January 17, 2020

BIR RULING NO. VAT-001-20

Sec. 109 (1) (H), Tax Code; VAT Ruling No. 017-02; VAT Ruling No. 031-03; BIR Ruling No. 169-2011

Center for Excellence in Special Education
(Stepping Stone) Foundation, Inc.
MRCI Camia Street
Guadalupe Viejo, Makati City

Attention: *AAA*

Gentlemen :

This refers to your letter dated October 29, 2018 requesting for clarification as to the proper interpretation of BIR Ruling No. 969-2018 dated May 29, 2018 which was issued to Center for Excellence in Special Education (Stepping Stone) Foundation, Inc. (Formerly: Development Center for the Handicapped Foundation, Inc.) pursuant to Section 109 (1) (H), Tax Code of 1997, as amended.

In reply, please be informed that the VAT exemption provided under Section 109 (H) of the Tax Code of 1997, as amended, only pertains to the educational services rendered by private educational institutions but does not include VAT on their purchases of goods and services. Thus, while the school is exempt from VAT on its educational services, it cannot invoke the same exemption privilege to avoid paying VAT on its purchase of goods and/or services even if intended for school operational use because its **exemption covers only taxes for which it is directly liable**. It does not cover indirect tax (passed on VAT) such as VAT on its purchases of goods and services from VAT-registered suppliers. The 12% VAT for the supply of goods and services may be shifted or passed on to the school by its VAT-registered suppliers. Once shifted, the VAT will form part of the cost of the goods and/or services supplied to the school. (VAT Ruling No. 017-02 dated March 20, 2002 and VAT Ruling No. 031-03 dated June 24, 2003).

Moreover, the above exemption does not extend to the school's other activities

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involving its sale of goods and services not in connection with its primary purposes which are subject to the 12% VAT imposed under Sections 106 and 108 of the Tax Code of 1997, as amended, or 3% percentage tax imposed under Section 116 in relation to Section 109 (V) of the same Code if the gross sales or receipts from such sale of goods and services do not exceed Three Million Pesos (P3,000,000.00) [1] which tax payment may legitimately be passed on to buyers of such goods and services. (BIR Ruling No. 169-2011 dated May 25, 2011)

For your information.

Very truly yours,

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

Footnotes

1. R.A. No. 10963 increased the VAT threshold from P1,919,500 to P3,000,000 effective January 1, 2018.

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