

BDB Law

DU-BALADAD AND ASSOCIATES

ADVISORY

SERIES OF 2025

Clarifications on
VAT on Digital Services

BUREAU OF INTERNAL REVENUE
Revenue Memorandum Circular No. 47-2025
May 7, 2025

CLARIFICATIONS ON THE IMPOSITION
OF VAT ON DIGITAL SERVICES

I. Registration

- ☑ All nonresident digital service providers are required to register regardless of the nature of their transactions, whether business-to-business ("B2B") and/or business-to-consumer ("B2C").
- ☑ Registration should be done on or before June 1, 2025 through the VAT on Digital Services ("VDS") Portal. Prior to the availability of the VDS Portal, registration may be done through the Online Registration and Update System ("ORUS"). Manual registration may likewise be done with BIR Revenue District Office No. 39 – South Quezon City.
- ☑ The following are required for registration:
 - ✓ Any official registration document issued by an authorized government regulatory body in the country where the nonresident digital service provider was incorporated or organized that includes the name of the nonresident digital service provider;
 - ✓ Required information (for registration done via ORUS):
 1. Name of business entity, including trade name;
 2. Name of authorized representative and TIN of local authorized representative;
 3. Registered foreign address; and
 4. Contact information of the nonresident digital service provider.
- ☑ A BIR Certificate of Registration ("COR")/BIR Form No. 2303, containing the TIN and other registration details, shall be issued to the nonresident digital service provider.
- ☑ Nonresident digital service providers have the option to whether or not appoint a resident third-party service provider to be its local representative. Appointment of a resident third-party service provider shall not classify the nonresident digital service provider as a resident foreign corporation doing business in the Philippines.
- ☑ Failure to register may subject the nonresident digital service provider to the following penalties:
 - ✓ Criminal, civil, and administrative liabilities; and
 - ✓ Suspension of business operations

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II. Reportorial Requirements and Payment/Remittance

- ☑ Nonresident digital service providers are still required to file tax returns.
- ☑ In B2B transactions, the Philippine consumer/buyer shall be liable for electronically filing the required tax return and withholding and remitting the 12% VAT (reverse charge mechanism):

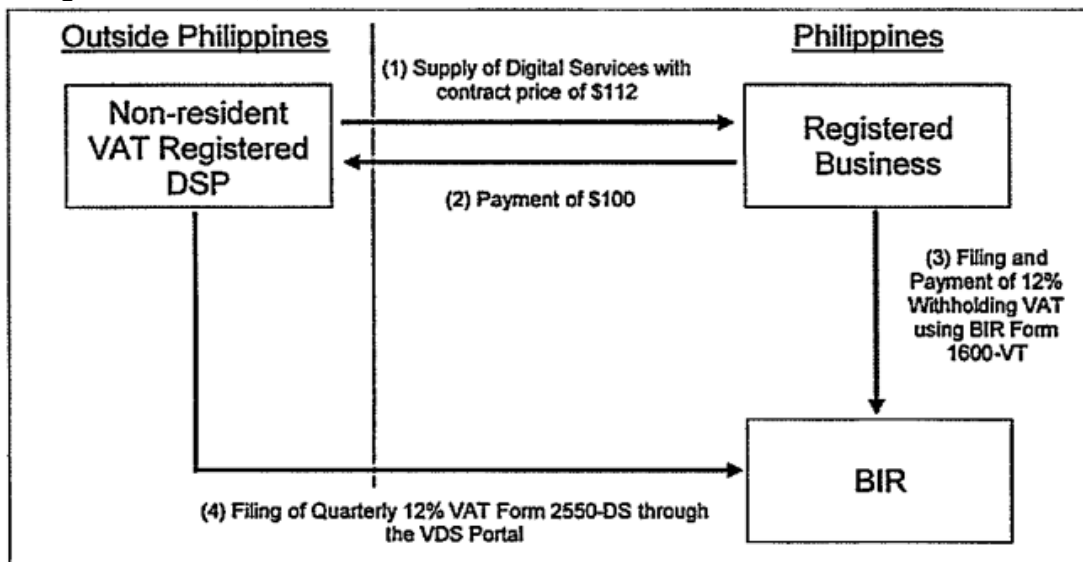


Illustration of a B2B transaction

The nonresident digital service provider shall use BIR Form No. 2550-DS in electronically filing the VAT return. On the other hand, the Philippine buyer/consumer, whether VAT or non-VAT, shall use BIR Form No. 1600-VT in filing and remitting the withheld VAT.

- ☑ In B2C transactions, the nonresident digital service providers shall electronically file the VAT return and pay the 12% VAT through the VDS Portal:

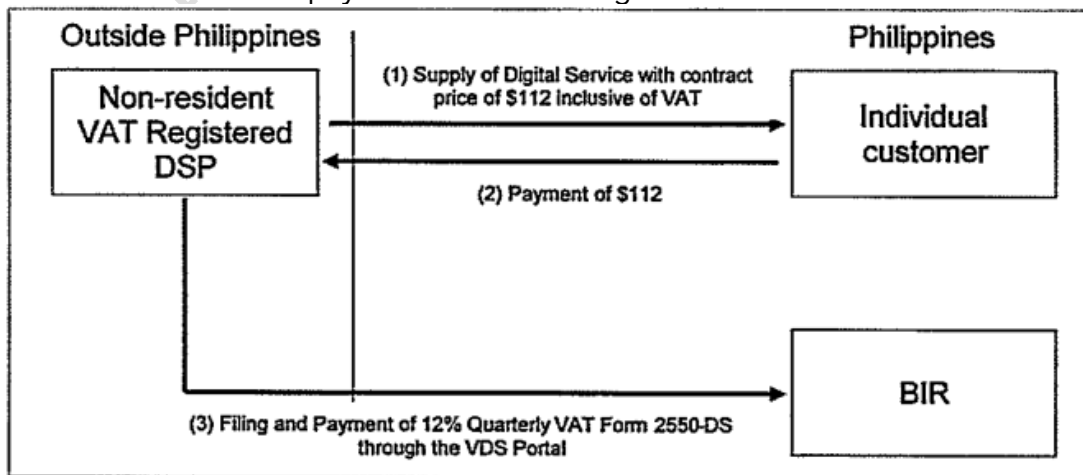


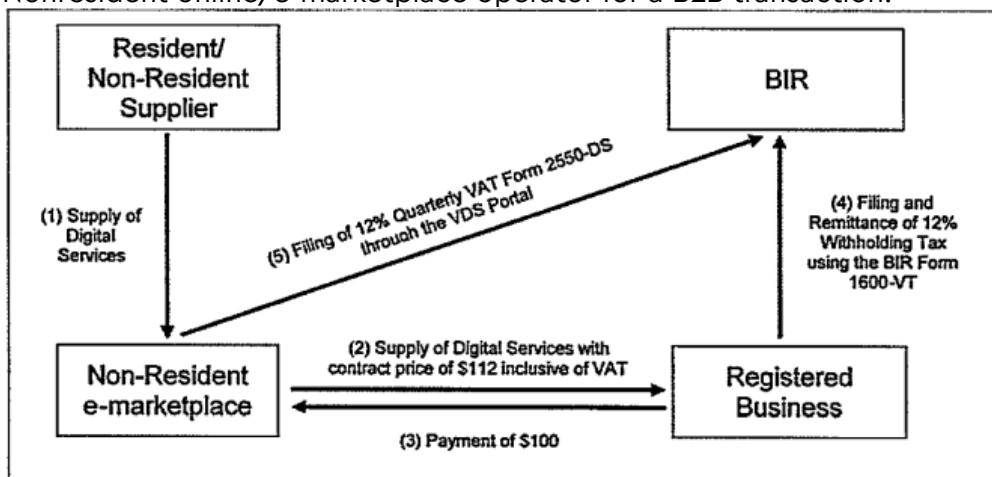
Illustration of a B2C transaction

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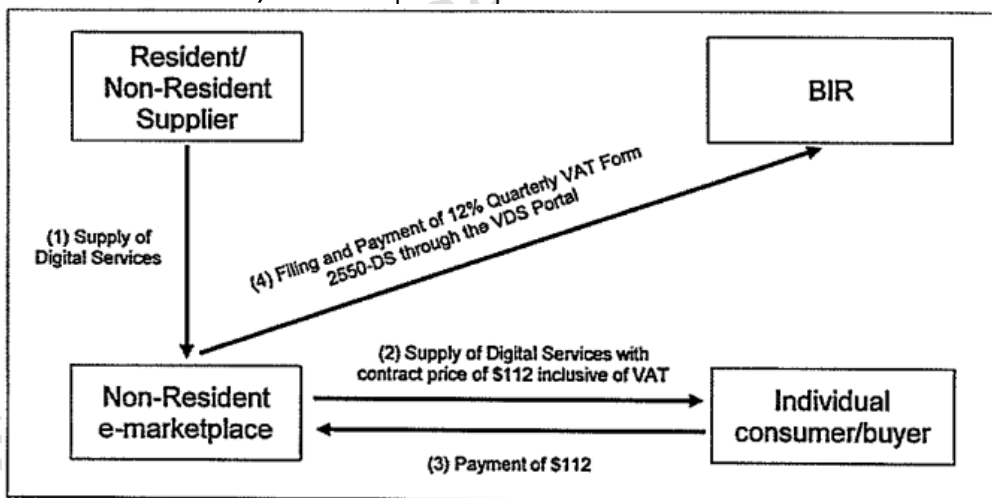
The nonresident digital service provider shall use BIR Form No. 2550-DS in electronically filing the VAT return and payment/remittance of the VAT.

☑ For digital services that go through an online/e-marketplace, the following mechanisms shall be observed¹:

1. Nonresident online/e-marketplace operator for a B2B transaction:



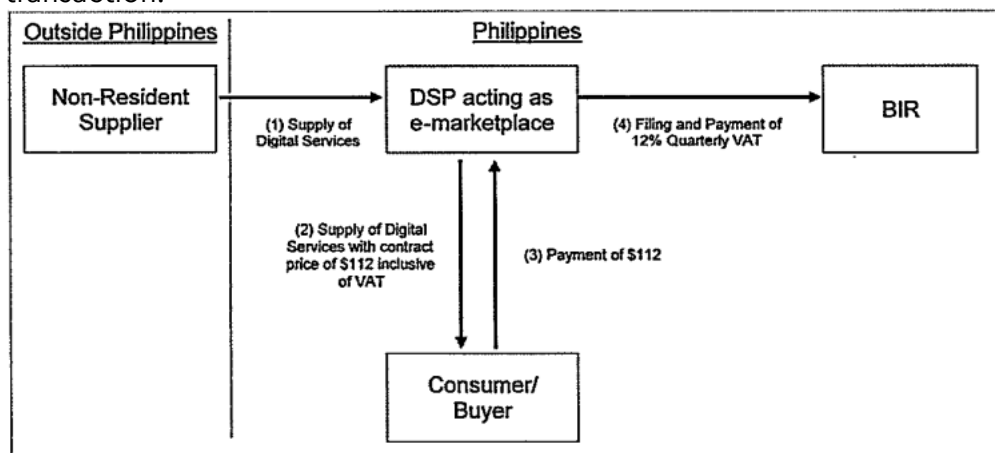
2. Nonresident online/e-marketplace operator for a B2C transaction:



¹ Provided that the online/e-marketplace operator controls the key aspects of the supply and performs any of the following: (i) sets directly or indirectly any of the terms and conditions under which the supply of its digital services is made; or (ii) involved in the ordering or delivery of digital services, whether directly or indirectly

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3. Resident online/e-marketplace operator for either a B2B or B2C transaction:



However, the online/e-marketplace operator shall not be liable to pay the VAT if the payment for the digital service is made directly to the account of the nonresident digital service provider. This is because the payment is not within the control of the online/e-marketplace operator.

III. Specific Tax Treatments

- ☑ The accreditation/recognition from DepEd, CHED, or TESDA², shall be the requirement for availment of VAT exemption for sale of online subscription-based services to educational institutions.
- ☑ Digital services rendered by nonresident digital service providers to registered business entities are eligible for VAT exemption if directly attributable to:
 - ✓ the registered business activity/project of the IPA³-registered entity classified as a registered export enterprise, high-value domestic market enterprise, or domestic market enterprise (under transitory provision of RA No. 12066); or
 - ✓ export activity of the export oriented enterprise.

Note: The RMC only provided the tax treatment with regard to digital services rendered by nonresident digital service providers. It did not include those rendered by resident digital service providers.

² Department of Education (DepEd), Commission on Higher Education (CHED), or Technical Education And Skills Development Authority (TESDA)

³ Investment Promotion Agency

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- ☑ When the online/e-marketplace operator charges service fee to the Philippine consumer/buyer, the service fee shall be subject to VAT.

IV. Invoicing Requirements and Input Taxes

- ☑ There is no prescribed form for the invoice of nonresident digital service providers as long as the following mandatory information are present:
 - ✓ Date of the transaction
 - ✓ Transaction reference number
 - ✓ Identification of the consumer (including TIN for B2B)
 - ✓ Brief description of the transaction
 - ✓ Total amount with the indication that such amount includes VAT
- ☑ If the nonresident digital service provider is unable to include the VAT amount in the invoice, it must include a footnote/annotation that the Philippine consumer/buyer is responsible for accounting and remitting the 12% VAT:

Non-Resident DSP Corporation VAT Reg TIN 123-456-789-00000											
INVOICE											
Date: <u>xx-xx-202x</u>	① Date of Transaction										
Invoice No. <u>ABC12345</u>	② Transaction Reference Number										
SOLD TO: <u>XYZ LOCAL CORPORATION</u>	③ Identification of the Consumer										
TIN: <u>987-654-321-00000</u>											
ADDRESS: <u>QUEZON CITY, PHILIPPINES</u>											
<table border="1"> <thead> <tr> <th>Description</th> <th>Amount</th> </tr> </thead> <tbody> <tr> <td>EDITING SOFTWARE</td> <td>\$ 100.00</td> </tr> <tr> <td> </td> <td> </td> </tr> <tr> <td> </td> <td> </td> </tr> <tr> <td>Total Amount Due:</td> <td>\$ 100.00</td> </tr> </tbody> </table>	Description	Amount	EDITING SOFTWARE	\$ 100.00					Total Amount Due:	\$ 100.00	④ Brief Description of the transaction
Description	Amount										
EDITING SOFTWARE	\$ 100.00										
Total Amount Due:	\$ 100.00										
	⑤ Total Amount										
NOTE: 12% VAT on the invoice amount is payable and shall be remitted by the business consumer/buyer to the BIR		⑥ Footnote/Annotation that the Philippine business consumer/ buyer shall be responsible to remit the 12% VAT									

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- ✔ Nonresident digital service providers shall not be allowed to claim creditable input tax. On the other hand, VAT-registered Philippine business consumers/buyers shall use the filed withholding VAT return/BIR Form No. 1600-VT as proof of claimed input tax.

V. Miscellaneous

- ✔ **Distinguishing B2B from B2C** – A nonresident digital service provider can verify by:
 - ✔ obtaining the buyer's TIN and providing a questionnaire/tick box in their website/platform; and/or
 - ✔ securing other registration documents, such as the BIR COR.
- ✔ **Erroneous VAT payment by a nonresident digital service provider** – If the nonresident digital service provider paid the VAT to the BIR and subsequently discovers that the Philippine consumer/buyer is engaged in business and has already withheld VAT, the nonresident digital service provider cannot file for refund to recover the erroneously paid VAT. It may, however, amend the BIR Form No. 2550-DS to reflect the overpayment which may be carried-over to subsequent periods.
- ✔ **VAT liability for advance payments on existing contracts** – All digital services shall be subject to VAT starting June 2, 2025. In case of advance payments of the contract price, the liability to pay and remit the VAT shall be with the nonresident digital service provider since the buyer no longer has control over the payment.
- ✔ **Online consultations through a digital platform** – An entity which operates a teleconsultation platform where appointments are booked through a website, application, or e-marketplace shall be subject to VAT provided that the conditions relating to online/e-marketplace operators are complied with.
- ✔ **Shared costs** – If the contracting party to a digital service is outside the Philippines but a Philippine subsidiary shares in the cost, the same shall be subject to VAT and the Philippine subsidiary shall be responsible for withholding/remitting the VAT as a B2B transaction.

Source:
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Learn more:

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