MT&F
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ATTORNEYS AT LAW

# VAT

## Legal Reference Guide

### A. VAT Overview

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| **Name of the tax** | Value-added tax (VAT)<br>Introduced on January 1, 1988 (under Executive Order No. 273)<br>Latest amendment, Republic Act 10963 |
| **Implemented by** | Bureau of Internal Revenue (http://www.bir.gov.ph) |
| **VAT rates** | 12% and 0% |
| **VAT number format**<br>**VAT-registered person**<br><br>**Branch office** | <br>Nine-digit tax identification number (TIN)<br><br>Head office's nine-digit TIN, plus a three-digit branch code |
| **VAT return periods** | Monthly VAT declarations (BIR Form 2550M)<br>Quarterly VAT returns and quarterly summary list of sales and purchases (BIR Form 2550Q)<br><br>(Beginning January 1, 2023, filing and payment of VAT shall be done within 25 days following the close of each taxable quarter) |
| **Thresholds Registration**<br>**As a VAT taxpayer**<br>**General** | Gross sales or receipts in excess of PHP3 million in a 12-month period |
| **Radio or television broadcasting franchisees** | Gross annual receipts for the preceding year in excess of PHP10 million |
| **As a non-VAT taxpayer**<br>**Individuals** | Engaged in business with gross sales or receipts of PHP 3 million or less in a 12-month period |
| **Nonstock and nonprofit organizations** | Engaged in trade or business with gross sales or receipts in a 12-month period of PHP3 million or less |
| **Radio and television broadcasters** | Gross receipts of PHP10 million or less (Section 119 of the Tax Code) |

### B. Scope of the tax

VAT applies to the following transactions:

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| **Sale, barter, exchange, use or lease of goods or property** | Sale, barter, exchange, use or lease of goods or property by a taxable person in the ordinary course of trade or business |

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| | VAT applies to deemed sale transactions such as the following:<br><br>• Transfer, use or consumption not in the course of business of goods or property originally intended for sale or use;<br><br>• Distribution or transfer to shareholders or investors as a share in the profits of a VAT-registered person or to creditors in payment of debt;<br>• Consignment of goods if an actual sale is not made within 60 days following the date such goods were consigned; and<br><br>• Retirement from or cessation of business, with respect to inventories of taxable goods existing as of such retirement or cessation |
| **Sale or exchange of services** | Sale or exchange of services by a taxable person, in the ordinary course of trade or business<br><br>The taxable sale or exchange of services includes the following:<br><br>• Lease or use of a copyright, patent design or model, plan, secret formula or process, goodwill, trademark, trade brand or other similar property;<br><br>• Lease or use of industrial, commercial or scientific equipment • Supply of scientific, technical, industrial or commercial knowledge or information;<br><br>• Supply of assistance that is ancillary and subsidiary to and is furnished as a means of enabling the application or enjoyment of industrial, commercial or scientific equipment or scientific, technical, industrial or commercial knowledge or information;<br><br>• Supply of services by a nonresident person or his or her employee with respect to the use of property or rights belonging to the nonresident, or the installation or operation of a brand, machinery or other apparatus purchased from such nonresident; |

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| | • Supply of technical advice, assistance or services rendered with respect to the technical management or administration of a scientific, industrial or commercial undertaking, venture, project or scheme;<br><br>• Lease of motion picture, other films, tapes and discs; and<br><br>• Lease or use of or the right to use radio, television, satellite transmission and cable television time |
| **Importation of goods into the Philippines** | VAT is imposed on goods brought into the Philippines, whether for use in business or not. |

### C. Who is Liable

A taxable person is any individual, trust, estate, partnership, corporation, joint venture, cooperative or association that carries out any of the following activities in the course of a trade or business:

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| **Sells, barters, exchanges or leases goods or property** | In general, a taxable person with gross sales or receipts that have exceeded or that are expected to exceed PHP3 million over a 12-month period must register as a VAT taxpayer.<br><br>A radio or TV broadcasting franchisee must register if its gross annual receipts from the franchise exceeded PHP10 million in the preceding calendar year. (Section 119 of the tax code). |
| **Renders services** | A professional person is liable for 12% VAT if its gross receipts or fees for the previous 12 months exceed PHP3 million or will exceed this amount in the next 12 months.<br><br>A professional that is not registered for VAT is liable for the percentage tax at a rate of 3% if its gross receipts for the previous 12 months were equal to or less than this threshold.<br><br>Nonresident persons that perform services in the Philippines are deemed to be making sales in the |

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| | course of a trade or business even if the services are not performed on a regular basis. |
| **Imports goods** | If the importer is exempt from tax, the purchaser, transferee or recipient of imported goods is liable for VAT, regardless of whether such person is a registered VAT taxpayer. |
| **Registration** | |
| **Optional VAT registration.** | VAT registration is optional for the following persons:<br><br>• A VAT-exempt person with gross sales or receipts that do not exceed PHP3 million<br><br>• A radio or television broadcasting franchisee with gross annual receipts from the franchise that did not exceed PHP10 million in the preceding calendar year A VAT-registered taxpayer with mixed transactions may opt for VAT to apply to its otherwise VAT-exempt transactions. |
| **Registration as non-VAT persons:** | The following persons must register as non-VAT persons:<br><br>• A VAT-exempt person that is not registered as a VAT taxpayer;<br><br>• An individual engaged in business with gross sales or receipts of PHP3 million or less in a 12-month period;<br><br>• Nonstock, nonprofit organizations or associations engaged in trade or business with gross sales or receipts of PHP3 million or less in a 12-month period;<br><br>• Cooperatives, except electric cooperatives;<br><br>• Radio and television broadcasters with gross annual receipts of PHP10 million or less that do not opt to be registered for VAT;<br>• Enterprises registered with the Philippine Economic Zone Authority (PEZA) and other economic zones that enjoy a preferential tax rate of 5% instead of paying all taxes; and |

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| | • Enterprises registered with the Subic Bay Metropolitan Authority (SBMA) or with other free port zones that enjoy a preferential tax rate of 5% instead of paying all taxes. |
| **Non-established businesses** | A foreign non-established business (or foreign nonresident not engaged in trade or business in the Philippines) is a foreign business that does not have a branch, headquarters or permanent establishment in the Philippines.<br><br>A foreign non-established business is subject to VAT for services rendered in the Philippines via a withholding process, but it is not required to register. |
| **Registration procedures** | New VAT taxpayers must file an application for registration as a VAT taxpayer. Corporations and partnerships must fill out BIR Form No. 1903 (Application for Registration) or BIR Form No. 1905 (Application for Registration Information Update) and file it with the Revenue District Office (RDO) having jurisdiction over the place where the head office and branch is located together with the required attachments on or before the first sale transaction.<br><br>New taxpayers are required to pay an annual registration fee of PHP500 at the Authorized Agent Banks (AABs) of the concerned RDO and submit the requirements for authority to print principal and supplementary receipts/ invoices and registration of books of accounts. As soon as all the requirements are submitted, the RDO will issue the Certificate of Registration (Form 2303). |
| **Late-registration penalties.** | Penalties and interest are assessed for several VAT errors, including late registration for VAT. |
| **Tax representatives.** | A foreign non-established business is not required to appoint a VAT representative in the Philippines.<br><br>Any resident who deals with a non-established business and who has control over payment for the supply must act as the VAT withholding agent. |
| **Reverse-charge services** | Under the reverse-charge provision, a taxable person that receives a supply of goods or services must |

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| | withhold the VAT due from the supplier and pay the VAT.<br><br>The reverse charge applies in the circumstances described below.<br><br>**VAT on sale to Government**<br><br>Before paying for each taxable purchase of goods or services, the government must deduct and withhold a final VAT of 5% representing the net VAT payable by the seller.<br><br>Under the "Tax Reform for Acceleration and Inclusion" (TRAIN), beginning 1 January 2021, the VAT withholding system shall shift from final to a creditable system. The remaining 7% is the standard input VAT for sales of goods or services to the government, instead of the actual input VAT directly attributable or apportioned to these sales. If the actual input VAT exceeds 7% of the gross payment, the excess may form part of the seller's expense or cost. If the actual input VAT is less than 7% of the gross payment, the difference must be treated as an expense or cost. A resident must withhold 12% VAT before paying to a nonresident or foreign non-established business the consideration for a nonresident's lease of properties or for property rights or services rendered in the Philippines. A VAT-registered withholding agent may claim the VAT withheld by it as input tax on its own VAT return, subject to the rule on allocation of input tax among taxable, zero-rated and exempt sales (see Section F). If the withholding agent is a non-VAT taxpayer, the VAT paid forms part of the cost of the purchased services and may be treated either as an asset or as an expense, in accordance with general accounting principles.<br><br>Under the TRAIN, payments for purchases of goods and services arising from projects funded by Official Development Assistance (ODA) as defined under Republic Act No. 8182, otherwise known as the "Official Development Assistance Act of 1996," as amended, shall not be subject to the final withholding tax system as imposed in this subsection. |

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| **Online business transactions** | Taxable persons conducting online business transactions for the sale, barter or exchange of goods and services with gross sales or receipts in excess of PHP3 million in a 12-month period must register as a VAT taxpayer.<br><br>The online merchant or retailer is required among others to issue a registered invoice or receipt, either manually or electronically, for every sale, barter, exchange, or lease of goods and services. If the buyer pays through an online intermediary who controls the collections/payments of buyers or markets products/services for its own account and thus considered the retailer/merchant, they are required to issue the invoice/official receipt for the full amount of the sale to the buyer.<br><br>Payment gateways such as banks, credit card companies, financial institution and bill paying services are obliged to issue validated bank deposit slips or payment confirmations in the name of the merchant-seller. Freight forwarders and online website administrators are likewise obliged to issue, either electronically or manually, the BIR registered official receipt for the service fees paid by the merchant or advertisers. |
| **Deregistration** | A VAT-registered person may cancel its registration for VAT in any of the following circumstances:<br><br>• The taxable person's written application to the Commissioner of Internal Revenue satisfactorily shows that its gross sales or receipts for the following 12 months (other than those that are exempt) will not exceed PHP3 million;<br><br>• The person has ceased to carry on its trade or business and does not expect to recommence any trade or business in the next 12 months;<br>• A change of ownership in a single proprietorship occurs;<br><br>• A partnership or corporation is dissolved; |

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| | • A merger or consolidation of a dissolved corporation occurs; and<br><br>• The person registers before a planned business commencement, but fails to start its business. |
| **Voluntary registration** | It is possible for a taxpayer that is otherwise generally not required to register for VAT to become VAT registered on a voluntary basis. There are no specific elements to be present for registration. Any person who elects to register under optional VAT registration shall not be allowed to cancel VAT registration for the next three (3) years. |

## D. VAT rates

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| **Taxable transactions are liable to VAT either at:**<br><br>**Regular Rate - 12%**<br>**Other - zero rate (0%)**<br>**-Exempt** | A taxable person that makes zero-rated transactions may use the input VAT as credit against VAT liability (see Section F), or it may file a claim for a refund or apply for a tax credit certificate (TCC).<br><br>Supplies can be "effectively zero-rated," which refers to local sales of goods, properties and services by a VAT-registered person to a person or entity that was granted indirect tax exemption under special laws or international agreements. |
| **Zero-rated sales** | • Export sales, including the following:<br><br>— Sales of goods exported from the Philippines to a foreign country;<br><br>— Sales of raw materials or packaging materials to a nonresident buyer for delivery to a resident exporter for manufacturing, processing, packing or repacking the buyer's goods in the Philippines; and<br><br>— Sales of raw materials or packaging materials supplied to an exporter with export sales exceeding 70% of its annual production. |

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| | Under the TRAIN, the second and third items will be converted into a regular VATable transaction (12% tax rate) upon satisfaction of the following conditions:<br><br>• The successful establishment and implementation of an enhanced VAT refund system that grants refunds of creditable input tax within ninety (90) days from the filing of the VAT refund application with the Bureau. As long as all applications filed from 1 January 2018 are processed and decided within ninety (90) days from the filing of the VAT refund application; and<br><br>• All pending VAT refund claims as of 31 December 2017 are fully paid in cash by 31 December 2019<br><br>• Sale of goods, supplies, equipment and fuel to persons engaged in international shipping or international air transport operations: provided that the goods, supplies, equipment and fuel shall be used for international shipping or air transport operations;<br><br>• Processing, manufacturing or repacking goods for other persons doing business outside the Philippines that are subsequently exported, where the services are paid for in acceptable foreign currency and accounted for in accordance with the rules and regulations of the Bangko Sentral ng Pilipinas (BSP);<br><br>• Services performed by subcontractors and/or contractors in processing, converting, or manufacturing goods for an enterprise whose export sales exceed seventy percent (70%) of total annual production;<br><br>Under the TRAIN, the immediately preceding two items will be similarly converted into a regular VATable transaction (12% tax rate) upon satisfaction of the following conditions:<br><br>• The successful establishment and implementation of an enhanced VAT refund |

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| | system that grants refunds of creditable input tax within ninety (90) days from the filing of the VAT refund application with the Bureau. As long as all applications filed from 1 January 2018 are processed and decided within ninety (90) days from the filing of the VAT refund application; and<br><br>• All pending VAT refund claims as of 31 December 2017 are fully paid in cash by 31 December 2019<br><br>• Services other than processing, manufacturing, or repacking goods rendered to a person engaged in business conducted outside the Philippines or to a nonresident person not engaged in business who is outside the Philippines when the services are performed, the consideration for which is paid for in acceptable foreign currency and accounted for in accordance with the rules and regulations of the BSP;<br><br>• Transport of passengers and cargo by domestic air or sea vessels from the Philippines to a foreign country;<br><br>• Sale of power or fuel generated through renewable sources of energy such as, but not limited to, biomass, solar, wind, hydropower, geothermal, ocean energy and other emerging energy sources using technologies such as fuel cells and hydrogen fuels;<br><br>• Services rendered to persons engaged in international shipping or air transport operations, provided that these services shall be exclusive for international shipping or air transport operations; and<br><br>• Services of contractors or subcontractors in processing or manufacturing goods for exporters with export sales exceeding 70% of annual production VAT-exempt transactions are not subject to output VAT (that is, VAT on sales) and the seller is not permitted to recover input tax (that is, VAT on creditable purchases; see Section F). |
| **Exempt Transactions** | The sale or import of the following items: |

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| | • Agricultural or marine food products in their original state;<br><br>• Livestock or poultry used as, or for producing, foods for human consumption — Breeding stock and related genetic materials;<br><br>• Fertilizers, seeds, fingerlings, fish, prawn, livestock, or poultry feeds and ingredients used for manufacturing finished feeds that are unfit for human consumption or ingredients that cannot be used for the production of products for human consumption as certified by the Food and Drug Administration (except specialty feeds for racehorses, fighting cocks, zoo animals or pets);<br><br>• Import of the following items:<br>— Personal or household effects of residents returning from abroad or nonresident citizens coming to resettle in the Philippines if the items qualify for exemption from customs duties<br>— Professional instruments and implements, tools of trade, occupation or employment, wearing apparel, domestic animals, and personal and household effects belonging to persons coming to live in the Philippines or Filipinos or their families 898 PHILIPPINES and descendants who are now residents or citizens of other countries (such parties hereinafter referred to as overseas Filipinos) in quantities and of the class suitable to the profession, rank or position of the persons importing said items, for their own use and not for barter or sale, accompanying such persons, or arriving within a reasonable time. The Bureau of Customs upon the production of satisfactory evidence that such persons are actually coming to settle in the Philippines and that the goods are brought from their former place of abode, exempt such goods from payment of duties and taxes. Vehicles, vessels, aircrafts, machineries and other similar goods for use in manufacture, shall not fall within this classification and shall therefore be subject to duties, taxes, and other charges |

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| | • Services rendered by agricultural contract growers and milling for others of palay (unhusked rice) into rice, corn into grits and sugar cane into raw sugar;<br><br>• Services subject to percentage taxes;<br><br>• Domestic common carriers by land (which must be a holder of a valid and current Certificate of Public Convenience to be considered as such) for passenger transport (subject to percentage tax under Section 117 of the tax code);<br><br>• Garage keepers (subject to percentage tax under Section 117 of the tax code);<br><br>• International air or shipping carriers (subject to percentage tax under Section 118 of the tax code);<br><br>• Sales of gold to the Philippines Central Bank (Bangko Sentral ng Pilipinas, or BSP);<br><br>• Radio or television broadcast franchisees with annual gross receipts of PHP10 million or less (subject to percentage tax under Section 119 of the tax code);<br><br>• Gas and water utilities' franchisees (subject to percentage tax under Section 119 of the tax code);<br><br>• Persons, companies and corporations (not cooperatives or associations) engaged in providing life insurance in the Philippines (subject to percentage tax under Section 123 of the tax code);<br><br>• Fire, marine or other insurance agents of foreign insurance companies (subject to percentage tax under Section 124 of the tax code);<br><br>• Proprietors or lessees or operators of cockpits, clubs, boxing, professional basketball, jai-alai and race tracks (subject to percentage tax under Section 125 of the tax code);<br><br>• Individual employees (services rendered by individuals pursuant to an employer-employee relationship); |

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| | • Providers for overseas dispatches, messages or conversations from the Philippines (subject to percentage tax under Section 120 of the tax code);<br><br>• Sales or exchanges of shares listed and traded at the local exchange or by initial public offering (subject to percentage tax under Section 127(B) of the tax code);<br><br>• Medical, dental, hospital and veterinary services, except those rendered by professionals;<br><br>• Educational services of government or accredited private educational institutions;<br><br>• Services rendered by regional or area headquarters established in the Philippines by multinational corporations that act as supervisory, communications and coordinating center for their affiliates, subsidiaries or branches in the Asia-Pacific region and do not earn or derive income from the Philippines;<br><br>• Transactions exempted under international agreements signed by the Philippines or under special laws;<br><br>• Sales by agricultural cooperatives to members, sales of their produce to nonmembers and the import of direct farm inputs, equipment or spare parts for producing or processing farm produce;<br><br>• Lending by credit or multipurpose cooperatives;<br><br>• Sales by nonagricultural or nonelectric or noncredit cooperatives if a member's capital contribution cap is PHP15,000;<br><br>• Sales of the following real properties:<br><br>— Real properties not primarily held for sale, lease or use in the ordinary course of trade or business<br>— Low-cost housing, up to PHP750,000<br>— Socialized housing, up to PHP450,000<br>— Residential lots up to PHP1.5 million |

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| | — Houses, lots and other residential dwellings, up to PHP2.5 million<br>• The lease of residential units for rent not exceeding: PHP15,000 a month;<br><br>• The sale, import, printing or publication of books and newspapers or magazines appearing at regular intervals that have fixed sale prices and that are not devoted principally to publication of paid advertisements;<br><br>• Sale, importation or lease of passenger or cargo vessels and aircraft, including engine, equipment and spare parts thereof for domestic or international transport operations;<br><br>• Importation of fuel, goods and supplies by persons engaged in international shipping or air transport operations. As long as the fuel, goods and supplies are used for international shipping or air transport operations;<br><br>• Services of banks, nonbank financial intermediaries performing quasi-banking functions, and other nonbank financial intermediaries, such as money changers and pawnshops (subject to percentage tax under Section 122 of the tax code;<br><br>• Sale or lease of goods or properties or services up to PHP3 million annually;<br><br>• Transfer of property pursuant to Section 40(C)(2) of the Philippine tax code (i.e., tax-free exchanges of property, mergers, and acquisitions);<br><br>• Sale of goods or services to "senior citizens," as defined under Republic Act (RA) No. 9994 or the Expanded Senior Citizens Act of 2010; and<br><br>• Sale of goods or services to persons with disability (PWD) under Republic Act (RA) No. 10754 or An Act Expanding the Ben e fits and Privileges of Persons with Disability<br><br>**Option to tax for exempt supplies.** A VAT registered person may elect that exempt transactions |

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| | be registered for VAT purposes. Once the election is made, it shall be irrevocable for a period of three (3) years counted from the quarter when the election was made except for franchise grantees of radio and TV broadcasting whose annual gross receipts for the preceding year do not exceed PHP10 million where the option becomes perpetually irrevocable. |
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## E. Time of Supply

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| **General Rules** | The time of supply or tax point is the time when the VAT becomes due. The following are the general rules for the time of supply:<br><br>• For importations — before the release of the goods (whether or not for business) from customs custody<br><br>• For the sale or deemed sale, barter or exchange of taxable goods or properties — at the time of the transaction, regardless of when actual payment is made<br><br>• For installment sales of real property — when each actual payment is made or at the constructive receipt date for each installment payment<br><br>• For the use or lease of property — when each actual payment is made or at the constructive receipt date for each installment payment<br><br>• For supplies of services — when each actual payment is made or at the constructive receipt date for each installment payment |
| **Deposits and prepayments** | In general, receipt of a deposit or prepayment creates a tax point if the amount is paid as part of the total payment for a particular supply.<br><br>If a prepayment constitutes a prepaid lease rental, it is taxable for the lessor in the month in which the payment is received. However, a security deposit is not subject to VAT until it is applied to the rental. |

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| **Continuous supplies of services** | A tax point is created each time a payment is made. |
| **Goods sent on approval** | Goods sent on approval are not subject to VAT until they are actually sold.<br><br>If an actual sale of consigned goods is not made within 60 days after the date on which the goods were consigned, a sale is deemed to take place, unless the consigned goods are returned by the consignee within the 60-day period. |
| **Reverse-charge services** | The tax point for reverse-charge services is when the consideration is paid. |
| **Imported goods** | VAT is imposed on goods brought into the Philippines, whether for use in business or not.<br><br>It is based on the total value used by the Bureau of Customs (BOC) in determining tariff and customs duties, plus customs duties, excise tax, if any, and other charges imposed prior to the release of the goods from customs custody.<br><br>If the valuation used by the BOC in computing customs duties is based on volume or quantity of the imported goods, the landed cost shall be the basis for computing VAT.<br><br>Landed cost consists of the invoice amount, customs duties, freight, insurance, other charges and excise tax, if any.<br><br>The VAT on importation shall be paid by the importer prior to the release of such goods from customs custody. |
| **Leased assets** | As outlined under the General rules subsection above, the time of supply is when each actual payment is made or at the consecutive receipt date for each installment payment. |

F. **Recovery of VAT by taxable persons**

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| **In General** | A VAT-registered person may recover input tax, which is VAT charged on the person's import of goods or local purchases of goods or services (including property leases) from another VAT registered person, in the course of the person's trade or business.<br><br>A VAT-registered person generally recovers input tax by deducting it from output tax, which is the VAT charged on the sale or lease of taxable goods or properties or services.<br><br>If at the end of the tax quarter, a VAT-registered person's output VAT exceeds input VAT, the person must pay the excess. If input VAT exceeds output VAT, the excess is carried over to the next quarter or quarters.<br><br>Special rules apply to input tax related to capital goods, mixed, partially exempt and zero-rated transactions (see below). |
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| **Deductible input tax (creditable expenditure)** | Input tax related to certain transactions may be creditable against output tax if the tax paid is evidenced by a VAT invoice or official receipt issued by a VAT-registered person, such as:<br><br>• Goods purchased or imported for any of the following purposes:<br><br>— Sale of the goods themselves;<br>— Conversion into a finished product for sale, or goods intended to form part of a finished product for sale, including packaging materials;<br>— Use of supplies in the course of business;<br>— Use of raw materials in a supply of services; and |

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| | — Use in trade or business for which deduction for depreciation or amortization is allowed<br><br>• The purchase of real property on which VAT has been paid<br><br>• The purchase of services on which VAT has been paid<br><br>• Transactions deemed to be sales<br><br>• Transitional input tax of 2% of value of beginning inventory or of the actual VAT paid, whichever is higher<br><br>• Presumptive input tax of 4% of the gross value of purchases of primary agricultural products used as inputs in the production of sardines, mackerel, milk, refined sugar, cooking oil and packed noodle-based instant meals<br><br>• Transitional input tax credits allowed under the law and regulations<br><br>Transitional input tax is a form of input tax allowed on transition from non-VAT-registered status to VAT-registered status. It may be credited against output tax when the VAT registration takes effect. Presumptive input tax is a form of fixed input tax allowed to persons or firms engaged in the processing of sardines, mackerel, and milk, and in manufacturing refined sugar, cooking oil and packed noodle-based instant meals. In general, it may be credited against output tax on the consummation of purchases of primary agricultural products (used as inputs to production). |
| **Nondeductible input tax.** | Input tax may not be recovered on the purchase or importation of goods and services that are not used for business purposes, such as:<br><br>• Purchases from VAT persons, which are personal in nature or not made in the course of trade or business. |

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| | • Purchases of nonoperating movable property or equipment not connected with the business operation of the VAT taxpayer. |
| **input tax is deductible (if related to a taxable business use)** | • Purchases or importation of raw materials intended to form part of a finished product for sale. |
| **Capital goods.** | A VAT-registered person's purchases or imports of capital or depreciable goods may be claimed as credit against output VAT, in accordance with the rules described below.<br><br>If the aggregate acquisition cost exceeds PHP1 million in a calendar month, regardless of the unit cost of the capital goods, and if the capital goods have an estimated useful life of five years or more, a claim for input VAT credit begins in the month in which the capital goods are acquired and is spread evenly over 60 months. The credit is spread evenly over the actual number of months of the useful life of the asset if its estimated useful life is less than five years.<br><br>If the aggregate acquisition cost does not exceed PHP1 million in a calendar month, the total input VAT is allowable as a credit against output VAT in the month of acquisition.<br><br>The amortization of the input VAT shall only be allowed until 31 December 2021, after which taxpayers with unutilized input VAT on capital goods purchased or imported shall be allowed to apply the same as scheduled until fully utilized. |
| **Partial exemption.** | Input VAT that is directly attributed to transactions subject to VAT may be recognized for tax credit. However, input tax that is directly attributable to VAT taxable sales of goods and services to the government is not available for credit against output tax related to supplies made to nongovernment entities.<br><br>Input tax that is not directly attributable to either VAT-taxable or VAT-exempt transactions must be prorated monthly between VAT taxable and VAT-exempt transactions. Input tax credit is permitted only |

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| | for the portion of input tax that relates to transactions subject to VAT.<br><br>A VAT-registered person making supplies of goods, property and services that are zero-rated (or effectively zero-rated) may apply for a tax credit certificate (TCC) or a refund of input tax attributable to these sales (except for the portion of the excess input tax that has already been applied against output tax). The default claim shall be a cash refund unless the claimant applies for the issuance of a TCC.<br><br>Under Section 112 (A) of the tax code, as amended, the request may be made within two years after the close of the tax quarter in which the sales are made.<br><br>The Commissioner of Internal Revenue must grant the TCC or refund within 90 days after the date of submission of all documents required with respect to the claim.<br><br>Should the Commissioner find that the grant of refund is not proper, the Commissioner must state in writing the legal and factual basis for the denial.<br><br>Failure on the part of any official, agent, or employee of the BIR to act on the application within the 90-day period shall be punishable. |
| **Refunds** | Any input tax attributable to zero-rated sales by a VAT registered person may at his option be refunded or applied for a tax credit certificate (TCC).<br><br>The administrative claim for VAT refund or TCC must be filed within two years from the close of the taxable quarter when the zero-rated sales and/or effectively zero-rated sales were made.<br><br>The application for VAT refund must be accompanied by complete supporting documents as specifically enumerated in existing revenue regulations.<br><br>The application shall be denied if the taxpayer fails to submit the complete supporting documents. |

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| | The Commissioner of Internal Revenue (CIR) shall have 90 days from the submission of the complete supporting documents within which to decide whether or not to grant the claim.<br><br>If the claim is not acted upon by the commissioner within the 90 days, such inaction shall be deemed a denial of the claim.<br><br>In case of a denial, the taxpayer should file a judicial claim with the Court of Tax Appeals (CTA) (i) within 30 days from receipt of the Commissioner's decision denying the claim (whether in full or in part) within the 90-day period, or (ii) from the expiration of the 90-day period if the Commissioner does not act within the 90-day period.<br><br>The taxpayer is required to observe the 90 + 30-day rule before lodging a petition for review with the CTA. |

## G. Recovery of VAT by non-established businesses

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| **Recovery of VAT by non-established businesses** | The Philippines does not refund VAT incurred by businesses that are neither established in the Philippines nor registered for VAT purposes.<br><br>A VAT-registered person that acts as a withholding agent for a supply made by a nonresident may recover the VAT withheld as input tax, on filing its own VAT return, subject to the normal rules on allocation of input tax (see Section F).<br><br>If the resident withholding agent is a non-VAT taxpayer, the VAT forms part of the cost of purchased services and the VAT may be treated either as an asset or expense (subject to normal accounting principles). |

## H. Invoicing

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| **VAT invoices and credit notes** | A VAT-registered person must issue a VAT invoice for every sale, barter or exchange of goods or property or a VAT official receipt for every lease of goods or property and for every sale, barter or exchange of services. An authority to print (ATP) receipts or sales invoices must be secured from the tax authorities. The official receipt or invoice shall be valid for five years from the issuance of the ATP or the full usage of the inclusive serial numbers of the receipts/invoices reflected in the ATP, whichever comes first. These documents must contain the following information:<br><br>• A statement that the seller is a VAT-registered person, followed by the person's tax identification number (TIN)<br>• The total amount payable by the purchaser, inclusive of VAT<br>• The amount of tax shown as a separate line item<br>• Date of transaction<br>• Quantity and unit cost<br>• Description of goods or properties or the nature of services<br>• If the sale is exempt from VAT, the words "VAT-Exempt Sale" and the sentence, "This document is not valid for claim of input tax" prominently displayed<br>• If the sale is subject to 0% VAT, the term "zero-rated sale" prominently displayed<br>• If the sale includes goods, property or services, some of which are subject to VAT and some of which are VAT-zero-rated or VAT-exempt, a clear breakdown of the sales price between taxable, exempt and zero-rated components, with VAT calculated on each portion of the sale<br>• For sales or transfers to a VAT-registered person valued at PHP1,000 or more, the name, business style (if any), address and TIN of the purchaser or client<br>• The ATP number, date of issuance and validity of the ATP, including the name, address, TIN of the accredited printer, with his accreditation number and date of accreditation as an authorized printer<br>• The phrase "This invoice/receipt shall be valid for five (5) years from date of the ATP" |

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| | A VAT tax credit note may be used to reduce the VAT charged on supply of goods or services. Tax credit and debit notes must show the same information as a VAT invoice or receipt. |
| **Export documentation** | Export sales are subject to the zero rate of VAT if goods are shipped from the Philippines to a foreign country. The goods must be paid for in acceptable foreign currency (or its equivalent in goods or services), and it must be accounted for in accordance with the rules of the BSP. The sale and shipment of goods must be proven by the following documents:<br>• VAT invoices that contain the term "zero-rated sale" written or printed on the invoice<br>• Bills of lading<br>• Inward letters of credit<br>• Landing certificates<br>• Other relevant commercial documents |
| **Foreign-currency invoices** | If a VAT invoice or official receipt is issued in a foreign currency, all values that are required to be paid must be converted into Philippine pesos, using an acceptable exchange rate. |
| **Electronic invoicing** | Within five years from the effectivity of the TRAIN (i.e., 1 January 2018) and upon establishment of a system capable of storing and processing the required data, the Philippine tax authorities shall require taxpayers engaged in the export of goods and services, taxpayers engaged in e-commerce, taxpayers under the jurisdiction of the large taxpayers service to issue electronic receipts or sales or commercial invoices in lieu of manual receipts or sales or commercial invoices, subject to rules and regulations yet to be issued. |

## I. VAT Returns and Payment

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| **VAT returns** | VAT payers that use a manual filing system must file monthly VAT declarations and pay the VAT to an authorized agent bank, not later than the 20th day after the end of each month. Taxpayers must also file quarterly VAT returns showing their quarterly gross |

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| | sales or receipts within 25 days after the close of the tax quarter.<br><br>VAT payers that use the electronic filing and payment system are classified according to their business industry and they are given deadlines based on their classification. The due dates for filing and payment range from 21 days to 25 days after the end of the month for each monthly VAT declaration. The return for reporting VAT withholding must be filed, and the tax must be paid, on or before the 10th day of the month following the transaction.<br><br>VAT payers are also required to submit a quarterly summary list of sales and purchases (SLSP) on disk, specifically the compact disc-recordable (CDR) medium. VAT payers that use a manual filing system must file the quarterly SLSP within 25 days after the close of the tax quarter. VAT payers that use the electronic filing and payment system must submit the quarterly SLSP within 30 days after the close of the quarter.<br><br>Advance payment of VAT is required for the sale of refined sugar and flour. The advance VAT must be paid by the owner or seller to the Bureau of Internal Revenue through an authorized agent bank or revenue collection officer before any refined sugar or flour can be withdrawn from any refinery or mill. In addition, the VAT on imported goods must be paid before the release of the goods from the Bureau of Customs' custody. |
| **Annual returns** | No annual returns are required to be filed in the Philippines.<br><br>Currently, monthly and quarterly returns are only required to be filed in the Philippines.<br><br>Starting 1 January 2023, however, only quarterly VAT returns will be required. |
| **Special schemes** | The VAT law in the Philippines does not provide any special VAT accounting schemes. |

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| **Electronic filing.** | Electronic filing of VAT returns is mandatory for the following taxpayers:<br>• Taxpayer account management program taxpayers<br>• Accredited importer and prospective importer<br>• National government agencies<br>• Licensed local contractors<br>• Enterprises enjoying fiscal incentives<br>• Top 5,000 individual taxpayers<br>• Corporations with paid-up capital stock of PHP10 million and above<br>• Corporations with complete computerized accounting systems<br>• Government bidders<br>• Insurance companies and stock brokers<br>• Large taxpayers<br>• Top 20,000 private corporations |

## J. Penalties

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| Civil penalties | Surcharge of 25% or 50% and Interest of 12% (i.e., double the legal interest rate pursuant to Section 249 of the tax code, as amended by TRAIN) are assessed on the amount due for the following offenses:<br><br>• Failure to file a return and pay the tax due based on the return as required by law and rules<br>• Filing a return with an internal revenue officer other than the officer with whom the return is required to be filed<br>• Failure to pay the full or part of the tax due or the deficiency tax within the prescribed period • Willful neglect to file a return within the prescribed period<br>• Failure to file certain information returns<br>• Failure of a withholding agent to collect and remit tax or refund excess withholding tax<br>• Erroneous issuance of a VAT invoice or receipt by a person not registered for VAT<br><br>In addition to other administrative and penal sanctions, the commissioner of the BIR may suspend or close a business establishment for at least five days for any of the following violations:<br>• Failure to issue receipts and invoices<br>• Failure to file a VAT return |

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| | • Understatement of taxable sales or receipts by 30% or more of the correct taxable sales or receipts for the tax quarter<br>• Failure of a person to register for VAT as required by law<br><br>The conviction of a refusal or failure to indicate separately the output tax on the sale of goods and services on a sales invoice or official receipt, each such act or omission is punished by a fine not less than PHP500,000 but not more than PHP10 million and imprisonment of not less than 6 years but not more than 10 years. |

The content is based on information current as of December 31, 2018. Changes to the tax laws and other applicable rules may be proposed. Therefore, readers should contact MTF to obtain further information.



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