

DOING BUSINESS IN PHILIPPINES

(FROM TAX PERSPECTIVES)

AUGUST 2022



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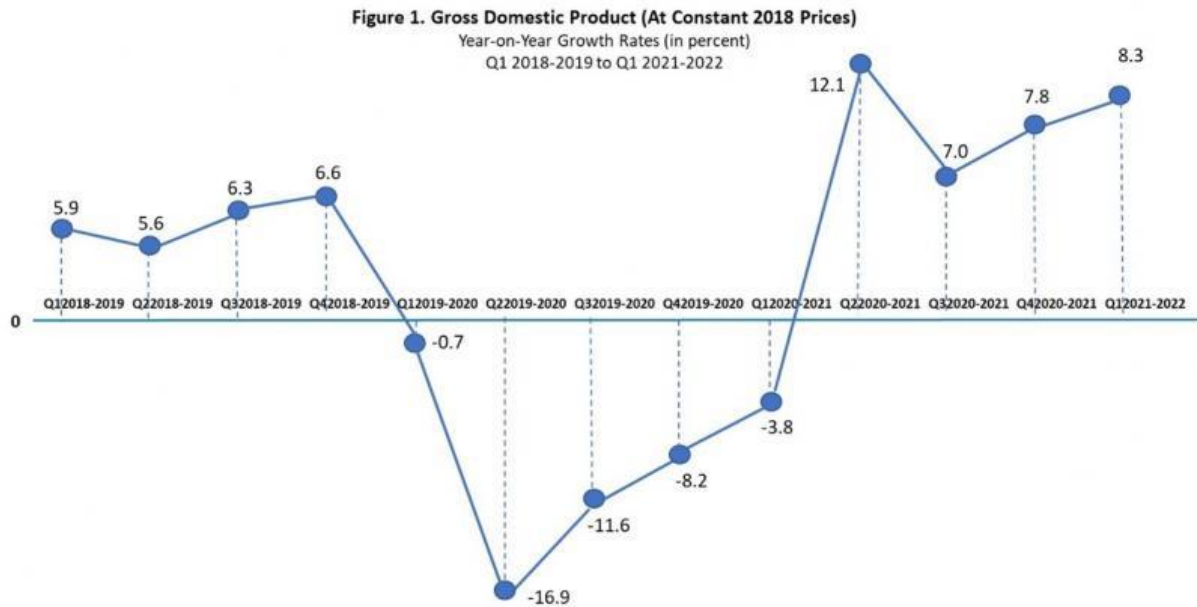
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CHAPTER 1: ECONOMIC HIGHLIGHT



ECONOMIC HIGHLIGHT

GDP Posts an 8.3 Percent Growth in the First Quarter of 2022



Source: Philippine Statistics Authority

The Philippine Gross Domestic Product (GDP) posted an 8.3 percent growth in the first quarter of 2022.

The main contributors to the first quarter 2022 growth were: Manufacturing, 10.1 percent; Wholesale and retail trade; repair of motor vehicles and motorcycles, 7.3 percent; and Transportation and storage, 26.5 percent.

Among the major economic sectors, Agriculture, forestry, and fishing, Industry and Services all posted positive growths in the first quarter of 2022 with 0.2 percent, 10.4 percent, and 8.6 percent, respectively.

On the demand side, Household Final Consumption Expenditure (HFCE) grew by 10.1 percent in the first quarter of 2022. The following items also recorded growths: Government Final Consumption Expenditure (GFCE), 3.6 percent; Gross Capital Formation (GCF), 20.0 percent; Exports of goods and services, 10.3 percent; and Imports of goods and services, 15.6 percent.

Net Primary Income (NPI) from the Rest of the World grew by 103.2 percent bringing the Gross National Income (GNI) to grow by 10.7 percent in the first quarter of 2022.

CHAPTER 2: BUSINESS TAXATION



BUSINESS TAXATION

There are two kinds of business taxes in the Philippines: local and national taxes. These taxes are governed by the National Internal Revenue Code and the amendments to that law. Business usually pays more taxes to the national government through Bureau of Internal Revenue rather than the local taxes pay to the city or Municipality. Importing of good from abroad, the payment of duties (which considered a form of tax) will be through Bureau of Customers.

National level, taxes are imposed and collected pursuant to the National Internal Revenue Code, the Tariff and Customs Code, and several special laws. Four main types of national internal revenue taxes: Income, Indirect (Value-added and percentage taxes), Excise and Documentary Stamp taxes, which administered by the Bureau of Internal Revenue (BIR). On the local level, governments have some authority to impose taxes on business and real property.

A territorial system of taxation for foreign corporations and individuals, as well as non-resident citizens. Only Philippine-sourced income is subject to Philippine taxes for the latter group.

Resident citizens and Corporation incorporated under Philippines laws are subject to income tax on their worldwide income.

CORPORATE INCOME TAX (CIT)

The corporate income tax (CIT) rates for domestic corporations and resident foreign corporations under the Corporate Recovery and Tax Incentives for Enterprise (CREATE Act – signed into law on March 26, 2021) will reduce from the current 30% to 25%, retroactive to July 1, 2020. The CIT will be reduced further by 1% annually in the next six years and shall eventually reach 20% by 2027 onwards.

Taxpayers	Old Rate	New Rate	Effectivity
Domestic Corporations	30%	25%	July 1, 2020
Minimum Corporate Income Tax (MCIT) for Domestic Corporations	2%	1%	July 1, 2020 - June 30, 2023
Domestic Corporations with Net Taxable Income not exceeding ₱5M and total assets not exceeding ₱100M	30%	20%	July 1, 2020
Non-Profit Proprietary Educational Institutions and Hospitals	10%	1%	July 1, 2020 - June 30, 2023
Resident Foreign Corporations (RFCs)	30%	25%	July 1, 2020
MCIT Resident Foreign Corporations	2%	1%	July 1, 2020 - June 30, 2023

Non-Resident Foreign Corporations (NRFCs)	30%	25%	January 1, 2021
Regional Operating Headquarters (ROHQs)	10%	25%	July 1, 2020

CHAPTER 3: PERSONAL TAXATION



PERSONAL TAXATION

Resident citizens are subject to Philippine taxes based on their worldwide income, while non-resident citizens and aliens, whether resident in the Philippines is taxed only on income from sources within the Philippines.

Tax rates on income of resident, aliens, and non-resident citizens, depend on the nature of their income.

Income tax on business

An individual who is self-employed or practices a profession is subject to graduated income tax rates.

However, an individual who has gross sales/receipts and other non-operating income not exceeding Php3,000,000 may tax either at: 8% tax on gross sales/receipts and other non-operating income in excess of PHp250,000 in lieu of the graduated income tax rates and percentage tax (business tax), or

Business income subjected to graduated tax rates shall also be subject to business tax (i.e., 12% VAT or 1% percentage tax.

The graduated tax rates.

Beginning 1 January 2018:

Taxable Income (Php)			
Over	Not Over	Tax on Column 1 (Php)	Tax on excess (%)
0	250,000	-	0%
250,000	400,000	-	20%
400,000	800,000	30,000	25%
800,000	2,000,000	130,000	30%
2,000,000	8,000,000	490,000	32%
8,000,000		2,410,000	35%

Beginning 1 January 2023:

Taxable Income (Php)			
Over	Not Over	Tax on Column 1 (Php)	Tax on excess (%)
0	250,000	-	0%
250,000	400,000	-	15%
400,000	800,000	22,500	20%
800,000	2,000,000	102,500	25%
2,000,000	8,000,000	402,500	30%
8,000,000		2,202,500	35%

Compensation Tax

For resident aliens and non-resident aliens doing business and receiving compensation income, subject to monthly withholding tax and annual income tax.

Fringe benefits tax (FBT)

Fringe benefits furnished to managerial and supervisory-level employees by the employer are subject to a final FBT of 35% on the grossed-up monetary value of the benefits. The FBT is a final tax payable on a quarterly basis by the employer and deductible as part of the fringe benefit expenses. Benefits subjected to FBT are no longer included in the employee's taxable income.

*25% for non-resident alien not engaged in trade or business.

Tax rates for Income Subject to Final Tax

For resident and non-resident aliens engaged in trade or business in the Philippines, the maximum rate on income subject to final tax is 20%. For non-resident aliens not engaged in trade or business in the Philippines, the rate is a flat 25%.

CHAPTER 4: GOOD AND SERVICES TAX (GST) / VALUE-ADDED TAX (VAT)



GOODS AND SERVICES TAX (GST) / VALUE-ADDED TAX (VAT)

Value Added Tax or VAT is a tax imposed on the sale, exchange or lease of goods, properties and services in the Philippines. VAT is also applied as a tax on importation of goods into the Philippines

VAT Rate in the Philippines:

The VAT rate in the Philippines is 12%

The 12% VAT is applied on the taxable gross selling price of goods and properties and on the gross value of receipts from services and lease of properties.

The 12% VAT on the importation of goods is based on the total cost of importation.

There is also a 0% VAT rate which is applied on export sales and 0% VAT related sales

VAT Taxpayers in the Philippines:

The following entities are required to pay VAT:

- Persons or entities who, in the course of trade or business, sells, exchanges, leases goods or properties or renders services subject to VAT where the aggregate amount of actual gross sales or receipts exceeds Three million pesos (Php3,000,000).
- Individuals or businesses that voluntarily registered as VAT taxpayers, even if they did not meet the VAT aggregate amount of Php3,000,000 in gross sales or receipts.
- Persons or entities that import goods.

Remember if a corporation fails to register as VAT taxpayer (when they should be registered as a VAT taxpayer), they are not exempt from paying VAT. The Corporation will still be liable to pay the Output VAT for the period during which it was not registered. Another implication of not registering for or paying VAT is that Input VAT cannot then be credited against the Output VAT.

VAT Invoices

VAT-registered corporations in the Philippines are required to issue a VAT Invoice for every sale or lease of goods or properties, or a VAT Official Receipt for every sale of a service.

The VAT Official Receipt or VAT Invoice must clearly show the VAT element as a separate item on the document.

If a particular sale or transaction is either VAT-exempt or 0% VAT-rated, this should be clearly and visibly stated on the VAT Invoice or VAT Official Receipt.

CHAPTER 5: OTHER TAXES



OTHER TAXES

WITHHOLDING TAX

The taxes here will come from the amounts you deduct from your payments to vendors and employees. In effect, you are serving as an advanced collecting agent for the government. Tax rate ranges from 1% to 15% depending on the transactions entered with vendor.

PERCENTAGE TAX

This is the tax you pay if you are not a VAT registered company. The amount payable is computed as a percentage of your sales.

Who Can File Percentage Tax:

- Non-VAT taxpayers with gross annual revenues not exceeding P3M
- Domestic and international carriers except those who use *bancas* and animal-drawn vehicles
- Franchisees of either of the following: gas or water utilities; radio and/or TV broadcasting companies whose gross annual revenues do not exceed P10M; services that send overseas dispatch, messages, or conversations from the Philippines
- Proprietors, lessees, or operators of cockpits, cabarets, racetracks, night or day clubs, professional basketball games, etc.
- Banks, non-bank financial intermediaries, and finance companies
- Life insurance companies and agents of foreign insurance companies

CAPITAL GAINS TAX

A capital gains tax (CGT) is a tax on the profit realized on the sale of a non-inventory asset. The most common capital gains are realized from the sale of stocks (not traded in the stock market), bonds, precious metals, real estate, and property.

DOCUMENTARY STAMP TAX

Documentary Stamp Tax or DST is a tax applied in the Philippines on the execution of documents such as deeds, instruments, loan agreements and other forms of transaction documents. Usually, such transaction documents will be the evidence of an acceptance, an assignment, a sale or transfer of a right or a property or a sale or transfer of an obligation.

CHAPTER 6: TAX INCENTIVES FOR PROMOTION OF INVESTMENT



TAX INCENTIVES FOR PROMOTION OF INVESTMENT

Tax Incentives:

- Income Tax Holiday (ITH) granted for a period of 4 to 7 years, followed by the Special Corporate Income Tax Rate (SCIT) of 5% on gross profit (GP), in lieu of all national and local taxes, or enhanced deductions (ED) for 5 or 10 years (the incentive period varies depending on which area the registered project or activity will be located)
- Duty exemption on importation of capital equipment, raw materials, spare parts, or accessories
- VAT exemption on importation and VAT zero-rating on local purchase

The Strategic Investment Priority Plan (SIPP) shall define the coverage of the tiers and provide the conditions for qualifying activities:

For Export Enterprises:

Location/Industry Tiers	Tier 1	Tier II	Tier III
National Capital Region (NCR)	4 ITH + 10 ED/SCIT	5 ITH + 10 ED/SCIT	5 ITH + 10 ED/SCIT
Metropolitan areas or areas contiguous and adjacent to NCR	5 ITH + 10 ED/SCIT	6 ITH + 10 ED/SCIT	7 ITH + 10 ED/SCIT
All other areas	6 ITH + 10 ED/SCIT	7 ITH + 10 ED/SCIT	7 ITH + 10 ED/SCIT

For Domestic Market Enterprises:

Location/Industry Tiers	Tier 1	Tier II	Tier III
National Capital Region (NCR)	4 ITH + 5 ED	5 ITH + 5 ED	6 ITH + 5 ED
Metropolitan areas or areas contiguous and adjacent to NCR	5 ITH + 5 ED	6 ITH + 5 ED	7 ITH + 5 ED
All other areas	6 ITH + 5 ED	7 ITH + 5 ED	7 ITH + 5 ED

Transitory Provision for Existing Registered Activities

1. Those granted with income tax holiday only prior to the effectivity of CREATE Law shall be allowed to continue with its availment for the remaining period.
2. Those that have been granted the income tax holiday but have not yet availed of the incentive upon the effectivity of the law may use the ITH for the period specified in the terms and conditions of their registration
3. Those granted an income tax holiday prior to the effectivity of the law and are entitled to 5% tax on Gross Profit shall be allowed to continue to avail of the 5% Gross profit incentive for 10 years.
4. Those availing of the 5% tax on Gross profit prior the effectivity of the law shall be allowed to continue availing the 10 years incentive.

CHAPTER 7: TAX AUDIT



TAX AUDIT

Philippine tax system is considered voluntary compliance under pay-as-you file, as taxpayer is responsible for its tax compliance, determining which tax should be paid, how to comply with various reports, and when to pay the same.

The Bureau of Internal Revenue has the right to conduct tax assessment or examination within three (3) years from the required filing or from later filing (or 10 years, for fraudulent returns or if no tax return filed) to determine the extent of taxpayer's compliance.

Overview of the BIR tax audit operates in the Philippines

1. Letter of Authority (LOA) – normally issued to authorize specific Revenue Officer/s (RO) of a Tax Assessment Group headed by Group Supervisor (GS) to conduct the tax examination. LOA will be served within thirty (30) days from dates, and which include the list of documents for audit. LOA will specify which tax types will be examined (Internal revenue taxes, income and value added tax, or withholding taxes. It states the taxable year to be examined and it will cover for one taxable year.
2. Documentation and Sub Poena Duces Tecum – BIR Ro will review the requested documents enumerated in the attachment to the LOA (Tax returns, reports, and accounting records, etc.), which will be the basis of their tax examination. Then, a second request will be sent, if further failure to provide, a final notice will be served. Once the taxpayer fails to submit the documents, BIR may issue a Sub Poena Duces Tecum to mandatory require the taxpayer to submit specific documents and papers, within a specified time and place. Failure to obey the Sub Poena it will consider as a ground for criminal prosecution with the Prosecutors Office. Once the Prosecutor or Fiscal determines a probable cause, it may recommend filing an action with Criminal court for prosecution. During such process, the assessment will proceed.
3. Preliminary Findings or Informal Conference – After gathering documents from the BIR System and third parties' confirmation, if any, the RO and GS will then submit their preliminary findings with the Revenue District Officer (RDO) for approval. Upon approval of the preliminary findings or notice for informal conference will be issued the proposed assessment with an invitation for an informal conference. Taxpayer may attend the scheduled informal conference or submit a position paper within the same period with the disagreements based on facts and applicable laws, rules, and regulations. Alternatively, taxpayer may pay the proposed assessment, or should the taxpayer need for more time, it may execute and submit to BIR a waiver from the Defense of Prescription (Waiver) that will extend the three (3) year period of the BIR to assess. Of course, it must be approved by the BIR and copy of duly signed and notarized will be furnished to you.

RDO may revise the proposed assessment or may simply forward to the Assessment Division of the Revenue Region (RR), a higher office than the district office.

4. Preliminary Assessment Notice – Based on the assessment forwarded from RDO, the Assessment Division of the RR will study the same to determine the need for further assessment. Once convinced, then it will issue a Preliminary Assessment Notice (PAN) with the proposed assessment, unless PAN is no longer necessary. PAN contains material items of the preliminary findings or notice for informal conference.

Taxpayer may file a protest letter to PAN within fifteen (15) days from receipt thereof with your arguments and discussions of your disagreements based on the facts of your circumstances and the applicable laws, rules, and regulations. Supporting documents may also be submitted along with the Protest letter or shortly thereafter to substantiate your claims.

5. Formal Assessment Notice – BIR will evaluate and if the same finds no basis to cancel the assessment, it will issue an Assessment Notice or Formal Assessment Notice with Formal Letter of Demand (AN-FLD). This AN-FLD must be issued with the three-year (3 year) period from date a tax return is required by law to be filed or from date of late filing. For fraudulent assessment or when no returns is filed, the same shall be issued within ten (10) years from discovery. For failure to issue the AN-FLD within the 3-year or 10-year period, the BIR 's right to assess will prescribe or terminate

If the taxpayer disagrees with the tax assessment under the AN-FLD. Taxpayer must file a protest within thirty (30) days from receipt thereof. Must submit the necessary supporting documents within sixty (60) days from filing the protest. Failure to file a protest within 30 days or submit documents within 60 days will make the assessments final and executory losing every right to contest the assessment and ending up with no other option but to pay.

6. BIR Final Resolution – Based on the protest letter, BIR may either grant or deny through a formal communication (Final Decision on Disputed Assessment (FDDA). If no response to the protest letter to AN-FLD, it means proceed to collection process. BIR may issue a Preliminary Collection Letter (PCL). Upon issuance of this letter, taxpayer lost your case with BIR Administrative level.
7. Court of Tax Appeals (CTA) – Within thirty (30) days from receipt of the final resolution of the BIR (FDDA or PCL), taxpayer must file an appeal through a Petition for Review with the Court of Tax Appeals – Division. Taxpayers need to hire a legal counsel, pay the filing fees based on the amount of disputed assessment. If the case is much factual issues, the CTA may opt to appoint an Independent Certified Public Accountant (ICPA) as an officer of the court for the factual verification and evaluation.

In case taxpayers lose on the CTA-Division, taxpayers may file a motion for reconsideration (MR) with the Court of Tax Appeals -En Banc within fifteen (15) days from receipt thereof. Should further lose with the CTA- En Banc, need to file an appeal to the Supreme Court.

8. Supreme Court (SC) – Within thirty (30) days from receipt of the final resolution of the CTA-En Banc, taxpayers must file an appeal through a petition for review with the Supreme Court- Division. Taxpayers need a lawyer during the proceedings with the Supreme Court. If the taxpayers lost with SC – Division, then, file a MR with the Supreme Court – En Banc within fifteen (15) days from receipt of such decision of the SC Division.

9. Finality and Settlement – Upon finality of the SC – En Banc decision or upon such other instances where the tax assessment will become final and executory, taxpayers have no other option but to pay in full the entire assessment, inclusive of interest and penalties. If the taxpayers are financially incapable of paying in full and the financials would clearly demonstrate, then, taxpayers may apply for a compromise settlement based on financial incapacity where the taxpayers will pay only 10% of the basic tax due upon BIR approval.

ABOUT: RNP BUSINESS CONSULTING CORP.



ABOUT RNP BUSINESS CONSULTING CORP.

Company Background

- ◆ RNP Business Consulting Corp. was organized after meeting of former officemates from one of the biggest auditing firms in the world. The group saw the vast opportunity of providing business services in the field of Accounting and Management Consultancy Services.
- ◆ The Company is managed by individuals who gained their work experiences here and abroad in the fields of financial services, real estate, telecommunications, manufacturing, retailing, mining and construction, Business Process Outsourcing, Shipping and Non-profit Organization/Condo Corp.
- ◆ Our commitment is to provide our client with the best service at par with the big firms.

Services Provided

The Company currently provides accounting and bookkeeping services, payroll services, assistance in corporate registrations with different government agencies, tax services, internal audits, and other corporate services.

Address:

Unit 916 Herrera Tower 98 V.A. Rufino corner Valero St., Salcedo Village, Makati City, Philippines

Contact Person: John Eric Rodillas

Email: rodillasjeric@gmail.com

Mobile number: + 639190933634