Dumaguete airport loan deal signed with Korea Eximbank

THE Department of Finance (DoF) said it signed a P13.15-billion loan agreement with the South Korean government to finance the new Dumaguete airport.

The loan was provided by the Export-Import Bank of Korea (Korea Eximbank), Finance Secretary Ralph G. Recto said at a forum on Wednesday.

In a separate statement, the DoF said the project is expected to boost tourism and trade, as well as enhance the standard of living in Negros Oriental and the surrounding area.

"With the new Dumaguete airport, we anticipate accommodating up to 2.5 million passengers per year, up from just 800,000. From serving limited domestic flights, we can now open the door to international routes," Mr. Recto was quoted as saying during the loan agreement signing.

The project's total cost is P17.06 billion, with P3.91 billion to be funded by the government.

It will be built on 197.55 hectares in Bacong, Negros Oriental, the DoF said.

The loan will charge interest of 0.05% for non-consulting services and 0.0% for consulting services, payable over 40 years with a grace period of 10 years.

The government is also looking to upgrade more regional airports to enhance connectivity, Mr. Recto added.

Meanwhile, the government and the Korean Eximbank also signed a $3-billion Economic Development Promotion Facility to support the Philippine infrastructure flagship program.

"This agreement serves as an additional financial bridge that will fill the gaps in realizing our ambitious Build Better More Program," Mr. Recto said in his speech.

There are currently 185 infrastructure flagship projects in the pipeline valued at P9.14 trillion.

The $3-billion loan has an interest rate of 1.2%, payable over 25 years, with a 7-year grace period.

Projects to receive support from the new facility include the Panay-Guimaras-Negros Island bridges; the Consolacion-Liloan Bypass Road project; the Lapu-Lapu Coastal Road project; and the Pampanga Integrated Disaster Risk Reduction and Climate Change Adaptation Project Phase II.

The financing agreements were signed by Mr. Recto and Korean Eximbank Chairman and President Yoon Hee-sung on Wednesday. — **Beatriz Marie D. Cruz**

PhilHealth 'idle funds' to support infra — DoF

THE Department of Finance (DoF) said P89.9 billion in "idle funds" returned to the Treasury by the Philippine Health Insurance Corp. (PhilHealth) will be used for infrastructure and other social programs.

"That is the farthest from the truth," Finance Secretary Ralph G. Recto told a forum on Wednesday, referring to allegations that the PhilHealth funds are a form of "pork barrel."

"Unprogrammed funds are not pork barrel, most of them will be used for foreign assisted projects, international commitments," he said.

Pork barrel refers to the traditional Congressional practice, since declared illegal by the Supreme Court, of allocating government projects and funding in such a way as to win favor from voters.

The administration has instructed government-owned and -controlled corporations (GOCCs) to remit funds deemed idle to the Treasury, raising fears that the President will have his own war chest to distribute to supporters.

Mr. Recto noted that the unprogrammed funds will help support several foreign-assisted projects including the Bataan-Cavite Interlink Bridge, the Metro Manila Subway, the Panay-Guimaras-Negros Island bridges, the Davao City Bypass, and the Salary Standardization VI for government employees.

The funds will also support the North-South Commuter Railway System, the Philippine National Railways South Long Haul line, and other big-ticket infrastructure works.

It will also help fund the Support to Parcelization of Lands for Individual Titling program and the Philippine Fisheries and Coastal Resiliency project.

Other programs to be funded are the Philippine Multi-Sectoral Nutrition project, Supporting Innovation in the Philippine Technical and Vocational Education and Training System, the Mindanao Inclusive Agriculture Development project, the Philippine Rural Development project, and other development initiatives.

In Circular 003-2024, the DoF asked PhilHealth and the Philippine Deposit Insurance Corp. to remit unutilized funds worth P89.9 billion and P110 billion to the Treasury.

Mr. Recto has said that the fund transfers were legal and conducted after consulting the Governance Commission for GOCCs, Office of the Government Corporate Counsel, and the Commission on Audit.

He also noted that the remitted funds include a portion of the government subsidy to GOCCs and not from PhilHealth members' contributions.

In a Senate hearing last week, Mr. Recto said projects funded by unprogrammed appropriations will increase gross domestic product growth by 0.7%, provide up to P24.4 billion in additional revenue, and create jobs.

Meanwhile, Mr. Recto said he would prefer better health benefit packages and to reduce PhilHealth members' out-of-pocket expenses, but said he would leave it to its board to cut premium contributions if deemed necessary.

Republic Act No. 11223 or the Universal Health Care Act authorizes a yearly increase of PhilHealth members' contributions until 2025. **— Beatriz Marie D. Cruz**

Initial study results of offshore wind ports due by September

THE Department of Energy (DoE) said the initial findings of the pre-feasibility study on ports that will be repurposed to service the offshore wind energy industry are expected by the end of next month.

Energy Undersecretary Giovanni Carlo J. Bacordo said recently that findings on five of the 10 ports being considered will be available by that time, while the rest of the findings will be out by November.

The pre-feasibility study is being carried out with technical assistance from the Asian Development Bank (ADB) to determine which ports can service the offshore wind industry's needs.

The ports for which the early findings are expected are Bulalacao, Oriental Mindoro; Culasi, Capiz; Tabaco, Albay; and Pulupandan and San Carlos, both in Negros Occidental.

Mr. Bacordo said NIRAS, ADB's consultant, has conducted site visits to these ports, collecting data from local government units and port authorities.

The other ports being studied are the Energy Supply Base port of the Philippine National Oil Co. in Batangas; Bauan International Port, Inc. Batangas; Subic; the Iloilo Commercial Port Complex; and Port Irene, Cagayan.

"These ports will cater to the offshore wind front-runners in the northwest Luzon, west of Manila, north and south Mindoro areas," Mr. Bacordo said.

He said that "the road to first kilowatt-hour in 2028 is, without a doubt, very challenging" but he added that the DoE aims to support their development by ensuring that the ports are adequately prepared and equipped to handle the specific requirements of the industry.

Mr. Bacordo has said that the funding to make ports ready for the offshore wind industry needs to be budgeted for in the 2025 General Appropriations Act (GAA).

"While the GAA 2025 is being considered as a potential funding mechanism, further evaluation of financial requirements and budgetary allocations will be necessary to solidify project timelines and expenditures," Mr. Bacordo said.

Offshore wind farms need to be serviced from specialized ports hosting maintenance facilities and equipment.

Mr. Bacordo has said that the DoE is hoping to conduct a Green Energy Auction specific to offshore wind in the first half of 2025.

To date, the DoE has awarded 92 offshore wind energy service contracts to 38 renewable energy developers with a total potential capacity of 66.101 gigawatts (GW).

According to the Philippine Offshore Wind Roadmap, the Philippines has a potential capacity of about 63 GW from tapping offshore wind resources. — **Sheldeen Joy Talavera**

June manufacturing output growth slows to 2.5% from previous month

FACTORY output growth slowed in June, with the 2.5% increase led by food and fabricated metal products, the Philippine Statistics Authority (PSA) said.

Output growth weakened from 3.2% growth in May but accelerated from 2.1% a year earlier, according to preliminary results of the PSA's Monthly Integrated Survey of Selected Industries.

Factory output is measured by the volume of production index (VoPI).

Month on month, the manufacturing sector's VoPI contracted 3.9% in June after posting 0.8% growth in May. Stripping out seasonal factors, factory output that month declined 1.3%.

In the year to date, factory output growth averaged 1.3%, slowing from 5.61% a year earlier.

The S&P Global Philippines Manufacturing Purchasing Managers' Index (PMI) eased to 51.3 in June from 51.9 in May, pointing to further slowdowns going forward.

PMIs are a leading indicator for factory activity, reflecting the volume of materials purchased in advance of manufacturing operations weeks or months down the line. A reading above 50 marks increased purchasing activity for materials that will later be transformed into goods, while a reading below 50 means reduced purchasing.

Growth in the VoPI was led by food products (8.8% in June from -0.9% in May) and fabricated metal products, except machinery and equipment (19.6% from -8.8%). — **Beatriz Marie D. Cruz**

OPINION

Navigating VAT recovery under the EoPT Act

TAXWISE OR OTHERWISE

AUBREY GAYLE T. DIAZ

In an effort to make doing business easier, the government introduced significant changes to the Value-Added Tax (VAT) provisions through Republic Act (RA) No. 11976, known as the Ease of Paying Taxes (EoPT) Act. In today's article, I would like to focus on the revisions to the VAT refund process and the VAT credit for uncollected receivables, examining their implications for businesses.

RISK-BASED VAT REFUND PROCESS

The EoPT Act introduces a risk-based approach to the verification and processing of VAT refund claims. These changes are poised to have a substantial impact on the way businesses manage their VAT refund claims, and promote a more streamlined and taxpayer-friendly approach.

Under the EoPT Act, VAT refund claims are categorized into low, medium, and high risk. This new framework aims to streamline the verification process, with medium- and high-risk claims subjected to more rigorous audits. Furthermore, the Commissioner now has the authority to issue refunds without requiring a countersignature from the Commission on Audit (CoA). However, these refunds will be subject to post-audit by CoA. Any amounts disallowed by the CoA will be the taxpayer's responsibility, and BIR employees may face administrative liability for gross negligence in the refund process.

Revenue Regulations (RR) No. 5-2024 elaborates on the risk-based framework introduced by the EoPT Act. Complementing this, the BIR issued Revenue Memorandum Order (RMO) No. 23-2024, which provides comprehensive guidelines, policies, and procedures for verifying VAT refund claims.

RR No. 5-2024 defines the three risk levels. Low-risk claims are where all required documentation is complete, and will be processed without the need for further verification of sales or purchases, minimizing the administrative burden for these claims. Medium-risk claims require verification of at least 50% of both sales transactions and purchases, including supporting documents such as invoices and proof of VAT zero-rating. High-risk claims are subject to a comprehensive verification of 100% of sales and purchases, reflecting the higher risk associated with these claims and ensuring thorough examination.

The risk classification process considers factors such as the size of the claim, frequency of filing, and tax compliance history. Specific conditions are imposed to maintain the integrity of the verification process. Claims from first-time applicants are automatically deemed high risk and continue to be classified as such for their subsequent three claims. If a claim is fully denied, the following claim will also be categorized as high risk. Medium-risk claims can be escalated to high-risk status if a Revenue Officer has a 30% disallowance rate on the VAT refund claim. Claims that have been classified as low risk for three consecutive filings will undergo full verification on the fourth filing, regardless of the current risk classification. Claims related to VAT credits or refunds from canceled registrations or status changes are also classified as high risk. Risk classifications are reviewed for each filing, and the Commissioner of Internal Revenue may impose additional limitations through further issuances.

The verification and processing of VAT refund claims are distinct from regular audits of internal revenue taxes. Findings that do not affect the refund amount may be forwarded for further review or incorporated into existing audits based on whether the processing and auditing offices are the same. All required documentation must be submitted by taxpayers, regardless of the risk level, and will be subject to post-audit by CoA. The BIR may also utilize data from the Electronic Invoicing/Receipting and Sales Transmission System (EIS) to aid in the verification process.

Verification procedures for low- and medium-risk claims focus on the completeness and authenticity of documentation, while high-risk claims undergo thorough verification. This structured approach allows for necessary adjustments based on findings, to help ensure well-documented and justified risk assessments.

Ultimately, however, the success of a VAT refund claim hinges on the documentation of the input VAT credits. Since the same documents are required for all VAT refunds, regardless of the risk level classification, it seems prudent for taxpayers to prepare their refund claims assuming a high-risk review, ensuring complete compliance, to increase the likelihood of a favorable outcome in their VAT refund claims.

VAT CREDITS FOR UNCOLLECTED RECEIVABLES

The EoPT Act also introduced the use of output VAT credits for uncollected receivables in the subsequent quarter after they become overdue. This measure benefits taxpayers who have reported receivables for VAT purposes in a prior quarter but have yet to collect them. For example, if output VAT is paid on a sale made in Q2 2024, but the receivable on the sale remains uncollected by Q3 2024, the seller may deduct the VAT previously paid from the Q3 2024 output VAT due.

Under Revenue Memorandum Circular (RMC) No. 65-2024, the following conditions must be met to qualify for the VAT credit:

1. The sale or exchange occurred after April 27, 2024.
2. The sale was on credit or account.
3. There must be a written agreement specifying the payment period, such as a credit term indicated in the invoice or another document. Loan Agreements are considered sufficient if they state the credit terms.
4. The VAT should be separately itemized on the invoice.
5. The sale must be specifically reported by the seller in the Summary List of Sales for the period when the sale occurred, and not included under "various" sales.
6. The seller must have declared the corresponding output VAT in the quarterly VAT return (BIR Form No. 2550Q) within the prescribed period.
7. The agreed payment period between the seller and the buyer, whether extended or not, must have lapsed.
8. The VAT component of the uncollected receivable must not have been claimed as a deduction from gross income (i.e., bad debt) under Section 34(E) of the Tax Code.

If the uncollected receivables are later recovered, the related output VAT must be included in the taxpayer's output VAT for the recovery period. Failure to declare this will result in penalties.

Therefore, it is crucial to track uncollected receivables to determine if VAT can be carried over or if VAT should be paid for amounts previously used as credit upon recovery. Under RMC No. 65-2024, claiming output VAT credit is optional; sellers may choose not to claim it if the receivables are likely to be collected.

These amendments are a significant shift in the VAT recovery process. While these changes aim to streamline compliance and enhance efficiency, taxpayers are likely to face difficulties navigating the new requirements, especially the application of output VAT credits on uncollected receivables. The handling of receivables that are eventually collected but were previously deducted could also pose issues, as the VAT deducted would eventually need to be remitted again upon collection. The subsequent monitoring of VAT credits creates a particularly onerous challenge to taxpayers.

The authorities could consider addressing the administrative burden associated with the uncollected receivables. Perhaps establishing clear guidelines and thresholds for when receivables are considered "uncollectible" can also reduce ambiguity. Simplifying this aspect would align with the EoPT Act's objective of easing compliance and reducing administrative burdens for businesses.

In summary, the changes brought by the EoPT Act constitute a significant advancement in regulatory reform. However, their implementation is not without difficulties. Certain provisions may require additional refinement to effectively achieve its objectives. Addressing these birth pains is essential for the Act's successful execution.

The views or opinions expressed in this article are solely those of the author and do not necessarily represent those of Isla Lipana & Co. The content is for general information purposes only, and should not be used as a substitute for specific advice.

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