



Value added tax (VAT) refund for exporters in the Philippines

Undersecretary Karl Kendrick T. Chua

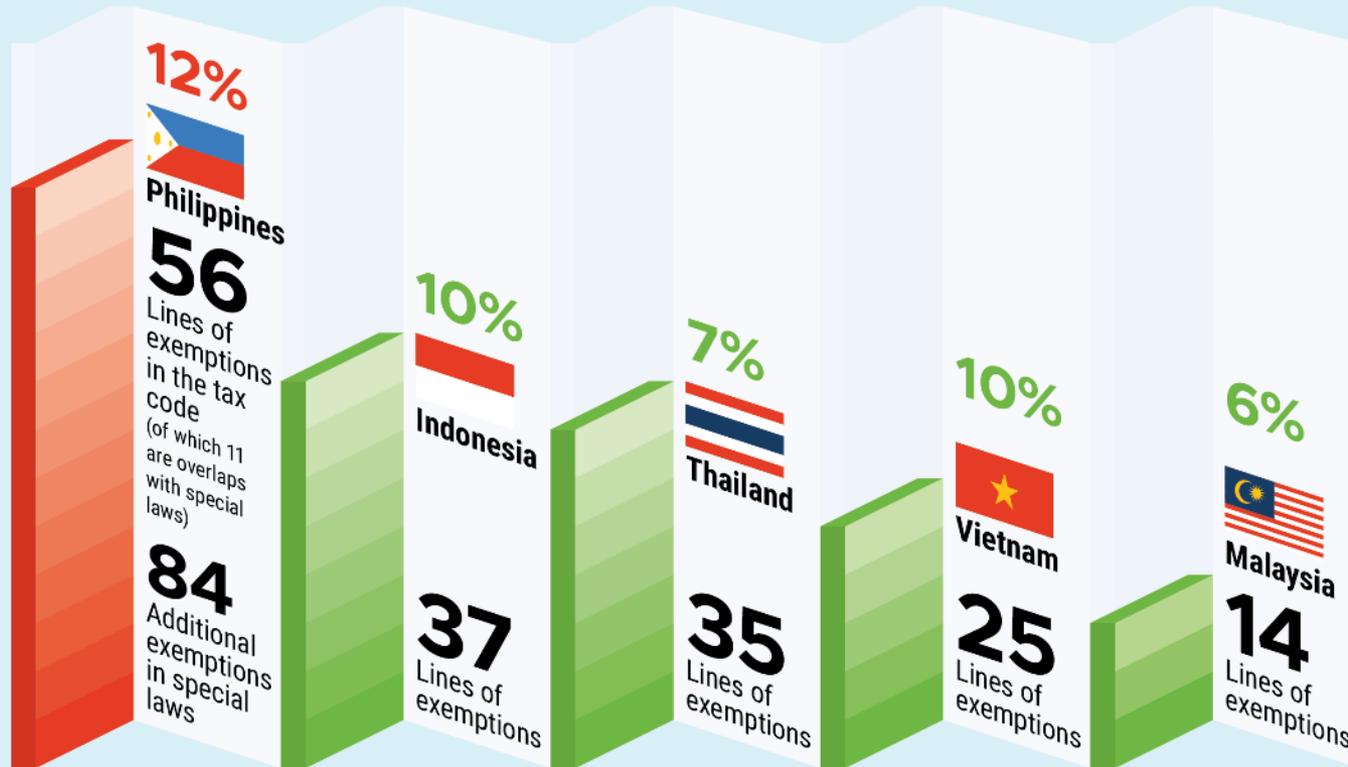
April 11, 2018

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1. Problems with VAT prior to TRAIN Law (Tax reform for acceleration and inclusion)
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VAT Comparison with Other Countries

A fair VAT system is one with a low rate and exemptions limited to raw food, health and education.



In the Philippines, we have a VAT system with numerous exemptions leading to large leakages as people take advantage of the VAT system to pay less tax.



Value-added tax: 56 lines of exemptions in tax code that lead to large leakages

Examples of VAT-exempt transactions

- agricultural and marine food products in their original state
- livestock and poultry of a kind generally used as, or yielding or producing foods for human consumption;
- and breeding stock and genetic materials thereof;
- fertilizers;
- seeds, seedlings and fingerlings;
- fish, prawn, livestock and poultry feeds,
- ingredients, whether locally produced or imported, used in the manufacture of finished feeds
- Importation of personal and household effects belonging to residents of the Philippines returning from abroad and non-resident citizens coming to resettle in the Philippines
- Importation of professional instruments and
- implements,
- wearing apparel,
- domestic animals,
- Services by agricultural contract growers and milling for others of palay into rice, corn into grits, and sugar cane into raw sugar;
- Services rendered by regional or area headquarters established in the Philippines by multinational corporations which act as supervisory, communications and coordinating centers for their affiliates, subsidiaries or branches in the Asia Pacific Region and do not earn or derive income from the Philippines;
- Transactions which are exempt under international agreements to which the Philippines is a signatory or under special laws except those granted under P.D. No. 529
- Sales by agricultural cooperatives duly registered and in good standing with the Cooperative Development Authority (CDA) to their members, as well as of their produce, whether in its original state or processed form, to non-members,
- their importation of direct farm inputs,
- machineries and equipment, including spare parts thereof, to be used directly and exclusively in the production and/or processing of their produce;
- Gross receipts from lending activities by credit or multi-purpose cooperatives duly registered and in good standing with the Cooperative Development Authority;
- Sales by non-agricultural, non-electric and non-credit cooperatives duly registered with and in good standing with CDA;
- Export sales by persons who are not VAT-registered;
- 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 properties utilized for low-cost housing as defined by RA No. 7279, and other related laws
- Sale of real properties utilized for specialized housing as defined under RA No. 7279, and other related laws wherein price ceiling per unit is P225,000.00
- Sale of residential lot valued at One Million Five Hundred Thousand Pesos (P1,500,000.00) and below, or house and lot and other residential dwellings valued at Two Million Five Hundred Thousand Pesos (P2,500,000.00) and below where the instrument of sale/ transfer/ disposition was executed on or after July 1, 2005;
- Sale or lease of goods or properties or the performance of services other than the transactions mentioned in the preceding paragraphs, the gross annual sales and/or receipts do not exceed the amount of One Million Five Hundred Thousand Pesos (P1,500,000.00)
- Importation of fuel, goods and supplies engaged in international shipping or air transport operations;
- Services subject to percentage tax under Title V of the Code, as amended;
- Services of banks, non-bank financial intermediaries performing quasi-banking functions, and other non-bank financial intermediaries, such as money changers and pawnshops

Source: National Internal Revenue Code (NIRC)

Value-added tax: 84 special laws that lead to further leakages

AGRICULTURE	
1	CARP/CARP Extension
2	Seed Industry
3	National Dairy
4	High Value Crops
5	Agriculture and Fisheries Modernization Act
6	Philippine Fisheries
7	Coconut Farming
8	Farm Tourism
9	Organic Agriculture
HEALTH	
10	Traditional and Alternative Medicine Act
11	Rare Diseases
12	Philippine Red Cross
EDUCATION	
13	Davao Oriental State College of Science and Technology
14	Aklan State College of Agriculture
15	Eastern Visayas Science High School
16	Philippine State College of Aeronautics
17	UP Radio and TV Stations
18	Higher Education (CHED)
19	Aklan State University
20	Batangas State University
21	Sta. Rosa Science and Technology High School
22	Guimaras State College
23	Negros Occidental Agricultural College
24	UP Charter of 2008
25	PNU Modernization
26	Mindanao University and Technology

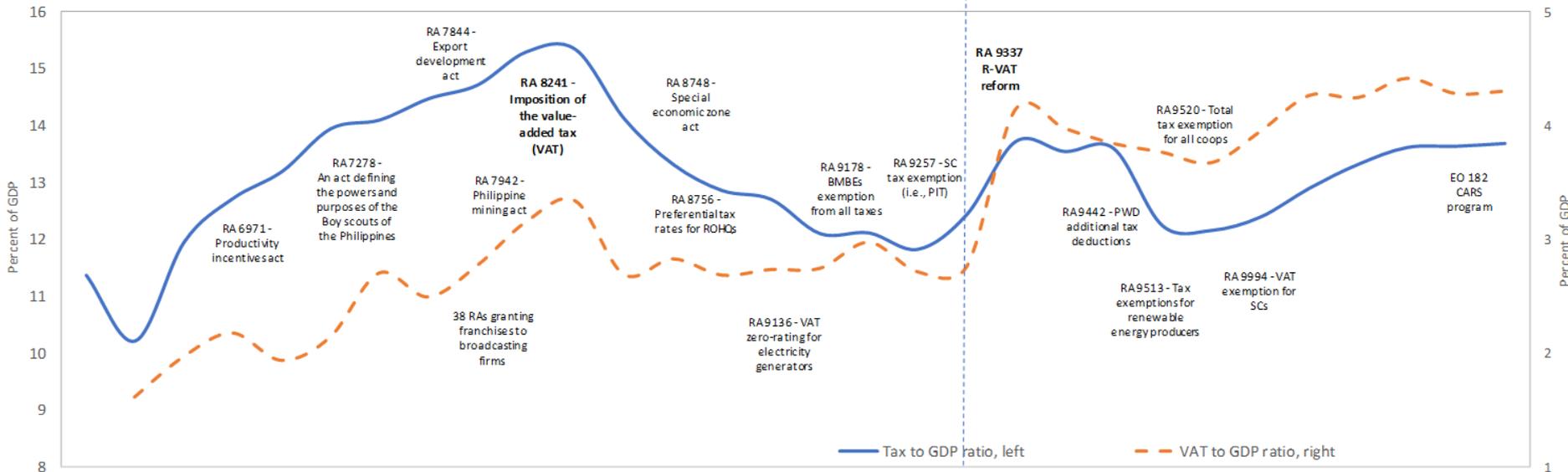
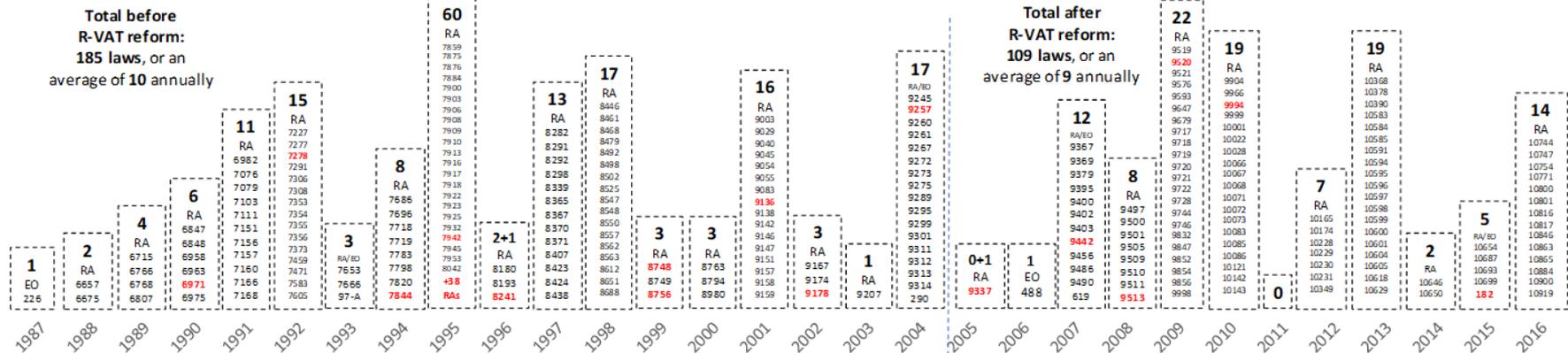
ECOZONES	
27	Bases and Conversion Act
	Subic Special Ecozone
	Clark
	Poro Point
	Morong
	John Hay
28	Zamboanga City Special Ecozone
29	PEZA
30	Cagayan Special Ecozone
31	Aurora Special Ecozone
32	Tourism Act
33	Bataan Freeport
MSMEs/ Coop	
34	Countryside and Barangay Business Enterprises
35	Cooperative Code
36	Small Enterprises amendment
37	Credit Surety Fund Coop
Government Agencies and GOCCs	
38	PAGCOR
39	Philippine Sports Commission
40	PTV Network
41	Postal Service
42	National Commission for the Arts
43	Central Bank
44	NHIA
45	SSS
46	GSIS
47	Natl Museum
48	Civil Aviation
49	PDIC Insurance Coverage
50	HDMF
51	AFP Modernization
52	OWWA
53	Partido Dev't
54	Girl Scouts
55	Boy Scout
56	National Historical Commission of the Philippines

BOI	
57	Iron and Steel
58	BOT law amendment
59	Book Publishing
60	Halal Export
POWER SECTOR	
61	Mini-Hydro Electric Power
62	NGCP
63	RE
64	Downstream Oil
65	Coal Development Act
HOUSING	
66	Urban Devt and Housing
SHIPPING	
67	Philippine Overseas Shipping
68	Domestic Shipping
OTHERS	
69	Manlilikha ng Bayan
70	Investors and Inventions
71	Jewelry Industry
72	ROHQ
73	Ecological Solid Waste
74	Clean Water Act
75	Veterans Federation
76	Footwear, Leather and Tannery
77	Science Act
78	PWD
79	Senior Citizens
80	Green Jobs
81	Natl Blood Services
82	Special Purpose Vehicle
83	CMTA
84	International Carriers

Source: National Internal Revenue Code (NIRC)

VAT exemptions over the years

Revenue eroding republic acts (RAs) and executive orders (EOs), and the 2 VAT RAs enacted into law



Source: s: DOF, BTr, and PSA

Note: The major revenue eroding measures are highlighted in bold red. In 2005, RA 9337 was enacted. This increased the VAT from 10 to 12 percent, but it also came with some revenue eroding measures such as the reduction of the corporate income tax rate from 35 to 30 percent.

Value-added tax: many zero-ratings that lead to large leakages

Examples of VAT zero-rated transactions

- The sale and actual shipment of goods from the Philippines to a foreign country, irrespective of any shipping arrangement that may be agreed upon which may influence or determine the transfer of ownership of the goods so exported, paid for in acceptable foreign currency or its equivalent in goods or services, and accounted for in accordance with the rules and regulations of the (BSP);
 - ii) 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 BSP;
 - iii) The sale of raw materials or packaging materials to an export-oriented enterprise whose export sales exceed 70 percent of total annual production;
 - iv) Sale of gold to the BSP;
 - v) Transactions considered export sales under Executive Order No. 226, otherwise known as the Omnibus Investments Code of 1987, and other special laws; and
 - vi) The sale of goods, supplies, equipment and fuel to persons engaged in international shipping or international air transport operations; provided, that the same is limited to goods, supplies, equipment and fuel pertaining to or attributable to the transport of goods and passengers from a port in the Philippines directly to a foreign port without docking or stopping at any other port in the Philippines; provided further, that if any portion of such fuel, goods or supplies is used for purposes other than that mentioned in this paragraph, such portion of fuel, goods and supplies shall be subject to 10 percent VAT
 - i) The sale to a non-resident of goods, except those mentioned in Sections. 149 and 150 of the Tax Code, assembled or manufactured in the Philippines for delivery to a resident in the Philippines, paid for in acceptable foreign currency and accounted for in accordance with the rules and regulations of the BSP
 - Processing, manufacturing or repacking goods for other persons doing business outside the Philippines, which goods 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;
 - Services other than processing, manufacturing or repacking rendered to a person engaged in business conducted outside the Philippines or to a non-resident person not engaged in business who is outside the Philippines when the services are performed, the consideration for which is paid for in acceptable currency and accounted for in accordance with the rules and regulations of the BSP;
- Services rendered to persons or entities whose exemption under special laws or international agreements to which the Philippines is a signatory effectively subjects the supply of such services to zero percent rate;
- Services performed by subcontractors and/or contractors in processing, converting, or manufacturing goods for an enterprise whose export sales exceed 70 percent of the total annual production;
- Transport of passengers and cargo by domestic air or sea carriers from the Philippines to a foreign country. Gross receipts of international air carriers doing business in the Philippines and international sea carriers doing business in the Philippines are still liable to a percentage tax of 3 percent based on their gross receipts as provided for in Sec. 118 of the Tax Code but shall not be liable to VAT
- Services to persons engaged in international shipping or air transport operations, including leases of property for use thereof; provided that the services referred to herein shall not pertain to those made to common carriers by air and se relative to their transport of passengers, goods or cargoes form one place in the Philippines to another place in the Philippines

Source: National Internal Revenue Code (NIRC)

Summary of current zones as of December 2017

	Number of ecozones
Operating zones	370
Proclaimed	135
Total	505

Summary of pending zones as of Dec 2017

	Number of zones
For Legislation ^{a/}	25
For Presidential Proclamation ^{b/}	381

Notes:

a/ as of September 25, 2017

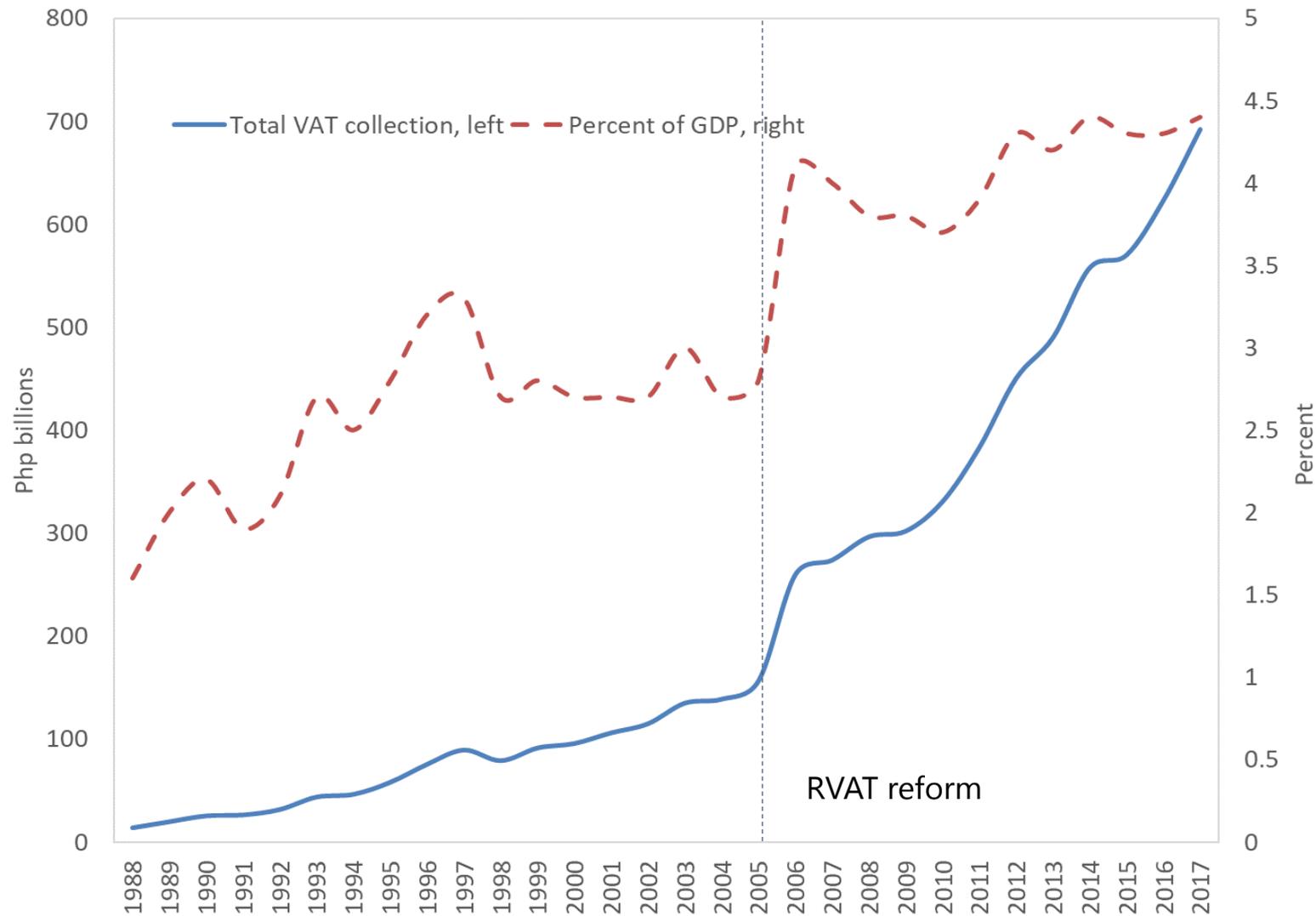
b/ as of August 31, 2017

Source: PEZA and DOF-RIO

Summary

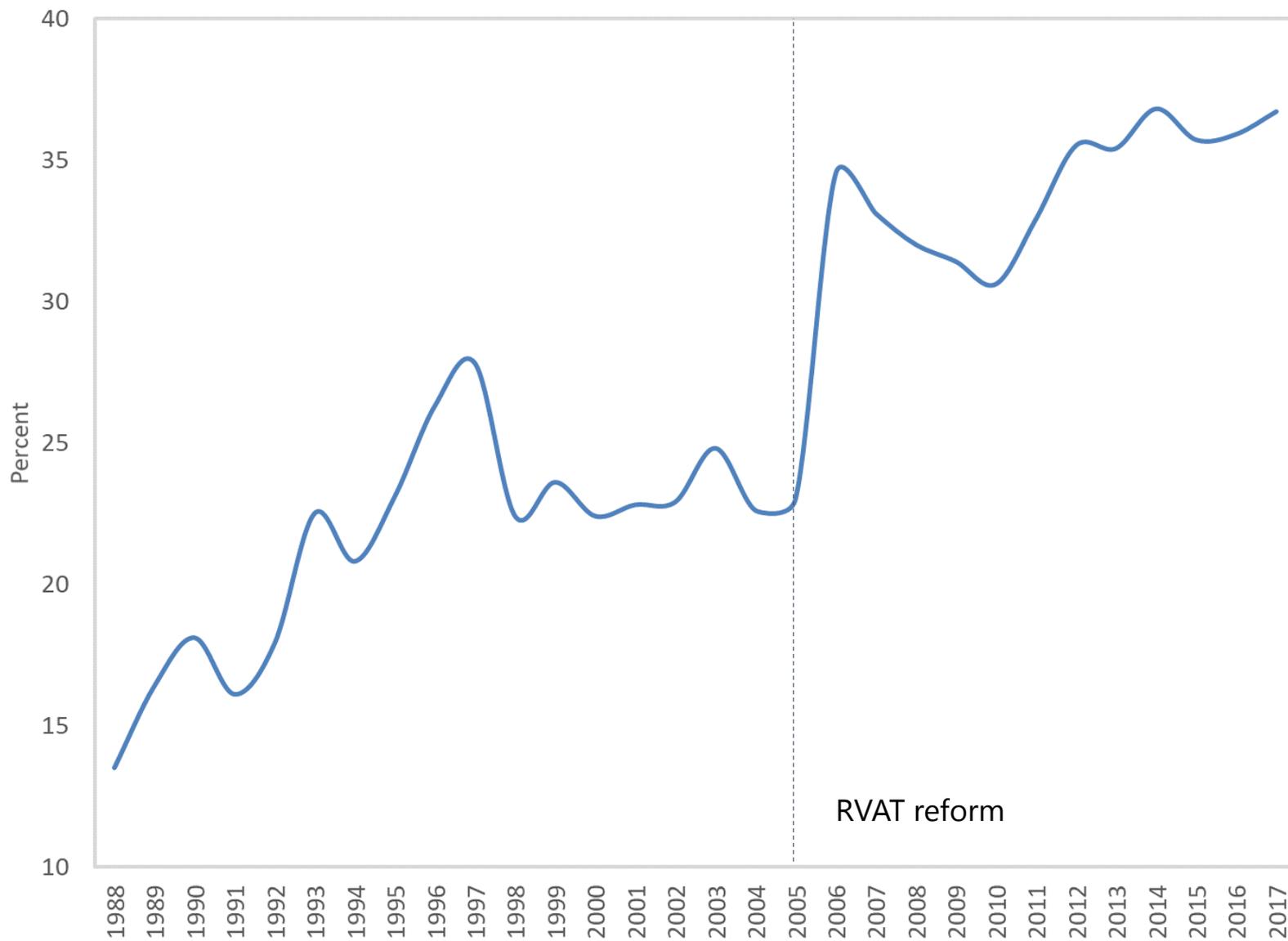
	Number of ecozones
Operating and proclaimed zones	505
Proposed zones	406
Total	911

VAT revenue collection



Source: BIR, BOC, and PSA

VAT efficiency



Source: BIR, BOC, and PSA

Low tax efficiency relative to the region

For instance, the Philippines has a 12% VAT rate while Thailand has a 7% VAT rate, yet both collect roughly the same VAT revenues as share of GDP in 2015, since Thailand has a broader VAT base (35 lines of exemptions only compared to 56 lines in the Philippines by NIRC provisions).

	Philippines	Indonesia	Thailand	Vietnam	Malaysia	East Asia and Pacific	Low-Mid Income	World
Total Tax Revenues/GDP	13.6	12.0	17.2	24.3	15.3	16.3	17.3	17.9
Value Added Tax (VAT)								
Tax rate	12.0	10.0	7.0	10.0	6.0	8.4	14.0	13.8
Revenue as share of GDP	4.3	3.9	4.1	6.1	1.0	5.2	6.6	6.1
Tax efficiency**	35.7	38.8	59.0	61.0	16.7	62.0	47.1	44.2
Corporate Income Tax (CIT)								
Tax rate	30.0	25.0	20.0	20.0	24.0	22.0	23.0	24.0
Revenue as share of GDP	3.7	4.1	5.0	7.3	8.5	4.4	3.7	3.3
Tax efficiency**	12.3	16.5	25.2	36.5	35.4	20.0	16.1	13.8
Personal Income Tax (PIT)								
Tax rate	32.0	30.0	35.0	35.0	28.0	26.8	25.5	27.9
Revenue as share of GDP	2.3	1.0	1.8	8.8	2.3	6.1	4.7	5.5
Tax efficiency**	7.3	3.5	5.2	25.1	8.2	22.8	18.4	19.7

Sources: USAID, KPMG, IMF World Revenue Longitudinal data, PWC, BIR, and Botman, Klemm and Baqir

Note: Tax efficiency is calculated as the ration of tax revenue as a share of GDP divided by the tax rate. For countries other than the Philippines, tax rates are based on KPMGs database on tax rates as of 2016, while tax revenues are are based on IMF's World Revenue Longitudinal data with 2014 as the latest available year.

Administrative issues

- Governance weakness and fiscal problems since 1988 have led to:
 - Tedious VAT refund process of BIR and BOC
 - Multiple documentary requirements
 - Tax credit certificate scam

Tedious process of BIR and BOC

Taxpayers entry points in applying for TCC or VAT Refund

Agency	Description
BIR	When the excess input VAT originates from domestic supplies to exporters, the refund or TCC application is filed, verified and either denied or paid by BIR. This has a standard of 120 days.
DOF – One Stop Shop (OSS)	When the excess input VAT originates from the VAT paid to the Bureau of Customs (BOC) on imported goods, the refund application is filed with the OSS, and verification activities occurs generally within 30 days. If approved, the refund is paid by BOC.
BOC	When the VAT is pre-paid ahead of importation, but for some reason all or some of the goods do not arrive, the application for refund is filed and handled by BOC.

Tedious process of BIR and BOC

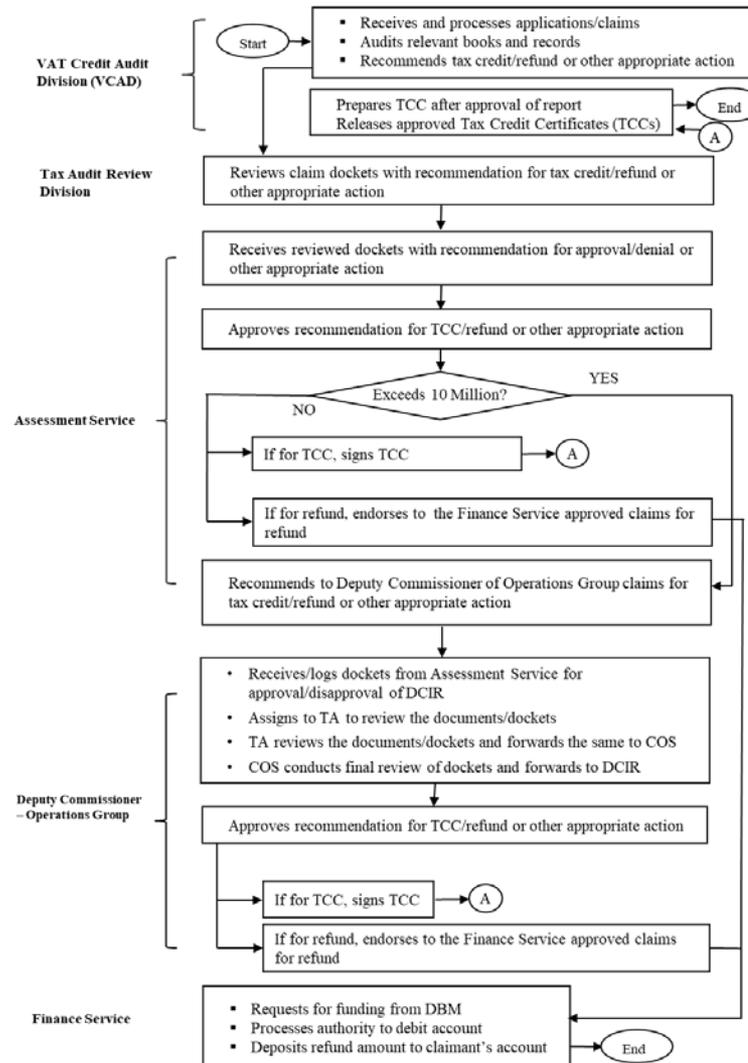
Summary of VAT tax credit certificate and cash refund process of BIR

Revenue Memorandum Circular (RMC) 54-2014 and 89-2017 prescribes the 120 day “service standard” within BIR for the processing VAT TCCs and cash refund application and actual payment. This can be broken down as follows:

- VAT Credit Audit Division (VCAD) or revenue district office: 80 days.
- Tax Audit Review Division (TARD): 20 days.
- Final approval by BIR management: 20 days.

VAT TCC and cash refund process of BIR

PROCESSING OF CLAIMS FOR TAX CREDIT/REFUND Filed with VAT Credit Audit Division at the National Office



Source: BIR

Multiple documentary requirements

Documentary requirements for VAT TCC and cash refund application (RMC No. 54-2014)

ANNEX 'A'

BUREAU OF INTERNAL REVENUE
Checklist of Mandatory Requirements for Claims for VAT Credit /Refund

Name of Claimant:	No. of Folders:
Address:	Main
Contact Person:	
Tel. No. / Fax No.:	Supporting
Period of Claim:	
Amount of Claim:	

Note: Indicate / for documents submitted and X for documents not submitted and NA for documents not applicable

1. INITIAL APPLICATION ONLY (Separate folder, permanent file)

- ___ 1.1 BIR Registration Certificate
- ___ 1.2 Articles of Incorporation and By Laws (for corporation)/SEC Reg.
- ___ 1.3 DTR Registration (For single proprietorship)
- ___ 1.4 RCI/FEA/TEDA Registration Certificate
- ___ 1.5 List of officers of the company / partners

2. GENERAL REQUIREMENTS

- ___ 2.1 3 Copies of Application for Tax Credit (BIR Form 1914)
- ___ 2.2 ITS RDOs and Form 2552 for non-ITS RDOs
- ___ 2.3 Copy of BIR Registration Payment for year of claim (BIR Form 0605) Annual Registration Fee
- ___ 2.3 Certified true copy of Quarterly VAT Return corresponding to the period of claim showing that the amount of TCC/refund being claimed was deducted from available input tax, as well as VAT Return/s filed for the succeeding quarter/s
- ___ 2.4 Copy of Annual Income Tax Return filed, or in case of quarterly claims, the claimant shall submit certified true copy of Quarterly TTR (Form 1701Q or 1702Q)
- ___ 2.5 Certified true copy of Audited Financial Statements complete with Notes to Financial Statements duly received by BIR/Authorized Agent Bank (AAB)
- ___ 2.6 Sworn statements by the claimant certifying the following:
 - ___ a. The amount of sales declared with breakdown as to amount of zero-rated, taxable and exempt sales
 - ___ b. The company did not file any and / or will not file any similar claim from BOC, BOC and BIR
 - ___ c. The ending inventory as of close of the period being claimed has been used directly/indirectly in the products exported
- ___ 2.7 Verification of Delinquent Accounts from the concerned Revenue District Office (RDO)/Regional Collection Division/ Accounts Receivable Monitoring Division/LT Collection Enforcement Division/Large Taxpayers Division
- ___ 2.8 Certification that claimant/taxpayer has no similar claim filed with other BIR processing/investigating office
- ___ 2.9 Certification from BOC, BOC as well as from DOF-OSS where applicable, that subject taxpayer has not filed similar claim covering the same period.
- ___ 2.10 Certified true copy of the approved application for zero-rating issued by the appropriate BIR Office for effectively zero-rated transactions
- ___ 2.11 Company authorization designating the authorized representative to follow up the claim for VAT refund/Credit Affidavit under oath attesting to the completeness of the documents submitted (Annex B)
- ___ 2.12 Affidavit under oath attesting to the completeness of the documents submitted (Annex B) (with copy of Checklist of Requirements as attachment)

3. LOCAL PURCHASES OF GOODS AND SERVICES

- ___ 3.1 Schedule of Purchases for period of claim with the following details: Registered Name of Supplier, TIN of Supplier, Invoice No., Date of Invoice, OR No., Date of OR, Amount of Purchase, Input Tax and Total Invoice Amount
- ___ 3.2 Certified true copy of Sales Invoices for purchase of goods or OR with Statement of Account (S.A.) Billing for services (arranged in accordance with schedule under 3.1)
- ___ 3.3 Alphabetical list of Suppliers with the following information: Name, address and TIN of suppliers and total purchases per supplier
- ___ 3.4 Soft copy of the Schedule of Purchases (MS Excel) required under 3.1

4. SALES OF GOODS OR SERVICES

- ___ 4.1 Schedule of Zero-rated, Taxable and Exempt Sales with the following details:
 - ___ Taxable Sales - Sales Invoice/OR No., Date of Invoice/OR, Name of Buyer/Customer, Peso Value of Sales
 - ___ Exempt Sales - Sales Invoice/OR No., Date of Invoice/OR, Name of Buyer/Customer, Peso Value of Sales, Reason for/Type of Exemption
 - ___ Zero-Rated Sales - Sales Invoice/OR No., Date of Invoice/OR, Name of Buyer/Customer, AWR/SL No., Sales/Receipts in Foreign Currency, Conversion Rate, Peso Value of Sales, Date of Remittance, Name of Bank, Bank Credit Memo No.
- ___ 4.2 Certified true copy of Sales Invoices and AWR/BL for sale of goods or Billings/Service Contracts for sale of services (arranged in accordance with schedule required under 4.1)
- ___ 4.3 Soft copy of the Schedule of Sales (MS Excel) under 4.1
- ___ 4.4 Copy of BIR Authority, in case claimant is using loose leaf sales Invoices/computerized accounting system

5. DOLLAR REMITTANCES

- ___ 5.1 Schedule and copy of Bank Credit Memos to prove inward receipts of foreign currency for export sales
- ___ 5.2 Reconciliation of Export Sales and Dollar Remittances
- ___ 5.3 Soft copy of Schedule of Bank Memo/ Bank Certification (MS Excel) under 5.1

6. IMPORTATION OF GOODS

- ___ 6.1 Schedule of Importations for period of claim with the following details: Date of Invoice, Supplier, Description of Goods Imported, AWR/SL No., BFD / SN No., Date of Arrival, Total Value, Date of Payment, O.R. No. & VAT Payment
- ___ 6.2 Soft copy of the Schedule required under 6.1 (MS Excel)
- ___ 6.3 Certified true copy of Import Entry and Internal Revenue Declarations duly validated by bank with O.R.
- ___ 6.4 Certified true copy of BOC receipts/Confirmation receipts evidencing payment of VAT

7. OTHER REQUIREMENTS

- ___ 7.1 Reconciliation of Export Sales and Dollar Remittances
- ___ 7.2 Schedule of off-setting of receivables and payables, if company has off-setting agreement with foreign affiliates/companies
- ___ 7.3 Schedule of input tax pertaining to purchases/importation of over P1pt million that is amortized during the period claim
- ___ 7.4 Other documents that the taxpayer may deem necessary in supporting its/his/her claim for VAT Refund/Credit (P/s. specify)

8

REMARKS

- ___ 8.1 Complete as to Requirements
- ___ 8.2 For Compliance of Other Requirements
- ___ 8.3 Disapproved
 - ___ a. Prescribed claim for VAT Refund/Credit
 - ___ b. FECA Registered (subject to 5% tax regime)
 - ___ c. Others (P/s. specify)

CHECKED BY:

Signature over Printed Name

38 documents in total

Other administrative issues

- Transfer and resignation of revenue officer doing evaluation.
- Deemed disapproved
 - Refund application is deemed disapproved if not administratively decided within 120 days from complete filing of complete documents.
 - Taxpayers will have to go to the Court of Tax Appeals to get a refund.

Tax credit certificate (TCC) scam

- In the past, TCCs were sold at discounted price or transferred to other persons.
- Irregular issuance of TCCs by officials of One-Stop Shop Inter-agency Tax Credit and Duty Drawback Center (OSS-Center) of the Department of Finance (DOF) to bogus exporting textile companies from 1995 to 1998.
- The anomalies was discovered by the DOF in July 1998.
- Upon post-audit conducted by DOF in July 1998, it was established that these companies submitted fake export declarations, export sales invoices, bills of lading/airway bills, and bank credit memorandum to validate nonexistent export transactions.
- The government lost an estimated PHP 6 billion in revenue due to this scam (USD 240 million in 1998 prices).

VAT reform roadmap

2014

EO 68

Executive Order 68 s. 2014

Mandates that cash payments will be made through government financial institutions (i.e. Landbank of the Philippines and Development Bank of the Philippines)

EO 68-A

Executive Order 68-A s. 2014

Mandates that cash payments will be made by BIR and BOC directly.



TRAIN



The grant of cash refund for zero-rated sales within 90 days from the filing of the VAT refund application.



5% of gross VAT revenues be placed in a trust fund to pay the refund.



The abolition of the tax credit certificates.



The shift to e-invoicing to speed up VAT refund processing.

Further reforms needed

Setting of revenue targets

Revenue targets of BIR and BOC will be set net of VAT refunds so they will not hold back cash refund when collections are low.

Shift to e-invoice system for large taxpayers and exporters

An electronic platform capable of processing and storing electronic invoices and receipts issued by taxpayers on a real-time (or near real-time) basis containing required taxpayer information, VAT and withholding tax details, among others.

Risk-based audit

Instead of mandatory pre-audit of all VAT refund claims, shift to risk-based audit where post-audits are the usual feature for compliant firms. **This needs Commission on Audit (COA) approval.**

Creation of the special trust fund as mandated by TRAIN

A **trust fund** will be created to be exclusively used for VAT cash refund.

5% of gross VAT revenues be placed in a trust fund to pay the refund

VAT refund reform in 2014

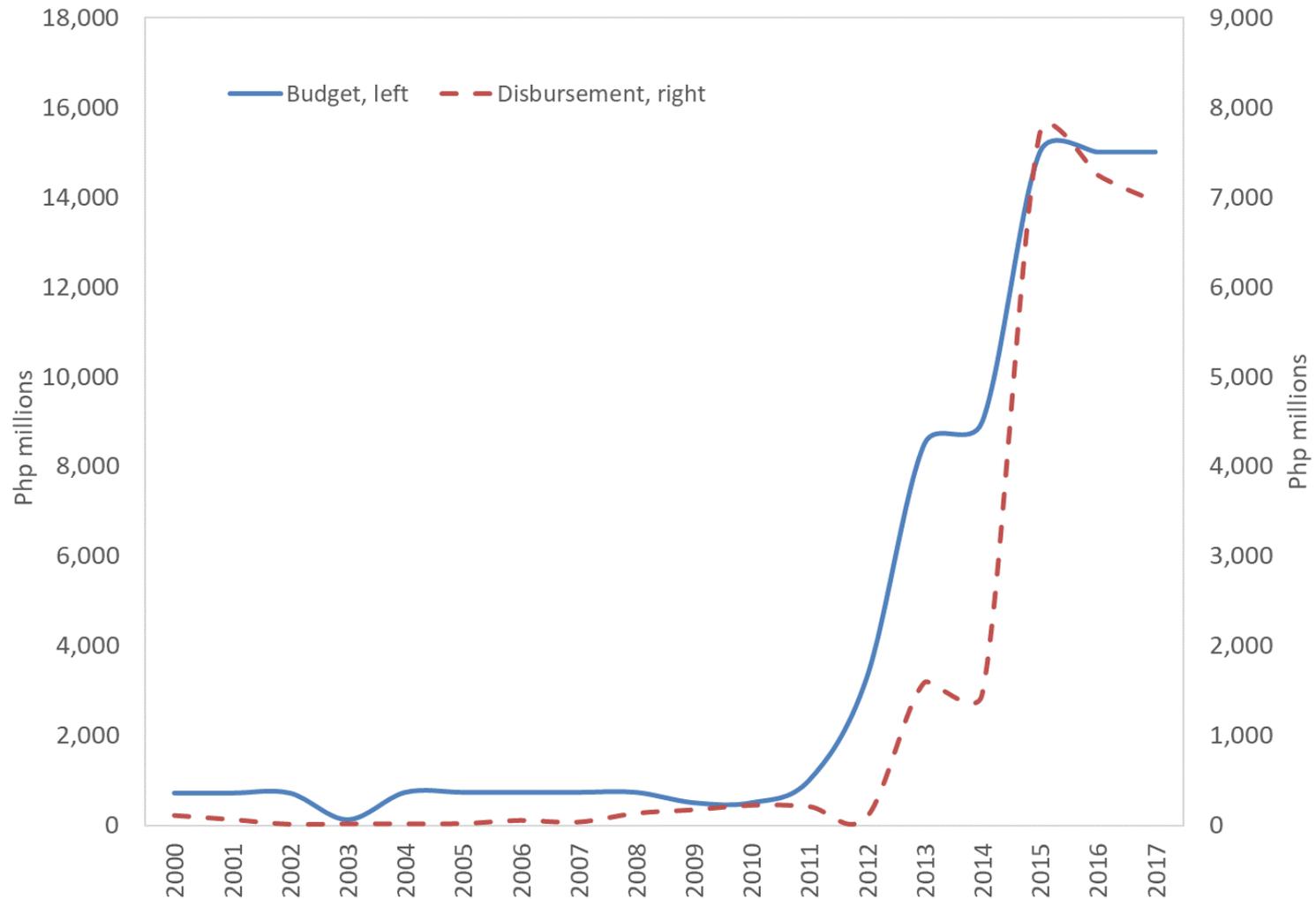
Due to budgetary constraints in the past, the Philippine government introduced the issuance of TCCs to cover all credit entitlements.

However, in response to problems with the TCC system, the following reforms were enacted in 2014:

1. Executive Order 68, s. 2014
 - Mandates that cash payments will be made through government financial institutions (i.e. Landbank of the Philippines and Development Bank of the Philippines)

2. EO 68-A, s. 2014
 - Mandates that cash payments will be made by BIR and BOC directly.

VAT refunds disbursement and budget allocation



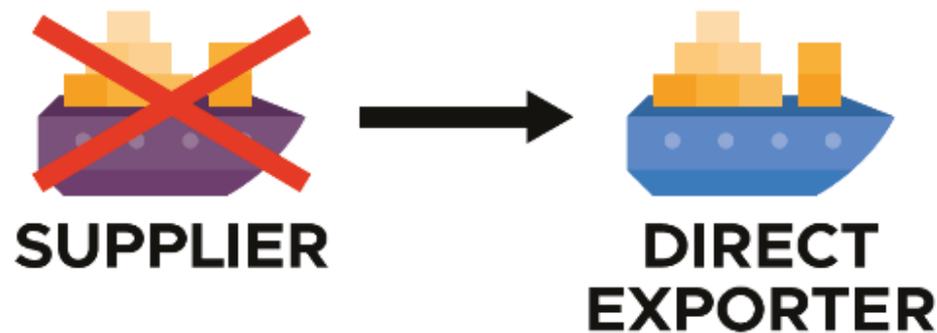
Expand the VAT base by limiting exemptions and providing targeted subsidies to the poor

The following exemptions were removed:

- | | |
|--|---|
| 1. National Dairy | 29. Philhealth PHIC |
| 2. High Value Crops | 30. SSS |
| 3. Organic Agriculture | 31. GSIS |
| 4. Coconut | 32. Natl Museum |
| 5. Seed Industry | 33. PDIC Insurance Coverage |
| 6. Philippine Fisheries | 34. HDMF |
| 7. Traditional and Alternative Medicine | 35. AFP Modernization |
| 8. Rare Diseases | 36. OWWA |
| 9. Davao Oriental State College of Science and Tech. | 37. Civil Aviation CAAP |
| 10. Aklan State College of Agriculture | 38. National Historical Commission of the PHL |
| 11. Eastern Visayas Science High School | 39. Downstream oil deregulation |
| 12. Philippine State College of Aeronautics | 40. NGCP |
| 13. UP Radio and TV Stations | 41. Urban Devt and Housing |
| 14. Higher Education | 42. Urban Devt and Housing Amendment |
| 15. Aklan State University | 43. Iron and Steel |
| 16. Batangas State University | 44. BOT law amendment |
| 17. Sta. Rosa Science and Technology High School | 45. Ecological Solid Waste |
| 18. Guimaras State College | 46. Green Jobs |
| 19. Negros Occidental Agricultural College | 47. Halal |
| 20. UP Charter of 2008 | 48. Veterans Federation |
| 21. PNU Modernization | 49. Manlilikha ng Bayan |
| 22. Mindanao University of Science and Technology | 50. Investors and Inventions |
| 23. PSCA | 51. ROHQ |
| 24. Boy Scout | 52. Clean Water |
| 25. PTV | 53. Science Act |
| 26. Postal Service | 54. Jewelry Industry |
| 27. National Commission for the Arts | |
| 28. New Central Bank | |

Sectors/Institutions	No. of VAT special laws repealed
Agriculture	6
Education (SUCs and High Schools)	14
MSMEs/Cooperatives	0
Govt Agencies and GOCCs	16
Investment	5
Power Sector	2
Housing Sector	2
Health	2
Others	7
Total	54

Limit VAT zero-rating to direct exporters once an efficient cash refund system is in place that pays in cash within 90 days



- **Limit the VAT zero-rating to direct exporters.** This will be implemented together with the enhanced VAT refund starting 2019.
- **Enhanced VAT refund system** that pays refund in cash within 90 days from the filing of VAT refund application.

VAT refund reforms under TRAIN

- The law mandates:
 - The grant of cash refund for zero-rated sales within 90 days from the filing of the VAT refund application.
 - 5% of gross VAT revenues be placed in a trust fund to pay the refund.
 - The abolition of the tax credit certificates.
 - The shift to e-invoicing to speed up VAT refund processing.

But further reforms needed

- Setting of revenue targets
 - Revenue targets of BIR and BOC will be set net of VAT refunds so they will not hold back cash refund when collections are low.
- Risk-based audit
 - Instead of mandatory pre-audit of all VAT refund claims, shift to risk-based audit where post-audits are the usual feature for compliant firms. This needs Commission on Audit (COA) approval.

But further reforms needed

- Creation of the special trust fund as mandated by TRAIN
 - A trust fund will be created to be exclusively used for VAT cash refund.
 - 5% of gross VAT revenues be placed in a trust fund to pay the refund
- Shift to e-invoice system for large taxpayers and exporters
 - An electronic platform capable of processing and storing electronic invoices and receipts issued by taxpayers on a real-time (or near real-time) basis containing required taxpayer information, VAT and withholding tax details, among others.

Thank you