

REPUBLIC OF THE PHILIPPINES
DEPARTMENT OF FINANCE
BUREAU OF INTERNAL REVENUE
Quezon City

June 2, 2003

REVENUE REGULATIONS NO. 20-2003

SUBJECT : Amending Certain Provisions of Revenue Regulations No. 18-99, as amended by Revenue Regulations No. 12-2003, Implementing Section 5 of Republic Act No. 8424, Otherwise Known as the Tax Reform Act of 1997, and Other Pertinent Provisions of the National Internal Revenue Code of 1997 imposing VAT on Services of Banks, Non-bank Financial Intermediaries, and Finance Companies, beginning January 1, 2003 pursuant to Section 1 of Republic Act No. 9010.

TO : All Internal Revenue Officers and Others Concerned.

SECTION 1. SCOPE. - Pursuant to the provisions of Section 244 in relation to Section 108 and Section 106, on certain cases, of the National Internal Revenue Code of 1997, these Regulations are hereby promulgated to amend certain provisions of Revenue Regulations No. 18-99, as amended by Revenue Regulations No. 12-2003, governing the imposition of VAT on banks, non-bank financial intermediaries and finance companies in accordance with Section 5 of Republic Act No. 8424 which imposition was last deferred by Section 1 of Republic Act No. 9010.

SECTION 2. DEFINITION OF TERMS – Section 2 of Revenue Regulations No. 18-99, as amended by Revenue Regulations No. 12-2003, is hereby further amended by adding Sub-sections 2.12, 2.13, and 2.14 to read as follows:

“SECTION 2. Definition of Terms – For purposes of these Regulations, the terms enumerated hereunder shall have the following meaning:

XXX

XXX

XXX

2.12. Securities – shall include shares of stock in a corporation and rights to subscribe for or to receive such shares; and bonds, debentures, notes or certificates, or other evidence of indebtedness issued by any corporation, including those issued by the government, with interest coupons or in registered form.

2.13. Government Securities – shall refer to securities issued by the Republic of the Philippines or any of its agencies, instrumentalities, and political subdivisions.

2.14. Private Securities – shall refer to securities not covered by Sub-section 2.13. hereof.

SECTION 3. COMPUTATION OF OUTPUT TAX - Section 3 of Revenue Regulations No. 18-99, as amended by Revenue Regulations No. 12-2003, is hereby further amended by adding a new paragraph after Sub-section 3.7 to read as follows:

“SECTION 3. Computation of the Output Tax –

3.1. XXX XXX XXX

 XXX XXX XXX

3.7. XXX XXX XXX

Provided, however, that with respect to income, including net trading gains, on government securities where the financial institution-lender/investor primarily liable for paying the VAT thereon does not pass-on or shift to the government-borrower part or whole of the output tax (output VAT) due, the recognizable income of the said financial institution-lender/investor shall be net of the output tax (output VAT) assumed or not shifted to the customer/client which will be remitted by the financial institution-lender/investor to the Bureau of Internal Revenue (BIR). On the other hand, any output VAT passed-on or shifted to the government-borrower shall be remitted directly by the government-borrower to the BIR in the form of or as a withholding tax creditable against the value-added tax liability of the financial institution-lender/investor, as provided and allowed under Section 114 and Section 245 of the Tax Code of 1997. The creditable amount shall, nonetheless, be evidenced by a Certificate of Creditable Tax Withheld and Paid/Payable (BIR Form No. 2307) issued by the government-borrower.

Provided, the payment by the financial institution-lender/investor of the assumed part of the output tax (output VAT) shall be deemed payment by said financial institution-lender/investor of the VAT due from it on its interest income and net trading gains on government securities, it being understood that it is the government-borrower/withholding agent which shall be liable to pay and remit to the BIR the output VAT passed-on-shifted to and duly acknowledged by it, as evidenced by duly issued Certificate of Creditable Tax Withheld at Source, on said interest income and net trading gains.

Provided, furthermore, that if the output tax (output VAT) on the income of the financial institution is wholly or partly assumed by the said financial institution, the amount of its recognizable income is always net of the output tax (output VAT) assumed and not passed-on to customers/clients.

SECTION 4. TREATMENT OF OUTPUT TAX SHIFTED TO THE BUYER OF SERVICES - Section 4 of Revenue Regulations No. 18-99, as amended by Revenue Regulations No. 12-2003, is hereby further amended to read as follows:

“Section 4. Treatment of the Output Tax Shifted to the Buyer of Services.- In general, the payor of the income/fee who is a VAT-registered person shall be entitled to claim **as input tax credit** the output tax paid **and passed-on** by the financial institution. On the other hand, if the payor is not a VAT-registered person, the VAT passed-on by the payee shall form part of his cost. Provided, that a VAT receipt/invoice reflecting/showing separately the passed-on VAT shall be issued by the payee for all the **received** compensation for services **rendered, or goods sold in certain cases**, which shall be used as the evidence **by the payor** for the claim of input tax.

The output tax shifted by the financial institutions must be separately billed in the invoice/receipt, the provisions of Revenue Regulations No. 8-99 to the contrary notwithstanding.”

SECTION 5. INVOICING AND RECEIPT REQUIREMENT – Section 7 of Revenue Regulations No. 12-2003, as renumbered, is hereby further amended to read as follows:

“SECTION 7. Invoicing/Receipt Requirements – Unless otherwise allowed under pertinent provisions of the laws, rules/regulations, **or permitted by the Commissioner in meritorious cases**, financial institutions shall for each transaction subject to VAT, issue duly registered receipts (for sale of services) or duly registered invoice (for sale of goods) which must show the –

- (a) name, TIN (**with suffix of the word VAT**), **business style, if any**, and address of the financial institution;
- (b) date of transaction;
- (c) name, TIN, business style, if any, and address of the VAT-registered client;
- (d) **description of the nature of transaction**;
- (e) the invoice value or consideration **showing the VAT separately**;
- (f) **total amount billed or received; and**
- (g) **such other information as required in Sections 237 and 113 of the Code.**

“For income/fees/charges received by the financial institution, the invoice/receipt must show **the details of the transaction and** the total amount

charged/paid and the VAT-registered payor shall be entitled to an input tax **for the VAT reflected separately in the receipt/invoice.**

“Provided, however, that with respect to net trading gains from instruments other than government securities, net foreign exchange gains, and all other small items of income such as miscellaneous fees on returned checks, below minimum balances, dormant accounts, ATM withdrawals, etc., the financial institution shall be required to issue just one VAT Official Receipt reflecting the total transactions/net gains for the month and the corresponding total output tax due thereon. The word “various” shall be indicated in the space provided for the name of the customer in the invoice/receipt. However, the aforesaid Official Receipt cannot be used as basis in claiming input tax credits. **On the other hand, VAT invoice/receipt covering client’s transactions with the bank or other FI other than those mentioned under this sub-paragraph can be issued on a consolidated basis per client on a monthly basis provided all the information required in Sections 237 and 113 of the Tax Code of 1997 and under this Section are reflected in the invoice/receipt and provided further that the specific type of transaction is enumerated individually and the passed-on VAT reflected separately in the invoice/receipt.**

Moreover, it is to be emphasized that with respect to financial lease, the treatment shall be similar to that of the gross receipts of banks on financial intermediation services.

SECTION 6. REPEALING CLAUSE. – Any revenue issuances inconsistent herewith are considered amended, modified or revoked accordingly.

SECTION 7. EFFECTIVITY CLAUSE – These Regulations shall take effect beginning January 1, 2003, unless otherwise provided herein.

(Original Signed)
JOSE ISIDRO N. CAMACHO
Secretary of Finance

Recommending Approval:

(Original Signed)
GUILLERMO L. PARAYNO, JR.
Commissioner of Internal Revenue