

# Travel industry confident in rebound despite inflation

By Justine Irish D. Tabile Reporter

TRAVEL industry officials remain confident in a tourism rebound despite rising prices, with bookings and applications already exceeding pre-pandemic levels.

"From what I can see in our travel agency, we are experiencing an increase in demand for... individual bookings and group bookings; I'm sure that airlines and hotels are also experiencing that," Travel Sale Expo Chairperson Michelle Taylan said at the Travel Sale Expo 2023 news conference on Monday.

She said that the increase in bookings reflects how the "thirst to travel" is still supporting demand despite the rising prices.

"We are experiencing problems, but the people still want to travel," she said.

"Even a business class (seat) is not that easy for us to book because it's always full. And this is very interesting and we really don't know the reason... we just came from the pandemic," she added.

Jagmohan Tamber, director of online visa application center BLS International, said visa applications have also surpassed pre-pandemic levels.

"In BLS before the pandemic, we accepted applications for Spain visa appointments of

around 100 a day ... After the pandemic, we are now accepting 135 to 150 every day, but it is still increasing," Mr. Tamber said.

He added that this is also the same for its agency in Poland, which recorded a more than double the normal level of visa applications.

"Just seeing the difference ... I think travel is very good now," he said.

Marissa Dimaano, assistant vice-president for passenger sales at Philippine Airlines (PAL), said airlines achieved record results in the first half.

"Thanks to our loyal patrons, PAL was actually able to achieve record results for the first half of 2023. And this is really telling how the travel industry has really bounced back from the pandemic," Ms. Dimaano said.

She said that in the first half, the flag carrier saw an 89% increase in passenger volumes last year and booked record revenue.

"That enabled us to actually invest in new aircraft, new technology and customer experiences for our travelers," she said.

"With these very positive numbers, we hope that we will be able to sustain it with this hunger for travel for many of our Filipino travelers, as well as our international foreign travelers coming into the Philippines as well," she added.

United Airlines Philippine country manager for sales Pam C. Navarro said that the airline has been exceeding expectations.

"I'm also happy to share that on the global level, regional level and at the local level we're doing much better than expected," she said.

She added that the airline's fleet buildup during the pandemic reflected its confidence it is in the recovery of the sector.

"We placed orders for 700 aircraft, a combination of wide and narrow bodies, in anticipation of the return of travel," she said.

The airline has announced plans to operate a Manila-San Francisco service.

"(We are confident) not just in the Philippine market but also on the traffic coming from the US, because ultimately you would want to look at the market from both sides of the world. And the demand is really there, it's really booming," she added.

On the sidelines of the briefing, Ms. Navarro said that the direct flight to San Francisco from Manila is only one of the flights that the airline will be launching but noted that it is the most popular route for the US market.

Kesler U. Go, marketing and Philippine representative of Guam Visitors Bureau, said that Guam has yet to return to pre-pandemic levels.

"But if you look at it in a bigger picture, Guam has seen a 200% recovery from 2022 and that includes tourists coming in from Japan and Korea," he said.

## Energy dep't preparing airlines for sustainable fuel phase-in by 2027

THE Department of Energy (DoE) said it has taken the first steps towards getting airlines ready for the global adoption of sustainable aviation fuel (SAF) starting in 2027.

"The use of SAF is intended to reduce the carbon footprint associated with aviation operations. This alternative fuel source, derived from renewable feedstock, holds the potential to lower greenhouse gas (GHG) emissions while ensuring the highest safety and performance standard," Energy Undersecretary Alessandro O. Sales said in a statement.

"The DoE is working to establish the necessary framework and regulations to support the adoption of SAF," he added.

SAF adoption is an initiative of the International Civil Aviation Organization (ICAO), which has put forward the Carbon Offsetting and Reduction Scheme for International Aviation (CORSA).

The CORSIA timetable requires member states to start complying with the carbon offset requirements by 2024-2026, followed by the mandatory phasing in of SAF in 2027-2035.

According to the DoE, SAF is an "environmentally sustainable and chemically identical alternative to fossil fuel-based aviation fuel."

The Philippines joined CORSIA in December 2018 through the Civil Aviation Authority of the Philippines (CAAP).

The DoE conducted consultations in February along with the CAAP, Philippine National Oil Co. and the European Aviation Safety Agency (EASA) and discussed the potential advantages of SAF in preparation for full compliance by 2027.

The agency said that EASA is expected to complete a proposal for the Philippines' SAF readiness evaluation by December. — **Sheldeen Joy Talavera**

## HSBC Global Research sees PHL rate hike in Q4

HSBC GLOBAL Research expects the Bangko Sentral ng Pilipinas (BSP) to raise its benchmark rate by another 25 basis points (bps) in the fourth quarter due to heightened global inflation risks.

The projected policy move in the three months to December will depend on whether the planned tariff reduction on rice is sufficient, HSBC Global Research Association of Southeast Asian Nations economist Aris Dacanay said in a report on Monday.

"We change our call, however, for 4Q 2023 and pencil in another 25 bp hike to 6.50% in consideration of the recent surge in global

rice prices but flag that the hike will be inter-policy dependent; the BSP will unlikely hike the policy rate if the planned tariff reduction on rice is sufficient," he said.

Mr. Dacanay also reiterated his forecast for the BSP to hold its benchmark rate at its meeting on Thursday even after inflation accelerated in August.

Headline inflation accelerated for the first time in seven months to 5.3% in August from 4.7% in July. Inflation averaged 6.6% in the eight-month period.

Along with 13 other analysts, Mr. Dacanay was part of the majority of 17 analysts in a *Business-*

*World* poll conducted last week that sees the BSP maintaining its policy rate at a near 16-year high of 6.25%.

The BSP extended its policy pause for a third straight time at its Aug. 17 meeting, keeping the benchmark interest rate at a near 16-year high of 6.25%.

The central bank raised borrowing costs by 425 bps from May 2022 to March 2023 to tame inflation.

He likewise maintained his forecast for the BSP to begin its easing cycle in the second quarter next year, matching HSBC Global Research's outlook for the Federal Reserve's own easing cycle.

"Due to a wide current account deficit and the renewed strength in the dollar, we continue to expect the BSP to cut its policy rate only after the Fed cuts its rate. Our baseline forecast is for the Fed to begin its easing cycle in 2Q 2024," Mr. Dacanay said.

The Fed raised interest rates by 25 bps last month, bringing its benchmark overnight rate to a range between 5.25% and 5.5%.

It has hiked rates by a cumulative 525 bps since it began its tightening cycle in March last year.

The Fed will meet on Sept. 19-20 to review its policy settings. — **Aaron Michael C. Sy**

## BIR allows use of e-signatures in warrants of garnishment

THE Bureau of Internal Revenue (BIR) said it is allowing the use of e-mails and e-signatures in the issuance of warrants of garnishment.

In its Revenue Regulations No. 11-2021, the BIR said that it is prescribing the use of e-mails and e-signatures as an additional mode of service for warrants of garnishment to facilitate the collection of delinquent taxes.

"Traditionally warrants of garnishment against the deposits of delinquent taxpayers are issued and served physically or via con-

structive/substituted means, to the concerned depository banks," the BIR said.

"For the past years, collection personnel mandated to serve warrants of garnishment were confronted with challenges in the pursuit of their specific functions. Therefore, the service through electronic mail and the use of electronic signatures on the warrants of garnishment are necessary in order to exhaust the benefits of this modern-day technology," it added. — **Luisa Maria Jacinta C. Jocson**

## FIBA World Cup tournament buoys visitor numbers, hotel occupancy — DoT

THE Department of Tourism (DoT) said visitor arrivals and hotel occupancy rose during the FIBA Basketball World Cup 2023 tournament, of which the Philippines was a co-host.

Tourism Secretary Ma. Esperanza Christina C. Frasco said: "The country's undisputed love for bas-

ketball also shone from our united support for our Gilas Team to record-breaking attendance on opening day," she said in a statement.

She said the visitor numbers were swollen by the influx of "teams, basketball fans, families, and members of country delegations enjoying our accommoda-

tion and hospitality industries, and discovering our local destinations," she added.

The DoT's National Capital Region Office said that all nine FIBA official hotels posted higher occupancy rates between Aug. 25 and Sept. 12.

During the period, Conrad Manila in Pasay, Hotel101-Manila,

Microtel MoA, Hilton Manila, TRYP MoA and Grand Hyatt Manila in Taguig recorded average occupancy exceeding 90%.

Meanwhile, the department's Statistics, Economic Analysis and Information Management Division noted an increase in visitor arrivals to the Philippines from

countries with FIBA participating teams for the July 1-Sept. 12 period.

"Out of the 20 countries with teams that competed in the recently concluded sporting event, almost half registered a growth rate of more than 100% in terms of visitor arrivals to the Philip-

pines... versus the same period in 2022," the DoT said.

Arrivals from the Dominican Republic rose 700%, while those from Latvia rose 600%. The corresponding gains were 595.85% for China, 444.58% for Lithuania, and 429.07% for Serbia. — **Justine Irish D. Tabile**

### OPINION

## The peculiarities of taxing PEZA entities

In my little over a year of experience as a tax professional, I have noted the peculiarities of taxing Philippine Economic Zone Authority (PEZA) registered businesses. This peculiarity creates conflicting resolutions and interpretations of tax rules issued by Bureau of Internal Revenue (BIR) and PEZA. Unfortunately for PEZA entities and taxpayers transacting with PEZA entities, the

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conflict creates uncertainty in the tax treatment of some of their activities.

Considering that BIR and PEZA are both government agencies with mandated powers and duties, a good way to resolve the confusion caused by these conflicting interpretations is to determine their respective powers and duties in relation to the taxation of PEZA entities.

In general, the power and duty to assess national internal revenue taxes are lodged with the Commissioner of Internal Revenue (CIR) or his authorized representatives. It follows then that the CIR or his authorized representative have the power to audit and assess PEZA entities. Specifically, Revenue Regulations (RR) No. 01-00, as amended, has emphasized the CIR's or his authorized representative's power to audit the 5% special gross income tax (GIT), as well as his power to abate, cancel, or compromise on the payment of the tax, including his power to implement special voluntary payment program/s for last priority in audit.

In the case of AGM Packaging System Ltd. Corp. vs. Commissioner of Internal Revenue (CTA Case No. 1743 dated March 29, 2019), the court disregarded AGM's contention that PEZA has the sole authority to declare upon factual compliance that the company is a bona fide PEZA enterprise and its entitlement to tax incentives. The court recognized the CIR's authority, in the exercise of his power to assess, to determine whether the company is qualified to avail of the preferential income tax rate granted to PEZA entities.

Considering the ruling in this case, what then is the role of PEZA as to the taxation of PEZA entities?

If we look at the listed powers and duties of PEZA under Section 13 of RA 7916, as amended, it does not really mention the specific authority of PEZA when it comes to the taxation of PEZA entities. However, item (h) of the same section provides that PEZA has the authority to recommend to the local government units or other appropriate authorities the location, incentives, basic services, utilities and infrastructure required or to be made available for such entities. Following this provision, we can infer that PEZA's role in the taxation of PEZA entities is merely recommendatory.

Evidently, PEZA is authorized to issue certifications on an annual basis confirming that an entity is a bonafide

PEZA establishment entitled to the 5% special tax on gross income pursuant to Section 5(c) of RR No. 01-00.

Take note, however, that since the distinction of powers and duties between BIR and PEZA is general in nature, certain tax issues remain unresolved up to this date. This is where BIR and PEZA are somehow given flexibility to issue conflicting resolutions and interpretations. An example would be the issue of whether scrap sales are subject to 5% GIT or 30% regular corporate income tax (RCIT).

PEZA, through its Director General, issued PEZA Memorandum Circular No. 032-05 stating that sales of production rejects and seconds and recovered waste/scrap are considered covered by the registered activity of an export enterprise; hence, they are subject to 5% GIT.

On the other hand, in the CTA case of Subic Water Sewerage Co., Inc. vs. Commissioner of Internal Revenue (CTA Case No. 9074 dated Aug. 14, 2019) adopting the ruling in the case of Commissioner of Internal Revenue vs. Nidec Copal (CTA Case No. 250 dated Oct. 1, 2007), the court held that scrap sales although incidental to the registered activity of the PEZA entity are subject to 30% RCIT pursuant to Section 8 of the PEZA Rules and Regulations.

Notwithstanding these CTA cases, the BIR issued rulings, such as BIR Ruling [DA-(IL-038) 726-09] dated Dec. 9, 2009, adopting the PEZA circular and subjecting the scrap sales to 5% GIT. Furthermore, some PEZA entities have

received confirmation from PEZA that their scrap sales are subject to GIT. Thus, PEZA entities are still confused as to the proper tax treatment of their scrap sales, resulting in deficiency tax assessments during BIR audit.

Nonetheless, there are certain tax issues resolved by BIR and PEZA resolutions and interpretations as they clearly define BIR and PEZA's respective roles and duties in line with their general powers and duties, such as in case of the issuance of VAT zero-rating certification.

Prior to the CREATE Law and when the "cross border doctrine" was still applicable, securing VAT zero-rating certification was not mandatory. However, with the passage of the CREATE Law, which qualified the VAT zero-rating of local purchases of PEZA entities, securing a VAT zero-rating became mandatory.

Initially, local suppliers of PEZA entities had to secure VAT zero-rating certification from BIR in addition to the VAT zero-rating certification issued by PEZA. However, with the effectivity of RR No. 03-2023 on April 28, 2023, they are no longer required to seek approval from the BIR. This is without prejudice, however, to the BIR's authority to conduct post-audit investigations or verification as to the validity of the zero-rating.

With the change of BIR rules, the effect of RR No. 03-2023 on pending VAT zero-rating applications with the BIR became unclear to taxpayers. To resolve this, BIR issued Revenue Memorandum Circular (RMC) No. 80-2023. Pursu-

ant to the RMC, applications for VAT zero-rating which have been received by BIR prior to April 28, 2023 and with a VAT zero-rating certificate from an Investment Promotion Agency such as PEZA, will be accorded VAT zero-rating treatment from the date of filing, subject to post audit by BIR. On the other hand, transactions that were already consummated prior to April 28, 2023 but without an approved application for VAT zero-rating and disapproved applications prior to April 28, 2023, will be subject to 12% VAT.

With the issuance of RR No. 03-2023 and RMC No. 80-2023 which clearly defined the respective roles and duties of BIR and PEZA on VAT zero-rating of local purchases of PEZA entities, let us all hope that more regulations will be issued, and cases will be promulgated to resolve all the tax issues peculiar to PEZA entities.

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