

NOTES

Published by the De La Salle University - College of Business and Economics
(CHED Center of Development for Business and Management Education)
Center for Business and Economics Research and Development (CBERD)

on business education

Vol. 7 No. 2 March - April 2004

Tax information, updates and issues on the Value Added Tax

By Atty. Juris Bernadette M. Tomboc
Assistant Professor

The value-added tax (VAT) is a topic of public interest considering the proposal to raise its rate from ten percent to fifteen percent in order to help address the growing fiscal deficit. Should the rate be increased or not? When I was studying taxation in college, our professor informed us that the VAT is the most administratively feasible manner of taxation since it is easy to compute being levied at the uniform rate of ten percent (or zero percent). In addition, the tax burden can be passed on by businesses to consumers. However, the government seems to have encountered much difficulty in its implementation with the result that the shortfall in actual VAT collection by the BIR as compared to the estimated amount that may be collected, based on the gross national product, is now at a staggering amount.

What, indeed, is the VAT about? How can the government improve its VAT collection? These are the questions that this article aims to answer.

VAT defined

VAT is a form of sales tax. It is collected on all sales of goods and services in the ordinary course of trade



or business and on the importation of goods. It is an indirect tax, the cost of which can be passed on by the seller to the buyer.

It is required to be paid by every person or entity who in the course of his trade or business, sells or leases goods, properties and services subject to VAT, if the aggregate amount of actual gross sales or receipts exceed Five Hundred Fifty Thousand Pesos (P 550,000.00) for any twelve month period; any person who

imports goods; and any person required to register as a VAT taxpayer but failed to register. Professional practitioners like CPAs and other professional practitioners required to pass a government examination are also required to pay the VAT, if their gross professional fees exceed P 550,000.00 for a 12-month period, except doctors and lawyers who are excluded from its coverage pursuant to BIR Revenue Regulations No. 7-2004.

**Atty. Juris Bernadette M. Tomboc is a full-time faculty member of the Commercial Law Department of De La Salle University - Manila. She teaches law and taxation.*

Industry Classifications

Monthly VAT declarations are required to be filed at the end of every month. Business activities are grouped into industry classifications for purposes of the imposition of the deadline for the staggered filing of the monthly VAT declaration. The deadline for businesses classified as Group A, consisting of financial intermediaries, construction, land and water transport and hotels and restaurants, is on the 25th of the following month. Group B industries, on the other hand, comprised of all manufacturing activities, are required to file by the 24th of the following month. Further, Group C enterprises, composed of real estate, retail and wholesale trade, automotive repair, water purification, and computer and related activities, are required to submit their monthly VAT declarations by the 23rd of the following month. In addition, Group D activities, including electricity, postal and telecommunications, air transport, printing and publishing, and renting of goods and equipment are required to file by the 22nd of the following month, while Group E, covering educational, health and social services, agriculture, farming, fishing activities, and other unclassified business activities, by the 21st of the following month.

Filing for VAT

The form required to be used for manual filing of the monthly VAT declaration is BIR Form 2550 M. It is required to be filled up in three copies and must be accompanied with the duly issued Certificate of Creditable Taxes Withheld at Source (BIR Form 2307), if applicable. Taxpayers may also claim input tax credit through a duly approved Tax Debit Memo or a Tax Compliance certificate, if applicable. The payment must be made to the nearest authorized agent bank where the taxpayer is required to register. In places where there is no authorized agent bank, the documents may be filed with and the tax paid directly to the Revenue Collection Officer or the duly authorized city or municipal

treasurer of the place where the taxpayer is required to register. Even if there is no payment to be made, the monthly VAT return and supporting documents must still be submitted to the Revenue District Office where the taxpayer is required to register, also within the deadline set.

The Bureau of Internal Revenue (BIR) requires taxpayers identified as belonging to the top 10,000 businesses in the country to file and pay their taxes using the electronic filing and payment system (EFPS). The deadline for filing under the EFPS is five days later than the deadline set for manual filing. Taxpayers who have not been previously required by the BIR to file and pay their taxes electronically may also register under the EFPS system.

Quarterly VAT returns are required to be filed within twenty five (25) days following the close of taxable quarter of the taxpayer both for manual filing and filing through the EFPS. The form required for manual filing the quarterly VAT return is BIR Form 2550 Q, which must also be submitted in three copies and accompanied by the applicable supporting documents. In addition, the taxpayer must also file summary lists of sales, purchases and importation in magnetic form using a 3.5-inch floppy diskette following the format prescribed in revenue regulations no. 8-2002.

The quarterly summary list of sales must contain information on the taxpayer's exempt sales, zero-rated sales, VAT sales, and output tax on VAT sales. The quarterly summary list of purchases, on the other hand, must contain information on exempt purchases, zero-rated purchases, VAT purchases of goods and services, and creditable and non-creditable input tax computed on a monthly basis. Finally, the quarterly summary list of importation must contain information on the import entry declaration, the assessment/release date, date of importation, name of seller, country of origin, dutiable value, all charges before release from customs custody, landed cost, exempt importation, taxable importation, VAT

paid, number of official receipt, and date of payment of the VAT.

VAT Payments

If there is payment to be made, the quarterly VAT return and accompanying documents must be filed with and payment made to the authorized agent bank, revenue collection officer, or duly authorized city or municipal treasurer where the taxpayer is required to register. If no payment is to be made, the VAT return and accompanying documents must be submitted directly to the Revenue District Office where the taxpayer is required to register. Taxpayers with branches must file only one consolidated return covering the principal place of business and all the branches.

As mentioned earlier, output VAT on sales is levied at ten percent or zero percent of the gross selling price or gross receipt. For input tax on purchases, the rate is also either zero percent or ten percent. Taxpayers who elect to become VAT registered for the first time are allowed a *transitional input tax credit* of eight percent of the value of their beginning inventory or the actual input VAT paid thereon. Taxpayers engaged in the processing of sardines, mackerel and milk, and in manufacturing refined sugar and cooking oil are allowed a *presumptive input tax credit* equivalent to one and one-half percent of the gross value in money of their purchase of primary agricultural products used as inputs to their production. On the other hand, public works contractors are allowed a *presumptive input tax credit* equivalent to one and one-half percent of the contract price with respect to government contracts, in lieu of actual input taxes.

The government or any of its political subdivisions, including government-owned and controlled corporations, is entitled to deduct and withhold *creditable VAT* from its payment of goods and services at the rate of three percent on gross payment for purchases of goods and six percent on

gross receipts for services rendered by contractors on every sale or installment payment which shall be creditable against the VAT liability of the seller or contractor. However, in case of government public works contracts, the government may withhold *creditable VAT* at the rate of eight and one-half percent of the gross receipts earned by the contractors. Further, in the case of payments for lease of use of properties or property rights to non-residents, the government may withhold *creditable VAT* at the rate of ten percent.

Definition of terms

The term “goods or properties” means all tangible and intangible objects, which are capable of pecuniary estimation. It includes real properties held primarily for sale to customers or held for lease in the ordinary course of trade or business, the right or the privilege to use patent, copyright, design or model, plan, secret formula or process, goodwill, trademark, trade brand or other like property or right, the right or the privilege to use in the Philippines any industrial, commercial or scientific equipment, the right or the privilege to use motion picture film, films, tapes and discs, and radio, television, satellite transmission and cable television time

On the other hand, the term “sale or exchange of services” means the performance of all kinds of services in the Philippines for others for a fee, remuneration or consideration. It includes services rendered by construction and service contractors, stock, real estate, commercial, customs and immigration brokers, lessors of property, whether personal or real, warehousing services, lessors or distributors of cinematographic films, persons engaged in milling, processing, manufacturing or repacking goods for others, proprietors, operators or keepers of hotels, motels, resthouses, pension houses, inns, resorts, proprietors or operators of restaurants, refreshment parlors, cafes and other eating places, including clubs and caterers, dealers in

Related revenue issuances from 2000 to present

- RR No. 4-2000 - Prescribes the posting in the place of business of a notice on the requirement for the issuance of sales/commercial invoices and/or official receipts by persons engaged in trade or business, including the exercise of profession
- RR No. 6-2001 - Amends pertinent provisions of certain revenue issuances relative to the inclusion of additional taxpayers to be subject to Final Withholding Tax, revision of the Withholding Tax rates on certain income payments subject to Creditable Withholding Tax, time for the filing of various tax returns and payment of the taxes due thereon and others
- RR No. 11-2003 - Extends further the deadline for registration and other compliance requirements during the transitory period of the imposition of Value-Added Tax (VAT) on sale of services by professionals and brokers
- RR No. 12-2003 -Amends certain provisions of RR No. 18-99 which governs the imposition of VAT on services of banks, non-bank financial intermediaries and finance companies beginning January 1, 2003
- RR No. 14-2003 - Amends Revenue Regulations No. 2-98, as amended, in order to simplify the collection of tax, through withholding at the source, on sales of goods or services subject to 3% percentage tax under Section 116 of the Code, and/or to the value-added tax (VAT) under Sections 106 and 108 of the same Code
- RR No. 16-2003 - Imposes advance payment of Value-Added Tax or Percentage Tax and of Income Tax on operators of “privilege stores” (or “tiangges”), as well as prescribes the tax obligations of organizers or exhibitors of space for the operation of “privilege stores”
- RR No. 16-2003 - Amends certain provisions of RR No. 18-99, as amended by RR No. 12-2003, governing the imposition of VAT on services of banks, non-bank financial intermediaries and finance companies
- RR No. 27-2003 - Amends the transitory provisions of RR No. 18-99 pertaining to the deadline for the usage of properly stamped unused non-VAT invoices or receipts
- RR No. 28-2003 - Amends portions of RR Nos. 2-98 and 4-2002 relative to the issuance of Certificate of Value-Added Tax Withheld at Source on certain income payments made by the Bureau of Treasury
- RR No. 28-2003 - Prescribes the policies and procedures for the advance payment of VAT on the sale of flour
- RR No. 2-2004 – Further enhances the rules on advance payment of VAT on the sale of refined sugar
- RR No. 4-2004 – Supplements the rules on advance payment of Value-Added Tax on the sale of refined sugar
- RR No. 5-2004 – Provides for additional tax returns/forms which shall be filed thru the eFPS, as well as expands the coverage and revises the requirement for eFPS enrollment
- RR No. 7-2004 - Excludes medical services rendered by doctors of medicine duly registered with the PRC and services rendered by lawyers duly registered with the IBP from the Value-Added Tax
- RR No. 9-2004 - Implements certain provisions of Republic Act No. 9238, re-imposing the gross receipts tax on banks and non-bank financial intermediaries performing quasi-banking functions and other non-bank financial intermediaries beginning January 1, 2004

Source: www.bir.gov.ph

securities, lending investors, transportation contractors on their transport of goods or cargoes, including persons who transport goods or cargoes for hire and other domestic common carriers by land, air and water relative to their transport of goods or cargoes, services of franchise grantees of telephone and telegraph, radio and television broadcasting and all other franchise grantees except those covered by the percentage tax, services of non-life insurance companies (except their crop insurances), including surety, fidelity, indemnity and bonding companies, and similar services regardless of whether or not the performance thereof calls for the exercise or use of the physical or mental faculties.

The gross receipts tax, which is a percentage tax, has been re-imposed on banks and non-bank financial intermediaries performing quasi-banking functions and other non-bank financial intermediaries beginning January 1, 2004 pursuant to Republic Act No. 9238 as implemented by Revenue Regulations No. 9-2004.

The phrase “sale or exchange of services” also includes the lease or the use of or the right or privilege to use any copyright, patent, design or model, plan, secret formula or process, goodwill, trademark, trade brand or other like property or right, the lease or the use of, or the right to use of any industrial, commercial or scientific equipment, the supply of scientific, technical, industrial or commercial knowledge or information, the supply of any assistance that is ancillary and subsidiary to and is furnished as a means of enabling the application or enjoyment of any such property, or right or any such knowledge or information, the supply of services by a nonresident person or his employee in connection with the use of property or rights belonging to, or the installation or operation of any brand, machinery or other apparatus purchased from such non-resident person, the supply of technical advice, assistance or services

rendered in connection with technical management or administration of any scientific, industrial or commercial undertaking, venture, project or scheme, the lease of motion picture films, films, tapes and discs, and the lease or the use of or the right to use radio, television, satellite transmission and cable television time

VAT on services

Services performed in the Philippines by VAT-registered persons may be subject to the zero percent rate if they involve processing, manufacturing or repacking goods for other persons doing business outside the Philippines which goods 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), services other than those mentioned in the preceding paragraph, the consideration for which is paid for in acceptable foreign currency and accounted for in accordance with the rules and regulations of the Bangko Sentral ng Pilipinas (BSP), services rendered to persons or entities whose exemption under special laws or international agreements to which the Philippines is a signatory effectively subjects the supply of such services to zero percent (0%) rate, services rendered to vessels engaged exclusively in international shipping, and services performed by subcontractors and/or contractors in processing, converting, or manufacturing goods for an enterprise whose export sales exceeds seventy percent (70%) of total annual production.

VAT on goods

Sales of goods may also be subject to the zero percent rate if they are directly shipped by a VAT-registered resident to a place outside the Philippines, considered as “deemed” export sales by a VAT-registered person to certain entities who are also residents of the Philippines, sold to export-oriented

enterprises which the Code considers as export sales at the level of the supplier of raw materials, sold to entities, the exemption of which, under a special law or an international agreement with the Government of the Philippines effectively zero rates such sales, gold sold to the Bangko Sentral ng Pilipinas, foreign currency denominated sales of goods, or considered as exportation of goods under a special law such as Executive Order No. 226 (Omnibus Investments Code of 1987) and Republic Act No. 7916 (PEZA Law). Taxpayers may file their applications for VAT zero-rating with the Audit Information, Tax Exemption and Incentives Division, of the BIR National Office in Diliman, Quezon City.

VAT exempt transactions

VAT-exempt transactions are comprised by the following: sale of non-food agricultural products, marine and forest products in their original state by the primary producer or owner of the land where the same were produced, sale of cotton and cotton seeds in their original state and copra, sale or importation of agricultural and marine food products in their original state, livestock and poultry of a kind generally used as, or yielding or producing foods for human consumption and breeding stock and genetic materials thereof, sale or importation of fertilizers; seeds, seedlings and fingerlings; fish, prawn, livestock and poultry feeds, including ingredients, whether locally produced or imported, used in the manufacture of finished feeds (except specialty feeds for race horses, fighting cocks, aquarium fish, zoo animals and other animals generally considered as pets), sale or importation of coal and natural gas, in whatever form or estate, and petroleum products (except lubricating oil, processed gas, grease, wax and petrolatum) subject to excise taxes, sale or importation of raw materials to be used by the buyer or importer himself in the manufacture of petroleum products



subject to excise tax, except lubricating oil, processed gas, grease, wax and petrolatum, importation of passenger and/or cargo vessels of more than five thousand tons, whether coastwise or ocean-going, including engine and spare parts of said vessel to be used by the importer himself as operator thereof, importation of personal and household effects belonging to residents of the Philippines returning from abroad and nonresident citizens coming to resettle in the Philippines, provided, that such goods are exempt from customs duties under the Tariff and Customs Code of the Philippines, importation of professional instruments and implements, wearing apparel, domestic animals, and personal household effects (except any vehicle, vessel, aircraft, machinery, other goods for use in the manufacture and merchandise of any kind in commercial quantity) belonging to persons coming to settle in the Philippines, for their own use and not for sale, barter or exchange, accompanying such persons, or arriving within ninety (90) days before or after their arrival, upon the production of evidence satisfactory to the Commissioner of Internal Revenue, that such persons are actually coming to settle

in the Philippines and that the change of residence is bona fide, services subject to percentage tax, services by the agricultural contract growers and milling for others of palay into rice, corn into grits, and sugar cane into raw cane sugar, medical, dental, hospital and veterinary services subject to the provisions of Sec. 17 of RA 7716, as amended, educational services rendered by private educational institutions, duly accredited by the Dept. of Education Culture and Sports (DECS), and Commission on Higher Education (CHED), and those rendered by the government educational institutions, sale by the artist himself of his works of art, literary works, musical compositions and similar creations, or his services performed for the production of such works, services rendered by individuals pursuant to an employer-employee relationship, services rendered by regional or area headquarters established in the Philippines by multinational corporations which act as supervisory communications and coordinating centers for their affiliates, subsidiaries or branches in the Asia-Pacific Region and do not earn or derive income from the Philippines, transactions which are exempt under international agreements

to which the Philippines is a signatory, or under special laws, sales by agricultural cooperatives duly registered with the Cooperative Development Authority (CDA) to their members as well as sale of their produce, whether in its original state or processed form, to non-members, their importation of direct farm inputs, machineries and equipment, including spare parts thereof, to be used directly and exclusively in the production and/or processing of their produce, sales by electric cooperatives duly registered with the Cooperative Development Authority (CDA) or National Electrification Administration (NEA), relative to the generation and distribution of electricity, as well as their importation of machineries and equipment, including spare parts, which shall be directly used in the generation and distribution of electricity, gross receipts from lending activities by credit or multi-purpose cooperatives duly registered with the Cooperative Development Authority (CDA) whose lending operation is limited to their members, sales by non-agricultural, non-electric and non-credit cooperatives duly registered with the Cooperative Development Authority, provided, that the share capital contribution of each member does not exceed Fifteen Thousand Pesos (P15,000) and regardless of the aggregate capital and net surplus ratably distributed among the members, export sales by persons who are not VAT-registered, lease of a residential unit with a monthly rental not exceeding Eight Thousand Pesos (P8,000.00), regardless of the amount of aggregate rentals received by the lessor during the year, provided that the exemptions likewise applies to lease of residential units where the monthly rental per unit exceeds P8,000.00 but the aggregate rentals of the lessor during the year do not exceed P550,000.00, sale, importation, printing or publication of books and any newspaper, magazine, review or bulletin which appears at regular intervals with fixed prices for subscription and sale and which is not

devoted principally to the publication of paid advertisements, sale or lease of goods or properties or the performance of services other than the transactions mentioned in the preceding paragraphs, the gross annual sales and/or receipts does not exceed the amount of P550,000.00, and sale of real properties not primarily held for sale to customers or held for lease in the ordinary course of trade or business or real property utilized for low-cost and socialized housing as defined by Republic Act No. 7279, otherwise known as the Urban Development and Housing Act of 1992 and other related laws, house and lot and other residential dwelling valued at P1,000,000 and below.

General formula

The general formula for computing VAT payable is total output VAT, for the applicable month or quarter, less total input VAT. The allowable input tax may include a carry-over of the excess input tax from the preceding period in addition

to those derived from current purchases. Advanced VAT payment and creditable VAT withheld may likewise be claimed as tax credits for purposes of computing VAT payable or excess input VAT.

Conclusion

In conclusion, the computation of VAT payable by taxpayers is not as simple as was earlier thought. VAT payable by taxpayers is not equivalent to output VAT on sales. Instead, input VAT credits must be derived from VAT purchase transactions and, subsequently, deducted from output VAT. The difficulty by the government in collecting the VAT stems from the need for verification of the total input VAT which, in turn, requires a detailed audit of taxpayers' accounting records. However, the BIR does have sufficient manpower to conduct audits of all taxpayers. Thus, a proposal to do away with the system of input tax credit and instead reduce the tax rate to five percent is presently being considered by the government. This

proposal aims to eliminate the need to conduct a detailed audit of taxpayers' accounting records since tax payable will be based on total sales or receipts. In effect, the proposal will be a shift from VAT to the percentage tax system.

The system of tax on gross receipts is a feasible proposal, however, the author believes that the rate should be reduced to about two to three percent considering that the total sales tax levied on the goods by the time they reach the consumers will be around three to five times the amount of tax imposed at each stage in the process of manufacturing and trading of goods (e.g., from purchase of raw materials, manufacturing, wholesaling, and retailing). Whether this proposal will succeed will also depend on whether the public will support it. Considering the current fiscal crisis that the government is in, the effects of which are being suffered by the public, the author believes that now is the time for Filipinos to act as one in working towards a solution for the common benefit.

Subscribe to *NOTES* now

Notes on business education is a bi-monthly publication of the College of Business and Economics, Center for Business and Economics Research and Development (CBERD). Professors from the different academic departments of the college present papers, lectures notes and other materials for classroom discussion and academic exchange. If you wish to subscribe to this publication, e-mail the editor at cberesearch@dlsu.edu.ph or fax this form to (632)3030869. Back issues are also downloadable at www.dlsu.edu.ph/research/centers/cberd/pdf

Name : _____

Position : _____

Institution : _____

Office Address _____

Tel. No. _____

Fax No. _____

Email Address _____

NOTES

on Business Education

is published by the De La Salle University - College of Business and Economics Research and Development (CBERD)
 Vol. 7 No. 2 March - April 2004

Editorial Board
 Dr. Michael Alba
 email: albam@dlsu.edu.ph

Dr. Myrna Austria
 email: austriam@dlsu.edu.ph

Michael Angelo Cortez
 email: cortezm@dlsu.edu.ph

Secretary
 Liza Pajo

For comments, suggestions and contributions, call (632) 5244611 loc. 149 or telefax (632)3030869 or email cberesearch@dlsu.edu.ph