Senate MUP reform bill sponsored in plenary

THE SENATE version of the bill overhauling the pension system for military and uniformed personnel (MUP) has been sponsored out into the plenary.

On Monday, Senator Jose "Jinggoy" P. Estrada who sponsored Senate Bill No. 2501, said establishing separate trust funds for the MUP would allow a measure of fiscal stability and facilitate the reallocation of funds to health, education and housing programs for these personnel.

"The entrants will be covered by a more sustainable pension regime — one that is assured of adequate funds for the retirement of our military and uniformed personnel," he said in his speech.

In the Senate bill, new MUPs will be required to contribute to the new pension system, with military officers contributing 7% of their base monthly salary and the National Government contributing 14%.

Other uniformed personnel would be required to contribute 9% of their salary with a government top-up of 12%.

The measure would establish the Armed Forces of the Philippines Trust Fund and the Uniformed Personnel Services Trust Fund.

MUPs under the current pension system are not required to contribute to the pension fund, which is entirely paid for by the National Government.

A MUP Trust Fund Committee will be established to oversee and draft guidelines with an eye towards a financially sustainable fund.

The body will be headed by the Secretary of Finance and include the Secretaries of Budget and Management, National Defense, Interior and Local Government, Justice, and Transportation.

The president and general manager of the Government Service Insurance System, the chiefs of staff of the Armed Forces of the Philippines, and the Philippine National Police will also be members of the committee.

Under the measure, the trust funds and their assets are tax-exempt.

Monthly retirement pay for retired MUPs will be set at 50% of the base pay of the last position they held.

Retirement pay increases by 2.5% for every year of active duty rendered for 20 years, and pegged to a maximum of 90% of their last base salary.

If passed, the reform would allow a guaranteed 3% annual increase in the base pay of active personnel and in the pension benefits of retirees over the next 10 years.

The bill is on the Legislative Executive Development Advisory Council's list of priority measures.

The House of Representatives in September approved its version of the bill on third and final reading, setting a member contribution rate of 9% of monthly salary for new entrants and a 12% government top-up.

"We cannot continue kicking the can down the road, and further avoid or delay the issue of ballooning expenditures in MUP pension," Mr. Estrada said. — **John Victor D. Ordoñez**

UAE trade talks may start by early 2024

THE Department of Trade and Industry (DTI) said negotiations for a Comprehensive Economic Partnership Agreement (CEPA) deal with the United Arab Emirates (UAE) could begin as early as the first quarter, with a timeline of up to two years.

"We are done now with the terms of reference. So, first thing next year we will definitely conduct a series of consultations again and also work on the domestic processes. And then, we are eyeing to commence the negotiation by the first quarter of next year," Trade Undersecretary Allan B. Gepty said in a briefing on Monday.

"And then, moving forward if the issues that arise are not 'contentious' then, we can expect smooth negotiations and conclude the negotiation if not next year, at least within two years," he said.

Over the weekend, Trade Secretary Alfredo E. Pascual signed the terms of reference for the negotiations covering CEPA with the UAE Minister of State for Foreign Trade Thani bin Ahmed Al Zeyoudi on the sidelines of the Conference of the Parties 28 in Dubai.

CEPA will expand the flow of goods and services exports to the UAE and the greater Gulf region. It is also expected to generate more investment from the UAE and create more opportunities for professionals and service providers in the UAE.

"A CEPA with the UAE will be the Philippines' first trade agreement within the Middle East and with a Gulf Cooperation Council (GCC) member state," Mr. Gepty said.

"It is also important to take note that the current policy direction of the country is really to expand our FTA (free trade agreement) network ... so in other words, we have to venture into partnering with other non-traditional partners," he added.

The DTI said trade with the UAE amounted to $506.1 million in the first half, up 19.4% year on year. Non-oil trade exceeded $1.8 billion in 2022.

The UAE is the Philippines' 17th largest trading partner and the top export market within the GCC.

Mr. Gepty said there are no estimates yet on how much the CEPA could grow bilateral trade.

"The interesting thing in the case of the UAE is that we are looking at exporting to them high-value products such as aerospace parts or helicopter parts and other industrial goods," he said.

"And of course, taking into account our needs in the electronics sector, we are also hoping to participate in their supply chain especially if they will be aggressive in promoting digital transformation," he added.

He also said that the Philippines is also looking at the investment opportunities that could stem from CEPA.

"UAE is one big investor that we can also attract here. Investments mainly come from the European Union, US, and other ASEAN member states. So, we want to further enhance the enabling environment so we can attract more investment from the UAE," he added. — **Justine Irish D. Tabile**

Digital transaction tax should mirror international best practices — AIC

By Luisa Maria Jacinta C. Jocson *Reporter*

THE proposed value-added tax (VAT) on digital transactions must meet the norms for cross-border trade practices, the Asia Internet Coalition (AIC) said.

In a statement, AIC Managing Director Jeff Paine said that the proposed tax should be aligned with "cross-border trade with internationally agreed standards and global best practices."

"A VAT taxation policy framework that is consistent with international norms and built around the key principles of neutrality, efficiency, certainty, and simplicity will provide long-term stability and certainty for businesses to continue to innovate and invest for the future," Mr. Paine said.

In November 2022, the House of Representatives approved a measure seeking to impose 12% VAT on nonresident digital service providers. A similar measure is still pending before a Senate committee.

If passed into law, the measure would result in a 12% VAT on the digital sale of services, which refers to any service that is delivered or subscribed for over the internet or other electronic networks.

These services include online advertising, online licensing of software, and the supply of other services which are delivered through online marketplaces, webcasts and mobile applications, among others.

Digital service providers in the Philippines are taxable under the current law, Eleanor L. Roque, tax principal of P&A Grant Thornton, said.

"As long as the provider of the service is performing the service outside of the Philippines and its servers and equipment are also outside of the Philippines, the service is not taxable in the Philippines," she said in a Viber message.

"However, tax rules are changing because of the shift in digital transactions... other countries have adopted taxation of the digital economy early on to capture lost revenue on these types of transactions," she added.

The government has been seeking ways to tax digital platforms, which boomed over the pandemic with many people confined to their homes.

In 2022, the digital economy was estimated at P2.08 trillion, equivalent to 9.4% of gross domestic product.

The Philippine digital economy is expected to grow to between $80 billion and $150 billion in gross merchandise value by 2030, according to a recent report by Google, Temasek Holdings and Bain & Co.

"This means that the traditional mode of taxing cross-border transactions is also changing to properly address the fact that the internet is ubiquitous and income is created without even leaving one's own home," Ms. Roque said.

Leonardo A. Lanzona, an economics professor with the Ateneo de Manila, said that any tax must be aligned with international standards and regulations.

FULL STORY
Read the full story by scanning the QR code with your smartphone or by typing the link **<tinyurl.com/yvppu2wg>**

Long-term permits urged for aquaculture to meet fish demand

THE GOVERNMENT needs to issue more long-term permits for aquaculture to meet growing demand and as the rest of the industry observes sustainable practices like closed fishing seasons, a fisheries advocate said.

"One of the ways to boost fisheries production is to give permits to those who would like to raise fish long term," Asis G. Perez, co-convenor of Tugon Kabuhayan said by telephone.

Agriculture Secretary Francisco T. Laurel, Jr. said in a House committee earlier that the Philippines' fish resources are depleted.

For the fourth quarter, the Department of Agriculture projects a 38-day deficit in the supply of fish.

Mr. Laurel added that importing 35,000 metric tons (MT) of fish will not be sufficient to satisfy demand.

Additionally, the closed fishing season for sardines in northern Palawan and the Zamboanga Peninsula have also affected supply. Both seasons started in November and will run until Jan. 31 and Feb. 15, respectively.

Under the Philippine Fisheries Code, closed fishing seasons are imposed to help certain fisheries regenerate.

Mr. Perez, who was also a former director of the Bureau of Fisheries and Aquatic Resources (BFAR), added: "We have many bodies of water that can support fish, such as dams and lakes. If operators are given a sufficient number of years, they will invest more."

"If they are allowed, then by next year maybe we will only need a few imports. Aquaculture operators set up quickly," he added.

The BFAR released a memorandum circular in August, which allowed the import of frozen round scad or *galunggong*, bigeye scad, mackerel, bonito, and moonfish. The import period runs from Oct. 1 to Dec. 31.

"For next year, (we really need) to brush on our production so we end up importing less," Mr. Perez said.

During the third quarter, fisheries production rose 2.1% by volume to 1.02 million MT, according to the Philippine Statistics Authority. — **Adrian H. Halili**

OPINION

2023 year-end compliance reminders

LET'S TALK TAX
LORENZO MIGUEL A. SORIANO

2024 is almost at our doorstep, but many things are still going on. Most are planning for their family reunions or Christmas parties; almost all employees are looking forward to the Christmas break; some are still thinking about the big celebrity break-up announced days ago.

Taxpayers should nevertheless still be mindful of their duties in complying with various requirements. The main things to watch out for are the reporting requirements of the Bureau of Internal Revenue (BIR) and Local Government Units (LGU), as discussed in the following sections.

BIR COMPLIANCE REQUIREMENTS

• Annual Information Returns (BIR Form Nos. 1604-C, 1604-F, and 1604-E), together with the Annual Alpha List of Employees/Payees

Employers who have deducted and withheld taxes on the compensation of their employees must file BIR Form No. 1604-C and submit the annual alphabetical list (alpha list) of employees based on the revised format on or before Jan. 31, 2024. In computing the amounts to be reported in BIR Form No. 1604-C, the employer must perform annualization of compensation paid to the employees in the last month of employment or in December of the current calendar year.

Likewise, taxpayers who deducted and withheld the final withholding tax must file BIR Form No. 1604-F, together with the alpha list of payees, on or before Jan. 31, 2024.

On the other hand, taxpayers who deducted and withheld expanded withholding tax must file BIR Form No. 1604-E, together with the alpha list of payees, on or before March 1, 2024.

To ensure that all income payments subject to withholding tax are properly reported in the tax returns, taxpayers are advised to prepare a reconciliation of expenses and taxes reported in the tax returns and alpha lists vis-à-vis those recorded in the taxpayers' books.

For taxpayers filing using the electronic filing and payment system (eFPS), it should be noted that the January 2018 version of BIR Form No. 1604-E is now available in the eFPS. As for BIR Form No. 1604-C and 1604-F, as there has been a BIR circular announcing their availability, taxpayers must check and look out when these BIR forms will actually become available in the eFPS.

• Certificate of Compensation Payment/Tax Withheld (BIR Form No. 2316)

Employers must sign and provide BIR Form No. 2316 to their employees. Upon receipt, the employees are to sign the certificate. Employees, including resident aliens, who qualify for substituted filing, are exempt from filing their income tax returns. Instead, the employers are to submit their certificates, accompanied by a notarized and signed certification, to the BIR on or before Feb. 28, 2024.

• Annual Registration Fee (Form No. 0605)

The annual registration fee (ARF) must be paid on or before Jan. 31 in the amount of P500 for every head office and/or branch. The ARF is required for the annual updating of business permits.

• Books of Account

Depending on the taxpayer's registered books of account, the following must be observed for subsequent registration:

o Manual books of account are to be registered/stamped prior to use. Thus, a new manual book needs to be registered in case the old books are nearing consumption at year-end.

o Permanently bound loose leaf books of account shall be submitted annually, within 15 days after the end of each taxable year or within 15 days from the closure of business operation.

o Computerized Books of Account must be submitted annually, within 30 days after the end of each taxable year or within 30 days from the closure of business operation.

Taxpayers may be required to register their books of account through the BIR's Online Registration and Update System (ORUS), since they may still manually register the same upon the advice of the BIR office having jurisdiction over the taxpayer. Moreover, manual books of account are still allowed to be registered and stamped at the BIR office where the head office or branch is registered.

• Inventory list and other schedules

Taxpayers maintaining inventory are required to submit soft copies of the annual inventory list and applicable schedules, accompanied by a notarized and signed sworn declaration, within 30 days following the close of the taxable year.

Taxpayers are advised to prepare a reconciliation of the inventory list and other applicable schedules with their records so that they can explain any differences to the BIR upon tax audit.

LGU COMPLIANCE REQUIREMENTS

Taxpayers are required to renew their business or mayor's permit with the LGU annually and pay the local business tax (LBT) on or before Jan. 20 where the business is registered and operates. Taxpayers also have the option to pay the local business tax quarterly, within the first 20 days of January and for the first month of each subsequent quarter.

However, under the CREATE law, registered business enterprises (RBEs) which are subject to the 5% gross income tax, are exempt from local taxes. Nevertheless, such RBEs are not totally exempt from paying anything to the LGU because they are still required to pay fees and charges imposed by the LGUs.

For failure to pay the LBT, fees, or charges on time, the taxpayer will be subject to a 25% surcharge penalty and monthly interest of 2%. The total interest on unpaid LBT may not exceed 36 months. In case of non-compliance, the penalty and interest is to be computed beginning Jan. 1 and not from the due date of payment. As an ultimate punishment for non-compliance, the taxpayer's establishment may be closed by the LGU.

Taxpayers must familiarize themselves with the LBT rates since these depend on the ordinances of each LGU. Taxpayers must also be aware of the announcements made by the LGUs with respect to the process of securing assessment notices and payments because the extension of deadlines differs and is usually at the discretion of each LGU.

The above-mentioned reminders may seem overwhelming. Nonetheless, taxpayers are still bound to comply with the requirements set by the BIR and the LGU. Compliance is inevitable, as is the arrival of 2024.

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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