Doing business in the Philippines

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MALACAÑAN PALACE
MANILA

MESSAGE

The Philippines stands on the cusp of a new era of prosperity, with great opportunities to effect lasting socioeconomic, political and cultural reforms. Our economy remains resilient, cushioned by a dynamic local consumer market, continued foreign investment, and sound performance in key growth industries.

An integral platform of our administration is to establish stronger, more streamlined linkages with global business sectors. We have prepared plans, programs, and legislation to encourage partnerships with local and international investors. There is renewed confidence in the Philippines and its potential for business investments. We are committed to full transparency, collaboration and efficiency. Procedures for business registration are being reviewed and simplified, with the objective of stimulating new businesses and supporting entrepreneurship.

This issue of "Doing Business in the Philippines," published by SGV & Co., offers only a snapshot of the immense growth potential of our country – the competitiveness of our industries, the resilience of our talented workforce, the richness of our resources, and our revitalized political will, which are all vital to our nation's progress. I wish to invite the international business community to join me and our people as we tread the path to economic resurgence.

BENIGNO S. AQUINO III

MANILA

DEPARTMENT OF TRADE & INDUSTRY PHILIPPINES

MESSAGE

We recognize the importance of generating new investments to sustain the growth of the Philippine economy over the long haul.

Riding on renewed investor sentiment, the government is now taking the next step to further streamline business transactions and, in the process, reduce the cost of doing business. This is in keeping with our objective of having a more investor-friendly atmosphere.

With the government and the private sector working hand in hand to ensure a stable and predictable economic environment, investors are all the more encouraged to make sound investment decisions and take advantage of long-term opportunities that go with infusing additional capital.

As we accelerate our efforts of promoting the country in the global community, a corresponding surge of enthusiasm resounds in the private sector. We laud SGV's unabated commitment in coming up with this publication, "Doing Business in the Philippines," to prime potential investors for the numerous opportunities that await them the moment they set foot on Philippine shores.

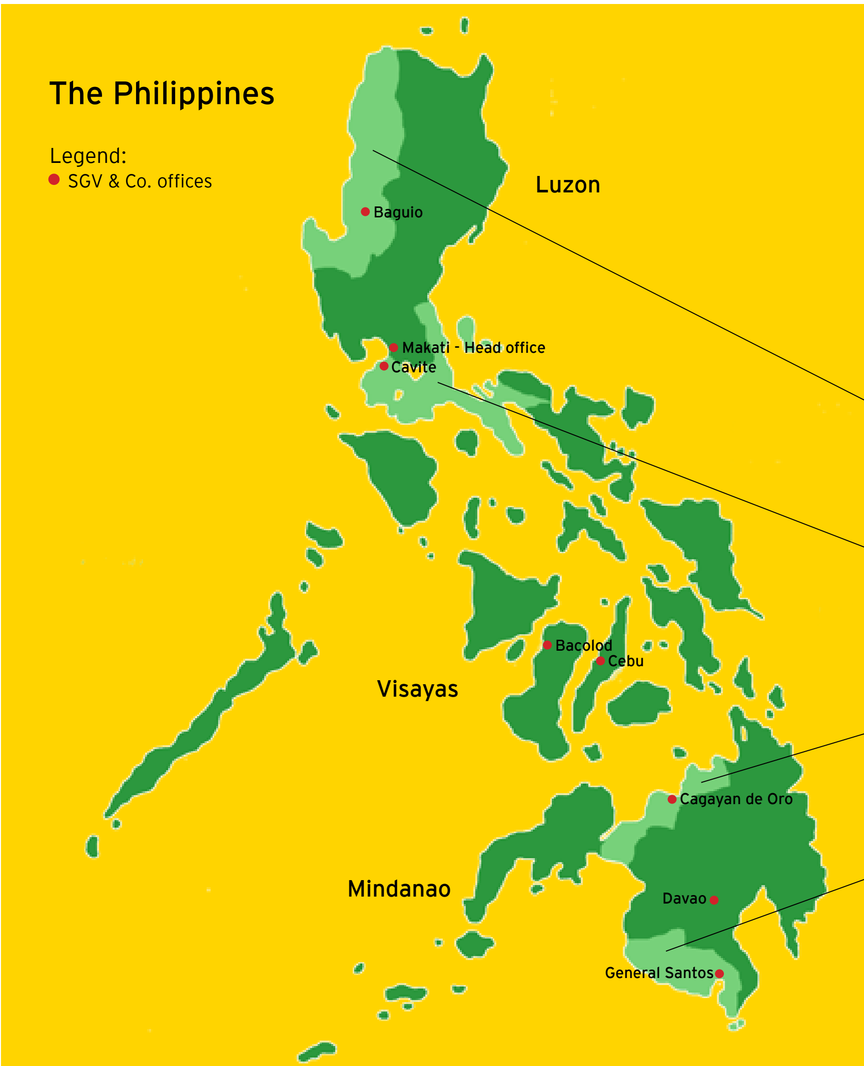
We are confident that with the active participation of the private sector, the government will sustain economic development as the Philippines attains a high level of growth.

GREGORY L. DOMINGO
Secretary

Why you should invest in the Philippines

Teeming with natural resources and boasting of staggering landscapes, the Philippines does not disappoint those who go the extra mile to reach it. Indeed, nothing compares to the abundance of diverse natural resources offered by the Philippines. However, it is the Filipino that makes the country truly wonderful. Even when faced with adversity, Filipinos are the most ebullient and easygoing people anywhere and are noted for their courtesy and hospitality. Highly competent, multi-skilled and trainable, the Filipino worker can surpass any other in dedication and hard work. The country is blessed with an educated, multi-cultural, bilingual and skilled labor force.

The Philippines ranks 38th out of 60 economies in the 2013 IMD World Competitiveness Yearbook and ranks highly in labor market (#1), fiscal policy (#9), and attitudes and values (#9). These indicators show that the Philippines has a low-cost, economically sound, and cosmopolitan environment in which to do business. Skilled labor is readily available and Filipino workers are also open to foreign ideas, being flexible and adaptable when faced with new challenges.



Regional growth areas

To promote regional development, the government has identified 11 growth networks/corridors scattered around the country that are currently under various stages of implementation. Four of these areas are in the investment promotion stage.

- North Quad - integrates the coastal provinces of Ilocos Norte, Ilocos Sur, La Union, Pangasinan, and the inland areas of Abra and Southern Benguet at the northwestern tip of Luzon
- Calabarzon - a large-scale multisectoral project complex in a region contiguous to Metro Manila; it is composed of the Southern Luzon provinces of Cavite, Laguna, Batangas, Rizal, Quezon and Aurora
- Cagayan de Oro-Iligan Corridor - unites the two cities of Cagayan de Oro in Misamis Oriental, an agro-industrial center, and Iligan City in Lanao del Norte, an industrial hub
- SOCCSKSARGEN - the more popular name for the areas of South Cotabato, Sultan Kudarat, Sarangani, and General Santos City

Economy overview

The Philippine economy grew 7.2% in 2013, notching the second fastest increase in Asia after China. The growth is attributed to the expansion of investment and manufacturing as well as the strong performance of consumption and services which together helped offset the impact of a string of natural disasters throughout the year. Amid such robust performance, the Philippines has been hailed by many as the next economic tiger of Asia. It has enjoyed a string of upgrades in recent years from credit raters recognizing the country's improving fundamentals. On 27 March 2013, Fitch Ratings upgraded the Philippines' credit rating to BBB-, giving the country its first ever investment grade. This was followed by similar upgrades from Standard & Poor's (S&P), Japan Credit Agency, and Moody's Investor Service in the same year. S&P has since raised the country's rating a notch higher to BBB, noting in May 2014 the ongoing reforms in the Philippines.

Consumer spending, Overseas Filipino Workers (OFW) remittances, and the offshoring and outsourcing sector have been consistently driving Philippine economic growth. In 2012, government spending accelerated and complemented consumer spending. Public investment rebounded and led the resurgence in capital formation.

Other sectors such as transport, trade, banking, and other services revved up alongside the growth of business process outsourcing (BPO). Finally, exports of commodities other than electronics and semiconductors improved.

The National Capital Region continues to be the leading growth area in terms of population, residential projects and commercial projects. Cebu in the Visayas also appears in the top three in all three lists. Negros Occidental in the Visayas and Cavite and Bulacan in Luzon complete the top five in population growth.

Cavite, Laguna and Rizal – all in Luzon – complete the top five in the residential projects list. Aklan in the Visayas, Pampanga in Luzon and Davao del Sur in Mindanao complete the top five in the commercial projects list.

Philippine merchandise exports hit a record high of USD53.98 billion in 2013. This turnaround contributed to the higher growth rate of the economy. The key markets for both exports and imports are Japan, China, USA, Singapore, and Korea.

Labor force

The Philippines had a 40.3-million strong labor force by 2013 with the labor force participation rate at 63.9%, constant with the year prior.

Amid continued economic growth, the unemployment rate fell to 6.5% as of October 2013, slightly lower by 0.3 percentage point from the same period the year prior.

The latest figures from the Commission on Higher Education website show that accounting and business administration, education, engineering, and medical and allied courses consistently produce the highest number of graduates. The number of information and communications technology (ICT) professionals is increasing together with the growth of the ICT industry.

Offshoring and outsourcing

The Philippines is among the world's top outsourcing destinations, thanks in large part to low business costs and a large pool of university-educated, English-speaking, highly adaptable workers.

The Philippine offshoring and outsourcing sector's total revenues grew by 17% in 2013 to USD15.5 billion, supported by 900,000 direct jobs. Collectively, the industry provides services for a wide range of prominent Fortune 1000 firms in North America, Asia, and the European Union. The Philippines remains the global leader for voice business process management services and the second-preferred location for non-voice services, showing capabi lity in areas such as healthcare, IT, finance and accounting, human resources and creative processes.

In 2013, a Tholons study ranked Metro Manila third and Cebu eighth among the "Top 10 Outsourcing Destinations" while Davao, Sta. Rosa, Iloilo, Bacolod, and Baguio were in the Top 100. By 2016, the sector is estimated to have at least USD25 billion in revenue, 1.3 million direct employees and 3.2 million indirect employees. By then, the ICT service sector is projected to account for approximately 8% of the country's GDP and 10% of the global information technology and business process management market.

Tourism

Tourism is another bright spot in the economy. The Philippine Department of Tourism has reported a 9.56% increase in tourist arrivals, totaling to nearly 4.7 million international visitors in 2013. There are 10 international airports in the country with several slated for major renovations via Public Private Partnerships (PPPs). Key gateways include those in Manila, Cebu, Davao, Clark, Pampanga and Laoag. The Ninoy Aquino International Airport is the main airport, which serves more than 30 international airlines with flights to Asia, the Middle East, Europe and North America. Two adjacent airports have daily domestic flights that link major cities in the Philippines.

The country has been upgraded to a Category 1 rating in Aviation Safety by the US Department of Transportation's Federal Aviation Administration, allowing local airline companies to expand their operations in the US.

The European Union (EU) has also lifted the flight ban on Philippine Airlines and Cebu Air, Inc., due to their commitment to safety and full compliance with the international aviation safety standards.

The Mactan International Airport in Cebu has regular flights from Busan, Doha, Taiwan, Hong Kong, Singapore and various cities in Korea, China and Japan. The Davao International Airport has regular flights from Indonesia and Singapore and seasonal flights from Macau.

The Diosdado Macapagal International Airport in Pampanga has regular flights from Hong Kong, Doha, Dubai, Macau, Singapore and various cities in Korea and Malaysia. Subic International Airport in Zambales has regular flights from Korea and Macau, while Laoag International Airport in Ilocos Norte has regular flights from Macau. Kalibo International Airport in Aklan has regular flights from Taiwan and various cities in China and Korea.

The other international airports in the country are the Puerto Princesa International Airport in Palawan, Zamboanga International Airport and General Santos International Airport, which are both in Mindanao.

By sea, major cruise ships and international container vessels call at the port of Manila. Inter-island ships connect Manila to major ports in other provinces.

Manufacturing

The National Statistical Coordination Board reported that manufacturing growth accelerated to 10.5% in 2013 from just 5.4% in the previous year.

Foreign direct investment (FDI) in the Philippines increased 20% in 2013, a marked development for the Philippines, whose foreign investments had lagged behind other Asian countries. The growth in FDI is expected to continue, as a result of the Philippine economy's upgrade into investment grade territory.

Construction

Spurred by the government's Comprehensive Integrated Infrastructure Program, wherein PhP2.0 trillion (or USD49 billion) priority infrastructure projects are supported by official development assistance or the private sector, the construction sector remains a top growth contributor. The construction sector grew by 11.1% in 2013 according to the National Statistical Coordination Board.

The construction and real estate sectors accounted for nearly 20% of the economy, almost as much as manufacturing. In 2016, Colliers International estimates that up to 25,000 residential condominium units will be built in the city's main business districts, along with 1.5 million square meters of new offices. These are being built in anticipation of the continuing growth in business outsourcing services.

Mining

According to the Philippine Department of Environment and Natural Resources (DENR), the country's estimated mineral reserves are placed at about 14.5 billion metric tons of metallic minerals and about 67.66 billion metric tons of non-metallic minerals. It is also the fifth mineralized country in the world, third in gold reserves, fourth in copper and fifth in nickel.

The gross production value in mining for the year 2013 amounted to PhP74.5 billion with 41 operating metallic mines and 250,000 people employed in mining and quarrying. The moratorium on the issuance of new mining permits, by virtue of DENR Memorandum Order 2011-01, has been lifted last March 2013, allowing mining investments to build up again and are expected to total around USD901.75 million by 2014.

Renewable energy

The 2012-2030 Philippine Energy Plan prepared by the government estimates that under a low carbon scenario, renewable energy's contribution to the country's total power mix will grow by an annual average of 3.2% and comprise a 37.1% share. The Philippines is already the world's second largest producer of geothermal energy, with a still untapped resource potential of 2,600 megawatts. There is an untapped potential of 76,600 megawatts for wind energy and 13,097 megawatts for hydropower.

The Philippines has a high profit potential from biodiesel exports and is a large producer of coconut and sugarcane, two major sources of biofuels. As of January 2014, the country has a total biodiesel capacity of 70.3 million, ahead of the implementation of a higher biodiesel blend in petroleum products. The Bureau of Agricultural Research expects to develop a 15% bioethanol-gasoline blend by 2015 through the processing of sweet sorghum syrup.

Agriculture

The Philippines has about 10 million hectares of agricultural land and is a major exporter of banana, coconut, pineapple and fishery products. Sugarcane and coconut are major sources of renewable biofuels such as bio-ethanol and coco-diesel.

The agriculture sector posted 1.15% growth in 2013 as increases in output of livestock, poultry, and fisheries throughout the year helped offset damage caused by Typhoon Haiyan in the fourth quarter.

Information and communications technology (ICT)

The Information and Communications Technology Office (ICTO) reports that the Philippine ICT sector can contribute around USD50 billion in annual direct revenues to the Philippine economy by 2016. Of the current total revenues in IT service activities, 70% is derived from clients overseas. Among the activities eligible for Philippine Economic Zone Authority (PEZA) incentives are: IT-enabled services such as BPO, call centers, data encoding, transcribing and processing; software development and application; and content development for multimedia or internet purposes.

As of 17 February 2014, the PEZA reports that there are 197 operating IT Parks or Centers and 69 more are being developed. These zones serve as a one-stop-shop for e-services investors who may want to locate in the Philippines.

Manila, Baguio, Cebu and Davao are acknowledged as the country's ICT hubs. Outside Metro Manila, there is also the rapid development of regional ICT hubs in locations such as Bacolod, Bohol, Cagayan de Oro, Clark, Dumaguete, Iloilo, Legaspi, Lipa, Naga and Rizal.

Taxation

The Philippine Constitution mandates that the rule of taxation shall be uniform and equitable, and that Congress shall evolve a progressive system of taxation. The Tax Reform Act of 1997 (Republic Act No. 8424) was passed to promote sustainable economic growth by rationalizing the Philippine Internal Revenue System, including tax administration. Amendments to the Tax Reform Act of 1997 have been made, the most recent and significant of which is RA No. 10378, which provides for the exemption of international carriers from the 2.5% Gross Philippine Billings tax provided the home country of the international carrier will agree to give a similar tax exemption to Philippine carriers.

Income Taxation

Corporations

Classification
For income tax purposes, corporations are classified as domestic or foreign depending on the place of incorporation or organization. A domestic corporation is organized under Philippine laws. It is taxed on the basis of net worldwide income. A foreign corporation is organized under the laws of another country and is further classified as a resident or nonresident. It is considered a resident of the Philippines if it is engaged in trade or business in the Philippines (e.g., through a branch). A resident foreign corporation is taxed on net Philippine-source income, while a non-resident foreign corporation is taxed on gross Philippine-source income.

Income Tax Rates for Domestic and Resident Foreign Corporations
The corporate income tax rate is 30% of net taxable income. Royalties, interest, dividends, and other passive income of domestic and resident foreign corporations are subject to different rates.

Special Income Tax Rates for Certain Domestic and Resident Foreign Corporations
Proprietary educational institutions and non-profit hospitals are subject to 10% tax on net taxable income. Foreign currency deposit units (FCDUs) and offshore banking units (OBUs) are exempt from all taxes on income from foreign currency transactions with nonresidents, and other FCDUs and OBUs, local commercial banks, and branches of foreign banks duly authorized by the Bangko Sentral ng Pilipinas (the Philippines' Central Bank). Interest income of FCDUs and OBUs from foreign currency loans granted to residents other than FCDUs and OBUs are subject to a final tax of 10%. International carriers are subject to 2.5% final tax on Gross Philippine Billings but they would be exempted if their home countries would provide a similar tax exemption to Philippine carriers. Regional or area headquarters of multinational companies are exempt from income tax while regional operating headquarters of multinational companies are subject to 10% tax on net taxable income.

Tax incentives like income tax holiday or preferential tax rates (5% on gross income) are available for enterprises in the Ecozones, the Subic Bay Freeport and Special Economic Zone, and the Clark Special and Economic Zone.

Branch Profit Remittance Tax (BPRT)
Remittances by branches of foreign corporations in the Philippines (except those activities registered with the Philippine Economic Zone Authority and other companies within the special economic zones such as the Subic Bay Metropolitan Authority and Clark Development Authority) to their head offices are subject to 15% BPRT.

Other Taxes Imposed on Corporations
Corporations are also liable for minimum corporate income tax, fringe benefits tax and improperly accumulated earnings tax.

Minimum Corporate Income Tax (MCIT). A 2% MCIT on annual gross income is imposed on corporations with zero or negative taxable income or whose regular corporate income tax (RCIT) liability is less than the MCIT beginning on the fourth taxable year following the year they started business operations. Any excess of the MCIT over the RCIT shall be carried forward and credited against the RCIT for the three immediately succeeding taxable years.

However, the Secretary of Finance may suspend the imposition of the MCIT upon submission of proof by the applicant-corporation, verified by the

Commissioner of Internal Revenue's authorized representative, that the corporation sustained substantial losses on account of a prolonged labor dispute, force majeure, or legitimate business losses.

Fringe Benefits Tax. Fringe benefits granted to supervisory and managerial employees are subject to a 32% tax on the grossed up value of the fringe benefit.

Improperly Accumulated Earnings Tax. A 10% tax is imposed on the improperly accumulated earnings of domestic corporations, except in the case of publicly held corporations, banks, and other non-bank financial intermediaries and insurance companies. When a corporation allows its earnings or profits to accumulate beyond its reasonable needs, it shall be assumed that the purpose is to avoid tax on stockholders, unless proven to the contrary.

Tax on Non-resident Corporations
Generally, non-resident foreign corporations are taxed at 30% of the gross amount of Philippine source income such as dividends, rents, royalties, compensation, and remuneration for technical services. This tax is withheld at source. There are preferential income tax rates for some types of non-resident corporations, as well as those entities that fall within the scope of specific tax treaty rates entered into by the Philippines.

Individuals

Classification
For income tax purposes, individuals are classified as:

Resident citizens. Resident citizens are taxed on their compensation, business, and other income derived from sources within and outside of the Philippines.

Non-resident citizens. Non-resident citizens, including those working and deriving income from abroad such as overseas contract workers and seamen who derive compensation for services rendered abroad as members of a complement of vessels engaged exclusively in international trade, are taxed only on income derived from sources within the Philippines.

Resident aliens. Resident aliens are taxed only on income derived from sources within the Philippines.

Non-resident aliens engaged in trade or business in the Philippines. Non-resident aliens engaged in trade or business in the Philippines are taxed in the same manner as citizens and resident aliens but only on Philippine-source income.

Non-resident aliens not engaged in trade or business in the Philippines. Non-resident aliens not engaged in trade or business in the Philippines are taxed on gross amount of Philippine-source income.

Income Tax Rates for individuals
Citizens, non-resident citizens, resident aliens, and non-resident aliens engaged in trade or business in the Philippines are generally subject to graduated tax rates on income from 5% to 32%. Compensation from OBUs, regional or area headquarters, regional operating headquarters of multinational companies, and petroleum contractors and subcontractors to qualified non-Filipino employees and, in certain cases, to Filipino employees are taxed at 15%. Non-resident aliens not engaged in trade or business in the Philippines are generally subject to a flat income tax rate of 25% on gross income.

Generally, an individual is taxed on two main categories of income: income from employment and income from business or exercise of a profession. Royalties, interest, dividends and other passive income of individuals are subject to different tax rates.

Exemptions
Citizens and resident aliens are entitled to a personal exemption of PhP50,000 and an additional exemption of PhP25,000 for each qualified dependent child, not exceeding four dependents. The additional tax exemption for each dependent shall be claimed only by the husband unless he waives the right in favor of his wife. Married individuals shall compute their individual income tax separately. Married individuals who do not earn purely compensation income are required to file a tax return to include the income of both spouses, unless it is impractical for both spouses to file one tax return.

Non-resident aliens engaged in trade or business in the Philippines are entitled to personal exemptions (but not to additional exemptions) only by way of reciprocity.

Tax Treaties
Specific types of income are exempt from income tax or subject to preferential tax rates under treaties binding on the Philippine government, sub-

ject to prior application for availment of exemption or preferential tax treaty rates filed with the Bureau of Internal Revenue (BIR). The tax treaties of the Philippines with the following countries are in force:

Australia	Kuwait
Austria	Malaysia
Bahrain	Netherlands
Bangladesh	New Zealand
Belgium	Norway
Brazil	Pakistan
Canada	Poland
China	Qatar
Czech Republic	Romania
Denmark	Russia
Finland	Singapore
France	Spain
Germany	Sweden
Hungary	Switzerland
India	Thailand
Indonesia	United Arab Emirates
Israel	United Kingdom and Northern Ireland
Italy	United States
Japan	Vietnam
Korea	

Withholding Tax

System of Withholding Tax

Creditable Withholding Tax (CWT). Certain income payments made by a resident to another resident are subject to specified withholding tax rates. The Tax withheld is creditable against the income tax liability of the recipient.

Withholding Tax on Wages. This is the tax withheld from individuals receiving purely compensation income. Employers are required to withhold the tax due on salaries and wages paid to their employees. Subject to certain conditions, employees may no longer be required to file income tax returns at the end of the taxable year. Employers are however required to furnish the BIR with the Employer's Certificate of Compensation Payment/ Tax Withheld from their employees.

Final Withholding Tax (FWT). Under the FWT system, the amount of income tax withheld by the withholding agent is constituted as a full and final payment of the income tax due from the payee on the said income.

Value-Added Tax (VAT)

In general, sale of goods, sale of services and lease of properties, as well as importation of goods are subject to VAT. Pursuant to RA No. 9337, the President raised the VAT rate to 12% effective 1 February 2006. The Tax Reform Act of 1997 also provides for transactions that are subject to 0% VAT as well as transactions that are exempt from VAT.

Excise Tax

Excise taxes are imposed on certain goods (such as cigarettes, liquor, petroleum products, mineral products, and motor vehicles) manufactured or produced in the Philippines for domestic sale or consumption or for any other disposition. Excise taxes are also imposed on certain imported goods, in addition to the VAT and customs duties.

RA No. 9224 rationalized the excise tax on automobiles based on the manufacturer's or importer's selling price, net of excise and VAT. RA No. 10351 revised the rates and bases of excise tax on alcohol and tobacco products and the BIR issued RR No. 17-2012, Revenue Memorandum Circular (RMC) No. 3-2013 and RMC No. 10-2013 to implement the provisions of RA No. 10351.

Percentage Tax

Persons or entities not subject to VAT, including domestic common carriers of passengers, international carriers on their transport of cargo from the Philippines to another country, and those in the amusement business, are subject to percentage tax on gross receipts or gross income.

Stock Transaction Tax (STT)
The STT is imposed on the sale, barter, exchange, or other disposition of shares through the facilities of the Philippine Stock Exchange (PSE) other than the sale by a dealer in securities at the rate of ½ of 1% of gross selling price or gross value in money of the shares of stock sold, bartered, exchanged or otherwise disposed.

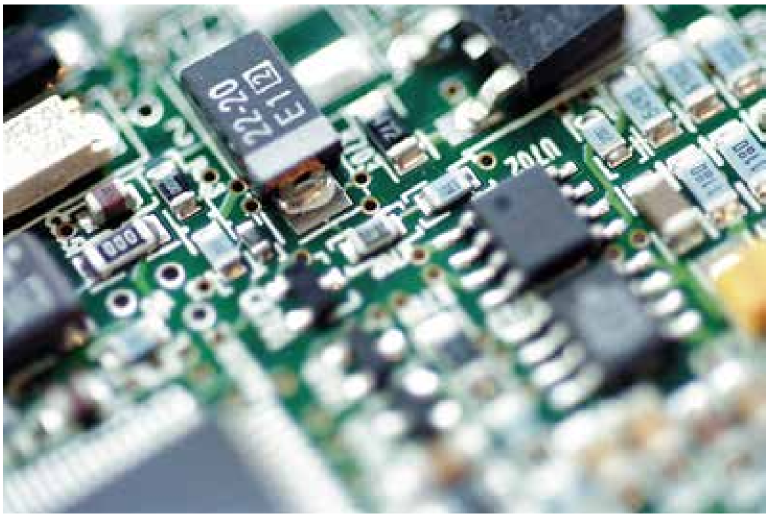
Initial Public Offering (IPO) Tax
A tax is also imposed on the sale, barter, exchange, or other disposition through IPO of shares of stock in closely held corporations in accordance with the proportion of shares of stock sold through IPO. A closely held corporation is any corporation of which at least 50% in value of the outstanding capital stock or at least 50% of the total combined voting power of all classes of stock entitled to vote is owned directly or indirectly by or for not more than 20 individuals.

The IPO tax shall be at the following rates, in accordance with the proportion of shares sold, bartered, or exchanged to the total outstanding shares of stock after the listing in the local stock exchange:

Up to 25%	4%
Over 25% but not over 33.33%	2%
Over 33.33%	1%

The IPO tax shall be paid by the issuing corporation in a primary offering or by the seller in a secondary offering. The tax base shall be the gross selling price or gross value in money of the shares of stock sold, bartered, exchanged, or otherwise disposed of.

Documentary Stamp Tax (DST)
The DST is an excise tax on documents, instruments, loan agreements, lease agreements, shares of stocks, bonds, mortgage, insurance policies, and papers, and on acceptances, assignments, sales and transfers of the obligation, right or property incident thereto. This tax is imposed on the maker, signor, issuer, accepter, or transferor of the document.



Certain industries, including banks and select financial institutions, shipping and airline companies, pre-need companies and educational institutions are mandated to use the web-based eDST System beginning 1 July 2010.

RA No. 9648 exempts from DST any sale, barter or exchange of shares of stock listed and traded through the PSE.

RA No. 9243, or the Act Rationalizing the Provisions of the DST, lists additional transactions exempt from DST, provides lower DST rates for investments in shares, and specifies the new DST base for insurance policies, annuities and pre-need plans and a uniform DST rate on debt instruments. RR No. 13-2004 implements the provision of the said act.

Customs Duty
Goods imported into the Philippines are generally subject to customs duty (aside from 12% VAT and excise tax on certain goods). For customs purposes, the value of imported goods is based on their transaction value, i.e., the price paid or payable for the goods when sold for export to the Philippines, with certain specified adjustments. The applicable duty rate (most-favored nation [MFN] rate) will depend on the appropriate classification of the goods under the Tariff and Customs Code of the Philippines (TCCP), which generally ranges from 0% to 30%. Preferential rates under the ASEAN Trade In Goods Agreement (formerly AFTA) are generally lower than the MFN rates.

Certain importations are exempt from the imposition of custom duty, such as conditionally free importations, items entered into a customs bonded warehouse, and importations under special laws. Importers and their brokers are required to keep records of importations within ten years from the date of importation of the goods. The power of the Bureau of Customs to conduct post-entry audit on the importers'/brokers' books for a period of three years to determine compliance with customs rules and to assess any deficiency customs duty has been transferred to the Fiscal Intelligence Unit of the Department of Finance.

Local Taxes

Under the Local Government Code, local government units (LGUs) are given the authority to tax certain activities and business conducted within their jurisdiction unless otherwise expressly exempt by law. LGUs are also authorized to levy an annual ad valorem tax on real property such as land, building, machinery, and other improvements, as well as transfer tax on the sale, donation, barter, or on any other mode of transfer of real property. However, the taxing powers of LGUs do not extend to the levy of income tax, custom duties, DST, estate tax, and gift tax, among others.

PART I. PRIORITY INVESTMENT AREAS

The coverage, description and entitlement to incentives of the following listed activities shall be defined and clarified in the General Policies and Specific Guidelines to be issued by the Board of Investments (BOI).

The extent of entitlement to incentives shall be based on the project's net value added, job generation, multiplier effect and measured capacity.

I. Preferred Activities

1. Agriculture/Agribusiness and Fishery. This covers commercial production and processing of agricultural and fishery products (including their by-products and wastes), agriculture- and fishery-related activities such as irrigation, post harvest, cold storage, blast freezing and production of fertilizers and pesticides.

2. Creative Industries/Knowledge-based Services. This covers BPO activities, IT and IT-enabled services that involve original content.

3. Shipbuilding. This covers the construction and repair of ships, shipbreaking/shiprecycling.

4. Mass Housing. This covers the development of low-cost mass housing and the manufacture of modular housing components preferably using indigenous materials.

5. Iron and Steel. This covers basic iron and steel products, long steel products (billets and reinforcing steel bars), and flat hot-/cold-rolled products.

6. Energy. This covers the exploration, development and/or utilization of energy sources and other energy sources adopting environmentally-friendly technologies.

7. Infrastructure. This covers transport, water, logistics, waste management facilities, physical infrastructure, (tollways, railways and telecommunication facilities), and PPP projects.

8. Research and Development. This covers R&D activities and the establishment of research/testing laboratories, Centers Of Excellence (COE) and technical vocational education and training institutions.

9. Green Projects. This covers the manufacture/assembly of goods and the establishment of energy efficiency-related facilities (such as district cooling systems), where either utilization of which would significantly lead to either the efficient use of energy, natural resources or raw materials; minimize/prevent pollution; or reduce greenhouse gas emissions.

10. Motor Vehicles. This covers the manufacture/assembly of motor vehicles, including alternative fuel vehicles (AFVs) and electric vehicles (EVs) but excluding 2-stroke motorcycles, and manufacture of motor vehicles parts and components.

11. Strategic Projects. This covers projects that exhibit very high social economic returns that will significantly contribute to the country's economic development

    [Note: Approval of projects shall be subject to the concurrence of the Department of Finance (DOF) and the National Economic Development Authority (NEDA) and other appropriate government agencies.]

12. Hospital/Medical Services. This covers the establishment and operation of medical facilities including general and specialty hospitals, and other health facilities pursuant to Department of Health (DOH) Administrative Order No. 2012-0012.

13. Disaster Prevention, Mitigation and Recovery Projects. This covers the following:

    - Projects that will prevent or mitigate adverse impacts of calamities and disasters (e.g., installation of flood control systems, installation of early warning systems for typhoons, earthquake occurrences, tsunami, volcanic eruptions, dikes and so on)
    - Projects to rehabilitate areas affected by calamities and disasters (e.g., rebuilding of roads and bridges after earthquakes/floodings, volcanic eruptions, oil spill clean-up and so on)
    - Training for disaster preparedness, mitigation or recovery/rehabilitation/reconstruction.

II. Mandatory List

This covers activities that require their inclusion in the IPP as provided for under existing laws.

- Presidential Decree (PD) No. 705 - Revised Forestry Code of the Philippines - This covers extensive plantation of forest land of tree crops (except fruit trees) for commercial and industrial purposes.
- RA No. 7942 - Philippine Mining Act of 1995 - This covers the exploration and development of mineral resources, mining/ quarrying and processing of metallic and non-metallic minerals.
- RA No. 8047 - Book Publishing Industry Development Act - This covers printing, reprinting, publication and content development of books or textbooks.
- RA No. 8479 - Downstream Oil Industry Deregulation Act of 1998 - This covers refining, storage, distribution, and marketing of petroleum products.
- R.A. No. 9003 - Ecological Solid Waste Management Act of 2001 - This covers the establishment of waste recycling facilities.
- RA No. 9275 - Philippine Clean Water Act of 2004 - This covers the establishment of wastewater treatment facilities and sewage collection integrated with treatment facilities and the adoption of water pollution control technology, cleaner production and waste minimization.
- RA No. 7277 - Magna Carta for Persons with Diability - This covers the manufacture of technical aids and appliances for the use and/or rehabilitation of persons with disability, and the establishment of special schools, homes, residential communities or retirement villages solely to suit the needs and requirements of persons with disability.
- RA No. 9513 - Renewable Energy Act of 2008 - This covers developers of renewable energy facilities, including hybrid systems, manufacturers, fabricators and suppliers of locally-produced renewable energy (RE) equipment and components.
- R.A. No. 9593 - Tourism Act of 2009 - This covers tourism enterprises that are outside tourism enterprise zones (TEZs) and are engaged in the following:

  1. Tourist transport services whether for land, sea and air transport for tourist use;

  2. Establishment and operation of:

     - Accommodation establishments such as but not limited to hotels, resorts, apartment hotels, tourist inns, motels, pension houses, private homes for homestay, ecolodges, condotels, serviced apartments, and bed and breakfast facilities;
     - Convention and exhibition facilities or "meetings, incentives, conventions and exhibition" (MICE) facilities;
     - Amusement parks;
     - Adventure and ecotourism facilities;
     - Sports facilities and recreational centers;
     - Theme parks;
     - Health and wellness facilities such as but not limited to spas, tertiary hospitals, and ambulatory clinics;
     - Agri-tourism farms and facilities; and
     - Tourism training centers and institutes.

  3. Development of retirement villages.

  4. Restoration/preservation and operation of historical shrines, landmarks and structures.

III. Export Activities

This covers the manufacture of export products, services, exports and activities in support of exporters.

IV. ARMM List

This covers priority activities that have been identified by the Regional BOI of the Autonomous Region of Muslim Mindanao (RBOI-ARMM) in accordance with EO No. 458. The RBOI-ARMM may also register and administer incentives to activities in this IPP for projects located in the ARMM.

1. Export Activities

   - Export Trader and Service Exporters
   - Support Activities for Exporters

2. Agriculture, Agri-business/Aquaculture & Fishery
3. Basic Industries
4. Consumer Manufactures
5. Infrastructure and Services
6. Industrial Service Facilities
7. Engineering Industries
8. Logistics
9. BIMP-EAGA Trade and Investment Enterprises
10. Tourism
11. Health and Education Services and Facilities
12. Halal Industry

Economic Program

An integral platform of the new administration is the establishment of stronger, more streamlined ties with global business sectors. Plans and programs are underway to stimulate more Public-Private Sector Partnerships (PPPs) with both local and international investors. The government has come up with a liberal program of fiscal and non-fiscal incentives to attract foreign capital and technology that complement local resources. Key sectors will include tourism, business process outsourcing, mining, agriculture, manufacturing and infrastructure. Different incentive schemes will also be available relative to the location and registration of the proposed business activity.

Under the directive of the Securities and Exchanges Commission, the Philippines also recently adopted the International Financial Reporting Standards for Small and Medium-sized Entities (IFRS for SMEs), in addition to the IFRS guidelines adopted in 2005. These standards will ensure that businesses in the country not only conform to internationally accepted practices, but will also promote the same transparency and uniformity of financial reporting practiced in other parts of the world.

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The Philippines at a Glance

Land area: 300,000 sq. km
Major Islands: Luzon, Visayas, Mindanao
Capital: Manila

Population: 107,668,231 (July 2014 est.)
Median age: 23.5 years old

Languages: Filipino, English (principal indigenous dialects - Tagalog, Cebuano, Ilocano, Hiligaynon or Ilonggo, Bicol, Waray, Pampango, and Pangasinan)

Form of government: Constitutional Republic, Unitary presidential
Parliament: The Congress consists of the House of Representatives and the Senate
Religion: Roman Catholic 80.9%, Muslim 5%, Evangelical 2.8%, Iglesia ni Kristo 2.3%, other Christian 4.5%, Aglipayan 2%, Other 1.8%, Unspecified 0.6%, None 0.1%

Independence Day: June 12

Currency: Philippine Peso (PhP)
1 USD = 44.487 PhP
1 Japanese Yen JPY = 0.434 PhP
1 British Pound GBP = 74.711 PhP
1 Chinese Yuan CNY = 7.147 PhP
1 EUR = 61.441 PhP
1 HKD = 5.737 PhP
(exchange rates as of 21 April 2014)*

GDP: USD454.3 billion (PPP, 2013)
GDP per capita: USD4,700 (PPP, 2013)
GDP composition: Services 57.2%, Industry 31.6%, Agriculture 11.2%

OFW remittances: USD 25.1 (2013)
Labor force: 40.3 million

Source: World Factbook 2014
* Bangko Sentral ng Pilipinas

Cost of power (industrial):

Distribution charge (per kw)	PhP281.84	(USD6.82)
General power (GP)		
13.8kv and below	213.74	(5.53)
34.5 kv	213.74	(5.53)
115kv / 69 kv	167.46	(5.53)

Source: Manila Electric Railroad and Light Company (Meralco)
www.meralco.com.ph, February 2014

Cost of Telecommunication (Business):
Business landline: PhP1,259.02/month

International Calls - PLDT Rates:
ASEAN/Hongkong/Japan/Macao/South Korea
USD0.15/min.

Australia/New Zealand/USA/Canada/France
Germany/Italy/Spain/U.K./China/India
Kuwait / UAE / Bahrain / Saudi Arabia
USD.040/min.

Source: Philippine Long Distance Telephone Company (PLDT)
http://www.pldt.com.ph

Monthly cost of office rental (Makati Central Business District) for 2013:

Average Class A Net Rent PhP915 per sq.m. (USD22.29)
CBD Cap Rate/ Prime Yield 8.8%

Source: *Global Office 2013 Outlook*, Colliers International, 2013

Principal exports: semiconductors and electronic products, transport equipment, automobile parts, textiles and garments, wheat and animal feeds, coconut oil, copper products, petroleum products and fruits.

Principal imports: mineral fuels, lubricants, dairy products, iron, steel, organic and inorganic chemicals, telecommunications equipment and electrical machinery, electronic products, plastics, industrial machinery and equipment, raw and semi-processed materials for the manufacture of semiconductors, transport equipment, and cereals and cereal preparations.

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Information as of June 2014.