



## **Payroll Salary Compensation and Benefits in the Philippines**

### **LABOR AND SOCIAL LEGISLATION**

The Labor Code of the Philippines, otherwise known as Presidential Decree No. 442, governs all employee-employer relations, their rights and obligations.

#### *Wage and Wage-Related Benefits Overview*

- *At least the minimum wage per region and/or sector*
- *Holiday wage and overtime pay for work during holidays or rest days*
- *Overtime pay when working in excess of 8 hours*
- *Service Incentive Leave: 5 days of vacation per year of service*
- *Parental leaves (Maternity, Paternity and Solo parent leaves)*
- *Other leaves*
- *13th month*
- *Separation pay*

### **WAGE AND WAGE-RELATED BENEFITS**

#### **1. MINIMUM WAGE**

The Wage Rationalization Act, Republic Act No. 6727, sets the minimum wage rates applicable per region, province and industry sector. The industry sectors are: non-agricultural, agriculture (plantation and non-plantation), cottage and handicraft, retail and service sectors. Minimum wage may vary depending on the number of employees and gross-sales of an enterprise and its industry sector.

As of June 2016 the minimum wage of non-agricultural workers in Metro Manila is PHP 491 and PHP 454 for agricultural workers. Outside of Metro Manila, the minimum daily wage varies from PHP 232 to PHP 336 for non-agricultural workers, depending on the region.

#### **2. OVERTIME**

Minimum wage is based on a work week of 40 or 48 hours of 8 hours per day. The daily 60 minute mandatory lunch break is not included in the 8 hour work day and is not compensated.

Overtime pay rates vary depending on when the overtime work takes place: regular work day, holiday, rest day, or night shift (between the hours of 10pm to 6am).

Overtime Rates:

- Regular work day: plus 25% of the hourly pay rate.
- Rest day, regular/special holiday: plus 30% of the hourly rate on said day.

### 3. PREMIUM PAY

Premium pay is given on non-working days (rest days/special holidays)

*There are 3 special holidays:*

- *Ninoy Aquino Day*
- *All Saints Day*
- *Last Day of the Year*

Premium Pay Rates:

- On a rest day or special holiday, an employee is entitled to an additional 30% of his daily basic rate, or a total of 130%.
- On a rest day which is also a special holiday, an employee is entitled to an additional 50% of his daily basic rate, or a total of 150%.
- On a regular holiday which is also an employee's rest day, an employee is entitled to an additional 30% of the regular holiday rate of 200%, or a total of 260%. Note that it is only applicable to employees covered by the holiday-pay rule.

The "no work, no pay" principle applies during special non-working days and such other special days as may be proclaimed by the President of the Philippines. Workers who are not required or permitted to work on these days are, therefore, not entitled to any compensation. This, however, is without prejudice to any voluntary practice or CBA providing for payment of wages and benefits for declared special days even if unworked.

### 4. HOLIDAY PAY

The Labor Code requires the payment of an employee's daily basic wage for all non working regular holidays.

There are 12 regular and 3 special non working holidays (see above) in the Philippines.

*12 regular holidays are (Republic Act No. 9849):*

- *New Year's day*
- *Maundy Thursday*
- *Good Friday*
- *Arawng Kagitingan*
- *Labour Day*
- *Independence Day*
- *National Heroes' Day*
- *Eidl Fitr*
- *Eidl Adha*
- *Bonifacio Day*
- *Christmas Day*
- *Rizal Day*

**Rate Example:**

If work is accomplished on a regular holiday (up to 8 hours), an employee is entitled to at least twice (200%) of his basic wage. If the holiday corresponds to a scheduled rest day, the employee is entitled to an additional 30% based on his regular holiday rate of 200%, which comes to a total of at least 260%.

**Absences**

1. All covered employees shall be entitled to holiday pay when they are on leave of absence with pay on the workday immediately preceding the regular holiday. Employees who are on leave of absence without pay on the day immediately preceding a regular holiday may not be paid the required holiday pay if they do not work on such regular holiday.
2. Employers shall grant the same percentage of the holiday pay as the benefit granted by competent authority in the form of employee's compensation or social security payment whichever is higher, if the employees are not reporting for work while on such leave benefits.
3. Where the day immediately preceding the holiday is a non-work day in the establishment or the scheduled rest day of the employee, he/she shall not be deemed to be on leave of absence on that day, in which case he/she shall be entitled to the holiday pay if he/she worked on the day immediately preceding the notwork day or rest day.

**Successive Regular Holidays**

Where there are two (2) successive regular holidays, like Maundy Thursday and Good Friday, an employee may not be paid for both holidays if he/she absents himself/herself from work on the day immediately preceding the first holiday, unless he/she works on the first holiday, in which case he/she is entitled to his/her holiday pay on the second holiday.

**5. NIGHT SHIFT DIFFERENTIAL**

For work done between the hours of 10pm to 6am, employees are entitled to Night Shift Differential (NSD), which represents an additional 10% to the regular wage for each hour of work performed.

**6. SERVICE CHARGES**

Employees of employers collecting service charges are entitled to an equal share in the 85% of the total of such charges, except managerial employees. The remaining 15% of the charges may be retained by the management to answer for losses and breakages and for distribution to managerial employees, at the discretion of the management in the latter case. Service charges are collected by most hotels and some restaurants, night clubs, cocktail lounges, among others.

**Exceptions to Coverage of Benefits granted under the provisions on Overtime, Premium, Holiday, Night Shift Differential Pays and Service Charges**

These mentioned benefits apply to all employees except:

1. Government employees.
2. Workers of retail and service establishments regularly employing less than 10 workers.
3. Managerial employees and officers or members of a managerial staff.
4. Househelpers and persons in the personal service of another.
5. Workers who are paid by results/output.
6. Field personnel if they regularly perform their duties away from the office or place of business.

## **7. SERVICE INCENTIVE LEAVE**

Every employee who has rendered at least one (1) year of service is entitled to a Service Incentive Leave (SIL) of five (5) days with pay. SIL may be used for sick and vacation leave purposes. The unused SIL at the end of the year can be converted into cash using the salary rate at the date of conversion. It is the employer's prerogative to grant additional vacation leave.

### **Meaning of "one year of service"**

The phrase "one year of service" of the employee means service within 12 months, whether continuous or broken, reckoned from the date the employee started working. The period includes authorized absences unworked weekly rest days, and paid regular holidays. Where by individual or collective agreement, practice or policy, the period of working days is less than 12 months, said period shall be considered as one year for the purpose of determining entitlement to the service incentive leave.

## **8. PARENTAL LEAVES**

The Labor Code of the Philippines covers three different types of parental leaves: maternity leave, paternity leave and solo-parent leave.

### **A. Maternity Leave**

Whether married or not, each pregnant employee is entitled to a maternity leave benefit of 60 days for a normal delivery or miscarriage, or 78 days for a caesarean delivery, for up to four pregnancies.

For the duration of the maternity leave, the employee receives a fraction of his regular monthly salary from the company which is in turn reimbursed by the SSS. It is common for companies to give the whole regular pay and shoulder what is not covered by the SSS.

To benefit from a maternity leave, it is required for the employee to be registered with the SSS and be employed at the time of the expected delivery. Furthermore, the SSS must be notified by the employer and at least three monthly contributions must have been made to the SSS for that employee within the past year.

The maternity leave benefit being given instead of a regular wage, it cannot be included in an employee's 13th month wage.

### **B. Paternity Leave**

All married male employees are entitled to a 7 day paternity leave for the delivery or miscarriage of his legitimate spouse with whom he must live, for up to four pregnancies. The paternity leave is at the cost of the employer and is not reimbursed by the SSS.

### **C. Solo-Parent Leave**

In addition to parental leaves at the time of a child's birth, the Filipino labour code drew a special leave for solo-parent employees as described in the Solo Parents Welfare, Republic Act No. 8972. The employee must have been working for at least a year to be entitled to a solo-parent leave, which allows him to 7 working days of leave in a year.

## **9. OTHER LEAVES**

### **A. Gynecological Leave**

A woman employee having rendered continuous aggregate employment service of at least six (6) months for the last twelve (12) months shall be entitled to a special leave benefit of two (2) months with full pay based on her gross monthly compensation following surgery caused by gynecological disorders.

### **B. Leave For Women And Their Children Who Are Victims Of Violence**

Victims shall be entitled to take a paid leave of absence up to ten (10) days in addition to other paid leaves under the Labor Code and Civil Service Rules and Regulations, extendible when the necessity arises as specified in the protection order.

Any employer who shall prejudice the right of the person under this section shall be penalized in accordance with the provisions of the Labor Code and Civil Service Rules and Regulations. Likewise, an employer who shall prejudice any person for assisting a co-employee who is a victim under this Act shall likewise be liable for discrimination.

## **10. 13th MONTH PAY**

Each year, a 13th month pay is given to all rank-and-file employees. By law, this benefit must be paid before December 24th and is mandatory. Employees who have resigned or have been severed from the company before the payment of the 13th month pay are still entitled to it in proportion to the length of time they worked for during that year.

The 13th month pay must be at least 1/12th of the total basic salary of each employee earned during that calendar year.

## **11. SEPARATION PAY**

Following the labor code of the Philippines, articles 283 and 284 state that an employee can claim separation pay if his contract is ended under authorized causes. According to article 282 an employee terminated for just cause (neglect of duties, fraud, crime...) is generally not entitled to separation pay.

An employee who has worked for at least one year is entitled to a separation pay of ½ month pay for every year of service and can be claimed under the following authorized causes:

- Retrenchment of person for loss prevention.
- Cessation of operation of a branch not due to serious losses or financial difficulties.
- If the employee has contracted a disease not curable within 6 months and that his presence at work can be harmful to himself or his co-workers.

A fraction of at least six (6) months being considered as one (1) whole year.

An employee having been employed for at least six (6) months but less than a year, he/she is entitled to one (1) full month's pay.

An employee who has worked less than six (6) is not entitled to separation pay.

A separation pay of 1 month pay for every year of service can be claimed under the following authorized causes:

- Labor-saving devices installed by the employer.
- Redundancy of the employee's services for the company.
- Impossibility to reinstate the employee to his former position or to an equivalent position, for reasons outside of the employer's power.

The employer has the right to terminate the contract of an employee following any of the above authorized causes through a written notice to both the employee and the Department of Labor and Employment of the Philippines at least one month before the contract cessation date.

## **12. RETIREMENT PAY**

All employees from the private-sector may retire from age 60 up to age 65, at which retirement becomes compulsory, and must have served the establishment for at least 5 years.

Retirement pay must at least be equivalent to half of a month's salary for each year of service and a fraction of at least 6 months is therefore considered as one (1) whole year.

One "half month salary" must include the following: a) 15 days salary based on the last salary pay, b) the pay equivalent of five days of incentive leave, c) 1/12 of the 13th month pay. Therefore, one ½ month salary is equivalent to 22.5 days.

*Minimum Retirement pay = Latest daily pay rate x 22.5 days per month x number of years of service*

Depending on the agreements between the employer and employee other benefits can be included in the retirement pay such as a Collective Bargaining Agreement (CBA).

## **13. GROSS BENEFITS & DE MINIMIS BENEFITS**

To reward employee performance and to set incentives it is common for employers to give compensations in cash or in kind to employees. According to the Philippine regulations, these benefits are exempt of taxes under certain conditions.

Following the tax code, benefits received are excluded from the computation of gross income as long as it remains below P82,000 per year (RR 03-2015). "Gross benefits" include: the 13th month pay, Christmas bonuses, productivity and incentive bonuses, and other benefits of the same nature in cash or in kind.

In addition to that, compensations of small value, called De Minimis Benefits, are also excluded from the computation of gross income. De Minimis Benefits have the purpose to promote the well-being and efficiency of employees and are limited to facilities or privileges of relatively small size.

*De Minimis Benefits include:*

- Monetized unused vacation leave credits, maximum of 10 days per year. (RR 05-2011)
- Medical cash allowance to dependents of employees, maximum of P750 per semester or P125 per month, against receipts. (this benefit is not per dependent) (RR 05-2011)
- Rice subsidy, up to P1,500 per month. (RR 05-2011)
- Uniform and clothing allowance, up to P5,000 per year. (RR 08-2012)
- Actual medical benefits, up to P10,000 per year, against receipts. (RR 05-2011)
- Laundry allowance, up to P300 per month. (RR 05-2011)
- Employee achievement awards (loyalty reward, safety reward...) in forms other than cash or gift certificates, and in a maximum value of P10,000 per year in accordance to an established plan which does not discriminate to favor highly paid employees. (RR 05-2011)

- Gifts given for Christmas, special festivities or special circumstances (marriage, illness...) can not be over P5,000 per employee per year. (RR 05-2011)
- Daily meal allowances during overtime work must not exceed 25% of the basic minimum wage. (RR 05-2011)

Meal allowance is non-taxable only for overtime or graveyard shift.

Maximum PHP 122.00 per day based on PHP491.00 (Metro Manila minimum wage - Wage Order No. NCR-20).

- Benefits received by an employee by virtue of a collective bargaining agreement (CBA) and productivity incentive schemes provided that the total annual monetary value received from both CBA and productivity incentive schemes combined, do not exceed ten thousand pesos (Php 10,000.00) per employee per taxable year. (RR 01-2015)

## **TAXATION ANNUAL TABLE**

If taxable income is:

Tax due is:

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 30,000 but not over	P 70,000	P	2,500 + 15% of the excess over P 30,000
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

Minimum Wage Earners are exempt paying from income tax. (RR 10-2008, RA 95054)

## **HMO**

Most companies especially in the competitive BPO industry offer their employees medical insurance from a Health Maintenance Organization and may also cover one or more dependents.

## **SOCIAL SECURITY SYSTEM**

By law, private sector employees must be covered under the Social Security System (SSS). Based on each employee's gross monthly pay, both the employer and employee remit monthly contributions to the SSS. In turn, the SSS benefits cover maternity, retirement, sickness, disability, death and pension benefits.

## **PHILHEALTH**

For all employees covered by the SSS medical coverage is mandatory and automatic. Both the employer and employee contribute equal monthly amounts to the PhilHealth Insurance Corporation.

## **HOME DEVELOPMENT MUTUAL FUND**

The Home Development Mutual Fund (HDMF), also known as the Pag-IBIG Fund, is mandatory to all employees who are compulsorily covered by the Government Service Insurance System (GSIS, for Filipino Government employees) or the SSS. Through the Republic Act No. 9679, the HDMF answers two important needs for Filipino workers by establishing a national savings program and an affordable house financing system. HDMF members benefit of 1. savings, 2. short term loans and 3. access to low cost housing programs. Both the employee and the employer contribute to the fund.

For a monthly compensation of PHP 1,500 and less the employee contributes 1% and above PHP 1500 monthly compensation it is 2%. The employer's contribution always remains at 2%. Contributions are deducted from gross income before computation of the income tax. Note that the maximum employee contribution is set at PHP 5,000. Hence the maximum contribution for employees and employers is now set at PHP 100.

## **DOLE**

The Department of Labor and Employment (DOLE) is the national government agency mandated to formulate and implement policies and programs, and serve as the policy-advisory arm of the Executive Branch in the field of labor and employment.