

Reviewer

VALUE ADDED TAX



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PART I: INTRODUCTION TO VALUE-ADDED TAX

VALUE-ADDED TAX

1. VAT is a tax on consumption levied on sale, barter, exchange or lease of goods, or properties and services in the Philippines and on importation of goods into the Philippines.
2. The seller is the one statutorily liable for the payment of the tax but the amount of the tax may be shifted or passed on to the buyer, transferee or lessee of the goods, properties or services.
3. In the case of importations, the importer is liable for the VAT.

THE SCOPE ON VAT ON SALE

1. Vatable Sale of goods
2. Sale of Properties – Ordinary Assets (Real or Personal)
3. Sale of Services or Lease of Properties

OPTIONAL VAT REGISTRATION

1. Voluntary registration of taxpayers whose gross sales or receipts below the threshold.
2. Subject to 3 – years lock in period.

VALUE – ADDED TAX MODEL

(Output tax – Input tax = VAT DUE – Tax credits = VAT STILL DUE)

SALE SUBJECT TO SPECIAL VAT RULES

1. *Sale to the Government including GOCCs*
 - a. limited claimable input vat which is 7% known as the standard input vat.
 - b. the 5% withheld tax shall be presumed as the actual VAT or final Vat due of the taxpayer on the sale.
2. *Zero-rated Sales*
 - a. Foreign consumption (Export) and domestic sales
 - b. 0% Output Vat
 - c. Claimable Input Vat
 - d. Vat due would be negative.
 - e. Applicable on Vat taxpayers only.
3. *Exempt Sales*
 - a. non-vatable sales (0% Output Vat)
 - b. not allowed to credit input vat.
 - c. Input vat is only part of ITR.
 - d. domestic sales
 - e. applicable to both vat and non-VAT

CLASSIFICATION RULES

1. Sale of goods to a non-resident buyer is zero-rated even it involves exempt goods. (Foreign Consumption – Export)
2. The sale of vatable goods or services in the Philippines is normally a Regular Vatable Sale.
General Rule: 12% VAT
Exception:
 - Sale to Gov. or GOCCs – Final withholding vat of 5%
 - Sale to Vat Exempt Persons
3. Sale of exempt goods and services to the government or GOCCs is still exempt sales.

CLASSIFICATION OF SALES OR RECEIPTS FOR VAT PURPOSES

1. Sale to the Government
2. Zero – Rated Sales
3. Exempt Sales
4. Regular Sales (Domestic Sales)

OTHER SALES SUBJECT TO VAT

1. Sale of Registrable Persons
2. Sales of Non-VAT Taxpayers who issues Vat invoice or receipt
3. Exempt sales billed by VAT Taxpayers as regular sales.

PART II: REGULAR OUTPUT VAT

SOURCES OF REGULAR OUTPUT VAT

1. Sale of Vatable Goods
2. Sale of Vatable Properties
3. Transaction Deemed Sales
4. Sale of Vatable Services

SALE OF VATABLE GOODS AND PROPERTIES

1. Tangible or intangible objects which are capable of pecuniary estimation and shall include among others: Goods (Movable), Properties (Immovable)
 - a) Real properties, held for sale, lease, or used in the ordinary course.
 - b) Right or privilege to use patent, copyright, design or model, plan, secret formula or process, goodwill, trademark, brand or other similar properties. (Intellectual Properties)
 - c) Right or privilege to use in the Philippines any industrial, commercial, scientific equipment.
 - d) Right or privilege to use motion pictures, films, tapes and disc.
 - e) Radio television, Satellite transmission, cable television time.

1. SALE OF VATABLE GOODS

Tax Basis:

General Rule: Gross Selling Price (Vat Exclusive)

Tax Rate: 12% VAT

GROSS SELLING PRICE

1. Cash Sales
2. Credit Sales
3. Installment sales
4. Excise Tax
5. Vat Exclusive
6. Production Cost + OPEX + Desired Profit = Selling Price

ALLOWABLE DEDUCTIONS

1. Sales Discounts determined and granted at the point of sale. (Not contingent)
2. Sales Return and Allowances (Proper credit or refund was made)

Exceptions:

- Unreasonable lower selling price (Lower by more than 30% of the actual market value of the goods)
 - **Output VAT shall be based on FV of the Goods sold.**
- Party: Government
 - **Output Vat shall be based on the Actual Selling Price.**

Timing of Reporting: Month of Sale

2. SALE OF VATABLE PROPERTIES – Ordinary Assets

Tax Basis: Gross Selling Price

Higher of:

- Selling Price or Consideration received (Vat Inclusive)
- Fair Value of the Property (Higher between) (Vat Exclusive)
 - Zonal Value
 - FV per assessor's office

Tax Rate: 12% VAT

Timing of Reporting: Month of Sale or by Installment Method

Installment Reporting of Output VAT on Real Properties:

- May be reported in installment if the initial payment from such sale does not exceeds 25% of the selling price.
- Procedures:
 - Compute the Output Vat.
 - Compute the ratio of the initial payment and applied the rulings.
 - Compute the reportable output Vat
$$\frac{\text{Payments}}{\text{Selling Price}} \times \text{Output Vat}$$

Sale of property by a realty dealer on a deferred payment basis:

- Shall be treated as Cash Sale.
- Subsequent collections from the sale no longer be subjected to VAT.
- The output Vat is reported in the month of sale.

Interest and Penalties

- Actually, or constructively received by the seller are likewise subject to VAT.

2.1 SALE OF VATABLE REAL PROPERTIES

Requisites:

- The seller is engaged in real estate business.
- The property involved is an ordinary asset not a capital asset.
- The seller is a VAT Taxpayer.
- The selling price is not exempt under the provision of tax code.

o Selling price exempt under the provision of tax code:

- Sale of Residential Land < 1,919,500
- Sale of Residential House and Lot < 3,199,200

Tax Rate: 12% VAT

Tax Base: Highest among the three:

- o Selling price or consideration stated in the deed of sale.
- o Zonal Value per commissioner of internal revenue
- o FV per assessor's office

2.2 EXEMPT TRANSACTIONS ON SALE OF REAL PROPERTIES

- Sale of real properties not primarily held for sale, lease and use in the ordinary course of business. (Capital Assets)
- Sale of Real Properties utilized by Low-Cost Housing with ceiling of 750,000.
- Sale of Real Properties utilized for Socialized Housing with price ceiling of 450,000.
- Sale of Residential Lot < 1,919,500
- Sale of House and Lot < 3,199,200

3. TRANSACTIONS DEEMED SALES (PRESUMED SOLD)

Tax Rate: 12% VAT

Tax Base:

General Rule: Market value of the goods

Exception: In the case of Cessation or retirement.

Lower between:

- a. Acquisition costs
- b. Current market price of the goods or properties

- Transfer, use or consumption not in the ordinary course of business.
 - Distribution or transfer inventory to shareholders or investors share in the profits of vat registered person.
 - Transfer of inventory to creditors in payment of debt or obligation.
 - Consignment of goods if actual sale is not made within 60 days.
 - Consigned goods to consignees, if not withdrawn within 60 days are considered deemed sold.
 - Retirement or cessation of business
- General Rule: Business dissolution is deemed sale.
- a. Change of ownership of the business
 - b. Dissolution of Partnership

Exceptions:

- a. Merger or consolidations – with business dissolution but not a deemed sale under the law.
- b. Cessation of Status of Vat Registered Person – no business dissolution but it is treated as deemed sale.

TAKE NOTE:

VAT on deemed sales applies only to vatable goods and properties of the business or those considered ordinary assets.

4. SALE OF VATABLE SERVICES

Tax Base: Gross Receipts

Tax Rate: 12% VAT

GROSS RECEIPTS (Vat Exclusive)

1. Contract price
2. Compensation
3. Service Fees
4. Rental
5. Royalty
6. Materials charged supplied with the services
7. Deposits
8. Rendered and advanced payments

- The tax is on cash received.
- Receivables, even if already earned are not yet taxable.

CONSTRUCTIVE RECEIPT

1. Deposits in the bank account of the seller by the buyer.
2. Issuance by the debtor of a notice to offset any debt or obligations
3. Transfer of the amounts retained by the payor to the account of the contractor

REQUISITES TO BE VATABLE:

1. The services should be rendered in the Philippines.
2. Any and all kinds of services rendered to others. (No employee-employer relationship)
3. There is a fee, remuneration or consideration.

PART III: INPUT VAT**INPUT VAT**

- Vat due or paid by vat registered person; on
- Importations and local purchases

TYPES OF INPUT VAT**1. Transitional Input Vat (2%)**

- It operates to benefit newly VAT registered persons, whether or not they previously paid taxes in the acquisition of their beginning inventory of:
 - a. goods,
 - b. materials and
 - c. supplies
- Excluding equipment and other capital assets.

MEASUREMENT

Initial input tax credit of 2% of the higher between:

- Beginning inventory x 2%
- Actual VAT paid

- Based on the vatable beginning inventories in the month of registration.
- Input VAT is not part of the inventory to a VAT taxpayer for income tax purposes. Hence, it must be removed from the basis of the 2% transitional input vat.

Timing of Credit

- Claimable in the month of registration.

Requisites for Claiming

- Must submit an inventory list of goods.
- Must prepare an entry recognizing the transitional input vat credit

2. Regular Input Vat

Tax Rate: 12% VAT paid on vatable:

- Domestic purchases of goods, properties and services
- Importation of goods and services.

3. Amortization of Deferred Input VAT (Depreciable capital goods)

- Excludes capital assets and non-depreciable properties to the monthly aggregate acquisition costs.

3.1 Depreciable capital goods

- Estimated useful life is more than one year.
- Treated as depreciable assets for income tax purposes.
- Used directly and indirectly in the production and sale of taxable goods or services.

3.2 Monthly aggregate acquisition costs:

- Total price excluding VAT.
- Not the payments or installment actually made.

3.3 Measurements

Monthly Aggregate Acquisition Costs if:

- < or equal to 1M** - Claimable in the month of purchase.
- > 1M** - Deferred and amortized over the shorter of:
 - Useful life in months
 - 60 months

3.4 Sale or Transfer of depreciable capital goods within 5 years.

- The entire unamortized input tax or deferred input tax on the capital goods can be claimed as input tax credit during the calendar month or quarter when the sale or transfer was made.

4. Presumptive Input VAT (4%)

- Tax incentive to processors of VAT- exempt raw materials into processed food products.
- Equivalent to 4% of the gross value in money of their purchases of primary agricultural products which are used in their productions.

4.1 Qualified Processors

- Persons or firm engaged in the processing of:
 - o Sardines
 - o Mackerel
 - o Milk
 - o Refined sugar
 - o Cooking oil, and
 - o Packed noodles

5. Standard Input VAT

- The seller to the government can effectively claim only 7% of sales as input VAT.
- Sale of goods and services to the government including GOCCs. That subject to 5% final withholding VAT based on the gross payment or actual selling price.
- The 5% FW VAT shall be deemed the actual vat payable of the seller.

5.1 Measurements

Actual Input VAT (amount to be claimed) (Total purchases exclusive x 12%)
Less: Standard Input Vat (amount allowable) (Actual Selling Price Vat Exclusive x 7%)
Gain or Loss

5.2 Recognition of Gain or Loss

Actual < Standard = Gain or deduction to Expenses (Income & Expense Summary Credit)
Actual > Standard = Loss or addition to Expenses (Income & Summary Debit)

6. Input Tax Carry - Over

- Excess of input vat over the output vat in a particular month or quarter.

6.1 Rules on Input VAT Carry – Over

- Input VAT Carry over of the prior quarter is deductible in the first month of the current quarter.
- Input VAT Carry over in the first month of the quarter is deductible in the second month of the quarter.
- Input VAT Carry over in the second month of the quarter is **NOT** deductible to the third month of the quarter.
- Input VAT Carry over of the prior quarter is deductible in the third month quarterly balance of the present quarter.

6.2 Excluded from input vat carry over

- ❑ Advanced VAT applied for tax credit certificate.
- ❑ Input VAT attributed to zero-rated claim applied for tax refund or tax credit certificate.
- ❑ Input VAT to zero-rated sales that expired after two-year prescriptive period.

6.3 Rules on claim for credit of input Vat

❑ **Specific Identification**

- Can be traced to a particular sales transaction.
- Credited against the Output Vat of such sales.

❑ **Pro-rata Allocation**

- Cannot be directly and entirely attributed to any one of the sales transactions.
- Allocated proportionately on the basis of sales.

a. *Non-traceable input vat*

Allocation Factor = Sales/Total Sales x total input vat cannot be traced.

b. *With non-traceable input vat*

Total allowable = Input vat directly traceable + Allocated input vat (Vatable sales/Total sales x input vat that cannot be traced)

7. Composition of Creditable Input VAT

- Traceable to Regular Sales
- Traceable to export sales that are not applied for tax refund.
- 7% of sales to government

PART IV: ZERO-RATED SALES

Basic Concepts:

- Foreign consumption
- Export sales
- Foreign currency denominated sales
- Constructive exports

1. Zero Rated Sale of Goods

1.1 Exports Sales

❑ **Direct Export**

- Actual shipment of goods (Phils. – Foreign country).
- Irrespective of any shipping arrangement.
- Paid in acceptable foreign currency or its equivalents.
- Accounted for in accordance with the rules of BSP

Sale to Economic Zones and Tourism Zones

- Foreign Territories
- Sales to locators or registered enterprises in these zones are considered technical exportation.
- Look for some examples in your taxation reference book.

Sale of goods, supplies, equipment and fuel to persons engaged in international shipping or international air transport operations.

- o Limited to goods, supplies, equipment and fuel.
- o Generally used or consumed outside the Philippines.

1.2 Effectively Zero-Rated Sales

- Sales to persons or entities whose exemption under special laws or international agreements to which the Philippines is a signatory.
- Look for some examples of entities that granted indirect tax exemption under special laws.

2. Zero – Rated Sale of Services

2.1 Sale of services to Non-residents

- Services other than processing, manufacturing or repacking.
- Not engaged in business.
- Who is outside the Philippines when the services are performed.

Requirements for zero – rating: unless considered as exempt.

- Services must be performed in the Philippines.
- Must be paid in acceptable foreign currency or its equivalents.
- Accounted for under the rules and regulations of BSP.

2.2 Effectively zero-rated sales of services

- Granted indirect tax exemption under special laws or international agreements.

2.3 Services rendered to persons engaged in international shipping or air transport operations, including leases of property for use thereof

- Service shall be exclusively for international shipping or air transport operations.

2.4 Transport of passengers and cargo by Domestic air or sea carriers from the Philippines to a Foreign Country

- Outgoing transport services of:
 - Domestic air carrier
 - Domestic sea carrier
- Rendered in the Philippines to non-residents.
- While the incoming transport services are only exempt from VAT.

2.5 Sale of power or fuel generated through renewable sources of energy

- Limited to sale of power or fuel
- Does not extend to the sale of services related to maintenance or operation of plants.

2.6 Services rendered to ecozones or tourism enterprises zones

- Sale of goods to registered enterprises of economic zones or tourism enterprises zones are also subject to 0% VAT.

PART V: EXEMPT SALES

EXEMPT SALES

- Exempt consumption of goods or services from domestic sellers.
- Not subject to vat and percentage tax.

A. EXEMPT SALE OF GOODS AND PROPERTIES

1. SALE OF GOODS TO SENIOR CITIZENS AND PWDs

- Sale of essential goods only.
- Aside from VAT exemption, they are also legally mandated to be given 20% discount on all sales of these goods.
- Medical accessories or equipment and vitamins are not specifically exempted for PWDs.

2. SALE OF EXEMPT GOODS

- Agricultural and marine food products
- Farm and fishery inputs and foods of this inputs
- Books, newspapers, magazine, review or bulletin
- Medicines prescribed for diabetes and hypertension
- Passengers, cargo vessels, aircrafts including engine, equipment and spare parts

Additional Exempt Goods under the CREATE Law

- *Sale, importation, printing or publication of books and any newspaper.*

- Magazine, journal, review, bulletin, or such educational reading material covered by UNESCO Agreement on the Importation of Educational, Scientific and Cultural Materials, including the digital or electronic format thereof: Provided, that the materials enumerated herein are not devoted principally to the publication of paid advertisements;

Removed: Which appears at regular intervals with fixed prices for subscription.

❑ Additional Exempt Goods under the CREATE Law

- *Sale or importation of prescription drugs and medicine for:*

- ❑ Diabetes, high cholesterol, and hypertension beginning January 1, 2020; and
- ❑ Cancer, mental illness, tuberculosis, and kidney diseases beginning January 1, 2021.

- *Sale or importation of the following beginning January 1, 2021 to December 31, 2023:*

- ❑ Capital equipment, its spare parts and raw materials, necessary for the production of personal protective equipment components such as coveralls, gown, surgical cap, surgical mask, N-95 mask, scrub suits, goggles and face shield, double or surgical gloves, dedicated shoes and shoe covers for COVID-19 prevention.
- ❑ All drugs, vaccines and medical devices specifically prescribed and directly used for the treatment of COVID-19; and
- ❑ Drugs for the treatment of COVID-19 approved by the Food and Drugs Administration (FDA) for use in clinical trials, including raw materials directly necessary for the production of such drugs. Provided, that Department of Trade and Industry (DTI) shall certify that such equipment, spare parts or raw materials for importation are not locally available or insufficient in quantity, or not in accordance with the quality or specification required.

3. SALE OF GOODS OF COOPERATIVES

- ❑ Cooperatives transacting business only with members (Exempt)
- ❑ Cooperatives transacting business with non-members (vatable) if their accumulated reserves exceed 10M.

4. SALE OF RESIDENTIAL PROPERTIES

- ❑ Sale of real properties utilized for low-cost housing
- ❑ Sale of real properties utilized for socialized housing

Under the CREATE Law:

Provided, that beginning January 1, 2021, the VAT Exemption shall only apply to:

1. Sale of real properties not primarily held for sale in the ordinary course of business.
2. Sale of real property utilized for socialized housing. (R.A No. 7279)
3. Sale of house and lot and other residential dwellings with selling price of not more than 2,000,000.

5. EXPORT SALES OF NON-VAT PERSONS

- ❑ Exempt from percentage tax.

6. SALE EXEMPT UNDER TREATIES, INTERNATIONAL AGREEMENTS OR SPECIAL LAWS

- ❑ Exempt from VAT and scope of 3% percentage tax.

7. TAX FREE EXCHANGE OF PROPERTY

- ❑ Exchange of properties by a corporation in pursuant to a plan of merger or consolidation.
- ❑ Exchange of properties by a person, alone or together with other not exceeding four, which resulted to the acquisition of control.

8. SALE OF GOLD TO THE BANKO SENTRAL NG PILIPINAS

- ❑ Tax applies both to registered small scale miners.
- ❑ And registered gold traders.

B. EXEMPT SALE OF SERVICES

1. EDUCATIONAL SERVICES OF SCHOOLS

- Private educational institution duly accredited by:
 - DEP-ED
 - CHED
 - TESDA
- Government educational institutions
- Does not cover; seminars, in-service trainings, review classes, other similar services

2. EMPLOYMENT

- Employee and Employer relationship
- Compensation subject to income tax not business tax.
- Subject to business taxes categorized as non-employees:
 - Professional practitioners
 - Consultants
 - Talents
 - TV artists
 - Brokers and agents
 - Directors (Directors Fees)

3. AGRICULTURAL CONTRACT GROWERS AND MILLERS

- Services by agricultural contract growers and milling for others of:
 - Palay into rice
 - Corn into grits
 - Sugar cane into raw sugar
- Services for processing of agricultural produce for ultimate human consumption are specifically exempted.

4. RESIDENTIAL LEASING

- Lease of residential units with a monthly rental per unit **not exceeding 15,000**.
 - If the monthly rental per unit exceeds 15,000 but the aggregate annual gross receipts does not exceeds **3,000,000**.
 - Exempt from VAT
 - Shall be subject to 3% percentage tax.
- In cases where the lessor has **several residential units for lease**, some are leased out for a monthly rental per unit of not exceeding 15,000 while the others are leased out for more than 15,000 per unit, the tax liability will be as follows:
 - a. The gross receipts from rentals not exceeding 15,000 per month per unit
 - shall be exempt from VAT
 - Regardless of the aggregate annual gross receipts
 - It is also exempt from the 3% percentage tax.
 - b. The gross receipts from rentals exceeding 15,000 per month per unit:
 - shall be subject to VAT. If the aggregate annual gross receipts from the said units exceeds 3,000,000.
 - If not, the gross receipts will be subject to 3% percentage tax.

5. SALE OF SERVICES BY COOPERATIVES

- Sale of services of cooperatives such as:
 - Lending
 - Marketing
 - Multi – purpose cooperatives
- Similar rules discussed under sales of goods by cooperatives.

6. HEALTH OR HOSPITAL SERVICES

- Medical, dental, hospital and veterinary services whether rendered by:
 - Private
 - Non-profit
 - Government Hospitals
- Services rendered are vatable to:
 - Professionals
 - Sale of drugs by hospital drug stores

7. HOMEOWNERS ASSOCIATION OR CONDOMINIUM CORPORATIONS

- Train Law exempted:
 - Association Dues
 - Membership Fees
 - Other assessments and charges
- Absence of profit-seeking motive as proven by purely reimbursement basis.

8. LEASE OF PASSENGER OR CARGO VESSELS AND AIRCRAFTS, INCLUDING SPARE PARTS AND EQUIPMENT'S THEREOF

- Limited only to:
 - Passengers
 - Cargo Vessels
 - Aircrafts, spare parts and equipment's

9. TREATY EXEMPT SALES OF SERVICES

- Entities which are exempt under treaties or international agreements which are the Philippine government is a signatory.

10. REGIONAL OR AREA HEADQUARTERS OF A MULTINATIONAL COMPANY

- An integral part of the multinational corporation.
- It is not a separate business or branch
- It is an administrative office that does not derive income on its own.

Requisites:

- Must established in the Philippines.
- Acts as supervisory,
- Communications, and
- Coordinating centers for their affiliates
- Must not derive income on its own otherwise vatable.

10. TRANSPORT OF PASSENGERS BY INTERNATIONAL CARRIERS

- International carriers are:
 - Air carriers or
 - Shipping carriers
 - Owned by resident foreign corporations
 - Doing business in the Philippines.

11. SERVICES OF PRINTERS AND PUBLISHERS

- Limited only to printers and publishers of:
 - Books
 - Newspapers
 - Magazines
 - Review or Bulletin
 - Journal
 - Educational reading material covered by UNESCO Agreement on the Importation of Educational, Scientific and Cultural Materials, including the digital or electronic format thereof:
- Not devoted principally to the publication of paid advertisements.

12. SALE OF SERVICES TO SENIOR CITIZENS AND PWDs

- Covered Establishments:*
 - Lodging
 - Hospital and clinic
 - Sports and recreation centers
 - Restaurants
 - Land, air and sea travel
 - Medical, dental, diagnostic and laboratory fees and professional medical fees.
 - Funeral or burial services
- Aside from VAT exemption, senior citizens and PWDs are entitled to 20% special discounts on their purchases from qualified establishments.
- The discount including VAT Exemptions shall be applied only for the consumption of the senior citizen and PWD.
- Senior citizens and PWDs own businesses are subject to VAT or percentage tax on their gross sales or gross receipts.

13. SALES OF GOODS OR SERVICE COVERED BY SPECIAL LAWS

- Sales by ecozone locators
 - Subject to 5% gross income tax in lieu of all national and local taxes.
- Proprietors of theaters or cinemas
 - Note that these motion pictures, films, tapes and discs is not the same as exhibition of motion pictures or films so that it is vatable.

INVOICING REQUIREMENT

- Indicating or Pre-printing the caption **EXEMPT** on the invoice or receipt.
- Failure to comply with this requirement shall make the sale vatable.

PART VI: VAT ON IMPORTATION

Tax Basis:

Goods = **Landed Cost**

Services = **Contract price or consideration**

TYPES OF CONSUMPTION TAX ON IMPORTATION

1. VAT on Importation (Import of Goods)
2. Final Withholding VAT (Purchase of Services)

THE VAT ON IMPORTATION

- Importer is engaged or not engaged in trade or business.
- Importer is VAT or non-VAT taxpayer.
- Importation is for business or personal use.
- Non-resident seller is engaged or not engaged in business.
- Imposed upon and statutory taxpayer is the importer or buyer.
- Bureau of Custom is the collecting agency, and paid before the withdrawal of the goods.

1. IMPORTATION OF GOODS

1.1 Exempt Importations

A. Importation of Exempt Goods

- **Basic human food and related goods**
 - Agricultural or marine food products in original state. (Simple Processing)
 - Livestock and poultry of a kind generally used as, or yielding or producing foods for human consumption.
 - Breeding stock and generic materials therefore.
- **Books, newspapers, magazine, review or bulletin, journal, Educational reading material covered by UNESCO Agreement on the Importation of Educational, Scientific and Cultural Materials, including the digital or electronic format.**
 - Based upon the necessity of education and information.
 - *Condition:* The sale must not be devoted principally to the publication of paid advertisements.
- **Passengers, cargo vessels, aircrafts including engine, equipment and spare parts.**
 - Vat exemption is granted by law to in an effort to help the modernization of the shipping, transport and tourism industry.

B. Importation of Vat Exempt Persons

General Rule: VAT exempt persons are not subject to VAT on importation.

- When an exempt importer subsequently sells his exempt importation to a non-exempt person, the non-exempt buyer shall be subject to VAT.

- **International shipping or air transport operators on their import of fuel, goods and supplies.**

- Limited to fuel, goods and supplies.
- Ultimately used in international transport, thus foreign consumption.

- **Cooperatives of direct farm inputs, machineries, and equipment including spare parts**

- Must be an Agricultural Cooperative duly registered and in good standing.
- The importation must be used directly and exclusively in the production.

- PEZA locators on their import of goods and services (Ecozone –Locators)

- Considered as foreign countries.
- Deemed outside of Customs Territory.
- Exempt from VAT and Custom Duties.
- Covers any goods, supplies, or machineries
- Technical Importation is subject to VAT on Importation.
- Sales to Ecozones are subject to Zero-rated for VAT Taxpayers.
- Sales to Ecozones are exempt from business tax for non-VAT Taxpayers.

C. Quasi – Importation

General Rule:

The VAT exemption is limited only to personal, professional or household effects, which represent *past consumption*.

□ Import of *personal and household effects* belong to the residents of the Philippines returning from abroad or non-resident citizens coming to resettle in the Philippines.

Conditions for Exemption:

1. The personal and household effects belong to the Philippine residents or non-residents intending to resettle in the Philippines.
2. The goods are exempt from Custom Duties.

Reasons for Exemption:

1. These goods are past consumptions which has been previously subjected to consumption tax herein.
2. Importation of personal or household effects or professional implements by non-residents intending to resettle in the Philippines is a foreign consumption not subject to Philippine consumption tax.
3. When these personal and household effects were purchased previously, they were already subjected to consumption taxes.

□ Importation of *professional instruments and implements, wearing apparel, domestic animals and personal household effects*.

Conditions for Exemption:

1. The goods belong to the persons who come to settle in the Philippines.
2. The goods must accompany the person upon arrival or within 90 days before or after his/her arrival.
3. There must be evidence to show that the change of residence is bona fide.
4. The importation is **NOT** a vehicle, machinery or other equipment used in the manufacture or merchandise of any kind of commercial quantity. Therefore, the *importation of car* is vatable since it is not a personal effect. The importation of pieces of jewelries, brand-new iPhone and laptops which are in commercial quantity which makes them clearly not personal items, hence, vatable.

D. Importation which are exempt under special laws and international agreement.

General Rule: Import that are exempted by special laws, treaties or international agreements to which the Philippine government is a signatory is not subject to VAT on Importation.

HOW TO COMPUTE VAT ON IMPORTATION?

Tax Basis: 12% of the **Total Landed Cost** of the importation.

Composition of the Landed Cost:

A. Dutiable Value (Total Invoice Price)

- It encompasses all costs incurred in bringing the goods up to the Philippine port and prior to any other in-land cost of import.

- also called transaction value, refers to the total value used by the BOC in determining *custom duties* such as:

1. Cost of the goods (Purchase Price)
2. Freight
3. Insurance
4. Other charges and costs to bring goods herein

B. Other in-land Costs

1. Custom Duty – (Dutiable Value x Exchange Rate x Rate of Duty)
2. Excise Tax, if any
3. Other in-land cost such as:
 - a. Bank charge
 - b. Brokerage fee
 - c. Arrastre charge
 - d. Wharfage due
 - e. Doc. Stamp tax
 - f. Import processing fees

TEMPLATE FOR COMPUTATION

Dutiable Value	xxx
<i>Multiply:</i> Exchange Rate	<u>xx</u>
Dutiable Value in Peso (1)	xxx
<i>Multiply:</i> Duty Rate	<u>xx</u>
Custom Duty (2)	xxx
Dutiable Value in Peso (1)	xxx
Customs Duty (2)	xxx
Excise Tax	xxx
Other charges	<u>xxx</u>
Landed Cost	xxx
<i>Multiply:</i> VAT Rate	<u>12%</u>
VAT ON IMPORTATION	<u>xxx</u>

Click the link for Basic Illustration: <https://docdro.id/T82kArF>

2. IMPORTATION OF SERVICES

May be subject to:

- VAT-EXEMPT
- SPECIFIC PERCENTAGE TAX
- FINAL WITHHOLDING VAT

General Rule: The import of services is generally subject to a final withholding VAT.

Exceptions:

- a. When it is exempted from VAT.
- b. It is imposed or subject to a specific percentage tax.

FINAL WITHHOLDING VAT

Nature:

- Business tax
- Imposed upon non-resident service providers, conclusively presumed engaged in business.
- VAT is deemed passed-on by the non-resident service provider, which is withheld by the resident purchaser of the service and remit the same to the government.

Obligation to Withhold the VAT

It technically exist only if:

1. The service is rendered within the Philippines.
2. The payor or purchaser of the service is an individual or a corporation engaged in business. Meaning, there is no obligation to withhold the VAT if the individual purchaser of service is not engaged in business. However, for corporate purchasers of service, they are still required to withhold even the corporation is non-profit.

Situs of Taxation of Services

General Rule: The service must be rendered WITHIN to be subjected to Final Withholding VAT. So that, it is determined by the place WHERE THE SERVICE IS RENDERED. Meaning, not the place where the output of the service will be ultimately used.

VAT – EXEMPT IMPORT OF SERVICES

Purchase of services from non-residents:

- a. When the service is rendered ABROAD.
- b. When the individual purchaser is NOT ENGAGED IN BUSINESS.
- c. By VAT-exempt persons such as ECOZONE LOCATORS.

IMPORT OF SERVICES SPECIFICALLY SUBJECT TO PERCENTAGE TAX

- Direct Acquisition of Insurance Cover from abroad.*

The premium payments on insurance policies directly sourced abroad is subject to 5% percentage tax. The policyholder shall pay the same to the BIR.

HOW TO COMPUTE FINAL WITHHOLDING VAT?

Tax Base: 12% of the **Contract Price**

Take Note: This amount shall not be deducted upon the amount to be remitted abroad, because it is deemed passed-on by the non-resident service provider and withheld by the resident payor.

PAYMENT OF THE WITHHODING VAT

- BIR Form 1600
- Remitted monthly on or before the 10th day of the following month.
- Except for taxes withheld for Dec. which shall be filed or paid on or before January 25, of the following year.

TREATMENT OF THE VAT ON IMPORTATION AND WITHHOLDING VAT

If the resident purchaser is a:

1. VAT REGISTERED BUSINESS – It can claim the VAT on Importation or Withholding VAT as input VAT creditable against its output VAT.
2. NON-VAT BUSINESS - shall be part of the Cost of Purchase of Goods or Services and shall be treated as asset or expense.
3. NOT- ENGAGED IN BUSINESS – Merely added to Cost of the Goods Imported.

PART VII: DETERMINATION OF VAT STILL DUE

VALUE ADDED TAX MODEL

Output VAT	xxx
Less: Creditable Input VAT	<u>xxx</u>
Net VAT Payable	xxx
Less: Tax Credits / Payments	<u>xxx</u>
VAT Still Due	<u>xxx</u>

DIFFERENT TAX CREDITS AGAINST VAT DUE

1. VAT PAID IN THE PREVIOUS TWO MONTHS – FOR QUARTERLY VAT RETURNS

This tax credit applies to the quarterly VAT return. This is not applicable to the monthly VAT Return.

2. VAT PAID IN RETURN PREVIOUSLY FILED – IN THE CASE OF AMENDED RETURN

3. ADVANCED PAYMENTS MADE TO THE BIR

4. FINAL WITHHOLDING VAT ON SALES TO THE GOVERNMENT

- 5% of Sales withheld by the government agencies and GOCCs.
- The VAT payable on sales to government and GOCCs is **zero**. Because the VAT Due is pre-deducted at source. This amount is also deducted from VAT payable in computing VAT Still Due.

5. ADVANCED VAT ON CERTAIN GOODS

General Treatment:

- Advanced VAT is *not an Input VAT* and not included as part of the allowable input VAT.
- However, UNUTILIZED ADVANCED VAT in the period may form part of the INPUT VAT CARRY OVER, if opted by the taxpayer.
- Owners and sellers of the following goods are required to pay advanced VAT before their withdrawal at the point of production.

a. Advanced VAT on the Sale of *Sugar*

Basis of Advanced VAT: P1,400 per 50 kg. bag

- Before any warehouse receipts or quedans are issued or before the sugar is withdrawn from the sugar refinery, the advanced VAT shall be paid by the owner/seller to the BIR through an authorized agent bank or to a revenue collection officer.
- Owner of refined sugar can also claim a presumptive Input VAT.
- The tax credit for the advanced input VAT must be supported by a Payment Order showing payment of advanced VAT.
- In case of overpayment, the same may be carried over as Input VAT Carry-Over.

b. Advanced VAT on the Sale of *Flour by Millers*

Basis of Advanced VAT: For wheat imported by millers – 75% of the sum of:

- a. Invoice value multiplied by the currency exchange rate on the date of payment. (*Invoice Value*)
- b. Estimated custom duties and other charges prior to the release of the imported wheat from Custom’s custody, except for advanced VAT. (*Estimated Freight*)
- c. 5% of the sum of a and b.

It is also computed as: **12% x 75% x 105% x (a + b)**

TEMPLATE IN COMPUTING ADVANCED VAT	
Invoice Price	xxx
Estimated Freight	xxx
Landed Cost	xxx
Multiply by:	105%
Total	xxx
Multiply by:	75%
VAT Base	xxx
Multiply by:	12%
Advanced VAT	xxx

Purpose of the Advanced VAT: To get and advanced from the VAT on the future sale of the flour by millers.

Requirement of Authority to Release Imported Goods (ATRIG)

- In view of the advanced VAT, importers of wheat, whether miller or trader, shall secure an ATRIG from the BIR, regardless of the intended use of the imported wheat.

❑ Importation of Wheat by a Flour Miller

- The advanced VAT on the future sale of flour from imported wheat shall be paid prior to the release from Custom’s Custody of the wheat.

❑ Purchase of Wheat by Flour Millers from Traders

- shall also be a subject to advance VAT and shall be paid by the *flour miller* prior to delivery of the wheat by the trader.

- The importation of wheat by any *trader* shall be exempt from the payment of advanced VAT regardless of its intended use.

c. Advanced VAT on the Transport of *Naturally Grown and Planted Timber Products*

Base Price: The 12% advanced VAT shall be based on per cubic meter of each species of naturally grown timber as listed on page 335 (Business Taxation Book – R. Banggawan, 2019).

- It shall be paid in advance by the owner/seller to the BIR through authorized agent banks, revenue collection officers or deputized municipal treasurers in places where there are no AABs.
- It shall not allow any transport of said timber products from cutting area without the advanced payment of VAT.

ADVANCED PERCENTAGE TAX

- Assuming that the owner/seller is not a VAT-registered person, he/she shall not be subject to advanced VAT but shall pay 1% percentage tax (Applicable July 1, 2020 – June 30, 2023).
- The advanced percentage tax is creditable against the monthly or quarterly percentage tax return.

CERTIFICATE OF ADVANCED PAYMENT (CAP)

- It was released by the BIR upon payment of the advanced VAT or advanced percentage tax.
- This serves as a *proof for the credit* of the advanced VAT against Output VAT or percentage tax.

OVERPAYMENT

- Overpayment or negative net amount in the VAT return may be treated as INPUT VAT CARRY-OVER to the succeeding period.

ALTERNATIVE TREATMENT ON CERTAIN OVERPAYMENTS

1. OVERPAYMENTS ARISING FROM INPUT VAT ON ZERO-RATED SALES

It may be claimed as a:

- a. Tax Refund
- b. Tax Credit Against other Internal Revenue Taxes

When and Where: Shall be made to the following, whichever is applicable:

- a. BIR
- b. BOI
- c. One-Stop-Shop and Duty Drawback Center of the Department of Finance

Prescriptive Period: 2 YEARS

It is counted from the close of the taxable quarter when zero-rated sales were made, not from the date of payment of VAT.

NOTE:

- The input VAT reported in past quarters which are attributable to zero-rated sales reported in subsequent quarters are still claimable as tax credit or tax refund.
- Input VAT claimed for refund or tax credit shall no longer be creditable against OUTPUT VAT and must be removed from the total amount of creditable input VAT.

2. OVERPAYMENTS ARISING FROM ADVANCED INPUT VAT

Unutilized Advanced VAT

At the option of the taxpayer, be available for the issuance of a tax credit certificate.

Requisites for Tax Credit Certificate (TCC) Claim

1. The taxpayer must file claim for credit within 2 years from the date of filing of the fourth quarter VAT Return of the year such return was made.
2. Claim shall be limited to the unutilized advanced VAT payment and shall not include excess input VAT.

Two Cases When Input VAT May Be Claimed for REFUND.

1. Unutilized Input VAT on Zero-Rated Sales
2. Unutilized Input VAT upon cancellation of VAT registration due to retirement from cessation of business.

COMPLIANCE REQUIREMENTS

1. INVOICING REQUIREMENT

These requirements are very important in substantiating the correct Output VAT and in substantiating the claim for refund or tax credit for input VAT for zero-rated sales.

- *VAT-registered person shall issue a:*

- a. VAT Invoice – Sale of Goods or Properties
- b. VAT Official Receipt – Lease of Goods or Properties (Services)

- *Using a Single Invoice or Receipt for Mixed Sales*

May use, provided that:

- a. Clearly indicate the breakdown of the sales or receipt among taxable, exempt, and zero-rated components.
- b. Calculation of VAT on each portion of the sale shall be shown on the invoice or receipt.

- *Using a Separate Invoice or Receipt for Mixed Sales*

May also use, provided that, if the sale is:

- a. Exempt from VAT – VAT-EXEMPT SALE shall be written or printed.
- b. Zero Rated – ZERO-RATED SALE shall be written or printed.

2. ACCOUNTING REQUIREMENT

All persons subject to VAT shall maintain:

1. Regular Accounting Records
2. Subsidiary Sales Journal
3. Subsidiary Purchase Journal

3. FILING OF VAT RETURN

a. Required to File VAT Returns

- Person or entity who in the course of trade or business which the aggregate amount of actual gross sales or receipts exceeds 3M.
- A VAT Registrable person or entity.
- Person who imports goods.

b. Where to file the VAT Return?

In order of priority:

- Authorized agent bank under the jurisdiction of RDO/LTO
- Revenue Collection Officer
- Duly authorized Treasurer of the Municipality or City

c. Modes of Filing VAT Returns

- Manual Filing
- Electronic Filing and Payment System (eFPS)

4. FILING OF QUARTERLY SUMMARY LISTS

Quarterly Summary Lists to be Submitted by all VAT TAXPAYERS

1. Quarterly summary list of sales to regular buyers or customers, casual buyers or customers and output tax.

Regular buyers – engaged in business or profession, had transacted at least six transactions in the previous or current year regardless of the amount.

Casual buyers – engaged in business or profession, with purchase or transaction amounting to 100,000 or more.

2. Quarterly summary list of local purchases and input tax.
3. Quarterly summary list of importation.

Deadline

- Shall be submitted before the 25th day of the month following the close of the taxable year.

Penalties for failure to submit summary list

- Pays an administrative penalty of 1,000.
- Unless, such failure was due to reasonable cause and not to willful neglect.
- Aggregate amount shall not exceed 25,000.

THE BIR RELIEF SYSTEM (Reconciliation of Listing for Enforcement System)

- It supports the BIR third party information program and voluntary information program, through cross-referencing of third party information with the taxpayers summary lists.

VIOLATIONS THAT MAY CAUSE SUSPENSION OF BUSINESS OPERATIONS

- Failure to register as a taxpayer
- Vat-Registered Person
 - a. Failure to issue or invoices
 - b. Failure to file VAT Return
 - c. Understatement of taxable sales or receipt by 30% or more

TEMPORARY CLOSURE OF BUSINESS

- Not less than 5 days
- Lifted only upon compliance with whatever requirements prescribed by the CIR.

CANCELLATION OF VAT REGISTRATION

- Shall be effective on the first day of the month following the month of the approval of the cancellation.

NON-VAT PERSONS LIABILITY WHO ISSUES A VAT INVOICES/RECEIPTS

Shall be subject to the:

- Usual percentage tax
- Output VAT
- Without the benefit of Input tax
- 50% subscharge based on the Output VAT

5. GOVERNMENT WITHHOLDING

General Rule: The legal requirement of the final withholding of VAT shall apply if the goods or services purchased from VAT suppliers were vatable.

Exception to the 5% Final Withholding VAT

1. Lease or use of proprietary rights of non-residents – subject to 12% final VAT.
2. Purchase of goods or services arising from projects funded by the Official Development Assistance
 - This would mean that the taxpayer supplying goods or services to ODA funded projects can claim full credit on input VAT on such sales.

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