

REPUBLIC OF THE PHILIPPINES  
DEPARTMENT OF FINANCE  
BUREAU OF INTERNAL REVENUE

Quezon City

February 1, 2008

**REVENUE MEMORANDUM CIRCULAR NO.46 - 2008**

**SUBJECT :** Clarification of Issues Concerning Common Carriers by Air and Their Agents Relative to the Revenue and Receipt from Transport of Passengers, Goods/Cargoes and Mail, and from Excess Baggage.

**TO :** All Air Transport Operators, Their Agents, Internal Revenue Officers and Others Concerned

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**I. Background**

This Revenue Memorandum Circular is issued to clarify certain provisions of the National Internal Revenue Code of 1997, as amended (Code), as it applies to Air Transport Operators and their various Travel Agents as herein defined, as well as, their suppliers to ensure that the law is properly implemented and taxes are properly collected, in a manner consistent with acceptable business practices.

**II. Definition of Terms**

1. **Common Carrier** – refers to individuals, corporations, firms or associations engaged in the business of carrying or transporting passengers or goods or both, by land, water, or air, for compensation, offering their services to the public and shall include transportation contractors.
2. **Gross Receipts** – shall refer to the 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 and advance payments actually or constructively received during the taxable period for the services performed or to be performed for another person, excluding VAT, but shall not include amount earmarked for remittance to a third party as agreed in an implied or express contract or mandated by law and invoiced/receipted by such third party directly to the real customer or actual recipient of the service.

For common carriers by air, gross receipts is the amount actually or constructively received as compensation for their services of undertaking the contract of carriage by air.

3. **International Air Carrier** – shall refer to a foreign airline corporation doing business in the Philippines having been granted landing rights in any Philippine port to perform international air transportation services/activities or flight operations from the Philippines to anywhere in the world and vice versa, in the case of on-line carrier, or having maintained business establishment, agent or representative office in the Philippines for the sale of its own tickets/passage documents or tickets/passage documents of other airline companies, which airline companies operate without touching any Philippine port, in the case of off-line carrier. International air carrier includes both off-line carrier and on-line carrier.
4. **Automated Ticketing System** – refers to an automated process which comprises the equipment, programs and procedures which allows access to airline data stored in a Customer Reservation System (CRS) or airline reservation system for the automated issuance of Standard Traffic Documents.
5. **Electronic Ticketing** – refers to a method utilized to document the sale of passenger transportation services (electronic ticket) and other related services (electronic miscellaneous documents) without requiring the issuance of paper value documents.
6. **Travel Agents** – shall refer to International Air Transport Association's (IATA's) duly accredited travel agents who are authorized to issue in the Philippines tickets of on-line and off-line international air carriers.
7. **IATA Cargo Accounts Settlement System (CASS) Cargo Agents** – shall refer to IATA's duly accredited cargo agents who are authorized to issue in the Philippines cargo airway bills/passage documents of on-line international air carriers.
8. **General Sales Agents** – shall refer to travel agents/cargo agents that deal exclusively for and on behalf of a domestic carrier, or an on-line international air carrier, or an off-line international air carrier, and earn commission income for their services.
9. **Refund** – refers to the repayment to the purchaser of all or a portion of a fare rate or charge for unused carriage or service.

### **III. Questions and Answers**

**Q-1:** *What kinds of common carriers are subject to 10% VAT rate effective November 1, 2005, and to 12% VAT rate effective February 1, 2006 under Republic Act (RA) No. 9337?*

**A-1:** Domestic common carriers by air and sea relative to their transport of passengers, goods or cargoes from one place in the Philippines to another place in the Philippines are now subject to 12% VAT, but with respect to transport of passengers, goods and cargoes from the

Philippines to any foreign port, the same is subject to VAT at zero-rate (0%). Domestic common carriers which transport goods and cargoes by land, however, are already covered by VAT even prior to R.A. 9337.

Common carriers by land with respect to their gross receipts from the transport of passengers including operators of taxicabs, utility cars for rent or hire driven by the lessees and tourist buses used for the transport of passengers shall continue to be subject to the 3% percentage tax/common carrier's tax imposed under Section 117 of the Code, but shall not be liable for VAT. On-line international common carrier by air and sea shall continue to be subject to the 3% common carrier's tax under Section 118 of the Code.

**Q-2:** *What transactions of domestic air carriers are subject to 12% VAT?*

**A-2:** Transport of passengers, goods or cargoes from one place in the Philippines to another place in the Philippines is subject to 12% VAT. Gross receipts derived from transactions incidental to the main operations shall likewise be subject to 12% VAT.

**Q-3:** *Are on-line international air carriers subject to VAT?*

**A-3:** No. On-line international air carriers (international air carriers that touch any port in the Philippines as part of their carriage operation) are exempt from VAT. They are liable to the three percent (3%) percentage tax on their gross receipts from outbound fares and freight, pursuant to Section 118 of the Code.

**Q-4:** *What about domestic air carriers engaged in both domestic and international transport operations, are they subject to VAT on both operations?*

**A-4:** No. Domestic air carriers are subject to VAT only on their services performed within the Philippines. The 12% VAT shall apply to their income derived from domestic operations as mentioned under A-2 above. However, their international transport operations involve both services performed within the Philippines and services performed without. Their income from services involving the transport of passengers, goods and cargoes from the Philippines to a foreign country are derived from within but subject to zero-rate VAT pursuant to Section 108(8) of the Tax Code. On the other hand, their income from international transport operations involving the transport of passengers, goods and cargoes from a foreign country to the Philippines are income derived from services rendered outside the Philippines, hence, exempt from business taxes (including the VAT), due to lack of tax jurisdiction.

**Q-5:** *In the case of transport by a domestic air carrier (engaged in both domestic and foreign operations) of passengers and/or cargoes from a domestic port to a foreign port but passing through another domestic port to load additional passengers and/or cargoes bound for foreign*

*destination, will the entire journey be subject to a zero rate VAT?*

- A-5: Yes, the receipts from the entire journey from a domestic port to a foreign port shall be subject to zero rate VAT. However, if before proceeding to the foreign port the carrier loads passengers and/or cargoes from a domestic port and unloads them in another domestic port, the gross receipts therefrom (domestic port to another domestic port) shall be subject to 12% VAT.
- Q-6: *Can on-line international air carriers opt to be under the VAT system and be subject to VAT at zero-rate on their outbound international operations similar to domestic air carriers registered as domestic corporations?*
- A-6: No. The business of an international air carrier is exempt from VAT because it is a sale of services subject to percentage tax. If the main business is exempt from VAT, the VAT-exempt person can not elect that the said exempt business/es be placed under the VAT system. The option to be subject to VAT on its exempt transactions is available only to a VAT-registered person pursuant to Section 109(2) of the Code, as amended by R.A. 9337.
- Q-7: *Are domestic air carriers with international operations considered as "international air carriers" and be subject to the 3% percentage tax under Sec. 118 instead of zero-rate VAT?*
- A-7: No. As defined, international air carrier refers to foreign airline companies only and does not include domestic airline corporations with international operation.
- Q-8: Will air carriers operating under a government franchise still be required to pay the franchise tax in addition to the VAT?
- A-8: No. The VAT is in lieu of the franchise tax.
- Q-9: *Are the sale, importation or lease of passenger or cargo aircraft, including engine, equipment and spare parts thereof for domestic or international transport operations exempt from VAT?*
- A-9: The sale, importation or lease of passenger or cargo aircraft, including engine, equipment and spare parts thereof for domestic or international transport operations is VAT-exempt pursuant to Section 109(2) of the Code, as amended by R.A. 9337.
- Q-10: *Are importations of fuel, goods and supplies by persons engaged in international air transport operation exempt from VAT?*
- A-10: The importation of fuel, goods and supplies for use in the international air transport operations is VAT exempt. *Provided*, that the said fuel, goods and supplies shall be used exclusively or shall pertain to the transport of goods and/or passenger from a port in the Philippines

directly to a foreign port without stopping at any other port in the Philippines to unload passengers and/or cargoes loaded in and from another domestic port; *Provided*, further, that if any portion of such fuel, goods or supplies is used for purposes other than that mentioned in this paragraph, such portion of fuel, goods and supplies shall be subject to 12% VAT.

**Q-11:** *Are sales of goods, supplies, equipment, fuel and services to persons engaged in international air transport operation subject to VAT?*

**A-11:** The sale of goods, supplies, equipment, fuel and services (including leases of property) to the common carrier to be used in its international air transport operations is zero-rated. *Provided*, that the same is limited to goods, supplies, equipment, fuel and services pertaining to or attributable to the transport of goods and passengers from a port in the Philippines directly to a foreign port without docking or stopping at any other port in the Philippines to unload passengers and/or cargoes loaded in and from another domestic port; *Provided*, further, that if any portion of such fuel, equipment, goods or supplies and services is used for purposes other than that mentioned in this paragraph, such portion of fuel, equipment, goods, supplies and services shall be subject to 12% VAT.

**Q-12:** *Are importation of fuel by an air transportation company exclusively engaged in international operation automatically exempt from VAT? What about his purchases of fuel from domestic suppliers? Will these purchases automatically qualify as zero rated?*

**A-12:** Direct importations of fuel by an air transportation company exclusively engaged in international operations are considered VAT exempt. However, the importer has to secure a VAT-exempt Authority to Release Imported Goods (ATRIG) from the appropriate BIR office prior to the release of the imported fuel from the custody of the Bureau of Customs (BOC).

With respect to its domestic purchases of fuel, considering that the same are normally loaded directly to the international carrier, the sales thereof by its suppliers are considered as zero-rated. The seller of the fuel must issue a zero-rated VAT invoice in the name of the international carrier and the same must be supported by Delivery Receipt or any document, evidencing the actual loading of the fuel to the international carrier/vessel duly acknowledged by its captain or duly authorized representative.

**Q-13:** *How shall we tax petroleum products imported by/directly sold to air transportation companies that are engaged in both domestic and international operations?*

**A-13:** It will depend on the nature of procurement of petroleum products by these air transport operators:

1. If the transport operators locally procure petroleum products on a per flight basis, such that the specific purchase of the fuel can be directly identified to be used by the loading aircraft for outbound flight, the said sales are zero-rated or the importation is VAT-exempt. The domestic seller of the fuel must issue a zero-rated VAT invoice in the name of the carrier and the same must be supported by Delivery Receipt or any document evidencing the actual loading of the fuel to the carrier for outbound international voyage duly acknowledged by its captain/pilot or duly authorized representative.
2. If the petroleum products are imported/sold in bulk and the destinations of the aircraft may be known only upon loading of the fuel to the departing aircraft, such bulk importation by/direct sales to the transport operators shall be subject to the 12% VAT. The concerned transport operators can either utilize the VAT paid on the importation or local purchase of fuel as credit against their output tax liabilities, or can claim for tax refund/credit such portion of the VAT payments on local as well as imported purchases that are attributable to their zero-rated sales.
3. If the transport operator is maintaining dedicated tanks for the storage of fuel to be used exclusively for international flight, and the imported/locally purchased petroleum products will be delivered directly to these dedicated storage tanks upon release from BOC custody/supplier oil company, the importation of these fuel by the transport operator shall be exempt from VAT while the local supply will be subject to VAT at zero-rate. In both cases, however, the maintenance of these storage tanks shall be subject to prior approval and regular monitoring by the BIR. Otherwise, the rule in the immediately preceding paragraph will apply.

*Q-14: Which transactions with international air transport operators are zero-rated?*

*A-14: Sale of services to persons engaged exclusively in international air transport operations, including leases of property for use thereof, and the sale of goods, supplies, equipment and fuel are zero-rated. However, sale of goods, supplies, equipment and fuel as well as services rendered to persons engaged in both domestic and international operations shall be zero-rated only with respect to the portion that will be used in their international operations.*

*Q-15: Who among the air transport operators are required to register as VAT taxpayer effective November 1, 2005?*

*A-15: Domestic air carriers with respect to their air transport operations, whose gross receipts from the transport of passengers, goods and cargoes for any 12-month period exceed ₱1,500,000.00 are required to register as VAT taxpayers.*

*Q-16: Can passenger or cargo tickets issued (whether manual or automated) for domestic or international flight/voyage substitute as VAT official receipts?*

A-16: No. VAT-registered domestic air carriers are required to issue VAT official receipt on their sale of passenger or cargo tickets for both domestic and international flight/voyage. Airline/Vessel tickets are considered contracts of carriage and cannot serve as official receipts. VAT official receipts shall be issued by the domestic air carrier upon receipt, actual or constructive, of payments from the purchasers.

In the case of tickets sold through agents (general sales agents or travel agents) of domestic air carriers the agents shall issue the VAT official receipts of the domestic air carriers (not the agent's own official receipts), since the seller of tickets are the domestic air carriers and not their agents. The agents merely collect the proceeds of sale from the buyers on behalf of the domestic air carriers. In order to comply with this procedure, the domestic air carriers shall maintain an adequate supply of VAT official receipts with their agents.

The agents shall, in turn, bill the domestic air carriers for their commissions and the 12% VAT on said commission, if the agents are VAT-registered or VAT-registerable taxpayers. The VAT official receipts issued by the agents to the domestic air carriers shall be the bases of the latter in claiming input taxes on commissions paid to agents. On the other hand, if the agent is a qualified non-VAT taxpayer, he shall issue non-VAT official receipt to the domestic carrier. However, said non-VAT official receipt issued by the agent to the domestic common carrier cannot generate input tax to the latter.

On the other hand, if the intermediary-entity between the carrier and the customer purchases in bulk passenger spaces or cargo spaces and resells the same to the said customer at a price dictated by said intermediary as evidenced by the issuance of the intermediary's official receipt and sales invoice/billing statement, a wholesaler-distributor/retailer relationship is created between the carrier and the intermediary and they shall be taxed accordingly.

*Q-17: If the purchaser of the domestic air ticket refuses to voluntarily disclose the information that he is a VAT-registered person, will the seller of the domestic ticket be liable for non-indication in the official receipt of the required information prescribed under Sec.113(a) and Sec. 237 of the Code?*

A-17: If the purchaser is a regular customer, the seller has no valid excuse for not knowing whether the purchaser is VAT-registered or not. As such, it shall be liable for any omission of the prescribed information in the Receipt to be issued. However, for non-regular customers, the seller will not be held liable for such omissions. Official receipts issued to VAT-registered purchasers that do not reflect the information prescribed under Sections 237 and 113 of the Code will not be allowed as sources of input tax credits on the part of the VAT-registered purchasers.

**Q-18: How about domestic air tickets sold through electronic ticketing where no paper value documents are issued, what will serve as VAT receipt?**

**A-18:** The domestic air carrier should provide for a facility to allow the buyer to download the information contained in the airline ticket electronically stored in its computer system and to generate/print an official receipt which shall reflect the information required under Section 113 and Section 237 of the Code. This particular situation presupposes that the air carrier has a BIR-approved computerized accounting system or components thereof that includes the system that allows the issuance of computer-generated VAT official receipt. In the absence of such facility, a manual VAT official receipt that complies with the requirements under Sections 237 and 113 of the Code shall be issued by the domestic air carrier which shall be the basis of the VAT-registered buyer in claiming input tax on his purchase of carriage service.

**Q-19: What is the basis of the 12% VAT on the commission of general sales agents with respect to their sales of domestic air tickets?**

**A-19:** Proceeds on the sale of domestic air tickets do not form part of the gross receipts of the general sales agent. The same forms part of the gross receipts of the domestic airline company. The gross receipts of agents shall pertain to their commission only which is included in the price of airline tickets. The price of the airline ticket (inclusive of Civil Aeronautics Board [CAB] approved airfare, fuel surcharge, insurance surcharge, aviation security fee, terminal fee, etc.) plus the 12% VAT passed on by the domestic air carrier (seller) to the buyer shall be collected by the agent on behalf of the domestic air carrier. The agent shall remit to the carrier the following: the price of the airline tickets (less the agent's commission); the 12% VAT (less the VAT accruing on the agent's commission); and the 10% creditable withholding of income tax on agent's commission.

**Example:** PAL sold domestic airline ticket at ₱1,000.00 through its general sales agent (agent's commission is 3.5%). Shown herein-below is the computation:

	Buyer	
	Top 10,000 Corporation	Others
Price of Airline Ticket	₱1,000.00	₱1,000.00
Add: 12% VAT	120.00	120.00
Sub-Total	₱1,120.00	₱1,120.00
Less: 2% Withholding Tax	(20.00)	(20.00)
Total Amount Collected from Buyer	₱1,100.00	₱1,120.00
Less: Agent's Commission	(35.00)	(35.00)
12% VAT on Commission	(4.20)	(4.20)
Sub-Total	₱1,060.80	₱1,080.80
Add: 10% Withholding of Income Tax on Agent's Commission	3.50	3.50
Amount to be remitted by the Agent to PAL	₱1,064.30	₱1,084.30

The agent shall remit to the BIR the 12% VAT accruing on its commission, net of input taxes incurred by the agent.

For buyers classified as belonging to the Top Ten Thousand (10,000) private corporations, they have to deduct and withhold 2% on their payments for domestic air tickets and issue a Certificate of Creditable Tax Withheld at Source (BIR Form 2307) in the name of the domestic air carrier as the income recipient. The latter shall in turn issue BIR Form 2307 to the agent for the 10% creditable withholding tax withheld from the agent's commission, in the name of the agent as the income recipient of the commission.

If the domestic airline ticket was sold by a sub-agent of the general sales agent (GSA) of a domestic air carrier, the amount to be remitted by the sub-agent to the GSA will depend on whether the sub-agent is VAT-registered or not as illustrated below:

	VAT registered Sub-agent	Non-VAT registered Sub-agent
Total Amount Collected from Buyer (inclusive of 12% VAT)	₱1,120.00	₱1,120.00
Less: Sub-agent's commission (2%)	(20.00)	(20.00)
12% VAT on commission	(2.40)	-
Sub-Total	₱1,097.60	₱1,100.00
Add: 10% W/Tax on Sub-Agent's Commission	2.00	2.00
Amount to be remitted to GSA	₱1,099.60	₱1,102.00

The GSA shall issue BIR Form 2307 to the sub-agent for the 10% creditable withholding tax on the sub-agent's commission.

Sub-agents of a GSA shall present proofs of their BIR registration (whether VAT or non-VAT) to the GSA for verification purposes.

For the commission and the corresponding output VAT on commission withheld by the GSA/sub-agents from their remittances to the domestic air carrier/GSA, the GSA/sub-agents shall issue a receipt (be it a Non-VAT receipt, if the agent is non-VAT registered, or a VAT-receipt, if the agent is VAT-registered) to the domestic air carrier/GSA. The amount deducted from the remittable amount to the domestic air carrier/GSA shall be net of the creditable withholding of income tax on the agent/sub-agent's commission which should be remitted by the domestic air carrier/GSA to the BIR.

The VAT official receipt issued by the GSA/sub-agents shall be the basis for the domestic air carrier/GSA in claiming input taxes on the commission.

*Q-20: Will a non-VAT registered agent be liable for VAT as a result of the 12% VAT passed on to buyers of domestic airline ticket?*

A-20: No. The 12% VAT on the sale of domestic airline ticket is passed on to the buyer by the seller which is the domestic air carrier. The agent collects the payment for the domestic airline ticket plus the 12% VAT on behalf of the domestic air carrier. The non-VAT registered ticket agent shall be liable to three percent (3%) tax on his gross receipts of commission pursuant to Sec. 116 of the Code, provided his gross annual receipts do not exceed P1,500,000. The non-VAT registered agent shall issue non-VAT receipt to the domestic air carrier which is the agent's real customer, which non-VAT receipt, of course, cannot generate input tax to the domestic air carrier.

*Q-21: In case of refund of domestic air ticket fare, including the 12% VAT, to the purchaser for unused carriage or service, can the domestic air carrier-seller deduct the VAT previously remitted to the BIR against its VAT liability for the succeeding return period?*

A-21: The domestic air carrier-seller, making a refund to the purchaser of domestic air ticket shall require the latter to surrender the unused flight coupon which shall be the basis for the seller to record "Sales Returns" and deduct the 12% VAT previously remitted to the BIR on the refunded ticket against its output tax liability during the month/quarter when the refund was made. A summary list of tickets refunded containing the name, TIN, address of the purchasers, domestic airline ticket number, and the amount refunded including the VAT, shall be prepared by the domestic air carrier-seller on a monthly basis but submission thereof shall be done quarterly, together with the quarterly VAT return.

*Q-22: How much should be the passed-on VAT for services rendered to the government, its political subdivisions, instrumentalities or agencies including government-owned or controlled corporations (GOCCs)?*

A-22: The passed-on VAT for the services rendered to the government, its political subdivisions, instrumentalities or agencies including GOCCs shall be 12%. However, the government or any of its political subdivisions, instrumentalities or agencies, including GOCCs shall, before making payment on account of each purchase of goods and/or services taxed at 12% VAT pursuant to Sections 106 and 108 of the Code, deduct and withhold a final VAT at the rate of five percent (5%) of the gross payment thereof.

The five percent (5%) final VAT withholding rate shall represent the net VAT payable of the seller. The remaining seven percent (7%) effectively accounts for the standard input VAT for sales of goods or services to government or any of its political subdivisions, instrumentalities or agencies including GOCCs, in lieu of the actual input VAT directly attributable or ratably apportioned to such sales to the Government. Should actual input VAT exceed the standard input VAT of seven

percent (7%) of gross payments, the excess may form part of the sellers' expense or cost. Conversely, if actual input VAT is less than the standard input VAT of 7% of gross payment, the difference must be closed to expense or cost.

*Q-23: Are sale of tickets to the government, its political subdivisions, instrumentalities or agencies including GOCCs, by a Domestic Airline with international operations to cover transport of passengers and/or cargoes from the Philippines to a foreign country and vice versa, subject to the 5% final VAT withholding?*

A-23: No. The final withholding VAT is only a procedure for collecting the VAT from government money payments and will be imposed only if the service to be rendered is subject to the 12% VAT. The transport services from the Philippines to a foreign country is subject to VAT at 0% while the transport services from any foreign country to the Philippines is exempt from VAT due to lack of tax jurisdiction. Accordingly, the sale of tickets to the government representing services which are either zero-rated or exempt are not subject to the final VAT withholding.

*Q-24: If the country of registry of the international air carrier purchasing locally the petroleum product does not grant similar tax treatment to Philippine-registered carriers, are we still going to treat the sale of these products as zero-rated for VAT purposes?*

A-24: Yes. Unlike the provisions of Section 135 of the Code with respect to the imposition of excise taxes on petroleum products, the provision of the new VAT law treating the direct sales of petroleum products to airline companies engaged in international operations as zero-rated did not make any distinction. As such, the rule on reciprocity on these sales will not apply.

*Q-25: What is the basis in the computation of output VAT on sale of services of the airline company?*

A-25: The basis in the computation of output VAT of an airline company is its gross receipts as defined in this Circular.

*Q-26: When a Philippine airline company whose carrier carries cargo from a foreign port to the Philippines and transships it on a domestic registered air carrier bound for another Philippine port, is the income derived therefrom subject to VAT?*

A-26: Only the portion where the cargo is carried by a domestic air carrier from one Philippine port to another Philippine port is subject to VAT which is assessed on and payable by the Philippine company/domestic airline company.

*Q-27: What are the consequences if the domestic airlines companies failed to register as VAT taxpayers?*

A-27: Non-registration as VAT taxpayers does not exempt said companies from their output tax liability on their sales of service and other taxable transactions. However, in computing their VAT payable for the period, no input tax credits on their purchases of goods, properties or services prior to registration shall be allowed to be credited against their output tax liability.

*Q-28: Are other income of domestic airline companies earned on cancelled tickets subject to VAT?*

A-28: All related income such as penalty or charges earned on the cancellation of tickets by the clients of domestic airline companies are subject to VAT.

*Q-29: Can a taxpayer whose main/principal line of business is subject to VAT and therefore VAT-registered, likewise register under the VAT its secondary lines of business which are exempt from VAT under Section 109 of the Tax Code?*

A-29: Yes. Section 109(2) of the Tax Code provides – “A VAT-registered person may elect that Subsection (1) [referring to exempt transactions] not apply to its sale of goods or properties or services”. Perforce, if the main/principal line of business is subject to VAT and the taxpayer engaged thereon is VAT-registered, said taxpayer may elect that all his exempt transactions will be placed within the VAT system.

*Q-30: Can an international airline company who is engaged in other activities subject to VAT, i.e. leasing of properties, etc., elect that all its business activities be subject to VAT?*

A-30: No. The main or principal business of an international airline company is VAT-exempt because the same is subject to the percentage tax under Title V of the Tax Code. Therefore, the international airline can not elect that its exempt principal business be subject to VAT even if its secondary businesses are subject to VAT.

*Q-31: How do we determine the main or principal business of a taxpayer who is engaged in mixed business activities?*

A-31: In determining the main or principal business of a taxpayer, we apply the pre-dominance test. Under this test, if more than fifty percent (50%) of its gross sales and/or gross receipts comes from its business/es subject to VAT, its main/principal business falls within the VAT system making its status as a VAT person. Otherwise, he can not be considered as a VAT person eligible for the election provided for under Section 109(2) of the Tax Code.

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

(Original Signed)  
**LILIAN B. HEFTI**  
Commissioner of Internal Revenue

cc:

Secretary of Finance  
Board of Airline (BOA)