

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







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, barters, 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.



Who are liable to pay VAT?











BUSINESS TAX - VALUE-ADDED TAX Basic principles





Who are required to file VAT returns?



Any person or entity who, in the course of his trade or business, sells, barters, 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.





BUSINESS TAX - VALUE-ADDED TAX Applicable rates





BUSINESS TAX - VALUE-ADDED TAX Applicable rates

VAT base - goods



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



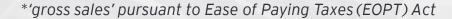
VAT BASE = Gross receipts*

Gross receipts

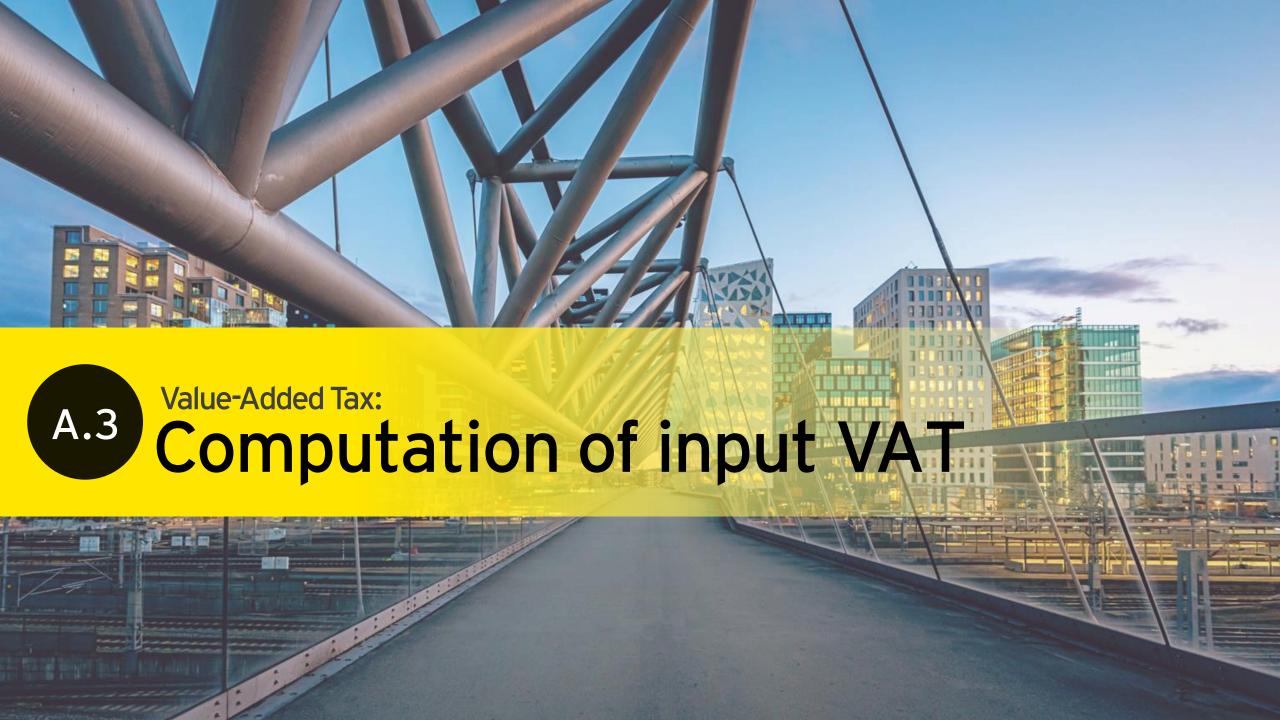
- Total amount of money or its equivalent representing the contract price, compensation service fee, rental or royalty
- Including the amount charged for materials supplied with the services
- Deposits applied as payments for services rendered
- Advance payments actually or constructively received during 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.







BUSINESS TAX - VALUE-ADDED TAX Computation of input VAT

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

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

Directly attributable to VATable transactions.

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

Input



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.



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.

BUSINESS TAX - VALUE-ADDED TAX Computation of input VAT

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

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





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:



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

BUSINESS TAX - VALUE-ADDED TAXSubstantiation 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.





BUSINESS TAX - VALUE-ADDED TAXSubstantiation requirements





Information contained in VAT invoice or VAT official receipt



A statement that the seller is a VATregistered person, followed by his TIN



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 "zerorated 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.



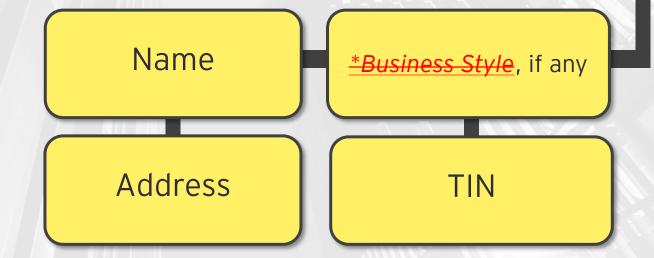
BUSINESS TAX - VALUE-ADDED TAX Substantiation requirements



Information contained in VAT invoice or VAT official receipt

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

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



*removed under EOPT Act



BUSINESS TAX - VALUE-ADDED TAX Substantiation requirements

Substantiation issues

Effect of failure to comply with the VAT invoicing requirements



Possible disallowance of input VAT



Administrative penalties





BUSINESS TAX - VALUE-ADDED TAX Administrative requirements

Deadline and Procedures





Within <u>twenty-five (25)</u> 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, serviceproviders





BUSINESS TAX - VALUE-ADDED TAX Administrative requirements

Deadline and Procedures

Summary List of Sales, Purchases, or Importations



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



Within 25 days following the close of each taxable quarter.



BUSINESS TAX - VALUE-ADDED TAX

Administrative requirements

Deadline and Procedures



- 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
- ✓ 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
- \checkmark The total amount of sales shall be system generated



BUSINESS TAX - VALUE-ADDED TAX

Administrative requirements

Deadline and Procedures



- 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



BUSINESS TAX - VALUE-ADDED TAX

Administrative requirements

Deadline and Procedures



- 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)







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 <u>not VAT-registered</u>, who sell goods, properties or services, whose annual gross sales and/or receipts <u>do not exceed three million pesos</u> (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.





BUSINESS TAX - PERCENTAGE TAX Applicable rates

CREATE/EOPT Acts

Effective 1 July 2020 until 30 June 2023

1%

of the gross quarterly sales

1 July 2023 onwards

3%

of the gross quarterly sales





BUSINESS TAX - PERCENTAGE TAX

Administrative requirements



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 <u>in lieu</u> of the graduated rates of income tax and percentage tax.





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)

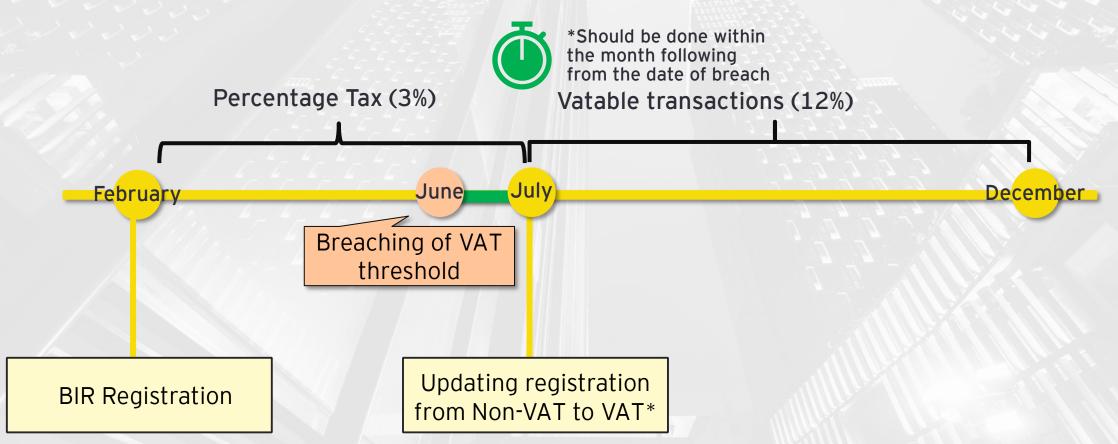
- Register as VAT taxpayer on or before July 31, 2023 (within one month from the month when P3 million threshold was breached)
- File percentage tax return (sales/receipts and other non-operating income)
 - Coverage: February 1 to June 30, 2023
 - Deadline for filing/payment: July 25, 2023 (no penalty)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







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