

REPUBLIC OF THE PHILIPPINES  
DEPARTMENT OF FINANCE  
**BUREAU OF INTERNAL REVENUE**

February 8, 2013

**REVENUE MEMORANDUM CIRCULAR NO. 16-2013**

SUBJECT : Clarifying the Tax Implications and Recording of Deposits/Advances for Expenses Received by Taxpayers not covered by Revenue Memorandum Circular No. 89-2012

TO : All Internal Revenue Officers and Others Concerned

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This Circular is being issued to provide guidelines to be observed in accounting and recording of deposits/advances for the payment of the pertinent expenses received by taxpayers other than General Professional Partnerships (GPP) covered by Revenue Memorandum Circular (RMC) No. 89-2012 dated December 28, 2012.

**I. Policies and Guidelines**

**Deposits/Advances Part of Gross Receipts**

When cash deposits or advances are received by taxpayers other than GPP covered by RMC 89-2012 from the Client/Customer, a corresponding Official Receipt shall be issued. The amount received shall be booked as Income and shall form part of the Gross Receipts and subject to Value-added Tax (VAT) or Percentage Tax (Gross Receipt Tax), if applicable, and shall in turn be deductible as expense by the Client/Customer provided that it is duly substantiated by Official Receipts pursuant to Section 34 (A) (1) of the Tax Code.

**Claim for Deduction of Expenses**

Receipts incurred, paid for and issued in the name of the taxpayer shall be recorded as its own expenses for income tax purposes. These expenses shall be claimed as deductions from gross income provided these are duly substantiated by Official Receipts/Invoices issued by third-party establishments.

## **Income Payments are subject to appropriate Withholding Taxes**

All Client/Customer shall, upon payment of deposits/advances, withhold tax at the rate prescribed in Revenue Regulations No. (RR) 2-98, as amended, which shall be remitted/paid on or before the 10<sup>th</sup> day of the following month using the Monthly Remittance Return of Creditable Income Taxes Withheld (Expanded) [BIR Form No. 1601E] except for taxes withheld for the month of December of each year, which shall be filed on or before January 15 of the following year pursuant to RR 2-98, as amended. For those filing using the Electronic Filing and Payment System (EFPS), the regulations pertaining to EFPS filers shall apply.

## **Issuing Official Receipts for the Deposit and Advances**

An Official Receipt shall be issued for every deposit and advances pursuant to Section 113 of the Tax Code. The Official Receipt shall cover the entire amount which the Client/Customer pays.

For VAT Taxpayers, the VAT Official Receipt will constitute the Output Tax for taxpayers other than GPP and in turn, the input tax of its client/customer.

## **II. PRO-FORMA ENTRIES**

Upon receipt of the deposit/advances, the same shall be treated and recorded as outright Income.

### *Accounting entries in the Books of the Taxpayer other than GPP*

#### a. For VAT Taxpayers

	<u>Dr.</u>	<u>Cr.</u>
Cash	xxx	
Prepaid Income Tax (Creditable)	xxx	
Income		xxx
Output VAT		xxx

#### b. For Non-VAT Taxpayers

	<u>Dr.</u>	<u>Cr.</u>
Cash	xxx	
Prepaid Income Tax (Creditable)	xxx	
Income		xxx

In turn, upon making deposit/advances for the necessary expenses, the Client/Customer shall treat such deposit/advances as an outright expense.

*Accounting entries in the Books of the Client/Customer*

a. For VAT Taxpayers

	<u>Dr.</u>	<u>Cr.</u>
Expense	xxx	
Input VAT	xxx	
Cash		xxx
Withholding Tax Payable		xxx

b. For Non-VAT Taxpayers

	<u>Dr.</u>	<u>Cr.</u>
Expense	xxx	
Cash		xxx
Withholding Tax Payable		xxx

All revenue officials and employees are enjoined to give this Revenue Memorandum Circular as wide a publicity as possible.

This Circular shall take effect immediately.

(Original Signed)

**KIM S. JACINTO-HENARES**

Commissioner of Internal Revenue