



D&V Philippines Outsourcing, Inc.
"Finance and Accounting experts leading you forward"

Gateway to
Start Your

 Business in the

Philippines



Contents

<u>Executive Summary.....</u>	<u>3</u>
<u>Why Choose the Philippines.....</u>	<u>4</u>
<u>The Difference Between a Branch Office and Domestic Subsidiary.....</u>	<u>5</u>
<u>Setting Up A Branch Office.....</u>	<u>8</u>
<u>Setting Up A Domestic Subsidiary.....</u>	<u>9</u>
<u>We Can Help You Get In.....</u>	<u>10</u>



Executive Summary

The Philippines is considered today as one of the world's most resilient and fastest growing economies. Backed by a young population, economic reforms and a government trusted by the majority, the country is seen to become one of the Asia's strongest economies in the next decade.

There are several types of business enterprises an investor can choose from in establishing operations in the Philippines. This paper intends to provide information on two of the most commonly used business set up i.e., a branch office operations and a domestic subsidiary.

In this white paper you'll be able to know about the step-by-step process in setting up a branch or a domestic subsidiary, depending on your need. To help you with your endeavor, D&V Business Management Services (D&V BMS) a well-established finance and accounting outsourcing firm, is ready to assist foreign entities in setting up their branch or domestic subsidiary in the Philippines. Our services include completing all the steps listed in this paper (**Setting up a Branch Office – p.7, Setting up a Domestic Subsidiary – p.8**). For inquiries, you may reach us through the contact details at end of this paper.

Why Choose Philippines?

Before we discuss the ways by which you can do business in the Philippines, here are some things that you need to know about the Philippines.

The Philippines is an archipelago in Southeast Asia, comprising of 7,107 islands that are categorized under three geographical divisions; Luzon, Visayas and Mindanao. The government is a democratic republic, and is divided under three branches; the Executive (led by the President), the Legislative (House of the Representatives and the Senate), and the Judiciary (powers vested on the Supreme Court). Following are some more facts that may increase your interest to do business in the Philippines.

The People

The Philippines has a relatively young population that numbers to more or less 100 million. The latest Census of the Population reveals that 97.5% of the population are able to read and write. Filipinos are also one of the most proficient users of the English language in Asia, to the extent that it is the world's best country in business English, according to GlobalEnglish Corporation.

The Economy

Last 2013, the Philippines posted a GDP growth rate of 7.2%, the highest among the ASEAN and second only to China among the Asian Countries. It peaked at 7.9% during the 2nd quarter of 2013, and the GDP growth rate for the 4th quarter of 2014 was at 6.9%. This growth is backed by aggressive government spending, strong public-private partnership programs, increase in investment grades by renowned organizations, and the economic resiliency that is viewed currently as the best in the world.

Market In Focus: BPO

Business Process Outsourcing (BPO) is currently one of the fastest growing markets in the Philippines. The BPO industry is seen as the top employment opportunity provider for Filipinos, with estimations reaching 1.5 million new jobs to be generated from the industry by 2016. In addition to which, experts predict that the industry's revenue will reach 20-25 Billion USD by 2016, and 55 Billion USD by 2020 (11% of the country's GDP, according to the estimates of the World Bank). This makes the BPO Industry a significant driver of the Philippine economic growth and a market worth investing in.

The Difference Between A Branch Office and Domestic Subsidiary

Foreign companies interested to do business in the Philippines must be thinking which of these two set up is applicable to their needs. And to help you decide which one suits best your situation, this section differentiates the two in terms of their Nature of Business, Legal Liabilities, Capitalization, Taxation and Registration Requirements.

Nature of Business

A Branch Office, is just an extension of its parent company. Thus, the liabilities that a branch office has extends to the parent company.

On the other hand, a domestic corporation is considered as a separate legal entity from its parent company. Thus, its liabilities are not regarded as the liabilities of the parent company.

Juridical Personality

Foreign Corporations doing business in the Philippines via branch office is responsible for damages and/or other liabilities that may be incurred by the branch office. This means that the assets of the parent company might be used to answer for the damages and/or liabilities by the branch office.

In contrast, a domestic subsidiary is treated as a separate juridical personality from its parent company. Recovery for damages and/or liabilities are limited to the local assets of the subsidiary in the Philippines. Thus, the foreign corporation is shielded completely from the liabilities of the local subsidiary.

Capitalization

As a 100% owned foreign-owned entity, a branch must have a capital of at least USD 200, 000. A domestic subsidiary with more than 40% foreign equity also requires the same capital infusion. However, both can register with a minimum paid up capital of Php. 5, 000 if they will be exporting at least 60% of their output. There are, however, varying amount of capitalization requirements for investments falling under the Foreign Investment Negative List.

Deposit Requirements

The law requires a branch to deposit government securities of at least One Hundred Thousand Pesos (Php. 100,000.00) with the Securities and Exchange Commission (SEC) within 60 days from the issuance of the license from the SEC. The company is also required an annual additional deposit within six (6) months after each fiscal year. The additional deposit should be equal to 2% of the amount of the gross income of the branch that exceeds Five Million Pesos (Php. 5,000,000.00)

Domestic subsidiaries are not required to deposit securities with the SEC.

Taxes

A branch is taxed 30% based on its net income derived from all sources within the Philippines. The tax is known as the Corporate Income Tax (CIT).

Profits remitted by the branch to its parent company are subject to the branch profit remittance tax of 10% or 15% depending on certain tax treaties the Philippines has with the country where the parent is located. However, if located in special economic zones like the PEZA, then they are exempt.

A branch is not liable to pay the 10% improperly accumulated earnings tax.

Like branch offices, domestic subsidiaries are also subject to the 30% Corporate Income Tax. However, the CIT for domestic subsidiaries include income sources within and outside the Philippines. Like branch offices, domestic subsidiaries may also opt to avail the incentives given by PEZA, as long as they satisfy the necessary requirements.

Here's a list of PEZA incentives that branch offices and domestic subsidiaries may opt to apply for:

- Income Tax Holiday (ITH) which means 100% corporate tax exemption for a definite number of years, depending on the company's industry.
- Tax and duty free importation of raw materials, capital equipment, machineries and spare parts
- Exemption from wharfage dues and export tax, impost or fees
- Zero VAT rating for local purchases, subject to compliance with BIR and PEZA requirements.
- Exemption from payment of any and all local government imposts, fees, licenses or taxes
- Exemption from expanded withholding tax
- Simple import and export procedures (use of Electric Import Permit System and Automated Export Documentation System)
- Visa privileges for foreign nationals employed by PEZA accredited enterprises.

The remittance of dividends by the subsidiary to the parent corporation on the other hand, is usually taxed at 30%. However, this may be reduced to 15%, if the country in which the parent company is located: (1) grants a tax sparring credit of 15%, or (2) the country does not impose tax on any dividends received at all.

Requirements

A branch may be set up with at least one (1) person who acts as the resident agent and requires only to secure from the Securities and Exchange Commission (SEC) a license to operate in the Philippines. Requirements on how to secure the license from the SEC will be discussed in the next chapter.

On the other hand, the establishment of a subsidiary requires at least five (5) to a maximum of fifteen (15) incorporators/directors. All of whom should be natural persons and majority should be residents of the Philippines. Further details on the requirements in setting up a domestic subsidiary shall be discussed on the next chapters.



Step-by-step Guide in Setting Up a Branch Office

For those who are more inclined to have a branch office in the Philippines, here's a step-by-step guide on how you can set-up your branch in the Philippines:

NAME®

Step 1: Verify and reserve branch name with the SEC



Step 2: Deposit minimum capital requirement in Authorized Agent Bank



Step 3: Treasurer's affidavit on that capital requirement has been deposited in the AAB



Step 4: Register branch with the SEC. Check <http://www.sec.gov.ph/gsr/primary/foreignbro.html> for requirements.



Step 5: Obtain SEC Security Deposit in accordance with the given schedule



Step 6: Pay registration fee and documentary stamp taxes at the BIR



Step 7: Pay community tax and obtain community tax certificate from City Treasurer's Office



Step 8: Obtain Barangay clearance and then Mayor's Permit from LGUs



Step 9: Buy special book of accounts at bookstore



Step 10: Obtain authority to print receipts and invoices from BIR and then print receipts and invoices



Step 11: Print receipts and invoices



Step 12: Have book of accounts and Certificate of Delivery of Receipts and invoices Stamped by BIR



Step-by-step Guide in Setting Up a Domestic Subsidiary

For those who are more inclined to have a domestic subsidiary in the Philippines, here's a step-by-step guide on how you can set-up your subsidiary in the Philippines:

NAME®

Step 1: Verify and reserve branch name with the SEC



Step 2: Deposit minimum capital requirement in Authorized Agent Bank



Step 3: Notarized articles of incorporation and treasurer's affidavit at the notary



Step 4: Register branch with the SEC. Check http://www.sec.gov.ph/gsr/primary/primaryreg_newy.html for requirements.



Step 5: Obtain SEC Security Deposit in accordance with the given schedule



Step 6: Pay registration fee and documentary stamp taxes at the BIR



Step 7: Pay community tax and obtain community tax certificate from City Treasurer's Office



Step 8: Obtain Barangay clearance and then Mayor's Permit from LGUs



Step 9: Buy special book of accounts at bookstore



Step 10: Obtain authority to print receipts and invoices from BIR and then print receipts and invoices



Step 11: Print receipts and invoices



Step 12: Have book of accounts and Certificate of Delivery of Receipts and Invoices Stamped by BIR



WE CAN HELP YOU GET IN. DO BUSINESS IN THE PHILIPPINES.

Contact Details

Our office is located at **23rd Floor, Tower 2, The Enterprise Center 6766 Ayala cor. Paseo de Roxas, Makati City, Philippines 1226.**

For more information or queries, you may contact our Marketing team. Please send an email to marketing@dvphilippines.com or call us at +63 2 846 1144. Our office hours are from Monday to Friday, 9:00 AM to 7:00 PM MNL time.

