PHL tariff cuts could pressure global rice supply, prices — BMI

THE REDUCTION in Philippine rice import tariffs could have a knock-on effect on global rice prices by inducing its major suppliers Vietnam and Thailand to commit greater volumes to the world's largest rice importer, thereby causing overall global supply to tighten, Fitch Solutions unit BMI said.

"We believe that reduced rice import duties in the Philippines will see import volumes increase, to the probable benefit of traders in Vietnam, the largest exporter of rice to the Philippines, and to a lesser extent Thailand," BMI said in a report.

"Which, in turn, will — all other things being equal — stimulate upward price pressures in the international rice market," it added.

President Ferdinand R. Marcos, Jr. last month signed Executive Order (EO) No. 62, which slashed tariffs on rice imports to 15% from 35% previously, until 2028. This is part of a reduced tariff regime for other agricultural products such as pork and corn, intended as inflation-containment measures.

The EO calls for a review of the tariff schedule every four months.

"We note, however, that international rice prices remain elevated and that — with India's rice export restrictions still in place and the negative impact of the recent El Niño event on rice production in Southeast Asia via below-average rainfall in mind — the international rice market remains tight, which could, therefore, see an increase in Philippine import demand stimulate upward international price pressures," BMI said.

The US Department of Agriculture (USDA) expects Philippine rice imports to hit 4.7 million metric tons (MMT), upgrading its earlier forecast of 4.2 MMT.

As of June 6, the Philippines imported 2.17 MMT of rice. Vietnam accounted for almost three-fourths of overall shipments.

The Philippines imports about 20% of its rice requirement annually.

BMI sees Philippine rice prices easing eventually after the tariff cut but this will not have any impact in the immediate term.

"In the near term, we expect that the reduction in rice import tariffs could see domestic rice price pressures in the Philippines ease — notwithstanding the widening in the Philippine domestic rice production deficit between 2023/24 and 2024/25 that the USDA forecasts."

"In the immediate term, however, the reduction will not have a noticeable impact on domestic prices due to the feedthrough time lag."

The Department of Agriculture (DA) said the average retail price of domestically grown well-milled rice averaged P48-55 per kilogram as of June 29, up from P39-46 a year earlier.

Regular milled rice cost P45-52 from P35-42 per kilogram a year earlier.

The tariff cut is expected to cut rice prices by P6 to P7, the DA has said.

The National Economic and Development Authority has indicated its readiness to adjust tariffs if prices decline. — **Luisa Maria Jacinta C. Jocson**

OSAPIEA calls bureaucracy in healthcare approval process deterrent to investment

BUREAUCRACY in the approvals process for healthcare products is hindering the entry of investments, according to the Office of the Special Assistant to the President for Investment and Economic Affairs (OSAPIEA).

In a keynote address on Monday delivered by OSAPIEA Undersecretary Jose Edwiniel C. Guilas on behalf of Secretary Frederick D. Go, OSAPIEA identified "pain points" most cited by the industry.

"Pain point number one: the bureaucratic nature of some of the existing processes of the regulatory agencies, as we all have experienced, is very structured with its complex rules and systems causing unnecessary delays," Mr. Go was quoted as saying.

To address this, Mr. Go said that there is a need for a streamlined bureaucracy, which will require a review of the processes and requirements set by various agencies.

In particular, he said that companies, despite being compliant in countries with higher certified standards, still have to comply with Philippine standards.

"Industry stakeholders who have touched base with my office have often raised concerns about importing and most especially exporting drugs and food products," he said.

This issue, Mr. Go said, can be addressed through streamlining the approval of export registration certificates for pharmaceutical products by exploring schemes of recognition and reliance.

"This way, applications that have already satisfactorily complied with the requirements of ASEAN and other markets, such as those already approved by the US Food and Drug Administration, will no longer have to undergo local reassessment," he added.

A further pain point for investors is the difficulty faced by big international pharmaceutical companies in operating in the Philippines.

To address this, he said that OSAPIEA, together with the Philippine Economic Zone Authority and the Food and Drug Administration, has formed a technical working group to make it easier for pharmaceutical companies to set up operations in the economic zones. — **Justine Irish D. Tabile**

Japan medical device maker registers with PEZA

JAPANESE medical instrument manufacturer Kaneko Medix, Inc. has registered with the Philippine Economic Zone Authority (PEZA) to operate at an economic zone in Batangas, PEZA said.

In a statement, the investment promotion agency (IPA) said it signed a registration agreement with the Kaneko group's Philippine unit, which intends to manufacture microcatheters at the First Philippine Industrial Park (FPIP) in Sto. Tomas, Batangas.

"This agreement marks a significant step forward in the country's industrial and economic growth, particularly in the medical instrument manufacturing industry," it added.

The Kaneko project is one of the pledges secured by Director General Tereso O. Panga during the IPA's investment mission to Tokyo in September 2023.

"The inclusion of Kaneko as one of the locator companies in FPIP emphasizes our commitment to attracting high-tech manufacturing investments and fostering a conducive environment for technological advancement," PEZA said.

"The establishment of the manufacturing plant in FPIP is expected to significantly contribute to the global supply chain," it added.

Japanese registered business enterprises (RBEs) overseen by PEZA account for 28% of all approved economic zone investments.

Last year, the IPA's Japanese RBEs generated more than P500 billion in investments, $16 billion worth of exports, and 300,000 direct jobs. — **Justine Irish D. Tabile**

MUP pensions, 'pork' seen as top targets for reducing deficit

By Beatriz Marie D. Cruz
Reporter

THE GOVERNMENT must rationalize spending to meet its deficit and growth targets in the coming years, with military and uniformed personnel (MUP) pensions and excess spending by politicians singled out for cuts, analysts said.

"(The government should) address the fiscal problem by pursuing the reform of the MUP system, stripping from politicians large budgets that will be used for electioneering, while increasing revenues," Filomeno S. Sta. Ana III, coordinator of Action for Economic Reforms (AER), said via Viber.

They said the government should also inject a dose of reality in its deficit projections.

"I would've liked to see a more realistic assessment of this year's deficit target; 5.3% of GDP (gross domestic product) would still be a stretch," Pantheon Macroeconomics Chief Emerging Asia Economist Miguel Chanco said in an e-mail.

In a briefing last week, the Development Budget Coordination Committee (DBCC) raised the deficit ceiling for 2025 to P1.537 trillion from P1.490 trillion, pushing the deficit-to-GDP projection to 5.3% from 5.2% in April.

For this year, the DBCC maintained its deficit projection at P1.48 trillion, or 5.6% of GDP.

"Our current (deficit) forecast is unchanged at 6%, with the pace of fiscal consolidation having slowed materially in recent quarters," Mr. Chanco added.

At the end of March, the deficit-to-GDP ratio stood at 4.46%, against 4.82% a year earlier and 6.2% at the end of 2023, the Bureau of the Treasury (BTr) said.

The National Government's budget deficit widened to 43.1% to P174.9 billion in May from P122.2 billion a year earlier.

Government spending jumped 22% to P557 billion, offsetting the 14.59% revenue expansion, the BTr said last week.

Last week, the DBCC raised its revenue targets to P4.644 trillion (from P4.583 trillion previously) for 2025; to P5.063 trillion (from P4.956 trillion) for 2026; to P5.627 trillion (from P5.487 trillion) for 2027; and to P6.25 trillion (from P6.078 trillion) for 2028.

During the briefing, the Finance department said increased collections by the Bureau of Internal Revenue and Bureau of Customs (BoC) would offset its "no new taxes" agenda.

BIR revenue rose 2.79% to P219.2 billion in May, while BoC collections rose 4% to P81.753 billion.

However, Finance Undersecretary and Chief Economist Domini S. Velasquez said that pending tax measures in Congress are expected to generate P42 billion in revenues yearly.

These bills include the value-added tax on digital service providers, the excise tax on single-use plastics and pickup trucks, the new mining fiscal regime, the motor vehicle road user's tax, and Package 4 of the Comprehensive Tax Reform Program.

To meet its deficit goals, the government must curb overspending and all forms of tax evasion, Mr. Chanco said.

"Collection could still be enhanced if the government cracks down hard on evasion, but this is a long-standing problem in the Philippines for a reason. Ultimately, it will have to come down to a difficult choice of rationalizing — i.e., cutting — government spending, which is obviously politically difficult."

Meanwhile, the unchanged growth targets through 2028 were unrealistic, Mr. Chanco said, citing the weak financial health of individual consumers.

The overall consumer confidence index for the next quarter fell to -0.4% from 2.7% previously, according to the Bangko Sentral ng Pilipinas (BSP) Consumer Expectations Survey.

OPINION

Tax impacts from new property valuation law

LET'S TALK TAX
VALENTIN EDUARDO MIGUEL M. PRIETO

On June 13, President Ferdinand R. Marcos, Jr. signed Republic Act No. 12001, or the Real Property Valuation and Assessment Reform Act (RPVARA), into law. This new piece of legislation aims to upgrade tax collection efficiency in the realm of real property taxation. The new law also aims to reorganize the Bureau of Local Government Finance (BLGF) as the sole agency responsible for streamlining and establishing real property zonal values and their respective tax rates.

The salient features of the law are as follows:

1. Creating and updating a Schedule of Market Values

The main feature of the law will be the establishment of a single Schedule of Market Values (SMV) or a table of base unit market value for all kinds of real property (except machinery within a Local Government Unit or LGU). This schedule will correct the absence of a national standard of real property valuation and assessment, which led to years of court litigation over lands, right-of-way conflicts, and red tape. The provincial, municipal, and city assessors, among others, are to prepare the SMVs for various classes of real property situated within their respective LGUs.

All provincial, city, and municipal assessors are required to update their SMVs within two years of the law's effectiveness. LGUs are in turn required to update their SMVs and conduct a general revision every three years thereafter.

The use of the SMVs can improve the efficiency of tax collection on the part of the LGUs levying real property taxes, but the frequent updating may lead to possible delays in collection or in lawsuits over the changing rates.

For the taxpayer, the frequent updating of SMVs every three years can be daunting, especially if there are possible significant changes in real property values and the corresponding real property tax. However, one benefit that can arise from the updating and implementation of a single SMV is the determination of the true value of real assets for property owners, which can guide them in properly setting the prices of their transactions, such as rents, mortgages, leases, and sales.

2. Development of valuation standards and valuation of real property

Uniform valuation standards will be developed, for use by all appraisers and assessors in the LGUs, and other persons, entities, or agencies that conduct valuation in the appraisal or valuation of lands, buildings, machinery, and other real properties for taxation and other purposes. The standards are reviewed every three years or as often as may be necessary to ensure that they are globally aligned with the accepted principles and definitions, with due consideration of the prevailing economic conditions.

For valuation purposes, all real properties, whether taxable or exempt, are to be valued or appraised based on prevailing market values where the property is situated, considering depreciation.

According to one of the law's authors, "LGUs are the ones doing their respective SMVs, which lead to conflicting or outdated values that only erode the real property tax base of certain local governments." Implementing a single SMV can address this issue with a more consistent and accurate valuation approach.

3. Use of Schedule of Market Values

a. *Basis for the revision of assessment and property classification*

First among the main uses of SMVs will be the revision of the fair market values and classification of real properties in each LGU. The local assessor's offices are responsible for the adoption of SMVs in revising the schedules of real property taxes and implementing the appropriate tax rate per classification.

The SMVs shall be used by the LGUs for taxation purposes as the basis for the general revision of the assessment and property classification by the local assessor and in the adjustment of the tax assessment rates of LGUs by the Sanggunians.

When the SMVs are released by the LGUs, taxpayers can expect to pay either more or less real property taxes, depending on the new real property valuation rates reflected in the SMVs.

b. *Basis for determining the market value of local real property-related taxes*

The SMVs also have another use by the LGUs, and that is to determine market values for other local taxes involving real property. For example, SMVs can be used by the Sangguniang Panlalawigan in determining the appropriate rate for a tax on the transfer of real property in a sale transaction. Other real property taxes that can benefit from proper assessment and use of the SMV could be the gravel and sand tax collected by provinces for businesses extracting materials from the earth.

c. *Used by the Commissioner of Internal Revenue in computing internal revenue taxes*

The Commissioner of Internal Revenue may rely on SMVs or the actual gross selling price in consideration, as stated in real property transaction documents, whichever is higher, to compute the rates for national taxes that involve the transfer of real property or the valuation of real property. Taxes involving the determination of market values are capital gains tax, estate tax, documentary stamp tax, and income tax. The Bureau of Internal Revenue can benefit from the use of SMVs in reviewing and updating its tax bases for real property transactions.

On another note, it is the mandate of LGUs to impose real property taxes under Republic Act No. 7160, otherwise known as the Local Government Code (LGC). In any case, the new law may appear to implicitly amend the LGC insofar as the prescribed rates are concerned. For example, the rate of 10% for residential land valued between P175,000 and P300,000 under Sec. 218(b)(1) of the LGC may be overridden by the SMV should there be a new schedule of fair market values for residential land at different prices and different rates. This situation may deem the RPVARA the new law on real property taxes in lieu of the LGC.

If the LGC provisions on real property taxation are not repealed, the new law may govern simultaneously with the LGC, which may lead to legal conflicts and a possible miscalculation of taxes at the expense of the taxpayer.

Taxpayers may not be comfortable with the expected changes laid down by the RPVARA but can still settle any ongoing tax liabilities in a transition period from the time the RPVARA was passed into law. The transition period will cover at least three months from the signing of the law, when the Implementing Rules and Regulations are issued, and up to two years, the period of time when real property owners can avail of tax amnesty, covering penalties, surcharges, and interest for all unpaid real property taxes. This means that the government will aid real property owners and taxpayers in settling their due real property taxes and in determining the true value of their real assets for transactional and taxation purposes.

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.

VALENTIN EDUARDO MIGUEL M. PRIETO is an associate of the Tax Advisory & Compliance division of P&A Grant Thornton, the Philippine member firm of Grant Thornton International Ltd.
pagrantthornton@ph.gt.com