key Financial Account Areas
  - Funded Projects, Grants, Donations Audit
  - Other Special Review

### PRINCIPAL OPERATING SECTORS

Aerospace & Defence  
 Banking  
 Car manufacturing and components  
 Construction  
 Distributors  
 Educational Services  
 Engineering  
 Industrial Products  
 Machinery

### LANGUAGES

### CONTACTS

Liaison contact: Michael Aguirre  
 Position: Managing Partner  
 Email: mike.aguirre@mlaguirre.org

Liaison contact: Eliseo Aurellado  
 Position: Audit Director  
 Email: ely.aurellado@mlaguirre.org

- ENGLISH
- TAGALOG
- CHINESE

### **CURRENT PRINCIPAL CLIENTS**

Confidentiality precludes disclosure in this document.

### **BRIEF HISTORY OF FIRM**

M.L. Aguirre & Co., CPAs (MAC), a medium-sized firm who caters primarily to export oriented, foreign funded and non-governmental organizations and SMEs, is the real-life creation of the Founder out of his MBA's Strategic Management Paper requirements. It started with less than 10 personnel and with an annual turnover of about 20,000 USD. The Founder's mission towards specialization on fraud audit, tax and costing propelled the Firm to great new heights. Being compliant to all government and standards requirements, MAC secured 3 major accreditations from the Securities & Exchange Commission, Board of Accountancy and Bureau of Internal Revenue, which boosted its stature the public accounting practice. Incessant and strong linkages with the local organizations foresees as potent factors in achieving MAC visions to be in the Top 10 Auditing Firm in the Philippines. Presently, the Firm maintains its formidable ties with the Korean Chamber of Commerce and Industries, Aerospace Industries Association of the Philippines, Electric Vehicles Association of the Philippines, Condominium Corporation Association, Motor Vehicle Parts & Manufacturers Association of the Philippines to name a few.

## APPENDICES

### APPENDIX I

#### EXECUTIVE SUMMARY

The Philippines is billed as one of the more promising countries in ASEAN with an expected economic growth rate exceeding 6.5%. Its favourable investment climate with unique tax holidays and benefits encourages foreign companies to set up operations in export processing zones and to invest in pioneering activities while maintaining up to 100% in equity. Industries such as Manufacturing, Real Estate, Mining, Business Process Outsourcing, and Banking and Finance are promising areas for investment in the country.

The country's people numbering over 100 million are relatively young and highly literate with a facility in the use of the English language.

The country boasts of many tourist attractions due to its archipelagic nature and biodiversity. Its diverse culture is enriched by a heritage of Spanish Roman Catholicism and American socio-political liberalism which makes its people friendly, forgiving and happy by nature.

Setting up a business in the Philippines is relatively easy. UHY ML Aguirre & Co., CPAs is ready to service any investor who would want to establish operations in the country.

**APPENDIX II: TAX TABLE AND SUMMARY**

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

IF TAXABLE INCOME IS:	TAX DUE IS:	IF TAXABLE INCOME IS:	TAX DUE IS:
Not over P10,000	5%		
Over P10,000 but not over P30,000	P500+10% of the excess over P10,000	Over P140,000 but not over P250,000	P22,500+25% of the excess over P140,000
Over P30,000 but not over P70,000	P2,500+15% of the excess over P30,000	Over P250,000 but not over P500,000	P50,000+30% of the excess over P250,000
Over P70,000 but not over P140,000	P8,500+20% of the excess over P70,000	Over 500,000	P125,000+32% of the excess over P500,000

**CORPORATE INCOME TAX**

<b>1. Domestic Corporation</b>	<b>Tax Rate</b>
• Basic Corporate Income Tax (BCIT)	30% of Taxable Income
• Proprietary Educational Institutions and Hospitals	10% or 30% of Taxable Income (subject to pre-dominance test)
• GOCCs, Agencies or Instrumentalities (except GSIS, SSS, PHIC, PCSO and those under RA No. 9593)	30% of taxable income
• Depository Banks under the EFCDS	10% / Exempt
<b>2. Resident Foreign Corporation</b>	
• Basic Corporate Income Tax (BCIT)	30% of Taxable Income
• International Air Carriers	2.5% Based on Gross Philippine Billings
• Offshore Banking Units	10% based on Gross Income / Exempted
• Regional or Area Headquarters of Multinational Corporations	Exempted
• Regional Operating Headquarters of Multinational Corporations	10% of Taxable Income
• Depository Banks under the EFCDS	10% based on Gross Income / Exempted
<b>3. Non-Resident Foreign Corporation</b>	
• Corporate Income Tax	30% of Gross Income
• Lessor, Owners or Distributors of Cinematographic Film	25% of Gross Income
• Owner or Lessor of Vessels Chartered by Philippines Nationals	4.5% of Gross Income
• Owner or Lessor of Aircrafts, Machineries and other Equipment	7.5% of Gross Income

**Note:** When the tax due exceeds P2,000.00, the taxpayer may elect to pay in two equal installments, the first installment to be paid at the time the return is filed and the second installment on or before July 15 of the same year at the Authorized Agent Bank (AAB) within the jurisdiction of the Revenue District Office (RDO) where the taxpayer is registered.

**Net Operating loss carry over**

<b>Loss Carry forward / backward concept</b>	Operating loss for any taxable year which had not been previously offset as a deduction from gross income may be carried over as a deduction from gross income for the next three consecutive years immediately following the year of such loss.
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## Corporate Income Tax Exemptions

<b>CIT exemptions</b>	<p><b>Corporations are exempted from income tax are:</b></p> <ul style="list-style-type: none"> <li>• Labour, agricultural, or horticultural organization not organized for profit;</li> <li>• Mutual savings bank not having a capital stock represented by shares, and cooperative bank without capital stock organized and operated for mutual purposes and without profit;</li> <li>• A beneficiary society, order or association, operating for the exclusive benefit of the members such as fraternal organization operating under the lodge system, or mutual aid association or a non-stock corporation or their dependents;</li> <li>• Cemetery company owned and operated exclusively for the benefit of its members;</li> <li>• Non-stock corporation or association organized and operated exclusively for religious, charitable, scientific, athletic, or cultural purposes, or for the rehabilitation of veterans, no part of its net income or asset shall belong to or inure to the benefit of any member, organizer, officer or any specific person;</li> <li>• Business league chamber of commerce, or board of trade, not organized for profit and no holder of the net income of which insure to the benefit of any private stockholder, or individual;</li> <li>• Civic league or organization not organized for profit but operated exclusively for the promotion of social welfare;</li> <li>• A non-stock and non-profit educational institution;</li> <li>• Governmental educational institution;</li> <li>• Farmers ' or other mutual typhoon or fire insurance company, mutual ditch or irrigation company, mutual or cooperative telephone company, or like organizations of a purely local character, the income of which consists solely of assessments, dues, and fees collected from members for the sole purpose of meeting its expenses; and</li> <li>• Farmers', or fruit growers' or like association organized and operated as a sales agent for the purpose of marketing the products of its members and turning back to them the proceeds of sales, less the necessary selling expenses on the basis of the quantity of produce finished by them</li> </ul>
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## VALUE ADDED TAX

<b>Concept</b>	Value- Added Tax is a form of sales tax. It is a tax on consumption levied on the sale, barter, exchange or lease, of goods or properties and services in the Philippines and on importation of goods into the Philippines
<b>Rate</b>	<ul style="list-style-type: none"> <li>• 12%</li> <li>• 0% for export sales and other zero-rated sales</li> </ul>
<b>Exemptions</b>	<ol style="list-style-type: none"> <li>a. Sale or importation of agricultural and marine food products in their original state.</li> <li>b. Sale or importation of fertilizers; seeds, seedlings and fingerlings; fish, prawn, livestock and poultry feeds.</li> <li>c. Importation of personal and household effects belonging to residents of the Philippines returning from abroad and non-resident citizens coming to resettle in the Philippines</li> <li>d. Importation of professional instruments and implements, wearing apparel, domestic animals, and personal household effects (except any vehicle, vessel, aircraft, machinery and other goods for use in the manufacture and merchandise of any kind in commercial quantity) belonging to persons coming to settle in the Philippines, for their own use</li> <li>e. Services subject to percentage tax</li> </ol>

	<ul style="list-style-type: none"> <li>f. Services by agricultural contract growers and milling for others of palay into rice, corn into grits, and sugar cane into raw sugar</li> <li>g. Medical, dental, hospital and veterinary services except those rendered by professionals;</li> <li>h. Educational services rendered by private educational institutions duly accredited by the Department of Education (DepED), the Commission on Higher Education (CHED) and the Technical Education and Skills Development Authority (TESDA) and those rendered by the government educational institutions</li> <li>i. Services rendered by individuals pursuant to an employer-employee relationship</li> <li>j. Services rendered by regional or area headquarters established in the Philippines by multinational corporations which do not earn or derive income from the Philippines.</li> <li>k. Transactions which are exempt under international agreements to which the Philippines is a signatory or under special laws</li> <li>l. Sales by agricultural cooperatives duly registered and in good standing with the Cooperative Development Authority (CDA) to their members</li> <li>m. Gross receipts from lending activities by credit or multi-purpose cooperatives duly registered and in good standing with the Cooperative Development Authority</li> <li>n. Sales by non-agricultural, non-electric and non-credit cooperatives duly registered with and in good standing with CDA; Provided, that the share capital contribution of each member does not exceed Fifteen Thousand Pesos (P15,000.00) and regardless of the aggregate capital and net surplus rateably distributed among the members</li> <li>o. Export sales by persons who are not VAT-registered</li> <li>p. The following sales of real properties are exempt from VAT, namely: <ul style="list-style-type: none"> <li>1. Sale of real properties not primarily held for sale to customers or held for lease in the ordinary course of trade or business</li> <li>2. Sale of real properties utilized for low-cost housing.</li> <li>3. Sale of real properties utilized for specialized housing.</li> <li>4. Sale of residential lot valued at One Million Nine Hundred Nineteen Thousand Five Hundred Pesos (P1,919,500.00) and below, or house and lot and other residential dwellings valued at Three Million One Hundred Ninety Nine Thousand Two Hundred Pesos (P3,199,200.00) and below</li> </ul> </li> <li>q. Lease of residential units with a monthly rental per unit not exceeding Twelve Thousand Pesos (P12,000.00), regardless of the amount of aggregate rentals received by the lessor during the year</li> <li>r. Sale, importation, printing or publication of books and any newspaper, magazine, review or bulletin which appears at regular intervals with fixed prices for subscription and sale and which is not devoted principally to the publication of paid advertisements</li> <li>s. Sale, importation or lease of passenger or cargo vessels and aircraft, including engine equipment and spare parts thereof for domestic or international transport operations</li> <li>t. Importation of life-saving equipment, safety and rescue equipment and communication and navigational safety equipment, steel plates and other metal plates including marine-grade aluminium plates, used for shipping transport operations</li> <li>u. Importation of capital equipment, machinery, spare parts, life-saving and navigational equipment, steel plates and other metal plates including marine-grade aluminium plates to be used in the construction, repair, renovation or alteration of any merchant marine vessel operated or to be operated in the domestic trade.</li> <li>v. Importation of fuel, goods and supplies engaged in international shipping or air transport operations</li> </ul>
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	w. Services of banks, non-bank financial intermediaries performing quasi-banking functions, and other non-bank financial intermediaries, such as money changers and pawnshops, subject to percentage tax
Assessments basis	<ul style="list-style-type: none"> <li>• On sale of goods of properties 12% of the gross selling price is gross value in money</li> <li>• On sale of services and use of lease property 12% of gross receipts.</li> <li>• On importation of goods 12% based on total value used by the Bureau of Customs in determining tariff and custom duties</li> </ul>
Deductions of input VAT / Sales tax	Input tax on purchases of goods, properties or services related to zero rated sales shall be available as tax credit or refund. Also, if the total input Tax is greater than the total output tax then the excess is subject for tax credit or refund
Scheme for refund of VAT/Sales tax for foreign entrepreneur	<ul style="list-style-type: none"> <li>• Branch of Foreign Corporations is taxable like a domestic corporation wherein 12% Value Added Tax is also applicable.</li> <li>• Regional Operating Headquarters subject to 10% income tax and 12% Value Added Tax.</li> <li>• Regional Area Headquarter is exempted from Value Added Tax.</li> <li>• Representative Office is exempted from Value Added Tax.</li> </ul>

## APPENDIX III

## PASSIVE INCOME AND OTHER SOURCES OF INCOME

	DOMESTIC CORPORATION	RESIDENT FOREIGN CORP.	NON-RESIDENT FOREIGN CORP.
Interest from deposits and yield from deposit substitutes/trust funds and royalties	20%	Same as DC	30%
Interest income derived by a domestic corporation from a depository bank under the expanded foreign currency deposit system	7.5%	Exempted	Exempted
Intercorporate Dividends	Exempted	Same as DC	15%
Gains on sales of shares of stock not traded in the Stock Exchange:			
<ul style="list-style-type: none"> <li>• Not over P100,000.00</li> </ul>	5%	Same as DC	Same as DC
<ul style="list-style-type: none"> <li>• On any amount in excess of P100,000.00</li> </ul>	10%	Same as DC	Same as DC
<ul style="list-style-type: none"> <li>• Capital Gains derived from the sale, exchange or disposition of lands and/or buildings treated as capital assets and not used in the business of a corporation.</li> </ul>	6% of the gross selling price or the fair market value or the zonal value as determined by the Commissioner of BIR, whichever is the highest.	Same as DC	
Interest on Foreign Loans	Included as part of Taxable Income subject to BCIT.	N/A	20%

**APPENDIX IV**

1. Australia
2. Austria
3. Bahrain
4. Bangladesh
5. Belgium
6. Brazil
7. Canada
8. China
9. Czech
10. Denmark
11. Finland
12. France
13. Germany
14. Hungary
15. India
16. Indonesia
17. Israel
18. Italy
19. Japan
20. Korea
21. Kuwait
22. Malaysia
23. Netherlands
24. New Zealand
25. Nigeria
26. Norway
27. Pakistan
28. Poland
29. Qatar (Effective January 2016)
30. Romania
31. Russia
32. Singapore
33. Spain
34. Sweden
35. Switzerland
36. Thailand
37. Turkey
38. United Arab Emirates
39. United Kingdom of Great Britain and Northern Ireland
40. United States of America
41. Vietnam

## APPENDIX V

### GROUP A

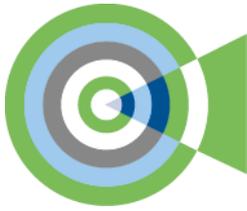
- Issuers of registered securities which have sold a class of securities pursuant to a registration under Section 12 of the Securities Registration Code (SRC) except those issuers of registered timeshares, proprietary and non-proprietary membership certificates which are now in Group B;
- Issuers with a class of securities listed for trading in an Exchange; and
- Public companies or those which have total assets of at least Fifty Million Pesos (P50,000,000.00) or such amount as the Commission shall prescribe, and having two hundred (200) or more holders each holding at least One Hundred (100) shares of a class of its equity securities.

### GROUP B

- Pre-Need Companies;
- Issuers of registered timeshares, proprietary and non-proprietary membership certificates;
- Investment Houses;
- Brokers and Dealers of Securities;
- Investment Companies;
- Government Securities Eligible Dealers (GSEDs);
- Universal Banks Registered as Underwriters of Securities;
- Investment Company Advisers;
- Clearing Agency and Clearing Agency as Depository;
- Stock and Securities Exchange/s;
- Special Purpose Vehicles registered pursuant to Special Purpose Vehicle Act of 2002, and its implementing rules;
- Special Purpose Corporation registered under the Securitization Act of 2004 and its implementing rules; and
- Such other corporations which may be required by law to be supervised by the Commission.

### GROUP C

- Financing Companies;
- Lending Companies; and
- Transfer Agents.



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