DTI nominee Pascual to focus on digitalization, tech investment

INCOMING Trade Secretary Alfredo E. Pascual said his focus will be to promote the economy's digital transformation, adding that he expects to redirect the effort to attract foreign direct investment (FDI) towards technology industries, particularly data centers.

Mr. Pascual said the digitalization effort will begin with his own future agency, the Department of Trade and Industry (DTI).

"One of my priorities is to promote digital transformation of the DTI and all our functions as well as (the transformation of) micro, small, and medium enterprises (MSMEs) and other enterprises," Mr. Pascual said in a television interview on Monday.

"Government agencies like DTI that do both regulation and development work will be more efficient and effective (with digitalization)," he added.

Mr. Pascual added: "Bringing in FDI is one of my priorities given that we need the capital to support economic growth and provide jobs. We will try to give priority to investors that are in high-tech industries. There is the growing need for data center(s) in various cases outside, for example, the US. Since we are connected by fiber optic cable to important countries, then we could be a logical location," Mr. Pascual said.

He said one of the consequences of digitalization is to enhance consumer protection by providing "information on suggested retail prices (SRPs) of practically any commodity. That is the way to approach it. Provide the consumers with the information to serve as the basis for their decision so that there will be no retailer or seller who takes advantage of their lack of knowledge," he added.

Mr. Pascual said he is also studying on a "recovery package" targeted at MSMEs that have suffered from the coronavirus disease 2019 (COVID-19) pandemic.

"Most of those... are actually in frontline businesses like restaurants, tourism, (and) entertainment. We'll see whether a recovery package is in order. I have to look closely at the situation before deciding on this. But there are tools that we can use... It's a matter of matching the need with the right instrument," Mr. Pascual said.

The current Trade Secretary, Ramon M. Lopez, said in a statement on Monday that the 2022 Strategic Investment Priority Plan (SIPP), which was approved by President Rodrigo R. Duterte on May 24, will spur a revival of industry.

"The approval by the President of the SIPP is opportune, as the country is heading towards economic recovery. This will catalyze industrial development," Mr. Lopez said in his statement.

"The SIPP serves as an engine toward the national industrial revolution to beef up industries and yield more diversified, complex, and sophisticated products and services," he added.

Ceferino S. Rodolfo, Trade Undersecretary and Board of Investments (BoI) managing head, said that the SIPP will help the economic recovery continue.

"The SIPP has an enormous role in our goal of bouncing back from the economic ramifications brought about by the pandemic. The SIPP will sustain the momentum towards economic recovery, as it will urgently create and recover jobs," Mr. Rodolfo said.

The 2022 SIPP outlines the economic and business activities that will be preferred for investment incentives under Republic Act No. 11534 or the Corporate Recovery and Tax Incentives for Enterprises (CREATE) Act. SIPP takes effect 15 days upon publication in a newspaper of general circulation.

"Particularly, the SIPP adopts the 2020 Investment Priorities Plan (IPP) as Tier I — the base structure for Philippine development; it (identifies) products or services which are not locally produced, for consideration for Tier II; and identifies high technology activities critical to the transformation of the economy and attracting technology investments for Tier III," the DTI said.

"The SIPP supersedes the 2020 IPP which served as the transitional SIPP to ensure the continued promotion of investment and processing of qualified projects," it added.

Under the new SIPP, Tier 1 consists of preferred activities listed by the 2020 IPP, which include all qualified activities related to the COVID-19 pandemic containment effort.

Tier 2 refers to activities that will plug gaps in the industrial value chains such as those related in promoting green ecosystems, develop a dependable health system, attain self-reliance in defense systems, and transform agriculture.

In Tier 3 are activities that will boost the transformation of the economy and use technologies such as automation, smart machines, industrial internet of things (IIOT), cloud computing, cognitive computing, advanced robotics, artificial intelligence, and 3D printing.

"We are truly making it happen in the Philippines, as the SIPP aims to hasten the transformation of the economy into a modern and efficient one with highly-developed infrastructure," Mr. Rodolfo said. — **Revin MIkhael D. Ochave**

Dominguez says Nat'l ID, reduction of unbanked among admin's wins

FINANCE SECRETARY Carlos G. Dominguez III said the widespread adoption of the National Identification (ID) System and the boost this provided to expanding banking services for all are among the government's top achievements over the past six years.

Mr. Dominguez cited data from the National Economic Development Authority (NEDA) indicating that as of May 3, 64.8 million persons have registered for the National ID, while 7.9 million unbanked individuals now had accounts with the Land Bank of the Philippines (LANDBANK).

He added that the National ID system helped people become "part of the formal banking system" because they now possessed a universally-accepted form of ID.

Because of know-your-customer rules to deter money laundering and other financial crimes, banks typically require multiple forms of identification, deterring those who could not produce documents. Minimum maintaining balance requirements have alone proved to be a hurdle for poor would-be depositors.

Over 10 million IDs have been delivered to individuals as of April 30, according to the Philippine Statistics Authority (PSA), or about 33.7% of the PSA's target for the year.

"In addition, we fulfilled President (Rodrigo R.) Duterte's promise of establishing a bank dedicated to the needs of Filipinos working abroad," Mr. Dominguez said at the Duterte Administration's Legacy Summit on Monday. "The Overseas Filipino Bank is our first branchless digital-only bank in the country. It now serves overseas Filipinos in 116 countries."

Mr. Dominguez also called the "Build, Build, Build" infrastructure program and the tax reform program as enduring legacies which helped steer the Philippines "towards more inclusive growth and prosperity."

He called the outgoing government "among the most productive in our history."

The Tax Reform for Acceleration and Inclusion (TRAIN) law, he said, has had the effect of "basically (giving out) 14th-month pay every year to our wage earners."

He said the Rice Tariffication Law has removed rice as a major driver of inflation, while giving farmers at least P10 billion each year to fund modernization via mechanization, improved seed, and training.

Mr. Dominguez said that these measures and reforms have set the country on a firm path to recovery, noting the 2021 growth rate of 5.7%, as well as first quarter growth of 8.3%, the highest in the region.

Malaysia, Vietnam, and Indonesia posted growth rates of 5% for the quarter, with Thailand the laggard at 2.2%.

The Philippines was hit hard by the pandemic, causing gross domestic product (DGP) to contract by 9.5% in 2020. The government borrowed extensively from both foreign and domestic lenders in order to finance its pandemic response.

The incoming administration is inheriting debt of about P12.63 trillion, equivalent to a debt-to-GDP ratio of 63.5%.

Subway tunnel boring machine expected to be in place before Duterte leaves

THE Department of Transportation (DoTr) said Monday that the lowering of the tunnel boring machine to start actual construction of the Japan-funded Metro Manila Subway project will take place in June, before President Rodrigo R. Duterte steps down.

"In the first or second week of June, the Transportation department will perform an activity to convince the people of the Philippines that the subway is real... *Ibababa na natin 'yung* (we will lower the) tunnel boring machine," Transportation Secretary Arthur P. Tugade said during the Duterte Legacy Summit.

"Once we put down the tunnel boring machine, the actual construction will start. In the first or second week of June, we will do a simulation on what to do with the subway," he added.

The Transportation department signed on May 5 a contract with Tokyu Construction Co., Ltd, Tobishima Corp. and Megawide Construction Corp. (Tokyu-Tobishima-Megawide Joint Venture) for the construction of two underground stations and tunneling works of the Metro Manila Subway Project Phase 1.

According to the Embassy of Japan in the Philippines, the Japan International Cooperation Agency has provided assistance amounting to 104 billion yen in the first tranche and 253 billion yen in the second tranche for the construction of the first phase of the subway project.

"After the Duterte administration, *tuloy po ba ang* subway? (Will the subway go ahead?) Yes, *tuloy na tuloy* (yes it will)... The funds are in place, most of the contracts involved have been awarded and in fact have already started, *at 'yung* right of way, *nasimulan na* (work on acquiring the right of way has started)," Mr. Tugade said.

"*Sana lang pabaunan niyo ng dasal at tulong ang mga darating na administrasyon upang matuloy na itong proyekto na ito* (I hope you welcome the new administration with prayers and cooperation so this project goes through)," he added.

Once fully operational, the 17-station subway project will cut travel time between Quezon City and the Ninoy Aquino International Airport to 35 minutes from one hour and 10 minutes currently. It is expected to serve 370,000 passengers per day.

Transportation Undersecretary for Railways Timothy John R. Batan said at a forum in April that the Metro Manila Subway involves 13 contracts, six of which have been awarded. This includes a P26.75-billion contract to supply 240 train cars that was awarded to the joint venture of Japan Transport Engineering Co. and Sumitomo Corp.

The government initially planned to launch partial operations this year and full operations in 2025, but Mr. Tugade has said this is no longer possible due to the limitations imposed by the pandemic.

Partial operation of the subway is now expected in 2025, while full operation is eyed by 2027. — **Arjay L. Balinbin**

OPINION

Electronic invoice and receipts: A boon or bane for taxpayers?

LET'S TALK TAX
KIM M. ARANAS

Have you been audited by the BIR and your claimed expense was disallowed for improper or inadequate substantiation? Have you applied for a tax refund, and were denied due to an erroneous invoice or receipt? This is not unusual given the state of our tax documentation and compliance. With the advent of the government requirement to use electronic receipts and invoices, we can only hope that these long-running challenges become a thing of the past.

PROPER INVOICING VIS-À-VIS TAX COMPLIANCE

To claim a tax deduction or refund, a taxpayer must competently establish the factual and documentary bases of the claim. Section 34(A)[b] of the Tax Code, as amended, expressly requires that no deduction from gross income may be allowed unless the taxpayer can substantiate with sufficient evidence, such as official receipts or other adequate records. This is further emphasized in Sec. 237(A) of the same Code which requires the issuance of duly registered receipts or sale or commercial invoices at the point of sale or transfer of merchandise or service. While the Tax Code allows for other adequate records in support of claimed deductions, the BIR usually relies on invoices or official receipts especially as regards VAT transactions. Hence, dispute about proper substantiation usually involve the official invoice or receipt.

For years, both the BIR and taxpayers struggled to ensure and secure the appropriate documentation to support claims for income and expenses. Despite the ingenuity on both ends in producing, keeping, and retaining the appropriate invoice or receipt, issues continue to hound most taxpayers. While the BIR may rely on the "best evidence rule," Section 228 of the Tax Code requires factual support and verification as the basis of an assessment. This situation is brought about by the elapsed time between tax assessments and the transaction being examined.

TRAIN LAW AND THE E-RECEIPTING/INVOICING REQUIREMENT

To address issues on compliance and the transparency of business transactions, Section 237 of Republic Act 10963 or the TRAIN Law, introduced the Electronic Invoicing System (EIS) requiring taxpayers in e-commerce, large taxpayers, and exporters within five years from the effectivity of the law, to electronically issue their invoices/receipts, as well as report their sales data to the BIR at the point of sale. It bears noting however, that even if not enumerated as mandatorily covered under the EIS, taxpayers may voluntarily register in lieu of manual receipts.

In its statements, the Department of Finance (DoF) targets the full implementation of this provision by January 2023. The first contingent tapped to undergo the change to e-invoicing is the 100 largest taxpayers.

E-INVOICING SITUATIONER IN THE ASIA PACIFIC

EIS is not novel in the Asia Pacific. In 2011, South Korea introduced tax electronic invoicing (e-Tax), making it mandatory for most taxpayers in 2014. Under e-Tax, VAT-registered businesses are required to submit their invoices to the tax authorities through the National Tax Service (NTS) either by (1) uploading invoices via the free portal provided by the tax office; (2) using an outsourced, licensed e-invoice service provider; (3) creating their own e-invoices via their accounting system with a digital certificate; (4) using the AVRS telephone system; or, (5) submitting in person at a local tax office. Businesses wishing to issue tax invoices must first obtain a digital certificate. To issue the e-Tax invoice, they will need their customers' tax registration certificate for matching the invoice to a customer. Thereafter, the tax invoice is sent to the customer by e-mail.

We need to know about South Korea's e-Tax system because the DoF has repeatedly and consistently referred to it as a model system. In his March 2016 World Bank-Commissioned study, "Can Electronic Tax Invoicing Improve Tax Compliance? A Case Study of the Republic of Korea's Electronic Tax Invoicing for Value-Added Tax," Hyung Chul Lee concluded that South Korea's e-Tax has had a significant positive effect on matters of transparency and the reduction of tax evasion.

Other countries in the region like Vietnam, Taiwan, and Thailand are also gearing for e-invoicing.

What's next for the DoF, BIR?

EIS in the Philippines is said to include an invoice report sent to the government's central platform after invoices have been sent to final clients. Therefore, it is like South Korea's invoice reporting system, which is known as Continuous Transaction Control. In fact, the Korean International Cooperation Agency (KOICA) helped the Philippines to develop its electronic invoice reporting system. The electronic invoice includes sales invoices, receipts, debit and credit notes and other similar accounting documents issued through the internet.

To date, the DoF has yet to issue the relevant revenue regulations and circulars on e-invoicing/receipting. May the rules be carefully designed to minimize the taxpayers' burden. Specifically, DoF should take due care to make available facilities and avenues through which businesses can easily issue and transfer e-invoice/receipts to their customers for free or at very low cost. The BIR should also consider scrapping paper-based invoicing, separate submission of summary reports/alphalist, and invoice storing requirements. EIS presupposes real-time access to tax information and the capability to detect fraud through electronic systems. Hence, BIR should also recalibrate its assessment procedure, which costs taxpayers time and effort.

While the DoF initially focuses on the top 100 corporations, it should also consider the cost of implementation, especially for MSMEs.

The DoF and BIR should focus on reducing compliance costs by ensuring close collaboration among the tax authorities, the IT governance body on electronic data interchange, and private IT solutions providers, with a view to improving taxpayer services to build and accumulate trust in tax administration. Otherwise, it will just breed taxpayer resistance to reform or encourage a preference for maintaining the informal-economy status quo. Tax authorities must also reward taxpayers for compliance and cooperation with compulsory e-invoicing in the form of improved tax services and cost reduction. If a compulsory e-invoicing system produces tangible benefits to taxpayers, eliminating the uncertainty of counterparty acceptance, it will firmly take root in the system (Lee, 2016).

As 2023 approaches, the DoF and BIR should roll out tax information and guidelines for all stakeholders.

TAXPAYERS: PREPARATION IS THE KEY

Regardless of how daunting it may be, taxpayers must accept the fact that this process is mandatory under the law. Therefore, we can expect the new Finance Secretary or BIR Commissioner to implement it.

The COVID crisis has been a game-changer, showing us the importance of digital transformation. Unfortunately, digitalization is neither a walk in the park nor cheap. Hence, preparation is key if taxpayers are to avoid costly and unnecessary implementation bottlenecks. You may consider embarking on the following initial steps:

1. Evaluate existing tax practices — an objective examination of the company's compliance with existing rules and regulations will help provide guidance and point out areas for improvement.

2. Assess your capacity to go online and electronic, including your readiness to adhere to the Data Privacy Act (DPA).

3. Stay updated on recent DoF and BIR issuances providing guidance in the implementation of EIS. Note that implementation is likely to come in phases. New guidelines may seem inapplicable to you at first, but the time will come when it will affect your business.

4. Talk to your tax consultants and IT solution providers.

5. Ensure that your EIS provider is duly accredited or has experience.

While the government may be on wait-and-see mode in the next few months as the leadership changes, it is better to act now than be sorry later. As taxpayers, let us keep an open mind and stay abreast of the latest developments in tax compliance.

Just as esports are now part of the Southeast Asian Games, it is high time that we also level up our tax system through the proper and careful implementation of EIS.

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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