Doing Business in the Philippines

In everything we do, we nurture leaders
and enable businesses for a better Philippines.

#SGVforABetterPhilippines

SGV
Building a better
working world

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A message from the Secretary of the Department of Trade and Industry

TRABAHO NEGOSYO KONSYUMER

MESSAGE

On behalf of the Department of Trade and Industry (DTI), we would like to extend our warmest greetings and congratulations to SGV & Co. as they publish *Doing Business in the Philippines 2022*.

The Department of Trade and Industry, as the regulatory arm of the Philippine government in areas such as trade, industry, and investment promotion, aims to support economic growth and job generation. In pursuit of these objectives, bringing in Foreign Direct Investments (FDI) serves as one of our key priorities, as the country builds back better amid the economic impacts brought by COVID-19.

Over the next six years, DTI will focus on key priorities aligned with the policy thrusts of the Marcos administration such as: (1) Upgrading, upskilling, and upsizing micro, small, and medium enterprises (MSMEs); (2) Fostering digital transformation and innovation for competitiveness; (3) Promoting and supporting regional development; (4) Ensuring the availability of affordable food; (5) Reconfiguring Philippine export sectors into industry clusters, (6) Improving ease of doing business in the country; (7) Creating an enabling environment that will attract investments and expand the market access of Philippine exports; (8) Empowering and securing the rights of consumers; and (9) Transforming DTI into an agile organization that is responsive to the needs of the Filipino people.

As we further strive to be a top investment destination in Asia, improving the country's attractiveness and competitiveness remains a top priority. It is imperative that we strengthen the implementation of initiatives that will promote and advance the ease of doing business in the country. In the 2022 World Competitiveness Yearbook, the Philippines' ranking climbed to 48th from 52nd in the previous year. This is reflective of the government's continuous efforts to enhance the country's capabilities. However, more needs to be done as we begin a new era and face new challenges.

SGV's *Doing Business in the Philippines 2022* publication presents itself as a timely and relevant resource that significantly highlights the country's economic outlook, as we work on re-stimulating the domestic economy and building investors' confidence.

DTI looks forward to continued partnership with SGV & Co. We are confident that you will remain faithful to your mission to assist and support potential investors planning to expand operations in the Philippines. Let us continue working together for a resilient, inclusive, and brighter post-pandemic future.

Mabuhay po kayo!

ALFREDO E. PASCUAL
Secretary

A message from His Excellency President Ferdinand R. Marcos, Jr.

MALACAÑAN PALACE
MANILA

MESSAGE

My warmest greetings to the readers of the latest edition of **SGV & Co.**'s yearly publication, "**Doing Business in the Philippines**."

After overcoming the brunt of the pandemic, the country is left with the challenge of pursuing projects, policies, and reforms that focus on reviving our economy and, more importantly, our Micro, Small, and Medium Enterprises. Restoring business confidence in the country, especially in the sectors that have been most affected these past few years, is crucial as we strive to sustain the upward trajectory of our economy.

This publication features, among others, the path that the government has carved out to lead our nation's economic recovery in the coming years. Through the collaborations and dialogues that will arise therefrom, I anticipate better and more inclusive ways of doing business that will not only result in progress but also resilience for whatever challenges that may come our way.

The days to come will constantly remind us of the need to remain competitive, creative, and purposeful for our ventures to prosper. Rest assured that this administration will not stop creating a community and environment where all are free to invest in their passions as well as profit from them.

Allow me, therefore, to welcome everyone to do business in the Philippines, and let us look forward to the better, brighter, and more innovative future that we will make together.

Maraming salamat po at mabuhay tayong lahat!

FERDINAND R. MARCOS JR.

Philippines at a glance

Top industries per region and 2021 Gross Regional Domestic Product (GRDP)

Region I
Ilocos Region
Leading producer of tobacco and mangoes
GRDP: PHP608.6B

CAR
Cordillera Administrative Region
Metallic and non-metallic reserves
GRDP: PHP310.6B

Region II
Cagayan Valley
Top corn producer
GRDP: PHP389.9B

Region III
Central Luzon
International transshipment hub
GRDP: PHP2,020.8B

Region IV-A
CALABARZON
Automotive capital of the Philippines
GRDP: PHP2,728.3B

Region IV-B
MIMAROPA
Rice and coconuts, marble quarrying
GRDP: PHP369.7B

Region V
Bicol Region
Pili nuts, coconuts, abaca, banana, coffee, and jackfruit
GRDP: PHP540.1B

NCR
National Capital Region
Industrial-related products such as chemicals, textiles, clothing, electronic goods, food, beverages
GRDP: PHP5,845.3B

Region VI
Western Visayas
Meat-processing, paper-related cottage industry
GRDP: PHP874.1B

Region VII
Central Visayas
Footwear, ICT and IT enabled services
GRDP: PHP1,195.8B

Region VIII
Eastern Visayas
Marine products, forest reserves with mineral deposits
GRDP: PHP461.0B

Region IX
Zamboanga Peninsula
Logs, lumber, veneer, and plywood
GRDP: PHP397.9B

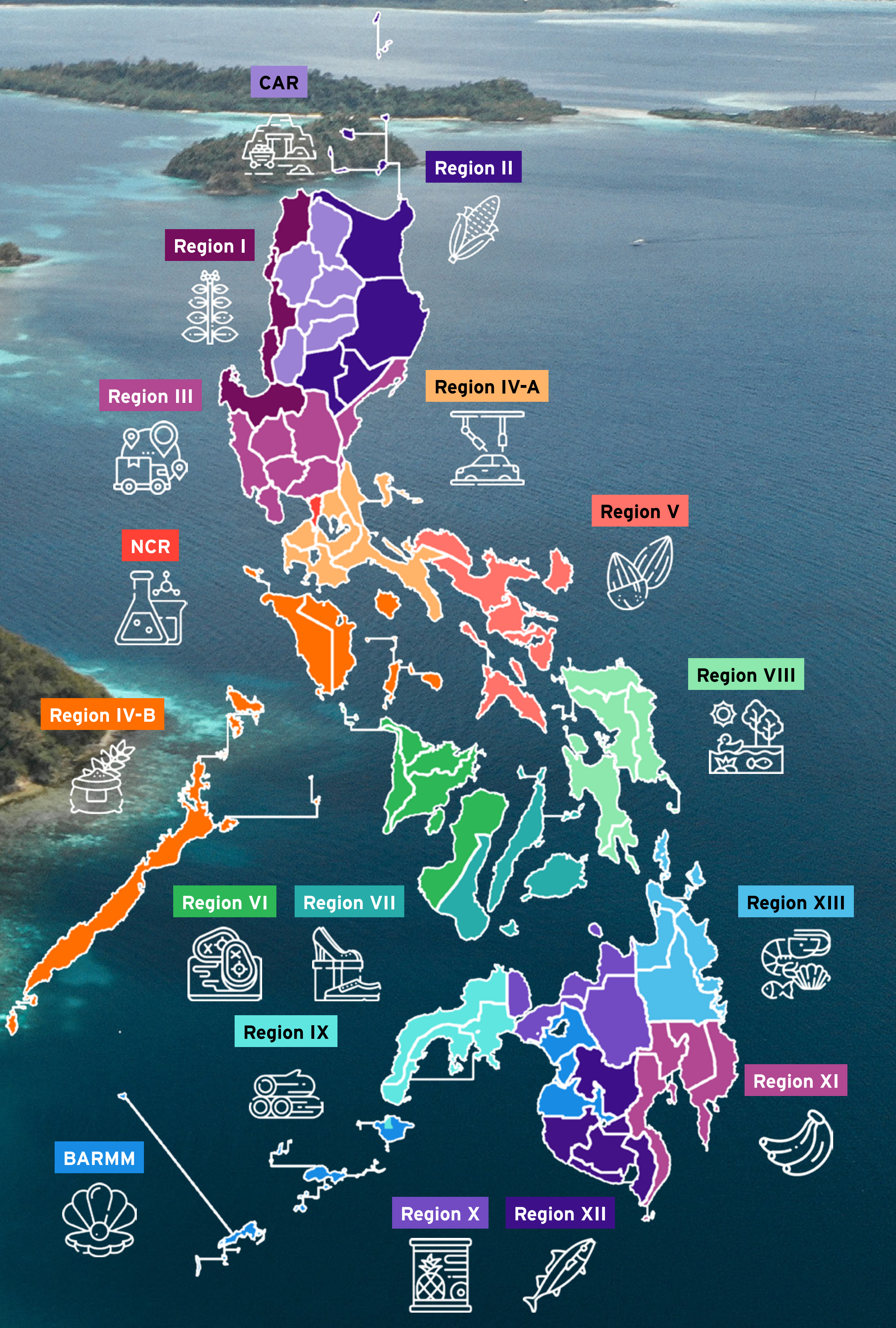
Region X
Northern Mindanao
Oleochemicals, canned pineapple products
GRDP: PHP872.9B

Region XI
Davao Region
Top producer of bananas
GRDP: PHP882.0B

Region XII
SOCCSKSARGEN
Tuna and other fish products
GRDP: 472.5B

Region XIII
Caraga Region
Marine products
GRDP: PHP305.6B

BARMM
Bangsamoro Autonomous Region in Muslim Mindanao
Fish products, pearls, and boats
GRDP: PHP262.9B



Competitiveness and efficiency indicators

Global competitive index *(2020)*	64 /141
Ease of doing business *(2020)*	95 /190
Logistics performance *(2018)*	60 /160
Ease of paying taxes *(2020)*	95 /190

Committed to having economic sustainability

75% Commitment of the Philippines to reduce greenhouse gas emissions by 2030 as part of the Paris Agreement on Climate Change

2020 Year when the BSP laid out the country's Sustainable Financial Framework, requiring banks to consider sustainability principles in their operations

17 Number of Sustainable Development Goals (SDGs) designed for peace and prosperity for people and the planet, now and into the future, committed to be achieved by the government in partnership with the United Nations (UN)

37 of 97 Philippine SDG targets have measurable pace of progress as of June 2022

60 of 155 Philippine SDG indicators have measurable pace of progress as of June 2022

Infrastructure development

As of November 2021, there are a total of 415 economic zones in the Philippines.

297 Information Technology Parks

76 Manufacturing Economic Zones

22 Agro-industrial Economic Zones

17 Tourism Export Enterprises

3 Medical Tourism Parks

Source: PEZA

Access to key markets

The country's location is a natural gateway to East-Asian economies

At the crossroads of international shipping and airlines

Top principal exports of 2022

56% Electronic products

5%	Other mineral products
5%	Other manufactured goods
3%	Machinery and transport equipment
3%	Ignition wiring set
2%	Coconut oil
2%	Chemicals
2%	Metal components
2%	Electronic equipment and parts
1%	Cathodes and section of cathodes
19%	Others

Top countries for export of 2022

16%	USA
14%	Japan
14%	China
13%	Hong Kong
6%	Singapore
4%	South Korea
4%	Thailand
4%	Taiwan
4%	Netherlands
3%	Germany
18%	Others

Top principal imports of 2022

24% Electronic products

17% Mineral fuels, lubricants

8%	Transport equipment
4%	Other food and live animals
4%	Industrial machinery and equipment
4%	Cereal and cereal preparations
3%	Manufactured articles
3%	Telecommunication equipment
2%	Iron and steel
2%	Ores and metal scrap
29%	Others

Top countries for import of 2022

21%	China
10%	Indonesia
9%	Japan
9%	South Korea
6%	Singapore
6%	USA
6%	Taiwan
5%	Thailand
5%	Malaysia
2%	Australia
21%	Others

Economic overview

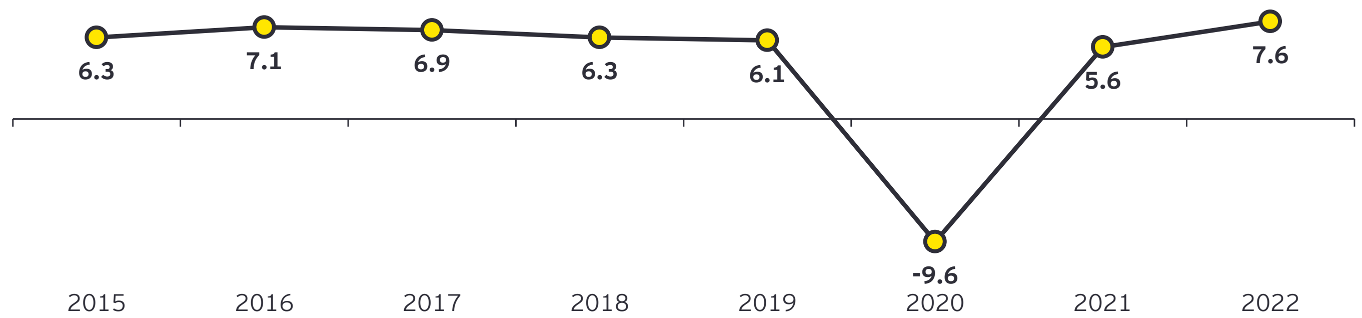
Among the most dynamic economies in the East Asia Pacific region, the Philippines is propped up by a vibrant labor market, investments, and robust remittances. Its buoyant business activities are powered by a strong performance in the services sector, including business process outsourcing, tourism, finance and insurance industries, and real estate. In the decade between the global financial crisis (GFC) and the COVID-19 pandemic, economic growth averaged at 6.4% per year, up from the 4.5% average in the prior decade.

After grappling with the effects of the COVID-19 crisis, the economy began to recover in 2021, posting an expansion of 5.6% on the strength of public investment and a recovery in the external environment. The country's economic managers, working with Congress, sought anew to put the country back on a high-growth path to attain upper-middle-income status.

The economy continued to perform strongly in 2022 as it grew by 7.6%, exceeding the government's target of 6.5% to 7.5%, and while expected to moderate in 2023 to around 6.0% to 7.0% due to external shocks and heightened inflation, it is expected to resume its high growth path thereafter.

The economic team also eyes reducing the country's poverty rate to 9.0% by the end of the term of President Ferdinand Marcos Jr. in 2028. To sustain and inclusive growth, the Marcos administration intends to continue with the infrastructure program amounting to 5-6% of GDP and follow through with the recently enacted structural reforms (e.g., Corporate Recovery and Tax Incentives for Enterprises, Foreign Investment Act, Public Service Act, Retail Trade Liberalization Act) that are meant to make the economy more competitive. It has passed the 2023 budget on time and released early the 2023-2028 Philippine Development Plan (PDP), effectively communicating its resolve to tackle developmental issues at hand.

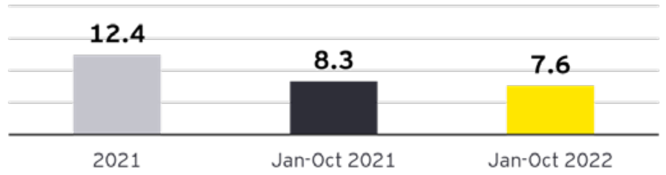
Real GDP growth in %, 2015 to 2022



Prior to COVID-19 lockdowns, the Philippines was growing at a steady average rate of 6.58% in the 5 years before 2020. The Philippines was impacted badly by the effects of the COVID-19 outbreak, hitting an ASEAN low of –9.5% GDP growth rate. Total lockdowns caused many jobs to be lost, with the unemployment rate for 2020 double that of 2019 at 10.3%. Among the three major sectors, Industry contracted the most, falling by 13.1%, Services by 9.1%, and lastly Agriculture by 0.2%.

Despite the hard impact to the economy, the Philippines rebounded with the second-best GDP growth in the ASEAN region for 2021 at 5.7%, only trailing Singapore which had a growth of 7.6%. One of the drivers of growth of the country is the continuous growth in remittances as these support consumer spending, which accounts for more than 70% of total GDP.

FDI inflows (in USD billion)



The government's infrastructure program and FDI have helped sustain investments in the country. The COVID situation, however, discouraged investment inflows in 2020, but they have since rebounded in 2021. That year, FDI hit $12.4 billion, a record high for the country. The central bank projected FDIs to reach USD8.5 billion in 2022, lower than the previous estimate of USD11.0 billion. Adherence to Environment, Social, and Corporate Governance (ESG) standards could help the country attract more foreign investments. Also, the enactment of the Retail Trade Liberalization Act, Public Service Act, and Foreign Investments Act could be a catalyst for FDI growth as this loosens some of the restrictions previously imposed on foreign investors.

Projections as of January 2023

Agency	2023	2024
Development Budget Coordination Committee (DBCC)	6.0% - 7.0%	6.5% - 8.0%
Asian Development Bank (ADB)	6.0%	None
World Bank	5.4%	5.9%
International Monetary Fund (IMF)	5.0%	6.0%

Philippine labor force as of December 2022

49.0M
Employed Filipinos

40.3
Average weekly hours worked

66.4%
Labor force participation rate

95.7%
Employment rate

12.6%
Underemployment rate

4.3%
Unemployment rate

30%	Elementary occupations
24%	Service and sales workers
12%	Agriculture, forestry and fishery workers
8%	Plant and machine operators and assemblers
7%	Clerical support workers
7%	Craft and related trade works
5%	Professionals
4%	Managers
3%	Technicians and associate professionals
<1%	Armed forces occupations

Current real minimum wage based on September 2022 Consumer Price Index (CPI)

Region	Non-agriculture	Agriculture	
		Plantation	Non-Plantation
NCR	500.44	467.95	467.95
CAR	325.06	325.06	325.06
Region I	315.67	277.54	266.44
Region II	336.98	315.92	315.92
Region III	378.15	352.94	339.50
Region IV-A	371.79	342.74	342.74
Region IV-B	292.66	292.66	292.66
Region V	284.18	284.18	284.18
Region VI	382.98	348.94	348.94
Region VII	383.94	375.11	375.11
Region VIII	300.43	274.68	274.68
Region IX	303.63	279.41	279.41
Region X	330.79	320.61	320.61
Region XI	360.34	356.12	356.12
Region XII	308.98	291.35	291.35
CARAGA	294.86	294.86	294.86
BARMM	292.70	271.24	271.24

The investment grade of the Philippines

Rating and Investment Information, Inc. (R&I)

BBB+

R&I has maintained the Philippines' Foreign Currency Issuer rating of BBB+ as of April 2022.

- Rating outlook remains stable due to:
  - Limited dependence on external debt
  - Robust foreign direct investments
  - Stable banking sector
- R&I continues to monitor the new administration's policies, particularly on key infrastructure projects and structural reforms
- R&I expects a 7.7% budget deficit for 2022 and a debt ratio slightly over 60% of GDP

Fitch Ratings

BBB

Fitch Ratings asserted that the Philippines Long-Term Foreign Currency Issuer Default Rating is BBB with a negative outlook.

- The negative outlook is due to:
  - Country's medium-term growth prospects
  - Fiscal adjustment
  - Effects of external shocks such as increasing interest rates, weakening of global demand, and increasing commodity prices

Industries

Business Process Outsourcing (BPOs)

- One of the biggest and fastest growing industries in the country averaged 5-10% growth in revenue pre-COVID. While it only registered 1.4-1.8% growth in 2020, the sector is already on pace to grow by 8-10% per year.
- Driven by the increases in headcount, as of June 2022, the sector has already achieved its goals in revenue and headcount of $29.1 million and 1.43 million full-time employees.
- The sector is part of the Department of Information and Communication Technology's (DICT) Digital Cities 2025 Program as a prime mover for promoting countryside development in locations outside of Metro Manila in which 25 digital cities have already been identified.

Tourism

- Before 2020, the tourism industry was a big part of the Philippine GDP, accounting for 11.7% of the GDP. By 2019, it was 12.7%. The travel restrictions during the COVID lockdown caused that number to plummet to 5.4% and more than a million jobs were lost.
- The United Nations World Tourism Organization expects the tourism industry to recover by 2024.
- To facilitate the recovery of the industry, the government allocated PHP 10.3 billion to the Tourism Response and Recovery Plan (TRRP) to protect tourism jobs and safety of workers, visitors and communities; for the recovery of tourism enterprises; to rebuild market confidence and restore visitor volumes.

Renewable energy

- The Philippines has made strides in implementing renewable energy as part of its electricity generation systems.
- The National Renewable Energy Program was enacted in 2008 to lead this development. This included target capacities by 2015, 2020, 2025, and 2030 per source of renewable energy and a main goal of shifting the renewable energy mix to 35% of total capacity by 2030 and 50% by 2040.
- Due to the Philippines' unique landscape, there is an increased emphasis on increasing generation from Hydro sources, making up 54.6% of the planned increase in electricity capacity.

Healthcare

- According to the Philippine Statistics Authority (PSA), healthcare contributes takes up approximately 2% of the GDP of the Philippines per year. The industry posted growths between 6% - 7% prior to the pandemic. Surprisingly, the industry experienced a big decline in 2020, posting a -5% growth for that year. 60% of this industry comes from the private sector. Private health services declined by 16% in 2020, while public healthcare grew by 45%.
- The Philippines Health Facility Development Plan was updated to improve the country's ability to provide health care and to respond to any unprecedented situations and health emergencies. The program was allocated more than PHP 23 billion for 2023.

Manufacturing

- The manufacturing sector contributes around 20% of the GDP of the Philippines. In 2019, this was around $76.92 billion but this dropped to $69.4 billion, a 9.8% decline in 2020. Movement restrictions greatly affected the industry, and when its restrictions were relaxed in 2021, the industry posted a growth of 8.8% for 2021.
- The industry is expected to grow by 10% for 2022 as the industry gears up for recovery. Jobs in the industry have already surpassed pre-pandemic numbers of 3.65 million jobs to 3.66 million jobs as of April 2022.
- Many policies focused on providing incentives for manufacturing activities, namely; Electric Vehicle Industry Development Act, Foreign Investments Act and the Strategic Investment Priority Plan.

Construction

- Since President Duterte took office in 2016 and started his "Build, Build, Build" (BBB) initiative, the construction industry had a Compund Annual Growth Rate (CAGR) of 10.5% from 2016-2019. The COVID situation brought down the industry by 23.2% in 2020, but it has climbed back to 2018 levels in 2021.
- In December 2021, President Duterte approved the budget allocating $24 billion of the $102 billion national budget to BBB projects alone.
- President Marcos is expected to continue many of the infrastructure projects of the previous administration through his "Build, Better, More (BBM)" program. The industry is expected to grow by an annual average of 7.5% between 2023-2026.

Agriculture

- Prior to the COVID lockdowns, the agriculture sector was averaging around 1% growth per year, contributing around $35 Billion for 10% of Philippines' GDP. For 2020 and 2021, the sector has declined by .2% and .3% respectively.
- To help boost productivity in this sector, the Agricultural Credit Policy Council (ACPC) launched two programs; Kapital Access for Young Agripreneurs (KAYA) and the AgriNegosyo (ANYO) Loan Program. Both programs aim to provide loans for the capital requirements of agri-based projects.

Mining

- The mining industry in the Philippines has a been a small contributor to its GDP, at around 0.7%. During the pandemic it registered a 1.13% growth rate.
- President Duterte amended the moratorium on open-pit minings to create more jobs and support the Build, Build, Build projects by the government. In 2021, Mining accounted for PHP185 billion or 0.8% of the GDP.

IT and finance

- In 2018, only 10.0% of the total financial transaction volume was done online. However, when the pandemic started in 2020 and multiple lockdowns were enforced, this increased to 20.1% or a total of 910 million transactions.
- Bangko Sentral ng Pilipinas (BSP) has been pushing for the Philippines to be a cash-lite economy. It announced that it targets to raise the share of digital payments to 50% of all retail transactions and increase financial inclusion to 70% of Filipino adults by 2023.

Taxation

The Philippine Constitution mandates that the rule of taxation shall be uniform and equitable, and that Congress shall evolve a progressive system of taxation. The Tax Reform Act of 1997 (Republic Act No. 8424) was passed to promote sustainable economic growth by rationalizing the Philippine Internal Revenue System, including tax administration.

Comprehensive Tax Reform

To improve the efficiency of the tax system and raise much-needed funds to support massive investment goals, the government rolled out a comprehensive tax reform plan in 2017 to be implemented within a four- to five-year period.

The first tax reform package was enacted through the Tax Reform for Acceleration and Inclusion or TRAIN Law (RA No. 10963). The TRAIN Law focused on individual income, estate and donor's tax, expanded VAT and excise tax and became effective on 1 January 2018. Meanwhile, the second tax reform package or the Corporate Recovery and Tax Incentives for Enterprises Act, also known as the CREATE Act (RA No. 11534) became effective on 11 April 2021. It focuses on adjustments in corporate income tax and other taxes and the rationalization of fiscal incentives granted to registered business enterprises.

Income tax on corporations

Corporation type	Regular corporate income tax (RCIT)	Minimum corporate income tax (MCIT)
Domestic	**20%**[1] or **25%** of **taxable** income	**1%** of **gross** income *effective until 30 June 2023* **2%** of **gross** income *effective starting 1 July 2023*
Resident foreign	**25%** of **taxable** income	
Non-resident foreign	**25%** of **gross** income	⊗

[1] *Total assets (excluding land) ≤ PHP 100M and Net taxable income ≤ PHP 5M*

Special income tax rates for certain corporations

Proprietary educational institutions and non-profit hospitals

1% of **taxable** income *effective until 30 June 2023*

10% of **taxable** income *effective starting 1 July 2023*

International carriers

2.5% final tax* on Gross Philippine Billings

**Exempted if their home countries provide a similar tax exemption to Philippine carriers*

Regional or area headquarters (RAHQs) of multinational companies

Exempt

Regional operating headquarters (ROHQs) of multinational companies

25% of **taxable** income

Branch* profit remittance tax

15%

**Branches of foreign corporations in the Philippines (except those activities registered with the PEZA)*

Fringe benefits tax

35% of **grossed-up** monetary value

Other income taxes

Interest income received by a foreign corporation from a depository bank under the expanded foreign currency deposit system

15% of interest income

Intercorporate dividends

Domestic → Domestic: Exempt

Foreign → Domestic: Exempt
Subject to minimum shareholdings, holding period and reinvestment conditions

Net capital gains realized from sale or exchange of shares of stock of a domestic corporation

15% final tax

Shares sold or disposed of through the exchange

6/10 of 1% of gross selling price or gross value in money

Imposition of Improperly Accumulated Earnings Tax (IAET) is **repealed**.

Tax on non-resident foreign corporations

Income derived from Philippine sources

25% of **gross** income

Dividends received in case the country the corporation is domiciled in either does not impose income tax on such dividends or allows a tax deemed paid credit

15%

Other percentage tax

1% of **gross** quarterly sales/ receipts *effective until 30 June 2023*

3% of **gross** quarterly sales/ receipts *effective starting 1 July 2023*

Tax-free exchange of property

- Transferor, alone or together with others, not exceeding four persons, exchanges property for stocks, collectively, gains or maintains control of transferee
- Gain/loss on exchange is not recognized pursuant to a plan of reorganization
- Prior BIR confirmation or ruling is no longer required

Reorganization

- Merger or consolidation
- Control or further control
- Recapitalization
- Reincorporation

Deductions from gross income

Training expenses

150%
deduction of the value of labor training expenses subject to certain conditions/ requirements

Interest arbitrage

20%
interest reduction
if the applicable RCIT is 25%

0%
interest reduction
if the applicable RCIT is 20%

Income tax on individuals

Citizens, non-resident citizens, resident aliens and non-resident aliens engaged in trade or business

15 - 35%
on **taxable** income above PHP250K

Non-resident aliens not engaged in trade or business

25%
on **gross** income

Additional exemption for citizens and resident aliens

Maximum of PHP90K
on 13th month pay
and other similar benefits received

Withholding tax system

Creditable withholding tax (CWT)

Certain income payments made by a resident to another resident are subject to specified withholding tax rates. The tax withheld is creditable against the income tax liability of the income recipient.

Withholding tax on wages

This is the tax withheld from individuals receiving purely compensation income. Employers are required to withhold the tax due on salaries and wages paid to their employees.

Final withholding tax (FWT)

Under the FWT system, the amount of income tax withheld by the withholding agent is constituted as a full and final payment of the income tax due from the payee on the said income.

Value-added tax

12% VAT
Generally, sale of goods, services and lease of properties, as well as importation of goods

VAT-exempt
Certain transactions as provided by law

0% VAT
Certain transactions as provided by law including export sales, among others

Taxation

Other duties and taxes

Excise tax

Excise taxes are imposed on certain goods manufactured or produced in the Philippines for domestic sale or consumption or for any other disposition. Excise taxes are also imposed on certain imported goods, in addition to the VAT and customs duties.

Custom duty

Goods imported into the Philippines are generally subject to customs duty (aside from 12% VAT and excise tax on certain goods). Certain importations are exempt from the imposition of customs duty.

Documentary stamp tax (DST)

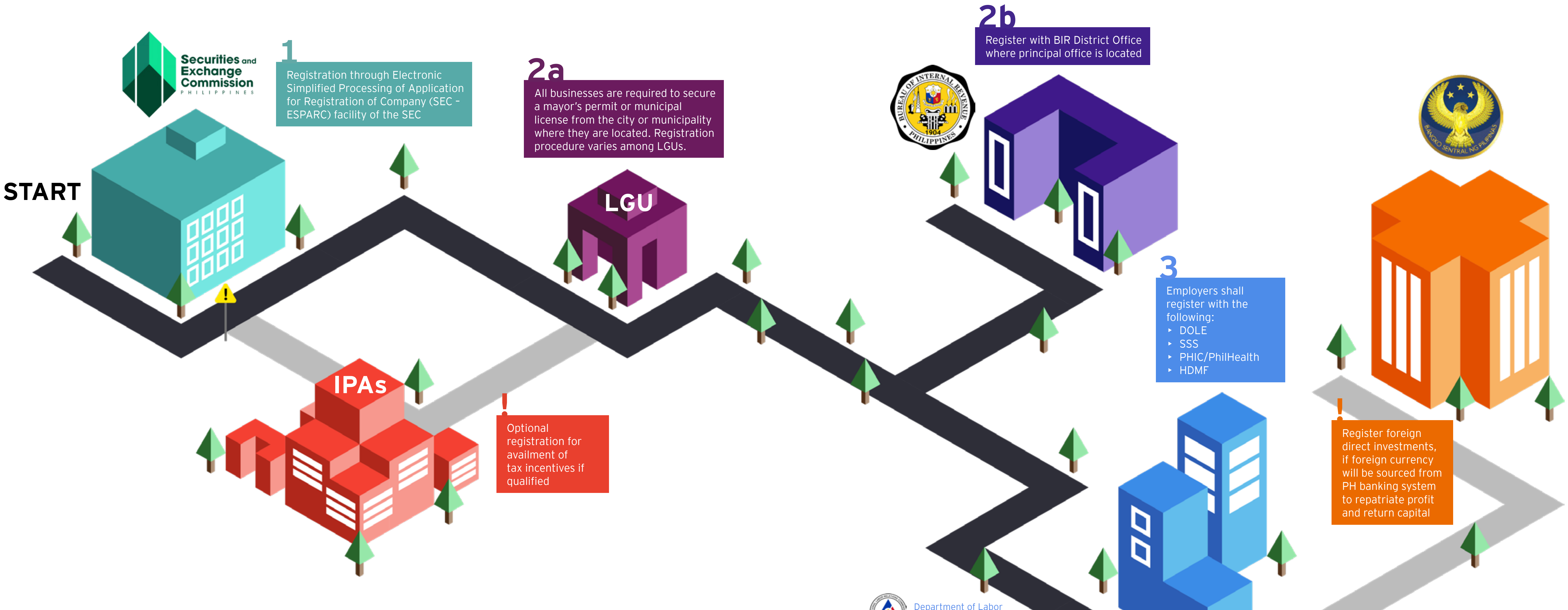
The DST is an excise tax on documents, instruments, loan agreements, lease agreements, shares of stocks, bonds, mortgage, insurance policies and papers, and on acceptances, assignments, sales and transfers of the obligation, right or property incident thereto. This tax is imposed on the maker, signor, issuer, accepter or transferor of the document.

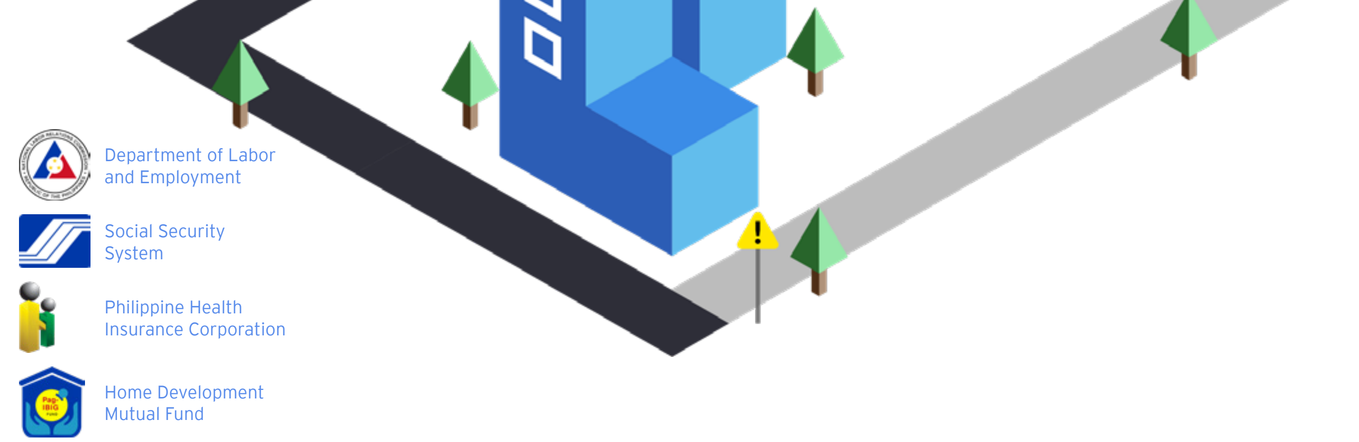
Local taxes

Local government units (LGUs) are given the authority to tax certain activities and business conducted within their jurisdiction unless otherwise expressly exempt by law. LGUs are also authorized to levy an annual ad valorem tax on real property as well as transfer tax.

Setting up a business in the Philippines

The Ease of Doing Business and Efficient Government Service Delivery Act of 2018 (Republic Act 11032) establishes the Anti-Red Tape Authority or ARTA, which is committed to facilitating setting up businesses in the Philippines by reducing red tape and streamlining processes, thereby making government service procedures more efficient. The prerequisites for establishing a business will vary based on the entity's type and location. The Act will also necessitate registration with the Securities and Exchange Commission (SEC), the Department of Trade and Industry (DTI), the Bureau of Internal Revenue (BIR), and local government bodies, if applicable. If the company is eligible for incentives, it must also register with agencies that promote incentives, such as the Philippine Economic Zone Authority and the Board of Investments.

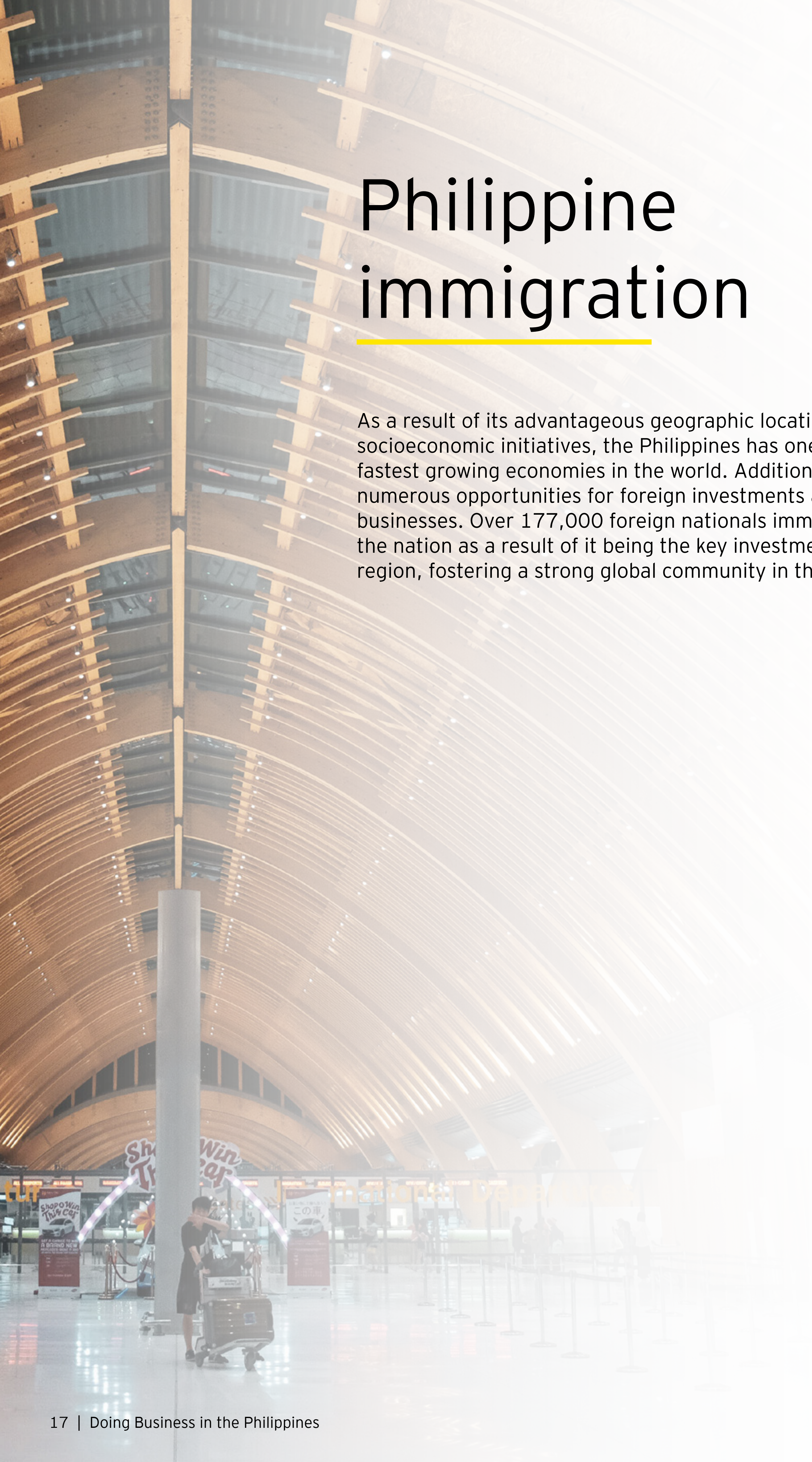




Who may form a corporation?

Any person, partnership, association or corporation, singly or jointly with others but not more than 15 in number, may organize a corporation for any lawful purpose or purposes. A corporation with a single stockholder is considered a One Person Corporation.

Natural persons who are licensed to practice a profession, and partnerships or associations organized for the purpose of practicing a profession, shall not be allowed to organize as a corporation unless otherwise provided under special laws.



Philippine immigration

As a result of its advantageous geographic location and robust socioeconomic initiatives, the Philippines has one of the fastest growing economies in the world. Additionally, there are numerous opportunities for foreign investments across various businesses. Over 177,000 foreign nationals immigrated to the nation as a result of it being the key investment hub in the region, fostering a strong global community in the country.

Entry to the Philippines

Generally, visitors to the Philippines are permitted to stay as tourists for thirty days. When traveling to the Philippines, tourists are required to have a passport that is valid for at least six months beyond their intended date of departure, as well as a return or forward ticket. Visa requirements vary based on the nationality of the passenger traveling in the Philippines.

Working in the Philippines

The foreign national must secure a Special Work Permit (SWP) or a work visa, depending on the duration and on his economic activity in the Philippines. The SWP or work visa, whichever is applicable, should be sponsored by a local petitioning company, which is the entity where the foreign national will be assigned or employed. An SWP is applicable if the duration of the foreign national's operations will not exceed six months. A work visa is required if the foreign national will be in the Philippines for more than six months. Unless specifically excluded or exempted from the requirements, he must additionally get an Alien Employment Permit (AEP) from the Department of Labor and Employment (DOLE). An AEP is granted when it is determined, following a labor market test (publication of the job vacancy in a newspaper of general circulation), that no one in the Philippines is competent, willing, and able to do the sought labor or service. Foreign nationals have access to numerous sorts of work visas. The type of work visa that must be obtained depends on several factors, including the citizenship of the foreign national in relation to the citizenship of the majority stockholders of the local petitioning company, the type of business entity in which the foreign national will be employed, and the location of the petitioning company. Consult an immigration service provider immediately to confirm that the type of work visa to be applied for, the documentation requirements, and the visa process are accurate.

Other information

Family members can apply for a dependent visa, either as accompanying family member or through inclusion. Both the foreign national applicant and the Philippine petitioning company must ensure compliance with the rules relevant to hiring and employing foreign nationals. Violation of immigration and related labor laws can result in to monetary penalties for both the petitioning company and the foreign national, deportation proceedings, imprisonment and/or inclusion in the alert list or blacklist of the Bureau of Immigration.

Sources: Bureau of Immigration, Department of Labor and Employment

Investment policy and incentives

Philippine laws and regulations guarantee the basic rights of all investors and enterprises, including the following:

- Freedom from expropriation without just compensation
- Right to remit profits, capital gains and dividends within the guidelines of the Bangko Sentral ng Pilipinas, the country's monetary authority
- Right to repatriate the proceeds of the liquidation of investments
- Right to obtain foreign exchange to meet principal and interest payments on foreign obligations

There are a number of laws governing investments in the Philippines. Recently, the CREATE Act was enacted to rationalize the fiscal incentives given by various incentive bodies.

Before investing

Step 1
Check if proposed project or activity is included in the Philippines' Strategic Investment Priority Plan (SIPP) and check foreign equity restriction [Foreign Investment Negative List (FINL)].

- Identify strategic locations aligned with logistics and supply chain integration
- Consider priority industries to maximize incentives and locations

Step 2
Study optimization of tax incentives (e.g., ITH+SCIT vs. Enhaced deductions or Non-RBE but avail of local tax incentives, if any)

Qualified enterprises

General qualifications

1. Engaged in a project/activity included in SIPP
2. Meet target performance metrics
3. Install an adequate accounting system
4. Comply with e-receipting and e-sales requirement
5. Submit annual reports of beneficial ownership and related parties

Registered Business Enterprise (RBE)

- Export enterprise
  - 70%
    - Direct export
    - Indirect export
- Domestic market enterprise

Fiscal incentives

Income tax

Income Tax Holiday (ITH) ***(4 to 7 years)***

\+

5% Special Corporate Income Tax (SCIT) ***(10 years for exporters)***

or

Enhanced Deductions (ED) ***(10 years for exporters and 5 years for domestic market enterprise)***

Value-added tax (VAT)

Sales

- 12% for domestic sales
- 0% for exports
- Exempt for certain transactions

*Purchases and imports**

- 0% on local purchases
- Exempt on importation

Directly and exclusively used in the registered activity by a registered enterprise

Customs duty

Exempt for capital equipment, raw materials, spare parts and accessories (subject to conditions)

Local taxes

- Exempt from Local Business Tax (LBT) depending on conditions
- Exempt from Real Property Tax (RPT) for first 3 years of operations (machineries and equipment) ▶ Subject to RPT thereafter

Non-fiscal incentives

PEZA

- Special non-immigrant visa with multiple entry privileges for foreign investors and immediate family members
- Employment of foreign nationals
- Long-term land lease of up to 75 years

boi PHILIPPINES BOARD OF INVESTMENTS

- Employment of foreign nationals
- Simplification of customs procedure
- Importation of consigned equipment

2022 Strategic Investment Priority Plan (SIPP)

General guidelines

1. All must satisfy the qualifications for registration set forth under the 2020 IPP Guidelines, as amended
2. Projects must comply with all the qualifications under Tier 1 to qualify under Tier 2 and Tier 3.

Tiering shall be determined by the Fiscal Incentives Regulatory Board (FIRB) or Investment Promotion Agencies (IPAs), as applicable.

Investment Promotion Agencies (IPAs)

Tier 1

- Activities that have high potential for **job creation**
- Take place in sectors with market failures resulting in underprovision of **basic goods and services**
- Generate **value creation** through innovation, upgrading or moving the value chain
- Provide **essential support** for sectors that are critical to industrial development
- Are **emerging** owing to potential comparative advantage

All qualified activities relating to the fight against COVID-19

Activities to generate employment opportunities outside of congested urban areas

All qualified manufacturing activities including agro-processing

Agriculture, fishery and forestry

Environment or climate change-related projects

Energy

Strategic services

Healthcare and disaster risk reduction management services

Mass housing

Infrastructure and logistics including LGU-PPPs

Innovation drivers

Inclusive business models

Production and manufacture of export products, service exports activities in support of exporters

Amendments to the specific guidelines of **export activities**:

Logistics services
- Warehousing
- Inventory management
- Transport of goods

Development and operation of economic zones

Covers activities where inclusion in the IPP is mandated for purposes of incentives, as follows:

- Industrial tree plantation
- Mining
- Publication or printing of books
- Refining, storage, distribution of petroleum products
- Renewable energy
- Tourism
- Energy efficiency and conservation
- Rehabilitation, self-development and self-reliance of PWDs

Tier 2

- Activities that produce supplies, parts and components
- Intermediate services that are not locally produced but are critical to industrial development
- Import-substituting activities, including crude oil refining

Green ecosystems

Registration for integrated waste management, disposal and recycling must be accompanied by an endorsement from the Department of Environment and Natural Resources (DENR)

Health-related activities

Vaccine self-reliance program and other endorsed programs

Should be endorsed by the Department of Health (DOH), Department of Science and Technology (DOST) or other similar agencies

Defense-related activities

Accompanied by an endorsement from the Department of National Defense (DND), Armed Forces of the Philippines (AFP) or National Security Council (NSC)

Industrial value chain gaps

Must address gaps in steel, textiles, chemicals or green metals processing

Food security-related activities

Projects complying with the criteria based on the United Nations - Food and Agriculture Organization's (UN-FAO's) food security dimensions may qualify for registration

Tier 3

- Activities shall include research and development resulting in demonstrably significant value-added, higher productivity, improved efficiency, breakthroughs in science and health and high-paying jobs
- Generation of new knowledge and intellectual property registered or licensed in the Philippines
- Commercialization of patents, industrial designs, copyrights and utility models owned or co-owned by RBE
- Highly technical manufacturing
- Are critical to the structural transformation of the economy and require substantial catch-up efforts

Tier 3 specific guidelines

1. Application for registration must be accompanied by an endorsement from the DOST, Department of Trade and Industry (DTI) - Competitiveness and Innovative Group, or any other institutions as may be identified by the Board of Investments (BOI).
2. For space-related infrastructures, an application must be accompanied by an endorsement from the Philippine Space Agency.

Research and development activities adopting advanced digital production technologies of the fourth industrial revolution:

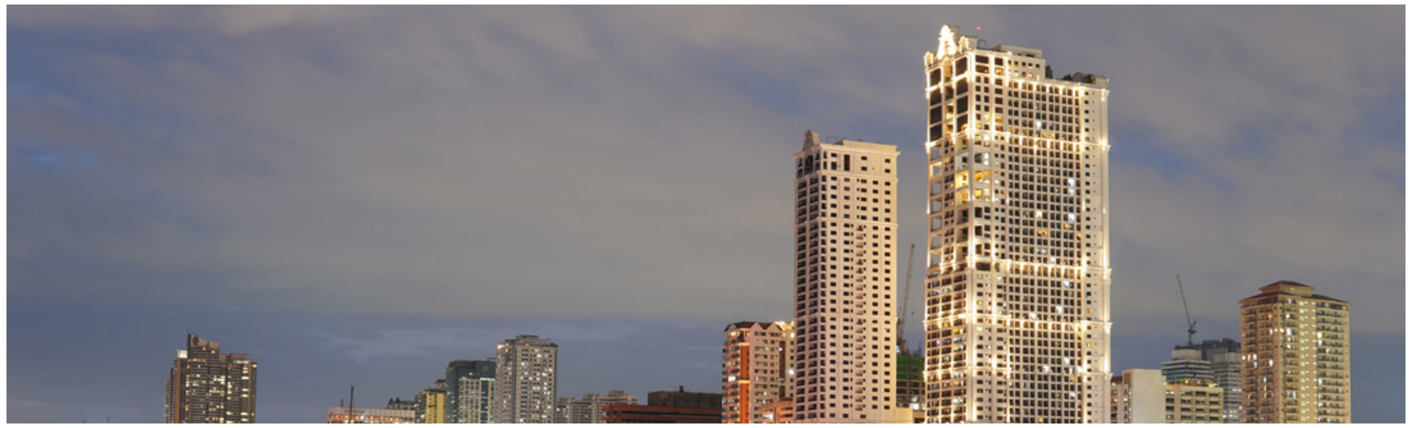
- Robotics
- Artificial intelligence
- Additive manufacturing
- Data analytics
- Digital transformative technologies
- Nanotechnology, biotechnology
- Production/Adoption of new hybrid seeds

Highly technical manufacturing and production of innovative products and services

- Manufacture of equipment, parts and services
- Commercialization of intellectual property and R&D products/services
- Aerospace
- Medical services (except PPE)
- Internet of Things devices and systems
- Full scale wafer fabrication
- Advanced materials

Establishment of innovation support facilities

- R&D hubs
- Centers of excellence
- Science and technology parks
- Innovation incubation center
- Tech startups and startup enablers
- Incubators and accelerators
- Space-related infrastructure



Renewable Energy (RE) Act

**subject to requirements and conditions*

ITH*
for 7 years from start of commercial operations

10% corporate tax*
on net taxable income after availment of ITH

Net operating loss carry-over (NOLCO)*
during first 3 years from start of commercial operations shall be carried over as deduction from gross income

Accelerated depreciation
of either Declining balance method or Sum of the years' digits method

0% VAT*
on sale of fuel or power generated from renewable sources of energy and purchases of local supply of goods, properties and services needed for the development, construction and installation of its plant facilities

Tariff-free*
for importation of machinery and equipment, and materials and parts thereof within the first 10 years upon the issuance of a certification

Cash generation-based incentive*
per kilowatt-hour generated

Tax exempt*
on all proceeds from the sale of carbon emission credits

Special realty tax rates*
on civil works, equipment, machinery and other improvements actually and exclusively used for RE facilities

Tax credit*
on domestic capital equipment and services related to the installation of equipment and machinery equal to 100% of the value of VAT and customs duties that would have been paid if they had been imported

The Department of Justice issued Opinon No. 23, s. 2022 stating that the exploration, development and utilization of solar, wind, hydro and ocean or tidal energy sources is not subject to the 40% foreign equity limitation under Article XII, Section 2 of the Philippine Constitution. The Department of Finance subsequently issued Circular No. DC2022 11-0034 amending the implementing rules of the RE Act.

Foreign Investment Act (FIA)

The Foreign Investment Act of 1991 liberalized the entry of foreign investments into the Philippines.

Who are Philippine nationals?

There are some investment areas that are reserved to only Philippine Nationals, defined as follows:

1. Citizen of the Philippines
2. Domestic partnership or association wholly owned by Philippine citizens
3. Corporation organized under Philippine law of which at least 60% of the outstanding capital stock and entitled to vote is owned and held by Philippine citizens
4. Foreign corporations wholly owned by Philippine citizens
5. Trustee of funds for pension or other employee retirement or separation benefits, where the trustee is a Philippine national and at least 60% of the fund will accrue to the benefit of the Philippine nationals

Amendments

Creation of the Inter-Agency Investment Promotion Coordination Committee (IPCC)

Power of the President to suspend, prohibit or limit investments

Easing of foreign ownership restrictions in micro, small and other enterprises

USD100K

minimum paid-up capital in micro and small domestic market enterprises if any of the following:

- involve advanced technology per DOST
- endorsed as startup or startup enablers
- have at least 15 Filipino direct-hire employees

USD200K

minimum paid-up capital in micro and small domestic market enterprises if otherwise

12th Regular Foreign Investment Negative List

Foreign companies are generally allowed to conduct business in the Philippines subject to restrictions.

No foreign equity (List A)

- Mass media, except recording and internet business
- Practice of professions, except in cases specifically allowed by law
- Retail trade enterprises with paid-up capital of less than PHP25M
- Cooperatives
- Organization and operation of private detective, watchmen or security guards agencies
- Small-scale mining
- Utilization of marine resources in archipelagic waters, territorial sea and exclusive economic zone
- Ownership, operation and management of cockpits
- Manufacture, repair, stockpiling and/or distribution of nuclear weapons
- Manufacture, repair, stockpiling and/ or distribution of biological, chemical and radiological weapons
- Manufacture of firecrackers and other pyrotechnic devices

Up to 25% foreign equity (List A)

- Private recruitment, whether for local or overseas employment
- Contracts for the construction of defense-related structures

Up to 30% foreign equity (List A)

- Advertising

Up to 40% foreign equity (List A)

- Procurement of infrastructure projects
- Exploration, development and utilization of natural resources
- Ownership of private lands
- Operation of public utilities
- Educational institutions other than those established by religious groups
- Culture, production, milling, processing, trading except retailing of rice and corn
- Contracts for the supply of materials, goods and commodities to GOCCs
- Operation of deep-sea commercial fishing vessels
- Ownership of condominium units
- Private radio communication network

Up to 40% foreign equity (List B)

- Manufacture, repair, storage and/or distribution of products and/or ingredients requiring Philippine National Police Clearance
- Manufacture and distribution of dangerous drugs
- Sauna and steam bathhouses
- All forms of gambling except those covered by investment agreements with PAGCOR
- Micro and small domestic market enterprises with paid-in equity capital of less than the equivalent of USD200K
- Micro and small domestic market enterprises that: (1) involve advance technology as determined by the DOST; or (2) are endorsed as startup or startup enablers by lead host agencies (i.e., DTI, DICT or DOST); or (3) majority of direct employees are Filipinos

Public Service Act

The Public Service Act acknowledges the role of the private sector as a driver for the country's growth and development. The Act encourages the private sector to invest more in the country, with a target of providing an organized, dependable and affordable basic services for everyone. The Public Service Act focuses on public services including public utilities and critical infrastructure.

Amendments

Industries classified as public utility

Public utility refers to a public service that operates, manages or controls for public use any of the following:

- Distribution of electricity
- Transmission of electricity
- Petroleum and petroleum products pipeline transmission systems
- Water pipeline distribution systems and wastewater pipeline systems, including sewarage pipeline systems
- Seaports
- Public utility vehicles (PUV)*

**PUV refer to internal combustion engine vehicles that carry passengers and/or domestic cargo for a fee, offering services to the public. Transport vehicles accredited with and operating through transport network corporations shall not be considered as PUV.*

Critical infrastructure

Foreign nationals shall not be allowed to own more than 50% of the capital of entities engaged in the operation and management of critical infrastructure, except if the country of such foreign national accords reciprocity to Philippine nationals.

Companies controlled by or acting on behalf of a foreign government or foreign state-owned enterprises

Foreign government/foreign state-owned enterprises are prohibited from owning capital in any public service classified as a public utility or critical infrastructure.

If not a public utility or critical infrastructure, there are no foreign restrictions but see FIA discussion.

Retail Trade Liberization Act

The Retail Trade Liberalization Act of 2000 liberalized the Philippine retail industry to encourage local and foreign investors to build a more structured and competitive retail trade section by also empowering local consumers through better goods and services in quality, diversity, and prices.

Amendments

Minimum paid-up capital of PHP25M

Requirement for reciprocity

Minimum investment of PHP10M per store for foreign retailers if with more than 1 physical store

Foreign retailer must maintain the minimum paid-up capital in the Philippines at all times

Investor's Lease Act

RA No. 7652 allows foreign investors to lease commercial lands in the Philippines for a maximum of 75 years.

Build-Operate-Transfer Law

The BOT Law spells out the policy and regulatory framework for the participation of private sector entities in the development of infrastructure projects and the provision of services that are normally the responsibility of the government.

For more information on how we can help you, contact us.

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