The Philippines

Income Tax Rate 5% - 32%

Corporate Tax Rate 30%

Sales Tax/ VAT rate 12%

Personal Income Tax

Income of residents in Philippines is taxed progressively up to 32%. Resident citizens are taxed on all their net income derived from sources within and without the Philippines. For nonresident, whether an individual or not of the Philippines, is taxable only on income derived from sources within the Philippines.

Taxable Income (PhP)	Tax Rate
Php 0 – 10,000	5%
Php 10,000 – 30,000	10%
Php 30,000 – 70,000	15%
Php 70,000 – 140,000	20%
Php140,000 – 250,000	25%
Php 250,000 – 500,000	30%
Php 500,000 and above	32%

- The above rates apply to individuals who derive income from business (including capital gains from the sale transfer or exchange of shares in a foreign corporation) or from the practice of a profession.
- Individuals holding managerial and highly technical positions employed by RHQs[1], ROHQs[2], multinational companies and offshore business units are taxed at 15% on their gross income.

Income in Philippines is divided into the following three categories which are taxed separately, as summarized below.

1. Compensation employment income: This income is taxed at progressive rates on gross income after deduction of personal and additional exemptions but without deductions for expenses.

2. Passive income: This income, including dividends and interest, is subject to tax at 7.5%.

3. Business income and professional income: This income is taxed at progressive rates on net business income after deduction of certain specified expenses.

[1] Regional Head Quarters

[2] Regional Operating Headquarters

Corporate Tax

The corporate income tax rate both for domestic and resident foreign corporations is 30% based on net taxable income. Excluded from the income tax are dividends received from domestic corporations; interest on Philippine currency bank deposit and yield from trust funds. It is important to note that foreign corporations, whether resident or nonresident, are taxable only on income derived from sources within the Philippines.

Withholding Tax

Types of taxable income	Tax rate (For non-resident)
Dividend	15%[3]
Interest	20%
Royalty	30%
Technical Fee	30%

- All other taxable income earned by domestic and resident foreign corporations is subject to a 20% final withholding tax. However, Regional operating headquarters are taxed at 10% on taxable income. Special economic zone enterprises duly registered with the Philippines Economic Zone Authority are taxed at the rate of 5% on gross income.
- The net capital gains from the sale of shares of stock of a domestic corporation are taxed on a per transaction basis at the rate of 5% on the first PhP 100,000 and 10% in excess of said amount. On the other hand, the sale of shares of stock of a domestic corporation through the Philippine Stock Exchange or through the initial public offering is subject to a percentage tax on the transaction at the rate of 0.5% of the selling price.
- The sale of land, building and other real properties classified as capital asset is subject to 6% final capital gains tax based on the gross selling price.
- Any branch profit to be remitted to the Head Office is additionally taxed at the rate of 15%.

Value Added Tax/ Sales Tax

A 12% value added tax (VAT) of the gross selling price is imposed to all importation, sale, barter, exchange or lease of goods or properties and sale of services.

The term 'Gross selling price' means the total amount of money or its equivalent that the purchaser pays or is obligated to pay to the seller in consideration of the sale, barter or exchange of the goods or properties, excluding the value added tax.

---

[3] Dividends received by non-resident foreign corporations from domestic corporations are subject to a final tax of 30 %.

Tax Incentives for SMEs

1. **Direct Tax**

   Tax incentive for importers and exporters

   - Tax credits are available for taxes and duties paid on purchases of raw materials of products for export, domestic capital equipment, domestic breeding stock and genetic materials.
   - A tax credit of 25% of the duties paid on raw materials and capital equipment and/or spare parts.

   Tax incentives also available to enterprises registered with the Philippine Economic Zone Authority (PEZA). These incentives are shown below:

   - 4 to 8 years income tax holiday. A 5% tax on the modified gross income is imposed after the end of the income tax holiday.
   - Tax and duty exemption on imported capital equipment and raw materials.
   - National and local tax exemption.
   - Tax rebate for the purchase of domestic capital good.

2. **Indirect Tax**

   Under the Investment Priority Plan (IPP), SME owners shall be eligible for the following incentives.

   - An exemption from wharfage dues and export tax, duty import and fees.
   - Additional deduction for labor expense (ADLE).
   - Additional deduction for necessary and major infrastructure works.

   Excise tax on exported goods produced or manufactured locally can be credited or refunded upon submission of the proof of actual exportation and upon receipt of the corresponding.