REPIBLIC OF THE PHILIPPINES
DEPARTMENT OF FINANCE
**BUREAU OF INTERNAL REVENUE**
Quezon City

May 24, 2004

# REVENUE MEMORANDUM ORDER NO. 22-2004

SUBJECT: Value-Added Tax (VAT) Exemption Certificate / Identification Card Issued to Qualified Foreign Embassies and Their Qualified Personnel Amending / Modifying RMO 81-99

TO: All Internal Revenue Officials, Employees and Others Concerned

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I. Objectives

A. To define the guidelines / procedures for the processing, issuance, as well as the enjoyment of VAT Exemption Certificate (VEC) by qualified foreign embassies and their qualified personnel and qualified dependents of the latter or VAT Exemption Identification Card (VEIC) by the qualified personnel and qualified dependents issued on the basis of reciprocity;

B. To serve as information / direction to selected VAT-registered business establishments (see Annex A) to give effect to the reciprocal tax benefits granted to embassies and their qualified personnel and qualified dependents of the latter by honoring VEC / VEIC duly presented before them;

C. To serve as a sufficient basis to entitle the above-mentioned VAT-registered business establishments to the benefit of the zero percent (0%) VAT (in lieu of the required prior approval of zero-rating imposed by Revenue Regulations No. 7-95) for sales made to qualified foreign embassies, their qualified personnel and the qualified dependents of the latter.

II. Basis / Rationale

Under the principle of reciprocity, this Office may grant VAT exemption to qualified foreign embassies and their qualified personnel and qualified dependents of the latter on their local purchases of goods / services when it appears in the list or endorsement submitted to the

Bureau of Internal Revenue (BIR) by the Department of Foreign Affairs (DFA) that the Government of the concerned embassy allows similar exemption to Philippine Embassy personnel on their purchase of goods and services in that country.

III. VAT Exemption Certificate (VEC) / VAT Exemption Identification Card (VEIC)

A. A VEC certifies that the embassy / person named therein is exempt from value-added tax on its / his / her purchases of goods and services. The term VEC includes a VAT Exemption Identification Card (VEIC), which may be issued to qualified personnel and qualified dependents of a foreign embassy, in lieu of a VEC, subject to certain additional procedures in the production thereof. In the purchase of motor vehicle, however, a separate ruling shall be secured for the grant of VAT and / or ad valorem tax exemption, which ruling shall specify the model, engine and chassis number and the color of the vehicle.

B. One (1) VEC will be issued for the embassy, one (1) for each qualified personnel of the embassy and one (1) for each qualified dependent of the qualified personnel.

C. The initially issued VEC shall be effective for two (2) years from the date of issue, renewable every two (2) years thereafter, unless sooner revoked or until the expiration of the term of office of the grantee and his dependents, if any.

D. Any alteration / erasure on the VEC shall render it void.

E. A valid VEC shall bear the signature of the Commissioner of Internal Revenue or the Deputy Commissioner, Legal and Inspection Group, as his authorized representative, and the official seal of the Office.

IV. Procedures

The following procedures are to be observed in the processing of the VEC / VEIC:

A. Initial application for the issuance of VEC / VEIC

1. The concerned embassy shall file an application with the Office of Protocol of the DFA for the issuance of VEC or VEIC for the embassy / qualified embassy personnel / qualified dependent of an embassy personnel.

2. The DFA's Office of the Protocol shall endorse the application to the BIR indicating the extent / scope of exemption that may be granted on the basis of reciprocity.

3. The BIR's International Tax Affairs Division (ITAD) shall evaluate the application, validate the entitlement of the applicant, and accordingly, prepare and issue the VEC / VEIC.

4. ITAD shall furnish the DFA's Office of Protocol a copy of the duly approved VEC.

B. Renewal of VEC / VEIC

1. The concerned embassy / qualified embassy personnel / qualified dependent of embassy personnel shall file a request for the renewal of VEC / VEIC with the DFA's Office of Protocol.

2. The DFA shall determine, under the principle of reciprocity, if VAT exemption privileges may be granted to the concerned embassy / qualified embassy personnel / qualified dependent of embassy personnel. If still entitled, the DFA shall endorse the request to the BIR ITAD for appropriate action.

3. ITAD shall issue a VEC / VEIC unless the same has been revoked upon written advise from the DFA citing the grounds therefore or, the home country of the embassy has ceased to grant reciprocal VAT exemptions.

4. The request for the renewal of a VEC / VEIC shall be filed not later than two (2) months before the date of expiration of the previously issued VEC.

C. Expiration / Cancellation of VEC / VEIC

1. The VEC / VEIC issued in favor of embassies shall automatically expire after two (2) years from the date of issue.

2. The VEC / VEIC issued to the qualified personnel and their qualified dependents shall likewise expire after two (2) years from the date of issue. However, if the embassy personnel is relieved of duty in the Philippines prior to the expiration of the VEC / VEIC, he shall surrender immediately the VEC / VEIC issued to him and to his dependents to ITAD, thru the Embassy and the DFA, for cancellation.

D. Lost or Destroyed VEC / VEIC

1. The qualified grantee of the lost / destroyed VEC / VEIC shall file a request for the issuance of a replacement copy, together with a duly notarized affidavit relating the circumstances attendant to the loss or destruction of VEC / VEIC, with the DFA's Office of Protocol.

2. The DFA shall endorse the request to the BIR through ITAD.

3. ITAD shall issue a replacement copy of the VEC / VEIC based on the favorable endorsement of the DFA.

4. Lost VEC / VEIC subsequently found should be surrendered to ITAD for cancellation.

E. Additional procedure to be observed in the issuance of VEIC.

The same procedures shall be observed for the processing and issuance of VEIC. In addition, a tri-party memorandum of agreement (TMA) shall be entered into by the BIR, the embassy concerned and the supplier of choice by the embassy concerned. The TMA shall state the specifications of the VEIC, processing and delivery, warranties of the supplier, contract period, terms of payment and other related matters.

V. Obligations / Responsibilities

A. DFA

1. Receives application from the concerned Embassy for the issuance of a VEC / VEIC.

2. Endorses the application to the BIR, indicating therein the extent of exemption which may be granted on the basis of reciprocity, and specifically stating the following:

   a. Rank or level of the diplomatic personnel entitled to exemption;

   b. Whether the exemption covers only personal purchases, or official purchases, or both;

   c. Types of goods and / or services covered by the exemption; and,

   d. The provisions of the foreign law used as basis for the tax exemption given to the Filipino diplomats.

3. Furnishes BIR with a copy of the letter of the Philippine Embassy, or of the foreign legislation which is the basis for the grant of exemption.

4. Informs BIR - ITAD, and the Embassy concerned of the suspension of VAT exemption privilege given to Filipino diplomats at the home country of the said concerned Embassy, and gives the BIR, through ITAD, a copy of the foreign legislation / letter of the Philippine Embassy which is the basis for such suspension. In the same manner, the DFA shall inform the BIR - ITAD and the Embassy concerned about the resumption of VAT exemption privilege and provide the basis thereof.

5. Retrieves VEC / VEIC from the concerned embassy and / or its personnel in cases of suspension of VAT exemption privilege, and relief from duty of embassy personnel before the expiration of the VEC / VEIC, and forwards the same to ITAD for safekeeping.

6. Receives and forwards to ITAD expired VEC / VEIC for cancellation under IV(C)(2) hereof.

B. BIR - ITAD

1. Issues VEC / VEIC, based on the list and endorsement from the DFA that the home country of the concerned Embassy grants reciprocal benefits to the Philippine Embassy and its personnel and dependents.

2. Reissues VEC / VEIC in its custody pursuant to V(A)(4) to concerned embassy / qualified embassy personnel / qualified dependents upon proper advise from the DFA's Office of Protocol about the resumption of VAT exemption privilege and the basis thereof.

3. Receives surrendered VEC / VEIC of embassy personnel, who were relieved from duty, and their dependents and cancels the same.

4. Maintains VEC / VEIC Register.

C. Embassy

1. Files a request for issuance of VEC / VEIC with the DFA's Office of Protocol in the form of a Note Verbale.

2. If the issuance of VEIC is preferred in lieu of VEC, the embassy shall observe the additional procedures under IV(E) and shall bear the cost of production thereof.

3. The duly authorized Embassy representative presents the original VEC / VEIC before an establishment upon each purchase of goods and / or services.

D. Qualified Personnel

1. Files a request for issuance of VEC / VEIC through the Embassy, with the DFA's Office of Protocol.

2. Presents DFA Identification Card (ID), together with the VEC or VEIC, upon each purchase of goods / services.

3. Surrenders immediately VEC / VEIC issued to him / her and his / her qualified dependents, through the DFA upon relief from duty in the Philippines, for cancellation by the BIR.

E. VAT-Registered Business Establishments (Limited to those establishments listed in Annex "A" hereof)

1. Require the presentation of: a) VEC and authorization of the embassy, if an embassy-purchase, or b) VEC or VEIC and DFA ID from qualified embassy personnel / qualified dependent.

2. Transact with the qualified foreign embassy / qualified embassy personnel / qualified dependent on "zero-rated sale" even without prior application for effective zero-rating as imposed by Revenue Regulations No. 7-95. This means that the seller need not file an application for zero-rating.

> A zero-rated transaction refers to the sale, lease, barter or exchange of goods, properties and/or services subject to VAT at the rate of zero percent (0%) (Section 106 and 108 of the National Internal Revenue Code, Revenue Memorandum Circular No. 17-96)

3. Issue duly-registered non-VAT receipts / sales or commercial invoices which must show the following information:

   - the name, TIN and address of the seller
   - date of transaction
   - the name and address of the embassy (for embassy purchase only)
   - the name and address of the qualified embassy personnel / qualified dependent (for qualified minor dependents, indicate name and address of qualified parent)
   - DFA ID number
   - VEC / VEIC number
   - quantity, unit cost (without VAT), and description of merchandise or nature of service,
   - the invoice value or consideration (without the VAT)
   - the word "ZERO-RATED" (to be prominently written or rubber stamped on the face of the invoice/receipt). (Revenue Regulations No. 2-88)

4. Dishonor the VEC / VEIC if it contains erasures / alterations or does not bear the original seal of the BIR.

5. In case of doubt, verify details of VEC / VEIC with the ITAD at Tel. Nos. 926-5729, 927-0022, 926-3420 (Fax No.) and *itad@bir.gov.ph* (e-mail address).

VI. Repealing Clause

This Order modifies Revenue Memorandum Order No. 81-99 and all other previous issuances or provisions thereof that are inconsistent herewith.

VII. Transitory Provision

Upon the effectivity of this Order, all qualified personnel of a foreign embassy who are holders of a valid and current VEC, may still choose to be issued a VEIC.

The embassy concerned shall directly coordinate with the BIR through ITAD for the issuance of VEICs bearing new control numbers, provided that the concerned embassy shall inform the DFA's Office of Protocol in the form of a Note Verbale, copy furnished BIR-ITAD of the duly received Note Verbale, stating the decision of their personnel to be issued VEICs in exchange for their VECs. The VECs replaced by VEICs shall then be surrendered to BIR-ITAD for cancellation.

Holders of valid and current VECs will be issued VEICs without need of revalidating their VECs with the DFA.

VIII. Effectivity

This Order shall take effect immediately.

All internal revenue officers and others concerned are requested to give this Order the widest publicity possible.

(Original Signed)
**GUILLERMO L. PARAYNO, JR.**
Commissioner of Internal Revenue

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Annex "A"

List of VAT-registered establishments that allow VAT exemption at the point of sale:

1. Rustan's Department Store and Supermarket
2. S & R Priceclub
3. Santi's
4. Mercury Drug
5. Abenson's
6. Balikbayan Handicrafts