

Philippines issues regulations on period for processing VAT refunds

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Executive summary

The Philippine Value Added Tax (VAT) system imposes two VAT rates depending on the type of transaction. These rates are: (a) 12% as the regular VAT rate; and (b) 0% (VAT 0%) on specific transactions identified in the Philippine Tax Code.¹

Under the amendments to the Tax Code that became effective on 1 January 2018, the Bureau of Internal Revenue (BIR) is mandated to grant a refund of unutilized input VAT attributable to VAT 0% sales within 90 days. To further implement this amendment, the Philippine Finance Department issued regulations on 21 December 2018 to clarify the timetable for processing input VAT attributable to VAT 0% sales.

Under the new rules, the 90-day period will include both the filing of the application and the actual payment of refund to the taxpayer. This is in contrast to the previous rules where the 90-day period only covers the filing of the application up to the approval of the BIR recommendation for refund but not the actual issuance of the refund. The new regulation supersedes the previous rules on the process.

This Alert summarizes the key provisions of the regulations.

Detailed discussion

The Commissioner of BIR will grant a refund of input VAT within 90 days from the submission of receipts or invoices and other documents supporting the application, provided that the requirements are satisfied. If not, the Commissioner must state in writing the legal and factual basis for the denial.

The 90-day period to process and decide will start on the date of filing of the claim up to the release of the payment of the VAT refund. The application is considered to have been filed only if the official receipts or invoices or other documents to support the application have been properly submitted.

The 90-day period applies only if there is a complete submission of documents at the time of the filing of the refund claim.

If the refund is not received by the applicant within the 90-day period, the VAT refund claim may still continue to be processed administratively by the BIR. However, any failure on the part of the BIR official or employee to act within 90 days will be subject to the following penalties under the Tax Code: a fine of not less than PHP50,000 (US\$1,000) and imprisonment of not less than 15 years.

Endnote

1. VAT 0% transactions cover export sale of goods and sale of services to entities doing business outside the Philippines, those whose exemption under the law or international agreement effectively subjects the sale to VAT 0%, entities engaged in international transport or shipping, sale of power generated through renewable energy, and transport of passengers and cargo from the Philippines to a foreign country.

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