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

October 29, 2012

REVENUE MEMORANDUM CIRCULAR NO. 63-2012

SUBJECT : Clarifying The Issues Affecting Invoicing And Recording Of Income Payments For Media Advertising Placements

TO : All Internal Revenue Officials, Employees and Others Concerned

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This Circular is being issued to standardize the procedure for invoicing and recording income payments and gross receipts for media advertising placements as well as to clarify the tax treatment of the income payments for media advertising placements.

Background

Advertising agencies, media suppliers and advertisers comprise the tripartite institutional structure of the advertising industry. Depending on their industry practice, advertising agencies have different procedures in billing their clients/advertisers. Clients/advertisers make income payments for media advertisement contracts directly to the advertising agency or directly to the media supplier for the total cost of the media advertisement, inclusive of creative and media services, advertising commission or service fees and value-added tax (VAT). Issues thus arise from the invoicing of income payments and recording of gross receipts such that the reporting thereof does not accurately reflect the income recipients and which may affect the computation of taxes due on the transaction.

This Circular shall govern the invoicing and recording by advertising agencies of their income payments received for media advertising placements.

DISCUSSION

I. Contracting for media advertisements

In contracts for media advertisements, the media supplier shall bill the client for the total cost of production and media placement. The client/advertiser shall pay the media supplier directly for the amount billed by it.

A. On the income payment by client/advertiser to the media supplier

1) The media supplier shall bill the client/advertiser for the total amount of media placement. Upon payment, Client/advertiser shall withhold two percent (2%) on the entire invoice amount of the media supplier.

(Sec. 2.57.2[E][4][p] and [E][4][q], RR 2-98, as amended) Client/advertisers shall likewise issue Certificate of Creditable Income Tax Withheld at Source (BIR Form 2307) in the name of the media supplier.

B. On the gross receipts of the media supplier:

1) Upon receipt of income payment from the advertiser, the media supplier shall issue VAT invoice/official receipt to client/advertiser *(Section 113, NIRC of 1997, as amended)* and shall report the entire amount as business income for income tax purposes.

II. Commission/Service Fee of Advertising Agency relative to the media advertisement and placement contracted

A. On the payment of commission/service fee by the media supplier to the advertising agency.

1) The advertising agency shall bill the media supplier for its commissions/service fee. Upon payment by the media supplier to the advertising agency, it shall withhold two percent (2%) from the commission/service fee of the advertising agency *(Sec. 2.57.2[E][4][h], RR 2-98, as amended)*; it shall likewise issue Certificate of Creditable Income Tax Withheld at Source (BIR Form 2307) in the name of the advertising agency.

B. On the receipt of commission/service fee by the advertising agency

1) The advertising agency shall issue its VAT invoice/official receipt to the media supplier for the amount of commission/service fee received. The amount of VAT shall be reported based on the commission/service fee of the advertising agency.

III. Illustration of Pertinent Accounting Entries in the Books of Accounts of the Advertising Agency; Advertiser; and Media Entity

The following provides illustrative accounting entries in the books of accounts of the advertiser, media entity, and the advertising agency.

Assume that an advertiser shall pay PhP100,000.00 to the media supplier, inclusive of 12% VAT; assume that the media supplier is a TV and radio block timer selling TV and radio commercial spot and payments to it are subject to the 2% creditable withholding tax; assume that the advertising agency commission is 15% of the advertising contract price (Php100,000), inclusive of VAT.

A) Accounting entries in the Books of Account of the Advertiser

I. Receipt of Billing from Media Supplier

	Debit	Credit
Advertising Expense *(P100,000/1.12)*	89,285.71	
Deferred Input VAT	10,714.29	
Accounts Payable-Media Entity		100,000.00

II. Payment to Media Supplier

	Debit	Credit
Accounts Payable- Media Entity	100,000.00	
Creditable IT Withheld*		1,785.71
Cash		98,214.29
Input VAT**	10,714.29	
Deferred Input VAT		10,714.29

** For CWT, tax base should be on the income payment from payor-purchaser of service exclusive of VAT.*
*** See Sec. 4.110-2(c), RR 16-2005, as amended.*

B) Accounting entries in the Books of Account of the Media Supplier

I. Billing to Client-Advertiser for the Media placement

	Debit	Credit
Accounts Receivable-Advertiser	100,000.00	
Income/Fees-Media Placement		89,285.71
Deferred VAT Payable		10,714.29

II. Receipt of Income Payment from Advertiser

Cash	98,214.29	
Creditable IT Withheld	1,785.71	
Accounts Receivable-Advertiser		100,000.00
Deferred VAT Payable	10,714.29	
Output VAT		10,714.29

III. Receipt of Billing from Ad Agency for Commission (inclusive of VAT)

Commissions-advertising *(P15,000/1.12)*	13,392.86	
Deferred Input VAT	1,607.14	
Accounts Payable-Ad Agency		15,000.00

IV. Payment for Commission to Ad Agency

Accounts Payable-Ad Agency	15,000.00	
Creditable IT Withheld		267.86
Cash		14,732.14
Input VAT	1,607.14	
Deferred Input VAT		1,607.14

C) Accounting entries in the Books of Account of the Advertising Agency

I. Billing to Media Supplier

	Debit	Credit
Accounts Receivable-Media	15,000.00	
Commission Income/Fees		13,392.86
Deferred VAT Payable		1,607.14

II. Receipt of Income Payment from Advertising Agency

Cash	14,732.14	
Creditable IT Withheld	267.86	
Accounts Receivable-Advertiser		15,000.00
Deferred VAT Payable	1,607.14	
Output VAT		1,607.14

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

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

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