OPINION

Working from home, fiscal incentives, and transferring from PEZA to the BoI

At the onset of the COVID 19-pandemic, working from home (WFH) was a temporary solution for businesses trying to survive. This setup was not widely used in the Philippines prior to the crisis, and many business entities grappled with how to continue operations with the whole world on lockdown. At the height of the lockdowns, the government, for safety reasons, allowed companies to adopt WFH, while still enjoying the tax incentives that they had been granted on the condition that they operate within economic zones.

While WFH raised various issues like the blurring of boundaries between work and home, this arrangement has apparently become the norm. People are starting to get the hang of WFH. Remaining unresolved is whether WFH can be permanently adopted by Information Technology (IT) companies that are registered business enterprises (RBEs) regulated by the Philippine Economic Zone Authority (PEZA).

LET'S TALK TAX
GEMMALU O. MOLLENO-PLACIDO

Per MC No. 2021-049, in relation to Fiscal Incentives Review Board (FIRB) Resolution No. 19-2021, PEZA initially allowed IT RBEs to operate outside the economic zone on the condition that only up to 90% of the employees work from home between Sept. 13, 2021 and Dec. 31, 2021. This ratio fell to 75% between Jan. 1 and March 31. PEZA subsequently asked the FIRB to exempt its RBEs from the 90% WFH cap. The FIRB rejected this request in Resolution No. 23-21, noting the need for expanded onsite work in conformity with the government's plan to gradually and safely open the economy.

On March 10, PEZA issued MC No. 2022-018 informing all IT RBEs that the FIRB denied the request to extend the work-from-home arrangement beyond March 31. MC No. 2022-018 cited Section 309 of the National Internal Revenue Code (NIRC) as amended by the Corporate Recovery and Tax Incentives for Enterprises (CREATE) Law, which it deems to be in force as of April 1. Section 309 essentially provides that a qualified registered project or activity under an Investment Promotion Agency (IPA) administering an economic zone or freeport must be conducted within that zone to avail of incentives.

Once again, IT RBEs grappled to comply, weighing the penalties for violating the conditions laid down in the MCs. Many investors worried about getting to 100% onsite work. Feedback from the business community indicates that many employees prefer the convenience of WFH. Executives at IT RBEs started to weigh the advantages and disadvantages of maintaining RBE status vis-à-vis the risk of losing employees to companies with permanent WFH arrangements.

Subsequently, on April 6, PEZA issued Board Resolution (BR) No. 22-052, allowing all kinds of RBEs to adopt WFH arrangements for up to 30% of their workforce. Thereafter, the FIRB issued Resolution No. 17-2022 recognizing the contribution of the IT-BPM (Business Process Management) sector as a key employment generator, and that the adoption of WFH in that industry has contributed to the creation and preservation of jobs during the pandemic. In the same Resolution, the FIRB said that as a temporary measure under Rule 23 of the CREATE Act IRR, RBEs of the IT-BPM industry are allowed to continue implementing WFH arrangements without adversely affecting their fiscal incentives under the CREATE Act between April 1 and Sept. 12. Per FIRB Advisory 007-2022, the 30% WFH cap was provisionally extended.

And yet, many IT RBEs are still considering the possibility of deregistering from PEZA. The possible transfer of certain IT RBEs from PEZA to the Board of Investments (BoI) has been explored for some time. The BoI is an incentive-granting IPA but is not restricted by a particular zone or geographical boundaries. Hence, when investors explore setting up companies, the BoI option has opened up as a possibility. On the other hand, PEZA IT RBEs are considering the transfer to the BoI even in the absence of guidelines on how to execute such a transfer without adversely affecting incentives.

Recently, Finance Secretary Benjamin E. Diokno announced that with the FIRB seeking a more permanent solution to the WFH dispute, IT-BPM enterprises will be allowed to continue availing of fiscal incentives without violating Section 309 of the NIRC as amended. Many will certainly be expecting the FIRB to formulate clear guidelines to facilitate the smooth transition of IT RBEs which intend to transfer their registration from PEZA to the BoI. Needless to say, clarity in the guidelines will help resolve the concerns of both existing and potential investors in making business decisions that would ultimately affect the Philippine economy.

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Napocor clearance to borrow seen facilitating off-grid PPPs

THE National Power Corp. (Napocor) is authorized to debt-finance its missionary electrification program, including the cost of diesel, which has been rising due to the global fuel crisis, the Energy department said on Monday, citing a legal opinion from the Justice department.

The authorization to resort to debt financing is also expected to facilitate the establishment of renewable energy facilities in remote areas and island-wide transmission in major off-grid islands through public-private partnerships (PPPs), Energy Secretary Raphael P.M. Lotilla said.

In a statement, Mr. Lotilla said that the Department of Justice (DoJ) opinion allows Napocor to tap financing other than the Universal Charge for Missionary Electrification (UCME) to electrify off-grid areas.

"The favorable opinion will allow the NPC to establish a credit line with banks that would enable it to manage the fuel price increase that has significantly affected the NPC's financial position. The funds sourced from the UCME are not sufficient to support NPC's current operation," Mr. Lotilla said.

Napocor's mandate in Republic Act 9136 or Electric Power Industry Reform Act of 2001 (EPIRA) is to provide power to so-called "missionary" markets which are off-grid, or not connected to the transmission system.

Napocor manages the transmission systems of Palawan, Masbate, Marinduque, Catanduanes, and Oriental and Occidental Mindoro.

Under EPIRA, UCME is collected from on-grid electricity end-users to fund Napocor's missionary electrification programs and projects. As of Aug. 30, the UCME rate is P0.1800 per kilowatt hour.

"The oversight agencies in the NPC Board led by the Secretary of Finance as Board Chairman and the DBM and the NEDA as members (means that) the necessary controls are now in place under the EPIRA for the judicious use of the power to contract loans," he said.

On Sept. 1, Mr. Lotilla said at a budget briefing for the House Committee on Appropriations that the DoE is seeking authority for Napocor to take on credit lines from banks.

"Right now, it (Napocor) cannot even avail of that because of the DoJ opinion issued in the past. We will try to remedy all of those because as an operating corporation, you cannot do without a credit line at all," Mr. Lotilla said. — **Ashley Erika O. Jose**

PHL pitches US investors on worker upskilling, infrastructure

THE PHILIPPINES explored possible US investment in worker training and infrastructure projects on the sidelines of the United Nations appearance of President Ferdinand R. Marcos, Jr., the Department of Trade and Industry (DTI) said.

In a statement on Monday, the DTI said these were the agreed-on areas of possible collaboration with US companies when members of the Cabinet traveled to New York for the UN General Assembly.

The DTI said US companies consider the Philippines' young and trainable workforce to be a key attraction.

"Focusing on the Philippine priority industry clusters — industrial, manufacturing, and transport cluster; and technology, media, and telecommunication cluster, the President held roundtable and one-on-one meetings with US companies with a major presence in the Philippines and/or with future expansion plans in the country," the DTI said.

Mr. Marcos urged US firms to consider the Philippines as a "valuable contributor" to their global growth and as a partner in the economic recovery of the two countries.

He touted policy reforms and economic liberalization laws that allow the easier entry of foreign capital. These laws include amendments to the Retail Trade Liberalization Act, the Foreign Investment Act, and the Public Service Act.

US companies with operations in the Philippines include Texas Instruments, Moog, Inc., FedEx Corp., Concentrix, JP Morgan Global Service Center, and IBM Corp.

Bilateral trade with the US was $19.6 billion in 2021, according to the DTI. — **Revin Mikhael D. Ochave**

ADB cites risk of capital flight in developing world after Fed hikes

CAPITAL FLIGHT is one of the risks developing Asia must confront as interest rates rise and economic outlooks turn cloudy, the President of the Asian Development Bank (ADB) said to open the bank's 55th annual meeting on Monday.

"I am afraid the risk will continue for abrupt capital outflow and/or strong currency depreciation due to the very aggressive monetary policy tightening, especially by the Federal Reserve," Masatsugu Asakawa said.

"A number of central banks in this region have already started to raise policy interest rates to quell inflation pressure, which would add additional constraints on economic growth prospects of this region," he added. "(An) indirect impact includes the deterioration of market sentiment which would depress consumers', producers', and investors' confidence."

Philippine economists downplayed the specific risk to the country, noting that the Philippines remains an attractive investment destination due to strong fundamentals and a well-regarded central bank.

Market volatility is a global phenomenon, Rizal Commercial Banking Corp. Chief Economist Michael L. Ricafort said.

"Price declines in the global stock market and bond markets are affecting most countries around the world," he added in a Viber message. "The US dollar has become the safe haven of these global stock market and bond market sell-offs, as the US currency also became more attractive with higher interest rates (or) bond yield income especially compared to other developed countries."

Asian Institute of Management Economist John Paolo R. Rivera said investing in the Philippines remains a matter of risk appetite.

"Because dollars have greater purchasing power than pesos… those who have the appetite to take on risk in the Philippines may still choose to invest," he said in a Viber message.

"It's a matter of preference and perception of the investment climate," he added, noting however that foreign investors do tend to be biased towards countries that offer lower borrowing costs.

Both economists said the Philippines remains an attractive investment destination.

"Economic and credit fundamentals, as well as the demographics of more than 110 million, with a relatively young average age of 25, are still compelling for foreign investors as a source of business growth," Mr. Ricafort said.

Mr. Ricafort also views the steadiness of the sovereign credit ratings at investment-grade level as a positive sign.

"With stable credit ratings and a high central bank visibility in policymaking, I think (it still makes sense) to invest in the Philippines," Mr. Rivera added.

The BSP increased its benchmark interest rates by 50 basis points (bps) to 4.25% on Thursday, bringing the total increase in rates since May to 225 bps.

The Fed raised policy rates by another 75 bps last week while signaling larger increases to counter inflation. It has raised key rates by 300 bps since March, including two other 75-bp moves in June and July.

The peso has weakened by 14.71% this year after closing 2021 at P51 against the dollar. It closed at an all-time low of P58.50 on Friday.

"I believe this is just a phase… What's going on is expected especially when you open the economy after years of lockdown. Everything will settle down soon. It's called a business cycle," Mr. Rivera said.

"I think we should really enhance our regional financial cooperation," Mr. Asakawa said. "It is always better to be vigilant against… capital movement and try to enhance our financial cooperation in the region, including that of ASEAN + 3 (Association of Southeast Asian Nations + 3)."

On Friday, National Economic and Development Authority Undersecretary Rosemarie G. Edillon said market fundamentals will ultimately prevail.

"In a very short term, when you have all these monetary policy changes, it's actually the flighty capital that moves and that determines your short-term currency exchange rates. But over the medium-term, it would still be a matter of fundamentals," she said at a briefing.

"So, the most robust strategy is to strengthen our domestic economy… We just hope that that transition will be very quick, and that pretty soon they would realize 'we should be looking at fundamentals,' and we will be ready for that."

At the ADB meeting, Mr. Asakawa said tax policy can also be harnessed to meet Sustainable Development Goals (SDG), particularly in relation to environmental protection and climate change.

"Tax policy is good policy, not only to increase tax revenue in general but to achieve each of the development agendas laid out by the SDGs," he said. "It might be a feasible policy option to rely on carbon tax, environmental tax to address the climate change issue."

While countries like the Philippines are the ADB's partners in initiatives such as the Energy Transition Mechanism (ETM) project, Mr. Asakawa said that countries cannot just rely on loans and grants for their climate response.

The Department of Finance has floated a possible carbon tax as a means of raising more revenue for climate pursuits, which a legislator dismissed as having a low probability of succeeding in Congress.

"That would be difficult to pass. Congress will not pass that," Albay Rep. Jose Ma. Clemente S. Salceda said at the Disaster and Climate Emergency Policy Forum on Thursday.

"If I tax carbon now, I'm taxing 55% of the sources of energy… and that (violates) the right to affordable energy," he said. "In simple language, we have a right to coal… Developing countries like us should not be deprived of affordable electricity."

Mr. Salceda said he prefers a shift to renewable energy to bring down energy prices.

Mr. Asakawa said that such transition is already being piloted in the Philippines and other Asian countries through the ETM, which is a blended financing scheme awarded via concessional grants.

"By utilizing the low-cost financing, any expected return from each coal-fired power plant could be achieved over a shorter time horizon. That is how ETM could let those existing coal-fired power plants retire early," Mr. Asakawa said. — **Diego Gabriel C. Robles**

DTI budget cut for MSMEs still open to augmentation

THE reduced P2.25-billion budget for the Department of Trade and Industry's (DTI) micro, small and medium enterprises (MSME) development program reflects the distribution of other forms of MSME support to various agencies, and leaves room for companies to step in with public-private partnership (PPP) projects, a legislator said during 2023 budget deliberations.

Pangasinan Rep. Christopher V.P. De Venecia, said the General Appropriations Bill contains small-business support programs across various agencies.

Mr. De Venecia, who was the lead legislator in evaluating the DTI budget, said MSME funding attributed to the DTI fell P1.23 billion compared with 2022, but added: "If you are to review (the budget proposal), then maybe (the budget cut) might not be that significant… (because) government-owned and -controlled corporations (GOCCs), as well as other agencies, also provide support for MSMEs," he added. "Each government agency actually implements programs that cater to MSMEs."

He said the DTI's budget request for the program was double the 2022 level, adding that the House is still free to augment funding levels as it sees fit.

Mr. De Venecia said the Departments of Science and Technology and Agriculture also have programs that support MSMEs.

"I believe that the package that is being provided for the MSMEs is actually bigger than what it seems in the DTI budget," Mr. De Venecia added.

Camarines Sur Rep. Gabriel H. Bordado noted that the revitalization of the MSMEs was a top administration priority, as cited by President Ferdinand R. Marcos, Jr. at the MSME Summit 2022.

Party-list Rep. Marissa P. Magsino expressed concern about the lack of funding to implement Republic Act 11904, or the Philippine Creative Industries Development Act.

Mr. De Venecia said the DTI initially proposed P1 billion to implement the law in the National Expenditure Program, leading Ms. Magsino to call for restoration of the funding. — **Kyanna Angela Bulan**

Wholesale goods prices, NCR construction retail prices surge

THE growth in wholesale prices of general goods rose to their highest level in more than a decade in June, driven by the food index, the Philippines Statistics Authority (PSA) said.

The general wholesale price index grew 9% year on year in June, against the 7.9% posted in May and the 2.2% reported a year earlier, according to preliminary data from the PSA.

This was the highest growth rate since the 9.1% posted in September 2011.

Of the eight commodity categories, four posted year-on-year growth in June, with food price growth up 11.4% from 8.8% in May. This was followed by beverages and tobacco (7.4% from 6.6%), mineral fuels, lubricants and related materials (59.9% from 57.5%), and manufactured goods classified chiefly by materials (8.8% from 7.9%). — **Mariedel Irish U. Catilogo**