



## Philippines

### Introduction

Resident citizens are taxed on their income from all sources. A person who is not a citizen of the Philippines (that is, someone who is defined as an alien), regardless of whether the person is a resident or a nonresident, is taxed only on the individual's income from Philippines sources. Likewise, nonresident citizens are taxed only on their income from Philippines sources.

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### Key messages

Extended business travelers are likely to be taxed on employment income relating to their Philippines workdays. Income tax returns are due by April 15 in the year following the tax year ending December 31. Employers are required to withhold tax from the employee's compensation.

## Income tax

### Liability for income tax

The liability of aliens for Philippines tax is determined by their residence status. An alien who is present in the Philippines for at least two years is a resident alien. An alien who stays in the Philippines for less than two years is considered a nonresident alien. There are two classifications of a nonresident alien:

- Engaged in trade or business in the Philippines
- Not engaged in trade or business in the Philippines

A nonresident alien engaged in trade or business (NRAETB) is one who stays in the Philippines for more than 180 days during the calendar year. If the individual stays in the Philippines for less than 180 days, the individual is considered a nonresident alien not engaged in trade or business (NRANETB). The taxable income of citizens, resident aliens, and NRAETB is defined as gross compensation and net business income less personal allowances. The taxable income of NRANETBs is their gross income.

Nonresident citizens and aliens are subject to income tax on Philippines-sourced income only.

Resident citizens are subject to Philippines income tax on worldwide income. Nonresident citizens and aliens are subject to Philippines income tax on their Philippines-sourced income only, such as employment income and passive income.

### Definition of source

Employment income is generally treated as Philippines-sourced compensation where the individual performs the services while physically located in the Philippines.

NRANETBs are taxed at a flat rate of 25 percent.

### Tax trigger points

Extended business travelers will be taxable in the Philippines on income derived from services rendered in the Philippines. It is important to ascertain whether they will be taxed as NRAETBs or NRANETBs, that is, whether they were in the Philippines for more or less than 180 days, as this will determine the applicable tax rate.

### Types of taxable income

For extended business travelers, the types of income that are generally taxed are employment income and other Philippines-sourced income.

### Tax rates

Net taxable income of citizens, resident aliens, and NRAETBs is taxed at graduated rates ranging from 5 percent to 32 percent. The maximum rate is currently 32 percent on income earned over 500,000 Philippine pesos (PHP). NRANETBs are taxed at a flat rate of 25 percent of gross income unless a lower rate is applicable under a double tax treaty or special law.

## Social security

### Liability for social security

Each employer is required to deduct an amount from the salary of each employee for premium contributions remittable to a social security fund and the Medicare system to finance the retirement, sickness, disability, health, and other social security benefits of the employee. The employer is also required to remit a counterpart contribution for the employee. The amount of premium contributions by the employer and employee depends on the salary bracket of each employee, based on a precalculated table of contributions.

## Compliance obligations

### Employee compliance obligations

An individual taxpayer is taxable on a calendar year basis. In general, every citizen, resident alien, and NRAETB in the Philippines is required to file an income tax return and an annual information return. The said returns should be filed and the net tax on the income tax return should be paid on or before April 15 following the close of the year covered by the return.

### Employer compliance obligations

The employer is required to withhold the tax due from the employee's compensation income and remit the same to the tax authorities. If the correct amount of tax due has been properly withheld during the calendar year, the employee may qualify for substituted filing, in which case there is no need for the employee to file an annual income tax return. A NRAETB, however, does not qualify for substituted filing.

The employer reports the tax withheld using BIR Form 1601-C (Monthly Remittance Return of Income Taxes Withheld on Compensation) and BIR Form 1604-CF (Annual Information Return of Income Tax Withheld on Compensation and Final Withholding Taxes).

## Other

### Work permit/visa requirements

Aliens may be required to show proof that they paid their income tax when they renew their visa.

A visa must be applied for before the individual enters the Philippines. The type of visa required will depend on the purpose of the individual's entry into the Philippines. For aliens renewing their Philippines visa, the Philippines Bureau of Immigration and Deportation requires them to show proof that they paid their income tax in the preceding year. For individuals who are required to file a return, the proof would be their Philippines income tax return. For those not required to file a return, a certificate of taxes withheld issued by the withholding agent may suffice.

### **Double taxation treaties**

In addition to the Philippines' domestic arrangements that provide relief from international double taxation, the Philippines has entered into double taxation treaties with 37 countries to prevent double taxation and allow cooperation between the Philippines and overseas tax authorities in enforcing their respective tax laws. Tax treaty relief, however, is not automatic. A tax treaty relief application process should be complied with.

### **Permanent establishment implications**

Under the double taxation treaties of the Philippines with other countries, there is the potential that a permanent establishment could be created as a result of extended business travel, but this would be dependent on the type of services performed and the level of authority the employee has.

### **Indirect taxes**

Value-added tax (VAT) of 12 percent is imposed on sales made in the course of trade or business on goods, properties, and services in the Philippines and on the importation of goods to the Philippines (regardless of whether the importation is for business use).

### **Transfer pricing**

The Philippines, as a matter of policy, subscribes to the OECD's Transfer Pricing Guidelines as its interim transfer pricing guidelines while the draft of the Revenue Regulations on Transfer Pricing is still pending. Until the revenue regulations on transfer pricing are issued, any and all concerns/issues in the interim related to transfer pricing shall be resolved in accordance with the principles laid down by the OECD Transfer Pricing Guidelines.

### **Local data privacy requirements**

The Philippines currently does not have data privacy laws.

### **Exchange control**

The Philippines has liberalized foreign exchange rules and regulations. Generally, foreign exchange receipts, acquisition, or earnings may be sold to or outside the banking system or may be brought in or out of the country. Domestic contracts entered into by Filipino citizens can be settled in any currency.

### **Nondeductible costs for assignees**

The personal and additional exemptions of PHP50,000 and PHP25,000 for each qualified dependant are not deductible to the employer. The said exemptions are deductible only from the gross compensation income of the assignee for the purposes of calculating personal income tax liability in the Philippines.

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