## What You Need to Know About HR Compliance:

## Helping Great Employers Effectively Mitigate Risk



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## Introduction

HR teams can face challenges when aligning company policies with employment laws and industry-specific regulations. These include:

- Managing government-mandated compensation and benefits, like wages, leaves, and statutory benefits, among others
- Ensuring that their labor and organizational practices follow constantly changing regulations
- Creating and maintaining a competitive compensation and benefits structure
- Producing and preparing the necessary government reports and paperwork

Companies looking to overcome these hurdles can consider outsourcing HR compliance to an independent consultant or a consulting agency. Experts can handle these crucial tasks for employers, to help them prevent fines, spend less time on compliance, and reduce payroll costs.

If you want to ensure HR compliance in your organization, you'll need to take note of labor laws from the Philippine government. This E-book will provide a guide on these prerequisites, what happens when companies fail to fulfill them, and how you can stay compliant.


## What Your Business Needs

Business owners in the Philippines must keep up with current labor laws and regulations to ensure their operations run smoothly.

Government agencies and other regulatory bodies such as DOLE, Pag-IBIG, SSS, and BIR have provided clear directives that employers in the Philippines should comply with.

Failure to do so may result in penalties such as fines and the revocation certain business permits. Let's take a closer look at some of the prerequisites below.

## The Basic Rights of Filipino Employees

DOLE's Bureau of Working Conditions has outlined every Filipino employee's basic rights that organizations should uphold. We've listed and discussed each in depth.

| Worker's Right | What It Means |
| :--- | :--- | | This basic right involves the following duties of the Philippine government: |
| :--- |
| Equal work <br> opportunities <br> for all |


| Worker's Right | What It Means |
| :---: | :---: |
| Hiring and managing persons with disabilities (PWDs) | - Companies must offer equal employment opportunities to qualified PWDs. Specifically, their selection process for vacant roles should include applicants with disabilities. <br> - Employees should also set the same terms and conditions of employment for PWDs and provide these individuals with the same compensation, benefits, and incentives as able-bodied employees. <br> - The law prohibits discrimination against PWDs in recruitment, employment, and other related areas. |
| Recruiting and managing employees with mental health conditions | - Employers should not discriminate against job applicants with perceived or identified mental health disorders. These individuals are entitled to the benefits of employment. <br> - Moreover, employers should not dismiss workers with mental health conditions unless these disorders significantly affect individual or workplace safety, performance, and productivity. |
| Employment of children | - Any individual must be at least 15 years old to start working. Those that fall below this age threshold require a parent or guardian's supervision, provided that the work doesn't affect their academics or development. <br> - Filipinos applying for jobs that pose risks, like public transportation drivers and firefighters, must be 18 years old or above. For safer roles (such as bank tellers or sales representatives), the minimum age is set at 15 years old. |
| Safe working conditions | Employers must protect their workers from injury, sickness, or death by upholding a safe and healthy working environment. |
| Self-organization and collective bargaining | Workers are free to form or join a legitimate union. They can join a union to participate in collective bargaining, a process where employers and unions negotiate and establish specific terms and conditions of employment. Moreover, new hires can join unions on their first day at work. |

We'll dive deeper into some of these rights in the next sections.

## Minimum Wage

Minimum wage rates for Filipino employees vary by location and job category. If you're operating in the National Capital Region (NCR), the National Wages and Productivity Commission has set the following rates:

- Php 500.44 for non-agricultural employees
- Php 467.95 for plantation and non-plantation workers

As for other regions, minimum wage rates can range from Php 271.25 to almost Php 400. You can check the exact rates on the Current Real Minimum Wage Rates page.

## Mandatory Contributions

Filipino employees also have required contributions to the following social service agencies:

## Social Security System (SSS)

All SSS members must register and obtain their Employer (ER) Number. SSS provides an Employer Registration Form (SS Form R-1) that you should complete.

After registration, you're obligated to enforce mandatory employee registration. SSS employer-members usually file registration forms on the worker's behalf.

An employee's SSS contribution makes up 13\% of their monthly salary credit (MSC), allowing them to receive sickness, disability, retirement, death, and funeral benefits. SSS sets an employer's share at 8.5\% and an employee's share at 4.5\%.

Consider reading our step-by-step guide if you'd like to know more about how monthly SSS contributions are calculated.

## Home Development Mutual Fund (HDMF or Pag-IBIG)

Pag-IBIG is the Philippines' national savings and affordable housing finance program. Eligible members can avail of Pag-IBIG's multi-purpose loans and sign up for its savings programs.

Enrolling your business in the Pag-IBIG program requires the documents listed below:

- Your company's SSS certificate
- SS Form R-1 and/or SS Form R-1A (Employment Report) and SSS Form R-3 (Contribution Collection List)
- Proof of business ownership
- Your specimen signature

You may also need to submit additional documents if you're a sole proprietor, business partner, or corporation.

Finally, you must submit an accomplished Employer Data Form (EDF) and Membership Savings Remittance Form (MSRF) to a Pag-IBIG Branch. These forms are available on Pag-IBIG's website.

## On Contributions

Contribution rates vary across employees. Those who earn Php 1,500 and below contribute $1 \%$ of their salary, while employees who receive over Php 1,500 contribute $2 \%$. An employer's share is $2 \%$ in both conditions.

You can compute your Pag-IBIG contribution using this formula:


Consider this example. Let's say one employee earns Php 5,000 per month. The computation above will look like this:


Hence, you need to deduct Php 100 from the employee's monthly salary.

## Philippine Health Insurance Corporation (PhilHealth)

PhilHealth is the government agency behind the National Health Insurance Program (NHIP), which helps Filipinos access affordable healthcare. The NHIP covers hospital costs, room rates, medicine, and health services.

For registration, PhilHealth will ask for an accomplished Employer Data Record (ER1) form, your business permit, and other required documents depending on your business type. The agency will issue the following documents after processing your registration:

- Employer Number
- Certificate of Registration
- PhilHealth Identification Numbers (PHIN) of your employees
- Member Data Record (MDR)

Currently, an employee's PhilHealth contribution can range from Php 400 to Php 3,200. The formula below will help you compute each employee's exact share of their PhilHealth


Sample computation: Php 15,000 x 0.04 = Php 600

Note: PhilHealth is set to increase its premium rate to $4.5 \%$ in 2023 but the increase is currently suspended.

## Monetary Benefits

Apart from their basic pay, employees also receive the benefits below.

| Benefit | Requirements or Conditions |
| :---: | :---: |
| 13th Month Pay | - Any private employee with a fixed compensation and has worked for at least 30 days is entitled to this benefit. <br> - Employers can give 13th month pay to workers in two installments or in full. <br> - Employers must remit the benefit on or before December 24 every year. |
| Overtime Pay | - Employees who worked over eight hours should receive overtime pay. <br> - This benefit is at least $25 \%$ of the employee's hourly rate during regular workdays. |
| Premium Pay | - Premium pay applies to employees who render work on an official holiday or rest day. <br> - Employers add $30 \%$ to the employee's regular wage. |
| Night Shift Differential | - This benefit applies to night shift employees (or individuals working between 10 pm and 6 am ). <br> - Night shift workers get $10 \%$ more compensation for every working hour. |
| Separation Pay | Separation pay applies to resigned or terminated employees. |


| Benefit |  |
| :--- | :--- |
| Retirement Pay | Requirements or Conditions |$\quad$| Employees can receive this benefit if: |
| :--- |
| - They're at least 60 years old. |
| - They rendered at least five years of service. |

## Employee Leaves

Local employers must offer service incentive leaves (SIL) that covered employees can use whenever they want to take time off work. SILs ensure that workers still receive compensation while on leave.

Employees with at least 12 months of service for their employer get five service leave credits per year. They can take these leaves for any valid reason. These leaves are convertible to cash if not used by the end of the year. All employees are entitled to service incentive leaves, except the following individuals:

- Government employees
- Those who personally work for another individual
- Managers whose role entails:
- Handling the business or one of its departments or subdivisions
- Overseeing the work of multiple employees
= Hiring or dismissing workers or influencing changes in their employment status
- Officers or managerial staff members
- Field personnel and individuals without employers supervising their time and performance
- Employees already enjoying this benefit
- Individuals on vacation leaves with pay of at least five days
- Employees of businesses with less than 10 workers.

Other mandatory leaves provided for by the Labor Code and other labor laws are the following:

- Parental leaves - Parental leaves affords paid time off so parents may take care of their child following their birth or adoption. This type of leave is split into the following:
- Maternity leaves - Maternity leaves apply to pregnant female employees. Those taking these leaves get 105 days off work, but the employee has the right to take an extra 30 days off without pay, if needed.
- Paternity leaves - Any male employee with a child is entitled to take this leave for seven days, which covers up to four children.
= Solo parental leaves - Republic Act No. 8972 (the Solo Parents' Welfare Act) requires employers to offer solo parental leaves for 7 days yearly.
= Leave for Victims of Violence Against Women and Their Children- Women who are victims, according to Republic Act No. 9262, can take a leave of up to 10 days with pay. The leave covers the time the employee needs to attend to medical and legal concerns. This can be extended if needed, depending on the protection order issued.
- Special Leave Benefits for Women (Republic Act No. 9710)- Any female employee that underwent surgery caused by gynecological disorders is entitled to two months' leave with pay. The female employee must render at least six months of continuous employment for the last 12 months before surgery.


## Voluntary Leaves

Employers can also offer the leaves below as part of their initiatives if a collective bargaining agreement (CBA) requires it, or both. Keep note that employers are free to go beyond the leaves listed below, as long as they benefit their employees.

- Sick leaves - These are for those who need to take time off work to attend to personal or family illnesses.
- Vacation leaves - Employees can file vacation leaves for rest or leisure purposes.
- Bereavement leaves - Employees with a deceased loved one can take these leaves. They have 10 days to take care of funeral arrangements and other matters regarding their deceased relatives.


## Filing Income \& Withholding Taxes

Your business must pay these taxes if it's registered with the Bureau of Internal Revenue (BIR).

## Annual Income Tax Returns

The BIR mandates the following companies to file income tax returns (ITRs):

- Businesses of various types (e.g., partnerships, large enterprises)
- Filipino companies with local and foreign sources of income
- Foreign firms with local sources of income

These firms can submit one of three annual ITR forms according to how they pay taxes: Form 1702-RT, Form 1702-EX, and Form 1702-MX. You can download any of these forms from the BIR website.

Form 1702-RT is for companies following the regular income tax rate. Meanwhile, tax-exempt businesses must file Form 1702-EX, and Form 1702-MX is for companies with mixed incomes.

The BIR sets the deadline for filing a company's annual ITR on or before the 15th day of the fourth month after the taxable year ends.

## Filing Withholding Taxes

Additionally, Filipino employers can file a Certificate of Compensation Payment or Tax Withheld for Compensation Payment With or Without Tax Withheld. This document is known as the BIR Form 2316, which you must file if your employees receive salaries and other payments for their work. Through this form, employers declare how much each worker earns and the taxes withheld from the calendar year.

Many companies provide their employees with copies of Form 2316 on or before January 31st of the succeeding year. But if an employee resigns or gets terminated, they will get the form when they receive their last paycheck. You must attach the worker's Form 2316 to their annual ITR, whether they file it individually or don't meet the requirements for substituted filing.

## Who Qualifies for Substituted Filing?

You can file Form 2316 for your employees if they:

- Receive purely compensation income
- Only worked for you during the calendar year
- Have income taxes that you've correctly withheld from them

Employers should submit a duplicate of each worker's Form 2316 to the BIR before February 28th of the succeeding year, plus a certified list of qualified employees. That list should include all employee names, their Tax Identification Numbers (TIN), and their compensation income, tax due, and tax withheld.

## Occupational Safety \& Health

A safe workplace is just as important as your company's performance. The DOLE strictly enforces Republic Act No. 11058 or the OSH Law, a code encompassing workplace safety and health. It compels employers to create a safe environment for their employees and promote stringent yet dynamic, inclusive, and gender-sensitive initiatives through OSH policies and programs.

The DOLE's Labor Advisory 04-19 cites all basic guidelines for following the OSH Law.

## Other Relevant Programs \& Policies

Aside from the abovementioned requirements, your business should comply with and enforce the following policies.

- The Anti-Sexual Harassment Act of 1995 (Republic Act No. 7877) lays the foundation for anti-sexual harassment policies in the workplace.
- The Safe Spaces Act (Republic Act No. 11313) mandates employers to prevent, eliminate, or penalize gender-based sexual harassment.
- Department Order No. 208 from DOLE guides employers in enforcing mental health policies and programs, which should meet the requirements outlined in the Mental Health Act (Republic Act No. 11036).


## Maintaining Labor Relations

Employees with complaints about employment practices or have labor-related concerns may bring them up with the National Labor Relations Commission (NLRC) or the Bureau of Labor Relations (BLR).

Today, workers can file complaints through DOLE's e-SEnA (Single Entry Approach) program. The latter involves accomplishing an online request form and submitting it via fax, e-mail, Facebook Messenger, or Viber. Workers can also raise any labor any employment issues and concerns through the DOLE Hotline 1349, which is available 24/7.

After receiving a complaint and evaluating it, the Administrative Complaints Committee (ACC) will investigate and recommend specific actions. The National Conciliation and Mediation Board (NCMB) will also meet you and the complainant to settle the case.

Meanwhile, your organization will need to follow the proper procedure when addressing grievances related to a collective bargaining agreement (CBA). Both parties involved in a CBA-related grievance must settle the matter within seven days or it undergoes voluntary arbitration.

## Why Regulatory Compliance Matters

HR compliance has a broad scope: it covers everything from adhering to national labor laws all the way to maintaining proper employee behavior. Let's talk more about it below.

## What is Regulatory Compliance?

This entails following local, national, and international laws encompassing a company's operations. Each industry and type of business fulfill specific prerequisites.

In the Philippines, DOLE will visit companies to investigate and confirm complaints against them or inspect their workplaces. These inspections focuses on labor standards, labor relations and compliance with the OSH law and Mental Health Act.

## Why Should Companies Follow Specific Regulations?

Organizations have several reasons to comply with labor and employment laws. They include:

## Constant Changes in Current Laws

Your business may follow relevant regulations now, but these standards can change over time. Adapting to these changes is crucial because failing to do so can cause problems for your company, which we'll discuss in depth later.

## Regulatory Compliance Protects Your Business

Industry-specific regulations act as your company, workforce, and clientele's shield against potential risks. Each law serves a particular purpose, from data security to fraud protection or occupational health and safety so every business shold stay compliant at all times.

## It Helps You Avoid Potential Violations

If a complaint has been filed against your company, there's a chance that DOLE could visit and ask for the proper documents. Before this happens, make sure you prepare the necessary documents to avoid violations.

## What Happens If a Business Doesn't Maintain Regulatory Compliance?

Non-compliance can lead to these consequences:

## Fines

Businesses may face monetary penalties if they violate certain regulations. Generally, fines for non-compliance can reach millions. Take the Data Privacy Act (Republic Act No. 10173), for example. Violators can pay fines ranging from Php 100,000 (for incorrectly disposing of personal information) to Php 4,000,000 (for accessing sensitive personal information due to negligence). ${ }^{1}$

## Reputational Damage

Non compliance can damage your company's reputation, and lead to lack of trust or challenges in recruitment or retention. Staying vigilant and compliant can help you safeguard your reputation.

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## Disrupted Operations

If your business violates certain regulations, you may need to implement a temporary shutdown until you've resolved those breaches. A lack of continuity could bring your productivity down, which could, in turn, disrupt your overall operations.

## Minimize Compliance Risks \& Maximize Potential

These best practices can help your company comply with current labor regulations.

## Strike a Balance Between Strategy \& Compliance

When setting clearly defined objectives that reflect compliance, consider your business strategy. Your tactics may be effective on paper, but they should also create fewer legal complications. To prevent such issues, set HR goals that support company strategy and consider various instances and potential impacts on compliance.

## List the Regulations Applicable to Your Business

Your company's location, industry, and size are some factors that can determine what laws it should follow. List the necessary requirements and applicable regulations for your organization while considering areas like wage and workplace safety laws. Then, keep your list in an accessible place.

## Watch Out for Regulatory Changes

Given the sensitivity of employment laws that can change at any time, you'll need to ensure you're up-to-date. For example, the Department of Trade and Industry has a Laws and Policies webpage with all current regulations covering local businesses.

Or, if you run a financial service institution, you'll find relevant laws on the Philippine Central Bank (Bangko Sentral ng Pilipinas)'s Regulations page. Otherwise, you can tune into any changes from local news organizations, like the Philippine Star or BusinessWorld Online.

## Distribute Compliance Tasks Among Your HR Team

Before dividing compliance tasks within your HR department, you must ensure you're all on the same page regarding this area. Here are some questions to ask when delegating compliance-related responsibilities:

- Will multiple team members help the business adhere to local legislation?
- Should someone see whether the company follows current regulations on my behalf?
- Does my team fully understand compliance's responsibilities and can take the lead in ensuring the business meets legal requirements? How can I help my team develop the necessary knowledge and skills to manage this area?


## Get the Recruitment Process Right

Compliance with minimum wage, overtime, anti-discrimination, and other laws is important to your hiring process.

Remember, HR teams choose employees who meet certain requirements and standards over those who exhibit unprofessional behavior.

Finally, onboarding is also crucial to compliance. Your HR team communicates organizational expectations, processes, and culture to new hires at this stage. Onboarding influences the employee experience and your company culture - an essential part of compliance.

## Conduct Frequent HR \& Compliance Audits

During these audits, HR teams analyze issues and address them to ensure compliance with current laws. An HR and compliance audit can involve the following:

- HR documents - Employee surveys
- Recruitment - Updated manuals or handbooks
- HR best practices

Examining your organization's compliance generally points your HR team toward possible risks and problems. But beyond that, conducting an audit offers HR the opportunity to identify what they're doing right, which could translate to lower costs and greater efficiency.

## Update Your Employee Handbook \& Policies

Companies can keep a handbook that outlines internal and/or individual policies, which your HR team can help enforce and implement.

When formulating your organization's policies and procedures, make sure to follow through with action. For example, update your policies as regulations and your company's needs change. You can retain the fundamentals of your internal procedures but elaborate on any further details.

## Encourage Open Communication

Frequent discussions about expectations, changes, and policies with employees should also be on top of HR's mind. Knowing why internal policies are crucial and how specific changes affect their roles can help ensure compliance.

Moreover, communicating compliance issues can help employees understand the importance of following laws and regulations. It can drive employees to uphold compliance and hold each person accountable.

With two-way communication, you can show openness, transparency, and accountability.

## Hold Regular Compliance Training

Compliance training helps employees understand the regulations your company follows and the internal measures you implement. Furthermore, it informs workers how and why they should adhere to these rules.

Training sessions can cover:

- Business and employment regulations
- Legal and ethical issues
- Laws relevant to your sector
- Your company values, standards, and operating philosophies.


## Consult Legal Experts

When seeking guidance on HR compliance, it's best to consult an experienced lawyer. After all, a lawyer well-versed in this area understands the consequences of non-compliance, proposes potential solutions to these issues, and knows potential scenarios that may arise. Just note that lawyers are not problem-solvers; companies must play their part in ensuring compliance.


## How Can Professional Services Help You Maintain Compliance?

Businesses serve customers, develop and improve their products and services, and manage their workforce, among other crucial tasks. But sometimes, handling these activities can be overwhelming. This is where professional outsourcing or consultancy services come in.

Individuals and companies offer professional services to help clients manage and improve certain aspects of their firms. These services include:

```
- Legal services
    - Project management
- Logistics
    - Client management
- Accounting and bookkeeping
- IT services
```


## What are the Benefits of Professional Services?

Hiring professional service providers to help you manage core HR tasks offers the following advantages:

## Access to Better Expertise

Outsourcing your professional services to an expert can help you drive optimal results.
For example, accounting firms can help your company determine its monetary value if you seek potential investors or buyers.

## More Time for More Essential Business Activities

Partnering with a professional service provider can also shift your focus to other essential tasks. It can ease workloads and help employees focus on completing their most pressing tasks. You only have to keep an eye on what your service provider has accomplished and any potential problems that emerge.

## Gain New Skills

An ever-evolving business landscape urges employees to learn new skills, which professional service providers can demonstrate. In turn, you can discover new ways of managing your organization and keep up with the latest developments in business.

## Access to Better Tools

Apart from expertise, professional service providers also give clients the necessary solutions to work more efficiently. These tools are costly, making outsourcing helpful for businesses after lower costs. You can use your service provider's tools whenever you need them.

## Significant Cost Savings

Finally, hiring a third party to manage specific areas of your business can save you money. Outsourcing as an extra expense is a misconception, as some service providers offer affordable fees on a per-project basis.

## Sprout's Professional Services \& Their Role in HR \& Legal Matters

Filipino employers wanting to ensure compliance while growing their businesses can partner with Sprout's HR and legal professionals to handle the following areas.

## HR Consultancy

HR consultants help companies work more efficiently and enforce the best workplace policies and procedures. Many businesses have hired these experts to handle specific issues.

If you need a helping hand with compliance, people management, or recruitment, Sprout's HR consultants can:

- Evaluate policies covering particular HR concerns and suggest any changes to these measures.
- Help you revise your internal policies to reflect their recommendations and new business-related developments.
- Create a code of conduct with clear guidelines.
- Review your employee handbook (or code of conduct) to ensure that it covers all important facets.
- Manage employee documentation to help you know your workforce and their terms of employment
- Conduct salary benchmarking for fair salary structures.
- Screen prospective employees and conduct background checks to prevent legal disputes and hire the right people.


## Payroll Outsourcing

Manual payroll makes it harder to achieve accurate payroll computations. After all, even the slightest error may lead to costly discrepancies and legal issues. This is why companies rely on trusted payroll experts.

Our outsourced payroll services focus mainly on payroll processing. We can help evaluate your current payroll policies and inform you about best practices and mandates to ensure compliance.

## Legal Services

As businesses continue to operate in a volatile landscape, they may face multiple legal issues. Concerns such as worker classification, termination, and discrimination can emerge and cause disputes between you and your employees. In such cases, third-party legal experts offer helpful advice and discuss how to address specific problems.

Our outsourced legal professionals can play a critical role in HR compliance. They can help you check whether you meet legislative requirements, stay up-to-date with regulatory changes, and conduct compliance training at work.

## Key Takeaways

If the role of HR in compliance teaches us anything, it's that HR goes beyond managing people and administrative tasks. Every HR professional plays a crucial role in ensuring that an organization operates at its best while following applicable labor laws, government regulations, and mandatory policy updates.

With expert help, companies can avoid legal complications, adapt to regulatory changes, and ensure compliance at all times.



## Ensure Compliance. Stay Ahead of the Latest HR Regulations.

## Payroll Outsourcing

Services

- Processing of normal payroll every cut-off.
- Maximum of 2 payouts per month - for semi-monthly.
- Preparation of standard payroll related reports.
- Processing and computation of 13th month pay and performance bonuses.
- Processing and computation of leave conversion
- Maximum of 2 payouts per month - for semi-monthly.


## HR Consultancy

- Employee Handbook Creation
- Employee Document

Management

- Onboarding and Offboarding of Employees
- Mental Health Policy
- Background Check
- Salary Benchmark Study + Implementation of Recommendations \& Suggestions

Legal Services and Expertise

- Compliance Housekeeping
- Immigration Services
- Legal Representation
- Implementation of DOLE
D.0. 174
- Government Mandated Compliance
- Labor Standard Review
- Statutory Benefits

Compliance Training

- Company Registration


## Tap Sprout's proven Payroll, HR and Legal experts for your peace of mind.

## Book a Consultation


[^0]:    ${ }^{1}$ https://www.privacy.gov.ph/data-privacy-act/

