GOCC dividend performance up 127% during Duterte term

DIVIDENDS issued by government-owned and -controlled corporations (GOCCs) amounted to P374.54 billion over the course of the current administration, up 127% from the dividends generated during the predecessor government, the Department of Finance (DoF) said.

In a statement, the DoF said the dividend total incorporates all funds remitted to the Bureau of the Treasury from July 2016 to date.

The dividend totals were compiled in a report prepared by the DoF Corporate Affairs Group for Finance Secretary Carlos G. Dominguez III.

Dividends generated by GOCCs during the term of President Rodrigo R. Duterte's predecessor, Benigno S.C. Aquino III, amounted to P164.81 billion.

The growth in Duterte-era dividends was driven by stimulus legislation that required GOCCs to remit more than their usual share of dividends. At the height of the pandemic in 2020, GOCCs generated P135.13 billion worth of dividends.

Republic Act No. 11469 or the Bayanihan to Heal as One Act, authorized the President to reallocate resources, including unutilized or unreleased subsidies and transfers, held by GOCCs and National Government agencies, for use in containing the pandemic.

In normal conditions, RA 7656 or the Dividends Law requires GOCCs to hand over at least 50% of their profits to the Treasury, though pandemic spending requirements forced a number of GOCCs to raise or front-load their payouts.

The strength of the dividend performance reflects "the rigorous fiscal discipline and responsibility instilled… in the state corporate sector on (Mr. Duterte's) watch," the DoF said. — **Diego Gabriel C. Robles**

LRT-1 Cavite, North-South Rail top pending projects at handover

THE major projects still pending at the time of the handover to the new administration include the Light Rail Transit-1 (LRT-1) Cavite Extension and the North-South Commuter Railway, the Department of Transportation (DoTr) said on Wednesday.

The DoTr issued the list of projects in a statement after Transportation Secretary Arthur P. Tugade briefed his successor, the new administration's nominee for the top transport job, Jaime J. Bautista, on Tuesday.

The meeting between Mr. Tugade and Mr. Bautista, former Philippine Airlines president and chief operating officer, took place in Clark, officials said.

"(It was a) transition briefing (on) completed and ongoing projects and some other issues concerning DoTr matters for turnover, including (projects) for implementation and those that can be continued by the incoming (Secretary)," Civil Aviation Authority of the Philippines Chief of Staff Danjun G. Lucas said in a phone message to *BusinessWorld* when asked about the meeting.

The North-South Rail line has three components: the Philippine National Railways (PNR) Clark Phase 1 Project (Manila to Malolos segment); PNR Clark Phase 2 (Bulacan to Clark segment); and the PNR Calamba segment, the DoTr said.

It added that Metro Rail Transit (MRT) Line 7 and the Common Station are near completion.

Other projects in the pipeline are the PNR Bicol line, the Mindanao Railway Phase 1, the LRT-2 West Extension Project, the MRT-4 Project, and the Subic Clark Railway Project.

In a statement on his Facebook page, Mr. Tugade said of the recent meeting: "We hope for continuity of projects in the new administration and looking forward to more game-changing projects and programs in the transportation sector that will make the lives of the Filipino convenient and comfortable."

"*Buo po ang aking suporta at tiwala sa bagong mamumuno sa Kagawaran. Handa 'ho akong tumulong sa abot ng aking makakaya habang patuloy ang* transition period *sa papasok na administrasyon at mga opisyal nito* (I have full confidence in the new leadership at the department. I am willing to do my utmost to help during the transition period)," he added.

The department said it recently started work on reviving the PNR San Pablo-Lucena Line, and started underground construction on the Metro Manila Subway.

"We have also completed the LRT-2 East Extension and the massive rehabilitation of the DoTr MRT-3 rail lines," the department said. — **Arjay L. Balinbin**

PEZA to propose big push for innovation zones

THE Philippine Economic Zone Authority (PEZA) said it hopes to establish more knowledge, innovation, science, and technology (KIST) parks and special economic zones (SEZ) institutes when the new administration takes over.

PEZA said in a statement that various private universities are interested in setting up KIST parks geared towards upgrading the know-how of the future workforce.

The country's first KIST Park was set up in Batangas State University, which was designated a PEZA-registered SEZ under Proclamation No. 947 signed by outgoing President Rodrigo R. Duterte on May 22, 2020.

"De La Salle University, Don Mariano Marcos State University, and the University of Perpetual Help are among the private universities proclaimed and will soon start their operations as KIST parks. Meanwhile, Catanduanes State University was approved by the PEZA Board as a KIST Park in October 2021 and is currently awaiting its Presidential Proclamation," PEZA said in a statement on Wednesday.

According to PEZA Director General Charito B. Plaza, "The goal of KIST parks is to leverage engineering and other much-needed courses required by various industries. It means we facilitate or ensure that the skills and jobs needed by industries are matched to those offered by the academe."

"KIST parks will enable universities to partner with foreign universities (and) attract foreign students (to) make the Philippines not just an investment destination but also as an education hub of Asia," she added. — **Revin Mikhael D. Ochave**

BPOs call for legislation spelling out freedom of choice on IPA registration

THE IT and Business Process Association of the Philippines (IBPAP) said that economic zone locators should be given the freedom to choose which investment promotion agency (IPA) to register with, calling the process of switching to another IPA onerous.

IBPAP President Jack Madrid said in a statement on Wednesday that the industry, also known as the business process outsourcing (BPO) industry, wants this freedom to be spelled out in legislation in order to avoid situations where transfers to another IPA are required, disrupting business operations.

Mr. Madrid said where to register is a complex decision that will be influenced by an individual company's business goals, priorities, and investment criteria.

"While incentives have been made uniform across the different IPAs… the policies that govern the administration and supervision of registered enterprises among IPAs are not uniform and transfers of registration from one IPA to another may not be as easy," Mr. Madrid said.

He was addressing proposals to make the industry register exclusively with the Board of Investments (BoI), in order to introduce flexibility in the regulation of such companies by allowing one IPA to diverge from the provisions of the law governing tax incentives, the Corporate Recovery and Tax Incentives for Enterprises (CREATE) Act.

He added that the adoption of hybrid work over the long term can be better addressed by the amendment of Section 309 of CREATE.

The industry has been in a standoff with incentive-granting agencies over remote work arrangements, which were adopted as a temporary measure during the pandemic but not extended this year. Economic zone locators are required to perform 100% of their work onsite or risk losing their tax incentives.

"If mass transfer of registration from one IPA to another is mandated, RBEs will be subjected to an arduous task that not everybody may be willing to take for the time being and under the present circumstances. This appears contrary to the ease of doing business principles that the government has been trying so hard to establish," he added.

Philippine Economic Zone Authority (PEZA) Director-General Charito B. Plaza said she supports freedom of choice on IPAs.

She was responding to a recent proposal from Albay Rep. Jose Ma. Clemente S. Salceda to make the BoI specialize in registering information technology and business process outsourcing (IT-BPO) companies.

Ms. Plaza said investors must be given the "freedom to choose which IPA (they) would want to register and be (transparent about) the benefits or considerations of registering with a specific IPA."

According to Mr. Salceda, IT-BPO firms need to transition to a more flexible system of enhanced deductions, whether they are classified as exporters or registered domestic enterprises.

"The proposal to let IT-BPO companies transfer from the PEZA to BoI is misleading because, under the CREATE Law, all IPAs now have the same incentives to offer to investors and locators both as exporters or domestic-market registered business enterprises (RBEs)," Ms. Plaza said.

Ms. Plaza said that concerns about work-from-home arrangements should not be used as a pretext for IT-BPOs to transfer to other IPAs.

The government recently required registered IT-BPOs operating in economic zones to return to 100% on-site work or risk losing their tax incentives. — **Revin Mikhael D. Ochave**

OPINION

Simplifying tax administration

TAXWISE OR OTHERWISE

SAMANTHA JOY H. ORETA

Today, a new administration takes over, inheriting an economy still feeling the effects of the pandemic. One of its pressing tasks is to find new ways for the economy to recover. The outgoing Finance Secretary has proposed to press on with various tax reform packages, which he billed as our best option if the new government is to continue spending to sustain recovery and spark growth. These reforms include the expansion of the VAT base, the imposition of VAT on digital service providers, passage of the Passive Income and Financial Intermediary Taxation bill, taxing cryptocurrencies, and the establishment of a carbon tax. Overall, the message seems to be to keep government in a position to revive the economy through taxation.

This may be achieved not just with new taxes or restricting tax exemptions, but by improving tax administration, such as through the encouragement of greater tax compliance. Such is expected from the proposed Ease of Paying Taxes Act.

The proposed law focuses on safeguarding the rights and welfare of taxpayers and improving the efficiency and effectiveness of tax administration.

Specifically, it proposes to establish special units to cater to all classes of taxpayers, including the small and medium category, while simplifying tax returns and processes for small taxpayers. Some of the specific proposals for achieving these goals are:

• Remove restrictions on the venue for tax return filing and payment, remove annual registration fees, and relax the rules on business style in invoicing;

• Allowing the payment of taxes even before filing the tax return;

• Simplify VAT tax administration of VAT by removing the difference in the time of reporting the tax and the document supporting local transactions;

• Set criteria for adjusting the VAT exemption threshold; and

• Establish a taxpayer's advocate office.

Some consider these measures as long overdue. But no matter how late, they will be welcomed by taxpayers. Specifically, they will welcome the simplification of the rules on time of VAT reporting and documentation.

Currently, the time of VAT reporting depends on the type of transaction. For sale of goods, VAT is reported upon consummation of the sale, as reflected in an invoice. On the other hand, VAT on the sale of services is reported upon payment, supported by an official receipt.

This rule has caused a lot of confusion among taxpayers. The proposed reforms will require taxpayers to monitor only the timing of the consummation of the sale, accompanied by one supporting document (the invoice) for any type of transaction.

The other changes are also much needed, as they ease the process of tax filing and payment and will help generate more revenue as compliance improves.

Having a taxpayer's advocate office will also help ensure the protection of taxpayers' fundamental rights.

Since the proposed bill is still being legislated, I am hoping there might still be room to cover other opportunities for efficiency by addressing some common sources of non-compliance.

TIME OF WITHHOLDING TAX

Under current rules, the obligation to withhold tax arises under the following scenarios, whichever comes first: a) when the expense is paid, b) when it becomes payable, or c) when it is accrued/recorded as an asset or expense in the books. One of the most common compliance issues is the failure to pay withholding tax upon accrual. It is difficult for taxpayers to comply, especially for those transactions incurred at year-end, because the exact amounts may not yet be known. However, since these are incurred expenses, they must be recorded for accounting purposes.

Except for over-withholding of compensation tax, offsetting of over- or under- withholding of tax across different periods is not allowed. Thus, withholding the tax based only on reasonable estimates could result in penalties in case of under-withholding, and money getting tied up in case of over-withholding since recovering through a tax refund is a tedious process. Thus, taxpayers generally forego this option.

This results in situations where taxpayers may be willing to comply but are discouraged because of the difficulty in implementing tax processes. My view is to set only one period for withholding tax, which should be upon payment, since the amounts are already in place and it is easier to monitor and check, not just for taxpayers but likewise for the BIR. It would also be a more accurate way of applying the withholding tax as it should be "withheld," not paid in advance by the payor.

WITHHOLDING TAX POLICY ON BUSINESS EXPENSES

Certain types of business expenses are subject to withholding tax. As evidence of tax withheld, the buyer must issue a creditable withholding tax (CWT) certificate. In the case of those considered large taxpayers or top withholding agents, almost all of their expenses are subject to withholding tax. However, most taxpayers cannot comply with this requirement for those expenses initially paid by employees because some are relatively small amounts, thus making it impractical to withhold tax. Also, most sellers that use point of sale or POS machines have no capability to reflect the tax withheld by buyers, much less to accept CWTs instead of cash. My suggestion is for the BIR to set a reasonable threshold amount for withholding tax to apply.

Crucial in a society's development are well-crafted policies diligently observed to maintain order and harmony. Many factors, however, cause taxpayers to be noncompliant, including instances when they think they will not get caught. Even corporations with strict governance systems likewise experience difficulty implementing processes to fully comply with tax requirements because of the complicated, confusing, and inefficient tax policies.

I hope our tax legislation and processes continue on this trajectory of taxpayer-friendly amendments or improvements that will help the Philippines generate more revenue without imposing additional burdens on taxpayers. In today's uncertain times, the government must achieve its financial goals to enable expenditure and ensure economic recovery. The last thing we want is complex rules that punish those that attempt to comply and in turn encourage circumvention of the tax rules, leading to the non-payment of correct taxes.

The views or opinions expressed 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.

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