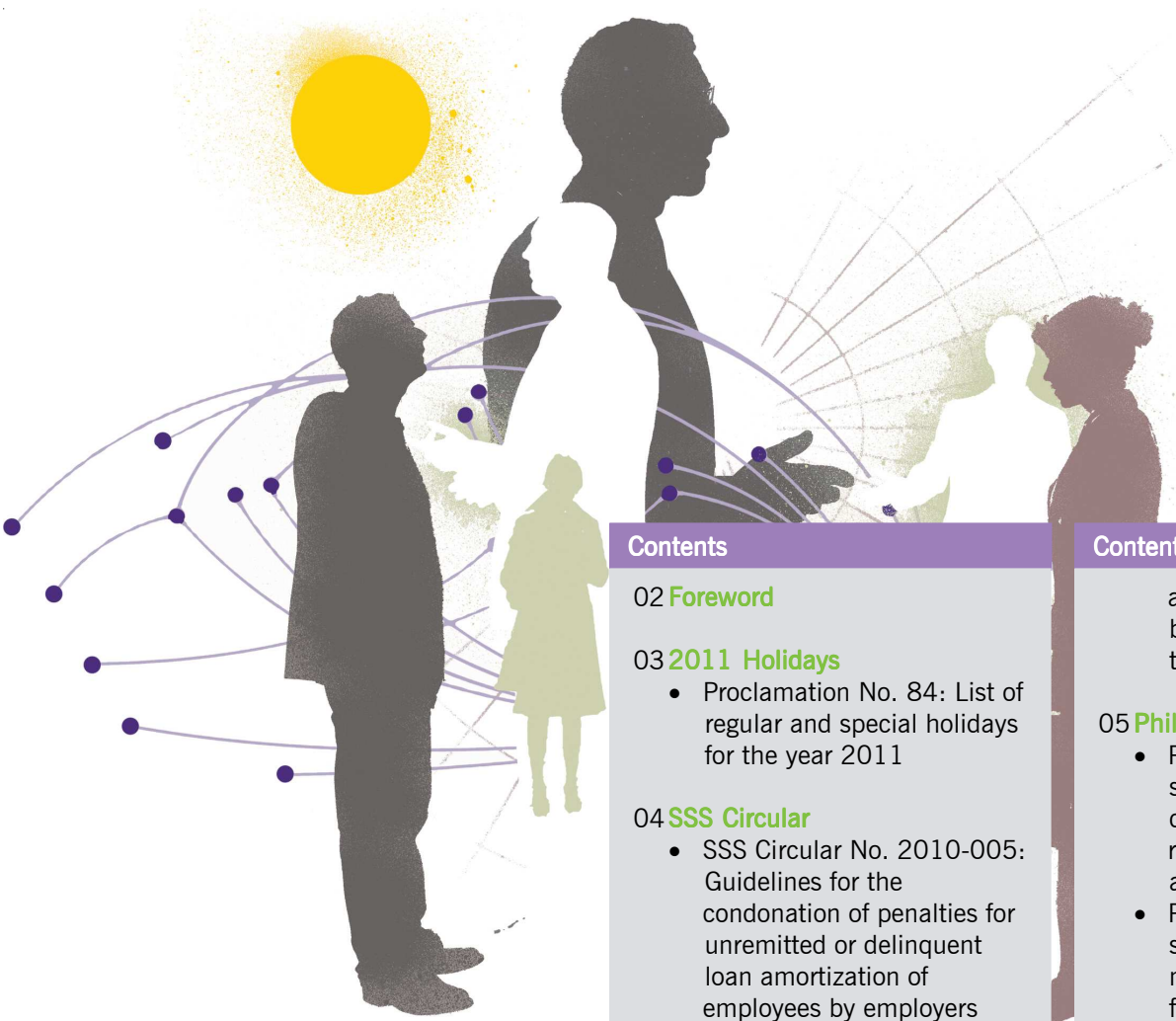


January-March 2011

Outsourcing brief



Contents

- 02 **Foreword**
- 03 **2011 Holidays**
 - Proclamation No. 84: List of regular and special holidays for the year 2011
- 04 **SSS Circular**
 - SSS Circular No. 2010-005: Guidelines for the condonation of penalties for unremitted or delinquent loan amortization of employees by employers
- 04 **BIR Issuance**
 - BIR RR 5-2011: Further amendments to RR 2-98

Contents

- and 3-98, as last amended by RR 5-2008, with respect to *de minimis* benefits
- 05 **PhilHealth Circulars**
 - PhilHealth Circular No. 25, s. 2010: Nine months contributions as a requirement for benefit availment
 - PhilHealth Circular No. 29, s. 2010: Amendment to membership registration forms
- 06 **The case for outsourcing**
- 08 **Highlight on P&A services**
 - Secondment

Foreword

Dear Reader,

Welcome to the maiden issue of P&A's **Outsourcing brief**.

Considering the popularity of outsourcing and of the Philippines as an outsourcing destination, we at P&A thought it timely to develop this quarterly outsourcing roundup. Through this publication, we aim to spread the news on outsourcing – its benefits, rewards, and even the risks that come with passing on certain functions to another firm.

As you may know, one of the services we provide is outsourced accounting and payroll, through our **Finance & Accounting Outsourcing (F&AO) Division**. Tapping the expertise of our F&AO team, we will also use this space to share best practices in payroll and accounting and to give you a summary of developments affecting these two areas based on issuances from various government agencies, like the BIR, SSS and PhilHealth.

We hope you will find our Outsourcing brief informative and insightful. If you have comments about the brief, or have suggestions regarding content you would like to see in future issues, do let us know so we can continuously improve our publication.

Warm regards,



Jessie C. Carpio
Head, Finance & Accounting Outsourcing
T+ 63 2 813-6957
+ 63 917 858-5030
E.Jessie.Carpio@ph.gt.com



2011 Holidays

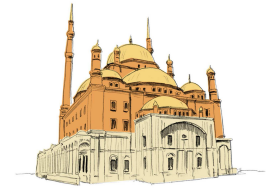
Proclamation No. 84: List of regular and special holidays for the year 2011

On 20 December 2010, President Benigno S. Aquino III signed Proclamation No. 84, which set out the regular holidays, special non-working days, and special holidays (for all schools) for 2011.

The Proclamation modified Republic Act No. 9849, which stipulates that holidays shall be moved to the nearest Monday. As such, holidays in the Philippines will no longer be moved to the nearest Monday of the week.

Regular National Holidays	Observance date
New Year's Day	January 1
Araw ng Kagitingan	April 9
Maundy Thursday	April 21
Good Friday	April 22
Labor Day	May 1
Independence Day	June 12
National Heroes' Day	August 30
Bonifacio Day	November 30
Christmas Day	December 25
Rizal Day	December 30

Special National Holidays	Observance date
Ninoy Aquino Day	August 21
All Saints' Day	November 1
Last Day of the Year	December 31



Proclamation No. 84 also has provisions for observance of **Eid' l Fitr** and **Eidul Adha**, the dates of which shall be determined based on the Islamic calendar. Once the dates are determined, new proclamations will be issued.



SSS Circular

SSS Circular No. 2010-005: Guidelines for the condonation of penalties for unremitted or delinquent loan amortization of employees by employers

The Social Security System (SSS) issued Circular No. 2010-005 which provides the guidelines and procedures in implementing the Condonation Penalty Program for Employers. Under the Circular, the program may be availed of from January 3, 2011 to June 30, 2011 by (1) employers who are delinquent in the remittance of the employee's loan amortizations, and (2) employers who have employees with delinquent loans/arrears. Moreover, the program shall apply only to penalties on unremitted or delinquent loan amortizations (principal and interest) due on or before April 1, 2010.



BIR Issuance

BIR RR 5-2011: Further amendments to RR 2-98 and 3-98, as last amended by RR 5-2008, with respect to *de minimis* benefits

The Bureau of Internal Revenue (BIR) issued Revenue Regulations No. (RR) 5-2011 limiting those items considered *de minimis* benefits that are exempt from withholding tax on compensation (WTC) or fringe benefits tax (FBT). Here are the benefits enumerated in the regulations:

- a. Monetized unused vacation leave credits of private employees not exceeding ten days during the year
- b. Monetized value of vacation and sick leave credits paid to government employees
- c. Medical cash allowance to dependents of employees not exceeding P750 per employee per semester or P125 per month
- d. Rice subsidy of P1,500 or one sack of 50kg rice per month amounting to not more than P1,500
- e. Uniform and clothing allowance not exceeding P4,000 per annum
- f. Actual medical expenses not exceeding P10,000 per annum
- g. Laundry allowance not exceeding P300 per month
- h. Employee achievement awards with an annual monetary value not exceeding P10,000
- i. Gifts during Christmas and major anniversary celebrations not exceeding P5,000 per employee per annum
- j. Daily meal allowance for overtime work and night/graveyard shift not exceeding 25% of the basic minimum wage on a per region basis

The new regulation provides that other than the above benefits, all other benefits given by employers to employees shall not be considered *de minimis* benefits, and hence, shall already be considered taxable compensation subject to income tax as well as withholding tax on compensation income.

PhilHealth Circulars

PhilHealth Circular No. 25, s. 2010: Nine months contributions as a requirement for benefit availment

Pursuant to PhilHealth Circular No. 25, s. 2010, PhilHealth now requires nine months of contributions within 12 months prior to the month of availment for all confinements, including availment of outpatient benefit, instead of the previous three months within six months requirement.

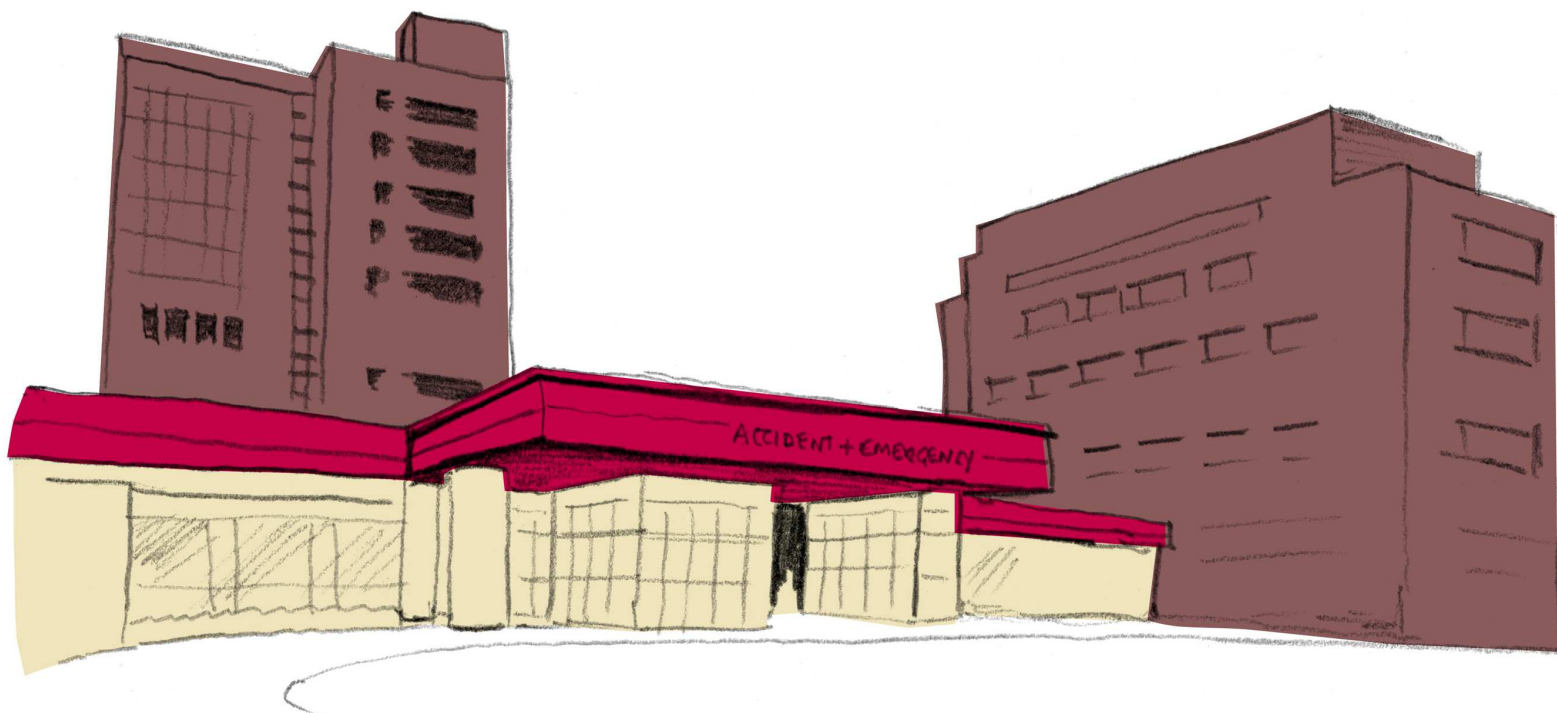
Premium contribution shall be paid prior to confinement. Thus, the reckoning date of payment contribution shall be the date of the last day prior to confinement. Any contribution payment paid within the confinement, allowed under previously defined policies (i.e., PhilHealth Circular Nos. 24 s-2003, 14 s-2004 and 7 s-2006), shall no longer be considered for the present confinement but for future/prospective ones.

This new PhilHealth policy shall be effective for all reimbursements with admission/treatment (outpatient) date starting July 1, 2011.

PhilHealth Circular No. 29, s. 2010: Amendment to membership registration forms

Pursuant to PhilHealth Circular No. 29, s. 2010, the Philippine Health Insurance Corporation issued the new PhilHealth Registration Form (PMRF) amending and replacing the current Member Registration Forms (MRFs). Based on the circular, the form has been amended to simplify the requirements and procedures for the registration and enrollment to the National Health Insurance Program.

For purposes of employed members, the PMRF shall now replace the M1a, i.e. the existing member registration form for that sector. Further, this new form shall also replace the Member Data Amendment Form or M2 used to implement changes in the members' profile/information.



The case for outsourcing

By **Jessie C. Carpio**

Outsourcing (“resourcing” to some) has been adopted widely by companies in North America but has only been embraced tentatively, if not held off cautiously, by local companies. Many local companies (mistakenly, I believe) look at outsourcing as simply handing over somebody’s job, usually in accounting or payroll, to an outside service provider. In most cases, cost-benefit analysis is limited to comparing salaries saved with the service provider’s fees.

A better way to do the analysis is to weigh three compelling reasons why a company should outsource payroll and accounting functions. I call them the “Three Cs.”

First is **cost savings**. Outsourcing’s benefit to a company goes beyond a reduction in the cost of basic salary. An employee’s total salary costs include a package of mandated and voluntary benefits, from the relatively small items such as social security premiums and paid leaves to bigger fringes such as bonuses and retirement packages, the amount of which can vary greatly with the employees’ positions. If the position is still nonexistent, (as in a start-up company, for example) or is to be eliminated, calculation of cost savings should include the hardware like computers assigned to the person and of course the related software costs. The work area that would have been allocated to the prospective employee could be put to more productive use. It may even be argued that lease cost is decreased and consumption of office supplies and utilities is reduced.

Outsourcing brings **convenience** to the company. As most business and management gurus would preach, management’s focus should be on the company’s core business. This means focusing on marketing, operational efficiencies and service delivery. Backroom functions such as accounting and payroll processing are nonessential activities and should not use management’s precious time. Accounting and payroll, however, are **the** core activities of an outsourcing service provider. These service providers make it their business to focus on the operational efficiencies and service delivery of accounting and payroll. To quote Jack Welch: “Your back room is somebody else’s front room.”

In addition, there are trivial matters, such as getting SSS numbers and BIR tax identification numbers (a big issue for many call centers and multinational BPOs where personnel turnover can be as high as 200 a month), and the regular monthly filings with the SSS and the monthly, quarterly and annual filings with the BIR that can be better handled by an outsourcing service provider. More importantly, outsourcing guarantees a steady and timely delivery of service. If, for example, the person in charge of payroll in a company gets sick or goes on leave, delivery of service may be halted. If the person resigns, there is the costly period of adjustment and training. On the other hand, a service provider has a pool of resources that can handle precisely these kinds of emergencies.



This brings me to the third C – **competent resources** of the service provider. When some companies decide to outsource, their instinct is to choose the service provider with the lowest fee. But to their dismay, these service providers oftentimes fail to deliver. The service provider may have quoted a low fee not necessarily because of its efficient operation, but because it has a lower operating cost: the service provider may be operating from a residence and employing people who are not properly paid nor trained.

Selecting a service provider is critical. One must ask for the client portfolio of the service provider, the staff turnover, the experience of management, the number of staff, the range of services offered, and if the provider has a help desk. A visit to the service provider's office is also important. Some service providers really do operate from the owner's home.

Since 2005, accounting standards have changed drastically. There are several new accounting principles, and there are more in the pipeline. Is the service provider capable of capturing all these changes? Does the service provider inform the company on a timely basis about the effects of these changes on the financial statements of the company? New tax rules and regulations are issued regularly. Was, for example, the company informed of the optional standard deduction (OSD) when it was adopted by the BIR and was it shown a computation that using the regular tax rate would be more beneficial to the company?

If, after considering these three Cs—cost savings, convenience, competent resources— there is still fear or trepidation to go ahead and outsource, I suggest that the company take small steps by initially outsourcing only its executive or management payroll. The executive or management payroll is usually handled by the CFO or the highest officer in the accounting department. That officer can use his time more productively by focusing on business strategy rather than computing payroll. Secondly, handling the payroll processing in-house may result in disclosure of highly confidential information to employees transacting business with Accounting: these people may inadvertently get to see strictly confidential payroll data or information.

Give outsourcing a try, and if the experience with outsourcing management payroll turns out to be satisfactory, outsourcing of other nonessential activities (to the company) may follow. Who knows, this tentative embrace of outsourcing may turn into a warm hug.

(This article was originally published in the Philippine Star on 3 August 2009)



Highlight on P&A services

Secondment

We offer Secondment services where our staff, under the direction and supervision of the Company's officers, perform accounting and accounting-related work.

We can assist you with such activities as:

- Migration from one accounting system to another accounting system
- Bank reconciliation for several bank accounts that have not been reconciled for years
- Data cleansing, such as reconciliation of balances in subsidiary ledgers of receivables and payables with the general ledger balances
- Preparation of schedules and documentary supports and requirements during audits by internal and external parties, including government agencies
- Acting as accounting personnel while regular accounting staff are on leave



Outsourcing Brief is a quarterly publication of Punongbayan & Araullo (P&A) that aims to keep the Firm's clientele, as well as the general public, informed of various developments in outsourcing, compensation, and other related matters. This publication is not intended to be a substitute for competent professional advice. Even though careful effort has been exercised to ensure the accuracy of the contents of this publication, it should not be used as the basis for formulating business decisions. Government pronouncements, laws, and official interpretations are all subject to change.

We welcome your suggestions and feedback so that the Outsourcing Brief may be even more useful to you. Please get in touch with us if you have any comments and if it would help you to have the full text of the materials in the Outsourcing Brief.

P&A is a member firm within Grant Thornton International Ltd. Grant Thornton International is one of the world's leading organizations of independently owned and managed accounting and consulting firms.

If you would like to know more about our secondment services, please contact:

Paz V. Malubay
Partner, Finance & Accounting Outsourcing
T + 63 2 886-5429
F + 63 917 571-8826
E Paz.Malubay@ph.gt.com