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This business guide is specially prepared for the benefit of potential and existing Philippine investors

2013

Isla Lipana & Co.

This Guide was specially prepared for the benefit of potential, as well as existing, investors whom we consider major business partners in shaping the future of the Philippine economy.

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How to Invest in the Philippines

A business guide
2013 edition

Message from the Chairman and Senior Partner

This publication on *How to Invest in the Philippines* helps you find easy answers to most commonly asked questions on how to engage in a business in the Philippines.

We have developed this guidebook to provide you with quality information that are responsive to your needs as an investor stepping into the country for the first time. It gives you an overview of the business climate in the Philippines and various reasons why it has remained to be a bright spot for foreign investments in Asia.

This guide addresses your immediate concerns on what are the first steps into registering your business, whether entering in a joint venture or in retail trade, to what are policies to observe on income and business taxes, as well as what you need to know about living and business expense in the Philippines.

Should you have more questions about your specific industry or wish to know more about our services, please do not hesitate to contact me or any of our professional advisors. You will find a list of contact persons at the back of this guidebook. You can also download this material free of charge from our website www.pwc.com/ph.

Thank you for considering the Philippines and we look forward to helping you succeed in one of the most energetic and promising economies in the region.

Alexander B. Cabrera
Chairman and Senior Partner

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Strategic location, skilled people, a stable democratic government, a vibrant economy make it an attractive investment destination

Overview

Investor considerations

The Philippines, with its strategic location, is a gateway to the huge Asian market.

Its considerable attractions as an investment destination include:

- A pool of English-speaking people who are highly trainable. Their capabilities and merits as blue-collar workers, technicians, professionals, and managers have been confirmed in postings with foreign firms operating in the Philippines and abroad.
- A large potential market for consumer goods on account of its fast-growing population. Its ASEAN affiliation provides further opportunities for access to the ASEAN Free Trade Area (AFTA).
- The foreign-investor friendly posture of government. It has manifested its commitment to create conditions that attract foreign investments. Liberalized policies and regulations on foreign investments continue to be put in place.

- Availability and accessibility of special economic zones and free ports in various parts of the country where infrastructure supports are adequately provided and locators are granted fiscal and non-fiscal incentives.
- A competitive edge in information and communications technology (ICT), including call centers.
- A highly developed legal system.
- A democratic republican form of government (Republic).

Geography and climate

The Philippines is an archipelago of approximately 7,100 islands, located in Southeast Asia.

It is surrounded in the north by Japan, Hong Kong, Taiwan, and South Korea; in the south by Singapore, Malaysia, and Indonesia; and in the west by Thailand. To the east is the vast expanse of the Pacific Ocean, which earned for the country the title, "gateway of the west to Asia."

The total land area of the country is approximately 300,000 square kilometers, about the size of Italy or the state of Arizona in the United States. The country has a tropical climate and two seasons: rainy, from June to November, and dry, between December and May. It is rich in natural resources such as vast arable lands, fishing grounds, forests, and extensive mineral reserves.

From north to south, it is divided into the three major island groupings of Luzon, Visayas, and Mindanao and for administrative purposes, into 17 regions: eight in Luzon; three in the Visayas; and six in Mindanao.

History and leadership

The Philippines was colonized by Spain for almost 400 years and then by the United States of America for the next 50 years.

It proclaimed its independence from Spain on 12 June 1898. As an American ally, it was occupied for four years by the Japanese Imperial Army during World War II.

It gained its independence from American forces in 1946 and enjoyed 26 years of democratic rule until Martial Law was established in 1972. The 14-year Martial Law rule was toppled by a peaceful "people power" rally in 1986 and a democratic government was installed, with Ms. Corazon C. Aquino as president. Peaceful elections held in May 1992 and in May 1998 ushered in the governments of Presidents Fidel V. Ramos and Joseph E. Estrada, respectively. In January 2001, another peaceful "people power" rally successfully pressured President Joseph E. Estrada to step down from office. This was due to the failed impeachment trial on charges of plunder, graft and corruption hurled against him. Consequently, Gloria Macapagal-Arroyo was sworn in as the 14th President of the Republic. President Arroyo was given a fresh mandate to stay in office until 2010 after being proclaimed winner in the 10 May 2004 elections.

On 30 June 2010, Benigno Simeon "NoyNoy" Aquino III was sworn into office as the 15th President of the Republic.

The political system and administrative structure

The Philippines is a democratic republican state whose system of government is the presidential form patterned after the American model.

There are 19 departments in the executive branch, more than 200 congressmen and 24 senators in the bicameral legislative branch, and 15 justices in the Supreme Court (judicial branch).

Philippine law is a consolidation of Anglo-American, Roman, and Spanish laws and the indigenous customs and traditions of Filipinos. The 1987 Constitution is the fundamental law of the land. Other sources of Philippine law are the Civil Code, Penal Code, National Internal Revenue Code, Labor Code, and Code of Commerce. Judicial decisions and pronouncements, letters of instructions, administrative rules and regulations, as well as orders issued by the three branches of the government constitute part of the law of the land.

Government's thrusts and programs

For the past several years, the government has been continuously undertaking stabilization efforts.

It has been working towards the attainment of an impressive economic growth to uplift the economic well-being of the greater mass of its constituents through a modified social market environment and through a policy of self-determination by the regions.

The national government veered away from undue intervention in the market place and its historic centric posturing through the privatization of some government owned and controlled corporations. It promoted an environment conducive to greater private sector participation and responsibility in the economic and social development of the country. Likewise, it devolved government powers to the local units and pursued the dispersal of economic activities to the countryside.

People empowerment has been pursued through the continued implementation of policies such as: (1) the Comprehensive Agrarian Reform Program (CARP) which gives farmers ownership over the land they till; (2) the policy to encourage labor-intensive and export-oriented industries; and (3) the take-over by non-government organizations (NGOs) of market intervention activities to protect the interests of the general public.

The Arroyo government also embarked on infrastructure development using the build-operate-and-transfer (BOT) mode, and its variant schemes. Current priorities include telecommunication facilities for high speed productivity at low cost, roads to target tourist destination, infrastructure for the modernization of agriculture, mass transport infrastructure for Metro Manila and commuter and transport systems to disperse communities toward Subic, Clark, and Calabarzon, and the expansion of the North Expressway. The development of Subic and Clark into the best international service and logistic centers in the region was among the 10-point agenda pursued vigorously by former President Arroyo. Consequently, the Subic-Clark-Tarlac Expressway (SCTEX) opened to commercial use in April 2008. Moreover, the development of provinces, especially in Mindanao, was former President Arroyo's priority.

Bottlenecks of productivity such as the high cost of power, deterrence to investments and agriculture by confrontational labor management relations and corruption, and red tape at the national and local government levels have been minimized.

Among the important legislative measures enacted into law are: E-procurement; Tax exemption of offshore banking units and foreign currency deposit units; Reformed VAT Law as amended; the extended Special Purpose Vehicle Act; the Human Security Act of 2007; the Cheaper Medicines Act; the Japan Philippine Economic Partnership Agreement; the Real Estate Investment Trust (REIT) Act of 2009; the Exchange of Information on Tax Matters Act of 2009; the Senior Citizens Act of 2010; the Cybercrime Prevention Act of 2012; and the amendment to the Anti-Money Laundering Act of 2001.

On capital market reform, the Securitization Act was enacted into law. Former President Arroyo also pushed for the passage of legislations that would clarify and simplify the Investment Company Act and the Securities Regulation Code. The system of incentives is constantly placed under review to make it simple and clear.

Fast growing industries where high value jobs are most plentiful have been promoted such as information and communication technology (ICT) or business process outsourcing (BPO). This has resulted in the proliferation of call centers in the country. The Philippines is one of the two countries in Asia favored as destination for contact or call centers and data management in this decade.

To prepare the youth to become the next generation of knowledge workers, math and science teaching in basic education have been upgraded. Aside from

ICT, the Philippines has also the competitive edge in tourism with the natural wonders of the country and the innate warmth of the people.

Peace initiatives

On fostering peace efforts, the government has been hitting hard on terrorism as the Senate ratified several U.N. Conventions against terrorism.

It has also made advances towards a negotiated peace on two fronts: the Moro Islamic Liberation Front (MILF) and the National Democratic Front (NDF).

Peace talks between the Philippines and the MILF held in Kuala Lumpur in October 2012, led to the signing between the two parties of the Framework Agreement on the Bangsamoro in the same month. The Framework Agreement serves as a preliminary peace agreement which calls for the creation of an autonomous political entity named Bangsamoro, replacing the Autonomous Region of Muslim Mindanao or ARMM, by 2016. A Transition Commission has been appointed to draft the Basic Law which should be completed in 2014. A joint Normalization Committee has likewise been formed to address governance and "transitional justice" by decommissioning MILF armed forces, together with a Third-Party Monitoring Team. Annexes on power-sharing, wealth-sharing, transitional arrangements and modalities, and normalization have been prepared though not yet completed.

Moreover, the quest for peace with the MILF continues through the implementation of the Sajahatra Bangsamoro Program which was launched in 2012. Under the program, the government of the Philippines and MILF identified 1,000 beneficiaries to avail of Technical Education and Skills Development Authority's technical and vocational courses. The program was also updated to implement and include the components specifically for Health, Education and Livelihood.

While searching for a political solution to the conflicts with the MILF, the government also looks to the United States (US) for help in the rehabilitation of conflict areas and the eradication of the roots of war in some parts of Mindanao.

By virtue of ratification by the Senate of the Visiting Forces Agreement on 26 May 1999, US troops have been allowed to visit the country to conduct joint military exercises with their Filipino counterparts. The exercises are expected to strengthen the bilateral partnership between the US and the Philippines and also to improve and foster economic and political stability in the region.

The sociocultural environment

Population

Most Filipinos are of Indo-Malay, Chinese, and Spanish lineage.

The country registered a total population of 92.3 million in 2010. This is projected to reach approximately 103 million by 2015 based on the latest average annual exponential growth rate released by the National Statistical Coordination Board (NSCB) of 1.82%. About 63% of the population consists of ages 15 years and above.

The highest concentration of people is in the Calabarzon (Cavite, Laguna, Batangas, and Quezon) -Region IV-A, National Capital Region or Metro Manila, and Central Luzon - Region III.

Labor force

64.1% of the working-age populace are employed.

About 63% of the total population is of working age of which 64.1% are employed. Approximately 500,000 persons enter the labor force every year. Filipino labor is highly trainable and is preferred for its English-speaking ability. A natural attribute of Filipinos is their artistic and creative bent, which is the reason why they have been successful in design and related enterprises.

Language

Most Filipinos speak English and Filipino.

Most Filipinos are bilingual, speaking English and Filipino which are the official languages. There are 168 dialects or native languages like Ilocano or Cebuano. A small percentage of the population speaks Chinese or Spanish.

Religion

The Philippines is the only predominantly Christian country in Asia. About 83% of the population are Roman Catholics, 12% are Protestants or members of other Christian denominations, and 5% are Muslims. The latter are mainly concentrated in Mindanao.

Education

The Filipinos value education highly as they look at it as a vehicle for a better future.

The government provides free education at the primary and secondary levels bringing about a high basic literacy rate of 95.6%. The Philippines reportedly has one of the highest numbers of Masters in Business Administration (MBA) graduates in the world. There are 215 MBA schools in the country, among which is the Asian Institute of Management (AIM).

Health

The latest projected life expectancy of the Filipino male is 67.61 years while that of the Filipino female is 73.14 years.

The press

There are 500 national and local newspapers, at least 1,084 cable television networks distribution, and 1,266 licensed radio stations all over the country, a situation which is reflective of the extent of press freedom in the Philippines.

The economic environment

General market structure

The Philippines adheres to the principle of free enterprise and recognizes the role of the private sector in the economic development of the country.

Among the structural reforms initiated are liberalization of imports, deregulation of vital industries, relaxation of investment rules, privatization of government owned or controlled corporations, etc. The resurgence of democratic sentiments and the realization that the domestic market needs to be more competitive and outward looking in order to survive the onslaught of market globalization, have triggered the opening up of the economy.

The Philippines' membership in the World Trade Organization (WTO) and participation in the ASEAN Free Trade Agreement (AFTA) and the General Agreement on Tariff and Trade (GATT) are further manifestations of the government's commitment to open trade.

Major economic indicators

With the upbeat business and consumer sentiments, coupled by sustained government expenditure, the Philippine economy posted a 7.8% Gross Domestic Product (GDP) growth in the first quarter of 2013.

GDP grew from a downward rate of 3.6% in 2011 to 6.5% in 2012. On a seasonably adjusted basis, GDP is further gaining momentum growing by 2.2% in the first quarter of 2013 thus, registering a 7.8% growth in the same period.

The robust growth was due to the strong performance of manufacturing and construction, backed up by financial intermediation and trade.

The continued flow of remittances from the overseas workers also accelerated the Net Primary Income from the rest of the world to grow by 3.2% boosting the Gross National Income (GNI) growth to 7.1% since the second quarter of 2010. (See Appendix 1 for comparative chart)

Agriculture

The main agricultural products of the country are rice, corn, coconut, sugar, bananas, mangoes, and pineapple. The Philippines is one of the largest exporters of coconut oil and sugar but this comparative advantage has declined over the years due to the development of substitutes and the increase in number of other exporting countries.

Mining

The Philippines is rich in mineral resources.

For this reason, mining continues to be among the most promising potentials of the country (particularly gold and copper). The Philippine Mining Act of 1995 liberalized the industry, paving the way for the entry of foreign mining firms with a package of incentives, among which are net operating loss carry-over and accelerated depreciation.

Energy demand and resources

The Philippine Energy Plan (PEP) for 2009 to 2030 was set to achieve a goal of 60% self-sufficiency level by 2010 which effectively means that by that time, the country should be able to source three-fifths of its total energy supply from local sources.

The country's energy resources is a mix of indigenous and imported energy. Indigenous energy comes from domestically produced oil and oil products, natural gas, coal, geothermal, hydro, biomass, solar, and wind. Imported energy on the other hand, largely comes from oil and coal, on which the Philippines is principally dependent. To shield the country from the adverse effects of imported oil, the government came up with the PEP aimed at helping the country move away from utilizing imported oil and towards greater use of indigenous energy resources, renewable energy, and other alternative fuels. Since 2002, the country's energy independence or self-sufficiency level had been steadily increasing from 50.18% to 55.87% in 2005. The PEP goal of reaching a 60% self-sufficient level by 2010 was achieved and is generally maintained currently at the same level.

The country has likewise forged strategic alliance with other countries implementing strong efficiency and conservative program as a means to improve its energy sufficiency level. The Philippines is a recipient of a PHP180 million grant from the European Union (EU) as part of the EU's SWITCH Policy Support Component that promotes energy efficiency and conservation programs as well as clean energy and green growth policies in the Philippines.

Utilities

Electricity and water accelerated to 3.7% in the first quarter of 2010, from 0.6% in 2009, largely driven by electricity. Accounting for about 93% of the total sector, electricity grew by 3.5% from 0.2% bolstered by the sustained demand from the industrial and commercial sectors. Similarly, the water subsector posted a growth of 6.2% from 6.0% in 2009.

Manufacturing

Manufacturing accelerated by 5.6% in the fourth quarter of 2012 from the 3.3% growth in 2011. Radio, television, and communication equipment and apparatus which rebounded to 17.1% from a decline of 16.9%, was the leading contributor to the growth of the sector.

Construction

The construction sector is one of the biggest contributors to the growth of the economic industry in the fourth quarter of 2012. Private construction has been gaining from higher demand for middle and high-end housing (with the rising demand for housing of overseas Filipino workers) and commercial office space from call centers. The completion of the various government projects also boosted spending in construction.

Transportation, communications, and storage

Led by the transport, communications, and storage sector, the service sector remains the economy's key player.

In prior years, growth was pushed up by the aggressive expansion and product diversification of major telecommunication companies and investments in call centers and business process outsourcing. The enormous rise in the number of subscribers and increasing accessibility of internet and cable services contributed much to the remarkable performance.

Statistics in the fourth quarter of 2012 showed growth in land transport, water transport, storage subsectors, and communication sector.

Banking and finance

The banking system consists of 37 head offices of universal and commercial banks, 70 thrift banks, 589 rural and cooperative banks, and 14 non-banks with quasi banking functions.

In terms of assets, the banking sector has been growing steadily and non-performing loans ratios have declined, which further boosted the overall growth of the finance sector. Interest rates remain stable after suffering from the 1997 Asian financial crisis.

According to the Bangko Sentral ng Pilipinas (BSP), there is a continuous improvement in the soundness of the banking system. As a whole, the banking system is well-capitalized, with capital adequacy ratio well above the international standard. The peso has continued to strengthen, after being named as one of the top performing currencies in Asia in 2007.

The Philippines passed the Anti-Money Laundering Act in 2001. The Act was amended in 2003 to address the concerns of the Financial Action Task Force (FATF) that the Philippines might be still used for money laundering. The Act was recently amended by Republic Act No. 10365 dated 13 February 2013, which expanded the coverage of persons, natural or juridical, who are required to comply with the law, and activities considered unlawful. The Philippines is now employing anti-money laundering policies and procedures in line with international banking standards.

A number of major international banks have branch operations in the Philippines, offering full banking services.

Services, in general

The export of consultancy services is one area where the Philippines is considered to have a competitive advantage.

Specific areas are: (a) information technology (IT); (b) computer software services (customized software consultancy, contract programming/training, documentation services, systems integration, and data entry/data processing services); (c) consultancy engineering (infrastructure and industrial development projects in power, transportation, telecommunications, water supply, oil, gas and petrochemicals, industrial estates, and processing plants); and (d) contracting services. Significant opportunities were created for contractors by the government's policy on privatization and the enactment of the BOT law.

Wage rate

As of December 2012, the minimum wage of Filipino labor ranges from PHP419 to PHP456 per 8-hour workday in the National Capital Region (NCR). The wage rate outside NCR is slightly lower and is considered one of the most competitive in the region.

Inflation and foreign exchange rates

The core inflation rate for 2012 is 3.7% while interest rates on treasury bills have been averaging 3.06% for all maturity periods from January to December of 2012. The value of the peso is PH₱41.00 to a US$ (as of 13 May 2013); thus, it is still one of the strongest performing currencies in Asia.

Foreign trade

The Philippines' major exports include the following: (1) industrial manufactures like electronics, machineries, transport equipment apparatus and parts; (2) consumer manufactures like garments and processed foods; and (3) resource-based products like coconut oil. Its major imports are capital goods and intermediate goods like petroleum products and textile yarns.

While the Philippines is a net importing country, exports remain a major stimulus of its economic growth. In addition to physical goods, the export of non-factor services has largely contributed to the expansion of exports over the years.

Trade has been liberalized through, among others, the removal of quantitative restrictions, the simplification of the tariff table, and the removal of other trade barriers. In its goal to progressively eliminate tariffs, the Philippines has participated in various trade agreements, namely: ASEAN Free Trade Area (AFTA); ASEAN-China Trade Area (ACFTA); ASEAN-Korea Free Trade Area (AKFTA); ASEAN-Australia-New Zealand Free Trade Area (AANZFTA); ASEAN and Japan Comprehensive Economic Partnership (AJCEPA); and ASEAN-India Free Trade Area (AIFTA).

The most progressive AFTA, which was implemented on 1 January 1993, further reduced tariffs on intra-ASEAN trade to not more than 5% in 2002. As of January 2008, Executive Orders (EO) 617 and 703 were implemented, thus effectively reducing 80% of all tariff lines under the Common Effective Preferential Tariff (CEPT) Scheme to 0%. Though the tariff reductions brought by EO 617 and EO 703 are not found in the latest Harmonized System (HS) 2007 since these EOs were published after the release of HS 2007, they are accepted and applicable. Moreover, Most Favored Nation (MFN) rates on most imported articles currently lie within the 0-10% range. In 2010, the Philippines implemented the commitment to eliminate the tariff rates on the remaining products in the CEPT inclusion list for year 2010 through EO 850.

The thrust of the government, though, is to reduce the duty rates on imported articles to a range of 0-5%. This is deemed necessary to give temporary relief to producers and manufacturers of sensitive agricultural products and to allow them time to become more globally competitive.

Foreign investments

Major foreign investors recognize the Philippines as an attractive investment site in the region.

The government continues to dismantle investment restrictions to allow participation of foreign investors in most business activities subject to certain conditions. For instance, domestic market enterprises (DMEs) to be fully owned by foreigners are required to have a minimum paid-up capital of US$200,000. However, if the DMEs are engaged in activities involving advanced technology or directly employing at least 50 employees, the minimum paid-up capital is US$100,000. Retailing has also been opened to foreign retail companies subject to certain conditions.

The total approved foreign direct investments according to the data released by the National Statistical Coordination Board (NSCB) was shown to be at PH₱289.1 billion in 2012. Most of these investments were registered with the Philippine Economic Zone Authority (PEZA), Board of Investments (BOI), Clark Development Corporation (CDC), Subic Bay Metropolitan Authority (SBMA), Authority of the Freeport Area of Bataan (AFAB), BOI-Autonomous Region of Muslim Mindanao (BOI-ARMM), and Cagayan Economic Zone Authority (CEZA).

Growth centers

The urban centers are magnets of economic activities.

The urban centers of Metro Manila, Metro Cebu, and Davao City, as well as the government-owned and private special economic zones, are magnets of economic activities. The Philippine Assistance Program is helping in the acceleration of regional development by sponsoring projects in Calabarzon (Cavite, Laguna, Batangas, Rizal, and Quezon Provinces), Iloilo, Samar, the Iligan-Cagayan de Oro corridor, and General Santos. The Calabarzon Project has resulted in the proliferation of privately-owned industrial estates to address the needs of foreign investors.

The Subic Naval Base in Olongapo City, the Clark Air Base in Angeles City, and other former US military bases with excellent infrastructure were converted into special economic zones. The Bases Conversion Development Authority did marvelously in taking over these installations and implementing its master plans for these areas. As a result, the bustling Subic Bay Freeport and Clark Economic Zone are living proofs to the ongoing development in these areas.

Investors' interest in these areas has been tremendous and is perceived to be sustainable over the next five to ten years. The main factors for increased investors' interest in these areas include fiscal incentives, full administration support for the development of these areas, strategic location, and excellent infrastructure, particularly the presence of an excellent harbor (Subic) and international airports that meet global standards in both Subic and Clark.

Recently, the government has taken significant strides in promoting the country as an attractive information technology (IT) destination. As of December 2012, there are 178 IT Parks and IT Buildings (from 138 in 2010) which have been proclaimed as IT Ecozones by the President of the Philippines and are now registered with PEZA.

In 2007, the government embarked on the actual implementation of its project on "industry clustering". Clustering is the geographic concentrations of interconnected business entities and support institutions, and encompasses an array of linked industries and other entities important to competition. These may include suppliers of inputs, support facilities and service providers, and providers of specialized infrastructures.

Clustering is seen as an effective strategy in contributing to the attainment of regional goals such as poverty alleviation and enhancing economic productivity, within the context of the regional development strategies.

The model industry clusters are: Vegetable Industry Cluster of Northern Mindanao - Model Regional Cluster and One-Town-One-Product (OTOP) Award; Bottled Sardines of Dipolog, Zamboanga del Norte - Model Provincial Cluster and OTOP Award; Furniture of Cebu - Model Provincial Cluster; Food Processing of CARAGA - Model Regional Cluster; and the eight industry clusters of the Davao - Emerging cluster.

In view of the success of industry clusters in improving competitiveness of products and services in the regions, the National Industry Cluster Capacity Enhancement Project (NICCEP) was launched in 2012. The NICCEP is a three-year project funded by the Japan International Cooperation Agency and implemented by the Department of Trade and Industry. It employs the industry cluster approach to support Micro-Small and Medium Enterprises (MSME), and fosters inter-enterprise linkages among MSMEs.

Hints for the business visitor

Visitor's visa

Generally, a visitor's visa is required of visitors entering the Philippines.

However, non-restricted foreign nationals may be allowed entry to the country "visa-free" and stay for a period of 21 days provided they have passports valid for at least six months beyond the contemplated period of stay in the country and a valid plane ticket for return journey to their country of origin or to the next country of destination. A 21-day "visa-free" stay may be extended. The first extension is valid for 38 days. Succeeding extensions may be requested for one or two months. Non-restricted foreign nationals may also secure a visitor's visa valid for 59 days from the Philippine Embassy/Consulate located in the country of origin or residence.

Visiting restricted foreign nationals (generally referring to nationals of Arab countries, communist states, former communist states, and India) are not allowed entry to the Philippines without a valid visitor's visa issued by the Philippine Embassy/Consulate located in their country of origin or residence for a maximum period of 59 days.

Holders of visitor's visa may extend their authorized stay in the Philippines. Generally, visitor's visa of restricted and non-restricted nationals can be extended (on a monthly basis or every two months) provided that their total authorized period of stay will not exceed two years. In the case of restricted nationals, their total aggregate stay is limited to only one year.

However, the Bureau of Immigration has recently relaxed its policy on restricted nationals specifically on Indian and Chinese (Red Passports) nationals. These nationals are now allowed to enter the Philippines "visa-free" with a valid stay of up to 14 days which may be extended only once for seven days subject to presentation by the foreign national of a valid outbound ticket to the next destination and passport valid for at least six months with entry visa or permanent resident visa in any of the following countries: United States of America; Japan; Australia; Canada; Singapore; Schengen; Singapore; and United Kingdom.

Generally, visitors are not allowed to work in the country without securing the necessary Alien Employment Permit and Working Visa.

Currency, exchange, and banks

The Philippine peso (PHP) is the unit of currency.

It is divided into centavos. Currency denominations are: PHP1,000; PHP500; PHP200; PHP100; PHP50; and PHP20 for notes and PHP10; PHP5; PHP1; and PHP0.25 for coins. With the deregulation of foreign exchange transactions, money changers and authorized agent banks (AABs) are generally allowed to sell and purchase foreign exchange without prior approval of the BSP, save for some exceptions. There is no restriction on the amount of foreign exchange that can be imported subject, however, to certain regulatory requirements under the Anti-Money Laundering Act of 2001, as amended by Republic Act No. 10365. Moreover, foreign currency may be freely bought and sold outside the banking system. However, the import/export of Philippine currency is limited to PHP10,000. Any amount exceeding this will require the authorization of the BSP.

International time

The Philippine time is eight hours ahead of Greenwich Mean Time (GMT) and thirteen hours ahead of US Eastern Standard Time (EST).

Business hours

Government and private offices are generally open from 8:00am to 5:00pm, Mondays to Fridays, with lunch break from 12:00pm to 1:00pm. However, government agencies engaged in the delivery of critical frontline services and public transactions are encouraged to operate a six-day work week from 7:00am to 7:00pm, Mondays to Saturdays, continuously without a lunch break. Some private offices are also open on Saturdays. Generally, commercial banks transact business from 9:00am to 3:00pm and savings banks from 9:00am to 5:00pm Mondays to Fridays.

Statutory holidays

Statutory holidays are 1 January (New Year's Day), 9 April (Araw ng Kagitingan), 1 May (Labor Day), 12 June (Independence Day), last Monday of August (National Heroes' Day), End of Ramadhan or Eid ul-Fitr (movable date), Eid'l Adha (movable date), 30 November (Andres Bonifacio Day), 25 December (Christmas Day), and 30 December (Rizal Day). Maundy Thursday and Good Friday are also regular holidays. Also included in the list of nationwide special non-working days are the following: 25 February (Anniversary of EDSA People Power Revolution); Black Saturday (movable date); 21 August (Martyrdom of Benigno Aquino); 1 November (All Saints' Day); 24 December (additional special non-working day); and 31 December (last day of the year).

Weights and measures

The Philippines is on the metric system and uses the International System unit as the sole standard of weights and measures.

Clothing

For official meetings, business attire usually consists of a blouse and skirt or dress with a blazer for women, and a business suit and tie or "barong" (Filipino shirt) for men. Otherwise, it is acceptable to be in casual attire owing to the hot and humid weather.

Hotel and travel

In Metro Manila and most large provinces, a wide selection of deluxe, standard, first-class, and economy-type accommodations are available. As of 2011, Metro

Manila has 8,887 available rooms in 21 deluxe hotels, 1,332 rooms in seven first class hotels, 925 rooms in ten economy hotels, and 4,423 rooms in 41 standard hotels. As of June 2012, there are around 50,351 Department of Tourism (DOT)-licensed hotel rooms throughout the country.

Apart from the hotel business centers which service the needs of foreign businessmen, private companies also offer similar services in all urban centers. Cellular phones have substantially augmented existing landlines.

Communications

Communication links within Metro Manila and key business areas are adequate.

The number of cellular mobile telephone service subscribers had grown tremendously to around 95 million in 2011. There were about 6.7 million total landline connections as of 2011 according to the National Telecommunications Commission. Meanwhile, mobile landline which was introduced in 2007, is currently slowly establishing a niche in the telecommunication market.

General

Foreign investment policies, requirements, and incentives

1. *What requirements must be complied with before a foreign corporation can engage in business in the Philippines?*

Before a foreign corporation can engage in business in the Philippines, it must first secure the necessary licenses or registration certificates from the appropriate government agencies. Generally, the registration process starts with the Securities and Exchange Commission (SEC).

If the proposed project or activity qualifies for incentives, the foreign investor may file its application with the appropriate government agency depending on the project's location.

Government agency	Office address
Board of Investments (BOI) www.boi.gov.ph	Industry and Investments Building 385 Sen. Gil Puyat Avenue, Makati City Telephone +63 (2) 895 8322 Project location: Outside of special economic zones
Philippine Economic Zone Authority (PEZA) www.peza.gov.ph	PEZA Building, Roxas Boulevard corner San Luis Street, Pasay City Telephone +63 (2) 551 3436 / +63 (2) 551 3438 (Office of the Director-General) Project location: Any special economic zone under PEZA

Government agency	Office address
Subic Bay Metropolitan Authority (SBMA) www.sbma.com	Administration Building 229, Waterfront Road, Subic Bay Freeport, Olongapo City Telephone +63 (47) 252 4000, +63 (47) 252 4004 Project location: Subic Bay Freeport
Clark Development Corporation www.clark.com.ph	Building 2127, E.L. Quirino corner CP Garcia Avenue, Clark Special Economic Zone Clark Field, Pampanga Telephone +63 (45) 599 9000, +63 (45) 599 4902 Project location: Clark Special Economic Zone
John Hay Poro Point Development Corporation	Club John Hay, Loakan Road, Baguio City Telephone +63 (74) 442 7902 to 08 Project location: John Hay Special Economic Zone, Poro Point Freeport and Special Economic Zone
Cagayan Economic Zone Authority www.cagayanfreeport.com	7/F Westar Building, 611 Shaw Boulevard, 1630 Pasig City Telephone +63 (2) 636 5774 Project location: Cagayan Special Economic Zone
Zamboanga Economic Zone Authority www.zambofreeport.com.ph	San Ramon, Zamboanga City Telephone +63 (62) 992 2012/ +63 (62) 992 3284 Project location: Zamboanga City Special Economic Zone
Aurora Pacific Economic Zone and Freeport Authority www.aurorapacific.com.ph	2/F SSS Makati Building, Philippines Telephone +63 (2) 813 4381, +63 (2) 813 4384 Project location: Aurora Province
Authority of the Freeport Area of Bataan www.afab.gov.ph	2/F AFAB Administration Building, Freeport Area of Bataaan, Mariveles, Bataan Telephone +63 (47) 935 4009

2. *Is a foreign investor allowed to own 100% of a business entity?*

With the liberalization of the foreign investments law, 100% foreign equity may be allowed in all areas of investment except financial institutions and those included in the Ninth Regular Foreign Investment Negative List which took effect on 29 October 2012. This list includes:

List A

Areas reserved to Filipinos by mandate of the Constitution and special laws such as but not limited to:

a. Mass media except recording, practice of licensed professions, retail trade with paid-up capital of less than US$2.5 million, cooperatives, and small scale mining, etc. where foreign ownership is prohibited; and

b. Private radio communications network, private recruitment, advertising, ownership of land, operation and management of public utilities, etc. where only minority foreign ownership is allowed.

List B

Areas that are security and defense related; those with adverse effects on public health and morals; and for the protection of small-and medium-scale enterprises, i.e., domestic market enterprises with paid-in capital of less than the equivalent of US$200,000 and domestic market enterprises which involve advanced technology or employ at least 50 Filipino direct employees, with paid-in capital of less than the equivalent of US$100,000.

Please refer to Appendix II for the list.

3. What is the general policy of the government regarding foreign investments? Is this policy likely to change in the near future?

The government encourages foreign investments which will provide significant employment opportunities relative to the amount of the capital being invested, improve productivity of resources, increase volume and value of exports, and provide a foundation for the future development of the economy.

Investment-related rules have been liberalized to facilitate entry of foreign investments. This thrust is expected to continue.

4. What are the major incentives available to a registered enterprise?

A. BOI Incentives

An enterprise registered with the BOI pursuant to the 1987 Omnibus Investments Code (Executive Order or EO 226) is entitled to, among others, the following incentives subject to certain terms and conditions:

Fiscal incentives

i. Income tax holiday (ITH) for six years for pioneer firms and generally four years for non-pioneer firms. If a non-pioneer firm is located in a less developed area, it shall generally be entitled to six years ITH. Firms locating within Metro Manila shall not be granted ITH unless they are:

- Within a government industrial estate;
- Service-type projects with no manufacturing facilities;

- Power generating plants; or
- Exporters with expansion projects.

ii. Tax credit on raw materials, supplies, and semi-manufactured products

iii. Additional deduction from taxable income for labor expense (cannot be simultaneously enjoyed with the ITH incentive)

iv. Duty-free importation of capital equipment, spare parts and accessories until 10 May 2017

v. Additional deduction from taxable income for necessary and major infrastructure works (cannot be simultaneously enjoyed with the ITH incentive)

Non-fiscal Incentives

Certain non-fiscal incentives are also available to registered enterprises, among which are: employment of foreign nationals; guaranteed repatriation of foreign investments and earnings thereon; and importation of consigned equipment for an unlimited period subject to posting of a re-export bond.

B. PEZA Incentives

The Special Economic Zone Act of 1995, as amended, mandates the PEZA to operate, administer, manage, and develop Special Economic Zones or ecozones.

Business enterprises operating within ecozones shall be entitled to the ITH incentives mentioned above. PEZA-registered exporters likewise enjoy tax and duty exemption on importations of capital equipment, raw materials, and other merchandise directly needed in their registered operations. Moreover, after availment of the ITH incentive, PEZA-registered enterprises shall be subject to a final tax at a preferential rate of 5% of their gross income earned, in lieu of all other taxes, local and national. Information Technology (IT) companies are entitled to similar incentives if they are registered locators in an IT ecozone.

C. Other incentives

Three other special economic zones were created under three separate special laws. These are the Cagayan Special Economic Zone, the Zamboanga City Special Economic Zone, and the Aurora Special Economic Zone. In 2009, Congress passed a law converting the previously established Bataan Economic Zone to the Freeport Area of Bataan. In 2010, the Aurora Economic Zone has been expanded and developed to become the Aurora Pacific Economic and Freeport Zone. Business enterprises locating in these ecozones are granted incentives similar to those granted to PEZA ecozone enterprises.

Enterprises operating within declared freeports/special economic zones under Republic Act (RA) 7227, as amended by RA 9400 (i.e., Subic Bay Freeport, Clark Freeport, Morong Freeport, John Hay Freeport, and Poro Point Freeport) shall, in lieu of paying other taxes, pay a final tax of 5% of gross income provided their income from the domestic market, i.e., sales to customers located within the customs territory or outside the ecozone, shall not exceed 30% of their income from all sources.

5. Are investment incentives transferable?

In general, investment incentives are not transferable. However, investment incentives are attached to the registered project and subject to certain qualifications, may be carried over from one owner to the next, at the discretion of the incentives giving body. Tax credit certificates may be transferred subject to certain conditions.

Board of Investments/Philippine Economic Zone Authority/Other Investment Promotion Agencies

Registration requirements, application procedures, and approval

1. How does our proposed project qualify for registration with the BOI/PEZA/other Investment Promotion Agencies (IPAs)?

To qualify for registration with the BOI for incentive purposes, the proposed foreign investment must be made in any of the following:

a. Preferred areas of investment listed in the current Investment Priorities Plan (IPP). A preferred area may be declared pioneer if it:

   i. Engages in the manufacture, processing, or production (not merely in the assembly or packaging) of goods, products, commodities, or raw materials that have not been or are not being produced in the Philippines on a commercial scale;

   ii. Uses a design, formula, scheme, method, process, or system of production or transformation of any element, substance, or raw materials into another raw material or finished good which is new and untried in the Philippines;

   iii. Engages in the pursuit of agricultural, forestry, and mining activities and/or services including the industrial aspects of food processing whenever appropriate, pre-determined by the concerned IPA to be feasible and highly essential to the attainment of the national goal in relation to a declared specific national food and agricultural program for self sufficiency and other social benefits of the project; or

iv. Produces non-conventional fuels or manufactures equipment which utilize non-conventional sources of energy or uses or converts to coal or other non-conventional fuels of sources of energy in its production, manufacturing, or processing operations.

Pioneer status under any of the foregoing instances shall be subject to the condition that the final product involves or will involve substantial use and processing of domestic raw materials, whenever available; taking into account the risks and raw magnitude of investment.

b. Enterprises engaged in preferred non-pioneer areas and exporting at least 70% of their output.

c. Projects in less-developed areas provided that the activities in all of the above cases are not reserved for Philippine nationals under the Foreign Investment Negative List (FINL).

On the other hand, the projects that may qualify for registration with PEZA or other IPAs are those that involve manufacturing for export and the domestic market, free trade, tourism, agri-industrial export, bio-fuel manufacturing, information technology, utilities, facilities enterprises, and logistics service enterprises providing warehousing and trading operations in the ecozones and development and operation of ecozones.

2. *What possible obstacles would our application meet?*

The obstacles normally encountered in the filing of applications include non-compliance with the criteria set by the BOI, misinterpretation of the coverage of activities listed in the IPP, failure to submit the required project feasibility study and other supporting documents, and possible opposition from sectors or enterprises which might be adversely affected by the proposed project. The BOI requires publication of the notice of application and conducts hearings if objections to the application are received.

For PEZA or other IPA applicants, the usual problem consists of non-compliance with some of the criteria set by PEZA or other IPAs and failure to submit required documents and information.

3. *How long will it take to obtain BOI/PEZA/other IPAs approval once all requirements are complied with?*

Under EO 226, applications filed with the BOI shall be considered automatically approved if not acted upon by the BOI Board within 20 working days after they have been officially accepted, subject to the usual terms and conditions.

In the case of PEZA, the processing and evaluation by the appropriate department usually takes about two weeks. The decision on the project is made during the bimonthly meetings of the PEZA Board.

As to the other IPAs, processing of applications including the approval of their respective Boards, take a period of 15 to 30 working days from submission of all documentary requirements.

4. Assuming approval is obtained, what restrictions are ordinarily attached?

A list of general and specific terms and conditions is normally attached to the approval letter issued by the BOI/PEZA/other IPAs upon approval of the application for registration. The general conditions include certain management, financial, operational, and marketing restrictions which must be properly complied with so as to avoid grounds for cancellation of registration. The specific terms and conditions which may include nationality, operational, and reporting requirements vary depending upon the nature of the business enterprise.

5. How much time is an investor allowed to start his project?

The amount of time allowed for starting a registered project depends on the type of the proposed project and the period set by the proponent in the feasibility study with the approval of the BOI/PEZA/IPAs. Generally, the project must be commenced within one year from approval date, but may be extended under applicable qualifying circumstances.

Securities and Exchange Commission

Registration requirements and approval

1. Why is it necessary to register with the SEC?

The SEC is the government agency responsible for the registration, licensing, regulation, and supervision of all corporations and partnerships organized in the Philippines, including foreign corporations licensed to engage in business or to establish branch offices in the Philippines.

Registration with the SEC grants the entity with the corporate franchise or juridical personality to operate and transact business in the Philippines.

2. Can the application for registration with the BOI/PEZA/ other IPAs and the SEC be filed simultaneously, or must one wait for the BOI/PEZA/other IPAs approval before going to the SEC?

Yes, the application for registration can be filed simultaneously, but the approval of the application with the BOI/PEZA and other IPAs would be conditional on the affirmative completion of the SEC processes.

3. How long after the submission of the application and all the required documents will approval be obtained?

The processing and approval of the papers generally take around 15 working days from official acceptance of the application.

4. Is there any requirement that directors be residents?

A majority of the directors must be residents of the Philippines. The number of directors must be at least five but not more than 15. Hence, if there are five directors, at least three must be residents.

5. Is a domestic corporation subject to a minimum subscription and payment on such subscription?

At least 25% of the authorized capital stock of a domestic corporation must be subscribed and at least 25% of the subscription must be paid. However, subscriptions by alien individuals or foreign entities must generally be fully paid, except in cases where the law provides for the specific amount of paid-up capital.

Bangko Sentral ng Pilipinas

Inward remittance and registration of foreign investments, repatriation of capital, remittance of dividends

1. *Can foreign investment funds be inwardly remitted outside of the banking system?*

Yes, however, amounts in excess of the equivalent of US$10,000.00 are required to be declared upon physical entry into the country. Funds remitted outside the banking system cannot be registered as foreign equity investment with the SEC and Bangko Sentral ng Pilipinas or BSP.

2. *Is registration of foreign investment with the BSP required?*

BSP registration is necessary only if the investor wants to make sure that the repatriation of capital and the remittance of dividends, profits, and earnings can be made using foreign exchange sourced from the banking system. Otherwise, BSP registration is not necessary.

3. *Is inward remittance of foreign investment required to be converted immediately to Philippine pesos?*

An investor is required to convert his inward remittance of foreign investment to Philippine pesos for purposes of registration with the BSP.

4. *What are the current regulations regarding profit remittances and repatriation of capital?*

Dividend and profit remittances as well as capital repatriation of foreign investments are not regulated. Foreign investors are free to remit dividends and profits from their own foreign exchange sourced from outside the domestic banking system. However, if the foreign exchange will be sourced from the local banking system, there is a need for the foreign investments to have prior registration with the BSP (refer also to item 3 above).

Authorized Agent Banks (AABs) are authorized to sell and to remit the equivalent foreign exchange at the exchange rate prevailing at the time of actual remittance (representing sales/divestment proceeds or dividends/ profit of duly registered foreign investment) upon presentation of the Bangko Sentral Registration Document (BSRD) and other applicable documentary requirements.

Royalties, technical service agreements, etc.

IPO registration of technology transfer agreements, taxation of royalties and service fees

1. *Can we charge royalties and similar fees?*

Royalties and similar fees can be charged to operations provided payments for said fees are covered by a technology transfer agreement (TTA) which conforms with the mandatory and restrictive provisions of the Intellectual Property Code (IPC). Compliance of the TTA with the IPC requirements will not require the registration of the TTA with the Documentation, Information and Technology Transfer Bureau (DITTB) of the Intellectual Property Office (IPO).

The non-conformity of the TTA with the IPC shall generally render the TTA unenforceable. However, in certain exceptional and meritorious cases provided under the IPC, non-compliance with the IPC is allowed subject to prior approval of the TTA by the IPO.

The IPC provides certain restrictions in the terms and conditions of the TTA particularly those that will adversely affect free competition and trade. It also prescribes certain mandatory provisions that should be included in the TTA.

2. *Are these taxable in the Philippines?*

Royalties and similar fees are generally subject to 30% gross income tax and 12% value added tax when payable to a non-resident foreign corporation. However, the tax rates for the royalties payable to residents of foreign countries with which the Philippines has a tax treaty vary according to the terms of the respective treaties.

3. *What rules govern the reimbursement of costs incurred abroad?*

Reimbursements of actual cost incurred abroad for operations such as maintaining offices, advertising, commission, etc. are allowed provided they are duly supported by documents and that these costs are incurred in connection with the regular course of trade or business of the local paying company.

4. *What constitutes "technology transfer arrangements"?*

"Technology transfer arrangements" refer to contracts or agreements involving the following: transfer of systematic knowledge for the manufacture of a product or the application of a process; rendering of a service, including management contracts; and the transfer, assignment, or licensing of all forms of intellectual property rights, including licensing of computer software, except computer software developed for mass market.

5. *How long does it take to obtain government approval?*

Within ten days from the filing of the request for certification of compliance, the DITTB conducts a summary evaluation of the TTA. If the TTA conforms with the Prohibited Clauses and Mandatory Provisions of the IPC, the DITTB issues a Certificate of Compliance. Otherwise, the DITTB notifies the parties of any violation and requires them to comply with the IPC if they wish to obtain a Certificate of Compliance.

6. *Do we have to get the Bangko Sentral approval to remit the royalty or agreed fees to the foreign company? What documentary support is required?*

With the liberalization of foreign exchange rules, remittance of royalties, fees, or similar payments to a foreign company, net of the applicable taxes, may be made through AABs without need of BSP approval.

The following documents may be required by the AABs to prove the legitimacy of the transaction: (a) copy of contract/agreement; (b) statement/computation of the royalty/copyright/patent/licensing fee; and (c) proof of payment of withholding tax or tax exemption or entitlement to preferential tax treatment, as the case may be.

Taxes

Income and business taxes

1. What are the income tax rates in the Philippines?

The income tax rates depend upon the classification of the taxpayers.

A. Individual taxpayers

i. In general, taxable income derived from employment, business, trade, and exercise of profession by resident citizens from all sources within and without the Philippines are subject to the graduated tax rates of 10% to 32%. The top rate of 32% applies to taxable income in excess of PH₱500,000.

ii. Minimum wage earners (those receiving "statutory minimum wage") shall be exempt from payment of income tax on their taxable income.

iii. Resident foreign individuals (aliens) and non-resident citizens are subject to the same graduated tax rates but only for income derived from all sources within the Philippines.

iv. Non-resident aliens are taxed at 25% of gross income from sources within the Philippines if their stay within the country does not exceed 180 days in a calendar year. Otherwise, they are taxed on the basis of graduated rates as in (i) above.

v. Aliens who are employed by regional or area or regional operating headquarters of multinational corporations, offshore banking units, and petroleum service contractors and subcontractors are subject to income tax at 15% of their gross income from such employers (e.g., salaries, annuities, honoraria, and allowances).

vi. Net capital gains realized during each taxable year from the sale of shares of stocks in domestic companies not traded in the Philippine Stock Exchange (PSE) are taxed at the rate of 5% on the first PHP100,000 gain, and 10% on the excess over PHP100,000. For domestic shares listed and traded in the PSE, the tax is 1/2 of 1% of the gross selling price or gross value in money of the shares of stock sold, bartered, exchanged, or disposed. However, under existing revenue issuances, the 5% and 10% rates shall apply if the listed shares are pre-arranged, or where the buyer is predetermined, or in any case where the public cannot take part in trading, or if the listed company fails to observe the Minimum Public Ownership (MPO) of at least 10% of the company's issued and outstanding shares exclusive of any treasury shares or such percentage as may be prescribed by the SEC or PSE, whichever is higher.

vii. Likewise, there is a tax on shares of stock sold, exchanged, or otherwise disposed through initial public offering at the rates of 1%, 2%, and 4%, depending on the proportion of the shares sold, exchanged, or otherwise disposed to the total outstanding shares after listing of the shares of closely held corporations.

viii. Capital gains on sale of real property are taxed at 6% of gross selling price or fair market value, whichever is higher.

ix. Passive income items like interest, dividends, royalties, prizes, and other winnings are also taxed at different rates. For instance, dividends received by citizens and residents from a domestic corporation and the share of an individual partner in a taxable partnership are taxed at 10%. If the dividends are paid to non-residents, the tax is 20% for those engaged in trade or business and 25% for non-residents not engaged in trade or business. Interest on foreign loan is taxed at 20%.

B. Corporate taxpayers

i. Domestic corporations (those established under the laws of the Philippines including foreign-owned corporations, otherwise known as subsidiaries) are taxed at 30% of net taxable income from worldwide sources.

ii. A foreign corporation, whether or not engaged in trade or business in the Philippines, is taxable only on Philippine-sourced income. A foreign corporation engaged in trade or business in the Philippines (also called resident foreign corporation) is taxed at 30% based on net income, similar to a domestic corporation. On the other hand, a foreign corporation not engaged in trade or business in the Philippines (also known as a non-resident foreign corporation) is taxed at the same rate based on gross income received.

iii. Profits remitted by a branch of a foreign corporation to its home office are taxed at the rate of 15%. However, this tax does not apply to a Philippine branch registered with PEZA and other free port zones. Dividends declared by a domestic corporation to its foreign parent are generally taxed at 30%. However, if the home country of the recipient corporation exempts the dividend from tax or allows a credit against the tax due from the non-resident foreign corporation taxes deemed to have been paid in the Philippines equivalent to 15%, the tax is reduced to 15%.

Most of the tax treaties concluded by the Philippines with other countries allow preferential rates of 10% on branch profit remittances and on dividends. Such rate usually applies if the payor-subsidiary is registered with the BOI or if the beneficial owner of the dividends is a company which holds a certain percentage of the capital of the payor subsidiary. Otherwise, the tax on dividends is 15% or 30%, whicever is applicable.

iv. All corporations, whether domestic or foreign, are subject to capital gains tax on the sale of shares of stock in the same manner as individual taxpayers. Sale of lands and/or buildings treated as capital assets by domestic corporations is likewise subject to capital gains tax at 6% based on the gross selling price or fair market value, whichever is higher, of such lands and/or buildings.

Other income items such as interest and royalties are taxed at various rates. Dividends received by a domestic or resident foreign corporation from a domestic corporation are not taxable.

v. A minimum corporate income tax of 2% of the gross income as of the end of the taxable year is imposed on a corporation which is subject to normal income tax of 30% beginning on the fourth taxable year immediately following the year in which such corporation commenced its business operations, when the minimum income tax is greater than the normal income tax for the taxable year.

Any excess of the minimum corporate income tax over the normal income tax as computed shall be carried forward and credited against the normal income tax for the three immediately succeeding taxable years.

vi. Every corporation formed or availed of for the purpose of avoiding the income tax with respect to its shareholders or the shareholders of any other corporation by permitting earnings and profits to accumulate instead of being divided or distributed, is taxed at the rate of 10% for each taxable year on the improperly accumulated taxable income.

vii. In general, an employer (individual or corporation) shall pay a final tax of 32% on the grossed-up monetary value of fringe benefit furnished or granted to the employee (except rank and file) unless the fringe benefit is required by the nature of, or necessary to the trade, business, or profession of the employer.

viii. Small and medium enterprises termed as Barangay Micro-Business Enterprises (BMBEs) with total assets not exceeding PH₱3 million are exempt from income tax and minimum wage requirements under the Labor Code per RA 9178.

ix. Special Purpose Asset Vehicles which refer to domestic corporations certified by the SEC as qualified to issue Investment Unit Instruments, are subject to a wide array of tax exemptions ranging from their interest income to capital gains, among others, under RA 9182 as amended by RA 9343.

x. Real Estate Investment Trusts (REIT) which refer to domestic corporations established principally for the purpose of owning income-generating real-estate, are subject to the corporate income tax rate of 30% but are allowed to claim as deduction from taxable income the dividends distributed to shareholders under RA 9856, subject to certain conditions. REITs are also exempt from the 2% minimum corporate income tax.

2. *What business taxes are we subject to?*

Both the national government and the local government impose business taxes. The rates vary depending on the type of business.

A. National tax

i. Value added tax (VAT)

12% VAT is imposed on importation of goods; sale, barter, exchange, or lease of goods or properties; and sale of services in the course of trade or business in the Philippines, subject to certain exceptions. Goods or properties mean all tangible and intangible objects which are capable of pecuniary estimation, including real property, patents, trademarks and similar rights, and movable and personal goods. Services cover performance of all kinds of services in the Philippines for a fee.

Exports are generally subject to 0% VAT. VAT-exempt goods include such items as books, fertilizers, livestock and poultry feeds, and agricultural and marine food products in their original state.

The offsetting of input tax against output tax is allowed.

For input tax on capital goods, the same is subject to five year amortization or the estimated useful life of the asset, whichever is shorter, if the aggregate acquisition cost (exclusive of VAT) in a calendar month exceeds PH₱1,000,000.

ii. Percentage tax on certain businesses

Bank and other non-bank financial intermediaries	0% to 7%
Life insurance companies	2%
Common carriers, radio and television franchisees	3%
Gas and water utilities	2%
Others	Ranging from 3% to 30%

iii. Excise tax

Excise tax is imposed on alcohol, tobacco, petroleum, and mineral products, automobiles, jewellery, etc., at varying rates.

The excise tax imposed on diesel fuel oil, kerosene, and bunker fuel oil is 0%, while locally extracted natural gas and liquefied natural gas are exempt.

iv. Other national taxes include overseas communication tax and documentary stamp tax on certain documents, instruments, and related transactions such as issuance of shares of stock, evidence of indebtedness, transfer of real property, lease contracts, insurance policies, etc.

B. Local tax on certain businesses

i. Manufacturers, wholesalers, distributors, dealers, and contractors are subject to local business tax at graduated amounts or rates not exceeding 2% based on the gross sales/gross receipts of the prior calendar year and depending on the place where business is conducted. For essential commodities, the rates are 50% lower. Retailers are subject to 2% tax if their gross sales/receipts are PH₱400,000 or less and to 1% tax if in excess of PH₱400,000.

ii. Banks and other financial institutions – local business tax at rates not exceeding .5% of their gross receipts depending on the locality of the business.

iii. Other varying rates

Aside from the above business taxes, there are other taxes levied by local government units such as real estate tax and community tax.

3. *What are the advantages and disadvantages of a branch vis-à-vis a domestic subsidiary?*

Enumerated below are the advantages and disadvantages from legal and tax viewpoints, of a branch compared to a domestic subsidiary:

a. Branch offices are taxed only on their net income from sources in the Philippines; while subsidiaries are taxed on their worldwide income. In both cases, however, a relief from double taxation may be granted subject to the provisions of applicable tax treaties. (Refer to the questions on taxes applicable to corporate taxpayers.)

b. There are generally fewer formalities involved in opening a branch than incorporating a subsidiary.

c. In terms of staffing, a subsidiary normally requires a complete set of corporate officers; whereas a branch is able to operate with only a resident agent, who may also be the general manager, as its officer.

d. Since a subsidiary has a separate juridical personality, a foreign parent company is protected from contractual and other liabilities incurred by its Philippine subsidiary; whereas the liabilities of the branch office extend to that of its home office.

e. A branch is allowed to claim as deduction for income tax purposes, allocated head office expenses subject to certain requirements; while a subsidiary is not allowed to claim the same.

f. Profit remittance by a branch registered with the PEZA is exempt from branch profit remittance tax; while dividend remittance by a subsidiary is taxable.

4. *What effect will a tax treaty with my country have on the tax rates?*

A tax treaty is designed primarily to minimize, if not totally eliminate, double taxation of income on foreign investors who otherwise have to pay taxes in the Philippines and in their home countries on the same income. (Please refer to Appendix IV for the list of tax treaties.)

Joint ventures

Foreign equity, control, officers and directors, applicable tax policies

1. If we enter into a joint venture with Philippine investors, will the SEC allow us to hold 51% or more of its equity?

The SEC will allow foreign equity in excess of 50% provided the area of activity involved is not covered by the Ninth Regular Foreign Investment Negative List (see Appendix II).

2. If we are restricted to a 40% equity holding, how can we obtain control of the operations?

In general, control of an enterprise goes to the group which has the power to determine its policies and the manner in which the enterprise is to be run; and such assurance of control is obtained through majority ownership of the voting capital stock of the corporation. There are, however, certain arrangements that could provide a minority group with working control, such as diffusion of majority ownership and licensing agreements.

3. Are there any requirements that directors and other officers must be Filipino citizens and/or residents?

The majority of the directors must be residents of the Philippines and the secretary must be a resident Filipino citizen. Although not required by law, the SEC as a matter of policy, also requires the treasurer to be a resident. However, in the case of banks and domestic air carriers, at least two-thirds of the members of the board of directors must be citizens of the Philippines. For a firm engaged in a nationalized or partially nationalized activity, the maximum number of foreign directors must not exceed the proportion of actual foreign equity in the firm, and all of its executive and managing officers must be Filipino citizens.

4. How are joint ventures taxed?

An unincorporated joint venture is taxed like a corporation. The shares of the joint venture partners, if paid to a domestic or resident corporation, are exempt from tax because they are essentially dividends. However, an unincorporated joint venture formed for the purpose of undertaking a construction project or engaging in petroleum operations is not subject to the corporate income tax. Only the joint venture partners will be taxed on their respective shares.

Retail trade

Foreign equity, control, officers and directors, applicable tax policies

1. *Can foreign investors engage in retail trade in the Philippines?*

Yes. The Retail Trade Liberalization Act (RA 8762) which took effect on 26 March 2000 paved the way for the entry of foreign participants who meet the capitalization, net worth, and other requirements under the Act.

2. *How is "Retail Trade" defined?*

"Retail Trade" means any act, occupation, or calling of habitually selling direct to the general public, merchandise, commodities, or goods for consumption, subject to certain exceptions.

3. *To what extent is foreign ownership of retail enterprises in the country permitted?*

Foreign ownership of Philippine retail enterprises depends on the amount of the enterprise's capitalization. Retail ventures with paid-up capital of less than the Philippine peso equivalent of two million five hundred thousand US dollars (Category A) is limited to Filipinos. Full foreign ownership is allowed in retail enterprises with minimum paid-up capital of the equivalent Philippine pesos of two million five hundred thousand US dollars (Categories B and C).

Enterprises specializing in high-end or luxury products with a paid-up capital of the Philippine peso equivalent of US$250,000 per store

(Category D) are fully open to foreign investors. The investment for opening of branches/stores falling under Categories B and C should not be below the Philippine peso equivalent of US$830,000 for each branch/store.

4. What are the criteria to qualify as foreign retailers in the Philippines?

Foreign entity that will engage in the retail business or invest in a retail store in the Philippines must meet the following criteria:

a. Net worth of at least two hundred million US dollars of the parent corporation, for those that want to establish enterprises under Categories B and C, and net worth of at least fifty million US dollars for Category D;

b. Ownership of at least five retail stores or franchises anywhere in the world or at least one branch with minimum capitalization of twenty-five million US dollars;

c. Five-year track record in retailing; and

d. The foreign retailer's home country offers reciprocity rights to Filipino retailers.

Rules on borrowings

Foreign and domestic credit

1. Can we finance our project through foreign borrowings?

The government prefers foreign equity investments to foreign borrowings. In general, foreign borrowings require prior approval of and/or registration with the BSP in order that repayment of principal and remittance of interest may be serviced using foreign exchange purchased from the Philippine banking system. Under present rules, loans that may qualify for prior BSP approval/registration are those intended to finance the following types of projects:

a. Export-oriented projects;

b. BOI-registered projects;

c. Projects listed in the Investments Priorities Plan;

d. Projects listed in the Medium-Term Public Investment Program; and

e. Other projects that may be declared priority under the country's socio-economic development plan by the National Economic Development Authority or by Congress.

All the above loans, regardless of maturity, shall exclusively finance foreign exchange requirements of eligible projects, provided that loans of direct and indirect exporters and public sector borrowers may finance both foreign exchange costs and up to 50% of the total peso costs component of their respective projects. Foreign companies may also resort to peso borrowings only upon prior certification by the BSP Inter-Agency Committee that they meet the guidelines prescribed by the Monetary Board. Foreign loans which may have been sourced without prior BSP approval shall be reported just the same to the BSP otherwise, appropriate sanctions may be meted out.

2. *Are we subject to certain debt-to-equity ratio requirements?*

All enterprises registered with the BOI, PEZA, and the other IPAs are required to maintain a debt-to-equity ratio of at least 75:25 during the entire duration of their registration with the concerned government agency.

3. *Can a foreign company borrow from a private individual or private non-financial institution?*

Yes. A foreign company can borrow from a private individual or private non-financial institution.

Others

1. Could you give some basic guidelines on living/business expense?

a. Salary rates for office/administrative staff?

Secretary	PH₱12,000 to PH₱30,000 per month
Accountant	PH₱14,000 to PH₱35,000 per month
Messenger	PH₱12,000 to PH₱15,000 per month
Driver	PH₱12,000 to PH₱18,000 per month
Mail service	Post office box facilities are available at a PH₱5 storage fee per day with PH₱80 key charge and PH₱175 postal I.D. fee. Door to door mail delivery service is also available at variable rates.
Telegraph, telex, telecopier, telefax, telephone services (via landline, mobile, or Internet)	Many message-transmitting companies operate in the Philippines. Monthly billing for landline telephone vary from a low of about US$18 (residential) to a high of US$30 (business) plus 12% VAT for both lines. Internet subscription rates vary from PH₱500 to PH₱100,000 depending on the type of plans - monthly/quarterly, semi-annual/annual, and the number of hours to be used by the company.

b. Rentals for office space in Makati?

Based on the 1st quarter comparative office rental rates for 2012, the monthly rental of office spaces in Makati ranges from PH₱720 to PH₱900 per square meter for Premium facilities, PHP430 to PHP830 per square meter for Grade A facilities, and PHP400 to PHP455 per square meter for Grade B facilities.

c. Rentals for housing of expatriate executives?

Lodging Houses/Pension Houses and Motels	US$5 to US$25 per day
Hotel	US$40 to US$250 per day
Apartments/Condominiums	Monthly rental for a one-bedroom furnished apartment/condominium specially in the Makati area varies from PHP50,000 to PHP80,000 per month, while a two/three/four bedroom apartment/ house will cost about PHP70,000 to PHP500,000 per month.
Houses in villages: The main residential areas in Metro Manila where foreigners may look for houses are in Makati - Forbes Park, San Lorenzo, Urdaneta, Bel-air, San Miguel, Dasmariñas; in Ortigas - Greenhills, Valle Verde, Corinthian; and in Ayala Alabang.	The monthly rentals for the houses in these villages range from PHP150,000 to PHP500,000. Modern houses with spacious lawns and swimming pools will fall under the higher rental range. A deposit is generally required and may range from the equivalent of six months to two years rental. Payment of association fees may be required depending on the village.

d. Cost of acquiring and maintaining automobiles?

Cost of new automobiles ranges from a low of about PHP600,000 (for subcompact cars) to a high of PHP5,000,000 for luxury cars. The Philippines has recently deregulated the oil industry such that gasoline stations may set their own prices. The prices of gasoline per liter vary on a daily basis but current indicative prices (as of April 2013) are approximately PHP45.00 to PHP52.29 for gasoline, PHP36.55 to PHP39.70 for diesel, PHP41.45 to PHP46.77 for E10, and PHP27.08 to PHP30.50 for Auto LPG.

e. Tuition and school fees for children and high school students?

The annual school fees for an equivalent US standard school start from US$5,000 approximately for 3-year old nursery program. Other schools offering high standards of education but charging lower tuition fees of around PHP70,000 annually are also available.

2. *How easily can work permits be obtained for expatriate executives?*

Work permits and working visas can be easily obtained provided the requirements are complied with. Applications for Alien Employment Permits are filed with the Department of Labor and Employment (DOLE), while applications for working visas are filed with the Bureau of Immigration (BI). The Alien Employment Permit is required before aliens are granted working visas by the BI. Some of the documents required are:

a. Curriculum vitae;

b. Contract of employment;

c. Affidavit of Support of the expatriate; and

d. SEC Registration Certificate/License, Articles of Incorporation and By-Laws, and latest Mayor's Permit of the Philippine sponsoring company.

The address and phone numbers of the aforementioned two agencies are as follows:

DOLE National Capital Region	DOLE NCR Building 967 Maligaya Street Malate, Manila Telephone Number +63 (2) 400 6011, 303 0364
DOLE – Manila	Muralla corner Gen. Luna Streets Intramuros 1002 Manila DOLE hotline: +63 (2) 527 8000
Bureau of Immigration	Bureau of Immigration Building Magallanes Drive, Intramuros, Manila Telephone Numbers +63 (2) 523 6615, 524 3769, 527 3248

3. *How easily can expatriate executives obtain clearances for travel abroad?*

Aliens with working visas need not secure clearances from the BI every time they travel abroad. Aliens with working visa are issued Alien Certificate of Registration I-Card which will allow them to freely travel abroad and return to the Philippines.

4. May expatriate executives receive their compensation in foreign currencies?

Yes. They may receive their compensation in foreign currencies. However, this compensation will still be included in their Philippine taxable income, where such compensation is attributable to their Philippine based employment.

5. Will the expatriates be allowed to convert into foreign currency any excess pesos that they may have upon termination of their assignment?

Yes. Expatriates will be allowed to convert into foreign currency any excess pesos upon termination of their assignment in the Philippines, subject to compliance with certain requirements.

6. Is there any public offering of stocks or corporate shares in the Philippines?

Yes, stock trading is held in the Philippine Stock Exchange from Mondays to Fridays. Trading is limited to securities approved and registered with the SEC.

Please refer to Section 1.A.(vi.) of "Taxes" for tax treatment of traded stocks.

Appendix I

GNP/GDP by industrial origin and sectoral growth rates

Annual 2011-2012
(at constant 2000 prices)

Industry	Annual (2011-2012)	1st quarter 2013
1. Agriculture, hunting, forestry, and fishing	2.8	3.3
a. Agriculture and forestry	3.6	2.9
b. Fishing	-0.4	5.5
2. Industry sector	6.8	10.9
a. Mining & Quarrying	2.2	-17.0
b. Manufacturing	5.4	9.7
c. Construction	15.7	32.5
d. Electricity, Gas, and Water Supply	5.1	0.1
3. Service sector	7.6	7.0
a. Transport, Storage, and Communication	8.1	3.5
b. Trade and Repair of Motor Vehicles, Motorcycles, Personal and Household Goods	7.5	5.6
c. Financial Intermediation	8.2	13.9
d. Real Estate, Renting and Business Activities	7.5	6.3
e. Public Administration and Defense, Compulsory Social Security	6.1	8.0

Industry	Annual (2011-2012)	1st quarter 2013
f. Other Services	7.7	7.6
Gross Domestic Product	6.8	**7.8**
Gross National Income	6.5	**7.1**

Source: National Statistical Coordination Board (NSCB)

Appendix II
Ninth regular foreign investment negative list (EO 98 series of 2012)

List A: Foreign ownership is limited by mandate of the constitution and specific laws

No Foreign Equity

1. Mass media, except recording (Article XVI, Section 11 of the Constitution; Presidential Memorandum dated May 4, 1994)
2. Practice of all professions[1]
3. Retail trade enterprises with paid-up capital of less than US$2.5 million (Section 5 of RA 8762)[2]
4. Cooperatives (Chapter III, Article 26 of RA 6938)
5. Private security agencies (Section 4 of RA 5487)
6. Small-scale mining (Section 3 of RA 7076).

1 Practice of profession is limited to Filipino citizens save in cases prescribed by law. The list was recently amended to include real estate service, respiratory therapy, and psychology.
2 Full foreign participation is allowed for retail trade enterprises: (a) with paid-up capital of US$2,500,000 or more provided that investments for establishing a store is not less than US$830,000; or (b) specializing in high end or luxury products, provided that the paid-up capital per store is not less than US$250,000 (Sec. 5 of RA 8762).

7. Utilization of marine resources in archipelagic waters, territorial sea and exclusive economic zone; as well as small-scale utilization of natural resources in rivers, lakes, bays, and lagoons (Article XII, Section 2 of the Constitution)

8. Ownership, operation, and management of cockpits [Section 5 of Presidential Decree (PD) 449]

9. Manufacture, repair, stockpiling and/or distribution of nuclear weapons (Article II, Section 8 of the Constitution[3])

10. Manufacture, repair, stockpiling and/or distribution of biological, chemical, and radiological weapons and anti-personnel mines (various treaties to which the Philippines is a signatory and conventions supported by the Philippines)[3]

11. Manufacture of firecrackers and other pyrotechnic devices (Section 5 of RA 7183)

Up 20% Foreign Equity

12. Private radio communications network (RA 3846)

Up 25% Foreign Equity

13. Private recruitment, whether for local or overseas employment (Article 27 of PD 442)

14. Contracts for the construction and repair of locally funded public works [Section 1 of Commonwealth Act (CA) 541 as amended by PD 1594, Letter of Instruction No. 630] except:

    a. infrastructure/development projects covered in RA 7718; and

    b. projects which are foreign funded or assisted and required to undergo international competitive bidding [Section 2(a) of RA 7718].

15. Contracts for the construction of defense-related structure (Section 1 of CA 541)

Up to 30% Foreign Equity

16. Advertising (Article XVI, Section 11 of the Constitution)

3 Domestic investments are also prohibited (Article II, Sec. 8 of the Constitution: Conventions/Treaties to which the Philippines is a signatory)

Up to 40% Foreign Equity

17. Exploration, development, and utilization of natural resources. (Article XII, Section 2 of the Constitution)[4]
18. Ownership of private lands (Article XII, Section 7 of the Constitution; Chapter 5, Section 22 of CA 141; Section 4 of RA 9182)
19. Operation and management of public utilities (Article XII, Section 11 of Constitution; Section 16 of CA 146)
20. Ownership/establishment and administration of educational institutions (Article XIV, Section 4 of the Constitution)
21. Culture, production, milling, processing, trading (except retailing), and acquiring, by barter, purchase or otherwise, rice and corn and their by-products (Section 5 of PD 194)[5]
22. Contracts for the supply of materials, goods, and commodities to government-owned or controlled corporation, company, agency or municipal corporation (Section 1 of RA 5183)
23. Project proponent and facility operator of a BOT project requiring a public utilities franchise [Article XII, Section 11 of the Constitution; Section 2(a) of RA 7718]
24. Operation of deep sea commercial fishing vessels (Section 27 of RA 8550)
25. Adjustment companies (Section 323 of PD 612 as amended by PD 1814)
26. Ownership of condominium units where the common areas in the condominium project are co-owned by the owners of the separate units or owned by a corporation (Section 5 of RA 4726)

Up to 49% Foreign Equity

27. Lending companies (Section 6 of RA 9474)[6]

Up to 60% Foreign Equity

28. Financing companies regulated by the SEC (Section 6 of RA 5980 as amended by RA 8556)[6]
29. Investment houses regulated by the SEC (Section 5 of PD 129 as amended by RA 8366)[6]

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4 Full foreign participation is allowed through financial or technical assistance agreement with the President (Art. XII, Sec. 2 of the Constitution)
5 Full foreign participation is allowed provided that within the 30-year period from start of operation, the foreign investor shall divest a minimum of 60 percent of their equity to Filipino citizens (Sec. 5 of PD 194; NFA Council Resolution No. 193 s. 1998)
6 No foreign national may be allowed to own stock in lending companies, financing companies or investment houses unless the country of which he is a national accords the same reciprocal rights to Filipinos (Sec. 6 of RA No. 9474; Sec. 6 of RA No. 5980, as amended by RA No. 8556; PD No. 129, as amended by RA No. 8366)

List B: Foreign ownership is limited for reasons of security, defense, risk to health and morals, and protection of small- and medium-scale enterprises

Up to 40% Foreign Equity

1. Manufacture, repair, storage and/or distribution of products and/or ingredients requiring Philippine National Police (PNP) clearance i.e., firearms, gunpowder, dynamite, blasting supplies, ingredients used in making explosives, telescopic sights and other similar devices. However, the manufacture or repair of these items may be authorized by the chief of the PNP to non-Philippine nationals if a substantial percentage of output is exported and the extent of foreign equity ownership allowed shall be specified in the said authority/clearance. (RA 7042 as amended by RA 8179)
2. Manufacture, repair, storage and/or distribution of products requiring Department of National Defense (DND) clearance such as guns, other ammunitions, military aircraft, vessels, equipment, training devices and parts and components thereof, and others as may be determined by the Secretary of the DND. However, the manufacture or repair of these items may be authorized by the Secretary of the DND to non-Philippine nationals if a substantial output is exported and the extent of foreign equity ownership allowed shall be specified in the said authority/clearance. (RA 7042 as amended by RA 8179)
3. Manufacture and distribution of dangerous drugs (RA 7042 as amended by RA 8179)
4. Sauna and steam bathhouses, massage clinics, and other like activities regulated by law because of risk posed to public health and morals (RA7042 as amended by RA 8179)
5. All forms of gambling (RA 7042 as amended by RA 8179), except those covered by investment agreements with the Philippine Amusement and Gaming Corporation (PAGCOR) pursuant to RA 9487 or the PAGCOR Charter
6. Domestic market enterprises with paid-in equity capital of less than the equivalent of US$200,000 (RA 7042 as amended by RA 8179)
7. Domestic market enterprises which involve advanced technology or employ at least fifty (50) direct employees with paid-in-equity capital of less than the equivalent of US$100,000 (RA 7042 as amended by RA 8179)

Appendix III

Income tax rates for special corporations

Entity	Rate	Taxable base
International carriers	2.5%	Gross Philippine Billings originating from the Philippines
Nonresident foreign corporation	30%	Gross income from Philippine sources
Nonresident owner or lessor of aircraft, machinery, and other equipment	7.5%	Gross rentals or fees
Nonresident owner or lessor of vessels chartered by Philippine nationals as approved by MARINA	4.5%	Gross rentals, lease or charter fees within the Philippines
Nonresident cinematographic film owners, lessors, or distributors	25%	Gross income from Philippine sources
Offshore banking units (OBUs) and foreign currency deposit units (FCDUs) authorized by the BSP	Exempt	Income from foreign currency transactions with nonresidents, other OBUs in the Philippines, local commercial banks including branches of foreign banks.
	10%	Interest income from foreign currency loans granted to residents other than OBUs in the Philippines, local commercial banks, including local branches of foreign banks.
	30%	Net income from other transactions as may be specified by the Secretary of Finance upon recommendation by the Monetary Board.

Entity	Rate	Taxable base
Subcontractors engaged in petroleum operations	8% final tax	Gross income from service contract
Regional operating headquarters	10%	Taxable income from authorized activities
Proprietary educational institutions and non-profit hospitals if gross income from unrelated business activities does not exceed 50% of gross income	10%	Taxable income

Note: Reinsurance premiums are exempt.

Appendix IV

Philippine tax treaties in force as of May 2013

Country	Effectivity
Australia	1 January 1980
Austria	1 January 1983
Bahrain	1 January 2004
Bangladesh	1 January 2004 (for the Philippines) 1 July 2004 (for Bangladesh)
Belgium (Protocol amending the Agreement)	1 January 1981 1 January 2000
Brazil	1 January 1992
Canada	1 January 1977
China	1 January 2002
Czech	1 January 2004
Denmark (Renegotiated)	1 January 1998
Finland	1 January 1982
France (Protocol amending the Convention)	1 January 1978 1 January 1998
Germany	1 January 1985
Hungary	7 February 1998 1 January 1998 (for other taxes) 8 April 1998 (for taxes withheld at source)
India	1 January 1995
Indonesia	1 January 1983

Country	Effectivity
Israel	26 May 1997 1 January 1997 (for taxes withheld at source) 25 July 1997 (for other taxes)
Italy	1 January 1990
Japan (Protocol amending the Convention)	1 January 1981 1 January 2009
Korea	1 January 1987
Malaysia	1 January 1985
Netherlands	1 January 1992
New Zealand	1 January 1981
Norway (Protocol amending the Convention)	1 January 1998 1 January 1998
Pakistan	1 January 1979
Poland	1 January 1998
Romania	1 January 1998
Russia	1 January 1998
Singapore	1 January 1977
Spain	1 January 1994
Sweden (Renegotiated)	1 January 2004
Switzerland	1 January 2002
Thailand	1 January 1983
United Arab Emirates	1 January 2009
United Kingdom of Great Britain and Northern Ireland	1 January 1979
United States of America	1 January 1983
Vietnam	1 January 2004

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Aruba
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Austria
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Barbados
Belarus
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Cambodia
Cameroon, Republic of
Canada
Cape Verde
Cayman Islands
Chad
Channel Islands
Chile
China
Colombia
Congo, Democratic Republic of
Congo, Republic of
Costa Rica
Cote d'Ivoire (Ivory Coast)
Croatia
Curacao
Cyprus
Czech Republic
Denmark
Dominican Republic
Ecuador
Egypt
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Equatorial Guinea
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Mexico
Moldova
Monaco, Principality of
Mongolia
Montenegro
Morocco
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Netherlands
Netherlands Antilles
New Celedonia
New Zealand
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