**VALUE-ADDED TAX**

1. **Characteristics of VAT**
2. Tax on value added at each points in the supply chain.
3. Imposed on taxable transactions
4. Indirect tax

* Impact of taxation – seller
* Incidence of taxation – final consumer

1. Tax inclusive method
2. Tax credit method
3. Destination principle/cross border principle
4. No cascading
5. **Formula for Computation of VAT**

|  |  |
| --- | --- |
| Output VAT | xx |
| Less: Input VAT | xx |
| VAT Payable | xx |

1. **Example Computation of VAT**

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| **Simple Example**  Vendor A sold product to Company B with invoice amount of P56,000. Company B sold the same to Customer C for an invoice amount of P112,000.  For Company B to recognized Input VAT on its purchases:   * Company B must be VAT-registered. If Company B falls under mandatory VAT registration but fails to do so (that is, VAT-registrable as defined by RR 14-2005), it cannot claim input VAT on its purchases but liable to pay Output VAT as if it’s VAT-registered. * Purchase transaction must subject to 12% VAT. * The seller, Vendor A, must be VAT-registered (Sec. 110B, NIRC).   For Company B to recognized Output VAT on its sales:   * Company B must be VAT-registered or VAT-registrable. If VAT-registered, he can claim the Input VAT on its purchases. However, if instead VAT-registrable, he cannot do so. * Sale transaction must be subject to 12% VAT.   The following are the journal entries if conditions above are met:   |  |  |  | | --- | --- | --- | | *On purchases:* |  |  | | Dr: Purchases | 50,000 |  | | Dr: Input VAT | 6,000 |  | | Cr: Accounts Payable (or Cash) |  | 56,000 | |  |  |  | | *On sales:* |  |  | | Dr: Accounts Receivable (or Cash) | 112,000 |  | | Cr: Sales |  | 100,000 | | Cr: Output VAT |  | 12,000 | |  |  |  | | *Recognize VAT Payable:* |  |  | | Dr: Output VAT | 12,000 |  | | Cr: Input VAT |  | 6,000 | | Cr: VAT Payable |  | 6,000 | |  |  |  | | *Payment of VAT Payable:* |  |  | | Dr: VAT Payable | 6,000 |  | | Cr: Cash |  | 6,000 |     Note the bias against the input VAT here. Company B must be VAT-registered otherwise he cannot claim Input VAT. The seller must be VAT-registered too. Compared with the Output VAT, wherein Company B can be VAT-registered or VAT-registrable and yet liable to Output VAT in both cases. This can be a very important tip in Tax Planning. |

1. **VATable Transactions**

The trick to determining transactions subject to 12% VAT is to know the Exempt Transactions and Zero-rate transactions first. Anything else then are subject to 12% VAT.

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| **General Rule on Imports and Exports**  Company P imports its products from Tsina Company located in China (duh!). After customizing the imported products, it sells or exports the same to Japan.  *Tax treatments:*   |  |  |  | | --- | --- | --- | | **If Company P is** | **Company P’s Exports** | **Company P’s Imports** | | VAT-registered | 0% | 12% Output VAT | | VAT-exempt | Exempt |   *Note:*  In general, output VAT is payable on imports regardless of registration. In fact, this is true regardless of who the importer is and whether the import was made in the ordinary course of business or not.  On the other hand, export sales of VAT-registered company are subject to 0% VAT. This is another Tax Planning tip; the government is actually encouraging business to export their products.  **Rule on Sale of Real Properties**  The following sale of real properties are exempt from VAT.   |  |  | | --- | --- | | **Real Property** | **VAT-Exempt** | | Residential Vacant Lot | ₱1,919,500 and below | | Residential House and Lot | ₱3,199,200 and below | | Residential Condominium Unit | ₱3,199,200 and below | | Residential property utilized for low-cost housing | ₱3,000,000 and below | | Residential property utilized for socialized housing | ₱400,000 and below | | Residential property on installment | ₱1,000,000 and below |   Note that sale of commercial properties are subject to VAT.  **Rule on Lease of Residential Units**   |  |  |  | | --- | --- | --- | | **Monthly Rental** | | **Treatment** | | Not exceeding 12,800/unit | | Exempt | | Exceeding 12,800/unit | Aggregate yearly rental does not exceeds 1,919,500 | 3% OPT | | Aggregate yearly rental exceeds 1,919,500 | 12% VAT |   **Rule on Carriers**   |  |  |  | | --- | --- | --- | | **Mode** | **Transport of** | **Domestic Carriers** | | Land | Passenger | Actual vs. Minimum ↑ x 3% OPT | | Cargo | 12% VAT | | Air (“Air Carrier”) and  Water (“Shipping Carrier”) | Passenger & Cargo | * From and to Philippines - 12% VAT * From Philippines to another country - 0% VAT (Sec.108(B)(6), NIRC) |      |  |  |  | | --- | --- | --- | | **Mode** | **Transport of** | **International Carriers on their**  **Gross Philippine Billings** | | Air (“Air Carrier”) and  Water (“Shipping Carrier”) | Passenger | Exempt (Sec. 109, NIRC as amended by RA 10378) | | Cargo | 3% OPT (Sec. 118, NIRC as amended by RA 10378) | |