MAR 19 2026

REVENUE MEMORANDUM CIRCULAR NO. 21-2026

SUBJECT: Tax Treatment of Development Assistance Activities Carried Out by the Foreign Assistance Section of the United States Embassy in the Philippines

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

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Section 1. Background and Purpose

In 1951, the Philippines and the United States of America (U.S.) signed the *Agreement on Economic and Technical Cooperation between the Government of the Philippines and the Government of the United States of America (the 1951 Agreement)*, whereby the former agreed to receive a Special Technical and Economic Mission (STEM) for the purpose of discharging the responsibilities of the U.S. Government in the Philippines under the said Agreement and, upon appropriate notification from the U.S. Ambassador in the Philippines, to consider the STEM (including experts) and its personnel as part of the US Diplomatic Mission for the purpose of enjoying the same privileges and immunities accorded to such mission.

Thus, after receipt of the required notification on December 18, 2006, the Philippine Government recognized the United States Agency for International Development (USAID) as the STEM of the US Government in the Philippines. On June 14, 2007, the Bureau of Internal Revenue (BIR) issued Revenue Memorandum Circular (RMC) No. 40-2007 to lay down the coverage of and basis for the value added tax (VAT) zero-rating or exemption and direct tax exemption of the USAID and its recognized implementing agents in connection with their development assistance activities in the Philippines, and to prescribe the guidelines for the implementation thereof with respect to the purchase of goods and services associated with said activities.

On June 23, 2025, the U.S Ambassador informed the Philippine Government of the replacement of the USAID by the Foreign Assistance Section of the U.S. Embassy in the Philippines (US-FAS) effective July 1, 2025. The US-FAS is part of the Diplomatic Mission of the Government of the U.S. in the Philippines.

This Circular is hereby issued to amend the relevant provisions of RMC No. 40-2007 insofar as it concerns the USAID and to accord or extend to the US-FAS the same privileges and exemptions previously granted to the former.

For the purposes of this Circular, the terms 'United States Agency for International Development' and 'USAID' as used in RMC No. 40-2007 shall be replaced with 'Foreign Assistance Section of the U.S. Embassy in the Philippines' and 'US-FAS,' respectively.

Section 2. Issuance of VAT Exemption Certificates (VECs); Responsibilities of all Parties

The processing and issuance of VAT Exemption Certificates (VECs) shall follow the procedures set forth in RMC No. 40-2007.

Section 3. Amendments and Revisions

In order to align the provisions of this Circular with the existing laws and revenue issuances, the following provisions of RMC No. 40-2007 are hereby amended:

1. Section 2:

   Revenue Memorandum Order (RMO) No. 22-2004 shall be replaced with RMO No. 10-2019.

2. The appropriate VAT treatment under Section 7 shall be governed by the following:

   a. Sections 106(A)(2)(b),[1] 108(B)(3), and 109(1)(CC)[2] of the National Internal Revenue Code of 1997, as amended (Tax Code); and
   b. Sections 4.106-5(b)[3] and 4.108-5(b)(3) of Revenue Regulations (RR) No. 16-2005, as amended by RR No. 10-2025

3. Section 8:

   The term 'receipt' and 'official receipt' shall be deleted, and only the term 'invoice' shall be retained, pursuant to the amendments introduced by Republic Act No. 11976, otherwise known as the Ease of Paying Taxes Act.

Section 4. Transitory Provision

VAT-registered taxpayers shall continue to honor all VECs issued to USAID and its implementing agents and shall, therefore, apply the zero-percent (0%) VAT rate on the sale of goods or services relating to USAID-implemented activities until the thirtieth (30th) day from the issuance of this Circular, which shall constitute as the end date.

The US-FAS is given thirty (30) days within which to surrender the VECs issued by the BIR, through the International Tax Affairs Division (ITAD), to USAID and its implementing agents for activities that remain ongoing after the said end date. VECs that

[1] Formerly Section 106(A)(2)(c) of the Tax Code.
[2] Formerly Section 109(1)(V) of the Tax Code.
[3] Section 4.106-5(c) of RR No. 16-2005.

are not returned to the issuing authority within the prescribed period shall be deemed automatically revoked and rendered without force and effect.

Finally, the functions and responsibilities under RMC No. 40-2007 that were vested in officials and offices which have since been rendered defunct or otherwise inoperative by reason of the substitution of USAID by the US-FAS shall, by operation hereof, be deemed transferred to the corresponding officials and offices of the latter.

SECTION 5. Repealing Clause

All revenue issuances, or pertinent portions thereof, that are inconsistent with the provisions of this Circular are hereby repealed, modified, or amended accordingly.

SECTION 6. Effectivity

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

CHARLITO MARTIN R. MENDOZA
Commissioner of Internal Revenue

BUREAU OF INTERNAL REVENUE
RECORDS MANAGEMENT DIVISION
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