COUNTRY PAYROLL GUIDE

Philippines Payroll, Benefits and Tax 2026

What employing someone in the Philippines costs, what your employee takes home, and why the headline contribution rate tells you almost nothing about a senior hire.

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The headline numbers

11.8% Employer contributions at mid-level pay	**5.2%** The same contributions on a senior salary	**8.33%** Added by the statutory 13th month, at every salary	**PHP 755** Metro Manila daily minimum from 25 July 2026

Every Philippine contribution ceiling is low, so employer social contributions collapse as salary rises. The 13th month is statutory and adds a flat 8.33% regardless, which puts real employer cost near 20% at mid-level pay and 13.5% on a senior package.

> **Pag-IBIG's ceiling is lower than the minimum wage**
> The maximum fund salary is PHP 10,000, doubled from PHP 5,000 by HDMF Circular 460 in February 2024. At 2% from each side that is PHP 200 each, and a full-time employee on the Metro Manila minimum already earns more than the ceiling. Treat Pag-IBIG as a fixed PHP 200 line, not a percentage.

Three agencies, three separate ceilings

	Employer	Employee
SSS	10% of salary credit	5% of salary credit
SSS ceiling	Salary credit stops at PHP 35,000	Salary credit stops at PHP 35,000
Employees' Compensation	PHP 10 or PHP 30	None
PhilHealth	2.5%, half of the 5% premium	2.5%, half of the 5% premium
PhilHealth ceiling	Income stops at PHP 100,000	Income stops at PHP 100,000
Pag-IBIG	2%, fund salary capped at PHP 10,000	2%, fund salary capped at PHP 10,000
13th month pay	One month a year, statutory	None

The SSS rate reached 15% of the monthly salary credit under the Social Security Act reform. Employees whose salary credit exceeds PHP 20,000 also contribute to the mandatory provident fund, inside the same payment.

13th month pay is a legal obligation

Presidential Decree 851 makes the 13th month mandatory for rank-and-file employees, payable on or before 24 December, pro-rated for part-year service. The amount is total basic salary earned during the year divided by twelve, so allowances and overtime are generally excluded.

The Philippines and Indonesia are the two markets in the region where this is law rather than custom. In Vietnam, Malaysia, Singapore and Hong Kong the extra month is convention, and withholding it is a retention problem rather than a legal one.

Tax treatment is generous: the 13th month and other benefits are exempt up to an aggregate PHP 90,000 a year, and only the excess is taxable.

What a hire actually costs

Single employee, PHP per month. The 13th month is shown as a monthly accrual rather than a December lump sum.

	Gross PHP 40,000	Gross PHP 120,000
Employer contributions	4,730.00	6,230.00
Contributions as a percentage	11.82%	5.19%
13th month accrual	3,333.33	10,000.00
Real employer uplift	20.16%	13.53%
Employee contributions	2,950.00	4,450.00
Withholding tax	2,618.33	21,387.50
Employee takes home	34,431.67	94,162.50
Total cost to employer	48,063.33	136,230.00

Contributions fall from 11.82% to 5.19%, the steepest drop of any market in the region. The 13th month does not fall, so it becomes the larger share of employer cost as salary rises.

Income tax

TRAIN law rates. The second-phase schedule took effect in January 2023 and has not moved since.

Annual taxable income (PHP)	Rate
Up to 250,000	0%
250,001 to 400,000	15%
400,001 to 800,000	20%
800,001 to 2,000,000	25%
2,000,001 to 8,000,000	30%
Over 8,000,000	35%

Taxable income is gross compensation less mandatory SSS, PhilHealth and Pag-IBIG contributions. Statutory minimum wage earners are exempt on their basic wage plus holiday, overtime, night shift and hazard pay.

Minimum wage and the 2026 increase

- **25 July 2026:** Wage Order NCR-27 lifted the Metro Manila non-agriculture minimum from PHP 695 to **PHP 755 a day**, the largest single increase the NCR board has approved.
- **20 January 2027:** a second tranche of PHP 25 takes it to PHP 780. Build it into next year's budget now.
- **PHP 718** applies to agriculture, to service and retail establishments with 15 workers or fewer, and to manufacturing with fewer than 10 regular workers.
- **Wages are set regionally.** A Cebu or Davao obligation is a different number and moves on its own schedule, so check the wage order for the region where the employee actually works.

Leave: statutory against market practice

What the law requires	What the market actually offers
5 days Service Incentive Leave, covering vacation and sick	15 vacation days and 15 sick days, granted separately
105 days maternity, 15 more for a solo parent	Unused leave converted to cash at year end
7 days paternity for the first four deliveries	HMO cover from day one, often including dependants
7 days solo parent leave a year	Rice, meal and transport allowances as de minimis benefits
12 regular holidays, paid at 200% if worked	A 14th month or Christmas bonus in many packages

An offer built on the statutory floor will not be competitive. Budget to the market, not the law.

Termination and foreign nationals

- **No at-will employment.** Security of tenure is constitutionally protected; dismissal needs a just cause relating to conduct or an authorised cause relating to the business.
- **Just cause:** serious misconduct, wilful disobedience, gross neglect, fraud and similar. No separation pay, but two written notices and a hearing are required.
- **Authorised cause:** redundancy, retrenchment, closure or disease. Separation pay is due, with 30 days' notice to the employee and to the Department of Labor.
- **Separation pay:** one month per year of service for redundancy or closure, half a month per year for retrenchment or disease, with a one-month minimum.
- **Probation:** six months maximum, and the standards for regularisation must be communicated at hiring or the employee is deemed regular from day one.
- **Foreign nationals** need an Alien Employment Permit and a 9(g) visa, both employer-sponsored. The permit involves a published labour market test. Budget two to four months.

> **Procedure matters as much as the ground**
> An otherwise valid dismissal carried out without the two-notice process still attracts nominal damages. Document the process from the first written notice, not from the exit.

The monthly cycle

- **Pay at least twice a month**, at intervals not exceeding sixteen days. Monthly-only payment does not comply, and it shapes how you configure payroll from the start.
- **Withhold** income tax and the employee share of all three contributions at source.
- **Remit** SSS, PhilHealth and Pag-IBIG on their own separate schedules and portals, and withholding tax to the BIR.
- **Pay the 13th month** on or before 24 December, and file the compliance report with the Department of Labor by 15 January.
- **File BIR Form 2316** for each employee after year end; substituted filing then removes most employees' obligation to file their own return.

Sources

- Social Security System: contribution schedule at 15% of the monthly salary credit, ceiling PHP 35,000, plus the Employees' Compensation premium.
- PhilHealth: 5% premium rate for 2026, shared equally, on income from PHP 10,000 to PHP 100,000.
- HDMF Circular 460, effective February 2024: Pag-IBIG maximum fund salary doubled to PHP 10,000.
- Wage Order NCR-27: Metro Manila minimum wage to PHP 755 from 25 July 2026, second tranche to PHP 780 from 20 January 2027.
- Presidential Decree 851 and its implementing rules: 13th month pay entitlement, computation and the 24 December deadline.
- TRAIN law second-phase individual income tax rates, in force since 1 January 2023.
- Labor Code of the Philippines: Service Incentive Leave, just and authorised causes, separation pay and probationary employment.

Hiring in the Philippines? Second Talent employs staff in the Philippines on our own entity and handles contracts, SSS, PhilHealth, Pag-IBIG, BIR withholding and the 13th month. We also source the candidates. secondtalent.com/find-the-talent-you-need

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