NAIA domestic passengers rise to 3.17 M in Q1

DOMESTIC PASSENGER traffic at the Ninoy Aquino International Airport (NAIA) surged to 3.17 million in the first three months of the year as travel restrictions were dialed back, according to the Manila International Airport Authority (MIAA).

Domestic passenger traffic — arrivals as well as departures — were significantly higher than the year-earlier total of more than one million passengers, according to an operations report posted on MIAA's website. Domestic traffic was still running well behind the total of 4.48 million posted in the first quarter of 2020, which included the two months before the declaration of the state of emergency.

International passenger traffic at NAIA increased to 1.03 million in the first quarter of 2022 from 503,331 a year earlier. In the first three months of 2020, international passengers at NAIA were at 4.35 million.

Fully vaccinated foreign nationals from 157 countries, who enjoy visa-free entry, were once again admitted starting Feb. 10, as coronavirus cases in the Philippines continued to decline, leading the government to ease travel restrictions in a bid to stimulate the economy.

The Tourism department in March reported 47,000 visitor arrivals since the reopening of the borders.

Of the total, 45% or 21,409 were *balikbayans* or returning Filipinos, and 55% or 26,306 were foreign tourists.

Americans topped the list, followed by nationals from Canada, the UK, South Korea, Australia, Vietnam, and Germany.

The International Air Transport Association (IATA) has said that international travel in 2022 will recover to 44% of pre-crisis (2019) levels. In 2021, the estimate for international air travel was 22% of pre-crisis levels.

Domestic travel in 2022 is expected to hit 93% of pre-crisis levels, compared to 73% for 2021, it said in a statement.

"These projections were made before the onset of the Omicron variant, which could have an impact particularly of international travel," IATA said. — **Arjay L. Balinbin**

Marcos seen borrowing more to lower rice prices

By Kyle Aristophere T. Atienza
Reporter

PRESIDENTIAL CANDIDATE Ferdinand R. Marcos, Jr.'s campaign promise to lower rice prices by P20 to P30, threatens to swell National Government debt if carried out, analysts said.

"To implement a price cap that is more or less 50% lower than current prices, the government will have to subsidize the cost whether or not the country is rice self-sufficient, and doing so will mean additional (funding) that needs to be factored into the national budget," according to Zyza Nadine Suzara, a public finance expert and executive director of the Institute for Leadership, Empowerment, and Democracy.

The Marcos campaign said in a statement recently that the planned price cap on rice will bring prices down by P20 to P30 per kilogram if he wins. He also promised to halt rice imports once the Philippines becomes self-sufficient in producing the staple.

Ms. Suzara said such promises suggest that, in the event self-sufficiency does not materialize, the government may have to resort to imports, possibly reviving the National Food Authority's (NFA) role as sole importer of rice. This points to the return of the NFA's previous business model "whereby it will buy buffer stocks of rice at prevailing market prices and then sell them at a much lower cost."

She said that according to government data, the Philippines was 85% rice self-sufficient in 2020. In 2019, the self-sufficiency rate was 79.8%.

"The NFA cannot pay for this using its own funds alone. This will require additional subsidies from the National Government," Ms. Suzara said via chat. "How will it be financed? Is he going to rely on debt to afford this?"

She said that while the government does need to keep supporting the NFA to ensure a steady supply of cheap rice, "the problem is the government doesn't have unlimited resources."

She said the government will either need to collect higher taxes or incur additional debt "which in the end, taxpayers also have to pay for."

"In either case, it could be fiscally unsustainable for the National Government as populist (measures) often are," she said. "It also opens up opportunities for leakage and corruption. This is a recipe for greater fiscal disaster."

The Department of Agriculture estimates that the commercial price of rice in Metro Manila and nearby cities range between P38 and P50 per kilogram. Imported rice commanded P37-P52 as of April 13.

In the statement, the Marcos campaign said the Philippines needs to carry out a "regular and thorough" inventory of the rice harvest beginning with his first year in office.

Such inventories are already being conducted by the Philippine Statistics Authority. It estimated that of palay (unmilled rice) output was worth P403.893 billion in 2021, up from P390.213 million a year earlier.

"Subsidizing the price of rice will be one of the options he will try to explore in the first year of his administration," according to the statement.

"In principle, the intention of the promise is good. But we need to understand how this can happen," according to John Paolo R. Rivera, an economist at the Asian Institute of Management.

"The price of rice is determined by the dynamics of supply and demand. Holding demand constant, supply has to be augmented to put a downward pressure on prices," he said in a chat message, noting that Mr. Marcos has failed to present a clear roadmap to achieve the goal. His general refusal to outline the specifics of his plans has done little to quell doubts that could undermine business confidence, analysts said.

"The promise sounds good but without a clear understanding of existing data, we're not going anywhere," said Emy Ruth Gianan, instructor at the Polytechnic University of the Philippines Economics department.

She said bringing down prices drastically will adversely affect rice producers.

"Adding a price cap would further hurt our farmers," she said via chat. "They would either be forced to produce more than their capacity, which is not possible given limited agricultural technology and support for most of our farmers, or would be selling rice at a loss."

Ms. Gianan said that Mr. Marcos' promise is counterproductive policy and may not benefit the public in the long term. "It compels us to choose less productive policy options: just buy at a higher price instead of heavily investing in the industry's development."

She said it may not be possible to rule out imports once self-sufficiency is achieved because "farmers would be forced to produce at a loss, making it unsustainable for them to plant rice."

"This would result in more farmers exiting the market," Ms. Gianan said. "The policy is actually more supportive of imports, contrary to what Mr. Marcos claims."

"Also, it opens the door to corruption. With the NFA acting as both regulator and buyer, there's a conflict of interest."

Roy S. Kempis, a retired professor of agricultural development economics in Pampanga State of Agricultural University, said that at any rate, self-sufficiency "will take some time. So the time frame of Mr. Marcos' promise is important. He can have an excuse that since he will have a term of six years, he can always say that it is possible," he said in an e-mail. "But this may only happen in his sixth year."

Mr. Kempis said that Mr. Marcos has failed to explain the mechanisms by which he intends to increase palay production, noting that opening up new land for planting will have no immediate effect. "We do not know what his time frame is, but definitely the promise is not realistic."

"Sufficiency will have a cost. When he insists that this happens earlier than later, the drive for sufficiency is going to be more costly."

Maria Ela L. Atienza, a political science professor at the University of the Philippines-Diliman, said coming up with a price range without consulting farmers and other stakeholders does not appear to have been a considered plan.

"This simply shows that he comes up with statements without careful study and consultation."

Smugglers exploiting loophole in palm oil import rules, House panel told

By Alyssa Nicole O. Tan

SMUGGLERS are exploiting a quirk of the tax rules by declaring their palm oil imports as intended for processing as animal feed, which allows their shipments to enter tax-free, legislators said at a House of Representatives hearing on Monday.

The importers then end up using their palm oil to make cooking oil, thereby evading the tax on palm oil imports intended for human consumption, PBA Party-list Representative Jericho Jonas B. Nograles said at a Ways and Means committee hearing.

"The livestock industry only requires about P50 billion worth of imports of palm oil, we're importing P300 billion," he said.

Resource persons from the poultry and livestock industry told the committee, which is chaired by Rep. Jose Ma. Clemente S. Salceda of Albay, that their preferred feed does not typically use much palm oil.

"We're rather surprised about the volume because palm oil, especially for... the poultry industry, is not a priority feed component," United Broiler Raisers Association President Elias Jose M. Inciong said.

The industry's preferred raw material for feed is coconut oil, which is widely available in the Philippines. He added that palm oil, while cheap, carries safety concerns.

"You have this concern about contaminants and the safety of your animals when you use palm oil," Mr. Inciong added. "I don't think it has merit. If you talk to animal nutritionists, they would prefer at any given time coco oil."

He also said palm oil imports are adding to the distress of coconut farmers.

National Federation of Hog Farmers Chairman Chester W. Yeo Tan said "in the swine industry, a big percentage is given to coco oil, while the use of palm oil is very minimal."

Agriculture Undersecretary Ariel T. Cayanan told the committee that inspections of palm oil shipments can determine whether they are food grade or feed grade.

According to data presented by the Bureau of Customs, palm oil imports amounted to 1.2 billion kilograms in 2021 from 910 million in 2016. For feed grade palm oil, imports rose to 176 million last year from 5.7 million in 2016.

FULL STORY

Read the full story by scanning the QR code with your smartphone or by typing the link <bit.ly/OilImport042622>

OPINION

RBEs of IT-BPMs remember their fiscal incentives all too well

LET'S TALK TAX
MARIE ABIGAIL C. GELUZ

For two years during the pandemic, many of us worked from the comfort of our homes, enjoying the benefits of the work-from-home (WFH) arrangement and avoiding traffic and reducing transportation costs. However, this will come to an end for those working for Registered Business Enterprises (RBEs) of the Information Technology – Business Process Management (IT-BPM) sector, which started to return to office work on April 1.

Section 309 of the Tax Code requires that RBEs in economic zones or freeports be exclusively conducted or operated within the geographical boundaries of the zone or freeport. Any project or activity conducted or performed outside of the geographical boundaries of the zone or freeport is not entitled to incentives.

In relation to this, the Fiscal Incentives Review Board (FIRB) issued Resolution Nos. 19-21 and 23-21 that allowed RBEs IT-BPM to continue the WFH arrangement only until March 31, 2022, without compromising their fiscal incentives. The conditions to enjoy the WFH were as follows:

1. The number of employees under the WFH arrangement shall not exceed 90% of the total workforce that are directly and indirectly engaged in registered activity of the RBE and shall exclude third-party contractors.

2. The number of laptops and other equipment of an RBE outside the ecozone shall not exceed the number of its employees who are under WFH arrangement.

3. Bonds shall be posted for all the equipment deployed to ensure payment of taxes and duties, if any.

4. Revenues from exports shall be maintained regardless of the allowed ratio of employees who will work from home. Provided, that the current number of employees shall not be reduced even if the majority of their employees are working from home.

5. The RBE shall comply with the reportorial requirements and site inspection.

Noncompliance with the above conditions is considered a violation leading to suspension of the income tax incentive for the period of noncompliance. The RBE in the IT-BPM sector would be liable for a penalty equivalent to income tax using the regular rate of 20% or 25% during the months that it committed such a violation.

FIRB Resolution No. 006-22 clarified that the penalty for noncompliance with the provisions found in FIRB Resolution No. 19-21 will be effective from Sept. 13, 2021 until the expiration of the effectivity of FIRB Resolution No. 19-21 on March 31.

COMPUTATION OF PENALTY

Per BIR RMC No. 39-2022, the noncomplying RBEs in the IT-BPM sector are to continue to file their annual income tax return (AITR) using BIR Form No. 1702 EX for those with the Income Tax Holiday (ITH) incentive and BIR Form No. 1702-MX for those enjoying gross income tax (GIT) incentives with mixed transactions.

However, they are subject to additional penalties for the months during which they were not compliant with the FIRB conditions. Assuming that the RBE was not compliant between September and December 2021, the computation of penalty is illustrated as follows:

	RBEs under ITH	RBEs under 5% GIT
Annual Net Taxable Income/12	P 12,000,000.00	P 12,000,000.00
Average Monthly Net Taxable Income	1,000,000.00	1,000,000.00
Multiply by the number of months with violation	x4	x4
Taxable Income subject to regular Income Tax	4,000,000.00	4,000,000.00
Multiply by regular income tax rate	x25%	x25%
Income Tax due	1,000,000.00	1,000,000.00
Less: Payments made per AITR	*Not Applicable*	500,000.00
Income Tax still due and payable	1,000,000.00	500,000.00

As discussed above, RBEs are to first file and pay based on the incentives that they enjoy. Thereafter, they are to compute the penalties equivalent to the regular income tax of 25% or 20% for the months they were not compliant. In the example above, the RBE enjoying ITH did not pay income tax for the whole year while the RBE enjoying GIT paid the 5% tax of P1.5 million for the entire year.

Considering that the violations occurred for four months, the regular corporate income tax is computed for the four months. Hence, the regular corporate income tax due is arrived at by computing for the entire year tax and then dividing by 12 months. The result is to be multiplied by the number of months that the RBE IT-BPM was in violation. In the illustration above, the RBE is subject to the regular corporate income tax of 25% computed at P1 million for the noncompliant four months.

Once the regular income tax due is computed, the prior payments made using the incentives are to be deducted and only the remaining tax will be due. In the case illustrated above, since the RBE did not pay income tax under the ITH scenario, the entire P1 million becomes payable. However, for the RBE enjoying 5% GIT, since it already paid P500,000 for the four months when it filed its AITR, only the remaining P500,000 is due when it pays the penalty.

MANNER OF FILING AND PAYMENT OF PENALTY

RMC 39-2022 stipulates the uniform use of BIR Form 0605 for the payment of penalties.

The RBE IT-BPM voluntarily paying the penalty is to indicate in the BIR Form 0605 'Others' under 'Voluntary Payment' the phrase '**Penalty pursuant to FIRB Res. No. 19-2021**.' The tax type code remains 'IT' and ATC is '**MC 200**.'

The payment is due within 30 days after the due date prescribed for the payment of income tax. Should the payment of penalties be made beyond the prescribed period, administrative penalties are to be imposed. The RBE IT-BPM may opt to voluntarily pay the penalties using the prescribed computation and manner of filing and payment discussed above. The voluntary payment of penalties for the violation of the WFH limit and the conditions set forth above are not an absolute guarantee that the RBE will not be subject of a BIR assessment. The benefit of paying voluntarily is that the voluntary payment made may be directly credited and deducted against the assessed deficiency taxes.

MOVING FORWARD

The illustration provided by the BIR covered the annual income tax filing for the affected RBE in the IT BPM sector for calendar year 2021.

However, as the first quarterly income tax return for 2022 is nearing, RBE IT-BPMs are now in a quandary on how to pay and file their first quarter return. Are they supposed to follow the prescribed procedure set forth in the RMCs? Will these RBEs be computing income tax payable using the regular rate if they were not compliant in the first quarter of 2022? Or will they continue to pay their quarterly income tax based on their incentive and pay the penalties in April 2023? Since the RMC is silent as to quarterly filings, is the computation of penalty done during annual preparation only?

The RMCs is also silent as to the suspension of other fiscal incentives available to IT-BPM RBEs. The FIRB resolutions specifically mention suspensions of their 'fiscal incentive.' However, the RMCs limit their discussion as to penalties relative to income tax incentives. Can we assume that the violation of the WFH conditions will not affect the VAT zero-rating of local purchases of these RBEs for as long as they keep their registration as registered export enterprises?

Is the prescribed computation of penalty already in lieu of other taxes that may arise in case of non-compliance? Since the RBE became subject to the regular corporate income tax for the noncompliant months, will the local business tax be also payable for the affected months? Take note that the 5% GIT already included the 2% tax due to the local government. Since the 2% tax is already paid to the local government, further payment is arguably no longer due even with the violation of the WHF. However, for those under ITH, there was no local business tax paid. Hence, will they now be subject to local business tax for the period that they become subject to regular corporate income tax.

If the RBE ITM BPM remains noncompliant after March 31, what penalties will be due? How will it affect the non-income tax incentives that they are enjoying?

For the affected RBEs, uncertainties still abound and further clarifications from the regulators would be most welcome to allow them to plan and strategize moving forward as they all strive to return to the new normal.

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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