Die and mold industry expects to regain pre-pandemic business levels by end 2024

By Justine Irish D. Tabile
Reporter

THE Die & Mold Association of the Philippines or PDMA, Inc. said the industry could return to pre-pandemic levels of business by the end 2024.

"It is still very hard to say but I hope that it will be by next year. Our projection is 2024 to 2025. Probably if not the end of 2024, maybe mid-year of 2025," PDMA President George Ong told reporters last week.

Dies are used in stamping sheet metal, and molds in injection molding. They are critical components in mass production, and the industry's performance is a leading indicator of future manufacturing activity as factors tool up to produce more items.

Asked to describe the industry's recovery, Mr. Ong said the results vary depending on the business segment.

"Because we are on the software side, we were not that affected. I think our drop was around 15-20% unlike some actual manufacturers which were really affected because of the decline in demand," he added.

"In the Philippines, I would say we have probably gone back to maybe 75% to 80% of pre-pandemic levels. It should be around that number already by this time," he said.

Mr. Ong is also a managing director at Computrends Systems Technology, Inc. which he said has hit 90% of its pre-pandemic levels of business.

"A lot of firms are coming back from the pandemic. So, I think this year, we will see a lot of growth compared with last year. We had our lowest period in 2021 and then this year we are coming back," he said.

During the pandemic, the die and mold industry underwent a big contraction, which Mr. Ong estimated at around 50%.

"We were already at the rock-bottom during the pandemic, so I think now everybody is in recovery. But some are faster, some are probably a little bit slower," he said.

Between Aug. 23 and 26, PDMA hosted the Philippine Die and Mold Machinery and Equipment Exhibition.

In his keynote speech at the opening of the exhibition, Philippine Economic Zone Authority Director General Tereso O. Panga recognized the critical role of the industry to small and medium enterprises.

"It is said that the design and manufacture of dies and molds represent a significant link in the entire production chain because nearly all mass-produced discrete parts are formed using processes that employ dies and molds," Mr. Panga said.

He also said that the industry is important to the growth of domestic and export manufacturing.

"Its steady growth over the years is helping to position the Philippines as a reliable source of high-quality molds and dies, catering to both domestic and international markets," he added.

FIT-All collection freeze not seen affecting RE developers

THE Energy Regulatory Commission (ERC) said renewable energy (RE) developers will not be affected by the extended suspension of feed-in tariff allowance (FIT-All) collections.

"The suspension of the FIT Allowance collection will not affect the FIT RE Developers as there are sufficient amounts in the fund to cover payments due to them," ERC Chairperson and Chief Executive Officer Monalisa C. Dimalanta said in a Viber message.

For the third time, the ERC extended the suspension of FIT-All collections. The extended suspension takes effect in September and will remain in force "until otherwise lifted by the Commission."

"This decision introduces remedies to ease the financial burden on consumers in the midst of escalating costs of electricity," the commission said in a statement last week.

The FIT-All is a P0.0364 per kilowatt-hour charge reflected in the bills of power consumers. It accumulates in a fund that is paid out to qualified RE developers.

FIT-All is designed to encourage the private sector to increase the share of RE in the energy mix.

As of the end of 2022, RE made up about 22% of the energy mix, with coal-fired power plants accounting for nearly 60%.

The government hopes to increase the RE share to 35% by 2030 and 50% by 2040.

FIT-All is among the incentives provided to RE developers under the Republic Act No. 9513 or the Renewable Energy Act of 2008.

The ERC first suspended FIT-All collection in November, with that order covering the period between December and February. This was then extended until August.

"The FIT payment mechanism works in such a manner that there is just a need to draw from the Fund if payments from WESM (Wholesale Electricity Spot Market) are not sufficient to cover payments to FIT RE Developers that supplied power during that relevant supply period," Ms. Dimalanta said.

Ramnath N. Iyer, climate and RE finance lead at the Institute for Energy Economics and Financial Analysis, told *BusinessWorld* in an e-mail that the extension may have a negative impact on the RE industry, and urged the government to be transparent about its future plans.

"The extended suspension of FIT-ALL can potentially be a negative for the renewables industry. In the near term, it appears, based on comments from ERC, that the FIT-ALL fund is sufficiently well funded to pay the industry's dues," he said.

Mr. Iyer said it is a question "whether the same can apply indefinitely or even beyond a few months."

"Hence it is important for the government to provide clarity to the renewable energy developers of what contingency plans are in place in case of further extensions," he said.

Ms. Dimalanta said the ERC is monitoring the sufficiency of the funds, which depend on the prevailing WESM prices.

"We continuously monitor the status of the fund and will lift the suspension as soon as we see that there will not be enough to settle the payments to FIT RE Developers," Ms. Dimalanta said.

Under the FIT-All scheme, the ERC directs distribution utilities, the National Grid Corp. of the Philippines, and retail electricity suppliers to serve as collection agents. Their collections are remitted to the FIT-All fund, which is administered by the National Transmission Corp. — **Sheldeen Joy Talavera**

Bill lowering tax on stock transactions expected to increase trading activity

By Beatriz Marie D. Cruz
Reporter

A PROPOSAL to lower taxes on stock collections is expected to increase trading activity and even attract more foreign investors, stock market analysts said at the weekend.

"The proposed House bill strikes a good balance between supporting the stock market and maintaining an appropriate fiscal position," China Bank Capital Corp. Managing Director Juan Paolo E. Colet said in a Viber message.

"The reduction in friction costs would create opportunities for active investors to tighten bid-ask spreads and add market liquidity," he added, noting that the measure would boost the appeal of real estate investment trusts and other dividend stocks to foreign individual investors.

House Bill No. 8958 or the proposed Capital Markets Efficiency Promotion Act, seeks to reduce taxes on stock transactions from 0.6% to 0.1% of the value of the stock, and dividends to non-resident foreigners from 25% to 10%.

It also imposes a tax on debt instruments of 0.1%, at par with the reduced rate for stock transactions.

Albay Rep. Jose Ma. Clemente S. Salceda said the Palace and other agencies have been pushing for measures to improve the "overall liquidity of the Philippine Stock Exchange (PSE)."

"(This tax reform) can be simpler and faster than the Passive Income and Financial Intermediaries Taxation Act or PIFITA, which might be too comprehensive and broad-ranging that time might not be on our side," he said in a statement last week.

Globalinks Securities and Stocks, Inc. Head of Sales Trading Toby Allan C. Arce said reducing the tax on stock transactions will decrease the cost of buying and selling stocks, leading to more trading activity.

"Investors might be more inclined to engage in the stock market due to the lower transaction costs. Higher trading activity can contribute to market liquidity and better price discovery," Mr. Arce said in a Viber chat.

Unicapital Securities, Inc. Senior Equity Research Analyst Carlos Angelo O. Temporal said market activity "has remained lackluster for the past six months," and expressed doubt about tax adjustments enhancing trading and investment.

"Given the prevailing pessimistic sentiment in the equity market stemming from various macroeconomic concerns — such as underwhelming domestic GDP figures, China's economic deceleration, the weakening peso, heightened chances of another Fed rate hike, and emerging inflationary pressures — it's improbable that the suggested reduction in taxes on stock transactions will substantially enhance market activity, which has remained lackluster for the past six months," he said via Viber.

Analysts said that lowering dividends tax of non-resident foreigners will help bring in foreign investment.

"The supplementary net returns from the tax reduction could effectively amplify foreign inflows, offering a beneficial impact to the market," Mr. Temporal said.

Mr. Arce also said that lowering the dividend tax will make the market more globally competitive.

Mr. Colet noted that reducing the dividend tax could also be problematic for the government's fiscal position.

"It is understandably not the right time for such a cut as that would have further eroded tax revenue," he said.

To further encourage trading activity, Mr. Colet said the PSE should prepare for short-selling as well as the development of a derivatives market.

Mr. Arce said that the government should look into financial literacy and investor education initiatives to encourage stock investment.

To make trading fair and efficient, there is also a need for the continuous improvement of trading platforms, settlement systems, and regulatory frameworks, Mr. Arce noted.

He added that improving the business environment, achieving stability in the macroeconomic environment and political stability are also prerequisites.

OPINION

Megatrends impacting indirect tax

SUITS THE C-SUITE
ALDEN C. LABAGUIS

Indirect taxes, such as value-added tax (VAT) and customs duties, are the types of tax that may be shifted or passed on to the buyer, transferee or lessee of the goods, properties, or services. Indirect taxes are levied on goods and services (or consumption), whereas direct taxes are imposed on income and profits. Governments are now turning to indirect taxes to fill their revenue gaps as a result of the pandemic's severe budgetary pressures.

In a challenging year for the global economy, trade, transformation, and sustainability are three megatrends influencing indirect tax policy. While these megatrends are pressuring indirect tax teams to be flexible, use technology to adapt, and do more with less, these trends also provide opportunities for indirect tax and customs functions to help their organizations succeed.

Indirect tax is receiving more attention as a result of global economic and geopolitical challenges. VAT/sales tax, excise and customs duty, and environmental taxes are becoming more demanding on a global scale. Governments are also leveraging tax and customs policies to advance political objectives and promote change in fields like sustainability.

This has resulted in significant legislative change, additional obligations, and an increased emphasis on technology to support tax and customs compliance processes. Effective indirect tax management is more important than ever to control cash flow, costs, and the risk of audits and legal action from tax and customs authorities.

TRADE DISRUPTION

Global trade and supply chain activities are inextricably linked to indirect taxes, which are significantly impacted by changes in the way businesses conduct their operations. Changes in these taxes could also significantly impact the supply chains of businesses.

The disruption of trade has been a recurring trend in the last year; contributing factors include the war in Ukraine, the ongoing consequences of the pandemic, trade conflicts, new trade agreements and alliances, and a quickly changing regulatory environment. However, the trade function has never had such a strong opportunity to improve the performance of the company or been in such a strong focus than now.

Indirect tax and customs functions can take action in the face of geopolitical uncertainty to remain agile while navigating disruptions, including driving out unnecessary duty costs, concentrating on cash flow, delivering cost-efficient tax processes, and using data analytics to compare indirect tax costs and opportunities from new supply chains.

In the Philippines, in addition to the tax authorities' resumption of audit investigations, there is an additional challenge of simultaneously managing the customs authorities' intensification of post-clearance audits — which are geared towards sustaining increased revenue collection even after clearance of imported goods at the border.

TRANSFORMATION

Rising complexity, regulation, as well as the competition for talent are contributing to transformation, but technology is the main motivator. Tax and customs authorities all over the world are quickly embracing technology and automating manual procedures. They are demanding real-time transaction data, and several jurisdictions are starting to employ e-invoicing and real-time reporting. In the Philippines, this is consistent with the tax authorities' adoption of the electronic invoicing and receipting system, which requires certain taxpayers to electronically report their sales data. Upon establishment of a system capable of storing and processing the required data used by electronic point-of-sale systems, certain categories of Philippine taxpayer will be required to use such electronic systems.

In a mid-year report, Philippine customs authorities showed they are not far behind, highlighting programs focusing on digitizing customs processes, revolutionizing operations, and enhancing trade facilitation. Advanced information communication technology projects are lined up for implementation, such as automated export declaration and overstaying container tracking systems, among others.

As a result, tax and customs authorities will have increased visibility on how businesses operate on a day-to-day basis, placing additional responsibility on corporations to enhance their data collecting and management. This frequently necessitates identifying data across the company and even throughout the supply chain as new taxes and reporting requirements are implemented.

These demands are being made at a time when tax departments are under greater pressure to increase efficiency and provide genuine value. Along with effectively utilizing current technology, indirect tax teams must assess the need for extra resources and determine the right balance of in-house and outsourced work for their organizations to satisfy these demands.

In order to help drive transformation within their own organizations, indirect tax and customs functions must become future-proof by implementing a data strategy, harnessing the right technology to support their operating model, creating a tax governance structure that defines responsibilities, considering a centralized approach to VAT management, and using the implementation of tax policies to address long-standing data issues.

SUSTAINABILITY

Governments, businesses, and individuals around the world are prioritizing climate catastrophes and the need to safeguard the environment and human health. Governments are relying more on indirect taxes to support their environmental, social, and governance (ESG) initiatives, and indirect taxes are raising revenue to help fund green policies. New green taxes are also motivating people and companies to make the necessary changes in order to achieve sustainability goals.

The functions of tax and customs are put under pressure by ever-evolving tax and customs regulations. They need to be aware of the taxes that are applicable to their companies, how to comply with their commitments, and how to account for them in costing and supply chain choices. As an example, they can assist in lowering expenses, reducing compliance risks, and finding opportunities for grants and incentives to finance green investments.

Indirect tax and customs functions should consider understanding their organization's plans to achieve its climate ambitions and get involved, as well as measure the impact of sustainability taxes and related policy measures on operations. Other key sustainability actions include identifying tax credits, grants, and incentives that will support the organization's green agenda, assigning clear responsibilities, assessing exposure and liaising with relevant stakeholders within the value chain, and planning and implementing responses to the new measures impacting the business.

THRIVING IN TRYING TIMES

Leaders in indirect tax have never had a better chance to add more value to their organizations. By utilizing their abilities, creating connections within the organization, and utilizing innovative technology, they can bring about positive change and produce significant results.

It is imperative that they take into account the bigger picture and how the megatrends of global trade, transformation, and sustainability affect the indirect tax function. This will allow them to better frame the indirect tax issue inside their organizations, navigate hurdles, and seize opportunities that will benefit the whole organization and allow it to thrive instead of merely surviving in trying times.

This article is for general information only and is not a substitute for professional advice where the facts and circumstances warrant. The views and opinions expressed above are those of the author and do not necessarily represent the views of SGV & Co.

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