

DOING BUSINESS IN THE PHILIPPINES



winglobally 

INVICTUS

TO SET UP A BUSINESS IN THE PHILIPPINES YOU CAN EITHER:

Open a branch office OR choose one of the different forms of company as a subsidiary

BRANCH	REPRESENTATIVE OFFICE	SUBSIDIARY
Merely extension of its parent company	Business structure that acts as a local liaison office for a foreign corporation that seeks to establish a corporate presence in the country without engaging in income-generating activities	An entity which is separate and distinct from its parent company
Minimum capital requirement: USD200,000 in general	Minimum capital requirement: USD30,000	Minimum capital requirement: USD200,000 applies to Wholly-owned foreign subsidiary
Authorized through a "License to Transact Business in the Philippines" duly issued by the Securities and Exchange Commission of the Philippines	Authorized through a "License to Transact Business in the Philippines" duly issued by the Securities and Exchange Commission of the Philippines.	Authorized through issuance of "Certificate of Incorporation" upon approval of the Articles of Incorporation (Aol) and By-Laws by the Securities and Exchange Commission of the Philippines
Represented by a Resident Agent	Represented by a Resident Agent	Managed by the Corporate Officers and Board of Directors

GENERAL TYPES OF SUBSIDIARIES WITH FOREIGN OWNERSHIP (AND ITS CHARACTERISTICS):

Foreign investments in the Philippines are governed by the Philippine Constitution, Revised Corporation Code, Foreign Investment Act (FIA) of 1991 (as amended) and other special laws in the Philippines. In this regard, entities with foreign ownership may be prohibited/restricted from engaging on certain types of Industries.

Generally, stockholders of corporations incorporated under the laws of the Philippines or any foreign corporation with license to operate business are liable only to the extent of the shares subscribed by them except when there is fraud, bad faith, gross negligence, or when there is a violation of the Philippine Constitution, Revised Corporation Code or other laws and regulations. **The most common types of entities are:**

Wholly-owned foreign subsidiaries	Domestic Corporation classified as Philippine National
Outstanding shares are wholly owned by Foreign Citizens	At least 60% of the capital stock outstanding and entitled to vote is owned by Citizens of the Philippines. Note: Minimum foreign ownership in a domestic corporation classified as Philippine National may vary depending on the industry classification.
In general, minimum capital requirement of USD200,000 applies.	Minimum capital may vary depending on the industry classification.
Prohibited from engaging in the industries specifically reserved to Philippine Nationals	Allowed to engage in industries not reserved to Philippine Nationals provided that it conforms with the applicable special laws.



TAXES

1. Corporate Income Tax (CIT)

The Philippine CIT rate is 25% on taxable net income. However, Domestic corporations with total assets not exceeding PhP10,000,000 (USD174,000 approx.) whose net income not exceed PhP5,000,000 (USD 87,000 approx.) can avail of preferential rate of 20%.

Note that the CIT is levied on the net income from all sources if the entity is classified as a resident corporation. On the other hand, if the entity is classified as a non-resident foreign corporation, CIT will only apply to its net income from sources within the Philippines (Philippine-sourced income) through the final withholding tax system.

2. Value Added Tax (VAT)

In the Philippines, VAT is levied on the supply of goods and services. Generally, VAT rate is 12%. Sale of goods and services may also be considered as VAT- exempt from if the seller (exempt party) does not meet the threshold to be classified as VAT registered entity or when the goods/ services (exempt transactions) are classified as exempt, such as, but not limited to, agricultural products, livestock and medicines etc. Furthermore, VAT 0% rate applies to sale of goods and services of export-oriented classified as Registered Business Enterprises and other entities availing fiscal incentives.

Note that during the early months of 2025, new VAT regulation is being rolled-out to regulate VAT on digital services and VAT on sale of Registered Business Enterprises to Domestic Market.

3. Withholding Tax

By virtue of Revenue Regulation 2-98 (as amended), businesses in the Philippines were designated as withholding

agents of the Bureau of Internal Revenue who are mandated to withhold on certain income payments which are intended to equal or at least approximate the tax due of the payee on said income.

Withholding tax may be creditable/final withholding taxes. Creditable withholding taxes are taxes withheld that forms part of the tax credit of the seller of goods/services against their annual corporate income tax. On the other hand, final withholding tax are those taxes against passive income and payment to non-resident foreign corporation which are considered as final tax on the particular transaction.

Note that withholding tax rates may vary depending on the type of income payments and on the income bracket of seller of goods/services.

a. Dividend Tax Rate

- Intercorporate dividend which are dividends received by a domestic corporation shall not be subject to taxes provided that the funds from such dividends actually received or remitted into the Philippines are reinvested in the business operations of the domestic corporation in the Philippines within the next taxable year from the time the foreign-sourced dividends were received.
- On the otherhand, dividends received by a non-resident corporation from a domestic corporation shall be subjected to a final withholding tax at the rate of twenty five percent (25%).
- Lastly, dividend income received by a resident alien/ non-resident alien shall be subject to a final withholding tax rate of 10%.

b. Interest and Royalties

- Generally, final withholding tax on interest and royalties is twenty percent (20%) of the amount of interest on currency bank deposit and yield or any other monetary benefit from deposit substitutes and from trust funds and similar arrangements received by domestic corporations, and royalties, derived from sources within the Philippines.



**WE TAKE YOUR BUSINESS
PERSONALLY.**

INVICTUS

INVICTUS CONSULTING (PHILIPPINES) INC.

21st Floor, 6801 Ayala Avenue
Makati City, Philippines 1226
+63-2-869-3990 or +63-2-869-3391
hamano@scs-invictus.com
www.scsglobal.co.jp/office/philippines