October 10, 2019

BIR RULING NO. 585-19

Sec. 57, 1997 Tax Code; 000-00

Hon. Josue S. Gaverza, Jr.
Assistant Secretary for Financial Management/
Chairperson, DND Proper Bids and Awards Committee
Department of National Defense
DND Building, Camp General Emilio Aguinaldo
Quezon City 1110

Dear Asec. Gaverza :

This refers to your letter dated 16 May 2019 requesting, in effect, for a clarificatory ruling on the claim of Petron Corporation (PETRON) that purchase of their e-Fuel Cards is not subject to withholding tax consistent with the provisions of Revenue Regulations (RR) No. 2-98, as amended.

Background:

1. The ongoing procurement of e-Fuel Cards is a requirement of the Task Force Balik-Loob Program of the Department of National Defense (DND).

2. The Petron e-Fuel Card is a means by which the customer may electronically store points for use in purchasing fuels at all participating Petron Service Stations. The value stored in these cards is what the customer pre-pay for. All purchases made using the card are applied to the full extent that this stored value will allow. All purchases through the Petron e-Fuel Card actually happen at Petron's establishments. [1]

3. Petron e-Fuel Card

a. The Petron e-Fuel Card is a stored-value (prepaid) card that operates on an IT infrastructure developed by the Bank of the Philippine Islands (BPI).

b. It provides for a fully electronic means by which to load funds, validate authenticity and settle merchant transactions.

c. Purchases through the Petron e-Fuel Card are accepted at currently over 1,200 Petron Service Stations that are equipped with the same BPI Point-Of-Sale (POS) terminals used in transacting other

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MasterCard and VISA credit cards. Processing transactions is the SAME as processing purchases through any other BPI Credit Card.

d. The Petron e-Fuel Card may be used by the card holder (customer) to purchase fuels at participating Petron stations nationwide. Petron provides a list of these stations and displays signs at establishments where the card is honored.

e. The value loaded into the Petron e-Fuel Card is not convertible to cash. The cards and card values are not replaceable or transferrable when damaged or lost.

f. The card may be used several times within its validity period until the value loaded into it is fully depleted. The card holder may reload value into the card using BPI or BPI Family Bank Express Teller accounts thru various BPI channels. Inquiries on the remaining value stored on the card may be determined through BPI's phone banking facility. 89-100 (Metro Manila), domestic toll-free 1-800-188-89100 (available to PLDT subscribers), or 63+2+89+10000 for mobile phone and international access.

g. Petron e-Fuel Cards have a maximum validity date of five (5) years.

h. Subject to prior arrangements, minimum card values and other conditions with Petron, partnering brands may be printed on the card on one color print (black ink only).

4. Ordering, Loading and Issuing Petron e-Fuel Card

a. The customer sends a voucher to Petron indicating the number of Petron e-Fuel Cards and the desired value in Philippine Currency to be loaded in each one of them.

b. Petron's Cards Business Group issues a Statement of Account indicating details on the payment to be made and the bank account number in which to deposit it.

c. The customer deposits the payment for the invoiced amount payable to Petron Corporation e-Fuel Card at any branch of the BPI.

d. Upon Petron's confirmation of receipt of customer's payment, Petron loads requested monetary values into the cards.

e. Petron e-Fuel Cards shall be issued within 5 working days from receipt of full payment. For check payments, the check clearing date shall be recognized as day one (1) and another five (5) working days for co-branded cards which translates to a total of ten (10) working days.

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5. Using Petron e-Fuel Card Cards

a. The card holder presents his Petron e-Fuel Card at any participating Petron station and declares the value of the product that he wishes to purchase.

b. Petron establishment's service staff swipes the card through the BPI POS terminal and keys in the customer's requested transaction value and dials up for an approval.

c. Petron establishment's service staff serves the card holder's purchase and issues a receipt.

d. Card balance can be inquired through BPI's phone banking or at participating stations.

e. Cards can be reloaded. Steps are indicated on the card carrier.

In reply, please be informed that the e-Fuel Cards which PETRON issues are mere tools to facilitate the purchase of fuel at the card holder's preferred retail stations. The payments received by PETRON shall be booked or recognized as "liability" on PETRON's part. Upon use of the e-Fuel card by a card holder. PETRON remits the corresponding amount to the retail station concerned. PETRON does not part with any goods when it issues the e-Fuel Cards upon which it receives the cash equivalent of the amount of the cards issued. Neither does it render any service.

On the part of PETRON's customers (*i.e.*, DND), the cards they receive will be booked as "asset" while the retail station which sells the fuel where the e-Fuel Card is used by the card holder thereof will recognize income from such sale.

Since the payments received by PETRON in exchange for the e-Fuel Cards are not considered as revenue or income arising from the sale of goods to its customers (*i.e.*, DND) and retail stations, such payments to PETRON by DND is not subject to withholding tax imposed under Section 57 of the 1997 Tax Code, as amended, and RR No. 2-98, as amended by RR No. 11-2018. However, in the event of non-use of the cards within its validity period, or in case of breakage or loss of the cards (*i.e.*, 'breakage income'), PETRON shall recognize income or revenue earned from the sale of said cards which is subject to ordinary corporate income tax.

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

Very truly yours,

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(SGD.) CAESAR R. DULAY
Commissioner of Internal Revenue

Footnotes

1. Letter of Petron to Mr. Rolando Fuentes, DND dated 16 November 2018 signed by AAA, _____, Cards Business Group.

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