



JCCIPI

*The Japanese Chamber of Commerce
and Industry of the Philippines, Inc.*

25 October 2023

The Honorable Benjamin E. Diokno
Secretary of Finance
DOF Building
Roxas Boulevard, Manila



Dear Secretary Diokno,

Referring to the courtesy call of the Japan Chamber of Commerce and Industry (JCCI) to His Excellency President Ferdinand R. Marcos, Jr. last October 23, 2023, and their meeting with the Honorable Trade & Industry Secretary Alfredo E. Pascual on the same day, we, the Japanese Chamber of Commerce and Industry of the Philippines, Inc. (JCCIPI) would like to express our grave concern regarding the state of the VAT refund processing in the country.

Under the provisions of the Philippine Tax Code, VAT-registered companies whose sales are zero-rated may apply for the refund of excess input VAT. The international standard, as outlined in the OECD VAT Guidelines, adheres to the "Destination Principle," exempting export companies whose products are consumed abroad from VAT and exporters are entitled to refunds for the input VAT they have paid. However, in the Philippines, there has been a widespread perception among multinational export companies that it is practically impossible to receive timely and full, or even partial, VAT refunds. This situation has persisted for decades and cuts across industries.

Member export companies of the JCCIPI have diligently submitted VAT refund applications, only to consistently receive denials from the Bureau of Internal Revenue (BIR), citing reasons and interpretations that are not explicitly outlined in the laws and regulations. The process of applying for VAT refund has become a time-consuming, resource-intensive, and financially burdensome undertaking. The majority of the claimants are forced to shoulder the input VAT as an unexpected cost. These companies initially ventured into the Philippines with the anticipation of benefitting from incentives and the expectation of claiming VAT refunds for exported products. However, they are now compelled to recalibrate their business strategies and contend with unforeseen increased expenses.

We acknowledge that the BIR's stringent procedures aim to prevent fraudulent claims. Nevertheless, some refund applications resulted in outright full denial without being given fair and reasonable treatment which casts doubt on the government's commitment to refund excess VAT.

The lack of action in reforming the VAT refund process has been negatively affecting the attractiveness of Philippines to Japanese investors. In contrast to other ASEAN nations, the Philippines remains sluggish in attracting new foreign investments. Furthermore, the

increased costs resulting from unrecovered VAT refund would impact adversely on the price competitiveness of products exported from the Philippines. Expansion plans that would have brought additional investments are now in jeopardy. Some companies may contemplate scaling down or reevaluating the viability of sustaining their business operations in the Philippines.

Our member companies have continuously contributed to the gross domestic product of Philippines, providing employment directly and indirectly to millions of Filipinos, sharing technical knowledge and skills, consistently paying the correct amount of taxes on time to the national and local governments, and diligently adhered to the country's laws without exception. These companies are simply seeking what was initially promised to them, and we firmly believe that this is not too much to ask.

Therefore, we respectfully appeal to you, Mr. Secretary, together with the Honorable BIR Commissioner Romeo D. Lumagui, Jr., to carefully reassess BIR's evaluation procedure for VAT refund applications and offer a definitive and timely resolution to this pressing concern. We hold the belief that through collaborative efforts, we can improve investor confidence and foster a more conducive investment environment in the Philippines.

Thank you very much.

Very truly yours,



Shigeru Shimoda
President

Copy furnished to:

The Honorable Alfredo E. Pascual, Secretary of Trade and Industry
The Honorable Romeo D. Lumagui, Jr., Commissioner of the Bureau of Internal Revenue

