



## PHILIPPINES

# Fundamentals of Labour and Employment Laws in the Philippines

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The Philippines has been one of the fastest growing economies in Asia due to rising investments and in the January 2018 Global Economic Prospects report released by the World Bank, it is expected to continue to lead growth, with gross domestic product (GDP) projected to grow 6.7 percent in 2018 and 2019.

The employment landscape in the Philippines is generally pro-labour and employee-friendly. Implemented by the Philippines' Department of Labour and Employment (DOLE), the principal government agency for labour and employment enforcement in the country, the Labour Code of the Philippines sets the basic rules for hiring and termination of employees, work conditions, employee benefits and compensation.

### Minimum Wage

The minimum wage rate varies from one region to another and is set by the relevant Regional Tripartite Wages and Productivity Commission. Under the most recent wage order for the National Capital Region (which includes the cities of Caloocan, Las Pinas, Makati, Malabon, Navotas, Mandaluyong,

Manila, Marikina, Muntinlupa, Paranaque, Pasay, Pasig, Quezon, San Juan, Taguig, Valenzuela and the Municipality of Pateros.), the daily minimum gross basic wage is PHP502 plus daily cost of living allowance of PHP10.

### Working Hours & Overtime

Working hours must not exceed eight hours per day or 48 hours per week. Employees have the right to a daily unpaid meal break of at least one hour. Employees who work beyond eight hours per day are entitled to overtime compensation of 25 percent on top of their regular wage rate, or 30 percent for work performed on a rest day. For those who perform work between 10.00pm in the evening and 6.00am in the morning, they are paid a night shift differential of not less than 10 percent of their pay for each work hour.

Employees' entitlement to overtime pay depends on the nature of their duties and responsibilities. Under the provisions of the Labour Code of the Philippines, working hours and overtime apply to employees in all establishments and undertakings whether for profit or not, excluding the following:

- Government employees;

- Managerial employees;
- Officers or members of the managerial staff;
- Field personnel;
- Members of the family of the employer who are dependent on him for support;
- Domestic helpers and persons in the personal service of another; and
- Employees who are paid by results, as determined by the Secretary of the Philippines' DOLE.

## Leave & Holidays

Employees who have rendered at least one year of service are entitled to a yearly service incentive leave of five days with pay. However, this does not apply to those who are already enjoying the vacation leave with pay of at least five days with their employer.

Employees are not entitled to statutory sick leave. However, in practice, employees are given sick leave through a voluntary employer policy or collective bargaining agreements. Female employees are granted up to 78 days of paid maternity leave under the Philippines labour law. Male employees are also entitled to seven days of paid paternity leave.

There are 10 paid regular holidays and 8 special non-working holidays each year. If employees are required to work on regular holidays, they must be paid double of their regular pay. For work performed on special non-working holidays, employees are paid additional compensation of at least thirty percent to their daily pay.

## Termination of Employment

Generally, an employer may terminate an employment if there is an authorised cause for termination. Examples of authorised cases include installation of labour-saving devices, redundancy retrenchment to prevent losses, cessation of operation and disease. In such cases, the employer must serve a written notice to the affected employee and to DOLE at least one month before the intended effective termination date.

An employee dismissed for authorised cause is entitled to receive severance pay of at least half-month or one-month salary for every year of service, depending on the authorised reason for employee termination. A fraction of six months shall be considered one year.

If an employee is dismissed for a just cause such as serious

misconduct, gross and habitual neglect, fraud or wilful breach, or the commission of a crime by an employee, he/she is not entitled to severance pay. The employer must serve a written notice to the employee stating the reason and giving him/her an opportunity to respond. If the employer decides to proceed with the termination, another written notice must be served to the dismissed employee.

## Mandatory Employee Benefits and Contributions

Under the Philippines' social legislation, employers and their employees are required to contribute to the Social Security System (SSS), National Health Insurance Program (PhilHealth) and the Home Development Mutual Fund (Pag-IBIG Fund) that covers sickness, maternity, disability, retirement, deaths and funerals, health insurance and housing loans. Employers may provide additional company benefits in addition to these mandatory employee benefits. Offering health, group life and accident insurance as well as dental benefits to employees is now a common practice in the Philippines to attract talent.

The contributions of the employer and its employees are based on the employees' monthly compensation. The employer may not deduct its share of contribution from the employee's monthly contribution. Failure of an employer to make its contribution within the stipulated period may result in monetary liability or even criminal sanctions against the employer.

The current SSS contribution rate is 11 percent of the monthly salary, not exceeding PHP16,000, with employer's and employee's contribution rate at 7.37 percent and 3.63 percent respectively.

Employers must also contribute 1 percent of the employee's monthly salary to the Employees' Compensation (EC) Programme, which covers employees who suffer work-related illnesses or injuries resulting in disability or death. The required contribution under the current rate is PHP10.

## Personal Income Tax Rate

Foreign nationals working in the Philippines are termed as resident aliens based on the duration of their stay and employment period in the country. Income earned by such individuals is treated in the same manner as those of Philippine citizens and is taxed at source by the employer.

Under the new Tax Reform for Acceleration and Inclusion Act (TRAIN), the income tax rates for 1 January 2018 to 31 December 2022 are as follows:

Taxable income bracket		Total tax on income below bracket	Tax rate on income in bracket
From PHP	To PHP	PHP	Percent
0	250,000	-	0
250,001	400,000	-	20
400,001	800,000	30,000	25
800,001	2,000,000	130,000	30
2,000,001	8,000,000	490,000	32
8,000,001	Over	2,410,000	35

Beginning 1 January 2023, the income tax rates will further be reduced for all taxpayers, except those with an annual income above PHP8 million.

Taxable income bracket		Total tax on income below bracket	Tax rate on income in bracket
From PHP	To PHP	PHP	Percent
0	250,000	-	0
250,001	400,000	-	15
400,001	800,000	22,500	20
800,001	2,000,000	102,500	25
2,000,001	8,000,000	490,500	30
8,000,001	Over	2,202,500	35

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