REPUBLIC OF THE PHILIPPINES
DEPARTMENT OF FINANCE
BUREAU OF INTERNAL REVENUE

January 9, 2017

REVENUE MEMORANDUM CIRCULAR NO. 8-2017

Subject: Clarifying the Tax Treatment of Value-Added Tax on Government Money Payments for OECF Funded Projects under Exchange of Notes Between Republic of the Philippines and the Government of Japan

To : All Internal Revenue Officials, Employees and Others Concerned.

Under the Exchange of Notes between the Republic of the Philippines and the Government of Japan for OECF- Funded Projects ("Exchange of Notes") undertaken in the Philippines, the standard clauses pertaining to the tax treatment of participating Japanese suppliers, contractors and nationals clearly state that the Japanese suppliers, contractors or nationals engaged in OECF-Funded projects in the Philippines shall not be required to shoulder any fiscal levies and/or taxes associated with the project.

Stated otherwise, all taxes associated with the project shall be assumed by the executing government agencies. Thus, this Circular is about clearly acknowledging - and accordingly implementing - this obligation of the Philippine government under the Exchange of Notes.

Applied to Value-Added Tax (VAT), the 12% VAT under Section 106 and Section 108 of the Tax Code, as amended, imposed on all sales of goods and services, including sales of goods and services to the Government, shall be assumed by the Philippine Government or its executing agencies pursuant to the Exchange of Notes.

In this context, and in order to effectively implement the Exchange of Notes, the following rules, for VAT purposes, shall govern:

1. The VAT-registered suppliers and sub-contractors of the Japanese companies shall bill and pass on the twelve percent (12%) VAT to the Japanese companies/contractors. In turn, the Japanese contractors shall include in their billing and pass on the 12% VAT to the concerned executing agencies of the Republic of the Philippines. Since under the Exchange of Notes, the OECF Fund shall not be used to pay for the tax, then the VAT is for the account of the Philippine government.

2. The Japanese contractors shall file the prescribed VAT returns on gross receipts derived from OECF-funded projects , claim their input taxes from their purchases of goods, properties and services from their suppliers or subcontractors and shall pay the output tax or VAT thereon , after offsetting the creditable or allowable input taxes , considering that the amount intended for payment of the VAT has already been collected and received by the

BUREAU OF INTERNAL REVENUE
RECORDS MGT. DIVISION
11:42 A.M.
JAN 11 2017
RECEIVED

Japanese contractors or nationals from the executing government agencies as part of the total billing/invoice price.

3. In no case shall input taxes arising from transactions attributable to activities unrelated to the OECF-funded project be allowed or be credited against the output tax on gross receipts from the project.

Any ruling or revenue issuance which is inconsistent herewith is hereby amended, repealed or modified accordingly.

All internal revenue officers and others concerned are hereby enjoined to strictly implement the provisions of this Circular.

CAESAR R. DULAY
Commissioner

002889

BUREAU OF INTERNAL REVENUE
RECORDS MGT. DIVISION
11:42 A.M.
JAN 11 2017
RECEIVED