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

July 13, 2012

REVENUE MEMORANDUM CIRCULAR NO. 34-2012

SUBJECT	:	Clarifying the Tax Implications of Integrating the Domestic Passenger Service Charge at the Point of Sale of Airline Tickets.
TO	:	The Manila International Airport Authority, All Domestic Airline Operators, Their Agents, All Revenue Officials, Employees and Others Concerned

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This Circular is being issued to standardize the procedure for invoicing, recording, and tax treatment of the integration the Domestic Passenger Service Charge (DPSC) in airline tickets and the service fees received by domestic airline companies.

BACKGROUND

In a Memorandum of Agreement dated May 17, 2012, the Manila International Airport Authority (MIAA) and domestic airline companies agreed that the Domestic Passenger Service Charge (DPSC), which was directly collected by MIAA from departing passengers through counters located in the airport terminals, shall be integrated with the sale of airline tickets. As such, the DPSC shall be collected from passengers at the time they purchase airline tickets from airline companies or general sales agents/travel agents. The DPSC shall then be remitted to the MIAA. In turn, the airline companies shall receive service fees from MIAA as compensation for collecting the DPSC on behalf of MIAA.

This Circular shall govern the invoicing and recording of the integrated DPSC in the books of airline companies and airport authorities.

DISCUSSION

The tax implications of the integration of the DPSC are discussed hereunder.

a. Collection of DPSC from passengers

The airline company shall collect the DPSC from passengers and shall include the DPSC in the official receipt to be issued by the airline company to the passenger. The VATable and VAT exempt components of DPSC shall be separately reflected in the official receipt. To illustrate, assume that the cost of the airline ticket is two thousand and sixteen pesos (P2,016.00), inclusive of VAT, and the DPSC amounts to two hundred pesos (P200.00), broken down as follows:

Share of Airport Authority	P 165.18
Aviation Security Fee (ASF)	15.00
VAT	19.82
Total	P 200.00

The VAT receipt to be issued by the airline company to the passenger should reflect the following:

Airline ticket	P2,016.00
DPSC	200.00
Total	P2,216.00

VATable sales	1,965.18
VAT exempt sales	15.00*
VAT	235.82**
Total	P2,216.00

Note: * represents Aviation Security Fee which is exempt from VAT.
** composed of VAT on the airline ticket (P 216.00) and VAT on DPSC (P19.82).

The share of the airport authority in the DPSC should be shown in the airline company's official receipt as part of receipts subject to VAT while the Aviation Security Fee should be reflected as VAT exempt. Lastly, the VAT component of the DPSC should be included in the total VAT.

Moreover, the airline company shall record the receipt of DPSC in its books as follows:

Cash	200.00	
DPSC- Share of airport authority		165.18
DPSC- Aviation Security Fee		15.00
Output tax		19.82

The accounts DPSC- Share of airport authority and DPSC-Aviation Security Fee may be shown in the financial statements as other income/expense.

b. Payment of DPSC by airline company to airport authority

The DPSC 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 DPSC (i.e., P200 per passenger).

Using the same illustration as above, the VAT receipt to be issued by the airport authority to the airline company should show the following:

DPSC	P 200.00
Total	P 200.00

VATable sales	P 165.18
VAT exempt sales	15.00*
VAT	19.82**
Total	P 200.00

Note: * Aviation Security Fee
** VAT on the DPSC

The DPSC shall not form part of the gross receipts of the airport authority for purposes of computing creditable withholding taxes.

Furthermore, the airport authority shall take up the remittance of DPSC in its books as follows:

Cash	200.00	
Output tax		19.82
Due to National Gov't.-ASF		15.00
DPSC Income		165.18

On the other hand, the airline company shall record the payment of DPSC in its books as follows:

DPSC- Share of airport authority	165.18	
DPSC- Aviation Security Fee	15.00	
Input tax	19.82	
Cash		200.00

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 payments and be subject to withholding VAT at the rate of 5% and expanded withholding tax of 2% of gross payments.

Assuming that the service fee is equivalent to 3.5% of the DPSC, the airline company shall issue a VAT Official Receipt to acknowledge receipt of the service fees from the airport authority and record the following entry in its books to take up receipt of the service fees.

Cash	6.5625	
Expanded withholding tax	0.1250	
Withholding VAT	0.3125	
Service Income		6.25
Output tax		0.75

The airport authority shall make the following entry to record payment of service fees to the airline company.

Service Fees	6.25	
Input tax	0.75	
Cash		6.5625
Expanded withholding tax		0.1250
Withholding VAT		0.3125

Lastly, the entries to record payment/receipt of DPSC, as illustrated in paragraph (a), and entries to take up the receipt/payment of service fees, as shown in paragraph (b) may be consolidated if the actual remittance of DPSC by the airline company to the airport authority is net of the service fees.

All other issuance inconsistent herewith are hereby repealed or modified accordingly.

This Circular takes effect August 1, 2012.

(Original Signed)
KIM S. JACINTO-HENARES
Commissioner of Internal Revenue

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