

# House Panel Approves Bill Imposing 12% VAT on Digital Transactions

## Substitute Bill to House Bills 6765, 6944, 4531 and House Resolution 685: Imposition of VAT on Digital Transactions

The House of Representatives Committee on Ways and Means approved the Substitute Bill to House Bills 6765, 6944, 4531, and House Resolution 685,<sup>1</sup> which aims to impose value-added tax (“**VAT**”) on digital services. Digital service refers to any service that is delivered or subscribed over the internet or other electronic network, which cannot be obtained without the use of information technology.<sup>2</sup>

Under the Substitute Bill, digital services shall include:

1. Online licensing of software, updates, and add-ons, website filters and firewalls;
2. Mobile applications, video games, and online games;
3. Webcast and webinars;
4. Provision of digital content such as music, files, images, text, and information;
5. Advertisement platform such as provision of online advertising space on intangible media platform;
6. Online platform such as electronic marketplaces or networks for the sale, display, and comparison of prices of trade products for services;
7. Search engine services;
8. Social networks;
9. Database and hosting such as website hosting, online data warehousing, file sharing, and Cloud storage services;
10. Internet-based telecommunication;
11. Online training such as provision of distance teaching e-learning, online courses and webinars, online newspapers, and journal subscription; and
12. Payment processing services.<sup>3</sup>

However, the sale and importation of books, newspapers, magazines, or bulletins which are sold electronically are exempted from VAT.<sup>4</sup> The Substitute Bill further provides that non-resident digital service providers are liable for assessing, collecting, and remitting the VAT on the

<sup>1</sup> Approved on July 29, 2020 based on the Committee Meetings on House Measures, Committee Daily Bulletin, 18<sup>th</sup> Congress Second Regular Session, Vol. II No. 2.

<sup>2</sup> Charissa Luci-Atienza, House panel okays bill imposing 12% VAT on digital transactions, July 29, 2020, *available at* <https://mb.com.ph/2020/07/29/house-panel-okays-bill-imposing-12vat-on-digital-transactions/> (last accessed August 5, 2020).

<sup>3</sup> Charissa Luci-Atienza, House panel okays bill imposing 12% VAT on digital transactions, July 29, 2020, *available at* <https://mb.com.ph/2020/07/29/house-panel-okays-bill-imposing-12vat-on-digital-transactions/> (last accessed August 5, 2020).

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transaction that goes through its platform.<sup>5</sup> Thus, they may claim creditable input tax.<sup>6</sup> However, if they are not duly-registered with the Bureau of Internal Revenue, payments to non-residents for services rendered in the country shall be subject to 12% withholding tax at the time of payment.<sup>7</sup> Moreover, non-resident digital service providers are not eligible to avail of the tax credit mechanism in relation to VAT.<sup>8</sup>

As of this update, the official text of the approved Substituted Bill has not yet been released.

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<sup>5</sup> Charissa Luci-Atienza, House panel okays bill imposing 12% VAT on digital transactions, July 29, 2020, *available at* <https://mb.com.ph/2020/07/29/house-panel-okays-bill-imposing-12vat-on-digital-transactions/> (last accessed August 5, 2020).

<sup>6</sup> Charissa Luci-Atienza, House panel okays bill imposing 12% VAT on digital transactions, July 29, 2020, *available at* <https://mb.com.ph/2020/07/29/house-panel-okays-bill-imposing-12vat-on-digital-transactions/> (last accessed August 5, 2020).

<sup>7</sup> Charissa Luci-Atienza, House panel okays bill imposing 12% VAT on digital transactions, July 29, 2020, *available at* <https://mb.com.ph/2020/07/29/house-panel-okays-bill-imposing-12vat-on-digital-transactions/> (last accessed August 5, 2020).

<sup>8</sup> Committee Meetings on House Measures, Committee Daily Bulletin, 18<sup>th</sup> Congress Second Regular Session, Vol. II No. 2, July 29, 2020.

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