

REPUBLIC OF THE PHILIPPINES
DEPARTMENT OF FINANCE
BUREAU OF INTERNAL REVENUE

December 29, 2003

REVENUE MEMORANDUM ORDER No. 5-2004

Subject: Prescribing the Guidelines and Procedures in the Implementation of Revenue Regulations No. 29-2003 on the Advance payment of Value Added Tax on the Sale of Flour

To: All Internal Revenue Officers and others concerned

I. Objectives

This order is issued to:

1. Provide uniform guidelines and procedures in the processing of advance payment of VAT on imported wheat by the flour miller and permits related to the withdrawal thereof from the Bureau of Customs and purchases from the wheat traders;
2. Prescribe reporting requirements for the effective control and monitoring of tax compliance of advance VAT payments on wheat;
3. Delineate the duties and responsibilities of all revenue offices in the processing of permit to withdraw imported wheat from the Bureau of Customs and purchase from the wheat traders.

II. Policies and Guidelines

1. The VAT on the sale of flour milled from imported wheat shall be paid in advance by the flour miller. The advance VAT shall be paid at the Accredited Agent Banks of the LTS/LTDO/RDO where the flour miller is registered.

2. For importation of wheat, the Bureau of Customs shall not allow the withdrawal of the wheat unless advance VAT due from such transaction is paid and the ATRIG is presented by the flour miller.

For local purchases, the wheat trader shall not allow the withdrawal of the wheat bought by the flour miller unless the Certificate of Advance Payment on VAT on Flour paid by such flour miller (Annex “A”) is presented.

3. For purposes of this RMO: **Flour Miller** is a person who is engaged in the milling of imported wheat to produce flour as finished product, where such wheat may be directly imported or purchased from an importer/trader.

Wheat Trader is a person who is engaged in the importing/buying and selling of imported wheat.

4. For importation of wheat by millers and traders, the application for ATRIG shall be filed with the following offices:
 - a. LTAD II for Large Taxpayers registered with RDO 116, 121 and 122
 - b. LTDO-Cebu for Large Taxpayers registered with RDO 123
 - c. RDO having jurisdiction over the port of entry for all other taxpayers
5. For domestic purchases of wheat by millers from traders, the application for Certificate of Advance Payment of VAT on Flour shall be filed in duplicate with the RDO / LTAD II / LTDO where the flour miller is registered or required to be registered. The application for Certificate of Advance Payment of VAT on Flour shall be distributed as follows:

Original	- RDO / LTAD II / LTDO
Duplicate	- Flour Miller

6. The procedures and guidelines in the processing and issuance of AUTHORITY TO RELEASE IMPORTED GOODS (ATRIG) for excise and value-added tax provided for under Revenue Memorandum Order No. 35-2002 shall apply in the processing of ATRIG covering the importation of wheat subject to advance VAT payment under the provisions of Revenue Regulations No. 29-2003.
7. The application for Certificate of Advance Payment of VAT on Flour shall be processed, approved and issued within one (1) day from the time of actual receipt of complete supporting documents.

8. Importation of wheat by any trader shall be exempt from the payment of advance VAT. However, in order to monitor all importation of wheat regardless of its intended use, the importer, whether miller or trader, shall be required to secure ATRIG from the BIR.
9. The importation of wheat shall be treated as an exception to the list of imported articles exempted from the issuance of ATRIG as contained in the BIR-BOC Joint Memorandum Circular No. 1-2002 dated September 16, 2002.
10. The importer of wheat, whether miller or trader, is required to comply with the requirements of Section 4 of Revenue Regulations No. 8-2002 in the submission of quarterly summary list of sales, purchases and importations of wheat.
11. The RDO / LTAD II / LTDO shall comply with the report requirements on the processing and issuance of ATRIG provided for under the provisions of RMO No. 35-2002.
12. The RDO / LTAD II / LTDO shall submit to the Regional Office/Large Taxpayers Service a monthly summary of all issued Certificate of Advance Payment of VAT on Flour.

III. PROCEDURES

A. IMPORTATION OF WHEAT

The LTAD II / LTDO-Cebu / RDO having jurisdiction over the port of entry shall:

1. Check if the application for ATRIG, payment form (BIR Form 0605) covering the advance VAT and other requirements set forth under RMO 35-2002 have been complied with;
2. In case where the application is in order, the same shall be received in the following manner:
 - a. Stamp or print the word “RECEIVED” on the original and duplicate copies of the application;
 - b. Indicate the time and date of receipt of the application; and

- c. Affix the receiving officer's signature or initials on the appropriate space in the application form
3. In case the importer is a flour miller, verify if the advance VAT on the importation of wheat has been correctly paid and validate with the ITS database if the advance VAT has been received by the BIR;
4. Process application for ATRIG in accordance with Revenue Memorandum Order No. 35-2002, prescribing the guidelines for processing and issuance of ATRIG for imported goods subject to excise tax and value-added tax

B. PURCHASE OF WHEAT BY A FLOUR MILLER FROM A WHEAT TRADER

The RDO / LTAD II / LTDO where the flour miller is registered shall:

1. Check if the letter request for application for Certificate of Advance Payment is filed with complete supporting documents, such as:
 - a. Sales Invoice/Official receipts
 - b. Estimated freight expenses duly certified to by the seller/buyer
 - c. Computation of the advance VAT
 - d. Xerox copy of advance VAT paid (BIR Form 0605)
2. In case where the application is in order, the same shall be received in the following manner:
 - a. Stamp or print the word "RECEIVED" on the original and duplicate copies of the application;
 - b. Indicate the time and date of receipt of the application; and
 - c. Affix the receiving officer's signature or initials on the appropriate space in the application form
3. Verify if the advance VAT on the wheat purchased by a flour miller from a wheat trader has been correctly paid and validate with the ITS database if the advance VAT has been received by the BIR;
4. Process application for Certificate of Advance VAT on Flour;
5. Release approved Certificate of Advance VAT on Flour, in triplicate, to the flour miller

- a. Original – Wheat Trader’s copy
- b. Duplicate – Wheat Miller’s copy
- c. Triplicate – Issuing Office’s copy

C. COMPUTATION OF THE ADVANCE VAT ON FLOUR

- a. For wheat imported by Flour Millers, the Advance VAT is computed as follows:**

$$\text{Advance VAT} = \text{Tax Base} \times 10\%$$

$$\begin{aligned} \text{Tax Base} = 75\% \times & \text{(sum of a. invoice value} \times \text{current exchange rate on the} \\ & \text{date of payment} \\ & \text{b. estimated customs duties and other charges} \\ & \text{prior to release from customs custody except} \\ & \text{VAT} \\ & \text{c. 5 \% mark-up on the sum of a and b)} \end{aligned}$$

Example:

A flour miller imported wheat amounting to U\$20,000. The estimated customs duties totaled P250,000.00. The current exchange rate at the time of payment was P54.55 per U\$1.00. How much is the advance VAT?

$$\begin{aligned} \text{Advance VAT} &= 1,056,037.50 \times 10\% \\ &= \underline{\underline{\mathbf{P105,603.75}}} \end{aligned}$$

$$\begin{aligned} \text{Tax Base} &= 75\% \times \{(20,000 \times 54.55) + 250,000 \\ &\quad + 5\%(1,091,000 + 250,000)\} \end{aligned}$$

b. For wheat purchased by Flour Millers from Wheat Traders

$$\text{Advance VAT} = \text{Tax Base} \times 10\%$$

$$\text{Tax Base} = 75\% \times (\text{sum of: a. invoice value} \\ \text{b. estimated freight} \\ \text{c. 5 \% mark-up on the sum of a and b})$$

Example:

A flour miller purchased wheat from BCD Company, a wheat trader, amounting to P900,000.00. The estimated freight was at P20,000.00. How much is the advance VAT?

$$\begin{aligned} \text{Advance VAT} &= 724,500.00 \times 10\% \\ &= \underline{\underline{\text{P72,450.00}}} \end{aligned}$$

$$\begin{aligned} \text{Tax Base} &= 75\% \times \{900,000 + 20,000 \\ &\quad + 5\%(900,000 + 20,000)\} \end{aligned}$$

- D. The Advance VAT paid by the Flour Miller shall, in addition to the Input VAT Credit and other allowable tax credits/payments, be allowed as deduction against their output tax, under Section 107 of the 1997 NIRC.

The details of advance VAT payment on Flour shall be indicated in the Quarterly VAT Return. Pending revision of the Quarterly VAT Return, such information shall be written/reflected in Schedule II of the Quarterly VAT Return (BIR Form 2550Q) version April 2002 (ENCS).

IV. PENALTY CLAUSE

Any violation of the provisions of these Regulations shall be subject to the penalties provided for in Sections 254 and 275, and other pertinent provisions of the National Internal Revenue Code of 1997, as amended.

V. REPEALING CLAUSE

The provisions of internal revenue issuances inconsistent herewith are hereby repealed, modified or amended accordingly.

VI. EFFECTIVITY

This order shall take effect immediately.

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