

Gateway to **THE PHILIPPINES**

Branch Office or Domestic Subsidiary

**"Finance and
Accounting experts
leading you
forward"**



original photo from US Jeepney

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EXECUTIVE SUMMARY

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

This paper intends to help foreign business owners to choose between two ways on how they can do business in the Philippines; setting up a Branch office or incorporating a Domestic Subsidiary.

To help further, D&V Philippines, through its Business Management Services (BMS) Department, is ready to assist foreign entities in setting up a branch or a domestic subsidiary in the Philippines.

Our services include competing all the steps listed in this paper (***Setting up a Branch Office – p, Setting up a Domestic Subsidiary – p,***) in accordance with your specific business needs. For inquiries, you may reach us through the contact details at end of this paper.



WHY DO BUSINESS IN THE PHILIPPINES?

The Philippines is an archipelago in Southeast Asia comprising 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).

The People

The Philippines has a relatively young population that numbers to more or less 100 million. The latest Census of the Population also 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

In 2013, the Philippines posted a GDP growth rate of 7.2%, the highest among the ASEAN and second only to China among all Asian countries. The GDP growth rate peaked at 7.9% during the 2nd quarter of 2013, and ended at 6.9% on the 4th quarter of 2014. 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: the BPO Industry

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 1.5 million new jobs estimated to be generated by 2016. 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 who are interested in doing business in the Philippines may choose between two processes. The first one is through a branch office and the other is by setting up a domestic corporation. In order for you to determine which suits your needs, we differentiate the two in terms of their Nature of Business, Legal Liabilities, Capitalization, Taxation, and Registration Requirements.

Branch Office

Domestic Subsidiary

Nature of Business

From a legal perspective, a branch office is ***simply an extension of its parent company***. Thus, the liabilities that a branch office has will extend to the parent company.

On the other hand, a domestic corporation is considered as ***an entity separate from its parent company***. Thus, the liabilities that it has will not be 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.

Alternatively, 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. This means that the foreign corporation is shielded completely from the liabilities of the local subsidiary.

Capitalization

The **required minimum paid-up capital** is two hundred thousand US dollars **(\$200,000.00)** for **both branch office and domestic subsidiary**. It can be reduced by half (\$100,000.00) for both if advanced technology is involved as determined by the Department of Science and Technology, or if the branch/ domestic subsidiary directly hires at least 50 employees. However, higher capitalization requirements may apply for certain industries (e.g., life insurance).

In addition to which, the **minimum capital of 200,000.00 USD per month does not apply to domestic subsidiaries that export 60% or more of its products or domestic purchases.**

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 Philippine sources**.

This tax is known as the Corporate Income Tax (CIT). In lieu of the Corporate Income Tax, a branch will be subjected to the Minimum Corporate Income Tax (MCIT) which is 2% of the gross income at the 4th year immediately following the year of the start of its operations. The MCIT would only apply if the 2% rate on the gross income is higher than the 30% rate on the net income.

Branches are **also subject to a Branch Profit Remittance Tax of 15%** based on the total profits for remittance without any deduction for the tax component thereof (activities registered with the Philippine Economic Zone Authority are excluded). In addition, if the branch income to be remitted is in the form of dividends, interests, or rentals which are not connected to the conduct of trade in the Philippines, these are not considered as branch profit and the branch profit remittance tax is not required to be collected.

As with Branch offices, **Domestic Subsidiaries are also subject to the 30% Corporate Income Tax**, and alternatively the Minimum Corporate Income Tax. The only difference is that the rates (30% for CIT and 2% for MCIT) apply to the net (CIT) and gross (MCIT) income of the domestic subsidiary, from sources within and outside the Philippines.

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 sparing 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**. In order to do business, a branch is required to obtain a license to operate in the Philippines from the SEC. 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 the majority of which should be residents of the Philippines. Further details on the requirements in setting up a domestic subsidiary shall be likewise discussed on the next chapter.

Setting Up a **BRANCH OFFICE**

To establish a branch office in the Philippines, use this infographic on how you can get started:



Setting Up a DOMESTIC SUBSIDIARY

Here is a handy guide for those who intend to establish a subsidiary in the Philippines:

BRANCH
NAME

1 Verify and reserve branch name with the SEC



2 Deposit minimum capital requirement in Authorized Agent Bank



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



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



5 Obtain SEC Security Deposit in accordance with the given schedule



6 Pay registration fee and documentary stamp taxes at the BIR



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



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



9 Buy special book of accounts at bookstore



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



11 Pay registration fee and documentary stamp taxes at the BIR






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

GET STARTED TODAY

D&V Philippines has more than five years of experience in helping SMEs, startups, and other entities establish their presence in the Philippines. We offer assistance in registering company name/registered address, adding/removing directors, and annual business renewal.

We can also help you in registering and incorporating your company. If needed, we can also provide you a prestigious address in Manila's central business district where you can collect mails.

Other services that we offer include, but are not limited to:

-  **Bookkeeping and Management Accounting**
-  **Local Statutory Tax Compliance**
-  **Payroll Services**
-  **Corporate Secretariat Services**
-  **Remote Financial Controlling**

***WE'LL HELP YOU
SET UP SHOP IN THE
PHILIPPINES.***



CONTACT US

D&V Philippines is located at the **Makati Central Business District**, the Philippines' most vibrant multicultural business hub.

Dubbed as the Wall Street of the Philippines, Makati City is the country's premier financial district where many multinational companies are located.

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