Sugar producers seek price increase after storm

SUGAR PRODUCERS are lobbying the government to raise its price guidance for sugar sold by major supermarkets from the current P70 per kilogram (kg), to account for the crop damage inflicted by Severe Tropical Storm Paeng (International name: Nalgae).

United Sugar Producers Federation (UNIFED) President Manuel R. Lamata said in a statement that the association is asking President Ferdinand R. Marcos, Jr. to revise the agreement with the supermarkets to allow retail sales at between P85 and P90 per kg.

In August, Robinsons Supermarket, SM Supermarket, and Puregold agreed to sell sugar for P70/kg at the request of Mr. Marcos, who cited inflation concerns.

Mr. Lamata also asked Mr. Marcos to intervene to raise the millgate price. Sugar at millgate currently sells for about P2,900 per 50-kilogram (Lkg) bag.

"Our sugar farmers need help to recover from the damage caused by the recent typhoon that has inundated hundreds of sugar farms from north to south and the rest of the Visayas," Mr. Lamata said.

"Before Paeng, millgate prices were already going down but seeing the damage Paeng wrought, we need the immediate assistance from President Marcos to bring up the retail price until our farmers are able to recover," he added.

Mr. Lamata said even before the storm, sugar farmers were contending with high production costs.

"Fertilizer and fuel prices are still on the rise and compounded by Paeng's damage, our sugar farmers will have a hard time surviving," Mr. Lamata said.

The Sugar Regulatory Administration (SRA) has also announced that it will sell sugar at P70/kg in its offices at Quezon City and Bacolod City

According to the Agriculture department, as of Sunday afternoon crop damage as a result of Paeng was estimated at P285.28 million. — **Revin Mikhael D. Ochave**

PPP Center urges LGUs to be self-sufficient in project planning

By Luisa Maria Jacinta C. Jocson
Reporter

LOCAL GOVERNMENT units (LGUs) must develop the capacity to implement their own public-private partnerships (PPP), the head of the government's PPP agency said.

"LGUs are empowered to do PPPs but a lot are asking for help from our center, and we really want to rise to the challenge, but of course we have constraints. Looking at the trend, we may have difficulty meeting demand from LGUs," PPP Center of the Philippines Executive Director Cynthia C. Hernandez said in an interview on Oct. 27.

"What they need to have is the capacity to be able to (complete) the entire process of identifying, planning, and contracting PPP projects by themselves," she added.

Ms. Hernandez said LGUs mainly need to be able to plan projects and manage resources internally.

"The intent is that one day they can manage everything themselves. Their constraints are, for example, their planning horizon is only three years," she said, referring to the terms of municipal officials.

"If a project is good or financially viable, there's no reason why they couldn't (pursue it). If you have a good PPP project the private sector wants to take on, what's stopping you from pursuing the project?" she added.

There are currently 74 PPP projects in the pipeline worth P2.2 trillion, according to the PPP Center.

"In the first few years we should deploy those; any additions should also be well underway. That is the minimum," Ms. Hernandez added.

The PPP Center is also looking for ways to attract more institutional investors.

"We are looking for a means for institutional investors to be sort of asked to join the government equity end, maybe in partnership with the Government Service Insurance System or some government fund or even the implementing agency. We're looking at whether this is something we can do," Ms. Hernandez added.

Terry L. Ridon, a public investment analyst and convenor of think tank InfraWatch PH, said that inflationary pressures are another challenge for PPP projects.

"Whether funded through development loans or private financing, the current economic headwinds, particularly rising interest rates, will make government and private investors reconsider whether it will make sense to proceed with PPPs today," he said in an email.

"More importantly, proceeding with PPPs under a high-interest rate environment will also impact the actual rates and fees imposed on consumers in the medium- and long-term," he added.

Mr. Ridon said that the government should also prioritize PPPs in areas with a need for immediate investment, such as airports, trains and busway systems while ensuring fair and reasonable rates to commuters and end-users.

Impact of production cuts by OPEC+ may be offset by economic slowdown

By Alyssa Nicole O. Tan
Reporter

ANY upward pressure on oil prices resulting from production cuts agreed to by the oil cartel, acting in concert with Russia, could be offset by the expected recession in advanced economies, dampening demand for fuel, a prominent economist said.

"The impact is uncertain," Bernardo M. Villegas, professor emeritus at the University of Asia and the Pacific, told *BusinessWorld* in an email. "The recession expected in the developed countries may reduce demand for oil. Thus, a reduction in oil supply may just match the reduction in demand."

"It is most probable that the price of oil will remain below $100 per barrel. Thus, the impact of the reduction in supply may be minimal on the Philippines," he added.

The Organization of Petroleum Exporting Countries (OPEC), which coordinates supply decisions with major producers who are non-OPEC members like Russia, recently announced production cuts despite pressure from the US, which had asked for a postponement of the decision until after the US midterm elections on Nov. 8. OPEC acting in concert with non-OPEC producers is referred to in the energy industry as OPEC+.

Saudi Arabia, which calls the shots in OPEC on the strength of its status as the leading producer, has said the production cut was needed to deal with rising interest rates in the West and a weakening global economy.

Rino E. Abad, director of the Oil Industry Management Bureau at the Department of Energy (DoE), said the speculation will affect the price of oil regardless of the actual supply-demand fundamentals.

"My educated guess is it won't affect us supply-wise but of course any decline, we know for a fact, even if it's just 500,000 barrels, almost always (results in) speculation on the price," he told *BusinessWorld* in a phone interview.

"I think the more immediate effect is that there would be price volatility rather than (a significant drop in) supply," he added.

Mr. Abad said the production decision may ultimately haunt OPEC+.

"By increasing the price, you're creating inflation, and the people cannot really purchase as much volume as they did before, so that will result in the further decline in demand, and that is not what you want in the first place," he said.

He added that inflationary conditions would provide fuel for an expected recession, further decreasing demand for oil.

Institute for Climate and Sustainable Cities (ICSC) Energy Transition Advisor Alberto Dalusung III said in an email to *BusinessWorld* that oil remains the primary source of energy for the Philippines, citing the latest Energy Balance Table published by the DoE. "Therefore, we expect that transport will be the most affected sector."

The Philippines, as a net energy importer, can only respond to the supply and price signals set by the market, Mr. Dalusung said.

"The current situation points to a need to rethink our energy strategy for the transport sector," he said. "There have been initiatives to electrify aspects of the transport sector, primarily commuter jeepneys and buses."

"I think that a more targeted action plan is needed to mainstream these initiatives," he added.

Foundation for the National Interest Trustee Charmaine M. Misalucha-Willoughby, in an email to *BusinessWorld*, said the Philippines will "inevitably bear the brunt of OPEC's decision due to its high dependence on oil imports."

"This is due to the Philippines' embeddedness in global supply chains, which are still recovering from the pandemic and are now disrupted by Russia's invasion of Ukraine," she said.

"Another reason for the negative impact of OPEC's decision is that the Philippines under the new administration has yet to solidify a clear economic strategy," she added.

To successfully respond to global energy shocks, Ms. Willoughby said the Philippines can invest in renewable energy and pursue external partnerships to address climate change.

Ms. Willoughby said the government needs to come up with "economic and security strategies, (and) diversify international relations to cooperate with like-minded states on environmental concerns."

She does not support a proposal by President Ferdinand R. Marcos, Jr. to source fuel from Russia.

"Any moves towards Russia will put the Philippines in an untenable position. The Philippines should maintain its stance against Russia's invasion of Ukraine to be consistent with its position against China in the West Philippine Sea," she said.

"If the Philippines continues to vacillate from one decision to another, the country then becomes an unreliable member of the international community," she added.

Mr. Dalusung, meanwhile, expected the President to "consider all options for our oil and fertilizer supply, pressure from other parties notwithstanding."

"Foreign policy is a balancing act that I leave to our officials," he added.

However, he noted the ultimate need to transition towards more sustainable sources of energy.

"The cost impacts of these international actions have made fossil fuels so much more expensive that there are no more cost concerns on the transition to more renewables," he said. "The good news is that solar and wind power projects are among the fastest ways to add capacity."

He welcomed the Department of Justice's (DoJ) legal opinion in favor of opening up renewable energy projects to 100% foreign participation.

"I have always taken a contrary position on the interpretation of some constitutional provisions that treat renewable energy sources such as solar and wind as if they were mineral resources, subject to state-defined limits on foreign participation," he said.

"Renewable energy resources are not exhaustible and their proper use will not deprive future generations of the same resources," he added.

Ms. Willoughby said this could only work if there are substantial economic reforms in the Philippines to ensure oversight and accountability of foreign companies.

Mr. Abad said the government's short-term plan is to provide relief packages and financial assistance to the transport and agriculture sector. Meanwhile, the medium- to long-term solution was to develop indigenous supply to reduce dependence on energy imports.

"The solution is to lower the dependency on imports and the only way to do that is to encourage and further develop the indigenous supply," he added.

This will likely take up to 10 years to explore and another five years to develop, Mr. Abad said. "That will be a long time but that should be started now."

"We have to start at some point," he said. "We may not gain the benefit now, but at least 15 years from now the people will benefit from that indigenous supply."

He also said that there was "nothing wrong" with the DoJ legal opinion, adding, "Opening up (the renewables industry) is the intent... It's primarily grounded on the need for investors that could provide faster and bigger investment."

Small-farmer insurance bill filed in Senate

A BILL seeking to expand the coverage of the crop insurance program to include small farmers has been filed at the Senate.

The Philippines' "vulnerability to disasters and (their) disastrous effect on agricultural productivity calls for a more permanent and long-term solution that will ensure that the agricultural sector, especially small farmers, are protected and given support to sustain their production," Senator Joseph Victor G. Ejercito, author of Senate bill No. 390, said in a statement Monday.

The measure would require the DA to develop a comprehensive insurance scheme for small farmers in coordination with the Philippine Crop Insurance Corp. (PCIC) and the Insurance Commission (IC).

The bill calls for subsidized premiums for farmers tilling five hectares or less, Mr. Ejercito noted.

As of the afternoon of Oct. 30, the Department of Agriculture (DA) estimated agricultural damage caused by Severe Tropical Storm Paeng (international name: Nalgae) at P285.28 million affecting 8,608 farmers and fisherfolk.

Last month, Super Typhoo Karding (international name: Noru) inflicted P3.12 billion worth of crop damage, according to the DA.

"The government has provided subsidies to support the crop insurance program and has been shouldering shares of insurance premiums of insured farmers," Mr. Ejercito said. — **John Victor D. Ordoñez**

OPINION

2023 tax trends and ends: The sequel

LET'S TALK TAX
MARY GRACE G. LUALHATI

In our earlier article "2022 Tax Trends and Ends," I presented updates on taxation to provide taxpayers with the necessary tools to begin the year right. Exactly two months from now, taxpayers are once more expected to embrace new sets of tax rules that are bound to be implemented as we welcome the 2023.

The changes in the tax rules are a mix of good and bad news. Rules on lowering income tax rates and decreasing the number of VAT returns to be filed are good news. However, some reliefs offered by the Corporate Recovery and Tax Incentives for Enterprises (CREATE) Act are set to expire by the middle of 2023. Here are some of the changes that will take effect next year.

LOWERED GRADUATED INCOME TAX RATES

Individual taxpayers have something to look forward to in the coming year as income tax rates are set to be reduced. With the objective of rectifying deficiencies and promoting a simpler and more efficient tax system, the Tax Reform for Acceleration and Inclusion (TRAIN) Act, which took effect in 2018, introduced an amendment that decreased the tax rates for middle-income earners on a staggered basis. In 2023, individual taxpayers with annual taxable income amounting to P250,000 or below will continue to be exempted from paying income tax. Taxpayers affected by the further decrease in tax rates are those earning more than P250,000 but not over P8 million. They used to be subject to the graduated rates of 20% to 32%. Starting Jan. 1, 2023, they will be subject to lower income tax rates ranging from 15% to 30%. High-income earners who have taxable income in excess of P8 million will continue to be subjected to a 35% rate.

Note, however, that the present administration through the Department of Finance (DoF) has proposed changes in taxation. The proposals include the deferment of the reduction of the abovementioned income tax rates from 2023 to 2025. This proposal is still subject to ongoing discussion and approval.

QUARTERLY REPORTING OF VAT RETURNS

The TRAIN Act also introduced relief to VAT-registered persons from filing numerous tax returns within a taxable year. Beginning 2023, BIR Form No. 2550-M (Monthly Value-Added Tax Declaration) is no longer required to be filed and paid. The filing and payment shall be done within 25 days following the close of each taxable quarter, or on a quarterly basis using BIR Form No. 2550-Q (Quarterly Value-Added Tax Return).

The change will only require taxpayers to file a total of four VAT returns as compared to the normal 12 filings within the taxable year. This will also provide ample time to gather all necessary supporting documents for the taxpayer's claim of input VAT.

REVERSION TO ORIGINAL RATES OF THE PREVIOUSLY LOWERED TAX RATES

The implementation of the CREATE Act in 2021 provides tax relief to address the fluctuating needs of the business affected by the COVID-19 pandemic. These include a reduction in the tax rates for a specific period. As time progresses and with the expected recovery from the pandemic, it is also anticipated that some of the tax reliefs offered by the government will eventually cease to be implemented, and reversion to original tax rates will take place. Some of the updates in the tax rates that will be affected by the gradual recovery of the country from the pandemic are as follows:

a. 2% Minimum Corporate Income Tax (MCIT)

Under the CREATE Act and per Revenue Regulations (RR) No. 5-2021, the MCIT was lowered to 1%, effective July 1, 2020 to June 30, 2023. Starting July 1, 2023, corporations (except non-profit proprietary educational institutions and hospitals, and non-resident foreign corporations) will now be subject to the original 2% MCIT rate based on their gross income.

a. 10% Special income tax rate for non-profit proprietary educational institutions (PEIs) and hospitals

The CREATE Act also brought with it a lowered special income tax rate of 1% for PEIs and hospitals, beginning July 1, 2020 until June 30, 2023. On July 1, 2023, these corporations will be subject again to a higher rate of 10%. However, if the gross income from "unrelated trade, business or other activity" exceeds 50% of the total gross income derived from all sources by such educational institutions or hospitals, their entire taxable income will be subject to the regular income tax rate.

a. 3% Percentage tax for non-VAT taxpayers

Under Section 116 of the Tax Code, any person whose sales or receipts are exempt under Section 109 (CC) of the Code from the payment of Value-Added Tax and who is not a VAT-registered person must pay a tax equivalent to 3% of gross quarterly sales or receipts, with cooperatives exempt from the 3% gross receipts tax herein imposed.

With the amendment in the CREATE Act, the 3% percentage tax was lowered to 1% beginning July 1, 2020 until June 30, 2023. After that period, effective July 1, 2023, the percentage tax rate will revert to 3%.

Work from home (WFH) arrangement for Philippine Economic Zone Authority (PEZA) — registered Information Technology (IT) — Business Process Management (BPM) entities

The Fiscal Incentives Review Board (FIRB) issued FIRB Resolution No. 026-02 allowing IT-BPM entities to continue adopting the WFH arrangement not exceeding 30% of the total workforce, without adversely affecting their income tax incentives, until Dec. 31. Furthermore, IT-BPM entities may transfer their registration to the Board of Investments (BoI) from the Investment Promotion Agencies (IPA) administering an economic zone or freeport zone where the project is located, until Dec. 31.

With these issuances, the IT-BPM entities are expected to have registered with the BoI starting Jan. 1 and are entitled to adopt up to 100% WFH arrangement.

Dealing with these continuous changes in taxation can be exhausting and overwhelming. Taxpayers should always have the necessary information to help themselves overcome the unknown. Knowing the correct rules means half the battle is won.

Let's Talk Tax is a weekly newspaper column of P&A Grant Thornton that aims to keep the public informed of various developments in taxation. This article is not intended to be a substitute for competent professional advice.

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