

REPUBLIC OF THE PHILIPPINES
DEPARTMENT OF FINANCE
BUREAU OF INTERNAL REVENUE

May 21, 2010

REVENUE MEMORANDUM CIRCULAR NO. 39-2010

SUBJECT : Verification of VAT Compliance of Health Maintenance Organizations

TO : All Internal Revenue Officials, Employees and Others Concerned

Revenue Memorandum Circular (RMC) No. 2-2009 was issued revoking BIR Ruling No. **DA (VAT-054) 529-2008** issued in favor of **MEDICard Philippines, Inc.** RMC No. 6-2009, likewise, revoked BIR Rulings Nos. **DA (VAT-019) 121** issued in favor of **Health Maintenance, Inc.**, **DA (C-032) 122-2008** issued in favor of **Asalus Corporation**, and, **DA (VAT-026) 375-2008** issued in favor of **Maxicare Health Corporation**.

The Legal and Revenue Operations Group of the Department of Finance (DOF), in its letter dated January 12, 2010 to Asalus Corporation, upheld the revocation of BIR Ruling No. DA (C-032) 122-2008.

These actions confirm the BIR's position that the taxable base of Health Maintenance Organizations (HMOs) for VAT purposes shall be the gross receipts without any deduction for medical utilization (medical and dental fees, hospital bills, laboratory fees, professional fees, etc.). The said tax treatments have already been clarified under Revenue Regulations No. 16-2005, as amended, which provides that HMO's gross receipts shall be the total amount of money or its equivalent representing the service fee actually or constructively received during the taxable period for the services performed or to be performed for another person, excluding the value added tax. The compensation for their services representing their service fee, is presumed to be the total amount received as enrollment from their members plus other charges received.

A large number of HMOs continue to not comply with the BIR rules and that these HMOs compute their VAT based on a method different from that using the gross receipts without any deductions.

Accordingly, all Revenue District Officers shall monitor the monthly and quarterly VAT returns of all HMOs under their jurisdiction to ascertain that the HMOs are paying their VAT based on gross receipts.

VAT returns filed beginning for the month/quarter ending June 30, 2010 and terminating for the VAT returns filed for the month/quarter ending December 31, 2010, shall be the subject of this monitoring, without prejudice to the BIR to verify prior years' VAT returns and to impose VAT based on the gross receipts of the HMOs.

All Revenue District Officers shall conduct the verification of the VAT returns without the need to issue Letters of Authority (LOA) or Tax Verification Notices (TVN). The RDOs are authorized only to issue reminder notice if it has been ascertained that the HMOs are not complying with the rule of paying the VAT based on the gross receipts. Any other action, such as issuance of the LOA /TVN or issuance of Assessment Notices that shall be prescribed by the RDOs on the HMOs which are verified to have not complied correctly on their VAT obligations, shall be referred to the Commissioner for his approval.

A monthly report on the activities conducted shall be submitted to the Task Force on HMOs created under Revenue Special Order (RSO) Nos. 186-2010 and 231-2010 (Attention: Jayson T. Cui, Technical Assistant – Office of the Commissioner) on the 30th day of each month. The first report for the June 2010 activities shall be submitted on or before July 30, 2010, and the last report for the December 2010 activities shall be submitted on or before January 28, 2011.

All concerned are hereby enjoined to be guided accordingly and give this circular as wide a publicity as possible.

(Original Signed)
JOEL L. TAN-TORRES
Commissioner of Internal Revenue

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