TUCP files petition for P724 minimum wage in Soccsksargen region

THE Trade Union Congress of the Philippines (TUCP) on Monday filed a petition seeking to increase the daily minimum wage in the Soccsksargen region in the southern Philippines to P724 from P336, in line with petitions filed with other regional wage boards.

The TUCP cited the rising cost of living, which has far surpassed the ability of workers on minimum wage to afford most expenses.

The TUCP, the largest Philippine labor federation, said in its petition filed before the Soccsksargen wage board that the P25 minimum wage increase granted in 2019 "has long dissipated."

It said the February inflation level in the region implies that the purchasing power of the P336.00 gross daily minimum wage "is only P295.00."

On a net basis, "the take-home pay of a minimum wage earner is a measly P309.48/day after the government-mandated deductions, with a purchasing power of 271.71/day."

It cited the 2021 government estimate of a P13,298.00/month poverty threshold for Region XII, compared with the current minimum wage of only P8,736.00, equivalent to an inflation-adjusted P7,699.89.

It also said that deducting the P5,340.80 food threshold from the current take home pay of P7,647.20 per month implies an "estimated budget for a meal/person for a family of five is around P12.32."

"Clearly, the amount cannot provide for the recommended nutritional requirements for a family of five, not by any stretch of the imagination," it said.

The TUCP said the current P12.31 allocated for the daily food expenses of every family of five in the region is much lower than the P917.50/meal/family estimated by the Ateneo Policy Center using a state-designed food model.

"The current minimum daily wage of P365.00 can only accord workers and their families nutritionally deficient survival meals."

TUCP last week refiled its petition for a P470 increase in the daily wage for Metro Manila, after the capital region's wage board dismissed an earlier petition due to jurisdiction issues.

The TUCP on Sunday called the labor bureaucracy's response to wage hike petitions "business as usual, time-consuming, (and) technically tedious."

Soccsksargen, formerly known as Central Mindanao, covers South Cotabato, Cotabato, Sultan Kudarat, Sarangani including General Santos City, Cotabato, Koronadal, Tacurong and Kidapawan.

The TUCP has already filed similar petitions in the Central Visayas and the Davao region. — **Kyle Aristophere T. Atienza**

DoF: Wealth tax easily evaded, property tax reform preferable

FINANCE Secretary Carlos G. Dominguez III said he prefers a wealth tax centered on reforming the real property valuation system because taxes on other forms of wealth are more easily evaded.

He said in a statement issued by the Department of Finance (DoF) on Monday that should the government end up targeting the super-rich, he would prefer a method that involves regularly updating the schedule of market values (SMV) on real property.

The SMV is the basis for appraising property values for taxation.

Taxes on movable assets lead to tax avoidance, while taxes on property have a higher probability of collection as "land cannot be hidden nor spirited away," Mr. Dominguez said in the statement.

"That kind of wealth cannot escape to offshore accounts or anywhere. That is wealth here. The other kind of wealth they want to tax can disappear," he added.

He said current land valuations are outdated relative to their market value.

"The market value of prime commercial areas in Ayala Avenue within the vicinity of San Lorenzo in Makati City, is only about P40,000 per square meter (sq.m.), based on the City's SMV, when in fact, the real market value ranges from P400,000 to P900,000 per sq.m.," Mr. Dominguez said. "So we are losing tens of billions of pesos because that kind of wealth is not being taxed correctly."

The DoF found that the real property tax (RPT), based on the current SMV for Barangays San Lorenzo and Bel-Air in Makati, is P40,000 per sq.m., as opposed to the P940,000 per sq.m. benchmark used by the Bureau of Internal Revenue (BIR) to "compute estate, donor's and capital gains taxes."

The DoF estimated the SMV-based valuation of commercial land in Barangay San Lorenzo, which covers 52,640 sq.m., at P842.24 million, yielding RPT of P25.27 million. Bel-Air's 52,080 sq.m. area is worth P833.28 million, implying an expected RPT of P25 million.

However, if market values are used, commercial land in Barangays San Lorenzo and Bel-Air would be worth P19.79 billion and P19.58 billion respectively, yielding RPT of P593.78 million and P587.46 million, respectively, or P1.18 billion combined.

Mr. Dominguez said that the DoF has been pushing for the passage of the Real Property Valuation and Assessment Reform Act, a component of the Comprehensive Tax Reform Program.

The Real Property Valuation and Assessment Reform Act is currently pending in the House Committees on Ways and Means, Local Government, and Finance.

Only 62% of Revenue District Offices under the BIR have updated zonal values, while only 40% of local government units have updated SMVs, according to the DoF's tax reform website.

"This proposed tax reform aims to promote the development of a just, equitable, and efficient real property valuation system and broaden the tax base used for property-related taxes imposed by the national and local governments," the DoF said.

Mr. Dominguez last year warned legislators that imposing a "super-rich" tax "would only encourage aggressive tax avoidance schemes," adding that it would drive away investment, resulting in fewer jobs and dampened business growth.

"There is a risk of capital flight if the wealth tax is passed in the Philippines," he said in a letter to House Speaker Lord Allan Jay Q. Velasco. "Currently, only four countries continue to implement the wealth tax — Belgium, Norway, Spain, and Switzerland."

He also cited a German study that found that wealth taxes on the extremely rich adversely affect the economy, as these taxes take away accumulated wealth and savings, discouraging investment on the part of taxpayers.

The Tax Reform for Acceleration and Inclusion (TRAIN) law, and the proposed Valuation Reform Act and Passive Income Financial Intermediary Taxation Act (PIFITA) adequately address inequalities in the system, he added.

He said a wealth tax would also necessarily involve additional administrative and enforcement efforts and relaxing the Bank Secrecy Law, which prohibits the disclosure of individual bank details, except in extreme cases or with the permission of the account holder.

The BIR's list of largest taxpayers is not based on wealth, but on income. — **Tobias Jared Tomas**

Gov't invites bus supplier bids for Davao transit fleet

THE GOVERNMENT has invited bidders to participate in an auction for the contract to supply buses to the P73.93-billion Davao City bus system project.

The Transportation department said the government is seeking suppliers of diesel and electric buses for the Asian Development Bank (ADB)-funded project.

The auction is "open to bidders from eligible source countries of ADB," the department said in its bid invitation.

"Bidders may bid for a single contract only or for both contracts (diesel and electric buses)," it added.

Bids should be delivered to the Transportation department's procuring agent, the Procurement Service of the Department of Budget and Management in Manila on or before May 12.

A pre-bid conference is scheduled for April 8.

The department noted that bidders seeking both diesel and electric contracts must submit separate bids rather than a single combined bid.

According to the department, it will evaluate and compare bids on the basis of each contract separately or multiple contracts combined in order to arrive at the least-cost combinations.

It said the discounts offered by bidders for the award of multiple contracts will be taken into account.

"Any discounts offered by bidders submitting bids for multiple contracts and the methodology for the application of any discount shall be stated in the Letter of Bid included in its bids for each contract."

The department recently sought bidders for the project's three contract packages that cover the construction of Buhangin Depot, Calinan Depot, and Calinan Driving School.

The second contract is for the Toril Depot and Terminal, Bunawan Terminal, and Calinan Terminal, while the third contract covers the civil works along bus routes, including bus stops, bus lanes, and other pedestrian improvement works.

The bus system will have 29 routes with a total route network of 672 kilometers, operating over 580 kilometers of road traversing the entirety of Davao City.

The project is expected to commence operations in August 2023.

Former Transportation Assistant Secretary Goddes Hope O. Libiran told *BusinessWorld* in December that the civil works component will cost P19.71 billion, while the bus fleet, both diesel and electric, will cost P21.17 billion. — **Arjay L. Balinbin**

Regulator says sugar imports needed to address weak domestic production

THE Sugar Regulatory Administration (SRA) said the draft order authorizing 350,000 metric tons (MT) of sugar is intended to backstop domestic supply following shortfalls in local production.

Administrator Hermenegildo R. Serafica said in a statement on Monday: "What the detractors of imports have failed to consider is the issue of food security, in particular, the availability of supply and the issue of affordability of sugar."

"As such and coupled with the increase in demand for sugar due to the opening up of the economy, the SRA has determined that there won't be enough local production of sugar to meet our domestic consumption in the coming months, particularly June to August," he added.

The SRA recently put forward Sugar Order No. 4, which calls for the import of 250,000 MT of refined sugar, of which 150,000 MT is to be premium grade or bottlers' grade refined sugar. The remaining 100,000 MT will consist of raw sugar.

Mr. Serafica said natural calamities and disrupted planting schedules were behind weak domestic production, pushing sugar prices higher.

Apart from Typhoon Odette (international name: Rai) in December, he said other weather disturbances affecting the sugar crop were excessive rain and reduced sunlight due to the La Niña weather phenomenon.

"Another effect of the rise in sugar prices is the rush of farmers to mill their cane while prices are up even though the cane is not yet fully mature; thus (yielding) less tonnage and sugar content. As a result, aside from lower sugar production when compared to last crop year, milling will also be ending earlier than expected," he added.

Mr. Serafica said opposition to imports is being put forward by "self-interested" parties, adding: "The issue of sugar importation has become very political. There are no midnight or sweetheart deals. I will always do what I believe is right for the greater good. As the government agency regulating sugar supply, SRA has a mandate to ensure food security."

The import program is being contested in the Regional Trial Courts of Negros Occidental by sugar planters, who obtained preliminary injunctions against earlier import orders. — **Luisa Maria Jacinta C. Jocson**

OPINION

WFH or Incentives? The IT-BPM dilemma

LET'S TALK TAX
NEPTALI G. MAROTO

Last month, the Philippines adopted the 10-Point Policy Agenda on Economic Recovery to accelerate and sustain economic recovery from the COVID-19 pandemic through Executive Order (EO) No. 166. Among the principles laid down by EO No. 166 is the resumption of economic and social activity, removal of age-based restrictions on mobility, and the further expansion of public transport capacity.

Consistent with the objective of further reopening the economy, the Fiscal Incentives Review Board (FIRB), through Memorandum Circular 2022-018, denied a request by the Philippine Economic Zone Authority (PEZA) to extend the government's authorization of remote work for Information Technology-Business Process Management (IT-BPM) companies.

It must be noted that FIRB Resolution No. 19-21, dated Aug. 2, 2021, allowed registered business enterprises (RBEs) in the IT-BPM sector to continue implementing work-from-home (WFH) arrangements without adversely affecting their fiscal incentives under the Corporate Recovery and Tax Incentives for Enterprises (CREATE) Law until March 31, 2022. Further, on Oct. 15, 2021, the FIRB issued Resolution No. 23-21, denying the request of PEZA and its enterprises to be exempted from the WFH arrangement under Resolution No. 19-21 which required that the number of employees working remotely must not exceed 90% of the total workforce.

With the denial of an extension, IT-BPM employees were required to return to work in the registered sites starting April 1, 2022. While RBEs are not barred from continuing to implement WFH arrangements past that date, they must however give up the tax incentives they are currently enjoying. The dilemma now for RBEs is which side to take — employee convenience, productivity, and morale, or revocation of tax incentives such as an income tax holiday or a 5% special corporate income tax in lieu of all taxes, such as the value-added tax (VAT), income tax, and local business tax.

Section 309 of the CREATE Law provides the condition precedent to avail of the tax incentives. It states that a qualified registered project or activity under an Investment Promotion Authority administering an economic zone or freeport must be exclusively conducted or operated within the geographical boundaries of such a zone or freeport. An RBE may also conduct or operate more than one qualified registered project or activity within the same zone or freeport under the same IPA. Any project or activity conducted or performed outside the geographical boundaries of the zone or freeport is not be entitled to the tax incentives unless such a project or activity is conducted or operated under another IPA.

Noncompliance with the conditions prescribed under FIRB Resolution Nos. 19-21 and 23-21 will result in the suspension of the income tax incentives on the revenue corresponding to the months of noncompliance. Recently, the Bureau of Internal Revenue (BIR) issued Revenue Memorandum Circular (RMC) No. 39-2022 prescribing the manner of payment of penalties relative to violations incurred by RBEs under the IT-BPM Sector on the conditions prescribed regarding WFH arrangement. The RMC requires RBEs to compute the penalty in the manner illustrated in the circular, and pay the penalty within 30 days after the due date prescribed for the payment of income tax. If the deadline is missed, administrative penalties will be imposed as if the RBE were paying the regular corporate income tax rate of 20% or 25%.

While PEZA may grant applications for hybrid work setups until Sept. 12, 2022, this measure, being temporary, does not really address the problems of the IT-BPM sector. It must be noted that based on current studies, employees prefer WFH to working on-site, so it has become more difficult for the sector to comply with the work on-site directive.

To allow employees to continue with the WFH arrangements, the IT-BPM sector is considering various options. These include (1) deregistration from PEZA, (2) downsizing of PEZA operations, (3) transfer of registration with another IPA, and (4) retaining registration to continue to avail of other incentives.

DEREGISTRATION FROM PEZA

This option is available to IT-BPM companies that see the WFH set-up as a long-term arrangement.

IT-BPM RBEs that opt to deregister with PEZA will lose their tax incentives and will be subject to the regular corporate income tax (RCIT) of 25%, VAT, and local taxes. Other factors to be considered are the need to relocate business operations to non-PEZA locations, payment of import duties and taxes on imports, payment of VAT on local purchases, and registration updates with various government agencies.

The lost tax incentives may be compensated for by reduced lease payments, utilities, and administrative expenses.

Deregistering from PEZA means that the RBE will be considered a regular corporation and will no longer be subject to mandatory administrative, compliance, and reportorial requirements under the PEZA Law.

DOWNSIZING OF PEZA OPERATIONS

Some IT-BPM companies have various PEZA-registered sites. To meet the on-site percentage requirement, some RBEs are planning to downsize their PEZA sites by delisting some of their registered activities. RBEs may also consider retaining their PEZA sites where their employees can comply with the work on-site requirement and creating a new entity that will conduct the business operations of the delisted activities.

The remaining PEZA-registered sites will continue enjoying the tax incentives while the new entity will be subjected to regular tax rates.

TRANSFER OF REGISTRATION WITH ANOTHER IPA

The implementing rules and regulations (IRR) of the CREATE Law provides that qualified expansions, entirely new projects, or existing registered projects or activities prior to the effectivity of the CREATE Law, may register and avail of incentives subject to the criteria and conditions set forth in the Strategic Investment Priorities Plan (SIPP) in effect at the time of application, and performance review by the FIRB. The IRR provides that the application for a qualified expansion project or activity must be approved by the FIRB or concerned IPA, based on the level of capital invested.

Some IT-BPM companies are looking at the possibility of transferring and registering their activities from PEZA to another IPA which does not require work to be performed at specific registered sites. With the rationalization of incentives under CREATE, RBEs are now entitled to the same set of incentives. However, IPAs that do not administer ecozones or freeport zones do not require that their registered RBEs operate within a specific site. Thus, the option to transfer of registration to another IPA is available.

RETAINING REGISTRATION TO CONTINUE TO AVAIL OF OTHER INCENTIVES

The penalty for noncompliance with the on-site requirements is equivalent to paying the regular corporate income tax of 20% or 25%.

Although they stand to lose the incentives for income tax, some RBEs are considering retaining their PEZA registration to continue availing of other tax incentives such as VAT zero-rating on their local purchases of goods and services which are directly and exclusively used in the registered activity and importations and exemption from local business tax. Thus, some RBEs are considering retaining their PEZA registration and paying the penalty while availing of the VAT zero-rating incentives.

In summary, IT-BPM companies should consider the various factors involved in choosing which path to take, balancing both recovery from the economic impact of the pandemic and maintaining the welfare of their employees.

Let's Talk Tax is a weekly newspaper column of P&A Grant Thornton that aims to keep the public informed of various developments in taxation. This article is not intended to be a substitute for competent professional advice.

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