REPUBLIC OF THE PHILIPPINES
DEPARTMENT OF FINANCE
BUREAU OF INTERNAL REVENUE

Bringing In Revenues for Nation-Building

BAGONG PILIPINAS

JUL 01 2026

REVENUE MEMORANDUM CIRCULAR NO. 73-2026

SUBJECT: Tax Treatment of Activities Undertaken Pursuant to the Letter of Agreement on Narcotics Control and Law Enforcement between the Government of the Republic of the Philippines and the Government of the United States of America

TO: All Internal Revenue Officials, Employees, and Others Concerned

SECTION 1. Purpose

This Circular defines the coverage and establishes the basis for the application of the value-added tax (VAT) zero-rating or exemption on activities undertaken pursuant to the Letter of Agreement on Narcotics Control and Law Enforcement between the Government of the Republic of the Philippines and the Government of the United States of America (the LOA).

It also sets forth the guidelines for implementing the appropriate VAT treatment on the procurement of goods and services and clarifies the applicable treatment of direct taxes, in accordance with the National Internal Revenue Code of 1997, as amended (Tax Code), and relevant international agreements.

SECTION 2. Coverage

This Circular covers:

a. the tax treatment of the Covered Transactions made by the United States Government (USG) or its implementing partners; and
b. the applicable treatment of direct and indirect taxes on Implementing Partners and USG personnel engaged in the implementation of the Covered Program.

SECTION 3. Definition of Terms

For purposes of this Circular, the following terms shall be defined as follows:

a. **Contractor** – refers to any natural or juridical person, whether domestic or foreign, engaged by the USG or its implementing office under a contract to perform specific services or deliverables in relation to the Covered Program, acting for and on behalf of the USG within the scope of such engagement;

b. **Covered Program** – refers to a program or project funded by the USG pursuant to the LOA and its modifications/amendments, which is designed to support the institutional development of the criminal justice system in the Philippines;

c. **Covered Transactions** – refer to transactions involving the sale, purchase, importation, or use of goods or services that are directly and exclusively attributable to the Covered Program, and duly supported by documentation as required under this Circular;

d. **Direct Tax** – refers to a tax for which a taxpayer is directly liable and which cannot be shifted to another person, including, but not limited to, income tax imposed under Title II of the Tax Code;

e. **Grantee** – refers to any person, organization, institution, or entity that receives financial assistance from the USG, typically under a grant or cooperative agreement, pursuant to the LOA, for the purpose of implementing, supporting, or carrying out program activities related to narcotics control and law enforcement, and not for the provision of goods or services to the USG under any contract or similar arrangement;

f. **Implementing Office** – refers to the office or unit within the USG, including the U.S. Embassy or its designated section, responsible for the administration, supervision, and implementation of the Covered Program;

g. **Implementing Partners** – refer to contractors, grantees, recipients, or other entities duly authorized, engaged, or funded by the USG to implement the Covered Program, as evidenced by appropriate contracts, grants, cooperative agreements, or official designation;

h. **Indirect Tax** – refers to a tax which may be shifted or passed on to another person, including the VAT imposed under Title IV of the Tax Code;

i. **Letter of Agreement** – refers to the Letter of Agreement on Narcotics Control and Law Enforcement between the Government of the Republic of the Philippines and the Government of the United States of America, including any amendments, annexes, or implementing arrangements thereto;

j. **Non-Exempt Persons or Entities** – refer to persons or entities that are not entitled to tax exemption under the LOA, applicable international agreements, or existing laws, including Filipino citizens, permanent residents in the Philippines, domestic corporations, and other taxpayers not specifically granted exemption;

k. **Recipient** – refers to any entity, whether governmental, non-governmental, profit or non-profit, that receives financial assistance (e.g., grants or cooperative agreements) from the USG to implement the Covered Program;

l. **United States Government** – refers to the Government of the United States of America, acting through its duly authorized offices, including the United States (U.S.) Embassy in the Philippines and its relevant sections or instrumentalities responsible for implementing the LOA;

m. **Value-Added Tax** – refers to the indirect tax imposed on the sale, barter, exchange, or lease of goods or properties and services, and on the importation of goods; and

n. **VAT Certificate (VC)** – refers to the certificate issued by the Bureau of Internal Revenue (BIR), through the International Tax Affairs Division (ITAD), signed by the Assistant Commissioner, Legal Service, authorizing qualified transactions of the USG or its Implementing Partners to avail themselves of VAT zero-rating or exemption in accordance with this Circular and applicable laws, and confirming the VAT exemption of USG personnel and their accompanying family members on the basis of reciprocity.

SECTION 4. Legal Basis and Tax Treatment of Covered Transactions, Contractors, and USG Personnel Engaged in the Covered Program

a. **Legal Basis**

The tax treatment of Covered Transactions, Implementing Partners, and USG personnel engaged in the Covered Program shall be governed by Section V, paragraph 6 of the LOA, which reads as follows:

"V. STANDARD PROVISIONS

xxx

6. Taxes

A. Property and Funds

Any property or funds introduced into or acquired in the Philippines by the USG or by any person or entity (including but not limited to contractors and grantees) funded by the USG as part of, or in conjunction with this LOA shall be exempt from all taxes, service charges and investment or deposit requirements and currency controls in the Philippines. The import, export, purchase, acquisition, use or disposition of any such property or funds in conjunction with this LOA shall be exempt from all tariffs, custom duties, import and export taxes, taxes on acquisitions or purchases or disposition, value-added taxes and any other taxes or similar charges including penalties or fines in the Philippines. In the event that taxes (including duties, VAT, other taxes or similar charges, penalties or fines) *are assessed, the Philippines agrees to timely reimburse the USG in an amount equal to such assessment.*

B. USG Personnel

All personnel employed directly or indirectly by the USG and assigned by the USG to perform duties in the Philippines in connection with this LOA, and accompanying members of their families, shall be exempt from all Philippine income taxes and social security taxes with respect to income earned while in the Philippines and from property taxes on real or personal property located in the Philippines and intended for their own personal use. Such personnel and accompanying members of their families shall receive the same treatment with respect to the payment of customs and import duties on personal effects, equipment and supplies imported into the Philippines for their own use, as is accorded by the GPH to diplomatic agents of the U.S. Embassy in the Philippines.

C. Contract Services

Any non-Filipino national contractor, including any consulting firm, any non-Filipino national personnel of such contractor funded under this LOA and present in the Philippines to perform work in connection with this LOA, any property or transaction related directly to such contracts, and any commodity procurement transaction funded under this LOA, shall be exempt from all taxes, tariffs, duties or other levies including penalties or fines imposed in the Philippines. In the event that taxes (including duties, VAT, other taxes or similar charges, penalties or fines) are assessed, the Philippines agrees to timely reimburse the USG in an amount equal to such assessment.

D. The tax arrangements provided under paragraphs B and C are not applicable to citizens or permanent residents of the Philippines present in the Philippines in conjunction with this LOA."

b. Tax Treatment

1. Taxes on the Covered Transactions

i. Local Sale of Goods and Services by VAT-Registered Sellers

Sale of goods and services by VAT-registered sellers to the USG, through its Implementing Partners, shall, in general, be subject to VAT at zero percent (0%), pursuant to Section 106(A)(2)(b) and Section 108(B)(3) of the Tax Code, subject to compliance with substantiation and invoicing requirements under existing regulations. These are implemented by Section 4.106-5(b), and Section 4.108-5(b)(3) of Revenue Regulations (RR) No. 16-2005, as amended by RR No. 10-2025.

To the extent that each Implementing Partner is authorized to act for and on behalf of the USG pursuant to the LOA, such Implementing Partner may make local purchases of goods and/or services on behalf of the USG and avail itself of the appropriate VAT treatment on the strength of the VC issued to the USG or its Implementing Partners.

ii. Sale of Services by Nonresident Sellers

The sale of services by non-resident sellers shall be exempt from VAT, as the USG shall not be made to bear the burden of VAT.

iii. Importation of Goods or Properties

The importation of goods or properties for purposes of the Covered Program, as well as their disposition, whether to exempt or non-exempt persons or entities, by the USG or its Implementing Partners shall be exempt from VAT.

iv. Local Sale of Goods and Services by Non-VAT Registered Sellers

Non-VAT registered sellers who are exempt from VAT under Section 109(1)(CC) of the Tax Code shall, however, be subject to a percentage tax at the rate of three percent (3%) under Section 116 of the same Code.

2. Tax on the Income of Contractors

Income derived by any nonresident alien contractor, including any nonresident consulting firm, as well as by any nonresident alien personnel thereof, from services performed in the Philippines in connection with the LOA shall be exempt from income tax. However, private income or any other income derived from sources within the Philippines and not related thereto shall remain subject to Philippine income tax, unless exempt or entitled to preferential tax treatment under the Convention between the Government of the Republic of the Philippines and the Government of the United States of America with Respect to Taxes on Income (PH-US Tax Treaty).

Income derived by all other contractors shall be subject to income tax in accordance with the Tax Code.

3. Taxes on USG Personnel

i. Tax on Nonresident Alien USG Personnel

In addition to the privileges and immunities provided under the LOA, nonresident alien personnel employed directly or indirectly by the USG and assigned by the USG to perform duties in the Philippines in connection with the LOA, as well as their accompanying family members, shall likewise be accorded the same privileges and immunities as those accorded to the administrative and technical staff of the USG assigned to the U.S. Embassy, on the basis of the Vienna Convention on Diplomatic Relations and reciprocity.

a. Income Tax

Remuneration derived from services rendered in connection with the LOA shall be exempt from income tax.

Private income or any other income derived from sources within the Philippines but outside the scope of such official functions under the LOA shall remain subject to Philippine income tax, unless exempt or subject to preferential tax treatment under the PH-US Tax Treaty.

b. VAT Exemption on the Basis of Reciprocity

On the basis of reciprocity, purchases of goods and services by USG personnel, including their accompanying family members, for their personal use may be exempt from VAT. To avail of VAT exemption at the point of sale, USG personnel and their accompanying family members shall secure a VC from the BIR, through the ITAD, following the procedures laid down in Revenue Memorandum Order No. 10-2019.

ii. Other USG Personnel

Any income derived by other USG Personnel, including citizens or permanent residents of the Philippines, whether or not in connection with the LOA, and goods and services purchased for their personal use, shall be subject to income tax and VAT in accordance with the relevant provisions of the Tax Code, as the case may be.

SECTION 5. Recognition of Implementing Partners

For purposes of availing of the exemption privileges granted under the LOA, Implementing Partners shall be recognized upon proper identification and confirmation by the USG through the appropriate diplomatic channel.

Only such recognized Implementing Partners shall be entitled to the tax treatment provided under this Circular, and solely with respect to transactions directly attributable to the Covered Program.

Sales of goods and services to such Implementing Partners that are not connected to the Covered Program, and therefore outside the scope of the LOA, shall be subject to the provisions of the Tax Code and other applicable laws.

SECTION 6. Procedure for the Issuance of VCs

In order to avail of VAT zero-rating or exemption, Implementing Partners shall secure a VC from the BIR, through the ITAD, in accordance with the following procedures:

a. **Filing of Application for VC**

The Implementing Partners or their duly authorized representative(s) shall file an application with the ITAD, together with the following:

1. endorsement or certification from the USG confirming that the applicant is a duly recognized Implementing Partner for purposes of the LOA, duly endorsed by the Department of Foreign Affairs;
2. description of the Covered Program for which the Implementing Partner is engaged, including its duration and scope;
3. contract, grant agreement, or similar document evidencing such engagement;
4. photocopy of the Certificate of Registration issued to the Implementing Partner indicating its Taxpayer Identification Number (TIN) and other registration details; and
5. such other documents as may be required by the ITAD and as may be necessary to process the application.

b. **Evaluation by the ITAD**

Upon receipt of complete documentary requirements, the ITAD shall:

1. verify the authenticity of the endorsement or certification and its supporting documents;
2. determine whether the program or project falls within the scope of the LOA; and
3. evaluate entitlement to VAT exemption or zero-rating.

c. **Issuance of VC**

If found meritorious, the ITAD shall issue a VC indicating the following:

1. name of the Implementing Partner;
2. the Covered Program;
3. validity period of the VC; and
4. any conditions or limitations on its use.

d. **Validity and Scope**

The VC shall be valid only for the period and the Covered Program specified therein and shall apply only to transactions directly attributable thereto.

Any misuse or misrepresentation shall be grounds for revocation of the VC and imposition of penalties under the Tax Code.

e. **Presentation of VC at the Point of Sale**

The Implementing Partner shall present the VC to VAT-registered sellers at the time of the transaction to avail of the VAT exemption at the point of sale.

SECTION 7. Invoicing Requirements

VAT-registered sellers shall issue a VAT invoice for each sale, indicating the following:

a. registered name, address, and TIN of the seller;
b. registered name of the Implementing Partner and an indication that the sale is for a Covered Program;
c. amount of sales;
d. VAT amount, with the words "VAT-Exempt Sale" or "Zero-Rated Sale," as applicable, written or prominently printed on the invoice;
e. date of transaction, quantity, unit cost and description of goods or nature of services; and
f. valid VC number or equivalent reference.

SECTION 8. Review and Audit

Implementing Partners and sellers availing of VAT exemption and zero-rating, respectively, shall be subject to post-audit and verification by the BIR.

All concerned parties shall maintain, for the period prescribed under existing laws, complete and adequate records to establish that the:

a. transactions are directly and exclusively related to the implementation of the Covered Program; and
b. the applicable VAT treatment has been properly applied in accordance with this Circular and existing laws.

Such records shall include, but shall not be limited to, invoices, contracts, proof of payment, and the corresponding VC.

Failure to comply with the requirements herein, including any misuse, abuse, misrepresentation, or improper application of VAT privileges, shall result in the:

a. disallowance of the VAT zero-rating or exemption;
b. assessment and collection of the appropriate taxes, including penalties, surcharges, and interest under the Tax Code; and
c. such other sanctions as may be imposed under existing laws and regulations.

SECTION 9. Verification of Exemption

In cases where the VAT exemption or zero-rating is not honored at the point of sale, the BIR, through the ITAD, shall provide assistance in resolving such matter.

SECTION 10. Limitation on Tax Privileges

Nothing in this Circular shall be construed as granting any tax exemption beyond those expressly provided under existing laws, treaties, or applicable international agreements.

SECTION 11. Repealing Clause

All revenue issuances or portions thereof inconsistent with this Circular are hereby amended or modified or repealed accordingly.

SECTION 12. Effectivity

This Circular shall take effect immediately. All concerned are hereby enjoined to be guided accordingly and to give this Circular as wide a publicity as possible.

[redacted]

CHARLITO MARTIN R. MENDOZA
Commissioner of Internal Revenue