

# Third week of yellow alerts looms for Visayas power grid

THIN POWER SUPPLY margins in the Visayas are entering a third week, with the region's grid again placed under yellow alert in the face of sustained high demand.

In an advisory on Monday, the National Grid Corp. of the Philippines (NGCP) said yellow alert was raised over the Visayas grid from 4 p.m. to 8 p.m.

Yellow alerts are issued when the power reserve margin thins. It continues to be driven by forced

outages of major coal-fired power plants in the Visayas.

As of May 25, a total of 21 power plants remained unavailable, including a facility that has been offline since 2021, while 13 plants are running derated. As a result, a total of 874.1 megawatts (MW) was unavailable to the grid.

During the period, available capacity stood at 2,664 MW against peak demand of 2,483 MW.

"The Luzon and Mindanao grids are expected to operate

under normal conditions," the NGCP said.

The latest grid alert brings the total to 18 yellow alerts and six red alerts in Luzon and the Visayas this year.

While Luzon took a break from power interruptions last week, the province of Palawan recently suffered a blackout due to a transmission failure.

In a statement on Monday, the Department of Energy said the system-wide blackout on May 22

in Palawan has been addressed following coordinated actions among agencies and electric cooperatives.

Citing the initial assessment of the National Power Corp. (NPC), the outage occurred due to the failure of a corroded section of the NPC's Irawan-Aborlan 69-kilovolt transmission line in Puerto Princesa City. This has resulted in the interruption of electricity service across affected areas from Bataraza to Taytay. — **Sheldeen Joy Talavera**

## NFA targets 50,000-MT rice disposals by June

THE National Food Authority (NFA) is planning to auction more than 50,000 metric tons (MT) of ageing rice stocks by June, the NFA said on Monday.

NFA Administrator Larry R. Lacson told reporters that the agency is currently revising its floor price guidelines for the upcoming June auction, delaying the original plan to hold the auction in May.

The NFA was originally planning to auction about 5,000 to 20,000 MT of rice in May, out

of the 62,890 MT of rice stocks determined to be ageing and planned for disposal in 2026.

Mr. Lacson added that the floor price for rice stocks may increase by a few centavos in line with rising rice prices.

"Realistically, if the price cap (for imported rice) is at P50, while the suggested retail price for domestic rice stays at P53, then the appetite for the NFA auction will be lower," Mr. Lacson said.

Mr. Lacson added that the NFA has only bought 25,000 MT of the 350,000-MT procurement target for the first half of 2026.

"They're still low, but if you look at the performance month to month, between May and April, it shot up."

The NFA continues to set the buying price at P28, even as farm-gate prices for palay (unmilled rice) have declined in certain areas.

"In Region 3, prices for wet palay range from P16 to P17,

equivalent to around P20-21 when dried," he said.

The farmgate price of palay rose 29.2% to an average of P23.31 per kilogram in April, according to the Philippine Statistics Authority.

Additionally, the NFA has released 54,000 MT for the government's P20-per-kilo subsidized rice program, with demand for the program to be sustained in the face of rising rice prices. — **Pierce Oel A. Montalvo**

## DBM waives LGU spending caps to allow funding of devolved functions

THE Department of Budget and Management (DBM) said it waived personnel spending caps for essential services, including emergency health worker salaries and terminal leave benefits.

Local Budget Circular 171 excludes them from the restrictions on personal services to ensure that vital local programs remain funded regardless of income constraints.

The Local Government Code caps appropriations for personal services of a local government unit (LGU) at 45% for first to third class provinces, cities and municipalities, and 55% for fourth class or lower.

The DBM said personal services caps need to be waived to enable LGUs to "absorb the cost of hospital services transferred from provinces to newly created cities."

It is also intended to facilitate the release of collective negotiation agreement incentives, re-

irement and terminal leave benefits, and monetization of leave credits of their employees.

The guidelines also allow LGUs to pay the salaries and benefits of health personnel that may be hired during emergencies as well as the special benefits that are granted to LGU personnel during emergencies.

It will also allow LGUs to "pay the salaries and other benefits of additional personnel that may be hired by the LGUs to implement the full devolution of certain functions of the Executive branch to LGUs, subject to the guidelines to be issued by the DBM," according to the circular.

With the exemption, the LGUs will be able to pay child development teachers and child development workers.

Also included in the waived items are the minimum year-end bonus of P1,000 for the

punong barangay and P600 for other mandatory barangay officials.

The guidelines also exempt from caps the salary differentials of LGU-hired public health workers.

However, the circular clarified that contract of service and job-order workers, professional services, and the labor cost of projects are not considered personal services items and should be funded by other budget categories.

It also clarified that the waivers will only apply to the 2026 Fiscal Year.

In case that an LGU exceeds the personal services limit after subtracting waivers, the LGU is required to prioritize reducing new or additional costs and prohibited from filling funded vacant positions during the budget execution phase. — **Justine Irish D. Tabile**

### OPINION

## Transfer pricing and business restructuring: Ensuring profit follows functions

A few weeks ago, I attended a recent Grant Thornton APAC Transfer Pricing Masterclass, and one of the case studies we worked through felt uncomfortably familiar. It was "just" a learning case on paper, but the facts mirrored what many multinationals are doing in real life: shifting operating footprints across ASEAN, redesigning supply chains, moving decision-making across jurisdictions, and layering digital platforms across countries — all while trying to keep costs down and customers satisfied.

The case involved a business under pressure from geopolitical tensions, tariffs, and supply chain fragility, prompting a rapid realignment of manufacturing and the introduction of new cross-border flows. In practice, this is exactly where transfer pricing becomes both a tool and a risk: it can help align outcomes with value creation, or it can expose a restructuring that looks clean on paper but becomes difficult to defend during an audit.

In this article, I want to share why restructuring and transfer pricing are inseparable, and how Philippine taxpayers can move forward as local transfer pricing continues to evolve toward international practice.

### RESTRUCTURING AND THE CHAIN REACTION IT CREATES

When businesses restructure, the first conversations are usually commercial: Where should we manufacture? Which entity should contract with customers? Can we centralize procurement? Can we shift to a limited-risk model? These are valid and necessary questions.

But restructuring sets off a chain reaction in tax and transfer pricing because it changes who does what, who owns what, and who bears what — the familiar FAR framework: functions performed, assets employed, and risks assumed.

In context, when a restructuring alters the characterization of a local entity,

### LET'S TALK TAX MARIE FE F. DANGIWAN

there should be a corresponding shift in FAR, and profit allocation should reflect that shift. This is not merely theoretical. When a Philippine entity's profitability declines after restructuring, the critical question is whether the underlying functions and risks truly changed, or whether only the profit moved.

In my experience, this is exactly where restructurings either hold or unravel under BIR scrutiny.

### TRANSFER PRICING ISSUES RARELY TRAVEL ALONE

Key point: restructuring decisions do not happen within a single tax framework.

One clear takeaway is that transfer pricing cannot be viewed in isolation. It must be assessed alongside customs, tariffs, and withholding tax considerations, as well as operational feasibility. A structure that works on paper but cannot be executed, or creates unintended exposures, will not hold in practice. If an entity is positioned as "limited risk" but continues to manage inventory, negotiate suppliers, and absorb business uncertainties, the disconnect becomes evident. That inconsistency is precisely what tax authorities tend to examine.

### RESTRUCTURING TP: SUBSTANCE, NOT LABELS

During restructurings, generally labels change faster than the actual business. Entities may be reclassified as distributors, manufacturers, or service providers under different models, but transfer pricing does not rely on labels alone. It is grounded in the conduct of business.

A reduction in profitability may be justified only if supported by a genuine shift in functions and risks. If the underlying activities remain the same,

tax authorities may view the restructuring as lacking substance and adjust the transfer pricing outcomes accordingly.

From a practical standpoint, restructuring should be approached as a two-track exercise:

- **Commercial track:** what the business aims to achieve
- **Substance track:** what actually changes in functions, decision-making, assets, and risk control

When these two tracks are aligned, transfer pricing positions become more defensible. When they diverge, restructuring becomes a potential risk area.

### RESTRUCTURING UNDER CLOSER SCRUTINY

Globally, tax authorities are becoming more sophisticated in reviewing restructuring arrangements. The direction is consistent with international principles: profits should follow value creation, based on actual functions performed and control of risks.

At the same time, the very factors driving restructuring — tariffs, geopolitical shifts, supply chain disruptions, and digitalization — are also increasing the level of scrutiny. As a result, key questions inevitably arise: Who makes the critical decisions? Who bears the risks? And ultimately, who earns the returns?

As restructurings become more strategic, transfer pricing has effectively become an integrity test. It is no longer enough that a structure is documented; it must reflect how the business truly operates.

In the Philippine context, an entity that shows a significant decline in earnings after restructuring must be able to demonstrate that the change reflects a genuine shift in functions and risks. In this environment, documentation becomes crucial. Documentation prepared after the fact may appear as justification, while contemporaneous documentation better reflects governance and intent: and is far more defensible.

### WHAT A DEFENSIBLE RESTRUCTURING LOOKS LIKE

- **First, a clear and coherent narrative.** There should be a logical explanation linking business drivers—such as cost pressures, supply chain changes, or strategic realignment—to changes in FAR.
- **Second, operational evidence.** If an entity's role changes, its actual decision-making authority and risk profile should change as well. The business should "operate" according to the new model.
- **Third, an integrated approach.** Transfer pricing should be assessed alongside customs duties, withholding taxes, and operational requirements. A siloed approach increases the risk of inconsistencies.
- **Fourth, consistency over time.** Restructuring is not a one-year exercise. Tax authorities may look at multiple years, and inconsistencies can become more visible over time. Strong controls and periodic review are essential.

Transfer pricing should be assessed alongside customs duties, withholding taxes, and operational requirements. A siloed approach increases the risk of inconsistencies.

Transfer pricing should be assessed alongside customs duties, withholding taxes, and operational requirements. A siloed approach increases the risk of inconsistencies.

Transfer pricing should be assessed alongside customs duties, withholding taxes, and operational requirements. A siloed approach increases the risk of inconsistencies.

### PREPARING FOR A MORE INTERNATIONAL TP ENVIRONMENT

Transfer pricing in the Philippines continues to move toward closer alignment with international standards. This means greater emphasis on economic substance, documentation quality, and defensibility.

We are also seeing broader global developments shaping transfer pricing practices, including increased focus on documentation, transparency, and dispute management.

For Philippine businesses, this evolving environment calls for a more proactive approach. In particular:

- Transfer pricing should be considered from the start of any restructuring: not after implementation.
- FAR analysis should focus on actual business processes, not just documentation.

## Fitch warns of SOE subsidy fiscal risks

FITCH RATINGS said subsidies to state-owned enterprises (SOEs) could pose fiscal risks for countries with high debt-to-gross domestic product (GDP) ratios, including the Philippines.

In a report written by Fitch Director for Asia-Pacific Sovereigns Sagarika Chandra and Associate Director for Asia-Pacific Sovereigns Kathleen Chen, the credit watcher said capital injections and subsidies to SOEs have a direct impact on public finances.

"Persistent fiscal support in the form of capital injections or subsidies to SOEs is a source of vulnerability for some sovereigns in the Asia-Pacific, in particular those that already have general government debt-to-GDP ratios close to or above the median," Ms. Chandra said in the report.

The Philippine debt-to-GDP ratio stood at 65.2% in the first quarter, above the 60% debt-to-GDP threshold considered by development banks to be manageable for developing economies.

The National Government's (NG) outstanding debt climbed 1.8% from a month earlier to P18.49 trillion at the end of March.

Fitch noted that incidents of SOE debt "crystallizing," or transferring onto a sovereign's balance sheet, have remained limited across the region.

The report also found that the Philippines had the lowest SOE debt as a percentage of GDP among selected emerging markets such as China, Malaysia, India, Thailand, and Indonesia.

In particular, Fitch said the liabilities of the Philippine non-financial public corporations were equivalent to 1.1% of GDP, while its explicitly guaranteed debt was also relatively low at 1.5% of GDP.

Fitch also noted that subsidies as a percentage of GDP in the Philippines had declined from 2020 to 2024.

From 2020-2022, the report said budgetary support in the form of equity injections, subsidies, and net lending to government-owned and -controlled corporations (GOCCs) amounted to \$14.7 billion, equivalent to 1.28% of GDP.

These were mostly used to fund government programs related to social housing, health, and irrigation.

The Bureau of the Treasury has reported that subsidies to GOCCs continue to increase as the government rolled out support measures to manage the impact of the Middle East conflict.

In March, subsidies extended to GOCCs jumped 70.8% year on year to P18.15 billion.

State-owned firms receive monthly subsidies from the National Government to support their daily operations if their revenue is insufficient.

In the first quarter, subsidies to GOCCs rose 18.83% year on year to P26.84 billion.

The report also warned that contingent liabilities tied to potential government support for the banking sector remain a major fiscal risk for sovereigns.

"Most sovereigns with large banking sectors are likely to extend support to banks in the event the financial sector faces difficulties. Such instances are likely to be more prevalent in sovereigns where the public ownership of the banking sector is large," it said.

According to the report, the Land Bank of the Philippines and Development Bank of the Philippines received capital injections totaling P53.3 billion over five years under the Duterte administration. — **Justine Irish D. Tabile**



MARIE FE F. DANGIWAN is a partner from the Tax Advisory & Compliance practice area of P&A Grant Thornton, the Philippine member firm of Grant Thornton International Ltd. [pagranttthornton@ph.gt.com](mailto:pagranttthornton@ph.gt.com)