VAT-066 2024
NOV 15 2024

PHILIPPINE COCONUT AUTHORITY (PCA)
Department of Agriculture
Eliptical Road, Diliman, Quezon City, 1101

Attention: **Bernie Ferrer Cruz**
Administrator

Gentlemen:

This pertains to PCA's letter requesting for the classification of coconut sugar as raw sugar and consequently, be considered as value-added tax (VAT) exempt agricultural product, pursuant to Section 109 (1)(A) of the National Internal Revenue Code of 1997, as amended (Tax Code), which states:

> **"SEC. 109.** ***Exempt Transactions.*** **–**
>
> (1) Subject to the provisions of Subsection (2) hereof, the following transactions shall exempt from the value-added tax.
>
> (A) Sale or importation of agricultural and marine food products in their **original state**, livestock and poultry of a kind generally used as, or yielding or producing foods for human consumption; and breeding stock and genetic materials therefor.
>
> Products classified under this paragraph shall be considered in their original state even if they have undergone the simple processes of preparation or preservation for the market, such as freezing, drying, salting, broiling, roasting, smoking or stripping. Polished and/or husked rice, corn grits, **raw cane sugar and molasses,** ordinary salt and **copra** shall be considered in their **original state;"** (Emphasis and underscoring supplied)

As represented, in the case of coconut sugar, the production process involves the collection of coconut sap by tapping the unopened inflorescence of the coconut palm and boiling it until granules are formed. Coconut sap sugar production is a simple farm-level technology involving a natural process of heat evaporation to convert liquid sap to a solid form of sugar granules. As alleged, this process is similar to and even simpler than the production of raw cane sugar such as muscovado, which is VAT-exempt.

As further alleged, attached to your letter are laboratory tests of coconut sap sugar samples from different producers revealing **"polarimeter readings of 87.98°and below which are lesser than 99.5° and colors of 12, 658 ICU and higher which are greater than 800 ICU".**

Therefore, based on the evaluation of the production process of coconut sugar, the PCA is of the opinion that coconut sugar may be regarded in its original state, similar treatment to that of muscovado, and hence, can be exempt from the imposition of VAT.

In reply, it is important to point out that Section 109(1)(A) of the Tax Code clearly states that for agricultural food products, which the coconut falls under, the sale or importation of such products is exempt from VAT if in their **original state**. Thus, the sale or importation of a coconut fruit, which is in its original state, is VAT exempt.

The same Section 109(1)(A), however, provides for an exception. It further states that "products classified under this paragraph shall be considered in their original state **even if** they have undergone the simple processes of preparation or preservation for the market, such as **freezing, drying, salting, broiling, roasting, smoking or stripping**. Polished and/or husked rice, corn grits, raw cane sugar and molasses, ordinary salt and copra shall be considered in their original state;"

In the process flow of Coconut Sap Sugar attached to your letter, the following are performed, which includes "boiling":

–> Unopened inflorescence
–> Sap Collection
–> Sap Straining
–> Boiling up to 115°C –> Removal of Scum –> Scum
–> Sap Syrup
–> Boiling up to 115°C
–> Removal from Heat with Continuous Stirring
–> Moist Coconut Sugar
–> Sieving and Drying
–> Coconut Sugar

Although Section 109(1)(A) of the Tax Code does not specifically mention "boiling" under one of the simple processes, Revenue Regulations (RR) No. 8-2015[1], applicable to "raw cane sugar", specifies the following process which includes boiling, and which is considered VAT exempt:

> "(a) Raw Cane Sugar — the natural sugar extracted from sugarcane through simple mechanical process by pressing for the juice; **boiled** to crystallize; filtered using centrifuge to separate these crystals, and dried, resulting to crystallize brown sugar (brown color due to natural molasses content present in sugar cane): *Provided*, that it shall refer to raw cane sugar produced from conducting only one (1) stage of filtering and centrifugal without any other further process applied thereto, such as but not limited to washing, bleaching, etc.: Provided further, that its color is greater than 800 ICU and that its content of sucrose by weight in dry state corresponds to a polarimeter reading of less than 99.5°.
>
> The above definition includes muscovado which has standard specifications as produced, namely: Powder Class A – polarization of 86° minimum; Powder Class B – polarization of 77° minimum; and, Lump – polarization of 57° minimum.

[1] Amending Revenue Regulations No. 6-2015 on the Definition of Raw Cane Sugar for Purposes of the Imposition of Advance Business Tax (Value-Added Tax or Percentage Tax) and for Other Related Purposes

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Thus, only those falling under the above-definition of Raw Cane Sugar, including muscovado, are exempt from VAT, or from Percentage Tax, pursuant to Section 109 (1)(A) of the Tax Code."

Based on the foregoing, the coconut sap sugar samples which underwent the process described above, and which have "polarimeter readings of 87.98° and below which are lesser than 99.5° and colors of 12,658 ICU and higher which are greater than 800 ICU", appear to have met the requirements of Section 109(1)(A) of the Tax Code, for agricultural food products to be considered in their original state. Moreover, the following enumeration in the last part of Section 109(1)(A) – "**Polished and/or husked rice, corn grits, raw cane sugar and molasses, ordinary salt and copra** shall be considered in their original state" – does not appear to be exclusive. It merely states that the items in the list shall be considered in their original state.

Thus, the coconut sap sugar samples which underwent the process described above, and which have "polarimeter readings of 87.98° and below which are lesser than 99.5° and colors of 12,658 ICU and higher which are greater than 800 ICU", are agricultural food products considered to be in their original state, and are considered VAT exempt agricultural food products, pursuant to Section 109(1)(A) of the Tax Code.

This ruling is being issued on the basis of the foregoing facts as represented. However, if upon investigation, it will be disclosed that the facts are different, then this ruling shall be considered void.

Very truly yours,

ROMEO D. LUMAGUI, JR.
Commissioner of Internal Revenue

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