REPUBLIC OF THE PHILIPPINES
DEPARTMENT OF FINANCE
BUREAU OF INTERNAL REVENUE
Quezon City

January 3, 2006

REVENUE MEMORANDUM CIRCULAR NO. 6-2006

SUBJECT: Clarification to Revenue Regulations No. 14-2005, as last amended by Revenue Regulations No. 16-2005, implementing Republic Act No. 9337

TO : All Internal Revenue Officers and Others Concerned

This Revenue Memorandum Circular (RMC) is issued in order to publish and clarify the treatment of input tax accumulated as of October 31, 2005 in relation to the 70% cap effective November 1, 2005.

Q-1 **What is the treatment of input tax accumulated as of October 31, 2005 in relation to the 70% cap provided in Section 4.110-7 of Revenue Regulations (Rev. Regs.)No. 14-2005, as last amended by Rev. Regs. No. 16-2005?**

A-1 Input tax accumulated as of October 31, 2005 shall not be subject to the seventy percent (70%) cap and shall be deductible in full from output tax until it is fully utilized. In determining whether the input tax in a month or quarter exceeds the output tax subject to the 70% cap, the accumulated input tax as of October 31, 2005 shall be excluded from the computation and shall be deducted in full from the output VAT.

Q-2 **ABC Corporation has the following sales/ purchases for the quarter ending December 2005:**

October 2005		**November and December 2005**	
Sales	**P 5,000**	**Sales**	**P 10,000**
Purchases	**4,000**	**Purchases**	**8,000**

and Carried over input tax from previous quarter of P 600.

How will the Value Added Tax for the quarter ending December 2005 be computed?

A-2 The Value Added Tax for the quarter ending December 2005 will be computed as follows:

October 2005

Output Tax		P 500
Less: Carry over Input tax	P 600	
Input tax	400	1,000
VAT Payable/(Carry over)		P (500)*

Note: Amount represents accumulated input tax as of October 31, 2005.

November and December 2005

Output Tax		P 1,000
Less: Carry over Input Tax (as of Oct. 2005)		500
Net Output Tax for Nov. and Dec. 2005		500
Less: Input Tax for Nov. and Dec. 2005	P 800	
Apply: 70% cap (70% of Net Output Tax)	350	350
Net VAT Payable		P 150
Excess Input Tax (to be carried over to the next quarter)	P 450	

Q-3 **DEF Corporation has the following output tax and input tax for the quarter ending December 2005:**

Output Tax:

For October 2005	**P 1,000**
For November and December 2005	**2,000**

Input tax:

Accumulated as of October 31, 2005	**P 500**
For November and December 2005	**1,000**

How will the Value Added Tax for the quarter ending December 2005 be computed?

A-3 The Value Added Tax for the quarter ending December 2005 will be computed as follows:

October 2005

Output Tax	P 1,000	
Less:Input Tax (accumulated as of October 2005)	500	
VAT Payable		P 500

November and December 2005

Output tax	P 2,000	
Less: Input Tax	1,000	
VAT Payable		1,000
Total VAT Payable for the Quarter		P 1,500
Less: Vat Payable and paid for October		500
Net VAT Payable		P 1,000

Q-4 **KLM Corporation has the following output and input tax:**

Output tax for the quarter ending December 2005	**P 500**
Input tax:	
Accumulated as of October 31, 2005	**1,000**
For November and December 2005	**600**

Output tax for the quarter ending March, 2006	**P1,000**
Input tax:	
For January – March 2006	**500**
Carried over from October 2005	**500**
Carried over from Nov. and Dec. 2005	**600**

How will the Value Added Tax for the quarters ending December 2005 and March 2006 be computed?

A-4 The Value Added Tax for the quarters ending December 2005 and March 2006 will be computed as follows:

Quarter ending December 2005

Output Tax	P 500
Less: October Input Tax	1,000

Unutilized Input Tax (accumulated as of October, for Carry over to Jan, Feb., March)	500
Add: Input Tax for November and December	600
Total Carry over input tax to next quarter	P1,100

No tax payment is made for the quarter ending December, 2005. The 70% cap will not apply. Excess input VAT from Oct., Nov. and Dec. will be carried forward to the next quarter.

Quarter ending March 2006

Output Tax		P 1,000
Less: Unutilized Input tax (as of October)		500
Net Output Tax		500
Less: Nov. and Dec. input tax	600	
Jan., Feb. and March input tax	500	
Total Available Input Tax	P1,100	
Apply 70% cap (70% of Net Output Tax)		350
VAT Payable		150
Carry over to April, May and June	P 750	

Q-5 **XYZ Corporation has the following input and output tax:**

Output tax for the quarter ending December 2005	**P 1,000**
Input tax:	
Accumulated as of October 31, 2005	**1,000**
For November and December 2005	**500**

How will the Value Added Tax for the quarter ending December 2005 be computed?

A-5 The Value Added Tax for the quarter of December 2005 will be computed as follows:

Output Tax	P 1,000
Less: October Input Tax	1,000
VAT Payable	P 0

No tax payment is made for the quarter ending December 2005. The 70% cap will not apply. Excess input tax from November and December 2005 amounting to P500 will be carried forward to the next quarter.

Q-6 **What are the requirements for the availment of the provisions under this RMC?**

A-6 Taxpayers who want to avail of the provisions under this RMC must comply with the following requirements:

1. Attach copies of the immediately preceding VAT quarterly and monthly returns to the quarterly VAT returns that reflects excess input tax as of October 31, 2005 to be filed with the concerned Revenue District Office/ Large Taxpayers Service's Offices;
2. Submit a sworn declaration of the correctness of the claimed accumulated input tax as of October 31, 2005; and
3. If after the initial availment of the excess input tax as of October 31, 2005, there remains unutilized input tax, taxpayers who wish to continue availing of the provisions of this RMC, shall also attach to their VAT returns for the relevant period a schedule of running balance of unutilized input tax emanating from the October 31, 2005 accumulated balance.

All internal revenue officers and employees are hereby enjoined to give this Revenue Memorandum Circular as wide a publicity as possible.

(Original Signed)
JOSE MARIO C. BUÑAG
Commissioner of Internal Revenue