REPUBLIKA NG PILIPINAS
KAGAWARAN NG PANANALAPI
KAWANIHAN NG RENTAS INTERNAS

Quezon City

June 21, 2006

REVENUE MEMORANDUM CIRCULAR NO. 35-2006

SUBJECT : **Clarifying the proper VAT and EWT treatment of freight and other incidental charges billed by Freight Forwarders**

TO : All Freight Forwarders, their Clients, Internal Revenue Officers and Others Concerned.

BACKGROUND

The business of Freight Forwarders ("the forwarders") is to ensure the delivery of goods or cargoes from a certain pick-up point to their final destination. As a service provider, the value-added refers to the compensation for the services rendered by them to their client/shipper. Their services may cover a cross-border movement (i.e., from the Philippines to a foreign port or vice-versa) or a local movement (i.e., within the Philippines) of cargoes.

For cross-border movement of cargoes, the forwarders act only as integrator of various services (i.e., sorting, trucking [for pick-up/delivery], documentation, air/sea carriage etc.), which services are traditionally separated from each other by different companies. As a matter of fact, the actual shipment of the goods from the Philippines to a foreign country or vice versa is not performed by them for want of facility to do the same. While the forwarders bill and collect the entire shipping cost from their clients, comprised of the cost of services to be rendered by third-party service providers and their service fee and/or commission for their integration services, what is retained by them is only the compensation for the services actually rendered by them. Out of the total funds collected for a particular shipment, the forwarders pay for the services of the third-party service providers. In fine, the forwarders act merely as an intermediary between the client/shipper and the different service providers wherein the client/shipper deals with just one entity, the forwarder, who makes the necessary arrangements for the provision of all the needed services to complete the movement, i.e., delivery of the cargoes up to their final destination. The forwarder has no control over the goods once laden on board because it is the carrier who takes responsibility for any loss or damage on the cargoes.

For value-added tax purposes, the gross receipts (value-added) of the forwarder, is merely limited to the compensation for the services it performs, just like any service provider. In the shipment of goods from one place to another, it is not actually the forwarder which renders all the said services but some of which are rendered by third-party service providers, hence, the payments received by the forwarder from its clients which are intended for third-party service providers can not be considered as forming part of its gross receipts for tax purposes.

Accordingly, the forwarders may only be subject to tax on their commissions and/or service fees they charge to their clients for the said integration and/or for the services they actually render in the Philippines.

In so far as local movement of cargoes is concerned, the forwarders, as a matter of business practice, take full responsibility and control in bringing said cargoes to their final destination. Once the forwarders issue their VAT official receipt for the entire services, it is presumed that the entire payment made by the shipper is intended to indemnify the forwarders for their services of bringing the cargoes from one point in the Philippines to another point in the Philippines. Accordingly, the entire amount charged constitutes the compensation for their services irrespective of the shipping arrangement made by them. The amount paid to third-party service providers is the forwarders' cost of doing business (inputs) because their obligation is to see to it that the cargoes reach their final destination.

However, there are instances where the forwarders avail of third-party services in bringing the goods to their final destination. The amount paid to these third parties will not form part of the forwarders' gross receipts if the said third parties issue a VAT official receipt directly to the shipper. Otherwise, the entire amount paid to the forwarders will form part of their gross receipts.

Based on the foregoing, it is clear that the business of a freight forwarder may be described as follows:

1. For cross-border movement – it acts as an intermediary between the shipper/client and the shipping/airline company; and

2. For local movement – (a) it undertakes to perform all the services necessary to bring the goods to the agreed final destination or (b) it may act as integrator of various services necessary to bring the goods to their final destination.

Hence, this Revenue Memorandum Circular is issued to clarify the tax treatment of the different transactions of a freight forwarder.

DEFINITION OF TERMS

Accessorial Charges – refer to standard charges billed by international air or sea carriers to the forwarders and, in turn, billed (or subsequently passed on) by the forwarders to their clients **at cost**. These charges include, but not limited to, the following:

1. For air carriers

    - Fuel surcharge
    - Security surcharge
    - Air Way Bill fee

2. For sea carriers

    - Bunker's Adjustment Factor (BAF)
    - Yen appreciation Surcharge (YAS)
    - Peak Season Surcharge (PSS)
    - Advance Manifest Surcharge (AMS)
    - Terminal Handling Charges (THC)
    - Documentation/Bill of Lading Fee
    - Alameda Corridor Surcharge (ACS)
    - Carriers Security Charge (CSC)

Currency Adjustment Factor (CAF) – refers to a fee charged by the forwarders to their clients covering losses incurred due to fluctuations in the exchange rates between peso and foreign currencies.

Freight – refers to basic charges of international air or sea carriers in the movement of cargoes billed to forwarders, which are, in turn, billed (or subsequently passed on) by the forwarders to their clients.

Inbound Movement – refers to the movement of cargoes from a foreign port to the Philippines.

Local Destination Charges – refer to fees charged by the forwarders to their clients for their services rendered in the Philippines involving inbound movement. The said charges may comprise some or all of the following items:

- collect fee
- turn-over/breakbulk fee
- trucking, processing
- documentation charges
- other related charges

Local Movement – refers to the movement of cargoes from one place in the Philippines to another place in the Philippines.

Local Origin Charges – refer to fees charged by the forwarders to their clients for their services rendered in the Philippines involving outbound movement. The said charges may comprise some or all of the following items:

- trucking, processing
- documentation charges
- disbursement fee
- other related charges

Offshore Destination Charges – refer to charges of foreign forwarders/agents billed to the forwarders for services rendered abroad involving outbound movement which are, in turn, billed by the forwarders to their clients **at cost.**

Offshore Origin Charges – refer to charges of foreign forwarders/agents billed to the forwarders for services rendered abroad involving inbound movement which are, in turn, billed by the forwarders to their clients **at cost.**

Outbound Movement – refers to the movement of cargoes from the Philippines to a foreign port.

VALUE-ADDED TAX (VAT) TREATMENT

1. Outbound Movement

For outbound movement, the freight (exclusive of the commission of the forwarders), together with the accessorial charges, and offshore destination charges shall not be considered as forming part of the gross receipts of the forwarders because the said charges are not for services rendered by the forwarders but actually by the third-party service providers. Thus, when paid by the clients, they merely constitute amounts held in trust by the forwarders as they are actually intended for the said third-party service providers (i.e., the carriers and foreign forwarders/agents).

In the case of ***Commissioner vs. Tours Specialists, Inc***.[1], the Supreme Court held that:

> "As demonstrated in the above-mentioned case, gross receipts subject to tax under the Tax Code do not include monies or receipts entrusted to the taxpayer which do not belong to them and do not redound to the taxpayer's benefit; and it is not necessary that there must be a law or regulation which would exempt such monies and receipts within the meaning of gross receipts under the Tax Code." (*underscoring supplied*)

Accordingly, for VAT purposes involving outbound movement, only the following items shall be considered as forming part of the gross receipts of the forwarders as they are payments for services actually rendered by them, to wit:

- Local origin charges; and
- Actual commission income of the forwarders on the freight (as a consideration for the integration of the various services).

2. Inbound Movement

In the same manner, for inbound movement, the freight (exclusive of the commission of the forwarders), together with the accessorial charges, and offshore origin charges shall not be considered as forming part of the gross receipts of the

[1] G.R. No. 66416 dated March 21, 1990

forwarders because they constitute amounts merely held in trust by the forwarders. Thus, for VAT purposes involving inbound movement, only the following items shall be considered as forming part of the gross receipts of the forwarders, to wit:

- Local destination charges;
- CAF; and
- Actual commission income of the forwarders on the freight (as a consideration for the integration of the various services).

3. Local Movement

For local movement of cargoes, the entire amount received by the forwarder for the said movement shall, for VAT purposes, be considered as forming part of the gross receipts of the forwarder if the forwarder issues a VAT Official Receipt therefor. The services paid for by the client is the carriage of the cargoes from one destination in the Philippines to another destination in the Philippines with the commitment that the said services, including other accessory services like handling, storage, documentation etc., will all be performed by the forwarder. This rule will apply even if the forwarder will engage the services of independent contractors to perform some of the services but the said independent contractors issue their VAT Official Receipt to the forwarders (and not to the shippers) who make the payment to them. This is so because the forwarder does not merely act as an intermediary between the client/shipper and other service providers but undertakes to perform all the services of bringing the cargoes from one point in the Philippines to another point in the Philippines. Hence, all expenses paid out of the money received from the client redound to the benefit of the forwarder, which is considered its costs of doing business. Accordingly, the entire funds paid by the client belong to the forwarder thereby making it liable for the VAT on the entire amount received.

For VAT purposes, the freight forwarder shall issue a VAT official receipt for the entire amount received from the shipper/client reflecting therein the amount of the value-added tax. In the event that third-party service providers will be involved in the carriage of goods, it is the responsibility of the third-party service providers to issue a VAT official receipt to the freight forwarder who engaged their services so that the latter can properly claim input taxes.

The foregoing rule notwithstanding, if the forwarders engage the services of third-party service providers and the amount payable to them are treated by the forwarders as reimbursable expenses and/or advanced payments and a VAT official receipt is only issued on the services they actually render while the reimbursable expenses are covered by a Non-VAT Acknowledgement Receipt, the amount collected in behalf of these third-party service providers must not form part of the forwarders' gross receipts.

In sum, reimbursable expenses and/or advanced payments shall not be subject to VAT on the part of the forwarder if the following conditions/procedures are complied with:

1. The reimbursable expenses and/or advance payments, except those incurred for the benefit of the forwarder, are receipted separately using Non-VAT Official Acknowledgement Receipts to be issued by the forwarders to the shippers upon collection of the reimbursements or advances previously recorded as RECEIVABLE FOR CASH ADVANCES ON BEHALF OF SHIPPERS, which recording was done upon payment, on behalf of shippers, of the advances to the third-party service providers who issued official receipts in the name of the shippers and not of the forwarders;

2. The third-party service providers to whom the advanced payments or reimbursable expenses of the shippers have been paid by the forwarders, shall issue receipts in the name of the Shippers;

3. The forwarders shall record the reimbursable expenses of or the advanced payments on behalf of Shippers under the account "RECEIVABLE FOR CASH ADVANCES ON BEHALF OF SHIPPERS", and

4. For liquidation purposes, the forwarders shall attach the original copy of all said official receipts issued by the third-party service providers in the name of the shippers to the NON-VAT Official Acknowledgement Receipts of the forwarders issued to their Shippers upon payment by the latter of the reimbursable expenses.

Accordingly, while in the foregoing scenario, the forwarders shall not be liable for any output tax on the collection of the reimbursable expenses or advance payments on behalf of their Shippers, said Shippers, however, may be able to claim input tax for the services of the third-party service providers that are subject to VAT if the same are receipted by the third-party service providers' VAT Official Receipts evidencing the latter's reporting of the same for VAT purposes.

Invoicing Requirements

Every VAT-registered forwarder shall, for every sale of service, issue a VAT official receipt containing the required information as provided under Section 4.113-1(B) of Revenue Regulations (RR) No. 16-2005: Provided, however, that in case of outbound and inbound movements, the forwarders shall be allowed to show separately under one Billing Statement the amounts due (or held in trust) for the third-party service providers and the charges subject to VAT for purposes of

determining the VAT component due on the said transaction. In the said Billing Statement, the VAT component due on the commission may likewise be shown separately with the VAT component on the other taxable charges. Accordingly, upon the issuance of the VAT official receipt by the forwarders involving outbound and inbound movements, the amount of VAT component (calculated based on the Billing Statement) shown in the said receipt is the amount of input VAT that may be claimed by the clients. For administrative convenience, the amount of commission shall be computed at 5% of total freight charges which is the IATA rate.

Illustration: Assume that ERA Corp. ("ERA") is shipping a cargo weighing 1,000 kilograms (kgs), through XYZ Freight Forwarder, Inc., ("XYZ") from Manila to San Francisco, USA. For the said shipment, XYZ will bill ERA for the amount of P212,625.50, inclusive of the VAT. The Billing Statement should be issued as follows:

XYZ Freight Forwarder, Inc.
789 Sto. Niño St., Parañaque City
TIN-987-654-321-000 VAT

No. _____

BILLING STATEMENT

Date: _____

BILL TO:
ERA Corp.
145 Mariposa St., Quezon City
TIN: 123-456-789-000

PARTICULARS		
Local Origin Charges:		
Trucking	1,200.00	
Docs Processing	500.00	1,700.00
Commission (5% of Freight*)		8,387.50
Total Vatable Charges		10,087.50
Add: 12% VAT		1,210.50
Total		11,298.00
Add: Amount Payable to Third-Parties		
Payment to International Carrier:		
Freight (net of commission)	159,362.50	
Fuel Surcharge	27,500.00	
Security Surcharge	8,250.00	
Airway Bill Fee	165.00	
Total	195,277.50	
Offshore Destination Charges:		
Delivery	3,300.00	
Storage	2,750.00	
Total	6,050.00	
Total Amount Payable to Third-Parties		201,327.50
Total Amount Payable		**212,625.50**
*Freight rate charged to shipper – **P167,750.00**		

Upon payment by ERA to XYZ of the amount of P212,423.75 (net of 2% EWT), XYZ shall issue the following documents:

a. VAT official receipt covering vatable charges

XYZ Freight Forwarder, Inc.
789 Sto. Niño St., Parañaque City
TIN-987-654-321-000 VAT

No. _____

OFFICIAL RECEIPT

Date: _____

ERA Corp.
145 Mariposa St., Quezon City
TIN: 123-456-789-000

PARTICULARS	AMOUNT
Local origin charges and commission	10,087.50
Add: 12% VAT	1,210.50
TOTAL	11,298.00
LESS: 2% EWT	201.75
AMOUNT PAID	**11,096.25**

b. NON-VAT ACKNOWLEDGMENT RECEIPT covering non-vatable charges

XYZ Freight Forwarder, Inc.
789 Sto. Niño St., Parañaque City
TIN-987-654-321-000 VAT

No. _____

NON-VAT ACKNOWLEDGMENT RECEIPT

Date: _____

ERA Corp.
145 Mariposa St., Quezon City
TIN: 123-456-789-000

PARTICULARS	AMOUNT
Freight and other related charges	201,327.50
AMOUNT PAID	**201,327.50**

Determination of the actual taxable gross receipts of the forwarders

1. Cross-border movement of goods

While the amount of VAT component shown in the VAT official receipt issued by the forwarders is the input tax that may be claimed by the clients, however, the said amount would not necessarily be the output tax that may be

declared by the forwarders in their VAT returns. Thus, for purposes of computing the actual VAT liability of the forwarders, the output tax to be declared in their VAT returns shall be the output tax computed based on the actual gross receipts of the forwarders but in no case below 5% of freight cost per billing statement, which was made the basis of the VAT shifted (input tax) to the Shipper.

Thus, for cross-border movement of goods, the actual gross receipts of the forwarders represents actual commissions received plus the other vatable charges, i.e., the local origin/destination charges and CAF, which is determined by deducting from the gross receipts received from the clients, exclusive of the VAT and the amounts held in trust/due to third-party service providers.

Illustration: (1) Actual Commission **Higher** Than 5% of Freight. - Assume that in the above illustration, the commission declared by the forwarder in the VAT official receipt was five percent (5%) of the freight or P8,387.50 (i.e., P167,750,00 x 5%). However, the freight actually paid by the forwarder to the air carrier was only P150,000.00. Hence, in determining the output tax liability of the forwarder, the same shall be computed as follows:

Gross amount received from clients (exclusive of the 12% VAT)		P211,415.00
Exclusions: Due to third-party service providers		
Freight	P150,000.00	
Fuel Surcharge	27,500.00	
Security Surcharge	8,250.00	
Airway Bill Fee	165.00	
Offshore Destination Charges:		
Delivery	3,300.00	
Storage	2,750.00	191,965.00
Gross receipts subject to 12% VAT		P 19,450.00
Multiply by:		12%
Output tax		**P 2,334.00**

Thus, while the output tax computed based on the VAT official receipt issued by XYZ amounted only to P1,210.50, however, the output tax computed based on its actual taxable gross receipts amounted to P2,334.00. Hence, for purposes of determining the actual VAT liability of XYZ, the output tax to be declared in its VAT return shall be P2,334.00.

Accordingly, the forwarders, in filing their VAT returns, shall attach a reconciling schedule showing the output tax computed based on the above illustration.

Illustration: (2) Actual Commission **Lower** Than 5% of Freight. - Assume that in the same illustration, the commission declared by the forwarder in the VAT official receipt is also five percent (5%) of the freight or P8,387.50 (i.e., P167,750,00 x 5%). However, the freight actually paid by the forwarder to the air carrier was

P160,000.00. Hence, in determining the output tax liability of the forwarder, the same shall be computed as follows:

Gross amount received from clients (exclusive of the 12% VAT)		P211,415.00
Exclusions: Due to third-party service providers		
Freight	P160,000.00	
Fuel Surcharge	27,500.00	
Security Surcharge	8,250.00	
Airway Bill Fee	165.00	
Offshore Destination Charges:		
Delivery	3,300.00	
Storage	2,750.00	201,965.00
Gross receipts subject to 12% VAT		P 9,450.00
Multiply by:		12%
Output tax		**P 1,134.00**

Based on the VAT official receipt issued by XYZ to ERA, the output tax amounted to P1,210.50, while in the above illustration, the resulting output tax is P1,134.00, which is lower than the output tax already passed-on by XYZ to ERA. In this case, XYZ will report for VAT purposes the output tax of P1,210.50 passed-on to ERA and not the amount of P1,134.00.

However, for income tax purposes, the forwarders shall always determine their income tax liability based on actual gross receipts.

2. Local movement of goods

The forwarder's gross receipts will depend on how the entire amount received from the shipper is treated by the forwarder which is normally reflected on the invoicing procedures adopted. If the forwarder issues a VAT Official Receipt for the entire amount received from the shipper (including those intended for third-party service providers), the output tax shall be computed on the total amount received from the client/shipper. The Official Receipt must separately reflect the VAT computed at 12% of total amount received, exclusive of the VAT. If for instance the forwarder collects P100,000.00 from a shipper for the carriage of goods from Manila to Cebu, the forwarder must issue on Official Receipt reflecting the P100,000.00 gross receipts and the VAT thereon of P12,000.00. The forwarder must pay an output tax of P12,000.00 and the VAT-registered shipper can claim an input tax of P12,000.00.

On the other hand, if the forwarder issues its VAT Official Receipt only for that portion representing its actual services and a Non-VAT Acknowledgment Receipt for the amount payable to third-party service providers, the Output Tax shall be computed only on the amount covered by the VAT Official Receipt in the name of the Shipper indicating separately the Output Tax which becomes the input tax of the Shipper.

Compliance Check

For cross-border movement of goods, the examiner, in the conduct of his audit, must at all times require the presentation of the covering contract and/or rate agreement by and between the forwarder and the shipping or airline company, as well as other relevant documents which will help in the determination of the actual commission earned by the forwarder. However, for VAT purposes, the BIR hereby adopts the audit policy that forwarders which report commissions (either in the VAT official receipts issued to the clients or in the VAT returns filed) of below five percent (5%) of total freight charged must be the first priority in the conduct of audit. Likewise, for local movement of goods, the forwarders which shall not report the entire amount as forming part of their gross receipts, if covered by VAT Official Receipt issued by the forwarders, shall be subject to first priority in the conduct of audit.

Substantiation Requirements

Considering the peculiarity of the freight forwarding business, particularly, the attendant difficulty in requiring the third-party service providers, i.e., the air/sea carriers and the foreign forwarders/agents, to issue official receipts directly in the name of the clients, the Billing Statement and Official Receipt issued by the forwarders in the name of the client shall, in the hands of the clients, be a sufficient proof for claiming a deduction for income tax purposes, provided that the proper withholding of tax has been made by the clients.

However, in the hands of the forwarders, all payments to third-party service providers representing actual freight, together with the accessorial charges, and the offshore origin/destination charges, must be covered by official receipts issued by the international carrier and the foreign freight forwarder or foreign agent, respectively, in the name of the Freight Forwarder plus any acceptable proofs of payment and other relevant documents (i.e., billing statements, deposit slips, confirmation/acknowledgment receipts, contracts, summaries/schedules, etc.). **Otherwise, any such payments claimed to have been made by the forwarders to the said third-party service providers (which are included in the payments of the clients to the forwarders) but which are not covered by the said acceptable proofs and relevant documents, shall be treated as forming part of the gross receipts of the forwarders subject to VAT and not allowed as a deduction for income tax purposes.**

EXPANDED WITHHOLDING TAX (EWT) TREATMENT

For EWT purposes, the forwarders shall not be considered as commercial forwarders or agents subject to ten percent (10%) withholding tax. Instead, the forwarders shall be treated as other contractors (Operator of forwarding establishment) pursuant to Section 2.57.2(E)(4)(d) of RR No. 2-98, as amended by RR No. 6-2001, hence, subject to two percent (2%) withholding tax.

1. **On Cross-Borders Transactions**

In so far as cross-border shipment of goods is concerned, the 2% EWT to be withheld and remitted by the client/shipper shall be based only on the gross commissions received, plus the local origin/destination charges and CAF computed as follows:

1. For services subject to regular VAT rate:

$$\text{EWT} = \frac{\text{VAT amount} \times 2\%}{\text{Rate of VAT}}$$

2. For services subject to zero-rate:

EWT = Total compensation for zero-rated services x 2%

where the **total compensation** (on cross-border shipment) refers to the gross commissions received on the freight paid to airline or shipping companies plus the local origin/destination charges and CAF. For this purpose, the gross commissions deemed to have been received by the forwarders is 5% of the freight paid to the airline or shipping companies.

The payments to third-party service providers are likewise subject to the expanded withholding tax. The forwarder shall withhold and remit the 2% EWT (in behalf of various shippers) since it is the party which has control over the disbursement of the funds. In addition, the forwarder shall prepare a listing/summary of the shippers/clients indicating therein the amounts charged as freight and accessorial charges (net of commission) which shall be attached to the EWT return filed by the forwarder with the BIR.

Further, as a duly constituted withholding agent, it shall be the duty of the freight forwarder to issue in behalf of the various shippers, the Certificate of Creditable Taxes Withheld (BIR Form No. 2307) to the third-party service provider.

2. **On Local Transactions**

The withholding of the 2% EWT will always fall on the Shipper who claims the entire expense for income tax purposes. If the forwarder issues its VAT Official Receipt on the entire amount, the entire amount received (exclusive of the VAT) will be reported as its income. As a rule, *"all income payments which are required to be subjected to withholding of income tax shall be subject to the corresponding withholding tax rate to be withheld by the person having control over the payment and who, at the*

same time, claims the expenses." (Section 5, Revenue Regulations (RR) No. 30-03).

However, in case where a portion of the amount received by the forwarder is booked as advances or reimbursable expenses because they are earmarked for payments to third-party service providers, not only the amount covered by the forwarder's VAT Official Receipts (which amount constitute its gross income) shall be subject to EWT by the Shipper, but also the amount covered by the Non-VAT acknowledgment receipt. It is observed, in such a case, that while the forwarders, as agents of the Shippers (importers/exporters), have control over payment of the reimbursable expenses and/or advanced payments, they do not claim the same as their own expenses. Thus, considering the peculiarity of the said situation, the Shippers who are ultimately claiming the same as their own expenses shall be the one primarily responsible for remitting the withholding taxes due thereon although the issuance of the corresponding Certificates of Taxes Withheld (BIR Form No. 2307) shall be the responsibility of the forwarders who should issue the same, on behalf of the Shippers as payors, in the name of or to the Third-party Service Providers as payees upon payment by the forwarders to the said third-party service providers of the reimbursable expenses, net of the Expanded Withholding Tax. In other words, upon making the payments to the third-party service providers (the persons to whom the advance payments have been made by the forwarders), the forwarders shall pay or advance the prescribed amount net of the required expanded withholding tax (EWT), which net amount is the amount that should be requested for reimbursement from the Shippers while the retained amount pertaining to the Expanded Withholding Tax shall be remitted to the BIR by the said Shippers. The Certificate of Tax Withheld (BIR Form No. 2307) shall reflect the name of the Shipper as the payor of the billed income payment, the name of the forwarders as the agent of the real payor who is the Shipper, and the name of the third-party service provider as the payee of the billed income payment.

To ensure, however, that the proper taxes are deducted and withheld from such payments to third-party service providers, the following conditions/procedures must be complied with, to wit:

1. It shall be the responsibility of the forwarders to instruct the third-party service providers to issue the official receipts directly in the name of Shippers of the forwarders;

2. Upon making the payments to the third-party service providers, the forwarders shall compute and deduct the EWT due on the said payments. At the same time, the forwarder shall issue the Certificate of Tax Withheld (BIR Form No. 2307) for the deducted amount of EWT, which Certificate shall reflect the name of the third-party service provider as the payee of the income payment, the name of the Shipper as the real payor of the income payment

with parenthetical mention of the name of the forwarder as agent of the Shipper, the amount of income payment, the covered period and such other information as required under existing rules and regulations. At this point in time, the third-party service provider shall forward to the forwarder the third-party service provider's official receipt issued to the Shipper reflecting therein the name of the third party service provider as the issuer of the official receipt, the name of the Shipper as the buyer of the service, the nature and description of the transaction, the volume of the transaction, the price of the transaction, the VAT passed on and billed separately, if any, the EWT deducted by the agent of the payor, the net amount paid and such other information as are required under existing rules and regulations.

3. In the subsequent claim for reimbursement of the said payments, the forwarder shall demand from the Shippers only the amount actually paid to the third-party service providers (which is already net of the EWT) with instructions to said Shippers to remit to the BIR the amount of EWT on the said payments;

4. The forwarders shall attach to their NON-VAT Official Acknowledgement Receipts (reflecting the amount being reimbursed) the original copy of the official receipts issued by the third-party service providers in the name of the Shippers of the forwarders; and

5. The time for withholding of the taxes due on said payments to third-party providers shall be governed by the provisions of the prevailing law and regulations on withholding of the tax on income payments reckoned from the time the reimbursement is claimed from the Shippers by the forwarders.

With respect to the reimbursement to the forwarders by their Shippers of the reimbursable expenses and/or advanced payments of the formers in favor of the latters following the prescribed procedures, the same shall no longer be subject to EWT since these payments do not form part of the gross receipts of the forwarders. They merely collect what they have advanced on behalf of their Shippers and hence, they do not derive any income from collecting such advances.

However, for reimbursable expenses and/or advanced payments of expenses redounding to the benefit of the forwarder, and all other reimbursable expenses covered by VAT official receipts of the forwarders, the same shall, upon reimbursement by the Shippers, form part of the forwarders' gross receipts and shall therefore be subject to EWT notwithstanding that such reimbursement are for payments of reimbursable expenses and/or advanced payments made by the forwarders on behalf of their Shippers.

ENFORCEMENT

All internal revenue officials and others concerned are hereby enjoined to give this Revenue Memorandum Circular the widest publicity possible.

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