Balisacan seeks to balance infra with social spending

INCOMING SOCIOECONOMIC Planning Secretary Arsenio M. Balisacan said on Wednesday that he will seek a review of "Build, Build, Build" infrastructure spending and seek to strike a balance between erecting public works and alleviating poverty.

"We need to balance the infrastructure side on the one hand and social protection, health, and education," Mr. Balisacan said in an ANC interview on Wednesday. "What do you do with world-class infrastructure when your people (and) their children are ranked poor, the poorest in the region?"

"That is the dilemma. If you want to push for world-class infrastructure, but health is in crisis, education is in crisis, we need to go back and reflect on what is really fundamental."

"Development should be shared by all, especially the poor. I would like to see that. The growth that we put in place (will be) highly inclusive."

He also wants more attention to be paid to social protection, adding that the expansion of the conditional cash transfer program is a possible avenue for doing so.

Mr. Balisacan said however that putting a stop to the ongoing Build, Build, Build projects is not on the table, calling the cancellation of such pending works a "bad practice."

"We are not going to stop anything that is ongoing and it is clear that we have to continue what's there," he said. "If it's obviously wrong, you have to do something about that."

In April, Public Works officials said that 12 out of 119 flagship infrastructure projects have been completed.

Of this number, seven were completed in 2020, and five in 2021. Another seven are expected to be completed by June 30, before President Rodrigo R. Duterte steps down. And another 12 are due to be finished by the end of the year.

Mr. Balisacan will be meeting with current National Economic and Development Authority leadership before the inauguration of President-elect Ferdinand R. Marcos, Jr. — **Tobias Jared Tomas**

Fisheries output declines in first quarter

FISHERIES PRODUCTION in the first quarter declined by 0.2% year on year to 971.50 thousand metric tons (MT) following weak performances by the commercial and marine municipal fisheries, the Philippine Statistics Authority said.

The commercial fisheries sub-sector produced 177.17 thousand MT in the first quarter, down by 8.0% from a year earlier. The subsector's output accounted for 18.2% of overall fisheries production.

Marine municipal fisheries, which comprised 22.5% of overall output, reported a drop in production of 0.9% to 218.73 thousand MT.

Posting production increases were inland municipal fisheries (4.7%) and aquaculture (2.6%).

Inland municipal fisheries yielded 39.05 thousand MT and accounted for 4.0% of overall production.

The aquaculture harvest was 536.55 thousand MT, accounting for 55.2% of overall production.

Of the 20 major commercial species, production declines were recorded in mud crab or *alimango* (24.8%), skipjack or *gulyasan* (20.2%), and fimbriated sardines or *tunsoy* (13.5%).

Growth was recorded in threadfin bream or *bisugo* (34.1%), squid (12.7%), and bigeye tuna (10.9%). — **Luisa Maria Jacinta C. Jocson**

Wholesale price growth accelerates to 8.3% in April

PRICE GROWTH of wholesale general goods for April was 8.3%, the highest level in almost 11 years amid robust demand and election spending, according to preliminary data from the Philippine Statistics Authority (PSA).

The rise in the general wholesale price index (GWPI) was stronger than the previous month's gain of 7.6% and the year-earlier rise of 2.7%.

The April indicator was the highest reading in nearly 11 years since the 9.1% growth posted in September 2011.

In the four months to April, the GWPI averaged 6.6%, against 2.5% a year earlier.

The GWPI is used to monitor the wholesale trade sector and serves as a basis for price adjustments in business contracts and projects.

"Across the country, the faster growth pace in bulk prices was evident. This, I would attribute to the continued reopening of the economy, pent-up demand and, to a certain extent, election spending. It is fitting to note that higher prices of oil may have contributed as well to April GWPI rise," Union Bank of the Philippines Chief Economist Ruben Carlo O. Asuncion said in an e-mail.

April was the second month in a row that the relatively permissive Alert Level 1 quarantine setting was in force over Metro Manila and other areas.

Less restrictive quarantine conditions allowed more economic activity. Similarly, national election preparations ramped up during the month before voters cast their ballots on May 9.

Candidates have yet to file their elections expenditure reports. Under election law and a Supreme Court ruling, candidates are required to file their Statement of Contributions and Expenditures. This year's deadline is June 8. National candidates are allowed to spend up to P10 per registered voter.

The PSA said the acceleration in bulk prices during the month was led by food (9% in April from 8.2% in March), beverages and tobacco (6.5% from 4.0%), mineral fuels, lubricants and related materials (53.3% from 45.3%), manufactured goods classified chiefly by materials (7.8% from 7.3%), and miscellaneous manufactured articles (1.7% from 1.5%).

Mr. Asuncion also noted significant growth were seen in commodities in April, as mirrored in the S&P Global Philippines Manufacturing Purchasing Managers' Index (PMI) reading that month.

The April manufacturing PMI of 54.3 was the highest in more than four years, or since the 54.8 in November 2018. A reading above 50 denotes an expansion; below 50 signals a contraction. The PMI is considered a leading indicator of future manufacturing activity because they reflect the extent to which manufacturers are ordering raw materials for processing.

Meanwhile, growth eased for crude materials, inedible except fuels (29.1% in April from 29.2% in March), chemicals including animal and vegetable oils and fats (8.4% from 8.5%), and machinery and transport equipment (1.7% from 2.4%).

Luzon's GWPI rose by 8.8%, accelerating from 8.2% in March and the 2.8% posted a year earlier. Luzon price growth was the highest in 126 months or since the 9.3% growth posted in October 2011.

In the Visayas, the bulk prices rose by 4.3% from 4.1% the previous month, and higher than the 0.7% in April 2021. Price acceleration was the strongest since the 4.9% also seen in August 2011.

Mindanao's GWPI grew by 3.3% in April from 3.0% in March. However, this was slower than the year-earlier 4.6%. The April reading was the highest since the 4.2% logged in January.

Mr. Asuncion sees the impact of pent-up demand and election spending to be temporary. He also expects "softer growth" for wholesale prices of general goods in the coming months. — **Ana Olivia A. Tirona**

Economic reopening seen bolstering growth into Q2 — FMIC, UA&P

THE second quarter is expected to reflect continued recovery momentum on the back of higher employment and domestic demand, First Metro Investment Corp. (FMIC) and the University of Asia and the Pacific (UA&P) said.

In their market call report on Wednesday, FMIC and UA&P said the growth will continue despite the constraints on government resources and the impact of inflation. However, growth is expected to slow compared with the first quarter.

According to the report, the 8.3% gross domestic product (GDP) growth seen in the first quarter was largely due to the 3.4 million jobs created between the fourth quarter of 2021 and the first quarter of 2022, which is also expected to flow onto the second-quarter growth result.

"As the best performer in ASEAN and East Asia, the Philippine economy's impressive 8.3% Q1 GDP growth has brought the economy to pre-pandemic levels (Q1 of both 2019 and 2021) and has likely kindled greater optimism among firms," it added.

"To be sure, a good part of the gains may be attributed to pre-election spending, but it will likely spill over into (the second quarter), since the present administration still has much cash to spare," the report said.

However, FMIC and UA&P said the government's limited fiscal space is expected to start reflecting in the results for the second half.

Whether or not growth will continue into the second half "will likely hinge on the quality of technocrats that the new President will bring into his economic team," the report said.

The report said industries like mining, manufacturing, and construction are expected to post gains and lead growth for the second half.

FMIC and UA&P forecast inflation to average 5% for the remainder of the year, naming it the most significant headwind to growth. This is expected to hold true unless the Ukraine-Russia war comes to a swift conclusion and crude oil prices drop significantly.

"The war remains unpredictable, but the second-round effects of unusually elevated crude oil prices have affected other commodities," the report said.

Crude oil prices stayed above $100 a barrel, including benchmarks West Texas Intermediate and Brent, which averaged $101.78 and $104.58 a barrel respectively in April.

The Philippine Statistics Authority will release May inflation data on June 7.

The report also warned that early tightening by the Bangko Sentral ng Pilipinas (BSP) will result in "too tight" of a monetary situation.

The BSP said it is likely to raise key interest rates by another 25 basis points at its next policy review this month.

"We are probably inclined to have another 25-basis-point adjustment on our next Monetary Board meeting which is on June 23," BSP Governor Benjamin E. Diokno said. — **Tobias Jared Tomas**

ERIK MCLEAN-UNSPLASH

Senior legislator to take up fuel excise freeze in next Congress

A SENIOR LEGISLATOR who could be in line for a leadership post in the next Congress said he wants to suspend the collection of fuel excise taxes when the new administration takes over.

Representative Rufus B. Rodriguez, the current deputy Speaker, said he plans to refile a bill shelving the collection of fuel taxes for four years — the period he estimates is needed to recover from the coronavirus disease 2019 (COVID-19) pandemic and the effects of the Ukraine-Russia war.

"Enacting the bill will cut pump prices by P6 per liter for diesel, P3 per kilogram for liquefied petroleum gas, P5 for kerosene, and P5.65 per liter for gasoline," he said in a statement on Wednesday. The proposal addresses the tax increase on fuel imposed under the Tax Reform for Acceleration and Inclusion (TRAIN) Law.

"The suspension will bring immediate relief to our people," he added.

Oil prices are expected to rise further after the European Union's (EU) decision to ban oil imports from Russia by the end of the year, equivalent to 90% of the current shipments. Russia currently supplies 27% of the EU's imported oil and 40% of its gas. Similarly, the UK has also said that it will phase out Russian oil, which accounts for 8% of its oil demand, by year's end.

Some international price benchmarks for crude oil rose past $110 per barrel following the EU's decision, Mr. Rodriguez said.

Mr. Rodriguez expects the bill to benefit those hardest hit by the pandemic — including the tourism and aviation industries. The cost of goods is also expected to drop.

The proposed law will also cover bunker fuel oil, he added, which is used for generating electricity and whose tax under the TRAIN Law is P6 per liter.

Mr. Rodriguez also opposed a proposal by the Finance department to impose new taxes to pay down the P12.7-trillion national debt, saying, "Let's not add to our people's financial burden." — **Alyssa Nicole O. Tan**

OPINION

Convenience vs tax savings: Weighing individual tax rate options

TAXWISE OR OTHERWISE
ERIKA MAE D. BUENAVENTURA

As prices rise in response to the Ukraine-Russia crisis, Filipinos may be on the lookout for alternative sources of income, which would be an opportunity to engage their entrepreneurial side. Entrepreneurship is in fact abundant in our society — according to the 2020 Micro, Small and Medium Enterprises (MSME) Statistics from the Department of Trade and Industry, some 88.77% of establishments in the Philippines are micro enterprises.

Individuals, whether self-employed or employed by others, are taxed at graduated rates of 0-35% based on net taxable income. Additionally, self-employed individuals (which include professionals) are also subject to business taxes on gross sales/receipts (namely, value-added tax [VAT] or percentage tax).

The TRAIN Law, which we welcomed in 2018, offered an alternative taxation regime for self-employed individuals or mixed-income earners (or those who earn both a salary from employment and income from business or practice of a profession). This alternative is the 8% income tax on gross sales or receipts (otherwise known as gross income tax or GIT) from business or practice of a profession, in excess of P250,000.

For the business income to qualify for the 8% GIT, the individual should meet the following conditions as laid down by Revenue Memorandum Order (RMO) No. 23-2018:

• Gross sales/receipts and other non-operating income should not exceed the VAT threshold of P3,000,000 during the taxable year;

• The taxpayer should be registered as a non-VAT taxpayer; and

• The taxpayer must have signified the intention to elect the 8% GIT upon initial registration or upon filing their quarterly income tax return (ITR) for the first quarter of the taxable year. Such election will be irrevocable for that year.

The 8% GIT is in lieu of the regular income tax and percentage tax. Thus, taxpayers opting for this special rate only need to pay one tax instead of paying income tax and percentage tax separately every quarter. Thus, they only need to file the Quarterly ITR, unless exempted by any revenue issuances and the Annual ITR (Financial Statements are not required to be attached).

In contrast, self-employed individuals who have *not* opted for the 8% GIT, are generally subject to the 3% percentage tax or 12% VAT. The 3% percentage tax rate is temporarily reduced to 1% until June 30, 2023 under the CREATE Law and reverts to 3% subsequently.

Effectively, opting for the 8% GIT saves a taxpayer from the inconvenience of filing two returns and paying two types of taxes quarterly. As a quick review, ITRs are filed every May 15 (Q1), August 15 (Q2), November 15 (Q3), and April 15 of the following year for the annual return. On the other hand, percentage tax returns are filed 25 days after the close of each taxable quarter.

But what is the cost of this convenience? When is it beneficial to avail of the 8% GIT? Looking at tax costs alone, let's do the math.

Taking as an example a self-employed individual with no deductible operating expenses, at P3,000,000 gross sales, the taxpayer must pay only P220,000 under the 8% GIT. It is computed by multiplying 8% to P3,000,000 less the P250,000 exempt income.

For the taxpayer to be indifferent about availing of this option, the gross profit rate (or GP rate) given the applicable percentage tax is 1%, should be 33.33% of the gross sales/receipts. It is at this GP rate (8% GIT breakeven point) that tax due under 8% GIT and graduated rates are the same at P220,000. If the GP rate is more than 33.33%, the taxpayer will be better off availing of the 8% GIT. Conversely, if its GP rate is less than 33.33%, it will be worse off applying the 8% GIT. At 40% operating expenses, the 8% GIT breakeven point is a 55.56% GP rate.

From this calculation, we can infer that those individuals with margins greater than the breakeven point are more likely to benefit from the 8% GIT. For individuals with relatively stable and high GP rates and lower operating expenses, 8% GIT may be a good option. It will mean tax savings and less administrative costs on filing returns. However, for those with a low GP rate and who have a significant level of operating expenses, 8% GIT may not be the best option — taxwise. The taxpayer will lose the benefit of deducting his expenses.

Either way, availing of the 8% GIT may save the individual precious time which can be devoted to running the business. Since the irrevocable option is signified during the first quarter, the downside is that there is no turning back. Like all other aspects of the business, careful study is required. By conducting a diligent cost-benefit analysis, taxpayers can evaluate the most efficient tax rates to apply in order to maximize the sought-after returns.

The views or opinions presented in this article are solely those of the author and do not necessarily represent those of Isla Lipana & Co. The content is for general information purposes only, and should not be used as a substitute for specific advice.

ERIKA MAE D. BUENAVENTURA is an assistant manager at the Tax Services Department of Isla Lipana & Co., the Philippine member firm of PwC network.
erika.mae.buenaventura@pwc.com