REVENUE MEMORANDUM CIRCULAR NO. 62-2016 issued on June 14, 2016 clarifies the proper tax treatment of passed-on Gross Receipts Tax (GRT).

All banks, non-bank financial intermediaries performing quasi-banking functions, financing companies and other financial intermediaries not performing quasi-banking functions doing business in the Philippines are directly liable for GRT.

The GRT passed-on to customers/clients/borrowers should form part of the tax base upon which the GRT is based for gross receipts tax purposes, based on the definition of “gross receipts”, that is based on “actual or constructive receipt” of income. Since banks, non-bank financial intermediaries, financing companies and other financial intermediaries not performing quasi-banking functions doing business in the Philippines are directly liable for GRT on gross receipts derived by them from business operations, the “passed-on” GRT shall be considered as receipt of gross income specified under Section 32(A) of the Tax Code. As such, it shall form part of the tax base subject to 7% GRT under Section 121(c) of the Tax Code. In case the recipient of the “passed-on” GRT is a non-bank financial intermediaries not performing quasi-banking functions, the “passed-on” GRT shall form part of the tax base subject to 5% GRT under Section 122 of the Tax Code.

The “passed-on” GRT are considered as other fees and charges, consistent with the implementing rules issued by the Bangko Sentral ng Pilipinas (BSP) through BSP Circular No. 370 (Updated Rules Implementing the Truth in Lending Act to Enhance Loan Transaction Transparency) dated July 20, 2011.

Banks and non-bank financial intermediaries can claim the GRT paid as a deductible expense, for Income Tax purposes, pursuant to Section 34(C) of the Tax Code, subject to the actual remittance of the GRT as provided under Section 128 of the Tax Code. The “passed-on” GRT shall be considered as receipt of income as specified under Section 32 of the Tax Code.