Recto does not expect DSPs to pass VAT on to consumers

By Aubrey Rose A. Inosante
Reporter

FINANCE Secretary Ralph G. Recto said digital service providers (DSPs) are likely to absorb the new value-added tax (VAT) on digital services, instead of passing the cost on to consumers.

"Frankly, I don't expect prices to increase but shouldered by providers," Mr. Recto told *BusinessWorld* via Viber.

The government will start to enforce the 12% VAT on digital services consumed in the Philippines on June 1, after President Ferdinand R. Marcos, Jr. signed the law in October.

The VAT was designed to level the playing field for all DSPs, because Philippine companies have to pay VAT, putting them at a disadvantage to foreign platforms such as Netflix, Spotify, Amazon, Lazada.

The Department of Finance has said that the government will generate P102.12 billion in revenue from the VAT between 2025 and 2028.

Digital platforms have started to announce price hikes before the VAT rules take effect.

Last week, Netflix notified consumers of price adjustments to its tiered subscription model, with its lowest-priced offering increasing 13.42% to P169.

Mr. Recto said DSPs stand to lose customers if they start raising prices.

The Philippine Statistics Authority estimates the value of the Philippine digital economy at P2.25 trillion in 2024, up from P2.09 trillion in the previous year.

It accounted for 8.6% of gross domestic product last year.

Analysts said digital platforms are expected to pass on the VAT to consumers, though overall consumption will remain robust.

Minimal Government Thinkers (Manila) President Bienvenido S. Oplas, Jr. said it rare for service providers to absorb added costs and accept reduced income and profit.

"Consumers will bite the bullet on higher prices... but they will continue consuming the service. They will just shift their priorities, say from more hours on Netflix to more hours on work-related streaming and online work," he said.

Meanwhile, freelancers which often use taxed digital services will learn to pass on the higher cost to their customers as well.

"I think the adverse impact will be negligible. Demand for digital services is inelastic or non-responsive to price changes," he said, citing the example of food. "Whether the price goes up or stays the same, people will still consume food," he added.

Ronald B. Gustilo, national campaigner for Digital Pinoys, expects the growth of the digital economy to slow, as most small businesses, freelancers, and individual consumers rely on affordable access to digital tools.

"While taxation is a necessary function of government, its timing and scope must be balanced with the realities of a developing digital ecosystem," he said via Viber over the weekend.

He also expects digital platforms to follow Netflix's lead in raising prices.

"This VAT measure could disproportionately impact small businesses, freelancers, content creators, and even students. Many depend on paid tools like design software, cloud storage, and marketing platforms to earn a living. Any added cost can be a barrier to productivity and income generation," Mr. Gustilo said.

Visitor arrivals hit 2.1M in first four months

THE PHILIPPINES registered 2.1 million visitor arrivals in the four months to April, falling 0.82% behind the pace from a year earlier following reduced traffic from South Korea, the Department of Tourism (DoT) reported.

The arrivals consist of 1.93 million foreign travelers and 170,815 overseas Filipinos.

In the first four months, South Korea remained the country's top source of tourist arrivals with 468,337 travelers or a 22.25% market share. Korean traffic was down 18% from a year earlier.

"There were political and market uncertainties in South Korea since the martial law declaration in December," Rizal Commercial Banking Corp. Chief Economist Michael L. Ricafort said via Viber.

However, he said that arrivals from South Korea are likely to recover "if the country's political and economic situation continues to stabilize or improve."

"This could be offset by Trump's tariffs that could slow down export-oriented economies such as South Korea," he added.

Colliers Research Director Joey Roi H. Bondoc said that the weaker won was a factor in dampening Korean travel.

"This is definitely beyond the control of our tourism officials ... (but) I think what the government needs to do is to actively explore other markets such as India and some Middle Eastern countries," he said via Viber.

He said the DoT should work closely with airlines and hotels to "customize attractive packages for South Koreans, whether leisure or business travelers."

"Golf tourism promotion focused on the South Korean market should also be ramped up," he added.

He said that the continued drop in South Korean tourists is a concern for the accommodation industry, as some so-called integrated resorts (casinos) "have proactively tapped the market at the start of the year." — **Justine Irish D. Tabile**

New legislators urged to freeze farmland conversions, crop switching

FARMER organizations urged would-be legislators to file measures that would halt the conversion of farmland, citing the need to ensure food security.

Unyon ng mga Manggagawa sa Agrikultura (UMA) proposed that the 20th Congress consider a ban on land conversion by property developers.

"The country is losing precious agricultural land that could otherwise grow food staples like rice and vegetables to real estate projects for subdivisions and golf courses, commercial districts and pseudo-industrial zones," it said via Viber.

It also called for measures to disincentivize farmers from switching away from staples to "plantation crops" like cavendish banana, pineapple, and oil palm.

"We cannot become food self-sufficient if the state prioritizes global market demand over domestic needs," it added.

Agrarian reform beneficiaries are often forced to sell their land to developers due to unfavorable farming conditions, farmer organizations have said.

UMA is lobbying for the refiling of a Genuine Agrarian Reform bill, which seeks the distribution of land at no cost to farmer beneficiaries and the creation of cooperatives as vehicles for productivity.

President Ferdinand R. Marcos, Jr. in 2023 signed the New Agrarian Emancipation Act, which aims to condone all loans, including interests, penalties, and surcharges incurred by agrarian reform beneficiaries.

Farmer organizations have lobbied for the insertion of anti-land conversion provisions in a proposed Land Use Act, which was approved by the House of Representatives in 2023. The bill remains pending in the Senate.

UMA said legislators need to arrest the decline in the number of farm workers by improving their working conditions.

"The number of agricultural workers has long been on the decline — not because landless farmers are finally getting land, but because of rural wage discrimination against agri-workers," it said.

UMA also pushed for the refiling of the proposed Rice Industry Development Act, which it views as an alternative to the Rice Tariffication Law of 2019.

The bill being backed by UMA seeks to increase rice industry productivity on a three-year timetable with funding of about P400 billion.

The allocations include a rice production socialized credit program (P25 billion), an accelerated irrigation development program (P45 billion), a post-harvest facilities development program (P30 billion), a research and development and extension services program (P15 billion), and a procurement program for the National Food Authority (P310 billion).

"The government needs to do more than bring food staples like rice directly to the market; it should also purchase directly from farmers, boxing out middlemen and, in particular, the rice cartel," UMA said. — **Kyle Aristophere T. Atienza**