Domestic trade in 2021 rises 21.6% by value

DOMESTIC TRADE by value in 2021 rose by 21.6% to P718.44 billion, the Philippine Statistics Authority (PSA) said, reflecting a recovery in the economy from the low base formed by 2020, the first year of the pandemic.

The finding was contained in the PSA's Commodity Flow in the Philippines final report in released on Monday.

By volume, domestic trade increased by 24.6% to 20.22 million tons.

Commodity flow, also known as domestic trade, refers to the flow of goods through water, air, and rail transport systems. The greater portion of domestic trade was waterborne.

ING Bank N.V. Manila Branch Senior Economist Nicholas Antonio T. Mapa said last year's jump in trade was due to base effects.

"Gradual reopening of the economy was carried out during periods of low virus caseloads and this helped bolster trade numbers," he said in an e-mail.

Mr. Mapa expects domestic trade this year "to stay positive although we may need to (anticipate) more moderation as base effects are washed out."

Seven out of 10 commodity groups grew by value last year. Machinery and transport equipment, which accounted for 27.9% of domestic trade, grew by a third to P200.55 billion. By volume, trade in this segment rose by 26.1% to 2 million tons.

The value of animal and vegetable oils, fats, and waxes contracted by 46.6% to P2.42 billion. By volume, trade in these goods declined by 42.1% to 56,698 tons.

Crude materials, inedible, except fuels, posted the top volume growth rate to 1.97 million tons in 2021 from 846,762 tons a year earlier. By value, the category grew by 54.6% year on year to P15.56 billion.

The National Capital Region was the top source of commodities last year with total outflows amounting to P198.17 billion, for a trade surplus of P130.32 billion.

The top destination of commodities was the Central Visayas, which posted inflows valued at P135.54 billion for a P37.60-billion trade deficit. — **Keisha B. Ta-asan**

Senate panel hears support for 12% VAT on digital services bill

By Alyssa Nicole O. Tan

GOVERNMENT AGENCIES and industry representatives told a Senate committee that they support a bill seeking to impose a 12% value-added tax (VAT) on digital transactions, in order to ensure equal tax treatment for traditional and digital businesses.

The measure clarifies the VAT status of digital service providers, according to Senator Pilar Juliana S. Cayetano, who chairs her chamber's Ways and Means committee, during a hearing on House Bill 7425.

"This measure will also generate revenue from new sources to fund the country's efforts to recover from COVID and other expenses. Digital transactions soared during the pandemic. Lockdowns and the quarantine restrictions pushed cost-conscious consumers and suppliers into the digital economy," she added.

Citing data from the 2020 World Bank Digital Report, the Department of Finance reported that the number of internet users in the Philippines increased to 73 million during the most restrictive phases of the quarantine. Average hours spent by Filipinos on the internet exceeded five hours from four previously due to mobility restrictions.

"We fully support the passage of this bill. It is a timely legislation," Bureau of Internal Revenue Assistant Commissioner Larry M. Barcelo said at the hearing.

"It is high time to put businesses, especially those conducted by foreign non-resident entities, on equal footing with the traditional brick and mortar businesses in order to even the playing field," he added.

Trade and Industry Assistant Director Marie Sherylyn D. Aquia of the Bureau of International Trade Relations said the Trade department welcome a feature of the bill defining the tax treatment of facilitated goods and services, in light of the explosion in the delivery of goods ordered online.

"The government should continue to seek ways to address the gaps in the tax system that allow some companies to shift profits away from where the economic activity and value creation are taking place," she said.

The measure would impose a 12% VAT on the digital sale of services such as online advertising, subscription services, and the supply of other electronic and online services that can be delivered through the internet such as mobile applications, online marketplaces, online licensing of software, and webcasts, among others.

It would also add a new section in the National Internal Revenue Code of 1997 that would require foreign digital service providers to collect and remit VAT for all transactions that go through their platforms.

Bangko Sentral ng Pilipinas (BSP) Payment System Oversight Department Deputy Director Bridget Rose M. Mesina-Romero said the measure is necessary to update the VAT regime in a manner that helps it keep up with the rapid transformation of the digital economy.

However, the additional tax burden may hinder the recovery of smaller enterprises, including gig workers who rely on digital channels to continue their livelihood, as it may lead to lower income, she said.

As such, the BSP proposed VAT exemptions for low-value digital transactions of up to P500, as well as for service fees charged by payment service providers for the use of digital payments.

"This is consistent with the intent of the TRAIN (Tax Reform for Acceleration and Inclusion Law) to exempt from personal income tax the individuals whose annual taxable income does not exceed a certain threshold," she said, adding that by exempting small digital payments from VAT, minimum wage income earners will not be unduly burdened. The potential negative impacts on the poor and marginalized sectors that shift to digital services will be minimized, she added.

Ms. Cayetano said she was interested in exploring the BSP's proposals and defined her intended approach to taxation as "reverse discrimination," which she hopes will encourage digital transactions via the effective 12% discount for those eligible for the exemption.

Ms. Mesina-Romero said the proposed service fee exemption will help encourage the use of digital services by individuals, business and government institutions.

Chairman of the FinTech Alliance.ph, Angelito M. Villanueva supported the BSP position.

Netflix APAC Indirect Tax Manager Davy Chen said the company's input was solicited in drafting the bill at the House. Netflix supports the legislation.

"Under the proposed rules of the VAT bill, non-resident suppliers like Netflix will be able to register remotely for VAT only in the Philippines, then collect and remit the tax to the Philippines via simplified compliance mechanisms," he said.

The simplified supplier VAT registration regime benefits both non-resident companies and the Philippine government, he added, as it would limit the compliance burden to non-resident VAT suppliers, while maximizing government revenue and limit costs.

However, there were calls to clarify the process for overseas suppliers transacting through intermediaries. The bill should specify the entity responsible for remitting and collecting VAT in that situation to avoid confusion and double taxation, the committee was told.

Asia Cloud Computing Association Secretariat Bensen Koh, who also represented the Asia Internet Coalition, also expressed support for the bill, saying it was in line with international best practices put forward by the Organisation for Economic Cooperation and Development and the International Monetary Fund.

On payments to government agencies, which are subject to 5% withholding tax and where non-resident service providers cannot claim input VAT, Mr. Koh sought clarification on the tax treatment for such transactions.

"In terms of providing a grace period for this transition, we propose that 9 to 12 months be provided after the promulgation of the details, implementing rules and regulations so that companies have the time to ensure compliance," he said.

Ms. Cayetano said although she was unsure how far the bill will go before Congress adjourns on June 3, the goal was to get the discussions rolling on the scope of the proposed law.

DTI sees outsourcing investors bringing in more high-end work

TRADE Secretary Ramon M. Lopez said business process outsourcing (BPO) companies investing in the Philippines are engaging in higher-value activity, enabling the industry to climb the value chain.

"Our country is increasing its capacity to become a global player in IT-enabled services through the provision of analytical and AI skills development, competitive enabling environment, and cost efficiencies. This ensures that investors can profitably serve international and fast-growing regional markets," Mr. Lopez said in a statement.

Mr. Lopez said he met with Mphasis Corp. Chief Executive Nitin Rakesh and Industry Solutions Group SVP & Global Head Indranil Roy in April to discuss the company's plans to enter the Philippine BPO market.

The US information technology company expressed interest in the Philippines as a major destination for high-value services, and expects to hire an initial 1,500 to 2,000 for call center jobs.

According to the Department of Trade and Industry (DTI), Mr. Roy said the company services major banks and insurance companies, which made the recommendation to Mphasis to try the Philippines.

Mr. Lopez said the Philippine BPO industry, which refers to itself as the Information Technology-Business Process Management (IT-BPM) industry, remained resilient over the pandemic, as it did not lay off workers.

"Resources would not be a problem as the country has a workforce of 49 million, generates 800,000 graduates annually, with 30% coming from the science, technology, engineering, and mathematics (STEM) field," he added.

The Board of Investments (BoI) Managing Head and Trade Undersecretary Ceferino S. Rodolfo also said the BoI can match Mphasis Corp. with various educational institutions should it seek to develop talent at the school level with a custom curriculum.

"Another resource that they can tap into is the returning overseas Filipino workers (OFWs) who have an advantage in terms of experience with their new knowledge and skills acquired from their respective countries," he added.

The Philippines holds 13% of the global IT-BPM market, and accounts for 1.3 million direct jobs and 4.5 million jobs overall, with more than 700 BPO companies in the country, according to the DTI.

"Our continued efforts to upskill our workforce and liberalize our industries through major economic reforms... have proven our capability to position the Philippines as an ideal investment hub in Southeast Asia. We look forward to how the next generation of leaders can further build on these successes," Mr. Lopez added. — **Luisa Maria Jacinta C. Jocson**

OPINION

Electronic is the new sexy: The BIR's digital transformation

LET'S TALK TAX
KYLE MIKKO C. AGUSTIN

Digital transformation continues to occupy major mindshare among policymakers, government agencies, and industry leaders due to its societal impact. As digitalization disrupts society ever more profoundly, concern is growing on how it affects issues such as jobs, wages, inequality, health, resource efficiency and security. Nevertheless, we are all aware of the potential for it to do some good, especially in the middle of a pandemic.

Because of mobility restrictions that were imposed to manage the COVID-19 outbreak, the direction of digital transformation greatly favors those who must transact with various government agencies, such as the Bureau of Internal Revenue (BIR). This will eliminate or at least reduce the burden of actually going to BIR offices to process tax compliance requirements.

Let's have a look at some of the BIR's digitalization initiatives which taxpayers need to know about.

BIR DX PROGRAM UPDATE

As of March 2022, the BIR has successfully completed and implemented 15 out of the 49 projects under the first phase of its 10-year Digital Transformation (DX) Roadmap. In addition, nine DX projects have recorded significant accomplishments while others are continuously being improved or developed. This ongoing program has expanded the range of electronic payment channels that allow taxpayers to file and pay their taxes online and which promote the ease of filing and paying their taxes amid the restrictions that were put in place during the pandemic.

The BIR is continuously developing and improving its systems and procedures to efficiently accommodate the needs of all taxpayers and their employees. Among the digitalization initiatives already launched or implemented by the BIR are:

- Internal Revenue Integrated System (IRIS) — The BIR's central tool and repository to process taxpayer information;
- Enhanced Internal Revenue Stamps Integrated System (IRSIS) — An application that manages the ordering, production, distribution, affixing and tracking of revenue stamps to monitor the proper payment of excise taxes on tobacco products;
- Taxpayer Identification Number (TIN) mobile application — A mobile chat application available to public for their taxpayer identification number (TIN) inquiries and verification;
- REVIE — A single hotline number and Chatbot on its website to assist taxpayers with general inquiries, on top of being able to e-mail the bureau regarding their concerns;
- Electronic Filing and Payment System (eFPS), Electronic Fund Transfer Instructions System (eFTIS), and other e-payment channels to allow taxpayers to settle taxes online;
- Electronic One-Time Transaction System (eONETT System) — Enables taxpayers to transact their ONETT online anytime, anywhere;
- New business registration or NewBizReg Portal — Lets taxpayers submit their applications for business registration through e-mail; and
- eAppointment — A feature on the BIR website booking or scheduling requests to meet with revenue officers regarding tax matters.

These are just some of the BIR's projects that support the objectives of the Republic Act (RA) No. 11032, otherwise known as the Ease of Doing Business and Efficient Delivery of Government Services Act.

ELECTRONIC SIGNATURES (e-SIGNATURES)

The traditional function of a signature is to permanently affix to a document a person's uniquely personal, undeniable self-identification as physical evidence of that person's personal witness and certification of the content of all, or a specified part, of the document. This is a significant element of a document for submission to government agencies, including the BIR. Because of this, some BIR offices are still reluctant to accept any returns and documents bearing only e-signatures.

To ease the process for taxpayers, the BIR recently issued Revenue Memorandum Circular (RMC) No. 40-2022 and RMC No. 42-2022 reiterating the provisions under RMC No. 46-2021 on the use of e-signatures, which are deemed equivalent to an actual signature or wet signature for filing purposes, pursuant to Section 6 to 13 of R.A. No. 8792, otherwise known as the Electronic Commerce Act of 2000.

RMC 40-2022 explicitly allows the use of e-signatures, in lieu of wet signatures, in tax returns.

However, many taxpayers are still awaiting BIR clarification as to the extent of the acceptance of e-signatures. RMC 42-2022 provides that "all tax returns, attachments and documents can be signed by the taxpayer or its authorized officer or signatory through an electronic signature. Such electronic signature shall be deemed equivalent to an actual signature or 'wet signature' for filing purposes." RMC, 40-2022, on the other hand, provides that "the use of Electronic Signature applies to all tax returns, attachments and documents required to submit AITR and returns." Both RMC 42-2022 and 40-2022, however, deal with the filing of income tax returns and the use of the Electronic Audited Financial Statement System (eAFS), respectively. Hence, there is confusion on whether the e-signature may also be allowed for the filing of replies/protests in relation to assessments or other official communications with the BIR.

ELECTRONIC AUDITED FINANCIAL STATEMENT (EAFS) SYSTEM

It has been the BIR's practice to adhere to the traditional process of tax compliance. Taxpayers expend much effort in processing tax compliance requirements, particularly in submitting the Annual Income Tax Return (AITR) attachments.

Before the COVID-19 outbreak, taxpayers were required to file their AITRs together with the required attachments with the BIR offices where they are registered. In line with the agency's digitalization initiatives, the BIR issued RMC No. 49-2020 to suggest the use of eAFS as an option for taxpayers seeking to file their AITRs and the required attachments.

Since the RMC was issued for the processing and filing of 2019 AITRs and their attachments, many were unsure whether the eAFS system can be used as well for the succeeding taxable years. The BIR issued RMC No. 46-2021 to reiterate the availability of the eAFS facility as an option in submitting the AITR and its attachments, but the circular was applicable for the taxable year 2020 only.

To end this uncertainty, the BIR clarified that the submission of AITRs and attachments via eAFS is applicable to any taxable year and all succeeding fiscal and/or taxable years as provided under RMC 40-2022.

With the shift to contactless transactions, more taxpayers are electronically filing their returns and other documents with the BIR.

ADAPTING TO AN ELECTRONIC WORLD

Digitalization transformation is a big relief for most taxpayers. Some, however, are not adapting to the new electronic world as seamlessly as others. Some are having a hard time learning the process, while some are not privileged enough to have access to the devices and equipment needed for electronic transactions. This may be one of the reasons why the BIR still uses manual processing.

Considering that digital transformation is still a work in progress, some questions have yet to be answered. Is the BIR going fully digital soon? Will all BIR offices accept electronic copies of documents during the course of their tax audits in the near future? What are the succeeding projects that the BIR will implement after the DX program? We all hope that the solutions to these issues will benefit both the BIR and the taxpayers.

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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