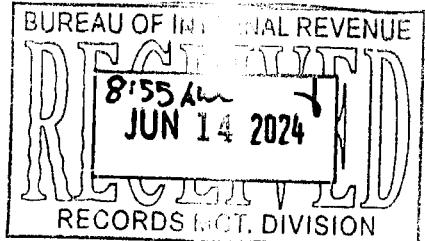




REPUBLIC OF THE PHILIPPINES
DEPARTMENT OF FINANCE
BUREAU OF INTERNAL REVENUE
National Office Building
Quezon City



JUN 13 2024

REVENUE MEMORANDUM CIRCULAR No. 65-2024

SUBJECT: Clarifies Certain Issues Relative to the Implementation of Section 19 of R.A. No. 11976, otherwise known as "Ease of Paying Taxes Act", Which Added Section 110(D) of the National Internal Revenue Code (NIRC) of 1997, as amended (Tax Code), that Introduced the Output VAT Credit on Uncollected Receivables

TO: All Internal Revenue Officials, Employees, and Others Concerned

This Circular is issued to clarify issues and set guidelines for the effective implementation of Section 110(D) of the Tax Code, as introduced in Republic Act (RA) No. 11976, also known as "Ease of Paying Taxes Act", which provides that:

"Output VAT Credit on Uncollected Receivables. - A seller of goods or services may deduct the output VAT pertaining to uncollected receivables from its output VAT on the next quarter, after the lapse of the agreed upon period to pay: Provided, That the seller has fully paid the VAT on the transaction: Provided, further, That the VAT component of the uncollected receivables has not been claimed as allowable deduction under Section 34(E) of this Code.

In case of recovery of uncollected receivables, the output VAT pertaining thereto shall be added to the output VAT of the taxpayer during the period of recovery."

Q1: What is the rationale of Section 110(D) above?

A1: Sales are either made in cash or on account.

In Cash sales, the seller, who has passed-on the VAT to the buyer has no problem in the corresponding VAT due thereon to the Bureau since the seller has already collected the agreed selling price, including the corresponding VAT.

In credit sales, the seller, without having received the payment therefor, agreed to part the goods or properties, or lease the properties, or to render service, upon sale, barter or exchange, secured only by a written agreement that the buyer thereof promises to pay the money owed including the VAT at a certain period (credit term). The seller, being the person statutorily liable for the payment of the VAT, pays in advance the VAT passed-on to the buyer to the Bureau. In some cases, the receivables are not collected. Under these circumstances, the seller would ordinarily recognize the uncollected receivable including the VAT as a bad debt and claim the same as a deduction from gross income following the provisions set forth under Revenue Regulations (RR) No. 5-99, as amended by RR No. 25-2002.

Founded on the interests of justice, the provision therefore provides an avenue by which a VAT-registered seller of goods or services can recoup the VAT paid in advance which was passed-on to the buyer and made part of the consideration resulting from the sale, barter or exchange on account or on credit, where such trade receivable has not been collected after the agreed period with the buyer. This rule covers credit of VAT shouldered and paid for by the seller.

Q2: What is the meaning of the phrase “*after the lapse of the agreed upon period to pay*”?

A2: For purposes of this Circular, the phrase “*after the lapse of the agreed upon period to pay*” means that the buyer, to whom goods or properties were sold, bartered or exchanged or to whom a property has been leased, or to whom service has been rendered upon written promise to pay the money owed and the passed on VAT at a certain period and where such period or extended date, as the case may be, has lapsed without the buyer having fulfilled the promise.

Q3: Who can claim or deduct output VAT credit on uncollected receivables?

A3: Only the seller of goods and/or services may deduct the output VAT which corresponds to the uncollected receivables originating from the sales on account that transpired upon the effectivity of RR No. 3-2024 from the output VAT of the next quarter after the lapse of the agreed upon period to pay.

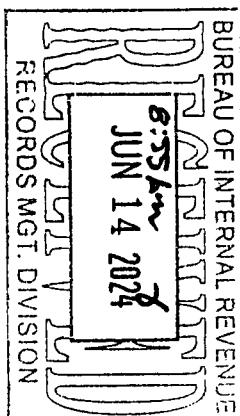
Q4: What are the conditions before a seller can credit the VAT paid on the uncollected receivables?

A4: To be entitled to VAT credit, the following requisites must be present:

1. The sale or exchange has taken place after the effectivity of RR No. 3-2024;
2. The sale is on credit or on account;
3. There is a written agreement on the period to pay the receivable, i.e. credit term is indicated on the invoice or any document showing the credit term;
4. The VAT is separately shown on the invoice;
5. The sale is specifically reported in the Summary List of Sales covering the period when the sale was made and not reported as part of “various” sales;
6. The seller declared in the BIR Form No. 2550Q or the quarterly VAT Return (QVR) the corresponding output VAT indicated in the invoice within the period prescribed under existing rules;
7. The period agreed upon, whether extended or not, has lapsed; and
8. The VAT component of the uncollected receivable was not claimed as a deduction from gross income (i.e. bad debt) pursuant to Section 34(E) of the Tax Code.

Q5: Do the preceding rules have an effect to the deductibility of bad debts expense for purposes of income tax?

A5: No. These rules do not amend the conditions on the deductibility of bad debts expense in the income tax returns as provided in RR No. 25-2002. For purposes of claiming output VAT credit on uncollected receivables, mere lapse of the agreed upon period to pay even without any effort on the part of the seller to collect the sales on account shall entitle the seller of output VAT credit subject to the conditions under Q&A No. 4 above.



Q6 Is the seller required to automatically credit the VAT paid every time there is an uncollected receivable due to the lapse of the agreed upon period?

A6: No. Availing of the benefit under Section 110(D) of the Tax Code is merely an option. The seller may not necessarily automatically claim the output VAT credit on the uncollected receivable especially so if the likelihood of collectability is high. This will save the hassle on the part of the seller to claim the said VAT credit, only to reverse the same in the eventual collection of the receivable.

Q7: When can the seller claim output VAT credit on uncollected receivables?

A7: Section 110(D) mandates that the claim for output VAT credit on uncollected receivables shall be on the next quarter, after the lapse of the agreed upon period to pay.

Illustration:

ABC Corp. supplies merchandise to its clients on account payable within 90 days. The sales transaction are as follows:

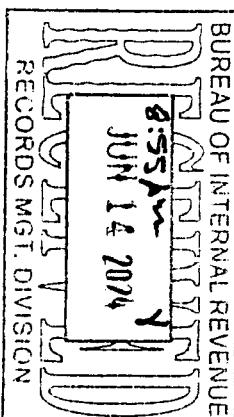
Date of Sale	Due Date	Amount	VAT	Status as of		
				30-Sep-2024	31-Dec-2024	31-Mar-2025
15-Apr-2024	14-Jul-2024	P100,000.00	P12,000.00	Collected	Collected	Collected
20-May-2024	18-Aug-2024	P200,000.00	P24,000.00	Uncollected	Collected	Collected
30-Jun-2024	28-Sep-2024	P300,000.00	P36,000.00	Uncollected	Uncollected	Uncollected

- In this scenario, the corresponding output VAT for the sales covering April to June 2024 were declared in the QVR ending June 30, 2024 and the current quarter where the failure to collect the receivable happened in September 30, 2024. ABC Corp. may claim as output VAT credit in the quarter ending December 31, 2024 which is the next QVR after the lapse of the agreed period to pay during the quarter ending September 30, 2024 the VAT component of the uncollected receivables pertaining to the sales on account on June 30, 2024 as it fell due on September 28, 2024 and remained uncollected as of December 31, 2024.
- Since the sales on account on June 30, 2024 remained uncollected as of March 31, 2025, can ABC Corp. deduct again its VAT component in the QVR for the quarter ending March 31, 2025?

No. The 90-day period, counting from June 30, 2024 lapsed on September 28, 2024. The VAT component of the uncollected receivables for the month of June 2024 can only be claimed ONCE as deduction from output VAT of the next quarter after the lapse of the agreed period to pay (in this case quarter ending December 31, 2024).

- Following the preceding question, if the seller failed to claim the corresponding VAT credit on the QVR ending December 31, 2024, can the seller claim the VAT credit on the QVR ending March 31, 2025 if it remained uncollected?

Yes. Provided, the seller and the buyer agreed for an extended period to pay until December 31, 2024. The seller may claim the output VAT credit on the uncollected receivable on the QVR ending March 31, 2025 if it remained uncollected on March 31, 2025. Note that Section 110(D) of the Tax Code limits the claim for deduction "from the output VAT on the next quarter" only, after the lapse of the agreed period to pay.



Q8: What happens if there is subsequent recovery of uncollected receivables where the output VAT was already claimed as VAT credit?

A8: The corresponding output VAT of the subsequently collected or recovered receivables previously claimed as VAT credit shall be reported and declared in the taxable quarter in which the recovery or collection is made. In case of failure to declare, the penalties under existing rules and regulations shall apply.

Illustration:

ABC Corp. supplies merchandise to its clients on account payable within 90 days. The sales transaction are as follows:

Date of Sale	Due Date	Amount	VAT	Status as of		
				30-Sep-2024	31-Dec-2024	31-Mar-2025
15-Apr-2024	14-Jul-2024	P100,000.00	P12,000.00	Collected	Collected	Collected
20-May-2024	18-Aug-2024	P200,000.00	P24,000.00	Uncollected	Collected	Collected
30-Jun-2024	28-Sep-2024	P300,000.00	P36,000.00	Uncollected	Uncollected	Collected

In this scenario, the sales on account on June 30, 2024 was declared in the QVR of June 30, 2024 and the corresponding output VAT was claimed as credit in the QVR of December 31, 2024 but was subsequently collected during the taxable quarter ending March 31, 2025. ABC Corp. shall declare the recovered output VAT in the QVR for the quarter ending March 31, 2025.

Q9: What is the effect on the input tax claimed by the delinquent buyer when the seller availed of the output VAT credit on uncollected receivable?

A9: The corresponding input tax claimed by the buyer shall not be allowed as input VAT credit the moment the seller claims output VAT credit on such uncollected receivable.

Q10: How will the seller document the particular sales on account where the corresponding output VAT credit was claimed for being uncollected receivable?

A10: The seller shall stamp “Claimed Output VAT Credit” on the duplicate/triplicate copy/ies (seller’s copy) of the corresponding invoice issued for the uncollected receivable. In case there is a partial payment on the said uncollected receivable, the amount collected therefrom and the balance of the uncollected receivable shall also be indicated.

The seller is not precluded from issuing supplementary sales document such as credit memo or credit note on top of the stamping of “Claimed Output VAT Credit” on the invoice to serve as proof thereto and/or as a basis in recording the same in the books of accounts of the seller. The seller shall indicate in the supplementary sales document the phrase “Claimed Output VAT Credit” and must indicate the Invoice that is the origin of the transaction that was declared as uncollected.

Q11: Is the seller required to provide the buyer a copy of the invoice stamped with the phrase “Claimed Output VAT Credit” and credit memo or credit note to the buyer?

A11: Yes. The seller shall provide the buyer a copy of the said documents so the buyer can adjust and deduct the corresponding input VAT claimed accordingly. However, in case the seller failed to provide the buyer such documents, the buyer can voluntarily reverse its claimed input VAT credit in its QVR.

Q12: What are the implications if the buyer failed to deduct accordingly in the available input taxes in its QVR the corresponding input VAT from the unpaid account from the seller?

A12: The buyer shall be liable for the deficiency VAT due including applicable statutory penalties if it was found out during audit by the BIR or if the buyer decides to amend its QVR to reflect such adjustment.

Q13: How should the output VAT credit be presented/declared in the VAT Return?

A13: As a work-around procedure or until such time that a new version of the BIR Form No. 2550Q has been issued for this purpose, the output VAT credit shall be presented/declared in the QVR of the seller and the buyer as follows:

Filer	Version Used	Seller	Buyer
EFPS	February 2007 (ENCS)	Line 26G "Others"	Line 23E "Others"
eBIR Forms and Manual Filers	January 2023 (ENCS)	Line 19 "Other Credits/Payment and specify as "Output VAT Credit on Uncollected Receivables"	Line 53 "Other Credits/Payment and specify as "Input VAT Claimed from Unpaid Purchases on Account"

Q14: For purposes of claiming the output VAT credit on uncollected receivables, how should the sale be declared on the Summary List of Sales?

A14: The customer/buyer must be properly identified in the Summary List of Sales in the quarter when the sale was made. However, if the seller lumps all sales into one "various" account entry, the lumping shall be considered invalid compliance with the requisites provided for purposes of claiming the output VAT credit on uncollected receivables and the output VAT cannot be used or allowed as VAT Credit should the transaction remain uncollected after the lapse of the agreed period to pay.

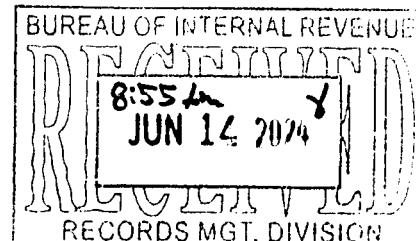
Q15: Who are not qualified to avail the tax credit on VAT paid on uncollected receivables?

A15: The following taxpayers are disqualified to avail output VAT tax credit on uncollected receivables:

1. Those tagged as cannot be located (CBL) taxpayers;
2. Those with duly filed complaints at the DOJ under the Run After Fake Transaction (RAFT) and Run After Tax Evaders (RATE) programs;
3. Other taxpayers that may be identified by the Commissioner.

Q16: What happens if the goods were returned during the agreed upon period to pay and the output VAT is not yet paid?

A16: The return is treated as a sales return and therefore a deduction from gross sales in the quarter where the goods were returned.



Q17: What happens if the goods were returned and accepted by the seller but the claim for output VAT credit has been made?

A17: This is treated as sales return but for purposes of VAT, no deduction on sales and output VAT shall be allowed since the claim for output VAT credit has already been made.

Q18: What are the implications if there is partial or full collection of the previously uncollected receivable for which output VAT credit output had been claimed?

A18: In case of partial or full recovery of uncollected receivable, the output VAT pertaining to that partial collection shall accrue and must be added to the output VAT of the seller during the period of recovery.

Q19: Is the seller required to issue an invoice upon the recovery of previously uncollected receivable?

A19: No. The seller shall stamp the phrase “Recovered” in the Invoice that is the origin of the transaction that was previously declared as uncollected and the amount collected, if partial, on the same duplicate/triplicate copy/ies (seller’s copy) of the corresponding invoice issued for the uncollected receivable.

The seller is not precluded from issuing supplementary sales document such as debit memo or debit note to serve as proof thereto. In this instance, the seller shall indicate in the supplementary sales document the phrase “Recovery of Previously Reported Uncollected Receivable” and must indicate the Invoice that is the origin of the transaction that was previously declared as uncollected. Consequently, the seller shall provide a copy of the said documents to the buyer.

Q20: How should the output VAT of recovered or subsequently collected receivables be presented/declared in the VAT Return?

A20: As a work-around procedure or until such time that a new version of the BIR Form No. 2550Q has been issued for this purpose, the seller and the buyer shall reflect the corresponding output VAT as follows:

Filer	Version Used	Seller	Buyer
EFPS	February 2007 (ENCS)	Line 23E “Others”	Line 20E “Others”
eBIR Forms and Manual Filers	January 2023 (ENCS)	Line 53 “Others” and indicate “Output VAT on Recovered Previously Claimed Uncollected Receivable”	Line 40 “Others” and indicate “Input VAT on Paid Purchases on Account Previously Unsettled”

Q21: Will the outstanding receivables on sale of goods where the corresponding output VAT has been declared but the period to collect has already lapsed as of the effectivity of RR No. 3-2024 qualify for output VAT credit under Section 110(D) of the Tax Code?

A21: No. The output VAT credit on uncollected receivables shall only apply to sales of goods and/or services on account that transpired upon the effectivity of RR No. 3-2024.

All revenue issuances and BIR Rulings inconsistent herewith are hereby considered amended, modified or revoked accordingly.

All internal revenue officers, employees and others concerned are hereby enjoined to strictly implement the provision of this Circular.

This Circular takes effect immediately.



A handwritten signature of Romeo D. Lumagui, Jr. followed by the title "ROMEO D. LUMAGUI, JR." and "Commissioner of Internal Revenue".

