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A POSITION PAPER OF

**THE CONFEDERATION OF PHILIPPINE EXPORTERS
(CEBU CHAPTER ALSO KNOWN AS PHILEXPORT CEBU)**

ON THE

**PLANNED PROHIBITION IN THE TRADING OF
TAX CREDIT CERTIFICATES (TCCs)**

INTRODUCTION

The Confederation of Philippine Exporters Foundation (Cebu), Inc., represents nine (9) export sectors in the Central Visayas region, namely: electronics, industrial goods, furniture, seaweed, food, fashion accessories, gifts, toys & housewares, garments and medical tourism. It is the umbrella organization and the voice of the entire export industry in the region. The whole export sector provides employment to hundreds of thousands of workers in the region.

BACKGROUND

The Philippines, in order to compete globally with other countries for foreign direct investments (FDIs) as well as promote itself as an ideal investment destination, has offered several incentive packages such as tax holidays, duty-free importation of capital equipment, VAT-free purchases, hiring of foreign nationals, and other perks that are covered under the Investment Priorities Plan (IPP).

Companies who are entitled to tax refunds and drawbacks are issued TCCs by the Board of Investments (BOI) and the Department of Finance (BOC and BIR). It has been a usual practice for these companies to trade their TCCs in the secondary market in order to generate cash flow. TCCs sold in the secondary market are normally discounted at around 15% to 30% of face value to attract buyers.

The Confederation of Philippine Exporters in Cebu has since 2007 lobbied for the cross application of TCCs issued by the DOF through the BOC and BIR. The petition of exporters was dismissed by two administrations as “too tedious” and virtually too complicated to administer.

The current BIR Chief Kim S. Jacinto-Henares, in the June 7, 2011 issue of Business World (BW), was mentioned as “seeking to prohibit the trade in tax credit certificates (TCCs) to ensure that only qualified firms get to enjoy the tax breaks.” She was further quoted by the paper as saying “The exemption is personal to the taxpayer. Why should they be able to pass it on to other people?” A good example presented by the paper was the case of the big oil companies who were reportable

able to paying up to P10.5 billion in excise taxes in 2010, using TCCs bought from the garments industry.

THE ISSUES

- 1) There is a long wait in securing TCCs and tax drawbacks;
- 2) Cash-strapped companies will have difficulty in generating cash flow; and
- 3) Companies lose more when TCCs are bigger than the tax obligations.

THE CHALLENGES

There are signs that the United States might suffer a double “dip recession” based on vital economic indicators covering the month of May 2011 i.e. jobs data, consumer confidence, factory orders, etc. Even President Barrack Obama admits it openly that the recovery has slowed down and the possibility that the US economy might experience negative growth for the second quarter of 2011.

In the Philippine situation the Export Development Council (EDC) reported that exports flattened in the first quarter of 2011 at US\$12.2 billion against last year’s US\$11.3 billion or only a 7.8% uptick, much lower that the quarterly average of 42% last year. There are worrying signs as exports at the One Stop Export Documentation Center (OSEDC) continue to slide at the rate of 12% per month.

SME exporters who do not have access to financing pay very exorbitant rates to usurpers and quasi credit institutions for their working capital in addition to generating cash out of their TCCs by selling these in the secondary market.

The US dollar which analysts predict to continue to devaluate vis-à-vis the PESO will put added pressure on exporters’ bottom lines in the next 12 months (it is currently ranged bound between P42.50 to P43.50).

The continued rise is fuel prices, labor costs and electricity bills will increase production costs of exporters and put a lot of pressure on their respective margins.

APPEAL

In view of the circumstances stated above the Confederation of Philippine Exporters in Cebu hereby pray for the following:

- a) That the Department of Finance consider our appeal for “cross application” of the tax credits of exporters to be offset against BIR and BOC tax obligations;
- b) That the planned prohibition in the trading TCCs in the secondary market be suspended until such time a workable and an equally advantageous alternative for exporters is found;
- c) That the current timeframe in the issuance of these TCCs be shortened in order for exporters to general additional cash flow for their working capital requirements; and
- d) That TCCs may be used by the bearers as collateral for short term credits with banks (in case of defaults banks should be able to use the TCCs to offset their own tax obligations).

CONCLUSION

Our sector is one of the main drivers of the Philippine economy and one of the biggest employers of the country. We wish to quote the provisions of Section 2 of the Export Development Act of 1994, which states:

“It shall be the policy of the State to evolve export development into a national effort. The government shall champion exports as a focal strategy for a sustainable agri-industrial development to achieve Philippine NIChood towards the year 2000. The private sector shall take the lead in the collective effort to promote exports through discipline and hard work, as it confronts the challenge of winning international markets.

The government and the private sector shall jointly transform the Philippines into an exporting nation. **Towards this end, the State shall instill in the Filipino people that exporting is not just a sectoral concern, but the key to national survival and the means through which the economic goals of increased employment and enhanced incomes can most expeditiously be achieved.”**

Signed on 8 June 2011, in Cebu City, Philippines.

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