

**Chandrawat
& Partners**

Doing Business in the Philippines

A comprehensive guide

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Strategic Insights on the Philippines

The Philippines is an emerging market and a newly industrialized country, whose economy is transitioning from being agricultural to service- and manufacturing-centered. It is a founding member of the United Nations, the World Trade Organization, ASEAN, the Asia-Pacific Economic Cooperation Forum, and the East Asia Summit. It is a popular destination for Business Process Outsourcing (BPO).

The Philippines is an ideal country for companies looking to expand internationally. Their economy has consistently been among the fastest growing in the ASEAN region, making it one of the fastest-expanding markets globally. With a highly proficient English-speaking population that is eager to work abroad and collaborate with foreign businesses, the Philippines' workforce thrives in global services and trade.

The Philippine economy potentially faces a faster, sustained and more inclusive growth, as the country enters its “demographic sweet spot” which is expected to last until 2050. The discussion has been around Philippine legal system, foreign investment, including restrictions, currency regulations and incentives. Laws in regulations of employment relationships, swift overviews on competition law and safety are also included.

Also summarized are taxations and tax residencies, overall, the nation boasts an educated workforce, a strategic business location, a steadily expanding infrastructure and a highly developed, business-friendly economy with practically unlimited opportunities for companies looking to expand here.

Economic Overview

The Philippine economy is the world's 36th largest by nominal Gross Domestic Product (“GDP”) and 15th largest in Asia according to the International Monetary Fund in 2023.

The Philippine economy is transitioning from one based on agriculture to one based more on services and manufacturing. It has experienced significant economic growth and transformation in recent years.

Over the decade ahead, rapid economic growth is forecast for the Philippines economy. By 2034 the Philippines is set to join the ranks of a small group of countries in the Asia-Pacific region that have a GDP exceeding one trillion dollars.

This will result in a significant transformation of the structure of the Philippines economy, with a substantial expansion in the size of the domestic consumer market. This will also help to drive Foreign Direct Investment (FDI) inflows into the Philippines, as multinationals build up their local presence.



Foreign Direct Investment



The growth of Foreign Direct Investment (FDI) net inflows was sustained in February 2024, posting a 29.3 percent increase year-on-year to reach US\$1.4 billion from the US\$1.1 billion net inflows in February 2023. This development was due to the 927.3 percent expansion in nonresidents' net investments in equity capital (other than reinvestment of earnings) to US\$764 million from US\$74 million in February 2023.

These developments brought the cumulative FDI net inflows in January-February 2024 to US\$2.3 billion, higher by 48.2 percent than the US\$1.5 billion net inflows recorded in January-February 2023. The growth in FDI reflects sustained investor confidence in the country's macroeconomic fundamentals and resilience amid persistent inflationary pressures and global economic uncertainties.

The influx of FDIs from both within and outside of Asia will play a significant role in the growth of the Philippine renewables market. Also, the increased entry of foreign players indicates that the Philippines is quickly becoming a promising market for renewable energy investment, thus, further investments are expected.

Other closely related areas could be energy storage, renewables-based automotive, or infrastructure development, as these also present promising opportunities that may attract FDI.

Moving forward, FDI is heavily expected to continue to play a crucial role in furthering the growth of the renewable energy industry in the Philippines. Through this, an emphasis on public-private cooperation from the Philippine government's end will be necessary to accommodate the entry of foreign players. Local parties from the private sector interested in investing can also seek out potential partnerships.

Key Benefits

From a strategic location to a skilled workforce, there are numerous benefits of registering a business in the Philippines. Below are few benefits that can help businesses to expand here -

1. Excellent business location

One of the reasons for setting up a business in the Philippines is the excellent geographic location of the nation. The Philippines is centrally placed in Asia and serve as an important gateway to both Asian and Western marketplaces which makes the nation an excellent center for trade and commerce.

2. Infrastructure growth

One of the benefits of registering a business in the Philippines is the excellent infrastructural and transportation facilities in the nation. The Philippines has a sophisticated transportation system, which consists of highways, motorways, and airways.

3. Several prospects for investment

One of the advantages of registering a company in the Philippines is the various investment opportunities available in the nation. The Philippines is one of the Southeast Asian nations with a rapidly-expanding economy. The Philippines is an excellent place to launch a company that encourages international investment as a result of its encouragement for free trade agreements.

4. Low cost of workers

Another one of the crucial reasons for setting up a business in the Philippines is the low cost of workers. In comparison to other nations, the Philippines' labor costs are comparatively lower, making it an economical place to conduct commercial operations. This makes it possible for firms to hire workers at a reasonable cost which can benefit investors that want to outsource operations or establish manufacturing plants in the nation.

5. Tax incentives

Another one of the advantages of registering a company in the Philippines is the numerous tax incentives available in the nation. An income tax holiday is available to newly registered businesses for 4 to 6 years, depending on where they are located. This indicates that the business will not be required to pay income taxes for the selected time period.

Key Sectors

The major economic sectors in the Philippines include manufacturing, services, agriculture, and retail. Manufacturing industries, such as electronics assemblers, have adopted fourth industrial revolution (4IR) technologies to remain competitive. The government has prioritized the manufacturing sector, which has consistently received high-priority rankings, indicating a shift towards a more industry-driven economy .

The services sector, particularly labor export and business process outsourcing (BPO) industries, has played a significant role in the country's economic growth . The Philippines has a leading position in the world of BPO, with call centers concentrated in the southern part of the Manila Metropolitan area. Retail is also a major driver of the domestic economy, with real estate and shopping malls contributing to the country's wealth.

Philippines' electronics sector is one of the biggest contributors and the backbone of the country's manufacturing output. The export of electronics and semiconductors are expected to reach US\$50 billion in exports for 2024, rising from US\$45.92 billion in 2023. The electronics industry is classified into 73 percent semiconductor manufacturing services and 27 percent electronics manufacturing. Through greater foreign investments, the Philippines is also aiming to attract investments that will move up the global value chain.

The value of the top 10 agricultural exports in the Philippines was valued at US\$6.49 billion in 2023. The country's main agricultural products include rice, coconuts, sugarcane, corn, bananas, pineapples, and mangos. The sector also contributes to an estimated 8.9 percent of GDP in 2023 and employs 24 percent of the local workforce. The country is encouraging investments in areas like AgriTech to not only drive-up yields but also improve irrigation and infrastructure to reduce export-related costs and food wastage.

There are significant opportunities for foreign investors in the Philippines' e-commerce sector, which has been the main growth driver of the country's digital economy. Foreign investors can also provide solutions in cloud computing, financial technology (FinTech), the internet of things, and big data for various Filipino industries. Importantly, FinTech can help improve financial inclusivity in the country, serving the underbanked and unbanked population. Moreover, many micro, small, and medium-sized businesses have little access to formal financing from banks because many are operating in the informal sector, and as a result, they do not pass the stringent requirements from banks.

Types of Businesses



Sole proprietorship

A sole proprietorship is the most basic type of business structure in the Philippines because it's the simplest to set up. Sole proprietors such as general merchandise stores, small retail establishments, and ready-to-wear shops are liable for the business's liabilities, debt, and losses.

Partnership

A partnership business structure is formed by two or more people who agree to do business together to gain profit. Partnerships are most commonly seen in law firms, real estate investment networks, and physician groups.

Limited partnership

Limited partners are only responsible for the sum invested in the partnership. Compared to general partners, limited partners have no management rights or input into company operations.

Corporation

A corporation in the Philippines is treated legally as a personality separate, distinct from the stockholders who own the corporation. A total of 15 people is needed to open a lawful corporation. This structure requires close coordination with the Securities and Exchange Commission ("SEC") and involves multiple record-keeping and accounting work.

There are two kinds of a corporation:

- Stock corporation
- Non-stock corporation

One-person corporation

One-person corporation ("OPC") only has one stockholder who can be a natural person, trust, or estate. It combines the best aspects of a corporation and a sole proprietorship, namely limited liability and complete dominion. These typically include banks, trusts and insurance companies.

Company Registration

In order to register a company in the Philippines, an entrepreneur must pay the necessary fee associated with incorporating the business. Below are the various fees that must be paid by an entrepreneur for company registration in the Philippines:

- SEC enrollment charges: Total Securities and Exchange Commission ("SEC") charges for Philippines company registration is PHP 6,750.
- Bureau of Internal Revenue cost: The overall cost for Bureau of Internal Revenue registration is PHP 530.
- Department of Trade and Industry: The overall fee for enrollment with the Department of Trade and Industry is PHP 1700.

1

Register the business name

The first step for Philippines company registration is to decide on a name for your business and register it with the SEC. A business name can be registered and reserved online with the SEC by setting up an account.

2

Gather the documents

The entrepreneur must next compile and collect the necessary paperwork before submitting it to the securities and exchange commission in order to register a company in the Philippines. The documents to be submitted include the articles of incorporation, the bylaws of the firm, and the treasurer's affidavit.

3

Acquire the business licenses and permits

The entrepreneur must also secure various licenses before starting any commercial operations. The business owner must request the barangay's clearance, mayor's permit, and a business license.

4

Enroll with the Bureau of Internal Revenue ("BIR")

One must enroll the new business with the BIR in order to comply with tax requirements in the Philippines and obtain the tax identification number.

5

Enroll with the government agencies

If the company wishes to recruit workers, it must enroll as an employer with the following governmental bodies:

- Social security system,
- PhilHealth
- Pag-IBIG Fund

How to establish an entity?

There are 5 legal structures available for foreign businesses looking to operate in the Philippines: (a) subsidiary, which is registered under the Philippine law and treated as a Philippine domestic corporation, (b) branch office, (c) representative office, (d) Regional or Area Headquarters (“RHQ”) and (e) Regional Operating Headquarters (“ROHQ”).

Incorporation Process

In general, Philippine corporations are required to file the following annual reports with the SEC:

- General Information Sheet (“GIS”) must be filed within 30 calendar days of the annual stockholders’ meeting,
- the Audited Financial Statements (“AFS”), as stamped received by the BIR, must be filed with the SEC within 120 calendar days from the end of the fiscal year according to the Financial Statements.

Branch offices and representative offices of foreign corporations, as well as ROHQs and RHQs, are likewise required to file the following with the SEC:

- a GIS within 30 days of the anniversary of the issuance of the SEC License; and
- the AFS, as stamped received by the BIR, within 120 calendar days from the end of the fiscal year according to the Financial Statements.

For domestic corporations, an amended GIS is submitted to the SEC for any relevant changes, including changes in the directors or officers of the corporation during the year. A notification update form is required for any change in the principal office address, officers or additional subsidiaries of branch offices and representative offices of foreign corporations, as well as ROHQs and RHQs.

The corporation’s GIS shall include a beneficial declaration page in compliance with said SEC directive. Listed and public companies, as well as companies with secondary licenses, are subject to more stringent reportorial and disclosure requirements with the SEC, including required reports on changes in beneficial ownership of securities, and the submission of quarterly reports.

The incorporation of a local subsidiary requires at least 5 but not more than 15 incorporators; the majority of whom must be residents of the Philippines. Each of the incorporators must own or be a subscriber to at least 1 share of the capital stock of the company. At least 25% of the authorized capital stock, as stated in the articles of incorporation, must be subscribed at the time of incorporation, with at least 25% of the total subscription paid upon subscription.



Taxation

The main taxes imposed on corporations in the Philippines are corporate income tax, value-added tax (“VAT”) and withholding tax (“WT”). Other taxes include percentage tax (generally for activities not subject to VAT, excise tax, documentary stamp tax, local business and real property taxes.

- Corporate income tax of 30% is imposed on taxable income. In the 4th year of operations, the tax imposed is either 2% of gross income or 30% of taxable income, whichever is higher. For entities covered by special laws (for example, PEZA entities), a 5% income tax is imposed on the gross income.
- Regional Operating Headquarters on the other hand, are entitled to an income tax rate of 10% on taxable income. Quarterly income tax returns should be filed and the payment should be made, on or before the 60th day following the close of each of the quarters of the taxable year.
- The annual income tax return shall be filed and the payment made on or before the 15th day of April of each year covering taxable income for the preceding taxable year.

- VAT at the rate of 12% is imposed on the sale, barter, exchange or lease of goods or properties and services in the Philippines, including the importation of goods. Being an indirect tax, the VAT can be passed on to the buyer or end user of the goods and/ or services.
- The VAT returns must be filed and the corresponding payment (if any) made within 20 days following the end of each month (for monthly VAT returns) and 25 days following the close of the taxable quarter (for quarterly VAT returns) unless the filer is enrolled under the Electronic Filing and Payment System (“EFPS”).

- Tax rates range from 1% to 30%, depending on the nature of the payment. However, income payments to foreign entities may be subject to lower preferential tax treaty rates provided that a certificate of residence for tax treaty relief form has been accomplished before the payment of income is made.
- This form applies only to income payments for dividends, interests and royalties. Local business taxes, fees and charges are also levied by Local Government Units (“LGUs”).

Employment Policies

Minimum wage: Under the Philippines' minimum wage law, the minimum wage rate varies from one region of the country to another and is set by the relevant regional tripartite wages and productivity board. Under the most recent wage order, the minimum wage for Metro Manila i.e. the national capital region in 2024 ranges from Php 573 to Php 610 across various sectors. The minimum gross basic wage is PHP466 per day plus the cost-of-living allowance of PHP15 per day.

Work hours and overtime: The normal hours of work should not exceed eight hours a day. Unless there is a valid compressed workweek arrangement, an employee who renders work in excess of eight hours a day is entitled to overtime pay equivalent to the applicable wage rate plus at least 25 per cent thereof. The overtime rate will vary if the overtime work is rendered on a rest day, regular holiday or special day or during the period between 10 p.m. and 6 a.m. of the following day.

Rest Days: An employer may require its employees to work six days per week. Employees, except exempt employees, are entitled to a rest period without pay of not less than 24 consecutive hours for every six consecutive normal working days. For work done on rest days, the employer should pay compensation equivalent to the applicable wage rate plus at least 30 per cent thereof.

Service incentive leave: Except for exempt employees, every employee who has rendered at least one year of service is entitled to a yearly service incentive leave (which is commonly replaced by vacation leave) of five days with pay. The service incentive leave should be converted to its money equivalent and paid to the nonexempt employee by the employer if not used or exhausted by the said employee at the end of the year.

Maternity leave: Every qualified pregnant woman in the private sector is entitled to maternity leave of 60 days in case of normal delivery, abortion or miscarriage, or 78 days in case of caesarean delivery. During such leave, the pregnant woman shall receive daily maternity benefit equivalent to 100 per cent of her average salary credit, computed based on the formula of the Social Security System ("SSS"), for 60 or 78 days, as the case may be.

13th-month pay: All "rank-and-file" employees of employers covered by the revised guidelines on the implementation of the 13th Month Pay Law are entitled to a bonus called "13th-month pay," regardless of the amount of their monthly basic salary, their designation or employment status, and the method by which their salary is paid, provided they have worked for at least one month during a calendar year.

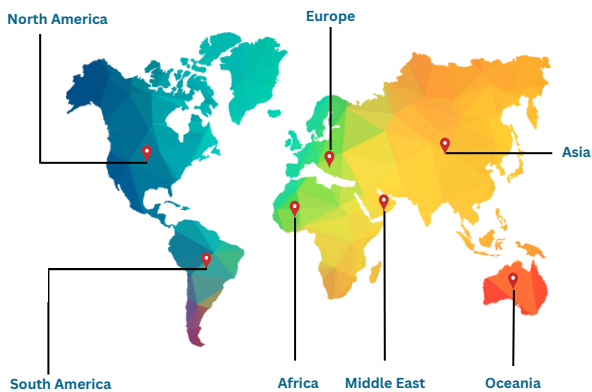
How we may help?

Our extensive practical expertise assists companies through every stage of the business setup process. We offer a comprehensive range of services to help clients plan and establish their businesses effectively. These services include:

- **Understanding the Local Business Culture:** It is crucial to take the time to learn about local customs, etiquette, and business practices.
- **Establishing a Local Presence:** Setting up a local office or partnering with a local company can help build credibility and trust with customers and partners.
- **Conducting Due Diligence:** Navigating the complex legal and regulatory framework in the Philippines requires strict compliance with all applicable laws and regulations to mitigate legal and regulatory risks.
- **Seeking Professional Advice:** We provide access to legal and business experts who possess in-depth knowledge of Philippine laws, regulations, and business practices.
- **Hiring a Local Workforce:** Employing local workers can help navigate regulations and cultural nuances. Compliance with local labor laws and regulations is essential when hiring in the Philippines.
- **Nominee Director and Shareholder Services:** We offer nominee director and shareholder services to help clients maintain confidentiality and meet local regulatory requirements. Our nominee directors and shareholders act on behalf of the company while ensuring compliance with local laws and protecting the client's interests.



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Key Contact



Surendra Singh Chandrawat

Managing Partner

✉ surendra@chandrawatpartners.com

Connect Surendra on

[LinkedIn](#)

[WhatsApp](#)

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