P40 rice pushed out to more Metro Manila markets

THE Department of Agriculture (DA) said it will distribute subsidized P40 rice to more Metro Manila markets starting Thursday, Dec. 5.

"There will be rice kiosks in selected markets in the (National Capital Region) including two train stations," Assistant Secretary for Consumer and Legislative Affairs Genevieve E. Velicaria-Guevarra said at a briefing on Wednesday.

She added that the initial markets include Kamuning Market, Malabon Central Market, New Las Piñas City Public Market, Pasay City Public Market, and Guadalupe Public Market.

Kiosks will also be set up in the North Avenue and Monumento stations of the Metro Rail Transit and Light Rail Transit lines.

"These kiosks will offer Rice-for-All at an affordable price of P40 per kilo, available from Tuesdays to Saturdays, 8 to 5 p.m.," Ms. Velicaria-Guevarra said.

She said that the kiosks will be affiliated with the KADIWA ng Pangulo program and supplied by the Food Terminal, Inc.

She said that the DA is also looking to put up rice kiosks at Balintawak Market, Cartimar Market, Pateros Grace Marketplace, Maypajo Public Market, and Paco Market.

"Rice for All" was first launched to sell cheap well-milled rice at KADIWA centers.

The government currently sells P29 rice to low-income individuals.

The DA is looking to expand its KADIWA network to 1,500 locations by 2028, it is expecting to open 179 KADIWA Centers by the end of the year.

Ms. Velicaria-Guevarra said that KADIWA centers will also sell well-milled rice at P40 per kilo starting Dec. 5.

According to DA price monitors, a kilogram of well-milled rice in Metro Manila markets sold for between P42 and P52 as of Dec. 3. — **Adrian H. Halili**


PHILIPPINE STAR/EDD GUMBAN

EU sees more PHL projects as FTA talks loom

By Justine Irish D. Tabile
Reporter

THE European Union (EU) might pursue more projects in the Philippines amid negotiations for a bilateral free trade agreement (FTA), according to an official with the EU Delegation to the Philippines.

On the sidelines of the EU-Philippines Business Conference on Wednesday, Minister Counsellor and Head of the Economic Trade Section Philipp Dupuis said the EU side expects more forms of trade-related cooperation to come up.

"In any case, there will be other forms of cooperation that are to the benefit of Filipino trade. All the more that we are now going into the FTA process," Mr. Dupuis told reporters.

"We will see whether, around this, something may come up. But all this is not yet decided. These are the things that have to be further reflected upon in Brussels," he added.

In March 2021, the EU launched the ARISE (ASEAN Regional Integration Support by the EU) Plus Philippines, which is a €5.8-million trade-related technical assistance project. It will run until Feb. 28, 2025.

"We see that the ARISE Plus has been a very successful project. But we will probably do more on a regional basis now," he said.

"I think this is where I see this going. So, regional basis means ASEAN-wide," he added.

According to Trade Undersecretary Allan B. Gepty, the EU has been one of the Philippines' providers of technical assistance and capacity building in areas such as sustainable development, trade-related issues, and micro, small and medium enterprises.

"The EU has been one of the largest sources of foreign investment for the Philippines, with total net foreign direct investment amounting to $64 million and approved investments amounting to $13.4 billion in 2023," he said.

"Notwithstanding, there is still much potential to be explored not only in market access for goods but also for services and investments, and other areas like innovation, digital trade, and energy," he added.

Under the ARISE Plus project, the Philippines has been the recipient of programs and activities, Mr. Gepty said.

"The EU's commitment to this project underscores the strong and enduring relationship between our regions," he said.

"The ARISE Plus project is one of the important elements of our efforts to foster inclusive economic growth and enhance the international trade performance and competitiveness of the Philippines," he added.

Mr. Dupuis said that the two parties made good progress in the first round of negotiations for the FTA in October. Talks for an EU-Philippines FTA had been on hold since 2017.

"In our eyes, from the EU side, we think it was a very good round, an excellent round. We made good progress on this. We have a good dynamic in this negotiation," he said.

"We now look forward to the second round which will take place here in Manila. I think that's all we can say. It's in the very early stages of the negotiations, but so far it has been a very good discussion with the Philippines," he added.

According to Mr. Gepty, President Ferdinand R. Marcos, Jr. has said that the ultimate aim is to wrap up the negotiations for the EU-Philippines FTA by 2027.

Philippine negotiators set a target of concluding talks as early as 2026 to ensure no gap in trade privileges once the Philippines graduates to upper middle-income status.

The Philippines participates in the EU's Generalized Scheme of Preferences Plus (GSP+), which is a special incentive arrangement for low and lower middle-income countries. It grants zero duties on 6,274 Philippine-made products.

"We are very much aware of course that from the time on when the Philippines graduates into an upper middle-income country, there's another three years of transition time, and then the GSP Plus benefits go away," he said.

"At the end of the day, we all wish to do this as quickly as possible, but it needs to be good. We cannot, in our eyes, sacrifice quality for speed. Because an FTA is to last, and it should be good," he added.

The two parties are set to hold the second round of the negotiations on Feb. 11-13, in which they will discuss around 20 chapters, according to Mr. Dupuis.

He said a quality FTA is one that "gives real new market access to both sides, stable rules, and also has sustainability at its core."

EU hoping to 'match' PHL ambitions for FTA by 2027

A EUROPEAN UNION (EU) official called the Philippine timetable for concluding a free trade agreement (FTA) "ambitious" but added the EU side is hoping as well for talks to make progress according to the Philippine schedule.

Niclas Kvarnström, managing director for the Asia and the Pacific at the EU External Action Service (EEAS) said at a briefing in Makati City on Wednesday: "That's great to hear that from the Philippine side, there's an ambitious timetable," referring to the schedule set by President Ferdinand R. Marcos, Jr.

"We would also like to match that by being ambitious on our side… so we hope very much that timetable is realistic."

The EU expects bilateral trade to increase with the FTA, Mr. Kvarnström said, cited the aftermath of such deals with Vietnam and Singapore.

"I would say the potential for both economies, and I think that it's also true to say that we're quite complementary in terms of our economic exchanges and will significantly contribute to market access for both sides… and for the Philippines to move up the value chain," he said.

Trade Undersecretary Allan B. Gepty has said the government's internal target is to conclude trade negotiations by 2026, but the Marcos administration's ultimate aim is to wrap up by 2027.

Mr. Gepty said the 2026 target is intended to ensure no gap in trade privileges should the Philippines lose EU concessions by graduating to upper middle-income status.

The Philippines participates in the EU's GSP+, a special incentive arrangement for low and lower middle-income countries. It grants the country zero duties on 6,274 made products.

The agreement, which requires the Philippines to uphold commitments to 27 international conventions on human rights, labor, good governance and climate action, was extended until 2027 before it expired at the end of last year.

The EU is expected to negotiate for maximum access for almost all of its products, particularly meat, other agricultural products, electronics, and automotive products, while the Philippines will also be pushing for the maximum access for its agricultural exports, according to Mr. Gepty.

Mr. Kvarnström said he met with officials from the Finance department and other agencies on Nov. 25 to tackle potential areas of cooperation such as critical raw materials and green financing.

"Possible new investments in the green economy were mentioned as a priority area for prospective loan financing with EU grants, blended finance, and guarantees," according to the Philippines and EU joint statement published by the EEAS.

In his visit to Manila in June, Hungarian Minister of Foreign Affairs Péter Szijjártó said his country, which assumed EU chairmanship in July, seeks to speed up negotiations for the FTA before the country's GSP+ perks expire in 2027.

"Trade agreements are always tricky to negotiate between partners, but it does help to have political will on both sides, which I think there is (between both countries)," Mr. Kvarnström said.

"We hope that the direction here is that in a world where it's a tougher space for free trade than it was before with higher geopolitical tensions, ASEAN (Association of Southeast Asian Nations) and European countries can find each other to be partners in a deeper way than before." — **John Victor D. Ordoñez**

OPINION

Coming soon: VAT in the digital age

TAXWISE OR OTHERWISE
CLARISSA MAE SY

For some people, a typical weekend is spent curling up on the couch with a bowl of popcorn, immersed in their TV shows from their favorite streaming service. This, along with many other online consumption habits, is expected to become a bit more expensive as subscription fees and other digital services are likely to increase when 12% VAT starts applying to digital services supplied by non-resident digital service providers (DSPs) whose products are consumed in the Philippines.

On Nov. 12, the Bureau of Internal Revenue (BIR) conducted a public consultation to solicit inputs on the proposed implementing rules and regulations (IRR) to Republic Act No. 12023 covering VAT on Digital Services. The BIR is expected to release the final IRR by January, and non-resident DSPs will start being liable for VAT 120 days after. Let's discuss some salient provisions of the law and draft IRR, as well as some key takeaways.

DIGITAL SERVICES

Digital Services are defined as 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.

This broad definition potentially extends to almost all, if not all, services which are performed virtually or over the internet. For instance, in the draft IRR, online consulting services (e.g., through virtual calls or e-mails) provided by foreign nationals, even if conducted remotely, may be at risk of being subject to VAT.

As consumers, we may notice increased costs for these services; for businesses, this may entail additional tax compliance obligations.

PLACE OF CONSUMPTION

A critical factor in determining if the digital services provided by non-resident DSPs are subject to VAT is the place of consumption. The draft IRR clarifies that digital services are considered consumed in the Philippines if the consumer/user is located in the country. Also, place of consumption can be determined via several factors such as payment or credit card information, the user's home/billing address, and access information, among others.

This point needs further contemplation. During the public consultation, questions arose on the tax treatment of scenarios where the actual user and the paying party are located in different countries. For example, would a Philippine company that subscribes to a cloud-based software accessible worldwide be subject to VAT, even if the end-users are located outside the Philippines?

While pegging the VAT to the location of the payor would simplify tax administration, doing so raises concerns regarding the consistency with the law's intent. Following the language of the law, consumption outside the Philippines would not trigger VAT. On the other hand, in scenarios where a portion of the service fee is attributable to services consumed abroad, bifurcating revenues to ensure proper VAT application might impose additional compliance challenges on taxpayers and hinder effective implementation of the law by the BIR.

REGISTRATION

The law requires all non-resident DSPs whose gross annual sales are expected to exceed P3 million to register for VAT. However, in the draft IRR, it appears that all non-resident DSPs selling to Philippine customers are required to register for VAT, regardless of whether or not the P3 million threshold is breached. The BIR will need to clarify this matter in the final IRR to be issued to avoid any confusion.

Non-resident DSPs may also appoint a third-party service provider to help them register with the BIR, to receive notices, maintain records, file returns, among others. The appointment of a third party shall not result in the non-resident DSP being classified as a non-resident foreign corporation doing business in the Philippines for VAT purposes. In my view, this clarification indicates that these onshore services provided by the third-party service providers to a non-resident DSP would be considered zero-rated for VAT purposes if paid for in acceptable foreign currency. It would be good for the IRR to clarify that all services purchased by non-resident DSPs from VAT-registered Philippine suppliers (i.e., not limited to those provided for recordkeeping and compliance reporting) can qualify for VAT zero-rating. This is critical as non-resident DSPs are not allowed to claim any input VAT credits. Without the VAT zero-rating, digital consumers in the Philippines may also end up paying for this tax leakage if the non-resident DSPs decide to pass on the additional cost as a price hike.

VAT COMPLIANCE

For simplicity and considering the existing reverse charge mechanism under Section 114 of the Tax Code even prior to the new VAT legislation, non-resident DSPs are only liable to remit the VAT on their supply of digital services in business-to-consumer (B2C) transactions, and in case they are classified as an e-marketplace (with respect to sales of non-resident sellers that go through their platform). On the other hand, business-to-business (B2B) transactions, similar to the collection method under the old VAT rules, should be accounted for and remitted by the Philippine resident business consumer.

During the public consultation, concerns were raised, however, regarding the VAT withholding by business consumers. While the law requires the VAT withholding by VAT-registered consumers, the draft IRR imposes this obligation on all business consumers, without any qualification as to the VAT registration status.

In my humble opinion, the imposition on non-VAT registered business consumers still finds basis under the general provisions of Section 114 of the Tax Code, which covers all services performed in the Philippines by non-residents. A B2B supply of digital services to a non-VAT Philippine business consumer is clearly subject to VAT, and for sure, the VAT will be passed on to and shouldered by the Philippine consumer. The only question is who is liable for the remittance. Putting the remittance obligation on the Philippine party seems to me like a simplified method for effective tax administration which is reasonable. It not only helps the BIR, but also the non-resident DSP. At least, the non-resident DSP will only need to confirm whether the Philippine customer is engaged in business, and eliminates the need to determine whether or not the Philippine business customer is a VAT taxpayer.

Further, the BIR may consider further easing the compliance burden on non-resident DSPs whose transactions are limited to B2B transactions by exempting them from VAT registration.

DETERMINING THE BUSINESS STATUS

In determining a contracting party's business status (i.e., engaged in business or not), both the DSPs and consumers may rely on the documents submitted by their contracting parties.

The draft regulations did not specify the required documentation to verify such status, although it was suggested during the public consultation that this may include the tax registration certificate (BIR Form No. 2303) of the consumers. This could be burdensome, especially for non-resident DSPs with numerous transactions.

In its revised IRR, the BIR may consider providing guidance on the specific documents required, including alternative options when the primary documents are unavailable; and requiring business consumers to provide the necessary documents to the non-resident DSPs.

The digital age has brought us convenience, from streaming to shopping online. Now, our tax laws are catching up with these conveniences. While I may not be totally thrilled about this personally, it's clear that the intent is to bridge the tax gaps created by the evolving digital landscape. Let's hope that once finalized, the IRR addresses the concerns and provide much-needed clarity on any inconsistencies to allow the effective collection of tax, without losing the convenience we've grown accustomed to. Else, we'll be spending more time on compliance burdens than binge-watching our favorite shows.

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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