

REPUBLIC OF THE PHILIPPINES
DEPARTMENT OF FINANCE
BUREAU OF INTERNAL REVENUE
Quezon City

October 30, 2003

REVENUE REGULATIONS NO. 29-2003

SUBJECT: Advance Payment of VAT on the Sale of Flour.

TO : All Internal Revenue Officers and Others Concerned.

SECTION 1. SCOPE.- In accordance with the provisions of Sections 6, 244 and 245, in relation to Sections 106, 107, 109 and 110, of the National Internal Revenue Code of 1997, as amended, these Regulations are hereby promulgated to prescribe the policies and procedures for the advance payment of value-added tax (VAT) on the sale of flour which is milled from imported wheat.

SEC. 2. POLICY STATEMENT.- These Regulations aim to level the playing field among players in the flour-milling industry and to encourage proper declaration and payment of taxes which will result in improved efficiency in tax administration.

SEC. 3. REQUIREMENT TO PAY IN ADVANCE VAT ON SALE OF FLOUR AND TIME OF PAYMENT OF ADVANCE VAT. - The VAT on the sale of flour milled from imported wheat shall be paid in advance by the flour miller.

Inasmuch as wheat is the principal raw material in the milling of flour, and wheat is entirely imported, the point of payment of the advance VAT on sale of flour is established at the time of importation of the wheat by the flour miller so as to effectively ensure the payment of VAT on flour which shall subsequently be milled from this imported wheat. Thus the advance VAT on flour shall be paid prior to the release from the Bureau of Custom's custody of the wheat which is imported and declared for flour milling.

Purchases by flour millers of imported wheat from traders shall also be subjected to advance VAT and shall be paid by the flour miller prior to its delivery.

SEC. 4. PROHIBITION OF WITHDRAWAL OF SHIPMENT BEFORE PAYMENT OF ADVANCE VAT. - Unless and until prior and full payment of the advance VAT has been made by the flour miller at time of importation of wheat, as evidenced by the Authority to Release Imported Goods (ATRIG) issued by the BIR and the submission of the Payment Form evidencing the payment of the advance VAT, any withdrawal in any manner or form, in full or partially, of imported wheat to be used in the milling of flour, from customs custody shall not be allowed.

Importation of wheat by any trader shall still be exempt from the payment of VAT. However, in order to monitor all importation of wheat regardless of its intended use, the importer, whether miller or trader, shall be required to secure ATRIG from the BIR.

The Bureau of Customs will require the submission of the ATRIG by the importer before releasing the imported wheat from its custody.

For this purpose, importation of wheat shall be treated as an exception to the list of imported articles exempted from the issuance of ATRIG as contained in the BIR-BOC Joint Memorandum Circular No. 1-2002 dated September 16, 2002.

SEC. 5. SECURING THE ATRIG AND THE PAYMENT FORM OF THE ADVANCE VAT. -To afford expediency and to minimize delay in the processing of ATRIG, the flour miller shall compute the advance VAT payable in accordance with Section 6 hereof and fill up the Payment Order Form (Form 0605). The flour miller shall pay the amount indicated in the Payment Order to the Accredited Agent Bank (AAB) of the LTS/LTDO/RDO where the flour miller is registered.

Upon payment, the flour miller will then present a copy of the duly validated payment form to the RDO having jurisdiction over the port of entry. Upon receipt of the properly validated and stamped Payment Order, the RDO having jurisdiction over the port of entry shall issue the ATRIG covering the importation of wheat by the flour miller in accordance with Revenue Memorandum Order 35-2002, which prescribes the guidelines for the issuance of ATRIG for Excise and Value-added tax purposes.

For purchases of wheat from traders, the flour miller shall be required to present proof of payment of advance VAT to the trader prior to delivery or withdrawal of wheat from the latter's premises.

The Payment Order showing payment of the advance VAT shall serve as proof for the credit of such advance payment against the output VAT of the flour miller as provided in Section 7 of these Regulations.

SEC. 6. BASIS FOR DETERMINING THE AMOUNT OF ADVANCE VAT PAYMENT. -

- (a) **Determination of advance VAT.** - The amount of advance VAT payment shall be determined by applying the VAT rate of 10% on the tax base as defined in subparagraph (b) of this Section.
- (b) **Tax Base for the advance VAT.** Considering that in the course of the milling process, not all wheat is turned into flour, the tax base shall be as follows:
 - 1. **For wheat imported by flour millers** - 75% of the sum of: (a) the invoice value multiplied by the currency exchange rate on the date of payment; (b) estimated customs duties and other charges prior to the release of the imported wheat from customs custody, except for the advance VAT; and (c) five percent (5%) mark-up on the sum of (a) and (b).
 - 2. **For wheat purchased from traders** - 75% of the sum of (a) invoice value, (b) estimated freight expenses and (c) five percent (5%) on the sum of (a) and (b).
- (c) **Subsequent tax base adjustments.** - The tax base shall be adjusted whenever deemed necessary by the Commissioner of Internal Revenue, after proper prior consultations with

the flour milling industry associations and upon approval by the Secretary of the Department of Finance.

SEC. 7. CREDIT FOR ADVANCE VAT PAYMENTS. - In addition to the input tax credits allowed under Section 107 of the Tax Code and its implementing regulations, the amount of advance VAT payments made by the flour miller shall be allowed as credit against the output tax on the actual gross selling price of the flour sold by the flour miller.

SEC. 8. REPORTING REQUIREMENTS - All importers of wheat regardless of use, whether miller or trader, shall submit quarterly summary lists of sales, purchases and importation in accordance with the provisions of Section 4 of Revenue Regulations 8-2002.

SEC. 9. PENALTY CLAUSE. - Any violation of the provisions of these Regulations shall be subject to the penalties provided for in Sections 254 and 275, and other pertinent provisions of the National Internal Revenue Code of 1997, as amended.

SEC. 10. REPEALING CLAUSE. - The provisions of internal revenue issuances inconsistent herewith are hereby repealed, modified or amended accordingly.

SEC. 11. EFFECTIVITY. - These Regulations shall take effect fifteen (15) days after its publication in the Official Gazette or in a newspaper of general circulation, but shall, however, not apply retroactively to imports of wheat for which appropriate import entries have already been made and are otherwise awaiting release from customs custody or shall be released therefrom on the date of the foregoing publication.

(Original Signed)
JOSE ISIDRO N. CAMACHO
Secretary of Finance

Recommending approval:

(Original Signed)
GUILLERMO L. PARAYNO, JR.
Commissioner of Internal Revenue