

Aircraft maintenance industry sees new airports driving growth

By Arjay L. Balinbin
Senior Reporter

THE government's plan to upgrade airports or build new ones is expected to open up opportunities for the aircraft maintenance, repair and overhaul (MRO) industry, Dornier Technology said.

"With the new airports being built, we expect airlines to grow their fleets even more, which means more demand as well for our base maintenance from domestic carriers," Dornier Technology Chief Operating Officer Joseph M. Espiritu told *BusinessWorld* in an e-mail interview.

A new international airport is being built in Bulacan, while Cavite province is currently preparing to start building Sangley international airport.

In his first address to Congress in July, President Ferdinand R. Marcos, Jr. said he hopes to provide a boost to the tourism industry.

"We will first and foremost make basic developments such as road improvements for easier access to tourism spots. We will also upgrade our airports and create more international airports to help decongest the bottleneck at the Manila airport," he said.

Dornier Technology expects to operate in 15 domestic locations by 2025, according to Mr. Espiritu.

The company currently operates in Clark, Manila, Cebu, Bohol, Kalibo, Caticlan, Iloilo, Puerto Princesa, and Davao.

"By the end of this year, we are targeting to add another line maintenance station to cater to the requirements of our domestic customers," Mr. Espiritu said.

"By 2025, we are targeting to operate in 15 domestic stations in collaboration with our partner Transnational Aviation Support Services," he added.

The demand for low-cost and all-in aircraft maintenance services solutions, he said, is at an "all-time high" as airlines look for ways to sustain their operations.

The company described its performance for the first half of the year as "almost comparable to 2021."

"Beginning of this year, we are very proud to announce that we did our first (Airbus) A320 C-check. And as of this writing, we are doing our second A320 C-check," Mr. Espiritu said, referring to an extensive scheduled maintenance inspection process that typically takes the aircraft out of service for several days.

"For line maintenance, we have reactivated our line stations in Bohol and Kalibo," he noted, adding that the company now also services three South Korean carriers: Jeju Air, Air Seoul, and Air Busan.

For the second half of the year, he said the company expects a further surge in MRO demand.

"Our projection is that we will end the year very strong, with demand for base maintenance slots increasing in preparation for the Christmas peak season," Mr. Espiritu said.

"Now that Dornier Technology has serviced most of the local airlines, we are gearing towards the global market by amplifying our capabilities and certifications to enable us to cater to clients outside the Philippines," he added.

Dornier Technology is positioning itself as a "center of excellence" for base maintenance of turboprop aircraft like the ATR family of aircraft, made by a joint venture between Airbus SE and Leonardo SpA; and the Dash-8 line, made by Dehavilland Aircraft of Canada Ltd.

It also has the capability to service narrow-body jets like the Airbus A320 and the Boeing 737.

"During the pandemic, our base maintenance was focused

on the ATR C-checks; but at the beginning of this year, we have started to do base maintenance for the Airbus A320," Mr. Espiritu said.

"We have two hangars in Clark, and we are looking at fully utilizing both hangars (operating a simultaneous line for both turboprop and narrow body)," he noted. "We will also expand our current hangar to add additional slots to our operations in Clark."

Regarding manpower shortages, rising labor costs, and a lack of experienced workers, he said: "We intensify our efforts for talent acquisition, retention (in terms of people engagement), and skills development."

"We are also proud to announce the establishment of Dornier Academy, which (will provide) a steady supply of technical talent and also support the talent needs of the industry through various training programs."

Airlines in the Philippines, Mr. Espiritu also noted, are bringing in newer and more technologically advanced aircraft. "Dornier considers the technological advancement as an opportunity rather than a challenge. Opportunity to further expand our capabilities to include the new generation aircraft."

Flexibility on WFH seen boding well for IT-BPM global competitiveness

FLEXIBLE work models and tax incentives will sustain the competitiveness of the information technology and business process management (IT-BPM) industry, keeping their regulation in line with other markets, according to Colliers Philippines, a commercial real estate consultancy.

"Colliers believes that stable fiscal policies, such as work-from-home (WFH) arrangements, must be established for the Philippines to fully (adapt) to global work trends and technological developments and to strengthen our competitiveness in retaining existing and attracting new IT-BPM locators," it said in a report on Friday.

It added that "the government's recognition that the flexible models of working are the way forward" can help the Philippine outsourcing industry stay on par with India, Brazil, Malaysia, and the US.

In the report, Colliers said the IT-BPM industry was the biggest driver of employment and foreign exchange revenue growth.

The industry posted a 9.1% increase in full-time employees to 1.44 million and a 10.6% increase in revenue to \$29.49 billion in 2021.

"The industry has been a major pillar of the economy as it continued to contribute new employment and export gains during the pandemic," Colliers said.

The Corporate Recovery and Tax Incentives for Enterprises Act requires that projects registered under Philippine Economic Zone Authority (PEZA) must operate physically within an economic zone to be eligible for tax incentives, a source of friction between the government and the industry, which wants more freedom in determining where employees can work.

During the pandemic, PEZA locators were allowed

to maintain a 70% on-site and 30% WFH arrangement until Sept. 12, without losing their tax incentives.

WFH arrangements were later extended until the end of 2022 after President Ferdinand R. Marcos, Jr.'s extended the period of state of calamity due to coronavirus disease in the Presidential Proclamation No. 57 series 2022.

Colliers said that many IT-BPM companies have been looking into transferring their registration from PEZA to the Board of Investments (BoI) to enjoy tax incentives without being bound by location restrictions.

To resolve the sector's tax incentive issue, the Fiscal Incentives Review Board allowed the transfer of IT-BPM registrations to the BoI.

"This development enables tax incentives to be continued after the transfer of registration from PEZA to BoI," Colliers said.

"Colliers believes that the continuity of incentives under both PEZA and BoI reaffirms the spirit of CREATE to equalize the incentives across the different investment promotion agencies and to retain tax incentives under a work-from-home or hybrid-work scheme," it said.

It added that this development minimizes disruptions like additional tax penalties and employee attrition for current locators.

"(This) will allow them to focus on growth plans now that the policy moving forward is certain," the firm said.

Colliers said: "Sustaining the Philippines' competitiveness in the IT-BPM landscape by accommodating flexible WFH arrangements will bode well for the country to become a strong investment destination and help the local IT-BPM industry achieve its growth targets." — **Mariedel Irish U. Catilogo**

Gov't urged to take lead in modernizing sugar industry

By Luisa Maria Jacinta C. Jocsan
Reporter

THE GOVERNMENT must take the initiative in modernizing sugar mills and providing assistance to sugar millers and farmers if it hopes to augment production and bring down prices, an agricultural analyst said.

"I still believe that mothballed sugar mills (should) be rehabilitated or new ones established around tracts of sugarcane land. Examples of these are in Central Luzon, Pampanga and Tarlac... modernizing sugar mills could be addressed by government and private sector investment," Roy S. Kempis, retired

Pampanga State Agricultural University professor, said via Viber.

"Then, balanced assistance for sugarcane farmers and sugar millers be pursued. They are mutually inclusive and complementary. One will exist if the other exists," he added.

Mr. Kempis added that the best support for sugar farmers is to ensure fair prices, which is set when they deliver their crop to sugar mills.

The government has had to deal with rising sugar prices amid a shortage of the commodity.

As of Sept. 9, the average price of refined sugar in wet markets had nearly doubled year on year to P97.36. The price of raw sugar rose to P72.64 from P43.36 in 2021.

Earlier this month, the Sugar Regulatory Administration issued Sugar Order (SO) No. 2, which authorized the import of 150,000 metric tons of refined sugar.

It had also issued SO No. 1, which allocated all sugar production this crop year for domestic use.

"With all of the local production now mandated for domestic use, I do not see the possibility of any further imports of sugar for the rest of the season," Mr. Kempis said.

In a statement, the Philippine Sugar Millers Association (PSMA) welcomed the inclusion of food processors and manufacturers in the Sugar Consultative Assembly (SCA) as this would broaden representation within the body.

"The SCA is a forum where the SRA consults the industry on its pro-

grams and projects particularly those under Sugarcane Industry Development Act (SIDA). It is made up of various groups in the sugar industry such as farmers, millers, refiners, sugar workers, block farm representatives and traders. Industrial consumers and local food processors and manufacturers should be part of the council. We shall ask the SRA to include them in the SCA" PSMA Executive Director Jesus L. Barrera said.

"As for high local sugar prices on food exports, food processors/exporters can import sugar tariff-free for as long as the sugar shall be strictly used as raw material for sugar-based products for export and not for sale to the domestic market," he added.

OPINION

Risk vs reward: Are VAT refunds worth it?

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in a denial, or worse, may trigger in the issuance of a letter of authority to formalize an assessment.

The preparation alone can be daunting. Companies will usually designate a point person or team, typically within the finance or tax function, to retrieve records, sort them out, and prepare corresponding schedules in a timebound manner. The investment in time and effort will be significant, particularly if the same person or team also needs to handle equally important day-to-day functions while preparing the application.

Filing the claim is an experience in itself. For reasons attributable to delayed preparation, companies almost always find themselves filing claims at or near the deadline. Often, the stress of rushing to the BIR for a routine "checklisting" prior to being stamped "received" can be a struggle, especially when the claim is refused acceptance for being incomplete. Time management and planning are crucial, although often, this just adds to the pressure of preparation.

The difficult part is not even in the filing, but in the monitoring. After filing, the company, through its point person or team, needs to monitor the BIR's review process, and this is possible only by way of effective coordination with the assigned BIR examiners and reviewers. From experience, the BIR can pose questions around the claim, which the company needs to quickly address or risk summary denial of the application. Questions can vary from legal basis to additional documentary support. By

law, refunds are strictly construed against the taxpayer, and with this, the importance of addressing questions that cast doubt on the claim's validity cannot be over emphasized.

The VAT refund process is time-consuming and requires significant expense and effort — with no guarantee of return. Because of this, decision makers often have to make a tough choice between pursuing or forgoing their claims.

In this situation, determining the best option for the company is never easy. Some would attempt to identify and quantify the possible risks, and then proceed to assess whether the possible grant of claim is adequate to compensate. Striking a balance between risk and reward, therefore, becomes vital particularly when the risks are outweighed by the rewards. However, the real issue lies in defining what "reward" really means. Is it simply the refundable amount, or can it be some other potential that can be unlocked in the process?

In one of the breakout sessions in the recently concluded 1st SGV Tax Symposium held on Aug. 19, one of our authors delivered a presentation, "Balancing Risks and Rewards in VAT Refund Claims." The main goal of the session was to get the message across that companies need to consider the balance of risk and reward, where risks are lowered by means of active preparation, and rewards are increased as a necessary consequence of the exercise. The rewards take the form of a grant or a seal of overall tax compliance.

LOWERING THE RISKS

Active preparation is very critical to the success of any VAT refund claim. In an ideal world, companies should strive to be proactively VAT refund-ready at all times. This can be done by developing and maintaining a well-organized re-

cord-retention system where relevant documents can be quickly and easily retrieved for package preparation. They can also conduct internal reviews to examine current levels of compliance and try to improve them by way of process improvement and suggested remediation. This exercise, incidentally, helps companies identify issues, giving them a preview of the actual refund process, and an opportunity to simulate and strategize for better ways to address issues raised in the process.

To ease the burdens and demands required by the refund process on the persons tasked with preparation, companies can also explore outsourcing the task to tax experts who specialize in handling claims. The outsourced tasks are usually designed to be end-to-end to cover internal review, preparation of the refund package, filing, and monitoring. Having the guidance of tax experts also helps keep internal teams abreast of relevant laws, rules and regulations, and the current position of the BIR on certain issues. The interaction with tax experts inevitably leads to an overall improvement in internal teams, an investment in resources that lowers the companies' risks over time.

INCREASING THE REWARDS

It must be stressed that choosing to lower the risks by active preparation already tilts the balance in favor of successful refunds. By being VAT refund-ready, companies are likely able to resolve potential issues even before they ripen into real ones during the BIR's review. Companies also get a better shot at presenting a complete set of documents and attending to inquiries that may be raised during the review. While companies envision the refund as the instant reward, they should also recognize that improved overall tax compliance will

redound to more value for the company in the long term.

THE FUTURE OF VAT REFUNDS

The BIR is already actively promoting the implementation of its digital transformation program through its new Electronic Invoicing System (EIS). With digitalization, stakeholders can look forward to a simplified VAT refund process, hopefully doing away with the need to submit voluminous hard copies of invoices and official receipts. The potential for a simplified process should make refunds more attractive to taxpayers. Digitalization is a change in process enabled by technology. It can be a complementary solution to easing the usual refund concerns relating to proper substantiation and adequate presentation.

The recent granting by the BIR of VAT refund claims is certainly encouraging news and tax experts hope that it is a precursor of more refunds to come. Yet, while encouraging, this does not change the fact that the BIR will continue to adhere to the strict review guidelines required by law. More than ever, companies that intend to file refund claims should ensure that they are VAT-refund ready at all times, both to improve their chances as well as enhance their level of tax compliance. After all, as Benjamin Franklin once said, "failing to prepare is preparing to fail."

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