[REVENUE MEMORANDUM CIRCULAR NO. 6-2006, January 03, 2006]

CLARIFICATION TO REVENUE REGULATIONS NO. 14-2005, AS LAST AMENDED BY REVENUE REGULATIONS NO. 16-2005, IMPLEMENTING REPUBLIC ACT NO. 9337

This Revenue Memorandum Circular (RMC) is issued in order to publish and clarify the treatment of input tax accumulated as of October 31, 2005 in relation to the 70% cap effective November 1, 2005.

Q-1 What is the treatment of input tax accumulated as of October 31, 2005 in relation to the 70% cap provided in section 4.110-7 of revenue regulations (Rev. Regs.) no. 14-2005, as last amended by Rev. Regs. no. 16-2005?

A-1 Input tax accumulated as of October 31, 2005 shall not be subject to the seventy percent (70%) cap and shall be deductible in full from output tax until it is fully utilized. In determining whether the input tax in a month or quarter exceeds the output tax subject to the 70% cap, the accumulated input tax as of October 31, 2005 shall be excluded from the computation and shall be deducted in full from the output VAT.

Q-2 ABC Corporation has the following sales/purchases for the quarter ending December 2005:

	October 2005		November and December 2005
Sales	P5,000	Sales	P10,000
Purchases	4,000	Purchases	8,000

and Carried over input tax from previous quarter of p600.

How will the Value added tax for the quarter ending December 2005 be computed?

A-2 The Value-Added Tax for the quarter ending December 2005 will be computed as follows:

	October 2005	
Output Tax		P500
Less: Carry over Input tax	P600	
Input tax	400	1,000
VAT Payable (Carry over)		P(500)*

*Note: Amount represents accumulated input tax as of October 13, 2005.

November and December 2005	
Output Tax	P1,000
Less : Carry over Input Tax (as of Oct. 2005)	500
Net Output Tax for Nov. and Dec. 2005	500
Less: Input Tax for Nov. and Dec. 2005 P800	
Apply: 70% cap (70% of Net Output Tax) 350	350
Net VAT Payable	P150
Excess Input Tax (to be carried over to the next quarter)	P450

Q-3 DEF Corporation has the following output tax and input tax for the quarter ending December 2005:

Output Tax:

For October 2005	P1,000
For November and December 2005	2,000

Input Tax:

Accumulated as of October 31, 2005	P 500
For November and December 2005	1,000

How will the Value added tax for the quarter ending December 2005 be computed:

A-3 The Value Added Tax for the quarter ending December 2005 will be computed as follows:

	October 2005
Output Tax	P1,000
Less: Input Tax (accumulated as of October 2005)	500
VAT Payable	P500