Farmers watching agri budget for clues on DA food program

THE AGRICULTURE department's 2023 budget will point to the steps the Marcos government intends to take to achieve food security, farming industry officials said, adding that they are also waiting to see how the new leadership will deploy the remaining funds still available in 2022 from the budget prepared under the previous administration.

"It is best to secure the allocation of the budget next year. The problem we are facing now is that in the third and fourth quarter we might be short on food. We have to move now, not next year," Philippine Chamber of Agriculture and Food, Inc. Danilo V. Fausto said in a television interview on ANC.

"President Ferdinand R. Marcos, Jr. is now faced with three major concerns. The first is the lack of funds because the previous administration frontloaded the 2022 budget and there's nothing left. The only thing left is perhaps the salary of government employees," he added.

"We really have to be able to produce on our own and depend less on imports. To mobilize that, we (must) secure the future budget allocation for next year," he added.

He clarified that while zero food imports are impossible, it was crucial to protect the farm industry against excessive imports.

"We really need to import, but we request that we only import what we need, not more," he said.

Mr. Fausto added that a bureau must be created within the Department of Agriculture (DA) to accelerate the creation of cooperatives and agri-industrial centers in barangays.

In a separate virtual briefing, industry officials said that they hope Mr. Marcos will follow through on his promises to strengthen agriculture.

"If the President is serious about food self-sufficiency, it would be a gamechanger. It would mean available and affordable Philippine-produced food. This is both a challenge and an opportunity for food producers," former Bureau of Fisheries and Aquatic Resources Director Asis G. Perez said.

"With natural and human resources, technology, and capital, food self-sufficiency is possible. What we do need from the government is a policy environment that would make it possible," he added.

Senator Mary Grace S. Poe-Llamanzares urged caution should the government end up declaring a state of calamity due to food security concerns.

"The food security crisis did not happen overnight; it was brought about by those pushing for wider importation that disadvantaged local farmers and is a culmination of the worsening problems faced by the agricultural sector," she said in a statement.

"We have had numerous declarations of a state of emergency and some had lasted longer than necessary. We must be careful with such declarations as some could use it to justify wanton importation and relaxation of controls on imported goods that will only further cripple the sector," she added.

"We're open to discussing possible solutions to this crisis with the new administration and I believe that the President personally taking the helm of the Department of Agriculture signifies just how important this crisis is...we must move quickly," she said. — **Luisa Maria Jacinta C. Jocson**

Wholesale price growth in May eases to 7.9% vs April

GROWTH in wholesale goods prices eased in May compared to April, though the indicator picked up on a year-on-year comparison, according to preliminary data released by the Philippine Statistics Authority (PSA).

The May general wholesale price index (GWPI), which is based on 2012 prices, eased to 7.9% compared to April's 8.3%. Price growth accelerated from the year-earlier level of 2.9%.

May price growth was the lowest year-on-year rate since the 7.6% posted in March.

In the five months to May, the GWPI averaged 6.8%, against 2.8% over the same period last year.

The GWPI tracks the wholesale trade sector and serves as the basis for price adjustments in business contracts and projects.

ING Bank N.V. Manila Senior Economist Nicholas Antonio T. Mapa said base effects may have come into play after price growth of wholesale goods accelerated over the previous months.

"In the short term we can expect overall production and sales to remain in expansion, albeit at a moderated pace as demand slows (due to higher prices) and output also decelerates (given tight supply chains and slowing demand)," Mr. Mapa said in an e-mail.

"We saw a slight deceleration in prices for food and fuels but we could see prices for these two items to resume the acceleration next month as supply chains remain tight," Mr. Mapa said.

The PSA said the slower pace of growth in bulk prices during the month was driven by food (8.8% in May from 9% in April), crude materials, inedible except fuels (9.2% from 29.2%), chemicals including animal and vegetable oils and fats (6.6% from 8.4%), and machinery and transport equipment (1.4% from 1.7%).

Categories posting accelerating price growth were beverages and tobacco (6.6% in May from 6.5% April), mineral fuels, lubricants and related materials (57.5% from 53.3%), and manufactured goods classified chiefly by materials (7.9% from 7.8%).

Price growth in miscellaneous manufactured articles was unchanged from the previous month at 1.7%.

Luzon's GWPI rose to 8.4% in May, easing from 8.8% in April, but accelerating from the 3% reading a year earlier.

In the Visayas, bulk price growth was 4.4%, against 4.3% in April and 0.8% in May 2021. Price growth here was the strongest since the 4.9% posted in August 2011.

Mindanao's GWPI accelerated to 3.6% in May from 3.3% in April. On a year-on-year comparison, price growth eased from 4.2% in May 2021.

Mr. Mapa expects GWPI to continue expanding at a moderate pace, as supply chains tighten and commodity prices increase.

"The dip in some commodities due to recession fears can temper the acceleration however, and much will depend if the US can escape the dreaded hard landing," Mr. Mapa said. — **Ana Olivia A. Tirona**

DTI signals plan to focus regions on most competitive industries

THE DEPARTMENT of Trade and Industry (DTI) will develop a competitiveness policy that will allow regions and urban centers to specialize in industries where they are most competitive, Trade Secretary Alfredo E. Pascual said.

Speaking at the close of the League of Corporate Foundations' (LCF) 20th Corporate Social Responsibility Conference and Expo on July 7, Mr. Pascual said: "Let's reimagine our country as a group of prosperous and collectively resilient local areas from north to south. This is both geographic diversification and derisking of our economic engine."

"If we want a better national future, we have to go town by town, city by city, province by province, region by region, and that's the only way we can be assured nobody is left behind," Mr. Pascual added.

The plan will be elaborated on in a National Competitiveness Program seeking tailored solutions for various regions and urban centers.

In his closing remarks at the Expo, Mr. Pascual urged companies to make corporate social responsibility (CSR) more of a core activity and said they can learn much from the efforts exerted by civil society in addressing the needs of the poor, "The creativity of the private sector would help companies to integrate social responsibility into their main line of business. Civil society is a vibrant sector (with extensive) experience in designing and implementing programs that fight poverty."

"Together we want to live a secure and comfortable life. Beyond the Filipinos' wishes for their own families, their vision for the country is collective prosperity and justice for all. Their vision of prosperity is rooted in a keen awareness of poverty and its harshness," he added.

The LCF, founded in 1991, is a network of the 91 largest operating and grant-making corporate foundations and corporations. — **Revin Mikhael D. Ochave**

DoTr estimates P1.4B needed to extend free ride program until Dec.

THE TRANSPORTATION department said Monday that it will look into extending the government's free ride program until the end of the year, adding that such an extension of the service will require additional funding of P1.4 billion.

"*Kung itutuloy natin iyan* (If we extend the program) until December, we will need additional budget of around P1.4 billion... *Kung kailangan nating ituloy* until Dec. 31 (If we need to continue offering free rides), we will ask for an additional budget from the Department of Budget and Management," Transportation Secretary Jaime J. Bautista said during a Palace briefing.

"*So hihingi po tayo ng tulong sa* President *para magkaroon ng ganiyang* budget sa DoTr (We will ask the President for help to obtain the funding)," he added.

The free ride program was part of the third phase of the government's service contracting program and ended on June 30, according to the Land Transportation Franchising and Regulatory Board (LTFRB).

The first phase of the program was launched in November 2020 as authorized by the Bayanihan to Recover as One Act, a stimulus package designed to help the economy recover from the pandemic.

The government allocated P5.58 billion for the first phase, which ran until September 2021. The second phase took in P3 billion from the 2021 General Appropriations Act (GAA). The third phase, which started in April 2022, received P7 billion from the 2022 GAA.

The program has benefited 203,639,626 passengers, the LTFRB said in a statement.

Participating in the service contracting process, in which vehicle operators are paid a guaranteed amount to ply their routes without charging fares, were 65,256 public utility vehicles (PUVs) servicing 4,461 routes.

The LTFRB added that more than 2,000 PUV groups, including corporations and cooperatives, benefited from the initiative.

The Transportation department has said that President Ferdinand R. Marcos, Jr. recently approved a memorandum seeking to extend the free EDSA Carousel bus rides and provide free rides for students using the MRT-3, LRT-2, and Philippine National railways (PNR) commuter lines when in-person classes resume in August.

The extended Free EDSA Carousel bus rides will run until December, the DoTr said in a statement.

"Considering the welfare of students, however, whose learning outcomes have been disproportionately affected by the pandemic, the undersigned recommends implementing a Libreng Sakay for Students Program for the First Quarter of School Year 2022-2023, or from 22 August 2022 to 04 November 2022. The Libreng Sakay for students will be implemented in MRT-3, LRT-2, and PNR," the DoTr said in the memorandum, as approved by the President.

The Education department estimates that more than 38,000 schools are set to return to physical classes for the 2022-2023 school year.

The Passenger Forum (TPF), a transport advocacy, warned at the weekend that the current situation of public transportation in Metro Manila is not yet ready for a shift to face-to-face classes.

"The government should be wary of the additional demands on our already heavily-burdened public transport system," it said in a statement.

"This problem needs to be addressed for us to successfully phase back into normal classroom-based education."

The DoTr's Mr. Bautista said various agencies, including the Education department, will work together to ensure face-to-face classes resume with minimal transport disruption.

In a separate statement issued late Monday, Mr. Bautista said he will meet with the bus consortium operating the EDSA Carousel route and other government agencies to ensure sufficient bus capacity to accommodate increased passenger demand resulting from face-to-face classes.

"We are also looking at accelerating the grant of franchise instead of just permits for buses on critical routes used by students such as Katipunan, Commonwealth, and Recto Avenue," he added.

The DoTr said Mr. Bautista has ordered the immediate release of the P1,000 fuel subsidy for 617,806 qualified tricycle driver-beneficiaries, the deployment of 550 buses on the EDSA Busway especially during rush hours, and the provision of a subsidy for down payments to acquire modern PUVs under the Public Utility Vehicle Modernization Program — **Arjay L. Balinbin**

OPINION

Transfer pricing policies are a must-have

LET'S TALK TAX
NIKKOLAI F. CANCERAN

Businesses typically have policies for dealing with many things critical to their everyday operations, such as workplace health and safety, employee conduct, and compensation and benefits policies. These set behavioral and performance standards, help protect the business from internal and external risks, ensure compliance with laws and regulations, and help defend the business against claims.

To this list we must add a policy governing intercompany transactions between domestic corporations or among members of multinational companies (MNCs). In the current business environment, a transfer pricing policy is a must-have.

What is a transfer pricing policy?

A transfer pricing policy generally outlines the nature of intercompany transactions (such as the provision of goods and services, interest payments, and transfer and utilization of tangible and intangible assets), application of the arm's length principle, and implementation of transfer pricing rules and regulations.

A transfer pricing policy is like a manual or a handbook that ensures that each member of the broader organization is aligned and coordinated in carrying out intercompany transactions. It also enumerates the responsibilities and accountability of the concerned business departments, and how the specific department will implement it. Likewise, it helps the tax or finance department to ensure compliance with the arm's length pricing.

It must be emphasized that such a policy is not the transfer pricing documentation (TPD) nor is it equivalent to an intercompany agreement. These are three separate documents that complement each other.

Why is a transfer pricing policy important?

A transfer pricing policy addresses alignment within the members of the MNC or each separate business department and compliance with laws and regulations. It ensures that everyone involved in the intercompany transactions is on the same page in carrying out the transaction. Likewise, it demonstrates to the tax authority that the arm's length principle has been considered and implemented in accordance with the transfer pricing rules. It also displays the taxpayer's proactive or cooperative attitude, which is advantageous during tax investigations as it signifies the taxpayer's preparedness to comply with the transfer pricing rules. In fact, the local or global transfer pricing policy is one of the documents that the BIR Revenue Officer will request and review during tax investigations. As stated in RAMO No. 1-2019. Having one means being one step ahead.

ADDED VALUE

The transfer pricing policy adds value to the overall transfer pricing strategy, compliance, and implementation of the intercompany transactions. How? Let's illustrate.

Say for example that a taxpayer has a robust TPD and intercompany agreements, but no transfer pricing policy is in place. Because of the lack of such a policy, the taxpayer's various departments and the related party have no manual or handbook to guide them on what to do in carrying out the intercompany transaction.

In such a scenario, the following events are likely to happen:

• The accounting or finance department issues billing invoices for the intercompany transaction for amounts higher than what is stated in the TPD and intercompany agreement;

• The nature, terms, and conditions described in the TPD and intercompany agreement are not exactly what were actually undertaken by the parties. There's a disconnect between the terms of the agreement and the actual conduct of the related parties. This is a classic example that the economic substance of the transaction differs from its form and this poses potential risk to the parties. As a result, the BIR Revenue Officer may re-characterize the transaction or the characterization of the tested party and impose adjustments to the income or expense;

• The taxpayer extends a non-interest-bearing loan and advances to its related party, which the tax/finance department was not aware of nor informed. Hence, the loan and advances were not included in the taxpayer's TPD; and

• The taxpayer performs routine support services to a related party such as accounting, payroll, collection and other general administrative support, free of charge.

The above-described events are red flags and pose transfer pricing risks to the taxpayer. These could have been avoided if the taxpayer had clearly laid down a transfer pricing policy. By having such a policy, each party and department would gain clarity on how much to invoice, how to time an invoice, how to book, treat and classify the transactions, and which parties to inform and what to do when an intercompany loan or advances and routine support service arrangements arise.

The worst thing that could happen to the taxpayer is it may be held liable to pay deficiency taxes and penalties that could arise from the transfer pricing audit adjustments of the BIR. As the saying goes, prevention is better than cure.

KEY CONSIDERATIONS IN PREPARING A TRANSFER PRICING POLICY

There are many considerations in preparing a transfer pricing policy. One is to ensure that the TPD, intercompany agreements, and the policy are aligned and complement each other and that they are consistent with the actual conduct of the parties. Material inconsistencies might raise questions from internal parties and the BIR as well.

Likewise, the relevant departments should be involved in the process of creating the policy so that they are aware of and guided on their responsibilities. Finally, approval from and the commitment of top management to fully support and implement the policy must also be sought.

TAKEAWAY

Having a transfer pricing policy in place is a proactive strategy in ensuring that intercompany transactions comply with transfer pricing rules. It strengthens the taxpayer's preparedness in the ever-changing dynamics of intercompany transactions and transfer pricing. After all, transfer pricing audits by the BIR are expected to kick off soon. As the saying goes "prepare and prevent, don't repair and repent."

Let's Talk Tax is 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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