

PCAB conflict-of-interest crackdown looming

THE Department of Trade and Industry (DTI) said it is studying a more stringent licensing regime for contractors to deter corruption in public works.

Trade Secretary Ma. Cristina A. Roque said a fact-finding body created by the DTI will allow the DTI to look at what reforms should be put in place to improve the licensing process for contractors, which is currently overseen by the Philippine Contractors Accreditation Board (PCAB).

“We’re working with the Department of Public Works and Highways (DPWH) and the independent body that the President has established,” she told reporters.

Among the reforms being considered is a ban on contractors from serving on the PCAB.

“That’s a conflict of interest. It shouldn’t be like that. The law needs to be changed,” she added.

She said that the department’s internal investigation remains ongoing.

“We still have to verify (some matters). Once confirmed, we will issue a statement regarding companies that are owned by the PCAB members (or whether former) executive directors (also own companies),” she said.

“But it’s hard to say now because it’s all allegations. We can’t really tell until we really confirm,” she added.

Currently, she said the department is in the process of appointing new PCAB members.

“They are presidential appointees. We are just waiting for their

appointments to come out,” she added.

In a notice last week, the PCAB said the approval and issuance of licenses can only proceed upon the appointment or reconstitution of the PCAB board.

“Until such appointments are made, all applications shall remain pending board action,” it added, noting that acceptance of license applications will continue through the PCAB online licensing portal. — **Justine Irish D. Tabile**



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CEPA with Chile seen boosting trade

A COMPREHENSIVE economic partnership agreement (CEPA) with Chile could create up to \$9 million in expanded trade, the Department of Trade and Industry (DTI) said.

Bureau of International Trade Relations Director Marie Sherylyn D. Aquia said the findings from a joint study indicate that “Gains from combined trade creation and trade diversion may range from \$7.9 million to \$9 million,” she said in a Tariff Commission hearing on Friday.

“Based on the partial equilibrium analysis of the impact of such an agreement, total trade creation will amount to \$3.9 million, mostly in electronics, and then total trade diversion will amount to \$4.68 million; the shift from Chile’s other imports to the Philippines will mainly affect China, the US, Vietnam, Thailand, and Peru,” she added.

If realized, the CEPA will be the Philippines’ first free trade agreement (FTA) with a Latin American country.

She said that the Philippine and Chilean economies are complementary, with Chile offering resources and technology and expertise and the Philippines offering labor, services and access to the Association of Southeast Asian Nations.

Last year, the Philippines exported \$43.3 million of

goods to Chile, while Chile exported \$290.8 million to the Philippines.

Top exports to Chile are input and output units, personal deodorants and antiperspirants, video projectors, fishing nets, and fats and oils.

Meanwhile, top imports from Chile are copper ore and concentrates, Atlantic salmon, frozen Pacific salmon, paperboard, and frozen offal of fowl.

“For Philippine products that are currently exported to Chile, we aim to lock in and secure the best possible concessions,” she said.

“We (also) want to analyze and check those Philippine products that have not been exported to Chile or are exported in very small quantities, for which there is potential for the Philippines to supply to Chile,” she added.

The Philippines and Chile are set to hold a third round of negotiations between Oct. 5 and 10 in Manila.

For the third round, she said the two sides “will continue with text-based negotiations and will aim to clear up as many as possible and conclude non-contentious chapters.”

She added a realistic target is to conclude negotiations for a CEPA this year for signing next year. — **Justine Irish D. Tabile**

North terminal exchange study expected this year

THE Department of Transportation (DoTr) hopes to complete the feasibility study for the northern Metro Manila integrated terminal exchange by the end of the year.

“The feasibility is now undergoing review. It is supposed to be for presentation to the department probably by the end of the year,” Undersecretary for Road Transport and Infrastructure Mark Steven C. Pastor told reporters on the sidelines of a transport forum.

Earlier this year, the DoTr said it is seeking out possible sites for the northern counterpart of the

Parañaque Integrated Terminal Exchange (PITX).

So far, the government has not decided on a location, Mr. Pastor said, adding that the DoTr wants to ensure the viability of the plan before site selection.

“We have to rely on the study. We want it to be based on science and it should be technologically sound so we locate a particular area that will serve and cater to the commuters,” he said.

“It is under study now. I think our planning office will explore locations for the north for an ITX,” Mr. Pastor said.

The facility must be interoperable with the busway, he said, adding that the DoTr is also studying whether it can tap private operators.

Mr. Pastor declined to comment when asked whether the government’s plan to bid out the operations and maintenance of the EDSA Busway will proceed next year.

“What we can commit is that we want to construct or at least rehabilitate all the bus stops so that (all the stops) will be uniform,” he said.

The DoTr said in February that the EDSA Busway project is on

hold pending studies on possible improvements and plans to upgrade the busway stations.

“The intention is for all the bus stops to have a uniform appearance and accessibility... If ever we go through with the privatization, the busway will already look good,” Mr. Pastor said.

The EDSA Busway Project initially involved the financing, design, construction, procurement of low-carbon buses and operations and maintenance of the busway, according to the Public-Private Partnership Center. — **Ashley Erika O. Jose**

UK signals strong interest in PHL offshore wind, other renewables

By Justine Irish D. Tabile
Reporter

RENEWABLE ENERGY (RE) firms from the UK are looking to the Philippines as a potential investment destination, especially for offshore wind projects, the British Embassy in Manila said.

Lloyd Cameron, economic and climate counsellor at the embassy, said many investors see the Philippines as holding the potential for many such projects.

“Everyone’s looking at the Philippines, everyone’s taking notice of the Philippines now, and it’s just making sure that those opportunities are shared with the right people,” he told reporters last week.

He said apart from offshore wind, other industries being



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looked at are nuclear energy, particularly small modular reactors.

“Offshore wind, absolutely, because the UK is one of the world leaders in offshore wind, and that has led to the development of a really strong UK supply chain and really strong UK expertise that these companies and firms are looking to export,” he said.

“And then there are a lot of investment companies in the City of London who have the capital to invest in projects, so it’s them as well,” he said, referring to the British capital markets. “They’re generally sector agnostic; they’re just looking for RE opportunities.”

He said the Philippine government has signaled its intent to grow RE capacity and created a conducive investment climate.

“A government is in place that is sending a really strong signal to the market that it wants to grow renewable energy capacity, and that the Philippines is open for business and open for investment,” he added.

He noted reforms like the green-lane permit system, longer leases for investors, and right-of-way reform, among others.

“You see the Philippines ranking second in listings for emerg-

ing markets in RE,” he said.

“It’s a whole-of-government approach, and then it’s the passion and the ingenuity of Philippine businesses as well, who can be partners in that,” he added.

He said that if the UK becomes a top source of foreign direct investment (FDI), it will be driven by RE projects.

“The year to date, there haven’t been the same big projects agreed upon, but that’s normal. These big projects don’t come along every couple of months, so it may ebb and flow,” he said.

“It may not be this year, but I’m sure that there are investors looking at big projects here, if not this year, next year, or down the line,” he added.

Last year, the UK was among the top sources of FDI net inflows, accounting for 35% of the total, or \$8.93 billion.

OPINION

Clarity in compliance: The impact of RMC 81-2025 on business expense deductions

IN BRIEF:

- RMC No. 81-2025 emphasizes a transition from mere compliance to a deeper understanding of business integrity, redefining deductibility as a reflection of ethical practices rather than just technicalities.
- The circular outlines stricter requirements for documentation, relevance, and reasonableness of expenses, urging taxpayers to reassess their expense claims and align them with the principles of transparency and accountability.
- Businesses are encouraged to adopt a proactive approach to tax management, viewing compliance as a shared responsibility that fosters trust and accountability.

In the realm of taxation, clarity is power. With the issuance of Revenue Memorandum Circular (RMC) No. 81-2025, the Bureau of Internal Revenue (BIR) has taken a bold step toward reaffirming the principles of fairness, transparency, and accountability in tax reporting.

This circular, which reiterates the criteria and guidelines for the deductibility of ordinary and necessary business expenses, can potentially reshape the landscape of income tax rules and the role of regulatory interpretation in the Philippine tax system.

THE CORE OF RMC 81-2025

RMC 81-2025 reiterates the criteria for and guidelines on the deductibility of ordinary and necessary business expenses under Section 34(A)(1)(a) of the National Internal Revenue Code (NIRC) of 1997, as amended. While the language of the circular emphasizes reiteration, the tone and structure suggest a deeper intent: to refine the boundaries of what is considered deductible and to reframe the expectations around docu-

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From a business standpoint, RMC 81-2025 calls for a shift from reactive tax management to purposeful tax governance, where compliance becomes a reflection of corporate integrity.

mentation, substantiation, and reasonableness.

The circular outlines that for an expense to be deductible, it must be ordinary: one that is normal, usual, and customary in the type of business conducted by the taxpayer. It does not need to be habitual or recurring but should be common in the context of the business. It denotes that the expense must be typical and usual in relation to the business activities.

It must also be necessary, appropriate and helpful for the development of the taxpayer’s business. This implies that the expense should be directly connected and proximately resulting from carrying on the business and must contribute to the generation of income or profit or minimizing a loss.

This dual test is not new, but its reiteration is timely. In recent years, the rise of hybrid business models, digital transactions and cross-border operations has blurred the lines of what constitutes an “ordinary” and “necessary” business expense. By reasserting these definitions, the BIR aims to anchor deductibility in economic substance rather than mere form.

RMC 81-2025 also underscores the need for:

- Adequate documentation: Invoices, receipts, contracts, and other records must clearly support the expense.

- Business relevance: The expense must be directly connected to the taxpayer’s operations.
 - Reasonableness: The amount must be proportionate and justifiable.
- These requirements form the backbone of the circular’s guidance as it shifts from broad interpretation to precision and accountability.

OPERATIONAL CHALLENGES

RMC 81-2025 also introduces a series of operational challenges that compel taxpayers to reassess not only their documentation practices but also the economic rationale behind their expense claims.

One of the challenging aspects of RMC 81-2025 is its emphasis on reasonableness and proportionality. It cautions against claiming deductions for expenses that are inordinately large or disproportionate to the taxpayer’s overall operations. This signals a shift from a purely documentary approach to a substance-over-form doctrine, where the economic reality of the expense is scrutinized.

For instance, compensation paid to individuals that far exceeds the value of their actual services may be disallowed, even if properly documented.

RMC No. 81-2025 also presents a nuanced discussion on the classification of income — whether active, passive, tax-exempt, or subject to final or preferential tax rates — and its impact on deductibility.

Expenses related to tax-exempt income are not deductible, as they do not contribute to the generation of regular taxable income. Expenses tied to income subject to final withholding tax are similarly excluded, preserving the integrity of the final tax regime, which states that since this passive income has already been taxed at a final rate, allowing further deductions would distort the

taxation principle that final withholding tax is comprehensive and conclusive. Lastly, business expenses attributed to preferential tax rate income, such as those under the 5% Special Corporate Income Tax (SCIT) regime for registered enterprises, are not deducted from the regular taxable income.

This framework reinforces the principle of matching, i.e., that expenses must be directly attributable to the income they help generate. It also prevents double-dipping, where taxpayers might seek deductions against income that has already received favorable tax treatment.

Finally, a notable aspect of RMC 81-2025 is its tone of interpretive confidence. While the BIR is tasked with implementing tax laws, this circular appears to extend its interpretive reach by offering more detailed definitions and examples of what qualifies as “ordinary” and “necessary” business expenses.

This may be seen as a proactive move to reduce ambiguity and promote compliance. However, it also raises concerns about the extent of administrative interpretation, particularly when such interpretations risk drifting from the firm grounding of statutory law.

IMPLICATIONS

From a business standpoint, RMC 81-2025 calls for a shift from reactive tax management to purposeful tax governance, where compliance becomes a reflection of corporate integrity. Entities must now take a harder look at their internal expense policies, ensuring they are not only aligned with the provisions of the circular but also with its spirit of transparency and accountability. This means strengthening documentation protocols, embedding rigor into financial processes, and empowering tax teams with the knowledge to navigate

the evolving standards of deductibility and substantiation.

Ultimately, RMC 81-2025 invites taxpayers to reimagine taxation not as a transactional obligation, but as a shared responsibility. It shifts the narrative from catching errors to cultivating ethics, from maximizing deductions to maximizing trust. Instead of just meeting regulatory expectations, its implementation is also about building a resilient, trustworthy enterprise that thrives in a landscape shaped by clarity, fairness, and ethical leadership.

RMC 81-2025 is more than just a procedural update; it marks a significant change. The circular encourages taxpayers to shift from merely following rules to understanding their importance, focusing on the substance of the transactions rather than just documentation. It redefines deductibility as a matter of business integrity and positions the BIR as a supportive guide rather than just an enforcer.

Going forward, taxpayers should see this circular as a chance to not only learn the rules but also to influence a culture of compliance. They should seek clarity and promote checks and balances. It’s important to remember that in taxation, as in leadership, authority must come with accountability.

Ultimately, the focus should be on what we stand for, not just what we deduct.

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