BPO industry sees headcount growing 7-8%

THE Information Technology and Business Process Association of the Philippines (IBPAP) said it is targeting 7-8% growth in staffing next year.

"Hopefully we will achieve between 7-8% growth next year. I will be happy with that. We added 130,000 jobs this year ... So the total will be 1.7 million jobs," IBPAP President and Chief Executive Officer Jack Madrid told reporters on Thursday.

"Our target is at least 7%. But you have to remember the base keeps getting higher and higher, so the 7% this year is less than the 7% of next year," he said.

For this year, IBPAP expects the industry to grow 8.7% in terms of staffing, which Mr. Madrid said he is confident of achieving.

"We are going to hit that number. November and December are high growth months because of the Christmas season. People hire more in November and December," Mr. Madrid said.

In terms of revenue, he said the industry, which is also known as the business process outsourcing (BPO) sector, will be posting 8.8% growth to $35.4 billion this year.

Asked what the segments will be the strongest next year, he said: "The growth sectors are healthcare; all the global healthcare companies are already here, banking and finance; and of course, the contact centers."

He said the Philippines remains a leader in the traditional contact center with demand still growing.

"We don't have a problem with demand. There's a lot of demand for the Philippines. Our challenge is the supply of employees, we need more employees," he said.

Under the IBPAP Roadmap, the information technology and business process management (IT-BPM) industry is targeting the creation of 1.1 million new direct jobs through 2028, bringing the total to 2.5 million.

"Our target is 1.1 million; so far we have done 300,000 of the 1.1 million, so we have 800,000 to go," he said.

In terms of revenue, the IT-BPM sector is expected to generate $59 billion in 2028, amounting to a compound annual growth rate of 10.4%. — **Justine Irish D. Tabile**

EU free trade deal scoping talks seen completed by Dec.

THE Department of Trade and Industry (DTI) said that the free trade agreement (FTA) between the European Union (EU) and the Philippines is currently at the "scoping stage," which is expected to be completed by the end of the year.

"We are at the scoping stage. The target is it will be finished before the end of the year," Trade Secretary Alfredo E. Pascual told reporters last week.

He said that once the scoping is done, the two parties will then decide whether to pursue FTA negotiations, with both sides needing to come to a "meeting of minds."

Asked if disagreements have surfaced, he said: "We have not reached that yet."

Meanwhile, he said that the Philippines still maintains ambitions for an FTA, "but of course the EU also has their own targets and if that matches ours, we will proceed."

Last week, EU Ambassador to the Philippines Luc Veron said that the discussions are "on track" as the two sides held a number of meetings to look into the various chapters that will constitute the FTA.

The FTA discussions were relaunched in July after the EU Commission announced its intention to restart talks, which were suspended in 2017.

According to the EU Commission, its goals for a Philippine FTA includes market access commitments, swift and effective sanitary and phyto-sanitary procedures, and protection of intellectual property rights.

The Philippines currently enjoys trade preferences under the EU's Generalized Scheme of Preferences Plus (GSP+) which is a special incentive for low and lower middle-income countries. It grants the country zero duties on 6,274 products.

The current arrangement is set to expire by the end of 2023. However, Mr. Veron said that it will be extended for another four years as there was no consensus on the revisions among EU legislators.

On Thursday, the European Chamber of Commerce of the Philippines (ECCP) welcomed the extension of the GSP+ scheme.

"We appreciate the European Parliament supporting the European Commission's proposal to renew the scheme for another four years," ECCP said in a statement.

"The ECCP has strongly advocated for the GSP+ renewal since many European and Filipino firms are benefitting from this scheme," it added.

According to the ECCP, Philippine exports to Europe under GSP+ were valued at 6.6 billion euros between 2020 and 2022. — **Justine Irish D. Tabile**

Inflation to breach 6% this year — FMIC, UA&P

HEADLINE inflation will likely breach 6% this year and only settle within the central bank's target range next year, First Metro Investment Corp. (FMIC) and the University of Asia and the Pacific (UA&P) said.

In its latest Market Call released on Monday, FMIC and UA&P said they expect inflation to come in at 6.2% this year, above the Bangko Sentral ng Pilipinas' (BSP) 6% full-year forecast.

Headline inflation eased to 4.9% in October, the weakest reading in three months. However, this marked the 19th straight month that inflation breached the central bank's 2-4% target band.

In the 10 months to October, inflation averaged 6.4%.

FMIC and UA&P said inflation will likely return to the central bank's 2-4% target band by the first quarter, barring any sudden surge in food prices.

"We now expect year-on-year inflation to go within the BSP's 2-4% target by the first quarter of 2024, but may again exceed the ceiling if food prices remain elevated," it said.

"Rice prices still have an upside risk if the government fails to address the emerging El Niño droughts," it added.

The BSP sees inflation easing to 3.7% for 2024 and 3.2% for 2025.

"In the coming months, food price movements will likely dictate the pace of inflation since crude oil prices have tumbled by some 16% due to weak global demand," it added.

Meanwhile, FMIC and UA&P retained their gross domestic product (GDP) forecast this year.

"All told, while the possibility of a slightly slower GDP uptick in the fourth quarter exists, full year growth should hold at 5.8%, which still exceeds most forecasts," it said.

In the third quarter, the economy grew 5.9%. This was faster than 4.3% in the second quarter but weaker than the year-earlier 7.7%.

GDP growth averaged 5.5% in the first nine months. The economy would need to grow by 7.2% to hit the lower end of the government's target.

The government is targeting 6-7% growth this year.

"The growth momentum should continue in the fourth quarter... as infrastructure spending has gained traction, while consumer spending should improve with southbound inflation rate," it added.

FMIC and UA&P also expect the debt-to-GDP ratio to settle at 60.5% by the end of the year.

"National Government (NG) spending in the fourth quarter should remain robust despite the concern of the Department of Budget and Management's to keep the lid on the debt-to-GDP ratio," it added.

The NG's debt as a share of GDP fell to 60.2% at the end of the third quarter, lower than the 61% at the end of the second quarter and the 63.6% posted a year earlier.

However, this still exceeds the 60% threshold considered by multilateral lenders to be manageable for developing economies.

The government expects the debt ratio to settle lower than the 61.4% under its medium-term fiscal framework. It is hoping to bring down the ratio to below 60% by 2025. — **Luisa Maria Jacinta C. Jocson**

Chip collaboration with US seen making supply chains more resilient

By Kyle Aristophere T. Atienza
Reporter

THE Philippines' largest organization of electronics companies said on Sunday that Manila's growing collaboration with Washington in semiconductor development will boost the resilience of the global supply chain and help move Philippine companies up the value chain.

"This will give our country the opportunity to go beyond and higher in the value chain, aside from strengthening the collective supply chain resilience of the electronics industry," Anacelle Toledo, industry analyst at the Semiconductor and Electronics Industries in the Philippines Foundation, Inc. (SEIPI), said in an e-mail.

"This alliance also opens the country to more electronics investments," SEIPI added.

Earlier this month, the US State department announced that it will collaborate with the Philippines "to explore opportunities to grow and diversify the global semiconductor ecosystem" under the CHIPS Act's International Technology Security and Innovation Fund, a $52-billion subsidy program for US semiconductor manufacturers and researchers.

The initial phase, which was made public during President Ferdinand R. Marcos, Jr.'s week-long trip to the US, will involve a comprehensive assessment of the Philippines' semiconductor ecosystem and regulatory framework, as well as workforce and infrastructure needs.

In a meeting with the US Semiconductor Industry Association (SIA), Mr. Marcos said the Philippines is ready to "absorb and support the additional corresponding capacity for assembly, packaging, and test" as the US increases its front-end wafer capacity for advanced technologies and products under the CHIPS Act.

He proposed that the US support the planned establishment of a wafer fabrication facility in the Philippines that can support SEIPI's proposed science and technology center.

"Another viable alternative is to have a Philippine-based US semiconductor company build a proof-of-concept wafer fab near their facility with the participation of promising candidates such as Texas Instruments and Analog Devices," he added.

SEIPI, in its e-mail to *BusinessWorld*, said it is working on the proposed Product and Technology Holistic Strategy (PATHS) roadmap to help the electronics sector and is seeking to collaborate with the government in "establishing a lab-scale wafer fabrication facility to support our proposed Science and Technology Center."

FULL STORY
Read the full story by scanning the QR code with your smartphone or by typing the link <tinyurl.com/yrso2o2m>

OPINION

The real deal: Delineating transactions in transfer pricing

LET'S TALK TAX
JOEN JACOB G. RAMAS

One of the first lessons taught in accounting is the concept of 'substance over form,' which posits that transactions recorded and presented in financial statements must reflect the economic and factual substance over their legal form. It may be said that substance over form precedes double entry bookkeeping; it is the nexus of all financial transactions and serves as a guide for financial reporters in understanding, recording, and reporting thereof. Even in tax cases, equity and law always exalt substance over form. It is the nature of transactions that determines the taxability of transactions.

Even the determination of prices between associated enterprises is not exempt from the concept of substance over form. Under the transfer pricing (TP) guidelines set by the Organisation for Economic Cooperation and Development (OECD), determining the true substance of transactions between associated enterprises is one of the first steps in determining the arm's length price for a certain controlled transactions. In delineating the actual transactions, preparers of transfer pricing documentation (TPD) can accurately characterize the covered entities, identify and apply the appropriate TP methodology through benchmarking analysis, and implement TP adjustments between associated enterprises.

While some Philippine entities may have straightforward transactions with their related parties, other entities, especially multinational enterprises (MNEs), may have more complicated transactions due to the demands and strategies of their overall entity. More often, MNEs and large groups of companies lump the sale of goods and services with each other, which might be a result of business decisions, the complexity of transactions, and the intentions of the parties.

Lumping transactions and pricing them together may or may not be helpful for purposes of determining the arm's length price, and it is largely dependent on the nature of the different transactions, the conduct and characterization of the parties, the economic circumstances of the parties and the industry in which they belong, and the functions performed, assets owned, and risks borne by the parties, among others. These concepts have been discussed in our past installments of Let's Talk TP, which mainly delves on the factors descriptive of the related parties (i.e., functions, assets, and risks analysis) and of the external factors that may affect the characterization of transactions (i.e., industry and economic analysis and market studies). In this edition, we talk about the delineation of transactions, considering substance over form as an important tenet in determining the arm's length price or range.

MORE THAN JUST THE CONTRACTUAL TERMS OF THE TRANSACTION

Associated enterprises usually enter into written contracts and agreements to document the covered transaction and hold each party accountable. However, the intentions of the parties may not be properly captured in written agreements and might even be inconsistent with the economic interests of either party.

As an example, let us examine related parties A and B, where B, as per its service agreement, provides back-office, administrative and accounting services to its parent entity, A. However, based on the hiring activities of B, it was discovered that it hired a greater number of IT professionals than normal. Based on the functions performed by B, it was further discovered that aside from the back-office, administrative, and accounting services, a new project for the development of proprietary software for the group was entered into between B and A. It was noted that while the back-office support services are routine in nature, the IT development service is considered a separate project based on the demand needed by A. B charges A based on a single cost-plus markup monthly for all services rendered.

While the back-office support software development services appear to have the same cost components (e.g., salaries, technology, utilities) and may be collectively referred to as a back-office support function, it is only after further scrutiny of the activities of the parties (e.g., hiring more IT professionals than usual) that the supposed lone transaction is further divided into two different transactions — that is, routine services for back-office support and one-time servicing for the development of software. From there, economic and industry analysis may be done over the market for back-office support services and software development services separately. Where practicable, a separate benchmarking analysis (i.e., the determination of arm's length prices) may be made for each of the separate services.

On the other hand, if the parties have not executed a written agreement, it is entirely possible that financial transactions may not have appeared as accounting entries, making it more difficult to distinguish and delineate transactions. In this case, other channels must be sought to determine whether transactions should be differentiated from each other.

Suppose in another example that D is engaged in the manufacture and sale of cooking oil. C, as its holding company, takes charge of the provision of technical know-how and constant training of D's employees to speed up D's manufacturing process. Personnel of entity C are constantly being sent to entity D's premises to train D's employees. Eventually, this led to D manufacturing more cooking oil than its normal level, which translated to more sales. Neither C nor D documented the sharing of technical knowledge and training; however, D has substantially gained more sales due to knowledge sharing.

As the agreement between C and D was not formalized in a document, determining the exact agreement of the parties might be difficult. Moreover, the transaction is susceptible to further changes and deviations in the scope of work without the expressed intention of the parties.

The OECD generally suggests that the economically relevant characteristics of the transaction and the actual conduct of the parties should be identified. Studying the changes in the economic circumstances of the parties before, during, and after a related party transaction is also essential to assess movements in their economic standing. In the example above, the additional sales garnered by D may have been caused by C's sharing of technical know-how. On the other hand, C may have incurred additional costs in training D's employees. Furthermore, the functions performed, assets used, and risks borne by each party must be studied to conclude and differentiate the transactions that may have been entered into by the parties, absent a formal agreement.

As gleaned from the above two examples, determining related party transactions is more than just inspecting contractual documents and agreements. As such, it is important for TPD preparers to have an inquisitive mindset to capture the transactions and differentiate them as needed. This, however, does not mean that lumped transactions must be separated all the time.

IS THE DELINEATION OF TRANSACTIONS NECESSARY?

Delineation of transactions is necessary to apply the 'combined and separate transactions approach' under the TP audit guidelines of the Bureau of Internal Revenue (BIR). Our TP audit guidelines, consistent with the OECD guidelines, provided the general rule that, ideally, arm's length prices should be determined on a per-transaction basis. However, transfer prices may also be determined on a product line or business unit basis, depending on the circumstances of the taxpayers and their associated enterprises. Therefore, while it is necessary to delineate transactions, it is not necessary for lumped transactions to always be separated.

FULL STORY
Read the full story by scanning the QR code with your smartphone or by typing the link <tinyurl.com/yqcd7tbv>

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