REVENUE MEMORANDUM CIRCULAR NO. 39-2010 issued on May 21, 2010 directs Revenue District Offices (RDOs) to verify the VAT compliance of Health Maintenance Organizations (HMOs).

The taxable base of HMOs for Value-Added Tax (VAT) purposes shall be the gross receipts without any deduction for medical utilization (medical and dental fees, hospital bills, laboratory fees, professional fees, etc.). The said tax treatments have already been clarified under Revenue Regulations No. 16-2005, as amended, which provides that HMO’s gross receipts shall be the total amount of money or its equivalent representing the service fee actually or constructively received during the taxable period for the services performed or to be performed for another person, excluding VAT. The compensation for their services representing their service fee is presumed to be the total amount received as enrollment from their members plus other charges received.

VAT returns filed beginning for the month/quarter ending June 30, 2010 and terminating for the VAT returns filed for the month/quarter ending December 31, 2010 shall be the subject of this monitoring, without prejudice to the BIR to verify prior years’ VAT returns and to impose VAT based on the gross receipts of the HMOs.

All Revenue District Officers shall conduct the verification of the VAT returns without the need to issue Letters of Authority (LOA) or Tax Verification Notices (TVN). The RDOs are authorized only to issue reminder notice if it has been ascertained that the HMOs are not complying with the rule of paying the VAT based on the gross receipts. Any other action, such as issuance of the LOA/TVN or issuance of Assessment Notices that shall be prescribed by the RDOs on the HMOs which are verified to have not complied correctly on their VAT obligations, shall be referred to the Commissioner for his approval.