



Implementing rules and regulations of the TRAIN Law

The Bureau of Internal Revenue (BIR) issued Revenue Regulations No. (RR) 13-2018 implementing the value-added tax (VAT) provisions of Republic Act No. 10963 or Tax Reform for Acceleration and Inclusion (TRAIN) Law by amending RR 16-2005 (Consolidated VAT Regulations of 2005), with its salient features as follows:

VAT zero-rated sales of goods and properties

1. The VAT zero rating on the following sales by VAT registered taxpayers shall be removed upon satisfaction of the following conditions: (a) the successful establishment and implementation of an enhanced VAT refund system that grants and pays refunds of creditable input tax within 90 days from the filing of the VAT refund application with the BIR; and (b) cash refund by 31 December 2019 of all pending VAT refund claims as of 31 December 2017.
 - a. The sale of raw materials or packaging materials to a non-resident buyer for delivery to a resident local export-oriented enterprise to be used in manufacturing, processing, packing, or repacking in the Philippines of the said buyer's goods, paid for in acceptable foreign currency, and accounted for in accordance with the rules and regulations of the Bangko Sentral ng Pilipinas (BSP)
 - b. The sale of raw materials or packaging materials to an export-oriented enterprise whose export sales exceed 70% of total annual production

- c. Transactions considered export sales under Executive Order No. 226, otherwise known as the Omnibus Investments Code of 1987, and other special laws
2. Sales to bonded manufacturing warehouse for export-oriented manufacturers, export traders, diplomatic missions, and Philippine Economic Zone Authority (PEZA) are considered export sales under Executive Order No. 226 and other special laws subject to 0% VAT.

Even without actual exportation, the following shall be considered constructively exported subject to 0% VAT: (1) sales to bonded manufacturing warehouses of export-oriented manufacturers; (2) sales to export processing zones; (3) sales to registered export traders operating bonded trading warehouses supplying raw materials in the manufacture of export products under guidelines to be set by the Board in consultation with the Bureau of Internal Revenue (BIR) and the Bureau of Customs (BOC); (4) sales of locally manufactured, assembled, or repacked products - whether paid for in foreign currency or not - to diplomatic missions and other agencies and/or instrumentalities granted tax immunities.

However, VAT zero rating on sales to bonded manufacturing warehouse for export-oriented manufacturers, export traders, diplomatic missions, and PEZA shall be removed upon establishment of enhanced refund system and cash refund by 31 December 2019 of all pending VAT refund claims as of 31 December 2017.

3. VAT zero rating on sale of goods, supplies, and equipment to international shipping and international air transport companies

To be subject to 0% VAT, the sale of goods, supplies, equipment, and fuel to persons engaged in international shipping or international air transport operations should be used exclusively for international shipping or air transport operations.

VAT zero-rated sale of services

1. VAT zero rating on sale of service to international shipping and international air transport companies

To be subject to 0% VAT, services rendered to persons engaged in international shipping or air transport operations, including leases of property, shall be exclusively for international shipping or air transport operations.

2. The transport of passengers and cargo by domestic air or sea vessels from the Philippines to a foreign country is a VAT zero-rated transaction.
3. The VAT zero rating on the following sales by VAT registered taxpayers shall be removed upon satisfaction of the following conditions: (a) the successful establishment and implementation of an enhanced VAT refund system that grants and pays refunds of creditable input tax within 90 days from the filing of the VAT refund application with the BIR; and (b) cash refund by 31 December 2019 of all pending VAT refund claims as of 31 December 2017.

- a. Processing, manufacturing, or repacking of goods for other persons doing business outside the Philippines, which are subsequently exported, where the services are paid for in acceptable foreign currency and accounted for in accordance with the rules and regulations of the BSP
- b. Services performed by subcontractors and/or contractors in processing, converting, or manufacturing goods for an enterprise whose export sales exceed 70% of the total annual production

VAT-exempt sale of goods and services

1. VAT-free importation of personal belongings of OFWs or Filipinos settling in the Philippines

The importation of professional instruments and implements, tools of trade, occupation or employment, wearing apparel, domestic animals, and personal and household effects belonging to persons coming to settle in the Philippines or Filipinos or their families who are considered residents or citizens of other countries, such as OFWs, in quantities and of class suitable to the profession, rank, or position of the person importing said items, for their own use and not for barter or sale, or arriving within a reasonable time, shall be exempt from VAT.

2. Sale of electricity subject to 12% VAT

The sale of electricity, transmission by any entity, including the National Grid Corporation of the Philippines, and distribution companies, including electric cooperatives, shall be subject to 12% VAT.

3. VAT on sale and lease of real properties

Beginning 1 January 2021, the VAT exemption shall only apply to sale of real properties not primarily held for sale to customers or held for lease in the ordinary course of trade or business, sale of real property utilized for socialized housing as defined by Republic Act (RA) No. 7279, sale of house and lot, and other residential dwellings with selling price of not more than P2,000,000.

Lease of residential units with a monthly rental fee per unit not exceeding P15,000 is VAT exempt. In cases where a lessor has several residential units for lease where some are leased out for a monthly rental fee per unit not exceeding P15,000 while others are leased out for more than P15,000 per unit, his tax liability will be as follows:

- a. The gross receipts from rentals not exceeding P15,000 per month per unit shall be exempt from VAT regardless of the aggregate annual gross receipts. It is also exempt from the 3% percentage tax.
- b. The gross receipts from rentals exceeding P15,000 per month per unit shall be subject to VAT if the aggregate annual gross receipts from said units only exceeds P3,000,000. Otherwise, the gross receipts will be subject to the 3% tax imposed under Section 116 of the National Internal Revenue Code of 1997, as amended (Tax Code).

4. VAT on importation of fuel, goods, and supplies by international shipping and air transport operators

The importation of fuel, goods, and supplies by persons engaged in international shipping or air transport operations shall be used for international shipping or air transport operations to be exempt from VAT.

5. VAT-exempt sale or lease of goods and services to senior citizens and persons with disabilities

The sale or lease of goods and services to senior citizens and persons with disabilities, as provided under RA 9994 (Expanded Senior Citizens Act of 2010) and RA 10754 (An Act Expanding the Benefits and Privileges of Persons with Disability), respectively, shall be exempt from VAT.

6. VAT-exempt transfer of property under Section 40(C)(2) of the Tax Code

The transfer of property pursuant to Section 40(C)(2) of the Tax Code is exempt from VAT.

7. VAT exemption of condominium dues

Association dues, membership fees, and other assessments and charges collected on a purely reimbursement basis by homeowners' associations and condominium corporations established under RA 9904 (Magna Carta for Homeowners and Homeowners' Association) and RA 4726 (The Condominium Act), respectively, are exempt from VAT.

8. VAT-exempt sale of gold to BSP

The sale of gold to BSP shall be exempt from VAT, instead of subject to 0% VAT.

9. Sale of drugs and medicines for diabetes and cholesterol and hypertension shall be VAT exempt starting 1 January 2019.

The sale of drugs and medicines prescribed for diabetes, high cholesterol, and hypertension beginning 1 January 2019, as determined by the Department of Health, shall be exempt from VAT.

10. VAT-exempt threshold increased to P3 million

The VAT-exempt threshold on sale or lease of goods or properties or the performance of services is increased from P1,500,000 (P1,919,500) gross annual sales and/or receipts to P3,000,000.

Phase-out of amortization of input VAT on capital goods

The amortization of input VAT shall only be allowed until 31 December 2021, after which taxpayers with unutilized input VAT on capital goods purchased or imported shall be allowed to apply the same as scheduled until fully utilized.

Refund of input tax due to cancellation of VAT registration

The date of cancellation for refund purposes is the date of issuance of tax clearance by the BIR after full settlement of all tax liabilities relative to cessation of business or change of status of the concerned

taxpayer. The filing of the claim for refund in relation to the retirement or cessation of business shall be made only after completion of the mandatory audit of all internal revenue tax liabilities covering the immediately preceding year and the short period return and the issuance of the applicable tax clearance/s by the appropriate Revenue District Office (RDO) having jurisdiction over the taxpayer.

Period to refund or credit input taxes

The BIR has 90 days to grant the refund of creditable input VAT from the date of submission of the official receipts or invoices and other documents in support of the application filed.

The 90-day period to process and decide, pending the establishment of the enhanced VAT Refund System, shall only be up to the date of approval of the Recommendation Report on such application for VAT refund by the Commissioner or his duly authorized representative. All claims for refund/tax credit certificate filed prior to 1 January 2018 will be governed by the 120-day processing period.

Failure on the part of any official, agent, or employee of the BIR to act on the application within the 90- day period shall be punishable under Section 269 of the Tax Code, as amended.

No more monthly VAT returns beginning 1 January 2023

Beginning 1 January 2023, the filing and payment required under the Tax Code shall be done within 25 days following the close of each taxable quarter.

Shift to creditable withholding VAT system on government money payments starting from 1 January 2021

Beginning 1 January 2021, the 5% final withholding VAT system on sales to government will shift to creditable VAT system, except for payments for purchase of goods and services arising from projects funded by the Official Development Assistance (ODA) as defined under RA 8182 (Official Development Assistance Act of 1996), which shall not be subject to the final/creditable withholding taxes.

Cooperatives and self-employed individuals/professionals availing of 8% tax exempt from payment of 3% percentage tax

Cooperatives and self-employed individuals and professionals availing of the 8% tax on gross sales and/or receipts and other non-operating income whose sales or receipts are exempt from the payment of VAT and who are not VAT-registered persons shall be exempt from the payment of 3% percentage tax (Section 4-116).

Transitory rules

1. An existing VAT-registered taxpayer whose gross sales/receipts in the preceding taxable year did not exceed the VAT threshold of P3,000,000 may continue to be VAT-registered taxpayer and avail of the "Optional Registration for Value-Added Tax of Exempt Person". Once availed, the taxpayer shall not be entitled to cancel the VAT registration for the next three years.
2. A VAT-registered taxpayer who opted to register as non-VAT as a result of the implementation of the TRAIN Law shall immediately:

- a. Submit an inventory list of unused invoices and/or receipts as of the date of filing of application for update of registration from VAT to non-VAT, indicating the number of booklets and its corresponding serial numbers
- b. Surrender the said invoices and/or receipts for cancellation

A number of unused invoices/receipts, as determined by the taxpayer with the approval of the appropriate RDO, may be allowed for use provided the phrase *"Non-VAT registered as of (date of filing an application for update of registration). Not valid for claim of input tax."* shall be stamped on the face of each and every copy thereof, until new registered non-VAT invoices or receipts have been received by the taxpayer. Upon such receipt, the taxpayer shall submit a new inventory list of, and surrender for cancellation, all unused previously-stamped invoices/receipts.

Please click [here](#) to view Revenue Regulations No. 13-2018 for your reference and guidance.

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