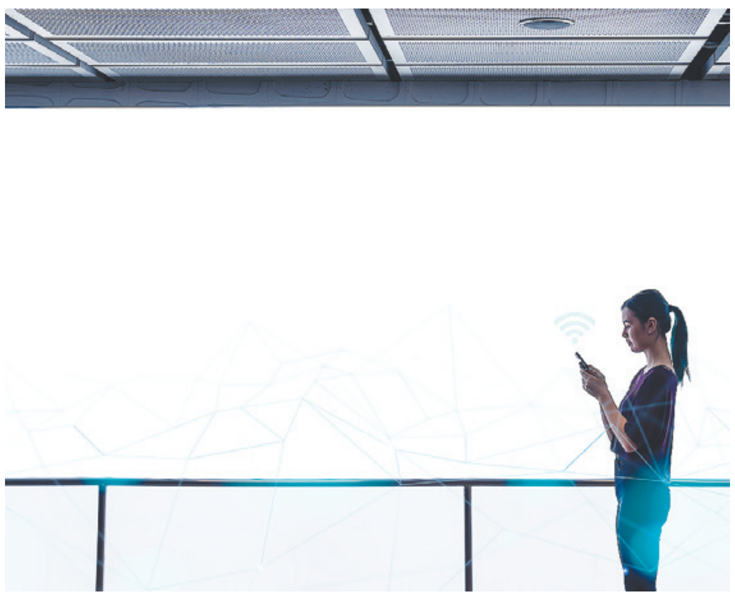
Tech firms seek PHL digital tax in line with international norms



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TECH INDUSTRY associations said the Philippines should align its digital taxation policy with international practice, saying that predictability of business conditions is key to continued investment in innovation.

The Asia Internet Coalition (AIC) and the Asia Cloud Computing Association (ACCA) said they support a proposed measure imposing value-added tax (VAT) on digital transactions, but proposed provisions for single group registration of related companies and the removal of a requirement to appoint an in-country representative.

The House of Representatives approved on third reading on Nov. 14 House Bill 4122, which seeks to impose 12% VAT on nonresident digital service providers such as Spotify and Netflix. Senator Pilar Juliana S. Cayetano has filed Senate Bill 250 as the other chamber's counterpart measure.

If the measure becomes law, 12% VAT will also be imposed on the digital sale of services like online advertising and the supply of other services delivered through online marketplaces, webcasts and mobile applications. Albay Rep. Jose Ma. Clemente S. Salceda, who chairs the House ways and means committee, said the measure is expected to generate P19 billion in revenue.

In a Nov. 23 letter to Sen. Sherwin T. Gatchalian, chairman of the Senate committee on ways and means, the groups said: "We earnestly request your leadership in aligning the proposed digital taxation policy with international norms espoused by the Organisation for Economic Cooperation and Development (OECD) and the International Monetary Fund (IMF)."

Legislators should frame the tax on digital transactions as a "simplified electronically supplied services (ESS) VAT regime that conforms with the recommendations of the international organizations for extraterritorial VAT compliance and successfully implemented in many countries," they added. The letter which was sent to reporters on Thursday.

They argued that the ESS VAT regime has been adopted by countries in the region such as Singapore. "Enhancing revenue levels from consumption taxes on cross-border sales while minimizing the compliance burden of digital suppliers can be achieved with broad support from businesses when the OECD or IMF best practices are followed," the groups noted.

AIC and ACCA likewise noted that the in-country representative requirement for non-resident suppliers included in House Bill 4122 "does not align with international best practices."

They said that such a requirement can have "unintended consequences," including "reduced private sector investment and tax non-compliance by some non-resident companies."

"No other jurisdiction in Southeast Asia, including Singapore, Malaysia, Indonesia, Thailand, and Cambodia, imposes such a requirement," the two associations noted.

They expressed hope that the Senate version will include a clause that makes it easier for a group of affiliated or related companies to register.

"It would be more efficient for local tax authorities to deal with a single entity on behalf of a group of related companies," AIC and ACCA said.

They also argued that extraterritorial VAT should apply to business-to-customer supplies only as VAT on reverse charge is already applicable on cross-border business-to-business supplies.

"To advance the growth of the digital economy in the Philippines, it is critical that the environment is supportive of business-to-business services (including total cost of usage) as companies seek to increasingly grow digital in their operations," AIC and ACCA said.

They want "sufficient time to implement such measures ... before a new policy is enforced to ensure compliance readiness."

They also want at least 9 to 12 months from the publication of the final law and release of detailed technical rules to align their systems to implement any substantial changes to tax laws.

"With respect to the withholding of creditable VAT, under the current domestic law, any payment made by government agencies should be subject to 5% withholding VAT — which is creditable," AIC and ACCA noted.

"However, since non-resident companies are not allowed to claim input VAT, sales to government customers will incur this 5% VAT as cost passed on to the non-resident company. We seek further clarification on the intention of legislators here, or a review of this provision in relation to current domestic laws," they added. — **Arjay L. Balinbin**

Discussions to extend CARS program ongoing

A PROPOSED extension to the Comprehensive Automotive Resurgence Strategy (CARS) program is currently being discussed, according to the Department of Trade and Industry.

Ceferino S. Rodolfo, Trade undersecretary and Board of Investments (BoI) managing head, told reporters in a recent briefing that the two CARS participants, Toyota Motor Philippines Corp. and Mitsubishi Motors Philippines Corp., are still completing their proposals for an extension.

The BoI is the implementing agency of the CARS program, which provides incentives for manufacturers willing to assemble mass-market cars domestically.

"There is no (final proposal) yet but we are working on that. Trade Secretary Alfredo E. Pascual has met with the two CARS program participants (to determine) how much longer do they need so that they can be given a reasonable extension," Mr. Rodolfo said.

"The two participants are still finalizing their offer for us. They suffered severely in terms of volume due to the coronavirus disease 2019 (COVID-19) pandemic," he added.

Mr. Rodolfo said there are ongoing discussions to add more models into the CARS program as a possible stipulation in exchange for an extension, possibly for three years.

"If we extend, what would we get in return? For example, do we include additional models in the program? That is still under discussion. The CARS program participants already put in the fixed investments. It's not just the two registered participants. It also includes their parts suppliers," Mr. Rodolfo said.

Mr. Rodolfo added that there would be no additional funding for the CARS program even if an extension is agreed.

"The previous discussion (was about extending) the CARS program for three years across the board for the two participants without additional increases in the budget allotted for them," Mr. Rodolfo said.

The program has a P27-billion budget for three car manufacturers to produce 200,000 units each for a six-year period in order to avail of fiscal incentives.

However, only Toyota and Mitsubishi joined the program.

Toyota produces the Vios compact car while Mitsubishi produces the Mirage model.

Toyota has until 2024 to meet its commitments while Mitsubishi's deadline is 2023.

Mr. Rodolfo said the proposal to give the third slot in the CARS program to an electric vehicle (EV) manufacturer has been largely ruled out.

"I am not expecting (a third participant) because this CARS program has been around for a long time," Mr. Rodolfo said.

"The discussions on the third CARS slot will have to be consistent with Republic Act No. 11697 or the Electric Vehicle Industry Development Act (EVIDA)," he added.

Under EVIDA, the government and companies are required to meet a 5% EV quota for their vehicle fleets.

In the first 10 months of 2022, the auto industry has sold 280,300 units, up 30.9% from a year earlier, according to a joint report of the Chamber of Automotive Manufacturers of the Philippines, Inc. and Truck Manufacturers Association. — **Revin Mikhael D. Ochave**

Two LNG projects seen operational by next year

THE Department of Energy (DoE) said on Thursday that at least two liquefied natural gas (LNG) projects are on track to start operations next year.

"(With) scheduled availability at the end of the first quarter of 2023, liquefied natural gas is considered an important source for fuel diversification," Energy Secretary Raphael P.M. Lotilla said in a statement.

Last month, Atlantic Gulf & Pacific Co. (AG&P) said it has completed the conversion of a vessel into a floating storage unit, which will then be docked at its LNG facility in Batangas.

AG&P is expecting to deliver gas by March. Its import terminal has an estimated initial capacity of five million tons per annum (MTPA).

Meanwhile, First Gen Corp., through its subsidiary FGEN LNG Corp. has announced that its LNG terminal will also be completed by the first quarter. According to the DoE, FGEN's LNG terminal has a total capacity of 5.26 MTPA and an estimated construction cost of P13 billion.

The DoE said FGEN will fuel the 1,000-megawatt (MW) Sta. Rita power plant, the 500-MW San Lorenzo power plant, the 414-MW San Gabriel power plant and the 97-MW Avion power plant.

"Our foremost concern is to ensure that there is enough capacity supplied through various sources most especially in the coming summer months to sustain the power supply," Mr. Lotilla said.

The DoE said last month that red and yellow alerts are expected on the grid in early 2023, signifying periods when available power falls below acceptable safety margins.

The Luzon grid is dependent on gas landed in Batangas from the Malampaya field in northern Palawan. The depletion of Malampaya gas has forced gas-fired power plants to import gas, for which they must build storage facilities.

The DoE is positioning natural gas as a transition fuel necessary to supply cleaner-than-coal baseload power while the renewable infrastructure is built up. Renewable energy also suffers from intermittency problems because they cannot generate power in certain conditions, such as windless days for wind turbines or nighttime for solar panels.

Under the Clean Energy Scenario of the Philippine Energy Plan, the government is aiming to increase the contribution of natural gas power by establishing LNG terminals and regasification facilities.

The Power for People Coalition said in a statement that LNG facilities raise environmental concerns that will affect host communities.

"LNG is a burden for consumers, especially now when global gas supplies are (at) record-high prices. Just a few days ago, the Japanese trade ministry came out and said long-term LNG contracts are sold out. Whatever supply we find will be very costly, especially during the upcoming summer peak season," according to Gerry C. Arances, P4P convenor. — **Ashley Erika O. Jose**

PHL coal, oil, gas reserves valued at P241 billion in 2021

THE Philippines' reserves of coal, oil, and natural gas and condensate were valued at P241.99 billion in 2021, up 68.4%, the Philippine Statistics Authority (PSA) said, reflecting the higher market prices for these resources even though volumes fell.

The Philippines classifies its reserves as Class A, commercially recoverable; class B, potentially commercial, and class C, non-commercial.

These reserves of so-called non-renewable energy are the equivalent of 0.2% of the economy.

Class A coal reserves were valued at P181.30 billion in 2021, more than double the 2020 level.

Class A oil reserves rose 51.4% to P14.08 billion in 2021, while natural gas reserves rose 16.2% to P26.02 billion.

Condensate reserves declined 23.1% to P20.59 billion in 2021.

By volume, the PSA said class A coal reserves fell to 365.71 million metric tons (MT) in 2021 from 381.47 MT a year earlier.

Oil reserves fell to 31.46 million barrels (bbl) in 2021 from 32.10 million bbl previously.

Natural gas reserves declined to 212.38 billion standard cubic feet (scf) of gas from 333.47 billion scf in 2020, while condensate reserves fell to 9.41 million barrels from 29.38 million barrels. — **Ashley Erika O. Jose**

LGUs urged to develop capital investment plans

LOCAL government units (LGUs) have been instructed to develop a capital investment planning capability, the Department of Finance (DoF) said, citing the need to raise their creditworthiness and improve their access to financing.

"As we implement the full devolution of certain functions from the executive branch to local governments pursuant to Executive Order (EO) No. 138, government units are confronted with the challenge of funding the expanded scope of basic services and local development projects. It is therefore imperative that LGUs put in place plans on capital investment," Finance Secretary Benjamin E. Diokno said in a statement on Thursday.

EO No. 138 outlines the devolution of National Government functions corresponding to the expansion of LGUs' share of national taxes.

The expansion of the LGUs' National Tax Allotment comes as local officials made only limited use of their authority to borrow.

According to the DoF, only 62% of LGUs have availed of credit in the past five years.

In 2021, LGU borrowing only amounted to P136.6 billion or around 0.74% of gross domestic product.

The Bureau of Local Government Finance (BLGF) reported that LGUs were only able to utilize 51.5% of their borrowing capacity in the past five years.

"These were most commonly used for the construction of local government buildings and roads, acquisition of lots, and procurement of heavy equipment," it added.

The BLGF issues certificates of net debt service ceiling and borrowing capacity to LGUs to set the maximum amount that LGUs can borrow.

Mr. Diokno said the initiative is being pursued as part of an engagement with the World Bank Group, in which LGUs will be capacitated to undertake the planning of their capital investment programs.

"This initiative will steer our LGUs on the path to creditworthiness, which is key to accessing long-term financing required for sustainable investments," he added.

Ateneo de Manila University Economics Professor Leonardo A. Lanzona said that LGUs are key players in the economy' recovery.

"For this to happen, they should be allowed to create and develop their own economic programs and policies. The national agencies and departments should refrain from setting rules and policies for the LGUs to follow. In this case, matters relating to industrialization, agricultural development and the enhancement of the service sector, including infrastructure, should be decided at the regional level," he said in an e-mail.

Mr. Lanzona said that LGUs should develop their own industrial policy along the lines of service expansion, which should be presented to the National Government in order to reduce barriers that can mobilize both labor and capital to competitive regions. — **Luisa Maria Jacinta C. Jocson**

Moody's Analytics downgrades Philippine growth outlook to 6.7%

MOODY'S ANALYTICS said it lowered its 2022 growth estimate for the Philippines to 6.7% from 6.8% previously due to the lingering impact of the pandemic.

The downgrade comes despite a stronger-than-expected third quarter performance for Philippine gross domestic product (GDP).

The global research firm retained its forecast of 6.4% growth in 2023.

The economy expanded by 7.6% in the third quarter, exceeding the revised 7.5% growth posted in the second quarter and exceeding the 7% reported a year earlier.

In the nine-month period, GDP growth averaged 7.7%.

"The Philippines will feel the lagging effect of post-pandemic reopening as it had the longest continuous lockdowns of any country in the region," Moody's said in a report.

However, it noted that pent-up demand by companies and households for goods and services "will support growth next year, as well as government fiscal policy that is promoting education, public health, and a return to infrastructure development."

Moody's Analytics said that other primary risks include persistent inflation and potentially higher interest rates. "Current inflation exceeds 6% over the year in the Philippines," it said.

Moody's Analytics also raised its inflation forecast to 5.5% in 2022, 5.4% in 2023, and 3.1% in 2024, against its earlier estimates of 5.3%, 5% and 2.9%, respectively.

Headline inflation accelerated to 7.7% in October, mainly due to rising food prices.

October inflation was the highest since the 7.8% posted in December 2008, during the global financial crisis.

October also marked the seventh straight month that inflation breached the Bangko Sentral ng Pilipinas' (BSP) 2-4% target this year.

For the 10-month period, inflation averaged 5.4%, lower than the BSP's 5.6% full-year forecast.

The BSP this month increased its benchmark rate by 75 basis points (bps) to 5% to tame inflation and keep in step with the Federal Reserve. Since May, the BSP has hiked rates by 300 bps.

The Fed has raised rates by 375 bps since March, including its fourth 75-bp rate hike earlier this month, bringing its benchmark interest rate to the 3.75-4% range.

China Banking Corp. Chief Economist Domini S. Velasquez said that GDP will likely hit at least 7% in 2022 due to the "resiliency of domestic demand against an elevated inflation and high interest rate environment."

"Although the Philippines was quite late in removing pandemic restrictions, this led to robust pent-up demand with service activities reaping the benefit the most. This holiday season will also be the first with almost no restrictions which could further boost fourth quarter GDP," she said in a Viber message.

Ms. Velasquez also said 2022 inflation will likely average 5.8% this year.

"We think inflation will still hit 7.7-7.8% levels in November and December, driving the full-year average higher," she said.

"Vegetable prices are still on the rise, some shortages in onions and garlic have been observed, and sugar prices have not gone down despite reports of imports. Core inflation, or prices of goods deemed less volatile, is still on an uptrend until the first few months of 2023," she added.

Foundation for Economic Freedom President Calixto V. Chikiamco said that the continued tightening by the BSP will dampen GDP growth.

"Interest rate-sensitive sectors like real estate, cars, and appliances will take a hit from higher interest rates," he said in a Viber message.

Mr. Chikiamco noted that the Moody's Analytics forecast adjustment was "statistically insignificant."

"I don't have a specific inflation forecast but inflation may decelerate by next year if recession hits the global economy and prices of commodities, particularly oil, fall," he added. — **Luisa Maria Jacinta C. Jocson**