Infrastructure stays protected in PHL debt management plan

THE Department of Finance (DoF) said that the government's plan to manage the national debt calls for its gradual reduction without scaling back the infrastructure spending that will enhance long-term productivity.

The department's Chief Economist Gil S. Beltran, in an economic bulletin on Saturday, said debt reduction efforts need to be focused on bringing down the debt-to-GDP ratio by narrowing the deficit.

"The current medium-term fiscal program is calibrated such that the deficit gradually narrows down without sacrificing infrastructure spending," he said.

The DoF is preparing a fiscal consolidation plan to manage the government's outstanding debt, which grew nearly 20% to P11.73 trillion at the end of 2021. This pushed the debt-to-GDP ratio to 60.5%.

The 2021 deficit was P1.7 trillion, up 21.87%, with the Treasury bureau citing spending growth due to infrastructure investment and pandemic recovery efforts.

"The 2021 deficit is estimated to be around 8.2% of GDP (gross domestic product) and is programmed to fall to 5.1% by 2024," Mr. Beltran said.

"In contrast, infrastructure spending, (as a share of) GDP, could have reached as much as 5.6% last year, set to increase to 5.9% this year, and settle at 5.4% by 2024."

Mr. Beltran said continued infrastructure spending is key to attracting investors.

"Cutting infrastructure spending may narrow down the deficit momentarily but will definitely be counter-productive in the long run as far as economic recovery is concerned," he said.

"Simply put, a half-finished bridge does not cut travel time even by a minute. Infrastructure projects have to be fully completed before they can increase the country's productive capacity and enhance its growth potential."

Institute for Leadership, Empowerment, and Democracy Executive Director Zy-za Nadine Suzara said last month that the government should avoid wasteful expenditure and instead focus on funding pandemic-response measures.

She called budget priorities in 2022 "unfairly (weighted towards) infrastructure projects" while P250 billion in projects for education, health, and social services were to be funded via unprogrammed appropriations, which can only be financed from excess or new revenue. — **Jenina P. Ibañez**

PHILIPPINE STAR/BOY SANTOS

PHL seeking US GSP renewal with duty-free treatment for footwear

THE Department of Trade and Industry said it is negotiating for duty-free treatment for Philippine footwear in seeking the renewal of its Generalized System of Preferences (GSP) agreement with the US.

Trade Secretary Ramon M. Lopez said in a webinar over the weekend that "our intention, aside from the renewal, is to be add more sectors that will benefit from the GSP. Just recently, we were able to add travel goods… (which) can now avail of the zero-duty entry into the US market," Mr. Lopez said.

"Footwear is not yet included in the GSP and that is one sector that we are lobbying to be included and there are other exportable items that we wish to be included," he added.

The Philippines' eligibility for US GSP expired at the end of 2020.

Mr. Lopez has said the Philippines is ultimately seeking a free trade agreement with the US.

The US GSP program allowed duty-free entry of more than 5,000 Philippine products in to the US, including electronics and agricultural products.

Separately, Mr. Lopez said he prefers work-from-home (WFH) arrangements to the proposal to adopt a four-day workweek to shield commuters from rising fuel costs accompanying the Russian invasion of Ukraine.

"Frankly, WFH might be even better because you spread the number of hours of work and not lump them into the four days. But just the same, you are still able to work even remotely while you are at home," Mr. Lopez said.

Mr. Lopez said the information technology-business process outsourcing (IT-BPO) industry should explore more flexible arrangements that do not tie them to working from registered premises.

"For companies that are in ecozones, there is a requirement for them to be physically within the ecozone and that is a different issue altogether. That is the reason why we have been asking them to go back to physically within the zone," Mr. Lopez said.

"But there are avenues in the future — they can register outside the ecozone system so that they will be more flexible when it comes to adopting a WFH arrangement," he added.

Recently, the Fiscal Incentives Review Board (FIRB) rejected the proposal of the Philippine Economic Zone Authority to allow IT-BPO firms located within ecozones to extend WFH arrangements until Sept. 12 without losing fiscal incentives and without the required 10% on-site capacity.

According to FIRB, the proposal was rejected since WFH is "only a time-bound temporary measure," adding that employees should return to work with vaccination rates rising.

Under FIRB Resolution 19-21, registered IT-BPO firms are allowed to implement a WFH arrangement up to 90% of their total workforce until March 31 without losing their tax incentives. The measure was adopted to help the industry adjust to the coronavirus disease 2019 (COVID-19) pandemic. — **Revin Mikhael D. Ochave**

EV industry sees fuel prices boosting demand

By Arjay L. Balinbin
Senior Reporter and
Revin Mikhael D. Ochave
Reporter

RISING FUEL PRICES are expected to raise interest in electric vehicles (EVs) in the Philippines, though the supply of such vehicles remains unpredictable due to global demand for such vehicles as well as disruptions caused by rising prices of key components, industry leaders said.

"Certainly, the current situation (presents) an opportunity for our industry," Electric Vehicle Association of the Philippines (EVAP) President Edmund A. Araga told *BusinessWorld* in an e-mail last week.

"EVs as a mode of transportation must be practical and address concerns about the high price of fuel on a weekly basis," he added.

Philippine Parts Maker Association, Inc. President Ferdinand I. Raquelsantos said in a phone message: "With the increase in fuel prices, it's normal for people to shift to electric vehicles."

In other markets the advantages of using EVs are tied to the users' desire to mitigate climate change, he noted.

Basic Energy Corp. (BEC) said EVs promise considerable savings compared to vehicles that run on fossil fuels.

"For comparison, the energy consumption cost of using an electric vehicle or electric public utility jeepney (EV-PUJ) is roughly 39% (against a) diesel fueled conventional PUJ," the company said in an e-mail.

"This translates to approximate savings (based on current diesel price level of 70.00 PHP/liter) of 61% when using EV-PUJ," it added.

"The fact that solar power is the source of charging for EV-PUJs also translates to savings as solar power is around 10% cheaper than grid supply," BEC added.

The Trade department has said that it is proposing a zero-tariff regime for EV imports to accelerate their adoption.

"One thing we are proposing is to adjust the tariff rate from 30% to zero" to provide a boost to the industry, Trade Secretary Ramon M. Lopez said during a recent virtual forum.

"We need to promote EVs and the way to promote it is to encourage their use. How will you encourage the use of EVs if they are expensive? This is one of the immediate steps that we think can be done," he noted.

EVAP's Mr. Araga said, however, that the industry is not guaranteed access to supply of vehicles and components due to increased demand for EVs elsewhere.

"Supply is also uncertain… (the industry may have to consider) alternatives in sourcing their raw materials and other supplies."

The unreliability of supply may affect EV pricing, Mr. Araga said. "But it's not that easy to make price adjustments as of this time which may turn off consumers."

The EV industry is waiting for the establishment of a regulatory framework for the industry, he noted.

"We are awaiting the EVIDA (Electric Vehicle Industry Development Act) to be signed by our President before his term ends and hope that the Comprehensive Roadmap for the Electric Vehicle Industry programs under Department of Energy will prosper."

Pump prices rose for an 11th straight week on Tuesday last week. Fuel retailers raised gasoline and diesel prices by P7.10 and P13.15 per liter, respectively.

Mr. Raquelsantos said major concerns about the adoption of EVs are range and the availability of charging stations.

"In reality, it's all how you get educated on what EVs can do. Most EV's now have 250 to 450-kilometer range," he noted.

"People always ask about the availability of charging stations. But home charging is enough. Not unless you go on long trips, and along the way you need to charge. But if you have high-end EVs with 450-km range, you should not worry," he added.

He also said that "very soon, the market will have to offer EVs because car assemblers will stop producing internal combustion engine (ICE) or conventionally-fueled vehicles."

"The immediate effect of fuel prices is to limit the use of ICE vehicles. People will shift to other… means of transport. Even public transport (operators will) have to resort to EVs."

Mr. Raquelsantos also expects electric vehicle prices to fall eventually. "As new technology sinks in, prices of batteries will fall. And when EVIDA gets implemented and proper incentives are put in place, the cost of EVs will fall, whether they are imported but especially if they are locally produced."

"We see now a lot of orders coming in. With increasing oil prices, there is great interest in switching to EVs. For now, the demand is in market segments (like) passenger cars and commercial vehicles," Mr. Raquelsantos said.

FULL STORY

Read the full story by scanning the QR code with your smartphone or by typing the link <bit.ly/EV032122>

OPINION

New VAT zero-rating rules and requirements under CREATE

SUITS THE C-SUITE
CHRISTIENE R. MATIC

Upon the effectivity of the Corporate Recovery and Tax Incentives for Enterprises (CREATE) Act on April 11, 2021, a new requirement to support the VAT zero-rating of local purchases of registered business enterprises was introduced.

CREATE required registered business enterprises to prove that their local purchases of goods and services are directly and exclusively used in their registered activities to be accorded 0% VAT rating. Several issuances were subsequently published, which placed many taxpayers in limbo because of the seemingly conflicting provisions related to the VAT zero-rating of local purchases.

Almost a month before the anniversary of CREATE, the Bureau of Internal Revenue (BIR) recently issued Revenue Memorandum Circular (RMC) No. 24-2022, which intends to harmonize and clarify the new VAT zero-rating rules and requirements under CREATE.

CROSS-BORDER DOCTRINE NOW 'INEFFECTUAL AND INOPERATIVE'

Before CREATE, Ecozones and Freeport zones were regarded as foreign territories (by way of legal fiction) under RMC No. 74-99 and RMC No. 7-2007. Under the cross-border doctrine, sales to registered business enterprises located within these Ecozones and Freeport zones could be treated as constructive exports subject to 0% VAT.

However, following the effectivity of CREATE, the cross-border doctrine is no longer applicable. This is because CREATE expressly requires registered export-oriented enterprises to prove the direct and exclusive use of their purchases of goods and services in its registered activities, a departure from the old rule which generally anchored zero-rating of purchases on being economic zone locators.

To add, the availment of VAT zero-rating for registered export-oriented enterprises becomes subject to certain parameters regardless of location (i.e., time-bound as it becomes subject to the conditions and period of availment in Sections 295 and 296 of CREATE) under Section 294(E) and Section 295(D) of the Tax Code, as amended by CREATE.

It now provides that the effective VAT zero-rating will only apply to the sale of goods and services rendered to persons or entities which have direct and indirect tax exemptions pursuant to special laws or international agreements to which the Philippines is a signatory.

Based on these developments under CREATE, investors may now consider reassessing incentives that were previously location-based.

CHANGES TO VAT ZERO-RATING

Since the effectivity of CREATE, the VAT exemption on imports and VAT zero-rating of newly registered and existing registered business enterprises (RBEs) only applied to goods and services that are directly and exclusively used in the registered project or activity of registered export enterprises. The phrase "directly and exclusively used in the registered project or activity of registered export enterprises" was explained under Q&A No. 13 of RMC No. 24-2022 as those raw materials, inventories, supplies, equipment, goods, packaging materials, services, including provision of basic infrastructure, utilities, maintenance, repair and overhaul of equipment, and other expenditures that are directly attributable to the registered project or activity, without which the registered project or activity cannot be carried out.

In the case of common expenses, taxpayers were directed to adopt a method to best allocate goods or services purchased (e.g., the use of separate water and power meters among activities). Otherwise, if the proper allocation could not be determined, then the purchase of such goods will be subject to 12% VAT. The RMC also made it clear that services for administrative purposes, such as legal, accounting and other similar services, are not considered directly attributable to and exclusively used in the registered project or activity.

Previously, a VAT zero-rating certificate was the only document that must be provided by a registered export enterprise to their local suppliers. However, RMC No. 24-2022 introduced additional requirements on top of the VAT zero-rating certificate, such as a photocopy of the export enterprise's BIR Certificate of Registration, a sworn declaration stating that the goods or services being purchased are to be used directly and exclusively in the registered project, and other documents to corroborate entitlement to the VAT zero-rating.

These documents include but are not limited to duly certified copies of the purchase order, job order or service agreement, sales invoices and/or official receipts, delivery receipts. Registered export enterprises should also expect some changes in the VAT zero-rating certificate that will be issued by its Investment Promotion Agency (IPA), which would now include the applicable goods and services meeting the direct and exclusive use criteria.

Registered export enterprises must strictly observe the abovementioned criteria and documentation in order to prove the VAT zero-rating of its local purchases of goods and services. This means that registered export enterprises may need to factor in additional compliance requirements to avail of the VAT zero-rating and be able to sustain a claim of VAT zero-rating if eventually audited by tax authorities.

The role of tax managers, compliance officers, custodians of records, and the like may have to be expanded as well to ensure that the necessary documentary requirements are secured in a timely manner, compliant with the existing requirements under our tax rules, and would still be available in the event of a tax audit.

EXPORTER TAX TREATMENT BEFORE CREATE

Q&A No. 23 of the same RMC clarified that registered export enterprises existing prior to CREATE continue to enjoy VAT zero-rating on their local purchases until the expiration of their incentives, as specified in the Implementing Rules and Regulations of CREATE. However, the direct and exclusive use criteria must still be met. Otherwise, sellers of goods and services will be required to pass on the 12% VAT to their registered export enterprise customers within the Ecozone.

The RMC further explained that any input VAT passed on for purchases of goods and services not directly and exclusively used in the registered project or activity may no longer be used to apply for a VAT refund. Instead, the RMC presented three options that a registered export enterprise may avail of:

- A VAT-registered taxpayer enjoying an income tax holiday (ITH) may claim the passed-on input VAT as credit against future output VAT liabilities; or
- Accumulate the input VAT credits and claim for VAT refund upon expiration of its VAT registration (i.e., end of ITH and 5% SCIT incentive commences); or
- Charge to cost or expense account if non-VAT registered

Similarly, existing export enterprises which are already under the 5% gross income tax (GIT) and special corporate income tax (SCIT) were required to change their registration status from a VAT-registered entity to non-VAT within two months from the effectivity of RMC No. 24-2022.

It must be noted, however, that the input VAT charged to cost or expense account may not qualify as a "direct cost" for an export enterprise that is already availing of the 5% GIT or 5% SCIT. In which case, there would be no tax benefit on any input VAT passed on by its local suppliers.

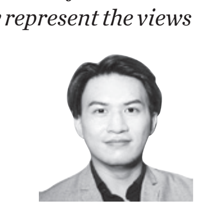
ACTION PLAN MOVING FORWARD

With the effectivity of RMC No. 24-2022, registered export enterprises and their domestic sellers of goods and services must familiarize themselves with the new principles and additional requirements of VAT zero-rating on local purchases.

Given the strict "direct use" requirements, registered export enterprises may consider performing a careful review of their local purchases of goods and services to identify whether or not they meet the criteria. Export enterprises with a more complex business structure (i.e., those with multiple registered activities) and those which incur significant amounts in common expenses may revisit their allocation method among registered and non-registered activities.

Otherwise, without diligent study, a registered export enterprise may face a significant amount of input VAT that it may not be able to recover.

This article is for general information only and is not a substitute for professional advice where the facts and circumstances warrant. The views and opinions expressed above are those of the author and do not necessarily represent the views of SGV & Co.



CHRISTIENE R. MATIC is a director from the Global Compliance and Reporting service line of SGV & Co.