Inflation remains risk to PHL's growth targets, Balisacan says

THE GOVERNMENT needs to address elevated inflation to achieve its 6-7% growth target for this year, National Economic and Development Authority (NEDA) Secretary Arsenio M. Balisacan said, noting that domestic demand is being dampened by high prices.

Mr. Balisacan also expressed support for extending the reduced tariffs for pork, rice, corn, and coal to keep inflation contained.

"Inflation has always been a major concern because when high inflation persists, that discourages or depresses domestic demand," he said at a Palace briefing.

If the government succeeds in bringing down inflation, "that will be a big boost to our domestic demand and to our growth," he added.

Gross domestic product rose 4.3% year on year in the three months to June, the weakest reading in over two years, according to the Philippine Statistics Authority. It was weaker than the 6.4% growth posted in the first quarter and the 7.5% from a year earlier.

In its monetary policy report for August, Bangko Sentral ng Pilipinas Governor Eli M. Remolona, Jr. said growth could settle below the 6-7% target in 2023 and below the 6.5-8.0% target for 2024 and 2025 due to economic headwinds as well as the impact of cumulative monetary policy adjustments.

The economic growth target for this year remains achievable, but inflation, which could increase due to rising prices of food and oil, remains a risk, Mr. Balisacan said.

"The downside risk is inflation, especially that oil prices are (rising) again," he said. "For staples like rice, prices on the global market are also rising."

The government needs to ensure that it is "in good command of our policy tools," he added. "For example, looking at enhancing the availability of (commodities) so that we can prevent untoward increases or upward pressure in prices in the near term."

Inflation slowed for a sixth consecutive month to 4.7% in July, but economists said rising prices of oil and rice and other food items might affect the trajectory of the price index.

The central bank still expects inflation to come in within the 2-4% target range by the fourth quarter.

"And as we have seen, we have made significant progress since January in slowing down inflation," Mr. Balisacan said, "and we would want to continue moving in that direction."

The government's chief economic planner also said improving business conditions and boosting the quality of jobs in the country are also necessary if growth targets are to be met.

"We are keeping watch on agencies and putting pressure on each other to ensure that we are making progress in easing business conditions," he said. "This we have to address."

"Remember that our goal, first and foremost, is massive investment to improve the quality of jobs," he said, "because as an economist looking at the problem, it's not so much anymore the jobs per se that are the problem, but the quality of the jobs."

In July, Ibon Foundation Executive Director Sonny Africa said that of the 1.7 million jobs created since President Ferdinand R. Marcos, Jr. took office in June 2022, "1.4 million are part-time jobs."

Mr. Balisacan said there is a need to extend the executive order that reduced tariffs on key commodities, which is set to expire in December.

He said it is "probably not the right time" to allow tariffs to revert to their former levels.

"We will have to review if the circumstances today still warrant further extending those tariff rates," he said. "And given the situation now, as we actually see it, the world prices of rice have been rising."

Mr. Balisacan also cited the impact of typhoons on agriculture, saying, "We have to be careful about reversing the gains."

"The tariff reductions have been in place for almost two years now, but retail prices have not gone down proportionately," Federation of Free Farmers National Director Raul Q. Montemayor said in a Viber message.

"It is the traders who benefit with little gain for consumers and large losses for producers."

Mr. Montemayor also cited billions worth of foregone government revenue in the form of lower tariff collections.

"We are becoming even more dependent on imports for our basic needs," he said. "The proposal is also a direct contradiction of the assurances given during the hearings on the Regional Comprehensive Economic Partnership (RCEP) that they will not touch the tariffs on sensitive products."

Meanwhile, Mr. Balisacan said bringing the price of rice down to P20 per kilo — a campaign promise of Mr. Marcos — is impossible without boosting farm productivity.

"What drives low prices are increases in productivity," he said.

Mr. Balisacan said the government and the private sector need to invest in irrigation, logistics, and other means of enhancing yields in the face of the changing climate. "Unfortunately, those cannot be done overnight," he added.

"Prices need not be this high as you can see in other countries. Look at Thailand, Indonesia, (and) Vietnam, their prices are much lower than ours because their productivity is high," he said. "We have neglected agriculture for decades and that's what we are trying now to reverse."

Mr. Balisacan said farmers will suffer if the government reduces rice prices to P20 per kilo without a corresponding boost in farm productivity.

"We should be very careful," he said, noting that the government should look at rice market conditions as comprehensively as possible. — **Kyle Aristophere T. Atienza**

Chicken, hog output rise in Q2; farmgate prices decline

CHICKEN and hog output rose in the second quarter, accompanied by declining farmgate prices, the Philippine Statistics Authority (PSA) said.

Production of chicken during the three-month period rose 3.3% year on year to 477.76 thousand metric tons (MT) on a liveweight basis.

Central Luzon was the top producer at 154.12 thousand MT, followed by Calabarzon (93.90 thousand), Northern Mindanao (39.08 thousand), Western Visayas (32.22 thousand), and Central Visayas (29.67 thousand).

The five regions accounted for 73% of national production for the period.

As of June 30, the PSA estimates the national chicken inventory at 200.21 million birds, up 2.8% from a year earlier.

Of the total broiler chicken inventory, native/improved chicken accounted for 43.3%, followed by broiler chicken with a 34.5% share, and layer chicken with 22.2%, the PSA said.

In the three months to June, the farmgate price of chicken averaged P134.13 per kilogram, down 2.4% from a year earlier.

The PSA also reported a 1% year on year rise in hog production during the quarter to 422.72 thousand MT.

The top producer during the period was Central Visayas with 54.44 thousand MT, followed by Calabarzon (53.84 thousand), Northern Mindanao (50.98 thousand), Central Luzon (42.35 thousand), and Western Visayas (42.03 thousand).

These regions accounted for 57.6% of the country's total hog production during the period, the PSA said.

As of June 30, the national hog inventory was up 1.4% year on year at 10.07 million head.

About 67.5% of the swine population is grown by smallhold farms, while the remaining 29.2% and 3.2% are grown by commercial and semi-commercial farms, respectively, the PSA said.

The average farmgate price of slaughtered hogs declined 5.1% to P169.73 per kilogram.

Meanwhile, the production of chicken egg and cattle for the April to June period, fell by 2.1% and 1%, respectively.

Chicken egg production dropped to 81.74 thousand MT from 185.58 thousand a year earlier.

Calabarzon remained the top producer of eggs with 59.86 thousand MT during the period, followed by Central Luzon (33.34 thousand), Central Visayas (19.97 thousand), Northern Mindanao (15.94 thousand), and Western Visayas (9.71 thousand), These top producers accounted for 76.4% of the national total.

As of June 20, the layer chicken flock declined 1.4% year on year to 66.96 million birds.

Cattle production edged lower to 60.95 thousand MT from 61.54 thousand a year earlier.

The top five producers of cattle for the period were Northern Mindanao with 9.56 thousand MT, Calabarzon with 8.24 thousand, Bicol with 6.28 thousand, Ilocos with 5.76 thousand, and Central Visayas with 5.76 thousand.

These regions accounted for 57.5% of the national cattle output for the quarter. — **Adrian H. Halili**

PEZA sees amendments validating perks won by pre-CREATE locators

By Justine Irish D. Tabile
Reporter

PHILIPPINE Economic Zone Authority (PEZA) Director General Tereso O. Panga said amendments being proposed for the Corporate Recovery and Tax Incentives for Enterprises (CREATE) implementing rules are expected to strengthen the argument for the validity of incentives granted to locators before CREATE came into force.

"There's not much value to us on the recent amendment introduced by the Fiscal Incentives Review Board because it caters more to domestic-market-oriented companies that are located in the economic zones (ecozones)," Mr. Panga told reporters on the sidelines of the Philippine Die and Mold Machineries & Equipment trade show.

"Nonetheless, we support that. We support it because of that provision on the sunset period (for incentives) so that anything that we have already extended to our locators prior to CREATE should be honored by the government," he said.

The departments of Finance and Trade and Industry recently approved the amendment of Rule 18 Section 5 of the CREATE implementing rules and regulations (IRR), which concerns value-added tax (VAT) rules for both domestic market enterprises (DMEs) and registered export enterprises (REEs).

Under the amendment, transitory registered DMEs within an ecozone availing of the 5% gross income tax regime may now register as VAT taxpayers.

Meanwhile, transitory REEs with expired income tax-based incentives can continue to enjoy VAT zero-rating on local purchases until the electronic sales reporting system is fully operational or until the expiration of the 10-year transitory period.

"We cater predominantly to export-oriented companies so, right now, their purchases from the local market are entitled to VAT zero-rating already," he said.

When asked if the agency has submitted a proposal for more amendments, Mr. Panga said that PEZA has submitted its input.

"It is being worked out with the Office of the President," Mr. Panga added.

The provision PEZA is most interested in is the sunset provision that the pre-CREATE locators signed up for, which "must be kept whole (as per) the registration agreements with PEZA," Mr. Panga said.

He said that would allow pre-CREATE locators to enjoy incentives already granted to them by virtue of their registration agreements with investment promotions agencies (IPAs).

Mr. Panga added that PEZA is also looking at the possible extension of the sunset period for incentives, which the agency has not submitted a proposal for as yet.

Under Rule 3 of the IRR, export enterprises may be granted four to seven years of income tax holidays (ITH) and a special corporate income tax rate or enhanced deductions for another 10 years.

Meanwhile, a sunset period was also imposed on non-income-related tax incentives of current RBEs for 10 years counting from the effectivity of CREATE. The provision applies to RBEs granted a 5% gross income tax rate. For those RBEs entitled only to an ITH, the sunset period applies when the ITH expires.

Separately, Mr. Panga said in a Facebook post separate customs territory (SCT) status should remain for the ecozones despite the conflicting provisions of the CREATE IRR and Bureau of Internal Revenue's (BIR) Revenue Memorandum Circular (RMC) No. 24-2022.

"This long-standing rule on SCT placing the ecozones under the IPAs' supervision and the grant of zero VAT-rating and VAT exemption incentives have been the selling point of PEZA and other freeport authorities in attracting investors to locate in the ecozones," he said.

"Any attempt to remove these unique incentives and features of the ecozones will surely impact PEZA as an investment promotion agency and the country's competitiveness as an investment destination," he added.

SCT treatment grants locators VAT exemptions by virtue of the cross-border doctrine (CBD) and destination principle in taxation.

The provisions of the CREATE IRR and BIR RMC conflict with the treatment of SCT in the CREATE Law, Mr. Panga said.

OPINION

New VAT refund guidelines: Rerun or revamp?

TAXWISE OR OTHERWISE
EDELWEISS CHUA

It is no secret that taxpayers go through the eye of a needle when applying for value-added tax (VAT) refunds. From gathering the necessary documents for submission to the Bureau of Internal Revenue (BIR), making sure that the documents are compliant with the invoicing requirements, and securing certificates from various government agencies, the list of tasks goes on and on. When the application is received, the pace picks up with a 90-day VAT audit.

To ease these tiresome tasks, the BIR issued Revenue Memorandum Order (RMO) No. 23-2023 to streamline the documentary requirements and procedures in processing and granting VAT credit/refund claims.

At the outset, the updated guidelines would appear to merely reiterate the previous VAT refund guidelines in RMO No. 47-2020. However, a close reading of the new RMO reveals several additions, not to mention the major modifications of the checklist of required documents.

In compliance with The Ease of Doing Business Law (RA No. 11032), the requirements for filing VAT refund applications were by about half. Below are the noteworthy revisions:

• Documents or data that can be gathered from the records of the BIR, such as the annual income tax return and the VAT returns are no longer required for submission. However, for purposes of faster processing, taxpayers are not precluded from submitting copies of the same.

• Similarly, proof that the claimant's clients are registered with the Philippine Economic Zone Authority (PEZA) or the Board of Investments (BoI) is no longer required.

• The number of Delinquency Verification Certificates (DVC) has been reduced. Previously, applicants were required to submit two DVCs, issued by the Revenue Region for non-Large Taxpayers / Large Taxpayers (LT) Collections Enforcement Division for (LT) and the Accounts Receivable Monitoring Division (ARMD). With the current RMO, the DVC issued by ARMD should now suffice. While the presentation of a DVC does not automatically absolve a claimant from outstanding tax delinquencies, should there be tax delinquency with a pending request for abatement, compromise settlement or other legal remedies under the Tax Code, the processing of the VAT refund/credit may still continue.

• With regard to proving zero-rated sales, the original copies of the sales invoices (SIs) and official receipts (ORs) must still be submitted, except for claimants transmitting their sales data to the BIR's Electronic Invoice System (EIS) in accordance with Revenue Regulations (RR) No. 9-2022.

The submission of a scanned copy of the SIs and ORs was also dropped from the checklist. Hence, the previous requirement of a memory device with the sales and purchase documents saved therein is likewise no longer needed. Note, however, that if a refund claim is approved, the original copies of the SIs and ORs for sales and purchases must be forwarded to the Commission on Audit (CoA) for verification. Thus, it may be prudent for the claimant to keep a scanned copy for future reference. At any rate, should the claimant need a copy, a certified true copy may be requested from the CoA.

For claims that have been denied in full, the processing officer must return the original copies of supporting SI or ORs for sales and purchases to the claimant after stamping them as "VAT Credit/Refund Processed."

• An additional requirement was included in proving that the sale of services is to a non-resident foreign corporation (NRFC)-buyer that is not doing business in the Philippines pursuant to Section 108(B)(2) of the Tax Code. The current RMO brought back the requirement under Revenue Memorandum Circular (RMC) No. 47-2019 of providing Articles or Certificates of Foreign Incorporation; but this time, with a little leeway by requiring just a photocopy (instead of an original) or printed screenshots from the website of the corporate regulatory body in the country where the NRFC is domiciled.

• Not much has been revised with regard to proving the input VAT, just a minor tweak of removing the submission of the Statement of Settlement of Duties and Taxes (SSDT) for imports. Such a revision is logical, since the payments indicated per SSDT will also be verified in the VAT payment Certificate issued by the Bureau of Customs, which remains in the checklist.

Upon completing the documentary requirements, direct exporter applicants, should file their claims with the VAT Credit and Audit Division (VCAD). All other remaining applicants, such as those engaged in other VAT zero-rated activities (other than direct exports), or those whose VAT registrations have been cancelled, and those with claims for recovery of erroneously collected VAT, should file at the VAT Audit Section (VATAS) of the Regional Assessment Division, or with their respective Revenue District Office (RDO) if without VATAS, or the Large Taxpayers VAT Audit Unit (LTVAU) of the Large Taxpayers Service (LTS).

With the constant effort of the BIR to update (and now streamline) the refund guidelines, claimants may wonder whether this revamp will actually help them in securing a grant or if their submissions will be deemed insufficient despite this simplified checklist. I guess claimants can only try, compile and file in the hope that this is not just a rerun.

The views or opinions expressed in this article are solely those of the author and do not necessarily represent those of Isla Lipana & Co. The content is for general information purposes only, and should not be used as a substitute for specific advice.

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