President Benigno S. Aquino III has signed the lawrationalizing the taxes paid by international carriers in the country. Thisl is a welcome feat to the travel and tourism sector, after the International Civil Aviation Authority (ICAO) has lifted the significant safety concerns which have constrained the expansion of the airline industry.

This reaffirms the Aquino leadership's commitment to the development of tourism industry and to making tourism truly more fun for airline investments. This is expected to significantly boost the attainment of the tourism industry's target of 10 million international visitors by 2016.

Rationale

Carriers with extensive global networks have already left the Philippines, shifting capacity to benefit neighbouring countries' tourism and trade. Direct flights between Philippines and Europe have declined significantly from 22 in 2001 to 7 in 2010 and to zero 2012. U.S. carriers operate only 16 flights per week, compared to 24 in 2001.

The Philippines' linkwith global markets in tourism and trade is relative to neighbouring countries in the ASEAN and to suffer substantial deterioration.

The current level of available flights is not enough to service tourism, tradeand the OFWs, thus hampering their growth. Although there is a strong demand for capacity, airlines are not interested to invest because of the financial consequence of the taxes.

Thesetaxes negatively impact he ability of foreign air carriers to offer competitive rates and adequate connectivity to service target markets, thus diverting tourism flows to destinations other than the Philippines or bypassing the country in favour of those with friendlier business environment.

The ability of direct suppliers (e.g. airports, tour operators, hotels, local transport operators, convention and exhibition organizers) and indirect suppliers (e.g. vegetable farmers, fruit growers, retailers and restaurants, telecommunications providers) o expand market shares constrained by poor air access.

Salient Features

Under the new legislation, foreign carriers - both air and shipping – are exempted from paying the Common Carriers Tax imposed on passenger traffic. Carriers will also be VAT exempt for the transport of passengers.

income taxes, foreign carriers will be exempt from paying them on the basis of tax treaties or any international agreements or simply based on reciprocity. The law amended the following sections of the National Internal Revenue Code (NIRC):

Sections 28(A)(3)(a)-(b) Rates of Income Tax on Foreign Corporations
Section 109 Exempt Transactions
Section 118 Percentage Tax on International Carriers

Impact on Tourism

The removal of CCT takes away the primary constraint on foreign air carriers' capacity growth and places the Philippines n aplaying field with neighbouring countries.

Capacity growth is expected to occur as route passenger load factors improve relative to flights to neighbouring countries is likely to start for summer 2014 and winter 2014/5.

The foreign carrier yearonyear capacity growth, which can be a proxy for tourist growth from foreign carriersis estimated to post a 20% average cumulative growth for 3 years. This only accounts for the contributions of carriers already operating in the Philippines. It still does not include the additional capacity that new carriers will provide with the signing of the aw.

The growth will come in terms of capacity up-gauges, frequency, and new regional routes from Asian, European and Indian sub-continent carriers. The 2014 planning of global airlines is underway, thus the Philippines is poised to take advantage of the new fleet purchases of airlines and their review of existing and potential destinations. This will aim to move the rank of the Philippines from the bottom to the Top 10 destination for airlines as a result of

The removal of these taxes will likewise aid in the development of the cruise tourism market for the benefit of the secondary tourism destinations and the island economies across the Philippine archipelago. With the removal of these taxes, the Philippines will get closer to achieving the 10 million targetn terms of international arrivals. These tourists are expected to contribute about Php50 Billion in tax revenues resulting from their expenditures by 2016.

This new law will enable the development of secondary gateways that have been opened under Executive Order No. 29 or the so-called pocket open skies policy of the Aquino administration. This legislation is a major action program under the National Tourism Development Plan (NTDP).

The modernization of the airport infrastructure across the country will complete the reform agenda that only the Aquino administration was able to achieve.

BRIEFER ON

An Act Recognizing the Principle of Reciprocity As Basis For The Grant Of Income Tax Exemptions To International Carriers and Rationalizing Other Taxes Imposed Thereon By Amending Sections 28(A)(3)(a), 109, 118 and 236 of the National Internal Revenue Code (NIRC), As Amended, And For Other Purposes

0March 2012
Davao City