

REPUBLIC OF THE PHILIPPINES
DEPARTMENT OF FINANCE
BUREAU OF INTERNAL REVENUE

October 3, 2011

REVENUE MEMORANDUM CIRCULAR NO. 49-2011

Subject : Further Clarification on RMC No. 38-2011 on Expanded Withholding Tax Obligation of Philippine Health Insurance Corporation (PHIC) Including the Income Tax Withholding Obligation of Hospitals/Clinics on Case Rates of PHIC and the Matter of 5% Final Withholding VAT for Government Money Payments

To : All Revenue Officers and Employees, Withholding Agents, Medical Practitioners, Hospitals/Clinics and Others Concerned

RMC No. 38-2011 dated September 1, 2011 covers only income tax withholding (expanded withholding tax) on payments made by Philippine Health Insurance Corporation (PHIC) for medical benefits availment where benefit payments are made separately to the Medical Practitioners and Hospitals/Clinics (facility).

However, for medical cases and surgical procedures where the entire case rate amount is required to be paid directly to the facility pursuant to the New PhilHealth Case Rate under PhilHealth Circular Nos. 011-2011, 011-A-2011 and 011-B-2011, the application of the expanded withholding tax rate shall be on the entire case rate payment at the rate of 2%. The hospitals/clinics or facilities, being the party in control of the fund, are the ones under obligation to withhold the 10% or 15% expanded withholding tax on payments to be made to doctors or medical practitioners for their professional fees.

In addition, PHIC is likewise under obligation to comply with the 5% withholding VAT on government money payments under Revenue Regulations (RR) No. 16-2005. It is emphasized that for purposes of VAT exemption, Section 109(G) of the Tax Code covers only medical, dental, hospital and veterinary services, except those rendered by professionals. Thus, PHIC should withhold the 5% VAT on money payments to professionals and other facilities, if any, who are not VAT exempt.

Illustration No. 1 – For Payment of Fees for Services NOT covered by the Case Rate Program:

Patient A was confined in Hospital X, a PHIC-accredited hospital. Patient A, being a PHIC member, accomplished PHIC Form and submitted the same to Hospital X. Upon settlement of his hospital bills, he only paid an amount net of his PHIC benefits. Based on hospital bills, the patient's benefits include the following:

Professional Fees	P 4,000.00
Facility Fee	<u>10,000.00</u>
Total	<u>P14,000.00</u>

The proper Income and VAT Withholding by PHIC will be as follows:

Income Tax Withholding

Withholding on Professional Fees (P3,571.43 x 15%**)	- P 535.71
Withholding on Facility Fees (P10,000.00 x 2%)	- P 200.00

**On the assumption that professional fee is subject to VAT and the P4,000.00 is presumed to be inclusive of VAT; thus, the tax base should be derived by dividing the P4,000.00 by 112%.*

***On the assumption that the medical practitioner did not submit a sworn declaration of his gross income*

VAT Withholding on Government Money Payment

VAT Withholding on Professional Fees (P3,571.43 x 5%)	- P178.57
VAT Withholding on Facility Fee***	None

*****Note:** *There is no 5% withholding VAT on money payments for medical, dental, hospital and veterinary services not rendered by professionals pursuant to Section 109(G) of the Tax Code of 1997, as amended.*

In this illustration, PHIC is required to issue two (2) separate BIR Form No. 2307, one for the hospital/clinic for the withholding on facilitation fee amounting to P200.00 and another BIR Form No. 2307 under the medical practitioner's name for the withholding on professional fees amounting to P535.71. In addition, PHIC has to issue BIR Form No. 2306, under the name of the medical practitioner for the final VAT on government money payment amounting to P178.57.

Illustration No. 2 – For Payment of Fees Covered under the Case Rate Program:

Patient A was confined in Hospital X, a PHIC-accredited hospital for Dengue II (Dengue Fever and DHF Grades III & IV). Patient A, being a PHIC member, accomplished PHIC Form and submitted the same to Hospital X. Upon settlement of his hospital bills, he only paid an amount net of his PHIC benefits. Based on PhilHealth Circular Nos. 011-2011, 011-A-2011 and 011-B-2011, Dengue is covered under the Case Rate Program; and pursuant to the aforementioned PhilHealth Circulars, the entire case rate shall be paid to the concerned facility provider.

Dengue II (Dengue Fever and DHF Grades III & IV) - P 16,000.00

The proper Income and VAT Withholding by PHIC will be as follows:

Income Tax Withholding

Withholding on Entire Case Rate (P16,000.00 x 2%)	- P 320.00
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VAT Withholding on Government Money Payment *

VAT Withholding on Entire Case Rate	- None
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**Note: There is no 5% withholding VAT on money payments for medical, dental, hospital and veterinary*

*services not rendered by professionals pursuant to
Section 109(G) of the Tax Code of 1997, as amended.*

In the above illustration, PHIC paid the entire case rate to Hospital X; thus, the 2% withholding on income tax shall be withheld against the entire case rate of P16,000.00.

PHIC is required to issue only one (1) BIR Form No. 2307 for the hospital/clinic for the withholding on facilitation fee amounting to P320.00. Hospital X, on the other hand, shall withhold the 10% or 15%, whichever is applicable, on the payment of professional fees. Assuming that professional fee for Patient A's case is P4,800.00, the proper income tax withholding by Hospital X will be as follows:

Income Tax Withholding

Withholding on Professional Fees (P4,285.71* x 15%***) - P642.86

**On the assumption that professional fee is subject
to VAT, then the P4,800.00 is presumed to be
inclusive of VAT; thus, the tax base should be
derived by dividing it by 112%*

***On the assumption that the medical practitioner
did not submit a sworn declaration of his gross
income*

Hospital X is the one required to issue one (1) BIR Form No. 2307 for the medical practitioner for the withholding on professional fees amounting to P642.86. However, if Hospital X is a government hospital, in addition to the above income tax withholding on professional fees, the same shall be covered by the 5% withholding VAT on government money payments pursuant to RR 16-2005, as follows:

VAT Withholding on Government Money Payment

VAT Withholding on Professional Fees (P4,285.71 x 5%) - P214.29

In this illustration, Hospital X is required to issue to the medical practitioner BIR Form No. 2307 for the income tax withholding on professional fees amounting to P642.86 and BIR Form No. 2306 for the final VAT on government money payment amounting to P214.29.

All internal revenue officers and employees and others concerned are hereby enjoined to be guided accordingly and to give this Circular as wide a publicity as possible.

(Original Signed)
KIM S. JACINTO-HENARES
Commissioner of Internal Revenue