

HOW TO DO BUSINESS IN THE PHILIPPINES

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I. BUSINESS PLANNING, ORGANIZING & REGISTRATION IN THE PHILIPPINES

1. Business Plan

It is basic that any decision to invest or engage in commerce in the Philippines must be guided by a business plan. With 80 million market - 50% of which ages 19 years old and below, and further considering the country's present state, there is plenty of room for innovative products, technologies, infrastructures and other investment opportunities.

The business plan must contain an investor's strategy for success and ultimately assists in assessing the chances of success. It would help avoid the pitfalls and reduce the cost of doing business. The essential components of the plan are as follows:

- a) **Marketing Plan** – conduct a market study, research and analysis of the market (export or domestic) in relation to the product, technology or service of your proposed business. Knowing the market helps create the long-term strategy that

drives an investment decision, current and future actions. Know the customers and understand competition. Develop the business strategy.

- b) **Viability Study** – economies of different countries are now interwoven because of free trade and globalization. Many products or services generated in the Philippines are subject to the vagaries of import liberalization. Identify the competitive advantage of establishing the business in the Philippines. Form an opinion on whether the business is viable considering local competition, macro-micro economic and industry conditions.
- c) **Financial Plan** – this calculates the initial project cost or cost of investment. It includes the working capital requirements until the business has established the normal turn-around cycle. Underestimating the project costs may result to disruptions in the implementation. Determine sources of financing. Institute steps to minimize initial cost of investments. Perform risk assessments and analysis.
- d) **Legal Due Diligence** – determine all the legal requirements for the operation of the business. If there are government agencies regulating the business activity, then an opinion should be formed as to whether these requirements can be hurdled. Input the legal costs of compliance, licensing, etc. into the project timetable and financial plan.

2. Forms of Business Organizations

An investor may organize alternative forms of business, which are: a) Single Proprietorship (one party); Partnership (at least 2 parties); and Corporations (at least 5 parties). There are many pros and cons to each business form.

A single proprietorship is simple to set up and the start-up costs relatively small. Decision-making is left entirely to the owner and its growth is limited by owner's financial resources. In the Philippines, majority of business enterprises are single proprietorship.

Partnerships may either be limited or general. In *limited* partnerships, there is one or more limited partners, whose civil liability is limited to the extent of his or her investments in the business. *General* partnership consists of all general partners, who may be liable beyond their capital investments in the partnerships. Partnerships are popular in professional services such as lawyers, accountants, underwriters, engineers, etc.

Corporations have juridical personalities apart from their stockholders. As such, stockholders are liable only to the extent of their capital contribution to the corporation. Only the corporate assets are liable to satisfy debts arising from business transactions. However, officers and directors of the corporations may be held criminally liable if the company is involved in the commission of criminal or penal acts.

3. Registration with the Department of Trade and Industry

Single proprietorships are registered with the Department of Trade and Industry (DTI), Makati City or its provincial offices. Only the owner of the business is authorized to sign all forms. Processing time: 1 to 2 days.

4. Registration with the Securities and Exchange Corporation

In order to have legal personality, partnerships and corporations should register with the Securities and Exchange Commission (SEC). Only partnerships and corporations are required to register with the SEC, single proprietorships need not register. The procedures are as follows:

- 1) The proposed business name must be verified and approved by the Verification Unit of SEC.
- 2) Obtain legal forms from SEC and submit the following documents:

For Corporations:

- a) Article of Incorporations;
- b) Verifications Slip (corporate name);
- c) Treasurer's Affidavit;
- d) Bank certificate (to support paid-up capital);
- e) Authority to verify account;
- f) Statement of assets and liabilities;
- g) Written undertaking to change corporate name; and
- h) Other documents.

For Partnerships

- a) Articles of Partnership;
- b) Verification Slip (business name);
- c) Written undertaking to change partnership name;
- d) Registration data for partnership; and
- e) Other documents.

3) Pay registration, filing and miscellaneous fees. If all required documents are complete, the SEC Corporate and Legal Department will issue the Certificate of Registration after 3 to 5 days.

It should be noted, that with regards to corporations, what were discussed herein are the registration requirements of Primary License. If the corporation intends to raise capital or borrows money by issuing securities to a large number of people or to the general public, then compliance with the Securities Acts is needed. In such a case, the corporation must secure a Secondary License from SEC.

5. Registration with the Bureau of Internal Revenue

After registering the single proprietorship/corporation with the SEC, it is required that all businesses be registered with the Bureau of Internal Revenue (BIR). The BIR process, once accomplished will result to:

- a) Issuance of Tax Identification Number (TIN) for the business;
- b) Issuance of Registration Certificate by the BIR (VAT on Non-VAT);
- c) Books of Accounts of the Company (Ledger and Journal) are stamped by the BIR ready for recording of business transactions;
- d) Payment of documentary stamp tax on subscribed capital stock of corporation;
- e) Issuance by the BIR of Authority to Print receipt, invoices and other accounting forms. The company brings this Authority to the printing of receipts, sales or service invoice.

Registration period with the BIR lasts from the 2 to 5 days after submission of complete requirements.

6. Obtaining Licenses and Permits from the local Government.

A business will have to locate its office or factory in a city or municipality. The Mayor's Office of each city or municipality has a Business Permit and Licensing Section, which issues licenses and permits. All businesses are required to secure a license or permit before operating.

In the initial year of operations, licenses and permits are based on the capitalization, while on the succeeding years, prior year's sales or revenue is used as a basis. Processing takes 3 to 7 working days.

7. Registration with the Social Security System and PhilHealth.

The business is also required to register with the Social Security System (SSS). An employer's identification number and certificate of registration will then be issued. Employees are likewise required to be registered and it is the duty of the Employer to report from time to time to the SSS names of employees as they are hired.

Philhealth covers the medical insurance of all employees. Employers must registered and report all employees for coverage. This process can be accomplished in 2 to 3 days.

8. Registration with Pag-Ibig or Home Development Mutual Fund

Under Republic Act No. 7742, all SSS members earning PhP4,000.00 and above monthly are required to be covered by the Pag-Ibig Fund. The Fund is used to finance the purchase of lot and construction of a residential unit or home improvement and renovation. Both the employers and employee are required to contribute to the fund. Registration with the Pag-Ibig takes 2 to 3 days.

9. Registration with the Department of Labor and Employment.

Business establishments with five or more employees are encouraged to register with the Department of Labor and Employment (DOLE) for purpose of monitoring firm's compliance with labor rules and regulations. Registration is mandatory for bigger firms of 50 or more workers. This process takes around 2 to 3 days.

10. Other Agencies

As a recap, after a business has registered with the DTI/SEC, Local Governments, BIR, SSS, Philhealth, Pag-Ibig and Department of Labor, it is ready to operate in full compliance with the law. However, if it intends to operate a particular business activity regulated by a specialized government agency, then further procedures or permits or licenses must be complied with.

II. BUSINESS & INVESTMENTS OPEN TO FOREIGNERS

1. General Policy

It is the policy of the State to attract, promote and welcome investments from foreign individuals, partnerships, corporation, and governments, in activities, which significantly contribute to industrialization and socioeconomic development of the country subject to limitations imposed by the Constitution and laws.

The Philippine Constitution and laws guarantee the fundamental rights of all investors, particularly: a) Due process protection and equal protection to investments; b) Freedom from expropriation without just compensation; c) Right to remit profits, capital gains and dividends; d) Right to repatriate proceeds of liquidation of investments; and e) Right to obtain foreign exchange for repatriation of profits, investments, for interest and principal payments of foreign obligations.

2. Export Enterprises vs. Domestic Market Enterprises

A prospective investor (whether engaged in manufacturing, trading or services) must define his market. The rules are different depending on whether the foreign investor intends to organize an export enterprise or a domestic market enterprise.

An Export Enterprise shall mean a manufacturer, processor or service (including tourism) enterprise exporting sixty percent (60%) or more of such purchases.

A Domestic Market Enterprise shall mean an enterprise, which produces goods for sale in the Philippine market, or renders service or otherwise engages in any business in the Philippines.

As general rule, there are no restrictions on the extent of foreign ownership of export enterprises. Therefore, an export enterprise can be 100% foreign-owned with no minimum capitalization requirement.

A foreign investor may own up to 100% of a Domestic Market Enterprise but is required to invest a minimum paid-in-equity capital of at least US dollars PhP100,000.00 if the investment involves an advanced technology or if it will employ at least 50 direct employees. Again, this is the general rule.

3. Nationality of Investor

The basic rules in determining the nationality of the investor are relevant in understanding the restrictions on areas of investment.

An investor may either be a natural or juridical person (such as partnership, association, or corporation). A Foreign Corporation shall mean one, which is formed, organized or existing under laws other than those of the Philippines.

A Philippine National shall mean a citizen of the Philippines or a domestic partnership or association wholly owned by the citizens of the Philippines; or a corporation organized under the laws of the Philippines of which at least of sixty percent (60%) of the capital stock outstanding and entitled to vote and held by citizens of the Philippines.

Therefore, a corporation organized under Philippines laws by foreigners owning 40% of the capital stock and the remaining 60% owned by Filipino citizens is still considered a Filipino owned corporation or a Philippine National.

However, a corporation organized abroad and registered as doing business in the Philippines of which 100% of the capital stock outstanding and entitled to vote is wholly owned by Filipinos, is still considered a Philippine National.

4. Restrictions or Limitations to Foreign Investments

The Philippine government encourages foreign investments. Investment-related rules have been liberalized to facilitate entry of foreign investments. This trend is expected to continue as the country integrates slowly to a global market economy.

Despite this liberalization thrust, the following restrictions for foreign investments remain to date under the Constitutions and various laws:

a) No Foreign Equity Allowed

- Mass Media except recording;
- Services involving the practice of profession (Law, Medicine, Accountancy, Engineering, Architecture, Geology, Teaching, Social Work, etc.);
- Cooperatives;
- Private Security Agencies;
- Utilization of Marine Resources in Philippine waters;
- Ownership, management and operation of cockpits;
- Manufacture, repair, stockpiling and/ or distribution of Nuclear Weapons;
- Manufacture, repair, stockpiling and/ or distribution of biological, chemical and radiological weapons (under various treaties); and
- Manufacture of firecrackers and other pyrotechnic devices.

b) Up to 25% Foreign Equity Allowed

- Private recruitment, whether for local or overseas employment;
- Contracts which are foreign funded or assisted and required locally-funded public works except projects covered by R.A. 7718 and foreign funded or assisted projects that undergo international competitive bidding.

c) Up to 30% Foreign Equity Allowed

- Advertising

d) Up to 40% Foreign Equity Allowed

- Exploration, development and utilization of natural resources, unless full foreign participation through financial or technical assistance agreement with the President of the Philippines;
- Ownership of private lands (a corporation 40% foreign-owned a 60% owned by Filipinos may own private lands);
- Operation and management of public utilities;
- Ownership, establishment and administration of educational institutions;
- Engaging in rice and corn industry;
- Contracts for the supply of materials and goods to government-owned and controlled corporation, company, agency or municipal corporation;
- Operators of Build Operate Transfer (BOT) projects requiring a public utility franchise;
- Operation of deep sea commercial fishing vessels;
- Adjustment companies;
- Ownership of condominiums (Sec. 5, R.A. 4726);

- Contracts for construction of defense related structures;
- Manufacture, repair, storage, and/or distribution used in the manufacture thereof requiring Philippine National Police clearance (firearms, gunpowder, dynamite, blasting supplies, ingredients, used in making explosives, telescopic, sights, sniper scopes, and other similar devices).
- Manufacture, repair, storage, and/ or distribution, of products requiring Department of National Defense clearance (guns, and ammunition for warfare, military ordinance and parts thereof, guided missiles, tactical aircraft, combat vessels, weapons repair and maintenance equipment, night vision equipment, etc.);
- Manufacture, and distribution of dangerous drugs;
- Sauna and steam bathhouses, massage clinics and other activities regulated by law because of risks to public health and morals.
- Domestic market enterprises with paid in equity capital of less than US\$200,000.
- Domestic market enterprises involving advanced technology or employing at least 50 direct employees with paid-in-equity capital of less than US\$100,000.

e) Up to 60% Foreign Equity Allowed

- Financing companies regulated by the Securities and Exchange Commission; and
- Investment houses regulated by the Securities and Exchange Commission (subject to reciprocity rights).

5. Retail Trade

“Retail Trade” shall mean any act, occupation of calling habitually selling direct to the general public merchandise, commodities or goods for consumption. Not included in the definition are sales by a manufacturer or processor to the general public of products manufactured where the capitalization is less than P100,000.00; sales by a farmer or agriculturist; sales in a restaurant operation incidental to hotel business and sales which are limited only to products manufactured or processes through a single outlet, irrespective of capitalization.

The retail industry has been reserved to citizens of the Philippines for more than four decades. Considering global competition conditions, the paramount need to bring down consumer prices to the benefit of Filipino consumer, empowering them through higher quality goods, better services and wider choices. The Philippines Congress enacted R.A. 1180 (Retail Trade Liberalization Act of 2000) opening the retail trade industry to encourage entry of non-Philippine national and foreign multinational company. Up to 100% foreign equity is allowed.

However, to be able engage in retail trade, foreign investors are required to maintain the full amount of prescribed minimum capital of at least US\$ 2.5 million

(under Category B of the law). This means, that as a general rule, retail trade operations with less than US\$ 2.5 million capitalization continue to be restricted to Filipino citizens.

If the foreigners' investment in retail trade operations is US\$ 7.5 million, he is allowed to open up branches, but the investment per branch or store should not be less than US\$ 830,000 (under category C of the law).

However, if the foreigner will specialize in the retail trade of high-end or luxury products, then minimum paid up capitalization of US\$ 250,000 per store is required. "High-end or luxury goods" refer to goods which are not necessary for life maintenance and whose demand is generated in large part by higher income groups, which shall include, but are not limited to, products such as: jewelry branded or designer clothing and footwear, wearing apparel, leisure and sporting goods, electronics and other personal effects.

Foreigners wanting to enter businesses with ownership restrictions or limitations oftentimes try to circumvent the law by electing or appointing Filipino citizens as dummies in corporations, partnerships, or associations. This will create problems to investor in case legal conflicts arise. Using dummies is likewise an act punishable civilly and criminally under special laws.

A foreigner planning to make an investment or establish a business in the Philippines must ascertain whether the proposed activity is covered by restrictions in the Constitutions or limitations imposed by law. This will affect the legality of investments and consequently the protection accorded to it by law and the government.

INCENTIVES TO INVESTMENTS

Foreigners may invest or establish business in the Philippines and be subject to the normal taxes, conditions and requirements like any other enterprises. Not all businesses established in the Philippines enjoy special incentives. However by engaging in certain economic and business activities they are provided with investment incentives. Foreigners have choices, such as:

a) Registering the business with the Board of Investments (BOI)

To qualify for BOI incentives, the business must be engaged in:

- 1) Export activity (at least 50% of production for export, if Filipino owned company, or at least 70% of production is for export, if 40% or more of the equity is owned by a foreign national or company).
- 2) Business activity covered by the Investment Priority Plan (IPP). The IPP is formulated by the BOI annually and approved by the President of the Philippines.

Superior incentives are likewise available if the proposed business activity is a pioneer area, which is important to national economic development. A pioneer activity involves the production of goods not yet available in the Philippines on a commercial scale or uses a new untried design, formula, scheme, method or process of production. A pioneer activity may include those that are highly essential to the attainment of specific national goals such as food sufficiency, agricultural, modernization etc. Production of non-conventional fuels or manufacturing of equipment that uses non-conventional fuels are likewise categorized as pioneer.

An investment that qualifies for BOI incentives is entitled to the following:

- 1) Income Tax Holidays (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 be generally be entitled to 6 years (ITH).
- 2) Tax credit raw materials, supplies and semi-manufactured Products used in the manufacture or processing of export products.
- 3) Additional deduction from taxable income for labor expense and infrastructure works (cannot be enjoyed simultaneously with ITH incentive).
- 4) Importation of consigned equipment for an unlimited period subject to posting of re-export bond.
- 5) Employment of foreign nationals, guaranteed repatriation of foreign investments and earnings thereon.

b) Locating the investment in the Special Economic Zones.

Businesses established within special economic zones shall be entitled to incentives granted to registered enterprises under the BOI. The Philippine Economic Zone Authority (PEZA) administers these economic zone. In addition to BOI incentives, PEZA-registered exporters enjoy tax and duty exemptions on importation of capital equipment, raw materials and other merchandise directly needed in its registered operations. Exporters using local materials enjoy the same benefits under the Export Development Act of 1994 if they use local inputs as raw materials. After the lapse of their BOI incentives, enterprises shall pay a preferential rate of 5% of their gross income as final tax in lieu of all local and national taxes.

There are special laws creating special zones providing similar incentives such as the Subic Bay Freeport (SBF) and Clark Special Economic Zone (under the Bases Conversion Development Act), Poro Point Special Economic Zone, Cagayan Special Economic Zone and Zamboanga City Special Economic Zone.

- c) *Establishing 100% Foreign-Owned Regional Headquarters (RHQs), Regional Operating Headquarters (ROHQs) and Regional Warehouses (RWs) of multinational companies.*

The RHQs, ROHQs and RWs are special entities conceived to encourage investors to make the Philippines the home base of foreign multinational companies regional administrative operations and the trans-shipment point of their products for their Asia-Pacific markets. A multinational company is defined as a foreign company with business establishments in two or more countries.

Regional Headquarters (RHQs) act as supervisory, communications and coordinating center for its subsidiaries, affiliates and branches in the Asia-Pacific region and other foreign markets and which does not earn or derive income in the Philippines. This definition sets the limit of what the RHQ can do in the Philippines. It is not allowed to market goods or services whether on behalf of its mother company or its branches and affiliates.

Regional Operating Headquarters (ROHQ) is defined by law as a foreign entity allowed to derive income in the Philippines by performing qualifying services to its affiliates, subsidiaries or branches in the Philippines, Asia-Pacific Region and other foreign markets. These qualifying services include general administration and planning and coordination, sourcing of raw materials and components, financial advisory services, marketing control and sales promotion, training and personal management logistic services, research and development, technical support and maintenance, data processing and business development.

The Incentives given by law to RHQS and ROHQs are summarized below:

	RHQs	ROHQs
<i>Corporate Income Tax</i>	Exempt but should file Info Return	Subject to 10% preferential rate on taxable income.
<i>Branch profit remittance tax</i>	Exempt	Subject to 15% branch profit remittance tax
<i>Value-Added Tax</i>	Subject to zero percent (0%) VAT rate on sale of goods and services to RHQ	Subject to VAT rate.
<i>Taxes, fees and charges imposed by local governments</i>	Exempt, except real property tax on land improvements and equipment.	Exempt, except real property tax on land improvements and equipment.
<i>Importation of Training Materials / Equipment</i>	Tax and Duty Free	Tax and Duty Free
<i>Importation of motor vehicle</i>	Allowed but subject to duties and taxes	Allowed but subject to duties and taxes.

Foreign expatriates of RHQ and ROHQ are entitled to avail of

- a) Multiple Entry Visa valid for 3 years including spouse and unmarried children under twenty one (21) years of age;
- b) Preferential withholding income tax of 15% on compensation income received from RHQ and ROHQ, which privilege may likewise be enjoyed by Filipino counterparts;
- c) Tax and Duty-Free importation of personal effects; and
- d) Travel tax exemption including their dependents.

A *Regional Warehouse (RW)* may be established as a mere auxiliary of the foreign company's RHQ or ROHQ. The activities of the RW is limited to serving as supply depot for the storage, deposit, safekeeping of its spare parts, components, semi-finished products and raw materials including the packing, covering, marking, labeling according to customers specifications.

The Regional Warehouse is prohibited from directly engaging in trade or soliciting business, promoting any sale or entering into any goods in the Philippines.

Imported goods stored in the Regional Warehouse may be allowed to be withdrawn for delivery to an authorized distributor in the Philippines subject to payment of customs duties, taxes and regular income taxes.

d) Investing in 100% Foreign-Owned It Business.

The information Technology (IT) Services include software development, support and knowledge-based services and business process outsourcing. Foreign investors engaged in IT activities may choose to establish a 100% foreign owned branch or domestic corporation using the Philippines a base for local and international operations.

Companies venturing into IT business may avail of income tax holidays (6 years if classified as pioneer by the Board of Investment, otherwise 4 years), additional deduction of 50% labor cost for purposes of calculating taxable income, simplified customs procedure of the importation of equipment, spare parts, materials and supplies, unrestricted use of consigned equipment and employment of foreign nationals.

e) Individuals Foreigner's Investment under SPECIAL INVESTORS'S RESIDENT VISA (SIRV), SPECIAL RETIREES VISA (SRRV) and SIRV in TOURISM-RELATED PROJECTS.

Investment incentives are granted to Foreigners in the form of permanent resident status (which extend to their spouse and children) by investing minimal amounts into the country.

The board of Investments (BOI) administers the Special Investors Resident Visa (SIRV). The minimum investment required is US dollars 75,000 or its equivalent. The holder of the SIRV including the spouse and unmarried children under (21) years of age shall be entitled to reside in the Philippines indefinitely while his investment subsist. Acceptable forms of investment are shares of stocks in public-listed corporations, activities in the investment priority program (IPP) lists and manufacturing and service sectors.

On the other hand, the Philippines Leisure and Retirement Authority (PLRA) administers the retirement visa, and foreigners who invested the following amounts in the form of US Dollar time deposits shall be qualified:

Amount of Investment for SRRV	Applicable to:
US dollars 1,500.00	Former Filipinos/ Overseas Filipinos
US dollars 50,000.00	Foreign nationals, 35 to 49 years old.
US dollars 75,000.00	Foreign nationals 50 years old and above
US dollars 50,000.00	Foreign nationals, regardless of age, who are retired military personnel of governments recognized by the Philippines, former member of diplomatic corps, retired employees of United Nations, World Bank, World Health Organization, International Labor Organization and similar organization.

A Foreigner who invests the amount of the least US dollars 50,000 in a tourist-related projects and tourist establishment shall be entitled to a Special Investor Resident Visa under his wife and unmarried minor children shall be permitted to enter and reside in the Philippines as special investor residents for as long as the investment subsists.

f) Other Incentives

There are other incentives available to a foreign investor under special statutes, which may be inquired upon depending on the economic or business activities by the proponent. Some of these laws are the amended Build Operate Transfer (BOT) Law (R.A. No. 7718), Agricultural and Fisheries Modernization Act (R.A. 8435), incentives in specific industries such as mining, iron and steel, book publishing, and others.

IV. TAXATION

1. Income Tax

1.a Corporations (includes partnerships, etc.)

1.a.1 Domestic and Resident Foreign Corporation, in general

1.a.2 Income tax rates on passive income of domestic and foreign corporation.

- 1.a.3 Non-Resident Foreign Corporation
- 1.3.4 Corporations Improperly Accumulating Profits.
- 1.b Individuals

TAXATION

There are two taxing authorities in the Philippines, namely the National Government and the Local Government Units (LGU's). The Local Government Units are the provinces, cities, municipalities and barangays or villages.

The National Government collects income tax, value added taxes, customs duties, excise taxes, documentary stamp taxes, percentage tax, estates and gifts taxes, etc. through the Commissioner of Internal Revenue and the Commissioner of Customs.

On the other hand, the Local Government Units impose and collect mayor's permits and license fees on businesses, real property taxes, annual professional taxes on practice of profession, amusement taxes, franchise tax, printer's tax, tax on quarrying, fixed tax on delivery trucks and vans, tax on transfer of real property taxes, community tax, and others.

1. INCOME TAX

a) Corporations (includes partnerships, etc.)

Corporations are classified as domestic or foreign depending on the place of incorporation or organization. A domestic corporation is a corporation organized under Philippine Laws. A foreign corporation is a corporation organized under the laws of a foreign country. A foreign corporation is either resident or non-resident.

Domestic and Resident Foreign Corporation, in general

The taxable income of a domestic corporation includes income earned from all sources (within and outside the Philippines). A resident foreign corporation is one considered doing business in the Philippines (continuity of commercial dealings) and is taxed on net Philippine-source income.

The regular income tax rate is 35% of net taxable income. However to deter corporations that consistently declare losses or pay very small income taxes, the law requires corporation to pay a 2% minimum corporate income tax (MCIT) on gross income on an annual basis, beginning its fourth year of operations, if the MCIT is greater than its regular corporate income tax liability.

Any excess of the MCIT over the regular income tax shall be carried forward and credited against the normal tax for the three immediately succeeding taxable years.

Income tax rates on passive income of domestic and foreign corporation.

Dividends received from domestic corporations	Tax Exempt
Remittance by a branch (except PEZA-registered enterprises to head office)	15% of total profits applied for remittance
Gains from sale or exchange of shares of stock listed and traded in the local stock exchange.	½ of 1% of gross selling price or gross value in money of said shares of stock
Gains from sale or exchange of shares and stock listed and traded in the local stock exchange.	5% capital gains tax on net gains not exceeding P 100,000 and 10% on the excess
Gains from sale or exchange of land or buildings classified as capital assets (not used in business)	6% capital gains tax on gross selling price of fair market value, whichever is higher
Interest on any currency bank deposit and yield or other monetary benefits from deposit substitutes, etc.	20% final tax
Royalties	20% final tax
Interest from foreign currency deposits with the foreign currency deposit units (FCDUs)	7.5% final tax.

Income tax rates on passive income of domestic and foreign corporation

Educational institutions and non-profit hospitals	10% Income Tax on their net taxable income.
Foreign currency deposit units and offshore banking units (FCDUs and OBUs)	10% final tax on income from foreign currency transactions with local banks, etc.
International carries doing business in the Philippines	2.5% final tax on gross Philippine billings.
Regional or Area Headquarters of Multinational Companies	Tax Exempt
Regional Operating Headquarters of Multinational Companies	10% of their net taxable income.
General Professional Partnerships (formed for sole purpose of practicing a common profession	Tax exempt (but partners pay income tax on their share in the profits
Export and Free Trade Zone Enterprises (PEZA-registered Ecozone Developers and Operators	5% final tax on gross income, in lieu of all local and national taxes.

Subic Bay Free port and Clark Special Economic Zones	5% of gross income in lieu of all national and local taxes except real property taxes on and law owned by developers. In lieu of all national and local taxes, a 5% tax on Gross income earned.
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Non-Resident Foreign Corporation

As a general rule, non-resident foreign corporations are taxed at 32% 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.

Corporations Improperly Accumulating Profits.

A 10% income tax is imposed on the improperly accumulated profits of a corporation, except in the case of publicly held corporations, banks, and other non-bank financial intermediaries and insurance companies.

When a corporation allows its profit to accumulate without justifiable needs, then the law presumes that it is avoiding tax on shareholders, depending on their status, pay 10%-25% tax on dividends received from corporations.

b) Individuals

For income tax purposes, individuals are classified and taxable as follows:

Corporations Improperly Accumulating Profits

Non-Resident Alients engaged in trade in the Philippines	Taxed only on income derived from sources within the Philippines. Entitled to claim personal exemption for each dependent not allowed. Habituality or deemed engaged intrade if the aggregate stay is more than 180 days for a calendar year.	5% to 32%
Non-Resident Aliens not engaged in trade in the Philippines	Taxed on gross amount of Philippine-sourced income. They are not allowed to claim personal and additional exemption	25% on their gross income
Other Individuals:		
Expatriate and Filipino	On their compensation	15% of their gross

employees of RHQs or ROHQs, offshore banking units & petroleum contractors	income and fringe benefits.	compensation income and monetary value of fringe benefit
Subcontractors Supervisory and managerial employees	Fringe benefits granted to them	32% on gross monetary value of the fringe benefit

The rates of income tax on Citizens, Resident Aliens and Non-resident Aliens engaged in trade business (in Philippine Pesos) are shown below:

Amount Subject to Tax	Applicable Rates
Not over P 10,000	5%
Over P 10,000 but not over P 30,000	P 500 + 10% of the excess over P 10,000
Over P 70,000 but not over P 140,000	P 8,500+ 20% of the excess over P 70,000
Over P 140,000 but not over P 250,000	P 22,500 + 25% of the excess over P 140,000
Over P 250,000 but not over P 500,000	P 50,000+30% of the excess over P 250,000
Over P 500,000	P 125,000+ 32% of the excess over P 500,000

These are special income tax rates on Passive Income earned by individuals, which are:

Interest on bank accounts including yield from substitute arrangements such as money market placements.	20% final tax for citizens, residents aliens, and non-resident aliens engaged in trade or business; 25% for non-residents aliens not engaged in trade or business.
Interest on long-term deposits (depending on maturity period)	5 years more or more- exempt 4 yrs to less than 3 yrs. – 20%, 25% for non-residents not engaged in trade or business.
Interest from foreign currency deposit with FCDU's	Exempt for nonresident citizens and nonresident aliens; 7.5% final tax for other
Dividends from domestic corporations	10% for citizens and resident aliens, and nonresident aliens engaged in trade
Royalties, prizes exceeding P 10,000 and other winnings (except Philippine Charity Sweepstakes and Lotto winnings)	20% final tax for citizens, resident aliens and nonresident aliens engaged in trade or business; 25% final tax for nonresident aliens not engaged in trade or business.
Royalties on books, literary works and musical compositions	10% final tax for citizens, resident aliens, and nonresident aliens not engaged in trade or business.

Gains from sale or exchange of shares of stock listed and traded in the local stock exchange	½% of 1% of gross selling price or gross value in money of said shares stock.
Gains from sale or exchange of shares of stock listed and traded in the local stock exchange	5% capital gains tax on net gains not exceeding P 100,000 and 10% on the excess
Gains from sale or exchange of land or buildings classified as capital assets (not used in business)	6% capital gains tax on

2. Withholding tax system:

Under the withholding tax system, the payer (referred to as the withholding agent) is required to deduct and withhold from the payee and to remit to the government the withholding tax. For example a payer paying a professional fees is required to withhold 10%, fees to contractors at 1%, rentals on real property at 5% etc. An employer likewise required to withhold income tax from the salaries and wages of his employees.

3. Various Tax Treaties

The Philippines, in cooperation with other countries has entered in various tax treaties to avoid double taxation especially in cases where the income is taxed twice: one by the country where the income is earned (country of source) and other by the country where the subject of taxation is either a citizen or resident (country of residence).

Another objective of tax treaties is to eliminate or minimize tax evasion through the adoption of the exchange of information scheme whereby signatory countries to the treaty undertake to furnish each other on a mutual basis information on the taxable income and or activities of their citizens and residents.

The Philippines has tax treaties with the following countries: Australia, Austria, Belgium, Brazil, Canada, Denmark, Finland, France, Germany, Hungary, Indonesia, India, Israel, Italy, Japan, Korea, Malaysia, The Netherlands, New Zealand, Norway, Pakistan, Romania, Russia, Singapore, Spain, Sweden, Thailand, United Kingdom, and the United States.

4. Value Added Tax

A 12% value added tax is imposed on any person who, in the course of trade or business sells, barter, exchanges leases goods or properties, renders services, or engages in similar transactions and who imports goods.

The value added tax is based on the gross selling price or gross value in money of the goods or properties sold or bartered, etc. In case of imported goods, the value added tax is based on the total value used by the Bureau of Customs in determining tariff and

customs duties, plus customs duties, excise taxes (if any), and any other charges as may be due.

In computing the liability, the taxpayer subtracts from the tax due on sales taxes on his purchase of raw materials. He thus pays only the difference between the tax on sales (output tax) and the tax outlays for materials, supplies, services and capital goods (input tax).

If at the end of any taxable quarter the output tax exceeds the input tax, the excess shall be paid by the VAT-registered person. If the input tax exceeds the output tax, the excess shall be carried over the succeeding quarters.

Export sales are zero-rated. Certain transactions are exempt from VAT. e.g sale or importation of agricultural or marine food products, services subject to percentage taxes, interest income of banks and financial institutions, services rendered by regional headquarters of multinational companies, etc.

5. Percentage Taxes

Persons whose annual gross receipts do not exceed P550,000.00 are exempt from payment of value added tax but shall pay a percentage tax equivalent to three (3%) percent on quarterly sales. Domestic carriers and keepers of garages shall pay three (3%) percent of their quarterly gross receipts. A 10% tax on overseas communications is imposed. A premium tax is imposed on any person doing insurance business equivalent to 5% of total premiums collected. A percentage tax ranging from 1% to 5% on gross receipts (such as interests, commissions, discount, etc.) of banks, non-bank financial intermediaries and finance companies is imposed.

International air carriers and shipping carriers doing business in the Philippines shall pay 3% of their gross quarterly receipts. Electric gas and water utilities are subject to 2% franchise tax on their gross receipts. Radio and television broadcasting companies as a rule pay a franchise of 3% of their gross receipts, although they have options to register as a value added taxpayer.

6. Excise taxes

Excise tax is imposed on certain specified goods manufactured or produced for consumption in the Philippines for domestic sale or consumption or for any disposition and those imported. Excise tax is paid in addition to VAT.

Alcohol products, tobacco products, mineral products automobiles, and certain luxury items such as jewelry, precious metals, perfumes and toilet waters, yachts and other vessels intended for pleasures or sports are all subject to excise taxes.

The liability to pay excise tax accrues immediately upon removal of the goods from place of production or manufacture.

7. Documentary stamp tax

It is a tax imposed upon documents, Instruments, loan agreements, sales and transfers of obligations, right or property incident thereto.

Some transactions subject to documentary stamp tax are listed below:

Bonds, debentures, and certificates of indebtedness	P1.50 on each P200 or fraction thereof
On original issues of share of stocks	P2.00 on each P200 or fraction thereof
On sales, agreement to sell, memoranda of sales, deliveries or transfer of bonds etc.	P1.50 on each P200 or a fraction thereof of premium charged.
On property insurance policy	P.50 on each P4.00 or fraction thereof of premium charged.

8. Customs Duties

Customs duties are taxes on imports or exports. Importation begins from the time the carrying vessel or aircraft enters Philippine territorial jurisdiction with the intention to unload therein to the time the goods are released or withdrawn from the customs house upon payment of the of the customs duties or with legal permit to withdraw.

9. Estate taxes

Estate tax is a tax on the light transmitting property at the time of death and on privilege that a person is given in controlling to a certain extent the disposition of his property to take effect upon death.

Real and personal, tangible or intangible property wherever located in the case of citizens and resident aliens, and only such property as are situated in the Philippines in the case of non-resident aliens, that are transmittable upon death are subject to estate tax.

Allowable deductions from Gross Estate include funeral, medical and judicial expenses, losses, indebtedness, taxes and vanishing deductions (if applicable). The estate tax is based on the value of the net estate (in Philippine Peso) and computed in accordance with the following schedule.

Over	But Not Over	The tax Shall be	Plus	Of Excess Over
200		Exempt		
200,000	0	5,00,000	5%	200,000
500,000	15,000	2,00,000	8%	500,000
2,000,000	135,000	5000,000	11%	2,000,000

5,000,000	465,000	10,000,000	15%	5,000,000
10,000,000	1,215,000	And Over	20%	10,000,000

10. Gift Taxes

Any transfer of property by gift or donation and or sale of property for less than adequate and full of consideration in money or in money's worth is subject to the gift or donor's tax.

Citizens, resident aliens and domestic corporations are subject to the tax regardless of where the gift was made or where the property donated is located, they would be entitled to a tax credit equivalent to the amount of donor's taxes paid to and imposed by the foreign country where the gift was made. Non-resident aliens and foreign corporation would be subject to the tax only on their donations of property located in the Philippines.

Certain donations are exempted such as donations not exceeding P100,000.00, donation proper nuptias not exceeding P10,000.00, gifts made to or for the use of the Philippine Government, gift in favor of non-stock, non-profit educational, charitable, religious, research, accredited, non-governmental organization, trust or philanthropic institutions provided not more than 30% thereof shall be used for administration purposes.

The donor's tax for each calendar year shall be computed on the basis of the total net gifts (in Philippines pesos) made during that calendar year with the following schedule:

Over	But Not Over	The Tax Shall be	Plus	Of Excess over
100,000	100,000	0	2%	100,000
200,000	200,000	2,000	4%	200,000
500,000	500,000	14,000	6%	500,000
1,000,000	500,000	44,000	8%	1,000,000
3,000,000	1,000,000	204,000	10%	3,000,000
5,000,000	3,000,000	404,000	12%	5,000,000
10,000,000	5,000,000	1,004,000	15%	10,000,000

The donor's tax is increased to 30% of the net gifts if the donee is a stranger. A stranger is one who is not the brother, sister (whole or half-blood) spouse, ancestor and lineal descendant or a relative by consanguinity in the collateral line within the fourth degree of relationship.

11. Local Taxes

Under the constitution, each local government unit (provinces, cities, municipalities and barangays) shall have the power to create its own sources of revenue and to levy taxes, fees and charges subject to the guidelines and limitations provided by law. This power is exercised through the enactment of an appropriate tax ordinance.

Provinces impose a tax, not exceeding one half percent (1/2 of the total consideration or the fair market value on the transfer of ownership of real property, tax on sand and gravel (10% of market value), franchise tax (1/2 of 1%) of gross annual receipts), tax on the business of printing (1/2 of 1% of gross annual receipts), professional tax on individuals, etc.

Municipalities may impose business taxes such as minimum fixed annual tax to a maximum of 50% of 1% of their gross receipts of preceding calendar years (wholesalers, dealers, distributors, contractors, bank, stock market dealers and brokers); 1% or 2% gross receipts of retailers, 37.5 % of 1% of gross receipts of manufacturers, assemblers, repackers and processors, etc.

Individuals, domestic or foreign corporations pay community taxes (also called Residence Tax). Community tax certificates are needed whenever a person acknowledges any document before a notary public, receives any license, certificate or permit, etc. individuals or corporations pay community tax certificates based on their gross income and value of real property owned, but in no case shall it exceed P5,000.00 for individuals and P10,000.00 for corporations.

Municipalities within Metro Manila may levy taxes at rates not exceeding 50% of the maximum imposable. Cities are authorized to impose taxes, fees, etc. that provinces and municipalities may levy, at rates that may be above the maximum established but not exceeding 50% of such minimum rates excepts professional and amusement taxes.

Barangays charge 1% tax on the gross receipts of small retailers (gross receipts not exceeding P50,000 annually for cities and P30,000 for municipalities), reasonable fees on billboards, outdoor advertisements, cockfights and cockpits and on places of recreation.

An investor must check the existing local tax ordinance of the local government unit wherein he intends to locate his business to be able to calculate the financial impact of these taxes on his operations.

12. Real Property Taxes

Real property tax is a tax imposed on real property such as land, buildings, machinery and other improvements. Machinery embraces machines, equipment, mechanical contrivances, instruments, appliances or apparatus, which may or may not be attached, permanently or temporarily to the real property.

Real property tax may consist of a) Annual Ad Valorem Tax; b) Additional 1% tax for special Education Fund; c) Additional 5% tax on idle lands; and d) special levy or assessment on property specially benefited by certain infrastructure developments.

V. LABOR LAWS & REGULATIONS

An understanding of existing labor law regulations and working conditions is essential for an investor to succeed in the personnel management of his enterprise in the Philippines. In the past, labor unrest (such as strikes and other concerted actions) has been blamed for closures and withdrawals of investments in the country. However, in most of these cases, management was ill prepared to handle industrial relations problem within the context of labor situation in the Philippines.

It is downright wrong for a foreign investor to assume that working conditions here are the same as in his home country. Philippine laws, culture, tradition, unionism, community relations among other factors must be considered. Once understood, harmonious industrial relations will be easy to establish in a company.

The main body of labor laws and social legislation is found in the Labor Code of the Philippines (Presidential Decree 442). Although employment laws are supposed to be balanced both for labor and management, such is not the case in the Philippines. Labor laws and procedures are titled in favor of the worker under the social justice principle that those who have less in life should have more in law. For this reason, employers must act with caution in hiring, supervision, discipline and firing of workers.

1. State Policy on Labor

The State shall afford protection to labor, promote full employment, ensure equal work opportunities regardless of sex, race or creed, and regulate the relations between workers and employers. The State shall assure the rights of workers to self-organization, collective bargaining, security of tenure, and just and humane conditions of work.

2. Security of Tenure

Once hired, an employee enjoys security of tenure. An employee can be dismissed from service if there is (a) just cause and (b) after observance of due process by the employer. The absence of any one of these requisites will result to an illegal dismissal and the employee may sue for damages, back wages and reinstatement to his position without loss of seniority and privileges.

An employer may terminate employment in case of serious misconduct or willful disobedience, gross and habitual neglect, fraud or willful breach of trust, commission of a crime against the employer, and other offenses by the employee. Employment may also

be terminated in case of disease contracted by the employee or in case of closure of business establishment and or reduction of personnel.

The employer must observe due process in disciplining employees or terminating their service. They must be given notice of the nature of offense or accusation (First Notice), be given an opportunity to be heard in a company-conducted investigation and be informed of the judgment after the investigation (Second Notice).

On the other hand, an employee may terminate employer-employee relationship even without a just cause by giving him a 30-day advance notice. There is no need for the advance notice in case the employer subjected the employee to serious insult, inhuman and unbearable treatment.

The right of the employee to security tenure applies even when he is on probationary status. A maximum probationary employment period of six months is provided. An employee who is allowed to work after a probationary period shall be considered a regular employee.

Labor jurisprudence is enriched with cases of illegal dismissal with the employer being required by the Court to pay million of pesos of back wages, attorney's fees and damages. It is advisable that consultation with an attorney specializing in labor law should be availed of particularly when the penalty about to be meted is dismissal.

3. Hours of Work and Weekly Rest Days

Normal working hours is eight hours a day. Meal break of at least one hour and short rest periods shall be considered compensable working time. Weekly rest day need not be a Sunday. A day-off of 24 consecutive hours after 6 days of work should be scheduled by the employer upon consultation with the workers. However, the employer shall respect the preference of employees to their weekly rest day when such preference is based on religious grounds.

4. Mandated Economic Benefits.

An employer is required by law to pay his employees the following mandated economic benefits:

1) Minimum Wage – the amount is determined per region or per industry by the Regional Tripartite Wage and Productivity Boards. Minimum wages, therefore, vary from one region to another. Minimum wages in the provinces are generally lower than in the cities.

2) Overtime Pay work in excess of eight hours – if ordinary days +25 percent of basic hourly rate, if special holidays, rest day and holidays +30 percent of regular hourly rate on said day.

3) Premium Pay for work within eight hours – if special holiday or rest day +30 percent of basic daily rate; Rest day falling on a special holiday +50 percent of basic daily rate; Rest day falling on a regular holiday +30 percent of 200 percent of the basic daily rate.

4) Nightshift differential pay – plus 10% of the basic / regular rate of work rendered between 10PM to 6AM.

5) Service incentive leave of five days. An employee must have rendered at least one year of service to be entitled to service incentive leave pay.

6) 13th Month Pay – equivalent to one total basic salary earned within the calendar year.

7) Paternity Leave – 7 days with full pay to attend to needs of legal wife before, during and after delivery.

8) Holiday Pay – includes January 1 or New Year's Day; Maundy Thursday; Good Friday; April 9 (Araw ng Kagitingan); May 1 (Labor Day); June 12 (Independence Day); Last Day of August (National Heroes Day); November 30 (Bonifacio Day); December 25 (Christmas Day); December 30 (Rizal Day); and Ramadan (Muslim).

9) Benefits under Collective Bargaining Agreements (CBA) – for unionized companies, union members are entitled to CBA benefits.

10) Other existing benefits extended by employer to his employees cannot be withdrawn under the principle of “non-diminution” rule.

5. Social Security Benefits

Employers are likewise required to pay the company's share in the Social Security System (SSS), Philhealth and Employment Compensation Commission (ECC) premiums. SSS and Philhealth, in turn, pay the employee sick leave benefits, maternity benefits, retirement privileges, pension benefits, disability benefits and others.

ECC pays the workers compensation based on schedule for work-related injuries or death. Benefits payable by ECC includes medical benefits, disability benefits, rehabilitation benefits, death and funeral benefits and pension benefits.

6. Employment of young workers and women

The minimum employable age is 15 years. A worker below 15 years of age should be directly under the sole responsibility of parent or guardian. The work should not interfere with the child's schooling normal development and a work permit from the Department of Labor and Employment (DOLE) is required.

The law likewise restricts employment of persons below 18 years of age in hazardous or deleterious undertaking.

As a general rule, no woman shall be required to work in industrial undertakings from 10PM to 6AM, in commercial and non-industrial establishments from 12MN to 6AM and in agricultural undertakings, at night unless given not less than 9 consecutive hours of rest. Welfare facilities for women such as seats, separate toilet rooms, lavatories, dressing rooms should be provided. Women should not be discriminated with respect to pay, promotion, training opportunities, study and scholarship grants.

7. Medical and Dental Facilities

It is the duty of the employer to furnish his employees free medical and dental facilities consisting of the following:

Size of Establishment	Minimum Required Facilities
In general, regardless of number of employees	First-aid treatment facilities (medicines and equipment) as the nature and conditions of work may require in accordance with government regulations.
Number of employees exceeds 50 but not more than 200 in non-hazardous places.	Graduate First-aider is enough in the absence of a registered nurse.
Number of employees exceeds 50 but not more than 200 in hazardous places.	Services of a full-time registered nurse.
Number of employees exceeds two hundred (200) but not more than three hundred (300)	Services of a full time registered nurse, part-time physician and dentist , and a emergency clinic.
Number of employees exceeds 300	Services of a full time physician, dentist and full time registered nurse as well as a dental clinic, and an infirmary or emergency hospital with one bed capacity for every one hundred (100) employees.

The requirement for an emergency hospital or dental clinic shall not be applicable in case there is a hospital or dental clinic which is accessible from the employers establishment as long as he makes arrangement for the reservation therein of the necessary beds and dental facilities for the use of his employees.

8. Workers' right to self-organization and Collective Bargaining Agreements

Workers have the right to form, join, or assist labor organizations (unions) for the purpose of collective bargaining through representatives of their own choosing and to

engage in lawful concerted activities for the same purpose or for their mutual aid and protection. It shall be unlawful for the employer or any person to restrain, coerce discriminate against or unduly interfere with employees and workers in their exercise of the right to self-organization.

A duly registered union may file a petition for certification election asking that the organization be certified as the exclusive collective bargaining agent of the employees. Once certified, it may ask management to negotiate for a collective bargaining agreement (CBA).

A CBA has a term of 5 years with regards to the representation issue. All other terms and conditions of the CBA shall be renegotiated not later than three (3) years after its execution.

A CBA should provide benefits normally higher than existing ones being enjoyed by workers. The agreement is supposed to promote industrial peace. However, deadlocks in negotiations may result to concerted actions by the union if not resolved by the Department of Labor and Employment. Again, it is best to employ the services of an experienced labor lawyer to prevent work disruptions during CBA negotiations.

9. Sexual harassments in workplaces.

In a work-related or employment environment, sexual harassment is committed when the sexual favor is made as a condition in the hiring or in the employment, re-employment or continued employment of said individual or in granting said individual favorable compensation, terms, conditions, promotions, or privileges; or the refusal to grant the sexual favor results in limiting, segregating or classifying the employee which in any way would discriminate, deprive or diminish employment opportunities or otherwise adversely affect said employee.

The prohibition arises as well when the above acts would impair the employee's rights or privileges under existing labor laws or would result in an intimidating, hostile, or offensive environment for the employee. The victim of sexual harassment may be a woman or a man. It is now criminally punishable under Republic Act No. 7877.

10. Employment of foreigners

Any alien seeking admission to the Philippines for employment purposes and any domestic or foreign employer who desires to engage an alien or employment in the Philippines shall obtain an employment permit from the Department of Labor.

The employment permit may be issued to a non-resident alien or to the applicant employer after a determination of the non-availability of a person in the Philippines who

is competent, able and willing at the time of the application to perform services for which the alien is desired.

11. Closure of Establishments, Reduction of Personnel and Retirement

The employer may terminate employment due to the installation of labor-saving devices, redundancy, retrenchment to prevent losses or the closing or cessation of operation of the establishment or undertaking by serving notice to the Department of Labor and to the affected employees at least one (1) month before the intended date thereof.

In case of termination due to the installation of labor saving devices or redundancy, the worker affected shall be entitled to a separation pay equivalent to at least his one (1) month pay or a least one (1) month pay for every year of service.

In case of retrenchment to prevent losses and in cases of closure or cessation of operations of establishment or undertaking not due to serious business losses or financial reverses, the separation pay shall be equivalent to one (1) month pay or to at least one-half (1/2) month pay for every year of service, whichever is higher.

In the absence of any retirement plan or agreement providing for retirement benefits an employee upon reaching the age of 60, may be retired. To be entitled to a retirement benefit of at least one-half month for every year of service, he must have served the company for at least five (5) years. Compulsory retirement age is 65 years of age.

VI. BANK SERVICES

For the Philippines, along with many economies, the 1990's was a period of globalization and liberalization. The ratification by members of the World Trade Organization of the General Agreement on Tariffs and Trade (GATT) signaled the opening up of a lot of industries in the Philippines. One of the local industries to open up was the banking system which liberalized and allowed the entry of foreign players. With increased competition, local banks started to merge and consolidate to be able to compete with the bigger foreign banks. At the same time, new products and services were introduced as traditional products were enhanced. This article aims to give a brief discussion of the products and services offered by commercial banks in the Philippines.

The various products and services offered by banks can be classified into three main categories: deposit products, loan services and other services.

1. Deposit Products

Deposit products are the traditional bank offerings such as the savings account, checking account and time deposits and are usually denominated in peso or dollars.

Banks usually offer varying interest rates on peso deposit products but the rates are usually below the bellwether 91-day Treasury Bill rate. Other deposit-related services include issuance of manager's check, gift and customized checks, payroll services, telegraphic transfer, safety deposit box, interbranch deposits, demand drafts, night deposit and deposit pick-up services.

2. Loan Products

While deposit products are generally the means by which a bank can increase the amount of resources it can lend, loan products serve as one of the main tools through which a bank earns income (the other being fees generated from performing banking and advisory services to its clients). Funds generated from deposit accounts are usually loaned to borrowers at a higher rate than the bellwether rate and lent at various maturities that match the profile of the deposit base.

Banks structure their credit departments along its major market segment such as consumer loans and corporate banking. Consumer loans are quite straightforward and generally consist of housing loans, credit card loans, car loans and personal loans. Commercial loans are more varied and suited to the needs of the corporate clients. They come in the form of short-term working capital loans and long-term loans, letter of credit for domestic and foreign importation, domestic bills purchase line, trust receipts, foreign currency loans and other specialized lending facilities to suit a particular financial transaction need.

Commercial Loans	
Credit lines	Trust Loans
Bills Purchase Lines	US\$-denominated Loans
Check Discounting Line	LC/TR Financing
Loans vs. Deposit	Export Bills Purchase
Foreign Pre-settlement Risk Line	Export Packing Credit
Foreign Exchange Settlement Line	Term Loans
Special Loans and Guarantee Products	
Countryside Loan Fund (CLF)	SSS Hospital Financing Program
Agricultural Loan Fund (ALF)	SSS Financing Program for Educational Institutions
Industrial Guarantee and Loan Fund (IGLF)	SSS Special Financing Program for Vocational and Technical Schools
Export-Import Bank of Japan United Loans to DBP (JEXIM)	SSS Financing Program for Tourism Projects (KASAPI 4)
Japan Bank for International Cooperation (JBIC 5)	SSS Dormitory/Apartment Program
Industrial & Support Services Expansion Program (ISSEP)	Small Business Guarantee and Finance Corporation (SBGFC)

Domestic Shipping Modernizing Program (DSMP)	Sustainable Logistics Development Program (SLDP)
Environmental Infrastructure Support Credit Program (EISCP)	
SSS-GSIS Special Financing Facility	
Trade and Investment Corporation of the Phils. (TIDCORP) Guarantee Program for Exporters	
Foreign Exchange (FX) Lines to Financial Institutions	Purchase/Sale of Traveller's Checks FX Forward and Swaps
Over-the-Counter Purchase/Sale of FX	Secured/Clean Interbank Line>
Bond-Securities Trading Line>	
Issuer, Custody MC Accommodation Lines International Banking Import/Export Letters of Credit Domestic Letters of Credit	Standby Letter of Credit Documents against Payment Documents against Acceptance Open Account Arrangements Export Negotiations Shipping Guarantee Trust Receipt Inward Remittance Outward Remittance

3. Other Products/ Services

Aside from deposit and lending services, banks also have special products and services to offer to other more financially sophisticated clients.

For individuals and corporations that have idle excess funds, banks offer trust services to manage or invest these funds for a fee for the clients. Thus, we see banks offer employee benefit trust, personal trust corporate and pre-need trust funds to manage the account of portfolio of assets of an individual or a corporation. Banks may likewise offer to administer via escrow agreement, mortgage/collateral trust indentures or plain custodianship/safekeeping of a particular trust fund.

Another major service offered by banks aside from the traditional deposit and loan products is investment-banking services. Usually catered to the bigger corporate clients, investment banking products include equity management and underwriting, financial advisory, project financing debt syndication, debt underwriting, private placements and direct investments.

Added to this, the big commercial and universal banks likewise offer other services such as payroll services, bills payment and remittance, safety deposit box, bills rediscounting, deposit pick-up and delivery and sale and purchase of foreign exchange.

As financial intermediaries, banks perform a crucial function in the economy by facilitating the transfer of funds from the savers to the borrowers. Over the years, with the entry of foreign banks and increased competition, banks have likewise expanded its services to cover financial advisory and investment/portfolio management for bigger clients.

TRADE FACILITIES	
Letter of Credit Line (LC)	Trust Receipt (TR)
<p>An LC is bank's undertaking to pay an amount of money given certain documents and compliance with conditions. LCs are used in trade transactions by the buyer to substitute or enhance his credit with his supplier. It is an assurance, especially in importation, that the supplier will be paid.</p> <p>Term: up to 360 days Currency: All major currencies Type: Domestic, Foreign, Sight, Issuance LC Commission: Standard issuance of Bank Guarantee allowed.</p>	<p>A TR is a facility in which the bank advances payment to the supplier and allows the buyer (which is the bank's client) to hold the goods in trust for the bank, with the client undertaking to remit payment to the bank as soon as the goods are processed and sold. Some banks use TRs to finance the purchase of machinery and equipment.</p> <p>Term: up to 180 days Mode of payment: Maximum of 90 days for interest and until maturity for principal Currency: All major currencies Type: Peso but FX allowed on case to case basis by some banks. Insurance Coverage is required</p>
General Guidelines of Some banks about LC/TR	
<p>For some big banks, the standard Letter of Credit shall generally mean a Secured Documentary Credit (i.e. Bill of Lading consigned to the Bank).</p> <p>The standard LCTR facility means that the TR booking originates from an LC. A Bank may, however, choose to allow some importers who get their goods on Document vs Payment or Document vs</p>	<p>acceptance to be booked to TR.</p> <p>The tenor of the TR is normally consistent with the operating cycle of the company or to the estimated sum of days of inventory and receivables.</p>
SPECIAL LENDING PROGRAMS	
<p><i>Industrial and Support Services Expansion Program (ISSEP)</i></p> <p>Credit Limit : PhP100MM Funding Source: DBP-IGLF Interest Rate : Base rate plus Spread; variable or Fixed Tenor: For Fixed Assets: 12 years, including grace period; for Working Capital: Seven (7) years, including grace period Mode of disbursement: staggered or lump sum Front-end fee: ¾ of 1% Least 70% Filipino ownership during term of loan.</p>	<p><i>Industrial Guarantee Loan Fund (IGLF)</i></p> <p>Credit Limit: PhP100MM Funding Source: DBP-ISSEP Interest Rate: Base rate plus Spread; variable or Fixed Tenor: For Fixed Assets: 15 years (including of grace period); for Working Capital ; 7 yrs (including of grace period) Five (5) years maximum grace period Mode of disbursement: staggered or lump sum Front-end fee: ¾ of 1% Commitment fee: ¾ of 1% of undisbursed amount At least 70% Filipino ownership during term of loan Insurance coverage: FIP on insurable collateral assets up to appraised value</p>
Japan Bank of International Cooperation (JBIC) Countryside Loan Fund (CLF)	

<p>Variable or fixed Tenor: For Fixed Assets and Working Capital: on or before October 2011 (including grace period) Three (3) years maximum grace period Mode of disbursement: Staggered or lump sum Front-end fee: ¾ of 1% At least 70% Filipino ownership during term of loan Credit Limit Php625MM (peso only) Funding Source: Landbank-CLF</p>	<p>Mode of Disbursement: staggered or lump sum Front-end fee: ¾ of 1% Commitment fee: ¾ of 1% of undisbursed amount At least 70% Filipino ownership during term of loan Insurance coverage: FIP on insurable collateral assets up to appraised value.</p>
<p>Trade Facilities</p>	
<p>Credit Limit: Php50MM for Housing Dev't. Program Php150MM for Financing Program for Educational Institutions Php75MM for Special Financing Program for Vocational and Technical Schools Php150MM for Hospital Financing Program Php150MM for Financing Program for Tourism Projects Php50MM for SSS-GSIS Special Financing Program</p> <p>Funding Source: SSS Interest Rate: Base rate plus Spread; Fixed for five (5) years and renewable thereafter Maximum grace period : None Mode of disbursement: staggered or lump sum Front-end fee: ¾ of 1% At least 70% Filipino ownership</p>	<p>During term of loan Tenor Limits:</p> <p>Three (3) years for Housing Development Program Twenty (20) years for financing Program for Educational Institutions</p> <p>Fifteen (15) years for Special Financing Program for Vocational and Technical Schools Twenty (20) years for Hospital Financing Program Fifteen (15) years for Financing Program for Tourism Projects Seven (7) years for SSS-GSIS Special Financing Program</p>

VII. COST OF DOING BUSINESS

Basic Monthly Salaries and Wages [8 hours per day at 26 days per month] (In U.S. Dollars)			
		High	Low
<i>Managerial Position</i>			

Senior		3,000	1,8000
Middle –Level		1,500	1,200
Junior -Level		1,000	500
<i>Factory Workers</i>			
Supervisor / Foreman		1,000	500
Skilled Workers		350	250
Non-Skilled Workers		200	150
<i>Other office administrative Staff</i>			
Marketing and sales (plus commission)		350	200
Executive Secretary		400	300
Secretarial staff or clerk		250	200
Accountant / Bookkeeper		400	300
Driver and Delivery personnel		300	150
Service technician with engineering experience		400	300
<i>Household Help (all with free board and lodging)</i>			
Family driver		160	120
Cook		160	120
Maid		120	80

The figures represent estimated basic monthly pays. There are labor-related costs such as social security premiums, holiday pay, service incentive leave pay, maternity and paternity leaves, 13th month pat etc., for those employed in business. To obtain effective monthly wage, multiply the month wage pay by 12% more or less. Managers can speak and write fluent English, while staff positions are accustomed to at least conversational English.

Rental or Lease Rates			
[US\$ Per Month]			
		High	Low
Standard Factory Buildings			
North of Metro Manila		1.10 per sq. meter	0.60 per sq. meter
South of Metro Manila		2.00 per sq. meter	0.90 per sq. meter
Export Processing Zones		5.50 per sq. meter	4.50 sq. meter
Office Rental			
Makati and Ortigas Area		9.00 per sq. meter	4.50 per sq. meter
Other Metro Manila Areas		4.50 per sq. meter	3.00 per sq. meter
House Rental			

Makati and Ortigas (House & Lot, 300-500 meters, at least 3 bedrooms)	2,000	1,500
Other Metro Manila Areas (House & Lot, (300-500 square meters, at least 3 bedrooms)	1,200	800
Condominium Units (at Least 3 bedrooms)	1,200	800
Condominium Units (at Least 2 bedrooms)	600	250
Apartment (2b bedrooms)	500	200

Cost of Utilities	
<i>Electricity</i>	
Installation cost (for big industries, depending on projected consumption)	From US\$ 10,000 to \$ 150,000
Installation cost (for Commercial and office, depending on projected consumption)	From US\$500 to \$ 1,000
Installation cost (residential)	From US\$ 100 to \$ 200
Consumption rate (industrial)	From US\$.08 to \$ 12 per kilowatt hour
<i>Water</i>	
Installation cost (depending on consumption)	From US\$ %0 to US\$ 200
Consumption rate (industrial)	US\$0.10 to US\$0.14 per cubic meter
Consumption rate (commercial and residential)	US\$0.20 to US\$0.25 per cubic meter
<i>Land Line Telephones</i>	
Installation cost (commercial)	US\$ 70
Installation cost (residential)	US\$ 38 (prepaid landline)
Monthly billing (commercial)	US\$ 24 (+ 12% VAT)
Monthly billing (residential)	US\$ 12 (+12% VAT)
National Direct Dialing Calls (Average)	US\$ 0.10 per minute
International Direct Dialing Calls	US\$ 0.40 per minute
<i>Internet Connection</i>	

<p>Installation Fee (Email Account) Installation Fee (Web Account) Internet Subscription* (Subscription rates vary depending on type of plan and number of hours consumed by user)</p>	<p>Free to Php 800 PHP 500 PHP 253 to 100,000+++</p>
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**Monthly Retainer's Fee of
Certain Professionals & Services Contractors**

	High	Low
Certified Public Accountant or Management Consultant (includes consultation on tax bookkeeping and other accounting regulations (on extensive consultation customary charges are billed from USD 20 to USD 75.00 per hour depending on seniority of accountant or staff, size of firm and client)	500	100
Lawyers (includes normal consultation, minor representation before government offices, and notarial services. On extensive consultation, litigation, etc. customary time charges are billed ranging from USD 100.00 per hour depending on seniority of lawyer or staff, size of firm and client)	750	150
Medical Doctor or Dentist (may be required by labor regulations depending on nature of work and size of employment, calculated at 2 to 3 visit per week)	300	150
Customs broker (companies with high level of import activities often time hire in-house brokers on retainers basis)	250	100
Engineering contractor, mechanics, computer technician, etc. (per person / per month)	250	100
Security Guard Services and Utility Personnel (Per person Per 8-hour/Day Per Month)	250	180

In retaining services of professionals or service contractors, no-employer-employee relations exist and client may terminate at will services in accordance with contract.

VIII. IMPORT & EXPORT REGULATION

1. The advent of trade liberalization

The ratification of the World Trade Organization treaty in 1995 paved the way for the country's integration into a globalized world economy. Customs duties and tariffs were reduced. The reduction was accelerated in case of trade among ASEAN nations (Thailand, Philippines, Malaysia, Indonesia, Burma, Vietnam, Brunei, Singapore and Cambodia) as provided as for the ASEAN Free Trade Agreement (AFTA).

To prepare the country for globalization, the Philippine Congress passed "safety nets" laws to protect the country from unfair trade (dumping duties & countervailing duties) and to local industry the safeguard measure law was passed.

Today, imports to the Philippines are allowed with more than 80% of the tariff lines at minimum duties of 0% to 10%.

2. Import Procedures

a) Registration as Importer

A regular commercial importer must first register with the Commissioner of the Bureau of Customs, through the Legal Services Group (LSG), which is in accordance with earlier Customs rulings issued (Customs Memorandum Order No. 149-88, "requiring all importers/consignees to register with the Bureau of Customs"; Customs Memorandum Order No. 23-99, "Registration of Importers"; and, Customs Memorandum Order No. 5-2000, "Amendment to CMO No. 23-99 (Registration of Importers)").

The applicant-importer must file the duly filled up APPLICATION FOR REGISTRATION pursuant to Customs Memorandum Order No. 23-99 together with the following supporting documents:

- a) Mayor's Permit;
- b) VAT or Non-VAT Certificate of applicant;
- c) Tax Identification Number (TIN) Card of the company;
- d) For corporations, articles of incorporation by-laws;
- e) For partnerships, articles of partnership and by-laws;
- f) For cooperatives, registration documents with the Cooperative Development Authority (CDA)
- g) For sole proprietorships, proof of registration with the Bureau of the Trade Regulation and Consumer Protection of the Department of Trade and Industry (DTI);
- h) 2x2 pictures with official signature of applicant
- i) Audited financial statements for the past three years (if applicable);
- j) Summary of importation for the past three years (if applicable);
- k) BOI Certificate of Registration (if applicable);
- l) Income Tax Return of the Company, Partners, Proprietors, Owners for the past three years, if applicable;
- m) Affidavit of assets – Statements of Assets and Liabilities filed with the Bureau of Internal Revenue;

- n) Name of Retained- in house customs broker, if applicable.
- o) Other documents or information that may be required, which shall be covered by a supplemental CMO to be issued from time to time.

Above documents shall be certified photocopies of the original. The originals shall be presented for comparison.

For non-commercial importer (such as one time importer of personal effects) an affidavit is required in lieu of a registration.

b) Declaration by Filing a Written Entry

All importations, except for imported articles admitted duty free, are subject to a formal or informal entry. Where the articles, although of commercial nature, have a dutiable value of P500.00 or less or are personal and household effects for personal use the importation may be cleared on an Informal Entry. In other cases, a Formal Entry must be filed, stating the particulars of the importation, such as the name of the carrying vessel, place of embarkation, date of arrival, articles imported and the value thereof. An essential element in the declaration of importation is the determination of the correct dutiable value of imported good, upon which the appropriate customs duty is imposed. The importer makes a true declaration of dutiable value and tariff classification of the article being imported.

c) Examination, Appraisal and Classification

The imported goods are then subjected to examination, appraisal and classification by examiners and appraisers at the Bureau of Customs. It is then followed by the liquidation of the import entry, which is the final stage in the assessment of the customs duties. Liquidation may either be final or merely tentative.

A tentative liquidation is made where the exact tax liability cannot be ascertained promptly and which would require future action. A final settlement thereof shall be made within 6 months. A final liquid action is deemed made when articles have been entered and passed free of duty or final adjustment of duties made

d) Release of Goods to importer

After payment of duties and taxes, the goods are cleared in the customs facility and released to the importer. Please take note that the Bureau of Customs may institute seizure and forfeiture of imported goods in case of misdeclaration, misclassification, technical or absolute smuggling, importation of prohibited items, or importation of items without license from regulatory agency concerned.

e) Modes of payments of imports

Letters of Credit, Telegraphic Transfers, Open Accounts, etc. are acceptable modes of payment s for imports. However, in case of Letters Credit, taxes and duties must be paid in advance upon opening of the Letters of Credit with the bank) even prior to arrival of imports).

The Bureau of Customs procedures are being retooled to facilitate prompt processing of documents and release of cargos to importers. The public expects better service and more transparency in the future.

Businessman should consult an experienced and trusted customs broker. Determining the correct amount of taxes and duties, and the related cost of customs releasing prior to importing an article is advisable to ensure commercial success in the imports.

3. The Tariff and Customs Code

The Tariff and Customs Code of the Philippines (TCCP) contains a listing of all commodities that may be imported into the Philippines, their product classification, which is harmonized globally and their corresponding duties. Importers must refer to this book prior to importation. In addition to customs duties, value added tax is likewise paid upon imports.

Regular items in the Tariff and Customs Code may be imported by payment of duties and taxes. However, it is important to know that there are certain items that are a) absolutely prohibited; b) Conditionally-Free; and c) Regulated commodities.

Examples of these items are:

Articles of Prohibited importation	Conditionally-Free Importation
Weapons of war	Aquatic products caught or gathered by fishing vessels of Philippine registry.
Gambling Devices	Personal and household effects belong to residents of the Philippines subject to limitation
Narcotics and Prohibited Drugs	Educational, scientific and cultural books, Bibles, Misals, Koran, and other religious books.
Immoral or obscene materials	Importations for the use of foreign embassies and other agencies of foreign government.
Subversive or insidious materials	Articles brought to the Philippines for repair, processing, reconditioning to be re-

Prohibited articles under special laws.	exported upon completion. Articles that may be imported duty-free under special laws.
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Regulated items may be imported subject to the requirements that clearance or permit to import from specialized government agency must be secured prior to the act of importation. Some of these articles are enumerated below:

Firearms, Ammunitions and Explosives Firecrackers, pyrotechnics and ingredients for its production Night Vision devices Rice and Corn Telecommunications equipment Used motor vehicles Color Reproduction Machines	Philippine National Police Philippine National Police Department of National Defense National Food Authority National Commission Telecommunications Department of Trade and Industry National Bureau of Investigation and Central Bank
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As general rule, almost all of the items in the Tariff and Customs Code are importable without any restrictions. One has to deal with the Bureau of Customs only. However, importer should verify, in case of doubt, what particular regulation (if any) covers a commodity and whether a special permit is needed from another agency of government.

4. EXPORT PROCEDURES

Before exporting a commodity, the exporter should proceed to the Export Division of the Bureau of Customs and fill up an Export Declaration.

If the product is regulated commodity, then prior permit export must first be obtained from the concerned government agency. If the country of destination requires additional documents such as documents certificates of fumigation, certificate of origin (Form A) etc., the exporter must be mindful of the customs regulations of the country to which the item will be exported.

No export duties are imposed except for logs (which is taxed at 20%)

The following schedule contains a partial list of absolutely prohibited and regulated commodities for export.

Products Requiring Prior Export Approval & Permit From Relevant Government Agencies		
ABSOLUTELY PROHIBITED (Except for scientific or testing purpose only)	REGULATED (Requiring permit from government agency)	OFFICE / AGENCY
Buri seeds and seedlings	All plants, planting materials and plants products capable of harboring pests, insects and live or dead Animals, animals products and animal effects Natural Fiber; abaca, ramie, buntal, raffia,	Bureau of Plant Industry
Abaca and Ramie seeds, other panting materials	Cocoon, etc. Aircraft	Fiber Industry Development Authority
	Antiques, Cultural artifacts and historical relics	Dept. of Transformation & Communication
	Logs, poles and piles including log core and	National Museum
Mangroves (Bakawan)	Flitches/railroad ties lumber	Forest Management Bureau (Dept. of Environment & Natural Resources)
Bangus fry, Mother Bangus, Prwan-Spawner and Fry	Shells: undersized raw shell of trocas, Gold	Forest Management Bureau (Dept. of Environment & Natural Resources)
Shells: Trumpet (titron) helmet (cassis), Raw Shells and their by products including meat of giant clams	Lip, Back Lip, turbo marmuratus, kapis tridacna crocea, Wild marine species, e.g. Water snakes; sea	Bureau of Fisheries and Aquatic Resources.
Wild marine species e.g. precious, semi-precious and all corals, raw and by products Wild terrestrial speies e,.g. live, stuffed or by products: Mammals (i.e. tamaraw, tarsier, deers, sea	Snakes; frogs, live skin or products from skin or meat. Wild terrestrial e.g. Mammals (i.e. Philippine monkeys, cloud rats), Aves (bleeding heart pigeons, java sparrow, hanging parakeets, cuckoos, fruit	Protected Areas and Wildlife Bureau

cow, fruit bats); Aves (i.g. eagles, cockatoo, Palawan peacock pheasant, myna, horn bills, nicobal,pigeon, Mindoro imperial pigeon) Flora (lady slipper orchid, vanda sanderiana, pither plant) Stalactites and stalagmites	dive, turtle doves, bee-eaters, pinked neck green pigeon, etc. Reptiles (monitor lizards, land turtles), Flora (tree, ferns, cycas plant, all species of orchids, aloe plants, alocasia, etc. all species of butterflies.	
	Firearms, ammunitions and explosives	Philippine National Police
	Gold from small mining, panned gold	Central Bank of the Philippines
	Legal tender Philippine notes, coins, checks, etc. more than 5000 Grains	Central Bank of the Philippines
	Coffee	International Organization Certifying Industry (Dept. of trade and industry)
Matured coconuts and coconut seedling		Philippine Coconut Authority
	Sugar and molasses	Sugar Regulatory Commission

By: Atty. Rufino M. Margate, Jr. / Discover Philippines