

EO lowers real property tax for IPPs with BOT projects

By John Victor D. Ordoñez
Reporter

PRESIDENT Ferdinand R. Marcos, Jr. issued an executive order (EO) that will reduce real property tax for independent power producers (IPPs) engaged in build-operate-transfer (BOT) deals with government-owned and -controlled corporations (GOCCs).

The Palace said Executive Order 83 signed by the President on Feb. 13 and made public on Wednesday. The EO grants IPPs an effective reduction in real property tax by setting an assessment level of 15% of the fair market value. It also calls for machinery and equipment to be depreciated at 2% a year.

All interest and penalties on deficiency real property tax liabilities of IPPs will be condoned, according to the EO.

Real property tax payments made by IPPs exceeding the reduced amount will be applied to their property tax liabilities in the succeeding years.

The Local Government Code of 1991 provides that GOCCs engaged in the generation and transmission of electricity are entitled to tax privileges such as a lower real property tax assessed on 10% of market land value, buildings, machinery, and other equipment.

The law also grants the President the authority to condone or reduce these real property taxes for any province, city, or municipality within Metro Manila “when public interest so requires.”

“As the operations of affected IPPs provide an estimated grid capacity of 3,100 megawatts, the closure or non-operation of these IPPs will entail substantial losses to the government

and force the public to resort to more costly electric power source alternatives or rotating power outages,” according to the order.

Mr. Marcos said in the EO that the collection of the real property tax from the IPPs last year, which had assessment levels of as high as 80% of fair market value from local government units (LGUs), will “trigger massive direct liabilities” for the National Power Corp. and Power Sector Assets and Liabilities Management Corp.

He said such liabilities would threaten the financial stability of the agencies, disrupt the government’s fiscal consolidation efforts, and upend the stability of energy prices.



FREEPIK

“This is good news but only touches on a small part of the permitting and regulatory framework that needs to be improved,” Anne E. Montelibano, president of the Philippine Independent Power Producers Association, Inc. (PIPPA), told *BusinessWorld* via Viber.

“To effectively make the country an attractive destination for power generators, various issues need to be resolved and addressed,” she added.

The Executive needs to clarify whether the lower property tax and condonation can be implemented without the consent of affected LGUs, since they handle collecting these taxes, Terry L. Ridon, a public investment analyst and convener of think tank InfraWatch PH, said via Messenger chat.

“In other words, a mere executive order cannot trump the power of local government units to impose and collect real property taxes on properties within their jurisdiction.”

PIPPA last year called on the Energy Regulatory Commission (ERC) to review the implementation of a secondary price cap on prices, which the ERC uses to prevent excessive increases in electricity prices.

Ms. Montelibano has said the cap would discourage investment in the power sector, despite an ERC a resolution providing for additional compensation to power plant generators once a price cap is triggered.

“Taxes can in fact be raised as long as the long-term profits of the power plants are secured,” Leonardo A. Lanzona, who teaches economics at the Ateneo de Manila, said via Messenger chat.

“The effectiveness of tax reduction depends on whether or not there exists forward and backward linkages to the power sector.”



PHILIPPINE STAR/ NOEL B. PABALATE

First batch of NFA rice released to San Juan City

THE National Food Authority (NFA) on Wednesday began releasing rice stocks to local government units (LGUs) in response to the declaration of a food security emergency.

Agriculture Secretary Francisco Tiu Laurel, Jr. handed over rice to San Juan City Mayor Francisco Javier Zamora in a ceremony at an NFA’s warehouse in Valenzuela City.

Mr. Zamora heads the Metro Manila Council.

Aside from Metro Manila, 50 more LGUs have expressed their intent to participate in the program, the DA said.

“We expect more local government units to participate in this effort, which will benefit not only consumers but also rice farmers,” according to Mr. Laurel, who chairs the NFA Council.

The NFA seeks to release 25,000 metric tons (MT) of rice every month during the emergency.

The DA will oversee the selling of rice through state-owned Food Terminal, Inc. (FTI), since the amended Rice Tariffication Law bars the NFA from selling rice directly to the public.

The rice emergency declaration authorizes the FTI to distribute rice directly to LGUs, as well as to government-subsidized markets and participating government agencies.

“With the P9 billion allocated by President Ferdinand Marcos, Jr. for NFA’s rice procurement this year, and the remaining funds from last year’s record purchases, we aim to buy even more palay (unmilled rice) from farmers,” Mr. Laurel said.

He said the NFA’s disposal of stocks will clear the way for storing the upcoming harvest.

The rice will be available for P33 per kilo, or P1,650 per sack, with a suggested retail price of P35 per kilo.

Mr. Laurel said rice sales via LGU channels could commence by Monday.

The DA does not oppose the resale of the NFA rice, but the price should not exceed the suggested retail price of P35 per kilo, Mr. Laurel added.

LGUs can order as much rice as they want as the upcoming harvest is likely to replenish NFA stocks.

“Basically, we need to really unload our stocks as fast as possible,” he said. “Whatever the LGU requests, we will release. Then, we will stop at 150,000 tons.” —

Kyle Aristophere T. Atienza

First vehicles procured via eMarketplace delivered

BUDGET Secretary Amenah F. Pangandaman said the eMarketplace online procurement portal has processed its first vehicle transactions, covering four units which were delivered in two weeks.

In a statement on Wednesday, Ms. Pangandaman announced that the Department of Budget and Management’s (DBM) Procurement Service witnessed the turnover of vehicles purchased via eMarket-

place. The transaction involved four Toyota vehicles.

“Kicking off the first sale under the e-Marketplace, four motor vehicles worth P7.6 million were handed over to the Insurance Commission (IC) at Toyota Otis in Paco, Manila, on Feb. 17,” the DBM said.

IC Supervising Administrative Officer Mark Franklin M. Sanchez said the two-week transaction was much quicker than the four-month wait under the old system.

The following day, the National Tax Research Center took delivery of two motor vehicles valued at P3.3 million.

The DBM said government agencies can now begin ordering motor vehicles under a pilot program for common-use supplies and equipment.

It said more items are being added, including airline tickets, cloud computing services, and various software and licenses.

“We launched it in December, and now, two agencies have already benefited from faster, more efficient, and seamless procurement. ‘Add to cart’ has officially been activated for government procurement,” Ms. Pangandaman said.

The eMarketplace, a feature of the New Government Procurement Act, was signed into law by President Ferdinand R. Marcos, Jr. in July. — **Aubrey Rose A. Inosante**



AIRINDIA.COM

CAAP in talks with Air India for direct flights

THE PHILIPPINES is advancing its discussions with India’s flag carrier, Air India, over possible direct air services between the countries, the Civil Aviation Authority of the Philippines (CAAP) said.

In a statement on Wednesday, CAAP said the necessary documentation, technical specifications and procedural framework are all in place to secure flight

approvals, CAAP said, adding that the proposed routes and frequencies are now being assessed.

CAAP is committed to facilitating the flight approval process, Director-General Manuel Antonio L. Tamayo said.

CAAP said that Air India has also expressed its optimism on the possible economic and cultural impact of direct services.

The Transportation department has said that it is looking at expanding flight networks and air talks between the Philippines and various destinations, with consultations ongoing with India, the US, Australia, Thailand, the UK, Uzbekistan, Qatar, Ethiopia, Oman and the Seychelles. — **Ashley Erika O. Jose**

OPINION

New risk-based approach for VAT refund process

Filing a tax refund claim brings a sense of anticipation, as taxpayers aim to get back a portion of their hard-earned money. However, the process of obtaining a VAT refund in the Philippines is often one of the most challenging experiences taxpayers can go through. Considering the rigorous documentation requirements and thorough review process of the BIR, a comprehensive understanding of the VAT refund process is essential for successful recovery.

In 2024, the Ease of Paying Taxes (EoPT) Act introduced the new Risk-Based Approach in verifying and processing VAT refunds. As part of the verification process, the BIR now classifies applications into low-, medium-, or high-risk claims depending on the amount of the claim, tax compliance history, frequency of filing VAT refund claims, among others.

Such classifications determine the scope of the BIR’s verification process. Low-risk claims do not go through verification and are limited to going through the checklist for completeness of the documentary requirements. Once these are met, low-risk claims are automatically be recommended for refund. Meanwhile, medium-risk claims only require 50% verification.

TAXWISE OR OTHERWISE
ROWELLE SHEENA J. JUAREZ-AYSON

In October, the BIR issued Revenue Memorandum Circular (RMC) 115-2024 to further clarify this new approach. Under the RMC, the processing of VAT refund claims will entail: (1) Checklist-ing based on the Checklist of Mandatory Requirements; (2) Cursory checking of completeness of supporting documents submitted for sales and purchases of goods and services after the application has been accepted; (3) Determination of the risk level of the claim; and (4) Processing and verification for medium- and high-risk claims.

The checklist-ing procedure is the first stage and is limited only to ensuring the completeness of the submitted documentary requirements; whereas in the verification procedure, the BIR ensures the correctness and accuracy of the documents through examination, evaluation, deep analysis and investigation.

In order for the VAT refund application to be accepted, the Checklist of Mandatory Requirements (regardless

of the identified risk level) should be submitted. Otherwise, the application is rejected.

During cursory checking of the completeness of the document, if certain supporting documents indicated in the schedule of sales and purchases cannot be found in the physical documents submitted, the application will be tagged “no supporting documents” (NSD). Generally, this is not considered an incomplete submission, but it will result in the disallowance of the unsubstantiated portion of the sales and purchases. However, if the NSD exceeds at least 1% of total sales (for sales transactions) or total amount of claim (for purchase transactions), the application will be classified as high-risk, requiring 100% verification regardless of the initial risk classification.

Further, for any missing/incomplete information (e.g., no reference details, incomplete/no transactions details, etc.) in the schedule of sales and purchases, the application is automatically classified as high-risk, requiring 100% verification.

This new approach should help to expedite the VAT refund process for claims that are classified as low-risk since they are automatically recommended for refund, subject to the condi-

tions mentioned above. However, in the guidelines, NSD tagged amounts of up to 1% of the transaction or claim, or if one item is missing from the schedules, the classification is automatically classified as high-risk. The RMC did not provide specific guidelines or details as to the information required. With this low threshold, I am curious whether we can expect any application to be tagged as low-risk.

Having said that, the BIR may consider issuing guidelines to specify and limit details regarding the information that should be seen in the schedules. In this way, taxpayers would be able to better prepare their VAT refund applications appropriately and anticipate their possible risk classification, allowing the revenue officers to process applications more efficiently and focus their efforts on cases that truly warrant closer scrutiny.

By providing clear guidelines, the BIR can help reduce the administrative burden on both taxpayers and revenue officers, minimize delays in processing VAT refund applications, and ensure that the risk classification system is applied consistently and fairly. This would not only improve compliance rates but also foster a more transparent and predictable tax environment, which could

enhance taxpayer trust and cooperation with the tax authorities.

For taxpayers, the journey through this new refund system hinges on precise documentation and adherence to guidelines, paving the way for smoother interactions with tax authorities. As the BIR continues to refine and perfect this process, we can look forward to a VAT refund system that is not only fairer but also inspires greater trust and cooperation between taxpayers and the government. Ultimately, these improvements have the potential to create a more harmonious and effective tax administration, benefiting all stakeholders and contributing to a healthier economic environment.

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