Foreign chambers seek reforms at PHL airports

THE Joint Foreign Chambers (JFC) declared support Monday for legislative action that will overhaul the governance framework for Philippine airports following flight delays at the Manila gateway.

In a statement, the JFC said it sent a letter to the Senate callings for the approval of "crucial" amendments to the Civil Aviation Authority Act, citing the need for changes after flights at Manila airport were delayed due to technical issues.

"These reforms are essential to enhancing the safety, efficiency, and overall quality of both domestic and international airports in the Philippines," the JFC said.

The group, in particular, said that the amendments aimed to enhance Civil Aviation Authority of the Philippines' (CAAP) safety oversight by enhancing its human resource development, fortifying its board and aligning the agency to global standards.

The JFC also called for the creation of the Philippine Airports Authority to separate the regulator and operator functions of the CAAP.

The JFC also backed the creation of the Philippine Transportation Safety Board, which will investigate accidents and improve safety.

"The letter comes after numerous flights in and out of the Ninoy Aquino International Airport last week were delayed due to technical issues with the navigation air traffic management system," the JFC added.

The chambers said reforms were also recommended last year following the legislative inquiry into the air traffic management glitch at the airport.

The JFC is a coalition of the American, Australia-New Zealand, Canadian, European, Japanese, and South Korean chambers and the Philippine Association of Multinational Companies Regional Headquarters, Inc.

The group comprises 3,000 members currently engaged in $100 billion worth of trade and $30 billion worth of investment in the Philippines. — **Justine Irish D. Tabile**


PHILIPPINE NEWS AGENCY

DoTr studying MRT-7 realignment proposal

THE Transportation department is considering the realignment proposal for the Bulacan segment of the Metro Rail Transit 7 (MRT-7).

"The Department of Transportation (DoTr) is studying the best possible alignment for San Jose City," Jeremy S. Regino, undersecretary for railways, said in a Viber message to *BusinessWorld*.

The DoTr has said that the MRT-7 project is experiencing delays due to the right-of-way issues particularly in San Jose del Monte, Bulacan.

Last week, Bulacan province said the possible realignment of MRT-7 went through the required consultation process.

According to the Bulacan government, it has proposed to divert the Quirino highway route as it is considered a key thoroughfare in the area.

The MRT-7 has a total of 14 stations. It will run from Quezon City to San Jose del Monte, Bulacan, and is expected to carry 300,000 passengers daily in its first year, and up to 850,000 passengers a day in its 12th year.

The commuter rail line's stations are Quezon North Avenue Joint Station, Quezon Memorial Circle, University Avenue, Tandang Sora, Don Antonio, Batasan, Manggahan, Doña Carmen, Regalado, Mindanao Avenue, Quirino, Sacred Heart, Tala, and San Jose del Monte.

The project is run by San Miguel Corp., with the company financing the construction and set to operate the 23-kilometer commuter rail system under a 25-year concession agreement with the government.

The Transportation department has said it is looking at opening the Quezon North Avenue Joint Station to Lagro by the first quarter of 2025.

The full completion of the MRT-7 Bulacan segment is facing some right-of-way issues particularly in its Bulacan segment, the DoTr said, noting that oppositors are saying that the construction will cause heavy traffic flow in the area.

The Bulacan leg of the MRT-7 will not be completed by 2025 as only 12 stations of the commuter rail line will be operating by then, the DoTr said, adding that the new target for the line's full operations is between 2027 and 2028. — **Ashley Erika O. Jose**

Dearth of foreign investment opened door for China to enter key industries — analyst

By Kyle Aristophere T. Atienza *Reporter*

THE PHILIPPINES needs to do more business with new markets to diversify its economy away from China, whose companies have been willing to invest in areas where other foreign entities have not, raising security concerns, analysts said.

The Philippines also needs to solidify its industrial base to climb the global value chain in response to Chinese moves to invest in strategic industries here, they added.

Brian Poe-Llamanzares, a political scientist and chief of staff to Senator Mary Grace Natividad S. Poe-Llamanzares, said China has made "significant investments" in key Philippine industries like electricity, telecommunications, and water, enabled by the absence of competing foreign investors.

"There are only a few investors who are looking at the Philippines, and many of us would question what China's intention is in investing in these industries," he said, speaking at a forum organized by WR Numero Research (WRN).

The National Grid Corp. of the Philippines, in which the State Grid Corp. of China has a 40% stake, has been flagged in various Senate inquiries as a possible national security threat.

China claims the South China Sea almost in its entirety, including areas that are well within the Philippines' exclusive economic zone. Its Coast Guard has been performing dangerous maneuvers and deploying water cannon to block Philippine resupply missions to its outposts in disputed waters.

Under the previous administration, the Philippines welcomed DITO Telecommunity, in which China Telecom has a 40% stake, as a the third player in the telecommunications market.

"In the spirit of a free-market economy and with the lack of competitors, it became necessary to bring in a third telco player that was willing to go through congressional scrutiny and service the unserved and underserved areas," he said.

"It's not like DITO was our first choice. It was our only option," he added. "We were yet to see a serious attempt by any American or European player in the telco market."

In 2019, DITO and the Armed Forces of the Philippines (AFP) signed a deal allowing the company to build facilities in military camps supposedly to help improve the AFP's ICT infrastructure.

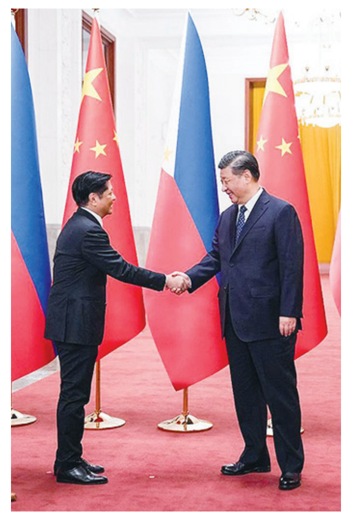
While the Philippines has been touting interest from other countries in helping build the Philippines' telco and ICT infrastructure, "very few of them actually have put a bet on the table," he said.

"A lot of them talk about building relations economically with the Philippines but we are yet to see the fruits of those economic (pledges)," he added, "and this becomes a problem for us because we're a free market; anyone can come in."

Mr. Poe noted that under the Duterte administration, China effectively entered the water industry by financing a dam.

He was referring to a $283.2-million loan secured by the past administration from China to build a dam to support Metro Manila's water needs. Chinese contractor China Energy Engineering Corp. Ltd was selected to build the dam on the Kaliwa River, which straddles Rizal and Quezon provinces.

"We are facing an impending water crisis. And so we're pushed against the wall and who comes to save the day? China," he said.


OFFICE OF THE PRESS SECRETARY

"See if there's anyone else willing to offer us a loan. No one. And so what happens is, China ends up entering the bid and they get the loan," he added. "And you can't fault them for doing it. It's a free market. They can do it. They can provide it."

Mr. Poe said Manila needs to harness the potential of its amended Public Service Act, which allows full foreign ownership in key domestic industries, by conducting more road shows overseas.

"It's really important that we continue to expose ourselves to the international community because we were closed off for six years," he said. "Next thing is we must create a competitive business climate."

He noted that red tape continues to be a major concern among investors, limiting the sources of foreign investments. "We need more options," he said.

He said the Philippines also needs to build industry and make its educational system competitive by "removing the stigma of vocational work."

Bernardo M. Villegas, one of the founders of the University of Asia and the Pacific and a framer of the 1987 Constitution, said at the WRN forum that the Philippines can only make critical utilities independent from China if it embarks on road shows in more countries including Spain, South Korea, Taiwan, and Japan.

"The only way we can make sure that we declare our independence from China with regard to water and electricity is for us in the private sector to have dozens of road shows," he said.

Mr. Villegas said expects the planned establishment of a Luzon economic corridor to help the Philippines bag investments from companies themselves seeking to diversify away from China or do business with friendly nations.

The US announced its plan to help establish a Luzon corridor with the help of Japan in April.

The proposed corridor seeks to boost connectivity between Manila, Batangas, and two former US military bases such as Subic Bay and Clark, with a focus on "high-impact" infrastructure such as rails and ports and strategic investments involving semiconductors, clean energy, and supply chains.

China is the Philippines' largest source of imports and the second-biggest market for exports. The US, on the other hand, is the largest destination of Philippine products and the fifth-largest source of imports.

Mr. Poe said a potential escalation of tensions between the Philippines and China would have little to no impact on the Chinese economy because "what we're providing them is not critical to China."

"If they decided to stop trading and buying our fresh fruits and products, then it's not going to hurt their economy too much."

"But if we were to develop something more critical — like Taiwan did — an industry that's indispensable not just to China but also the international community, then suddenly we're on negotiating terms."

OPINION

Almost there: VAT on digital services

LET'S TALK TAX
NIKKOLAI F. CANCERAN

Last week, the Senate, in a unanimous vote, approved on third and final reading Senate Bill No. 2528, which seeks to impose a 12% value-added tax (VAT) on digital services delivered by either resident or nonresident digital service providers with no physical presence in the Philippines.

According to the Department of Finance, the bill is expected to bring in P83.8 billion in revenue from 2024 to 2028. The final step to reaping this additional revenue is the approval of the President once the bill is forwarded to his office.

Let's look at the proposed changes to the National Internal Revenue Code (Tax Code).

VAT ON DIGITAL SERVICES

The bill proposes to add a proviso in Section 105 of the Tax Code stating that any person who, in the course of trade or business, renders services, including digital services, is subject to VAT. An additional proviso states that digital services delivered by nonresident digital service providers are considered performed or rendered in the Philippines if the digital services are consumed in the Philippines. This additional proviso will cover digital services even if rendered or performed outside the Philippines, as they are subject to Philippine VAT rules for as long as they are consumed in the Philippines.

DEFINITION OF DIGITAL SERVICE AND DIGITAL SERVICE PROVIDER

The bill provides that "digital service" refers to any service that is supplied over the internet or other electronic network with the use of information technology and where the supply of the service is essentially automated. These services include but are not limited to: (1) online search engines; (2) online marketplaces or e-marketplaces; (3) cloud services; (4) online media and advertising; (5) online platforms; and (6) digital goods.

On the other hand, "digital service provider" refers to a resident or nonresident supplier of digital services to a consumer who consumes digital services subject to VAT in the Philippines. A nonresident digital service provider has no physical presence in the Philippines.

If the bill is signed by the President and becomes law, the Philippine VAT rules will extend to cover e-commerce firms such as Amazon, Shein, Rakuten, Taobao, AliExpress, and Temu, even if they do not have a physical presence in the Philippines.

VAT REGISTRATION OF DIGITAL SERVICE PROVIDER

Under the bill, both resident and nonresident digital service providers are required to register for VAT purposes if their gross sales for the past 12 months have exceeded P3 million or if there are reasonable grounds to believe that their gross sales for the next 12 months will exceed P3 million.

To aid the registration of nonresident digital service providers since they do not have a physical presence in the Philippines, the bill will mandate the Bureau of Internal Revenue (BIR) to establish a simplified automated registration system.

REMITTANCE OF VAT TO BIR

When nonresident digital service providers provide digital services to consumers who are VAT-registered, the latter is liable to withhold and remit to the BIR the VAT due on its purchases of digital services consumed in the Philippines from nonresident digital service providers within 10 days following the end of the month the withholding was made.

On the other hand, when nonresident digital service providers required to be registered for VAT transact with consumers who are non-VAT-registered, the former must remit the VAT on the digital services that are consumed in the Philippines.

In addition, if a VAT-registered nonresident digital service provider is classified as an online marketplace or e-marketplace, it must also remit VAT on the transactions of nonresident sellers that go through its platform, provided that it controls key aspects of the supply and performs any of the following: (a) it sets, either directly or indirectly, any of the terms and conditions under which the supply of goods is made; or (b) it is involved in the ordering or delivery of the goods, whether directly or indirectly.

Please note that VAT-registered nonresident digital service providers are not allowed to claim creditable input tax.

Meanwhile, resident digital service providers are liable for remitting VAT to BIR on digital services consumed in the Philippines.

VAT-EXEMPT TRANSACTIONS

The bill proposes to include as VAT-exempt transactions online courses, online seminars, and online training rendered by private educational institutions duly accredited by DepEd, CHED, and TESDA, as well as those rendered by government educational institutions and the sale of online subscription-based services to DepEd, CHED, TESDA, and educational institutions recognized by such government agencies.

Likewise, bank and nonbank financial services rendered through the various digital platforms are VAT-exempt.

BLOCKING OF NONCOMPLIANT DIGITAL SERVICE PROVIDERS

The bill seeks to expand the power of the Commissioner of Internal Revenue to suspend the business operations of taxpayers, which will include the blocking of digital services provided to the Philippines by a digital service provider who is noncompliant with the tax rules. Such shall be implemented by the Department of Information and Communications Technology through the National Telecommunications Commission.

TAKEAWAYS

If signed into law, tax revenue collections will certainly increase, and so will the additional burden for taxpayer-consumers, for they may be required to withhold and remit VAT, and take on the additional expense of VAT on digital services.

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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