

Tourist VAT refund law touted for ‘multiplier effect’

FINANCE Secretary Ralph G. Recto said the law offering value-added tax (VAT) refunds for tourists will have a multiplier effect on the economy equivalent to nearly double actual visitor spending.

Mr. Recto made the remarks during the signing of the law’s implementing rules and regulations (IRR), according to a Department of Finance (DoF) statement on Monday.

The DoF said Mr. Recto, Customs Commissioner Bienvenido Y. Rubio,

and Internal Revenue Deputy Commissioner Marissa O. Cabreros signed the IRR that day.

“With a multiplier effect of 1.97, every P100 spent by a tourist generates P197 in economic output. Imagine that. *Halos doble ang balik sa ekonomiya* (The economy will reap nearly double of what tourists spend),” Mr. Recto said in his speech at the ceremonial signing of the IRR.

The signing was witnessed by Tourism Secretary Christina Garcia-Frasco and

Secretary Frederick D. Go, who heads the Office of the Special Assistant to the President for Investment and Economic Affairs.

President Ferdinand R. Marcos, Jr. in December signed the Act Creating a VAT Refund Mechanism for Non-Resident Tourists, which is designed to encourage visitors to spend more while travelling in the Philippines.

The law allows tourists to claim VAT refunds on purchases worth at least P3,000 from accredited stores.

“For this law to succeed, two things must happen: We need a fully functional VAT refund system and a surge in inbound tourism,” he said.

The Department of Tourism reported that the Philippines generated about P760.50 billion in revenue from inbound tourism expenditures in 2024.

Mr. Recto said the Philippines must have a simple, accessible, and culturally inclusive VAT refund process that allows businesses, and tourists to maximize its benefits.

“The IRR tasks the DoF with engaging the services of reputable and internationally recognized VAT refund operators to provide end-to-end solutions to the government. Such refunds may be made electronically or in cash to enhance the ease of doing business,” he said.

At a March 13 briefing, the Asian Consulting Group called for an automated refund mechanism. — **Aubrey Rose A. Inosante**

House bill backs ecozone on GSIS land in Marikina

A BILL that seeks to set up a special economic zone (ecozone) in Marikina City has been filed at the House of Representatives.

Filed on Feb. 20, House Bill (HB) No. 11465 proposes the creation of an economic zone at a site in Barangay Tumana, Marikina, according to a copy of the measure obtained by *BusinessWorld*.

“Marikina has historically been a center for micro, small, and medium enterprises (MSMEs), particularly in the footwear and leather industries. However, changes in global trade, shifting market dynamics, and infrastructure limitations have constrained its ability to compete on a larger industrial scale,” Marikina Rep. Stella Luz A. Quimbo, the bill’s author, said in the measure’s explanatory note.

Marikina City was home to 19,682 MSMEs in 2024, according to city data.

The measure also proposes the creation of a Marikina Ecozone Authority (MARECA) that would oversee the economic zone’s operations, which is expected to rise at a property

owned by the Government Service Insurance System (GSIS).

Under the bill, MARECA will have authorized capital stock of P2 billion, with 60% of shares to be subscribed for and paid by the National Government and the GSIS.

Foreigners looking to invest in the Marikina economic zone will be eligible for an investor visa if they inject \$200,000 into a registered enterprise, according to the bill.

Businesses within the economic zone are also exempt from paying income, donor’s, and documentary stamp duties, according to the measure.

“Business establishments operating within the Marikina ecozone... shall pay 5% final tax on special corporate income tax.”

“Under this measure, the Marikina ecozone will be developed as an industrial and commercial hub with access to modern infrastructure, streamlined regulatory processes, and targeted incentives designed to attract and retain investors,” according to the bill. — **Kenneth Christiane L. Basilio**

PEZA makes pitch to China manufacturers who could relocate to skirt Trump tariffs

THE Philippine Economic Zone Authority (PEZA) said it is refocusing its efforts on attracting Chinese investment, betting that some companies there will try to sidestep US tariffs.

“PEZA counts Chinese investors, including those from Taiwan and Hong Kong, among our best bets for foreign direct investment attraction for this year and for succeeding years to come,” PEZA Director General Tereso O. Panga said.

He said PEZA recently concluded a week-long mission to China for investment presentations to Chinese and multinational corporations.

During his first term, US President Donald J. Trump sought to de-risk the global supply chain and decouple from China, which led many export manufacturers in China to shift production to Vietnam, he said.

“The resulting global supply chain diversification by global MNCs has become more pronounced with the recent imposition of additional import tariffs by the US government against China, Mexico, and Canada,” Mr. Panga said in a statement on Monday.

He added that this pressures export manufacturers in China to

shift parts of their supply chains and production processes away from China to new investment hotspots in the region other than Vietnam and Mexico.

“Under the current Trump 2.0 trade regime, the C+1 (China +1) strategy seemingly has evolved into C+1+1 (or C+2) with the Philippines now being considered as the new ‘plus one’ preferred destination in ASEAN by relocating companies from China,” Mr. Panga said.

“This manifestation was made by some Chinese companies during our roundtable meeting with the leaders of the China Chamber of International Commerce-Dongguan (CCOIC-Dongguan),” he added.

In particular, he said that Aoxing group, an original equipment manufacturer for projector equipment, projector screens, and audio-visual products, chose the Philippines for its redundant manufacturing facility to serve the US export market.

“The Aoxing group, together with its supply chain providers, will join the upcoming CCOIC-Dongguan delegation’s visit to the Philippines,” he said.

Mr. Panga said the Corporate Recovery and Tax Incentives for

Enterprises to Maximize Opportunities for Reinvigorating the Economy (CREATE MORE) Act and talent pool of young, English-proficient workforce will be a draw for investors from China.

“We all have these favorable conditions that indeed can make the Philippines the new ‘plus one’ destination for China-based manufacturers wanting to export to the US and European Union,” he said.

“Our strong affinity with the US and being the economy in ASEAN with the smallest trade (imbalance) with the US are compelling factors and top-of-mind considerations for the Philippines by companies relocating from China vis-a-vis our ASEAN neighbors,” he added.

PEZA was in China between March 17 and 21 and met with 220 attendees at Philippine investment presentations in Xiamen, Chongqing, and Dongguan.

“A number of Chinese small and medium companies in various manufacturing industries have expressed their interest to locate in the PEZA zones,” Mr. Panga said.

“Other than exporting to the US, they want to sell their finished products to the domestic market. Moreover, some existing locators

that participated in the forum or invited the Philippine delegation for factory visits have announced their additional expansion plans for the year,” he added.

These include global industry leader in connectors and cables for digital data networks TE Connectivity, Bocheng Rubber, steel-maker Panhua, and HYS Metal Plastic and Electronics.

According to Mr. Panga, the PEZA Board recently approved a P1.7-billion investment from TE Connectivity for the manufacture of electro-optical components, which is expected to generate 2,000 jobs.

“TE Connectivity has committed to undertaking more projects, including expanding its IT-BPM operations in the Philippines,” he said.

Meanwhile, a US-Irish company with 20 production facilities in China, as well as a number of MNCs, have transferred part of its operations.

He said PEZA continues to field inquiries from global industry leaders based in China, including companies producing vitamins and dietary supplements, solar cells, and TV monitors and projector screens. — **Justine Irish D. Tabile**

Onion crop losses attributed to fungus, fall armyworm by DoST

THE Department of Science and Technology (DoST) said fungal and worm diseases were largely behind losses in the onion crop of Nueva Ecija and other growing areas.

The DoST said the onion anthracnose fungal diseases caused “significant yield losses” in Nueva Ecija, a leading onion-producing province.

It said fall armyworm “continues to threaten corn and onion crops,” after it

caused significant damage to sugarcane fields, particularly in Negros Occidental.

The DoST said the Philippine Council for Agriculture, Aquatic, and Natural Resources Research and Development (PCAARRD) is researching methods to combat pests and diseases affecting onion yields.

“These combined efforts aim to stabilize supply, support farmers’ productivity, and promote sustainable agri-

cultural practices for long-term market resilience,” it said.

PCAARRD is funding a research project led by the College of Agriculture and Food Science’s National Crop Protection Center at the University of the Philippines Los Baños to develop sustainable chemical and biological management strategies for onion anthracnose.

“The project aims to assess current disease management practices, evaluate fungicides with different modes of action, identify biological control agents, and determine alternative hosts of anthracnose pathogens,” it said.

The project, set for completion in June 2026, will produce two fungicides and one biological control agent.

PCAARRD is also funding another research project under the Harnessing

Adaptive Responses and Best Practices against Fall Armyworm using Science and Technology program to manage the fall armyworm in corn, onion, and sugarcane.

The project aims to train farmers in Nueva Ecija, Laguna, Batangas, and Negros Occidental and equip them with “science-based management approaches.” — **Kyle Aristophere T. Atienza**

OPINION

Domestic-level profit-shifting: How it’s done and why it should be avoided

When we hear the term “profit shifting,” we often associate it with cross-border transactions between and among members of multinational companies (MNCs) aimed at reallocating profits across different countries or tax jurisdictions to minimize tax liabilities. Profit shifting enables businesses to move profits from high-tax jurisdictions to low-tax or no-tax areas to reduce the total tax liabilities of a conglomerate or a corporate group. While this strategy may be used to somehow avoid tax, it raises concerns about the fairness of tax computations and the revenue foregone by governments, resulting in the need for stricter regulations to ensure proper payment of taxes.

Although profit shifting often involves intercompany transactions among MNCs, it is not solely an international practice, as it can also occur within a single country. In some cases, businesses take advantage of tax incentives granted to certain industries or areas or engage in intercompany transactions among parent/holding companies, subsidiaries, and affiliates or entities under common ownership to unduly improve their tax positions.

The Bureau of Internal Revenue (BIR) acknowledged this risk and acknowledged that while transfer pricing issues typically occur in cross-border transactions, they can also occur in domestic transactions. The BIR illustrated how domestic transfer pricing issues may arise when income is shifted from a company subject to regular income tax to a related company enjoying special tax privileges from the Board of Investments (BoI) or the Philippine Economic Zone Authority (PEZA). Similarly, expenses from a tax-incentivized entity

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may be transferred to a related company subject to regular income taxes, or income and expenses may be strategically allocated among related parties to reduce a group’s tax liabilities.

This practice of domestic profit shifting can take many forms, often involving intercompany transactions that manipulate income and expenses to achieve tax avoidance. Businesses may engage in below-market or unreasonably high transfer pricing. These strategies allow companies to shift profits to entities enjoying lower tax rates or tax exemptions, which results in minimization or total elimination of tax liabilities.

COMMON WAYS OF DOMESTIC PROFIT SHIFTING

1. Transfer of goods and services among related parties

When a company sells goods or services to a related party at prices below market value or nothing is charged at all, particularly when the purchasing entity operates in a tax-incentivized zone, such as an economic zone, the selling party reports lower taxable income, while the purchasing party benefits from tax exemptions or reduced tax rates, resulting in a lower consolidated tax liability.

2. Management, consultancy, IT, finance, audit, and other back-office support

A tax-incentivized service provider may charge unreasonably high fees for management, consultancy, IT, finance, audit, and other back-office services to its related parties, which the latter rec-

ognize as deductible expenses. This reduces their taxable income while the service provider records a higher income, which may be tax-exempt or subject to a lower preferential tax rate, diminishing the total tax liability of the group.

3. Lease agreements between related parties

When a business rents real estate or equipment from an affiliated company at inflated rental rates, the leasing entity, if located in a tax-incentivized area, can report overpriced rental income, while the lessee claims the rent as a deductible expense, thereby lowering its taxable income.

4. Income and cost allocation within a corporate group

This normally occurs when a corporate group with multiple business units incurring shared expenses allocates a higher portion to entities subject to regular income tax rates while directing more revenue to entities enjoying tax incentives. With this practice, the company reduces taxable income where higher tax rates apply while increasing taxable income where lower tax rates apply.

5. Shifting income to entities with unutilized and expiring tax credits

Allocating more income to entities with unutilized and/or expiring tax credits, such as net operating loss carryovers (NOLCO), creditable withholding taxes, prior-year excess credits, excess minimum corporate income tax over regular corporate income tax, tax credit certificates, and other tax credits, allows businesses to utilize these tax benefits to lower the taxes due. By shifting income to a related company with available tax credits, the group ensures that these credits are fully utilized before they expire, which results in the offsetting

of taxable income and lowering tax obligations. Meanwhile, the related entity incurring the corresponding expense reports understated taxable income, further diminishing its tax liability.

REGULATORY RESPONSE AND COMPLIANCE MEASURES

These examples are just some of the ways businesses engage in domestic profit shifting. Conglomerates or corporate groups engaged in different industries may take advantage of intercompany transactions to strategically minimize the tax obligations of the whole group.

Recognizing the impact of these practices on government revenues, the BIR has implemented regulations aimed at detecting and minimizing such activities. As a countermeasure, the BIR has begun closely examining transactions between related parties, particularly those involving significant expense allocations or income shifting. If an expense appears excessive or unwarranted, or does not meet the arm’s-length principle, meaning it was not incurred under fair market conditions between unrelated entities, the BIR has the authority to disallow the deduction.

Some companies may unknowingly engage in these practices and not fully understand their tax implications, or the potential risks involved. In many cases, intercompany transactions are structured based on business needs, with little consideration for how they might be viewed from a tax compliance perspective. Nevertheless, the BIR continues to strengthen and advance its monitoring and enforcement efforts to identify transactions that result in undue tax minimization, whether intentional or not. Failure to properly assess and docu-

ment the rationale behind intercompany pricing and expense allocations can lead to tax deficiencies, penalties, and disallowed deductions, potentially causing significant financial losses for businesses.

PROPER TRANSFER PRICING DOCUMENTATION (TPD)

This is why maintaining proper TPD is crucial, even for companies that are not explicitly required by law to prepare such reports. Proper documentation serves as a safeguard, ensuring that all intercompany transactions are conducted at arm’s length and reflect fair market value. It provides transparency in pricing policies and helps justify the reasonableness of income and expense allocations, as well as the factors considered in setting prices between related entities. TPD assists in minimizing the risk of penalties, disallowed deductions, and tax adjustments that could arise from perceived profit shifting.

While profit shifting may offer short-term tax advantages, it comes with the risk of scrutiny, tax deficiencies, and penalties.

Let’s Talk TP is an offshoot of Let’s Talk Tax, 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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