Marcos says cybersecurity upgrades to accompany digitalization push

PRESIDENT Ferdinand R. Marcos, Jr. promised a corresponding effort to upgrade cybersecurity alongside his government's push to digitalize the bureaucracy, the Palace said in a statement.

"Security has become a huge issue... that's what we are trying to design now, a cybersecurity system for sensitive information," he was quoted as saying in an open forum at the World Economic Forum by the Presidential Communications Office.

He told an open forum at the Swiss mountain resort of Davos that the government needs to do more to improve internet connectivity.

"Connectivity in the Philippines is still pretty low. And it's unfortunate because... consumers (live) every facet of their lives through the internet," Mr. Marcos said, adding that the government is lagging the people in going online.

The Philippines' ranking in the Digital Quality of Life Index 2022 dropped seven places to 55th out of 117 countries. It recorded lower scores in internet connection affordability, quality, and stability, as well as cybersecurity.

Local governments have stepped in to establish internet connectivity infrastructure in the regions, according to Mr. Marcos.

"Local governments, and some agencies within the National Government, (have taken) the initiative and started their own systems," he said. "So, this has now got to be consolidated and put together."

"And that's where we are right now: forming the databases for the government, forming the databases that can be used by the national ID."

Mr. Marcos said the Philippines welcomes any assistance from overseas in improving its digitalization initiatives.

Before the Davos conference, Mr. Marcos issued an order to fast-track the digitalization of the national identification (ID) system.

The order was issued after a meeting with the Private Sector Advisory Council, where one of the agenda items was the Philippine Statistics Authority's plan to pursue public-private partnership for its Digital PhilID App, which will serve as a digital alternative to the national ID. — **Kyle Aristophere T. Atienza**

DA issues initial estimate of 450,000 MT in sugar imports

THE Department of Agriculture (DA) is considering sugar imports of as much as 450,000 metric tons (MT) following an order from the President to maintain a two-month buffer stock of the commodity.

Rex C. Estoperez, DA deputy spokesman, said on Wednesday in response to a question about sugar import plans: "Our information is that 450,000 metric tons needs to be imported (because the) President ordered a buffer stock good for two months. We'll update you on what the procurement plan is."

It was unclear whether Mr. Estoperez meant the buffer stock will be built up solely from imports. If so, the sugar reserve will diverge from the practice of the National Food Authority (NFA), which is tasked with maintaining a rice buffer stock of at least 15 days.

The NFA maintains its rice reserve solely from palay (unmilled rice) purchased from domestic farmers.

President Ferdinand R. Marcos, Jr., said that the government must maintain a two-month buffer stock of sugar to keep price volatility in check.

The Sugar Regulatory Administration (SRA) has also said that it will recommend to

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Mr. Marcos the sale of 80,000 bags of sugar confiscated from smugglers at DA-operated Kadiwa stores.

Mr. Estoperez said such a sale will require inter-agency approval.

"It has to be cleared first by the Department of Finance, because the Bureau of Customs is under the (DoF). We need to check the seizure order and (the sale needs) to be cleared again by the SRA," Mr. Estoperez said.

He said that the proposed Kadiwa sugar price is P70 per kilo.

According to the DA's price monitoring as of Wednesday, refined sugar sells at retail for P87-P110 per kilo.

Pablo Luis S. Azcona, a member of the SRA board, said that selling the confiscated sugar at Kadiwa stores will not affect the farmgate price of sugar.

"80,000 bags, more or less, is the same amount of sugar that one small mill can produce in one week. I think it is not significant enough to affect the farmgate price," he said.

Separately, planters' federations said on Wednesday that they signed a memorandum of agreement to form a coalition.

In a statement on Wednesday, Enrique D. Rojas of the National Federation of Sugarcane Planters, Aurelio Gerardo J. Valderrama, Jr. of the Confederation of Sugar Producers Association and Danilo A. Abelita of the Panay Federation of Sugarcane Farmers established the coalition, to be known as the "Sugar Council."

The council, whose members will account for the majority of sugar production nationwide, will be the venue for discussing policy recommendations to the government that will help "ensure the continued viability of the sugar industry." — **Ashley Erika O. Jose**

US CHIPS law not expected to rule out foreign production

THE head of the US Semiconductor Industry Association (SIA) is exploring the Philippines as a hub, noting that a recent US law encouraging tech companies to re-shore their operations will not rule out overseas production.

SIA President John Neuffer met with Board of Investments (BoI) Managing Head Ceferino S. Rodolfo on Jan. 16 to discuss the investment landscape after the US passed the CHIPS Act last year.

The CHIPS Act offers $500 million in incentives for producing microchips in the US.

"While the CHIPS Act aims to increase the capacity of the US semiconductor industry, we recognize that we cannot do it all in the US. And that's where countries like the Philippines have an opportunity," Mr. Neuffer said.

"Rather than reshoring all manufacturing activities, it is more of rebalancing the supply chain. The pandemic has forced global businesses to rethink their supply chain strategies and consider diversification of suppliers to mitigate disruptions in their business operations," he added.

SIA accounts for 99% of the US semiconductor industry in terms of revenue and also counts among its members two-thirds of non-US chip companies. SIA members operating in the Philippines include Analog Devices, Onsemi, and Texas Instruments.

According to the BoI, the majority of industrial parts and components are still sourced from Southeast and East Asia.

Mr. Rodolfo said that the Philippines is ready to accommodate semiconductor investors from the US.

"We, in the Philippine government... promote partnerships and enhancing local capacities and competencies in semiconductor manufacturing to deepen the country's role in the global semiconductor supply chain and be able to further support US companies in their endeavors under the CHIPS Act," Mr. Rodolfo said.

At the end of November, the Philippines exported $45.63 billion worth of electronics products, or 62.36% of the total, according to the BoI. — **Revin Mikhael D. Ochave**

Iodized salt law blamed for decline in PHL output

THE long-term decline in domestic salt production has been blamed by Senators on a 1995 law promoting iodization, which they said opened the door to competition from imports.

"It is clear that since the passage of the ASIN (An Act for Salt Iodization Nationwide) law, local production of salt deteriorated further while imports of salt increased," Majority Leader Emmanuel Joel J. Villanueva said at a hearing of the Senate during the agriculture and food committee hearing on Wednesday.

Republic Act 8172 sought to promote the use of iodized salt to address micronutrient malnutrition, particularly iodine deficiency disorders.

Senator Cynthia A. Villar, who chairs the committee, called salt "a dying local industry" due to imports of 850,000 metric tons (MT) a year, or 93% of the salt requirement, mainly from Australia and China.

Gerard Khonghun, president of the Philippine Association of Salt Industry Networks (PhilASIN), added that not all imported salt is iodized, particularly the shipments from Australia.

"The law demanded that local salt be iodized, and now you're going to import salt that is not iodized? What kind of joke is this?" Ms. Villar said, adding that domestic producers could have continued as before while requiring domestic manufacturers to iodize. The law, she added, "created a bigger problem for the Philippines."

Government agencies like the departments of Trade and Industry and Science and Technology should have introduced training and equipment to help salt producers iodize, Ms. Villar said. — **Alyssa Nicole O. Tan**

FULL STORY

Read the full story by scanning the QR code with your smartphone or by typing the link
<bit.ly/Salt011923>

Growth in November bulk prices eases to nine-month low

GROWTH in the bulk prices of general goods eased to a nine-month low in November as supply stabilized.

According to preliminary data from the Philippine Statistics Authority (PSA), the general wholesale price index (GWPI) rose 7.2% year on year in November from 7.6% a month earlier. In November 2021, the GWPI rose 4.2%.

The November indicator was the lowest since the 5.6% reported in February 2022.

In the 11 months to November, GWPI was 7.4%, accelerating from 3% a year earlier.

In an e-mail, Security Bank Corp. Chief Economist Robert Dan J. Roces said that the GWPI was impacted by lower global commodity costs and improved supply, as well as a peso recovery in November.

"Moreover, the decrease in the mineral fuels commodity has a significant impact on the GWPI with it being a major component of the index. Other commodities that may have slowed the GWPI include industrial inputs and consumer goods where inventories may have been higher in the lead-up to the peak consumption season in December," he added.

Among eight categories of commodity, five posted declines. Price growth in mineral fuels, lubricants and related materials eased to 25.9% from 28.6% in October. Other categories where price growth eased were chemicals including animal and vegetable oils and fats (2.5% in November from 3.4% in October), and food (12.3% from 12.9%).

On the other hand, price growth in miscellaneous manufactured articles accelerated to 3.8% in November from 3.3% in October. Price growth in manufactured goods classified chiefly by materials and machinery transport equipment commodities was unchanged at 4.2% and 1.2%, respectively.

The peso hit lows in October to the P59 level against the dollar. The peso recovered the P56 level, ending November at P56.56.

In a Viber message, Asian Institute of Management Economist John Paolo R. Rivera said GWPI reflected the reduced supply constraints on manufactured goods in the later part of the year. He added that growth in the GWPI would have been lower if not for the high demand during the holidays.

Luzon outpaced national GWPI growth with 7.4% in November, slowing from the 7.8% posted in October. The year-earlier price growth for the region was 4.3%.

November marked the lowest growth in GWPI since the 5.9% posted in February.

Mr. Rivera said Luzon GWPI reflects the island's highly urbanized and industrialized nature, leading to higher demand compared with the Visayas and Mindanao.

Meanwhile, price growth in the Visayas and Mindanao eased to 6.5% and 4.8%, respectively in November from 6.6% and 4.9% in October.

The Visayas reading was the lowest since the 6.2% logged in August. Year-earlier GWPI growth came in at 1.4%.

Mindanao's GWPI increase was the lowest since the 4% reading in September 2022. The year-earlier GWPI rise was 5%.

Mr. Roces warns of volatile prices in the coming months due to changes in supply and a post-holiday slowdown in demand. — **Bernadette Therese M. Gadon**

OPINION

Philippines cedes tax revenue under global minimum tax rules

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To expedite the revival of the economy from the pandemic and restore its trajectory towards upper middle-income status, the government has eased restrictions on foreign investment by amending foreign ownership rules for public services and retail. While the Corporate Recovery and Tax Incentives for Enterprises (CREATE) law reduced our regular corporate income tax (CIT) rate to 25%, the Philippines still has one of the highest CIT rates in Southeast Asia. CREATE also rationalized the tax incentives granted to registered business enterprises (RBEs), allowing them to enjoy up to 17 years of income tax holidays (ITH), a 5% special corporate income tax, or enhanced deductions, among other fiscal incentives. However, these fiscal incentives may not look as enticing as before for large multinational enterprises (MNEs) considering investment in the Philippines. This article hopes to explain why.

The OECD/G20 Inclusive Framework on Base Erosion and Profit Shifting published the Global Anti-Base Erosion (GloBE) Model Rules on Dec. 20, 2021. GloBE Rules introduce a coordinated system of taxation to ensure that large MNEs pay a minimum level of tax on the income they earn in every jurisdiction in which they operate. A top-up tax will be imposed on their profits should their jurisdictional effective tax rate (ETR) fall below the minimum rate. The 70-page GloBE Rules provide for a global minimum tax rate of 15% for MNEs with a turnover of more than 750 million euros. Ultimate Parent Entities (UPEs) such as pension funds, government, international and non-profit organizations as well as investment funds and real-estate investment vehicles are excluded from the scope of the GloBE Rules. Transitional safe harbor rules and a regulatory framework for the development of a potential permanent safe harbor were also published on Dec. 20, 2022.

Simply put, GloBE Rules are two interlocking rules — the Income Inclusion Rule (IIR) and the Undertaxed Payment Rule (UTPR). IIR requires the immediate parent entity to pay the top-up tax with respect to the low-taxed income of a constituent entity (an entity of the MNE Group in a country where the ETR is below the minimum rate). Otherwise, the UTPR will deny deductions or require an equivalent adjustment on the UPE level to the extent that the low-taxed income of a constituent entity is not subject to tax under IIR. The determination of whether a top-up tax is required, either through the IIR or the UTPR, is based on a complex calculation of the ETR for a specific jurisdiction. In computing the jurisdiction ETR, the GloBE Rules provide for modified deferred tax calculations for the timing differences, the treatment of losses, and an elective substance-based carve-out that may reduce the profits subject to top-up tax. Carve-outs are based on the level of payroll and the carrying value of certain tangible assets within a jurisdiction.

Based on the above rule, however, there may be instances when a certain jurisdiction will not be able to collect the top-up tax on the income earned by a constituent entity operating in its jurisdiction if the immediate parent or the UPE of the MNE is established in a different country. Hence, the GloBE Rules also introduced a Domestic Top-up Tax. Countries can now impose a specific tax in their own jurisdiction to increase the ETR on certain profits, excluding those that are subject to substance-based carve-outs, to the 15% global minimum ETR. It will allow a jurisdiction to ensure that the tax is collected therein and will not be ceded to another jurisdiction under either the IIR or the UTPR. If the low-tax jurisdictions adopt this domestic top-up tax, it will reduce the complexity of the GloBE Rules and will achieve the primordial goal of the Pillar 2 project which is leveling the playing field for tax competition. Participating countries must have enacted the appropriate domestic legislation in 2022 since the plan is for the IIR to be effective in 2023 while the UTPR can come into effect in 2024.

To briefly illustrate, let's consider an RBE enjoying ITH in the Philippines. Its immediate parent is a Singapore entity and the group is ultimately owned by a Japanese company. Both Japan and Singapore and other neighboring countries are currently adjusting their laws to account for the possible effect of the GloBE Rules. However, to date, the Philippines has not yet signed on to this two-pillar solution (including Pillar 2) which aims to address tax challenges arising from the digitalization of the economy (BEPS 2.0). Hence, since the Philippine RBE will be effectively paying 0% ETR to our government, the Singapore or Japanese company, through IIR or UTPR respectively, will pay a top-up tax in their respective jurisdictions to meet the 15% global minimum ETR. This will be a certain revenue loss to the Philippine government as it cedes taxing rights on the low-taxed income of this RBE. Moreover, from a group ETR perspective, MNEs will be paying this global minimum tax rate which dilutes their tax savings in the Philippines.

Though the potential uncollected taxes are as clear as daylight, our policy makers may also see this as only a time-bound setback. RBEs may only enjoy up to 17 years of tax incentives. Afterwards, they will be subject to the 25% regular CIT, which is much higher than the 15% global minimum tax. Other than the contribution of CIT to our gross domestic product, the Philippine government may have also considered other factors in not yet joining BEPS 2.0. The danger of losing the jobs created by foreign investors who may pull out their investments if they lose their tax incentives, and the requirement to abandon unilateral digital service tax (which is a pending bill in the Congress) may have restricted our government from being part of this Inclusive Framework. Nonetheless, these is all mere speculation on my part. I assume that a thorough and detailed impact assessment of this two-pillar solution must have been discussed by our economic managers and policy makers. I eagerly await how things evolve as more countries sign on to the framework.

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MAC KERWIN VISDA is a manager at the Tax Services department of Isla Lipana & Co., the Philippine member firm of the PwC network.
mac.kerwin.visda@pwc.com