GUIDELINES IN DETERMINING REFUNDABLE/CREDITABLE INPUT TAXES ATTRIBUTABLE TO ZERO-RATED TRANSACTIONS.

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SECTION 1. Scope. — Pursuant to the provisions of Section 245, in relation to Section 4, both of the National Internal Revenue Code, these Regulations are hereby promulgated to prescribe the guidelines in determining the refundable/creditable input taxes attributable to zero-rated transactions.

SECTION 2. Sec. 16 (c) (5) of Revenue Regulations (RR) No. 5-87, as amended by RR 3-88, is hereby further amended to read as follows:

> "Sec. 16 (c) (5). In applicable cases, where the applicant's zero-rated transactions are regulated by certain government agencies, a statement therefrom showing the amount and description of sale of goods and services, name of persons or entities (except in case of exports) to whom the goods or services were sold, and date of transaction shall also be submitted."

SECTION 3. Section 16 of RR No. 5-87, as amended by RR 3-88, is further amended by adding a new paragraph to be known as Section 16 (c) (6); to read as follows:

> Sec. 16 (C) (6). Determination of attributable input tax. — In general, the amount of refund or tax credit shall be limited to the amount of the value-added tax (VAT) paid, attributable to zero-rated transactions during the period covered by the application for credit or refund.
>
> "i.
>
> Purely zero-rated transactions - Where the applicant is exclusively engaged in zero-rated or effectively zero-rated transactions, he shall be entitled to the entire amount of the value-added tax paid on purchases of goods and services, as well as on importations, notwithstanding the existence of an inventory of goods at the end of the quarter in which the zero-rated transactions were made, subject to the submission of a sworn statement attesting to the subsequent actual exportation or consumption of goods in the inventory and supported by appropriate export documents.
>
> "For purposes of this paragraph, a VAT-registered person shall be considered as exclusively engaged in zero-rated or effectivity zero-rated transactions if there are no taxable or exempt sales not only during the quarter covered by the claim but also that of the immediately preceding last three quarters prior to the claim. Incidental sales of obsolete or non-moving supplies, equipment, "scraps", and by-products of processed, manufactured or milled goods, etc., which are shown to have been subjected to value-added tax, shall not be considered for purposes of determining if the VAT registered person shall be considered as exclusively engaged in zero-rated of effectively zero-rated transactions.
>
> "ii.
>
> Mixed Transactions - a) Where the taxpayer is engaged in zero-rated or effectively zero-rated sale, as well as in taxable domestic and exempt sale of goods and services, and the amount of the allowable input tax paid cannot be directly and entirely attributed to any one of the transactions, it shall be allocated proportionately to each category of transaction.
>
> Example 1:

Zero-rated sales

P100,000

Taxable domestic sales

200,000

Exempt sales

100,000

Input tax

32,500

Inventory, end

None

Claim for refund/tax credit

3,255

“Step 1. Determine the input tax attributable to taxable domestic, exempt and zero-rated sales.

"A.

Taxable Domestic Sales
---

x Allowable Input Tax = Input tax attributable to taxable domestic sales

Taxable Domestic + Zero-rated
+ Exempt Sales

200,000
---

x 32,500 = P16,250

400,000

"B.

Exempt Sales
---

x Allowable Input Tax = Input tax attributable to exempt sales

Taxable Domestic + Zero-rated
+ Exempt Sales

100,000
---

x 32,500 = P8,125

400,000

"C.

Zero-rated Sales
---

x Allowable Input Tax = Input tax attributable to zero-rated sales

Taxable Domestic + Zero-rated
+ Exempt Sales

100,000
---

x 32,500 = P8,125

400,000

“b) If there are inventories on hand at the end of the quarter covered by the claim, the allocation of input tax shall also be determined in accordance with the foregoing paragraph. In addition, 60% of the work-in-process and finished goods inventories shall be presumed to be the standard raw material content thereof, without prejudice to the documentation of a different percentage of raw material content.

Example 2:

Assuming the same facts as in Example 1 except that the taxpayer has the following inventories at the end of the quarter:

> Ending inventories:
>
> Raw materials

P 5,000

Work-in-process

4,000

Finished goods

3,000

Supplies

2,000

The input tax attributable to the ending inventories and the different categories of transactions shall be determined as follows:

Follow the procedure provided for under Step 1 of Example 1, and

“Step 2 Determine the input tax attributable to ending inventories.

Input tax on ending inventories:

Raw materials

P 5,000

Work-in-process

2,400*

Finished goods

1,800**

Supplies

2,000

———

Total

P11,200

Value-Added Tax Rate

x 10%

Input tax on ending inventory

P 1,120

* Work-in-process x 60% = Raw material content in work-in-process

** Finished goods x 60% = Raw material content in finished goods

“c) Items included in the ending inventory of raw materials and supplies which are zero-rated under RR 2-88 or exempt under Sec. 103 of the Tax Code or under other special laws shall be excluded from the inventory in computing the attributable input tax credit.

“d) The amount of refundable or creditable input tax shall be net of input tax attributable to taxable domestic and exempt sales. However, when the output tax on taxable domestic sales is greater than the input tax attributable to said transactions, the difference thereof shall be deducted from the refundable or creditable input tax.

“Example 3:

Using the same facts in Examples 1 and 2, the excess of output tax over the input tax attributable to taxable domestic sales shall be computed as follows:

“Step 3 Determine the VAT payable in domestic sales to be deducted from the refundable or creditable amount.

Output tax (P200,000 x 10%)

P20,000

Input tax (par. ii, Step 2A)

16,250

_____

Excess of output tax over input tax attributable to taxable domestic sales

P3,750

“Example 4:

Under the same set of facts as in Examples 1, 2 and 3, the net refundable or creditable input tax shall be computed as follows:

Input tax per VAT return

P32,500

Less: Input tax not attributable to export sales:

Input tax attributable to taxable domestic sale

P16,250

Input tax attributable to exempt sales

8,125

Input tax on ending inventory

1,120

Excess of output tax over input tax attributable to taxable domestic sales

3,750

29,245

Net amount refundable or creditable

P3,255

The following entries shall be made to reflect the foregoing transactions:

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A. Upon filing of VAT return:

Output tax

P20,000

Input tax

P20,000

To record the amount of output tax on taxable domestic sales amounting to P200,000 reported for the quarter.

Purchase or Cost of Sales

P8,125

Input tax

P8,125

To record input tax attributable to exempt sales.

“B. Upon filing of application for refund or tax credit:

Receivable (TCC/Refund)

P3,255

Input tax

P3,255

To record the amount of input taxes claimed for refund or tax credit.

Input tax attributable to zero-rated sales

Input tax attributablen to zero-rated sales

P8,125

Less:

Excess of output tax over input tax attributable to taxable domestic sales

3,750

Input tax on ending inventory

1,120

4,870

Claim for refund/tax credit

P3,255

"C. Case 1

Upon receipt of the tax credit or refund where there are no disallowances:

Cash or TCC

P3,255

Receivables (TCC/Refund)

P3,255

To record the amount of refund or tax credit received.

Case 2

Upon receipt of the tax credit or refund where there are disallowed input taxes of P2,500 upon verification of claim.

Purchases or Cost of Sales

P2,500

Receivables (TCC/Refund)

P2,500

To close unallowable input tax upon verification of claim.

Cash or TCC

P 755

Receivables (TCC/Refund)

P 755

To record the amount of refund or tax credit received.

'iii. Input tax on services. — The input tax paid on services shall be deemed entirely attributable to the purely zero-rated sales and therefore creditable refundable in full to the taxpayer. In case of mixed transactions, it shall be computed in proportion to the amount of each category of sale.'

SECTION 4. These Regulations shall take effect immediately upon approval.

Adopted: 4 Dec. 1989

(SGD.) VICENTE R. JAYME
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