PHL seen facing risk of imported inflation as currency weakens

THE PHILIPPINES is among those economies exposed to a heightened risk of imported inflation due to its depreciating currency, according to Nomura Global Markets Research.

"(I)nflation is already above central bank targets in four economies (India, South Korea, the Philippines and Thailand), all of which have sufficient (foreign exchange) reserve buffers to smoothen the pace of depreciation, but this would mean faster domestic liquidity withdrawals (India falls in this camp) or even higher inflation, if they allow the currency to adjust (the Philippines and Thailand), which could nudge these central banks even closer to policy exit, in our view," Nomura said in a note on Monday.

The report, issued by research analysts Sonal Varma, Ting Lu, Euben Paracuelles, and Jeongwoo Park, classified the Philippines, along with Thailand and Indonesia, as economies experiencing "warm" inflation.

The analysts assessed inflation by looking at the trimmed mean and weighted median consumer price index of these economies.

"For the ASEAN-3 in the warm inflation bucket, the central banks can afford to be relatively patient for now, but we expect most to pivot in the coming months due to either rising inflation, fiscal or balance of payment risks," it said.

Headline inflation in the Philippines rose to a three-year high of 4.9% in April. This reflected the impact of the Russia-Ukraine war on food, transport and utilities.

The central bank expects inflation to hit 4.3% this year, above its 2-4% target range, amid rising oil and commodity prices.

Nomura said currency weakness could worsen imported inflation risk at a time of already elevated commodity prices and supply chain disruptions.

Closing at P52.493 to the dollar on Monday, the peso is down by 2.9% from its level at the end of 2021.

Philippine dollar reserves totaled $106.75 billion at the end of April. This is equivalent to 9.4 months' worth of imports of goods and payments of services and primary income.

The Monetary Board will convene for its third rate-setting of the year on May 19. — **Luz Wendy T. Noble**

BW FILE PHOTO

EO to establish MSME franchise holder registry

PRESIDENT Rodrigo R. Duterte has signed an executive order (EO) setting up a registry for franchise holders officially classified as micro-, small-, and medium-sized enterprises (MSMEs), in order to better track and regulate franchising activity.

The Palace said in a statement on Monday that under the order, which was signed by Executive Secretary Salvador M. Medialdea on behalf of Mr. Duterte last week, franchisors are responsible for registering their franchise agreements with the Department of Trade and Industry.

The order applies to members of authorized franchise associations. It also requires franchisors who are not yet part of such associations to register their franchise agreements with MSME franchisees within 30 days of the order taking effect.

The order requires full disclosure of any pre-signing, initial or recurring fees; detailed responsibilities of the franchisor and the MSME franchisee; and non-discriminatory provisions.

The registry must also track terms and conditions concerning pre-termination, termination or expiration of the franchise agreement; provisions for "cooling off" periods during which MSME franchise holders decide to exercise their option to terminate the agreement; and remedies available if any party is in breach of the agreement.

"There is a need to intensify government efforts to strengthen the franchising industry to help businesses, especially MSMEs, by developing a transparent and business-friendly environment, and promoting fair and equitable practices," according to the order. — **Kyle Aristophere T. Atienza**

More tax credits from textile industry rejected

THE Commission on Audit (CoA) has disallowed more tax credit certificates (TCCs) issued to textile companies worth a combined P3.83 billion, the Department of Finance (DoF) said in a statement on Monday.

According to a CoA report made to the DoF, the textile companies that illegally obtained TCCs from the One-Stop Shop Inter-Agency Tax Credit and Duty Drawback Center (OSS) were Silvertex Weaving Corp., Knitech Manufacturing, Inc., Capital-Roll Knit Corp., Uni-Glory's Knitting Corp., Primeknit Manufacturing Corp., Tai-Cheng Integrated Resource, Inc., Miskhu Industrial Corp., and Universal Pacific Knitting Mills, Inc.

As of the end of 2021, previous notices of disallowance issued by CoA's Special Audits Office to the textile industry had totaled P3.41 billion.

These tax-credit certificates were illegally granted between 2008 and 2014.

Tax credit certificates, as authorized by Executive Order 226, are typically given to exporters registered with the Board of Investments (BoI). Through these certificates, exporters can obtain refunds on taxes paid on raw materials by offsetting the tax credits against other taxes due.

DoF, BoI, Bureau of Customs and the OSS were found to have improperly issued TCCs to ghost exporters, or to companies that were not entitled to the tax credits.

The OSS is managed by the DoF, the Bureau of Internal Revenue, and the BoI. — **Tobias Jared Tomas**

BPOs say coordinated gov't effort needed to keep talent development up to speed

THE development of talent is critical to the competitiveness of the information technology-business process management (IT-BPM) sector, and will require a coordinated effort from government agencies responsible for developing worker skills, an industry association official said.

Ana Maria S. Bongato, IT and Business Process Association of the Philippines former executive director of talent development, said the pace of change has become more rapid since the pandemic, making skills development more and more crucial.

"We have to work faster and together... companies must continue to intervene to prepare new hires for actual work to be done. (The) quality of talent needs to be addressed for us to be competitive," Ms. Bongato said during a May 13 forum with members of the industry, also known as the business process outsourcing (BPO) industry.

Citing the findings of the National Skills Mapping Survey for the IT-BPM industry, Ms. Bongato said the preparedness of graduates for work in animation, game development, software, and health information management is low.

She added that the survey indicates that smaller companies do not have the resources to partner with academic institutions to improve curriculum development or offer internships.

"Deliberate effort by government agencies is crucial to working as one in developing surveys and programs that would help the various sectors. Soft skills continue to be one of the main concerns of the sectors, which include communication, work ethic, problem-solving, and critical thinking," Ms. Bongato said.

"Government agencies working with the sectors should have a consolidated effort, so that more coordinated programs may be developed from planning to execution and review. Streamlining government agencies' efforts in working with the sectors will result in more coordinated programs that may be developed from planning to execution and review and evaluation," she said.

The National Skills Mapping survey was launched in November 2021 and ended in January. Its objective was to determine the skills requirements of the IT-BPM industry and evaluate university course offerings. The study was organized by the Board of Investments and the Commission on Higher Education (CHED).

The survey recommended courses such as a Bachelor of Science in entertainment and multimedia computing for animation and game development, and BS courses in business and information technology specializing in service management. The Healthcare Information Management Association of the Philippines, Technical Education and Skills Development Authority and Department of Information and Communications Technology also recommended offering nursing informatics as a subject.

CHED Director Cherrie Melanie Ancheta-Diego said the study opened up many possible courses of action, calling it a "spark of our continuing conversation" with the industry. — **Revin Mikhael D. Ochave**

JOB VACANCY

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- Flexible and adaptable
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JOB OPENING

TECHNICAL MERCHANDISER

Technical Merchandiser plan and develop merchandising strategies that balance customer's expectation and company's ojectives. Goes to details of buyer's product requirement.

Qualifications:
- Strong communication skills and a service-oriented approach are a must
- Arranges the samples requested by the client
- Make sure sample target sending dates are met
- Monitors sample approval status

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JOB OPENING

TECHNICAL QUALITY ASSURANCE AUDITOR

Technical Quality Assurance Auditor perform in-line inspection and end-of-line inspection in sewing line, responsible for analysis quality reports and prepare improvement plans.

Qualifications:
- Have an excellence knowledge in analytical skills and attention to detail
- Developing and implementing quality control audit plans
- Evaluating production stages and testing the composition, appearance, and functionality of completed products

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Tax court declines to review ruling in favor of IT firm

THE Court of Tax Appeals (CTA) has declined a tax bureau appeal to review a division ruling partially cancelling the tax liabilities of Izone Technologies Philippines dating back to 2008.

In a 31-page decision on May 5, the CTA, sitting en banc, affirmed its First Division's ruling that the demand being made on Izone had exceeded the three-year prescription period.

The tax court also varied the Commissioner on Internal Revenue (CIR) from collecting any deficiency taxes assessed in 2008 against Izone.

"Internal revenue taxes shall be assessed within three years after the last day prescribed by law for the filing of the return, and no proceeding in court without assessment for the collection of such taxes shall be begun after the expiration of such period," according to a copy of the ruling written by CTA Associate Justice Jean Marie A. Bacorro-Villena.

The tax court's Special First Division earlier canceled the Bureau of Internal Revenue (BIR) Fringe Benefits Tax (FBT) assessment on the company, which amounted to P195,199.14, but upheld its assessment of Expanded Withholding Tax (EWT) and Documentary Stamp Tax (DST) for the same year. It ordered the company to pay the BIR P2.5 million in EWT and DST liabilities for 2008, inclusive of penalties and interest.

The division ruling earlier ruled that the last day for the CIR to issue the FBT assessment was April 10, 2011. The company received the assessment a year beyond that date.

"Accordingly, we find no cogent reason to reverse the cancellation of petitioner's (CIR) deficiency FBT assessment against the respondent (Izone Technologies Philippines)," the court ruled. — **John Victor D. Ordoñez**

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OPINION

What to expect on taxes from the next administration

LET'S TALK TAX
MARK EBENEZER A. BERNARDO

Last week, we voted for the leaders we wanted to run the country. Soon, the next administration will be sworn into office, and taxpayers are looking for definitive guidance on taxation to be issued by our next set of leaders and legislators.

Taxation has evolved with the ebb and flow of governments. The National Internal Revenue Code or the Tax Reform Act of 1997 superseded the 1977 Tax Code. Electronic filings were also introduced, including the Electronic Filing and Payment System (eFPS), the eBIRForms System, and electronic certificates authorizing registration (eCAR), among others. We are currently in the middle of streamlining the BIR's registration processes and other taxpayer transactions. Significant tax reform laws have been passed, including the Tax Reform for Acceleration and Inclusion (TRAIN) Law and the Corporate Recovery and Tax Incentives for Enterprises (CREATE) Act.

With new leadership coming on board very soon, what are on the wishlists of the taxpayers? Here is what we think taxpayers will be most looking forward to:

PACKAGES 3 AND 4 OF THE COMPREHENSIVE TAX REFORM PROGRAM (CTRP)

Packages 3 and 4 of the CTRP are currently being deliberated in the senate. Package 3 focuses on the standardization of the real property valuation and assessment system to establish benchmarks and to regulate tax rates and assessment levels. On the other hand, Package 4 focuses on the simplification of the taxes on passive income, with a view towards increasing capital mobility and financial inclusion.

Packages 3 and 4 may still be passed until June 30, but if these may still be handed off to the next administration.

BROADER TAX AMNESTY PROGRAM

So far, we have had the estate tax amnesty law, which provided a simpler process for settling estate tax due that remain unpaid or which have accrued as of Dec. 31, 2017. In this regard, the filing of the Estate Tax Amnesty Return and payment estate tax due must be made not later than June 14, 2023.

There was also an amnesty on delinquent accounts, covering taxes due arising from BIR audits in which the tax assessment has become final and executory. This amnesty was made available until June 30, 2021.

How about a wider tax amnesty program to include other tax types, allowing taxpayers a clean slate? Some relief on past tax obligations would be welcome, freeing up taxpayers to focus their efforts on growing their businesses. A general tax amnesty could again be on the cards, balancing the interests of taxpayers and the government.

INTEREST ON DELAYED TAX REFUNDS

As we know, when taxes are owed to the government, and if there is a delay in making such payments, the government charges 12% interest. However, when a taxpayer is entitled to a tax refund, delayed refunds do not expose the government to interest payments.

In the worst-case scenario, an application for tax refunds may end up not acted upon, leaving taxpayers no recourse other than to elevate the application to the courts. Even if the taxpayer wins, the time it takes to reach a court ruling could be substantial, tying the taxpayer's funds up for years.

Other jurisdictions allow interest on delayed tax refunds. The next administration could look into this to improve perceptions of the tax system's basic fairness.

STREAMLINED TAX PROCESSES, EFFICIENT AUDITS

The Bureau of Internal Revenue (BIR) continues to streamline its processes for the sake of simplicity and efficiency. The BIR could explore other areas to streamline, either by further reducing filing requirements or the time given to the BIR to act on pending transactions.

Taxpayers are also hoping for BIR audits to be completed faster. There is a common impression that some tax audits are based on pure conjecture, with the bureau acting on mere comparisons of accounts that are sometimes unrelated. These instances sometimes generate preposterously large tax assessments in the initial findings. Perhaps tax audit methods could be revisited to make the process more efficient.

Taxpayers could be wanting more with the entry of the next administration. But whatever the new government ends up doing, continued reform and improvements to the tax system are definitely among the expectations.

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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