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Philippine Association of Multinational Companies Regional Headquarters, Inc.

February 20, 2023

**SEN. SHERWIN GATCHALIAN**  
Chairperson  
Committee on Ways and Means  
Senate of the Philippines  
Pasay City

Dear Senator Gatchalian:

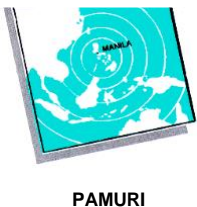
We thank the Committee for the opportunity to provide our final comments on the Ease of Paying Taxes bill

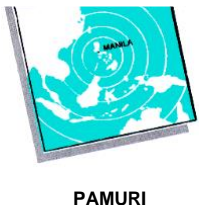
In addition to our comments on the proposed Ease of Paying Taxes bill in our letter to your office dated Dec. 1, 2022 and Jan 17, 2023 (attached here as annexes), we would like to raise the following additional comments that will further ease the paying of taxes and simplify tax administration:

**a) On Section 15 – revising Section 108 of the NIRC (VAT on Sale of Services)**

We support passage of Ease of Paying Taxes Bill as it harmonizes the VAT recognition of goods and services **making the taxable point the date of issuance of the invoice for both goods and services and removing the official receipt requirement**. Based on current regulations, VAT-registered taxpayers are required to issue invoice for sale of goods and official receipt for sale of services which has resulted in dual standards in recognizing VAT transactions and administrative burden on the part of taxpayers. This complexity has also led to non-adoption of digital and wire transfer payments for most of corporate taxpayers as we have resulted to manual check payment process to ensure that we secure official receipts from our vendors as soon as payment is made (“kaliwaan” process to avoid risk of BIR disallowing the 12% Input VAT in case we don’t have official receipt as proof).

Among neighboring Asian countries (e.g. Australia, Indonesia, Korea, Singapore, Thailand, Vietnam), VAT is recognized upon consummation of sale (i.e. invoice) and only requires invoice as documentary requirement. Philippines is the only country in Asia with unique dual standards for VAT recognition and official receipt requirement. Moving the VAT recognition to gross receipt will further distance ourselves to our neighboring countries. In these countries, VAT is recognized upon invoice instead of receipt of payment and they maintain only one supporting document (i.e., tax invoice). We understand the concern raised during the TWG hearings in relation to unpaid invoices for which VAT has already been paid. Attached as an annex is a comparison of how other countries are addressing the same without compromising the objective to simplify VAT reporting.





One of the most noble objectives of the Ease of Paying Taxes bill is to simplify tax administration and compliance. Under the VAT refund process, BIR requires two sets of documents to substantiate VAT for purchase of services – billing statement/SOA and official receipt. Moving to gross receipt will not eliminate the requirement to maintain two sets of documents. However, moving everything to “gross sales” will simplify compliance in that only 1 type of document for VAT (i.e., invoice) will be required. Moreover, moving to gross receipts will create inconsistency in the FS and VAT return reporting. For financial statements (FS), revenue is recognized on an accrual basis (i.e., when revenue is earned). If we change to gross receipt, revenue will be recognized on a cash basis (i.e., when payment is received) for VAT return purposes. This will complicate compliance as taxpayers have to reconcile the FS and VAT return especially during audit.

The manufacturing sector is one of the biggest sectors in our economy. Moving the VAT recognition to “gross receipt” will complicate further the VAT compliance of companies under this sector, since they now have to monitor the VAT associated with the payments they receive from their customers. Adding to this complexity is the fact that payments received from customers are not only limited to cash payments. Payments can only be in the form of offsetting arrangement with customers (i.e., receivable from customer is offset against payable to customer). This form of payment is also considered “receipt” for VAT purposes, which taxpayers need to account if we move to gross receipt recognition.

In addition, under gross receipt system, BIR will need to main two systems for Electronic Invoicing System – e-invoice and e-OR. Currently, service companies are required to submit their data twice to BIR, i.e., upon invoice and upon receipt of payment. This will occupy a lot of data storage in the BIR’s system if all companies will be required same sets of data twice.

Finally, simplification of VAT recognition for goods and services will catalyze digital payments. One of the reasons why companies still prefer to use cheque as method of payment instead of wire transfer is because of the OR requirement. Companies will release cheque in exchange of the OR from the vendor. The Ease of Paying Taxes Bill can be a great enabler for companies to move to full digital payments as the Bill harmonizes the VAT recognition rules for purchase of goods and services, with timing of recognition upon invoice and invoice as the only required document. One of the barriers why companies cannot move to full digital payments is because of the current official receipt requirement which we have to secure upon payment to vendors

#### **b) On Section 29 amending Section 236 (e) of the NIRC (Cancellation of Registration)**

As recommended during the TWG hearing, we would like to propose additional criteria with respect to the BIR’s audit power over an entity seeking cancellation of registration. In many instances, companies are not able to hurdle the tax clearance process expeditiously due to the audit discretion of the BIR and wind up its operations. We propose the following:

##### **(E) Cancellation of Registration. – x x x 11**

**(1) General Rule.** – The registration of any person who ceases to be liable to a tax type shall be cancelled upon **MERE** filing with the Revenue District Office where he is registered **OR THROUGH ELECTRONIC MEANS**, an application for registration information update in a form prescribed therefor[;].**HOWEVER, THIS SHALL NOT PRECLUDE THE REVENUE DISTRICT OFFICER FROM CONDUCTING**



AMERICAN



EUROPEAN



JAPANESE



KOREAN



PAMURI

AN AUDIT IN ORDER TO DETERMINE ANY TAX LIABILITY: PROVIDED, THAT THE DECISION TO CONDUCT THE AUDIT IS BASED ON RISK ASSESSMENT EVALUATION; **PROVIDED, FURTHER, A PERSON SHALL BE EXEMPTED FROM AUDIT IF HE/SHE HAS BEEN INACTIVE FOR PAST THREE CONSECUTIVE YEARS AS CERTIFIED BY AN INDEPENDENT THIRD PARTY. HOWEVER, THIS DOES NOT RELIEVE THE PERSON FROM ANY TAX OBLIGATIONS RESULTING FROM THE WINDING UP OF THE BUSINESS.**

We hope that you will consider the points that we raised above.

Thank you and best regards,