

Hong Kong aviation regulator to advise on increasing NAIA aircraft movements

THE Civil Aviation Authority of the Philippines (CAAP) is exploring possible collaboration with the Hong Kong Civil Aviation Department to increase aircraft movements at Ninoy Aquino International Airport (NAIA).

CAAP has been directed by the Department of Transportation (DoTr) to increase aircraft movements at NAIA to 48 per hour, it said in a statement on Monday. Aircraft movements are the total of takeoffs and landings.

The DoTr noted the need to accommodate the growing number of passengers and to help achieve the traffic projections agreed with airport investors.

Currently, aircraft movements at NAIA are at 40 to 42 per hour, CAAP said.

In February, the DoTr awarded the P170.6-billion contract to operate, maintain, and upgrade the NAIA to the SMC SAP & Co. Consortium.

The project aims to increase the current annual passenger capacity of NAIA to at least 62 million from the current 35 million.

“CAAP has initiated measures to boost movements. Earlier, a group of air traffic controllers, along with a delegation from the Department of Transportation, visited the air traffic facilities at Hong Kong airport to learn from its best practices,” CAAP said. — **Ashley Erika O. Jose**

Marcos signs Tatak Pinoy bill

PRESIDENT Ferdinand R. Marcos, Jr. signed into law on Monday a priority bill seeking to improve the export competitiveness of Philippine companies.

Republic Act No. 11981 or the Tatak Pinoy (Proudly Filipino) law, is “about incubating and incentivizing great products that deserve to carry the ‘made in the Philippines’ trademark,” Mr. Marcos said in a speech at the Palace signing ceremony.

The law encourages companies to produce “higher quality” and higher value-added products, to elevate the Philippines’ position in the global value chain, according to the Department of Trade and Industry (DTI).

The new law sets up a council that will be tasked with creating

a multi-year strategy for exports. It will be involved in upgrading skills, infrastructure, technology and innovation, as well as attracting investment and promoting sound financial management among export enterprises.

The Tatak Pinoy council will be chaired by the secretary of the National Economic and Development Authority, with the Finance and Trade secretaries as co-vice chairs.

The council’s members are to include the Secretaries of Agriculture, Budget, Education, Information and Communications Technology, Labor, Public Works, Science and Technology, and Tourism.

Merchandise exports dropped 7.6% to \$73.52 billion in 2023,

reversing the 6.5% growth posted a year prior.

“Big and small industries will be encouraged to innovate in order to produce higher-value products that are sought after by bigger markets and will result in greater incomes for them,” Senator Juan Edgardo M. Angara, a co-author of the bill, said in a statement.

He said the multi-year strategy will work with the education system to prepare students for innovation and making businesses technology-driven, thereby improving the value proposition of their goods and services.

The Senate passed the bill on third and final reading in November. A counterpart bill

in the House was approved in December.

The law is designed “to systematically and incrementally expand and diversify the productive capacities of enterprises,” Camarines Sur Rep. Luis Raymond F. Villafuerte, Jr., one of the bill’s authors, said in a statement.

“All government procurement activities under the TPS shall give preference to domestically produced and manufactured goods, supplies and materials which meet the specified or desired quality,” he said.

“The DTI shall certify that such goods, supplies and materials are grown, produced or manufactured in the Philippines.” — **Kyle Aristophere T. Atienza**

LANDBANK, DBP listings seen increasing gov’t banks’ lending capacity, transparency

By **Luisa Maria Jacinta C. Jacson** Reporter

POSSIBLE public listings for Land Bank of the Philippines (LANDBANK) and the Development Bank of the Philippines (DBP) will give them more flexibility in raising capital and potentially improve their lending capacity, analysts said.

“An initial public offering (IPO) of LANDBANK and DBP is worth exploring as an avenue for raising equity capital from the private sector rather than the government,” China Bank Capital Corp. Managing Director Juan Paolo E. Colet said in a Viber message.

Finance Secretary Ralph G. Recto has said that the department is working on draft bills that seek to amend the state banks’ charters. The possible changes

include provisions that will allow for their public listing in an effort to “broaden the capital markets.”

COL Financial Group, Inc. Chief Equity Strategist April Lynn Lee-Tan said in a Viber message that going public will help the banks raise capital and improve their transparency.

This could also improve their lending to satisfy public shareholders seeking improvements in the banks’ returns, she added.

“Any public offering from any reputable institution would be a welcome addition to both the exchange and clients,” Regina Capital Development Corp. Head of Sales Luis A. Limlingan said in a Viber message.

This year, the Philippine Stock Exchange is expecting at least six IPOs. There are two ways to publicly list on the bourse: through an IPO or listing by way of introduction.

Rizal Commercial Banking Corp. Chief Economist Michael

L. Ricafort said that the biggest banks in the country are already listed or partly owned by the investing public.

“That would also give greater flexibility and versatility to raise funds from investors,” he said in a Viber message.

Mr. Colet said LANDBANK and DBP must be prepared to make the transition to going public.

“The key challenge is how to get these banks ready to become publicly listed companies that can provide attractive returns to their investors,” he said.

“This not only requires a change in their charters, but, equally important, a change in their mindset and processes to align with best practices in the banking industry and the expectations of sophisticated institutional investors.”

Ateneo de Manila economics professor Leonardo A. Lanzona

warned that any changes to the banks’ charters must not risk their financial stability.

“While there is no clear and urgent need to change the charters of LANDBANK and DBP, it is crucial for these banks to maintain their capital position and not be waylaid by politically motivated policies like the Maharlika fund,” he said in an e-mail.

“As such, their charters should reflect the need to maintain and not compromise their financial strength. This means that an assessment of the banks’ strength should first be completed before any contribution to the National Government is made,” he added.



Meat importers confirm delayed MAV quota distribution by DA

MEAT IMPORTERS said the government has not started apportioning quotas out of the minimum access volume (MAV), with traders not receiving any allocations in 2024.

In a Feb. 26 letter addressed to Agriculture Secretary Francisco P. Tiu Laurel, Jr., the Meat Importers and Traders Association (MITA) said the quotas should have been released during the first week of January.

“While the protection of local producers is well intended, we would point out that the objective of the MAV is in fact to introduce competition,” MITA President Jesus C. Cham said.

Citing a meeting with the MAV Advisory Council, Mr. Cham added that the Department of Agriculture (DA) intended to suspend the quota for corn entirely, while the quota for pork will be reallocated to give processors a larger share compared to the traders.

He said the council had recommended proceeding with MAV quota distribution in 2024.

“MITA strongly urges DA to allow (the MAV Secretariat) to proceed with the distribution of the Beginning Year Pool,” he said.

He added that any changes to the guidelines should follow due process, which includes consultations, a regulatory impact assessment, finalization, and presentation to the advisory council and the management committee for approval.

“Proper notification should then be made to the WTO and our trading partners. The current MAV year should carry on as usual, and new guidelines, if approved, can come in the next MAV year,” Mr. Cham said.

The DA had proposed the suspension of the MAV for pork and corn to lower dependence on imports.

MAV allows trading partners guaranteed market access, subject to volume quotas. The MAV system is a feature of the World Trade Organization’s (WTO) trading system.

The Philippines has committed to admit 54,210 metric tons (MT) of pork and 216,940 MT of corn.

“A 60% or 90% reduction would render (imports) not economically feasible to utilize or even unusable,” he said.

He added that smaller businesses and their clients would be deprived of MAV products, which may make their goods less competitive when compared to bigger businesses.

“Removing (or) reducing the quota volumes is anti-competitive. Instead of shielding producers from competition, we should strive to make them more competitive,” Mr. Cham said.

The British Chamber of Commerce of the Philippines has raised concerns regarding the DA’s proposal to suspend the MAV for the two commodities. It warned that the move could affect supply and trade agreements. — **Adrian H. Halili**

OPINION

Interesting updates on interest expense

LET’S TALK TAX
NIKKOLAI F. CANCERAN

to claim such interest as a deduction from gross income. However, with the passage of the Ease of Paying Taxes Act, which became effective on Jan. 22, this requisite has been repealed.

CAPITALIZABLE INTEREST

For tax purposes, only the interest expense directly attributable to the acquisition of any property (e.g., building, car, or machinery) used in trade, business, or exercise of profession (excluding assets intended for sale such as inventory) may be capitalized.

Should the taxpayer elect to capitalize the interest expense incurred to acquire property used in trade, business, or exercise of profession for tax purposes, the following rules and requirements apply:

- The option to capitalize interest expenses is irrevocable per specific asset or property;
- If the loan covers the acquisition of several properties, the interest expense on such loan must proportionately be capitalized on such properties;
- If the loan pertains to general borrowings or covers the acquisition of an asset/property used in trade, business, or practice of profession and qualifying assets intended for sale, such as inventory, only the interest expense incurred or paid from the general borrowings directly attributable to the acquisition of the asset/property used in trade, business, or exercise of profession may be capitalized by the taxpayer, subject to verification upon tax audit;
- If multiple loans were contracted for the acquisition of a single property used in trade, business, or exercise of

profession, the option to capitalize interest must be applied consistently with all the loans relating to the acquisition of such property; and

• If the interest expense is treated as a capital expenditure, the taxpayer may only claim the periodic depreciation or amortization of such capital expenditure as a deduction from gross income. The capitalized interest expense shall be depreciated or amortized based on the useful life of the asset. Generally, depreciation or amortization commence upon the acquisition of the property, or when the property is ready for its intended use.

The BIR provides illustrations and computations in Annex A of the RMC for taxpayers to better appreciate the above rules.

DISCLOSURE IN NOTES TO FINANCIAL STATEMENTS

For the proper monitoring of interest expenses, the RMC provided that the following may be submitted and/or disclosed in the taxpayer’s notes to financial statements:

- A subsidiary ledger detailing the interest expense capitalized or expensed and/or disclosure of interest capitalized or expensed;
- Disclosure of the principal payments made and the interest expense paid or incurred;
- Documents that will justify the availment of interest capitalization (e.g., Board Resolution specifying the utilization/allocation of loan proceeds for general borrowing, year-end certification from the financial institution or creditor, loan documents, and other similar documents).

With respect to the first requirement (i.e., subsidiary ledger) and last requirement, the RMC did not state when and

where the taxpayer would submit the documents. Should the documents be filed annually or during a tax audit? Let’s wait for the BIR’s answer to this.

PREPAID INTEREST

As a general rule, interest expenses are to be deducted in the year paid or incurred.

Individual taxpayers reporting income on a cash basis who incur an indebtedness on which an interest is paid in advance through discount or otherwise, such interest expense paid in advance is only allowed as a deduction in the year when the taxpayer fully pays off the indebtedness. If the indebtedness is payable through periodic amortization, the amount of interest expense that corresponds to the amount of the principal amortized or paid during a certain period is allowed as a deduction in such taxable year.

For corporations that prepay the interest at the loan drawdown date, the prepaid interest is to be amortized over the required period. To fully reflect the revenue generated and expenses incurred, the amortized portion is to be deducted from the prepaid interest as the expense for the taxable year within the required period.

OTHER CLARIFICATIONS

The RMC reiterated the Tax Code provision which states that interest expenses are not deductible if both the taxpayer and the person to whom the payment has been made or is to be made are persons specified under Section 36 (B) of the Tax Code, as amended.

Moreover, costs such as service fees and commissions paid to banks and/or lending institutions for borrowing funds are not classified as interest expenses but as ordinary and necessary

business expenses that are deductible in the year paid or incurred.

Further, the RMC recapped the applicable withholding tax rate on interest expense paid or incurred on debt instruments not within the coverage of deposit substitutes.

The RMC was issued on Feb. 5 and took effect immediately.

TAKEAWAY

With the issuance of the RMC, taxpayers are now guided in the proper tax treatment of interest expense; more so, the issues and concerns surrounding the deductibility of interest expense for both BIR and taxpayers during tax audit are expected to diminish.

The efforts put in by the BIR, particularly the BIR Project Management Team for Financial Reporting Standards, to bridge the gaps between financial reporting and tax reporting, won’t go unnoticed. Taxpayers, the private sector, and external stakeholders recognize and appreciate the BIR’s drive to boost tax awareness and take the technical concept of taxation to the doors of ordinary taxpayers while communicating at the layman’s level. As Commissioner Lumaguin put it, “Taxation is for everyone. It was not meant to be understood only by a few people.”

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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