

A blurred background image of a modern building lobby with a large glass wall and many people walking. A yellow text box is overlaid on the right side of the image.

Amway Philippines, LLC. - Philippine Branch

ABO Training

February 28, 2024

Discussion Outline

A Business Tax: Value-Added Tax

- Basic principles
- Applicable rates
- Computation of input VAT
- Substantiation requirements
- Administrative requirements

B Business Tax: Percentage Tax

- Basic principles
- Applicable rates
- Administrative requirements
- Transition of registration

Business Tax:

A

Value-Added Tax



A.1

Value-Added Tax:

Basic principles

BUSINESS TAX - VALUE-ADDED TAX

Basic principles

Underlying law



Applicable provision: Title IV of the Republic Act (RA) No. 8424 of the Tax Code, as amended

Any person, who in the course of trade or business, sells, barter, exchanges, leases goods or properties, renders services, and any person who imports goods shall be subject to the VAT imposed in Sections 106 to 108 of this Code.

BUSINESS TAX - VALUE-ADDED TAX

Basic principles

Who are liable to pay VAT?



SELLER OF
GOODS OR
PROPERTIES



LESSOR



SERVICE
PROVIDERS



IMPORTERS

BUSINESS TAX - VALUE-ADDED TAX

Basic principles



INDIVIDUAL



Who are required to file VAT returns?



Any person or entity who, in the course of his trade or business, sells, barter, exchanges, leases goods or properties and renders services subject to VAT, if the aggregate amount of actual gross sales or receipts exceed Three Million Pesos (Php3,000,000.00).



A person required to register as VAT taxpayer but failed to register.



Any person who imports goods whether or not made in the course of his trade or business.



A.2

Value-Added Tax:

Applicable rates

BUSINESS TAX - VALUE-ADDED TAX

Applicable rates

12%

Regular Sales

0%

Export Sales



Exempt Sales

BUSINESS TAX - VALUE-ADDED TAX

Applicable rates

VAT base - goods



Seller of Goods or Properties

VAT BASE = gross sales of the goods or properties sold, bartered or exchanged, such tax to be paid by the seller or transferor.

Gross sales means total amount of money or its equivalent which the purchaser pays or is obligated to pay to the seller in consideration of the sale barter or exchange of the goods or properties, excluding VAT

BUSINESS TAX - VALUE-ADDED TAX

Applicable rates

VAT base - services



Sale of services
and use or lease of
properties

VAT BASE = Gross receipts*

Gross receipts

- Total amount of money or its equivalent representing the contract price, compensation service fee, rental or royalty
- Including the amount charged for materials supplied with the services
- Deposits applied as payments for services rendered
- Advance payments actually or constructively received during the taxable period
- For the services performed or to be performed for another person
- Excluding VAT

Gross receipts excludes:

- Amounts earmarked for payment to unrelated third party, or
- Amounts received as reimbursement for advance payment on behalf of another which do not redound to the benefit of the payor.

*'gross sales' pursuant to Ease of Paying Taxes (EOPT) Act



A.3

Value-Added Tax:

Computation of input VAT

BUSINESS TAX - VALUE-ADDED TAX

Computation of input VAT

VAT due on or paid by a VAT-registered person.

Directly attributable to VATable transactions.

Input VAT

Ratable portion of input VAT which cannot be attributable to either VATable or VAT-exempt transactions.

Must be evidenced by a valid VAT-invoice, VAT official receipt or other required documents.

BUSINESS TAX - VALUE-ADDED TAX

Computation of input VAT

Proper timing of claiming input VAT

Classes of Transactions

Domestic Goods/Properties

- ▶ Upon consummation of sale

Services

- ▶ Upon payment*

Importation

- ▶ Prior to the release of goods from customs custody

Please note that even if the said events have already transpired (e.g., consummation of sale) but the required supporting documents are not on hand, the related input taxes may not yet be claimed until receipt of the related supporting documents. Note, however, that the timing of claiming of said input taxes will depend on the date indicated in the supporting document.

*upon consummation of sale pursuant to EOPT Act

BUSINESS TAX - VALUE-ADDED TAX

Computation of input VAT

Input tax computation



For purchases of goods

Input Tax = Total VAT Invoice Amount (gross of EWT) x 12%



For purchases of services

Input Tax = Total VAT OR Amount (gross of EWT) x 12%



For importation of goods (if any VAT is paid)

Input Tax = VAT Base* X 12%

**Value used by Bureau of Customs (BOC) in determining tariffs and customs duties + customs duties, excise taxes and other charges. If BOC value is based on volume or quantity, base is total landed cost = invoice amount + customs duties, freight, insurance and other charges, and excise tax, if any.*

Treatment of excess input tax

Carry-over

- Excess input tax may be carried over to the succeeding quarter or quarters as deduction from output tax until it is fully utilized.

Claim for Refund/Issuance of TCC

- Taxpayers with excess input tax attributable to zero-rated sales to the extent that such input tax has not been applied against the output tax may file an application for claim for refund / issuance of tax credit certificate within two (2) years after close of taxable quarter when such sales were made.



A.4

Value-Added Tax:

Substantiation requirements

BUSINESS TAX - VALUE-ADDED TAX

Substantiation requirements



When should a taxpayer issue a VAT invoice and VAT OR?



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 Section 113 and 237 of the Tax Code. (Sec. 4.110-8, RR No. 16-05)

When should a taxpayer issue a VAT invoice and VAT OR?

VAT invoice

- To be used by sellers of **goods**
- For claiming input VAT on purchase of goods

VAT official receipt

- To be used by sellers of **services**
- For claiming input VAT on payments for services

| Transactions | Required support/s for claiming Input VAT |
|--|--|
| Domestic purchases of goods/properties | VAT invoice |
| Purchases of real property - cash/deferred basis | Public instrument together with VAT invoice and NON-VAT ORs for the initial and succeeding payments |
| Purchases of real property - installment sales | Public instrument and VAT OR for every payment |
| Domestic purchases of services | VAT OR (VAT invoice six (6) months after the release of implementing rules and regulations (IRR) of EOPT Act) |
| Importation of goods | Single Administrative Document (SAD) + Statement of Settlement of Duties and Taxes (SSDT) or BOC OR |
| Payments made to non-residents | Monthly remittance of VAT Withheld (BIR Form No. 1600) filed by the resident payor on behalf of the non-resident |

BUSINESS TAX - VALUE-ADDED TAX

Substantiation requirements

Issuance of sales invoice

All persons subject to an internal revenue tax shall issue duly registered sale or commercial invoices for sales/services rendered valued at:

| Old | New |
|----------|----------|
| P 100.00 | P 500.00 |

VAT-registered persons shall issue duly registered sale or commercial invoices regardless of the amount of the sale and transfer of merchandise or for services rendered.

BUSINESS TAX - VALUE-ADDED TAX

Substantiation requirements

Old

New

Gross **receipts**

12% VAT upon **payment**
(VAT official receipt)



Gross **sales**

12% VAT upon sale
(VAT invoice)

Output VAT on uncollected receivable may be deducted from the output VAT on the next quarter. If the receivable is recovered, such output VAT shall be added to the output VAT during the quarter of recovery.

(R.A. No. 11976 or the Ease of Paying Taxes Act)

BUSINESS TAX - VALUE-ADDED TAX

Substantiation requirements



Information contained
in VAT invoice or VAT
official receipt

1

A statement that the seller is a VAT-registered person, followed by his TIN

2

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:

The amount of tax shall be shown as a separate item in the invoice or receipt;

If the sale is exempt from VAT, the term "VAT-exempt sale" shall be written or printed prominently on the invoice or receipt.

If the sale is subject to zero percent (0%) VAT, the term "zero-rated sale" shall be written or printed prominently on the invoice or receipt.

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.

BUSINESS TAX - VALUE-ADDED TAX

Substantiation requirements



Information contained
in VAT invoice or VAT
official receipt

3

The date of transaction, quantity, unit cost and description of the goods or properties or nature of the service;

4

In the case of sales in the amount of one thousand pesos (P1,000.00) or more where the sale or transfer is made to a VAT-registered person, the following details of the purchases, customer or client shall be indicated

Name

*Business Style, if any

Address

TIN

*removed under EOPT Act

Substantiation issues

Effect of failure to comply with the VAT invoicing requirements



Possible
disallowance of input
VAT



Administrative
penalties



A.5

Value-Added Tax:

Administrative requirements

BUSINESS TAX - VALUE-ADDED TAX

Administrative requirements

Deadline and Procedures



Within twenty-five (25) days following the close of the taxable quarter.

BUSINESS TAX - VALUE-ADDED TAX

Administrative requirements

Deadline and Procedures

Definition of summary lists



A Summary List of Sales and Purchases (SLSP) is used to support the third-party information program of the BIR via cross-referencing with the information presented in the taxpayer's SLSP.

The program is called **Reconciliation of Listings for Enforcement or RELIEF**.

Persons required to submit Summary List of Sales/Purchases under RR No. 1-2012:

- All persons liable for VAT such as manufacturers, wholesalers, service-providers



BUSINESS TAX - VALUE-ADDED TAX

Administrative requirements

Deadline and Procedures

Summary List of Sales, Purchases, or Importations



(eFPS Filers)

5 days after the filing deadline of the quarterly VAT return.



(Manual Filers)

Within 25 days following the close of each taxable quarter.

BUSINESS TAX - VALUE-ADDED TAX

Administrative requirements

Deadline and Procedures



Contents -
Quarterly
Summary Lists
of Sales

- BIR-registered name of the buyer who is engaged in business/exercise of profession
- TIN of the buyer (only for sales that are subject to VAT)
- Exempt Sales
- Zero-rated Sales
- Sales Subject to VAT (exclusive of VAT)
- Sales Subject to Final VAT Withheld
- Output Tax (VAT on sales subject to 12%)
- BIR - registered name of the seller/supplier/ service provider
- Address of seller/supplier/service provider
- TIN of the seller
- The total amount of sales shall be system generated

BUSINESS TAX - VALUE-ADDED TAX

Administrative requirements

Deadline and Procedures



Contents -
Quarterly
Summary Lists
of Purchases

- Exempt Purchases
- Zero-rated Purchases
- Purchases subject to VAT (exclusive of VAT) on
 - services
 - capital goods
 - other goods
 - purchases subject to Final VAT Withheld
- Creditable Input Tax
- Non-Creditable Input Tax
- The total amount of purchases shall be system generated

BUSINESS TAX - VALUE-ADDED TAX

Administrative requirements

Deadline and Procedures



Contents -
Quarterly
Summary Lists
of Importations

- Import entry declaration number
- Assessment/Release Date
- Date of importation
- Name of the seller
- Country of Origin
- Dutiable Value
- Landed Cost: (i) exempt (ii) taxable (subject to VAT)
- VAT paid
- OR Number of the OR evidencing payment of the tax
- Date of VAT payment
- For the claimed input tax arising from services rendered in the Philippines by non-residents, no summary list is required (RR No. 16-05)



B

Business Tax:

Percentage Tax



B.1

Percentage tax:

Basic principles

BUSINESS TAX - PERCENTAGE TAX

Basic principles



Percentage tax is a business tax imposed on persons, entities, or transactions specified under Sections 116 to 127 of the National Internal Revenue Code of 1997 (also known as Tax Code), as amended, and as required under special laws.


BUSINESS TAX - PERCENTAGE TAX

Basic principles



Who are required to file percentage tax returns?

Persons, who are **not VAT-registered**, who sell goods, properties or services, whose annual gross sales and/or receipts do not exceed three million pesos (Php3,000,000.00) and are exempt from value-added tax (VAT) under Section 109 (BB) of the National Internal Revenue Code, as amended by Republic Act (RA) No. 10963.

A photograph of a modern architectural courtyard. The scene is dominated by glass-walled buildings that reflect the sky and surrounding structures. A person in a light-colored suit is walking on a wooden walkway with a metal railing in the foreground. The lighting is bright, suggesting a sunny day. A yellow banner is overlaid on the middle of the image, containing text.

B.2

Percentage tax:

Applicable rates

BUSINESS TAX - PERCENTAGE TAX

Applicable rates

| CREATE/EOPT Acts | |
|--|------------------------------|
| Effective 1 July 2020 until 30 June 2023 | 1 July 2023 onwards |
| 1% | 3% |
| of the gross quarterly sales | of the gross quarterly sales |



B.3

Percentage tax:

Administrative requirements

BUSINESS TAX - PERCENTAGE TAX

Administrative requirements




DEADLINE OF FILING

Quarterly Percentage Taxes are **due on the 25th day of the month following the applicable quarter:**

| PERIOD | DEADLINE |
|------------------------------|-----------------------------|
| Quarter 1 (January - March) | APRIL 25 |
| Quarter 2 (April-June) | JULY 25 |
| Quarter 3 (July-September) | OCTOBER 25 |
| Quarter 4 (October-December) | JANUARY 25 of the next year |

A taxpayer who signifies the intention to avail of the 8% income tax rate option shall compute its income tax due based on the actual annual gross sales/receipts and other non-operating income. The said income tax due shall be *in lieu* of the graduated rates of income tax and percentage tax.



B.4

Percentage tax:

Transition of registration

BUSINESS TAX - PERCENTAGE TAX

Transition of registration



**Breach of gross receipts/
sales threshold - percentage
tax to VAT**

BUSINESS TAX - PERCENTAGE TAX

Transition of registration

Illustration: Breach of VAT threshold

Mr. DDG is a newly registered non-VAT taxpayer engaged in merchandising of accessories on February 1, 2023. In June 2023, his cumulative gross sales/receipts reached P3,500,000.

Availed 8% income tax (upon BIR registration on February 1, 2023 or filing first quarterly income tax return)

- Register as VAT taxpayer on or before July 31, 2023 (within one month from the month when P3 million threshold was breached)
- File percentage tax return (sales/receipts and other non-operating income)
 - Coverage: February 1 to June 30, 2023
 - Deadline for filing/payment: July 25, 2023 (no penalty)
 - July 1, 2023 and onwards: Subject to VAT

BUSINESS TAX - PERCENTAGE TAX

Transition of registration

Registration Information Update

Breaching of VAT threshold that was previously presumed not met by Taxpayer



*Should be done within the month following from the date of breach

Percentage Tax (3%)

Vatable transactions (12%)



February

June

July

December

Breaching of VAT threshold

BIR Registration

Updating registration from Non-VAT to VAT*



Questions?



Thank you.

SGV | Building a better working world

SGV is the largest professional services firm in the Philippines. In everything we do, we nurture leaders and enable businesses for a better Philippines. This Purpose is our aspirational reason for being that ignites positive change and inclusive growth.

Our insights and quality services help empower businesses and the economy, while simultaneously nurturing our people and strengthening our communities. Working across assurance, tax, strategy and transactions, and consulting services, SGV teams ask better questions to find new answers for the complex issues facing our world today.

SGV & Co. is a member firm of Ernst & Young Global Limited. EY refers to the global organization, and may refer to one or more, of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients.

EY exists to build a better working world, helping to create long-term value for clients, people and society and build trust in the capital markets. Enabled by data and technology, diverse EY teams in over 150 countries provide trust through assurance and help clients grow, transform and operate.

Information about how EY collects and uses personal data and a description of the rights individuals have under data protection legislation are available via ey.com/privacy. For more information about our organization, please visit ey.com/ph.

© 2021 SyCip Gorres Velayo & Co.
All Rights Reserved.
UEN 198905395E

This material has been prepared for general informational purposes only and is not intended to be relied upon as accounting, tax or other professional advice. Please refer to your advisors for specific advice.

ey.com/ph