

TREASURY CIRCULAR NO. 1-2003-A

June 30, 2003

**TO : ALL BANKS, FINANCIAL INSTITUTIONS, NON-BANK
FINANCIAL INTERMEDIARIES AND FINANCE
COMPANIES**

**SUBJECT : AMENDMENTS TO TREASURY CIRCULAR NO. 1-2003
DATED APRIL 24, 2003**

WHEREAS, the Value-Added Tax (VAT) as an indirect tax may be shifted or passed on to the buyer of services;

WHEREAS, interest income and net trading gains on government securities realized by Government Securities Eligible Dealers (GSEDs), Non-GSED Banks and Financial Institutions are subject to the Value- Added Tax, which per BIR Revenue Regulation No. 20-2003, may be passed on to the government-borrower;

WHEREAS, under Treasury Circular No. 1-2003, dated April 24, 2003, Government Securities Eligible Dealers (GSEDs), Non-GSED Banks and Financial Institutions **shall** remit to the Bureau of the Treasury (BTr) the Gross Receipts Tax (GRT) equivalent portion of their Value-Added Tax (VAT) liability on interest earned from government securities;

WHEREAS, under said Treasury Circular, the passing on to the BTr of the VAT on net trading gains is to be covered by another circular to be issued thereafter;

WHEREAS, there is a need to set the procedure for the settlement/payment of the GRT-equivalent portion of the VAT liability assumed by the Government Securities Eligible Dealers (GSEDs), Non-GSED Banks and Financial Institutions and the incremental portion of the VAT liability shifted/passed on to the government borrower, herein represented by DOF/BTr;

NOW, THEREFORE, this Circular is issued to amend Circular No. 1-2003 as follows:

Section 1. Section 2 (2) of Treasury Circular No. 1-2003 is hereby amended to read as follows:

“2. Liability for payment of the incremental portion of the 10% VAT on interest income earned from all outstanding government securities from January 1, 2003 until March 31, 2003 shall be passed on to the Bureau of the Treasury. In the event a GSED, Non-GSED Bank or Financial Institution has already paid the assumed portion of the VAT liability to the BIR, the Bureau of the Treasury shall pay the incremental portion of the VAT for the account of the concerned GSED, Non-GSED Bank or Financial Institution.”

Section 2. Section 2 (4) of Treasury Circular No. 1-2003 is hereby amended to read as follows:

*“4. **VAT on Interest.** Commencing May 1, 2003, GSEDs, Non-GSED Banks and Financial Institutions shall **remit directly to the Bureau of Internal Revenue** the payment of that portion of their VAT liability on interest earned from government securities not shifted or passed on to the government-borrower. The Bureau of the Treasury shall pay the incremental VAT liability on said interest and remit the amount thereof to the Bureau of Internal Revenue as withheld creditable VAT in compliance with Section 114 (C) of the National Internal Revenue Code (NIRC), as amended. In the event a GSED, Non-GSED Bank or Financial Institution has already paid the assumed portion of their VAT liability on interest to the BIR, from January 1, 2003 up to May 31, 2003, the BTr shall pay **to the BIR** the incremental portion of the VAT for the account of the concerned GSED, Non-GSED Bank or Financial Institution. Incremental VAT liability is defined herein as the difference between the 10% VAT and that portion which the banks or financial institutions will assume.*

Section 3. Section 2 (5) of Treasury Circular No. 1-2003 is hereby amended to read as follows:

*“5. **VAT on Net Trading Gains.** Commencing May 1, 2003, GSEDs, Non-GSED Banks and Financial Institutions shall **remit directly to the Bureau of Internal Revenue** their payment of that portion of their VAT liability on net trading gains realized from sale of government securities not shifted or passed on to the government-borrower. In such event, the Bureau of the Treasury shall pay the incremental portion of the VAT on said net trading gains passed on to it and not assumed by the said VAT registered entities and remit the amount thereof to the Bureau of Internal Revenue as creditable VAT for the account of the concerned GSED, Non-GSED Bank or Financial Institution. In the event a GSED, Non-GSED Bank or Financial Institution has already paid*

*the assumed portion of their VAT Liability on net trading gains to the BIR, from January 1, 2003 up to May 31, 2003, the BTr shall pay **to the BIR** the incremental portion of the VAT for the account of the concerned GSED, Non-GSED Bank or Financial Institution.*

Section 4. The VAT liability portion to be assumed by the GSEDs, Non-GSED Banks and Financial Institutions on interest earned and net trading gains from government securities shall in no case be less than the amount that would have been paid as GRT on said income or net trading gains and in accordance with a Billing and Reconciliation Statement, in the form of Annex “A”.

Section 5. GSEDs, Non-GSED Banks and/or Financial Institutions may request for the issuance of a certification from the BTr acknowledging liability of the incremental portion of the VAT to the BIR. Said certification may be utilized as proof of compliance with Section 114 (C) of the National Internal Revenue Code, as amended, or to support claims for under/over-payment of VAT in case the VAT liability has been partly or wholly assumed by the GSED, Non-GSED Bank or Financial Institution.

Section 6. The provisions of existing circulars inconsistent herewith are hereby repealed and/or modified accordingly.

Section 7. This Circular shall take effect immediately.

(SGD) EDUARDO SERGIO G. EDEZA
Treasurer of the Philippines

(With Sample Computation)

Annex "A"

Bank Name
Reconciliation of VAT Claims
Interest Income by Cusip/ISIN
For the month April 2003

Tx#	Cusip # / ISIN	Purchase Date	Maturity Date	Sale Date	Coupon Rate	Next Coupon Date	Acquisition Rate	Par	Acquisition Cost	Disc/Prem Amortization (+/-)	Interest Income / Trading Gain For the Month (+)	AIR Beg. (+)	AIR End (-)	Interest Income Actually Collected
	1234	31-Mar-03	30-Jun-03					20,000,000.00	19,809,193.54	62,903.23	62,903.23	0.00	0.00	0.00
	3456	17-Aug-02	16-Aug-03					5,000,000.00	4,760,000.00	19,000.00	19,000.00			

Total Interest and trading gains
Recognizable income net of output VAT
VAT Liability
VAT assumed by FI and remitted to BIR
VAT passed on to BIR

<u>81,903.23</u>	<u>81,903.23</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>
	105%			
	<u>78,003.08</u>			
	<u>7,800.31</u>			
	<u>3,900.15</u>			
	<u>3,900.15</u>			