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

| | | |
|---|---|---|
| Sec. 109 (G) of the Tax Code of 1997; RR No. 16-2005, as amended by RR No. 04-2007. | | #308-2017 6-14-2017 |

Person to Contact: Chief, Law & Legislative Division
Tel Nos. 926-55-36/927-09-63

**BEST DIAGNOSTIC CORPORATION**
No. 94 Masikap Extension, Diliman,
Quezon City 1100

Attention : **Dr. Antonio P. Balisi**
*Corporate Treasurer*
*& Medical Director*

Gentlemen:

This refers to your request for an official opinion or ruling dated July 24, 2015 on Best Diagnostic Corporation's exemption from Value Added Tax (VAT) pursuant to Revenue Regulations No. 16-2005 as amended by Revenue Regulations No. 04-2007.

Documents submitted show that Best Diagnostic Corporation, with Taxpayer's Identification Number (TIN) [redacted] is a corporation organized and existing under Philippine laws; that it is duly registered with the Securities and Exchange Commission (SEC) under SEC Reg. No. [redacted] dated May 23, 2002; and that as shown in its Articles of Incorporation, its primary purpose is to engage in the business of conducting diagnostic and laboratory services such as but not limited to x-rays, ECG and ultrasound.

It is represented that the services being offered by Best Diagnostic Corporation are essentially medical and laboratory services only, and does not sell pharmaceutical and medical products or drugs; that it is also registered with the Department of Health (DOH) and was issued the necessary License to Operate a Clinical Laboratory and an X-Ray Facility.

In reply, please be informed that Section 109 of the Tax Code provides:

> "SEC. 109. *Exempt transactions.* — (1) Subject to the provisions of Subsection (2) hereof, the following transactions shall be exempt from the value-added tax:
>
> xxx xxx xxx
>
> (G) Medical, dental, hospital and veterinary services except those rendered by professionals;
>
> xxx xxx xxx."

#308-2017
6-14-2017



In relation thereto, Revenue Regulations 16-2005 provides:

> "Section 4.109-1. VAT-Exempt Transactions. —
>
> (A) *In general.* — "VAT-exempt transactions" refer to the sale of goods or properties and/or services and the use or lease of properties that is not subject to VAT (output tax) and the seller is not allowed any tax credit of VAT (input tax) on purchases.
>
> The person making the exempt sale of goods, properties or services shall not bill any output tax to his customers because the said transaction is not subject to VAT.
>
> (B) *Exempt transaction.* —
>
> xxx xxx xxx
>
> (g) Medical, dental, hospital and veterinary services, except those rendered by professionals.
>
> *Laboratory services are exempted.* If the hospital or clinic operates a pharmacy or drug store, the sale of drugs and medicine is subject to VAT. (Emphasis ours)
>
> xxx xxx xxx."

Based on the expressed provisions of the foregoing, it is clear that laboratory services are considered transactions exempt from VAT. Applying it to the instant case, insofar as the rendition of laboratory services by Best Diagnostic Corporation are concerned, this Office hereby confirms that these are considered exempt from VAT. As service provider, Best Diagnostic Corporation shall not pass on the VAT to its clients because said transactions are not subject to VAT.

However, in relation to the conduct of diagnostic services, whether such is also exempt from VAT shall depend on how it is provided. The process of *diagnosis* is defined as the discovery of the source of a patient's illness or the determination of the nature of his disease from a study of its symptoms.[1] The conduct of diagnostic service may either be carried out by an employee of Best Diagnostic Corporation (the service fee is payment for both diagnostic and laboratory services as a package) or by an independent professional (consultants).

The conduct of diagnostic service when done through the employees of Best Diagnostic Corporation shall be exempt from VAT pursuant to Section 109(1) which provides, viz.:

> "SEC. 109. *Exempt Transactions.* — (1) Subject to the provisions of Subsection (2) hereof, the following transactions shall be exempt from the value-added tax:

VS-

[1] Definition is lifted from The Attorney's Pocket Dictionary (Law and Business Publications Inc.)

#308-2017
6-14-2017

xxx xxx xxx

(I) Services rendered by individuals pursuant to an employer-employee relationship;

xxx xxx xxx"

On the other hand, diagnostic services, when rendered by an independent professional (consultant), shall appropriately be subject to VAT in the hands of the one who performs it but Best Diagnostic Corporation cannot claim it as input tax credit. (Sec. 109(G) *supra*)

This ruling is being issued on the basis of the foregoing facts as represented. However, if upon investigation, it will be disclosed that the facts are different, then this ruling shall be considered null and void.

Very truly yours,

**CAESAR R. DULAY**
Commissioner of Internal Revenue

007089

K-1-JAC