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International Tax
Philippines Highlights 2021

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Recent developments

For the latest tax developments relating to the Philippines, see Deloitte tax@hand.

Investment basics

Currency: Philippine Peso (PHP)

Foreign exchange control: Foreign currency may be bought and sold freely by residents (including foreign corporations operating in the Philippines) and may be brought into or sent out of the country with minimal restrictions. Nonresidents also may hold foreign currency.

Accounting principles/financial statements: IAS/IFRS apply. Financial statements must be prepared annually and audited by an independent Certified Public Accountant.

Principal business entities: These include corporations (stock/nonstock), partnerships, sole proprietorships, regional headquarters (RHQs), regional operating headquarters (ROHQs), representative offices, and branches of a foreign corporation.

Corporate taxation

Rates	
Corporate income tax rate	20%/25%
Branch tax rate	25%, plus 15% tax on after-tax profits remitted to foreign head office
Capital gains tax rate	Generally, corporate income tax rate

Residence: A corporation is resident if it is incorporated in the Philippines or, if a foreign corporation (i.e., incorporated outside the Philippines), it has a branch in the Philippines.

Basis: Philippine corporations are taxed on worldwide income; nonresident companies are taxed only on Philippine-source income. A foreign corporation with a branch in the Philippines is taxed on Philippine-source income. The taxable income of branches is calculated in the same way as subsidiaries.

Taxable income: Corporate income tax is imposed on a corporation's profits, which generally consist of business/trading income. Normal business expenses may be deducted in computing taxable income.

In lieu of itemized deductions, a domestic and resident corporation may elect to use the optional standard deduction (OSD), which may not exceed 40% of total gross income, in computing taxable income for the taxable quarter/year. Once a decision is made to use the OSD, it is irrevocable for the taxable year for which the return is filed.

Rate: Philippine corporations generally are taxed at a rate of 25% as from 1 July 2020 (reduced from 30%), except for corporations with net taxable income not exceeding PHP 5 million and with total assets not exceeding PHP 100 million, which are taxed at a rate of 20%. The rate for ROHQs is 10% until 31 December 2021; thereafter, ROHQs will be taxed at the regular corporate income tax rate.

Surtax: There is no surtax.

Alternative minimum tax: A minimum corporate income tax (MCIT) equal to 2% of gross income is imposed on both domestic and resident foreign corporations beginning in the fourth taxable year of operations, except for the period 1 July 2020 to 30 June 2023 when the MCIT is 1%. The MCIT is imposed in each quarter of the taxable year when a corporation has no or negative taxable income, or when the amount of the MCIT is greater than the corporation's normal income tax liability. Any MCIT that exceeds the normal income tax may be carried forward and credited against the normal income tax for the following three taxable years.

Taxation of dividends: Dividends received by Philippine domestic or resident foreign companies from a domestic corporation are not subject to tax. Foreign-source dividends are exempt where the funds from the dividends received are reinvested in the business operations of the domestic corporation by the end of the next taxable year following the year of receipt and are used only to fund working capital requirements, capital expenditure, dividend payments, investments in domestic subsidiaries, and infrastructure projects. The domestic corporation also must hold directly at least 20% of the outstanding shares of the foreign corporation for a minimum of two years as at the date of distribution of the dividend.

Capital gains: Capital gains generally are taxed as income. However, gains realized by a domestic corporation or a resident foreign corporation on the sale of shares in a domestic corporation that is not traded on the stock exchange are subject to a 15% capital gains tax. Gains on the sale of shares listed and traded on the stock exchange are taxed at 0.6% of the gross selling price. Gains derived from the sale of real property not used in a business are subject to a 6% final withholding tax based on the higher of the sales price or the fair market value.

Losses: Losses may be carried forward for three years unless the taxpayer benefits from a tax incentive or an exemption. Losses may not be carried forward where the business undergoes a substantial change in ownership. The carryback of losses is not permitted.

Foreign tax relief: Foreign tax paid by a domestic corporation may be credited proportionately against Philippine tax on the same profits, but the credit is limited to the amount of Philippine tax payable on the foreign income.

Participation exemption: See "Taxation of dividends" above.

Holding company regime: There is no holding company regime.

Incentives: Incentives are provided under the Omnibus Investment Code of 1987 (administered by the Board of Investment) and the Special Economic Zone Act of 1995. Benefits usually include fiscal incentives (e.g., income tax holidays) and nonfiscal incentives (e.g., simplified customs procedures for imports and exports). Enterprises engaged in specified business activities may be entitled to other incentives.

Compliance for corporations

Tax year: The tax year may be a calendar year or a fiscal year (i.e., an accounting period of 12 months ending on the last day of any month other than December).

Consolidated returns: A Philippine head office and its Philippine branches may file consolidated returns for corporate income tax and valued added tax (VAT) purposes; otherwise, consolidated returns are not permitted, and each corporation must file a separate return.

Filing and payment: The annual income tax return must be filed, with or without payment, on or before the 15th day of the fourth month following the close of the taxpayer's taxable year.

Penalties: Late payments are subject to a surcharge equal to 25% of the amount due plus interest of 12% per annum on the unpaid amount of tax until fully paid. A compromise penalty (in lieu of imprisonment) is imposed based on the tax due (exclusive of the 25% surcharge and applicable interest).

Rulings: The tax authorities will issue a ruling on the tax consequences of a transaction at the request of a taxpayer.

Individual taxation

Rates

Individual income tax rate	Taxable income	Rate
	Up to PHP 250,000	0%
	PHP 250,001–PHP 400,000	20% of excess over PHP 250,000
	PHP 400,001–PHP 800,000	PHP 30,000 + 25% of excess over PHP 400,000
	PHP 800,001–PHP 2 million	PHP 130,000 + 30% of excess over PHP 800,000
	PHP 2 million–PHP 8 million	PHP 490,000 + 32% of excess over PHP 2 million
	Over PHP 8 million	PHP 2,410,000 + 35% of excess over PHP 8 million
Capital gains tax rate	Generally, individual income tax rate	

Residence: A citizen normally is considered a resident unless meeting the requirements to be deemed a nonresident. The residence status of a foreign employee generally is established when the aggregate length of stay in the country in any calendar year exceeds 180 days. A foreign employee who stays in the Philippines for more than 180 days is considered a nonresident alien engaged in a trade or business (NRA-ETB); otherwise, the employee is considered a nonresident alien not engaged in a trade or business (NRA-NETB).

Basis: Resident citizens are taxed on worldwide income; resident aliens and nonresidents pay tax only on Philippine-source income. Foreign individuals may benefit from preferential tax treatment or may be exempt from income tax under an applicable tax treaty, subject to a confirmatory ruling from the Bureau of Internal Revenue (BIR).

Taxable income: Taxable income is all income, less allowable deductions. It includes compensation, business income, capital gains (arising from the sale of real property and share transactions), dividends, interest, rents, royalties, annuities, pensions, and a partner's distributive share of the net income of general professional partnerships.

Minimum wage earners are exempt from the payment of income tax on their compensation income, including holiday pay, overtime pay, night shift differential pay, and hazard pay.

In lieu of itemized deductions, an individual engaged in business or the practice of a profession may elect to use the OSD, which may not exceed 40% of total gross sales/receipts, in computing taxable income for the taxable quarter/year. Once an election is made to use the OSD, it is irrevocable for the taxable year for which the return is made.

Rates: Individual income tax is charged at progressive rates ranging from 0% to 35% (effective as from 1 January 2018 through 31 December 2022). However, self-employed individuals with gross sales not exceeding PHP 3 million and that are not required to be registered for VAT, have the option to pay 8% income tax based on gross income in excess of PHP 250,000 (in lieu of the graduated tax rates of 0% to 35% and the 3% percentage tax, see "Other taxes on corporations and individuals," below).

Capital gains: Capital gains generally are subject to the ordinary income tax rates, although gains from the sale of certain shares and real property are subject to specific rates. An individual is subject to capital gains tax on the sale of real property at a rate of 6% of the higher of the gross sales price or the current fair market value. An individual also is subject to tax on the capital gains derived from the sale of shares not traded on the stock exchange at a rate of 15%. Gains derived from the sale of shares listed and traded on the stock exchange are taxed at 0.6% of the gross sales price.

Deductions and allowances: Statutory contributions, as required by domestic law, and nontaxable income (e.g., a nontaxable bonus amount of up to PHP 90,000 and *de minimis* benefits) are allowed as deductions and exclusions against an individual's gross income.

Foreign tax relief: Foreign tax paid by a domestic corporation may be credited proportionately against Philippine tax on the same profits, but the credit is limited to the amount of Philippine tax payable on the foreign income.

Compliance for individuals

Tax year: The tax year is the calendar year.

Filing status: Married couples in the Philippines who derive income other than from compensation must file a joint income tax return.

Filing and payment: Tax returns are due on or before 15 April after the close of the tax year. Tax on compensation income is withheld monthly by the employer.

Single or married individuals who receive compensation income from only one employer during the taxable year may qualify for "substituted" filing, provided the amount of tax due equals the amount of tax withheld by the employer at the end of the taxable calendar year.

Penalties: Late payments are subject to a surcharge equal to 25% of the amount due and interest of 12% per annum based on the unpaid amount of tax until fully paid. A compromise penalty (in lieu of imprisonment) is imposed based on the tax due (exclusive of the 25% surcharge and applicable interest).

Rulings: The tax authorities will issue a ruling on the tax consequences of a transaction at the request of a taxpayer.

Withholding tax

Rates

Type of payment	Residents		Nonresidents	
	Company	Individual	Company	Individual
Dividends	0%	10%	15%/25%	20%/25%
Interest	15%/20%	15%/20%	0%/20%	0%/20%/25%
Royalties	20%	10%/20%	30%	10%/20%/25%
Fees for technical services (where treated as royalties)	20%	10%/20%	30%	10%/20%/25%

Dividends: Dividends paid by one Philippine domestic corporation to another are exempt from tax. Dividends paid by a Philippine corporation to a resident individual are subject to a 10% withholding tax.

Dividends paid by a Philippine corporation to a nonresident foreign corporation are subject to withholding tax at 15% where the country of residence of the nonresident corporate recipient allows a tax credit of at least 10%; otherwise, the rate is 25%. Dividends paid to an NRA-ETB or NRA-NETB are subject to withholding tax at 20% or 25%. respectively. The withholding tax may be reduced under an applicable tax treaty.

Interest: Interest paid to a nonresident foreign corporation is subject to a 20% withholding tax. Interest from Philippine currency deposits paid to a domestic corporation or resident foreign corporation is subject to a 20% withholding tax.

Interest paid to a resident individual or an NRA-ETB is subject to a 20% withholding tax, and for an NRA-NETB, the rate is 25%.

Withholding tax at 15% applies to interest received by domestic companies, resident foreign companies, and resident individuals from transactions with depository banks under the expanded foreign currency deposit system. Nonresident foreign companies and individuals are exempt.

Royalties: Royalty payments made to a domestic corporation or a resident foreign corporation are subject to a 20% withholding tax; the rate is 30% for payments to nonresident foreign corporations.

A 20% final withholding tax is levied on royalty payments made to an individual, except for royalty payments from books, literary works, and musical compositions, which are taxed at 10%. However, a 25% withholding tax applies for any royalty payments made to an NRA-NETB.

Fees for technical services: Technical service fees generally are treated as business profits (rather than royalties) and are subject to the applicable income tax rate (i.e., 20%/25% for corporations and progressive rates of 0% to 35% for resident individuals and NRA-ETBs). Where technical services fees are treated as royalties, they are subject to the applicable withholding tax rules pertaining to royalties. Fees treated as royalties also are subject to final withholding VAT of 12%, unless specifically exempt under the law.

Branch remittance tax: A 15% branch profits tax is levied on the after-tax profits remitted by a branch to its foreign head office, except for profits on activities registered with the Philippine Economic Zone Authority.

Other: Other payments to nonresidents may be subject to withholding tax (e.g., management fees at 25%; certain payments related to vessels at 4.5%; and aircraft, machinery, and other equipment at 7.5%). Rates may be reduced under a tax treaty, subject to a "confirmatory ruling" from the BIR or submission of a certificate of residence form (for tax treaty relief) in the case of dividends, interest, and royalties.

Anti-avoidance rules

Transfer pricing: Transfer pricing rules, based on OECD guidelines, apply to both domestic and cross-border, related-party transactions. The following transfer pricing methods are permitted: comparable uncontrolled price method, resale price method, cost-plus method, profit split method, residual profit split approach, and transactional net margin method. Documentation requirements apply.

Interest deduction limitations: The allowable deduction for interest expense will be reduced by an amount equal to 20% of the interest income that is subject to a final withholding tax.

Controlled foreign companies: There are no controlled foreign company rules.

Hybrids: There are no anti-hybrid rules.

Economic substance requirements: There are no economic substance requirements.

Disclosure requirements: There are no disclosure requirements.

Exit tax: There is no exit tax.

General anti-avoidance rule: There is no general anti-avoidance rule.

Value added tax

Rates	
Standard rate	12%
Reduced rate	0%

Taxable transactions: VAT is imposed on most sales of goods and services.

Rates: The sale and importation of certain goods and services are subject to 12% VAT. Certain sales are zero-rated or exempt.

Registration: The registration threshold for VAT purposes is PHP 3 million.

Filing and payment: The return/declaration may be filed either manually or through the Electronic Filing and Payment System (eFPS), no later than the 20th-25th day following the close of the month (for monthly returns) and no later than the 25th day following the close of each taxable quarter (for quarterly returns).

Other taxes on corporations and individuals

Unless otherwise stated, the taxes in this section apply both to companies and individuals.

Social security contributions: The employer must make monthly contributions to the social security system corresponding to the salaries of covered employees. The maximum monthly employer contribution for an employee in the highest salary bracket is PHP 2,155. Employees are required to make monthly contributions (ranging from PHP 135 to PHP 1,125) to the social security system based on their salary bracket.

Other mandatory contributions: In addition to social security contributions, the employer must make monthly contributions to the Philippine Health Insurance Corporation (PHIC) and Home Development Mutual Fund (HDMF) based on the salaries of covered employees. The maximum monthly employer contribution for an employee in the highest salary bracket is PHP 900 for PHIC and PHP 100 for HDMF. Employees are required to make monthly contributions (ranging from PHP 150 to PHP 900 for PHIC and PHP 100 (if monthly compensation is PHP 5,000 or more) for HDMF) based on their salary bracket.

Payroll tax: There is no separate payroll tax but employers are required to withhold individual income tax at progressive rates from 0% to 35% depending on the monthly/annual compensation bracket.

Capital duty: There is no capital duty.

Real property tax: A property tax is imposed on real property at a rate that depends on the location of the property. The tax should not exceed 3% of the assessed value per the tax declaration.

Transfer tax: Gratuitous transfers of property are subject to a donor's tax at 6% of the fair market value of the property at the time of the donation.

A local transfer tax on real property is levied at a rate of 0.5% to 0.75% on the higher of the gross sales price or the fair market value of the property upon the transfer or sale of the property.

Stamp duty: Various rates of stamp duty apply, depending on the type of transaction/document.

Net wealth/worth tax: There is no net wealth tax or net worth tax.

Inheritance/estate tax: A 6% tax is imposed on the net estate of both residents and nonresidents.

Other: A "percentage tax" of 1% to 30% is imposed on certain types of business, such as banks, finance companies, insurance companies, and common carriers (except domestic carriers that transport passengers by air that are subject to VAT).

Tax treaties: The Philippines has concluded around 40 tax treaties. The Philippines has not signed the OECD multilateral instrument. For information on the Philippines' tax treaty network, visit Deloitte International Tax Source.

Tax authorities: Bureau of Internal Revenue (national taxes); City/Municipal Treasurer's Office (local taxes); Bureau of Customs

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