Franchisers see revenue growth of 10%-13%

By Justine Irish D. Tabile
Reporter

THE Philippine Franchising Association (PFA) said the industry is expected to grow 10% to 13% next year, driven by the food, services and retail segments.

"The 10% is our projection next year and on the high end, we are looking at 13%," according to Sherill R. Quintana, PFA chair, adding that she hopes the growth rate extends to a five-year timeline.

She delivered her projection at a briefing on Monday ahead of the Franchise Asia Philippines 2023 International Franchise Expo.

Last year, the franchising industry booked P27 billion in revenue, with revenue growth projected at 13% this year.

PFA President Chris Lim said one of the big drivers for industry this year is food, while services are expected to recover next year after having lagged coming out of the pandemic.

"This year, food is what's been driving it a lot. If you look at all the reports, a lot of the food players are probably higher than pre-pandemic levels. Services in the industry have lagged, like salons and spas. Some of them haven't even fully opened yet, but we see a lot of them opening and recovering by next year," he said.

He said that the industry should watch out for agricultural franchising as there is a big push for such businesses in the Philippines.

"We think franchising can serve that sector a lot from the retailers, from those who supply inputs to the franchise or to the agriculture sector, or even servicing," Mr. Lim said. "We can see a whole ecosystem building that will support this agricultural shift."

Richard Sanz, overall co-chair of Franchise Asia Philippines 2023 and chief executive officer of BBK Group, said coffee could drive the growth of the industry in the next five to 10 years.

"During the pandemic, we noticed that there were a lot of homebrewers who really specialized or upgraded their coffee experience," Mr. Sanz said. "When things opened up, there was a void that needed to be filled ... driving so many coffee shops to open."

He said this trend is apparent elsewhere in Asia.

"If you look at Korea and Japan, coffee has been driving a lot of their F&B (food and beverage) markets. The Philippines is, I would say, maybe 10 years behind... but it's quickly growing and it's a very big market to fill," he added.

The international franchise expo is set to run between Oct. 27 and 29, running back-to-back with meetings of the World Franchise Council and Asia-Pacific Franchise Confederation between Oct. 25 and 27.

Water resources board retains Metro Manila's October allocation at 50 cubic meters per second

THE Metropolitan Waterworks and Sewerage System (MWSS) said that the National Water Resources Board (NWRB) retained the MWSS water allocation at 50 cubic meters per second (cms) for October.

"The retention of the 50 cms is due to the increased inflows that we are experiencing at the watersheds," Patrick James B. Dizon, head of the MWSS Angat/Ipo operations management division said in a Viber message.

"We are confident that we will hit the 210–212-meter year-end target elevation by the end of this year in preparation for the (peak of) El Niño next year," he added.

The decision was made during the NWRB's meeting on Sept. 25.

In July, the government weather service, known as PAGASA (Philippine Atmospheric, Geophysical and Astronomical Services Administration), announced the onset of El Niño, which is expected to persist until the first quarter of 2024.

As of Monday morning, Angat Dam's water level was 207.08 meters, down from 207.17 meters a day earlier, PAGASA said.

Angat Dam is the main source of water for Metro Manila, accounting for about 90% of the capital's potable water.

The MWSS normally draws 48 cms from Angat Dam. NWRB had approved the proposed 50 cms water allocation for September.

"MWSS expresses its gratitude for the approved granted by the NWRB Board of Trustees regarding our request for retained allocation," Mr. Dizon said.

"As a result, the water interruption advisory issued by Maynilad, due to the lower allocation from Angat Dam, will remain suspended. These interruptions will only be primarily directed towards maintenance activities that our concessionaires regularly undertake to

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enhance the quality of service," he added.

On July 10, Maynilad Water Services, Inc. issued an advisory informing its customers of daily service interruptions in parts of the west zone starting July 12.

The concessionaire then suspended the planned service interruptions days later due to the improved water supply from Ipo Dam brought on by rains from Tropical Depression Dodong.

Maynilad serves the cities of Manila, except portions of San Andres and Sta. Ana. It also operates in Quezon City, Makati, Caloocan, Pasay, Parañaque, Las Piñas, Muntinlupa, Valenzuela, Navotas, and Malabon.

It serves the cities of Cavite, Bacoor, and Imus, and the towns of Kawit, Noveleta, and Rosario in Cavite province.

Metro Pacific Investments Corp., which has a majority stake in Maynilad, is one of three Philippine units of Hong Kong-based First Pacific Co. Ltd., the others being Philex Mining Corp. and PLDT Inc.

Hastings Holdings, Inc., a unit of PLDT Beneficial Trust Fund subsidiary MediaQuest Holdings, Inc., has an interest in *BusinessWorld* through the Philippine Star Group, which it controls. — **Sheldeen Joy Talavera**

PHL raw sugar output forecast downgraded by USDA

THE US Department of Agriculture (USDA) downgraded its annual raw sugar forecast for the Philippines, citing El Niño and the decline in the area planted to sugarcane.

According to a report by the USDA's Foreign Agricultural Service (FAS), raw sugar output is now estimated at 1.8 million metric tons for marketing year 2024, a downgrade of 5.3% from initial estimates.

The USDA's marketing year runs from September to August, corresponding with the sugar industry's own crop year.

The FAS forecast is less than the estimate reported by the Sugar Regulatory Administration (SRA) in Sugar Order No. 1.

The SRA said raw sugar output could reach 1.85 million metric tons, but will vary depending on the severity of the ongoing El Niño.

Official projections by the government weather service put the peak of the El Niño at late 2023 to early 2024.

"The El Niño phenomenon increases the likelihood of below-normal rainfall and reduced yields," the FAS said.

The FAS also projected that land planted to sugarcane will decline slightly to 385,000 hectares from the initial forecast of 390,000 hectares. It said sugar acreage declined in Batangas after the closure of Central Azucarera Don Pedro.

"Despite the loss of area in Luzon, expansion in sugarcane areas in Mindanao will partly compensate... about 10,500 hectares," it said.

The FAS assumes no imports of raw sugar during the remainder of the year "as the government seeks to protect local producers." Shipments of refined sugar are expected to hit 240,000 MT.

Forecast demand for raw sugar was unchanged for the market year at 2.2 million MT.

"The high prices of sugar and sugar-using products will continue to discourage increases in consumption," it said. — **Adrian H. Halili**

Lack of subsidies seen muting fiscal impact of high fuel prices

HIGHER oil prices will have a limited impact on the Philippines' fiscal position in the absence of government fuel subsidies, Nomura Global Markets Research said.

Nomura Global, in a note dated Sept. 29, said the Philippines is one of three economies in Asia that will dodge fiscal consequences as a result of the high price of fuel.

"Only three economies have no fuel subsidies, which means higher oil prices will show up in higher inflation, but should not lead to worsening fiscal finances. These include Singapore, the Philippines and Hong Kong," it said.

"With no fuel subsidies in place, there is likely to be a larger impact on inflation in the Philippines," it added.

Consecutive fuel price hikes between July and September have prompted some legislators to propose suspending taxes on fuel products to help bring down pump prices.

This week, oil companies cut pump prices by P2 per liter of gasoline and P0.5 per liter of kerosene. However, they raised the price of diesel by P0.4 per liter.

Inflation likely accelerated in September due to elevated pump prices and electricity rates. A *BusinessWorld* poll of 17 analysts yielded a median estimate of 5.4% for September inflation, at the low end of the 5.3-6.1% forecast of the Bangko Sentral ng Pilipinas.

If realized, September inflation will exceed the 5.3% reading in August, but will come in below the 6.9% from a year earlier. It would also be the highest reading since the 6.1% reported in June.

Consumer price index (CPI) data are expected to be released on Oct. 5, Thursday.

Nomura Global earlier estimated that a 10% rise in oil price raises headline CPI by 0.2 percentage point (ppt) on average, worsens the current account balance by 0.3 ppt and weighs on economic growth by up to 0.1 ppt.

It sees less of an impact in some countries — about 0.1% of gross domestic product (GDP) for every 10% oil price increase in South Korea, and 0.2% of GDP in India, Indonesia, and Thailand.

"Governments shield consumers via retail price controls, subsidies and tax cuts to ease their cost of living and prevent inflation expectations from becoming unanchored. The resultant fiscal burden is sometimes borne by domestic oil firms, meaning the fiscal impact is reflected both on- and off-budget," it said.

This time around, Asian governments are more likely to act to limit the pass-through effect of high oil prices to consumers.

"This is because economies have only recently started to show signs of recovery from the period of high food/oil prices following the start of the Russia-Ukraine war, and food price risks are already on the rise owing to El Niño," Nomura said.

It also noted that consumer demand has been weaker this year compared to 2022, while upcoming elections in India and Indonesia may also mean fuel subsidies will likely continue.

"Overall, Asia's energy policies are opaque, and the discretionary nature of government fiscal support means there can be temporary periods of cash flow mismatch for oil refineries. In addition, if higher oil prices are accompanied by an increase in gas and coal prices, there would be an increased fiscal burden from electricity as well," Nomura added. — **Keisha B. Ta-asan**

OPINION

VAT zero-rating for Registered Export Enterprises made easy

LET'S TALK TAX
AARON PAUL A. SANTOS

The CREATE Act radically changed the value-added tax (VAT) landscape for Registered Export Enterprises (REEs) with the introduction of the condition that only items "directly and exclusively used" in the export business qualify for VAT exemption. It effectively repealed the Cross-Border Principle on which the Philippine VAT system is anchored. Under this long-standing principle, no VAT may be imposed to form part of the cost of goods and services destined for consumption and performance outside the territorial border of a taxing authority.

Consequently, no VAT may be passed on to REEs on goods and services delivered to them as Economic Zones are treated as a separate customs territory by legal fiction.

However, this is not the case in the current VAT setup for REEs. Under the CREATE Act, only goods and services that are directly and exclusively used in the REEs' registered activities and projects are qualified for VAT zero-rating treatment.

In implementing this change in the VAT rules, the BIR has released several issuances. Among others, Revenue Memorandum Circulars (RMC) 24-2022 and 49-2022 informed taxpayers that to avail of the 0% VAT, prior approval must be obtained by local suppliers of goods and services to REEs starting March 9, 2022. However, with the numerous applications piling up, the BIR has deemed it necessary to simplify the process and remove the requirement of prior approval through the issuance of Revenue Regulations (RR) No. 3-2023.

The removal of prior approval for VAT zero-rating for REEs was a relief to taxpayers as the prior application requirement had hindered or delayed REEs from enjoying the VAT zero-rated entitlement granted to them under the law. With the new and efficient rules, local suppliers will only need to secure certain documents from the REEs and ensure that the transactions are covered under the VAT-Zero Rate Certificate provided by the latter so that in case of a post-audit, the VAT 0% treatment can be justified. It also relieves REEs from the rigorous process of applying for a VAT refund for purchases that are really qualified for 0% VAT.

However, RMC No. 80-2023 clarified that the retroactive effect of RR No. 3-2023 only applies to sales of goods and services to REEs with prior applications accompanied by a VAT-Zero Rate Certificate issued by the concerned Investment Promotion Agency (IPA) which have not been acted by the BIR. Consequently, if no application was made by the local supplier, sales to REE prior to the effectivity (i.e., April 28, 2023) of RR No. 3-2023 are subject to 12% VAT.

What if a service was performed and the billing invoice was issued, on or after March 9, 2022, without the required prior application? Would there still be an exposure if local service providers applied for the zero-rating before collection and issuance of official receipts? Can the taxpayer argue that prior application was filed on time since for VAT purposes, the sale of services is reported upon collection?

Additionally, for long-term contracts, if the taxpayer failed to file an application for those contracts entered and commenced on or after March 9, 2022, but before the effectivity of RR No. 3-2023, does it mean that the taxpayer is no longer entitled to 0% VAT until the completion of the long- term contract? Or can the taxpayer consider that the services billed and performed, pursuant to the said long-term contract, on and after the effectivity of RR No. 3-2023, are entitled to 0% VAT even without prior application?

In this regard, it may be necessary for the tax authorities to release clarificatory issuances to address these concerns.

On another note, even though taxpayers have been relieved of the need to file a prior application, it is important to emphasize that they still bear responsibilities under the rules. Q5 and A5 of RMC No. 80-2023 provide that local suppliers should secure from the REEs the following documents prior to the transactions to be entitled to 0% VAT and must be presented to the BIR, in case of a post audit:

1. VAT Zero-Rate Certification issued by the concerned IPA;

2. COR issued by the BIR having jurisdiction over the head office/branch/freeport/ecozone location where the goods and/or services are to be delivered;

3. COR issued by the concerned IPA stating all registered ecozone location; and

4. A sworn affidavit executed by the REE-Buyer, stating that the goods and/or services are directly and exclusively used for the production of goods and/or completion of services to be exported or for utilities and other similar costs, the percentage of allocation be directly and exclusively used for the production of goods and/or completion of services to be exported following the format under RMC No. 84-2022.

These documents, in addition to the existing substantiation requirements, will prove that the transactions that they have been entered into were indeed entitled to 0% VAT. These are crucial in the case of a tax audit as even if only one of the above is missing, the authorities may assess deficiency in VAT. Thus, local suppliers and REEs should work together to fully substantiate the 0% VAT nature of the transactions.

Now that the new rules on 0% VAT to REEs are restricted to goods and services "directly and exclusively used," the BIR has recognized the need for more streamlined and simplified government procedures, and in response, has issued RR No. 3-2023 and RMC No. 80-2023. These efforts underscore the Bureau's commitment to aligning with the government's goals, particularly in accordance with the Ease of Doing Business Act.

The removal of prior approval has made it easy for REE to enjoy VAT-zero rating as both processing and filing of applications can be burdensome to both the taxing authorities and the taxpayers. By continuously improving their services, the BIR can enhance the taxpayers' overall experience and facilitate a more efficient and business-friendly environment.

Let's Talk Tax is a weekly newspaper column of P&A Grant Thornton that aims to keep the public informed of various developments in taxation. This article is not intended to be a substitute for competent professional advice.

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