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

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DEC 14 2021

REVENUE MEMORANDUM CIRCULAR NO. 122-2021

SUBJECT : Clarifying the Tax Treatment of Integrating the International Passenger Service Charge at the Point of Sale of Airline Tickets

TO : All Internal Revenue Officers and Others Concerned

This Circular is being issued to standardize the tax treatment of integrating the Domestic Passenger Service Charge (DPSC) and International Passenger Service Charge (IPSC), commonly referred to as terminal fees, into airline tickets at the point of sale.

The provisions of Revenue Memorandum Circular (RMC) No. 34-2012 dated July 13, 2012 shall also govern the invoicing and recording of integrated IPSC in the books of airline companies and airport authorities. Applying the guidelines laid down in RMC 34-2012, the following are the rules for IPSC collected by Airline Company for Airport Authority:

a. *Collection of IPSC from passengers*

The Domestic Airline Companies shall collect the IPSC from passengers and shall include the IPSC in the official receipt to be issued by the Airline Company to the passenger. The VATable and VAT exempt components of IPSC shall be separately reflected in the official receipt. The share of the Airport Authority in the IPSC should be shown in the Airline Company's official receipt as part of receipts subject to VAT while the Aviation Security Fee and other fees (PD 1957) should be reflected as VAT exempt. Lastly, the VAT component of the IPSC should be included in the total VAT.

However, for International Airline Companies, the collected IPSC from the passengers shall likewise be reflected in its official receipts. The share of the Airport Authority, Aviation Fee and other fees (PD 1957) should be reflected as VAT exempt.

The accounts to record the IPSC (Share of Airport Authority, Aviation Security Fee and fees under PD 1957) may be shown in the financial statements as other income/expense.

To illustrate, assume that the IPSC amounts to five hundred fifty pesos (P550.00) broken down as follows:

Share of Airport Authority	P 390.00
PD 1957 (Bureau of Treasury)	100.00
Aviation Security Fee (EO No. 30 of 1998)	60.00

A domestic airline company that is subject to VAT, or an international airline company that is a resident foreign corporation and subject to VAT on service fees, shall record the collection of IPSC as follows:

Cash	550.00	
IPSC-Share of Airpor: Authority (P390/1.12)		348.21
IPSC- Due to National Govt. PD 1957		100.00
IPSC- Aviation Secur ty Fee		60.00
Output VAT (P348.21 x 12%)		41.79

b. Remittance of IPSC by Airline Company to Airport Authority

The IPSC collected by the Airline Company shall be paid to the Airport Authority, which in turn, shall issue an official receipt to the Airline Company. The official receipt shall indicate the full amount of the IPSC (i.e., P550 per passenger).

Assuming the same facts as in the previous illustration, a domestic airline company, which is subject to VAT, or an international airline company that is subject to VAT on service fees, shall record the remittance of IPSC as follows:

IPSC-Share of Airport Authority (P390/1.12)	348.21	
IPSC- Due to National Govt. PD 1957	100.00	
IPSC- Aviation Security Fee	60.00	
Input VAT (P348.21 x 12%)	41.79	
Cash		550.00

On the other hand, the Airport Authority shall record the receipt of IPSC from a domestic airline company, which is subject to VAT, or an international airline company that is subject to VAT on service fees, as follows:

Cash	550.00	
IPSC-Share of Airpor: Authority (P390/1.12)		348.21
IPSC- Due to National Govt. PD 1957		100.00
IPSC- Aviation Secur ty Fee		60.00
Output VAT (P348.21 x 12%)		41.79

c. Payment of Service Fees by Airport Authority to Airline company

Payment of service fees by Airport Authority to Airline Company shall be governed by the rules on government money paymer ts and be subject to Creditable Withholding VAT (CVAT) at the rate of 5% and Creditable Withholding tax (CWT) of 2% of gross payments. The Airline Company shall issue a VAT Official Receipt to acknowledge receipt of the service fees from the Airport Authority.

However, payment of service fees by Airport Authority to international Airline Company shall be treated as other income subject to corporate income tax.

The Airport Authority shall remit the five percent (5%) CVAT[1] and the two percent (2%) CWT on payment for service fees and issue the corresponding Certificate of Creditable Tax

[1] Amended by Republic Act No. 10963.

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Withheld at Source (BIR Form 2307) in the name of the domestic airline company or the international airline company that is a resident foreign corporation, as the income recipient.

In the previous illustration, assuming that the agreed service fees to be paid by the airport authority to the airline company is 2.95% of the IPSC, a domestic airline company that is subject to VAT, or to an international airline company that is a resident foreign corporation and subject to VAT on service fees, shall record the receipt of service fees as follows:

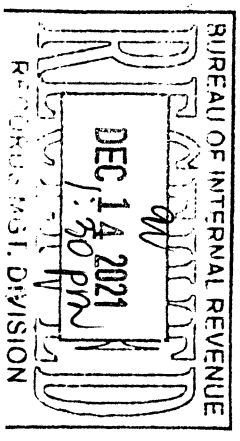
Cash	15.2110		
Creditable Withholding Tax- Income (Service Fees x 2%)	0.2897	*	
Creditable Withholding Tax- VAT (Service Fees x 5%)	0.7243		
Service Income (550 / 1.12 x 2.95%)			14.4866
Output VAT (Service Fees x 12%)			1.7384

* This represents the 2% creditable withholding tax on persons residing in the Philippines, pursuant to Section 2.57.2 (N) of Revenue Regulations (RR) No. 2-98, as amended by Section 2.57.2 (J) of RR No. 11-2018, on the income tax on service fees imposed under Section 4.4 of RR No. 15-2013.

Concurrently, the Airport Authority shall record the payment of service fees to a domestic airline company that is subject to VAT, or an international airline company that is a resident foreign corporation and subject to VAT on the service fees, as follows:

Service Fees	14.4866	
Input VAT	1.7384	
Cash		15.2110
Expanded Withholding Tax- Income		0.2897
Expanded Withholding Tax- VAT		0.7243

If, however, the service fees are earned by an international airline company that is a non-resident foreign corporation and subject to VAT on the service fees, the receipt of service fees shall be recorded in its books as follows:



Cash	11.8790		
Final Withholding Tax- Income (Service Fees x 25%)	3.6217	**	
Creditable Withholding Tax- VAT (Service Fees x 5%)	0.7243	***	
Service Income (550 / 1.12 * 2.95%)			14.4866
Output VAT Service Fees x 12%)			1.7384

** This represents the 25% Final Tax Withheld, pursuant to Section 2.57.1 (I) of RR No. 2-98, as amended by Republic Act No. 11534, on the income tax imposed under Section 4.4 of Revenue Regulation No. 15-2013.

*** This is pursuant to Section 114 (C) of the National Internal Revenue Code of 1997, as amended ("Tax Code").

While the Airport Authority shall record the payment of service fees to an international airline company that is a non-resident foreign corporation and subject to VAT on the service fees, as follows:

Service Fees	14.4866	
Input VAT	1.7384	
Final Withholding Tax- Income		3.6217
Expanded Withholding Tax- VAT		0.7243
Cash		11.8790

Section 6 of RR No. 15-2013 to the contrary notwithstanding, International Carriers exempt under Section 109 of the Tax Code shall be allowed to register for VAT purposes in relation to IPSC, being unrelated to the transport of passengers and cargo.

Moreover, the collection of taxes on IPSC specified under this RMC should be treated independently from the Gross Philippines Billings (GPB) Tax imposed under Section 28(A)(3) of the Tax Code and the 3% Common Carrier's Tax imposed under Section 118 of the Tax Code, as the GPB refers to the amount of gross revenue derived from *carriage of persons, excess baggage, cargo, and mail* originating from the Philippines in a continuous and uninterrupted flight, while the percentage tax on International Carriers in Section 118 pertains to gross receipts derived from *transport of cargo* from the Philippines to another.

Considering that the IPSC is a service charge for services performed within the Philippines, then justifiably, it should be treated independently from the taxes imposed on the mentioned revenue from carriage of persons, excess baggage, cargo, and mail originating from the Philippines.

Should the airline company opt to remit the IPSC to the Airport Authority net of the Service Fees it charged, the same rules as above shall apply. The Airport Authority shall still issue a VAT Official Receipt to the airline company for the full amount of IPSC (i.e., P550 per passenger) and at the same time, the airline company shall likewise issue a VAT Official Receipt to the airport authority for the service fees. However, to comply with the withholding requirements, the tax to be withheld on the service fees, whether CVAT, CWT, or FWT, shall be paid back to the Airport Authority for remittance to the BIR.

All concerned are hereby enjoined to be guided accordingly and give this Circular as wide a publicity as possible.

This Circular shall take effect immediately.

CAESAR R. DULAY
Commissioner of Internal Revenue

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