

## What is a payroll system?

A **payroll system** is a solution that manages, maintains, and automates payments to employees. It helps organizations maintain compliance with tax laws and other financial regulations, and reduce costs.

## How does a payroll system work?

Payroll systems ensure that employees appropriately receive accurate, on-time compensation: **direct deposit, check, payment card**.

Employees can typically access the software to edit their **personal information, payment preferences**, and other details.

For employers, payroll systems need to be reliable, easy to configure, and flexible enough to manage and automate payments to workers of all types: **salaried and hourly employees, temporary and gig workers**, and others.

## Payroll Requirements:

### Payroll

The payroll cycle in the Philippines is generally **monthly**, and payment is made at least once every two weeks or twice a month at intervals not exceeding 16 days.

A **13th salary** must be paid on or before 24th December and is equivalent to one month's pay (Aguinaldo).

### Working Hours

A standard workday is **8 hours**.

Hours over the regular workweek are considered **overtime** and are regulated by the employment contract or collective agreements.

Type of overtime	Hourly rate
Overtime – Normal Working Day	125%

Overtime – Rest Day	130%
Night Shift Differential Rate	110%

## Tax

**Personal income tax** in the Philippines ranges from 0% to 35%. However, once an individual's income reaches PHP 400,000 they are required to pay a lump sum as well as be taxed on the remainder of their income over that threshold.

Taxable income (PHP)		Tax on column 1 (PHP)	Tax on excess (%)
Over	Not over		
0	250,000	-	0
250,000	400,000	-	20
400,000	800,000	30,000	25
800,000	2,000,000	130,000	30
2,000,000	8,000,000	490,000	32
8,000,000		2,410,000	35

**Taxable income** is the employee's gross income after making relevant salary adjustments. The basic formula for calculating taxable income is:

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$$\text{Taxable Income} = (\text{Basic Salary} + \text{Additional Pay}) - \text{Deductions}$$


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## Holiday

Employees asked to work on a public holiday must receive **holiday pay**. Holiday pay is the employee's daily rate adjusted by the holiday rate.

Type of Holiday	Special Hourly Rate
Regular Holiday	200% of the basic daily rate
Special Non-working Holiday	130% of the basic daily rate

## Leave

***Paid leave*** in the Philippines is outlined in the employment contract as a minimum of **5 days paid leave a year** after the completion of 1 year of employment. This leave can be used as holidays or sick days. If leave is not taken within the year, the employer can pay out unused leave.

Female employees who have completed at least one years of employment are entitled to a yearly service incentive of 5 days paid leave which they can use towards ***maternity leave***. In addition, the employee is entitled to **105 days** paid maternity leave after the due date. For single mothers, the entitlement increased to 120 days.

The father is entitled to mandatory paid ***paternity leave*** of **7 days** from the child's date of birth.

## Deductions

If your employee ***comes in late*** or ***leaves work early***, you can make deductions to his or her salary. You can also deduct from your employee's salary if he or she takes ***unpaid leaves***.

## Contributions

In the Philippines, employees make mandatory ***government contributions*** of which employers also pay a share.

Employee Payroll Contribution	Rate
Social Security System (SSS)	4.00% (maximum PHP 24,300 per year)
Home Development Mutual Fund (HDMF) (Pag-ibig)	1.00% - Below PHP 1,500 2.00% - Above PHP 1,500
Philippine Health Insurance Corporation (PHIC)	1.75%
Provident Fund (WISP)	225 PHP per month

## Reporting and Compliance

Employers are obligated to withhold tax from their employee's salaries. Tax must then be paid to the authorities by the **10th day** of the following month, except for December's tax, which can be paid by the **15th**.

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