House plenary urged to raise threshold for VAT on digital transactions

THE threshold for requiring digital service providers (DSPs) to charge value-added tax (VAT) needs to be raised to P5 million in gross sales or receipts, from P3 million as specified in a measure currently undergoing plenary debate, a legislator said.

Samar Rep. Paul R. Daza said in a statement on Wednesday that he approved in principle of making DSPs collect VAT, but cited the need "to protect SMEs (small and medium enterprises) and other small players."

According to his statement, he also told the plenary session debating House Bill No. 4122 on Monday that "VAT, a consumption-based tax, is not always good for the economy."

"The intention is certainly good as we indeed need to impose VAT on big companies such as non-resident DSPs," he added.

He said as a matter of policy, he prefers getting foreign DSPs to establish a presence in the Philippine, where their earnings can be directly taxed.

The bill is part of a broader effort to find new sources of government revenue to fund pandemic recovery efforts. — **Kyanna Angela Bulan**

Under-construction generating facilities still mostly coal-fired

COAL FACILITIES made up just over half of power plants under construction in the 2022-2027 period, the Department of Energy (DoE) said.

The capacity of plants being built, which the DoE calls "committed power projects," amounted as of July to 8,864.29 megawatts (MW), with coal facilities accounting for 50.63% or 4,488.40 MW. The commitments refer to those facilities that have secured financing.

Natural gas accounted for 38.48% or 3,500 MW; renewable energy (RE) 9.41% or 834.14 MW; and oil-fired plants 0.47% or 41.75 MW.

Capacity from committed battery energy storage system projects is expected to hit 2,129.13 MW by 2027, according to the DoE.

Among indicative projects, or those not yet at the financial milestone, renewables dominated the projected capacity of 43,884.56 MW.

RE accounted for 35,441.36 MW, followed by natural gas (6,588 MW); coal-fired (1,520 MW) and oil-fired (335.30 MW).

Indicative RE projects in Luzon had combined capacity of 30,088.55 MW; the Visayas 4,394.86 MW and Mindanao 957.95 MW.

In 2021, the Philippines had a total grid generating capacity of 26,882 MW while off-grid installed generating capacity was 636 MW, according to DoE's accomplishment report for that year. — **Ashley Erika O. Jose**

NGCP 'in discussions' with DoE to ensure adequate power supply

THE National Grid Corp. of the Philippines (NGCP) said it is in talks with the Department of Energy (DoE) to ensure sufficient power, after it declared red and yellow alerts on the Luzon grid on Monday.

"The NGCP is in discussion with DoE to work together to assure that we have enough supply of energy," NGCP President Anthony L. Almeda said during a Senate energy committee hearing.

Mr. Almeda gave no details. The NGCP is required to have access to a certain level of contracted power reserves should its baseload providers fail to supply adequate electricity. These reserves are known as ancillary services (AS).

AS contracts are entered into on a firm or non-firm basis. Firm contracts command a premium because they are considered more certain to deliver should the need arise, but the NGCP incurs costs to enter into both types of contracts.

The company has found itself in disputes with regulators over what level of reserves will ensure sufficient power in case major generating facilities come offline unexpectedly.

On Monday, the NGCP placed the Luzon grid under red and yellow alerts following forced outages at seven power plants, while three power plants were operating at diminished capacity.

The Energy Regulatory Commission (ERC) said in a separate advisory that it will investigate the NGCP's actions in the wake of the loss of the power plants' output.

"The ERC will look into the cause of the tripping and the actions taken by the NGCP… including the reasons why the generating units were not able to get back online with the restoration of the transmission line," the ERC said in an advisory posted on Facebook.

Senator Rafael T. Tulfo, chairman of the Senate energy committee, said the DoE needs to streamline the permit process for energy projects by making more use of the energy virtual one-stop shop (EVOSS).

"To facilitate the urgency of the processes there is a need to create an inter-agency council, to coordinate and monitor each agency's task," Mr. Tulfo said.

Mr. Tulfo said that EVOSS, as a coordinating entity, should help resolve any bottlenecks in augmenting supply. — **Ashley Erika O. Jose**

Fish aggregating devices tapped to help fisherfolk manage costs

THE Bureau of Fisheries and Aquatic Resources (BFAR) is planning to distribute fish aggregating devices (FADs) to help fisherfolk maximize output without raising production costs.

FADs "attract high-value fish species (and) also provide fishers with a precise fishing area, effectively cutting down production costs including fuel consumption," the BFAR said.

The BFAR said it hopes FADs will help ensure an ample supply of fish on the market and keep prices of fish stable.

The agency said it is also upgrading the National Fish Broodstock Development Program to include high-value marine species such as snapper, pompano, grouper, and sea bass.

"Through this program, more Filipino fisherfolk will be able to locally source quality fry or fingerlings at an affordable rate," it added.

Inflation for fish and other seafood slowed to 7.2% in August from 9.2% in July, according to the Philippine Statistics Authority.

"Among the factors attributed to its decline is the decrease in the prices of oil, a commodity which the fisheries sector, especially capture fisheries, is generally dependent on. With the price of oil gradually decreasing, more fishers were able to venture out to the sea to fish," the BFAR added. — **Luisa Maria Jacinta C. Jocson**

Peso bond market growth slows in Q2

THE growth of the peso bond market slowed to 2.4% from a quarter earlier to P10.68 billion in the three months to June, following reflecting a corresponding slowdown in government and corporate bond issues, the Asian Development Bank (ADB) said.

According to the September issue of the ADB's Asia Bond Monitor, growth in bond issues slowed from 6.5% in the first quarter.

Growth in the rest of the region's bond markets was 8.1% for Vietnam, 3.5% for China, and 3% Singapore. Philippine growth was ahead of those for Malaysia (2.3%), Hong Kong (2.1%), South Korea (1%), Thailand (0.7%), Indonesia (0.3%), and Japan (-0.7%).

The year-on-year growth rate for peso bonds in the second quarter was 14.2%.

The peso market consisted of 86.83% in government securities and 13.18% in corporate issuances.

Outstanding government issuances totaled P9.27 trillion as of the second quarter, up 4.1% quarter on quarter and 18.4% year on year. The former represents a slowdown from the 6.5% recorded in the previous quarter.

"The slower growth stemmed from a contraction in the stock of Treasury bills and a slower expansion in the stock of Treasury bonds. On the other hand, growth in the central bank bond stock moderated, while the stock of other government bonds posted strong growth during the review period," the ADB said.

Treasury bill (T-bill) issues declined 17.1% to P544 billion as of June from the previous quarter and by 46.8% from the previous year, amid a rise in short-term interest rates.

Meanwhile, outstanding Treasury bonds (T-bonds) grew 3.9% quarter on quarter and 27.7% year on year to P8.11 trillion at the end of June "due to a relatively high base in the previous quarter as the Philippine government had issued Retail Treasury Bonds amounting to P457.8 billion in March."

Outstanding bills issued by the central bank totaled P567 billion, up 38.3% from a quarter earlier and up 41.8% from a year earlier.

This was attributed to efforts by the Bangko Sentral ng Pilipinas (BSP) to mop up excess liquidity to curb inflationary pressures. Inflation was at 6.1% in June, above the BSP's 2-4% target band.

Meanwhile, corporate bonds outstanding declined 7.1% quarter on quarter to P1.41 trillion and 7.2% from a year earlier.

According to the ADB, this was due to higher borrowing costs, as well as "uncertainties in the Philippine economic outlook and policy direction."

The second quarter includes May, when the national elections were held and market participants likely paused to gain more clarity on the direction of the new government.

The local currency bond market in emerging East Asia expanded 3.1% quarter on quarter and 14% year on year to $22.91 trillion as of June.

The ADB said bond yields in the Philippines and in emerging East Asia region have been fluctuating according to the monetary authorities' rate adjustments in reaction to inflation.

Yields for peso government bonds flattened between June 15 and Aug. 15, the ADB reported, citing higher yields on the short end of the curve and declines for longer-dated securities.

"Market optimism over a milder US Federal Reserve tightening supported a modest improvement in financial conditions. But this seems to have been short-lived, as the Fed has been pretty clear in recent weeks that further interest rate hikes are likely," ADB Chief Economist Albert Park was quoted as saying.

Fed Chairman Jerome H. Powell last week said the US central bank is "strongly committed" to fighting inflation and needs to continue acting aggressively to bring prices down.

The Fed will meet to review policy on Sept. 20-21, with markets expecting another aggressive hike. It has raised rates by 225 basis points (bps) so far since March, including back-to-back 75-bp hikes in June and July.

The BSP is also in the middle of tightening its policy settings to rein in inflation and has raised benchmark rates by 175 bps since May, including an off-cycle rate hike of 75 bps in July.

The Monetary Board's next meeting is on Sept. 22.

BSP Governor Felipe M. Medalla has said the central bank may need to respond if the Fed remains hawkish, as spillover effects on the market, especially the peso, could affect inflation.

The ADB also cited other risks that might dampen the investor outlook, such as persistent inflation, the lingering impact of the coronavirus disease 2019 (COVID-19) pandemic, a slowdown in China, and the outcome of the Russia-Ukraine conflict. — **Diego Gabriel C. Robles**

CARP seen unsustainable without support services

AGRARIAN REFORM beneficiaries (ARBs) need support services to sustain them and keep them productive after they have been awarded land, a senior legislator said.

"The Comprehensive Agrarian Reform Program (CARP) without adequate support services and with limited capital or entrepreneurship among farmer-beneficiaries, is shown to have reduced agricultural productivity in CARP lands by as much as 34.1%," Albay Rep. Jose Ma. Clemente S. Salceda said at a hearing of the committee on agrarian reform on Wednesday.

Mr. Salceda said the agriculture industry foregoes about P418 billion a year in gross value added due to the absence of support, access to capital, and capacity among ARBs under CARP.

On Tuesday, President Ferdinand R. Marcos, Jr. signed an executive order imposing a one-year moratorium on payments of amortization and interest on loans to ARBS.

Mr. Salceda said condonation of ARB debt could result in an increase in productivity of between 23.8% and 38.3%, as land is allocated more efficiently and more interventions to boost production become available.

He proposed the distribution of 52,000 hectares of public agricultural land that Mr. Marcos earlier promised to grant to landless farmers during his State of the Nation Address.

Mr. Salceda also called for the revival of the Samahang Nayon and Kilusang Bayan programs as authorized by Presidential Decree No. 175. — **Luisa Maria Jacinta C. Jocson**

OPINION

BIR audits: 'I am inevitable'

TAXWISE OR OTHERWISE
STEVEN LLOYD CO

Anyone who has watched the movie *Avengers: Endgame* will remember the villain Thanos saying, "I am inevitable." The whole idea for making this claim is to impress upon moviegoers that the villain will be near-impossible to stop, despite the heroes' best efforts.

Thanos came to mind when I read Revenue Memorandum Circular (RMC) No. 121-2022 issued on Aug. 22). The RMC is known as, "Guidelines on the Lifting of Suspension of Field Audit and Operations Pursuant to Revenue Memorandum Circular No. 77-2022." Like Thanos and inevitability, this RMC was effectively a warning to taxpayers that we should, yet again, hold on to our seats because what's to come will be unavoidable.

BRIEF RECAP OF RMC 77-2022

This RMC, issued on May 30, froze all field audits, field operations, or any form of business visitation in execution of Letters of Authority/Audit Notices (LoAs) or Mission Orders (MOs).

Additionally, no written orders to audit and/or investigate taxpayers' internal revenue tax liabilities are to be issued and/or served, except in the following cases:

1. Investigation of cases prescribing on or before Oct. 31, 2022;
2. Processing and verification of relevant tax returns on the sale of real property or shares of stock;
3. Examination and/or verification of internal revenue tax liabilities of taxpayers retiring from business; Audit of National Government Agencies (NGAs), Local Government Units (LGUs), and Government-Owned and -Controlled Corporations (GOCCs) including subsidiaries and affiliates; and
4. Other matters/concerns where deadlines have been imposed under the orders of the BIR Commissioner.

However, service of assessment notices, warrants, and seizure notices should still be effected.

While the RMC emphasized that the BIR may actually still issue assessment notices [e.g., Preliminary Assessment Notices (PAN), or Final Assessment Notices (FAN)] in relation to any ongoing audits, we clearly saw a significant decline in the overall conduct of audits by the BIR during this period. With BIR audits practically halted, taxpayers got more time to focus on other pressing matters or do more in-depth reconciliations of any assessed taxes.

BIR TARGET AND COLLECTION PERFORMANCE

In 2022, the revenue target for the BIR was around P2.39 trillion. In the cash operations report released by the Bureau of the Treasury, while the BIR's collection for the first half grew 9.76% from a year earlier, it fell short of the current year's targets by 2.77%. Although the shortfall seems small, the suspension of audits will inevitably add to the pressure on the BIR to make up in the second half of the year. Once the 3rd quarter collection report is released, we will have a clearer view of how potentially aggressive the BIR may become to achieve their target revenue for the year.

RMC 121-2022 — HOLD ON TO YOUR SEATS

After a 3-4 month hiatus, RMC No. 121-2022 provides guidelines on the lifting of the audit suspension. In the RMC, the suspension of field audits and other field operations on all outstanding LoAs/Audit Notices, and Letter Notices pursuant to RMC No. 77-2022 was lifted on a per Investigating Office basis, upon approval by the Commissioner of Internal Revenue (CIR) of the Memorandum Request from the authorized requesting official depending on the BIR office (e.g., RDO, LTAD).

Upon approval of the request, the Investigating Office may immediately resume field audits and other field operations on all outstanding LoAs/Audit Notices, and Letter Notices. However, no new LoAs, written orders to audit and/or investigate a taxpayer's internal revenue tax liabilities may be issued and/or served except: (1) in those cases enumerated under RMC No. 77-2022; and (2) in case of reissuance(s) due to change of revenue officer and/or group supervisor.

Since the request and approval to resume tax audits is done on a per Investigating Office basis, as of this writing, some RDOs have already resumed their field audit operations while some are still on hiatus. Nonetheless, given that it has already been a month since the issuance of RMC No. 121-2022, we can reasonably expect that what we thought has "passed" is indeed "inevitable."

It is also noteworthy to emphasize that unless the specific conditions under RMC No. 77-2022 are present, the BIR is still not allowed to serve LoAs for other taxable years not currently under audit/investigation. However, bear in mind that the service of new LoAs will eventually be lifted. Nonetheless, for now taxpayers will be able to focus on their ongoing tax audits, without the fear of additional new LoAs being potentially served by the BIR during this period.

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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