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

March 20, 2007

REVENUE MEMORANDUM CIRCULAR NO. 23-2007

SUBJECT : Clarification on the Computations of Withholding Taxes and Other Requirements on Government Money Payments Due or Payable to Suppliers of Goods and/or Services, in Connection With the Implementation of Republic Act No. 9337, as Amended, Republic Act No. 1051, and Revenue Regulations No. 2-98, as Amended, in Relation to Revenue Regulations No. 9-2001, as Amended, and Revenue Regulations No. 2-2006.

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

This circular is being issued to clarify the basis of computations of Withholding taxes and other requirements on government money payments due or payable to all suppliers of goods and/or services in relation to the implementation of the provisions of Republic Act No. 9337 (RA No. 9337), as amended, together with its implementing regulations (Revenue Regulations No. 16-2005, (RR No. 16-2005), as amended); Republic Act No. 1051 (RA No. 1051); and the appropriate provisions of Revenue Regulations No. 2-98 (RR No. 2-98), as amended, in relation to Revenue Regulations No. 9-2001 (RR No. 9-2001), as amended, and Revenue Regulations No.2-2006 (RR No. 2-2006).

Section 4.112-2 of RR No. 16-2005, as amended, provides for the withholding of the 5% Final VAT on Government Money Payments (GMP). The application of the said provision should be synchronized with the provisions of RR No. 2-98, as amended, on the withholding of income tax of 1% on purchase of goods and 2% on purchase of services, except on purchases by any government official and employee recorded as reimbursable allowance, benefit or incentive to government official and employee by the concerned government office (e.g., RATA) and on casual government purchases amounting to not more than ₱10,000. The basis of the withholding of income tax should always be net of the Value-Added Tax (VAT) imposed on the said purchase of goods and/or services.

Purchases of the government that are covered by Purchase Orders duly signed by the authorized official/s as well as purchases using the Petty Cash Fund shall be subject to the 5% final VAT withholding. However, purchases by any government official and employee recorded as reimbursable allowance, benefit or incentive to government official

and employee by the concerned government office (e.g., RATA) are not covered by the withholding of 5% final VAT.

Example: GOVERNMENT PURCHASES FROM VAT REGISTERED SUPPLIERS OF GOODS AND/OR SERVICES

A government agency has the following purchases for the month of January, 2007 from VAT registered suppliers of goods and/or services:

	Invoice Amount
Purchase of Goods (inclusive of VAT)	P1,120.00
Purchase of Services (inclusive of VAT)	5,600.00

How will the government agency compute for the amount due to their suppliers? How will the government agency compute for the amount of withholding tax to be filed and remitted for the month of January, 2007?

Hereinbelow are the answers to the foregoing questions:

a) Purchase of Goods

Selling Price	P1,000.00
Output VAT (P1,000.00 x 12%)	120.00
Invoice Amount	P1,120.00
Less:	
5% withholding of final VAT (P1,000.00 x 5%)	50.00
1% withholding of Income Tax (P1,000.00 x 1%)	10.00
Amount Payable to supplier of Goods	**P1,060.00**

b) Purchase of Service

Selling Price	P5,000.00
Output VAT (P5,000.00 x 12%)	600.00
Invoice Amount	P5,600.00
Less:	
5% withholding of final VAT (P5,000.00 x 5%)	250.00
2% withholding of Income Tax (P5,000.00 x 2%)	100.00
Amount Payable to supplier of Services	**P5,250.00**

The person in-charge of withholding in each government agency (Government offices, bureaus, agencies or instrumentalities, local government units, GOCCs) shall

prepare the following forms, file the tax returns to the appropriate BIR collecting agents and pay the corresponding withholding taxes due thereon, to wit:

BIR Form 1600 (Monthly Remittance Return of Value-Added Tax and Other Percentage Taxes Withheld) to be filed on or before the 10th day of the month following the month in which the withholding was made for the following amount based on the above example:

Withholding of Final VAT on Goods	P 50.00
Withholding of Final VAT on Services	250.00

BIR Form 1601-E (Monthly Remittance Return of Creditable Income Taxes Withheld -Expanded) to be filed on or before the 10th day of the month following the month in which the withholding was made except for tax returns covering transactions in December which shall be filed on or before January 15 of the succeeding year, for the following amount based on the above example:

Withholding on GMP-goods (EWT)	P 10.00
Withholding on GMP-services (EWT)	100.00

(Filers under the Electronic Filing and Payment System [EFPS] of the Bureau of Internal Revenue [BIR] are governed by the EFPS rules on filing of tax returns and payment of taxes.)

BIR Form 2306 (Certificate of ***Final Tax*** Withheld at Source) to be given to the supplier of goods and/or services within ten (10) days following the end of the month in which the withholding was made or upon demand. The certificates and hard copy of the Summary Alphalist of Withholding Taxes (SAWT) shall be attached to the Monthly/Quarterly VAT Declaration/Return (BIR Form 2550M/2550Q), in those instances where there are not more than ten (10) withholding agents, or the certificates shall be used for the preparation of the electronic Summary Alphalist of Withholding Taxes (SAWT) which shall be attached, together with the certificates, to the VAT Return of the seller-payee, in those instances where there are more than ten (10) withholding agents. For the above example, the following amount shall be reflected on the Certificate (BIR Form 2306):

Withholding of Final VAT on Goods	P 50.00
Withholding of Final VAT on Services	250.00

(EFPS filers shall always submit the SAWT in electronic format.)

BIR Form 2307 (Certificate of ***Creditable Tax*** Withheld at Source) for the withholding of income tax on GMP to be given to the supplier of goods and/or services not later than the 20th day of the month following the close of the taxable

quarter in which the withholding was made or upon demand. The certificates shall be the proof of claimed tax credit of EWT against income tax due and shall be attached to the Quarterly/Annual Income Tax Return, together with the hard copy of the SAWT, in those instances where there are not more than ten (10) withholding agents, or the certificates shall be used for the preparation of the electronic SAWT that shall be attached, together with the certificates, to the Quarterly/Annual Income Tax Return of the seller-payee, in those instances where there are more than ten (10) withholding agents. For the above example, the following amount shall be reflected on the Certificate (BIR Form 2307):

Withholding on GMP-goods (EWT)	P 10.00
Withholding on GMP-services (EWT)	100.00

(EFPS filers shall always submit the SAWT in electronic format.)

Government purchases that are subject to percentage tax shall be governed by RA No. 1051 on the withholding of percentage tax, as well as, by RR No. 2-98, as amended, on the withholding of Percentage Tax and Income Tax. It is to be stressed that purchases by any government official and employee recorded as reimbursable allowance, benefit or incentive to government official and employee by the concerned government office (e.g., RATA) as well as casual government purchases amounting to not more than ₱10,000 are not subject to the 1% or 2% withholding of income tax.

Example: GOVERNMENT PURCHASES FROM NON-VAT REGISTERED SUPPLIERS OF GOODS AND/OR SERVICES

A government agency has the following purchases for the month of January, 2007 from NON-VAT registered taxpayer:

	Invoice Amount
Purchase of Goods	P1,000.00
Purchase of Services	5,000.00

How will the government agency compute the amount of withholding tax due from their suppliers? How will the government agency compute for the amount of withholding tax to be remitted for the month of January, 2007?

Hereinbelow are the answers to the foregoing questions:

a) Purchase of Goods

Selling Price	P1,000.00
Less:	
3% withholding of Percentage Tax	

(P1,000.00 x 3%)	30.00
1% withholding of Income Tax	
(P1,000.00 x 1%)	10.00
Amount Payable to the supplier of Goods	**P 960.00**

b) Purchase of Service

Selling Price	P5,000.00
Less:	
3% withholding of Percentage Tax	
(P5,000.00 x 3%)	150.00
2% withholding of Income Tax	
(P5,000.00 x 2%)	100.00
Amount Payable to supplier of Services	**P 4,750.00**

The person in-charge of withholding in each government agency (Government offices, bureaus, agencies or instrumentalities, local government units, GOCCs) shall prepare the following forms, file the tax returns together with the required Monthly Alphalist of Payees as required under RR No. 2-2006, to the BIR collecting agents and pay the corresponding withholding taxes due thereon, to wit:

BIR Form 1600 (Monthly Remittance Return of Value-Added Tax and Other Percentage Taxes Withheld) to be filed on or before the 10th day of the month following the month in which the withholding was made, for the following amount based on the above example:

Withholding of Percentage Tax on Purchase of Goods	P 30.00
Withholding of Percentage Tax on Purchase of Services	150.00

BIR Form 1601-E (Monthly Remittance Return of Creditable Income Taxes Withheld -Expanded) to be filed on or before the 10th day of the month following the month in which the withholding was made except for tax returns covering transactions in December which shall be filed on or before January 15 of the succeeding year, for the following amount based on the above example:

Withholding on GMP-goods (EWT)	P 10.00
Withholding on GMP-services (EWT)	100.00

(Filers under the EFPS of the BIR are governed by the EFPS rules on filing of tax returns and payment of taxes.)

BIR Form 2307 (Certificate of ***Creditable Tax*** Withheld at Source) for the withholding of income tax on GMP to be given to the supplier of goods and/or services not later than the 20th day of the month following the close of the taxable

quarter in which the withholding was made or upon demand. The certificates shall be the proof of claimed tax credit of EWT against income tax due and shall be attached to the Quarterly/Annual Income Tax Return, together with the hard copy of the SAWT, in those instances where there are not more than ten (10) withholding agents, or said certificates shall be used for the preparation of the electronic SAWT that shall be attached, together with the certificates, to the Quarterly/Annual Income Tax Return of the seller-payee, in those instances where there are more than ten (10) withholding agents. For the above example, the following amount shall be reflected on the Certificate (BIR Form 2307):

Withholding on GMP-goods (EWT)	P 10.00
Withholding on GMP-services (EWT)	100.00

(EFPS filers shall always submit the SAWT in electronic format.)

BIR Form 2307 (Certificate of ***Creditable Tax*** Withheld at Source) for the withholding of Percentage Tax on GMP to be given to the supplier of goods and/or services not later than the 10th day of the month following the close of the month in which the withholding was made or upon demand. The certificates shall be used as proof of the claimed percentage tax credit against Percentage Tax Due and shall be attached to the Percentage Tax Return, together with the hard copy of the SAWT, in those instances where there are not more than ten (10) withholding agents, or said certificates shall be used for the preparation of the electronic SAWT that shall be attached, together with the certificates, to the Percentage Tax Return of the seller-payee, in those instances where there are more than ten (10) withholding agents. For the above example, the following amount shall be reflected on the Certificate (BIR Form 2307):

Withholding of Percentage Tax on Purchase of Goods	P 30.00
Withholding of Percentage Tax on Purchase of Services	150.00

(EFPS filers shall always submit the SAWT in electronic format.)

Considering that BIR Form No. 2307 is the certificate that is issued for withholding of both income tax and percentage tax, it is inherent that there may be two (2) sets of BIR Form No. 2307 that may be issued for one (1) particular transaction.

It is hereby emphasized, however, that the rates of withholding of income tax on specific types of income payments as prescribed in RR No. 2-98, as amended, shall be followed; thus, the rates of 1% on purchase of goods and 2% on purchase of services shall apply only to those types of income payments not specifically enumerated in the said Regulations.

All concerned are hereby enjoined to be accordingly guided by the foregoing, and to give this circular as wide a publicity as possible.

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

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