
VAT is a tax on consumption levied on the sale, barter, exchange or lease of goods or properties and services in the Philippines and on importation of goods into the Philippines. 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. This rule shall likewise apply to existing contracts of sale or lease of goods, properties or services at the time of the effectivity of Republic Act No. 9337. However, in the case of importation, the importer is the one liable for the VAT.

VAT is imposed and collected on every sale, barter or exchange, or transactions “deemed sale” of taxable goods or properties at the rate of 10% of the gross selling price or gross value in money of the goods or properties sold, bartered, or exchanged, or deemed sold in the Philippines.

The term “goods or properties” refers to all tangible and intangible objects which are capable of pecuniary estimation and shall include, among others:

a. Real properties held primarily for sale to customers or held for lease in the ordinary course of trade or business;

b. 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;

c. The right or the privilege to use any industrial commercial or scientific equipment;

d. The right or the privilege to use motion picture films, films, tapes and discs; and

e. Radio, television, satellite transmission and cable television time.

Sale of real properties held primarily for sale to customers or held for lease in the ordinary course of trade or business of the seller shall be subject to VAT. In the case of sale of real properties on the installment plan, the real estate dealer shall be subject to VAT on the installment payments, including interest and penalties, actually and/or constructively received by the seller.

Sale of residential lot exceeding ₱1,500,000.00 or residential house and lot exceeding ₱2,500,000.00, as well as installment sale of residential house and lot exceeding ₱1,000,000.00, where the instrument of sale (whether the instrument is nominated as a deed of absolute sale, deed of conditional sale or otherwise) is executed on or after July 1, 2005, shall be subject to 10% VAT.

Installment sale of residential house and lot or other residential dwellings exceeding ₱1,000,000.00, where the instrument of sale (whether the instrument is nominated as a deed of absolute sale, deed of conditional sale or otherwise) was executed prior to July 1, 2005, shall be subject to 10% VAT.

Transmission of property to a trustee shall not be subject to VAT if the property is to be merely held in trust for the trustor and/or beneficiary. However, if the property transferred is one for sale, lease or use in the ordinary course of trade or business and the transfer constitutes a completed gift, the transfer is subject to VAT as a deemed sale transaction.

In the case of sale, barter or exchange of real property subject to VAT, gross selling price shall mean the consideration stated in the sales document or the fair market value whichever is higher. The term “fair market value” shall mean whichever is the higher of: a) the fair market value as determined by the Commissioner (zonal value), or b) the fair market value as shown in schedule of values of the Provincial and City Assessors (real property tax declaration). However, in the absence of zonal value, gross selling price refers to the market value shown in the latest real property tax declaration or the consideration, whichever is higher. If the gross selling price is based on the zonal value or market value of the property, the zonal or market value shall be
deemed inclusive of VAT. If the VAT is not billed separately, the selling price stated in the sales document shall be deemed to be inclusive of VAT.

The following sales by VAT-registered persons shall be subject to 0% rate:

a. Export sales
b. Foreign Currency Denominated Sales
c. Sales to Persons or Entities Deemed Tax-exempt under Special Law or International Agreement

The term “effectively zero-rated sale of goods and properties” shall refer to the local sale of goods and properties by a VAT-registered person to a person or entity who was granted indirect tax exemption under special laws or international agreement. Under these Regulations, transactions which, although not involving actual export, are considered as “constructive export” shall be entitled to the benefit of zero-rating, such as local sales of goods and properties to the following persons or entities:

a. Sale to export-oriented enterprises
b. Sale of goods, supplies, equipment and fuel to persons engaged in international shipping or international air transport operations
c. Foreign Currency Denominated Sales
d. Sales to tax-exempt persons or entities

Except for export sale and foreign currency denominated sale, other cases of zero-rated sales shall require prior application with the appropriate BIR office for effective zero-rating. Without an approved application for effective zero-rating, the transaction otherwise entitled to zero-rating shall be considered exempt. The foregoing rule notwithstanding, the Commissioner may prescribe such rules to effectively implement the processing of applications for effective zero-rating.

The VAT shall apply to goods or properties originally intended for sale or use in business and capital goods which are existing as of the occurrence of the following:

a. Change of business activity from VAT taxable status to VAT-exempt status;
b. Approval of a request for cancellation of registration due to reversion to exempt status;
c. Approval of a request for cancellation of registration due to a desire to revert to exempt status after the lapse of three (3) consecutive years from the time of registration by a person who voluntarily registered despite being exempt; and
d. Approval of a request for cancellation of registration of one who commenced business with the expectation of gross sales or receipts exceeding ₱1,500,000.00, but who failed to exceed this amount during the first twelve months of operation.

The VAT shall not apply to goods or properties existing as of the occurrence of the following:

a. Change of control of a corporation by the acquisition of the controlling interest of such corporation by another stockholder or group of stockholders;
b. Change in the trade or corporate name of the business; and
c. Merger or consolidation of corporations.

In computing the taxable base during the month or quarter, the following shall be allowed as deductions from gross selling price:

a. Discounts determined and granted at the time of sale, which are expressly indicated in the invoice. Sales discount indicated in the invoice at the time of sale, the grant of which is not dependent upon the happening of a future event, may be excluded from the gross sales within the same month/quarter it was given.
b. Sales returns and allowances for which a proper credit or refund was made during the 
month or quarter to the buyer for sales previously recorded as taxable sales.

VAT is imposed on goods brought into the Philippines, whether for use in business or not 
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, such as postage, commission 
and similar charges, prior to the release of the goods from customs custody.

In case 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. Landed 
cost consists of the invoice amount, customs duties, freight, insurance and other charges. If the 
goods imported are subject to excise tax, the excise tax shall form part of the tax base.

The same rule applies to technical importation of goods sold by a person located in a 
Special Economic Zone to a customer located in a customs territory. The VAT on importation 
shall be paid by the importer prior to the release of such goods from customs custody.

In the case of goods imported into the Philippines by VAT-exempt persons, entities or 
agencies which are subsequently sold, transferred or exchanged in the Philippines to non-exempt 
persons or entities, the latter shall be considered the importers thereof and shall be liable for 
VAT due on such importation. The tax due on such importation shall constitute a lien on the 
goods, superior to all charges/or liens, irrespective of the possessor of said goods.

Sale or exchange of services, as well as the use or lease of properties shall be subject to 
VAT, equivalent to 10% of the gross receipts (excluding VAT).

Sale or exchange of services for a fee, remuneration or consideration, whether in kind or 
in cash, as well as the use or lease of properties shall be subject to VAT equivalent to 10% of the 
gross receipts (excluding VAT), including those performed or rendered by the following:

a. construction and service contractors;
b. stock, real estate, commercial, customs and immigration brokers;
c. lessors of property, whether personal or real;
d. persons engaged in warehousing services;
e. lessors or distributors of cinematographic films;
f. persons engaged in milling, processing, manufacturing or repacking goods for others;
g. proprietors, operators, or keepers of hotels, motels, rest houses, pension houses, inns, 
resorts, theaters, and movie houses;
h. proprietors or operators of restaurants, refreshment parlors, cafes and other eating 
places, including clubs and caterers;
i. dealers in securities;
j. lending investors;
k. 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 
relative to their transport of goods or cargoes;
l. common carriers by air and sea relative to their transport of passengers, goods or 
cargoes from one place in the Philippines to another place in the Philippines;
m. sales of electricity by generation, transmission, and/or distribution companies;
n. franchise grantees of electric utilities, telephone and telegraph, radio and/or television 
broadcasting and all other franchise grantees, except franchise grantees of radio 
and/or television broadcasting whose annual gross receipts of the preceding year do 
not exceed Ten Million Pesos (₱10,000,000.00), and franchise grantees of gas and water utilities;
o. non-life insurance companies (except their crop insurances), including surety, fidelity, indemnity and bonding companies; and
p. similar services regardless of whether or not the performance thereof calls for the exercise or use of the physical or mental faculties.

The phrase “sale or exchange of services” shall likewise include:

a. 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;
b. The lease or the use of, or the right to use any industrial, commercial or scientific equipment;
c. The supply of scientific, technical industrial or commercial knowledge or information;
d. 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;
e. The supply of services by a non-resident 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 nonresident person;
f. 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;
g. The lease of motion picture films, films, tapes, and discs; and
h. The lease or the use of, or the right to use, radio, television, satellite transmission and cable television time.

Lease of property shall be subject to VAT regardless of the place where the contract of lease or licensing agreement was executed if the property leased or used is located in the Philippines.

VAT on rental and/or royalties payable to non-resident foreign corporations or owners for the sale of services and use or lease of properties in the Philippines shall be based on the contract price agreed upon by the licensor and the licensee. The licensee shall be responsible for the payment of VAT on such rentals and/or royalties in behalf of the non-resident foreign corporation or owner.

If the advance payment is actually a loan to the lessor, or an option money for the property, or a security deposit for the faithful performance of certain obligations of the lessee, such advance payment is not subject to VAT. However, a security deposit that is applied to rental shall be subject to VAT at the time of its application.

If the advance payment constitutes a pre-paid rental, then such payment is taxable to the lessor in the month when received, irrespective of the accounting method employed by the lessor.

A miller is subject to VAT on sale of services. If the miller is paid in cash for his services, VAT shall be based on his gross receipts for the month or quarter. If he receives a share of the milled products instead of cash, VAT shall be based on the actual market value of his share in the milled products. Sale by the owner or the miller of his share of the milled product (except rice, corn grits and raw sugar) shall be subject to VAT.

All receipts from service, hire or operating lease of transportation equipment not subject to the percentage tax on domestic common carriers and keepers of garages shall be subject to VAT.
Common carriers by land with respect to their gross receipts from the transport of passengers including operators of taxicabs, utility cars for rent or hire driven by the lessees (rent-a-car companies) and tourist buses used for the transport of passengers shall be subject to the percentage tax but shall not be liable for VAT.

Domestic common carriers by air and sea are subject to 10% VAT on their gross receipts from their transport of passengers, goods or cargoes from one place in the Philippines to another place in the Philippines.

Sale of electricity by generation, transmission and distribution companies shall be subject to 10% VAT on their gross receipts; Provided, that 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 shall be subject to 0% VAT.

Dealers in securities and lending investors shall be subject to VAT on the basis of their gross receipts. However, for Dealer in Securities, the term “gross receipts” means gross selling price less cost of the securities sold.

Services of franchise grantees of telephone and telegraph, radio and/or television broadcasting, toll road operations and all other franchise grantees, except gas and water utilities, shall be subject to VAT in lieu of franchise tax. However, franchise grantees of radio and/or television broadcasting whose annual gross receipts of the preceding year do not exceed ₱10,000,000.00 shall not be subject to VAT but to the 3% franchise tax, subject to the optional registration provisions.

Likewise, franchise grantees of gas and water utilities shall be subject to 2% franchise tax on their gross receipts derived from the business covered by the law granting the franchise.

Gross receipts of all other franchisees, other than those covered by Sec. 119 of the Tax Code, regardless of how their franchises may have been granted, shall be subject to the 10% VAT. This includes, among others, the Philippine and Amusement Gaming Corporation (PAGCOR), and its licensees or franchisees.

Franchise grantees of telephone and telegraph shall be subject to VAT on their gross receipts derived from their telephone, telegraph, telewriter exchange, wireless and other communication equipment services. However, amounts received for overseas dispatch, message, or conversation originating from the Philippines are subject to the Percentage Tax and hence exempt from VAT.

Non-life insurance companies including surety, fidelity, indemnity and bonding companies are subject to VAT. They are not liable to the payment of the premium tax.

A zero-rated sale of service (by a VAT-registered person) is a taxable transaction for VAT purposes, but shall not result in any output tax. However, the input tax on purchases of goods, properties or services related to such zero-rated sale shall be available as tax credit or refund in accordance with these Regulations.

The following services performed in the Philippines by a VAT-registered person shall be subject to 0% VAT rate:

a. 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 BSP;

b. Services other than processing, manufacturing or repackaging rendered to a person engaged in business conducted outside the Philippines or to a non-resident 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;

c. 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 0% rate;

d. Services rendered to persons engaged in international shipping or air transport operations, including leases of property for use thereof; Provided, however, that the services referred to herein shall not pertain to those made by common carriers by air and sea relative to their transport of passengers, goods or cargoes from one place in the Philippines to another place in the Philippines, the same being subject to 10% VAT under Sec. 108 of the Tax Code;

e. Services performed by subcontractors and/or contractors in processing, converting, or manufacturing goods for an enterprise whose export sales exceed 70% of the total annual production;

f. Transport of passengers and cargo by domestic air or sea carriers from the Philippines to a foreign country. Gross receipts of international air carriers doing business in the Philippines and international sea carriers doing business in the Philippines are still liable to a Percentage Tax of 3% based on their gross receipts as provided for in Sec. 118 of the Tax Code but shall not to be liable to VAT; and

g. Sale of power or fuel generated through renewable sources of energy such as, but not limited to, biomass, solar, wind, hydropower, geothermal and steam, ocean energy, and other emerging sources using technologies such as fuel cells and hydrogen fuels; Provided, however, that zero-rating shall apply strictly to the sale of power or fuel generated through renewable sources of energy, and shall not extend to the sale of services related to the maintenance or operation of plants generating said power.

Effectively zero-rated sale of services shall be limited to local sales to persons or entities that enjoy exemptions from indirect taxes. The concerned taxpayer must seek prior approval or prior confirmation from the appropriate offices of the BIR so that a transaction is qualified for effective zero-rating. Without an approved application for effective zero-rating, the transaction otherwise entitled to zero-rating shall be considered exempt.

“VAT-exempt transactions” refer to the sale of goods or properties and/or services and the use or lease of properties that is not subject to VAT (output tax) and the seller is not allowed any tax credit of VAT (input tax) on purchases. The person making the exempt sale of goods, properties or services shall not bill any output tax to his customers because the said transaction is not subject to VAT.

The following transactions shall be exempt from VAT:

a. 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 therefor;

b. 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);

c. Importation of personal and household effects belonging to residents of the Philippines returning from abroad and non-resident 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;

d. Importation of professional instruments and implements, wearing apparel, domestic animals, and personal household effects (except any vehicle, vessel, aircraft, machinery and 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 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 bonafide;

e. Services subject to Percentage Tax under Title V of the Tax Code;

f. Services by agricultural contract growers and milling for others of palay into rice, corn into grits, and sugar cane into raw sugar;

g. Medical, dental, hospital and veterinary services, except those rendered by professionals;

h. Educational services rendered by private educational institutions duly accredited by the Department of Education (DepED), the Commission on Higher Education (CHED) and the Technical Education and Skills Development Authority (TESDA) and those rendered by government educational institutions;

i. Services rendered by individuals pursuant to an employer-employee relationship;

j. 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;

k. Transactions which are exempt under international agreements to which the Philippines is a signatory or under special laws except those granted under PD No. 529 — Petroleum Exploration Concessionaires under the Petroleum Act of 1949;

l. Sales by agricultural cooperatives duly registered and in good standing 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;

m. Gross receipts from lending activities by credit or multi-purpose cooperatives duly registered and in good standing with the Cooperative Development Authority;

n. Sales by non-agricultural, non-electric and non-credit cooperatives duly registered with and in good standing with the CDA; Provided, that the share capital contribution of each member does not exceed ₱15,000.00 and regardless of the aggregate capital and net surplus ratably distributed among the members. (Importation by non-agricultural, non-electric and non-credit cooperatives of machineries and equipment, including spare parts thereof, to be used by them are subject to VAT);

o. Export sales by persons who are not VAT-registered;

p. Sale of real properties as follows:

i) Sale of real properties not primarily held for sale to customers or held for lease in the ordinary course of trade or business.
ii) Sale of real properties utilized for low-cost housing as defined by RA No. 7279, otherwise known as the “Urban and Development Housing Act of 1992” and other related laws, such as RA No. 7835 and RA No. 8763.

iii) Sale of real properties utilized for socialized housing as defined under RA No. 7279, and other related laws, such as RA No. 7835 and RA No. 8763, wherein the price ceiling per unit is P225,000.00 or as may from time to time be determined by the HUDCC and the NEDA and other related laws.

iv) Sale of residential lot valued at P1,500,000.00 and below, or house & lot and other residential dwellings valued at P2,500,000.00 and below where the instrument of sale/transfer/disposition was executed on or after November 1, 2005; Provided, That not later than January 31, 2009 and every three (3) years thereafter, the amounts stated herein shall be adjusted to its present value using the Consumer Price Index (CPI), as published by the National Statistics Office (NSO); Provided, further, that such adjustment shall be published through revenue regulations to be issued not later than March 31 of each year.

If two or more adjacent residential lots are sold or disposed in favor of one buyer, for the purpose of utilizing the lots as one residential lot, the sale shall be exempt from VAT only if the aggregate value of the lots do not exceed P1,500,000.00. Adjacent residential lots, although covered by separate titles and/or separate tax declarations, when sold or disposed to one and the same buyer, whether covered by one or separate Deed of Conveyance, shall be presumed as a sale of one residential lot.

q. Lease of residential units with a monthly rental per unit not exceeding P10,000.00, regardless of the amount of aggregate rentals received by the lessor during the year; Provided, that not later than January 31, 2009 and every three (3) years thereafter, the amount of P10,000.00 shall be adjusted to its present value using the CPI, as published by the NSO.

The foregoing notwithstanding, lease of residential units where the monthly rental per unit exceeds P10,000.00 but the aggregate of such rentals of the lessor during the year do not exceed P1,500,000.00 shall likewise be exempt from VAT, however, the same shall be subjected to 3% Percentage Tax.

In cases where a lessor has several residential units for lease, some are leased out for a monthly rental per unit of not exceeding P10,000.00 while others are leased out for more than P10,000.00 per unit, his tax liability will be as follows:

i) The gross receipts from rentals not exceeding P10,000.00 per month per unit shall be exempt from VAT regardless of the aggregate annual gross receipts.

ii) The gross receipts from rentals exceeding P10,000.00 per month per unit shall be subject to VAT if the aggregate annual gross receipts from said units only (not including the gross receipts from units leased for not more than P10,000.00) exceeds P1,500,000.00. Otherwise, the gross receipts will be subject to the 3% tax imposed under Section 116 of the Tax Code.

r. 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;

s. Sale, importation or lease of passenger or cargo vessels and aircraft, including engine, equipment and spare parts thereof for domestic or international transport operations;
Provided, that the exemption from VAT on the importation and local purchase of passenger and/or cargo vessels shall be limited to those of 150 tons and above, including engine and spare parts of said vessels; Provided, further, that the vessels to be imported shall comply with the age limit requirement, at the time of acquisition counted from the date of the vessel’s original commissioning;

t. Importation of fuel, goods and supplies by persons engaged in international shipping or air transport operations; Provided, that the said fuel, goods and supplies shall be used exclusively or shall pertain to the transport of goods and/or passenger from a port in the Philippines directly to a foreign port without stopping at any other port in the Philippines; Provided, further, that if any portion of such fuel, goods or supplies is used for purposes other than that mentioned in this paragraph, such portion of fuel, goods and supplies shall be subject to 10% VAT;

u. Services of banks, non-bank financial intermediaries performing quasi-banking functions and other non-bank financial intermediaries subject to Percentage Tax; and

v. 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 do not exceed the amount of ₱1,500,000.00; Provided, that not later than January 31, 2009 and every 3 years thereafter, the amount of ₱1,500,000.00 shall be adjusted to its present value using the CPI, as published by the NSO.

For purposes of the threshold of ₱1,500,000.00, the husband and the wife shall be considered separate taxpayers. However, the aggregation rule for each taxpayer shall apply. For instance, if a professional, aside from the practice of his profession, also derives revenue from other lines of business which are otherwise subject to VAT, the same shall be combined for purposes of determining whether the threshold has been exceeded. Thus, the VAT-exempt sales shall not be included in determining the threshold.

Any input tax on the following transactions evidenced by a VAT invoice or official receipt issued by a VAT-registered person shall be creditable against the output tax:

a. Purchase or importation of goods
   i) For sale; or
   ii) For conversion into or intended to form part of a finished product for sale, including packaging materials; or
   iii) For use as supplies in the course of business; or
   iv) For use as raw materials supplied in the sale of services; or
   v) For use in trade or business for which deduction for depreciation or amortization is allowed under the Tax Code

b. Purchase of real properties for which a VAT has actually been paid
c. Purchase of services in which a VAT has actually been paid
d. Transactions “deemed sale” under Sec. 106 (B) of the Tax Code
e. Transitional input tax allowed under Sec. 4.111 (a) of these Regulations
f. Presumptive input tax allowed under Sec. 4.111 (b) of these Regulations
g. Transitional input tax credits allowed under the transitory and other provisions of these Regulations

The input tax credit on importation of goods or local purchases of goods, properties or services by a VAT-registered person shall be creditable:

a. To the importer upon payment of VAT prior to the release of goods from customs custody;
b. To the purchaser of the domestic goods or properties upon consummation of the sale; or

c. To the purchaser of services or the lessee or licensee upon payment of the compensation, rental, royalty or fee.

In a sale of goods or properties, the output tax is computed by multiplying the gross selling price as defined in these Regulations by the regular rate of VAT. For sellers of services, the output tax is computed by multiplying the gross receipts as defined in these Regulations by the regular rate of VAT.

In all cases where the basis for computing the output tax is either the gross selling price or the gross receipts, but the amount of VAT is erroneously billed in the invoice, the total invoice amount shall be presumed to be comprised of the gross selling price/gross receipts plus the correct amount of VAT. Hence, the output tax shall be computed by multiplying the total invoice amount by a fraction using the rate of VAT as numerator and 100% plus rate of VAT as the denominator. Accordingly, the input tax that can be claimed by the buyer shall be the corrected amount of VAT computed in accordance with the formula prescribed.

There shall be allowed as a deduction from the output tax the amount of input tax deductible to arrive at VAT payable on the monthly VAT declaration and the quarterly VAT returns, subject to the limitations specified in the Regulations.

If at the end of any taxable quarter the output tax exceeds the input tax, the excess shall be paid by the VAT-registered person. If the input tax inclusive of input tax carried over from the previous quarter exceeds the output tax, the input tax inclusive of input tax carried over from the previous quarter that may be credited in every quarter shall not exceed 70% of the output tax; Provided, That, the excess input tax shall be carried over to the succeeding quarter or quarters; Provided, however, that 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 which may be used in the payment of internal revenue taxes, subject to the limitations as may be provided for by law as well as other implementing rules.

Input taxes for the importation of goods or the domestic purchase of goods, properties or services is made in the course of trade or business, whether such input taxes shall be credited against zero-rated sale, non-zero-rated sales, or subjected to the 5% Final Withholding VAT, must be substantiated and supported by the following documents and must be reported in the information returns required to be submitted to the Bureau:

a. For the importation of goods - import entry or other equivalent document showing actual payment of VAT on the imported goods

b. For the domestic purchase of goods and properties – invoice showing the information required under Secs. 113 and 237 of the Tax Code

c. For the purchase of real property – public instrument i.e., deed of absolute sale, deed of conditional sale, contract/agreement to sell, etc., together with VAT invoice issued by the seller

d. For the purchase of services – official receipt showing the information required under Secs. 113 and 237 of the Tax Code

A cash register machine tape issued to a registered buyer shall constitute valid proof of substantiation of tax credit only if it shows the information required under Secs. 113 and 237 of the Tax Code. Transitional input tax shall be supported by an inventory of goods as shown in a detailed list to be submitted to the BIR. Input tax on “deemed sale” transactions shall be substantiated with the invoice required under Sec. 4.113-2 of these Regulations. Input tax from payments made to non-residents (such as for services, rentals and royalties) shall be supported by
a copy of the Monthly Remittance Return of Value Added Tax Withheld (BIR Form 1600) filed by the resident payor in behalf of the non-resident evidencing remittance of VAT due which was withheld by the payor. Advance VAT on sugar shall be supported by the Payment Order showing payment of the advance VAT.

Taxpayers who became VAT-registered persons upon exceeding the minimum turnover of ₱1,500,000.00 in any 12-month period, or who voluntarily register even if their turnover does not exceed ₱1,500,000.00 (except franchise grantees of radio and television broadcasting whose threshold is ₱10,000,000.00) shall be entitled to a transitional input tax on the inventory on hand as of the effectivity of their VAT registration on the following:

- goods purchased for resale in their present condition;
- materials purchased for further processing, but which have not yet undergone processing;
- goods which have been manufactured by the taxpayer;
- goods in process for sale; or
- goods and supplies for use in the course of the taxpayer’s trade or business as a VAT-registered person.

The transitional input tax shall be 2% of the value of the beginning inventory on hand or actual VAT paid on such, goods, materials and supplies, whichever is higher, which amount shall be creditable against the output tax of VAT-registered person. The value allowed for income tax purposes on inventories shall be the basis for the computation of the 2% transitional input tax, excluding goods that are exempt from VAT under Sec. 109 of the Tax Code.

The threshold amount of ₱1,500,000.00 shall be adjusted, not later than January 31, 2009 and every three years thereafter, to its present value using the CPI as published by the NSO.

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, shall be allowed a presumptive input tax, creditable against the output tax, equivalent to 4% of the gross value in money of their purchases of primary agricultural products which are used as inputs to their production.

A VAT-registered person whose sales of goods, properties or services are zero-rated or effectively zero-rated may apply for the issuance of a tax credit certificate/refund of input tax attributable to such sales. The input tax that may be subject of the claim shall exclude the portion of input tax that has been applied against the output tax. The application should be filed within 2 years after the close of the taxable quarter when such sales were made.

Where the taxpayer is engaged in both zero-rated or effectively zero-rated sales and in taxable (including sales subject to final withholding VAT) or exempt sales of goods, properties or services, and the amount of creditable input tax due or paid cannot be directly and entirely attributed to any one of the transactions, only the proportionate share of input taxes allocated to zero-rated or effectively zero-rated sales can be claimed for refund or issuance of a Tax Credit Certificate (TCC).

In the case of a person engaged in the transport of passenger and cargo by air or sea vessels from the Philippines to a foreign country, the input taxes shall be allocated ratably between his zero-rated sales and non-zero-rated sales (sales subject to regular rate, subject to final VAT withholding and VAT-exempt sales).

A VAT-registered person whose registration has been cancelled due to retirement from or cessation of business or due to changes in or cessation of status may, within 2 years from the date of cancellation, apply for the issuance of a TCC for any unused input tax which he may use in payment of his other internal revenue taxes; Provided, however, that he shall be entitled to a
refund if he has no internal revenue tax liabilities against which the tax credit certificate may be utilized.

Claims for refunds/tax credit certificate shall be filed with the appropriate BIR office (Large Taxpayers Service (LTS) or Revenue District Office (RDO)) having jurisdiction over the principal place of business of the taxpayer; Provided, however, that direct exporters may also file their claim for tax credit certificate with the One Stop Shop Center of the Department of Finance; Provided, finally, that the filing of the claim with one office shall preclude the filing of the same claim with another office.

A VAT-registered person shall issue the following:

a. A VAT invoice for every sale, barter or exchange of goods or properties; and
b. A VAT official receipt for every lease of goods or properties and for every sale, barter or exchange of services.

VAT invoice/official receipt shall be prepared at least in duplicate, the original to be given to the buyer and the duplicate to be retained by the seller as part of his accounting records. The following information shall be indicated in VAT invoice or VAT official receipt:

a. A statement that the seller is a VAT-registered person, followed by his TIN;
b. The total amount which the purchaser pays or is obligated to pay to the seller with the indication that such amount includes the VAT; Provided, That:
i) The amount of tax shall be shown as a separate item in the invoice or receipt
ii) If the sale is exempt from VAT, the term “VAT-exempt sale” shall be written or printed prominently on the invoice or receipt
iii) If the sale is subject to 0% VAT, the term “zero-rated sale” shall be written or printed prominently on the invoice or receipt
iv) If the sale involves goods, properties or services some of which are subject to and some of which are VAT zero-rated or VAT-exempt, the invoice or receipt shall clearly indicate the break-down of the sale price between its taxable, exempt and zero-rated components, and the calculation of the VAT on each portion of the sale shall be shown on the invoice or receipt. The seller has the option to issue separate invoices or receipts for the taxable, exempt, and zero-rated components of the sale.

c. In the case of sales in the amount of ₱1,000.00 or more where the sale or transfer is made to a VAT-registered person, the name, business style, if any, address and TIN of the purchaser, customer or client shall be indicated in addition to the information required.
Notwithstanding the provisions of Sec. 233, all persons subject to VAT under Sec. 106 and 108 of the Tax Code shall, in addition to the regular accounting records required, maintain a subsidiary sales journal and subsidiary purchase journal on which every sale or purchase on any given day is recorded. The subsidiary journal shall contain such information as may be required by the Commissioner of Internal Revenue.

A subsidiary record in ledger form shall be maintained for the acquisition, purchase or importation of depreciable assets or capital goods which shall contain, among others, information on the total input tax thereon as well as the monthly input tax claimed in VAT declaration or return.

Taxpayers may continue to issue VAT invoices and VAT official receipts for the period July 1, 2005 to December 31, 2005 in accordance with BIR administrative practices that existed as of December 31, 2004 but subject to the transitory and other provisions of the Regulations.

Every person liable to pay VAT shall file a quarterly return of the amount of his quarterly gross sales or receipts within 25 days following the close of taxable quarter using the latest version of Quarterly VAT Return.

Amounts reflected in the monthly VAT declarations for the first 2 months of the quarter shall still be included in the quarterly VAT return, which reflects the cumulative figures for the taxable quarter. Payments in the monthly VAT declarations shall, however, be credited in the quarterly VAT return, to arrive at the net VAT payable or excess input tax/overpayment as of the end of a quarter.

The monthly VAT Declarations (BIR Form 2550M) of taxpayers whether large or non-large shall be filed and the taxes paid not later than the 20th day following the end of each month.

For purposes of filing returns under the Electronic Filing and Payment System (EFPS), the taxpayers classified under the business industries shall be required to file Monthly VAT Declarations on or before the dates specified in the Regulations.

The monthly VAT declaration and quarterly return shall be filed with, and VAT due thereon paid to, an Authorized Agent Bank (AAB) under the jurisdiction of the Revenue District/BIR Office where the taxpayer (head office of the business establishment) is required to be registered.

In cases where there are no duly AAB within the municipality or city, the monthly VAT declaration and quarterly VAT return shall be filed with and any amount due shall be paid to the RDO, Collection Agent or duly authorized Treasurer of the Municipality/City where such taxpayer (head office of the business establishment) is registered.

The quarterly VAT return and the monthly VAT declaration, where no payment is involved, shall be filed with the RDO/Large Taxpayer District Office (LTDO)/Large Taxpayers Assistance Division (LTAD), Collection Agent, duly authorized Municipal/City Treasurer of Municipality/City where the taxpayer (head office of the business establishment) is registered or required to be registered.

Only one consolidated quarterly VAT return or monthly VAT declaration covering the results of operation of the head office as well as the branches for all lines of business subject to VAT shall be filed by the taxpayer, for every return period, with the BIR office where said taxpayer is required to be registered.

The government or any of its political subdivisions, instrumentalities or agencies, including government-owned or-controlled corporations (GOCCs) shall, before making payment on account of each purchase of goods and/or of services taxed at 10% VAT, deduct and withhold a final VAT due at the rate of 5% of the gross payment thereof.
The 5% final VAT withholding rate shall represent the net VAT payable of the seller. The remaining 5% effectively accounts for the standard input VAT for sales of goods or services to government or any of its political subdivisions, instrumentalities or agencies including GOCCs, in lieu of the actual input VAT directly attributable or ratably apportioned to such sales. Should actual input VAT exceeds 5% of gross payments, the excess may form part of the sellers’ expense or cost. On the other hand, if actual input VAT is less than 5% of gross payment, the difference must be closed to expense or cost.

The government or any of its political subdivisions, instrumentalities or agencies, including GOCCs, as well as private corporations, individuals, estates and trusts, whether large or non-large taxpayers, shall withhold 10% VAT with respect to the following payments:

a. Lease or use of properties or property rights owned by non-residents;
b. Services rendered to local insurance companies, with respect to reinsurance premiums payable to non-residents; and
c. Other services rendered in the Philippines by non-residents.

In remitting VAT withheld, the withholding agent shall use BIR Form No. 1600-Remittance Return of VAT and Other Percentage Taxes Withheld.

VAT withheld and paid for the non-resident recipient (remitted using BIR Form No. 1600), which VAT is passed on to the resident withholding agent by the non-resident recipient of the income, may be claimed as input tax by said VAT-registered withholding agent upon filing his own VAT Return, subject to the rule on allocation of input tax among taxable sales, zero-rated sales and exempt sales. The duly filed BIR Form No. 1600 is the proof or documentary substantiation for the claimed input tax or input VAT.

Nonetheless, if the resident withholding agent is a non-VAT taxpayer, said passed-on VAT by the non-resident recipient of the income, evidenced by the duly filed BIR Form No. 1600, shall form part of the cost of purchased services, which may be treated either as an "asset" or "expense", whichever is applicable, of the resident withholding agent.

VAT withheld under this Section shall be remitted within 10 days following the end of the month the withholding was made.

The following persons are required to submit Summary Lists of Sales/Purchases:

a. Summary Lists of Sales – all persons liable for VAT such as manufacturers, wholesalers, service-providers, among others, with quarterly total sales/receipts (net of VAT) exceeding ₱2,500,000.00.
b. Summary Lists of Purchases – all persons liable for VAT such as manufacturers, service-providers, among others, with quarterly total purchases (net of VAT) exceeding ₱1,000,000.00.

The Quarterly Summary List of Sales or Purchases, whichever is applicable, shall be submitted in diskette form to the RDO or LTDO or LTAD having jurisdiction over the taxpayer on or before the 25th day of the month following the close of the taxable quarter (VAT quarter)-calendar quarter or fiscal quarter. However, taxpayers under the jurisdiction of the Large Taxpayers Service (LTS) and those enrolled under the EFPS shall, through electronic filing facility, submit their Summary List of Sales/Purchases to the RDO/LTDO/LTAD, on or before the 30th day of the month following the close of the taxable quarter.

The quarterly summary list must contain the monthly total sales generated from regular buyers/customers, regardless of the amount of sale per buyer/customer, as well as from casual buyers/customers with individual sales amounting to ₱100,000.00 or more. The Quarterly Summary List of Sales to Regular Buyers/Customers and Casual Buyers/Customers and Output Tax shall reflect the following:
a. BIR-registered name of the buyer who is engaged in business/exercise of profession;
b. TIN of the buyer (Only for sales that are subject to VAT);
c. Exempt Sales;
d. Zero-rated Sales;
e. Sales Subject to VAT (exclusive of VAT);
f. Sales Subject to Final VAT Withheld; and
g. Output Tax (VAT on sales subject to 10%)

The following information must be indicated in the following quarterly summary schedules of purchases:

(1) The Quarterly Summary List of Local Purchases and Input Tax. –
   a. BIR-registered name of the seller/supplier/service-provider;
   b. Address of seller/supplier/service-provider;
   c. TIN of the seller;
   d. Exempt Purchases;
   e. Zero-rated Purchases;
   f. (i) Purchases Subject to VAT (exclusive of VAT) — on services;
      (ii) Purchases Subject to VAT (exclusive of VAT) — on capital goods; and
      (iii) Purchases Subject to VAT (exclusive of VAT) — on goods other than capital goods
      (iv) Purchases Subject to Final VAT Withheld
   g. Creditable Input Tax; and
   h. Non-Creditable Input Tax. (to be computed not on a per supplier basis but on a per month basis)

(The total amount of purchases shall be system-generated)

(2) The Quarterly Summary List of Importations. –
   a. The import entry declaration number;
   b. Assessment/Release Date;
   c. The date of importation;
   d. The name of the seller;
   e. Country of Origin;
   f. Dutiable Value;
   g. All Charges Before Release From Customs' Custody;
   h. Landed cost:
      (i) Exempt;
      (ii) Taxable (Subject to VAT);
   i. VAT paid;
   j. Official Receipt (OR) Number of the OR evidencing payment of the tax; and
   k. Date of VAT payment

For the claimed input tax arising from services rendered in the Philippines by non-residents, no summary list is required to be submitted.

In addition to the penalties imposed for other violations of the withholding tax regulation, payors reported by the payees for not having issued the Certificate of Tax Withheld at Source, which report has been validated to be correct, shall be subject to mandatory audit on their withholding tax liabilities and to other appropriate sanctions under the Tax Code and applicable regulations.
Penalties in case of failure to submit quarterly summary list of sales and purchases. - In accordance with the provisions of the Tax Code of 1997, a person who fails to file, keep or supply a statement, list, or information required herein on the date prescribed therefor shall pay, upon notice and demand by the Commissioner of Internal Revenue, an administrative penalty of ₱1,000.00 for each such failure, unless it is shown that such failure is due to reasonable cause and not to willful neglect. For this purpose, the failure to supply the required information for each buyer or seller of goods and services shall constitute a single act or omission punishable hereof. However, the aggregate amount to be imposed for all such failures during a taxable year shall not exceed ₱25,000.00.

In addition to the imposition of the administrative penalty, willful failure by such person to keep any record and to supply the correct and accurate information at the time or times as required herein, shall be subject to the criminal penalty under the relevant provisions of the Tax Code, upon conviction of the offender.

The imposition of any of the penalties under the Tax Code and the compromise of the criminal penalty on such violations, notwithstanding, shall not in any manner relieve the violating taxpayer from the obligation to submit the required documents.

Finally, the administrative penalty shall be imposed at all times, upon due notice and demand by the Commissioner of Internal Revenue. A subpoena duces tecum for the submission of the required documents shall be issued on the second offense. A third offense shall set the motion for a criminal prosecution of the offender.

In addition to other administrative and penal sanctions provided for in the Tax Code and implementing regulations, the Commissioner of Internal Revenue or his duly authorized representative may order suspension or closure of a business establishment for a period of not less than 5 days for any of the following violations:

a. Failure to issue receipts and invoices
b. Failure to file VAT return as required under the provisions of Sec. 114 of the Tax Code
c. Understatement of taxable sales or receipts by 30% or more of his correct taxable sales or receipt for the taxable quarter
d. Failure of any person to register as required under the provisions of Sec. 236 of the Tax Code

Any person who, in the course of trade or business, sells, barters, exchanges goods or properties, or engages in the sale of services subject to VAT shall register with the appropriate RDO using the appropriate BIR forms and pay an annual registration fee in the amount of ₱500.00 using BIR Form No. 0605 for every separate or distinct establishment or place of business (save a warehouse without sale transactions) before the start of such business and every year thereafter on or before the 31st day of January.

Any person who maintains a head or main office and branches in different places shall register with the RDO which has jurisdiction over the place wherein the main or head office or branch is located. However, the registration fee shall be paid to any accredited bank in the Revenue District where the head office or branch is registered provided that in areas where there are no accredited banks, the same shall be paid to the RDO, collection agent, or duly authorized treasurer of the municipality where each place of business or branch is situated. Each VAT-registered person shall be assigned only one Taxpayer Identification Number (TIN). The branch shall use the 9-digit TIN of the Head Office plus a 3-digit Branch Code.

Any person who, in the course of trade or business, sells, barters or exchanges goods or properties or engages in the sale or exchange of services shall be liable to register if:
a. His gross sales or receipts for the past twelve (12) months, other than those that are exempt under Sec. 109 (1)(A) to (U) of the Tax Code, have exceeded ₱1,500,000.00; or

b. There are reasonable grounds to believe that his gross sales or receipts for the next 12 months, other than those that are exempt under Sec. 109 (1)(A) to (U) of the Tax Code, will exceed ₱1,500,000.00.

Every person who becomes liable to be registered under paragraph (1) of this subsection shall register with the RDO which has jurisdiction over the head office or branch of that person, and shall pay the annual registration fee prescribed in subsection 9.236-1(a) hereof. If he fails to register, he shall be liable to pay the output tax under Secs. 106 and/or 108 of the Tax Code as if he were a VAT-registered person, but without the benefit of input tax credits for the period in which he was not properly registered.

Moreover, franchise grantees of radio and television broadcasting, whose gross annual receipt for the preceding calendar year exceeded ₱10,000,000.00 shall register within 30 days from the end of the calendar year.

Every person, other than those required to be registered as VAT persons, engaged in any business, shall, on or before the commencement of his business, or whenever he transfers to another revenue district, register with the RDO concerned within 10 days from the commencement of business or transfer in the manner prescribed and shall pay the applicable registration fee of ₱500.00 for every separate or distinct establishment or place of business, if he has not paid the registration fee in the beginning of the taxable year.

The following are required to register as non-VAT persons and pay the applicable registration fee:

a. VAT-exempt persons who did not opt to register as VAT taxpayers

b. Individuals engaged in business where the gross sales or receipts do not exceed ₱100,000.00 during any 12-month period. They are required to register but will not be made to pay the registration fee of ₱500.00.

c. Non-stock, non-profit organizations and associations engaged in trade or business whose gross sales or receipts do not exceed ₱1,500,000.00 for any 12-month period or in an amount as adjusted thereafter every 3 years depending on the annual CPI as published by the NSO; and

d. Cooperatives other than electric cooperatives.

A VAT-registered person may cancel his registration for VAT if:

a. He makes written application and can demonstrate to the Commissioner of Internal Revenue’s satisfaction that his gross sales or receipts for the following 12 months, other than those that are exempt under Sec. 109 (1) (A) to (U) of the Tax Code, will not exceed ₱1,500,000.00; or

b. He has ceased to carry on his trade or business, and does not expect to recommence any trade or business within the next 12 months.

Some other instances where a VAT-registered person may apply for cancellation of registration are:

a. A change of ownership, in the case of a single proprietorship;

b. Dissolution of a partnership or corporation;

c. Merger or consolidation with respect to the dissolved corporation(s); and

d. A person who has registered prior to planned business commencement, but failed to actually start his business.
Some instances where taxpayer will update his registration by submitting a duly accomplished Registration Update Form (BIR Form No. 1905):

a. A person’s business has become exempt in accordance with Sec. 4.109-1(B) (1) of these Regulations;
b. A change in the nature of the business itself from sale of taxable goods and/or services to exempt sales and/or services;
c. A person whose transactions are exempt from VAT who voluntarily registered under VAT system, who after the lapse of three years after his registration, applies for cancellation of his registration as such; and
d. A VAT-registered person whose gross sales or receipts for three (3) consecutive years did not exceed P 1,500,000.00 beginning November 1, 2005, which amount shall be adjusted to its present value every 3 years using the CPI, as published by the NSO.

Taxpayers who changed status from NON-VAT to VAT or from VAT to NON-VAT as a result of the implementation of RA No. 9337 should submit within thirty (30) days from effectivity of the law an inventory of unused invoices or receipts as of the day immediately preceding the effectivity of RA No. 9337 indicating the number of booklets and the corresponding serial numbers. Unused non-VAT invoices/receipts shall be allowed for use in transactions subject to VAT provided the phrase “VAT –registered as of [effectivity date of RA No. 9337]” is stamped on all copies thereof. Likewise, unused VAT invoices/receipts shall be allowed in VAT-exempt transactions provided the phrase “Non-VAT-registered as of _______________” is stamped on all copies thereof. These unused invoices or receipts with the proper stamp shall be allowed for use in transactions subject to VAT/Non-VAT up to December 31, 2005.

Amounts due on sale of services becoming liable to VAT under RA No. 9337 rendered before the effectivity of RA No. 9337, payments of which are receivable on or after the effectivity of RA No. 9337, shall be considered as accrued as of the day immediately preceding the effectivity of RA No. 9337 for the purpose of VAT exemption and payment of any applicable percentage tax, if any, or VAT exemption as the case may be, subject to the following conditions:

a. Information return to be filed on or before sixty (60) days from the effectivity of RA No. 9337 showing the name(s) of the contractor(s), client(s), customer(s) and the amount(s) of the contract price outstanding as of the day immediately preceding the effectivity of RA No. 9337, and containing a declaration of the obligation to pay the applicable percentage tax due if any;
b. The seller billed the unpaid amount before the effectivity of RA No. 9337, and a copy of such billing is attached to the information return required in (i) hereof;
c. The seller has recorded in his books of accounts as of the day immediately preceding the effectivity of RA No. 9337 the amount receivable; and
d. The seller files on or before the 20th day after each month, the regular percentage tax return for the payment of the percentage tax on payments received after the effectivity of RA No. 9337.

In the case of sale of electricity, if a billing period covers power consumption for the period before and after the effectivity of RA No. 9337, 10% VAT shall be applied only to electricity consumption for the period on or after the effectivity of RA No. 9337. The electricity consumption before the effectivity of RA No. 9337 shall not be subject to 10% VAT but to the applicable franchise/percentage tax.
Failure to comply with the above-stated conditions shall automatically subject the gross receipts to the VAT.

Goods previously VAT-exempt but became subject to VAT under RA No. 9337 imported into the Philippines prior to the effectivity of RA No. 9337 shall remain VAT-exempt. On the other hand, goods previously VAT taxable but became VAT-exempt under RA No. 9337 imported into the Philippines prior to the effectivity of RA No. 9337 shall, upon withdrawal from customs custody, be subject to VAT.

The Commissioner of Internal Revenue shall issue Revenue Memorandum Circulars to clarify the rules of implementation affecting certain peculiarities of each industry groupings such as but not limited to the power sector, oil and petroleum, and telecommunications.

No VAT exemptions may be granted by the BIR except those explicitly stated in Sec. 109(1) of the Tax Code, as amended by RA No. 9337. All previous exemptions granted through laws, acts, decrees, executive orders, issuances and rules and regulations or parts thereof promulgated or issued prior to the effectivity of RA No. 9337 are deemed repealed, amended or modified accordingly.

These Regulations shall take effect beginning November 1, 2005.